



R&R Weekly Column
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Cold Wars and Hot Wars Continue After the G7 Summit in Japan

Last week we discussed the main themes of [the G7 Summit in Japan](#). The [final communique released at the summit](#) reflected those themes, in particular the commitment by G7 countries to a) support Ukraine “for as long as it takes” against Russia’s “illegal war of aggression;” b) strengthen nuclear “disarmament and non-proliferation efforts;” c) enhance economic resilience and security that is based on diversifying supply chains via “de-risking, not de-coupling” from China;” d) drive the transition to cleaner energy economies; e) launch the Hiroshima Action Statement for Resilient Global Food Security; and f) deliver the goal of mobilizing \$600 billion in financing for quality infrastructure through the Partnership for Global Infrastructure Investment (PGII), i.e. the Western equivalent of China’s BRI.

The [summit was dominated by the presence of Ukrainian president Volodymyr Zelensky](#), as well as other leaders who have recently expressed a more neutral position towards the war in Ukraine, such as [Brazilian president Ignacio Lula da Silva](#) and Indian [Prime Minister Narendra Modi](#). In the past, India processed Russian crude oil and diamonds, while Brazil refused to sell ammunition to Germany as it could be used to help Ukraine. [The FT reported that Zelensky directly confronted these leaders](#), asking them to more forcefully condemn the Russian invasion of Ukraine.

In Europe, 75,000-80,000 people have [participated in Moldovan president Maia Sandu’s rally in Chisinau](#) in favour of an [expedited accession to the EU](#), to prevent further Russia interference in the Moldovan region of Transnistria, which borders with Ukraine and is already controlled by the Russian army. All this is happening while the Russians announced that, after months of conflict, their troops [managed to conquer Bakhmut](#), which was considered a strategic position. President Zelensky admitted that the city is now only in the “hearts of the Ukrainians.”

Meanwhile, the G7 issued its [strongest condemnation to date of China’s position regarding the war](#). They asked China to intervene with Moscow for a withdrawal of troops from Ukraine. They also criticised Beijing for its militarisation of the South and East China seas, and for its economic coercion of South-East Asian countries. G7 leaders also called for a peaceful solution [to tensions across the strait of Taiwan](#).

Perhaps in response to all this, [China has decided to ban the products by Micron](#), the US largest micro-processor producer, from key infrastructure projects, citing a national security risk. This is the mirror image of what the US has done in the past to semi-conductors produced by Chinese companies such Huawei and ZTE.

All of this suggests that the hot war between Ukraine and Russia, which in our opinion is the first proxy conflict of the new Cold War between US and China, will continue unrelentingly, with all its open fronts: the trade war, the tech conflict with its various battlefields (big data, AI, cyberwarfare, Regulatory Technology and Central Bank Digital Currencies) and the balkanisation of global supply chains.

In the absence of an effective forum for global governance (the UN Security Council and the G20 are both polarised between US and China), regional fora such as the G7 (for the advanced economies) and the [BRICS+ \(for emerging markets\)](#) are the only occasions in which these issues can be discussed at a global level.

Our Recent Publications

✿ [The “West” - China Decoupling: The Current State of Affairs](#), by London Politica, 18 May 2023

✿ [US, China, and the Resurgence of Middle East Politics](#), by Mirko Giordani, 17 May 2023

✿ [The Complicated Post-Inflation Environment For Markets And Central Banks](#), by Filippo Ramigni, 16 May 2023

✿ [Sudan Civil War: Causes And Geopolitical Implications](#), by London Politica, 12 May 2023



Looking Ahead

The Week Ahead: US QoQ GDP To Decelerate In Q1; UK Headline Inflation To Fall; Composite PMIs To Decrease In DMs

In the US, according to the second estimate, in Q1 GDP growth is expected to decelerate to 1.1% q-o-q (*p*: 2.6%). According to flash estimates, S&P Manufacturing and Services PMI are likely to decrease to 50 (*p*: 50.2) and 52.6 (*p*: 53.6). In April, Core PCE Price Index is expected to stay the same at 4.6% y-o-y.

In the EZ, in May, Consumer Confidence is expected to increase to -17 (*p*: -17.5). According to flash estimates, in May, HCOB Manufacturing PMI is likely to increase to 46.2 (*p*: 45.8), whereas Services PMI is seen falling to 55.6 (*p*: 56.2). As a result, the Composite PMI is expected to fall to 53.7 (*p*: 54.1).

In the UK, in April, the headline inflation rate is expected to ease off to 8.3% y-o-y (*p*: 10.1%), while core inflation is seen remaining unchanged at 6.2% y-o-y. According to flash estimates, S&P Manufacturing PMI is likely to increase to 48.0 (*p*: 47.8), whereas Services PMI is seen falling to 55.5 (*p*: 55.9). The Composite PMI is expected to fall to 54.6 (*p*: 54.9). April's retail sales are seen shrinking by 2.8% y-o-y (*p*: -3.1%).

The Quarter Ahead: G7 Leaders Meet In Hiroshima And Introduce New Sanctions; Saudi Arabia Hosts The Arab League Meeting

G7 leaders meeting in Hiroshima. The G7 has unveiled further sanctions targeting Russia. Biden held a meeting with Japanese PM Fumio Kishida, during which they engaged in discussions on enhancing defence collaboration and addressing China's actions. The G7 nations are ready to establish "positive and enduring relationships" with China while safeguarding their own individual interests.

G7 steps up Russia sanctions. The UK hits Russia with more sanctions. Russian diamond, copper, aluminum and nickel imports to the UK will be blocked under legislation to be introduced later this year. Britain will also target an additional 86 individuals and companies involved in Russian President Vladimir Putin's "military-industrial complex". The U.S. Commerce Department's action targets support for Russia's military and expands the scope of export controls on Russia and Belarus, specifically around oil and gas projects.

Saudi Arabia hosts the Arab League Meeting in Jeddah. The president of Syria Bashar al-Assad has been welcomed back. The Syria's return to the Arab League in the current year makes significant changes in the region evident, following the reestablishment of diplomatic relations between Saudi Arabia and Iran through a China-mediated agreement.

Last Week's Review

Real Economy: EZ QoQ GDP Advanced Slightly, EZ Headline Inflation Rose, While Core Fell; The UK Unemployment Rate Rose

In the US, in April, the growth in retail sales decelerated to 1.6% y-o-y (*p*: 2.4%).

In the EZ, in Q1 2023, according to the second estimate, the economy advanced by 0.1% q-o-q (*p*: 0.0%) as expected. On a yearly basis, GDP decelerated to 1.3% (*c*: 1.3%; *p*: 1.8%). In April, headline inflation increased to 7.0% y-o-y (*c*: 7.0%; *p*: 6.9%), while core inflation eased off slightly to 5.6% y-o-y (*c*: 5.6%; *p*: 5.7%). On a monthly basis, inflation cooled off to 0.6% (*c*: 0.7%; *p*: 0.9%).

In the UK, in March, the unemployment rate rose to 3.9% (*c*: 3.8%; *p*: 3.8%). May's Consumer Confidence rose to -27 (*c*: -27; *p*: -30).

Financial Markets: Stock Prices, Bond Yields, Dollar Index And Oil Prices Increased; While Gold Prices Fell

Market Drivers: The major indices all logged gains last week, as a better tone was observed during the US debt-ceiling negotiations, with Biden confident there will be no default. The UST yields rose, boosted by April's job data and stronger manufacturing data. European government bonds rose amid growing confidence in the European economy and a potential breakthrough in the debt-ceiling negotiations.

Global Equities: Increased w-o-w (MSCI ACWI, +1.1%, to 656.42). The US S&P 500 index edged up (+1.6% w-o-w, to 4,191.98). In the EZ, share prices were up (Eurostoxx 50, +1.8% w-o-w, to 4,395.30). In EMs, equity prices moved up (MSCI EMs, +0.4%, to 977.24). Volatility rose to 19.8 (VIX S&P 500, 52w avg.: 24.6; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US treasury yields were up (+22 bps to 3.69%). The 2-year US Treasury yields also increased (+29 bps to 4.28%). The German 10-year bund yield edged up (+19 bps to 2.45%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.5%, to 103.19; EUR/USD -0.4%, to 1.08). In EMs, currencies decreased (MSCI EM Currency Index, -0.4% w-o-w, to 1,680.82).

Commodities: w-o-w, oil prices increased (Brent, +1.9% to 75.59 USD/b). Gold prices fell w-o-w (-2.0% to 1,979.90 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