



R&R Weekly Column
By Brunello Rosa



Is China Ready To Make A Broader U-Turn After Its Change On Covid Policy?

Last week [we discussed how authoritarian or populist leaders are on the rise](#) in various parts of the world. A possible precursor to this phenomenon has been the emergence of Chinese President Xi Jinping. [In 2018 Xi changed the country's constitution](#) to allow the President to remain in power for life, instead of stepping down after 10 years like his predecessors Hu Jintao and Jiang Zemin. Last October, [he was elected leader of the Chinese Communist Party](#) (CCP) for the third time in a row, something his predecessors did not dare to do.

When elected leader, Xi changed the composition of the Politburo and of its Standing Committee, replenishing it with party members loyal to him who would not challenge his views or, most importantly, his policies. This move was clearly intended as a method of consolidating power in his hands.

This was happening at the same time that China was forging its “limitless cooperation” – i.e. strategic alliance – with Russia, another state whose leader, Vladimir Putin, had also changed the constitution to allow himself to remain in power potentially until 2036. Russia was conducting its unjustified invasion of Ukraine, with China supporting (perhaps reluctantly) the “special military operation”, possibly in order to establish a precedent in case of a future invasion of Taiwan.

Just when all the power seemed consolidated in Xi's hands, the inevitable happened: protests emerged against the ruthlessness of the Xi-mandated Zero-Covid Policy ([as we discussed in our preview columns](#)). These protests, for the first time, were not simply against local leaders, as has happened in the past. They were also against the CCP, and its leader as well.

The Politburo has since allowed cities to ease the Covid restrictions, in a move that was intended to be a soft, and less visible, U-turn in policy. Official data from China now [admit there have been 60,000 deaths as a result of the re-opening of the economy](#) and the consequent re-spreading of the virus, at a time when China still has not vaccinated large part of the population. Many countries introduced restrictions for Chinese travellers, against which the Chinese government threatened “retaliation” – without considering the severe and unilateral quarantine measures the government itself has been imposing on foreign travellers for the last two years.

Meanwhile, [the FT reported that doubts have emerged about China's “limitless cooperation” with Russia](#). [In a previous column](#), we have already talked about the first cracks emerging. But now it seems that irritation is mounting in Beijing on the way Putin is conducting Russia's military campaign in Ukraine, which is causing severe damage to the global economy, including for China, which depends on foreign growth for its exports. Additionally, it seems that on the famous meeting between Xi and Putin on 4th February 2022, Putin hid his invasion plans from Xi, only saying Russia “would not rule out taking whatever measures possible if eastern Ukrainian separatists attack Russian territory and cause humanitarian disasters.”

Xi's foreign minister, Qin Gang, a former Chinese ambassador in Washington, may be the expression of this potential rethinking of the overt confrontation of China with the West. If there were to be a rapprochement between the US and China, potentially sealed at the APEC meeting in San Francisco this coming November, when Xi is expected to visit the US, it would be welcome news. Our fear however is that any such rapprochement may be merely a tactical move, to ease the tension on Xi's leadership and on the global economy. The [broader context of Cold War II seems to us to still be intact](#), and likely to remain in place for the foreseeable future.

Our Recent Publications

🌿 [The World Cup And A Rising Gulf](#), by Gulf State Analytics,
11 January 2023

🌿 [A New Covid-19 Wave In China Tests Domestic Healthcare Services And Prompts A Wave Of International Travel Restrictions](#), by London Politica, 5 January 2023



Looking Ahead

The Week Ahead: EZ And UK Headline To Fall; Core Inflation To Rise In EZ; UK Unemployment Rate To Stay Unchanged

In the US, December's retail sales are expected to fall by -0.8% m-o-m (*p*: -0.6%)

In the EZ, in December, the headline inflation rate is expected to decrease to 9.2% y-o-y (*p*: 10.1%), whereas core inflation is seen increasing to 5.2% y-o-y (*p*: 5.0%). Monthly inflation rate is likely to fall by -0.3% (*p*: -0.1%).

In the UK, in December headline inflation is seen falling slightly to 10.6% y-o-y (*p*: 10.7%), whereas core inflation is likely to stay the same at 6.3% y-o-y. Monthly inflation is expected to remain the same at 0.4%. In November, the unemployment rate is expected to stay unchanged at 3.7%. In December, retail sales are seen recovering slightly to -4.2% y-o-y (*p*: -5.9%) and 0.4% m-o-m (*p*: -0.4%). In January, Gfk Consumer Confidence is likely to recover slightly to -40 (*p*: -42).

The Quarter Ahead: Yellen Warns Of US Default Risk; Iran Executed British-Iranian Citizen; Bolsonaro To Be Investigated

US Treasury Secretary Janet Yellen warns Congress about US default risk. The U.S. will reach its statutory debt limit (USD 31.4 trillion) this Thursday and asked HoR Speaker McCarthy to either suspend or increase the debt limit. As Yellen reported, extraordinary cash management need to be taken to prevent default risk by early June. She urged policymakers to act quickly to "protect the full faith and credit of the United States."

Iran executed a British-Iranian national for spying for UK. A former deputy defence minister Alireza Akbari was hanged after being convicted of acting against national security in 2019. Rishi Sunak called it "a callous and cowardly act".

Brazil Supreme Court includede Jair Bolsonaro in riot probe. An investigation was opened after former president Bolsonaro allegedly encouraged antidemocratic protests in Brasilia. Thousands of Bolsonaro supporters, who claimed that the latest presidential election was rigged, stormed the Supreme Court, Congress and presidential palace. They seek to provoke military coup that would oust President Luiz Inacio Lula da Silva and restore Bolsonaro to power, who is currently in the United States.

Russian missiles continue to strike key infrastructure in Kyiv and Kharkiv. Russian forces claim to take over the salt-mining town of Soledar, whereas Ukrainians deny those reports. Meanwhile Rishi Sunak confirmed the UK will provide Challenger 2 tanks to Ukraine. He also emphasized on "the UK's ambition to intensify our support to Ukraine".

Last Week's Review

Real Economy: US Headline And Core Inflation Fell; EZ Unemployment Rate Remained Unchanged; IP Decreased In EZ And UK

In the US, December's CPI inflation eased off to 6.5% y-o-y (*c*: 6.5%; *p*: 7.1%). Core inflation fell to 5.7% y-o-y (*p*: 6.0%) as expected. According to a preliminary estimate, Michigan consumer sentiment in January rose to 64.6 (*c*: 60.5; *p*: 59.7).

In the EZ, in November, the unemployment rate stood unchanged at 6.5%. November's IP decelerated to 2.0% y-o-y (*c*: 0.5%; *p*: 3.4%)

In the UK, in November, IP deteriorated further to -5.1% y-o-y (*c*: -3.0%; *p*: -4.7%).

Financial Markets: Stock Prices Rose While Bond Yields and The US Dollar are Down. Oil And Gold Prices Increased

Market Drivers: Stocks recorded a second consecutive week of gains, as investors remained optimistic about quarterly earnings reporting and easing inflationary pressures. Better-than-expected economic data boosted hopes of a short and shallow recession in Europe. As a result of which, EZ shares rallied.

Global Equities: Increased *w-o-w* (MSCI ACWI, +3.3%, to 638.1). The US S&P 500 index rose (+2.7% *w-o-w*, to 3,999). In the EZ, share prices were up (Eurostoxx 50, +3.3% *w-o-w*, to 4,150.80). In EMs, equity prices moved up (MSCI EMs, +4.2%, to 1,029.94). Volatility fell to 19.4 (VIX S&P 500, 52w avg.: 25.5; 10y avg.: 18.2).

Fixed Income: *w-o-w*, the 10-year US treasury yields were down (-6 bps to 3.50%). The 2-year US Treasury yields fell (-4 bps to 4.22%). The German 10-year bund yield decreased (-4 bps to 2.17%).

FX: *w-o-w*, the US Dollar Index was down (DXY, -1.6%, to 102.0; EUR/USD +2.2%, to 1.08). In EMs, currencies increased (MSCI EM Currency Index, +2.0% *w-o-w*, to 1,702.18).

Commodities: *w-o-w*, oil prices increased (Brent, +8.8% to 85.49 USD/b). Gold prices increased *w-o-w* (+2.9% to 1,923.35 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