



*R&R Weekly Column
By Brunello Rosa*



China Increases Pressure On Taiwan, As Macron Revives The EU's Strategic Autonomy

Last week, [French President Emmanuel Macron went to China](#) to meet Chinese President Xi Jinping. This was the first visit of France's president since the beginning of the war in Ukraine, and it follows the visit German Chancellor Olaf Scholz made to China [in early March](#). That visit caused much discontent in Europe, as Scholz seemed to be breaking from the West's ranks in the war against Russia in order to pursue the commercial interests of Germany.

For this reason, [Emmanuel Macron was accompanied by EU Commission President Ursula von der Leyen](#), to show that he was trying to advance the interests of the entire EU and not solely those of France. In particular, they reportedly asked Xi to "bring Russia back to reason." Nevertheless, Macron was accompanied by plenty of French business leaders on his trip to Beijing - and subsequently to Guangzhou - who were in search for contracts to be signed. Additionally, it seemed that the French President and the EU Commission President [released quite diverging messages](#) regarding the purpose of their trip.

While von der Leyen has tried to portray a sense of unity in the European front, including that of its alliance with the US and other NATO countries, Macron has shocked policy observers and allies with the declarations he made after his tea with Xi Jinping. These declarations by Macron contained the following three messages. [First, that the EU needs to build the "strategic autonomy" that the French President](#) has spoken about since his first months in office in 2017. Second, that this strategic autonomy will serve the purpose of not making European countries vassal states of the US. And third, that the EU should as a result not be embroiled in all the geo-strategic disputes of the US that are not pertinent to the EU's own objectives.

All this is happening while the US is trying to build a united front against China in what we have called Cold War 2. We assume that these declarations won't make the US president particularly happy, as they clearly undermine his own efforts. Especially as they are coming at a time when China is flexing its muscles against its "rebel province" of Taiwan. [This week China started a military exercise against Taiwan, reportedly with live ammunition, in response to which the US has sent a military ship](#). We have discussed several times how we think that China will try to destabilise Taiwan with a series of provocations that will eventually aim at overthrowing the fragile democracy of the island, following a tactic not too dissimilar to that which it used to regain control of Hong Kong.

French President Macron has tried to revive the dream of Europe's strategic autonomy. But in this polarising world, in which countries have to side either with China or the US, this may prove much harder than he currently predicts.

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Looking Ahead

The Week Ahead: US Headline Inflation To Fall, While Increases; Retail Sales To Contract In US And EZ

In the US, in March, the headline inflation rate is likely to ease off to 5.2% y-o-y (p: 6.0%), while core inflation is seen increasing to 5.6% y-o-y (p: 5.5%). On a monthly basis, inflation is expected to fall too to 0.3% (p: 0.4%). Retail sales are seen shrinking by 0.4% m-o-m (p: -0.4%). In April, according to a preliminary estimate, Michigan Consumer Sentiment is expected to edge up to 62.7 (p: 62). Michigan Consumer Expectations are seen rising to 60.9 (p: 59.2).

In the EZ, in February, retail sales are expected to shrink by 3.5% y-o-y (p: -2.3%) and 0.8% m-o-m (p: 0.3%). Still in February, IP is likely to increase by 1.6% y-o-y (p: 0.9%).

In the UK, in February, IP is expected to shrink by 3.7% (p: -4.3%).

The Quarter Ahead: Macron And Von der Leyen In China; China Begins Drills Around Taiwan; Russia Sees No Diplomatic Solution

Macron and von der Leyen met with Xi Jinping. During the trilateral talks, China emphasized enhancing cooperation and stabilising relations. Macron called on Xi to "bring back Russia to reason", Von der Leyen expects China to promote peace. Xi also said that commitment to not using nuclear weapons should be respected.

The Pentagon investigates a reported leak of documents. A security breach saw classified documents on US and NATO support for Ukraine leaked to social media, mainly pro-Russian government channels. Officials in Kyiv fear that the documents were altered by the Russians, in part to cover up the true extent of casualties suffered by Russian forces and inflate the number of Ukrainians they killed.

China launches military drills around Taiwan. China flies fighter jets after US House of Representatives speaker Kevin McCarthy held talks with Taiwan's President Tsai Ing-we. Taiwan's Defence Ministry it would respond to China's exercises "with a calm, rational, and serious attitude".

Russia sees no diplomatic solution to the war. As Sergey Lavar said any peace talks should focus on creating a "new world order" and take into account "Russian interests, Russian concerns".

Last Week's Review

Real Economy: US Unemployment Fell; NFPs Rose; Composite PMI Increased In US And EZ, While Fell In the UK

In the US, in March, unemployment decreased to 3.5% (c: 3.6%; p: 3.6%). NFP rose by 236K (c: 239K; p: 326K). In March, S&P Global Manufacturing and Services PMIs edged up to 49.2 (c: 49.3; p: 47.3) and 52.6 (c: 53.8; p: 50.6). Composite PMI rose to 52.3 (c: 53.3; p: 50.1). In March, Average hourly earnings increased by 4.2% y-o-y (c: 4.3%; p: 4.6%).

In the EZ, in March, S&P Global Manufacturing PMI fell to 47.3 (c: 47.1; p: 48.5), while Services PMI rose to 55 (c: 55.6; p: 52.7). Composite PMI increased to 53.7 (c: 54.1; p: 52).

In the UK, in March, S&P Global Manufacturing and Services PMIs edged down to 47.9 (c: 48.0; p: 49.3) and 52.9 (c: 52.8; p: 53.5). Composite PMI decreased to 52.2 (p: 53.1) as expected.

Financial Markets: Stock Prices Decreased as Bond Yields and Dollar Index Fell, While Oil And Gold Prices Edged Up

Market Drivers: Investors were surprised by OPEC's move to cut production and as a result oil prices rose. The major stock indices dipped as a surge in oil prices added another threat to an economy already impacted by rate hikes.

Global Equities: Decreased w-o-w (MSCI ACWI, -0.1%, to 646.31). The US S&P 500 index edged down (-0.1% w-o-w, to 4,105.02). In the EZ, share prices were down (Eurostoxx 50, -0.1% w-o-w, to 4,309.45). In EMs, equity prices moved down (MSCI EMs, -0.3%, to 987.07). Volatility decreased to 20.1 (VIX S&P 500, 52w avg.: 26.1; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US treasury yields were down (-6 bps to 3.41%). The 2-year US Treasury yields decreased (-4 bps to 3.99%). The German 10-year bund yield edged down (-13 bps to 2.17%).

FX: w-o-w, the US Dollar Index fell (DXY, -0.4%, to 101.7; EUR/USD +0.6%, to 1.09). In EMs, currencies decreased (MSCI EM Currency Index, -0.2% w-o-w, to 1,688.70).

Commodities: w-o-w, oil prices increased (Brent, +6.5% to 84.94 USD/b). Gold prices rose w-o-w (+2.8% to 2,039.90 USD/Oz).



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The picture in the front page comes from [this website](https://www.gettyimages.com/detail/photo/young-woman-with-arms-crossed-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



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