



*R&R Weekly Column*  
By Brunello Rosa



### Spain Kicks Off European Election Season

On Sunday, Spain will go to the polls to elect a new *Congreso De Los Diputados* and decide 208 of the 266 seats of the Senate. As we discussed [in our recent analysis](#), the Socialist Party (PSOE), led by incumbent Prime Minister Pedro Sanchez, is leading the polls, with support from roughly 30% of the electorate. It is ahead of the People's Party led by the new leader Pablo Casado, which has around 20% support. Domestically, the most relevant aspect of this election is the fact that the Spanish political system, which used to be solidly bi-polar until a few years ago, has now become a 5-party system. In addition to the Socialists and the People's Party, Podemos, Ciudadanos, and the new alt-right Vox party are the other three parties looking to win significant numbers of seats. Even if Sanchez were to win this election, he might have a difficult time forming a government.

In our analysis of this week's elections we explore all the possible parliamentary coalitions that could support a government (there are a number of these as the Spanish system allows minority governments, even minority-coalition governments, to survive in parliament for the entire political term). Sanchez' Socialists might need to form a coalition with Podemos and other regional parties in order to remain in power, which would make the government particularly fragile and exposed to opposing demands from different parties. On the other hand, while the Socialist Party might win the most seats, the People's Party might be tempted to repeat at the national level the experiment that has been carried out in Andalusia, where a right-wing coalition was formed with Ciudadanos and Vox. In any case, political instability and fragmentation has reached the shores of Spain, and will stay there for some time yet.

At the international level, the election in Spain will be followed a few weeks later by the European elections of May 23-26. [Populist parties are expected to do very well in those elections](#), and, if the UK takes part in them, those parties might receive a further boost from the newly-formed Brexit Party, led by Nigel Farage, the pro-Brexit leader who left politics temporarily after achieving his historical goal of setting the UK on a course to leave the EU (with the referendum in 2016). Currently, [the Brexit party is leading the polls with around 27% support](#). Of course, the other big question mark is whether the UK will also hold a snap election ahead of the new October 31<sup>st</sup> "Halloween" Brexit deadline.

After the European elections, Portugal will go to the polls on October 6<sup>th</sup> for a national election. Portugal's PM Antonio Costa (leader of its Socialist Party) will try to repeat the "miracle" of 2015 when, even though his party ended up in second place, behind the Social Democratic Party, he managed to become Prime Minister by putting together what seemed initially a very unlikely coalition with the communists and the radical left. Not only did this coalition survive, it also managed to put an end to the European-imposed austerity that had fatigued the country and increased its poverty and inequality. This coalition government has also allowed the Portuguese economy to recover, and re-balance the country's fiscal budget. For these outstanding results, former German Finance Minister Wolfgang Schaeuble said that Mario Centeno (the former Finance Minister of Costa's government, now head of the Eurogroup) was [the "Cristiano Ronaldo of the Ecofin."](#)

Within this European landscape, the big unknown remains Italy. Will the expected large victory by Salvini's Lega, at the expense of Di Maio's Five Star, lead to new elections being held in the autumn? [Some press reports suggest this might be the case](#), but one still needs to consider that President Mattarella might be unwilling to dissolve parliament during the autumn's budget season. At this stage, all options remain on the table.

#### Our Recent Publications

*R&R* [Preview: BoJ In Wait-And-See Mode as Global Headwinds May Fade](#), by A. Waters and Nouriel Roubini, 19 April 2019  
*R&R* [Preview: BoC – On Hold, For Now.](#), by Alex Waters and Brunello Rosa, 19 April 2019

*R&R* ["Hoping for a Rebound": Key Takeaways From the IMF Meetings](#), by Nouriel Roubini and Brunello Rosa, 19 April 2019



Looking Ahead

The Week Ahead: Weaker Growth In The US

**In the US**, Q1-2019 GDP growth is expected to decline to 1.8% (p: 2.2%), as a result of: *i*) the longest government shutdown in history; and *ii*) severe weather conditions; *iii*) residual seasonality in the data. Some of this shortfall is likely to be recouped in Q2.

**In Japan, Canada, Sweden and Turkey**, central banks are expected to leave policy rates unchanged at -0.1%, 1.75%, -0.25% and 24% respectively.

The Quarter Ahead: US-Led Trade Tensions To Shift From China To Europe, Europe To Decelerate Further

A **US-China** deal is likely to be completed over the next two months. President Trump said that “*it might take four weeks to put together a framework for the deal and two weeks more to get the details on paper*”. In parallel, **US-EU** trade tensions are likely to rise ahead of the negotiations scheduled for the summer.

**In the US**, the market-probability of a rate cut dropped to 43% (p: 46%). President Trump will keep blaming the Fed for a slow stock market performance, suggesting that “*the Fed should cut rates*”.

**In Germany**, the government downgraded—for the second time this year—its 2019 growth forecast to 0.5% (p: 1.0%), as trade disputes weaken the manufacturing sector (Markit manuf. PMI Mar., a: 44.5; c: 45.0; p: 44.1).

**In China**, growth is likely to stabilize, held up by an improvement in fixed asset investment, supported by construction.

**In India**, the growth outlook is likely to deteriorate, dragged by: *i*) slower global demand; *ii*) tighter financial conditions; and *iii*) weak rural consumption.

**In Algeria**, political tension will remain high, as protests continue in order to rid the country of the previous regime’s influence ahead of the July 4 elections.

Last Week’s Review

Real Economy: Chinese Data Show Stability; US Consumption Rises

**In the US**, growth keeps weakening, as: *a*) industrial production declined (Mar., a: -0.1% m-o-m; c: 0.2; p: 0.1) for the second time in three months on falling domestic and overseas factory orders; and *b*) imports fell, hampered by trade tensions, resulting in an unexpected reduction of the trade deficit to USD49.4bn (c: 53.7; p: USD 51.1). Yet, consumption showed signs of strength: retail sales posted the best monthly increase since 2017 (Mar., a: 1.6% m-o-m; c: 0.9% m-o-m; p: -0.2) driven by motor vehicles, petrol and clothing, due to: *a*) base effect (a recovery after three-months of lackluster performance); and *b*) rising consumer confidence, driven by job market strength.

**In Europe**, inflation in the EZ and the UK softened in March (EZ CPI a: 1.4% y-o-y; c: 1.4; p: 1.5; UK CPI, a: 1.9% y-o-y; c: 2.0; p: 2.0), below the CBs 2% target.

**In China**, stimulus measures are supporting economic activity: *a*) Q1 GDP remained steady at 6.4% y-o-y (c: 6.3; p: 6.4), while: *b*) March retail sales and industrial output picked up (Retail sales Mar., a: 8.7% y-o-y; c: 8.4; p: 8.2; Factory output Mar., a: 8.5% y-o-y, the fastest pace since 2014; p: 5.2).

**In Turkey**, the Istanbul recount confirmed the victory of CHP. President Erdogan signaled that the AKP is ready to move on, and focus on economic reforms.

Financial Markets: Stock Supported By US Retail Sales And Chinese Data

Better-than-expected economic data in China triggered stocks gains in Europe, while strong US retail sales helped support the USD. **Global stocks w-o-w rose** (MSCI ACWI, +0.1%) led by the EZ (Euro Stoxx 50, +1.5%). Volatility was unchanged, and remains below historical averages (VIX S&P 500, +0.1 points to 12.1, 52w avg.: 16.1; 10y avg.: 17.6).

**Fixed-income indices**: w-o-w, globally, indices were unchanged (BAML Global bond index, +0.0%). In the US, 10y USTs were flat at 2.56%. The macro environment remains supportive for bonds: corporate bond issuance hit an all-time high of USD747bn for the year.

**Currencies**: the USD gained against a basket of currencies (DXY, +0.4%), hitting a 2.5 week high. Weak manufacturing data in the EZ and Brexit developments continue to weigh on the EUR (EUR/USD, -0.5% at 1.125) and the GBP (GBP/USD, -0.7% to 1.299).

**Commodities**: the slowdown of US shale production and the looming deadline for ‘Iran sanctions waivers’ helped maintain Brent oil prices above the 70 benchmark (Brent, +0.2% to 72.0 USD/b).



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## Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	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
BoC	Bank of Canada	MHP	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 Development
BS	Balance sheet	Opec	Organization of Petroleum Exporting Countries
c	Consensus	p	Previous
C/A	Current account	P2P	Peer-to-peer
CB	Central bank	PBoC	People's Bank of China
CBB	Central Bank of Bahrain	PCE	Personal Consumption Expenditures
CBK	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	pps	Percentage points
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	w-o-w	Week-on-week
INR	Indian Rupee	y	Year
IPO	Initial public offering	y-o-y	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		



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