



*R&R Weekly Column*  
By Brunello Rosa



### China Is Torn Between Its Charm Offensive And Support For Russia In Ukraine

In a column [a few weeks ago](#), we asked ourselves whether China was ready to make a broader U-turn after the massive change of direction it had taken regarding its Zero-Covid policy. A symbol of that potential change was the arrival of Qin Gang, a former ambassador to Washington, as foreign minister, replacing Wang Yi. We also mentioned how Xi Jinping himself had started to make speeches in favour of private initiatives, after years of carrying out witch-hunts against the private sector, in particular the tech sector. Now things seem to have moved further in that direction. Wang [ascended to the Politburo](#) after the [October Congress](#) of the CPP that confirmed Xi as party leader for the third time, and has replaced Yang Jiechi as the Director of Central Foreign Affairs Commission, the highest diplomatic position in China. Wang has [recently started a “charm offensive”](#) in Europe, beginning from Paris where he met French President Macron ahead of the Munich security conference. The messages that Wang is trying to pass to his European counterparts are twofold: 1) that China is open for business; and that 2) China is willing to find a diplomatic solution to the war in Ukraine.

Regarding the first point, this seems almost a foregone conclusion. China has observed an acceleration in the process of global polarisation and a separation from the US and, to a lesser extent, from European countries, a process which is clearly premature. China is rightly betting on the growth of South-East Asia and Africa in the next 20-30 years, and believes that the countries from these regions of the global economy will eventually replace the US and Europe as China’s largest “customers” (i.e. importers of its products). That is the reason why the vast majority of the signatories of the BRI are from these two regions of the global economy. But these countries are not large enough to replace Europe and the US just yet and – crucially – they do not possess the technology that the EU and US are able to provide to China, in terms of materials, semi-conductors, etc.

On the second point (namely, finding a diplomatic solution to the war in Ukraine), facts tell a different story than words or intentions. Recent press reports from the [Wall Street Journal](#) and other US newspapers show that trade between China and Russia has massively increased since the beginning of the war in Ukraine, both in terms of commodities and manufactured goods and in terms of technology that can be used for civilian and military purposes. Between March and September 2022, trade between the two countries has grown by USD 27bn, and touched USD 100bn. Russia has become even more dependent on Chinese imports, which now represent 36% of Russia’s total. More generally, Russian trade with China has allowed it to circumvent the tech embargo imposed by the US, and its purchases of foreign-made semi-conductors has increased by 34% in 2022, with the lion’s share coming from China.

On the back of these considerations, the following preliminary conclusions may be drawn. First, it is extremely positive that China has realised how damaging for its own reputation and economic activity some of its policies have been, including the Zero-Covid policy and the support to Russia for the war in Ukraine. Secondly, building on this realisation, and considering its purported intention to change tack, China now needs to show actions that are consistent with its words. Thirdly, even in the most favourable scenario, in which China manages to at least marginally re-orient its policy choices, we remain convinced that a Cold War between the US and China is ongoing, and will develop further in coming decades. But its intensity and speed do matter a lot for the well-being of the global economy and the geopolitical environment. So, any softening on this front will always be welcome.

#### Our Recent Publications

- ✿ [De-Dollarisation and New Global Supply Chains: An Assessment](#), by Mirko Giordani, 16 February 2022
- ✿ [Iran and Saudi Arabia Keep Channels of Communications Open In Spite of Stalled Relations](#), by Gulf State Analytics, 15 February 2023

- ✿ [China-Taiwan-US Relations and Their Regional Implications](#), by Mirko Giordani, 14 February 2022
- ✿ [The Challenging Political Environment of Brazil After the Failed Coup](#), by London Politica, 9 February 2023

Looking Ahead

The Week Ahead: US QoQ GDP To Decelerate; Headline Inflation To Fall, While Core To Stay The Same In EZ; DM PMIs To Increase

**In the US**, in Q4, according to the second estimate, GDP is seen decelerating to 2.9% q-o-q (*p*: 3.2%). In January, Core-PCE is expected to decrease to 4.3% y-o-y (*p*: 4.4%). In February, according to flash estimates, S&P Global Manufacturing and Services PMIs are likely to edge up to 47.3 (*p*: 46.9) and 47.2 (*p*: 46.8) respectively. Composite PMI is seen increasing too to 47.5 (*p*: 46.8). February's Consumer Sentiment is likely to increase to 66.4 (*p*: 64.9).

**In the EZ**, in January, the headline inflation rate is expected to fall to 8.6% y-o-y (*p*: 9.2%), whereas core inflation is likely to stay at 5.2% y-o-y. In February, according to flash estimates, S&P Global Manufacturing and Services PMIs are expected to increase to 49.3 (*p*: 48.8) and 51 (*p*: 50.8) respectively. Composite PMI is also likely to edge up to 50.6 (*p*: 50.3).

**In the UK**, in February, according to flash estimates, S&P Global Manufacturing and Services PMIs are expected to increase to 47.4 (*p*: 47.0) and 49.2 (*p*: 48.7) respectively. Composite PMI is also seen rising to 48.7 (*p*: 48.5). Still, in February, Gfk Consumer Confidence is likely to shrink again to -42 (*p*: -45).

The Quarter Ahead: "No Change" In Sweden And Finland's Desire To Join NATO; Munich Security Conference February 17-19;

**NATO chief told Turkey it was time to ratify Sweden and Finland's bid to join the alliance.** Last May, Finland and Sweden applied to join NATO in response to Russia's invasion of Ukraine, but Turkey opposes their memberships. Hungary also holds back the ratification. There is "no change" in Finland's and Sweden's desire to join the military alliance, as Finland's PMI Sanna Marin reported. Helsinki is likely to approve all the necessary legislation to join NATO on Feb. 28.

**Munich Security Conference 2023.** Ukraine war is top of the agenda, where President Zelensky urged speedier support. US secretary of state Blinken met with Moldovan President Sandu, expressing deep concerns that Russia is plotting to destabilize the government of Moldova. On the sidelines of the Munich Conference, negotiations are ongoing for Blinken's meeting with Chinese official.

Last Week's Review

Real Economy: Headline And Core Inflation Fell In the US And the UK; EZ QoQ And YoY GDP Decelerated; US Retail Sales Rose

**In the US**, in January, both headline and core inflation rates fell to 6.4% y-o-y (*c*: 6.2%; *p*: 6.5%) and 5.6% y-o-y (*c*: 5.5%; *p*: 5.7%). On a monthly basis, the inflation rate increased by 0.4% (*p*: 0.4%) as expected. January's retail sales accelerated by 6.4% y-o-y (*p*: 5.9%).

**In the EZ**, in Q4, according to the second estimate, GDP decelerated to 0.1% q-o-q (*p*: 0.3%) and 1.9% y-o-y (*p*: 2.3%) as expected. December's IP contracted by 1.7% (*c*: -0.7%; *p*: 2.8%).

**In the UK**, in December, the unemployment rate stayed unchanged at 3.7%. In January, both headline and core inflation rates decreased to 10.1% y-o-y (*c*: 10.3%; *p*: 10.5%) and 5.8% y-o-y (*c*: 6.2%; *p*: 6.3%). On a monthly basis, the inflation rate is expected to fall by -0.6% (*c*: -0.4%; *p*: 0.4%). Still, in January, retail sales recovered slightly by -5.1% y-o-y (*c*: -5.5%; *p*: -6.1%).

Financial Markets: Stocks Fell In US, While Rebounded In EZ; Bond Yields Rose; Dollar Edged Up; Oil And Gold Prices Fell

**Market Drivers:** After another hot inflation report, investors' feared that the Fed would need to raise interest rates further: that led to an increase in treasury yields and US dollar and a fall in US stocks. In Europe, better-than-expected corporate results boosted shares.

**Global Equities:** Decreased w-o-w (MSCI ACWI, -0.3%, to 645.03). The US S&P 500 index edged down (-0.3% w-o-w, to 4,079.09). In the EZ, share prices were down (Eurostoxx 50, +1.8% w-o-w, to 4,274.92). In EMs, equity prices moved down (MSCI EMs, -1.4%, to 999.42). Volatility rose to 21.4 (VIX S&P 500, 52w avg.: 26.1; 10y avg.: 18.5).

**Fixed Income:** w-o-w, the 10-year US treasury yields were up (+7 bps to 3.82%). The 2-year US Treasury yields rose (+9 bps to 4.62%). The German 10-year bund yield increased (+6 bps to 2.42%).

**FX:** w-o-w, the US Dollar Index increased (DXY, +0.3%, to 103.8; EUR/USD +0.2%, to 1.07). In EMs, currencies fell (MSCI EM Currency Index, -0.8% w-o-w, to 1,674.19).

**Commodities:** w-o-w, oil prices decreased (Brent, -3.8% to 83.15 USD/b). Gold prices also fell w-o-w (-0.6% to 1,851.45 USD/Oz).



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The picture in the front page comes from [this website](#)



Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	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