MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
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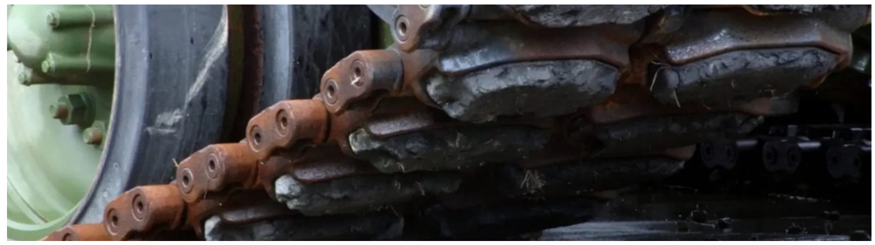

Are the Overlapping Wars in Ukraine and Iran the First Step Towards WW3?

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.

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 see 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).

Nato Balavadze *contributed to this Viewsletter.*

Abbreviations, Acronyms and Definitions

a	Actual
AKP	Justice and Development Party, Turkey
ann.	annualized
ARS	Argentinian Peso
avg.	Average
bn	Billion
BoC	Bank of Canada
BoE	Bank of England
BoJ	Bank of Japan
bpd	Barrels per day
bps	Basis points
BS	Balance sheet
c	Consensus
C/A	Current account
CB	Central bank
CBB	Central Bank of Bahrain
CBK	Central Bank of Kuwait
CBT	Central Bank of Turkey
CDU	Christian Democratic Union, Germany
CNY	Chinese Yuan
CPI	Consumer Price Index
DJIA	Dow Jones Industrial Average Index
DJEM	Dow Jones Emerging Markets Index
d-o-d	Day-on-day
DXY	US Dollar Index
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
EIA	US Energy Information Agency
EM	Emerging Markets
EP	European Parliament
EPS	Earnings per share
EU	European Union
EUR	Euro
EZ	Eurozone
Fed	US Federal Reserve
FOMC	US Federal Open Market Committee
FRB	US Federal Reserve Board
FX	Foreign exchange
FY	Fiscal Year
GCC	Gulf Cooperation Council
GBP	British pound
GDP	Gross domestic product
IMF	International Monetary Fund
INR	Indian Rupee
IPO	Initial public offering
IRR	Iranian Rial
JPY	Japanese yen
k	thousand
KSA	Kingdom of Saudi Arabia
LN	Northern League, Italy
M5S	Five Star Movement, Italy
m-o-m	Month-on-month
mb	Million barrels
mb/d	Million barrels per day
MENA	Middle East and North Africa
MHP	Nationalist Movement Party, Turkey
mn	Million
MPC	Monetary Policy Committee
NAFTA	North-American Free Trade Agreement
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Cooperation and Development
Opec	Organization of Petroleum Exporting Countries
p	Previous
P2P	Peer-to-peer
PBoC	People's Bank of China
PCE	Personal Consumption Expenditures
PE	Price to earnings ratio
PM	Prime minister
PMI	Purchasing managers' index
pps	Percentage points
pw	Previous week
QCB	Qatar Central Bank
QAR	Qatari Riyal
QE	Quantitative easing
q-o-q	Quarter-on-quarter
RE	Real estate
RBA	Reserve Bank of Australia
RRR	Reserve Requirement Ratio
RUB	Russian Rouble
SWF	Sovereign Wealth Fund
tn	Trillion
TRY	Turkish Lira
UAE	United Arab Emirates
UK	United Kingdom
US	United States
USD	United States Dollar
USD/b	USD per barrel
UST	US Treasury bills/bonds
VAT	Value added tax
VIX	Chicago Board Options Exchange Volatility Index
WTI	West Texas Intermediate
WTO	World Trade Organisation
w	Week
w-o-w	Week-on-week
y	Year
y-o-y	Year-on-year
y-t-d	Year-to-date
ZAR	South African Rand
2y; 10y	2-year; 10-year