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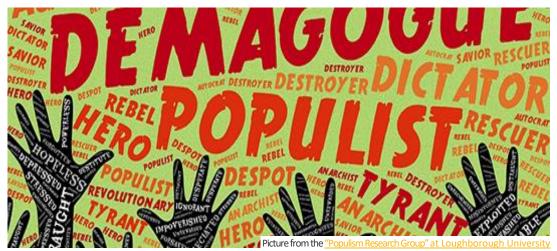
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MAKING SENSE OF THIS WORLD

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R&R Weekly Column By Brunello Rosa



The Rise of the "Populist International", And What This Means For The World

Eduardo Bolsonaro, one of the sons of Brazil's newly elected president Jair Bolsonaro, was chosen as <u>the head of "The Movement" in</u> <u>Latin America last week</u>. "The Movement" is the organisation created by Steve Bannon, former advisor to US President Donald Trump and Chief Strategist at the White House, to coordinate the activities of populist groups and political parties around the world. It is expected to be launched with an event in Brussels in March. In effect, "The Movement" aims at creating a unifying ideology for the various populist experiments around the world, connecting groups which thus far have been mostly disconnected from one another (in part, because they tend to have a nationalistic bias, which has made it harder for them to be "internationalists" working together to promote similar goals). Their manifesto is clear: "We stand together in our pursuit of a *populist nationalist* agenda for prosperity and sovereignty for citizens throughout the world."

The creation of "The Movement" and its official expansion in Latin America marks the formal launch of what we have called, in our <u>previous columns</u> and <u>recent analysis</u>, the Populist International. Its motto could be "Populists of the World, Unite!" There is no hidden agenda here: the Populist International aims to "reclaim sovereignty from progressive globalist elitist forces and expand common sense nationalism," against the "globalist world order," with "governments re-asserting their sovereignty...against the dangerous [United Nations'] Global Pact on Migration."

What could the implications for the world be if the Populist International were to become established and eventually succeed in implementing its agenda? In our recent analysis, we discussed how, in Europe, this could mean that the process of dis-integration, which is ongoing and is accelerating with Brexit, could continue and eventually lead to a continent that, instead of <u>being orderly</u> <u>organised in concentric circles</u>, might re-group itself into clusters, with the strongest of these being one formed around Germany and its core allies. Such an outcome would have massive macroeconomic and financial implications, which we describe in detail. In Latin America, a success of the initiatives promoted by "The Movement" would likely accelerate the ongoing shift of political systems from populist regimes of the left to authoritarian regimes of the right (discussed in <u>our column last week</u>). This might have implications for commodity price, including oil, considering that Latin American countries are among the major commodity exporters (and China among the key importers).

At the global level, the success of populist/nationalist policies would likely favour the rise or further strengthening of "strongmen", who are already populating the world scene. The first victim of strongmen tends to be the independence of regulatory bodies and central banks. Sometimes markets like strongmen, but markets also tend to stigmatise and punish those regimes in which central bank independence is, or appears to be, compromised. Typically markets do this by selling off such countries' currencies (<u>Turkey being the most notable recent example</u>). In addition, the autarkic solutions, generally favoured by strongman at national level, are not compatible with each other at the international level, and this tends to create geopolitical tensions, which eventually weigh on market sentiment.

Our Recent Publications

POLICY COMPASS: The Rise of the Populist International: <u>European Dis-Integration Ahead?</u>, by Brunello Rosa and John Hulsman, 6 February 2019 Geopolitical Corner: Venezuela and the Iron Laws of <u>Revolution</u>, by John C. Hulsman, 1 February 2019





Looking Ahead

This week, in the US, the impact of the shutdown on government spending (p: USD -205bn) will be highlighted in the January monthly budget statement. If a deal is not reached by February 15, another shutdown is likely. The United Consumer Sentiment Index for January is expected to remain unchanged (c: 90.7, p: 90.7). In the UK, the GDP is expected to soften to 1.4 y-o-y (p: 1.5%). Still in the US, inflation is expected to decline (CPI January, c: 1.9% y-o-y; p: 2.2%).

This week, in Japan, GDP growth is expected to have rebounded from the -0.6% q/q contraction experienced in Q3 (c: 0.4%; p: -0.6%). *This week, in China,* trade data are likely to reveal the impact of the recent trade tensions with the US (p: USD 57.06bn).

still in China, inflation is expected to decline (CPI January, c: 2.1% y-o-y; p: 2.2%). *This week in the UK*, inflation is likely to decelerate (CPI January, c: 2.0% y-o-y; p: 2.1%); according to the BoE, "the CPI may temporarily fall below 2% target".

In the UK, geopolitical risks will remain elevated in coming weeks. The Brexit deadline is set for March 29th. While a last-minute deal remains the base case, the likelihood of a no-deal continues to increase.

Next quarter, in the EU, growth is expected to remain stable at 0.2% q-o-q (p: 0.2%), while yearly growth is expected to decelerate to 1.2% y-o-y (p: 1.6%). The Brexit deadline remains set for March 29th. According to the BoE, the worst-case scenario of Brexit will bring about: a) weaker productivity growth than previously anticipated; and b) a 25% devaluation of GBP.

Next quarter, in the US, the trade war truce will end on March 1st. If no deal is reached, tariffs on USD 200bn of Chinese imports will increase to 25%. The probability of one Fed hike in 2019 remains at 97% (p: 97%), with the probability of a rate cut at 18%.

Next quarter, In Turkey, AKP's own survey suggest that "the AKP candidate leads in Istanbul whilst the CHP candidate leads in Ankara". Monetary tightening remains unlikely.

Last Week's Review

Real Economy: Global Slowdown, Monetary Tightening On Hold, EU's Growth Stalling

In the US, the trade deficit narrowed, driven by a decline in the value of imports - the first major decline since President Donald Trump placed tariffs on Chinese goods (Trade balance November USD, a: -49.3bn c: -54.0bn, p: -55.7bn).

In the EU, investor confidence dropped to the lowest level in more than four years (Sentix February; a: -3.7, c: -0.6, p: -1.5). After the release of weak growth data in Germany and Italy, the EC: 1) revised downwards its 2019 economic forecasts for the EZ (a: 1.3%, p: 1.9%); and 2) warned that: i) Brexit; and ii) China's slowdown seriously threaten the outlook.

In Germany, new manufacturing orders declined in December (Factory Orders December, a: -1.6%; m-o-m c: 0.3%, p: 0.2%), another indicator that the economy's deceleration is ongoing.

In Italy, the EC revised growth forecasts downwards to 0.2% (p: 1.2%).

In Turkey, the trade deficit has declined to USD2.5bn in January (p: USD9.1bn) - as exports increased by 6% y-o-y, and imports dropped by 27% y-o-y.

Monetary Policy: Monetary Policy Tightening Remains On Hold In DMs. RBI Cut Rates

In the UK, the BoE kept interest rates unchanged, as expected (a: 0.75%, c: 0.75%, p: 0.75%).

In India, the CB unexpectedly cut interest rates ahead of the upcoming parliamentary elections (a: 6.25%. c: 6.5%, p: 6.5%). To counter the slowdown in inflation and growth, the RBI shifted its stance from 'calibrated tightening' to 'neutral'.

Financial Markets: The "Fed Put" Is Back, Supporting Asset Performance

The rally in global equities ended as European stocks fell, and the US S&P500 stalled.

Global stocks fell w-o-w (MSCI ACWI, -0.6%) driven by a decline in the EZ (Euro Stoxx 50, -1.1%) and EMs (MSCI EMS, USD -1.3%). Volatility fell (VIX S&P 500, -0.4 points to 15.7, 52w avg.: 17.2; 10y avg.: 18.1).

Fixed-income indices rose (BAML Global bond index, +0.3%). In Italy, sovereign 10y bond yields rose by + 24bps to 2.98%, while the latest 30y bond issuance - priced at a coupon of 3.85% - enjoyed record investor demand (total offer: EUR8bn; total orders: EUR41bn). In EMs, the volume of bond issuance declined when compared to previous weeks: EM bond fund flows fell to USD1.9bn (p: USD3.7bn). *Currencies*: the USD rose (DXY, X+1.1%) the EUR fell (EUR/USD, -1.1% to 1.133). The GBP fell against the USD (GBP/USD, -1% to 1.295). *Commodities: Brent prices fell* by 1% to 62.1 USD/bn.

Farah Aladsani contributed to this Viewsletter.



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
ΑΚΡ	Justice and Development Party, Turkey	M5S	Five Star Movement, Italy
ann.	annualized	т-о-т	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
ВоС	Bank of Canada	МНР	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	NAFTA	North-American Free Trade Agr.
bpd	Barrels per day	NATO	North Atlantic Treaty Organizat.
bps	Basis points	OECD	Organization for Economic Cooperation and Developmen
BS	Balance sheet	Opec	Organization of Petroleum Exporting Countries
c	Consensus	p	Previous
C/A	Current account	P2P	Peer-to-peer
СВ	Central bank	PBoC	People's Bank of China
CBB	Central Bank of Bahrain	PCE	Personal Consumption Expenditures
СВК	Central Bank of Kuwait	PE	Price to earnings ratio
CBT	Central Bank of Turkey	PM	Prime minister
CDU	Christian Democratic Union, Germany	PMI	Purchasing managers' index
CNY	Chinese Yuan		Percentage points
		pps	5 1
CPI	Consumer Price Index	pw	Previous week
DJIA	Dow Jones Industrial Average Index	QCB	Qatar Central Bank
DJEM	Dow Jones Emerging Markets Index	QAR	Qatari Riyal
d-o-d	Day-on-day	QE	Quantitative easing
DXY	US Dollar Index	q-o-q	Quarter-on-quarter
EC	European Commission	RE	Real estate
ECB	European Central Bank	RBA	Reserve Bank of Australia
ECJ	European Court of Justice	RRR	Reserve Requirement Ratio
EIA	US Energy Information Agency	RUB	Russian Rouble
EM	Emerging Markets	SWF	Sovereign Wealth Fund
EP	European Parliament	tn	Trillion
EPS	Earnings per share	TRY	Turkish Lira
EU	European Union	UAE	United Arab Emirates
EUR	Euro	UK	United Kingdom
EZ	Eurozone	US	United States
Fed	US Federal Reserve	USD	United States Dollar
FOMC	US Federal Open Market Committee	USD/b	USD per barrel
FRB	US Federal Reserve Board	UST	US Treasury bills/bonds
FX	Foreign exchange	VAT	Value added tax
FY	Fiscal Year	VIX	Chicago Board Options Exchange Volatility Index
GCC	Gulf Cooperation Council	WTI	West Texas Intermediate
GBP	British pound	WTO	World Trade Organisation
GDP	Gross domestic product	w	Week
IMF	International Monetary Fund	<i>W-0-W</i>	Week-on-week
INR	Indian Rupee	y	Year
IPO	Initial public offering	у у-о-у	Year-on-year
IRR	Iranian Rial	y-t-d	Year-to-date
JPY	Japanese yen	ZAR	South African Rand
k	thousand	2y; 10y	2-year; 10-year
KSA	Kingdom of Saudi Arabia	<i>zy, 10y</i>	2 year, 10 year

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