



R&R Weekly Column
By Brunello Rosa



The Signing of RCEP Signals That Globalisation Is Not Dead

In mid-November, [the member states](#) of the Association of Southeast Asian Nations (ASEAN), together with Australia, China, Japan, South Korea and New Zealand signed the [Regional Comprehensive Economic Partnership \(RCEP\) Agreement](#). The Agreement will improve market access with tariffs and quotas eliminated in over 65% of goods traded and make business predictable with common rules of origin and transparent regulations, upon entry into force. The RCEP is likely to be the one of the largest free trade agreements in history. It will cover “a market of 2.2 billion people, with a combined size of US\$26.2 trillion or 30% of the world’s GDP,” according to its signatories.


Most importantly, the agreement signals that although globalisation may be not be in the greatest shape, it is not dead. It should not come as a surprise that the signing of the agreement came around two weeks after [the US presidential election that have brought back an internationalist president such as Joe Biden to the White House](#). Biden was among the architects of the defunct Trans-Pacific Partnership (TPP), which was [resurrected by Japan’s PM Shinzo Abe](#) under the name of [Comprehensive and Progressive Agreement for Trans-Pacific Partnership](#).

In fact, after four years in which the Trump administration has worked to demolish the international order created by Republican and Democratic presidents alike over the past few decades – pulling out the US of the [Joint Comprehensive Plan of Action with Iran](#), the [Paris agreement on climate change](#), the above-mentioned TPP, NAFTA with [Mexico and Canada](#), [the World Health Organization](#), and withdrawing US soldiers from the Middle East and Afghanistan and even from [NATO member states such as Germany](#) (to take just a few examples) – the new administration will likely try to reassert the US role in the world as being the cornerstone of globalisation. This is happening at a time in which even a Conservative government in the UK, just about to pull out of the EU, [is signing trade deals with Japan and Canada](#).


As discussed [in our recent report](#), while Biden will try to undo some of the damage made to the international position and reputation of the US by his predecessor (just as Trump tried to undo what he thought were the mistakes of the Obama administration), he would nevertheless be making a mistake if he simply tried to turn the clock back by a few years and ignore what has happened in the world in the meantime. The backlash against globalisation has been real, even if represented by unlikely champions such the billionaire Trump. In France, [the Gilet Jaunes protests has threatened a globalist leader such as Emmanuel Macron](#), while around the world [autocratic and protectionist leaders have emerged](#). Biden will have to take into account the events of the last few years if he wants to succeed on the world stage of today.


In any case, the Covid pandemic has [balkanised the global supply and value chains, fostered protectionism and led to border closures](#). The damage caused to the global economy is immense, and its social consequences will be felt for years to come. It is impossible to think of an enduring recovery without a reopening of the economy and relaunching of international travel and trade. Globalisation has had plenty of flaws, [and caused endless discontent](#), but it has managed to take hundreds of millions of people out of poverty, especially in Asia. That is a fact the newly signed RCEP agreement makes abundantly clear.

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Looking Ahead

The Week Ahead: US and EZ Unemployment Rates Are Expected To Remain Flat

In the US, while November non-farm payrolls are expected to fall to 500k (p: 638k), the unemployment rate is expected to remain unchanged at 6.7% (p: 6.9%).

In the EZ, October's u/e rate is expected to stay flat at 8.4% (p: 8.3%); yet, retail sales are expected to increase by 2.9%y-o-y (p: 2.2%).

In Japan, October's IP is expected to decline further to -14.5% y-o-y (p: -0.9%), but retail sales are expected to ease to -7.7% y-o-y (p: -8.7%).

The RBA is expected to keep its policy rate unchanged at 0.10%.

The Quarter Ahead: Global Economy To Benefit From Vaccine Distribution And Political Stability; CBs To Stay Dovish

Despite near-term uncertainty, 'risky assets' are likely to outperform 'safe havens', as - led by consumer spending in the US and China - the global economy improves, lifting inflation expectations.

In the US, the head of the US government's "COVID-19 vaccine task force" announced that *"the first doses will hopefully be administered by mid-December"*. The plan is to ship vaccines to immunization sites within 24 hours of FDA's approval on December 11. The transition to President-elect Joe Biden's presidency has officially started, as President Trump acknowledged he will *"leave the White House if Mr. Biden's win is confirmed by the Electoral College"*. In the meantime, President-elect Biden is likely to appoint the former Fed Chair Ms. Janet Yellen to the post of Treasury Secretary.

Still in the US, Fed officials: 1) discussed plans to provide clearer information about *"how long they will keep purchasing USTs and MBSs"*, by explicitly linking the 'stimulus-time frame' to economic conditions; 2) declared they are prepared to roll out the revised guidance *"as soon as the next meeting"*; and 3) considered ways to provide more stimulus to the economy, if needed.

In the EU, face-to-face Brexit talks will resume between the EU and UK. The chief Brexit negotiator Mr. Michel Barnier stated: *'the virtual talks last week were largely fruitless'*.

In Saudi Arabia, Crown Prince Mohammed bin Salman stepped up the efforts to resolve the 3-year old dispute with Qatar, to show a conciliatory approach to the incoming Biden administration.

In Iran, the assassination of a top nuclear scientist was blamed on *"terrorists"*, with *"serious indications of Israeli involvement"* – making efforts to restart diplomacy even more difficult for US President-elect Joe Biden.

Last Week's Review

Real Economy: Vaccines Upcoming, But The Recovery Is Hindered By Lockdown Measures

In US, November PMI data pointed to a sustained recovery, as: i) manufacturing edged higher to 56.7 (c: 53.0; p: 53.4); and ii) services continued to expand, to 57.7 (c: 55.0; p: 56.9). Yet, in the week ending on November 21, the number of Americans filing for unemployment benefits rose to 778k (c: 730k; p: 748k). October's durable goods expanded by 1.3% m-o-m (c: 0.9%; p: 2.1%), marking the sixth consecutive month of gains. PCE fell to 1.2% y-o-y (p: 1.4%), and core-PCE – the Fed's preferred inflation gauge – eased to 1.4% y-o-y (c: 1.4%; p: 1.6%).

In the EZ, November's PMI data showed: i) manufacturing declining to 53.6 (c: 53.1; p: 54.8); and ii) services falling to 41.3 (c: 42.5; p: 46.9), pointing to the steepest month of contraction since May, as countries introduced more aggressive measures to counter rising coronavirus cases.

Sweden's Riksbank kept its policy rate unchanged at 0% but expanded asset purchases from SEK 500bn to *"up to SEK 700bn"*, until December 2021.

Financial Markets: Stocks Reach New Highs, Volatility Falls; Bonds Flat, Oil Up, Gold Down

Market drivers: a new round of 'vaccine optimism' and diminishing political uncertainty helped equity markets build on recent gains. As a result, **global stocks rose w-o-w** (MSCI ACWI, +2.3%, to 624) with the S&P 500 hitting a new record high (+2.3%, to 3,638). Volatility fell (20.8; p: 23.7) to February levels. In Europe, shares rose (Eurostoxx 50, +1.7%, to 3,528) for a fourth consecutive week, fueled by: i) positive vaccine developments; ii) fading US election uncertainties; and iii) expectations that the US Congress may reach a 'stimulus compromise'.

Fixed income: w-o-w global bonds remained flat (BAML Global, 0.0% at 299.2), with UST yields modestly higher (UST, +1 bps, to 0.84%).

FX: w-o-w, the USD index weakened against other currencies (DXY, -0.7%, to 91.790; EUR/USD, +0.9%, to 1.196). The TRY fell by -2.6% to 7.833, after the CBT simplified credit channels.

Commodities: prospects of an OPEC+ production cut extensions lifted oil prices (Brent, +7.2% to 48.2 USD/b). As optimism about the recovery grew, gold kept falling (-4.4% to 1,788 USD/Oz.).



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The picture in the front page comes from [this website](https://www.gettyimages.com/detail/photo/young-woman-looking-out-window-royalty-free-image)



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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