



R&R Weekly Column
By Brunello Rosa



China's Increasing Appeal as a Broker of International Affairs

Brazilian President Luiz Inacio "Lula" Da Silva visited China last week, and [reportedly he and Chinese President Xi Jinping discussed](#) possible solutions to end the war in Ukraine. The two sides discussed the possibility of creating a group of countries that are not involved with the Russia-Ukraine war, to broker peace between the two belligerent countries. On his way back to Brazil, in Abu Dhabi, the Brazilian president made comments in which he suggested that Western countries should stop providing weapons to Ukraine, because doing so has been "prolonging the war."

Unsurprisingly, these comments caused much resentment and outcry in the U.S. and Europe, while being [lauded by Russia](#). Lula partly backtracked from his comments by condemning the "violation of Ukraine's territorial integrity" by Russia, and again called for mediation to end the war. He avoided further criticism of the U.S. and European role in the war [during his visit to Portugal this past weekend](#).

Why did Lula come up with such comments? There are several reasons. *First*, Lula has been re-elected with a much more left-wing platform than in the past, as he needed to differentiate himself from his predecessor Jair Bolsonaro. Part of this platform consists in being less pro-American than his right-wing predecessor, who was considered the "Trump of Latin America." So Lula has to some extent [re-vitalised the traditional non-aligned and pacifistic position of Brazil](#), by distancing himself from the US.

Second, Brazil belongs to the BRICS, the group of emerging markets that is creating [a new EM-G7](#), together with Saudi Arabia, Argentina, and perhaps other countries as well. So, Russia Brazil is already keen to listen to both China and Russia, which belong to the same grouping, and are currently allied in the Russia-Ukraine conflict. One cannot be surprised therefore if Brazil echoes some of China's and Russia's opinions. China has already acquired several Latin American countries in its Belt and Road Initiative (BRI), i.e. Venezuela, Ecuador, Peru, Bolivia, Chile, Argentina, and Uruguay. China is increasing its influence in South America, either via its BRICS grouping or its BRI initiative.

Third, and perhaps more importantly, China has massively increased its appeal as a potential broker for international affairs. Apart from attempting to become a mediator for the conflict in Ukraine, which will be difficult given its support to Russia, it has recently brokered [a historic agreement between Saudi Arabia and Iran](#), which at least on paper may freeze the conflict between the two Middle Eastern powers after decades of overt or covert conflict. For this reason, China has become a reference point for a diverse (and often conflicting) set of countries, such as Iran, Saudi Arabia and Israel, as well as Pakistan, India and North Korea.

China's role as an international peacemaker will still require time to be built, and it is unlikely to happen until China will be involved directly in some major conflict, as it happened to the U.S. after WW2. But the country has already made huge strides in that direction, and it is obvious that the role of the U.S. as the world's only superpower, brokering international affairs with diplomatic as well as military means, is now over.

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Looking Ahead

The Week Ahead: QoQ GDP To Decelerate In US, And To Rise Slightly In EZ; Inflation to Fall in Germany And Stay The Same In France

In the US, according to advance estimate, in Q1, GDP is likely to decelerate to 2.0% q-o-q (*p*: 2.6%). In March, core PCE price index is expected to ease off to 4.5% y-o-y (*p*: 4.6%).

In the EZ, according to flash estimates, in Q1, GDP is seen advancing slightly by 0.2% q-o-q (*p*: 0.0%) and decelerate 1.4% y-o-y (*p*: 1.8%). In April, economic sentiment is likely to increase to 99.9 (*p*: 99.3) and consumer confidence is likely to shrink to -17.5 (*p*: 19.2).

In largest EZ economies, according to preliminary estimates, in Q1, the economy is expected to: *i*) decelerate to 0.2% q-o-q (*p*: 0.1%) in France; *ii*) advance by 0.2% q-o-q (*p*: -0.4%) in Germany; and *iii*) advance by 0.2% q-o-q (*p*: -0.1%) in Italy. In April, the inflation rate is seen: *i*) staying the same at 5.7% y-o-y in France; and *ii*) easing off to 7.3% y-o-y (*p*: 7.4%) in Germany.

The Quarter Ahead: NATO Reaffirms Ukraine To Eventually Join The Alliance; 2024 US Presidential Elections

NATO allies agree Ukraine will become a member. NATO chief Stoltenberg visited Kyiv the first time after Russia's invasion of Ukraine. Ukraine's government formally requested "accelerated accession" to join NATO in September last year. On the other hand, German defence minister said that it is early to discuss Ukraine's membership. In the meantime, Russia targeted Kyiv with Iranian drones for the first time in almost a month, officials in Kyiv said.

2024 US Presidential Elections. President Biden is expected to announce his candidacy for the re-election. Trump is also mounting a third consecutive bid, while other Republicans are running or considering campaigning, including DeSantis and Haley.

The situation in South Sudan. According to WHO, more than 400 people are killed as violent clashes between the Sudan Armed Forces (SAF) and the paramilitary Rapid Support Forces (RSF) have been raging in the capital Khartoum and in other strategic areas.

Last Week's Review

Real Economy: EZ Headline Inflation Fell, While Core Rose; UK Headline Inflation Cooled; In DMs, Composite PMIs Increased

In the US, according to flash estimates, Manufacturing and Services PMI increased to 50.4 (*c*: 49; *p*: 49.2) and 53.7 (*c*: 51.5; *p*: 52.6). Composite PMI increased too to 53.5 (*p*: 52.3).

In the EZ, in March, headline inflation fell to 6.9% y-o-y (*p*: 8.5%), while core inflation increased to 5.7% y-o-y (*p*: 5.6%) as expected. Monthly Inflation edged up to 0.9% (*c*: 0.9%; *p*: 0.8%). April's Consumer Confidence shrank to -18.7 (*c*: -18.5; *p*: -19.1). According to flash estimates, Manufacturing PMI edged down to 45.5 (*c*: 49; *p*: 47.3), while Services PMI edged up to 56.6 (*c*: 54.5; *p*: 55). Composite PMI increased to 54.4 (*c*: 53.7; *p*: 53.7).

In the UK, in February, unemployment rate edged up to 3.8% (*c*: 3.7%; *p*: 3.7%). In March, the headline inflation rate eased off to 10.1% y-o-y (*c*: 9.8%; *p*: 10.4%), while core inflation stayed the same at 6.2% y-o-y (*c*: 6.0%). Monthly Inflation rose by 0.8% (*c*: 0.5%; *p*: 1.1%). Still in March, retail sales are expected to contract by 3.1% y-o-y (*c*: -3.1%; *p*: -3.3%) and 0.9% m-o-m (*c*: -0.5%; *p*: 1.1%). According to flash estimates, Manufacturing PMI decreased to 46.6 (*c*: 48.5; *p*: 47.9), while Services PMI rose to 54.9 (*c*: 52.9; *p*: 52.9). Composite PMI rose to 53.9 (*c*: 52.5; *p*: 52.2).

Financial Markets: Stock Prices were Mixed, while Bond Yields Increased; Dollar Index Rose, While Oil And Gold Prices Edged Down

Market Drivers: Investors evaluated the latest round of corporate earnings. The market digested mixed earnings reports and as a result stock prices decreased. Yields edged higher as business activity picked up and PMIs rose.

Global Equities: Decreased w-o-w (MSCI ACWI, -0.3%, to 652.61). The US S&P 500 index edged down (-0.1% w-o-w, to 4,133.52). In the EZ, share prices were up (Eurostoxx 50, +0.4% w-o-w, to 4,408.59). In EMs, equity prices moved down (MSCI EMs, -2.0%, to 980.74). Volatility rose to 19.5 (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 (+5 bps to 3.57%). The 2-year US Treasury yields increased (+8 bps to 4.2%). The German 10-year bund yield edged up (+4 bps to 2.48%).

FX: w-o-w, the US Dollar Index rose (DXY, +0.2%, to 101.4; EUR/USD -0.1%, to 1.1). In EMs, currencies decreased (MSCI EM Currency Index, -0.6% w-o-w, to 1,689.48).

Commodities: w-o-w, oil prices decreased (Brent, -5.3% to 81.75 USD/b). Gold prices fell w-o-w (-0.5% to 1,993.10 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



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