



R&R Weekly Column  
By Brunello Rosa



## Geopolitics Still Remain Centre Stage in Markets

Last week, [deal – however temporary – for the US debt ceiling was reached](#) between the two sides of the aisle in the US congress. [This will avoid a catastrophic default](#), which could have had unforeseen consequences on international markets. Meanwhile, [the Non-Farm Payroll figure for May 2023](#) showed an astonishing 339,000 increase in the number of jobs, well above the 190,000 that had been estimated by the market, a further proof of the US job market resilience. In the past, these events would have been more than enough to determine investors' sentiment in the market. But these days are different.

Clearly, macro-financial conditions still have a large impact on market sentiment and behaviour. But in this period, geopolitics seems to reign supreme for investors' moods, and for market dynamics. In this respect, several items have been on the agenda over the last few days. [First is the OPEC+ summit](#), which is trying to agree on another cut to oil production in order to prop up oil prices. Saudi Arabia is reportedly in favour of a cut, while other countries seem more reluctant. The decision by OPEC on oil production is the traditional "transmission mechanism" between geopolitics and the global economy. But in this period, geopolitics tends to have a much more direct impact on investor sentiment.

*In Europe*, at the end of last week, [a meeting of the European Political Community \(EPC\) took place in Mimi Castle in Bulboaca, Moldova](#). The EPC gathers around the table the 27 EU countries, plus 18 additional non-EU European countries to discuss security and energy-related issues. The choice of Moldova was not casual. Moldova has a region, Transnistria, which is already controlled by the Russians, and many fear that the country could follow a fate similar to that of Ukraine. Clearly the EU countries wanted to make it known that they will stand beside Moldova, as well any other country that could be threatened by Russia (including Armenia, Azerbaijan, and Georgia, all of which were present at the meeting). On the sidelines of the meeting, [French President Emmanuel Macron backed Ukraine's NATO membership](#), in a U-turn that [follows that of Henry Kissinger, which we discussed last week](#).

Surprisingly enough, Turkey was not invited to the meeting, despite having applied for EU membership several years ago and clearly being the gateway between Europe and the Middle East. [In Turkey, President Erdogan began his third mandate](#), and his third decade in power. In a move that has pleasantly surprised market participants, Erdogan has [appointed as new Finance Minister Mehmet Şimşek](#), a former Merrill Lynch bond strategist who served as Finance Minister and Deputy Prime Minister in one of Erdogan's previous administrations, until 2018, when he was replaced by Erdogan's son-in-law Berat Albayrak. The hope by the industry is that Turkey will return to more orthodox policies, after the deviations of so-called Erdonomics, which brought inflation to nearly 50% per annum. Reportedly, Şimşek promised to adopt "transparency, consistency, predictability and compliance with international norms" as the "basic principles in achieving the goal of raising social welfare."

In Asia, tensions are instead increasing between the US and China. At the Shangri-La Dialogue in Singapore, US defence secretary Lloyd Austin "criticised China for conducting dangerous aerial intercepts over the South China Sea," [according to the FT](#). This happened just a few hours [before a Chinese warship nearly collided with a Canadian frigate](#) in the international waters of the Taiwan Strait, in what the Canadians called "an unsafe maritime interaction." The risk of unintended incidents that quickly escalate into a direct military confrontation is increasing fast in the Indo-Pacific. If anything closer to such a confrontation were to happen, the repercussions on financial markets would be immediate and significant.

### Our Recent Publications

✪ [Assad's Visit to Jeddah Marks The Return Of Syria To The Arab League](#), by Gulf State Analytics, 2 June 2023

✪ [Erdogan's Next Term: Unpacking Turkey's Elections and the Future of Turkish Politics](#), by London Politica, 31 May 2023



Looking Ahead

The Week Ahead: EZ QoQ GDP To Stall; Retail Sales To Contract In EZ; Composite PMIs To Rise In US, While Falling In EZ And UK

**In the US**, in May, HCOB Services and Composite PMI are expected to edge up to 55.1 (*p*: 53.6) and 54.5 (*p*: 53.4) respectively.

**In the EZ**, in Q1, according to the third estimate, on a quarterly basis, GDP growth is expected to stall (*p*: 0.0%). The economy is seen decelerating to 1.2% y-o-y (*p*: 1.8%). In April, retail sales are likely to shrink by 3.0% y-o-y (*p*: -3.8%) and advance by 0.2% m-o-m (*p*: -1.2%). In May, HCOB Services and Composite PMI are expected to edge off to 55.9 (*p*: 56.2) and 53.3 (*p*: 54.1) respectively.

**In the UK**, in May, S&P Global Services and Composite PMI are seen decreasing to 55.1 (*p*: 55.9) and 53.9 (*p*: 54.9) respectively.

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

**Senate passes US debt ceiling deal.** The US Congress has approved a bipartisan deal to raise the country's borrowing limit, averting the default. The agreement suspends the debt ceiling until 1 January 2025.

**The second European Political Community Summit took place in Chisinau, Moldova.** EU's 27 member states and 18 other European countries gathered in Moldova to address strategic matters and initiate a new EU partnership mission within the country. Along with Ukraine, Moldova has the official accession candidate status since last year. Moldova is expected to press for an accelerated EU membership process.

**Ukraine and NATO.** Emmanuel Macron backs for the first time NATO membership path for Ukraine. Macron urged the West to provide Ukraine with "tangible and credible" security assurances while it confronts Russia's invasion. Ukraine's NATO membership prospect is contentious and divisive among member states, fearing Moscow's retaliation. Joining NATO during a war or territorial occupation by a non-NATO adversarial state is highly risky for other members.

**Erdogan to begin another five years as Turkey's president.** Recep Tayyip Erdogan has secured re-election in a historic runoff vote with 52.14% of the votes, according to the head of Turkey's Supreme Election Council (YSK), extending his rule until 2028.

Last Week's Review

Real Economy: Unemployment Rate Rose In US, While Fell In EZ; Inflation Eased off In EZ; Confidence Shrank In EZ

**In the US**, in May, the unemployment rate increased to 3.7% (*c*: 3.5%; *p*: 3.4%). NFPs rose by 339K (*c*: 190K; *p*: 294K). May's S&P Global Manufacturing PMI edged off to 48.4 (*p*: 50.2).

**In the EZ**, in May, both headline and core inflation eased off to 6.1% y-o-y (*c*: 6.3%; *p*: 7.0%) and 5.3% y-o-y (*c*: 5.5%; *p*: 5.6%). In April, the unemployment rate declined to 6.5% (*c*: 6.5%; *p*: 6.6%). In May, economic sentiment decreased to 96.5 (*c*: 98.9; *p*: 99). May's consumer confidence fell to -17.4 (*c*: -17.4; *p*: -17.5). Still in May, manufacturing PMI fell to 44.8 (*c*: 44.6; *p*: 45.8).

**In the UK**, in May, S&P Global/CIPS Manufacturing PMI edged off to 47.1 (*c*: 46.9; *p*: 47.8).

Financial Markets: Stock Prices Increased In The US, But Fell In EZ; Bond Yields Fell; Dollar Index, Oil And Gold Prices Decreased

**Market Drivers:** The positive US job reports sparked confidence in the stock market, leading to the US stocks rising. The markets also cheered for the US debt ceiling deal. In Europe, Eurostoxx 50 edged down as ECB policymakers warned on further rate increases. While UST yields moved higher after the jobs report, on a weekly basis, they fell after the debt ceiling bill was approved.

**Global Equities:** Increased w-o-w (MSCI ACWI, +1.6%, to 663.25). The US S&P 500 index edged up (+1.8% w-o-w, to 4,282.37). In the EZ, share prices were down (Eurostoxx 50, -0.3% w-o-w, to 4,323.52). In EMs, equity prices moved up (MSCI EMs, +1.2%, to 984.36). Volatility declined to 17.1 (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 (-11 bps to 3.70%). The 2-year US Treasury yields also decreased (-6 bps to 4.51%). The German 10-year bund yield edged down (-21 bps to 2.32%).

**FX:** w-o-w, the US Dollar Index fell (DXY, -0.1%, to 104.04; EUR/USD -0.1%, to 1.07). In EMs, currencies increased (MSCI EM Currency Index, +0.4% w-o-w, to 1,685.24).

**Commodities:** w-o-w, oil prices decreased (Brent, -0.7% to 76.40 USD/b). Gold prices fell w-o-w (-1.0% to 1,964.30 USD/Oz).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to [info@rosa-roubini-associates.com](mailto:info@rosa-roubini-associates.com)

[www.rosa-roubini-associates.com](http://www.rosa-roubini-associates.com)

118 Pall Mall, London SW1Y 5ED

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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