Cartoon Versions of Everything

Global Daily

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Market Comments

President Macron's remarkable public speech saying Europe will "do everything needed" to stop Russia winning in Ukraine, and "not ruling out" sending troops, of course, saw President Putin immediately reply that the latter would mean war with Russia; and, of course, Germany then stated they oppose this course of action. Macron may have then tweeted a video saying Europe needs to be prepared to act militarily without the US vis-à-vis Ukraine, but its inability to do so was laid bare.

You might think this doesn't matter in a markets Daily. You'd be wrong. To translate it to someone limited to the narrow world of finance, imagine if a central bank promised to do "whatever it takes", but when a crisis hit said, "except QE." Markets would crash, and headlines would be of crushing humiliation and total loss of credibility. Europe just experienced the same in realpolitik. After all, France is not only a member of the UN Security Council --alongside a UK whose aging submarine nuclear deterrent may or may not work-- but the only EU state with a serious military; and it just displayed that, within an EU mechanism that's the only way to scale up to make it a serious global player, it cannot be taken seriously at all.

Promising to send troops, but no new weapons, was always a dangerously contradictory, escalatory action that invited Putin to show that he wouldn't blink, and Europe would – which it did. The only actual breakthroughs from Macron were promises of an unspecified quantity of long-range missiles at an undisclosed future date, and a U-turn on using new EU funds for Ukraine to purchase foreign ammunition in light of the fact that Europe cannot manufacture it itself at the required scale, the latter pragmatism a scandalous reflection of its military incapacity.

To bring it back it back to markets, if a central bank (in)acted like Macron, everyone would know the final bill would be vastly higher than it originally looked like being. The same is true for the EU in terms of any dreams of any "Strategic Autonomy" in an ever-more 'geopolitical' world. That world was watching, and face-palming or laughing; as a result, you could, literally, be talking about needing to spend many tens, perhaps many hundreds, of billions more on EU defence to try to reinstall an element of real deterrence. In short, when it comes to violence, reputations matter more than they do in the world of central banking.

Yet Macron just displayed, again, that most Western leaders have never been physically worried about their own safety in a world of streetfighters, who look at their 'whatever it tales' and say 'whatever'. That's as even the Financial Times carries an opinion piece warning that Europe needs to consider a wider range of potential future geoeconomic threats, including from the US under Trump, not just from Russia and China. (And the US author ignored Iran; and, as the Wall Street Journal puts it, 'While the World Was Looking Elsewhere, North Korea Became a Bigger Threat: Kim enlarged his nuclear arsenal and built ties to Russia, no longer aiming for reunification with South Korea. The US and its allies are alarmed.')

In that real world, global ocean carrier giants Maersk announced we should expect the Red Sea crisis to last into the second half of the year --which we already did-- and that, "We encourage customers to prepare for disruptions to persist in the global network." Again, we were saying exactly this while markets were ignoring Suez as short-term 'noise' that had nothing to do with their take-it-to-the-bank central-bank rate cuts.

Framing this for markets, Elwin de Groot's '[Wait and Red Sea: Gauging the Inflation Risks](#)' sees the impact averaging of 0.5ppts to Eurozone y-o-y CPI over the next two years; 0.1ppt if the crisis deescalates; and 1.8ppts if Suez remains closed and we get other plausible knock-on effects. (Which Maersk is warning of, and a perceived lack of EU realpolitik power encourages). The latter would shock the ECB and markets thinking rate cuts arrive in time for them to go on their nice, safe, long summer holiday. The real world sadly doesn't rotate around EU school timetables.

On that note, the RBNZ kept rates on hold today at 5.50% rather than *hiking*, as some had feared, while also noting that "the geopolitical climate poses a risk to inflation." You think?! Let's see how this plays out, first in the RBNZ Governor's post-decision Q&A, and then in the real world.

Meanwhile, showing that the West's problems extend well beyond politics, the WSJ just ran 'Why We Risk a Cartoon Version of Capitalism', noting, *"It sometimes feels as if we are living in a cartoon version of market capitalism, where shareholders have given up trying to control companies. Money floods into shares based on memes, is shifted around by algorithms based on past patterns, or goes into vast passive index trackers sold on the basis of being virtually free. None have an incentive to devote resources to keeping the corporate bureaucracy in check, since day traders and hedge funds will be gone before the next CEO meeting, while passive funds can't sell even if the CEO is thrown in prison."* Are they wrong? If so, where? And how do these firms get behind a national-security push in the same way the FT covers Adani is doing so in India?

Of course, most in markets will continue to ignore me, Maersk, and Macron to focus on headlines like Apple dropping plans for an EV for an AI, chasing the latest *acronym du jour*. It's not as if there isn't a gap in the market for one given I just saw Google Gemini, when asked to give a concise yes/no answer to the simple question: "Is the United States a better place to live compared to Nazi Germany?", allegedly say, "No."

Welcome to cartoon versions of *everything*.

Day Ahead

Today sees US Q4 GDP, again, and central bank speakers include Muller from the ECB, Mann from the BOE, Bostic, Collins and Williams from the Fed and RBNZ Governor Orr, twice.

For an overview of our macro-economic and financial markets forecasts please click here.

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A summary of the methodology can be found on our website