



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



### **COP26: An Unambitious Agreement Does Not Solve Global Warming**

After a two-week marathon summit, [an agreed-upon text finally emerged](#) at the end of the COP26 conference in Glasgow. Signatory countries are committing to limit the increase in global temperature to well below 2C since pre-industrial times, and ideally to 1.5C. They are also committing to increase the funds available to help countries fight global warming and adapt to climate change. This 1.5C limit was already agreed on in Paris in 2015. The direction towards agreeing to these goals was established by the Kyoto Protocol in December 1997, when COP3 was held.

The problem here is that global temperature has already increased by 1.1C since pre-industrial times, and so long as the amount of CO2 injected into the atmosphere continues at the current, or even a slightly decelerated pace, one cannot see a meaningful deceleration for the increase in global temperatures in sight. Though reaching zero net emissions by 2050 (which in practice would mean emissions that are fully compensated for by offsetting actions, such as planting new forests), or even by 2030 – which some countries are pledging to accomplish – may help to achieve the final goal, nevertheless international cooperation remains of the essence.

In this respect, the final text of the COP26 contains an unwelcome last-minute change. Instead of aiming at “phasing out” carbon emissions, India has asked instead to phase them “down”, a significant softening of the initial proposal. Interestingly, while all eyes were focused on China, ultimately it was India that managed to water down the agreement. India is the country in the world that most relies on carbon emissions to satisfy its production needs, despite the fact that its per capita energy usage remains well below that of China or developed economies.

This agreement therefore makes clear once again the division existing between emerging economies and developed countries. The latter are reluctant to provide the financing that is needed to smooth the transition toward a more ecologically sustainable economy. Meanwhile the emerging economies wonder why limits to pollutions are now being imposed upon them by developed countries, as it is the developed countries that are primarily responsible for the increase in global temperature from the beginning of the industrial revolution. The United States, for example, is estimated to have been responsible for 25 percent of cumulative emissions worldwide since pre-industrial times, compared to 13 percent for China and only 3 percent for India.

What is positive about this new agreement? To begin with, having reached an agreement is an accomplishment in itself. Especially after the entrenchments between countries caused by the ongoing pandemic, it was not a given that a cooperative spirit would still be present internationally. Secondly, the agreement (however vaguely) does provide guidelines to implement the principles agreed upon six years ago in Paris. Third, it is important that most of the main actors of the global economy were at the table: the US, China, the EU, and India (among the 197 participating members), though Russia remained on the sidelines.

The US returned to the table at Glasgow after the pull-out decided on by Donald Trump, with Joe Biden’s chief negotiator John Kerry being a heavyweight in US politics (Kerry was the Democratic presidential candidate in 2004, and the Secretary of State during Barack Obama’s second term as president). Chinese leaders initially attended the conference only virtually, but its contributions to the negotiations were felt all the same. The EU, meanwhile, was clearly one of the most sensitive participants, in that it has been one of the main advocates of the fight against climate change, and in this respect the speech by the EU Commission Executive Vice President Timmermans was considered a final push towards reaching an agreed statement.


Between the US and the EU, there is clearly a different approach towards addressing China. The US is continuing to forge a hard line here, given the emerging Cold War II that is being waged between the two countries, as well as amid US allegations of China having started the global pandemic. The EU is softer on China mainly for commercial reasons, but also because the EU knows that one cannot constructively engage China on global warming if one continues to treat China as a strategic rival that needs to be contained.

It is hard to say whether the COP26 result was a glass half full, or half empty, achievement. The objectives that were agreed to are clearly unambitious, and the lack of urgency regarding emissions reduction continues to persist in many countries. On the other hand, any agreement that fosters international cooperation and multilateralism is good in these fractious times.

#### **Our Recent Publications**

 [Flash Review: BOE Surprises The Market By Keeping Its Interest Rates Unchanged In November](#), by Brunello Rosa, 4 November 2021



 [GEOPOLITICAL CORNER: The Death of the Grown-Ups: The Decline of the Center-Right in the Advanced Economies](#), by John C. Hulsman, 2 November 2021

Looking Ahead

**The Week Ahead: Inflation Rate To Rise In EZ And the UK, Japan's GDP Expected To Contract**

**In the US**, October's retail sales are expected to stay unchanged at 0.7% y-o-y.

**In the EZ**, the final reading of the inflation rate is expected to rise (c:4.1%, p:3.4%), with core inflation also rising (c:2.1%, p:1.9%).

**In Japan**, the GDP growth rate is expected to contract -0.2% q-o-q in Q3 from the 0.5% expansion recorded in Q2.

**In the UK**, the headline and core inflation rates are expected to rise y-o-y (headline: p: 3.1%, c: 3.9%; core: p: 2.9%, c: 3.1%).

**The Quarter Ahead: COP26 Agreements Disregarded; Iranian Nuclear Deal On The Verge; Tensions Between Fed And China**

**US and China look to reset relations.** US President Joe Biden and China's President Xi Jinping will hold a virtual meeting this week, in an intensified effort to smooth relations amid concerns about China's military activity near Taiwan, and its growing nuclear arsenal. The two leaders will discuss ways to responsibly manage the competition/rivalry between their countries.

**COP26 emission agreements disregarded by four of the five largest vehicles makers.** Carmakers from China and the US are absent from the list of signatories of the agreements made to eliminate new car emissions by 2040. For this deal to be effective, the world's major car manufacturing countries need to commit to a credible ecological transition.

**In the US**, President Biden is nearing a decision on his choice for Fed chairman, with observers inside and outside the administration viewing incumbent Jerome Powell as the front-runner for another term. An announcement is expected as early as this week. Biden has waited longer in making his selection than his two immediate predecessors, leaving a relatively narrow window for the Senate to confirm his choice before Powell's term expires in February.

**Iranian new president, Ebrahim Raisi, overlooks the Vienna nuclear talks as a priority.** While Iranian hardliners have repressed any possible expectation of progress on the nuclear deal, they are also concerned about a possible re-election of former US president Trump in 2024 and they have asked US President Biden a guarantee not to abandon the agreement.

**EU retaliation against UK if it does not suspend part of the Brexit agreement for Northern Ireland.** UK is soliciting a revision of the post-Brexit trade deal for Northern Ireland, which is still part of EU's customs union and single market. If UK acts unilaterally by using the so-called "Article 16,2" the European Commission might have to take preemptive or retaliatory measures against the UK.

**Fed warns that strains in the Chinese real estate sector "poses some risk to the US financial system".** Distress in an economic system as important as China's and large business and local government debt might pose a serious risk to US and global economic growth. A disorderly unwinding of Evergrande's critical situation can be expected to affect global financial conditions and investor confidence.

**Argentina is presumed not to honor to the IMF's debt repayment by March 2022.** The Argentinian government is facing an economic crisis and needs a renewed deal with the IMF to unlock more funding. Private investors are already turning away from Buenos Aires stakes and the reputation of the Fund might be at stake.

Last Week's Review

**Real Economy: Inflation Rose in US and China; UK GDP Slowed Down**

**In the US**, October's inflation rate rose to 6.2% y-o-y (c: 5.8%; p: 5.4%), the highest reading since November 1990, with energy costs recording the biggest gain. Core-inflation surged 4.6% y-o-y (c: 4.3%; p: 4.0%), the largest increase since August 1991.

**In the UK**, in Q3 real GDP rose 6.6% y-o-y (c: 6.8%; p: 23.6%) following the easing of COVID-19 restrictions. The GDP is now 2.1% below where it was before the pandemic in Q4 2019.

**In China**, inflation accelerated from 0% to 0.7% m-o-m and from 0.7% to 1.5% y-o-y due to a multi-decade increase in raw materials prices, energy shortages and supply chain disruptions.

**Financial Markets: Global Equities Unchanged; US Bond Yields Rise and German Bond Falls; Oil Commodity Prices Fall**

**Market drivers:** i) pressures on supply chain and higher consumer demand; ii) hawkish Fed expectations for next year; iii) rising Covid-19 cases and shortages of goods, labor, and components.

**Global equities** remained unchanged w-o-w (MSCI ACWI, 0.00%, to 757). In the **US**, the S&P 500 ended lower (-0.3% w-o-w to 4,683) mainly driven by tech stocks. In the **EZ**, shares ended higher (Eurostoxx 50, +0.28% w-o-w, to 4,370), being up for six consecutive weeks. In **EMs**, equities augmented (MSCI EMs, +1.7%, to 1,264), as well as the Chinese stocks (Shanghai Comp., +1.4%, to 3,492). **Volatility** fell below averages (VIX S&P 500, -0.2 pts to 16.29, 52w range.: 14.1-37.51).

**Fixed Income:** US 10-year bond yield gained (+0.014, to 1.570), while Germany 10-year bond yield dropped (-0.011, to -0.266). The EMTX 7-10 RT lost -0.61bp, to 282.28.

**FX:** w-o-w, the US Dollar Index gained (DXY, +0.9%, to 95.128; EUR/USD 1.0%, to 1.145). In **EMs**, currencies strengthened against the USD (MSCI EM Currency Index, +0.2% w-o-w, to 1,735).

**Commodities:** Oil prices fell (Brent, -0.7% w-o-w, to 82.2 USD/b), as the inflation-driven dollar rally continues. Gold Futures gained (+2.6% w-o-w, to 1,864 USD/Oz), mainly driven by inflation on US consumer prices.



@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](mailto:info@rosa-roubini-associates.com)

[www.rosa-roubini-associates.com](http://www.rosa-roubini-associates.com)



## 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.

