

## MAKING SENSE OF *THIS* WORLD

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### **Munich Security Conference Reveals The Shifting Tectonic Plates of Global Geopolitics**

During the weekend, the annual [Munich Security Conference](#) was held in the capital of Bavaria, Germany's richest state. Media outlets extensively reported on the key proceedings of the conference, which this year focused on the concept of "Westlessness"; i.e., on whether the world has become less Western. This is a concept they also studied in depth [in their annual report](#). As long as the "West" is defined by the alliance between North America and Europe, along with the key additions of Australia and New Zealand (part of the so-called Five Eyes), clearly the last few years have observed a marked deterioration in this relationship, and in particular of NATO, the military alliance underpinning it.

US Secretary of State [Mike Pompeo came to Munich to reassure those present that NATO is alive and well](#), and that it is ready to deploy its benefits to its constituent countries. Pompeo specifically said that he was "*happy to report that the death of the transatlantic alliance is grossly exaggerated. The West is winning, and we're winning together.*" However, only in November 2019, [Pompeo himself warned that NATO was risking extinction unless it adapted itself to reality](#). This happened at the same time as French President Emmanuel Macron was reported as saying that [NATO was brain-dead](#). So, what's the current state of the transatlantic alliance, in reality?


It is true that NATO is still alive, but its cohesion has been severely tested recently. Trump has just [approved a series of tariffs on the Europeans](#), following the WTO ruling on EU's aid to Airbus in that company's long dispute with Boeing. (Italy, which does not belong to the Airbus consortium, got [exempted from these tariffs, thanks to their own successful bilateral negotiations](#)). Other tariffs aimed at the auto sector are also being considered by the [Trump administration at the moment](#), after being [delayed by six months in May 2019](#). In a few months, when the WTO will likely rule in favour of Airbus and the Europeans will be able to impose retaliatory tariffs on the US, we might be at the beginning of another tit-for-tat trade war, similar to that we have been observing between US and China in the last three years.

*Within* Europe, the situation is, at best, fluid. The UK has just left the EU, imposing a severe level of damage onto the geopolitical standing of the continental bloc, as discussed by John Hulsman [in his recent analysis](#). PM Johnson is now mostly committed to establish his leadership within Whitehall, as the [recent reshuffling of his government proves](#). What is left of the EU is in flux. *In Germany*, the decision by Annegret Kramp Karrembauer not to run for Chancellor at the next federal election has completely ruined Angela Merkel's succession plans. As we discussed in our analysis of the German political scene, under certain circumstances, this might eventually lead to a desirable outcome, for example a Green-Black coalition. On the other hand, it might make Germany even more inward-looking and undecided as to how to exert its leadership on the continent. And Germany is absolutely needed by French President Macron if he wants any of his grandiose plans for the future of Europe to ever become a reality. As we [discussed in our recent trip report](#), both the social and political opposition to Macron are weak or weakening, paving the way to his re-election in 2022 (bar a global economic crisis occurring in the meantime). But without its German dance partner, there is very little France will be able to do. So, the West might be still in the position of taking on China, weakened by the impact that the Coronavirus might have on the Chinese economy and on the legitimacy of its regime. But the West needs to find a new sense of unity if it wants to win the battle for the geo-strategic hegemony of the future. At a time when [China is trying to reach out to the Europeans](#), to convince them to break ranks with their historical US ally, and with Trump not hiding his distaste for the EU concept, this might be easier said than done.

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Looking Ahead

The Week Ahead: EZ's Economic Sentiment Is Expected To Rise, GDP Is Expected To Fall Sharply In Japan

**In the EZ**, February's economic sentiment is expected to rise to 30.0 (p: 25.6), while consumer confidence is likely to remain in contractionary territories at -7.8 (p: -8.1).

**In Japan**, annualized GDP for Q4-2019 is expected to fall sharply to -3.7% y-o-y (p: 1.8%), while December's IP is expected to remain unchanged at -3.0% y-o-y.

**In China**, the PBoC is expected to cut its loan prime rate by 20bps to 3.95% (p: 4.15%).

**In Turkey**, the CBT is also expected to cut its one-week repo auction rate by 25bps to 11.00% (p: 11.25%) – bringing borrowing costs to the lowest level since 2018.

The Quarter Ahead: COVID-19 To Weigh Of Economic Activity. Democrats' Primaries Continue In The US

**Globally, the outbreak of COVID-19:** 1) will hit the global tourism industry: according to "China Tourism Academy", in 2019 Chinese overseas: i) accounted for 150mn trips; and ii) spent USD130bn in 2018, up 13% from the previous year; and 2) could negatively impact the recently signed "phase one" US-China trade agreement: according to White House officials, "the outbreak could cause China to buy fewer US agricultural products this year", causing further disruption in global supply chains.

**In the US**, Senator Bernie Sanders beat his rivals in the New Hampshire primary – a step further in the tight race for the Democratic presidential nomination; to date, eight candidates remain in the contest.

**In the US**, according to Fed's Chairman Powell "the US economy is in a very good place" but "it would be advisable to reduce the federal budget deficit" (expected to top USD 1tn) in 2020. The markets keep expecting the Fed to cut rates sooner than announced: the probability of 'one or more' rate cut in 2020 stands at 82%.

**In the EZ**, ECB's President Christine Lagarde stated: "monetary policy cannot, and should not, be the only game in town", warning that "as long as monetary policy remains accommodative, the risk of side effects will increase". Furthermore, she asked governments to stimulate the economy, remarking that "fiscal policy could be highly effective in a low interest environment".

For the first time in a decade, **oil demand** is likely to shrink, as China's economic slowdown – brought about by the COVID-19 outbreak – will inevitably contribute to a fall in oil demand in Q1-2020.

**In Lebanon**, the new government made a request for technical assistance to the IMF, in order to: i) secure urgent aid; and ii) gain credibility to cope with a raging financial crisis. Lebanon needs external funding to implement fiscal reforms that would: i) reduce its deficit; ii) revamp an ailing electricity sector; and iii) decrease its public debt – estimated at 155% of GDP.

Last Week's Review

Real Economy: The Coronavirus Outbreak Constraints The Recovery, Geopolitical Risks Ease

**In the US**, January's CPI rose in-line with consensus to 2.4% y-o-y, (c:2.4%; p:2.3%), while core CPI fell to 2.2% y-o-y (c:2.2%; p:2.3%).

**In the EZ**, December's IP fell by -4.1% y-o-y, more-than-expected (c: -2.3%; p: -1.7%) – the largest contraction since November 2009; in February, investor confidence declined to 5.2 (c: 4.0; p: 7.6).

**In China**, CPI inflation rose above expectations, to 5.4% y-o-y (c: 4.9%; p: 4.5%), the highest rate since October 2011 - due to: i) rising pork prices; ii) strong demand during the Lunar New Year holiday; and iii) the ongoing outbreak of coronavirus (COVID-19).

**In Sweden and New Zealand**, both CBs kept their key policy rates unchanged at 0.0% and 1.0%, respectively.

Financial Markets: Stocks Kept Rallying, Volatility Fell Below 15. Bonds Flat, Oil And Gold Rose

**Market drivers:** A sharp rise in COVID-19 cases casted doubts on reporting accuracy, hampering "risk-on" sentiment. Yet, the markets showed resilience, with equities hitting new highs.

**Stocks:** w-o-w global indices rose (MSCI ACWI, +1.1% to 580), driven by DMs (S&P 500, +1.6% to 3,380; Eurostoxx 50, +1.1% to 3,841). Volatility fell below 15 (VIX S&P 500, -1.8pts to 13.7; 52w avg.: 14.8; 10y avg.: 16.7), showing trust in China's growth prospects.

**Bonds:** safe-haven bonds remained well in demand w-o-w: while returns remained flat (BAML Global, +0.1% to 289.4), the UST yield staid at recent lows (10y UST, +1 bps to 1.59%).

**FX:** w-o-w, the USD rose further (DXY, +0.4% to 99.124), underpinned by positive economic data and safe-haven flows, while the EUR hit a new 52w low (EUR/USD, -1% to 1.083), due to weak economic data and political concerns in Germany. In EMs idiosyncratic factors weighed on both ARS and TRY.

**Commodities:** Oil prices recorded their first weekly gain since early-January (Brent, 5.2% to 57.3 USD/b), as the market shook off COVID-19-related concerns, betting on Chinese stimulus in case of economic slowdown. Gold rose w-o-w (Gold, +0.9% to 1,584 USD/Oz), as "safe-heaven" demand keeps fueling market appetite.



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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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