



R&R Weekly Column
By Brunello Rosa



With Russia Becoming A “War Economy”, Europe Re-Militarises

In our latest column we discussed how Russia is becoming a “war economy” under the influence of its “czar,” the newly re-elected president Vladimir Putin. We also said that the recent terrorist attacks in Moscow will accelerate this process. This week, we want to discuss in detail this key link between these two events and other European countries’ reaction to them.

On March 22nd, a group of gunmen perpetrated an attack at the Crocus City Hall theatre, in the outskirts of Moscow, where at least 139 people were killed. This episode resembles a similar attack perpetrated in Paris in November 2015, at the Bataclan music venue. The massacre was claimed by a cell of ISIS-K, a segment of the wider ISIS/ISIL organisation, which we discussed in our recent article on Iran and its neighbours. This group draws some inspiration from the revanchist sentiment prevailing in the South-Western region of Russia, deriving from the wars that Putin carried out in the early 2000s against the separatist groups in Chechnya.

Every nation subject to similar attack would naturally increase its domestic security defenses (as happened in the US post-9/11 and in France during the Hollande presidency), which in itself would contribute to the re-militarisation of that country, which is already underway given the ongoing war in Ukraine.

For most leaders, this would be enough, but not for Putin. While the paternity of the attacks was clear –the arrested gunmen were all from Tajikistan, and ISIS-K was very vocal in claiming the attack – Putin wanted to make sure to blame Ukraine and its Western allies, and so he and his “leadership team” openly said that the attack was orchestrated by the US and British secret services in collaboration with Ukraine.

Western countries dismissed the ludicrous claim, but also fear that Putin is looking for pretexts to launch an offensive, possibly on NATO countries. Press reports suggest that Biden fears for a possible attack on one of the Baltic countries, such as Lithuania, which is one of the countries bordering on Russia’s Kaliningrad enclave, near Danzig. As a result, the leaders of Estonia and Latvia, the two other Baltic countries and former Soviet Union republics, said that national military conscription should be re-instated in Europe.

This is coming at a time when France, with its president Macron, is being very vocal about the necessity of NATO deploying its soldiers in Ukraine while also leaving some diplomatic channels with Putin open. And when the long-awaited F-16 fighter jets are being cautiously given to Ukraine, starting with the first six planes (out of 45 approved), which are to be delivered in coming weeks. This is also coming at a time when the EU is discussing the issuance of euro-bonds to finance a joint defence budget.

It seems that the rise of a common “enemy at the gates” is finally pushing the European countries to start acting as a unified political entity. Paradoxically, after having already achieved the unintended consequence of revitalising NATO and increasing its membership to include historically neutral, neighbouring countries such as Sweden and Finland, Russia may now also be unifying Europe around a joint cause, instead of destroying it from within with the usual tactics of “divide and conquer.”

Our Recent Publications

 *With Rigged Elections, Putin’s Reign Extends*, by
Christopher Healey, 27 March 2024



 *Global Pariah or Not? Iran’s Position in the Middle East and Beyond*, by Giorgio Cafiero, 26 March 2024

Looking Ahead

The Week Ahead: EZ Headline Inflation To Stay Unchanged And Core To Fall; US Unemployment Rate To Stay Unchanged

In the US, in March, unemployment is likely to stay unchanged at 3.9%. NFPs are expected to increase by 200K (*p*: 275K).

In the EZ, in March, according to flash estimates, headline inflation is likely to remain unchanged at 2.6% y-o-y, while core inflation is seen easing off to 3.0% y-o-y (*p*: 3.1%). In February, the unemployment rate is expected to remain unchanged at 6.4%. In February, according to final estimates, S&P Global Manufacturing and Services PMI are expected to edge up to 49.9 (*p*: 47.5) 51.1 (*p*: 50.2). Composite PMI is seen rising to 49.9 (*p*: 49.2). Retail sales are expected to shrink by -1.2% y-o-y (*p*: -1.0%) and -0.3% m-o-m (*p*: 0.1%).

In the UK, in February, according to final estimates, HCOB Manufacturing and Services PMI is expected to edge down to 45.7 (*p*: 46.5) and 53.4 (*p*: 53.8) respectively. Hence, the composite PMI is seen falling to 52.9 (*p*: 53.0).

The Quarter Ahead: Israel Attacks Iranian Consulate; US-Israel virtual meeting on Rafah; Opposition Wins Tukey's Local Election

Damascus consulate attack. Israel is accused of the attack on Iranian consulate in Damascus, according to Iran's Foreign Minister who blamed Israel, calling it a breach of international conventions during a phone call with his Syrian counterpart. Senior Revolutionary Guards commander Brig-Gen Mohammad Reza Zahedi was among the dead.

US-Israel virtual meeting. US and Israel senior officials held a virtual meeting on Monday to discuss alternatives to a large-scale invasion of Rafah. The Biden administration aims to dissuade Israel from launching a major military operation in the troubled Gaza city.

Turkish local elections. President Recep Tayyip Erdoğan's ruling party faced a significant defeat in Turkey's recent local elections, marking his most severe setback in two decades. The opposition, particularly the Republican People's Party (CHP), achieved decisive mayoral victories in major cities like Istanbul and Ankara, signaling a notable shift in voter sentiment.

Last Week's Review

Real Economy: US QoQ GDP Decelerated; UK QoQ And YoY GDP Shrank; Headline Inflation Fell In France And Rose In Italy

In the US, according to the final estimate, in Q4, the GDP growth rate decelerated to 3.4% q-o-q (*c*: 3.2%; *p*: 4.9%). In February, the PCE rose to 2.5% y-o-y (*c*: 2.5%; *p*: 2.4%). The core PCE price index edged down to 2.8% (*c*: 2.8%; *p*: 2.9%).

In the EZ, in March, economic sentiment edged up to 96.3 (*c*: 96.3; *p*: 95.5). Consumer confidence rose to -14.9 (*c*: -14.9; *p*: -15.5). In the largest EZ economies, in March, the headline inflation rate: *i*) decreased to 2.3% y-o-y (*c*: 2.6%; *p*: 3.0%) in France; and *ii*) rose to 1.3% y-o-y (*c*: 1.4%; *p*: 0.8%) in Italy.

In the UK, according to the final estimate, in Q4, the GDP growth rate contracted by -0.3% q-o-q (*p*: -0.1%) and -0.2% y-o-y (*p*: 0.2%), as expected.

Financial Markets: Stock Prices, UST Yields and Dollar Index Increased; Oil And Gold Prices Also Edged Up

Market Drivers: Gold prices reached a new record high due to expectations of a Fed interest rate cut and the metal's status as a safe haven asset. Oil prices rose following reports of a missile strike targeting the Iranian consulate in Damascus. In the US, UST yields surged due to persistent inflation and a surge in manufacturing activity, which tempered expectations of interest rate cuts in 2024. In Europe, government bond yields edged down as the ECB hinted at a potential rate cut in June.

Global Equities: Increased w-o-w (MSCI ACWI, +0.3%, to 783.58). The US S&P 500 index edged up (+0.4% w-o-w, to 5,254.35). In the EZ, share prices rose (Eurostoxx 50, +1.0% w-o-w, to 5,083.42). In EMs, equity prices increased (MSCI EMs, +0.4%, to 1,043.20). Volatility fell to 14.63 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury increased (+1 bps to 4.19%). The 2-year US Treasury yields decreased (to 4.61%). The German 10-year bund yields decreased (-3 bps to 2.29%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.1%, to 104.50; EUR/USD -0.1%, to 1.08). In EMs, currencies edged up (MSCI EM Currency Index, +0.0% w-o-w, to 1,724.27).

Commodities: w-o-w, oil prices increased (Brent, +1.8% to 86.96 USD/b). Gold prices rose w-o-w (+4.4% to 2,266.2 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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