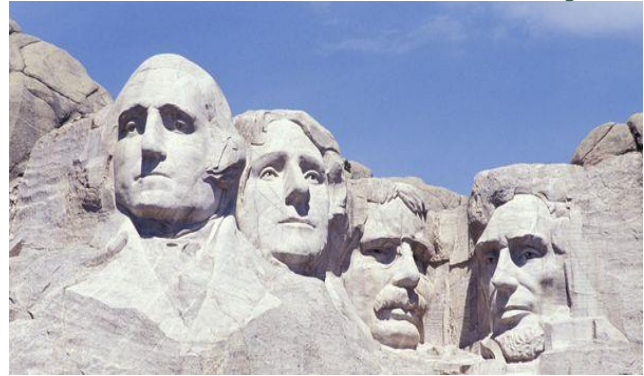# MAKING SENSE OF *THIS* WORLD
24 *February 2020*

R&R Weekly Column
By Brunello Rosa

Can Bloomberg Be A Strong Democratic Primary Contender And Defeat Trump In November?

After entering the Democratic primary late, Michael Bloomberg is trying to establish himself as the only Democratic candidate who can defeat Trump in November. His strategy might prove to have been well-calculated. By not entering the race before the caucuses in Iowa and New Hampshire were held, he knew that by the time Super Tuesday takes place on 3 March one of the left-wing contenders (either Bernie Sanders or Elizabeth Warren) would be ahead in the game – an that would scare the median voter, financial markets, and also the Democratic leadership into preferring a candidate like himself. The result of the latest primary election, in Nevada, where Sanders once again finished ahead of centrist candidates such as Joe Biden and Pete Buttigieg, confirmed this trend (which can also be seen at a national level, according to recent polls), and thereby the validity of Bloomberg's strategy.

Michael Bloomberg might have thought that, after scaring markets and centrist voters with the advancement of radical left-wing candidates (notably, of Bernie Sanders, who self-defines himself as a socialist), the democratic leadership would come to him, begging him to unify the party and lead it in the race against Trump in November. However, things might not work out as Bloomberg may have planned.

In the first televised debate in which he appeared against the other Democratic candidates, Bloomberg was frontally attacked by the left-wing contenders, in particular by Elizabeth Warren. He did not come across as particularly friendly in this exchange. A highly curated video clip of the debate, in which Bloomberg asks the other candidates who else has founded a successful business, did not do him great credit either. While he had a point, since he is indeed the only one among the remaining Democratic candidates with that achievement, the entire scene lasted no more than a couple of seconds on live television, while the video made it look much more dramatic than it had been in reality. Also troubling the Bloomberg campaign is a series of NDAs signed by women who were allegedly mis-treated when working at Bloomberg LLC.. So, even if Bloomberg may be the only candidate who can defeat Trump in November, he still faces an uphill battle to win the Democratic nomination.

In particular, Bloomberg will have to mobilize a portion of the Democratic electorate – African-Americans, other ethnic minorities, women – that is essential to win the nomination and, eventually, the general election. Some fights with the black community when he was mayor of New York will not help him in this battle. Additionally, his profile might not be particularly attractive to this key portion of the Democratic electorate. While being a truly self-made man (unlike Donald Trump, who inherited his fortune from his father), Bloomberg is still the sort of New York-style billionaire who does not necessarily attract the sympathy of minorities and other traditional segments of the Democratic electorate. Also, the story of the women-related NDAs risks sticking to him much more than to Trump, who the electorate seems willing to forgive almost anything. (Certainly, the number and depth of allegations against Trump is much larger than those against Bloomberg).

Bloomberg, therefore, might not be the white knight he was presumably hoping to become. The race for the Democratic nomination remains open. The simple truth is that the Democratic party has not been able thus far to converge towards a candidate who can truly represent a credible threat to Trump in the coming general election. The president will present as victories his trade and tech wars with China, his hard-line on Iran, and other high-profile battles that could ultimately damage the international reputation of the US and its economy. His electorate might accept this narrative, securing his re-election in November. If the Dems want to avoid this, they better start getting their act together, and fast.

Our Recent Publications

Looking Ahead

The Week Ahead: US To Show Resilience, Japan Further Contraction in Industrial Production

In the US, 1) preliminary Q4-2019 GDP data are likely to show a 2.1% growth (p: 2.1%); 2) January's durable goods orders (excluding defense) – a key measure of business investment – are forecasted to rise into expansionary territory (c: 1.3%; p: - 2.4%); and 3) January's PCE and core PCE are expected remain unchanged, both at 1.6% y-o-y.

In the EZ, CPI inflation is also likely to remain unchanged at 1.6% y-o-y.

In Japan, January's IP data is expected to fall deeper into contractionary territory, to -9.5% y-o-y (p: -3.1%).

The Quarter Ahead: Geopolitical Uncertainties Rise. EU Budget Under Pressure. Central Banks To Remain Dovish

US-China geopolitical tensions are likely to rise, as US's defense secretary stated that 'China is a rising threat to world order', because: *i)* by 2035, China "intends to complete its military modernization"; and *ii)* by 2049, "seeks to dominate Asia as the pre-eminent global military power".

In the US, following the WTO's approval to implement tariffs on USD 7.5bn (EUR 6.8bn) on EU products – in retaliation for EU's illegal support of Airbus – the government decided to increase tariffs to 15% (p: 10%) in a bid to pressure the EU to comply with WTO standards, effective as of March 18th. While acknowledging new risks caused by the COVID-19 outbreak, Fed's policymakers remain cautiously optimistic about their "ability to hold interest rates steady throughout 2020", as the economy remains supported by: *i)* robust consumer spending; *ii)* reduced US-China trade tensions; and *iii)* loose financial conditions. However, market's expectation of 'one or more' rate cut in 2020 rose to 90% (p: 82%).

In Europe, a 2-day summit aimed at approving the bloc's long-term financing plan ended without an agreement; as the UK contributed more than what it received, Brexit has increased the budget deficit up to EUR 75bn (~USD 81.4bn), further complicating talks.

In China, reports of 36 new COVID-19 cases in a single day in Beijing created rumors of possible "Wuhan-level restrictions" in the capital. So far, COVID-19 cases and deaths hit 76,717 and 2,247 respectively, with 18,434 patients recovered. Meanwhile, important changes in the 'virus detection methodology' by Chinese officials continue to fuel uncertainty. In two days, there was a dramatic rise in virus cases outside China, mainly in Japan (723 total cases), South Korea (156 cases), and Italy (40 cases).

Last Week's Review

Real Economy: Lower Growth, Low Inflation, Rising Risks: Central Banks Keep The Easing Bias

In the EZ, given macroeconomic uncertainty due to the COVID-19 outbreak, February's economic sentiment slumped to 10.4, dropping by 15.2 points (c: 30.0; p: 25.6), while consumer confidence remained in contractionary territory, yet at a better-than-expected -6.6 (c: -8.2; p: -8.1).

In Japan, recession fears are growing, as: 1) Q4-2019 annualized GDP fell sharply below-consensus to -6.3 y-o-y (c: 3.7%; p: 1.8), due to: *i)* the impact of the consumption tax increase; *ii)* weak global demand; and *iii)* typhoon-related disruptions; while 2) December's IP remained subdued at -3.1% y-o-y (c: -3.0; p: -3.0).

In China, the PBoC cut its loan prime rate by 10bps to 4.05% (p: 4.15%), to support the economy hit by COVID-19.

In Turkey, despite rising inflation the CBT cut its 'one-week repo auction rate' by 50bps to 10.75% (p: 11.25%) – the smallest cut in its seven-month easing cycle – bringing borrowing costs to the lowest level since 2018.

Financial Markets: 'Risk-Off' Driven By COVID-19 And Lower Global Growth. Oil And Gold Rise

Market drivers: as contagion continues, COVID-19-related concerns rattled financial markets, causing global equities to fall.

Stocks: w-o-w global indices fell (MSCI ACWI, -1.3% to 573), driven by DMs (S&P 500, -1.3% to 3,338; Eurostoxx 50, -1.1% to 3,800). Volatility spiked to its highest level since August 2019 (VIX S&P 500, +3.4pts to 17.1; 52w avg,: 14.8; 10y avg.: 16.7), as investors assess the potential impact of COVID-19 on global growth.

Bonds: driven by a 'risk off' mood, global bonds attracted fresh safe-haven flows (BAML Global, +0.5% to 290.9). Global growth worries pushed the 10y UST to hit July 2016 lows (10y UST, -12 bps to 1.47%).

FX: w-o-w, the USD strengthened, driven by 'risk-off' sentiment (DXY, +0.1% to 99.262), and the JPY dropped (USD/JPY, -1.6% to 111.570), as its safe haven status was offset by the fall in Q4-19 GDP. All EM currencies depreciated, dragged by China's-related worries and spillover concerns.

Commodities: Oil prices rose (Brent, +2.1% to 58.5 USD/b), as Opec's advisors suggested to deepen output cuts to pre-empt the impact of COVID-19. Gold surged w-o-w (Gold, +3.7% to 1,643 USD/Oz) to a seven-year peak, amid persistent fears of the potential impact of COVID-19 on both the global economy and markets.

@RosaRoubini   Rosa & Roubini   Rosa&Roubini Associates

Farah Aladsani contributed to this Viewsletter.   *The picture in the front page comes from* this website

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	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