



**R&R Weekly Column**  
**By Brunello Rosa**



### The US-China Cold War II Intensifies

Last week, the [US Securities and Exchange Commission](#) (SEC) ruled that Chinese groups would be subject to stricter controls and disclosures over their structures and ties to the Chinese state before being allowed to list shares in the US. This is only the latest example of the ongoing tensions between the US and China. The two world super-powers are engaging in intense competition in a number of areas, part of a rivalry [we have previously labelled Cold War II](#).

As we have [discussed on numerous occasions](#), we believe there are three dimensions of this Cold War II. One is a *trade dispute*, which raged during the Trump's presidency and culminated in the [Phase 1 deal](#) of January 15<sup>th</sup>, 2020. Another is a *technological race*, in which both countries are trying to prevail in the spheres of big data, artificial intelligence and cyberwarfare. This has led to the ban of Huawei as a provider of 5G technology by virtually all US allies. Finally there is the disruption of global supply chains, a process which was already taking place before the pandemic and now is a well-established phenomenon, causing [bottlenecks that have been the origin of the recent rise of inflation](#) around the globe.

The Covid pandemic, and the arrival of the less confrontational Joe Biden to the US presidency, have not led to a rapprochement between China and the US. In fact, because of the allegations made by the US and its allies (chiefly Australia) to China regarding the origin of Covid, and because of China's repression of Hong Kong protests, there will likely be further tension occurring between China and the US.

Given this background, R&R decided to dig further into how Cold World II is impacting the three main actors of the global economy (namely, the US, China and Europe), by publishing a series of articles in John Hulsman's [Geopolitical Corner](#).


[In the first article](#), titled "After the Party: How China Is Planning To Become The World's Dominant Power" we discuss how China sees itself today - 2021 being the 100<sup>th</sup> anniversary of the Chinese Communist Party, which was celebrated in China on July 1 - and how its leadership is planning to project the country's geopolitical influence in the future. For China, the first geo-strategic goal is to [break out of the straitjacket that is preventing the country from developing a naval dominance similar](#) to that of the US. Unlike the US, which is unconstrained in projecting its naval military capabilities, China immediately encounters hostile waters to its east and south, guarded by Japan, South Korea, Taiwan, and the Philippines, all of which are close allies of the US. We believe that for China, the path of least resistance in this regard will be working hard to promote the re-annexation of Taiwan, however long, gradual and complex the process of doing so may be.


[In the second article](#), titled "The Great Sea Change: Rightfully Changing American Perceptions Of China Made The New Cold War Almost Inevitable", we discuss how China has moved from being considered a partner to a competitor, and eventually to being declared a strategic rival of the US. This required the US political elite, Republican and Democrat, to overcome the doctrine (by Barrington Moore) according to which China would democratise while getting richer (i.e. would follow the path of Western countries, whose bourgeoisie wanted more political power as it got richer). This doctrine had long permeated the US political leadership on both sides of the aisle.


In the third article of the series, which we will publish shortly, we will analyse how Europe will figure between the two geopolitical superpowers, whether it will re-establish its long-term relationship with the US or else try to find a more independent position, one that is more equidistant between the two contenders of Cold War II.


[While the integration of China in the global economy is deepening](#), thanks in part to the gradual liberalisation of its financial system, it is clear that the US has now decided to decouple from China. As such, there is an ongoing Cold War II taking place between the two countries, a rivalry which is intensifying and is meant to last for the next few decades. We are only at the beginning of this competition.


#### **Our Recent Publications**

 [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

 [The Future Of Banking: Amid Brisk Evolution, Banks Will Endure Disruption](#), by Alessandro Magnoli Bocchi, Fawaz Sulaiman Al Mughrabi and Karmen Meneses, 29 July 2021

 [Flash Review: The Fed Acknowledges "Progress" Toward Meeting Its Goals](#), by Brunello Rosa, 28 July 2021

 [Flash Preview: Federal Reserve No Tapering Hints Yet](#), by Nouriel Roubini and Alessandro Magnoli Bocchi, 26 July 2021

 **GEOPOLITICAL CORNER:** [The Great Sea Change: Rightfully Changing American Perceptions Of China Made The New Cold War Almost Inevitable](#), by John C. Hulsman, 27 July 2021



Looking Ahead

The Week Ahead: US Non-Farm Payroll Expected To Increase

**In the US**, in July non-farm payrolls are expected to increase to 900k (p: 850k) and unemployment is seen to fall to 5.7% (p: 5.9%).

**In the EZ**, July's retail sales are expected to soften to 5.9% y-o-y (p: 9.0%).

The Quarter Ahead: Global Economic Recovery Hampered By Geopolitical Risks And Supply Constraints

**Globally**, production and distribution are being severely disrupted by: *i)* unscheduled closures of manufacturing and distribution facilities; *ii)* bottlenecks at borders; *iii)* sick workers causing 'choke points' in supply lines; and *iv)* end of lockdowns, which is driving up demand.

**In the US**, President Biden announced that his administration will require all civilian federal workers to provide their COVID-19 vaccination status or face: *i)* strict testing measures; *ii)* social distancing; *iii)* masking requirements; and *iv)* limited travel. The new rule comes as COVID-19 cases are rising again in all 50 states - due to the highly contagious delta variant - and vaccination rates have leveled off.

**In the US**, President Biden warned that cyber-attacks could escalate into a full-blown war as tensions with Russia and China mounted over a series of hacking incidents targeting: *i)* US government agencies; *ii)* companies; and *iii)* infrastructure. The targeted sectors spanned energy, healthcare, IT and commercial facilities – all of which have already allegedly been targeted by Russian hackers since the 2020 US elections. Others sectors include transport, financial services and chemicals. Biden also said Chinese president Xi Jinping was "deadly earnest about China becoming the most powerful military force in the world" by the 2040s, as well as the largest and most prominent economy.

**Still in the US**, despite the optimism about the economy, Fed Chairman Powell said the CB is "nowhere near considering a rate hike", as monetary policy has not reached "substantial further progress yet". Powell added: "We see ourselves having some ground to cover to get there." Finally, the Fed' Chairman said the Fed would establish two standing repo facilities: 1) for domestic markets; and 2) for foreign and international authorities.

Last Week's Review

Real Economy: Economic Recovery Continues, Hindered By Downside Risks; CBs Stay Put

**In the US**, the economy grew by 6.5% q-o-q in Q2 (c: 8.5%; p: 6.3%), as vaccinated Americans travel and engage in activities that were restricted before. June's 'nondefense capital goods orders, excluding aircraft' – a key gauge of business investment – rose by 0.5% (c: 0.7%; p: 0.5%), matching the previous month's gain.

**In the EZ**, Q2 GDP growth expanded by 2.0% q-o-q in Q2 (c: 1.5%; p: -0.3%), rebounding from two consecutive quarters of contraction, supported by: *i)* the rapid pace of COVID-19 vaccination; and *ii)* ongoing policy support.

**Among the EZ's largest economies**, Germany, France and Spain returned to growth, and Italy's expansion gathered pace.

**In the US**, the PCE price index stood unchanged at 4.0% y-o-y in June (c: 4.0%; p: 4.0%), the fastest since July 2008. Core-PCE prices – the Fed's preferred inflation gauge – rose below-expectations by 3.5% y-o-y (c: 3.7%; p: 3.4%).

**In the US**, during its July meeting, the Fed: *i)* left its federal funds rate unchanged at 0-0.25%; *ii)* kept its bond-buying at the current USD 12bn monthly pace; but *iii)* offered some 'tapering hints', i.e. asset purchases could start being reduced soon.

Financial Markets: Global Stocks Fell; Bond Stable; USD Weakened; Oil Prices Continue To Rise

**Market drivers**: investor sentiment weakened, driven by: *i)* concerns about the economic recovery, in the face of the fast-spreading delta variant; and *ii)* Chinese regulators' crackdown on large technology companies.

**Global equities** fell w-o-w (MSCI ACWI, -0.4%, to 724). The US S&P 500 Index fell by a similar amount (-0.4% w-o-w, to 4,395), as Amazon plunged more than 7% after it reported its first 'quarterly revenue miss' in three years, and provided even-weaker forward guidance. In the EZ, shares fell (Eurostoxx 50, -0.5% to 4,089) as optimism over strong corporate earnings was offset by: *i)* 'delta-variant concerns'; and *ii)* volatility spurred by China cracking down on domestic technology and education companies.

**Fixed Income**: w-o-w global bonds rose slightly (BAML Global, +0.2% to 298.0) and UST yields fell (-6 bps, to 1.23%), remaining close to 5-month lows.

**FX**: w-o-w, the US Dollar Index fell the most since early May (DXY, -0.8%, to 92.174; EUR/USD +0.8%, to 1.187) – driven by dovish Fed remarks.

**Commodities**: Oil prices rose (Brent, +3.0% to 76.3 USD/b), amid a fall in US crude inventories and prospects of a strong demand recovery. Gold prices rose (+0.7% to 1,814 USD/Oz), as a dovish US Fed boosted its safe-haven appeal.



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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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