



R&R Weekly Column
By Brunello Rosa



VS



+ Saudi Arabia and Argentina

Led By China, A New G7 For Developing Countries Is Emerging In a Polarised World

Last week, a G7 meeting took place in Germany. According to [its final communique](#), the meeting of these seven developed nations sent “[a signal of clarity and strength](#)” on crucial matters such as the war in Ukraine, world hunger, and other key long-term risks such as climate change. German Federal Chancellor Olaf Scholz stressed that “what unites [the G7 nations is their] shared values: democracy, human rights, peace and freedom.” For this reason, the G7 countries invited to the party “partner countries” such as “Argentina, India, Indonesia, Senegal and South Africa.”

As we discussed [in our recent analysis](#), with the war in Ukraine, global governance has collapsed. The UN Security Council is balkanised like the rest of the world, with the US, UK and France on one side and Russia and China on the other side. Equally, the G20 is divided between supporters of the US and the West and those more inclined towards China and Russia (though there are a bunch of countries that would prefer not to take sides). For this reason, the G7 countries invited other partners from the developing world.

The G7 countries have also pledged to raise USD 600 billion in private and public funds over five years to finance needed infrastructure in emerging markets to counter China's multitrillion-dollar Belt and Road Initiative (BRI), in a newly renamed project called “Partnership for Global Infrastructure and Investment.”

While all this is happening, China and Russia are not just staying put. Instead, [on May 27 the Foreign Ministers](#) of the BRICS forum countries (Brazil, Russia, India, China, and South Africa) “reached consensus on its expansion process”, so as to potentially include Saudi Arabia and Argentina in this group of countries in the future. If the extension takes place and gets implemented, this would amount to a new G7 gathering for developing economies, led by China. It would include countries with the largest populations in the world, and the largest natural resources reserves. With China's BRI, which dates back to 2013, this new “EMG7” would have the firepower to compete on the international stage with the “traditional” G7.

Meanwhile, Russia has recently held its [International Economic Forum of St. Petersburg](#), this year marking its 25th year. While one could think that, with the war in Ukraine, most world leaders would have deserted the forum and exposed Russia's isolation, the Forum actually featured 13,500 participants from 141 countries and territories, with 43 foreign ministers and 1,500 companies represented at an executive level. At the forum, China, Russia and India discussed energy, supply and logistical corridors; the settlement of natural resources trading in currencies other than the dollar; the integration of the Eurasian geopolitical bloc with the Asian bloc; and even potential commercial agreements being reached between Pakistan and India.

Given this background, it is clear that a new model of global governance is emerging: one based on NATO and the traditional G7 to take care of the developed world, another based on the new EMG7 gathering, China's BRI, and the military alliances that are being forged, which will primarily focus on developing countries. We could summarise this by calling it a “balkanised global governance for a polarised world.”

Our Recent Publications

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Looking Ahead

The Week Ahead: Unemployment To Stay Stable In US; Service And Composite PMIs To Fall In US And EZ, And Unchanged In UK

In the US, in June, the unemployment rate is expected to stay stable at 3.6%. NFP is seen increasing by 295K (*p*: 390K). Also in June, services and composite PMIs are expected to decrease to 51.6 (*p*: 53.4) and 51.2 (*p*: 53.6) respectively.

In the EZ, in June, services and composite PMIs are expected to decrease to 52.8 (*p*: 56.1) and 51.9 (*p*: 54.8) respectively. In May, retail sales are seen increasing to 0.4% m-o-m (*p*: -1.3%). May's PPI is likely to decelerate to 36.7% y-o-y (*p*: 37.2%).

In the UK, in June, services and composite PMIs are likely to stay unchanged at 53.4 and 53.1 respectively.

The Quarter Ahead: Russian Missile Strikes On Apartment Block In Odesa; Sweden And Finland Formally Invited To Join NATO

Ukraine war continues. Russian missile strikes kill 20 people in the Odesa region. Meanwhile, following a 'remarkable operation' by Ukrainian forces, Russians left Snake Island in the Black Sea.

NATO summit took place on June 28-30 in Madrid. Leaders agreed to cut NATO greenhouse gas emissions and move to Net Zero by 2050. Also for the first time, Pacific partners Australia, Japan, New Zealand, and the Republic of Korea participated together with the allies. President Biden reported that NATO's sanctions are starting to have an impact economically and militarily on Russia and he vowed to support Ukraine for 'as long as it takes'.

NATO formally invites Sweden and Finland to join the alliance. As the statement said: 'the accession of Finland and Sweden will make them safer, NATO stronger, and the Euro-Atlantic area more secure'. In a response to this, Putin said that Russia will respond, in case military infrastructure is set up there. Turkey's President Erdogan claims Sweden and Finland must extradite terrorist suspects linked to outlawed Kurdish groups.

Russia defaulted on foreign debt for the first time since 1918. Moody's rating agency said that missed coupon payment was a default.

Last Week's Review

Real Economy: Quarterly GDP Shrank In US And Decelerated In UK, While EZ Inflation Rose; DM's Manufacturing Activity Fell

In the US, in Q1, GDP growth plunged by -1.6% (*c*: -1.5%; *p*: 6.9%). In Q1, PCE and core-PCE rose by 7.1% q-o-q (*c*: 7.0%; *p*: 6.4%) and 5.2% q-o-q (*c*: 5.1%; *p*: 5.0%). On a yearly basis, PCE stayed unchanged at 6.3%, whereas core-PCE cool off to 4.7% (*c*: 4.8%; *p*: 4.9%). In June, Michigan Consumer Sentiment decreased to 50 (*c*: 50.2; *p*: 58.4).

In the EZ, May's unemployment edged down to 6.6% (*c*: 6.8%; *p*: 6.7%). In June inflation surged by 8.6% y-o-y (*c*: 8.4%; *p*: 8.1%) and stayed unchanged 0.8% m-o-m, whereas core-inflation eased off to 3.7% y-o-y (*c*: 3.9%; *p*: 3.8%). Consumer confidence fell to -23.6 (*p*: -21.1), the lowest since April 2020.

In the UK, in Q1 the economy slowed down slightly to 0.8% q-o-q (*p*: 1.3%) and advanced 8.7% y-o-y as expected (*p*: 6.6%). In Q1, business investment shrank by -0.6% q-o-q (*c*: -0.5%; *p*: 1.0%), while it surged on a yearly basis by 8.3% (*c*: 8.5%; *p*: 1.0%). Retail sales plunged by -4.7% y-o-y (*c*: -4.5%; *p*: -5.7%) and -0.5% m-o-m (*c*: -0.7%; *p*: 0.4%) in May.

In DMs, manufacturing PMIs declined. In EZ, manufacturing activity fell to 52.1 (*c*: 52; *p*: 54.6). UK's manufacturing indicator also edged down to 52.8 (*c*: 53.4; *p*: 54.6). In the US, manufacturing PMI decreased to 52.7 (*c*: 52.3; *p*: 57).

Financial Markets: Due To Recession Fears, Stock Market Moved Down; Yields Fell; Dollar Index Was Up, Whereas Oil And Gold Fell

Market Drivers: Investors remain pessimistic, as i) recession worries deepen; ii) concerns about earnings growth rise; and iii) fears of anticipated monetary policy rate hikes rise. In addition, the Atlanta Fed's GDPNow gauge indicates the second-quarter growth to be -2.1% (*p*: -1.0%). Weak economic growth accompanied by lower-than-expected inflation pushed yields lower.

Global Equities: Decreased w-o-w (MSCI ACWI, -2.2%, to 599.1). The US S&P 500 index declined (-2.2% w-o-w, to 3,825.33). In the EZ, shares were down (Eurostoxx 50, -2.4% w-o-w, to 3,448.31). In EMs, equities declined (MSCI EMs, -1.81%, to 992.84). Volatility rose to 27.8 (VIX S&P 500, 52w avg.: 22.9; 10y avg.: 18.1).

Fixed Income: w-o-w, 10-year US treasury yields fell (-25 bps to 2.89%). The 2-year US Treasury yields were down too (-22 bps to 2.84%). The German 10-year bund yield decreased (-21 bps to 1.23%).

FX: w-o-w, the US Dollar Index was up (DXY, +0.9%, to 104.9; EUR/USD -1.2%, to 1.043). In EMs, currencies weakened (MSCI EM Currency Index, -0.45% w-o-w, to 1,663.38).

Commodities: w-o-w, oil prices fell (Brent, -1.5% to 111.5 USD/b). Gold prices decreased w-o-w (-1.0% to 1,812.9 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