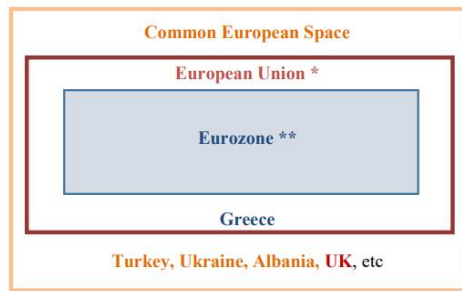


## MAKING SENSE OF *THIS* WORLD

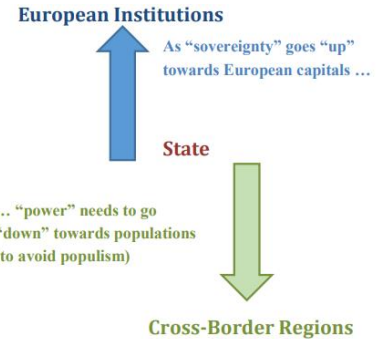


R&R Weekly Column  
By Brunello Rosa



\* with some of the current members out and other members in  
\*\* with some of the current members out – in the EU – and some other members in

2 May 2022



### The War In Ukraine Resurrects The Idea Of Organizing Europe In Concentric Circles

We have discussed [in previous columns](#) that the war in Ukraine has contributed to the world becoming polarised into two camps: the US and its allies, including the EU and other European countries, on the one hand; China, Russia, and their allies (including Iran, North Korea, and Pakistan, for example) on the other hand – with India having to [choose between the two camps](#).

[We have also discussed](#) the two lines emerging within the Western alliance. The EU is more inclined to reach an immediate ceasefire between Russia and Ukraine, even at the cost of freezing the situation temporarily in an unstable equilibrium which Russia may be tempted to break 2-5 years down the line. The US however is more inclined to keep the conflict going for a little longer (perhaps until the mid-term elections in November).

Within this framework, it becomes of paramount importance to determine the fate of Ukraine, regarding among other things its application to join the EU. There's no point [in discussing how to reconstruct Ukraine](#) from an economic standpoint, if its geopolitical status has not been determined yet. More generally, it is absolutely vital to determine what geopolitical configuration Europe may have in coming decades. For this purpose, it may be useful to resurrect an idea I launched many years ago in several publications (including [here](#) and [here](#)).

In the aftermath of the Crimea annexation by Russia (just to remind ourselves how long ago this process started), Europe was also observing the rise of populism, at the same time in which secessionist regional forces were becoming stronger in places such as Northern Italy, Catalonia, Flanders, and Scotland. I suggested that two main policy actions and re-organisation processes needed to be implemented.

*From a country perspective*, countries had to be re-organised in concentric circles, with the inner circles being represented by the Eurozone and the EU and an outer circle being formed by countries which wanted some form of close cooperation with the EU without being formally part of it. Belonging to that circle there were countries such as the UK, Turkey, Albania and – hear hear – Ukraine ([see picture above](#)).

Given the strengthening of the outer borders of Europe, I suggested – *in terms of internal organisation* – to promote a gradual weakening of the internal borders within the EU, and the formation of cross-border macro-regions, with real decision-making power being pushed down closer to the population, as sovereignty was pushed up at supra-national level. Recently a similar proposal has been formulated recently by the leader of the Italian Democratic Party (PD) Enrico Letta, [former Dean](#) of the Paris School of International Affairs at Sciences Po (PSIA), who spoke about a [European Confederation](#), which comprises non-EU members; and [by a former Italian Finance Ministry Vincenzo Visco](#). But in the past the [newly re-elected French President Macron also expressed similar ideas](#).

Given how the war in progressing, I believe the idea of re-organising Europe in concentric circles remains the only option if we are to guarantee long-term security and peace in Europe. Admitting Ukraine in the EU will remain a long and controversial process, and is not even a given that a EU accession by Ukraine would represent a positive step for the overall viability and solidity of the EU. Instead, promoting a form of strong association of the EU with Ukraine, as well as with other countries in the outer circle, such as the UK, Turkey and Albania, could help stabilise the geopolitical situation in the decades to come.

#### [Our Recent Publications](#)

Flash Preview: BOE To Increase Rates for The Fourth Time in A Row To Respond To Surging Inflation, by Brunello Rosa and Nato Balavadze, 29 April 2022



GEOPOLITICAL CORNER: [Over Ukraine, Global Governance Risks Collapsing](#), by John C. Hulsman, 20 April 2022

Looking Ahead

**The Week Ahead: EZ And US Unemployment To Fall To Record Lows; DM PMIs To Remain Above 50 Benchmark; CBs Turn Hawkish**

**In the US**, in April: *i*) Services PMI is expected to decrease to 54.7 (*p*: 58.0); and *ii*) Manufacturing PMI is seen increasing to 59.7 (*p*: 58.8). Also in April, unemployment rate is likely to decrease further to 3.5% (*p*: 3.6%) and the US economy is expected to add 380K payrolls (*p*: 431K).

**In the EZ**, in March, unemployment rate is expected to edge down to 6.7% (*p*: 6.8%). In April: *i*) Services PMI is expected to rise to 57.7 (*p*: 55.6); *ii*) Manufacturing PMI is seen decreasing to 55.3 (*p*: 56.5); and *iii*) Composite PMI is likely to increase to 55.8 (*p*: 54.9). April's final estimates for consumer confidence is likely to slightly improve to -16.9 from March's 22-month low (*p*: -18.7). In March, retail sales are expected to slow down to 1.1% y-o-y (*p*: 5.0%) and 0.0% m-o-m (*p*: 0.3%).

**In the UK**, in April: *i*) Services PMI is expected to decrease to 58.3 (*p*: 62.6); *ii*) Manufacturing PMI is seen increasing slightly to 55.3 (*p*: 55.2); and *iii*) Composite PMI is likely to fall to 57.5 (*p*: 60.9).

**CBs turn hawkish to tame inflation.** BoE is expected to raise to increase its base rate by 25bps to 1.0%. Fed is likely to increase its target Fed funds rate by 50bps to 0.75% - 1.00%.

**The Quarter Ahead: Gazprom Suspends Gas Supplies To Poland And Bulgaria; Russia On The Verge Of Default; Tech Shares Fall**

**Gazprom halted supplies to Poland and Bulgaria on non-payment in rubles.** Russia demanded 'unfriendly' countries to pay for gas in rubles. European gas prices soared following the decision. EU leaders condemn Russia's 'gas blackmail'. Meanwhile some of Europe's largest energy groups are devising ways to pay for Russian gas in rubles, undercutting EU sanctions and threatening the bloc's unity.

**Western sanctions are pushing Russia to the verge of default.** On April 29, Russia's Finance Ministry reported that it had attempted to repay \$650 mn on Russia-2022 and Russia-2042 eurobonds. The funds reportedly were channeled to the London branch of Citibank, but it was not clear whether they will reach their recipients.

**Battle rages in Ukraine.** Zelensky warns peace talks with Russia are on the brink of collapse. Meanwhile Russian forces are preparing for new offensives in east and south, following a failure to capture Kyiv in a nine-week assault. Blasts hit Kyiv as UN Chief Guterres visited Kyiv. Russian-occupied Kherson fears a state referendum to transform the city into pro-Moscow "people's republic."

**Biden requested Congress \$33 bn Ukraine aid package.** Last month, the Congress approved \$13.6 bn in assistance to Ukraine. While Washington announces massive military and government aid packages, Russia blames the US for 'pouring oil on the flames of the war'.

**Amazon shares plunged 14% on Friday, the worst day since 2006.** Amazon delivered a disappointing quarter and outlook, falling short of Wall Street's estimates. The company also reported a \$7.6 bn loss on its investment in electric vehicle maker Rivian.

Last Week's Review

**Real Economy: US Economy Shrinks, Whereas EZ GDP Advances Slightly; US And EZ Inflation Accelerate; EZ Economies Slow Down**

**In the US**, in Q1, the economy contracted by 1.4% q-o-q (*c*: 1.1%; *p*: 6.9%) on the back of: *i*) record high trade deficit; and *ii*) decline in inventory investment. March's PCE price index rose to 6.6% (*p*: 6.4%) – the most since 1982; core-PCE index rose, albeit below-consensus, to 5.2% (*p*: 5.3%).

**In the EZ**, according to advance Q1 GDP estimates, the economy increased by 0.2% q-o-q (*c*: 0.3%; *p*: 0.3%) and 5.0% y-o-y (*c*: 5.0%; *p*: 4.7%). Flash estimated showed that: *i*) headline inflation surged to 7.5% y-o-y (*c*: 7.4%; *p*: 7.4%); and *ii*) core inflation rose to 3.5% y-o-y (*c*: 3.2%; *p*: 2.9%). Among the largest EZ economies, according to preliminary data in Q1: *i*) French economy flatlines (*p*: 0.7%); *ii*) German economy advances by 0.2% q-o-q following a contraction of 0.3%; and *iii*) Italian economy contracts by 0.2% q-o-q (*p*: 0.6%).

**Financial Markets: Shares Fall and Bond Yields Rise Before The Fed Meeting; USD Up As Gold And Oil Go Down**

**Market drivers:** Investor sentiment was hampered by worries about: *i*) US Q1 GDP drop; *ii*) disappointing earnings results from Amazon; and *iii*) Apple warning of higher costs associated with supply chain issues. In Europe, shares plunge as investors suffer: *i*) high inflation; *ii*) slow growth; and *iii*) fears of tighter CB policy. Gold is down as dollar rises in anticipation of an aggressive pace of U.S. Federal Reserve interest rate increases.

**Global Equities** decreased w-o-w (MSCI ACWI, -2.64%, to 654). The US S&P 500 index dropped (-3.27% w-o-w, to 4,132). In the EZ, shares were down (Eurostoxx 50, -0.97% w-o-w, to 3,803) too. In EMs, equities declined (MSCI EMs, -2.94%, to 1,044). Volatility rose considerably to 31.3 (VIX S&P 500, 52w avg.: 21.5; 10y avg.: 18.0).

**Fixed Income:** w-o-w, 10-year US treasury yields rose (+3.3 bps to 2.94%). 2-year US treasury yields increased (+5.3 bps to 2.73%). German 10-year bund yield was down compared to the last week (-2.9 bps, to 0.93%).

**FX:** w-o-w, the US Dollar Index rose (DXY, +1.96%, to 103.2; EUR/USD -2.33%, to 1.054). In EMs, currencies were down (MSCI EM Currency Index, -1.16% w-o-w, to 1,694.4).

**Commodities:** w-o-w, oil prices were down (Brent, -0.53% to 106.1 USD/b). W-o-w, gold prices decreased (-1.93% to 1,896.9 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