

## MAKING SENSE OF *THIS* WORLD

4 February 2019



*R&R Weekly Column*  
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### Venezuela and the Shifting Tectonic Plates of Geopolitics

Recent events in Venezuela show that the world's geopolitical tectonic plates continue to move. Whether or not Juan Guaidó succeeds in becoming the country's next president (and if so, whether that will happen peacefully or only after another bloodbath) is yet to be determined. Clearly the missing link in Guaidó's puzzle is the support of the army: if he were to receive that, his ascension to power would soon be completed, with or without another election being held. But the fact that all of the world's major powers took a position on the Venezuelan saga suggests that something is going on there that is much deeper than a typical power struggle inside of a medium-sized Latin American country. Guaidó could not have made the bold move he did without receiving the direct or indirect support of the US, which was in fact the first country to recognize him as president (followed shortly by the UK and Canada; several major European countries are threatening to do the same, unless Maduro calls new presidential elections). Taking the opposite position, Russia, China, and Turkey stood by Maduro. John Bolton, President Trump's National Security Adviser, said that US oil companies are ready to invest in Venezuela, which has the largest oil reserves in the world. Still, this political saga is not only about oil.

The world's geopolitical order is changing. Trump's decision to leave Syria (against the advice of his former Defence Secretary James Mattis), in conjunction with his decision to back Guaidó in Venezuela, could be viewed as a move to re-pivot US attention to Latin America, after many years of neglecting the region. As we discussed in previous columns, a number of Latin American countries seem ready to rapidly switch from populist or authoritarian regimes of the left (with Chavez and Maduro being primary examples) to populist or authoritarian regimes of the right (with Brazil's Bolsonaro being the primary example). Political shifts of this kind have already occurred in Brazil and Colombia. Venezuela seems ripe for a similar transition, and other countries in the region, such as Argentina, might follow suit. If the US refocuses on Latin America, which it has considered to be its backyard since US President Monroe, other global powers seem quite unlikely to be able to counter this shift. Russia has recently made it clear that Venezuela will not be another Syria. China for the time being is mostly using only its economic position to exert influence in Latin America, for example by being among the major importers of the region's natural resources. China however is also focusing its attention on the Belt and Road Initiative (BRI), which will imply a massive influence in Asian and African countries. As Parag Khanna discusses in his recent book, the major geopolitical arena of this century will be Afro-Eurasia, given the influence that China and India will have on a number of African countries.

So far, the response of the US after Obama (who tried his own pivot to Asia) has been inward looking: pull out of the Middle East, weaken NATO and the EU, re-focus on Latin America and attempt to build a wall along the border with Mexico. However, this tactical response might prove insufficient, unless the US wants to give up its global supremacy sooner than it otherwise would. The US might soon re-discover the importance of the Western alliance with Europe, the importance of maintaining influence in the Middle East, the importance of making sure that China does not promote regime changes in Africa and excessively influence regions like Latin America economically. Accomplishing these goals would likely require a new political leadership in the US, with a different view of the world.

#### Our Recent Publications

*RP* EU Bullet Points: Numerous Open Fronts, by Brunello Rosa and Nouriel Roubini, 31 January 2019

*RP* PERSIAN GULF: Increased Polarisation and Power Fragmentation Ahead, by Cinzia Bianco, 29 January 2019

*RP* Fed Takes A Sharp Break In the Hiking Cycle and Moves to a Strongly Dovish Stance, by B. Rosa, 30 January 2019

*RP* Geopolitical Corner: Venezuela and the Iron Laws of Revolution, by John C. Hulsman, 1 February 2019



Looking Ahead

***This Week, in the US, President*** Trump will deliver his “State of the Union” annual speech to a joint session in Congress, where he is likely to set the national priorities and propose a revamped legislative agenda.

***This week, a number of US data*** will be released, including: *i)* the trade balance (p: USD -55.5bn), after months of trade tensions with China; and *ii)* the services PMI (p: 54.2). The probability of no-rate hikes in 2019 rose to 97% (p: 71%). Quantitative tightening is also likely to be reduced, with the Fed gradually reducing the amount of asset sales until, eventually, they are totally discontinued.

***This week, in the EU,*** the services PMI will also be released (p: 50.8).

***This week, in the UK,*** the BoE is expected to leave rates unchanged (c: 0.75%, p: 0.75%). Next quarter, geopolitical risks to remain elevated. The Brexit deadline is set for March 29<sup>th</sup>. While a last-minute deal remains the base case, the likelihood of a no-deal continues to increase.

***This week, in Venezuela,*** President Maduro is likely to call for fresh elections against opposition leader Juan Guaidó.

***In the US,*** March 1st is the ‘hard deadline’ for a trade deal with China; in absence of an agreement, further tariffs—from 10 to 25% on imports from China, worth around USD200bn in 2018—are likely to be implemented.

Last Week's Review

Real Economy: Global Slowdown with Rising Downside Risks

***In the US,*** Non-Farm payrolls rose by 304K in January, following a downwardly revised 222K increase in December, more than market expectations of a 165K rise. The unemployment rate ticked up to 4% from 3.9%, also due to the government’s temporary shutdown.

***In the EZ,*** growth decelerated to its weakest pace in four years (GDP Q4, a: 1.2%; y-o-y; c: 1.2%; p: 1.6%).

***In the EZ,*** inflation declined (CPI EZ, a: 1.4%; y-o-y c: 1.4%, p: 1.6%).

***In Italy,*** the economy shrank for a second quarter in a row (GDP Q4, a: -0.2%; q-o-q c: -0.1%; p: -0.1%; GDP Q4, a: 0.1%; y-o-y c: 0.3%; p: 0.6%), falling into its third technical recession since 2008, driven by: *i)* lower agriculture and industry output; *ii)* declining domestic consumption and investment; and *iii)* tighter financial conditions.

***In China,*** the manufacturing PMI remained in slightly contractionary territory (Manuf. PMI January, a: 49.5, c: 49.3, p: 49.4).

***In Turkey,*** the CBT cut its inflation forecasts to 14.6% (p: 15.2), due to: lower oil prices; stable TRY performance; a larger output gap.

Monetary Policy: Global Monetary Tightening Remains On Hold

***In the US,*** the **Fed left interest rates unchanged** (a: 2.5%, p: 2.5%), and surprised the markets with a dovish stance, as it: *i)* stated its “intention to remain patient about further rate hikes and flexible on balance sheet normalization”; and *ii)* removed the reference to “further gradual rate increases” (present in December’s statement), acknowledging downside risks.

***In Turkey,*** the CBT committed to a tight monetary policy until there is a ‘convincing’ decline in inflation.

***In EMs,*** CBs in South Korea, Malaysia, and Indonesia kept rates unchanged.

Financial Markets: The “Fed Put” Is Back, Driving A Positive Asset Performance

Supported by a dovish Fed, global stocks and bonds rallied, regaining early-December levels.

***Global stocks rose w-o-w*** (MSCI ACWI, +1.4%) driven by the US (S&P 500, +1.6%), and EMs (MSCI EMs, USD +1.7%). Volatility decreased below its 52w and 10y averages (VIX S&P 500, -1.3 points to 16.1, 52w avg.: 17.8; 10y avg.: 18.2). ***In the GCC,*** the MSCI and Saudi Stock Exchange (Tadawul) launched the ‘MSCI Tadawul 30 Index’, which comprises the 30 largest KSA listed securities, marking a significant step towards the creation of a derivatives market.

***Fixed-income indices rose*** (BAML Global bond index, +0.4%), driven by the US (Reuters US bond index, +1.0%). Sovereign bond yields fell across DMs, in particular in the US (10y yield, -6 bps to 2.69%), the UK (-6 bps to 1.25%), Switzerland (-5 bps to -0.24%) and Germany (-3 bps to 0.17%). In international debt markets, inflows to EM bonds persist (USD8.2bn, y-t-d); MENA shows strength: y-t-d, the supply stands at USD9.1bn; ye, 75.4bn were issued in 2018, compared to 86.4bn in 2017, 62.02bn in 2016 and 27.80bn in 2015.

***Currencies:*** w-o-w, the USD fell against a basket of currencies (DXY, -0.2%) and the EUR (EUR/USD, +0.4% to 1.145). Rising Brexit risks weakened the GBP (GBP/USD, -0.9% to 1.308).

***Commodities: Brent prices rose*** by 1.8% to 62.8 USD/b, following: *i)* a decline in the US rig count; and *ii)* concerns about the potential collapse of Venezuela’s exports.

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*The picture in the front page comes from [this website](#)*



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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	NAFTA	North-American Free Trade Agr.
bpd	Barrels per day	NATO	North Atlantic Treaty Organizat.
bps	Basis points	OECD	Organization for Economic Cooperation and Development
BS	Balance sheet	Opec	Organization of Petroleum Exporting Countries
c	Consensus	p	Previous
C/A	Current account	P2P	Peer-to-peer
CB	Central bank	PBoC	People's Bank of China
CBB	Central Bank of Bahrain	PCE	Personal Consumption Expenditures
CBK	Central Bank of Kuwait	PE	Price to earnings ratio
CBT	Central Bank of Turkey	PM	Prime minister
CDU	Christian Democratic Union, Germany	PMI	Purchasing managers' index
CNY	Chinese Yuan	pps	Percentage points
CPI	Consumer Price Index	pw	Previous week
DJIA	Dow Jones Industrial Average Index	QCB	Qatar Central Bank
DJEM	Dow Jones Emerging Markets Index	QAR	Qatari Riyal
d-o-d	Day-on-day	QE	Quantitative easing
DXY	US Dollar Index	q-o-q	Quarter-on-quarter
EC	European Commission	RE	Real estate
ECB	European Central Bank	RBA	Reserve Bank of Australia
ECJ	European Court of Justice	RRR	Reserve Requirement Ratio
EIA	US Energy Information Agency	RUB	Russian Rouble
EM	Emerging Markets	SWF	Sovereign Wealth Fund
EP	European Parliament	tn	Trillion
EPS	Earnings per share	TRY	Turkish Lira
EU	European Union	UAE	United Arab Emirates
EUR	Euro	UK	United Kingdom
EZ	Eurozone	US	United States
Fed	US Federal Reserve	USD	United States Dollar
FOMC	US Federal Open Market Committee	USD/b	USD per barrel
FRB	US Federal Reserve Board	UST	US Treasury bills/bonds
FX	Foreign exchange	VAT	Value added tax
FY	Fiscal Year	VIX	Chicago Board Options Exchange Volatility Index
GCC	Gulf Cooperation Council	WTI	West Texas Intermediate
GBP	British pound	WTO	World Trade Organisation
GDP	Gross domestic product	w	Week
IMF	International Monetary Fund	w-o-w	Week-on-week
INR	Indian Rupee	y	Year
IPO	Initial public offering	y-o-y	Year-on-year
IRR	Iranian Rial	y-t-d	Year-to-date
JPY	Japanese yen	ZAR	South African Rand
k	thousand	2y; 10y	2-year; 10-year
KSA	Kingdom of Saudi Arabia		



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