



R&R Weekly Column
By Brunello Rosa



UK Aiming to Become The Global Technologic Hub For Crypto Finance

Last week the [UK government announced](#) that it intends to issue regulations that will make the UK the global hub for crypto-finance. As part of this effort, the UK government will allow stablecoins to be recognised as a valid form of payment in the country. Regulatory measures will include legislation for a 'financial market infrastructure sandbox.' Additionally, the Chancellor has commissioned the Royal Mint to create a Non-Fungible Token (NFT) this summer.

This is a quantum leap in UK regulation, vis a vis the crypto-financial industry. So far, the UK has taken a very cautious approach towards the world of digital assets. Even central bank digital currencies (CBDCs), which have been studied in all major jurisdictions, [including in the US](#) and the [euro-area](#), received a very lukewarm welcome by the House of Lords, which tellingly issued a report on them with the title "[A Solution In Search For A Problem?](#)". Recently, the Bank of England has issued a report highlighting the [financial stability implications](#) of adopting crypto-assets and decentralised finance (de-fi) on a large scale.

The UK government has however clearly decided to change tack regarding this issue. Rather than demonize the digital asset revolution, the UK government is attempting to embrace it.

Already, there are forms of digital assets, such as CBDCs, that are openly studied by monetary authorities and regulators. So, as soon as all the numerous technical and legal problems affecting these will be resolved, we can be reasonably sure that central banks will issue them, the same way the [People's Bank of China did with the e-CNY](#).

Other forms of digital assets, such as stablecoins, are still under scrutiny, but will most likely become an acceptable form of payment relatively soon. After all, some versions of these already exist as forms of payment - the fidelity points issued by airline companies, for example - even if they can be only spent in closed circuits. In this respect, the UK government's decision to accept stablecoins as acceptable forms of payment will represent a turning point for most regulators around the globe.

What could be more surprising is the UK's decision to include crypto-assets, sometimes labelled as crypto-currencies (which is a controversial term, considering that for most regulators, cryptos [don't have the three standard characteristics necessary to be considered a currency](#)), in the new regulatory framework. What motivates this decision?

In our view, the UK government is trying to find niches within which they can apply the regulatory divergence with the EU that the country has recently earned the ability to carry out as a result of Brexit. Bio-tech and fin-tech are clearly areas that can be exploited in this regard, and therefore we are not surprised by this decision. If the UK government wants to make Brexit a success, it will have to show that it can exploit some competitive advantages, and the crypto industry represents a perfect opportunity to do so.

In the UK government's view, it is not even necessary that crypto assets are actually viable, or even whether or not they are potentially illegal. As long as their financial activities are carried out in UK territory, the government believes it can control, steer and eventually regulate these activities. The UK government probably has the ambition of creating a City 2.0, in which the central role of London and sterling is re-established in the cyber realm. This may be an ambitious, aspirational or and even arrogant objective. But the UK has clearly shown that it intends to take a lead within this evolving environment.

Our Recent Publications

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Looking Ahead

The Week Ahead: US And UK Inflation To Jump; Harmonised Inflation To Accelerate In EZ; ECB Is Expected To Remain at On Hold

In the US, in March, the headline and core inflation rates are expected to surge to 8.5% (*p*: 7.9%) and 6.6% (*p*: 6.4%) respectively. Monthly inflation is likely to increase to 1.2% (*p*: 0.8%). Still in the US, in March, retail sales are seen increasing to 0.6% m-o-m (*p*: 0.3%). Preliminary estimates for Michigan Consumer Sentiment for April are likely to show that it decreases from 59.4 to 59.

Among the largest EZ economies, in March, final harmonised inflation data is expected to show: *i*) in Germany 7.6% y-o-y (*p*: 5.5%); *ii*) in France 5.1% y-o-y (*p*: 4.2%); *iii*) in Italy 7.0% (*p*: 6.2%).

In the UK, in February, the unemployment rate is likely to stay at 3.9%. In March, the inflation rate is expected to jump to 6.7% (*p*: 6.2%), whereas core inflation is seen increasing to 5.4% (*p*: 5.2%). Monthly inflation rate is expected to rise by 0.7% (*p*: 0.8%).

In the EZ, ECB is expected to keep its main policy stance unchanged.

The Quarter Ahead: Russia Is Suspended From Rights Council; EU Unveils New Sanctions, Including Coal Embargo; French Elections

UN General Assembly votes to suspend Russia from the Human Rights Council, following high-profile allegations of severe atrocities committed by the Russian Military and “gross and systematic violations and abuses of human rights” in Ukraine. The resolution received a two-thirds majority of votes. Abstaining states included India, Brazil, Saudi Arabia, UAE, Singapore, Egypt and South Africa.

EU agreed to adopt a fifth package of “restrictive measures” against Putin’s regime. The package comprises: *i*) an import ban on all forms of Russian coal; *ii*) a ban on Russian and Belarusian freight road operators working in the EU; *iii*) a full transaction ban and asset freeze on four Russian banks, representing 23% of market share in the Russian banking sector; and *iv*) excluding Russia from procurement contracts. Importantly, as the Commission estimated, the ban on coal imports is worth EUR 8 bn. Further export bans target jet fuels, quantum computers and advanced semiconductors, high-end electronics, software, sensitive machinery and transportation equipment. The new sanctions ban imports of a number of products, such as wood, cement, fertilisers, seafood and liquor. The agreed export and import restrictions account for EUR 10 bn and EUR 5.5 bn respectively.

Ukraine accuses Russia of genocide in Bucha. Ukrainian President Zelensky addressed the UN Security Council, showing a gruesome video of dead bodies. Amid horror in Bucha, Germany has expelled 40 Russian diplomats, France 35, Italy 30, Poland 45, and Japan announced it will expel eight Russian diplomats and trade representatives.

The 1st round of the French Presidential election was held on Sunday, April 10. Macron and Le Pen campaign for the top job in France.

Last Week’s Review

Real Economy: DM Composite PMIs above the 50-Benchmark; Yearly Retail Sales In EZ Increased Above Market Forecasts

In the US, in March, the final reading of S&P Global Composite PMI accelerated to 57.7 (*c*: 58.5; *p*: 55.9).

In the EZ, retail sales rose by 5.0% y-o-y (*c*: 4.8%; *p*: 8.4%) and 0.3% m-o-m (*c*: 0.6%; *p*: 0.2%). S&P Global Composite and Services PMI final estimate stands at 54.5 (*c*: 54.8; *p*: 55.5) and 55.6 (*c*: 54.8; *p*: 55.5) respectively.

In the UK, in March, final estimates show that S&P Global Composite PMI show rose to 60.9, more than previously projected (*c*: 59.7; *p*: 59.9). S&P Global Services PMI increased to 62.6 more than projected (*c*: 61; *p*: 60.5).

In Australia, RBA kept its policy rate unchanged at 0.1%.

Financial Markets: Stocks Dip And Yields Rise, As Fed Prepares For Quantitative Tightening; USD Rises

Market drivers: Investors digest hawkish Fed remarks, as showed by the minutes from the March FOMC meeting.

Global Equities decreased w-o-w (MSCI ACWI, -1.48%, to 702). The US S&P 500 Index dropped (-1.3% w-o-w, to 4,488). In the EZ, shares were down (Eurostoxx 50, -1.5% w-o-w, to 3,858). In EMs, equities rose (MSCI EMs, -1.6%, to 1,128). Volatility rose to 22.83 (VIX S&P 500, 52w avg.: 21.3; 10y avg.: 17.9)

Fixed Income: w-o-w, 10-year US treasury yields rose (+32 bps to 2.70%), hitting a 3-year high on Fed’s rapid tightening plan. 2-year US treasury yields rose (+5.3 bps to 2.52%) too. German 10-year bonds were up compared to the last week (+15 bps, to 0.71%).

FX: w-o-w, the dollar strengthened and the US Dollar Index rose (DXY, +1.18%, to 99.79; EUR/USD -1.58%, to 1.088) boosted by the hawkish Fed comments. In EMs, currencies declined against the USD (MSCI EM Currency Index, -0.4% w-o-w, to 1,736) amid soaring inflation in the emerging markets, including Mexico, Brazil and Chile, where inflation hits record high levels.

Commodities: w-o-w, oil prices were down (Brent, -1.95% to 102.35 USD/b), as IEA states ready big release. w-o-w, gold prices rose (+1.53% to 1,948.4 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
DIJA	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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