



R&R Weekly Column
By Brunello Rosa



Conflicts in Ukraine and the Middle East Continue, With No End in Sight

The two most violent ongoing conflicts, in Ukraine and the Middle East, came to defining moments last week, though neither one is likely to be resolved anytime soon.

As we will discuss in a forthcoming analysis of the conflict between Russia and Ukraine, Ukrainian President Zelenskyy visited the US and met with President Biden, as well as with the presidential candidates for the two sides, Kamala Harris and Donald Trump. The purpose of Zelenskyy's visit was to [illustrate his peace plan](#), which is understood to include the following points: First, Ukrainian accession to NATO, to be completed over a reasonable period of time. Second, increased sanctions on Russia. Third, a peace conference to be held in November, which Russia should also be invited to attend. [Fourth, the possibility for Ukraine to hit Russian targets deep in Russian territory](#).

The first and second points are not particularly new. The third point, a peace conference to be held in November, is new, but it will not have much traction unless Russia is constructively engaged, which seems pretty unlikely considering that a preceding peace conference, [formally called the Summit on Peace in Ukraine](#), was recently held in Bürgenstock Resort in Switzerland, on 15–16 June 2024 and didn't succeed

The fourth point is the most controversial. While it is clear that Ukraine will benefit massively from the possibility of attacking the military sites from which missiles against Ukraine are sent by the Russian army, it is also clear that Ukraine's allies are reluctant to provide permission for such attacks, which could be read by Russia as an indirect attack by NATO countries on Russian territory, and so could trigger a nuclear response. Russia has just updated its nuclear doctrine in response to these developments: [the new doctrine says that Russia is justified in using tactical nuclear weapons](#) in response to threats to the integrity of Russian (or Belarussian) territory, even if such threats are conducted through conventional, rather than nuclear, weapons.

Perhaps the main achievement of these meetings was that Trump said that he has a good relationship with President Zelenskyy, [as good as he has with Putin](#), and that "it takes two to tango." One hopes that if Trump is re-elected in November, this means that he won't just "sell Ukraine to Russia" to end the war, but will instead have a more balanced approach. In any case, the war will continue to rage on until a new US President is in place in January 2025.

Regarding the other open conflict, the news of the week is [the killing, by the Israeli army, of Hezbollah's leader Hassan Nasrallah](#). This means that the entire first line of command of the Iran-backed militia/political organisation has been eliminated, and its ability to attack Israel severely compromised. [In a statement released last Saturday](#), Biden said that Nasrallah's "death from an Israeli airstrike is a measure of justice for his many victims, including thousands of Americans, Israelis, and Lebanese civilians."

[As discussed in our recent analysis](#), the operations by Israel in Lebanon and the West Bank represent an extension and expansion of the conflict, which may be a prelude to further escalation and potentially to a regionalisation of the war, if Iran and Israel were to return to direct military exchanges. For this conflict too there is no end in sight for the foreseeable future, and definitely not before a new US President is installed in 2025.

Our Recent Publications

✿ [A New Dawn for the EU: Power Dynamics and Policy Shifts in von der Leyen's Second Term](#), by Charles Bauman, 25 September 2024

✿ [Assessing the Gaza War and its Expansion into Lebanon and the West Bank](#), by Giorgio Cafiero, 24 September 2024

✿ [Review: BOJ Keeps Rates Unchanged, But May Hike More If Its Outlook Materialises](#), by Brunello Rosa and Nato Balavadze, 20 September 2024

✿ [Preview: BOJ To Stay on Hold in September. Another Hike In a Few Months](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 19 September 2024



Looking Ahead

The Week Ahead: UK QoQ GDP To Rise; Unemployment Rate To Stay Unchanged in US And EZ; Headline Inflation To Fall In EZ

In the US, in September, unemployment rate is seen staying unchanged at 4.2%. NFPs are expected to rise by 145K (*p*: 142K). In September, S&P Global Manufacturing and Services PMI are likely to decline to 47.0 (*p*: 47.9) and 55.4 (*p*: 55.7). Composite PMI is seen falling to 54.4 (*p*: 54.6).

In the EZ, in September headline inflation rate is seen falling to 2.0% y-o-y (*p*: 2.2%), while core inflation is likely to remain at 2.8% y-o-y. In August, unemployment rate is expected to stay unchanged at 6.4%. In September HCOB Manufacturing and Services PMI are expected to decrease to 51.5 (*p*: 52.5) and to 50.5 (*p*: 52.9). Composite PMI is seen declining to 48.9 (*p*: 51.0).

Among the largest EZ economies, inflation rate is likely to: *i*) fall to 0.8% y-o-y (*p*: 1.1%) in Italy; *ii*) ease off further to 1.7% y-o-y (*p*: 1.9%) in Germany.

In the UK, in Q1, GDP growth rate is expected to rise by 0.6 q-o-q (*p*: 0.7%) and 0.9% y-o-y (*p*: 0.3%). In September, S&P Global Manufacturing and Services PMI are likely to decline to 51.5 (*p*: 52.5) and 52.8 (*p*: 53.7). Composite PMI is seen falling to 52.9 (*p*: 53.8).

The Quarter Ahead: Chinese Stocks Post Best Week Since 2008; Trumps Meets With Zelensky; Israel Kills Hezbollah Leader

Beijing introduced a \$114bn stimulus package to boost the stock market. The CSI 300 index rose 15.7%, its strongest performance since November 2008. The rally also lifted European markets and industrial metals, as China aims to stabilize its property sector and meet its 5% economic growth target. On Tuesday, the People's Bank of China announced an Rmb800bn (\$114bn) lending pool to help companies buy back shares and support non-bank financial institutions in purchasing local equities.

Trump-Zelensky meeting. Trump met Zelensky at Trump Tower in New York, calling for an end to Russia's war in Ukraine. Trump, who hadn't met Zelensky in five years, criticized his 2019 impeachment and stated that, if re-elected, he would aim to end the Russia-Ukraine war with a deal that benefits both sides.

Hezbollah confirmed its leader, Hassan Nasrallah, was killed in an Israeli airstrike. Nasrallah, 64, had led the group since 1992, transforming it into a major military and political force. Meanwhile, Netanyahu rejected ceasefire calls at the UN. Netanyahu stated his government will no longer tolerate daily rocket attacks. Several delegations walked out during his speech at the UN General Assembly.

Last Week's Review

Real Economy: US QoQ GDP Advanced; PCE Index Cools, While Core PCE Increased In US

In the US, in Q2, GDP growth rate accelerated by 3.0% q-o-q (*c*: 3.0%; *p*: 1.4%). In August, PCE Price Index edged down to 2.2% y-o-y (*c*: 2.3%; *p*: 2.5%), while core PCE Price Index increased to 2.8% y-o-y (*c*: 2.7%; *p*: 2.6%). In September, Michigan Consumer Sentiment increased to 70.1 (*c*: 69.3; *p*: 67.9).

In the EZ, in September, consumer confidence rose to -12.9 (*p*: -13.5) as expected. Still in September, the economic sentiment fell slightly to 96.2 (*c*: 96.5; *p*: 96.5). Among the largest EZ economies, inflation rate fell to 1.2% y-o-y (*c*: 1.6%; *p*: 1.8%) in France.

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

Market Drivers: The market focused on China, as officials introduced measures to boost consumption, property demand, and stock market liquidity. The Dow Jones and S&P 500 hit record highs, fueled by China's new stimulus. In Europe, stocks rose too. The UST yields fell on Friday after inflation data showed prices nearing the Fed's target.

Global Equities: Increased *w-o-w* (MSCI ACWI, +1.8%, to 852.84). The US S&P 500 index rose (+0.6% *w-o-w*, to 5,702.55). In the EZ, share prices increased (Eurostoxx 50, +4.0% *w-o-w*, to 5,068.55). In EMs, equity increased (MSCI EMs, +6.2%, to 1,174.52). Volatility decreased rose to 19.31 (VIX S&P 500, 52w avg.: 14.6; 10y avg.: 18.1).

Fixed Income: *w-o-w*, the 10-year US Treasury yields edged down (-1 bps to 3.75%). The 2-year US Treasury yields decreased (-4 bps to 3.56%). The German 10-year bund yields decreased (-6 bps to 2.14%).

FX: *w-o-w*, the US Dollar Index decreased (DXY, -0.3%, to 100.42; EUR/USD +0.0%, to 1.12). In EMs, currencies rose (MSCI EM Currency Index, +0.7% *w-o-w*, to 1,790.53).

Commodities: *w-o-w*, oil prices decreased (Brent, -4.0% to 71.54 USD/b). Gold prices increased *w-o-w* (+1.3% to 2,680.80 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