



R&R Weekly Column
By Brunello Rosa

As Ukraine Begins its Counteroffensive, The First Elements of a Path to Peace Start To Emerge

Henry Kissinger, the former US Secretary of State and National Security Advisor under President Richard Nixon, and advisor to other presidents, including John F. Kennedy, [turned 100](#) last week. The [press was full of articles](#) recollecting his achievements as top US diplomat, in particular his ability to begin the so-called détente between US and China in the early 1970s, and his negotiations that led to a ceasefire during the war in Vietnam. For these and other results, [he was awarded the Nobel Peace Prize in 1973](#). Kissinger was considered able to reach impossible compromises among belligerent parties.

Being still active in media, Kissinger has expressed his views on the war in Ukraine, and how it could end. Recently, [he changed his mind](#) regarding Ukraine's NATO membership. [Initially](#), he thought it would be read by Russia as a further provocation, and so opposed Ukraine's membership. But now he believes that Volodymyr Zelensky is an "extraordinary leader," who is wise in accepting China's diplomatic efforts, and that NATO members should allow Ukraine to join the club sooner rather than later.

Clearly, in these highly confused times, another Kissinger able to negotiate a peace plan between Russia and Ukraine would be needed. We believe there is still a long way to go before this can ever happen. Ukrainian troops [have just announced the beginning of their long-awaited Spring counter-offensive](#), with the aim of winning back some of the territories currently occupied by the Russians. Ukrainian sources are saying that [they expect some form of "massive incident"](#), a "provocation" by the Russians at the nuclear power station of Zaporizhzhia, currently controlled by the Russians, reportedly to justify their reaction.

Despite this, perhaps the first elements of a possible path to peace are starting to emerge. There are several pieces to this jigsaw puzzle. *First*, Russia has said that China – which has its special envoy for Eurasian affairs, Li Hui – would reportedly be in favour of [Russia keeping the territories that it is currently controlling](#). Ukraine, and the West, do not consider this acceptable, although some of the allies would be open to leaving Crimea to Russia. *Second*, Sir Jeremy Fleming, the head of the UK cyber-intelligence at CGHQ, [said that President Xi cares that his ally Putin should not end this conflict with a humiliation](#), implying that some sort of compromise that allows him to save face would be necessary.

Third, the Vatican has opened its diplomatic channels, and Pope Francis [has nominated Cardinal Zuppi as the Holy See's envoy to the region](#), the same way that in 2003 Pope Wojtyla appointed Cardinal Etchegaray as his envoy to Bagdad, at the time of the war in Iraq. Moscow seems in favour of the Vatican's mission, while Ukraine is much more sceptical. *Fourth*, [Brazilian president Lula said that he is ready to negotiate with Russia](#), together with India, Indonesia and China, to find a peaceful compromise to end the war.

These are still very preliminary steps, but perhaps they could be the initial elements towards a possible, compromise solution.

Our Recent Publications

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Looking Ahead

The Week Ahead: Unemployment Rate To Rise In US, While Remaining The Same In the EZ; Inflation To Cool Off In the EZ

In the US, in May, the unemployment rate is expected to edge up to 3.5% (*p*: 3.4%). NFPs are seen rising by 195K (*p*: 253K).

In the EZ, in May, both headline and core inflation is expected to ease off to 6.3% y-o-y (*p*: 7.0%) and 5.5% y-o-y (*p*: 5.6%). In April, the unemployment rate is seen staying the same at 6.5%. In May, economic sentiment is likely to fall to 98.9 (*p*: 99.3).

The Quarter Ahead: US Debt Ceiling Pushed Back As Negotiations Continue; The War in Ukraine Continues

US debt ceiling pushed back as negotiations continue. US Treasury Secretary Janet Yellen says the agency will run out of funds to pay all of its bills by June 5th, 2023. The new estimated date for a default provides lawmakers with a little more breathing room as they attempt to reach a deal. Meanwhile Joe Biden and Kevin McCarthy are nearing an agreement that would increase the government's debt ceiling of \$31.4 trillion for a duration of two years, while implementing spending limits on the majority of items.

The War in Ukraine. The defense ministry of Ukraine issued a warning stating that Russia intends to simulate a major incident at the Zaporizhzhia nuclear power station, currently under control of Russian forces. A Russian missile hit a clinic in the eastern Ukrainian city of Dnipro, while Moscow accuses of Ukraine fired rocket and drone at southern Russia.

Last Week's Review

Real Economy: US QoQ GDP Decelerated In Q1; UK Headline Inflation Fell; Composite PMIs Decreased In DMs

In the US, according to the second estimate, in Q1 GDP growth decelerated to 1.3% q-o-q (*c*: 1.1%; *p*: 2.6%). According to flash estimates, S&P Manufacturing PMI fell to 48.5 (*c*: 50.0; *p*: 50.2), while Services PMI increased to 55.1 (*c*: 52.6; *p*: 53.6). Composite PMI rose to 54.5 (*c*: 50.0; *p*: 53.4). In April, PCE and Core PCE Price Index rose by 4.4% y-o-y (*p*: 4.2%) and 4.7% y-o-y (*c*: 4.6%; *p*: 4.6%) respectively. Michigan Consumer Sentiment edged down to 59.2 (*c*: 57.7; *p*: 63.5).

In the EZ, in May, Consumer Confidence contracted to -17.4 (*c*: -16.8; *p*: -17.5). According to flash estimates, in May, HCOB Manufacturing and Services PMI fell to 44.6 (*c*: 46.2; *p*: 45.8) and to 55.9 (*c*: 55.6; *p*: 56.2) respectively. As a result, the Composite PMI edged down to 53.3 (*c*: 53.7; *p*: 54.1).

In the UK, in April, the headline inflation rate eased off to 8.7% y-o-y (*c*: 8.2%; *p*: 10.1%), while core inflation rose to 6.8% y-o-y (*c*: 6.2%; *p*: 6.2%). Monthly inflation increased 1.2% (*c*: 0.8%; *p*: 0.8%). According to flash estimates, S&P Manufacturing and Services PMI decreased to 46.9 (*c*: 48.0; *p*: 47.8) and to 55.1 (*c*: 55.5; *p*: 55.9) respectively. The Composite PMI declined to 53.9 (*c*: 54.6; *p*: 54.9). April's retail sales shrank by 3.0% y-o-y (*c*: -2.8%; *p*: -3.9%).

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

Market Drivers: Investors are closely monitoring negotiations on raising the US federal debt ceiling and uncertainty around it, resulting in a mixed outcome for major benchmarks. The S&P 500 increased slightly on the hope of a rapid debt-ceiling deal. European shares declined due to indications suggesting a potential deterioration in the economic activity, as Germany entered a technical recession.

Global Equities: Decreased w-o-w (MSCI ACWI, -0.5%, to 635.05). The US S&P 500 index edged up (+0.3% w-o-w, to 4,205.45). In the EZ, share prices were down (Eurostoxx 50, -1.3% w-o-w, to 4,337.50). In EMs, equity prices moved down (MSCI EMs, -0.4%, to 972.86). Volatility declined to 19.4 (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 (+11 bps to 3.80%). The 2-year US Treasury yields also increased (+29 bps to 4.57%) on debt-ceiling concerns. The German 10-year bund yield edged up (+8 bps to 2.51%).

FX: w-o-w, the US Dollar Index increased (DXY, +1.0%, to 104.23; EUR/USD -0.7%, to 1.07). In EMs, currencies decreased (MSCI EM Currency Index, -0.1% w-o-w, to 1,678.88).

Commodities: w-o-w, oil prices increased (Brent, +2.0% to 77.12 USD/b). Gold prices fell w-o-w (-1.8% to 1,946.10 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