



R&R Weekly Column
By Brunello Rosa



Tech Wars Are Raging, And They Involve The Financial Industry

We have [often discussed](#) how a key component of the ongoing [Cold War II](#) is a technological conflict between the incumbent dominant power (the US) and the rising star (China). Last week, US microchip producer Intel, for decades the undisputed leader in its sector, [announced that it had fallen behind its development plans by at least one year](#), thus leaving its main competitor, TSMC a Taiwan-based company, as the leader in its field. This has been read by some analysts as the latest confirmation of the US losing its dominant position in technology, an area that for decades was the ultimate key to American success.


But this is only the last episode of a [much wider saga](#). In particular, the battle for the distribution of 5G technology represents a significant front in the ongoing tech wars. Recently, the UK has also joined its fellow countries of the Five Eyes (US, Canada, Australia and New Zealand) [in the broader Anglosphere](#), with the decision to [gradually phase out Huawei](#) in the provision of technology for the 5G British network. This was a decision that came after [repeated and heavy pressures were placed on PM Boris Johnson by the US](#).

In this raging tech war, we must note the impetus that the Coronavirus pandemic has given to cyber-wars, as we discussed in our recent two-part report on the subject. [Part 1 of that report focused on US and international developments](#), [Part 2 focused on national developments in Russia](#), EU, Israel and China. The rapid increase in digital technologies that has occurred in order to provide business continuity during the long months of widespread lockdowns has made most countries, institutions and companies much more vulnerable to cyber attacks than was already the case before the pandemic began. In the future, we will have to assume that the failure of diplomatic avenues in any serious dispute between countries could result in one of those countries carrying out a cyber attack. Such attacks will, perhaps, be launched by non-state entities at the behest of a state, in order to provide that state with “plausible deniability”.

These technological developments will certainly impact traditional areas of finance as well, such as banking. As we have discussed in our recent [in-depth report on the future of the banking industry](#), traditional lending institutions already find themselves under siege by fin-tech developments coming from the private sector. On the other side of the spectrum, [central bank digital currencies](#) (CBDCs) developed by the public sector will pose an additional threat to the traditional business model of financial institutions. Both sides will continue to squeeze banks in the middle. Given the widespread use of digital technologies, [fin-tech developments will continue unabated](#) in their aim of increasing efficiency and granting access of financial services to larger segments of the population which otherwise have little exposure to financial services. Central banks (with China and Sweden leading the race) will continue their journey to the eventual adoption of CBDCs, which are [seen as the key to solving the next systemic crisis](#).

Traditional banks will have to adapt their *modus operandi* to fit this radically changed environment. As we discuss in our report, the key elements of their new business model will have to be digitalisation, a consumer-centricity, and further specialisation regarding local needs. This will be a process that will surely lead to further consolidation in the industry, with fewer players left on the battleground afterwards.

Our Recent Publications

 [The Future Of Banking: Consolidated, Local and Digital](#),
by Alessandro Magnoli Bocchi, Farah Aladsani and Fawaz
Sulaiman Al Mughrabi, 24 July 2020

 [National Developments in the Pandemic's Boost in Global Cyber-Wars \(Part 2\)](#), by Marco Lucchin, 21 July 2020



Looking Ahead

The Week Ahead: GDP Data Set To Show An Extraordinary Fall in US and EZ, While Fed Policy Remains On Hold

Q2 GDP figures will record the extent of lost output due to widespread lockdown measures in both: *i)* the US (c: -34.0% q-o-q annualized; *p:* -5.0); and *ii)* the EZ (c: -12.0% q-o-q; *p:* -3.6).

In the US, the Fed is expected to keep its policy stance unchanged as it wraps up the review of its 'strategy, tools, and communications'.

The Quarter Ahead: US-China Relations To Deteriorate, As EU Recovery Fund Will Provide Global Safe Assets

Rising US-China tensions risk undoing January's trade deal; Mr. Trump stated 'the deal means less now than when [it was] made'. The arrest of two Chinese nationals - for spying on US businesses and researchers - 'represented the tip of the iceberg after years of US frustration towards China's espionage'. As a result, US officials gave China three days to close the consulate in Houston. China rejected all accusations and retaliated by ordering the closure of the US consulate in Chengdu—a key outpost for monitoring events in Tibet. A collapse in the trade deal could lead to another round of: *i)* tit-for-tat tariffs; and *ii)* sanctions that will damage both economies as they start to recover from the pandemic.

Following the recent uptick in 'jobless claims', Republicans stated they 'would consider' extending 'some emergency jobless benefits' past their expiry next week. However, the White House and Republicans have yet to reach an agreement on the scope of the USD 1tn stimulus package, including whether to include: *i)* a payroll tax cut; *ii)* additional funding for testing and tracing; as well as *iii)* the distribution of the vaccine—if eventually discovered. The final approval of the stimulus will face difficulties as the Democratic-controlled House of Representatives, which passed a USD 3tn recovery bill in May, is unlikely to accept a much smaller package.

EU lawmakers approved a bond-financed EUR 750 recovery fund, composed of: *i)* 390 bn in grants; and *ii)* 360 bn in low-interest loans. The new bonds will likely: *i)* come to market in mid-2021; *ii)* be issued in a range of maturities; and *iii)* have a 10-year benchmark rate between German and Italian yields.

Last Week's Review

Real Economy: US Job Recovery Slows, Geopolitical Risks Rise, Central Banks Remain Accommodative

In the US, 'initial jobless claims' for the week ending July 18 rose for the first time since March (*a:* 1.48m; *c:* 1.30m; *p:* 1.38m), due to the re-imposition of restrictive measures—following a resurgence of COVID-19 infections.

In Developed Markets, in July, PMIs—a gauge of 'm-o-m change' and not of the 'extent of the recovery to pre-virus levels'—improved across DMs in the manufacturing sector (US, *a:* 51.3; *c:* 51.5; *p:* 49.8; EZ, *a:* 51.1; *c:* 50.0; *p:* 47.4; Japan, *a:* 42.6; *p:* 40.1).

In the US and Japan, services PMI pointed to the sixth m-o-m contraction (US, *a:* 49.6, *c:* 51.0; *p:* 47.9; Japan, *a:* 45.2; *p:* 45.0).

In the EZ, services PMI exceeded expectations (*a:* 55.1; *c:* 51.0; *p:* 48.3), as eased lockdown measures led to a demand bounce back.

In South Korea, the economy fell into a recession—as GDP recorded its worst performance since the 1998 Asian financial crisis (Q2 GDP, *a:* -3.3% q-o-q; *c:* -2.3; *p:* -1.3). South Korea's export figures—often seen as a bellwether for global trade—dropped by -16.6% q-o-q, given weak demand for cars and petrochemicals.

In Japan, June CPI inflation stood at a 3-year low: 0.1% y-o-y (*c:* 0.3; *p:* 0.1). Core CPI—which in Japan only excludes fresh food—remained flat (*c:* 0.0; *p:* -0.2), as lower declines in energy prices kept the index out of negative territory.

In Turkey, as expected the Central Bank of Turkey left the one-week repo rate unchanged at 8.25%, as policymakers took a cautious approach—after facing a recent rise in inflation.

Financial Markets: Risk-Off Sentiment Hits DM Equities; Bonds Rise Mildly; Oil Flat, Gold Spikes

Market drivers: geopolitical tensions and global growth concerns drove demand for haven assets.

Equities: w-o-w, global stocks remained flat (MSCI ACWI, 0.0%, to 548) while DM equities weakened (S&P 500, -0.3%, to 3,216; Eurostoxx 50, -1.6% to 3,311). EM equities rose (MSCI EMs, +0.5%, to 1,060).

Fixed income: w-o-w, global debt indices had positive returns (BAML Global, +0.4% to 298). The agreement on the EU recovery fund supported a rally in periphery yields (10y Italian bonds, -17 bps to 1.07%; 10y Spanish bonds, -9 bps to 0.34%).

FX: w-o-w, the USD weakened against a basket of currencies (DXY, -1.6% to 94.435). Reserve currencies (EUR/USD, +2.0% to 1.165; USD/CHF, +1.9% to 0.921) and EM FX (MSCI EMs FX, +0.2% to 1,607) strengthened. Yet, investors are likely to keep the USD supported, amid: *i)* a fragile geopolitical environment; *ii)* negative real rates; and *ii)* super-accommodative monetary policy.

Commodities: Oil prices rose marginally (Brent, +0.5% to 43.3 USD/b). For the first time since 2011, gold rose above 1,900 USD/oz (Gold, +5.1% to 1,901 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



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