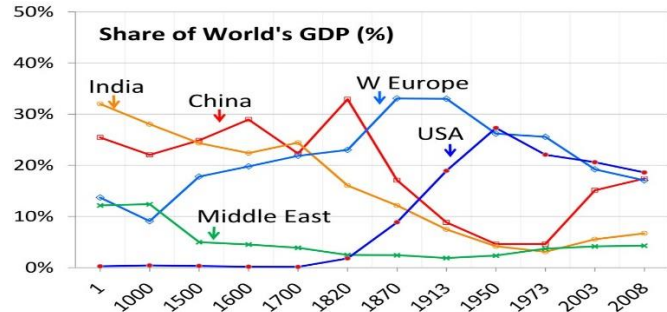




R&R Weekly Column  
By Brunello Rosa



## Entering The Era Of Chaos: When No Country Has Global Leadership

This week, Chinese President Xi Jinping [returns to Europe](#) after five years of absence. There have been several interpretations about his trip, but this gives us the occasion to step back and make a broader assessment about China and its position in the world. In fact, in the last few years, the rise of China has been a dominant theme in geopolitical and macroeconomic debates. [According to the calculations by Angus Maddison](#), since the 1990s China has been returning towards its historical average of generating 25-30% of global GDP. Already in 2014, China became the largest economy in the world (albeit not the “richest” in terms of per capita GDP), [surpassing the US in PPP terms](#).

Economic dominance has always been associated with geopolitical influence, and for this reason, there is an ongoing “Cold War” between the incumbent power, the US, and the rising challenger, China. Harvard scholar Graham Allison has wondered whether the US and China will fall into a “[Thucydides Trap](#),” i.e. whether they are “destined for war” and will eventually have to clash militarily, as has occurred in 12 out of the 16 historical cases of rising powers analysed by Allison.

This succession of countries taking the leadership of the world is not new. German philosopher Georg Wilhelm Friedrich Hegel, in the 19<sup>th</sup> century, said that dominant countries, from a “civilisational” standpoint, passed one another what he called the “Weltgeist,” or “world spirit.” In effect, almost 5000 years ago, the Chinese civilisation was the most developed in the world, from a technical and political organisation standpoint. The Weltgeist then moved to the Middle East, with the Mesopotamian civilisations, and then to the Egyptians. The Greeks and the Romans followed, in ancient history.

In more modern history, the UK took over France and the Netherland’s leadership in the 17<sup>th</sup> century, and kept it until the dawn of the 20<sup>th</sup> century, when the US had to intervene twice in the European affairs to save the continent from German domination. Around 100 years later, a new country seems ready to take the helm again, and this would mark the return of the Weltgeist to the far East. There is a peculiarity in this passage that we want to explore in this column.

First, the US is certainly in the declining phase of its leadership. In functions, [the first derivative indicates the direction \(“growth” vs “decline”\) while the second derivative indicates the speed \(“acceleration” vs “deceleration”\)](#). As we discussed in a previous column, if Trump were to win, this would mark in our opinion the end of the US liberal-democracy, and therefore an acceleration in the declining process. Generally speaking, rising powers take over old powers with both first and second positive derivative, indicating the fact that they are in the accelerating phase of their ascent.

From a demographic as well as socio-political perspective China is already in a decelerating phase of its own ascent. [The decision by Xi to change the Constitution to remain in power for life marks an involution](#), rather than an evolution of the political system, and the beginning a negative second derivative of “China’s rise” function. It is very peculiar for a declining power to give up leadership to a country that is close to peaking in terms of economic and social organisation. This could make China the leader of its “portion” of the world, rather than a global hegemon.

This leads us to the second point. A world in which there may be a series of regional, rather than global, hegemons, is not – as some optimistically point out – poly-centric, but rather is chaotic. In the history of humanity, the passages of the Weltgeist from one hegemon to the next have caused wars and instability. In a multi-polar world, the chances for conflict may increase exponentially.

### Our Recent Publications

🌀 [FOMC Review: The Fed Pushes Back The Timing Of The First Rate Cut, But Confirms Its Easing Bias And Signals That Rate Hikes Are Unlikely](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 2 May 2024

🌀 [The Middle East’s Conflict Dynamics Represent Opportunities and Challenges for China](#), by Gulf State Analytics, 2 May 2024

🌀 [Preview: Fed To Keep Rates on Hold and Push Back The Beginning Of The Easing Cycle](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 30 April 2024

🌀 [Review: BOJ Keeps Rates Steady But Causes Further Yen Weakness](#), by Brunello Rosa and Nato Balavadze, 26 April 2024



Looking Ahead

The Week Ahead: UK QoQ GDP To Advance; EZ PMI To Increase; BoE To Stay On Hold

**In the US**, in May, Michigan Consumer Sentiment is expected to slightly fall to 77 (*p*: 77.2).

**In the EZ**, in April, HCOB Services and Composite PMIs are expected to increase to 52.9 (*p*: 51.5) and 51.4 (*p*: 50.3). In March, retail sales are likely to increase by 0.6% m-o-m (*p*: -0.5%).

**In the UK**, in Q1, according to preliminary estimate, GDP is seen advancing by 0.4% q-o-q (*p*: -0.3%). In March, IP is expected to shrink by -0.5% m-o-m (*p*: 1.2%).

**BoE to stay on hold.** In the UK, the BoE is expected to maintain its Bank Rate at 5.25%.

The Quarter Ahead: Student Protests At The US Universities; UK Local Elections 2024 With Labour Making Gains

**College protests.** Pro-Palestine encampments and protests at universities continue to spread across the US, calling on universities to sell off investments from Israeli companies and those with ties to Israel. Biden asserts that there is "no right to cause chaos" as he addresses demonstrations for the first time. His remarks follow numerous arrests at various universities, where clashes between demonstrators and law enforcement have intensified.

**UK local elections.** Labour gained more than 180 council seats to take control of eight councils. The Conservatives have so far lost 473 councillors across the country. Sadiq Khan secured a historic third term as London mayor.

Last Week's Review

Real Economy: EZ QoQ And YoY GDP Growth Advanced; EZ Headline Inflation Remained Unchanged; Fed Stayed On Hold

**In the US**, in April, S&P Global Manufacturing and Services PMIs decreased to 50.0 (*c*: 49.9; *p*: 51.9) and to 51.3 (*c*: 50.9; *p*: 51.7). Composite PMI declined to 51.3 (*c*: 50.9; *p*: 52.1). In April, unemployment rate increased to 3.9% (*c*: 3.8%; *p*: 3.8%). NFPs rose by 175K (*c*: 243K; *p*: 315K).

**In the EZ**, in Q1, according to the flash estimates, the GDP growth rate advanced by 0.3% q-o-q (*c*: 0.1%; *p*: 0.0%) and 0.4% y-o-y (*c*: 0.2%; *p*: 0.1%). In April, headline inflation stayed unchanged at 2.4% y-o-y, while core inflation cooled off to 2.7% y-o-y (*c*: 2.6%; *p*: 2.9%). HCOB Manufacturing PMI decreased to 45.7 (*c*: 45.6; *p*: 46.1). In March, unemployment rate remained unchanged at 6.5%. In April, economic sentiment edged down to 95.6 (*c*: 96.9; *p*: 96.2), while consumer confidence increased to -14.7 (*c*: -14.7; *p*: -14.9).

**Among the largest EZ economies**, according to preliminary estimates, in Q1, GDP: *i*) advanced by 0.2% q-o-q (*c*: 0.1%; *p*: 0.1%) and 1.1% y-o-y (*c*: 0.9%; *p*: 0.8%) in France; *ii*) rose by 0.3% q-o-q (*c*: 0.1%; *p*: 0.1%) and decelerated to 0.6% y-o-y (*c*: 0.4%; *p*: 0.7%) in Italy; and *iii*) rose by 0.2% q-o-q (*c*: 0.1%; *p*: -0.5%) and shrank by -0.2% y-o-y (*c*: -0.2%; *p*: -0.2%) in Germany. In April, the headline inflation: *i*) eased off to 2.2% y-o-y (*c*: 2.1%; *p*: 2.3%) in France; *ii*) edged down to 0.9% y-o-y (*c*: 1.0%; *p*: 1.2%) in Italy; and *iii*) stood unchanged at 2.2% y-o-y (*c*: 2.3%; *p*: 2.2%) in Germany.

**In the UK**, in April, S&P Global Manufacturing PMI decreased to 49.1 (*c*: 48.7; *p*: 50.3), while Services PMI increased to 55.0 (*c*: 54.9; *p*: 52.8). Composite PMI rose to 54.1 (*c*: 54.0; *p*: 52.8).

**Fed stayed on hold.** In the US, the Fed maintained its Fed funds range at 5.25% - 5.50%

Financial Markets: Stock Prices Rose In US, While Falling In the EZ; Bond Yields Fell; Dollar, Oil And Gold Prices Declined

**Market Drivers:** US Stocks rise as weaker job report fuels hopes for earlier rate cut. EZ stocks ended lower, with investor caution mounting amidst mixed corporate earnings and uncertainty surrounding interest rates post-June.

**Global Equities:** Increased *w-o-w* (MSCI ACWI, +0.9%, to 769.29). The US S&P 500 index edged up (+0.5% *w-o-w*, to 5,127.79). In the EZ, share prices declined (Eurostoxx 50, -1.7% *w-o-w*, to 4,920.95). In EMs, equity prices increased (MSCI EMs, +1.9%, to 1,061.45). Volatility rose to 15.55 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

**Fixed Income:** *w-o-w*, the 10-year US Treasury decreased (-15 bps to 4.51%). The 2-year US Treasury yields decreased (-19 bps to 4.81%). The German 10-year bund yields decreased (-11 bps to 2.49%).

**FX:** *w-o-w*, the US Dollar Index decreased (DXY, -1.0%, to 105.08; EUR/USD +0.6%, to 1.08). In EMs, currencies edged up (MSCI EM Currency Index, +0.5% *w-o-w*, to 1,724.81).

**Commodities:** *w-o-w*, oil prices declined (Brent, -7.5% to 82.80 USD/b). Gold prices declined *w-o-w* (-1.1% to 2,310.1 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

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