



R&R Weekly Column
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VS



+ Saudi Arabia and Argentina

The US Tries To Ease Tension With The BRICS, Despite Their Reluctance

Last week, US Secretary of State Antony Blinken visited Beijing, where he met with his counterpart Qin Gang and - after a long wait - with President Xi Jinping. [As we discussed in our review](#), Blinken failed in his main objective, which was re-opening the direct communication lines between the militaries of the US and China, to make sure that a conflict doesn't start between the world's two superpowers by mistake.

This attempt by the US' top diplomat was made to ease some of the tensions that have developed in the last few years between the two countries. Perhaps irritated by the limited success of his envoy, Biden subsequently had a slip of tongue and [called the Chinese President "a dictator,"](#) specifying however that he was ready to meet with him, and is hoping to see Xi in November in San Francisco at [the APEC meeting](#).

After the failed attempt with China, Biden tried to make inroads with India, by inviting PM Narendra Modi to a state visit to DC, [where Modi also addressed the US Congress for the second time](#). This visit was a resounding success. First, the US and India agreed on a series of [technological and strategic partnerships, including in the crucial areas of semiconductors and satellite industries](#). More importantly, India agreed to purchase (and the US agreed to sell) military equipment, in particular armed MQ-9B SeaGuardian drones, which are produced by US defence contractor General Atomics.

This visit was particularly important because it marks a [clear attempt by the US to detach India from China](#) in the global rivalry between the world's two superpowers that we called Cold War 2. In fact, as we have discussed [on several occasions](#), India is trying to maintain a neutral and non-aligned position between the US and China, in the hope of extracting value from both relationships. But both China and the US do not like this neutrality.

The US is trying to keep India geo-strategically engaged via their participation to the Quadrilateral security dialogue. The US and India both also have democratic political systems, [at a time in which many Asian countries are switching to autocracy](#). Finally, the US is aware of the territorial disputes between India and China, along their 3500 km of shared borders, which culminated in a military exchange between the two countries in May 2022 in the Himalayas.

China meanwhile counts on India's participation in the BRICS club, and on the fact that Modi has shown several signals of his penchant for nationalistic politics, with some authoritarian aspects, especially in regard to India's religious minorities, such as Muslims and Christians.

All this is happening while, [at a finance summit in Paris](#), which is being attended by BRICS delegations as well as by the US Secretary to the Treasury, other BRICS countries re-asserted their intention to diminish the role of the US dollar as the world's reserve currency. (This included South Africa and Brazil, via the attendance of presidents Cyril Ramaphosa and Ignacio Lula, respectively). The BRICS would aim to use their own currencies, rather than the dollar - [or else a future "common" currency](#) - for their commercial exchanges, as China and Russia have already done, especially after the international community (led by the US) froze USD 300bn of Russian central-bank assets following Russia's invasion of Ukraine.

As we [discussed on previous occasions](#), these are all examples of the ongoing competition between the G7 bloc and the BRICS bloc to establish their economic and geopolitical hegemony on the world's stage. This competition, a further derivative of Cold War II, is destined to remain with us for decades to come.

Our Recent Publications

❖ [Key Takeaways from Antony Blinken's Visit to China](#), by London Politica, 23 June 2023

❖ [Review: BOE Increases Rates More Than Expected After The Inflation Surprise](#), by Brunello Rosa and Nato Balavazde, 22 June 2023

❖ [A Resilient Economy Despite the Technical Recession, With An Increasing International Leadership Role](#), by Brunello Rosa and Nouriel Roubini, 20 June 2023

❖ [Flash Preview: BoE To Increase Rates In June and Suggest That the Tightening Cycle is Not Over Yet](#), by Brunello Rosa and Nato Balavazde, 16 June 2023

Looking Ahead

The Week Ahead: US QoQ GDP To Decelerate; UK QoQ GDP To Advance; EZ Headline Inflation To Fall, While Core Rises

In the US, in Q1, according to the final estimate, GDP growth is seen decelerating to 1.4% q-o-q (*p*: 2.6%). May's Core PCE Price Index is expected to remain the same at 4.7% y-o-y.

In the EZ, in May, the headline inflation rate is expected to fall to 5.6% y-o-y (*p*: 6.1%), while core inflation is likely to rise to 5.5% y-o-y (*p*: 5.3%). Still in May, the unemployment rate is seen staying unchanged at 6.5%. In June, economic sentiment is expected to decline to 96 (*p*: 96.5). Consumer confidence is likely to increase to -16.1 (*p*: -17.4).

In the UK, in Q1 2023, according to the final estimates, the economy is seen advancing by 0.1% q-o-q (*p*: 0.1%) and decelerating to 0.2% y-o-y (*p*: 0.6%).

The Quarter Ahead: Russia Accuses Wagner Leader of Armed Mutiny; Blinken's Visit To China; US Tech Met With India's Modi

Wagner leader Prigozhin engages in an armed confrontation with Russian army amid "armed mutiny." Prigozhin accused the Kremlin of deliberately bombing Wagner troops, something the defence ministry denied. Russian mercenary leader claims control of Rostov-on-Don, aiming to remove military leadership during an alleged armed mutiny. Putin pledges to punish mutiny participants, labeling their actions as treasonous.

Blinken's visited China. The secretary of state's visit to Beijing aimed to alleviate escalating tensions. Xi Jinping and Blinken reiterated the areas in which China and the US are able to cooperate with each other, namely climate change, and economic stability.

Tech meeting at White House with Prime Minister Modi. The CEOs of Apple, Alphabet, and Microsoft discussed opportunities and challenges in investing in India. Amazon announced its intention to increase investments in India to \$26 billion by 2030, with an additional \$6.5 billion earmarked for new investments.

Last Week's Review

Real Economy: UK Headline Inflation Stood Unchanged, While Core Inflation Rose; PMIs Decreased In DMs

In the US, in June, S&P Global Manufacturing and Services PMIs edged down to 46.3 (*c*: 48.5; *p*: 48.4) and 54.1 (*c*: 54; *p*: 54.9) respectively. Composite PMI also declined to 53 (*p*: 54.3).

In the EZ, in June, consumer confidence rose to -16.1 (*c*: -17; *p*: -17.4). In June, HCOB Manufacturing and Services PMIs fell to 43.6 (*c*: 44.8; *p*: 44.8) and 52.4 (*c*: 54.5; *p*: 55.1) respectively. Composite PMI decreased to 50.3 (*c*: 52.5; *p*: 52.8).

In the UK, in May, headline inflation remained unchanged at 8.7% (*c*: 8.4%), while core rose to 7.1% (*c*: 6.8%; *p*: 6.8%). Still in May, retail sales contracted by 2.1% y-o-y (*c*: 2.6%; *p*: -3.4%) and increased by 0.3% m-o-m (*c*: -0.2%; *p*: 0.5%). June's consumer confidence rose to -24 (*c*: -26; *p*: -27). S&P Global/CIPS Manufacturing and Services PMIs fell to 46.2 (*c*: 46.8; *p*: 47.1) and 53.7 (*c*: 54.8; *p*: 55.2) respectively. Composite PMI decreased to 52.8 (*c*: 53.6; *p*: 54).

CBs remained hawkish. In the UK, the BoE increased its Bank Rate by 50 bps to 5.0%.

Financial Markets: Stock Prices Decreased; UST 2Y Increased, While UST 10Y Fell; Dollar Index Rose; Oil And Gold Prices Declined

Market Drivers: Indications of upcoming Federal Reserve rate hikes appeared to impact market sentiment throughout the week. As a result, stock prices fell in the US. European stocks declined due to concerns over potential interest rate hikes leading to a recession in both Britain and the eurozone.

Global Equities: Decreased w-o-w (MSCI ACWI, -2.2%, to 669.76). The US S&P 500 index edged down (-1.4% w-o-w, to 4,348.33). In the EZ, share prices were down (Eurostoxx 50, -2.8% w-o-w, to 4,271.61). In EMs, equity prices moved down (MSCI EMs, -3.7%, to 991.91). Volatility rose to 16.0 (VIX S&P 500, 52w avg.: 24.6; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US Treasury yields were down (-3 bps to 3.74%). The 2-year US Treasury yields increased (+3 bps to 4.75%). The German 10-year bund yield edged down slightly (-1 bps to 3.16%).

FX: w-o-w, the US Dollar Index rose (DXY, +0.2%, to 102.51; EUR/USD -0.3%, to 1.09). In EMs, currencies increased (MSCI EM Currency Index, +0.8% w-o-w, to 1,684.55).

Commodities: w-o-w, oil prices decreased (Brent, -2.8% to 74.44 USD/b). Gold prices fell w-o-w (-2.1% to 1,930.0 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
DIJA	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