

MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa



Key Takeaways from Davos On AI, Climate, Geo-Politics and Central Banks

Last week, the annual meeting of the World Economic Forum (WEF) was held in Davos, Switzerland. The meeting convened under the theme “Rebuilding Trust,” and brought together more than 300 public figures, including over 60 heads of state and government, as well as leaders from business, civil society, academia and media. The meeting addressed the most pressing issues facing the world, such as climate change, cybersecurity, artificial intelligence, global cooperation and economic growth.

During the proceedings, the WEF released its [Global Risks Report 2024](#), which identified the five biggest risks facing the world in the next two years: extreme weather events, cyberattacks, social unrest, biodiversity loss and geopolitical tensions. The report called for urgent action to mitigate these risks and strengthen the global system of cooperation and governance. In our view, the four themes that featured high on the agenda were: Artificial Intelligence (AI); climate change; political and geopolitical risk; and next central bank moves.

On the first theme, during the forum, the WEF launched the [AI Governance Alliance](#), a global initiative to promote ethical and responsible use of artificial intelligence in various sectors and domains. The alliance aims to foster collaboration among stakeholders, develop common standards and frameworks, and support innovation and inclusion in AI development and deployment. This comes only a few weeks after the [November’s meeting at Bletchley park in England](#), in which AI heads of state and government met to agree on a “responsible development” of AI. It also comes just a few months after [the tumultuous exit and re-entry of Sam Altman in from and back into Open AI](#).

Partly related to this theme, the WEF published its “[Future of Jobs Report 2024](#),” which analysed the impact of technology, automation and COVID-19 on the labour market and skills demand. The report projected that by 2025, 85 million jobs may be displaced by machines, while 97 million new roles may emerge that are more adapted to the new division of labour between humans and machines. The report highlighted the need for reskilling and upskilling workers to ensure a smooth transition and inclusive growth.

On the second theme, the WEF hosted several sessions on *climate change*, nature and energy. The sessions focused on the implementation of the Paris Agreement, the transition to net-zero emissions, the protection of biodiversity and ecosystems, and the promotion of clean and renewable energy sources. As part of this and other efforts, the WEF also announced the creation of a “Global Resilience Network,” a platform to enhance the preparedness and response capabilities of countries and communities to cope with natural disasters, pandemics, conflicts and other shocks. The network will leverage data, technology, partnerships and best practices to build resilience across multiple dimensions, such as health, infrastructure, economy and society.

On political risk, clearly everybody’s attention was focused on the [result of the Taiwanese elections](#), that took place just the prior weekend, and [the upcoming elections through 2024](#), with the US elections featuring high on people’s concerns, for a potential return of Donald Trump at the White House. On geopolitics, there was a [distinct sense of fear of a potential extension of the Israel-Hamas to the entire middle East](#) among the Forum’s participants.

Regarding central banks’ next moves, [the declarations by ECB President Lagarde regarding a possible rate cut in the summer](#) took centre stage among market participants. But questions arose also about the timing of the first interest rate cut by all other major central banks and there was a broad consensus that Q2 2024 could be a reasonable compromise for both the Federal Reserve and the Bank of England.

Our Recent Publications

- ❖ [A Nation Divided? An Analysis of the 2024 Taiwanese General Election and the Road to Détente or Destabilisation](#), by Scott Mackie, 18 January 2024
- ❖ [Macron Revolutionises and Rejuvenates The Government Ahead of the European Elections](#), by Brunello Rosa and Shahed Hassanaly, 17 January 2024

- ❖ [Kuwait’s New Leader](#), by Gulf State Analytics, 16 January 2024
- ❖ [EU AI Act: The EU Confirms Its Leadership in Reg-Tech](#), by Lāsma Kokina, 10 January 2024

Looking Ahead

The Week Ahead: Q4 QoQ GDP To Decelerate In US; PCE Prices To Remain Unchanged in US; ECB And BOJ To Remain On Hold

In the US, in Q4, according to advance estimate, GDP growth is seen decelerating to 2.0% q-o-q (*p*: 4.9%). In December, the PCE Price Index is expected to stay unchanged at 2.6%, while the core PCE Price Index is likely to fall to 3.0% y-o-y (*p*: 3.2%).

In the EZ, in January, consumer confidence is expected to rise to -14 (*p*: -15.0).

CBs are expected to stay on hold. In the EZ, the ECB is expected to keep rates on hold. In Japan, the BOJ is likely to hold.

The Quarter Ahead: US Presidential Elections; Netanyahu Rejected US Push For Palestinian State; Hunts Hints At Tax-Cutting Budget

2024 presidential election updates. Trump has had a consistent lead in the polls, facing the strongest competition from former U.N. Ambassador Nikki Haley, a former governor of South Carolina, among his rivals. Florida Gov. Ron DeSantis, securing second place over Haley in Iowa, is now directing his attention to South Carolina following the cancellation of two scheduled New Hampshire debates. So far, Trump won 98 out of Iowa's 99 counties.

Netanyahu rejected calls from the US for a Palestinian state. The White House assured that the US will persist in pursuing a two-state solution and emphasized that Israeli reoccupation of Gaza is not an option after the war concludes. Meanwhile, the US official John Kirby denies evidence of "deliberate" Israeli war crimes after Mexico and Chile requested an International Criminal Court investigation. Meanwhile, a UN human rights official reports meeting men in Gaza who were detained, beaten, and blindfolded by Israeli forces.

Jeremy Hunt is expected to secure a multibillion-pound boost for tax cuts. Hunt strongly hints at tax cuts for the spring Budget, emphasizing their positive impact on economic growth. In the Autumn Statement, he reduced workers' national insurance by 2% and introduced tax relief for businesses.

Last Week's Review

Real Economy: Headline Inflation Rate Rose In EZ, UK And Germany, While Core Inflation Fell In EZ And Stayed Unchanged In UK

In the US, in December retail sales edged up by 5.6% y-o-y (*p*: 4.0%) and 0.6% m-o-m (*c*: 0.4%; *p*: 0.3%).

In the EZ, in December, the headline inflation rate increased to 2.9% y-o-y (*c*: 2.9%; *p*: 2.4%), while core inflation fell to 3.4% y-o-y (*c*: 3.4%; *p*: 3.6%). In January, the ZEW economic sentiment index fell to 22.7 (*c*: 21.9; *p*: 23).

Among the largest EZ economies, in December inflation rate: i) increased to 3.7% y-o-y (*p*: 3.2%) as expected in Germany; and ii) fell to 0.6% y-o-y (*p*: 0.7%) as expected in Italy.

In the UK, in November, the unemployment rate stayed unchanged at 4.2%. In December, headline inflation rose to 4.0% y-o-y (*c*: 3.8%; *p*: 3.9%), the core inflation rate was unchanged at 5.1% y-o-y (*c*: 4.9%). In December retail sales shrank by -2.4% y-o-y (*c*: 1.1%; *p*: 0.2%) and -3.2% m-o-m (*c*: -0.5%; *p*: 1.4%).

Financial Markets: Stock Prices Increased In US; Bond Yields, Dollar Index And Oil Prices Rose, While Gold Prices Fell

Market Drivers: In the US, stock prices mostly rose, though the gains were concentrated on growth stocks, particularly in information technology. A rally in semiconductor shares contributed to the outperformance. In Europe, stock prices ended the week lower due to central bank policymakers' comments, leading to a reduction in interest rate expectations.

Global Equities: decreased w-o-w (MSCI ACWI, -0.1%, to 724.32). The US S&P 500 index edged up (+1.2% w-o-w, to 4,839.81). In the EZ, share prices fell (Eurostoxx 50, -0.7% w-o-w, to 4,447.75). In EMs, equity prices decreased (MSCI EMs, -2.5%, to 970.91). Volatility fell slightly to 14.53 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury yields edged up (+2 bps to 4.13%). The 2-year US Treasury yields increased (+25 bps to 4.39%). The German 10-year bund yield edged up (+15 bps to 2.30%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.8%, to 103.2; EUR/USD -0.5%, to 1.09). In EMs, currencies edged down (MSCI EM Currency Index, -0.7% w-o-w, to 1,717.21).

Commodities: w-o-w, oil prices increased (Brent, +0.7% to 78.73 USD/b). Gold prices fell w-o-w (-1.0% to 2,031.80 USD/Oz).



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The picture in the front page comes from [this website](https://www.rosa-roubini-associates.com)



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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