



R&R Weekly Column
By Brunello Rosa



The World Is Rapidly Changing As A Result Of The Covid-Induced Crisis

A few weeks ago we warned that the world will look very different after Covid from how things were at the end of 2019. Some of the changes we envisioned are already occurring.

We mentioned how *China* would try to use the crisis to make geo-strategic gains relative to its rivals, primarily the US and, more broadly, the Anglosphere. In this respect, the new more assertive geopolitical stance taken by China was visible in the military exchange that occurred between China and India in the disputed territories of the Himalayas. This direct military confrontation risks pushing India more towards the US sphere of influence, at a time when US President Trump has already expressed sympathy towards authoritarian or nationalistic leaders like Narendra Modi.

But the geopolitical confrontation between China and the Anglosphere is occurring on other fronts as well. As we discussed in a recent column, the blame game over the origin of the Covid-19 pandemic must be interpreted as part of a wider containment strategy with regard to China, a strategy which also includes the probable decision by the UK government to gradually phase out Huawei from its 5G network, following similar steps already taken by both the US and Australia.

Meanwhile, the US is still mired in the middle of a surge in Covid-19 cases, with erratic management of the crisis by US President Trump. The US now has about one quarter of the 11 million cases of Covid recorded worldwide. As a result, the EU, which has just re-opened its external borders, has excluded the US from the list of countries from which citizens can arrive without having to undergo a period of quarantine. The US is about to enter one of the most heated presidential elections in its history, with Trump already openly speaking of “rigged” elections, alleging irregular vote-by-mail schemes and ballots printed by foreign countries. There is even the risk that, unless the Democratic candidate Joe Biden obtains a large majority in the electoral college, the president will refuse to accept the result of the election and will not leave the White House in January 2021.

In the middle of the US and China, there is always Europe, which is trying to overcome its many contradictions. As we discussed in our recent in-depth analysis, the EU is in the middle of a difficult negotiation regarding the Recovery and Resilience Fund, with the Frugal Four (Sweden, Denmark, Austria and Netherlands) asking for much stricter conditionality attached to any funds sent to the countries that have been most impacted by the crisis, primarily Italy and Spain. In a recent interview, Greek PM Kyriakos Mitsotakis said that he will not accept the approval of a recovery instrument with too much additional conditionality compared to regular fiscal coordination and surveillance.

In our analysis we also discussed the national implications of such a deal, in particular in France. There, President Emmanuel Macron decided to sack Prime Minister Edouard Philippe, following the defeat of the president’s party in the local elections last week. He substituted Philippe, who had become more popular than the president for his good management of the Covid emergency, with Jean Castex, another “Enarque” who advised the president on the re-opening of the economy post-lockdown. These movements, apparently simple domestic politics, are of the greatest importance ahead of the 2022 Presidential election. As we have said many times before, if Macron does not win a second mandate, the entire European integration project could be in serious jeopardy.

Our Recent Publications

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- 📄 **GEOPOLITICAL CORNER: The Great Powers of Asia**, by John Hulsman, 30 June 2020

Looking Ahead

The Week Ahead: The US, EZ and China Are Slowly Recovering

In the US, July's ISM Non-Manufacturing PMI is expected to return closer to the 50-benchmark (c: 49.5; p: 45.4), while 'initial jobless claims' for the week ending on July 3 are likely to rise at a slower rate (c: 1.375m; p: 1.427m) – in line with recent trends.

In the EZ, retail sales are expected to improve in May, yet remaining in negative territories (c: -7.5% y-o-y; p: -19.6%).

In China, CPI inflation is expected to have risen to 2.5% y-o-y in June (p: 2.4%).

The Quarter Ahead: Survey Data Suggests A Very Gradual Recovery For Global Economic Activity

While global economic activity is rebounding, in most countries survey data remain significantly below pre-virus levels, suggesting a very gradual recovery of both demand and supply.

In the US, the rapid rise of virus infections is hampering recovery prospects. As a result, the White House "will seriously consider a second stimulus payment", Treasury Secretary Steve Mnuchin said. Over the next two weeks, the WHO will announce the results of clinical trials "assessing the effectiveness of different virus treatments".

The US-China relationship keeps deteriorating, due to: i) the ongoing blame game over the virus' genesis; ii) growing tensions over Hong Kong national security legislation. As tensions rise between China and India, Chinese mobile manufacturers are becoming cautious about investing in India.

Widespread protests over racial injustice and President Trump's ineffective response to the COVID-19 crisis are hampering the November election incumbent's prospects against Democrat Joe Biden. According to most political analysts, to change the electoral landscape President Trump could "create an October surprise", such as "creating an international crisis" with North Korea's leader Kim Jong-un or Russian President Vladimir Putin. The EU declined to include the US in its list of "safe countries", banning US travelers for the foreseeable future. The Fed Chair Powell highlighted that "the economic recovery is underway", pointing to "improved May employment and retail sales figures"; however, he warned about possible future virus outbreaks and called "all levels of government" to provide fiscal policy support for as long as necessary.

Last Week's Review

Real Economy: Labor Markets Improve But CBs Remain Cautious. COVID-19 New Cases Rise

In the US, in June: i) the economy added 4.8m jobs (c: 3.0m; p: 2.7m), the most on record; ii) average hourly earnings increased below-consensus, by 5.0% y-o-y (c: 5.3%; p: 6.6%) - as job gains among lower-paid workers put downward pressure on earnings; iii) the unemployment rate dropped to 11.1% (c: 12.3%; p: 13.3%), easing further from the April all-time high of 14.7% - as workers returned to the labor market after weeks of virus-induced restrictions; and iv) in the week ending on June 27, initial jobless claims fell to 1.427m (c: 1.355m; p: 1.482m), steadily away from the record high of 6.86m of the week ending on March 28th, but above market expectations.

In the EZ, the unemployment rate edged up to 7.4% in May (c: 7.7%; p: 7.3%) but remained below-consensus, as the labor market remains supported by: i) governments' measures to protect jobs; and ii) an increase in the number of inactive people.

In Japan, the unemployment rate rose to 2.9% in May (c: 2.8%; p: 2.6%) – the highest rate since May 2017.

The Swedish Riksbank: i) kept its interest rate unchanged at 0.00% as expected; ii) extended lending to banks; and iii) increased asset purchases "from SEK 300bn to SEK 500bn up to the end of June 2021".

Financial Markets: Equities And Oil Up, Bonds And Gold Flat; Investors To Monitor Virus Growth.

Market drivers: investors will monitor if a 'relaxing of restrictions' can lead to: i) virus resurgence and ii) lockdowns re-imposition. As a result, virus infection numbers will drive the markets. Last week, triggered by vaccine-hopes and improving economic data, global stocks surged (MSCI ACWI, +3.2%, to 532); the S&P 500 jumped to its highest level since June 10 (+4.0%, to 3,130). EZ stocks rose (Eurostoxx 50, +2.8% to 3,294). Gains in China (Shanghai Comp., +5.8%, to 3,135) drove EM stocks (MSCI EMs, +3.4% to 1,033).

Bonds: w-o-w, global fixed-income stalled (BAML Global, 0.0% to 295.5), as well as DM yields (10y UST, +3bps to 0.67%; German bunds, +5bps to -0.43%).

FX: w-o-w, the USD weakened against other currencies (DXY, -0.3% to 97.172), except the JPY (USD/JPY, -0.3% to 107.500).

Commodities: in Q2, after falling to record lows in April, oil prices registered their best quarterly performance in 30 years; for first time in 4 months, the OPEC basket oil price rose above 40 USD/bl (Brent, +4.3% to 42.8 USD/b). Gold maintained its safe-haven appeal (+0.2% to 1,775 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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