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Choosing wallpaper during the Blitz

Global Daily

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Market comments

We really are back to elements of the 1920s and 1930s in tandem, it seems, even if markets still don't grasp that underlying reality. Actually, markets are starting to grasp the 20s parallel when it comes to social unrest, political breakdowns where political parties are either compromised or irrelevant, and popular 'movements' emerge spontaneously instead (luckily so far absent charismatic leaders). Indeed, Wall Street appears to be all in --by which I mean exacerbating-- it. The smart money also sees the end parallel of the everything bubble and a Fed raising rates anyway. **Some focus on a 30s background where Russian President Putin says on European security: "It's already clear...that Russia's principal concerns were ignored"** and that the West is using Ukraine as a "tool to hinder Russia".

There seems no way to bridge the fundamental differences in interpretations of the 1975 Helsinki European security agreement that says *all* states are sovereign and free to decide which defence alliance they want to join, *and* that no state should join an alliance seen as a threat by another. Which clause has primacy? The former, if you view NATO as defensive. The latter, if you see NATO as offensive.

As in the 1920s/30s, you also get passionate, polarised views on who is to blame. There are those who see Putin as Hitler and Ukraine as the Sudetenland – or Poland. There are those who see the 'US Deep State' driving things. *And both can be true, which just makes matters worse.*

Meanwhile, the scandal-plagued UK government (this time it is about prosecco, not cake) and its Polish and Ukrainian counterparts are to sign **a trilateral defence treaty**. Of course, such defence pacts are not new - back in [September 1996](#) the same trio were saying the same thing. Yet the UK guaranteeing not just Ukraine's but Poland's border...are history, and the UK government, slurring old lyrics, rhyming or repeating themselves?

There is also pressure building in the Balkans: Bosnia, Kosovo, Albania, Serbia, Montenegro, and North Macedonia --maybe even EU member Bulgaria-- are all in a pot Russia is helping to stir. Its Foreign Minister just stated he does not accept that Montenegro and North Macedonia should be NATO members *when they already are*.

Yet NATO member Hungary's PM just visited Moscow, and the Russian Ministry of Foreign Affairs oozed: "*Hungary has invariably confirmed its reputation as a reliable partner in the transit of Russian fuels. Naturally, we are willing to build up mutually advantageous cooperation in this area.*" In other words, don't expect any EU energy sanctions if Budapest has a veto? Yet that means the West has no pressure point against Russia except the military, where it is outgunned.

Meanwhile, **Russia just banned the export of ammonium nitrate for two months** (while Lithuania has fully blocked the rail shipment of potash from Belarus). The potential upside impact on fertilizer prices in Europe should be obvious. So should the fact that *Russia clearly understands the geopolitical and geoeconomic pressure points that *it* controls*. They can see the US does not want to raise rates but has to. They can also see that they can force inflation far higher, inflicting huge economic pain, even if they take some too. *That is how economic wars work*. Are we ready to fight one, or are we going to redraw borders to avoid one?

The scale of what is happening over markets' heads --and the naval-gazing drivel on Bloomberg this morning-- is summarised by former Portuguese politician Bruno Maçães in a Time magazine

article, "[What Happens Next in Ukraine Could Change Europe Forever](#)". In it, he notes: "*The Russian television anchor Dmitry Kiselyov, known as a reliable Kremlin mouthpiece, explained on air during the past weekend that the current crisis is not about Ukraine: 'The scale is much bigger.'*" I concur: which is why I called it a **metacrisis**.

Mações adds another line I have been stressing since 2017: "*We no longer live in the old liberal order where rules must be enforced, and violators punished. We live in a new order where power must be balanced with power.*" And the EU has no such power! If only its preparations had been made as far back as 2017 when 'The Great Game of Global Trade' came out.

As such, Mações argues "*The US must reflect on whether it can afford to reduce its presence in Europe before a proper counterweight to Russia has been created in Brussels. The pivot to Asia may need to wait for a solution to the European crisis. As for Europeans, they need to quickly prepare themselves for a new world, where their sovereignty and security may well be at stake.*" Except the dynamic in the US is not moving in that direction. Asia is the priority, regardless.

He continues: "*The existing order is starting to buckle, and Washington needs to decide how best to replace it with new arrangements. **Does it prefer to reach a grand bargain with Moscow whereby the two powers divide Europe among themselves?** Or does it prefer to encourage and support the development of a new European pole capable of balancing Russian power?*" **He is literally talking about a new partition of Europe into spheres of interest: and European markets are looking at what the ECB will do on Thursday.** I can tell you ECB rates are unlikely to rise ahead --what's new there?-- but I can't tell you what the geography and political architecture of the EU where you borrow that money will look like in 5 years. Keeping a focus just on the screens at times like this is akin to happily choosing new wallpaper during the London Blitz.

Mações concludes: "*To me the choice seems an obvious one, but what is frustrating about the current crisis is how we keep avoiding the larger questions of political order. By hesitating we allow others to assume the role of reformers and innovators. Eurasia, the supercontinent, is being reshaped before our eyes.*" Yes - as the EU is talking about its usual soft, cuddly 2005-vintage talking points. But don't worry – [the Conference on the Future of Europe](#) is waiting for your input! The website hasn't added Russian as a language option yet.

We do perhaps see key movement from Germany – not against Russia, but China. It is reported Chancellor Scholz is to officially prioritize engagement with democratic partners in the Indo-Pacific instead of China, will travel to Japan to hold consultations, and fully supports Lithuania against Chinese coercion; hawkish Foreign Minister Baerbock will be allowed to champion initiatives against China; and German diplomats in the Indo-Pacific are "*being encouraged to push the envelope and resist old habits to self-censor*" when developing new China strategies. Obviously, this will greatly exacerbate EU-China economic tensions – but there is no military component. So, are these steps a quid pro quo to try to ensure the US stays committed to the EU's defence, rather than --as Mações says-- carving it up with Russia and looking to Asia?

Perhaps. Yet if you have decided to turn your economy into a weapon, as the EU thinks it has, then using it involves taking hits: armies take damage in war – economies take damage during economic wars. *That is how economic wars work.* The US is most unlikely to change its mind on strategic options vis-à-vis Asia unless the EU is prepared to take pain on the sanctions front to send Russia a message. Even then, what to do about Hungary, should consensus be required?

Let's all go and look at wallpaper patterns instead, why not?

Day Ahead

Today sees Eurozone CPI and US ADP employment.

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