



R&R Weekly Column
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The War in Ukraine: When Rhetoric Is Weaponised

The war in Ukraine continues, resulting in thousands of victims, of soldiers and among the general population, causing widespread destruction and endless suffering. The Russian army is finding it harder to conquer Kiev and the centre of Ukraine than they initially planned, amid logistical difficulties and uncertainty regarding their strategy and ultimate mission. While the war rages on, diplomatic channels are open, but a diplomatic solution is also hard to find, especially given rhetoric that is further escalating tension instead of reducing it.

In the last few days there has been an escalation of rhetoric by the US administration that will make it extremely complicated to reach an agreement between Russian President Vladimir Putin and the West. On 21 March US President Biden, when asked whether Putin was a war criminal, after having initially said no, [he returned to the journalist to say “yes, he his”](#). A few days later, the US ambassador to Moscow was summoned by [the Russian foreign minister](#), who told him that this answer put Russia and the US on a collision course. [On March 26](#), US President Biden further hardened the US rhetoric by moving away from the prepared written speech in Warsaw to say that Putin cannot remain in power. US Secretary of State Blinken rushed to give assurances that the [US is not actually seeking a regime change in Russia](#).

Clearly, bombing cities and killing innocent civilians, as Putin has ordered his military to do, cannot be compared to the hardened rhetoric of the US president. But the implications of Biden’s choice of words could be equally devastating. To understand this point, it may be useful to remind ourselves the historical precedent of attempts made by the US and European nations in dealing with Germany’s Chancellor Adolf Hitler. [Before the Munich conference in 1938](#), it was already clear what type of character Hitler was, and what intentions he may have had in terms of re-militarising Germany and extending its dominion over neighbouring countries. In spite of this, European leaders met with Hitler in Munich, took pictures with him and even signed an agreement with him. UK PM Chamberlain returned from Munich sure of having “saved peace in Europe.”

But after the [invasion of the entire Czechoslovakia](#) (not just the Sudeten region, agreed upon in Munich) and then of Poland in 1939, it became clear that it was impossible to make agreements with Hitler, and that he needed to be removed militarily. No European, US or Soviet leader would have ever accepted signing a treaty with him, or be pictured beside him.

After calling Putin a war criminal, and after saying that he cannot remain in power, US President Biden has in effect crossed that line that makes it impossible for him to sign a treaty or be pictured beside Putin. Who could possibly want to be seen beside a war criminal, or legitimise him by signing a joint declaration?

The question now is: what are the consequences of all this? The most immediate consequence is that the war continues, and that even reaching a temporary ceasefire becomes virtually impossible. Also, if Putin fears that at the end of the war he may be called to respond to his “war crimes” by the International Criminal Court at the Hague, he may be tempted to take more risks, rather than fewer risks, in the short run.

Normal people may have instinctive reactions regarding the war, but policymakers should be more careful in their choice of words. Biden’s hardened rhetoric, while certainly emboldening the Ukrainian resistance and uniting the NATO front, makes it harder to reach a conclusion of this conflict in the short run.

Our Recent Publications

Flash Review: [A Less “Hawkish” BOE Continues Its Policy Normalisation Process](#), by Brunello Rosa and Nato Balavadze, 17 March 2022

Flash Review: [Fed Raises Rates and Announces Imminent Beginning of QT](#), by Brunello Rosa, 16 March 2022

Flash Preview: [Bank Of England To Increase Rates For the Third Time Running in March](#), by Brunello Rosa and Nato Balavadze, 14 March 2022

GEOPOLITICAL CORNER: [Putin’s Mistakes Give Birth To a Polarised World](#), by John C. Hulsman, 22 March 2022



Looking Ahead

The Week Ahead: US GDP Expected to Accelerate in Q4 and Unemployment to Fall; EZ Inflation Expected To Rise Further

In the US, Q4 GDP is expected to accelerate to SAAR 7.1% q-o-q (*p*: 2.3%). In March, 'non-farm payrolls' are seen falling to 488k (*p*: 678k) and the unemployment rate is expected to decrease further to 3.7% (*p*: 3.8%).

In the EZ, in March, inflation and core inflation rate are expected to be up to 6.5% y-o-y (*p*: 5.9%) and 3.1% y-o-y (*p*: 2.7%) respectively. In February, the unemployment rate is likely to edge down to 6.7% (*p*: 6.8%).

In the UK, Q4 GDP is expected to remain unchanged at 1.0% q-o-q (*p*: 1.0%), while decreasing to 6.5% y-o-y (*p*: 7.0%).

The Quarter Ahead: Task Force On Energy Security Established; Additional Aid To Ukraine To Be Provided

The US and the European Commission announced a joint Task Force to reduce Europe's dependence on Russian energy exports following Russia's invasion of Ukraine. The Task Force for Energy Security will be chaired by representatives from both the White House and the EC President. The two main aims, as the joint statement reports, are: 1) to diversify LNG supplies in alignment with climate objectives; and 2) to reduce demand for natural gas, which in turn would strengthen energy security for Ukraine and the EU.

Putin announced that Russia plans to demand payments for oil and natural gas exports for 'unfriendly' countries in Rubles in retaliation for Western sanctions. Russia put Japan too on its 'unfriendly' countries list along with EU member countries, US and others.

NATO leaders pledge new Ukraine aid. Biden announced US would welcome up to 100K Ukrainian refugees and provide additional US 1bn in food, medicine, and other supplies and asked to ban Russia from the G20.

Agreement between the Council and the European Parliament is reached over the Digital Markets Act (DMA). DMA is a set of rules aimed at curbing the market power of tech giants and preventing them from abusing their market position to harm smaller ones. The new rules will apply to so-called 'gatekeepers' tech companies with certain requirements. Firstly, it must either have a market valuation of at least EUR 75bn or an annual turnover of at least EUR 7.5bn, and secondly, it must have at least 45mn monthly end-users and at least 10K business users in the EU. A final version of the DMA is yet to be officially adopted.

Last Week's Review

Real Economy: UK Inflation Hit Fresh High; EZ Business Growth Slows While US Business Activity Firms

In the UK, February's inflation data shows: *i*) inflation increased to 6.2% (*c*: 5.9%; *p*: 5.5%); *ii*) core inflation rose to 5.2% (*c*: 5.0%; *p*: 4.4%); and *iii*) monthly inflation rises too to 0.8% (*c*: 0.6%; *p*: -0.1%). In March, the IHS Markit US Composite PMI decreased to 59.7 (*c*: 57.8; *p*: 59.9), as manufacturing PMI fell to 55.5 (*c*: 56.7; *p*: 58.0) and services PMI increased to 61.0 (*c*: 58.0; *p*: 60.5).

In the EZ, the IHS Markit Composite PMI fell to 54.5 (*c*: 53.9; *p*: 55.5) in March; as *i*) manufacturing PMI decreased to 57.0 (*c*: 56.0; *p*: 58.2); and *ii*) services PMI drops to 54.8 (*c*: 54.2; *p*: 55.5).

In the US, the IHS Markit Composite PMI rose to 58.5 (*p*: 55.5) in March; as *i*) manufacturing PMI decreased to 57.0 (*c*: 56.0; *p*: 58.2) and *ii*) services PMI drops to 54.8 (*c*: 54.2; *p*: 55.5).

Financial Markets: Amid High Inflation, Prices Of Government Bonds Fall; US Stock Indices End Higher; Oil Prices And Gold Up

Market drivers: most major benchmarks climbed, as investors weighed economic resilience against the threats of rate hikes and the effect of the war in Ukraine. Investors paid close attention to Powell's hawkish comments, which triggered a sharp bond market sell-off, sending UST yields to recent highs levels. As Russia's invasion of Ukraine continues, European equity markets continue to weaken.

Global Equities increased slightly w-o-w (MSCI ACWI, +1.0%, to 708). The US S&P 500 Index was up (+1.8% w-o-w, to 4,543). In the EZ, shares were down (Eurostoxx 50, -0.9% w-o-w, to 3,868). In EMs, equities rose (MSCI EMs, +1.2%, to 1,137). Volatility rose to 23.58 (VIX S&P 500, 52w avg.: 21.3; 10y avg.: 17.9).

Fixed Income: w-o-w, the 10y UST yields rose to the highest level since May 2019 (+33.5 bps to 2.5%) over the hawkish interest rate remarks from Fed Chairman Powell. German 10-year bond yields were up too compared to the last week (+22.2 bps, to 0.59%).

FX: w-o-w, the US Dollar Index rose (DXY, +0.6%, to 98.83). The Euro weakened vs the USD over concerns about a slowdown of the economy (EUR/USD -0.7%, to 1.098). In EMs, currencies rose against the USD (MSCI EM Currency Index, +0.2% w-o-w, to 1,727).

Commodities: w-o-w, oil prices rose (Brent, +10.5% to 119.2 USD/b), after a missile attack hit Saudi Arabia's state-run Aramco's storage facility. In addition, as a response, another coordinated release of oil from storage by the United States and its allies is expected. W-o-w, gold price was up (+1.47% to 1,957 USD/Oz), amid continued concerns over the war in Ukraine.



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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