



R&R Weekly Column
By Brunello Rosa



After One Year, The War in Ukraine Still Rages On, With No End In Sight

On February 24th, 2023, the one-year anniversary of Russia's invasion of Ukraine took place. As we discussed [in various columns on this theme](#), this date also marks the end of the post-WW2 equilibria, the official end of this phase of the globalisation process, and an acceleration to the polarisation of the world between the spheres of influence of the US and China, as part of the broader Cold War 2 between the world's super-powers.

On February 4th, 2022, Russia's President Vladimir Putin and China's President Xi Jinping met in Beijing and [issued a joint declaration](#) that called for the beginning of a "limitless cooperation" between the two countries. That declaration, intended to be the first step [toward the establishment of a new, multipolar world order](#), represented the de-facto green light given by China to the Russian invasion of Ukraine. Subsequently, press reports were released in which Xi expressed his irritation for not being fully informed by Putin about his intentions prior to the invasion. (Indeed, even Russia's own Foreign Minister Sergei Lavrov said [he was informed about Putin's decision only after the invasion had started](#)). But the reality is that the recent European tour by China's plenipotentiary Wang Yi concluded in Moscow, with a meeting with Putin, and – according to press reports – [Xi himself is expected to visit Putin soon](#).

Whatever the recollection of events may be, the fact remains that [the relationships between Russia and China remain "rock solid"](#), and now the world has polarised between the US and its allies, primarily in Europe (which has given up any dream of "strategic autonomy") on the one hand, and China and its allies on the other. Only a bunch of countries can afford not to choose between these two sides [and remain non-aligned; primarily, India](#). But India has joined China in not approving [the UN resolution that condemns Russia's invasion of Ukraine](#) last week (141 voted in favour, 32 countries abstained - including India and China – and 7 voted against, i.e. Belarus, Nicaragua, Russia, Syria, North Korea, Eritrea and Mali.)

In our view, many countries in Africa and Latin America will likely become battlefields of proxy wars between the US and China, as happened during the Cold War between the US and Soviet Union (and in fact, many of those same countries abstained in the UN resolution asking Russia to leave Ukraine). In our opinion, the war in Ukraine is already the first of these proxy wars between the US and China, fought by Ukraine and Russia, notwithstanding the ongoing rivalry between these two countries, which of course dates back a long time before Cold War 2 clearly emerged.

And precisely because this is already a proxy war between US and China, we believe that China's [12-point peace plan \("position paper"\)](#) to achieve a political solution to the Ukrainian crisis is destined to fail. The US will never accept that its main contender will become the peacemaker in a conflict in which the US is so largely invested.

Considering all this, it is hard to be optimistic about the duration and intensity of this war. What could be considered a "natural equilibrium" for Putin (a result after which he could claim full victory), i.e. the occupation – besides Crimea – of the four "annexed provinces" such as Luhansk and Donetsk, plus Odessa's region [up to Transnistria in Moldova](#), is totally unacceptable for the international community, and certainly to Ukraine. It would be hard enough to convince Ukrainian president Volodymyr Zelensky to give up Crimea as part of a broader peace plan, and for Putin merely stabilising the position of Crimea alone after such a costly war would be considered a severe defeat.

This means that a diplomatic solution to this conflict is not in sight; but a victory of either of the two sides on the ground is also very unlikely, as US generals have admitted. The conflict will therefore continue, along with its dire humanitarian, social, economic and financial consequences. And with [the risk of a nuclear escalation having in fact increased](#), rather than decreased, in recent weeks, as testified by Russia's decision to [suspend the application of the NEW START treaty](#) on nuclear non-proliferation). The international community will need to continue working hard to find any solution that avoids such a catastrophic eventuality.

Our Recent Publications

✿ [Chinese Balloon in US Airspace: A Diplomatic Crisis and Escalation of US-China Relations?](#), by London Politica, 23 February 2023

✿ [When The Going Gets Tough, The Tough Get Going](#), by Filippo Ramigni, 21 February 2023

✿ [Navigating Between Macroeconomic Resilience and Geopolitical Tensions](#), by Brunello Rosa, 22 February 2023

✿ [De-Dollarisation and New Global Supply Chains: An Assessment](#), by Mirko Giordani, 16 February 2022



Looking Ahead

The Week Ahead: EZ Headline Inflation To Fall; EZ Unemployment To Stay The Same; DM PMIs To Increase Above 50

In the US, In February, according to final estimates, S&P Global Manufacturing and Services PMIs are likely to edge up to 47.8 (*p*: 46.9) and 50.5 (*p*: 46.8) respectively. Composite PMI is seen increasing too to 50.2 (*p*: 46.8).

In the EZ, in February, the headline inflation rate is expected to ease off to 8.2% y-o-y (*p*: 8.6%), whereas the core inflation rate is seen staying the same at 5.3% y-o-y. In January, the unemployment rate is likely to stay unchanged at 6.6%. In February, Economic Sentiment is expected to increase to 101 (*p*: 99.9). Still in February, Consumer Confidence is likely to recover only slightly to -19 (*p*: -20.7). In February, according to final estimates, S&P Global Manufacturing PMI is seen falling to 48.5 (*p*: 48.8), whereas Services PMI is likely to edge up to 53 (*p*: 50.8). Composite PMI is seen increasing to 52.3 (*p*: 50.3).

In the UK, in February, according to final estimates, S&P Global Manufacturing and Services PMIs are seen increasing to 49.2 (*p*: 47) and 53.3 (*p*: 48.7). Composite PMI is expected to rise too to 53 (*p*: 48.5).

The Quarter Ahead: China Urges Russia-Ukraine Cease-Fire And Peace Talks; Ukraine's Allies Announced New Aid

Beijing released plans for Russia-Ukraine talks, calling for a ceasefire. China's peace plans coincide with the first anniversary of Russia's invasion of Ukraine. The "position paper" also calls for the end to Western sanctions, the establishment of humanitarian corridors for the evacuation of civilians and steps to ensure the export of grain following the disruptions caused soaring food prices. China also warned against the use of nuclear weapons. President Zelensky said he was open to considering some parts of China's peace plan. Russia said it also welcomed the plan.

On the anniversary of Russia's invasion, Ukraine's allies announce fresh aid. World Bank announced \$2.5 bn aid package, supporting a range of social functions in the country. The UK's new sanctions ban every item Russia is using on the battlefield. The US also imposed new restrictions on more than 100 entities both in Russia and worldwide, including banks and suppliers of defence equipment.

Last Week's Review

Real Economy: US QoQ GDP Decelerated; Headline Inflation Fell, While Core Increased In EZ

In the US, in Q4, according to the second estimate, GDP decelerated to 2.7% q-o-q (*c*: 2.9%; *p*: 3.2%). In January, PCE and Core-PCE decreased to 5.4% y-o-y (*p*: 5.3%) and 4.7% y-o-y (*c*: 4.3%; *p*: 4.6%) respectively.

In the EZ, in January, the headline inflation rate eased off to 8.6% y-o-y (*c*: 8.6%; *p*: 9.2%), whereas core inflation increased to 5.3% y-o-y (*c*: 5.2%; *p*: 5.2%). Monthly inflation fell by -0.2% (*p*: -0.4%) as expected. February's ZEW Economic Sentiment Index edged up to 29.7 (*c*: 22.3; *p*: 16.7).

In the UK, Still, in February, Gfk Consumer Confidence shrank again to -38 (*c*: -43; *p*: -45).

Financial Markets: Stock Prices Fell; Bond Yields Rose; Dollar Edged Up; Oil Prices Increased, Whereas Gold Prices Fell

Market Drivers: Stocks suffered worldwide since investors fear that central banks will be forced to continue raising rates and keep them elevated for longer than expected. In the US, due hot inflation report, investors now expect more rate hikes, sparking rise in bond yields. In Europe, investors also bet on more hikes following better-than-expected economic data and rising corporate earnings.

Global Equities: Decreased w-o-w (MSCI ACWI, -1.8%, to 633.68). The US S&P 500 index edged down (-2.7% w-o-w, to 3,970.04). In the EZ, share prices were down (Eurostoxx 50, -2.3% w-o-w, to 4,179.35). In EMs, equity prices moved down (MSCI EMs, -1.7%, to 982.06). Volatility rose to 22.3 (VIX S&P 500, 52w avg.: 26.1; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US treasury yields were up (+13 bps to 3.95%). The 2-year US Treasury yields rose (+20 bps to 4.81%). The German 10-year bund yield increased (+7 bps to 2.53%).

FX: w-o-w, the US Dollar Index increased (DXY, +1.4%, to 105.2; EUR/USD -1.3%, to 1.05). In EMs, currencies fell (MSCI EM Currency Index, -0.1% w-o-w, to 1,672.34).

Commodities: w-o-w, oil prices increased (Brent, +0.3% to 83.23 USD/b). Gold prices fell w-o-w (-1.2% to 1,818.00 USD/Oz).



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The picture in the front page comes from [this website](https://www.gettyimages.com/detail/photo/young-woman-looking-out-window-royalty-free-image)



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