



R&R Weekly Column
By Brunello Rosa



Virtual G7 Meeting Marks The Return Of Multilateralism

The first G7 meeting since April 2020 was held in a [virtual format at the end of last week](#), chaired by the UK Prime Minister Boris Johnson. The G7 leaders gathered to “discuss how the world’s leading democracies can work together to ensure equitable distribution of coronavirus vaccines around the world, prevent future pandemics and build back better from coronavirus.”

The final communique emphasised the role of “strengths and values as democratic, open economies and societies”, with an aim to “work together and with others to make 2021 a turning point for multilateralism.” To a certain considerable extent, the arrival of Joe Biden as president of the United States has marked the return of multilateralism as a method of tackling the massive challenges that the leading world economies face.

In particular, the leaders of the G7 will cooperate to fight the Covid pandemic, with a global plan for vaccine production and distribution. The G7 countries pledged to work together “to strengthen the World Health Organisation (WHO),” and support “its leading and coordinating role” to “accelerate global vaccine development and deployment.” This reference to the WHO is particularly important as one can remember [when former US president Donald Trump decided to defund the organisation at the time the global pandemic was starting](#).


But by now experience should have taught us that the only way to fight global challenges such as air pollution and ocean pollution, climate change, and pandemics is by fostering international cooperation, not by diminishing it. In this respect, the final statement makes a very important point: “On the 23rd February the Prime Minister will chair a virtual meeting of the UN Security Council on the link between climate change and conflict... The discussions at the meeting will inform crucial action ahead of the UK-hosted COP26 Summit in November.” Other commitments on this front include the need to “promote global economic resilience; harness the digital economy with data free flow with trust; cooperate on a modernised, freer and fairer rules-based multilateral trading system that reflects [G7] values and delivers balanced growth with a reformed World Trade Organisation at its centre; and, strive to reach a consensus-based solution on international taxation by mid-2021 within the framework of the OECD.”


The return of multilateralism is definitely good news. In a period of [disruption of global supply and value chains due to the pandemic](#), and interrupted international travel, the risk of de-globalisation has never been stronger. The rise of autocratic and populist leaders around the world has only worsened the situation. In this respect, G7 countries also made progress in mentioning the strengths and values of democratic, open economies and societies at the beginning of the statement, and deciding not to invite Russia at the upcoming meeting in Cornwall in June (as had initially been planned by Donald Trump), at the time when severe repression is occurring within Russia following the arrest of Vladimir Putin’s main opponent Aleksey Naval’nyj.

On the economic front, the G7 stated that they have given “unprecedented support...over the past year totalling over \$6 trillion across the G7.” G7 countries will continue to support their “economies to protect jobs and support a strong, sustainable, balanced and inclusive recovery.”

To tackle global challenges, the world needs a multilateral and inclusive approach. The populist threat is still too strong to be underestimated, especially at a time when pandemic-related restrictions and border closures have marked the return of nation-states to the centre of the policy response.

Our Recent Publications

 [Flash Preview – Reserve Bank of New Zealand To Keep Its Policy Stance Unchanged](#), by Brunello Rosa and Karmen Meneses, 19 February 2021

 [“Inflation Perspiration:” The Heightened Risk of A Non-Transitory US Inflation](#), by Peter Cecchini and Brunello Rosa, 17 February 2021



Looking Ahead

The Week Ahead: US Core PCE Price Index And Japan Retail Sales Are Expected To Decline

In the US, 'initial jobless claims' for the week ended on January 20 are likely to increase slightly, to 820k (*p*: 816k). February's 'PCE Price Index' is expected to rise to 1.5% y-o-y (*p*: 1.3%) while the 'core PCE price index' is likely to decline to 1.4% y-o-y (*p*: 1.5%).

In Japan, January's retail sales are expected to decline further, by -2.6% (*p*: -0.3%).

The Quarter Ahead: COVID-19 Vaccines Reach 87 Countries; US Urges G7 Unity; Financial Repression Risks

More than 199m doses have been administered across 87 countries, as the WHO gave the green light to two versions of the AstraZeneca/Oxford COVID-19 vaccine, produced by: *i*) AstraZeneca-SKBio (Republic of Korea); and *ii*) the Serum Institute of India.

Going forward, to foster the sustainability of public finances given rising public debt levels, governments and CBs are likely to tolerate a moderately higher rate of inflation; in other words, the post-COVID recovery is likely to be characterized by negative real interest rates and financial repression.

At the G7 virtual meeting, President Biden - in sharp contrast with the foreign policy of his predecessor - highlighted the importance of multilateralism and urged "*democracies to work together to challenge abuses by autocratic states*", such as China and Russia. In June, President Biden plans to: *i*) join G7 members for an in-person summit hosted by Britain and; *ii*) not ask Russia to join the group, as had been proposed by Trump.

In the EU, the EU has announced an additional EUR 500m for the COVAX Facility, doubling its contribution in order to "*deliver 1.3 billion doses in 92 low- and middle-income countries by the end of 2021*".

In the US, Fed Chairman Powell noted that: 1) "*the actual unemployment rate is probably closer to 10%*"; and 2) the Fed needs to stay focused on its "*broad and inclusive*" employment goal, as "*continued aggressive policy support is needed to fix the myriad issues still facing workers*".

Last Week's Review

Real Economy: DM Manufacturing In Expansion; Services Suffer Despite Vaccine Rollout

In the US, February's preliminary data for the 'composite PMI' showed a slight rise to 58.8 (*p*: 58.7); as: *i*) manufacturing edged down to 58.5, as expected (*c*: 58.5; *p*: 59.2); and *ii*) services rose above-consensus to 58.9 (*c*: 57.5; *p*: 58.3) - signaling the sharpest pace of expansion in the private sector activity since March 2015.

In the EU, Q4 2020 GDP shrank to -5.0% y-o-y, in line with initial estimates (*c*: 5.1%; *p*: 5.1%). In February, preliminary data for the 'composite PMI' showed an increase to 48.1 (*c*: 48.0; *p*: 47.8), as: *i*) manufacturing PMI accelerated above-consensus (*a*: 57.7; *c*: 54.4; *p*: 54.8), near to its near three-year high; and *ii*) services posted the second-steepest fall since last May (*a*: 44.7; *c*: 45.9; *p*: 45.4).

In Japan, preliminary data for Q4 2020 GDP showed above-consensus growth of 12.7% y-o-y (*c*: 9.5%; *p*: 22.7%), while for the whole year 2020 the economy shrank by 4.8% - the first contraction since 2009.

In Turkey, during its February meeting, the CBT held its benchmark one-week repo rate at 17.0%, and noted "*the tight monetary policy stance will be maintained until strong indicators point to a permanent fall in inflation*".

Financial Markets: Equities Pull-Back; Bonds Fall; Rising UST Yields Weigh On Gold Demand

Market drivers: an optimistic US outlook led investors to sell government bonds; the ensuing increase in longer-term interest rates: 1) weighed on technology stocks, by raising the discount rate on future earnings; and 2) lifted cyclical and value stocks.

Global equities closed lower w-o-w (MSCI ACWI, -0.4%, to 680). In the US, the S&P 500 Index fell (-0.7%, to 3,907), driven by: *i*) Walmart's weaker-than-expected earnings; *ii*) Labor Department's report that producer prices rose by 1.3% in January, the biggest increase since December 2009; and *iii*) slower-than-expected vaccines' rollout. In the EU, shares in Europe ended the week modestly higher (Eurostoxx 50, +0.5%, to 3,713), supported by companies posting encouraging quarterly earnings.

Fixed Income: w-o-w global bonds fell (BAML Global, -0.7% to 294.4), while inflation worries and retail sales data helped push the 10-year UST yield to its highest level in nearly a year (+15 bps, to 1.35%).

FX: w-o-w, the USD traded lower against other currencies (DXY, -0.1%, to 90.364; EUR/USD +0%, to 1.212).

Commodities: Oil prices rose (Brent, +0.8% to 62.9 USD/b) as a worsening US energy crisis took out almost 40% of the nation's crude production. Gold fell (-2.3% to 1,782 USD/Oz) due to rising US bond yields.



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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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