

MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa



Second Letter From Generals Sparks Concerns In France

In our [Geopolitical Corner on 4 May](#), we discussed the letter that former generals of the French army sent to the right-wing magazine *Valuer Actuelles*, in which they claimed that the republic was in danger from the concessions purportedly made by government to "Islamism." That letter was published on April 21st, on the 60th anniversary of the so-called Generals' Putsch that aimed at first re-taking Algeria, then unseating President Charles de Gaulle through the use of military force in metropolitan France itself.

In the same issue of the magazine, Marine Le Pen, leader of the *Rassemblement National* and likely the main contender of Macron in the April 2022 Presidential election, encouraged the generals to join forces to liberate France from the ruling of the current elites, as represented by Macron and his government. Prime Minister Jean Castex denounced that letter, which was penned by the former Captain of the gendarmerie Jean-Pierre Fabre-Bernadac, as unacceptable interference. France's top general vowed that those behind the letter would be punished.

Before knowing whether those semi-retired generals were in fact punished, a second letter was published on the online version of the same magazine on May 10th, this time by anonymous officers of the army describing themselves as active-duty soldiers from the younger generation of the military, whose actual rank remains unknown.


The authors of the letter claim that military officers have "offered up their lives to destroy the Islamism that you have made concessions to on our soil," speaking openly about the "survival of the country." The letter concludes with a not-so-veiled threat: "If a civil war breaks out, the military will maintain order on its own soil... civil war is brewing in France and you know it perfectly well." Again, politicians and high-ranking officials promised to punish the authors of the missive, after having identified them.

The fact that, according to the editors of the magazine, [145,000 people from the public signed the letter](#) by the second day it appeared shows that support for this kind of initiatives is quite strong among the general public. Whether it will be channelled, or – even more – represented politically is yet to be seen. Clearly the army, a highly praised institution in the French Fifth Republic (itself founded by a general, De Gaulle), is showing increasing signs of discontent, however limited and isolated that discontent may be.

This should not be underestimated. Since the [affaire Dreyfuss between 1894 and 1906](#), movements in the army have led to serious political consequences. In that occasion, ministers resigned, new political groups emerged and a coup was attempted to overthrow the institutional architecture. As we discussed in our analysis, we do not think France is really at risk of a coup. However, a political earthquake may be brewing, with Marine Le Pen leading the polls for the first round of the presidential election and polling well even in those for the second round. France is a country of revolutions and restorations, not smooth and gradual political shifts. If Marine Le Pen were to win, this would represent a regime change, not simply a political victory.

This is the reason we are saying that [the most important political period for Europe is about to start](#). It will begin in September 2021, when the German general election will be held. After that, the Italian presidential election (by parliament and regional representatives) in February 2022 will determine whether the country will confirm its traditional pro-European stance. Finally, the French Presidential election in April-May 2022 and the subsequent parliamentary election in June 2022 will close this cycle of elections in the three major EU and Eurozone economies. If any of those elections were to go awry, the future of the European integration process would be seriously at risk.

Our Recent Publications

 [Market Review And Outlook: Vaccine Rollouts And Abundant Liquidity To Support Market Performance](#), by Alessandro Magnoli Bocchi and Fawaz Sulaiman Al Mughrabi, 21 May 2021



 [GEOPOLITICAL CORNER: Looking Beyond its Covid Tragedy, India Remains the World's Most Significant Rising Power](#), by John C. Hulsman, 18 May 2021

Looking Ahead

The Week Ahead: Corporate Profits, Durable Goods And Inflation Are Expected To Increase In The US

In the US, in Q1, corporate profits are expected to increase by 2.0% q-o-q (p: -3.3%). In April, durable goods orders are expected to increase slightly to 0.8% m-o-m (p: 0.5%).

Still in the US, April's: *i*) PCE price index is expected to increase to 3.0% y-o-y (p: 2.3%); and *ii*) core-PCE price index to 2.4% y-o-y (p: 2.3%).

In the EZ, economic sentiment is expected to stay subdued at 112.0 (p: 110.1).

The Quarter Ahead: Rising Infection Rates To Weigh On Economic Outlook; Inflation Worries Linger; CBs To Remain Accommodative

The WHO stated that official death tolls from the COVID-19 pandemic are likely to be a "significant undercount", as "the true figure of direct and indirect deaths could be two to three times higher". Presenting its annual 'World Health Statistics' report, the WHO estimated that in 2020 total deaths from the COVID-19 pandemic were at least 1.2-3.0m more than 1.8m figure officially reported.

Japan, South Korea, Taiwan and Vietnam are among Asian manufacturing economies that have reported renewed COVID-19 outbreaks. Products or components made in those economies are shipped globally, including to the US. The increase in infections, along with growing demand for goods from the US and China – the world's top two economies – is contributing to a fast rise in manufacturing prices in East Asia.

In the US, Fed officials pledged to keep their ultra-loose policies in place, stating that "the unexpected surge in consumer prices last month stems from temporary forces that will ease on their own", as the US jobs market "needs far more time to get people back to work".

In the EZ, EP members halted the ratification of the proposed 'market-access treaty' with China. Recently, the EU imposed travel bans and asset freezes on four Chinese officials and a security organization over oppression and mass imprisonments of Uyghur Muslims. In retaliation, Beijing imposed sanctions on EMPs, diplomats, academics and think tanks.

Last Week's Review

Real Economy: DM Business Activity Hindered By Rising Global Infections; CBs Stay On Hold

In the US, in May: *i*) manufacturing PMI rose to a fresh record of 61.5 (c: 60.2; p: 60.5); and *ii*) services' PMI jumped to 70.1 (c: 64.5; p: 64.7), amid greater customer confidence and the reopening of non-essential businesses.

In the EZ, in May: *i*) manufacturing PMI fell slightly to 62.8 (c: 62.5; p: 62.9); while *ii*) services increased to 55.1 (c: 52.3; p: 50.5), as the easing of 'COVID-19 related restrictions' facilitated a revival in demand.

In Japan, Q1-2021 GDP growth fell to -5.1% y-o-y (c: -4.6%; p: 11.6%), driven by a sharp decline in private consumption.

Still in Japan, April's CPI inflation rate remained stable at -0.4% y-o-y (c: -0.4%; p: -0.2%), while the core-CPI inflation rate declined to -0.2% y-o-y (c: 0.5%; p: 0.3%).

In New Zealand, during its April meeting, the RBNZ: *i*) held its official cash rate (OCR) at a record low of 0.25%; *ii*) left the 'Large-Scale asset purchases' (LSAP) program to 'up to USD 100bn'; and *iii*) the 'Funding for Lending Programme' (FLP) facility unchanged.

Financial Markets: Equities And Bonds Remain Flat; USD Weakens; Oil Falls As Gold Rises

Market drivers: Leading indicators signaled rapid growth in both the services and factory sectors, despite cost pressures; however, market sentiment was hampered by the Fed's hints at "possible tapering of asset purchases".

Global equities remained flat w-o-w (MSCI ACWI, +0.3%, to 702). In the US, the S&P 500 Index fell slightly (-0.4%, to 4,156), as energy and industrials lost ground – but health care posted the largest gain. In the EZ, European stocks remained stagnant (Eurostoxx 50, +0.2%, to 4,026) despite signs that the economy is rebounding - as restrictions instituted to control the virus' spread begin to ease.

Fixed Income: w-o-w global bonds rose slightly (BAML Global, +0.1% to 291.7) and UST yields were flat (0bps, to 1.63%), as investors weighed the possibility of the Fed reducing stimulus sooner than expected, due to: *i*) the economic recovery; and *ii*) inflation and virus concerns.

FX: w-o-w, the USD weakened (DXY, -0.3%, to 90.017; EUR/USD +0.3%, to 1.218), driven by inflation concerns and PMIs pointing to record growth in both services and manufacturing.

Commodities: Oil prices fell (Brent, -3.3% to 66.4 USD/b), as rising COVID-19 cases in Asia and signs of progress in the US-Iran nuclear talks spooked oil investors. Gold prices climbed (+2.1% to 1,880 USD/Oz) extending gains for the seventh straight session, its longest winning streak since July 2020, amid general USD weakness and falling UST 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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