MAKING SENSE OF *THIS* WORLD

11 May 2026

R&R Weekly Column
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."

Our Recent Publications

- *The Unravelling of the GCC Order: Security, Finance and Energy*, *by Nato Balavadze, 8 May 2026*
- *Trump Applauds UAE's OPEC Exit*, *by Gulf State Analytics, 7 May 2026*
- *Oil, Power, and Stalemate: The US-Iran Crisis*, *by Lāsma Kokina, 6 May 2026*
- *Asia's Energy Shock: Vulnerabilities and Resilience*, *by Nato Balavadze, 5 May 2026*

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 virtuallu 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).

@RosaRoubini Rosa & Roubini Rosa&Roubini Associates

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

Nato Balavadze contributed to this Viewsletter. *The picture in the first 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*