



R&R Weekly Column
By Brunello Rosa



The Ukraine War: Two Years In and No Solution In Sight

On 24 February 2022, Russian troops formally begun the invasion of Ukraine, eight years after the illegal annexation of Crimea, which had been “approved” by [a manipulated referendum](#) among the local population. Vladimir Putin wrongly thought that this could be a “blitzkrieg,” perhaps forgetting that even [the German “original” in the 1940s didn’t work](#). In fact, the attempt to conquer Kiev and decapitate the Ukrainian government within days – and likely eliminate its president Vladimir Zelensky, in what [was labelled at the time as “operation Z”](#) – miserably failed.

The resistance of the Ukrainian troops, who were better prepared than their Russian counterparts and had immediate support from Western countries, was able to push back the initial Russian offensive. Within months, Russia had to change its objectives, and focus only on the south-eastern regions of Donetsk, Luhansk, Zaporizhzhia, and Kherson, which [were formally annexed to the Russian Federation after fake referendums](#).

In the spring and summer 2023, the long-awaited Ukrainian counter-offensive began, [but its results have been underwhelming](#). The Ukrainian troops managed to push back the Russian army only to a limited extent, while in effect giving it time to re-trench and further in-trench in the southern-eastern regions where it was already present. In November 2023, the Ukrainian general Valerii Zaluzhnyi had to admit that the war was a “stalemate”. The last couple of months, in which winter has led to a relative pause in the fighting, have seen Russian troops making some progress, for example [conquering the strategic city of Avdiivka, after the Ukrainian army “withdrew to preserve soldiers’ lives.”](#)

Western support to Ukraine has been large, and unprecedented for a non-NATO country to receive. The largest contributors have [been the US](#) (USD 74bn in total, including military, financial and humanitarian aid), [the EU](#) (with over EUR 82bn in overall aid, especially financial) and the UK, [with GBP 12 billion pledged, of which GBP 7.1 is military assistance](#). The EU [has recently approved another package of €50 billion of reliable financial support for Ukraine until 2027](#), although the gap between EU commitments and allocations remains very large (€144 billion committed vs. €77 billion allocated). Among the Eurozone countries, Germany has been by far the largest donor, with over EUR 20bn in aid approved. [A few days ago, the US Senate has approved an additional USD 60bn package for Ukraine](#), but this still needs to receive approval from the House of Representatives, where the majority is controlled by sceptical Republicans.

Where do we go from here? In theory, given the stalemate, this could be a favourable period for an agreement between the two sides. Like any agreement, it would be costly for both Russia and Ukraine, but could be effective. Ukraine would have to give up the 17% of the territory that Russia has conquered, and from which Russian troops would be hard to remove. In exchange, Ukraine would enter NATO immediately, and possibly also the EU. That way, Putin will have no incentive to re-start the war a couple of years from now, as he would likely do if an interim agreement was signed but Ukraine were not to enter NATO.

However, Putin has the option of waiting. If, in November 2024, Donald Trump is re-elected President, Putin knows that he will not provide further military aid to Ukraine, thus allowing Russian troops to “finish the job.” Given Trump’s recent declarations on NATO – namely that [the US may withdraw from it](#), or [would not assist countries that don’t pay their 2% of GDP contribution](#) – even if Ukraine were to enter NATO in exchange for part of its territory, this may not represent a stable equilibrium. Given these premises, the war is likely to last for at least another year.

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Looking Ahead

The Week Ahead: QoQ GDP and PCE Inflation To Decelerate In the US, While Inflation Falls In the EZ

In the US, in Q4, according to the second estimate, the GDP growth rate is expected to decelerate to 3.3% q-o-q (*p*: 4.9%). In January, the PCE and core Price Index are seen edging down to 2.4% y-o-y (*p*: 2.6%) and 2.8% y-o-y (*p*: 2.9%). In February, Michigan consumer sentiment is expected to increase to 79.6 (*p*: 79.0).

In the EZ, in February, headline and core inflation rates are expected to fall to 2.5% y-o-y (*p*: 2.8%) and 2.9% y-o-y (*p*: 3.3%). In January, the unemployment rate is likely to remain unchanged at 6.4%. In February, the economic sentiment is expected to increase to 96.6 (*p*: 96.2). Consumer confidence is likely to rise to -15.5 (*p*: -16.1). February's HCOB manufacturing PMI is seen declining to 46.1 (*p*: 46.6).

Among the largest EZ economies, in Q4, according to the final estimate, the economy is expected to stall q-o-q (*p*: 0.0%) in France. In February, the inflation rate is likely to fall to 2.6% y-o-y (*p*: 2.9%) in Germany.

In the UK, in February, S&P Global Manufacturing PMI is expected to rise to 47.1 (*p*: 47.0).

The Quarter Ahead: Negotiations In Paris Are Said To Make "Significant Progress"; Houthi Attacked A Cargo Ship In the Red Sea Israel-Hamas War. Officials from the US, Israel, Qatar, and Egypt arrived in Paris to broker a truce. Talks on a hostage deal have seen "progress" after the group modified some of its demands. Meanwhile, Netanyahu presented a postwar plan on Thursday that was rejected by Palestine and Washington deemed the new settlements "inconsistent with international law."

Houthi missile attacks in the Red Sea. The US military has raised concerns about an "environmental disaster" following an attack by Yemen's Houthi rebels on a cargo ship, resulting in an oil slick in the Red Sea. Since the October attacks, US strategy against the Houthis changed. The Central Command now preemptively targets Houthi weaponry in Yemen before launch preparations.

Last Week's Review

Real Economy: Inflation Eased Off In EZ, While Rose In Italy; QoQ GDP Contracted In Germany; Composite PMI Fell In US and UK

In the US, in February, according to flash estimates, S&P Global Manufacturing PMI rose to 51.5 (*c*: 50.5; *p*: 50.7), while Services PMI edged down to 51.3 (*c*: 52; *p*: 52.5). Composite PMI also fell to 51.4 (*p*: 52).

In the EZ, in January, according to final estimates, headline and core inflation decreased to 2.8% y-o-y (*p*: 2.9%) and 3.3% y-o-y (*p*: 3.4%) as expected. In February, consumer confidence rose to -15.5 (*c*: -15.6; *p*: -16.1). In February, according to flash estimates, S&P Global Service PMI rose to 50 (*c*: 48.8; *p*: 48.4), while Manufacturing PMI edged down to 46.1 (*c*: 47; *p*: 46.6). Composite PMI increased to 48.9 (*c*: 48.5; *p*: 47.9).

Among the largest EZ economies, in January, the inflation rate increased by 0.8% y-o-y (*p*: 0.6%) as expected in Italy. In Q4, according to the final estimate, in Germany, GDP growth contracted by -0.3% q-o-q (*c*: -0.3%; *p*: 0.0%) and -0.2% y-o-y (*c*: -0.2%; *p*: -0.3%).

In the UK, in February, according to flash estimates, S&P Global Manufacturing PMIs rose to 47.1 (*c*: 47.5; *p*: 47.0), while Services PMI stood at 54.3 (*p*: 54.3). Composite PMI increased to 53.3 (*c*: 52.9; *p*: 52.9). In February, GfK consumer confidence shrank to 21 (*c*: -18; *p*: -19).

Financial Markets: Stock Prices Were Up; Long-Term Bond Yields Fell, Dollar Index And Gold Prices Rose, and Oil Prices Fell

Market Drivers: The US stocks hit fresh records as Wall Street ends Nvidia-fueled rally week. 10Y UST yields fell amid investor contemplation on interest rates post recent Fed comments. 10Y bund yield also rose as expectations for rate cuts this year diminished.

Global Equities: Increased w-o-w (MSCI ACWI, +1.5%, to 761.18). The US S&P 500 index edged up (+1.7% w-o-w, to 5,088.80). In the EZ, share prices rose (Eurostoxx 50, +2.2% w-o-w, to 4,872.25). In EMs, equity prices increased (MSCI EMs, +1.2%, to 1,028.31). Volatility fell to 14.45 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury yields fell (-3 bps to 4.25%). The 2-year US Treasury yields increased (+5 bps to 4.69%). The German 10-year bund yields decreased (-4 bps to 2.36%).

FX: w-o-w, the US Dollar Index increased (DXY, -0.3%, to 103.96; EUR/USD +0.4%, to 1.08). In EMs, currencies edged down (MSCI EM Currency Index, -0.0% w-o-w, to 1,724.58).

Commodities: w-o-w, oil prices decreased (Brent, +2.3% to 81.58 USD/b). Gold prices increased w-o-w (+1.1% to 2,025.0 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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