

### MAKING SENSE OF THIS WORLD

# 16 July 2018



R&R Weekly Column By Brunello Rosa



## **Trade Skirmishes And Technological Wars**

A series recently-published of articles (for example on the New York Times and Le Figaro) reported the fast development in China of facial-recognition and other surveillance technologies that allow the authorities (central and local governments, public administrations, school boards, etc.) to follow almost any moment of people's life, in a country with a 1.4bn population. The authors of these articles suggest how these systems are the technological evolution of other forms of social control that have traditionally characterised the Chinese society for centuries, from household communities to workplaces. These surveillance technologies would also allow the government to finally implement a system of "social reputational scores" that was conceived in the 1990s as way of assessing people's creditworthiness, now expanded to a much greater scope.

In schools, systems of continuous surveillance would allow the teaching board to make a real 360-degree evaluation of scholars, not just through traditional test scores, but also by assessing presence, participation and activity of pupils during school hours, interest for the subjects studied, overall behaviour during examinations as well as during recess. This way, the authorities claim, only the best of the best (not just academically, but also in terms of behaviour) will really emerge in a dramatically competitive environment such as the Chinese society today. At the same time, it is quite natural to think that, with these technologies, the governmental control of people's activities (including those of political, or politically-sensitive, nature) can also be implemented and enhanced.

Let's set aside, for a moment, the moral, ethical and political implications of these technologies, which could amount to a rather dystopian, Orwellian big-brother future, where the combination of artificial intelligence (AI), Internet of Things (IOT), big data, robots and automation eventually lead to the emergence of a combined system of machines not dissimilar to the Skynet of the *Terminator* saga, which eventually becomes self-sufficient and auto-directed. (With some sense of humour, the Chinese police called exactly "Skynet" their system of surveillance cameras). What is mostly relevant for us at this juncture is the fact that the new battlefield for world economic leadership is exactly within the perimeter marked by AI, IOT, big data, robots and automation, with a geopolitical angle constituted by the cyberwarfare, and a financial angle deriving from the addition of Fin-Tech to the mix.

As discussed in a recent report by Nouriel Roubini, in this race to the 21st century economic supremacy, China is ahead of any other country in the world, having set the goal of being the number one in the 10 most advanced technologies of the future (including Al, robotics, EV and driverless cars, biotech, aerospace, and others) by 2030, even by using aggressive industrial policies that will include government funding, subsidies and below-market rates loans. One can see how the ongoing trade tensions (with tariffs and countertariffs between US and China) are just skirmishes (that could still lead to a full-blown trade war, if not contained), compared to the much deeper and broader lingering technological war between the world's super-powers.

**Our Recent Publications** 







#### The Week Ahead

On Monday, the presidents of the US and Russia will meet. The meeting—which follows a tense NATO summit last week—is expected to improve the relationship between the two countries.

In the US, retail sales are expected to decelerate (c: 0.4% y-o-y; p: 0.9%). In the EZ, June CPI should remain in line with the ECB target (June CPI, c: 2.0% y-o-y; p: 2.0%) with a minor pickup in core inflation (c: 1.1% y-o-y; p: 1.0%).

In China, Q2 2018 GDP growth is expected to have softened. Data on Chinese GDP growth (Q2 y-o-y) are likely to confirm a deceleration of the economy (c: 6.7% y-o-y; p: 6.8%).

### **The Quarter Ahead**

In the US, the Fed will continue to hike rates and reduce USD global liquidity... In the US: a) the Fed will accelerate the pace of balance sheet reduction to 40bn per month in Q3 and 50bn per month in Q4); b) the government will increase bond issuance; while c) the Fed will keep hiking rates (likely in September and December), to close the year with a 2.25-2.50% policy rate.

... putting pressure on EM currencies to weaken further. EMs will remain vulnerable to outflows in Q3 due to: a) declining USD liquidity; b) rising US interest rates; c) a stronger USD; and d) trade war fears. EM assets are under increasing pressure: while currencies remained stable (MSCI EM currency index: -0.1% w-o-w), stocks suffered outflows: investors withdrew USD900m from EM equity funds for the week ending on July 11. This was the 10th straight week of outflows, accumulating losses to more than USD17bn since the start of May. EM CBs will likely be forced to increase interest rates to pre-empt further currency depreciation.

In the near term, trade tensions will remain high, but will not lead to a trade-war. Concern continues to rise after the US—following the adoption of tariffs on USD34bn of imports from China last week—announced this week that it is considering tariffs on a further USD200bn of imports. These concerns weakened the CNY by 0.7% w-o-w against the USD (to USD/CNY 6.70). As the US November mid-term elections approach, further tariffs are likely to be imposed. Thereafter, the US government will likely soften its position.

In Turkey, investors' concern will remain high in the near term. The announcement of the new cabinet and recent changes in the CBT governance rules—reducing the tenure of the board members and giving the president full power on their appointment—have increased investors' concerns and caused the TRY to depreciate against the USD (USD/TRY 4.84, +5.9% w-o-w).

Bahrain will continue to face a decline in fiscal revenues. Bahrain's economy shrank—for the first time in seven years—by 1.2% y-oy in Q1 2018, hit by a 14% y-o-y fall in oil production.

Brent oil prices will remain above 70 USD/b, in spite of the announced Opec output expansion. Brent prices declined by 2.3% w-o-w, to 75.3 USD/b due to the improvement on Libya's exports and trade war fears. However, the risk of output shortage remains elevated: Opec has only 2.1m b/d of spare capacity (in KSA, Kuwait and the UAE), which will be further reduced if KSA delivers on its promise to increase output to 11mb/d (June, a: 10.42; p: 10.0).

#### Last Week's Review

In the US, signs of economic strength drove stock market performance. Global stocks rose by 0.2% w-o-w (MSCI ACWI). In the US, the S&P500 increased by 1.5%, reaching a five-month high, driven by: a) the upbeat economic assessment of the Fed's semi-annual monetary policy report; and b) supportive June CPI data, both headline (a: 2.9% y-o-y, the highest since 2012; c: 2.9%; p: 2.8%) and core (a: 2.3% y-o-y, an 18-month high; c: 2.3%; p: 2.2%). The VIX index declined by 1 point to 12, further below its long-term trend of 22. The 10y UST yield remained stable at 2.83% (+1bps w-o-w). The USD strengthened against a basket of currencies (DXY +0.7% w-ow), and was flat against the EUR (EUR/USD 1.17).

In the EZ, Germany's June CPI remained unchanged, in line with expectations (c: 2.1% y-o-y; c: 2.1%; p: 2.1%).

In China prices rose moderately (June CPI, a: 1.9% y-o-y; c: 1.9%; p: 1.8%).

In Canada, the BoC raised its benchmark rate by 0.25bps to 1.50% (c: 1.50%), on account of the strength of the economy.

Egyptian CPI inflation rose to 14.4% (June, y-o-y, p: 11.4%), driven by a new wave of subsidy cuts.

Pablo Gallego Cuervo contributed to this Viewsletter.

The picture in the front page comes from this website Rosa&Roubini Associates

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#### **Abbreviations, Acronyms and Definitions**

AKP         Justice and Development Party, Turkey         LN         Northern League, Italy           onn.         annualized         MSS         Five Star Movement, Italy           ARS         Argentinian Peso         mo-m         Month-on-month           Bol         Bank of Canada         mb/d         Million barrels per day           Bol         Bank of Japan         MFM         Nationalist Movement Party, Turkey           Bps         Bard of Japan         MFP         Nationalist Movement Party, Turkey           MBD         Bare sper day         m         Million           Bps         Basis points         NAFFA         North-Attenic Ter Trade Agreement           BS         Balance sheet         NATO         North-Attenic Ter Trade Agreement           C         Consensus         OECD         Organization for Economic Cooperation and Development           C/A         Current account         Opec         Organization for Economic Cooperation and Development           C/B         Central Bank of Rusuit         PBC         People's Bank of China           CBR         Central Bank of Rusuit         PBC         People's Bank of China           CBR         Central Bank of Rusuit         PBC         People's Bank of China           CBR         Central Bank o	а	Actual	KSA	Kingdom of Saudi Arabia
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DXY         US Dollar Index         QAR         Qatari Riyal           EC         European Council         QE         Quantitative easing           ECB         European Central Bank         q-0-q         Quarter-on-quarter           EIA         US Energy Information Agency         RBA         Reserve Bank of Australia           EM         Emerging Markets         RRR         Reserve Requirement Ratio           EP         European Parliament         RUB         Russian Rouble           EPS         Earnings per share         SHCOMP         Shanghal Stock Exchange Composite Index           EU         European Union         tb/d         Thousand barrels per day           EUR         Euro         tn         Trillion           EZ         Eurozone         TPP         Trans Pacific Partnership           Fed         US Federal Reserve         TRY         Turkish Lira           FM         Future Movement         UAE         United Arab Emirates           FOMC         US Federal Reserve Board         UK         United States           FX         Foreign exchange         USD         United States           FY         Fiscal Year         USD/b         USD per barrel           GCC         Gulf Cooperation Council<	d-o-d	<u> </u>	•	Qatar Central Bank
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ECBEuropean Central Bankq-o-qQuarter-on-quarterEIAUS Energy Information AgencyRBAReserve Bank of AustraliaEMEmerging MarketsRRRReserve Requirement RatioEPEuropean ParliamentRUBRussian RoubleEPSEarnings per shareSHCOMPShanghai Stock Exchange Composite IndexEUEuropean Uniontb/dThousand barrels per dayEUREurotnTrillionEZEurozoneTPPTrans Pacific PartnershipFedUS Federal ReserveTRYTurkish LiraFMFuture MovementUAEUnited Arab EmiratesFOMCUS Federal Open Market CommitteeUKUnited States InternatesFRBUS Federal Reserve BoardUSUnited States DollarFXForeign exchangeUSDUnited States DollarFYFiscal YearUSD/bUSD per barrelGCCGulf Cooperation CouncilUSTUS Treasury bills/bondsGBPBritish poundVATValue added taxGDPGross domestic productVIXChicago Board Options Exchange Volatility IndexGOPGrand Old Party (US Republican Party)WTIWest Texas IntermediateIMFInternational Monetary FundW-O-WWeek-on-weekIMRIndian Rupeey-O-yYear-on-yearIPOInitial public offeringy-t-dYear-to-dateISIslamic State2y; 10y2-year; 10-year	EC	European Council	QE	Quantitative easing
EIA       US Energy Information Agency       RBA       Reserve Bank of Australia         EM       Emerging Markets       RRR       Reserve Requirement Ratio         EP       European Parliament       RUB       Russian Rouble         EPS       Earnings per share       SHCOMP       Shanghai Stock Exchange Composite Index         EU       European Union       tb/d       Thousand barrels per day         EUR       Euro       tn       Trillion         EZ       Eurozone       TPP       Trans Pacific Partnership         Fed       US Federal Reserve       TRY       Turkish Lira         FM       Future Movement       UAE       United Arab Emirates         FOMC       US Federal Reserve Board       UK       United Kingdom         FRB       US Federal Reserve Board       US       United States         FX       Foreign exchange       USD       United States Dollar         FY       Fiscal Year       USD/b       USD per barrel         GCC       Gulf Cooperation Council       UST       US Treasury bills/bonds         GBP       British pound       VAT       Value added tax         GDP       Grand Old Party (US Republican Party)       WTI       West Texas Intermediate	ECB	European Central Bank	q-o-q	=
EMEmerging MarketsRRRReserve Requirement RatioEPEuropean ParliamentRUBRussian RoubleEPSEarnings per shareSHCOMPShanghai Stock Exchange Composite IndexEUEuropean Uniontb/dThousand barrels per dayEUREurotnTrillionEZEurozoneTPPTrans Pacific PartnershipFedUS Federal ReserveTRYTurkish LiraFMFuture MovementUAEUnited Arab EmiratesFOMCUS Federal Open Market CommitteeUKUnited KingdomFRBUS Federal Reserve BoardUSUnited StatesFXForeign exchangeUSDUnited States DollarFYFiscal YearUSD/bUSD per barrelGCCGulf Cooperation CouncilUSTUS Treasury bills/bondsGBPBritish poundVATValue added taxGDPGross domestic productVIXChicago Board Options Exchange Volatility IndexGOPGrand Old Party (US Republican Party)WTIWest Texas IntermediateIMFInternational Monetary Fundw-o-wWeek-on-weekIMRIndian Rupeey-o-yYear-on-yearIPOInitial public offeringy-t-dYear-to-dateISIslamic State2y; 10y2-year; 10-yearIPYJapanese yen	EIA	US Energy Information Agency		Reserve Bank of Australia
EPS Earnings per share  EU European Union  EUR Euro  Euro  EUR Euro  ER Euro  TPP Trans Pacific Partnership  Fed US Federal Reserve  FRY Turkish Lira  FM Future Movement  FM Future Movement  UAE United Kingdom  FRB US Federal Reserve Board  US USFederal Reserve Board  US USFederal Reserve Board  FY Foreign exchange  USD United States  FX Foreign exchange  USD United States Dollar  FY Fiscal Year  USD/b USD per barrel  GCC Gulf Cooperation Council  UST US Treasury bills/bonds  GBP British pound  VAT Value added tax  GDP Gross domestic product  FY VIX Chicago Board Options Exchange Volatility Index  GOP Grand Old Party (US Republican Party)  IMF International Monetary Fund  W-O-W Week-on-week  INR Indian Rupee  IPO Initial public offering  IS Islamic State  2y; 10y  2-year; 10-year  IPO  Japanese yen	EM	Emerging Markets	RRR	Reserve Requirement Ratio
EUEuropean Uniontb/dThousand barrels per dayEUREurotnTrillionEZEurozoneTPPTrans Pacific PartnershipFedUS Federal ReserveTRYTurkish LiraFMFuture MovementUAEUnited Arab EmiratesFOMCUS Federal Open Market CommitteeUKUnited KingdomFRBUS Federal Reserve BoardUSUnited StatesFXForeign exchangeUSDUnited States DollarFYFiscal YearUSD/bUSD per barrelGCCGulf Cooperation CouncilUSTUS Treasury bills/bondsGBPBritish poundVATValue added taxGDPGross domestic productVIXChicago Board Options Exchange Volatility IndexGOPGrand Old Party (US Republican Party)WTIWest Texas IntermediateIMFInternational Monetary Fundw-o-wWeek-on-weekINRIndian Rupeey-o-yYear-on-yearIPOInitial public offeringy-t-dYear-to-dateISIslamic State2y; 10y2-year; 10-yearIPYJapanese yen	EP	European Parliament	RUB	Russian Rouble
EUR Euro the Trillion  EZ Eurozone TPP Trans Pacific Partnership  Fed US Federal Reserve TRY Turkish Lira  FM Future Movement UAE United Arab Emirates  FOMC US Federal Open Market Committee UK United Kingdom  FRB US Federal Reserve Board US United States  FX Foreign exchange USD United States Dollar  FY Fiscal Year USD/b USD per barrel  GCC Gulf Cooperation Council UST US Treasury bills/bonds  GBP British pound VAT Value added tax  GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index  GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate  IMF International Monetary Fund W-o-w Week-on-week  INR Indian Rupee Y-o-y Year-on-year  IPO Initial public offering Y-t-d Year-to-date  IS Islamic State 2y; 10y 2-year; 10-year	EPS	Earnings per share	SHCOMP	Shanghai Stock Exchange Composite Index
EZ Eurozone TPP Trans Pacific Partnership Fed US Federal Reserve TRY Turkish Lira FM Future Movement UAE United Arab Emirates FOMC US Federal Open Market Committee UK United Kingdom FRB US Federal Reserve Board US Us United States FX Foreign exchange USD United States Dollar FY Fiscal Year USD/b USD per barrel GCC Gulf Cooperation Council UST US Treasury bills/bonds GBP British pound VAT Value added tax GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate IMF International Monetary Fund W-o-W Week-on-week INR Indian Rupee Y-o-y Year-on-year IPO Initial public offering Y-t-d Year-to-date IS Islamic State 2y; 10y 2-year; 10-year  JPY Japanese yen	EU	European Union	tb/d	Thousand barrels per day
Fed US Federal Reserve TRY Turkish Lira  FM Future Movement UAE United Arab Emirates  FOMC US Federal Open Market Committee UK United Kingdom  FRB US Federal Reserve Board US UsD United States  FX Foreign exchange USD United States Dollar  FY Fiscal Year USD/b USD per barrel  GCC Gulf Cooperation Council UST US Treasury bills/bonds  GBP British pound VAT Value added tax  GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index  GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate  IMF International Monetary Fund W-o-W Week-on-week  INR Indian Rupee Y-o-Y Year-on-year  IPO Initial public offering Y-t-d Year-to-date  IS Islamic State 2y; 10y 2-year; 10-year	EUR	Euro	tn	Trillion
FM Future Movement UAE United Arab Emirates  FOMC US Federal Open Market Committee UK United Kingdom  FRB US Federal Reserve Board US United States  FX Foreign exchange USD United States Dollar  FY Fiscal Year USD/b USD per barrel  GCC Gulf Cooperation Council UST US Treasury bills/bonds  GBP British pound VAT Value added tax  GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index  GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate  IMF International Monetary Fund W-o-W Week-on-week  INR Indian Rupee Y-o-Y Year-on-year  IPO Initial public offering Y-t-d Year-to-date  IS Islamic State 2y; 10y 2-year; 10-year	EZ	Eurozone	TPP	Trans Pacific Partnership
FOMCUS Federal Open Market CommitteeUKUnited KingdomFRBUS Federal Reserve BoardUSUnited StatesFXForeign exchangeUSDUnited States DollarFYFiscal YearUSD/bUSD per barrelGCCGulf Cooperation CouncilUSTUS Treasury bills/bondsGBPBritish poundVATValue added taxGDPGross domestic productVIXChicago Board Options Exchange Volatility IndexGOPGrand Old Party (US Republican Party)WTIWest Texas IntermediateIMFInternational Monetary Fundw-o-wWeek-on-weekINRIndian Rupeey-o-yYear-on-yearIPOInitial public offeringy-t-dYear-to-dateISIslamic State2y; 10y2-year; 10-yearJPYJapanese yen	Fed	US Federal Reserve	TRY	Turkish Lira
FRB US Federal Reserve Board US United States  FX Foreign exchange USD United States Dollar  FY Fiscal Year USD/b USD per barrel  GCC Gulf Cooperation Council UST US Treasury bills/bonds  GBP British pound VAT Value added tax  GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index  GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate  IMF International Monetary Fund w-o-w Week-on-week  INR Indian Rupee y-o-y Year-on-year  IPO Initial public offering y-t-d Year-to-date  IS Islamic State 2y; 10y 2-year; 10-year  JPY Japanese yen	FM	Future Movement	UAE	United Arab Emirates
FX Foreign exchange USD United States Dollar FY Fiscal Year USD/b USD per barrel GCC Gulf Cooperation Council UST US Treasury bills/bonds GBP British pound VAT Value added tax GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate IMF International Monetary Fund w-o-w Week-on-week INR Indian Rupee y-o-y Year-on-year IPO Initial public offering y-t-d Year-to-date IS Islamic State 2y; 10y 2-year; 10-year  JPY Japanese yen	FOMC	US Federal Open Market Committee	UK	United Kingdom
FY Fiscal Year USD/b USD per barrel  GCC Gulf Cooperation Council UST US Treasury bills/bonds  GBP British pound VAT Value added tax  GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index  GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate  IMF International Monetary Fund w-o-w Week-on-week  INR Indian Rupee y-o-y Year-on-year  IPO Initial public offering y-t-d Year-to-date  IS Islamic State 2y; 10y 2-year; 10-year  JPY Japanese yen	FRB	US Federal Reserve Board	US	United States
GCC Gulf Cooperation Council UST US Treasury bills/bonds  GBP British pound VAT Value added tax  GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index  GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate  IMF International Monetary Fund w-o-w Week-on-week  INR Indian Rupee y-o-y Year-on-year  IPO Initial public offering y-t-d Year-to-date  IS Islamic State 2y; 10y 2-year; 10-year  JPY Japanese yen	FX	Foreign exchange	USD	United States Dollar
GBP British pound VAT Value added tax GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate IMF International Monetary Fund w-o-w Week-on-week INR Indian Rupee y-o-y Year-on-year IPO Initial public offering y-t-d Year-to-date IS Islamic State 2y; 10y 2-year; 10-year IPY Japanese yen	FY	Fiscal Year	USD/b	USD per barrel
GDP Gross domestic product VIX Chicago Board Options Exchange Volatility Index GOP Grand Old Party (US Republican Party) WTI West Texas Intermediate  IMF International Monetary Fund w-o-w Week-on-week  INR Indian Rupee y-o-y Year-on-year  IPO Initial public offering y-t-d Year-to-date  IS Islamic State 2y; 10y 2-year; 10-year  JPY Japanese yen	GCC	Gulf Cooperation Council	UST	US Treasury bills/bonds
GOP Grand Old Party (US Republican Party)  IMF International Monetary Fund  W-o-w Week-on-week  INR Indian Rupee Y-o-y Year-on-year  IPO Initial public offering Y-t-d Year-to-date  IS Islamic State 2y; 10y 2-year; 10-year	GBP	British pound	VAT	Value added tax
IMFInternational Monetary Fundw-o-wWeek-on-weekINRIndian Rupeey-o-yYear-on-yearIPOInitial public offeringy-t-dYear-to-dateISIslamic State2y; 10y2-year; 10-yearJPYJapanese yen	GDP	Gross domestic product	VIX	Chicago Board Options Exchange Volatility Index
INRIndian Rupeey-o-yYear-on-yearIPOInitial public offeringy-t-dYear-to-dateISIslamic State2y; 10y2-year; 10-yearJPYJapanese yen	GOP	Grand Old Party (US Republican Party)	WTI	West Texas Intermediate
IPOInitial public offeringy-t-dYear-to-dateISIslamic State2y; 10y2-year; 10-yearJPYJapanese yen	IMF	International Monetary Fund	W-O-W	Week-on-week
IS Islamic State 2y; 10y 2-year; 10-year  JPY Japanese yen	INR	Indian Rupee	у-о-у	Year-on-year
JPY Japanese yen	IPO	Initial public offering	y-t-d	Year-to-date
	IS	Islamic State	2y; 10y	2-year; 10-year
k thousand	JPY	Japanese yen		
	k	thousand		

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