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MAKING SENSE OF *THIS* WORLD

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China “Admits” Russia’s Invasion of Ukraine is a Proxy War With US

A conference on the [reconstruction of Ukraine took place last week in Rome](#). Leaders from across the world convened in Italy to discuss how to best help Ukraine during this period in which the war is still ongoing, and to start planning for the period when the war will be finished. Ukrainian [President Volodymyr Zelenskiy met with US President Donald Trump's Ukraine envoy](#), Keith Kellogg, and had a “substantive conversation” after Trump pledged to send more defensive weapons to Kyiv to strengthen its air defense.

In spite of all the best efforts, though, a diplomatic solution to the war in Ukraine still seems far from being achieved. The key reason for this is that the “natural” equilibrium for Russia, in which they do not have further incentives to continue or re-start the war, would only be reached when all the Russian-speaking regions of Ukraine (in the country’s south-east) are subject to Russian control. This would extend to the Odesa region, up to Transnistria, the Moldovan region already under Russian control. It would be similar to the [“coastal scenario”](#) that was already conceived in 2015, one year after Russia’s annexation of Ukraine.

But there is another relevant factor to be considered; namely, the Chinese role in the conflict. In our book [Smart Money](#), we discussed how Russia’s invasion of Ukraine only happened three weeks after the meeting between Chinese President Xi and Russian President Putin, on the sidelines of the Beijing Winter Olympics on February 4th, 2022. On that occasion, the two countries signed their pact of so-called “limitless co-operation,” which included mutual military assistance. Analysts are still debating whether Xi gave an explicit “green light” to Putin’s invasion of Ukraine, and perhaps only historians will be able to provide an exact account of the events. What we know is that China has never formally condemned such an invasion, and its cooperation with Russia has strengthened in recent months.

In the midst of all this, a quite surprising event occurred a few days ago. [An article was published in the South China Morning Post \(SCMP\)](#), (a respected Hong Kong newspaper owned by “state-controlled” Alibaba), which provided an account of the preparatory meetings that occurred ahead of the [July 24-25 EU-China Summit](#). During those meetings Chinese Foreign Minister Wang Yi made a series of remarks, the frankness of which reportedly shocked the EU delegation. According to the SCMP’s article, Yi told Kaja Kallas, the European Union’s top diplomat, that “Beijing did not want to see a Russian loss in Ukraine because it feared the United States would then shift its whole focus to Beijing, according to several people familiar with the exchange.”

Additionally, the foreign ministry repeated that China is “not a party” to the war. He “rejected the accusation that China was materially supporting Russia’s war effort, financially or militarily, insisting that if it was doing so, the conflict would have ended long ago.”

This would seem to confirm that China is quite happy to see the US being distracted by the war in Europe, rather than pivoting and focusing all their resources towards “containing China.” This seems the starkest admission to date that the war in Ukraine would be a proxy war between US and China, fought by their respective allies.

If this is the case, the implications seems obvious: 1) the war in Ukraine will continue for the foreseeable future, and even a ceasefire is unlikely in the short run; 2) the US will need to continue supporting Ukraine, if this is a proxy war with China; 3) European countries will need to significantly increase their military spending, because war in Europe will become a feature that will accompany EU countries for as far as the eye can see.

Our Recent Publications

- 📄 [Unmasking the Big Beautiful Bill](#), by Shane Gravel, 10 July 2025
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Looking Ahead

The Week Ahead: Headline Inflation Rate To Rise In US And EZ, While Remaining Unchanged In UK

In the US, in June, headline inflation is expected to rise to 2.6% y-o-y (*p*: 2.4%).

In the EZ, in June, headline inflation rate is seen increasing by 2.0% y-o-y (*p*: 1.9%), while core inflation rate is likely to remain at 2.3% y-o-y. In May, IP is expected to rise by 0.6% m-o-m (*p*: -2.4%). In July, ZEW Economic Sentiment Index is seen increasing to 37.8 (*p*: 35.3). In June, among the largest EZ economies, headline inflation rate is likely to: *i*) rise by 1.7% y-o-y (*p*: 1.6%).

In the UK, in June, headline and core inflation are likely to remain unchanged at 3.4% y-o-y and 3.5% y-o-y respectively. In May, unemployment rate is expected to stay at 4.6%. In June, retail price index is seen increasing by 4.3% y-o-y (*p*: 4.3%).

The Quarter Ahead: Trump Announces New Tariffs; Von Der Leyen Survives No-Confidence Vote

Trump Tariffs. In his latest round of “tariff letters,” President Trump targeted key US allies Japan and South Korea, raising Japan’s auto tariff to 25% and maintaining South Korea’s at the same level. Both countries’ economies shrank in Q1. Auto and parts imports now face a 25% U.S. tariff, while steel and aluminum face 50%. Meanwhile, Brazil’s President Lula warned of retaliatory tariffs if Trump follows through on a planned 50% tax on Brazilian goods from August 1. He also threatens 35% tariffs on Canadian goods. Trump signaled broad new tariffs of 15–20% on most trade partners, dismissing concerns over inflation or market impact.

A no-confidence vote against Ursula von der Leyen and her Commission failed, with 175 MEPs in favor—far below the required two-thirds. Backed mainly by right-wing and some left-wing groups, the motion’s failure keeps von der Leyen in office but exposes weakened support. The Socialists and Democrats backed her in exchange for a budget pledge, to be tested next week with the Commission’s proposal.

Last Week’s Review

Real Economy: Monthly EZ Retail Sales Contracted; Headline Inflation Rate Rose In Germany, France And China

In the EZ, in May, retail sales contracted by -0.7% m-o-m (*c*: -0.7%; *p*: 0.1%) and rose by 1.8% y-o-y (*c*: 1.2%; *p*: 2.7%). Among the largest EZ economies, in June, headline inflation: *i*) rose by 2.0% y-o-y (*p*: 2.1%) in Germany as expected; *ii*) increased by 1.0% y-o-y (*c*: 0.9%; *p*: 0.7%) in France.

In China, in June, headline inflation rose by 0.1% y-o-y (*c*: 0.0%; *p*: -0.1%) and shrank by 0.1% m-o-m (*c*: 0.0%; *p*: -0.2%).

Financial Markets: US Stock Prices Fell, But Rose In EZ; Long-Term Yields, US Dollar, Gold And Oil Prices Rose

Market Drivers: US stocks ended the week slightly lower. Tariff news dominated but had a muted market impact, as most targeted countries, aside from Japan and South Korea, are minor trade partners. Treasuries briefly rallied after the FOMC minutes but lost ground by week’s end. A strong 10-year auction helped ease concerns over long-term debt demand amid fiscal worries. In Europe, stocks rose on trade optimism but pared gains after Trump threatened EU with 30% tariffs announced on Saturday.

Global Equities: Declined w-o-w (MSCI ACWI, -0.3%, to 922.56). The US S&P 500 index edged down (-0.3% w-o-w, to 6,259.75). In the EZ, share prices increased (Eurostoxx 50, +1.8% w-o-w, to 5,384.75). In EMs, equity edged down (MSCI EMs, -0.2%, to 1,229.13). Volatility declined to 17.12 (VIX S&P 500, 52w avg.: 15.6; 10y avg.: 18.8).

Fixed Income: w-o-w, the 10-year US Treasury yields were up (+9 bps to 4.42%). The 2-year US Treasury yields are virtually unchanged (+0 bps to 3.89%). The German 10-year bund yields rose (+12 bp to 2.69%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.7%, to 97.9; EUR/USD -0.8%, to 1.17). In EMs, currencies increased (MSCI EM Currency Index, +0.6% w-o-w, to 1,846.90).

Commodities: w-o-w, oil prices rose (Brent, +3.0% to 70.36 USD/b). Gold prices increased w-o-w (+0.5% to 3,364.00 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	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
DIEM	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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