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R&R Weekly Column By Brunello Rosa



After Falsified Presidential Elections, Putin Is Turning Russia Into A "War Economy"

On 15-17 March, presidential elections were held in Russia. As we have discussed on numerous occasions, the Russian elections were one of the <u>three key elections taking place in 2024 in Emerging Markets</u>. As discussed <u>in previous columns</u>, elections need to be closely watched even in electoral autocracies such as Russia, because they may reveal important insights regarding the state of the autocracy itself.

For example, in our column of 19 February we said that the following four elements deserved close scrutiny: (a) *the turnout*: on this occasion it was 77.5%, almost 10% higher than in 2018. This is a very high percentage by any standard, and certainly it was "incentivised" by the Kremlin; (b) *the number of contenders*: after the killing of the real opponent Aleksej Navalny, and the disqualification of the anti-war candidate Boris Nadezhdin, the only other candidate was Nikolay Kharitonov, from the Communist party, who gathered a meagre 4.4% of votes.

Also, (c) the actual result: Vladimir Putin collected an astonishing 88.5% of votes, which again is very elevated by any standards. The <u>use of the electronic vote</u> for the first time in a presidential election must also have contributed to the result, as it adds a layer of opacity; finally, (d) the *regularity of the electoral process*: This is where we know for sure that this election was rigged: there were widespread and clearly visible reports of all sorts of irregularities, from armed guards entering voting booths with electors inside, to packs of pre-voted ballots clearly visible at the bottom of the transparent ballot boxes.

What have we learnt from all these elements? First, Putin's regime is solid, and aims at remaining in place for at least six more years, if not twelve (if Putin runs again in 2030, something he can do after the change to the Constitution he made). At the same time, Putin is also scared that the situation may get unexpectedly out of hand: the killing of Navalny and the disqualification of Nadezhdin showed that the regime did not want to take any chance regarding the re-election of Putin, which had to be a plebiscite.

At the end of the day, Putin achieved what he wanted: being re-elected as supreme leader of Russia for at least six more years, and claiming that this occurred thanks to popular support. What is he going to do with such a corroborated power?

In his latest speeches, Putin and his accolades have made it clear that Russia is preparing for a long war, not just with Ukraine, but with the wider EU community. For example, Defence Minister Sergei Shoigu has outlined the efforts recently made to increase Russia's conventional military capabilities, with the aim of forming two armies, 14 divisions and 16 brigades by the end of 2024. So, the next phase of Putin's presidency will be transforming the country into a "war economy," which is also the only way to prop up economic activity when economic sanctions are biting. The terrorist attack by ISIS-K that hit Moscow last Friday will reinforce Putin's intention to increase "militarise" the country.

The combined effect of Russia's transformation into a war economy and the possibility of Trump winning the US presidential race, and therefore de-facto ditching NATO's nuclear umbrella over Europe, is pushing European countries to further push for a common defence, and to dedicate more resources to military expenditures. As Spanish newspaper El Pais said: <u>Europe gets ready for war</u>.

Our Recent Publications

- Review: BOE Gets Closer To The Beginning of its Easing Cycle, by Brunello Rosa and Nato Balavadze, 21 March 2024
- <u>Review: The Fed Upgrades Its Forecasts, But Still Sees 3</u>
 <u>Rate Cuts in 2024</u>, by Brunello Rosa and Nato Balavadze, 20 March 2024
- Review: BOJ Rises Rates and Removes YCC In Historic Move, by Brunello Rosa and Nato Balavadze, 19 March 2024
- Preview: Fed To Confirm A Delay in The Beginning of The Easing Cycle, by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 19 March 2024
- Preview: For the BOJ The Time for Policy Change Is <u>Nearing, As Soon As March</u>, by Nouriel Roubini and Nato Balavadze, 18 March 2024
- Preview: MPC Still Split in March, but With an Eye On <u>The Beginning of the Easing Cycle</u>, by Brunello Rosa and Nato Balavadze, 15 March 2024





Looking Ahead

The Week Ahead: US QoQ GDP To Decelerate; UK QoQ And YoY GDP To Shrink; Headline Inflation To Fall In France And Rise In Italy

In the US, according to the final estimate, in Q4, the GDP growth rate is seen decelerating to 3.2% q-o-q (*p*: 4.9%). In February, the core PCE price index is expected to remain unchanged at 2.8%.

In the EZ, in March, economic sentiment is expected to edge up to 96.1 (*p*: 95.4). In the largest EZ economies, in March, the headline inflation rate is expected to: *i*) decrease to 2.7% y-o-y (*p*: 3.0%) in France; and *ii*) rise to 1.4% y-o-y (*p*: 0.8%) in Italy.

In the UK, according to the final estimate, in Q4, the GDP growth rate is expected to contract by -0.3% q-o-q (*p:* -0.1%) and -0.2% y-o-y (*p:* 0.2%).

The Quarter Ahead: China Blocks Use Of Intel And AMD Chips; Gaza Crisis Escalation; Moscow Suffers Terrorist Attack

China blocked the use of Intel and AMD chips in government computers. China phased out US microprocessors from Intel and AMD in government PCs and servers, replacing foreign technology with domestic solutions. This mirrors US actions amid tensions, including sanctions on Chinese firms and restrictions on chip exports to China.

Israel-Gaza. Israel has notified the UN that it will no longer authorize UNRWA food convoys to north Gaza, according to the agency's head. This area is where 70% of the population faces the most severe food scarcity. The Palestinian Red Crescent reports that smoke bombs were fired at the hospital in an attempt to compel staff, wounded individuals, and displaced persons to leave.

Moscow under attack. Gunmen attacked a crowded concert venue on the outskirts of Moscow, resulting in the death of at least 144 people and leaving over 140 injured. The ISIL (ISIS) armed group claimed responsibility for the attack on Friday. According to President Putin, all four gunmen have been arrested.

Last Week's Review

Real Economy: Headline And Core Inflation Fell In EZ And UK; Composite PMIs Fell In US And UK, While Rose In EZ

In the US, In March, S&P Global Manufacturing PMI rose to 52.5 (*c*: 51.7; *p*: 52.2), while services PMI decreased to 51.7 (*c*: 52.0; *p*: 52.3). Composite PMI edged down to 52.2 (*p*: 52.5).

In the EZ, in February, the headline and core inflation rate eased off to 2.6% y-o-y (*p*: 2.8%) and 3.1% y-o-y (*p*: 3.3%) as expected. In March, consumer confidence rose to -14.9 (*c*: -15; *p*: -15.5). In March, HCOB Manufacturing PMI edged down to 45.7 (*c*: 47; *p*: 46.5). Services PMI increased to 51.1 (*c*: 50.5; *p*: 50.2). Composite PMI edged up to 49.9 (*c*: 49.7; *p*: 49.2).

In the UK, in February, headline and core inflation rates edged down to 3.4% y-o-y (*c*: 3.5%; *p*: 4.0%) and 4.5% y-o-y (*c*: 4.6%; *p*: 5.1%). In March, S&P Global Manufacturing PMI increased to 49.9 (*c*: 47.5; *p*: 47.5), while Services PMI fell to 53.4 (*c*: 53.8; *p*: 53.8). Composite PMI edged down slightly to 52.9 (*c*: 53.1; *p*: 53.0). In February, retail sales shrank by -0.4% y-o-y (*c*: -0.7%; *p*: 0.5%).

CBs stayed on hold. In the US, the Fed maintained its Fed funds range at 5.25% - 5.50%. In the UK, the BoE held its Bank Rate (BR) at 5.25%. In Japan, the BoJ raised its short-term interest rates to 0% - 0.1% from -0.1% and ended Yield Curve Control.

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

Market Drivers: In the US and EZ stocks rose on dovish signals from central banks. In the EZ, government bond yields dropped due to a weak German purchasing managers' survey. UST yields dropped, as investors speculated about the timing of Fed interest rate cuts. *Global Equities:* Increased *w-o-w* (MSCI ACWI, +1.8%, to 781.32). The US S&P 500 index edged up (+2.3% w-o-w, to 5,234.18). In the EZ, share prices rose (Eurostoxx 50, +0.9% w-o-w, to 5,030.45). In EMs, equity prices decreased (MSCI EMs, +0.4%, to 1,039.32). Volatility fell to 14.55 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury yields fell (-11 bps to 4.20%). The 2-year US Treasury yields decreased (-15 bps to 4.56%). The German 10-year bund yields decreased (-12 bps to 2.32%).

FX: w-o-w, the US Dollar Index increased (DXY, +1.0%, to 104.43; EUR/USD -0.7%, to 1.08). In EMs, currencies edged down (MSCI EM Currency Index, -0.5% w-o-w, to 1,724.17).

Commodities: w-o-w, oil prices decreased (Brent, -0.6% to 84.83 USD/b). Gold prices decreased w-o-w (+0.2% to 2,166.5 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

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED



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Abbreviations, Acronyms and Definitions

Justice and Development Party, Turkey annualized Argentinian Peso Average Billion Bank of Canada Bank of England Bank of Japan	M5S m-o-m mb Mb/d MENA MHP mn	Five Star Movement, Italy Month-on-month Million barrels Million barrels per day Middle East and North Africa
Argentinian Peso Average Billion Bank of Canada Bank of England Bank of Japan	mb mb/d MENA MHP	Million barrels Million barrels per day Middle East and North Africa
Average Billion Bank of Canada Bank of England Bank of Japan	mb/d MENA MHP	Million barrels per day Middle East and North Africa
Billion Bank of Canada Bank of England Bank of Japan	MENA MHP	Middle East and North Africa
Bank of Canada Bank of England Bank of Japan	МНР	
Bank of England Bank of Japan		Nationalist Management Data Tal
Bank of Japan	mn	Nationalist Movement Party, Turkey
	11111	Million
	MPC	Monetary Policy Committee
Barrels per day	NAFTA	North-American Free Trade Agreement
Basis points	NATO	North Atlantic Treaty Organization
Balance sheet	OECD	Organization for Economic Cooperation and Development
Consensus	Opec	Organization of Petroleum Exporting Countries
Current account	p	Previous
Central bank	P2P	Peer-to-peer
Central Bank of Bahrain	РВоС	People's Bank of China
	PCE	Personal Consumption Expenditures
	PE	Price to earnings ratio
, , , , , , , , , , , , , , , , , , ,	PM	Prime minister
	PMI	Purchasing managers' index
	pps	Percentage points
		Previous week
		Qatar Central Bank
	-	Qatari Riyal
	-	Quantitative easing
		Quarter-on-quarter
,		Real estate
		Reserve Bank of Australia
		Reserve Requirement Ratio
		Russian Rouble
		Sovereign Wealth Fund
		Trillion
		Turkish Lira
		United Arab Emirates
		United Kingdom
		United States
		United States Dollar
· · · · · · · · · · · · · · · · · · ·		USD per barrel
	,	US Treasury bills/bonds
		Value added tax
		Chicago Board Options Exchange Volatility Index
		West Texas Intermediate
		World Trade Organisation
		Week
,		Week-on-week
		Year
	,	Year-on-year
		Year-to-date
. ,	,	South African Rand
		2-year; 10-year
		- ,, -0 , 00.
	Current account Central bank Central Bank of Bahrain Central Bank of Kuwait Central Bank of Turkey Christian Democratic Union, Germany Chinese Yuan Consumer Price Index Dow Jones Industrial Average Index Dow Jones Industrial Average Index Dow Jones Emerging Markets Index Dow Jones Emerging Markets Index Day-on-day US Dollar Index European Commission European Court of Justice US Energy Information Agency Emerging Markets European Parliament Earnings per share European Union Euro Eurozone US Federal Reserve US Federal Reserve US Federal Open Market Committee US Federal Reserve Bareign exchange Fiscal Year Gulf Cooperation Council British pound Gross domestic product International Monetary Fund Indian Rupee Initial public offering Iranian Rial Japanese yen thousand Kingdom of Saudi Arabia	Current accountpCentral bankP2PCentral bank of BahrainPBoCCentral Bank of KuwaitPCECentral Bank of TurkeyPEChristian Democratic Union, GermanyPMChinese YuanPMIConsumer Price IndexppsDow Jones Industrial Average IndexpWDow Jones Emerging Markets IndexQCBDay-on-dayQARUS Dollar IndexQEEuropean Commissionq-o-qEuropean Court of JusticeRBAUS Energy Information AgencyRRREmerging MarketsRUBEuropean ParliamentSWFEarnings per sharetnEuropean UnionTRYEuroUAEEuropean IndiamentSWFEarnings per shareUSUS Federal ReserveUSUS Federal Reserve BoardUSD/bForeign exchangeUSTFiscal YearVATGulf Cooperation CouncilWTIGross domestic productWTOInternational Monetary FundwIndian Rupeew-o-wInitial public offeringyYY-o-yJapanese yeny-t-dthousandZAR

Rosa & Roubini

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