



R&R Weekly Column
By Brunello Rosa



Boris Johnson: A New Era In British Politics

Last week, Boris Johnson was elected leader of the Conservative Party and, as a result, Prime Minister of the United Kingdom. Johnson's program [has the acronym DUDE](#): Deliver Brexit, Unite the UK, Defeat (Labour's leader) Jeremy Corbyn, and Energise Britain. His first speech, made [in front of 10 Downing Street](#), was a profusion of optimism; it was an attempt to rally the country's sense of pride over its glorious past and purported luminous future outside the EU. Johnson promised to take the UK out of the EU by October 31st, "no ifs and no buts." Polls show that this new, energetic and defiant approach has resulted in a 10% bounce in the Tory support, to 30%, ahead of Labour (25%), LibDems (18%) and the Brexit party (14%).

The [largely reshuffled cabinet](#) reflects this new, assertive approach to Brexit. Leading Brexiteers have been given key ministerial roles. Dominic Raab is replacing Jeremy Hunt as foreign secretary, Andrea Leadsom is replacing Greg Clark as Business secretary, Jacob Rees-Mogg (the Chairman of the ultra-Brexiteer European Research Group) is replacing Mel Stride as Leader of the Commons (which organises the government's activity in the House of Commons), Michael Gove is replacing David Lidington (Theresa May's *de-facto* deputy PM) as Chancellor of the Duchy of Lancaster and key adviser to the PM, in charge of coordinating Cabinet activity. Additionally, former pro-Remain Sajid Javid is replacing Philip Hammond as Chancellor of the Exchequer, and is preparing [an extraordinary budget to speed up preparations for a no-deal Brexit](#). Finally, political strategist Dominic Cummings, the former campaign director of "Vote Leave", is now special advisor to the PM.

In a series of updates, [we have discussed](#) what consequences the election of Boris Johnson could bring about. Regarding Brexit, Johnson's attempt to renegotiate the deal with the EU will at first likely result in a firm "no way" from the EU. That could in turn trigger a confidence vote that, if lost by Johnson, could result in a Labour-led minority government being formed, a new general election being held or even a second referendum. [In case of new elections](#), a tactical Tory alliance with Nigel Farage's Brexit party would become likely.

Such an outcome would change the nature of British politics: by making an alliance with Farage, the Conservatives, one of the cornerstone parties of the UK political system, would be institutionalising the populist movement (which [morphed into a party at the latest EU elections](#)) that has led to Brexit. In other European countries we have seen how fringe national-populist parties have come to power by making alliances with the traditional, mainstream parties (for example in Austria, under the government of Sebastian Kurz). Once contracted, the virus of populism is very difficult to get rid of: it tends to become part of the political discourse, and never fully leaves. A seemingly endless list of countries all around the world, from Latin America to Europe and Asia, know this all too well. What is astonishing to watch is the US and UK, countries that were leaders of the liberal-democratic order that was born after World War II, [entering such a difficult phase](#) of their history as well.

We believe a period of political turmoil is likely to begin for the UK. The Brexit plane is not going for a soft landing. In the best case, it is going to be a very bumpy landing – but no one can rule out a crash either. The key point to understand here is that what seems a failure to most of the international observers, including us, might not be perceived as such by the new Tory and British leadership. In the next article for his *Geopolitical Corner* published this week, John Hulsman will discuss in detail how Johnson perceives the *Anglosphere* to be his geo-strategic horizon, and this does not require any participation in the European integration process, which is perceived rather as a chain to be freed from.

Our Recent Publications

R&R [BoJ Preview: Incremental Steps Before September's Decision](#), by A. Waters, B. Rosa, N. Roubini, 26 July 2019

R&R [Review: ECB Prepares To Deliver Fresh Stimulus Package In September](#), by Brunello Rosa, 25 July 2019

R&R [A Theory For The Impact Of Trade Tensions, Easier Monetary Policies & Fintech On Small Open Economies](#), by Alessandro Magnoli, Farah Aladsani, Fawaz Al Mughrabi, 24 July 2019

R&R [Geopolitical Corner: The West's Folly In Libya May Come Back To Haunt It](#), by John Hulsman, 16 July 2019

Looking Ahead

The Week Ahead: The Fed Will Cut Policy Rates

In the US, the Fed is expected to cut policy rates for the first time in 10yrs (c: 2.25%; p: 2.50%). Ahead of the Fed's July meeting, the market expectations of: i) "two rate cuts" dropped to 21% (p: 22.5); and ii) "one rate cut" rose to 79% (p: 77.5). Nonfarm payrolls are likely to decline (Nonfarm payroll July, c: 160K; p: 224K), while average hourly earnings are expected to fall (Average hourly earnings; c: 3.2% y-o-y; p: 3.1%). Personal consumption expenditures will remain subdued, but slightly higher in June (c: 1.7%; p: 1.5%). In July, PMIs are likely to improve (ISM Manuf. PMI July, c: 52.0; p: 51.7).

In the EZ, Q2 GDP is expected to fall to 1.0% (p: 1.2%) and inflation to decline (CPI July, c: 1.2% y-o-y; p: 1.3%).

In the UK, the BoE is expected to keep its policy rate unchanged (0.75%).

In Japan, the BoJ is also expected to remain on hold (-0.1%).

The Quarter Ahead: Global Tensions To Remain High

A US-China trade deal is unlikely to be reached in 2019. As US negotiators are set to travel to China for face-to-face meetings, President Trump: 1) stated "the WTO allows too many countries to claim the status of a developing economy and special treatment that damaged the global trading system"; 2) warned that "China may delay the trade agreement to after the US election", while US Treasury secretary Mnuchin declared "a lot of issues remain". **Asian trade data are likely to remain weak**, in absence of stabilization of demand in: i) China; ii) the global electronics' supply chain; iii) EM FX, driven by Fed and ECB policy easing.

In the US, President Trump and bipartisan congressional leaders agreed on additional spending in a 2-yr budget agreement.

In the EU, the ECB is likely to cut rates and embark on a fresh round of asset purchases (QE), to support inflation towards its 2% target.

In the UK, PM Boris Johnson promised "Brexit will happen, with or without a deal", and claimed "the EU will eventually remove the anti-democratic backstop, to avoid a hard border in Ireland".

Last Week's Review

Real Economy: IMF Downgrades Global Growth, CBs Maintain Accommodative Stance

The IMF reduced its global growth outlook by 0.1% for both 2019 and 2020 (GDP 2019, a: 3.2%; p: 3.3%; GDP 2020, a: 3.5%; p: 3.6%), due to: i) escalating trade concerns; ii) Brexit-related uncertainty; and iii) increasing geopolitical tensions.

In the US, Q2 GDP slowed to 2.1%, due to a decline in business inventories (c: 1.8%; p: 3.1%), while June's durable goods orders made a recovery (a: 2.0% m-o-m; c: 0.7%; p: -2.3%).

In the EZ, The ECB kept policy and deposit rates unchanged (Refi rate, a: 0.0%; c: 0.0%; p: 0.0%; Deposit rate, a: -0.4%; c: -0.4%; p: -0.4%). Germany's manufacturing PMI slumped below-expectations in July, further in contraction territories and to its lowest level in 7 years (Markit manuf. PMI July, a: 43.1; c: 45.2; p: 45.0).

In the UK, Boris Johnson became the new PM, and reiterated his commitment to lead the UK out of the EU by October 31.

In Tunisia, president Beji Caid Essebsi died; elections will be held within 90 days.

In Turkey, the newly appointed CBRT governor delivered the biggest interest-rate cut of the last 17yrs, by 425bps to 19.75% (c: 21.50% p: 24%). President Erdogan called for further rate cuts, to be implemented gradually throughout the year.

Financial Markets: Expectations Of Fed And ECB Easing Lift The Markets

Market drivers: Upcoming easing by the ECB and the Fed is being priced-in by the markets. In the US, about two-thirds of the S&P 500 companies that have reported to-date beat EPS estimates.

Stocks: w-o-w, global stocks rose (MSCI ACWI, +0.8%). Volatility fell (VIX S&P 500, -2.3 points to 12.2, 52w avg.: 16.4; 10y avg.: 17.2). Equity markets rose in US, lifted to a record high by consumer and corporate strength (S&P 500, +1.7%), and in EZ (Eurostoxx, +1.3%).

Bonds: w-o-w, global indices rose (BAML Global bond index, +0.1%). In MENA, y-t-d supply stands at USD 62.1bn, higher than the USD 53.2bn recorded over the same period in 2018. In Bahrain, yields keep decreasing: the CBB sold debt worth USD 451mn at a 'weighted-average interest rate' of 3.05%.

FX: the USD appreciated (DXY, +0.9%) against a basket of currencies, as expectations about Fed-easing moderated slightly. In the EZ and UK, the upcoming monetary easing is weakening the EUR and GBP. EM FX fell (MSCI EMs, -0.4% at 1,648).

Commodities: Oil prices picked-up, supported by weekly reports of US inventory draw-downs and tensions in the Middle East (Brent, +1.6% to 63.5 USD/b). Gold declined (-0.5% to 1,418 USD/Oz.), due to better-than-expected US economic data, and the Fed's rate cut expectations.



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



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