

The Economist

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The world this week

Politics

Jun 16th 2022



Lloyd Austin, the American defence secretary, urged nato ministers meeting in Brussels to accelerate the flow of heavy weapons to **Ukraine**, as fighting intensified in the eastern region of Donbas, especially in the town of [Severodonetsk](#). Although Russia has occupied most of it, Ukrainian forces are continuing to mount stiff resistance. The conflict, in its fourth month, has turned into a war of attrition, with neither side seemingly able to make big gains.

A report by the Centre for Research on Energy and Clean Air, a think-tank based in Finland, found that **Russia** earned \$97bn in revenues from oil and gas exports during the first 100 days of its invasion of Ukraine. The European Union accounted for 61% of the revenues, though China was the biggest single importer, closely followed by Germany. Russian revenues dipped in April and May compared with March. The report concluded that Russia's revenue from energy was enough to defray its expenditure on the war, which it estimated at \$876m a day.

The first round of legislative elections in [France](#) marked a serious reverse for the president, Emmanuel Macron. His alliance of centrist parties won only around the same number of votes as a radical-left grouping that is headed by Jean-Luc Mélenchon. Predictions of the final result after run-off votes on June 19th suggest that Mr Macron is in danger of losing his majority.

The British government [introduced legislation](#) to override parts of the **Northern Ireland protocol**, which forms part of the Brexit withdrawal agreement but is disliked by unionists. The eu described the move as a breach of international law and announced plans for legal proceedings against Britain.

A controversial plan in Britain to deport some [asylum-seekers](#) to Rwanda was delayed as the first plane prepared for take-off. The European Court of Human Rights (a non-eu body) judged that an Iraqi asylum-seeker faced a risk of harm. That opened the door to other successful appeals, and to the last-minute scrapping of the flight. The British government is undeterred, and has vowed to press ahead.

Boris Johnson's ethics adviser resigned. Christopher Geidt had held the job since April 2021 and is the second ethics adviser to the British prime minister to quit in less than two years. Shortly before he resigned Lord Geidt told a committee of mps that it was “reasonable” to ask whether Mr Johnson had broken the ministerial code in relation to parties held at Number 10 during lockdown.

A “ferocious” new outbreak of covid-19 in Beijing is testing **China's** “dynamic zero-covid” strategy. [Hundreds of cases](#) were traced to a bar in the city centre. Thousands of residents have been whisked into quarantine and neighbourhoods sealed off. In Shanghai, where a months-long lockdown has ended, the number of cases found outside quarantine remains low. Nevertheless, the city ordered most of its 25m residents to get tested.

Sri Lanka's government gave public-sector workers Fridays off for the next three months, so that they can turn to farming to ease a food shortage. The four-day week will also reduce commuting, easing pressure on limited fuel

supplies. The UN warned that Sri Lanka is facing a humanitarian catastrophe, as it deals with its biggest economic shock since independence in 1948.

Members of Congress, **India's** main opposition party, took to the streets of Delhi to protest against the questioning by authorities of Rahul Gandhi, a senior figure in the party, in a decade-old corruption case. Police detained several opposition politicians for illegal assembly. Congress claimed the police broke into its headquarters and beat up staff; the police deny this.



Lady liberty

Human-rights groups condemned the prison sentences handed down to 60 members of the opposition in **Cambodia** on trumped-up charges. Sam Rainsy, who leads the Cambodia National Rescue Party, was sentenced in absentia to another prison term (he lives in exile). Theary Seng, a lawyer who holds American citizenship, was given six years. She attended court dressed as the Statue of Liberty.

Police in **Brazil** said that two bodies believed to be Dom Phillips, a British journalist, and Bruno Pereira, an indigenous expert, have been found in the Amazon. The pair had disappeared in the remote Javari Valley, after Mr

Pereira received death threats for campaigning against illegal fishing. A fisherman has confessed to murdering the men.

Congo accused **Rwanda** of invading it after the m23 rebel group captured Bunagana, a strategic border town near Goma in eastern Congo. Rwanda in turn accused Congo of firing rockets into its territory.

Abiy Ahmed, the prime minister of **Ethiopia**, said for the first time that his government is open to negotiations with the Tigray People's Liberation Front, the party-cum-militia it has been fighting since November 2020.

The Economic Community of West African States, a regional bloc whose members include Ghana and Nigeria, said it plans to launch a **single currency** called the eco in 2027.

Joe Biden announced that he would pay his first visit to the **Middle East** as president, probably in mid-July, going to Israel and then Saudi Arabia. He will meet the Saudi crown prince, Muhammad bin Salman, whom he has labelled a pariah. Mr Biden will ask him to boost the flow of oil to help lower prices. The prince may drag his feet.

A group of American senators, ten Democrats and ten Republicans, produced a framework agreement on limited **gun-control measures** that they hope to pass by August. If passed, the bipartisan breakthrough would expand background checks for people under 21 who buy weapons. The killers in two recent gun massacres, in Buffalo and Uvalde, were both aged 18.

America ended **covid-testing** requirements for international passengers flying into the country. Foreign nationals still have to prove that they are vaccinated. Airlines and tourism organisations had pressed the government to end testing. It is thought an extra 5.4m people will now visit America this year.

Sounds like fun

The reopening of **Japan** to tourists caused much confusion. International visitors must be booked on an officially approved tour and accompanied by

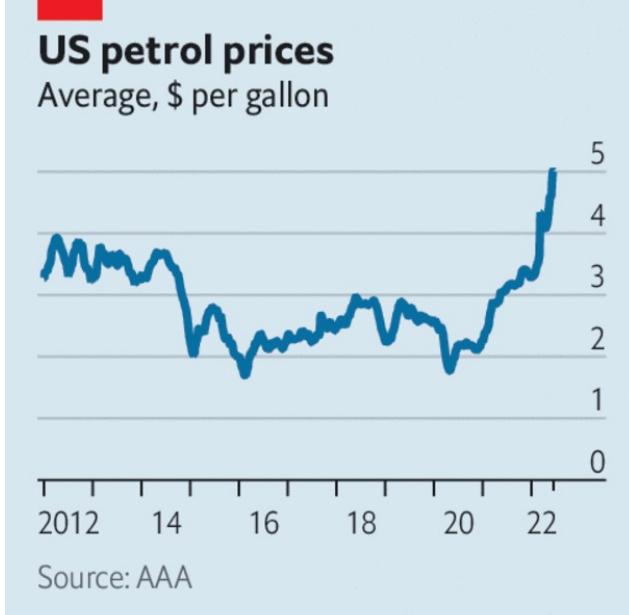
their guides at all times. They are also required to wear masks and compelled to buy health insurance. At restaurants they will be socially distanced from locals and will be barred from sharing dishes.

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The world this week

Business

Jun 16th 2022



The Economist

The [Federal Reserve](#) raised its main interest rate by three-quarters of a percentage point, to a target range of 1.5% to 1.75%, the biggest increase since 1994. It was thought the central bank would lift the rate by half a

point, but a few days before its decision data showed that America's annual **inflation** rate, as measured by the consumer-price index, increased to 8.6% in May, higher than had been expected. Grocery prices were up by an average 11.9%, the biggest increase since 1979. The average price of a gallon of petrol in America has now breached \$5 for the first time, up by 50% since January.

Financial markets also had to digest the Fed's [quantitative-tightening](#) programme, which began this week. The Fed is unwinding the balance-sheet of assets it accumulated since the start of the pandemic at a much faster pace than the last time it commenced such an undertaking in 2017.

The [European Central Bank](#) held an emergency meeting after government-bond yields rose sharply across the currency bloc. The pressure on government debt came after the ecb outlined an end to stimulus measures and confirmed it would start raising interest rates next month. Italy's bonds were under the most duress. The yield on the ten-year note rose above 4%.

Japan's finance ministry and central bank issued a statement that they are concerned by the weak **yen**. Despite that the Bank of Japan intervened to expand its bond-buying programme when the yield on the ten-year note again breached its 0.25% cap. The policy has driven the yen to a 24-year low against the dollar.

Beware of the bear

The s&p 500 dropped by 3.9% in a day. That meant the index was down by 22% since its record high on January 3rd, making that stretch of trading a **bear market** (a fall of 20% or more from the most recent peak). The current bear market has lasted over 160 days. That is longer than the bearish 33 days over February and March 2020, but still some way behind the 517 days that ran from October 2007 to March 2009.

Cryptocurrency markets were in turmoil as more signs emerged of problems with the infrastructure underpinning digital assets. Celsius, a platform that enables its users to lend their crypto tokens for a return, stopped customers withdrawing funds. Bitcoin shed over a fifth of its price

over a few days. The value of the overall crypto market has fallen from a peak of \$3.2trn in November to less than \$1trn.

With speculators losing their appetite for risk, the exchanges that host crypto trading are having to retrench. **Coinbase**, the biggest such exchange in America, said it would cut a fifth of its workforce, admitting that it expanded too quickly during the cryptocurrency boom. As recently as February Coinbase and other exchanges were so confident about their business that they ran advertisements during the Super Bowl.

Meanwhile, **Bill Gates** denounced digital-finance assets as “based on the greater-fool theory”. Regarding non-fungible tokens (nfts), which confer ownership on things like digital art, the philanthropist mused that “Obviously, expensive digital images of monkeys are going to improve the world immensely.”

Natural-gas prices rose sharply in Europe, when the operator of one of the largest **liquefied natural-gas** export terminals in America said that a fire at the facility would keep it offline until September. The Freeport plant in Texas has been a big supplier of lng to Europe since the start of the war in Ukraine. Russia reduced its supply of gas this week to Germany and Italy, ahead of a meeting to discuss Ukraine.

Developing economies, and especially a “resurgent China”, will increase global demand for **oil** by 2% next year, according to the International Energy Agency, which expects demand in rich countries to tail off because of the high prices of petrol and diesel.

The British government ended its subsidy scheme for **electric cars** with immediate effect. It said it wants to refocus on the battery-charging infrastructure, but industry groups criticised the sudden change.

The members of bts, the **world’s biggest-selling boy band** and one of South Korea’s most successful exports, said that they would take a break from performing as a group to focus on solo projects. The announcement shaved 25% off the share price of Hybe, their production company. Hybe insisted that the band wasn’t going on a hiatus.

Love yourself

Perhaps bts could be replaced by **artificial intelligence**. An engineer at Google has suggested that its chatbot ai has become sentient. The application referred to itself as a “person” with a “soul” that is “alive”, concepts that philosophers usually grapple with, as have bts in albums like “Map of the Soul: 7”.

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The world this week

KAL's cartoon

Jun 16th 2022



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Kal

Dig deeper into the subject of this week's cartoon:

[The Fed and the ECB turn on a dime](#)

[Eight days that shook the markets](#)

[Podcast: "It will be the sharpest tightening in a calendar year since 1981"—](#)

[The Fed's rate raise](#)

KAL's cartoon appears weekly in *The Economist*. You can see last week's [here](#).

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