



R&R Weekly Column
By Brunello Rosa



Protests In China Reminds Us That Even Autocratic Regimes Are Subject To Public Approval

In the last few days, news about protests taking place in China were widely [reported by media outlets](#) in both the Western world and in China itself. The focal point was the civil unrest that [occurred in the city of Urumqi](#) following an apartment fire that killed 10 people, who apparently could not escape the building they were trapped in because of the Covid-related restrictions.

Various forms of civil unrest erupted nationwide, with protesters clearly criticizing the national government, the Communist Party, and its leader, Xi Jinping. This is a novelty for China, where protests have taken place in recent years but have targeted local leaders for their lack of action or mistakes made over local issues, such as environmental or transportation disasters. Not since the [Tiananmen square protests of April-June 1989](#) has the authority of the Chinese Communist Party (CCP) been directly challenged. On that occasion, the repression was ferocious, resulting in a massacre of the protesters.

The lesson from Tiananmen was that the CPP can repress any form of protest. But the CPP learnt a lesson as well, namely that it cannot govern indefinitely without popular support. For this reason, media outlets are now saying that the CPP is allowing [various Chinese cities to ease the Covid-related restrictions](#).

This does not represent a fundamental change in the official zero-Covid policy just yet, as Xi himself championed the policy and cannot lose face by carrying out an explicit U-turn. However, it is an important shift towards pursuing zero-deaths, rather than zero cases, which was a totally unrealistic objective in a country with relatively low vaccination rates among the elderly and a vaccine – the Sinovac – that is not as effective as those developed by Western countries.

China should admit its failure in achieving this goal and start purchasing vaccines from the West, in particular those based on m-RNA technology that China has not yet developed. But in the context of Cold War II, this is clearly not possible, so it will still take time before China will fully re-open and the global economy can finally start breathing again. In fact, the global economy and financial markets will not be able to fully recover until China fully re-opens, resolving once and for all the supply bottlenecks that have plagued global value chains for the last three years.

What are the lessons from this entire story? *First*, that even in the most autocratic regimes, governments still need the explicit or implicit approval of their populations. History teaches us that autocratic regimes seem very stable until they collapse. *Second*, that even the most autocratic regimes cannot refuse to respond to their people's needs. But here is where things may subtly start going wrong.

In their [joint declaration of February 4th 2022](#), on the sidelines of the Beijing Winter Olympics, Russian President Putin and Chinese President Xi said: “democracy is a universal human value, rather than a privilege of a limited number of States, and that its promotion and protection is a common responsibility of the entire world community.” As we [discussed in our column of June 6th](#), this is clearly an attempt by Russia and China to re-define what democracy is.

According to these autocratic leaders, democracy should not be intended as the electoral process by which people vote in their preferred leaders. Rather it should be the process by which governments, whether they are chosen via free elections or not, provide public goods to their people and keep them content. [The number of democratic countries in the world is already dwindling](#). If this new concept of democracy takes place, dark days await us in the years ahead.

Our Recent Publications

- ✦ [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

- ✦ [Markets Dream Jerome Powell Acting as Santa Claus](#), by Filippo Ramigni, 29 November 2022
- ✦ [Olaf Scholz's Visit to Beijing Risks Dividing The Western Front](#), by London Politica, 23 November 2022

Looking Ahead

The Week Ahead: EZ QoQ GDP To Slow Down; Composite PMI To Fall In US, While Increasing In the EZ And UK

In the US, in November S&P global services and composite PMI is seen falling to 46.1 (*p*: 47.8) and to 46.3 (*p*: 48.2). In October, retail sales are likely to contract by 2.6% y-o-y (*p*: -0.6%).

In the EZ, in Q3, GDP growth is expected to slow down to 0.2% q-o-q (*p*: 0.8%) and 2.1% y-o-y (*p*: 4.3%). In November S&P global services PMI is seen staying unchanged at 48.6 (*p*: 48.6), whereas composite PMI is expected to fall to 47.8 (*p*: 47.3). In October, retail sales are likely to contract by 2.6% y-o-y (*p*: -0.6%).

In the UK, in November S&P global services PMI is seen staying unchanged at 48.6 (*p*: 48.6), whereas composite PMI is expected to increase to 48.3 (*p*: 48.2).

The Quarter Ahead: G7 Agrees On A Price Cap For Russian Oil; China Removes COVID Curbs; Leaders Show Support For Ukraine

G7 agreed on a USD60 per barrel price cap for Russian oil. After the EU countries overcame resistance from Poland (originally holding out for a much lower price cap), an agreement was reached on USD60 per barrel price cap on Russian seaborne crude oil. The price cap aims to reduce Russia's income from selling oil and is due to come into force on Monday.

Beijing and Shenzhen loosen more COVID curbs following weeks of protests. China reduced mass testing and market shift in policy after curbs fueled widespread protests. In the meantime, IMF managing director Georgieva warned to prepare for the fallout from China's slowing economy as a result of the zero-COVID policy.

The Leaders show support for Ukraine. President Biden and President Macron affirmed their support for Ukraine during a state visit. Chancellor Scholz urged President Putin to seek a diplomatic solution to end the war, including troop withdrawals. Earlier last week, Russia rejected Biden's terms for talks between Russia and the US.

Last Week's Review

Real Economy: US QoQ GDP Advanced; PCE Inflation Fell In the US; EZ Headline Inflation Declined; Unemployment Fell In EZ

In the US, according to the second estimate, in Q3, GDP accelerated by 2.9% q-o-q (*c*: 2.7%; *p*: -0.6%). In November, the unemployment rate stayed the same at 3.7% as expected. NFPs rose by 263K (*c*: 200K; *p*: 284K). November's S&P global manufacturing PMI decreased to 47.7 (*c*: 47.6; *p*: 50.4). PCE and core PCE fell to 6.0% y-o-y (*p*: 6.3%) and 5.0% y-o-y (*c*: 5.0%; *p*: 5.2%) respectively.

In the EZ, in November headline inflation slowed down 10% y-o-y (*c*: 10.4%; *p*: 10.6%) and core inflation remained unchanged at 5.0% y-o-y, as expected. Monthly inflation contracted by 0.1% (*p*: 1.5%). In October, the unemployment edged down to 6.5% (*c*: 6.6%; *p*: 6.6%) Still, in November, economic sentiment rose to 93.7 (*c*: 93.5; *p*: 92.7) and consumer confidence recovered to -23.9 (*p*: -27.5) as expected. November's S&P global manufacturing PMI rose to 47.1 (*c*: 47.3; *p*: 46.4).

In the UK, November's S&P global manufacturing PMI increased to 46.5 (*c*: 46.2; *p*: 46.2).

Financial Markets: Stocks Rose; Yields Were Down; Dollar Is Down; Oil And Gold Prices Moved Up

Market Drivers: Investors remained optimistic as according to the FOMC minutes, the Fed might slow the pace of rate hikes. As a result, the stocks moved higher. EZ shares also rose, as lower-than-expected inflation in the eurozone spurs hopes that the ECB could slow the tightening pace. Powell's latest remarks on future monetary policy moves pushed down the US and EZ yields.

Global Equities: Increased w-o-w (MSCI ACWI, +0.9%, to 630.92). The US S&P 500 index rose (+1.1% w-o-w, to 4,071.70). In the EZ, share prices were up (Eurostoxx 50, +0.4% w-o-w, to 3,977.90). In EMs, equity prices moved up (MSCI EMs, +3.3%, to 972.29). Volatility decreased to 21.3 (VIX S&P 500, 52w avg.: 25.5; 10y avg.: 18.2).

Fixed Income: w-o-w, the 10-year US treasury yields declined (-20 bps to 3.49%). The 2-year US Treasury yields fell (-18 bps to 4.28%). The German 10-year bund yield decreased (-15 bps to 1.82%).

FX: w-o-w, the US Dollar Index was down (DXY, -1.4%, to 104.44; EUR/USD +1.3%, to 1.05). In EMs, currencies increased (MSCI EM Currency Index, +0.5% w-o-w, to 1,633.38).

Commodities: w-o-w, oil prices increased (Brent, +2.0% to 85.42 USD/b). Gold prices rose w-o-w (+3.3% to 1,811.4 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

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