



R&R Weekly Column
By Brunello Rosa



The Cyberspace-Physical Space Continuum

Cyberspace has become just another dimension of our physical environment. The Covid-19 global pandemic, in [forcing billions of people to limit their physical interactions](#), has shown how many activities can be moved to the cyberspace, including those that traditionally were aimed at increasing social networking, such as conferences and seminars. The global economy has become very much dependent on the well-functioning of cyberspace. At a time in which physical interaction is de-facto forbidden, a crash in the digital world would have severe economic and social repercussions. Yet last week [one of the worst cyber-attacks in recent history](#) was reported by many US federal agencies. Microsoft was also reported to be exposed to this attack.

In geopolitics, the continuity between the cyberspace and the physical environment has become equally evident. Cyber-security has become the buzzword in this field; [national security threats mostly come from technological developments](#). It is well known that the [ban on 5G technology coming from Huawei and ZTE by the US and their allies](#) was based on geo-strategic considerations. In this respect, the examples of *Stuxnet* and *NotPetya* are illuminating. *Stuxnet*, a computer worm directed against uranium-enriching centrifuges in Iran, has been considered the [“world’s first digital weapon.”](#) The *NotPetya* attack against Merck and its clients and suppliers was, similarly, referred to as being [akin to an “act of war.”](#)


Following these developments, the concept of “Digital Sovereignty” has emerged. The contest over the ownership of data (the “oil” of the digital era) could lead to cyber-wars in the 21st century. [Finding international rules in this very sensitive field](#) is imperative if we want to keep a peaceful geopolitical environment, in cyberspace as well as in the tangible world. [Most countries are developing their “cyber armies” to defend cyberspace](#), which has become in effect the fifth dimension in national security programs, together with land, sea, air and extra-terrestrial space.


But technology is also a formidable enabler of positive developments for mankind. [In our most recent FIN-TECH report, written along with Klecha & Co.](#), we discuss how technology could be the vehicle to fast-tracking further European integration, for example. We discussed how one of the key goals of the Von Der Leyen Commission is to [promote the digital transformation of EU countries](#). The [new Recovery and Resilience Facility](#) also requires that around a third of investments will be aimed at increasing the digitalisation of economic activities. And the European Central Bank has just launched [a report on the possible adoption of a digital euro](#) as a way of accelerating the process of European banking union.

In the geo-strategic arena, with the role of NATO coming under increasing scrutiny even in the US, the Europeans know that they will need to increase their military cooperation if they want to find a niche space in the developing [Cold War between US and China](#). In this respect, the launch of the military Permanent Structured Cooperation (PESCO) among European countries and of [the European cyber-security agency](#) (ENISA) represent crucially important first steps.


Our Recent Publications

 [Flash Review: Bank of Japan Extends Its Credit Easing Facilities and Launches A Policy Review](#), by Brunello Rosa, 18 December 2020

 [Flash Reviews: BOE, Norges Bank and SNB on Hold, With Different Twists](#), by Brunello Rosa, Fawaz Al Mughrabi and Karmen Meneses, 17 December 2020

 [Flash Review: Fed Introduces Outcome-Based Forward Guidance on Asset Purchases](#), by Brunello Rosa, 16 December 2020

 [EU Agreements Mask Underlying Tensions](#), by Grégoire Roos, 15 December 2020

 [Flash Preview: Fed to Stay Mostly On Hold While Ready for Additional Steps on QE](#), by Nouriel Roubini and Fawaz Al Mughrabi, 14 December 2020

 [Flash Previews: BOJ, BOE and Norges Bank To Stay Put In December, But With An Easing Bias](#), by Brunello Rosa, Fawaz Al Mughrabi and Karmen Meneses, 11 December 2020

Looking Ahead

The Week Ahead: US Personal Spending Likely To Decline While EZ Consumer Confidence To Ease

In the US, November's durable goods orders are expected to fall by -0.6% m-o-m (*p*: 1.3%). Still in the US, in November, the core-PCE price index is expected to increase by 1.5% y-o-y (*p*: 1.4%), while personal spending is likely to decline by -0.2% m-o-m (*p*: 0.5%).

In the EZ, November's consumer confidence is expected to ease to -16.8 (*p*: -17.6).

The Quarter Ahead: Geopolitical Risks Offset By Vaccine And US Stimulus Hopes; Inflation Muted

Due to large-scale vaccines distribution, in 2021 global GDP will likely record its fastest growth ever (coming from a low base). Yet, most economies will remain dependent on policy support, as activity stays below pre-virus trends.

The US will expand its rollout of approved COVID-19 vaccines to thousands of healthcare workers. Initial doses are earmarked for doctors, nurses and other front-line medical professionals, along with residents and staff of nursing homes. Other essential workers, senior citizens and individuals with chronic medical conditions will be next in line.

Just hours before a government shutdown deadline, President Trump signed a two-day government funding bill, as lawmakers needed more time to wrap up negotiations on a coronavirus USD 900bn relief package.

President Trump signed legislation that could remove from US exchanges Chinese companies such as Alibaba Group, Pinduoduo, and PetroChina. The "Holding Foreign Companies Accountable Act" will require companies to: 1) "establish that they are not owned or controlled by a foreign government"; and 2) allow regulators – i.e. the US 'Public Accounting Oversight Board' – to review their financial audits.

Regarding Brexit negotiations in Brussels are focused on new 'fisheries arrangements'. According to EU negotiators, the "moment of truth" has arrived, with "only a few hours left" to seal an agreement.

The world's major CB will maintain ultra-loose monetary conditions and real rates will likely remain in negative territory.

In the US, Fed Chairman Powell noted that "while recent news on COVID-19 vaccines are positive, the surge in infections is concerning" and warned that the next few months are likely to be very challenging. The Fed upgraded its September forecasts, and now expects: i) real GDP to fall just by -2.4% in 2020; ii) 2021 real GDP at 4.2%; and iii) the unemployment rate to decline to 6.7% in 2020.

Last Week's Review

Real Economy: Infection Cases Rise, Hindering Sales And Employment; CBs Remain On Hold

In the US, November's retail sales contracted by -1.1% m-o-m (*c*: -0.3%; *p*: -0.1%), the second consecutive month of decline, as consumers put off holiday shopping, amid a: i) surge in COVID-19 cases; and ii) fall in income, as unemployment benefits expired. In the week ending on December 12, the number of 'unemployment claims' increased to 885k (*c*: 800k; *p*: 862k), the highest rise since early September, due to record: i) infections; ii) deaths; iii) hospitalizations; and iv) new lockdowns.

In the EZ, October's IP rose by 2.1% m-o-m (*c*: 2.0%; *p*: 0.1%), the sixth consecutive month of growth, while it fell by -3.8% y-o-y (*c*: -4.4%; *p*: -6.3%). As expected, EZ's November CPI and core-CPI inflation remained unchanged at -0.3% y-o-y and 0.2% y-o-y, respectively.

Maintaining their easing bias, the Fed (0.25%); BoJ (-0.10%); BoE (0.00%); and Norges Bank (0.00%) all kept their key policy rates unchanged.

Financial Markets: Global Equities Rally On Vaccine Hopes; Commodities Keep Momentum, Oil At 9-Month High

Market drivers: as investors monitored whether: i) Covid-19 infections; and ii) worsening economic data would push US lawmakers to pass another coronavirus relief package, global equities closed the week higher (MSCI ACWI, +1.6%, to 640).

Equities: The S&P 500 Index rose (+1.3%, to 3,709), helped by gains in IT stocks - driven by Apple and Microsoft outperformance. In the EZ, shares rose (Eurostoxx 50, +1.7%, to 3,546) on optimism surrounding: i) COVID-19 vaccines; and ii) better-than-expected PMI readings in key EZ economies.

Fixed income: w-o-w global bonds fell slightly (BAML Global, -0.2% at 299.2), with USTs rising (+6 bps, to 0.95%), as fiscal relief and optimism related to vaccine distribution outweighed disappointing economic data. In 2021, monetary accommodation will likely keep bond yields contained, favoring risky assets.

FX: as the Fed pledged to keep interest rates low for longer, the USD weakened w-o-w (DXY, -1.1%, to 90.016; EUR/USD, +1.2%, to 1.226).

Commodities: on strong demand from India and China, oil prices touched nine-month highs (Brent, +4.6% to 52.3 USD/b); Gold maintained its upward momentum on hopes of a breakthrough in US stimulus talks (+2.3% to 1,881 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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