



*R&R Weekly Column
By Brunello Rosa*



OPEC+ Boosts Oil Production As Climate Change Risks Increase


Last week, the countries belonging to the oil-producing cartel OPEC+ (the “+” refers to Russia and Kazakhstan, which are not in OPEC proper) [decided to increase oil production](#) by 400,000 barrels a day, in response to the surge in oil prices that has occurred in the past 15 months. In April 2020, [oil prices turned negative for the first time in history](#), as storage costs soared in the middle of the first wave of the pandemic, when half of the world population was in lockdown. Since then, the price of Brent surged to \$75pb, along the pick-up in economic activity in large parts of the global economy. OPEC+ also decided to increase the baseline production of oil in many countries, signalling that the cartel believes the recovery will continue and that higher production will be a persistent phenomenon, rather than a transitory one.


The increase in oil prices has led to a marked increase in headline inflation prints around the globe, sparking fears of incipient hyperinflation, fears [which are likely to be overblown](#). Most central banks have reacted calmly to the sudden rise in inflation prints, reassuring markets that policy rates will remain low for longer, and that short periods of moderately above-target inflation will be tolerated. This explains the fall in long-term yields observed in the US and elsewhere, which [has puzzled investors](#).

While central banks have reassured markets that they will be tolerant against above-target inflation, they have also changed their policy frameworks to start addressing the impact of climate change on financially sensitive matters. The [Bank of Japan](#) has recently launched a “green-lending” scheme, set to last at least 10 years, in which banks receive central bank financing at zero per cent if those funds are lent to projects aimed at reducing the impact of climate change. The ECB has included the fight against climate change among the goals of its [recently released strategy review](#). These moves follow the [Bank of England’s seminal work on central banks and climate change](#), championed by former governor Mark Carney.

The inclusion of climate change among the goals of central banks, though it may seem esoteric, is justified by the risks potentially deriving from extreme climate events. Tragic examples have occurred in recent days, with the floods experienced in Germany and Belgium, which have [claimed hundreds of victims and caused](#) immense economic damage. The south of Italy [has also recently been hit by storms resulting in flooding](#), though fortunately without causing any deaths thus far. These violent floods in the middle of the summer are extremely unusual, and [scientists are saying they can only be explained by climate change](#) (as the [wildfires that ravaged Canada recently](#)).

Our Recent Publications

 [Flash Preview: ECB Starts Implementing Its New Policy Strategy](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 16 July 2021

 [Flash Review: BoJ Unveils Details Of Its New “Green” Lending Scheme](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 16 July 2021

 [Flash Review – Bank Of Canada Reduces Further The Pace Of Its Asset Purchases](#), by Brunello Rosa and Karmen Meneses, 14 July 2021

 **GEOPOLITICAL CORNER:** [After the Party: How China Is Planning To Become The World’s Dominant Power](#), by John C. Hulsman, 13 July 2021

Looking Ahead

The Week Ahead: DM Manufacturing PMIs To Soften Whilst Japan's Inflation Rate Is Expected To Stay Subdued

In DMs, manufacturing PMIs are expected to soften, as: *i*) US indicators point to a gentle slowdown (c: 61.9; p: 62.1); and *ii*) EZ activity slows (c: 62.5; p: 63.4). DM services PMIs are likely to improve (US: c: 64.8; p: 64.6; EZ: c: 59.6; p: 58.3).

In Japan, June's inflation rate is expected to stay subdued at 0.0% y-o-y (p: -0.1%), and core inflation is seen to stay unchanged at 0.1% y-o-y).

The Quarter Ahead: US-China Relations Continue To Deteriorate; UK To Ease Covid-Restrictions; CBs On Hold, As Rising Inflation Is Deemed Transitory

The Biden administration warned US businesses about the increasing risks of operating in Hong Kong as China's tightening grip on the city causes business conditions to deteriorate. The Biden administration issued an advisory cautioning businesses and individuals that they are subject to a restrictive national-security law that Beijing imposed on Hong Kong a year ago.

In the US, Fed Chairman Powell said the economy is "far" from where it needs to be for the CB to change policy. "Conditions in the labor market continued to improve, but there is still a long way to go," he said, adding that inflation has "increased notably" due mostly to temporary factors.

In the EZ, the ECB is working on creating a digital version of the Euro (EUR). The digital euro would allow consumers to pay electronically, without the need for banknotes and coins. However, it would "complement" the existing monetary system rather than replacing physical cash and erasing the business of commercial lenders.

In China, the economy grew at 7.9% y-o-y in Q2 2021 (c: 8.1%; p: 18.3%), driven by a slowdown in: *i*) factory activity; *ii*) higher raw material costs; and *iii*) new COVID-19 outbreaks in some regions all weighed on the recovery momentum. During H1, the economy grew by 12.7%, due to a low base effect from last year's coronavirus-triggered slump. For 2021, China has set an economic growth target of "above 6%" after expanding the least in over four decades of 2.3% in 2020.

Starting July 19, the UK will remove of all pandemic restrictions, and many politicians from the ruling Conservative Party have dubbed July 19 as "Freedom Day". The economy is expected to temporarily benefit, as all businesses can operate normally amid concerns over the delta variant.

Last Week's Review

Real Economy: Economic Activity At Risk Of Slowdown As Downside Risks Linger; CBs To Hold

In the US, June's IP dropped by 9.8% y-o-y (c: 12.2%; p: 16.1%) due to base-effect and a slowing economic recovery. Retail sales rose more-than-expected by 0.6% m-o-m (c: -0.4%; p: -1.7%), and expanded by 18.0% y-o-y (c: 14.0%; p: 27.6%).

Still in the US, in June: *i*) headline inflation accelerated to 5.4% y-o-y (c: 4.9%; p: 5%), hitting a fresh high since August of 2008; and *ii*) core-inflation increased 4.5% y-o-y (c: 4.0%; p: 3.8%). Inflation has been on the rise this year amid low base effects from 2020 and a pick-up in economic recovery, easing business restrictions and surging demand - amid widespread vaccination and fiscal support.

In the EZ, May's IP rose to 20.5% y-o-y (c: 22.2%; p: 39.4%).

Still in the EZ, headline inflation declined to 1.9% y-o-y (p: 2.0%), and core inflation to 0.9% y-o-y (p: 1.0%).

In Japan, Canada, New Zealand, and Turkey CBs kept their policy rates on hold at -0.1%, 0.25%, 0.25%, and 19.0%, respectively.

Financial Markets: Global Stocks Fall; Bonds Up; The USD Strengthens; Oil Falls As Gold Prices Rise

Market drivers: investors continue to worry about rising inflationary pressures and surging coronavirus cases, while other investors digest: *i*) upbeat retail trade data; *ii*) better-than-expected earnings reports from financial giants; and *iii*) dovish comments from the US Fed.

Global equities fell w-o-w (MSCI ACWI, -0.6%, to 719). The S&P 500 Index fell (+1.0% w-o-w, to 4,327), as a decline in cyclical stocks out weighted gains in growth stocks. The selloff was due to: *i*) concerns about higher inflation; and *ii*) a slump in consumer sentiment. In the EZ, shares fell on concerns that the increase in COVID-19 cases could derail an economic recovery, and market participants also worried that CBs might tighten monetary policy sooner than expected to quell inflation (Eurostoxx 50, -0.8% to 4,036).

Fixed Income: w-o-w global bonds rose (BAML Global, +0.3% to 296.7) and UST yields fell (-6 bps, to 1.30%).

FX: w-o-w, the USD rose against the EUR (DXY, +0.6%, to 92.687; EUR/USD -0.6%, to 1.181).

Commodities: Oil prices fell (Brent, -2.6% to 73.6 USD/b), amid fuel demand concerns and oversupply fears. Gold prices rose (+0.2% to 1,811 USD/Oz) following worries over global growth and the spread of the COVID-19 delta variant.



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

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



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. **Analyst Certification:** We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

