



R&R Weekly Column
By Brunello Rosa



Taliban Troops Regaining Control After 20 Years of War in Afghanistan

Yesterday newswires around the world reported that Taliban troops have regained control of Afghanistan's capital, Kabul. This comes after several days of advancement of Taliban troops within Afghan territory, which led them to regain the control of large cities such as Jalalabad. The news now is that the Taliban have entered the Presidential Palace, President Ghani having already fled the country. The Taliban have affirmed their intention to declare the re-birth of the Islamic Emirate of Afghanistan.

Other press reports suggest that the two sons of historical figures such as the Mullah Omar (the emir of the Islamic Emirate of Afghanistan from 1996-2001, which hosted the militants of Al-Qaeda before the 9/11 terrorist attacks) and Massud (Ahmad Shāh Mas'ūd, the so-called Lion of Panjshir, the hero of the war against the Soviets in the 1980s, who was assassinated by Al-Qaeda two days before 9-11) are engaged in a distant race to become leader of the country now that it has been "liberated" by the presence of foreign troops for the first time in twenty years.

In fact, all this is happening while foreign troops are engaged in a complicated mission of withdrawing from this theatre of war (or, to put it more diplomatically, are withdrawing from their peacekeeping mission). There are images of helicopters evacuating the last US troops left in Kabul, which resemble the images of the Americans leaving Saigon at the end of the Vietnam war. For this reason, some are calling this episode "Biden's Saigon," even if the two episodes cannot technically be compared from a military perspective.


All this has been happening while there were "peace talks" going on in Qatar, aimed at finding a compromise solution for the country after the US and other major countries have withdrawn. But these peace talks have now been overtaken by events and are effectively useless. If the Taliban wanted international recognition and legitimacy, nothing better than regaining control of the capital and the presidential palace could guarantee such a result. It is highly likely that the Taliban will impose on the country a new Islamic regime. Whether they declare it a new Emirate or any other denomination makes little difference at this stage.


With the Taliban having regained control of Afghanistan, a long cycle begun in 2001, in the aftermath of the terrorist attacks in the US and the launch of the "war on terror" by George W. Bush, is coming to a very sorry end. USD 2 trillions of dollars spent in military expenses, many thousands of troops sent by dozens of countries over the last 20 years clearly have not been sufficient to stabilize a country that has been devastated by several decades of wars in the last century.

Similar to what happened in Iraq and Syria, where the Islamic State (ISIS) took control after the US troops and their allies left the country (after which it took many more years of fighting to push ISIS back), the risk is that Afghanistan may become once again a place where terrorists from all over the world may convene and hide. The hope is that world leaders will find a diplomatic solution to prevent this from happening. The UK premier Boris [Johnson has already recalled parliament](#) to discuss this issue and urged international unity on this matter. Other leaders will likely follow suit.

Our Recent Publications

 [Flash Preview: RBNZ Likely to Raise Rates in August, First Among G10 Central Banks](#), by Brunello Rosa and Karmen Meneses, 13 August 2021

 [Flash Review: BOE Adds Negative Rates To Its Toolkit and Modifies Its Policy Mix For The Exit Sequence](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 5 August 2021

 [Flash Preview: BoE On Hold, With A Discussion On Negative Rates And \(Possibly\) Exit Sequencing](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 30 July 2021.

 **GEOPOLITICAL CORNER:** [A Divided EU Is Unprepared For The Sino-American Cold War](#), by John C. Hulsman, 10 August 2021

Looking Ahead

The Week Ahead: Japanese GDP Expected To Rebound, While EZ Core Inflation Is Expected To Fall

In the US, July's retail sales are expected to decline by -0.3% m-o-m (*p*: 0.6%), and IP is expected to decrease to 7.2% (*p*: 9.8%).

In Japan, GDP growth rate for Q2 is expected to rebound to 0.7% y-o-y (*p*: -3.9%).

In the EZ, core inflation is expected to fall slightly to 0.7% y-o-y (*p*: 0.9%), while headline inflation is seen increasing to 2.2% y-o-y (*p*: 1.9%).

The Quarter Ahead: Global Recovery Prospects Hampered By Rising Cases Of Delta COVID-19 Variant And Taliban Offensive

Globally, as of August 9, 2021, more than 202 million cases of COVID-19 have been recorded globally, including more than 4.2 million deaths. In the US, schools that reopened are seeing a growing number of Covid-19 outbreaks just days into the semester, causing: *i*) temporarily closures of buildings; or *ii*) students' quarantine.

In the US, two Fed officials said that the US economy is growing rapidly, and that while the labor market still has room for improvement, inflation is "already at a level that could satisfy a key test for the beginning of interest rate hikes".

The US Senate approved a major infrastructure spending bill designed to invest, across the next five years, USD 1tn in: *i*) roads; *ii*) bridges; *iii*) public transport; and *iv*) improved internet access. The 'Infrastructure Investment and Jobs Act', which the Senate passed by 69 votes to 30, now heads to the House of Representatives, and has been described by the White House as: 1) the "largest long-term investment in US infrastructure and competitiveness in nearly a century"; and 2) an important first investment to ensure the US can tackle the climate crisis.

In recent days, the Taliban have made major advances including capturing Herat and Kandahar, the country's second- and third-largest cities. They now control 18 of Afghanistan's 34 provinces, leaving the Western-backed government in control of few provinces in the central part and east, as well as Kabul and Mazar-e-Sharif. The US Pentagon said that "US Marines begun arriving in Kabul to help secure the evacuation of embassy staff" as the Taliban offensive sweeps through Afghanistan.

Last Week's Review

Real Economy: Economic Growth Remains Frail, As Inflationary Pressures Remain Elevated

In the US, CPI inflation stood at 5.4% y-o-y in July, unchanged from the previous month's 13-year high, and slightly above market expectations of 5.3%. Core-CPI inflation softened to 4.3% y-o-y (*c*: 4.3%; *p*: 4.5%).

In the EZ, the ZEW indicator of economic sentiment fell by 18.5 points to 42.7 in August (*c*: 72; *p*: 61.2), marking the lowest reading since November 2020, amid concerns over the COVID-19 resurgence in Europe, and fears of slowing recovery.

In the UK, GDP grew by 22.2% y-o-y in Q2 (*c*: 22.1%; *p*: -6.1%), ending a five-quarter period of contraction, and showing the fastest pace of expansion on record.

In Turkey, after inflation rose to a two-year high of 18.95% in July, during its August meeting the CBT held its one-week repo rate at 19%, as expected - and repeated a pledge for tight policy.

In Mexico, the CB raised its benchmark policy rate by 25 bps to 4.50%, as policymakers stated "the recovery of the Mexican economy continued during Q2, and is expected to continue" for the rest of the year.

Financial Markets: Global Stocks Gain Momentum; Bonds Flat; USD Weakens; Gold Rises

Market drivers: investor sentiment strengthened, lifted by: *i*) strong earnings results; *ii*) upbeat labor market data; and *iii*) the US Senate's passage of a massive infrastructure bill.

Global equities rose w-o-w (MSCI ACWI, +0.7%, to 736). The US S&P 500 Index closed higher (+0.7% w-o-w to 4,468), as value stocks outperformed their growth counterparts, with most sectors advancing, led by materials. In the EZ, shares advanced (Eurostoxx 50, +1.3% to 4,230) as investors focused on the economic recovery, and shrugged off worries about surging COVID-19 infections in key markets.

Fixed Income: w-o-w global bonds remained flat (BAML Global, 0% to 297.7) and UST yields fell slightly (-2 bps, to 1.28%), as prospects of early Fed tapering were supported by: 1) signs of continued labor market recovery; and 2) rising inflationary pressures.

FX: w-o-w, the US Dollar Index weakened (DXY, -0.3%, to 92.518; EUR/USD +0.3%, to 1.179), due to disappointing sentiment data.

Commodities: Oil prices fell slightly (Brent, -0.2% to 70.6 USD/b), as traders weigh prospects of a demand rebound in the US and Europe against mobility curbs in China. A weakening USD and gold's safe-haven appeal pushed gold prices up (+0.9% to 1,779 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