



R&R Weekly Column
By Brunello Rosa



With the Rise of the Far-Right Vox Party, Spain's Election Delivers Another Hung Parliament

Spain's [general election has resulted in yet another hung parliament](#). [The final results](#) suggest that the Socialist Party (PSOE) of the incumbent Prime Minister Pedro Sanchez has obtained a plurality of votes (around 28%), but very far from a level that would allow Sanchez to obtain a majority of seats in the *Congreso De Los Diputados*, the country's main legislature at the national level. The Socialist Party will have 120 seats, out of the possible 350. Pablo Iglesias' *Unidas Podemos* has collapsed, meanwhile, receiving only around 13% of votes and 35 seats. Podemos probably paid a political price for the intransigent position they had taken during the negotiations that followed the April 2019 election, which had failed to lead to the formation of a new Sanchez government. The new party born to the left of PSOE, Mas Pais, obtained 2.4% of votes (most likely from both PSOE and Podemos) and 3 seats.

On the right of the political spectrum, the *Ciudadanos* party led by Albert Rivera has also collapsed in these elections, from 16% of votes and 57 seats to 6.8% of votes and 10 seats. Critics are saying the party has run out of "marketable" political material. It is also true that *Ciudadanos*' intransigent position regarding the Catalan separatists had already paid off, with the incarceration and severe sentences of the leaders of the "rebellion", and that its outlook is in any case well represented by the even tougher positions taken by the rising Vox party.



Vox, led by the controversial figure Santiago Abascal, has staged the best performance of all, rising from 24 seats in the previous legislature to 52 in the new one. It received 15.1% of all votes, which despite being only around half as many as the Socialists, is nevertheless a 30% increase from the votes Vox had received in April 2019. This is yet another confirmation that nationalist-populist parties are still strong in Europe, and [still represent a serious threat to the European integration process](#). The People's Party (PP), led by Pablo Casado, has also increased its votes (+4.1% to 20.8%) and seats (+22 to 88). Other parties, including regional ones from Catalonia and the Basque Country, gained a combined 42 seats.

Where will Spain go from here? As we [discussed in our in-depth election preview](#), Spain's political stability is long gone, as the fact that this was its fourth general election in four years clearly shows. At the same time, Spain's two traditional parties, PSOE and PP, plus the newer parties from the left (Podemos) and the right (Ciudadanos), cannot afford not to be able to form a government after this election. If they do not manage to form a government, there is a risk that the protest vote will rally around the newest party on the political scene, Vox, which has the potential to wipe out both Podemos and Ciudadanos and drain further votes from PP and PSOE. As such, we believe that these parties will do all it takes to form a government this time.

Given the number of seats available, Sanchez is very likely to be given the first chance to form a government. He will probably go back to Podemos and try to form a majority with them and some of the other left-wing parties (such as Mas Pais) and regional parties, or if not a majority than at least a parliamentary bloc large enough to form a minority coalition government. If this attempt were to fail, the three right-wing parties (PP, Ciudadanos and Vox) might try to form a coalition – the same grouping that took over the Andalusian regional parliament in [December 2018](#), following decades of unrivalled Socialist rule in that region.

If neither of these two relatively "natural" solutions work out, Spain might instead try to form, for the first time in its recent history, a German-style "grand coalition" between PSOE and PP, which together would command a comfortable majority. A weaker form of this grand coalition could be a PSOE-only minority government, which can be formed thanks to the abstention of the PP (which, in this way, would "return the favour" that the PSOE did to Rajoy in 2016). But the risks deriving from this type of solution are well-known in those countries that have experienced them (chiefly, in Germany, Austria and, more recently, Italy). Grand coalitions tend to reinforce support for extremist parties, especially those on the right side of the political spectrum (AfD, FPÖ, and Lega, respectively). With Vox already on the rise, a PSOE-PP coalition is therefore a solution we believe will be attempted only at the very end, if all else has failed.

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Looking Ahead

The Week Ahead: Global Uncertainties To Weigh On Growth

In the US, in October, CPI inflation is expected to remain unchanged (c: 1.7% y-o-y; p: 1.7%), below the Fed's 2% target.

In the EZ, growth is expected to stall (GDP Q3, c: 1.1% y-o-y, p: 1.1%) and IP is expected to recover (IP Sep., c: -2.2% y-o-y; p: -2.8%), while remaining in contraction. CPI inflation is expected to stall (c: 0.7% y-o-y; p: 0.7%).

In Germany, economic activity is expected to shrink (GDP Q3, c: -0.3% y-o-y; p: 0%).

In the UK, Brexit worries are expected to show up in slower growth (GDP Q3, c: 1.2%; p: 1.3%).

Japan's economy is expected to weaken (GDP Q3, c: 0.8%; p: 1.3%).

In New Zealand, the RBNZ is expected to cut its official cash rate by 25bps to 0.75%.

The Quarter Ahead: Most Leading Indicators Remain Resilient, With No Signs Of A Global Credit Crunch

Globally, recession fears are receding – driven by: i) *lower trade tensions*: after an 'interim deal' is reached, the US and China might even cancel planned import tariffs, in stages; ii) *a sturdy US economy*; iii) *a gentler-than-expected slowdown* in Europe and China; and iv) *declining geopolitical risks*. The global economy's synchronized slowdown could be mitigated by: 1) CBs liquidity; 2) a resilient US domestic demand; and 3) economic stimuli in Japan and China.

In the US, the House Intelligence Committee will hold the first public hearings in the impeachment inquiry, but President Trump is expected to keep delaying the process. The market probability of 'no further rate cuts in 2019' increased to 96% (p: 88). However, the New York Fed injected USD 62.5bn into financial markets, via overnight purchase agreements; these injections are aimed at ensuring that "the financial system has enough liquidity, and short-term borrowing rates remain well-behaved".

In the UK, PM Johnson claimed "the Parliament is paralyzed, and a general election is the only way to break the Brexit deadlock and deliver the UK's exit from the EU". Further gridlocks in the Brexit process are likely.

Last Week's Review

Real Economy: Stagnant Growth, Subdued Inflation, Accommodative Central Banks

In the US, September's factory orders fell more-than-expected (a: -0.6% m-o-m; c: -0.5%; p: -0.1), by the most in four months. While remaining in expansion, the PMI Composite recorded the softest pace since February 2016 (Markit PMI Composite Oct., a: 50.9; c: 51.2; p: 51.2).

In the EZ, manufacturing showed signs of recovery (EZ Markit Manuf. PMI Oct., a: 45.9; c: 45.7; p: 45.7; Germany Manuf. PMI Oct., a: 42.1; c: 41.9; p: 41.9), but remained in contraction and at a seven-year low. German IP took another unexpected tumble in September (a: -4.3% y-o-y, c: -2.9%; p: -3.9), falling to early-2017 levels and adding to fears that Europe's largest economy could suffer its first recession in over six years.

In the UK and Australia, the BoE and RBA kept their key policy rates unchanged at 0.75%.

In Japan, PM Abe launched the country's first economic stimulus package since 2016, to counter the impact of the global slowdown and of the higher consumption tax.

In Turkey, inflation fell to its lowest level in almost three years (a: 8.6% y-o-y; c: 8.6%; p: 9.3), in line with expectations.

Financial Markets: Eased Trade Tensions And Recession Fears, CB Easing Spur Risk Appetite

Market drivers: In the US, with nearly 4/5 of S&P 500 companies having reported, Wall Street analysts scaled back Q4 corporate earnings expectations to 0.8%, the slowest annual pace in four years. Yet, the shallower-than-expected earnings decline - along with a long-awaited report that the US and China will likely lift import tariffs - helped equities to rise to record highs.

Stocks: w-o-w, global equity indices rose (MSCI ACWI, +0.8% to 543), driven by both DMs (MSCI World, +0.7% to 2,269; S&P 500, +0.9% to 3,093) and EMs (MSCI EMs, +1.5% to 1,065). Volatility continued to fall, well below historical averages (VIX S&P 500, -0.2 points to 12.1, 52w avg.: 16.7; 10y avg.: 16.9).

Bonds: safe-haven yields recorded a significant increase; both US and German yield curves steepened (10y UST +21bps to 1.93%; 10y German +11bps to -0.27), as investors priced in some reflation.

FX: w-o-w, the USD strengthened against a basket of currencies, as robust labor and services data supported the Fed's recent rate pause (DXY, +1.1% to 98.353), while the EUR (EUR/USD, -1.3% to 1.102) and the GBP (GBP/USD, -1.3% to 1.277) fell. The TRY weakened (USD/TRY, -1.2% to 5.766) despite improving inflation dynamics, hampered by geopolitical factors.

Commodities: Oil prices rose (Brent, +1.3% to 62.5 USD/b). Gold prices sharply fell (Gold, -3.6% to 1,458 USD/Oz.), as optimism over the upcoming US-China trade deal boosted risk-on sentiment.



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The picture in the front page comes from [this website](https://www.gettyimages.com/detail/photo/young-woman-looking-out-window/121510222)

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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