



R&R Weekly Column
By Brunello Rosa



The Saudi-Chinese Partnership Marks Yet Another Shift In Global Geopolitics

Last week, during a three-day state visit to the Kingdom of Saudi Arabia, Chinese President Xi Jinping and Saudi Arabia's de-facto ruler Mohammed Bin Salman (MBS) [signed a Comprehensive Strategic Partnership Agreement \(CSPA\)](#), in which the two countries are committing to support each other's "core interests, sovereignty and territorial integrity, and to defend the principle of non-interference in the internal affairs of states."

[The CSPA is comprised of](#) 35 memorandums of understanding, including deals worth USD 30 billion. It foresees cooperation between the two countries in the following areas: the automotive industry, supply chains, logistics, water desalination, infrastructure, manufacturing, mining, the financial sector, communications and artificial intelligence, and digital and space economies and technologies. China and Saudi Arabia stressed the importance of stability in oil markets, and "agreed to explore common investment opportunities in petrochemicals, and to enhance cooperation in solar, wind, and other sources of renewable energy." They also agreed to cooperate on hydrocarbons, energy efficiency, and localization of energy sector components and supply chains, in addition to the peaceful uses of nuclear energy.

Besides these specific areas of cooperation, China and Saudi Arabia welcomed the signing of a "harmonization plan" between the Kingdom's Vision 2030 social reform and economic diversification agenda and China's Belt and Road Initiative, making use of the Kingdom's location as a regional center.

In a press conference at the conclusion of Xi's visit, Prince Faisal bin Farhan, the Saudi minister of foreign affairs, said that the deepening of relations between Saudi Arabia and China did not mean the Kingdom was turning its back on the US and other Western allies. But the impression we are left with is exactly the opposite. In [a recent report](#), we discussed how India was sitting on the fence in its decision to join either the Western camp led by the US, or a China-led camp. We also said that [India would be eventually be forced to choose](#), and [that even Brazil](#) would have a hard time remaining in the list of non-aligned countries.

We also discussed how [a new EM-G7 was emerging around the BRICS grouping](#), expanded to include Saudi Arabia and Argentina. With the signing of this CSPA between China and Saudi Arabia, another important step has been made towards the creation of this grouping of countries as an alternative to the G7. It includes some of the largest, fastest growing, or most resource-rich economies in the world.

In a world in which the Americans say to their potential allies "you are either with me or against me", this CSPA must be read as a slap in the face from Saudi Arabia to the US, irrespective of the reassurances given by the Kingdom's foreign secretary. With its vast oil reserves, Saudi Arabia represents a key ally to have during Cold War II, and it seems that Saudi Arabia has decided to side with China at the moment, and be less close to the US. The harmonization between two landmark reform plans such as China's BRI and the Kingdom's Vision 2030 clearly signals that this is not just a tactical, trade-based agreement, but rather – as the title says – the beginning of a strategic partnership.

This CSPA seems to be less far reaching than [the "limitless cooperation" between China and Russia](#) that was declared in Beijing on February 4th 2022. But it still represents good news for China and its allies, and bad news for the US and American allies.

Our Recent Publications

- ✦ [The Coming Mother Of All Stagflationary Debt Crises](#), by Nouriel Roubini, 7 December 2022
- ✦ [Wishing For a Dove Over The Fed's Christmas Tree](#), by Filippo Ramigni, 6 December 2022

- ✦ [Meloni's Prudent Approach Keeps Italy Out Of The Radar Screens](#), by Brunello Rosa, 2 December 2022
- ✦ [G20: Takeaways From a Crisis-Ridden Summit](#), by London Politica, 30 November 2022

Looking Ahead

The Week Ahead: EZ And UK Inflation To Fall; Composite PMIs To Decrease In EZ And UK; CBs To Remain Hawkish

In the US, in November, headline and core inflation are likely to cool off to 7.3% y-o-y (*p*: 7.7%) and 6.1% y-o-y (*p*: 6.3%). In December, S&P global manufacturing is seen unchanging at 47.7 and S&P global services is seen rising to 46.5 (*p*: 46.2).

In the EZ, in November, CPI inflation is expected to ease off to 10.0% y-o-y (*p*: 10.6%) and core inflation is likely to stay unchanged at 5.0% y-o-y. October's IP is likely to decelerate to 3.6% y-o-y (*p*: 4.9%). In December, S&P global manufacturing and services PMIs are seen staying unchanged at 47.1 and 48.5 respectively, while composite PMI is expected to decrease to 47.8 (*p*: 48).

In the UK, in October, the unemployment rate is expected to edge up to 3.7% (*p*: 3.6%). In November, headline inflation is likely to fall to 10.9% (*p*: 11.1%), and core inflation is seen staying unchanged at 6.5% y-o-y. October's IP is likely to recover by -2.7% y-o-y (*p*: -3.1%). In December, S&P global manufacturing and services PMIs are seen falling to 46.2 (*p*: 46.5) and 48.5 (*p*: 48.8) respectively, while composite PMI is expected to decrease to 47.8 (*p*: 48). November's retail sales are expected to shrink less by 5.7% y-o-y (*p*: -6.1%).

CBs remain hawkish. The Fed is expected to increase its target Fed funds range by 50 bps to 4.25% - 4.5%. The BoE is likely to increase its Bank Rate by 50bps to 3.5%. The ECB is expected to increase all its three main policy rates by 50 bps.

The Quarter Ahead: UK Reviews Financial Regulations; China And Saudi Arabia Cemented Their Ties; US-Russia Prisoner Swap

The UK reviews financial rules to bolster City's role as a global financial centre. The government announced major financial reform, including 30 measures, seeking to boost Britain's sluggish economic growth, especially as London faces new competition from EU centres. The reforms include the relaxation of the rule requiring banks to separate their retail and investment operations – the measure introduced following the financial crisis. The accountability of top finance executives would also be overlooked.

China and Saudi Arabia signed a strategic partnership, during Xi Jinping's visit to the Kingdom. Beijing and Riyadh report they will "firmly support each other's core interests", while not interfering in each other's internal affairs. They seek to strengthen partnerships on defence and energy. The published joint statement also includes the agreement on coordination between the Kingdom's Vision 2030 and China's Belt and Road Initiative, with regard to direct investment.

Negotiations between Washington and Moscow led to a high-profile prisoner swap. American basketball player Brittney Griner was swapped for Viktor Bout, an infamous Russian arms dealer.

Last Week's Review

Real Economy: EZ QoQ GDP Slowed Down; Composite PMI Fell In US, While Increasing In the EZ And Stayed Unchanged In UK

In the US, in November S&P global services and composite PMI decreased to 46.4 (*c*: 46.1; *p*: 47.8) and to 46.4 (*c*: 46.3; *p*: 48.2).

In the EZ, in Q3, GDP growth is expected to slow down to 0.3% q-o-q (*c*: 0.2%; *p*: 0.8%) and 2.3% y-o-y (*c*: 2.1%; *p*: 4.3%). In November S&P global services PMI fell to 48.5 (*c*: 48.6; *p*: 48.6), whereas composite PMI rose to 47.8 (*p*: 47.3) as expected. In October, retail sales contracted by 2.7% y-o-y (*p*: 0.0%).

In the UK, in November S&P global services and composite PMI stayed unchanged at 48.8 (*c*: 48.8; *p*: 48.8) at 48.2 (*c*: 48.3; *p*: 48.2).

Financial Markets: Stocks Slide; Yields Were Up; Dollar Is Up, Whereas Oil Is Down; Gold Prices Are Virtually Unchanged

Market Drivers: Robust economic data created the expectations of the likelihood of a longer-than-expected hiking cycle from the Fed. As a result of which stocks fell. In Europe, renewed recession fears dragged the stocks down.

Global Equities: Decreased w-o-w (MSCI ACWI, -2.2%, to 619.36). The US S&P 500 index fell (-3.4% w-o-w, to 4,934.4). In the EZ, share prices were down (Eurostoxx 50, -0.9% w-o-w, to 3,942.62). In EMs, equity prices moved up (MSCI EMs, +0.2%, to 978.28). Volatility rose to 23.3 (VIX S&P 500, 52w avg.: 25.5; 10y avg.: 18.2).

Fixed Income: w-o-w, the 10-year US treasury yields increased (+9 bps to 3.59%). The 2-year US Treasury yields rose (+6 bps to 4.34%). The German 10-year bund yield rose (+8 bps to 1.93%).

FX: w-o-w, the US Dollar Index was up (DXY, +0.4%, to 104.9; EUR/USD -0.0%, to 1.05). In EMs, currencies increased (MSCI EM Currency Index, +0.2% w-o-w, to 1,650.47).

Commodities: w-o-w, oil prices fell (Brent, -10.2% to 76.82 USD/b). Gold prices are unchanged w-o-w (+0.0% to 1,809.4 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year