



R&R Weekly Column
By Brunello Rosa



How Many Wars Can the US Afford to Fight At The Same Time?

In a series of interviews made recently, both US President Joe Biden and Secretary to the Treasury Janet Yellen affirmed and confirmed that the US is in the position of fighting two wars at the same time: that both Ukraine and Israel can be supported against their aggressors, Russia and Hamas respectively. [Biden said](#) “We’re the United States of America for God’s sake, the most powerful nation in the history — not in the world, in the history of the world. ... We can take care of both of these and still maintain our overall international defense.” So, he justified his answer by re-affirming the USA’s geopolitical dominance at global level. Janet Yellen, providing an answer more centred on the fiscal sustainability of the military efforts, [said that the USA’s weakened fiscal position does not constitute an obstacle](#) to the support of these two countries in difficult positions.

Is it really the case that the US can afford to fight two wars at the same time? It is certainly true that, historically, it has been able to do so. Just to mention contemporary history, during World War 2 the US obviously did fight on two fronts at the same time. In Europe the US was fighting the Nazi-fascist bloc in Germany and Italy, with the decisive help of France, the UK and the Soviet Union. In the Pacific, it was fighting a parallel war against Japan, which ended up with nuclear bombs being dropped on Hiroshima and Nagasaki.

In the post-WW2 period, the US was fighting the [“cold” war with the Soviet Union](#) (1947-1991), but this did not prevent the US from fighting “hot” wars [in Korea](#) (1950-1953) and subsequently [in Vietnam](#) (1955-1975), just to give two examples. More recently, the US found itself embroiled in two separate wars at the same time, [in Iraq](#) (2003-2011) and [Afghanistan](#) (2001-21), and they managed to conduct these simultaneously, although the results in both cases were highly questionable.

So, Yellen is correct [in responding “absolutely”](#) to the question of whether the US can afford to fight two wars at the same time. But a different issue is the implication of all this for the US fiscal and monetary position and the overall global financial order. In fact, it is not a mystery that [the collapse of the Bretton Woods monetary system](#) was the result of the excessive military expenses the US had encountered to fight the war in Vietnam. When France asked to convert their US dollar reserves into gold, US President Nixon was forced to declare the end of the convertibility of the US dollar into gold.

Financing wars has huge fiscal and monetary implications. [Central banks - and their predecessors - were originally created to finance the wars of the kings](#). They certainly were not initially created to carry out banking supervision, or be lenders of last resort and monopolists of currency issuance, let alone to conduct monetary policy, as is the case today.

Are financial worries of this kind emerging these days? Certainly, they are emerging in the form of a rapid increase in long-term US Treasury yields, those which are more closely linked to weaker fiscal positions and higher inflation expectations. The 10y UST yield has recently reached 4.91%, and the 30y UST yield 5.08%, levels not seen since the period prior to the Global Financial Crisis in 2007-09. This testifies to the fact that investors are worried about the long-term sustainability of the US fiscal deficit (now 5.8% of US GDP) and of the US public debt (now 129% of GDP), in spite of the [“exorbitant privilege”](#) that the US enjoys in printing the global reserve currency, the US dollar. The example of the Vietnam war shows that even the most consolidated US-centric regimes end, and that new international monetary frameworks can emerge as a result.

Our Recent Publications

📖 [The Javier Milei and His Libertarian Agenda: How Likely Is He To Succeed In Implementing Radical Structural Reforms?](#), by Fernando Prats, 18 October 2023

📖 [The Ousting Of US Speaker Kevin McCarthy: Reasons and Implications](#), by Lāsma Kokina, 17 October 2023



Looking Ahead

The Week Ahead: US QoQ GDP To Increase; PMIs To Decrease In US, While They Are Expected To Rise In US And EZ; ECB To Pause

In the US, in Q3, GDP growth rate is expected to advance by 4.2% y-o-y (*p*: 2.1%). October, according to flash estimates, S&P Global Manufacturing and Services PMIs are likely to decrease to 49.5 (*p*: 49.8) and 49.9 (*p*: 50.1).

In the EZ, in October, according to flash estimates, S&P Global/CIPS Manufacturing PMI is likely to increase to 43.7 (*p*: 43.4), while Services PMI is expected to stay unchanged at 48.7. Composite PMI is seen rising to 47.4 (*p*: 47.2).

Still in the EZ, the ECB is likely to leave rates on hold.

In the UK, in August, the unemployment rate is expected to stay unchanged at 4.3%. In October, according to flash estimates, HCOB Manufacturing and Service PMIs are likely to increase to 45 (*p*: 44.3) and 49.5 (*p*: 49.3). Composite PMI is seen rising to 48.8 (*p*: 48.5).

The Quarter Ahead: Israel-Hamas War; Federal Elections Held In Switzerland; General Elections Held In Argentina

Israel-Hamas War. The Palestinian Prime Minister is asking the global community to come together and form a unified effort to prevent Israel's attacks on Gaza. In Syria, Israeli missiles struck Damascus and Aleppo international airports on Sunday, causing them to be non-operational and resulting in the death of two workers, as reported by Syrian state media. In the meantime, the US has issued a warning that American troops and staff in the Middle East could be at risk of facing a "major increase" in attacks against them.

Federal elections were held in Switzerland on 22 October 2023. The biggest political party in Switzerland, the right-wing Swiss People's Party (SVP), gained 29% of the vote, which is 3.4 percentage points more than they got in the previous election in 2019. This information comes from the final estimate provided by Swiss broadcaster SRF. In contrast, the Greens were expected to see their share of the votes fall by 4 percentage points to 9%, and lose six seats.

General elections were held in Argentina on 22 October 2023, to elect the president, vice president, members of the national congress and the governors of most provinces. Argentines are voting for a new president in an election that has been marked by the rise of an anti-establishment populist candidate named Javier Milei, who describes himself as a "libertarian."

Last Week's Review

Real Economy: Headline And Core Inflation Fell In EZ, While Headline Was Unchanged In UK; Retail Sales Rose In US

In the US, in September, retail sales rose by 3.8% y-o-y (*p*: 2.9%).

In the EZ, in September, both headline and core inflation decreased to 4.3% y-o-y (*p*: 5.2%) and 4.5% y-o-y (*p*: 5.3%) as expected.

In the UK, in September, headline inflation stood unchanged at 6.7% y-o-y (*c*: 6.6%), core inflation fell to 6.1% y-o-y (*c*: 6.0%; *p*: 6.2%). In October, GfK Consumer Confidence contracted to -30 (*c*: -20; *p*: -21). In September, retail sales shrank by 1.2% y-o-y (*c*: -0.2%; *p*: -1.3%).

Financial Markets: Stock Prices Decreased Globally; Bond Yields Increased; Dollar Index Fell, While Oil And Gold Prices Increased

Market Drivers: Worries about world politics, strong statements from Federal Reserve officials, and an increase in long-term bond yields to the highest level in 16 years appeared to weigh on sentiment and drive stocks down. European government bond yields rose as investors considered the chance of prolonged high interest rates due to persistent inflation.

Global Equities: decreased w-o-w (MSCI ACWI, -2.5%, to 642.07). The US S&P 500 index edged down (-2.4% w-o-w, to 4,224.16). In the EZ, share prices were down (Eurostoxx 50, -2.7% w-o-w, to 4,026.25). In EMs, equity prices moved down (MSCI EMs, -2.7%, to 925.58). Volatility rose to 20.99 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

Fixed Income: w-o-w, the 10-year US Treasury yields edged up (+30 bps to 4.91%). The 2-year US Treasury yields edged down (+1 bps to 5.06%). The German 10-year bund yield rose (+15 bps to 2.89%).

FX: w-o-w, the US Dollar Index edged down (DXY, +0.5%, to 106.16; EUR/USD +0.8%, to 1.06). In EMs, currencies are virtually unchanged (MSCI EM Currency Index, +0.0% w-o-w, to 1,667.22).

Commodities: w-o-w, oil prices rose (Brent, 1.8% to 92.51 USD/b). Gold prices increased w-o-w (+2.7% 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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