



R&R Weekly Column
By Brunello Rosa



Takeaways from the Ambrosetti Forum: The New Cold War Between US and China Intensifies

Last week, on the shores of Lake Como, [the 50th edition of The European House – Ambrosetti \(TEHA\) Forum took place](#). As usual, this was an occasions for world leaders, mainly from the US, China, Europe, and the Middle East, to meet and discuss the most pressing geopolitical and macroeconomic issues. Being the 50th edition, an additional effort was made in order to have as many top leaders as possible participating.

For example, both Ukraine’s president Volodymyr Zelensky and EU rotating president Viktor Orban, who have opposite views on the future of Europe, and on Russia, were present. Several US senators were also present, just a couple of months before its presidential election. Queen Rania of Jordan also spoke about the ongoing war in Gaza, and the president of Azerbaijan Ilham Aliyev provided the keynote speech on the first day of the forum. Italian PM Meloni (along with half of her government) were present, as were key figures from the EU Commission, including the Commissioner to Economic and Monetary Affairs Paolo Gentiloni and the High Representative for Foreign Affairs and Security Policy, Josep Borrell.

In absence of “open” macro-financial crises (for a change), the conference focused on rising geopolitical tensions and emerging technological developments. If anything, the fact that all the key G7 central banks are easing their policy stances, or are about to do so, will help reduce tensions in financial markets. One could only wish that geopolitical tensions could be dissipated that easily.

The first few sessions discussed the geopolitical landscape. Before the deep dives into the Russia-Ukraine conflict with President Zelensky, and the war in Gaza and the West Bank with Queen Rania, there was a thorough discussion about the ongoing Cold War 2 between the US and China, which included [Niall Ferguson](#), [Fu Ying](#) and [Meghan O’ Sullivan](#) for the geopolitical part, and [Eric Li](#) and Nouriel Roubini for its macro component.

The leitmotif was clearly the rise of China, the expanded BRICS and the global South, versus the relative decline of the West. But there were two notable points that came out at the conference. From a macroeconomic perspective, given its ability to innovate, and in particular to embrace the AI revolution, the US potential growth may reach 3%, or even 3.5% at the end of the decade. Conversely, Chinese growth potential has been declining for the last few years: recently it has reached 5%, and may fall to as low as 3% by the end the decade, if China does not adopt some policies aimed at supporting aggregate demand, besides those aimed at increasing aggregate supply. If the US and China were to invert their relative positions in terms of growth potential, this could have meaningful implications for market and global stability.

From a political perspective, tensions are set to increase further because the Chinese authorities continue re-defining key concepts used to classify the political system of countries. For example, China is convinced that its political system is democratic, and this has nothing to do with political and electoral procedures. They believe that China is a democracy because it provides public goods to his citizens, whose “happiness” legitimises the political system that provides them. The US, Europe and other countries that we in the West consider democratic, are instead just “oligarchies” run by a liberal ideology, which has marginalised the larger part of the population in favour of the elites.

It is obvious that, as long as the two sides cannot even agree on the definition of the issues they are competing on, the ongoing Cold War 2 is set to instensify further.

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Looking Ahead

The Week Ahead: Inflation To Ease Off In US, Germany And France; UK Unemployment To Fall; ECB To Cut Rates

In the US, in August, headline inflation is expected to ease off to 2.6% y-o-y (*p*: 2.9%). In September, Michigan Consumer Sentiment is seen increasing slightly to 68.0 (*p*: 67.9).

In the EZ, In July, IP is seen rising by -2.7% y-o-y (*p*: -3.9%). The ECB is likely to cut its main policy rates by 25 bps, i.e. its *i*) interest rate on the 'main refinancing operations' to 4.00%; *ii*) interest rate on the 'marginal lending facility' to 4.25%; and *iii*) 'deposit facility' to 3.50%.

Among the largest EZ economies, in August, inflation rate is expected to: *i*) ease off to 1.9% y-o-y (*p*: 2.3%) in Germany; *ii*) cool off to 1.9% y-o-y (*p*: 2.3%) in France.

In the UK, in July, unemployment rate is likely to edge down to 4.1% (*p*: 4.2%). In July, IP is seen decelerating to 0.2% m-o-m (*p*: 1.1%).

The Quarter Ahead: Yellen Sees U.S. Soft Landing; Gentiloni Says Europe Weathered "Terrible Prophecies"

Yellen says the US economy is now in a soft landing. Treasury Secretary Janet Yellen stated that she believes the U.S. economy is strong, viewing the recent slowdown in job growth as a sign of a soft landing rather than a recession. She noted that the U.S. is not experiencing significant layoffs and that the economy is well into its recovery.

Europe's economy has weathered the "terrible prophecies" says EU's Paolo Gentiloni. However, it now faces challenges from the war in Ukraine and managing trade relations with China. In an interview at the Ambrosetti Forum, Gentiloni noted that while growth has been weak, Europe avoided the predicted recessions, blackouts, and divisions following Russia's invasion. He emphasized the importance of supporting Ukraine and maintaining open international trade, while being cautious in its dealings with China.

Last Week's Review

Real Economy: EZ QoQ GDP Decelerated; US Unemployment Rate Fell; PMIs Increased In DMs

In the US, in August, unemployment fell to 4.2% (*p*: 4.3%) as expected. NFPs increased by 142K (*c*: 160K; *p*: 89K). In August, S&P Global Manufacturing PMI is expected to edge down to 47.9 (*c*: 48.0; *p*: 49.6), while Services PMI increased 55.7 (*c*: 55.2; *p*: 55.0). Composite PMI increased to 54.6 (*c*: 54.1; *p*: 54.3).

In the EZ, in Q2, according to the third estimate, GDP growth decelerated to 0.2% q-o-q (*c*: 0.3%; *p*: 0.3%) and advanced by 0.6% y-o-y (*c*: 0.6%; *p*: 0.5%). In August, HCOB Manufacturing PMI stood at 45.8 (*c*: 45.6), while Services PMI increased to 52.9 (*c*: 53.3; *p*: 51.9). Composite PMI increased to 51.0 (*c*: 51.2; *p*: 50.2).

Among the largest EZ economies, in Q2, according to the final estimate, GDP growth rate decelerated to 0.2% q-o-q (*p*: 0.3%) and advanced by 0.9% (*p*: 0.6%) in Italy as expected.

In the UK, in August, S&P Global Manufacturing and Services PMI edged up to 52.5 (*c*: 52.5; *p*: 52.1) and 53.7 (*c*: 53.3; *p*: 52.5). Composite PMI increased to 53.8 (*c*: 54.3; *p*: 52.8).

Financial Markets: Stock Prices Decreased; Yields Edged down; Dollar, Oil And Gold Prices Decreased

Market Drivers: The Slowdown fears weighed heavily on investors, with fewer U.S. job openings signaling a weakening labor market. The S&P 500 saw its biggest weekly drop in 18 months, led by declines in tech stocks, including a \$300 billion loss in NVIDIA's value due to antitrust concerns. In Europe, stocks fell as well as investors grew anxious about the global economic outlook.

Global Equities: Decreased *w-o-w* (MSCI ACWI, -3.7%, to 802.57). The US S&P 500 index edged down (-4.2% *w-o-w*, to 5,408.42). In the EZ, share prices decreased (Eurostoxx 50, -4.4% *w-o-w*, to 4,957.45). In EMs, equity prices fell (MSCI EMs, -2.3%, to 1,074.79). Volatility decreased rose to 20.95 (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 (-18 bps to 3.72%). The 2-year US Treasury yields fell (-27 bps to 3.65%). The German 10-year bund yields decreased (-12 bps to 2.17%).

FX: *w-o-w*, the US Dollar Index decreased (DXY, -0.5%, to 101.73; EUR/USD +0.3%, to 1.11). In EMs, currencies fell (MSCI EM Currency Index, 0.0% *w-o-w*, to 1,766.50).

Commodities: *w-o-w*, oil prices decreased (Brent, -9.8% to 71.06 USD/b). Gold prices decreased *w-o-w* (-0.0% to 2,526.80 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