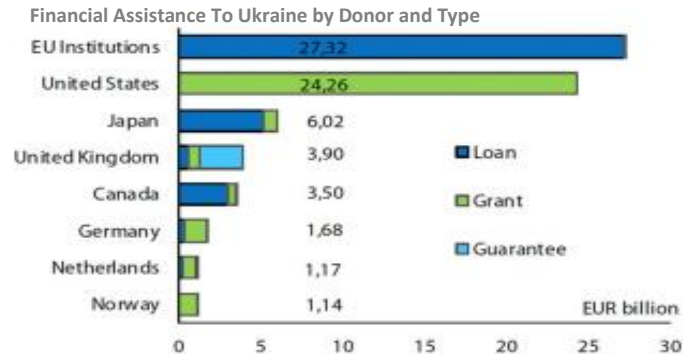




R&R Weekly Column
By Brunello Rosa



The West Should Be Wary About Seizing Russian Assets To Finance Ukraine's Resistance

Press reports suggest that during the upcoming IMF/World Bank meeting [a new proposal](#) will be made by the US administration regarding the potential use of Russia's frozen assets to finance Ukraine's resistance. Let's recap the current position.

On the one hand, according to the US, the roughly USD 300bn in frozen Russian assets should be seized and used to finance Ukraine's military efforts. This could be particularly relevant as the House of Representatives, now led by the pro-Trump Speaker Mike Johnson, is refusing to ratify the new financial aid approved by the Senate, where the Democratic Party still holds a majority. Even the UK foreign minister David Cameron has flown to the US to try and convince the Republicans, including the de-facto presidential candidate Donald Trump, to unlock these funds, which could prove vital for the survival of Ukraine.

So, according to this line of thought, considering Russia's illegal invasion of Ukraine, the US and its allies (let's call them "the West") should simply seize the assets, then use the proceeds from the potential sale to buy the weapons Ukraine so desperately needs to resist the spring-summer 2024 offensive that Russia is about to launch to get as close as possible to Odesa and Transnistria. Opponents of this view fear that if the West reacts to an illegal action by Russia with an equally illegal action such as the arbitrary seizure of Russian frozen assets, the West would lose its purported moral superiority, which is necessary for the US to continue to be an effective global financial centre led by the rule of law.

On the other hand, there are the Europeans. Most of the frozen Russian assets are in the EU, including roughly EUR 190bn of Russia's central bank assets that are held at Euroclear, a central securities depository based in Brussels. These assets have generated EUR 3.85bn in profits since the beginning of the war in Ukraine. EU countries had been discussing the possibility of deploying these profits to support Ukraine. [The Europeans believe that authorities should not seize the entirety of the assets](#), but only the returns deriving from them. This is to avoid breaking international law and confidence in Western financial markets.

As a potential solution, the Biden administration is proposing a compromise. The West would only seize the profits from the assets, but will be able to collect the discounted Net Present Value of these profits through financial instruments such as loans that will be repaid over the next 15-20 years. This would allow them to respect international law, while "super-sizing" the value of these income flows over time. The US administration hopes to put this proposal on the table at the upcoming IMF/World Bank meetings that will be starting this week in DC, and to get a final approval by the G7 meeting in Italy in June.

Apart from the technicalities, the West needs to be wary about arbitrarily seizing Russian assets. No one denies that the aggression on Ukraine, apart from being brutal, is also illegal and unjustified. But the West has the responsibility of keeping a world order that is rational, just, and governed by the rule of law, not the whims of a dictator, as occurs in Russia or the China-led bloc. In particular, at a time when the de-dollarisation process is in full swing, the West needs to show that assets held in the West are safe and cannot be arbitrarily seized. Otherwise, the West may win a battle, but ultimately lose the war over which economic and financial system should prevail in the medium term.

Our Recent Publications

❖ [Review: ECB Signals Its First Rate Cut in June, But Doesn't Pre-Commit On The Easing Pace](#), by Brunello Rosa and Nato Balavadze, 11 April 2024

❖ [China Is at an Economic Crossroad to Avoid the Middle Income Trap](#), by Nouriel Roubini, 10 April 2024

❖ [Economic Giants, Military Titans: Analysing the Global Arms Race in the 21st Century](#), by Sarah Ghotme, 10 April 2024

❖ [Preview: ECB To Remain on Hold in April, With The Discussion on A Cut Also in July Already Begun](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 8 April 2024

Looking Ahead

The Week Ahead: EZ Headline And Core Inflation Rate To Decrease; Inflation To Rise In Italy

In the US, in March, retail sales are expected to rise by 0.3% m-o-m (*p*: 0.6%).

In the EZ, in March, headline and core inflation are expected to fall to 2.4% y-o-y (*p*: 2.6%) and 22.9% y-o-y (*p*: 3.1%). In March, monthly inflation is likely to rise by 0.8% (*p*: 0.6%). In Italy, the headline inflation rate is seen edging up to 1.3% y-o-y (*p*: 0.8%).

The Quarter Ahead: US On High Alert For Iran Threat After Israeli Strike In Syria; Hot US Jobs Report Helps Biden

Russia-Ukraine War. The Ukrainian army chief reports that Russia is achieving significant progress in the Eastern part of the country. According to Ukrainian President Zelensky, Germany will provide Ukraine with a Patriot air defence system and missiles from the United States during this crucial period. This support comes as Kyiv faces challenges defending its energy infrastructure from Russian attacks. Russia launched a missile attack that destroyed the largest power-generating plant in Ukraine's Kyiv region. Zelensky criticized the West for ignoring Ukraine's urgent need for enhanced air defences.

Macron and Scholz advocate for a "re-balancing" of trade relations between the EU and China. Scholz headed to China for a three-day diplomatic trip, including talks with Chinese President Xi Jinping. He is joined by a top business delegation to discuss trade imbalances between the EU and China. In the meantime, China expressed concern about what it termed as discriminatory actions by the European Union against its companies. This comes after the EU announced an investigation into subsidies received by Chinese wind turbine suppliers for their exports to EU nations.

Iran launched drone attacks on Israel, following allegations that Israel targeted its consulate in Damascus. Iran vowed retaliation, prompting Israel to warn of a potential counterstrike, although Israel has not officially confirmed or denied its role in the Damascus incident. This escalation has deepened longstanding tensions between the two countries.

Last Week's Review

Real Economy: US Headline Inflation Increased, While Core Stood Unchanged; ECB Stayed On Hold

In the US, in March, the headline inflation rate increased to 3.5% y-o-y (*c*: 3.4%; *p*: 3.2%), while core inflation stood at 3.8% y-o-y (*c*: 3.7%). In March, the monthly inflation rate also remained unchanged at 0.4% (*c*: 0.3%). In April, Michigan Consumer Sentiment decreased to 77.9 (*c*: 79; *p*: 79.4).

In the EZ, the ECB maintained its main policy rates unchanged i.e. its *i*) interest rate on the 'main refinancing operations' to 4.50%; *ii*) interest rate on the 'marginal lending facility' to 4.75%; and *iii*) 'deposit facility' to 4.00%, but signalled a likely rate cut in June.

In the UK, in February, IP rose by 1.4% y-o-y (*c*: 0.6%; *p*: 0.3%) and 1.1% m-o-m (*c*: 0.0%; *p*: -0.3%) .

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

Market Drivers: In the US, the main stock market indicators fell during the week due to increased concerns about Middle East tensions and ongoing inflation pressures. Wednesday's higher-than-expected inflation data strengthened the market's belief that immediate interest rate cuts are unlikely, a view supported by the Fed March meeting minutes released later that day, which led to higher long-term Treasury bond yields.

Global Equities: Decreased w-o-w (MSCI ACWI, -1.4%, to 765.67). The US S&P 500 index edged down (-1.6% w-o-w, to 5,123.41). In the EZ, share prices fell (Eurostoxx 50, -1.2% w-o-w, to 4,954.15). In EMs, equity prices decreased (MSCI EMs, -0.4%, to 1,041.70). Volatility rose to 17.05 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury increased (+12 bps to 4.52%). The 2-year US Treasury yields increased (+14 bps to 4.89%). The German 10-year bund yields decreased (-4 bps to 2.36%).

FX: w-o-w, the US Dollar Index increased (DXY, +1.7%, to 106.01; EUR/USD -1.8%, to 1.06). In EMs, currencies edged down (MSCI EM Currency Index, -0.5% w-o-w, to 1,716.43).

Commodities: w-o-w, oil prices decreased (Brent, -1.1% to 90.15 USD/b). Gold prices rose w-o-w (+0.6% to 2,360.2 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