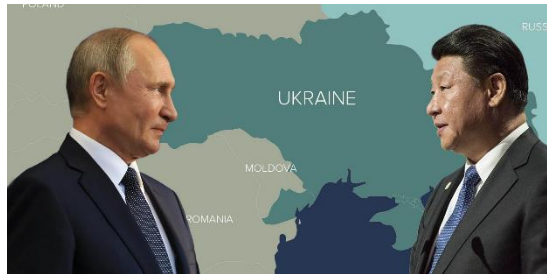
MAKING SENSE OF *THIS* WORLD

14 July 2025



R&R Weekly Column
By Brunello Rosa

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*
- *National Security and Inclusion in a Web-Based, Tokenized Global Economy, by Amit Sharma, 9 July 2025*
- *American and Israeli Military Strikes on Iran: Implications for the IAEA and NPT, by Gulf State Analytics, 8 July 2025*
- *Aiming at World Domination: The Role of Tech, The Opportunity for Europe, by Klecha & Co. in collaboration with Rosa Roubini Associates, 5 July 2025*

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).

Nato Balavadze *contributed to this Viewsletter*

The picture in the front page was taken from this website

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*
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*