



**R&R Weekly Column**  
**By Brunello Rosa**



## Geopolitics Still Remain Centre Stage in Markets

Last week, [deal – however temporary – for the US debt ceiling was reached](#) between the two sides of the aisle in the US congress. [This will avoid a catastrophic default](#), which could have had unforeseen consequences on international markets. Meanwhile, [the Non-Farm Payroll figure for May 2023](#) showed an astonishing 339,000 increase in the number of jobs, well above the 190,000 that had been estimated by the market, a further proof of the US job market resilience. In the past, these events would have been more than enough to determine investors' sentiment in the market. But these days are different.

Clearly, macro-financial conditions still have a large impact on market sentiment and behaviour. But in this period, geopolitics seems to reign supreme for investors' moods, and for market dynamics. In this respect, several items have been on the agenda over the last few days. [First is the OPEC+ summit](#), which is trying to agree on another cut to oil production in order to prop up oil prices. Saudi Arabia is reportedly in favour of a cut, while other countries seem more reluctant. The decision by OPEC on oil production is the traditional "transmission mechanism" between geopolitics and the global economy. But in this period, geopolitics tends to have a much more direct impact on investor sentiment.

[In Europe](#), at the end of last week, [a meeting of the European Political Community \(EPC\) took place in Mimi Castle in Bulboaca, Moldova](#). The EPC gathers around the table the 27 EU countries, plus 18 additional non-EU European countries to discuss security and energy-related issues. The choice of Moldova was not casual. Moldova has a region, Transnistria, which is already controlled by the Russians, and many fear that the country could follow a fate similar to that of Ukraine. Clearly the EU countries wanted to make it known that they will stand beside Moldova, as well any other country that could be threatened by Russia (including Armenia, Azerbaijan, and Georgia, all of which were present at the meeting). On the sidelines of the meeting, [French President Emmanuel Macron backed Ukraine's NATO membership](#), in a U-turn that [follows that of Henry Kissinger, which we discussed last week](#).

Surprisingly enough, Turkey was not invited to the meeting, despite having applied for EU membership several years ago and clearly being the gateway between Europe and the Middle East. [In Turkey, President Erdogan began his third mandate](#), and his third decade in power. In a move that has pleasantly surprised market participants, Erdogan has [appointed as new Finance Minister Mehmet Simsek](#), a former Merrill Lynch bond strategist who served as Finance Minister and Deputy Prime Minister in one of Erdogan's previous administrations, until 2018, when he was replaced by Erdogan's son-in-law Berat Albayrak. The hope by the industry is that Turkey will return to more orthodox policies, after the deviations of so-called Erdonomics, which brought inflation to nearly 50% per annum. Reportedly, Simsek promised to adopt "transparency, consistency, predictability and compliance with international norms" as the "basic principles in achieving the goal of raising social welfare."

In Asia, tensions are instead increasing between the US and China. At the Shangri-La Dialogue in Singapore, US defence secretary Lloyd Austin "criticised China for conducting dangerous aerial intercepts over the South China Sea," [according to the FT](#). This happened just a few hours [before a Chinese warship nearly collided with a Canadian frigate](#) in the international waters of the Taiwan Strait, in what the Canadians called "an unsafe maritime interaction." The risk of unintended incidents that quickly escalate into a direct military confrontation is increasing fast in the Indo-Pacific. If anything closer to such a confrontation were to happen, the repercussions on financial markets would be immediate and significant.

### Our Recent Publications

🌐 [Assad's Visit to Jeddah Marks The Return Of Syria To The Arab League](#), by Gulf State Analytics, 2 June 2023

🌐 [Erdogan's Next Term: Unpacking Turkey's Elections and the Future of Turkish Politics](#), by London Politica, 31 May 2023



Looking Ahead

**The Week Ahead: EZ QoQ GDP To Stall; Retail Sales To Contract In EZ; Composite PMIs To Rise In US, While Falling In EZ And UK**

**In the US**, in May, HCOB Services and Composite PMI are expected to edge up to 55.1 (*p*: 53.6) and 54.5 (*p*: 53.4) respectively.

**In the EZ**, in Q1, according to the third estimate, on a quarterly basis, GDP growth is expected to stall (*p*: 0.0%). The economy is seen decelerating to 1.2% y-o-y (*p*: 1.8%). In April, retail sales are likely to shrink by 3.0% y-o-y (*p*: -3.8%) and advance by 0.2% m-o-m (*p*: -1.2%). In May, HCOB Services and Composite PMI are expected to edge off to 55.9 (*p*: 56.2) and 53.3 (*p*: 54.1) respectively.

**In the UK**, in May, S&P Global Services and Composite PMI are seen decreasing to 55.1 (*p*: 55.9) and 53.9 (*p*: 54.9) respectively.

**The Quarter Ahead: US Debt Ceiling Pushed Back As Negotiations Continue; The War in Ukraine Continues**

**Senate passes US debt ceiling deal.** The US Congress has approved a bipartisan deal to raise the country's borrowing limit, averting the default. The agreement suspends the debt ceiling until 1 January 2025.

**The second European Political Community Summit took place in Chisinau, Moldova.** EU's 27 member states and 18 other European countries gathered in Moldova to address strategic matters and initiate a new EU partnership mission within the country. Along with Ukraine, Moldova has the official accession candidate status since last year. Moldova is expected to press for an accelerated EU membership process.

**Ukraine and NATO.** Emmanuel Macron backs for the first time NATO membership path for Ukraine. Macron urged the West to provide Ukraine with "tangible and credible" security assurances while it confronts Russia's invasion. Ukraine's NATO membership prospect is contentious and divisive among member states, fearing Moscow's retaliation. Joining NATO during a war or territorial occupation by a non-NATO adversarial state is highly risky for other members.

**Erdogan to begin another five years as Turkey's president.** Recep Tayyip Erdogan has secured re-election in a historic runoff vote with 52.14% of the votes, according to the head of Turkey's Supreme Election Council (YSK), extending his rule until 2028.

Last Week's Review

**Real Economy: Unemployment Rate Rose In US, While Fell In EZ; Inflation Eased off In EZ; Confidence Shrank In EZ**

**In the US**, in May, the unemployment rate increased to 3.7% (*c*: 3.5%; *p*: 3.4%). NFPs rose by 339K (*c*: 190K; *p*: 294K). May's S&P Global Manufacturing PMI edged off to 48.4 (*p*: 50.2).

**In the EZ**, in May, both headline and core inflation eased off to 6.1% y-o-y (*c*: 6.3%; *p*: 7.0%) and 5.3% y-o-y (*c*: 5.5%; *p*: 5.6%). In April, the unemployment rate declined to 6.5% (*c*: 6.5%; *p*: 6.6%). In May, economic sentiment decreased to 96.5 (*c*: 98.9; *p*: 99). May's consumer confidence fell to -17.4 (*c*: -17.4; *p*: -17.5). Still in May, manufacturing PMI fell to 44.8 (*c*: 44.6; *p*: 45.8).

**In the UK**, in May, S&P Global/CIPS Manufacturing PMI edged off to 47.1 (*c*: 46.9; *p*: 47.8).

**Financial Markets: Stock Prices Increased In The US, But Fell In EZ; Bond Yields Fell; Dollar Index, Oil And Gold Prices Decreased**

**Market Drivers:** The positive US job reports sparked confidence in the stock market, leading to the US stocks rising. The markets also cheered for the US debt ceiling deal. In Europe, Eurostoxx 50 edged down as ECB policymakers warned on further rate increases. While UST yields moved higher after the jobs report, on a weekly basis, they fell after the debt ceiling bill was approved.

**Global Equities:** Increased w-o-w (MSCI ACWI, +1.6%, to 663.25). The US S&P 500 index edged up (+1.8% w-o-w, to 4,282.37). In the EZ, share prices were down (Eurostoxx 50, -0.3% w-o-w, to 4,323.52). In EMs, equity prices moved up (MSCI EMs, +1.2%, to 984.36). Volatility declined to 17.1 (VIX S&P 500, 52w avg.: 24.6; 10y avg.: 18.5).

**Fixed Income:** w-o-w, the 10-year US treasury yields were down (-11 bps to 3.70%). The 2-year US Treasury yields also decreased (-6 bps to 4.51%). The German 10-year bund yield edged down (-21 bps to 2.32%).

**FX:** w-o-w, the US Dollar Index fell (DXY, -0.1%, to 104.04; EUR/USD -0.1%, to 1.07). In EMs, currencies increased (MSCI EM Currency Index, +0.4% w-o-w, to 1,685.24).

**Commodities:** w-o-w, oil prices decreased (Brent, -0.7% to 76.40 USD/b). Gold prices fell w-o-w (-1.0% to 1,964.30 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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