



MAKING SENSE OF *THIS* WORLD

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By Brunello Rosa



Mr President, You Don't Have The Cards

We all remember vividly the day Ukrainian President Volodymyr Zelensky was ambushed in the White House by US President Trump, Vice President Vance, and Secretary of State Rubio, on 28 February 2025. The climax of that appalling spectacle came when Trump told Zelensky that "he didn't have the cards" and so — after thanking the US for its service — should essentially capitulate to Moscow's demands.

Fast forward one year, and the picture has shifted dramatically. Zelensky has just concluded a tour of the Middle East, where he signed substantial contracts to supply the Gulf monarchies, foremost among them Saudi Arabia, with the anti-drone systems Ukraine deploys daily against Russian assaults. It was no secret that the drones Russia rained on Ukraine originated in Iran; nor that those same designs were used by Tehran to retaliate against the US-Israeli strike launched, somewhat ironically, exactly one year later, on 28 February 2026. According to CSIS analysis, in the first eight days alone drones accounted for roughly 71% of recorded strikes on Gulf states, with the UAE absorbing 1,422 detected drones against 246 missiles. The Gulf states struggled visibly to intercept them.

One year after his public humiliation, Zelensky occupies an altogether different position. His country appears to be the only one that has fully grasped — and embraced — the hyper-technological warfare that will define the twenty-first century. After specialising in the production of drones interceptors, it has now developed a new class of hybrid drone-missiles (eg Palyanista, Flamingo and AREION), which were met with scepticism. But after proving successful in hitting targets at long distances, all arms producers are now rushing to produce similar weapons. This hyper-tech war can be — at the same time — much cheaper to fight than the traditional one. Here's why.

For decades, precision warfare meant possessing hundreds of Tomahawks, stealth bombers, or fighter jets — the magnificent, costly, slow-to-replace instruments of great-power arsenals. Now it can mean a one-way drone assembled from commercial components and dispatched in swarms. What once demanded industrial-nation capacity can increasingly be produced and scaled by smaller states, and indeed by non-state actors.

The economics are brutally inverted. A Shahed-type drone costs roughly \$35,000; a single Patriot interceptor approximately \$4 million — the price of a hundred drones. Cheap autonomous platforms, AI-assisted targeting, commercial satellite imagery, resilient communications, integrated sensors, and cyber tools will constitute the new architecture of warfare. In a recent US Air Force experiment, machine-generated targeting recommendations arrived in under ten seconds and produced thirty times more options than human-only teams.


Herein lies the uncomfortable paradox at the heart of American defence policy: the country that outspends the next nine combined may be configured precisely against the war it now needs to fight. The US defence budget exceeds \$850 billion annually, much of it absorbed by platforms with decade-long procurement timelines; the F-35 programme alone is projected at over \$2 trillion across its lifecycle; a single Ford-class carrier runs \$13 billion before its airwing; a B-21 Raider roughly \$700 million per unit. Magnificent instruments, all — but the wrong unit of account on a battlefield where a \$35,000 drone can imperil a \$13 billion carrier.


The contrast in industrial cadence is stark. Russia is producing some 400 Shahed-type drones daily, targeting 1,000; Ukraine manufactures its \$2,000 Sting interceptor at over 10,000 a month. Lockheed Martin, by contrast, delivered approximately 600 Patriot interceptors in all of 2025. A thousand drones a day against two thousand interceptors a year. The American defence-industrial base, optimised for low-volume, high-margin systems, has effectively forgotten how to mass-produce — a deficit compounded by consolidation that thinned the prime-contractor base from over fifty firms in the 1990s to five today.

The deeper liability is doctrinal. American pre-eminence has rested since 1991 on the *cathedral* model — a few magnificent assets generating overwhelming local effect. The model now prevailing is the *swarm*: many good-enough platforms, intelligently networked, fed by real-time data, iterated weekly. The Iran confrontation made this plain; thousands of miniature drone boats sufficed to stall the two mighty US carriers despatched to the region.


The US military is not obsolete in any absolute sense; its global logistics, nuclear deterrence, and power projection remain unmatched. But against the war now being prosecuted from Donetsk to Doha, the marginal dollar spent on another legacy platform may yield less deterrent value than one spent on autonomous swarms and the capacity to manufacture at velocity. The world's costliest military may have been built, with quiet diligence, for the wrong war. President Zelensky could well telephone Trump tomorrow and say: "Mr President, you don't have the cards."

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Looking Ahead

The Week Ahead: QoQ GDP To Rise In UK And Advance Marginally In EZ; US Headline Inflation To Increase

In the US, in April, headline inflation rate is expected to increase by 3.4% y-o-y (*p*: 3.3%).

In the EZ, in Q1, according to the second estimates, GDP growth rate is likely to advance marginally by 0.1% q-o-q (*p*: 0.2%) and 0.8% y-o-y (*p*: 1.2%). In May, ZEW economic sentiment index is seen rising to -20 (*p*: -20.4). Among the largest EZ economies, in April, the headline inflation rate is expected to: *i*) rise to 2.9% y-o-y (*p*: 2.7%) in Germany; *ii*) increase to 2.2% y-o-y (*p*: 1.7%) in France; *iii*) increase to 2.8% y-o-y (*p*: 1.7%) in Italy.

In the UK, in Q1, according to the preliminary estimate, the economy is expected to advance by 0.6% q-o-q (*p*: 0.1%). In March, IP and Manufacturing Production are likely to shrink by 0.3% m-o-m (*p*: 0.5%) and 0.2% m-o-m (*p*: -0.1%) respectively. In April, retail sales are seen rising by 0.6% m-o-m (*p*: 1.7%).

The Quarter Ahead: Saudi Aramco Profit Surge; Iran's Response To US Proposal; Trump's Deadline for the EU

Saudi Aramco's Q1 2026 profit surged 26% year-on-year to \$33.6bn, beating forecasts, as its East-West pipeline reached full 7mn bpd capacity, helping bypass the blocked Strait of Hormuz amid the Iran war. Aramco described the pipeline as a critical supply artery as Hormuz disruptions have already removed nearly 1bn barrels of oil from global markets.

Iran has submitted its response to a U.S. proposal aimed at ending the two-month regional standoff, with current talks reportedly focused on a temporary ceasefire and reopening the Strait of Hormuz. Negotiations remain complicated by internal uncertainty in Tehran, though both sides signal diplomacy is still ongoing.

Trump set a July 4 deadline for the EU to finalise its side of the proposed trade deal, warning that U.S. tariffs on the bloc would rise sharply if Brussels fails to comply. The threat follows renewed tensions over tariffs, including last week's proposed 25% duties on European cars and trucks.

Last Week's Review

Real Economy: US Unemployment Rate Remained Unchanged; PMIs Rose In US And UK, While Fell In EZ

In the US, in April, unemployment rate remained at 4.3% as expected. NFPs rose by 115K (*c*: 62K; *p*: 185K). In April, S&P Global Services and Composite PMIs edged up to 51.0 (*c*: 51.3; *p*: 49.8) and 51.7 (*c*: 52.0; *p*: 50.3). In May, Michigan consumer sentiment declined to 48.2 (*c*: 49.5; *p*: 49.8).

In the EZ, in March, retail sales rose to -0.1% m-o-m (*c*: -0.3%; *p*: -0.3%) and by 1.2% y-o-y (*c*: 1.0%; *p*: 1.3%). In April, S&P Global Manufacturing PMI increase to 52.2 (*p*: 51.6) as expected. Services and Composite PMIs edged down to 47.6 (*c*: 47.4; *p*: 50.2) and 48.8 (*c*: 48.6; *p*: 50.7).

In the UK, in April, Services and Composite PMIs increased to 52.7 (*c*: 52.0; *p*: 50.5) and 52.6 (*c*: 52.0; *p*: 50.3).

Financial Markets: Stocks Increased; Long-Term Yields Edged Down; US Dollar Fell; Oil And Gold Prices Increased

Market Drivers: US equities mostly looked through mixed signals, from Middle East tensions to a more hawkish Federal Reserve meeting. Europe lagged, even as earnings showed improving momentum. Sentiment remained constrained by stalled Iran-US talks.

Global Equities: increased w-o-w (MSCI ACWI, +0.7%, to 1,105.63). The US S&P 500 index rose (+2.3% w-o-w, to 7,398.93). In the EZ, share prices were up (Eurostoxx 50, +2.5% w-o-w, to 5,911.53) In EMs, equity increased (MSCI EMs, +6.9%, to 1,711.25) Volatility fell to 19.22 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

Fixed Income: w-o-w, the 10-year US Treasury yields were down (-2 bps to 4.36%). The 2-year US Treasury yields were virtually unchanged (+0 bps to 3.89%). The German 10-year bund yields declined (-3 bp to 3.00%).

FX: w-o-w, the US Dollar Index declined (DXY, -0.3%, to 97.9; EUR/USD +0.6%, to 1.18). In EMs, currencies rose (MSCI EM Currency Index, +0.8% w-o-w, to 1,880.54).

Commodities: w-o-w, oil prices increased (Brent, -6.4% to 101.29 USD/b). Gold rose increased w-o-w (+1.5% to 4,730.70 USD/Oz).



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For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini.com

75 King William Street, London EC4N 7BE, United Kingdom



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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