



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 [period of 2023, largely failed to achieve its objectives](#). Second, the Russian army has made advances since the end of the Ukrainian counter-offensive, as epitomised [by the fall of Kharkiv region back into the hands of the Russian army](#). Ukrainian President Volodymyr Zelenskyy, commenting on this development, said he now fears that [the new Russian offensive is only “the first 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 [Mikhail Khodorkovsky said in a recent post](#), Russia invests more than 5% of GDP in military expenses related to the war in Ukraine. Indeed, as we [discussed in a recent column](#), 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. [As we discuss in our recent report](#), 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 [warmly welcomed President Putin in Beijing](#), 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 [an attempt to divide and conquer the EU](#).

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 [Ian Bremmer recently summarised all this by saying](#): “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).



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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