Rosa & Roubini ASSOCIATES

# **MAKING SENSE OF THIS WORLD**

20 May 2024



R&R Weekly Column By Brunello Rosa



## Is the West Losing the War in Ukraine?

The war in Ukraine started in February 2022; it has lasted for 815 days thus far. There have been ups and downs, as there are in any long-lasting conflict, but two elements seem quite clear. First, the counter-offensive attempted by Ukraine, which was carried out in the spring-autumn <u>period of 2023, largely failed to achieve its objectives</u>. Second, the Russian army has made advances since the end of the Ukrainian counter-offensive, as epitomised <u>by the fall of Kharkiv region back into the hands of the Russian army</u>. Ukrainian President Volodymyr Zelenskyy, commenting on this development, said he now fears that <u>the new Russian offensive is only "the first</u> wave" in what will be a brutal summer.

Given the situation, can "the West" (i.e. the US and its European allies) win this war? If by winning one means pushing back the Russian army outside of where the borders of Ukraine were before February 2022, and – even more so – out of Crimea, which was occupied in 2014, this seems to be very unlikely. Especially if the West continues to consistently invest many fewer resources into the war than Russia is doing.

As Russian dissident <u>Mikhail Khodorkovsky said in a recent post</u>, Russia invests more than 5% of GDP in military expenses related to the war in Ukraine. Indeed, as we <u>discussed in a recent column</u>, Putin has transformed Russia into a war economy. Europe's aid to Russia amounts to EUR 88bn, or 0.25% of EU's GDP. When taking into account the US contribution, Russia still outpaces the West by a ratio of 2.5 to 1. In the many months that it took US Congress to approve the USD 61bn aid package to Ukraine, this ratio jumped to 4 to 1. <u>As we discuss in our recent report</u>, this "foreign aid" security package aimed at helping Ukraine, Israel and Taiwan is in fact a massive expenditure package in favour of the US military industry. Only USD 8bn out of the total 95bn will go "abroad" – the rest will be spent domestically to build weapons that will eventually be exported

The situation is even worse if one considers that, while Western support for Ukraine is wavering in many countries, the Chinese support being given to Russia seems to be consolidating. China's President Xi recently <u>warmly welcomed President Putin in Beijing</u>, in what seems to be a periodic appointment to confirm and reinforce the "limitless cooperation" between the two countries. This happened just a few days after Xi visited Europe, in <u>an attempt to divide and conquer the EU</u>.

Last but not least, Putin and Xi can still count on the option value of waiting for a potential success by Donald Trump in the US presidential election in November, which would further divide the Western front and further weaken the support being given to Ukraine. Political scientist <u>Ian Bremmer recently summarised all this by saying</u>: "Ukraine is going to be partitioned. The best-case scenario is that they lose a significant amount of their territory, but at least they can defend the rest with help from the Europeans and Americans, and they can join the EU and get security guarantees and rebuild their country. That's the best-case scenario. The worst-case scenario is a lot worse than that."

#### **Our Recent Publications**

- At \$60 Billion Crossroads: The Vital Role and Uncertain Future of US Aid to Ukraine, by Maria Ascencio, 16 May 2024
- For All the Recent Sound and Fury, How Much Has Changed in the Middle East?, by Robin Gwinner, 14 May 2024



#### Looking Ahead

#### The Week Ahead: UK Inflation Rate To Decrease; Composite PMIs To Increase In UK And EZ; German QoQ GDP To Advance

In the US, in May, S&P Global Services is expected to increase to 51.5 (p: 51.3).

In the EZ, in May, HCOB Manufacturing and Services PMIs are seen increasing to 46.6 (*p*: 45.7) and 53.5 (*p*: 53.3). Composite PMI is likely to rise to 52 (*p*: 51.7).

*Among the largest EZ economies,* in Q1, according to final estimate, in Germany GDP growth rate is expected to advance by 0.2% q-o-q (*p:* -0.5%) and shrink by -0.2% y-o-y (*p:* -0.2%).

*In the UK,* in April, headline and core inflation is expected to edge down to 2.1% y-o-y (*p*: 3.2%) and 3.7% y-o-y (*p*: 4.2%). In April, retail price index is likely to ease off to 3.3% y-o-y (*p*: 4.3%). In May, S&P Global Manufacturing PMI is expected to edge up to 49.2 (*p*: 49.1), while Services PMI is seen decreasing to 54.8 (*p*: 55). In May, consumer confidence is expected to increase to -18 (*p*: -19.0).

#### The Quarter Ahead: US To Impose New Tariffs On Chinese EVs; Israel Escalates Pressure On Rafah; Israel Arms Sale

*New Caledonia Riots.* Unrest broke out this week following a vote by Paris lawmakers to change electoral rolls, allowing more French residents to vote. Indigenous leaders claim this will dilute the political influence of native people. Amidst the riots that have resulted in five deaths, hundreds of French police reinforcements have arrived in New Caledonia.

Israel launches attacks across Gaza during U.S. envoy's visit. Israeli planes and tanks bombarded the Gaza Strip overnight, residents reported, as White House national security adviser Jake Sullivan visited the region. Sullivan was set to meet with Israeli officials on Sunday, urging a focused campaign against Hamas militants rather than a full-scale assault on Rafah, according to the White House. Former Israeli defense minister Gantz threatens to quit Israeli government without new war plan by June 8. Speaking in Ramat Gan, Gantz said the plan should eliminate Hamas, secure hostages, establish a new government in Gaza, relocate Israelis, and advance normalization with Saudi Arabia. He urged Prime Minister Netanyahu to choose between "victory and disaster."

#### Last Week's Review

#### Real Economy: EZ QOQ GDP Advanced; Inflation Edged Down In US; Headline Inflation Remained Unchanged In EZ

*In the US,* in April, headline and core inflation edged down to 3.4% y-o-y (*p*: 3.5%) and 3.6% y-o-y (*p*: 3.8%) as expected. In April, retail sales decelerated to 3.0% m-o-m (*p*: 3.8%).

*In the EZ*, in Q1, according to the second estimate, GDP growth advanced by 0.3% q-o-q (*c*: 0.3%; *p*: -0.1%) and 0.4% y-o-y (*c*: 0.4%; *p*: 0.1%). In April, headline inflation remained unchanged at 2.4% y-o-y (*p*: 2.4%), while core inflation cooled off to 2.7% y-o-y (*p*: 2.9%) as expected. In March, IP contracted by -1.0% y-o-y (*c*: -1.2%; *p*: -6.3%). In May, ZEW Economic Sentiment Index rose to 47.0 (*c*: 46.1; *p*: 43.9).

Among the largest EZ economies, headline inflation: *i*) increased by 2.2% y-o-y (*p*: 2.2%) in Germany as expected; ii) edged down to 2.2% y-o-y (*p*: 2.3%) in France as expected; and *iii*) eased off to 0.8% y-o-y (*c*: 0.9%; *p*: 1.2%) in Italy. In the UK, in March, unemployment rate edged up to 4.3% (*c*: 4.3%; *p*: 4.2%).

### Financial Markets: US Stock Prices Increased; Bond Yields Decreased; Dollar Fell, While Oil And Gold Prices Rose

*Market Drivers:* As concerns over inflation and interest rates seemed to fade, growth stocks outperformed the general index and the 10Y UST yields fell. European shares fell on Friday as investor caution followed a policymaker's remarks on monetary policy.

*Global Equities:* Increased *w-o-w* (MSCI ACWI, +1.6%, to 794.96). The US S&P 500 index edged up (+1.5% w-o-w, to 5,303.27). In the EZ, share prices declined (Eurostoxx 50, -0.4% w-o-w, to 5,063.65). In EMs, equity prices decreased (MSCI EMs, -2.6%, to 1,099.79). Volatility fell to 12.55 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

*Fixed Income: w-o-w*, the 10-year US Treasury yields fell (-8 bps to 4.42%). The 2-year US Treasury yields decreased (-5 bps to 4.83%). The German 10-year bund yields decreased (-1 bps to 2.52%).

*FX: w-o-w,* the US Dollar Index decreased (DXY, -0.8%, to 104.50; EUR/USD +0.9%, to 1.09). In EMs, currencies edged up slightly (MSCI EM Currency Index, +0.6% w-o-w, to 1,735.28).

*Commodities: w-o-w,* oil prices increased (Brent, +1.5% to 84.00 USD/b). Gold prices rose w-o-w (+1.9% to 2,419.8 USD/Oz).







(in)

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



The picture in the front page comes from this website



#### Abbreviations, Acronyms and Definitions

ustice and Development Party, Turkey nnualized irgentinian Peso iverage iillion bank of Canada tank of England tank of Japan barrels per day basis points talance sheet ionsensus turrent account tentral bank rentral Bank of Bahrain ientral Bank of Bahrain ientral Bank of Turkey thristian Democratic Union, Germany thinese Yuan ionsumer Price Index	M5S m-o-m mb mb/d MENA MHP mn MPC NAFTA NATO OECD OpeC P P2P PBoC PCE PE PM PMI	Five Star Movement, Italy Month-on-month Million barrels Million barrels per day Middle East and North Africa Nationalist Movement Party, Turkey Million Monetary Policy Committee North-American Free Trade Agreement North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
argentinian Peso Average Avera	mb mb/d MENA MHP mn MPC NAFTA NATO OECD Opec P P2P PBoC PCE PE PM	Million barrels Million barrels per day Middle East and North Africa Nationalist Movement Party, Turkey Million Monetary Policy Committee North-American Free Trade Agreement North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
verage billion tank of Canada tank of England tank of Japan tarrels per day tarsis points talance sheet talance sheet tarrent account tentral bank tentral bank of Bahrain tentral Bank of Bahrain tentral Bank of Suwait tentral Bank of Turkey thristian Democratic Union, Germany thinese Yuan tonsumer Price Index	mb/d MENA MHP mn MPC NAFTA NATO OECD OPEC P P2P PBoC PCE PE PM	Million barrels per day Middle East and North Africa Nationalist Movement Party, Turkey Million Monetary Policy Committee North-American Free Trade Agreement North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
nillion Pank of Canada Pank of England Pank of Japan Parrels per day Palance sheet Panance sheet Pan	MENA MHP mn MPC NAFTA NATO OECD Opec P P2P PBoC PCE PE PM	Middle East and North Africa Nationalist Movement Party, Turkey Million Monetary Policy Committee North-American Free Trade Agreement North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
ank of Canada Dank of England Dank of Japan Darrels per day Dasis points Dalance sheet Dasis points Darrent account Darrent account Darrent Bank of Bahrain Dentral Bank of Bahrain Dentral Bank of Suwait Dentral Bank of Turkey Dristian Democratic Union, Germany Dinese Yuan Donsumer Price Index	MHP mn MPC NAFTA NATO OECD Opec P P2P PBoC PCE PE PM	Nationalist Movement Party, Turkey Million Monetary Policy Committee North-American Free Trade Agreement North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
ank of England bank of Japan barrels per day basis points balance sheet basesus burrent account bentral bank central Bank of Bahrain central Bank of Bahrain bentral Bank of Turkey christian Democratic Union, Germany bhinese Yuan base Yuan base Suan	mn MPC NAFTA NATO OECD Opec p P2P PBoC PCE PE PM	Million Monetary Policy Committee North-American Free Trade Agreement North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
ank of Japan barrels per day basis points balance sheet consensus current account central bank rentral Bank of Bahrain central Bank of Kuwait central Bank of Turkey christian Democratic Union, Germany chinese Yuan consumer Price Index	MPC NAFTA NATO OECD Opec p P2P PBoC PCE PE PM	Monetary Policy Committee North-American Free Trade Agreement North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
parrels per day basis points balance sheet consensus furrent account central bank central Bank of Bahrain central Bank of Kuwait central Bank of Turkey christian Democratic Union, Germany chinese Yuan consumer Price Index	NAFTA NATO OECD Opec p P2P PBoC PCE PE PM	North-American Free Trade Agreement North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
asis points balance sheet consensus urrent account central bank central Bank of Bahrain central Bank of Kuwait central Bank of Turkey christian Democratic Union, Germany chinese Yuan consumer Price Index	NATO OECD Opec p P2P PBoC PCE PE PM	North Atlantic Treaty Organization Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
alance sheet consensus current account ientral bank central Bank of Bahrain central Bank of Kuwait central Bank of Turkey christian Democratic Union, Germany chinese Yuan consumer Price Index	OECD Opec P P2P PBoC PCE PE PM	Organization for Economic Cooperation and Development Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
ionsensus iurrent account ientral bank ientral Bank of Bahrain ientral Bank of Kuwait ientral Bank of Turkey ihristian Democratic Union, Germany ihinese Yuan ionsumer Price Index	Opec p P2P PBoC PCE PE PM	Organization of Petroleum Exporting Countries Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
urrent account Sentral bank Sentral Bank of Bahrain Sentral Bank of Kuwait Sentral Bank of Turkey Shristian Democratic Union, Germany Shinese Yuan Sonsumer Price Index	p P2P PBoC PCE PE PM	Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
entral bank Eentral Bank of Bahrain Eentral Bank of Kuwait Eentral Bank of Turkey Enristian Democratic Union, Germany Chinese Yuan Fonsumer Price Index	p P2P PBoC PCE PE PM	Previous Peer-to-peer People's Bank of China Personal Consumption Expenditures Price to earnings ratio
entral Bank of Bahrain entral Bank of Kuwait entral Bank of Turkey hristian Democratic Union, Germany hinese Yuan onsumer Price Index	PBoC PCE PE PM	People's Bank of China Personal Consumption Expenditures Price to earnings ratio
entral Bank of Kuwait entral Bank of Turkey hristian Democratic Union, Germany hinese Yuan onsumer Price Index	PCE PE PM	People's Bank of China Personal Consumption Expenditures Price to earnings ratio
entral Bank of Kuwait entral Bank of Turkey hristian Democratic Union, Germany hinese Yuan onsumer Price Index	PE PM	Personal Consumption Expenditures Price to earnings ratio
entral Bank of Turkey hristian Democratic Union, Germany hinese Yuan onsumer Price Index	PM	Price to earnings ratio
hristian Democratic Union, Germany hinese Yuan onsumer Price Index		5
hinese Yuan Sonsumer Price Index		Prime minister
Consumer Price Index	PIVII	Purchasing managers' index
	pps	Percentage points
ow Jones Industrial Average Index	pw	Previous week
Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
Day-on-day	QAR	Qatari Riyal
IS Dollar Index	QE	Quantitative easing
uropean Commission	q-o-q	Quarter-on-quarter
uropean Central Bank	RE	Real estate
uropean Court of Justice	RBA	Reserve Bank of Australia
IS Energy Information Agency	RRR	Reserve Requirement Ratio
imerging Markets	RUB	Russian Rouble
iuropean Parliament	SWF	Sovereign Wealth Fund
anopean ranament arnings per share	tn	Trillion
iuropean Union	TRY	Turkish Lira
iuro	UAE	United Arab Emirates
urozone	UK	United Kingdom
		United States
		United States Dollar
		USD per barrel
	,	US Treasury bills/bonds
5 5		Value added tax
		Chicago Board Options Exchange Volatility Index
		West Texas Intermediate
		World Trade Organisation
		Week
		Week-on-week
		Year
	,	Year-on-vear
		Year-to-date
	,	South African Rand
		2-year; 10-year
	<i></i>	- , cui, 10 , cui
	IS Federal Reserve IS Federal Open Market Committee IS Federal Reserve Board isoreign exchange isoal Year Gulf Cooperation Council Pritish pound Gross domestic product nternational Monetary Fund ndian Rupee nitial public offering ranian Rial apanese yen thousand Kingdom of Saudi Arabia	JS Federal Open Market CommitteeUSDJS Federal Reserve BoardUSD/bJoreign exchangeUSTioreign exchangeVATiscal YearVATSulf Cooperation CouncilVIXBritish poundWTIGross domestic productWTOInternational Monetary FundWIdian Rupeeyinitial public offeringyapanese yeny-t-dchousandZAR

Rosa & Roubini

Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. Analyst Certification: We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa&Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. Disclaimer: All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.