

# **MAKING SENSE OF THIS WORLD**

# 5 December 2022



R&R Weekly Column By Brunello Rosa



# Protests In China Reminds Us That Even Autocratic Regimes Are Subject To Public Approval

In the last few days, news about protests taking place in China were widely <u>reported by media outlets</u> in both the Western world and in China itself. The focal point was the civil unrest that <u>occurred in the city of Urumqi</u> following an apartment fire that killed 10 people, who apparently could not escape the building they were trapped in because of the Covid-related restrictions.

Various forms of civil unrest erupted nationwide, with protesters clearly criticizing the national government, the Communist Party, and its leader, Xi Jinping. This is a novelty for China, where protests have taken place in recent years but have targeted local leaders for their lack of action or mistakes made over local issues, such as environmental or transportation disasters. Not since the <u>Tiananmen square protests of April-June 1989</u> has the authority of the Chinese Communist Party (CCP) been directly challenged. On that occasion, the repression was ferocious, resulting in a massacre of the protesters.

The lesson from Tiananmen was that the CPP can repress any form of protest. But the CPP learnt a lesson as well, namely that it cannot govern indefinitely without popular support. For this reason, media outlets are now saying that the CPP is allowing <u>various Chinese</u> <u>cities to ease the Covid-related restrictions</u>.

This does not represent a fundamental change in the official zero-Covid policy just yet, as Xi himself championed the policy and cannot lose face by carrying out an explicit U-turn. However, it is an important shift towards pursuing zero-deaths, rather than zero *cases*, which was a totally unrealistic objective in a country with relatively low vaccination rates among the elderly and a vaccine – the Sinovac – that is not as effective as those developed by Western countries.

China should admit its failure in achieving this goal and start purchasing vaccines from the West, in particular those based on m-RNA technology that China has not yet developed. But in the context of Cold War II, this is clearly not possible, so it will still take time before China will fully re-open and the global economy can finally start breathing again. In fact, the global economy and financial markets will not be able to fully recover until China fully re-opens, resolving once and for all the supply bottlenecks that have plagued global value chains for the last three years.

What are the lessons from this entire story? *First*, that even in the most autocratic regimes, governments still need the explicit or implicit approval of their populations. History teaches us that autocratic regimes seem very stable until they collapse. *Second*, that even the most autocratic regimes cannot refuse to respond to their people's needs. But here is where things may subtly start going wrong.

In their joint declaration of February 4<sup>th</sup> 2022, on the sidelines of the Beijing Winter Olympics, Russian President Putin and Chinese President Xi said: "democracy is a universal human value, rather than a privilege of a limited number of States, and that its promotion and protection is a common responsibility of the entire world community." As we discussed in our column of June 6<sup>th</sup>, this is clearly an attempt by Russia and China to re-define what democracy is.

According to these autocratic leaders, democracy should not be intended as the electoral process by which people vote in their preferred leaders. Rather it should be the process by which governments, whether they are chosen via free elections or not, provide public goods to their people and keep them content. The number of democratic countries in the world is already dwindling. If this new concept of democracy takes place, dark days await us in the years ahead.

# **Our Recent Publications**

- Meloni's Prudent Approach Keeps Italy Out Of The Radar Screens, by Brunello Rosa, 2 December 2022
- G20: Takeaways From a Crisis-Ridden Summit, by London Politica, 30 November 2022
- Markets Dream Jerome Powell Acting as Santa Claus, by Filippo Ramigni, 29 November 2022







### **Looking Ahead**

# The Week Ahead: EZ QoQ GDP To Slow Down; Composite PMI To Fall In US, While Increasing In the EZ And UK

*In the US*, in November S&P global services and composite PMI is seen falling to 46.1 (*p*: 47.8) and to 46.3 (*p*: 48.2). In October, retail sales are likely to contract by 2.6% y-o-y (*p*: -0.6%).

In the EZ, in Q3, GDP growth is expected to slow down to 0.2% q-o-q (p: 0.8%) and 2.1% y-o-y (p: 4.3%). In November S&P global services PMI is seen staying unchanged at 48.6 (p: 48.6), whereas composite PMI is expected to fall to 47.8 (p: 47.3). In October, retail sales are likely to contract by 2.6% y-o-y (p: -0.6%).

*In the UK,* in November S&P global services PMI is seen staying unchanged at 48.6 (*p:* 48.6), whereas composite PMI is expected to increase to 48.3 (*p:* 48.2).

# The Quarter Ahead: G7 Agrees On A Price Cap For Russian Oil; China Removes COVID Curbs; Leaders Show Support For Ukraine

**G7** agreed on a USD60 per barrel price cap for Russian oil. After the EU countries overcame resistance from Poland (originally holding out for a much lower price cap), an agreement was reached on USD60 per barrel price cap on Russian seaborne crude oil. The price cap aims to reduce Russia's income from selling oil and is due to come into force on Monday.

Beijing and Shenzhen loosen more COVID curbs following weeks of protests. China reduced mass testing and market shift in policy after curbs fueled widespread protests. In the meantime, IMF managing director Georgieva warned to prepare for the fallout from China's slowing economy as a result of the zero-COVID policy.

The Leaders show support for Ukraine. President Biden and President Macron affirmed their support for Ukraine during a state visit. Chancellor Scholz urged President Putin to seek a diplomatic solution to end the war, including troop withdrawals. Earlier last week, Russia rejected Biden's terms for talks between Russia and the US.

#### Last Week's Review

# Real Economy: US QoQ GDP Advanced; PCE Inflation Fell In the US; EZ Headline Inflation Declined; Unemployment Fell In EZ

*In the US*, according to the second estimate, in Q3, GDP accelerated by 2.9% q-o-q (*c*: 2.7%; *p*: -0.6%). In November, the unemployment rate stayed the same at 3.7% as expected. NFPs rose by 263K (*c*: 200K; *p*: 284K). November's S&P global manufacturing PMI decreased to 47.7 (*c*: 47.6; *p*: 50.4). PCE and core PCE fell to 6.0% y-o-y (*p*: 6.3%) and 5.0% y-o-y (*c*: 5.0%; *p*: 5.2%) respectively.

*In the EZ,* in November headline inflation slowed down 10% y-o-y (*c*: 10.4%; *p*: 10.6%) and core inflation remained unchanged at 5.0% y-o-y, as expected. Monthly inflation contracted by 0.1% (*p*: 1.5%). In October, the unemployment edged down to 6.5% (*c*: 6.6%; *p*: 6.6%) Still, in November, economic sentiment rose to 93.7 (*c*: 93.5; *p*: 92.7) and consumer confidence recovered to -23.9 (*p*: -27.5) as expected. November's S&P global manufacturing PMI rose to 47.1 (*c*: 47.3; *p*: 46.4).

*In the UK,* November's S&P global manufacturing PMI increased to 46.5 (*c*: 46.2; *p*: 46.2).

#### Financial Markets: Stocks Rose; Yields Were Down; Dollar Is Down; Oil And Gold Prices Moved Up

*Market Drivers:* Investors remained optimistic as according to the FOMC minutes, the Fed might slow the pace of rate hikes. As a result, the stocks moved higher. EZ shares also rose, as lower-than-expected inflation in the eurozone spurs hopes that the ECB could slow the tightening pace. Powell's latest remarks on future monetary policy moves pushed down the US and EZ yields.

Global Equities: Increased w-o-w (MSCI ACWI, +0.9%, to 630.92). The US S&P 500 index rose (+1.1% w-o-w, to 4,071.70). In the EZ, share prices were up (Eurostoxx 50, +0.4% w-o-w, to 3,977.90). In EMs, equity prices moved up (MSCI EMs, +3.3%, to 972.29). Volatility decreased to 21.3 (VIX S&P 500, 52w avg.: 25.5; 10y avg.: 18.2).

*Fixed Income:* w-o-w, the 10-year US treasury yields declined (-20 bps to 3.49%). The 2-year US Treasury yields fell (-18 bps to 4.28%). The German 10-year bund yield decreased (-15 bps to 1.82%).

FX: w-o-w, the US Dollar Index was down (DXY, -1.4%, to 104.44; EUR/USD +1.3%, to 1.05). In EMs, currencies increased (MSCI EM Currency Index, +0.5% w-o-w, to 1,633.38).

Commodities: w-o-w, oil prices increased (Brent, +2.0% to 85.42 USD/b). Gold prices rose w-o-w (+3.3% to 1,811.4 USD/Oz).



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### **Abbreviations, Acronyms and Definitions**

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l Bank of Turkey an Democratic Union, Germany		Personal Consumption Expenditures
an Democratic Union, Germany	PE	Price to earnings ratio
	PM	Prime minister
e Yuan	PMI	Purchasing managers' index
mer Price Index	pps	Percentage points
ones Industrial Average Index	pw	Previous week
ones Emerging Markets Index	QCB	Qatar Central Bank
n-day	QAR	Qatari Riyal
lar Index	QE	Quantitative easing
ean Commission	q-o-q	Quarter-on-quarter
ean Central Bank	RE	Real estate
ean Court of Justice	RBA	Reserve Bank of Australia
ergy Information Agency	RRR	Reserve Requirement Ratio
ing Markets	RUB	Russian Rouble
ean Parliament	SWF	Sovereign Wealth Fund
gs per share	tn	Trillion
ean Union	TRY	Turkish Lira
	UAE	United Arab Emirates
ne	UK	United Kingdom
leral Reserve	US	United States
	USD	United States Dollar
•		USD per barrel
	•	US Treasury bills/bonds
9	VAT	Value added tax
	VIX	Chicago Board Options Exchange Volatility Index
•		West Texas Intermediate
•		World Trade Organisation
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