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MAKING SENSE OF *THIS* WORLD

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Are the Overlapping Wars in Ukraine and Iran the First Step Towards WW3?

A few days ago, Iranian drones struck an Iranian commercial cargo vessel in the Caspian Sea, which according to Kyiv was transporting weapons to Russia. Iran promised retaliation (even if only a symbolic gesture), [but an intense diplomatic effort by the EU and Ukraine averted this potential escalation](#). This was the first explicit signal of a potential conjoining of the two major ongoing conflicts, Russia-Ukraine and US/Israel-Iran. Signs that this was already happening have emerged previously, however.

Let's recap. In the asymmetric war between Russia and Ukraine, Kyiv managed to regain ground in spite of having a much smaller population and territory than Russia, thanks to the developments of high-tech, low-cost drones. Russia asked for support from its ally Iran, which has one of the most advanced drone technologies at the global level for the same reason; namely, that because they cannot develop a large nuclear arsenal, they specialised in high-tech and low-cost weapon systems. [Iran has been providing drones to Russia since at least 2023, as the International Institute of Strategic Studies \(IISS\) has shown](#).

IISS studies have shown that drones built in Tehran would be transported to the Iranian port of Amirabad on the Caspian Sea, then moved by cargo ships (likely disguised as commercial vessels) to the Russian port of Makhachkala, also on the Caspian. From there, they would be transported to the strategic facilities of Primorko-Akhtarsk and Seshcha, in Russia, and then deployed over Ukrainian territory. Because of these Russian attacks on Ukraine with Iran-made drones, Kyiv has developed the most advanced technology to counter these Persian drones that exist at the global level.

When the war in Iran erupted in February 2026, Iran retaliated by sending its drones against all the Arab countries in the region. Most of them, including the largest of all —Saudi Arabia — have since signed deals with Ukraine to be supplied with their anti-(Iran-made) drone technologies.

Other similar signs emerged a few years ago, when [Ukraine provided support to African troops trying to resist the coups orchestrated by Russia-linked Wagner Group](#) in the Sahel, which have overthrown the fragile French-inspired and EU-supported democracies in favour of Moscow-backed military dictatorships. Ukraine wanted to break the link that Russia had in the region, as it did when it provided support to Al Jolani, in his successful attempt to conquer Damascus and overthrow the Moscow-supported Assad regime in Syria.

In fact, in this global chess game, Russia has always tried to play on different tables, and to use this leverage not to be cornered in any of them. "Do you want to punish me for what I did in Ukraine?" — Putin may say — "But who can credibly convince the Iranians not to build a bomb?" Ukraine has tried to turn this strategic advantage into a liability. This was the message that Zelensky delivered to Trump on his latest visit to Washington: Iran has helped Russia in the war against Ukraine; now Russia is helping Iran in the war against the US and Israel. The best way of stopping both wars is to hit Russia and Iran together. So the attack of Ukrainian drones on an Iranian ship seemed to be the perfect seal to this deal.



Both wars have already seen other international ramifications: Russia has asked North Korea to provide troops, and provided intelligence to Iran. China has provided intelligence, and now weapons to Iran. Zelensky has tried to depict a picture in which a new “Axis of Evil” is emerging, composed of China, Russia, Pakistan, Iran and North Korea at its core.

The risk is that these regional conflicts start merging into a single, global conflict involving all the world’s major super-powers. This would represent the validation of the prophecy that Pope Francis made a few years ago, when asked about the risk of WW3 starting soon. He replied by saying that WW3 had already started, but it was fought “in pieces” (piecemeal). The real risk now is that these pieces start merging into one another, creating a global conflict, which you can call WW3.

Our Recent Publications

-  [Review: BoJ Keeps Rates Unchanged, But Signals Further Tightening Ahead](#), by Brunello Rosa and Nato Balavadze, 31 July 2026
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-  [Preview: Fed Likely But Not Certain To Remain on Hold in July, While The Need for a Rate Hike by September Is High](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 28 July 2026
-  [REVIEW: ECB Keeps Rates Unchanged In July, and Prepares For a Hike In September](#), by Brunello Rosa and Nato Balavadze, 23 July 2026

Looking Ahead

The Week Ahead: US NFP to Accelerate; EZ Retail Sales Seen Advancing ; UK PMI To Increase

In the US, in July, unemployment rate is likely to edge up to 4.3% (*p*: 4.2%). NFPs are seen increasing by 91K (*p*: 57K). In July, S&P Global Manufacturing and Services PMI are expected to rise to 53.9 (*p*: 53.8) and 53.6 (*p*: 51.2). Composite PMI is seen edging up to 53.6 (*p*: 51.9).

In the EZ, in June, retail sales are seen rising by 0.1% m-o-m (*p*: 0.2%). In July, S&P Global Manufacturing and Services PMI are expected to increase to 52 (*p*: 51.4) and 51.6 (*p*: 49.4). Composite PMI is seen edging up to 51.9 (*p*: 50.0).

In the UK, in July, S&P Global Manufacturing and Services PMIs are expected to increase to 52.8 (*p*: 52.5) and 51.8 (*p*: 48.8). Composite PMI is likely to rise to 52.1 (*p*: 49.3).

The Quarter Ahead: Trump Cancels Planned Attacks on Iran; Italy Suspends Schengen Agreement with Spain

President Trump said he had cancelled planned strikes on Iran, citing progress toward a potential deal that could include reopening the Strait of Hormuz. Iran warned that any US or Israeli attack would prompt a "decisive and proportionate" response. Meanwhile, Israeli forces killed at least nine Palestinians, including three children, across Gaza.

Italy has temporarily reinstated border checks on arrivals from Spain following the migrant surge in Ceuta. The measures apply only to non-EU nationals, while EU citizens remain unaffected. Critics argue the move is largely symbolic and politically motivated.

The US Treasury reportedly intervened in currency markets by buying yen to support Japan's weakened currency, marking the first coordinated US-yen-buying operation in more than a decade. The move boosted the yen.

Last Week's Review

Real Economy: QoQ GDP Slowed In US And Advanced In EZ; EZ Unemployment Was Unchanged; Fed And BoE Remained On Hold

In the US, in Q2, according to the advance estimate, the economy slowed to 1.5% q-o-q (*c*: 2.1%; *p*: 2.1%). In July, Michigan consumer sentiment rose to 55.2 (*c*: 54.0; *p*: 49.5). In June, PCE and core PCE Price Index fell to 3.7% (*c*: 3.7%; *p*: 4.1%) and 3.3% y-o-y (*c*: 3.3%; *p*: 3.4%).

In the EZ, in Q2, according to the flash estimates, GDP growth rate advanced by 0.4% q-o-q (*c*: 0.2%; *p*: 0.0%) and 1.0% y-o-y (*c*: 0.5%; *p*: 0.5%). In June, unemployment rate remained unchanged at 6.3% (*p*: 6.2%). In July, headline inflation rate increased by 2.9% y-o-y (*c*: 2.9%; *p*: 2.8%), whereas core inflation rate rose to 2.5% (*c*: 2.4%; *p*: 2.4%). In July, Consumer Confidence rose to -15.9 (*c*: -15.9; *p*: -17.6). Among the largest EZ economies, in Q2, according to the preliminary estimate, GDP growth rate: *i*) advanced by 0.2% q-o-q (*c*: 0.2%; *p*: -0.1%) and 0.7% y-o-y (*c*: 0.8%; *p*: 0.8%) in France; *ii*) advanced by 0.2% q-o-q (*c*: 0.1%; *p*: 0.4%) and 0.9% y-o-y (*c*: 0.6%; *p*: 0.7%) in Germany; and *iii*) rose slightly by 0.2% q-o-q (*c*: 0.1%; *p*: 0.3%) and 1.0% y-o-y (*c*: 0.7%; *p*: 0.8%) in Italy.

CBs Remained On Hold. In the US, the Fed maintained its target Fed funds range at 3.50% - 3.75%. In the UK, the BoE kept its Bank Rate unchanged at 3.75%.

Financial Markets: Stocks Were Up; Long-Term Yields Increased; Dollar Decreased; Oil Prices Fell While Gold Prices Rose

Market Drivers: Major US stock indexes ended mixed as the Fed meeting, the US-Iran conflict, and AI-related volatility drove sharp market swings. UST yields steepened after the Fed, with the 30-year yield rising above 5.2% for the first time since 2007. In Europe, the stocks gained supported by strong earnings and a rebound in AI-related stocks.

Global Equities: decreased w-o-w (MSCI ACWI, -0.3%, to 1,120.51). The US S&P 500 index increased (+1.1% w-o-w, to 7,489.72). In the EZ, share prices were up (Eurostoxx 50, +1.4% w-o-w, to 6,358.01) In EMs, equity increased (MSCI EMs, +2.3%, to 1,665.89). Volatility fell to 19.25 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

Fixed Income: w-o-w, the 10-year US Treasury yields were up (+7 bps to 4.75%). The 2-year US Treasury yields declined (-4 bps to 4.29%). The German 10-year bund yields edged up (+3 bps to 3.20%).

FX: w-o-w, the US Dollar Index decreased (DXY, -1.5%, to 99.91; EUR/USD +1.4%, to 1.15). In EMs, currencies increased (MSCI EM Currency Index, +1.2% w-o-w, to 1,892.45).

Commodities: w-o-w, oil prices fell (Brent, -6.9% to 90.12 USD/b). Gold rose increased w-o-w (+0.9% to 4,107.00 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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