



R&R Weekly Column
By Brunello Rosa



The World Is Sleepwalking Toward A Nuclear Armageddon

In the past few weeks many events have occurred that have made the world a more dangerous place. In mid-March, [a MQ-9 Reaper reconnaissance drone collided with two Russian Su-27 fighter jets](#) and fell into the Black Sea. This is the first official “military exchange” between Russian and NATO forces over the conflict in Ukraine; albeit an indirect one, as the drone was un-armed and the Russian jets did not aim to shoot it down.

Subsequently, [the state visit by Xi Jinping to Moscow](#) made the “limitless cooperation” between China and Russia even stronger than it already was. And Xi can no longer credibly say that Putin misled him regarding his intentions on Ukraine. After one year of war, with dozens of thousands of deaths, it is perfectly clear what Putin’s intentions are, and it is also clear that Xi will not try to dissuade him from reaching his aims, at least not yet. (Apart from the fig leaf that is the purported “Chinese Peace Plan”). This comes after the [International Criminal Court issued an arrest warrant against Putin for war crimes](#), in particular for the deportation of Ukrainian children to Russia.

[Russia has now started to use the Chinese yuan as its international reserve currency, in a sign of subjugation to its stronger ally.](#) It is yet to be seen whether China will start openly selling weapons to Russia for its “special operation” in Ukraine. That would mark a definite escalation of the conflict, and its official transformation into a proxy war between the US and China.

Finally, Russia has declared that it will [deploy tactical nuclear weapons to Belarus](#), in an extreme attempt at dissuading NATO countries (chiefly the Baltics and Poland) from providing further military assistance to Ukraine. [Putin has also said that NATO and his allies are now akin to the Nazi alliance](#) that Russia fought during WWII, which in Russia was called the “Great Patriotic War.” NATO responded that Russia’s deployment of nuclear weapons to Belarus [is “dangerous and irresponsible.”](#)

One could give further examples, but the story here is clear. The rhetoric coming from the two sides is hardening, instead of softening, and their actions are also escalating, in terms of NATO providing support to Ukraine and China helping Russia. Contemplating a nuclear attack in Ukraine has now become part of the central scenario, rather than a tail or even a risk scenario. It is understood that NATO would not react to a Russian nuclear attack with a nuclear response, but rather with a conventional retaliation of devastating proportions, to obliterate the Russian army in Ukraine, potentially including in Crimea.

World leaders seem to be sleepwalking into a nuclear Armageddon that could lead to World War 3. This is the reason why incidents such as the contact between the Russian jets and the US drone may be much more consequential than they could appear *prima facie*. One can imagine that in a situation of even higher tension between the two sides, a collision of this kind could easily be construed as the pretext for the beginning of direct military exchange between NATO and Russia, similar in nature to the killing of Archduke Ferdinand in Sarajevo, which of course marked the beginning of WWI.

Our Recent Publications

✿ [Flash Review: BOE Increases Rates In Spite of Ongoing Banking Crises, Given Stubborn Inflation](#), by Brunello Rosa and Nato Balavadze, 23 March 2023

✿ [Review: The Fed Increases Rates, Signals Further Tightening Ahead and Dismisses Rate Cuts In 2023](#), by Brunello Rosa and Nato Balavadze, 22 March 2023

✿ [Scholz’s Private Meeting with Biden: An Effort to Strengthen the Partnership?](#), by London Politica, 22 March 2023

✿ [Banking Crisis Amplified Fed’s Dilemma](#), by Filippo Ramigni, 21 March 2023

✿ [Preview: Fed Likely To Increase Rates by 25bps, In Spite of Financial Stability Risks](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 20 March 2023

✿ [Preview: In a Finely Balanced Decision, We Expect The BoE To Raise Rates In March, Financial Instability Permitting](#), by Brunello Rosa and Nato Balavadze, 17 March 2023

Looking Ahead

The Week Ahead: US QoQ GDP To Decelerate; UK QoQ GDP To Stall; EZ Headline Inflation To Fall, While Core Continues To Rise

In the US, in Q4, according to the final estimate, GDP growth is seen decelerating to 2.7% q-o-q (*p*: 3.2%). In February, core PCE is expected to remain at 4.7% y-o-y. Michigan Consumer Sentiment is likely to decrease to 63.4 (*p*: 67).

In the EZ, in March, according to flash estimates, the inflation rate is likely to ease off to 7.2% y-o-y (*p*: 8.5%), while core inflation is expected to increase to 5.7% y-o-y (*p*: 5.6%). Still in March, unemployment rate is seen remaining unchanged at 6.7%. March's economic sentiment is expected to stay the same at 99.7, while consumer confidence is likely to deteriorate further to -19.2 (*p*: -19.1).

In the UK, in Q4, according to the final estimates, the UK economy is expected to stall on a quarterly basis and decelerate to 0.4% y-o-y (*p*: 1.9%).

The Quarter Ahead: Xi Jinping's Visit to Moscow; Deutsche Bank's Shares Plunge And CDS Rose at Highest Levels Since 2018

Xi Jinping and Vladimir Putin met in Moscow, following Putin arrest warrant for war crimes. China and Russia deepen economic ties, while Washington denounced Xi's visit. Xi tries to portray Beijing as a potential peacemaker, but the meetings yielded no breakthrough on resolving the conflict. Putin praised China's peace plan and reported that it could be used as a way to end the war.

Deutsche Bank shares fell by 11% following a spike in credit default swaps. The concerns about the stability of European bank persisted but European leaders insisted that the EU banking system was solid. Olaf Scholz said that there is no reason to be concerned about Deutsche Bank. The cost of insuring the bank's debt against the risk of default rose to the highest level in four years.

Last Week's Review

Real Economy: UK Inflation Surged; Composite PMI Rose In EZ And UK, And Fell In UK; CBs Increased Interest Rates

In the US, in March, according to flash estimates, S&P Global Services and Manufacturing PMIs increased to 53.8 (*c*: 50.5; *p*: 50.6) and 49.3 (*c*: 47; *p*: 47.3), respectively. The Composite PMI edged up to 53.3 (*p*: 50.1)

In the EZ, in March, consumer confidence contracted to 19.2 (*c*: -18.3; *p*: -19.1). In March, according to flash estimates, the S&P Global Services PMI increased to 55.6 (*c*: 52.5; *p*: 52.7), while Manufacturing PMI fell to 47.1 (*c*: 49; *p*: 48.5). The Composite PMI rose to 54.1 (*c*: 51.9; *p*: 52).

In the UK, in February, the headline inflation rate rose unexpectedly to 10.4% y-o-y (*c*: 9.9%; *p*: 10.1%). Core inflation rose too to 6.2% y-o-y (*c*: 5.7%; *p*: 5.8%). In March, Consumer Confidence fell to -36 (*c*: -36; *p*: -38). February's retail sales contracted by 3.5% y-o-y (*c*: -4.7%; *p*: -5.2%). In March, according to flash estimates, the S&P Global Manufacturing and Services PMIs decreased to 48 (*c*: 49.8; *p*: 49.3) and to 52.8 (*c*: 53; *p*: 53.5) respectively. Composite PMI decreased too to 52.2 (*c*: 52.8; *p*: 53.1).

CBs hiked rates. In the US, the Federal Reserve increased its target Fed funds range by 25 bps to 4.75% - 5.00%. In the UK the Bank of England increased its Bank Rate (BR) by 25 bps to 4.25%.

Financial Markets: Stock Prices Increased; The Dollar And US Bond Yields Fell, While Oil And Gold Prices Edged Up

Market Drivers: While investors feared that the banking crisis was spilling over to Deutsche Bank, stocks close higher on Friday boosted by a bounce bank in regional bank stocks. US Treasury yields edged down as investors digested the Fed's latest decision and declarations that suggest that rate hiking campaign might be near its end.

Global Equities: Increased w-o-w (MSCI ACWI, +1.5%, to 625.06). The US S&P 500 index edged up (+1.4% w-o-w, to 3,970.99). In the EZ, share prices were up (Eurostoxx 50, +1.6% w-o-w, to 4,130.62). In EMs, equity prices moved up (MSCI EMs, +2.2%, to 972.17). Volatility rose to 23.4 (VIX S&P 500, 52w avg.: 26.1; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US treasury yields were down (-6 bps to 3.37%). The 2-year US Treasury yields fell (-8 bps to 3.77%). The German 10-year bund yield rose (+2 bps to 2.15%).

FX: w-o-w, the US Dollar Index fell (DXY, -0.6%, to 102.8; EUR/USD +0.9%, to 1.08). In EMs, currencies increased (MSCI EM Currency Index, +0.6% w-o-w, to 1,685.17).

Commodities: w-o-w, oil prices increased (Brent, +2.8% to 75.00 USD/b). Gold prices rose w-o-w (+0.4% to 1,981.00 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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