



R&R Weekly Column
By Brunello Rosa



Macro Stability and Geopolitical Risks – Key Takeaways From The Ambrosetti Forum

The 35th edition of the Ambrosetti Forum, discussing “The Outlook for The Economy and Finance” took place on the shores of Lake Como last week. As usual, this was an occasion for policymakers, market participants, academics, advisors and pundits to discuss the most pressing issues of the global economy, in terms of macroeconomic scenarios as well as technological and geopolitical developments. The key takeaways of this edition of the forum were the following.

First, from a macroeconomic perspective, the global economy is more stable than was feared a year ago, when a recession in a number of key developed markets and emerging economies seemed inevitable. The US managed to achieve the sought-after soft landing; it could even be said that the US economy continues to fly, and so remains in a “no-landing” zone, as we called it in our 2024 Global Outlook. The Eurozone economy meanwhile is very weak, and has experienced a technical recession in some countries, such as Germany, and yet one could characterise the current cyclical phase as stagnation rather than recession. In non-Eurozone Europe, such as in the UK, there was a technical recession at the end of last year, but the much-feared five consecutive quarters of economic contraction that were predicted by the Bank of England to occur in 2023-24 did not materialise.

Among the largest economic areas, China is the one that poses the most cause for concern. In 2023, the economy expanded 5.2%, just a tad higher than the 5% targeted by the government, however its potential growth continues to decline. This is due to the bust in the real estate sector, which represents almost a quarter of the economy and could lead to what Richard Koo calls a “balance sheet recession,” possibly resulting in a decade of stagnation while economic agents repair their balance sheets (similar to what Japan suffered in the 1990s). If the government continues to refuse to provide fiscal stimulus, the economy will likely continue to face the Middle Income Trap, as recently discussed by Nouriel Roubini on his return from China Development Forum.

Second, inflation is falling everywhere, and only a recent increase in oil prices could lead to a rise in headline inflation. As long as central banks consider this to be a truly “temporary” phenomenon, they could look through it and proceed with the beginning of their monetary policy easing cycles. In the US, the recent encouraging data from the labour market (with 303K new jobs added in March alone) suggest that the Fed may need to wait longer before cutting rates. The ECB seems on track to begin its easing cycle in June. The Bank of England is still facing persistent inflation, and therefore the first rate cut is “some way off.”

Third, in spite of this relatively benign macroeconomic backdrop, geopolitical risks continue to abound, and could pose a threat to the durability of such a moderate economic scenario. The two open wars, in Ukraine and Gaza, are nowhere near their end. Russia, which just launched the recruitment of 150,000 additional soldiers, will likely launch a large-scale offensive in Ukraine in the spring/summer. In Israel, the current operation against Hamas will not change tack until PM Netanyahu is ousted, something that seems to be easier said than done. Other risks that participants feared were the re-election of Trump as US president, an intensification of the attacks by the Houthis in the Red Sea, and the re-opening of the skirmishes in the Strait of Taiwan.

In September, the 50th edition of the summer version of the Ambrosetti Forum, discussing the “Intelligence on the World, Europe, and Italy” will take place, and that will be an occasion to re-evaluate these assessments regarding the macroeconomic environment and geopolitical risks.

Our Recent Publications

🌿 *Future of Energy: How Are Different Countries Thinking About Renewables For The Future*, by Fedor Dukhnovskiy,
3 April 2024

🌿 *Saudi Arabia’s Navigation of the Gaza War*, by Gulf State Analytics, 4 April 2024



Looking Ahead

The Week Ahead: US Headline Inflation To Rise, While Core is Expected to Fall; ECB To Stay On Hold

In the US, in March, the headline inflation rate is expected to increase to 3.4% y-o-y (p: 3.2%), while core inflation is likely to ease off to 3.7% y-o-y (p: 3.8%). In April, Michigan Consumer Sentiment is likely to fall to 79 (p: 79.4).

In the EZ, the ECB is likely to maintain its main policy rates unchanged i.e. its i) interest rate on the 'main refinancing operations' to 4.50%; ii) interest rate on the 'marginal lending facility' to 4.75%; and iii) 'deposit facility' to 4.00%.

In the UK, in February, IP is seen rising to 0.2% m-o-m (p: 0.0%).

The Quarter Ahead: US On High Alert For Iran Threat After Israeli Strike In Syria; Hot US Jobs Report Helps Biden

US is on high alert for Iran threat in region after Israeli strike in Syria. A U.S. official stated that the United States is making preparations for a potential attack by Iran, possibly targeting Israeli or American assets in the region. This comes in response to Israel's strike on the Iranian embassy in Syria. Meanwhile, Biden conveyed to Netanyahu that Israel's strike earlier in the week, which resulted in the deaths of seven World Central Kitchen aid workers, along with the broader humanitarian situation, was deemed "unacceptable." Additionally, Biden issued a warning regarding the potential shift in U.S. policy towards Israel.

US Jobs growth. Traders have adjusted their expectations for immediate Federal Reserve rate cuts following the release of data indicating that US employers added 303,000 jobs in March, outstripping the forecast. Thus, there has been a slight improvement in Americans' perceptions of the economy. This improvement has contributed to President Joe Biden reaching parity with Donald Trump in a direct comparison. Biden hailed the report as "a milestone in America's comeback".

Last Week's Review

Real Economy: EZ Inflation Fell; US Unemployment Rate Decreased And NFPs Rose Above Market Expectations

In the US, in March, unemployment decreased to 3.8% (c: 3.9%; p: 3.9%). NFPs rose by 303K (c: 200K; p: 270K). S&P Global Manufacturing PMI fell to 51.9 (p: 52.2).

In the EZ, in March, according to flash estimates, headline and core inflation cooled off to 2.4% y-o-y (c: 2.6%; p: 2.6%) and 2.9% y-o-y (c: 3.0%; p: 3.1%). In February, the unemployment rate remained unchanged at 6.5%. In February, according to final estimates, S&P Global Manufacturing PMI edged down to 46.1 (c: 45.7; p: 46.5), while Services PMI increased to 51.5 (c: 51.1; p: 50.2). Composite PMI rose to 50.3 (c: 49.9; p: 49.2). Retail sales rose to -0.7% y-o-y (c: -1.3%; p: -0.9%) and shrank -0.5% m-o-m (c: -0.4%; p: 0.0%).

In the UK, in February, according to final estimates, HCOB Manufacturing PMI increased to 50.3 (c: 49.9; p: 47.5), while Services PMI edged up to 53.1 (c: 53.4; p: 53.8). The composite PMI fell too to 52.8 (c: 52.9; p: 53.0).

Financial Markets: Stock Prices Fell; Bond Yields and Dollar Decreased Increased; Oil And Gold Prices Edged Up

Market Drivers: In the US, stocks closed higher on Friday following a robust jobs report, which supported the perception of a healthy economy. However, it also hinted at the possibility that the Fed might postpone interest rate cuts. Accordingly, US yields rose. Gold prices continue to rise to all-time highs amid geopolitical uncertainties in Middle East.

Global Equities: Decreased w-o-w (MSCI ACWI, -0.9%, to 776.51). The US S&P 500 index edged down (-0.1% w-o-w, to 5,204.34). In the EZ, share prices fell (Eurostoxx 50, -1.4% w-o-w, to 5,013.35). In EMs, equity prices increased (MSCI EMs, +0.2%, to 1,045.71). Volatility rose to 16.01 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury increased (+10 bps to 4.40%). The 2-year US Treasury yields increased (+12 bps to 4.75%). The German 10-year bund yields increased (+10 bps to 2.40%).

FX: w-o-w, the US Dollar Index decreased (DXY, -0.2%, to 104.29; EUR/USD +0.4%, to 1.08). In EMs, currencies edged up (MSCI EM Currency Index, +0.0% w-o-w, to 1,725.10).

Commodities: w-o-w, oil prices increased (Brent, +3.9% to 90.86 USD/b). Gold prices rose w-o-w (+4.2% to 2,349.1 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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