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MAKING SENSE OF *THIS* WORLD

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By Brunello Rosa

Is Lukashenko, Europe's Last Dictator Standing, On Borrowed Time?

During the 20th century Europe was been plagued by dictatorships. The most known where those in Germany, Italy, Spain, and Portugal. Adolf Hitler and Benito Mussolini were removed from power at the end of World War II, when Germany and Italy returned to democracy; Portugal's António Salazar lasted until 1968 (and his authoritarian government remained until 1974) and Francisco Franco until 1975, the year of his death. But somewhat incredibly, dictatorship remained a viable option in many other parts of Europe for much longer than this.

In Greece, the dictatorships of the colonels (τὸ καθεστώς τῶν Συνταγματαρχῶν), also known as the Junta (η Χούντα), lasted from 1967 until 1974. In Jugoslavia, the regime by Colonel Josip Tito lasted for a decade beyond the year of his death (1980), until the division of the country and Balkan wars of the 1990s. In Eastern Europe various forms of authoritarian regimes stayed in place until 1991, when the Soviet Union collapsed. Since then, the progressive expansion of the European Union and of NATO has gone together with an expansion of democratic regimes in the region.

In some cases, such as in the Baltic countries (Estonia, Latvia, and Lithuania), the adoption of the Euro has also meant a consistent transition to democracy and political freedom. Other countries, such as Poland and Hungary, have backtracked on their progress towards democracy, with the arrival of the Kaczyński brothers and Viktor Orban, respectively. For this reason, both countries are now under the procedure foreseen by Article 7 of the EU Treaty for violating basic principles of the EU, including academic freedom, freedom of expression (particularly freedom of the media), and the independence of the judiciary. In other cases, such as in the Czech Republic, right-wing populist leaders threaten the existing democratic regime.

The two most remarkable cases in Europe remain Ukraine and Belarus. Ukraine has gone through a very complicated transition, including having to deal with the annexation of Crimea by Russia in 2014. The election of Volodymyr Zelensky in 2019 seems to have normalised the situation – or at least frozen the *status quo*, for the time being. Clearly, Ukraine remains in a situation that is less than ideal, as half of the country (especially its easternmost regions) remains under the heavy influence of Russia, and no real progress seems to be taking place in the negotiations for the association of Ukraine with the EU.

The second case, Belarus, has come back to the fore in the last few days, with the recent re-election of incumbent president Aljaksandr Lukashenko, who has been in power without interruption since 1994. The election was officially won by Lukashenko with 80.1% of votes, versus 10.1% for his only remaining rival, Svjatlana Tikhanovskaya. But the EU and the US have not recognised the result the elections, and are now discussing possible sanctions on Belarus. As violent riots occurred in the capital Minsk as well as in other parts of the country, Tikhanovskaya had to flee the country in order to avoid being arrested, and will now have to continue her fight from Lithuania. The question is whether Lukashenko will manage to stay in power for a long time yet, and eventually pass the baton to his young son (as he has planned for a long time) or if he will be ousted from power. The answer to this question probably lies in Moscow.

For decades the fragile Belarus economy counted on subsidies coming from Russia, assuring it full employment, rising wages, and the well-being of its population. But as Russia itself ran into economic difficulties following the collapse in oil prices in 2014, its economic help started to wane, and with it, political support for Lukashenko's regime. The president cannot last unless Putin and Russia support him. So, Putin will have to decide what to do; that is the reason for the recent phone conversation held between the two presidents. Lukashenko warned Putin that the riots pose a threat to the stability of Russia as well. In a not-so-veiled request for help, he claimed that if the riots do not get stopped in Belarus, they will spread to Russia as well. That's why a military intervention by Russia in Belarus cannot be ruled out at this stage.

For some time, the idea has existed that the president of Russia would also become president of Belarus, in something akin to a new confederation being formed between the two states. This seemed to be one of the options that Putin was considering to extend further his own mandate within Russia. However, now that Putin has managed to change the Russian constitution, allowing him to remain in power until 2036, this option seems to be less palatable, considering the lack of support among the people in Belarus for a sort-of "annexation" of their country by Russia. At the same time, a nationalistic approach, in which Belarus would try to re-assert its independence from Moscow, is not particularly popular among the wider populace either.

So, perhaps the only option remaining on the table for Putin is to keep Lukashenko in power for longer and increase economic and financial support for the country. But this solution may prove to be more temporary than either of the two presidents desire, exposing them to further revolts.

Our Recent Publications

Looking Ahead

The Week Ahead: US, EZ And Germany's Manufacturing PMI Expected to Expand, Whilst Japan's GDP Is Expected To Contract

In the US, EZ, and Germany manufacturing and services PMIs are expected to remain in 'expansion' territory.

In *Japan,* Q2 GDP growth figures are expected to show a contraction of -7.6% q-o-q (*p:* -0.6).

The Quarter Ahead: Supply Chains To Be Rethought, While the UAE And Israel Agree On Normalizing Relations

Global supply chains' restructuring is likely to take a toll on profits, as companies shift their product-sourcing to new countries.

In the US, the White house is taking a tougher stance on '*growing economic and national security threats'* from the Chinese Government. President Trump: *i)* ordered ByteDance to divest from TokTok's US operations within 90 days; and *ii)* ended a waiver that allowed US companies to continue sells goods to Huawei without a license. Yet, unless the *US-China 'Phase One' trade deal* falls apart, global manufacturing activity is likely to support industrial commodity prices. Domestically, the US stalemate over the next phase of legislation to fight the pandemic could lead to cuts of workers' relief benefits.

The Trump administration confiscated nearly 1.2m barrels of Iranian oil allegedly destined for Venezuela. The seizure–the first of its kind–is the last of a series of moves taken to pressure Iran and its ally Venezuela to meet US demands.

In a deal brokered by the US, the UAE and Israel–which had relations with Egypt and Jordan, but not with any GCC state–agreed to establish full diplomatic ties. In return, Israel PM Netanyahu agreed to suspend a plan to annex parts of the occupied West Bank.

Russia is the first country to grant regulatory approval for a COVID-19 vaccine after just two months of human trials. The drug is still in the testing phase, but mass production and immunization of key workers is set to begin in a few weeks.

Last Week's Review

Real Economy: A Sluggish Global Recovery And Rising Geopolitical Risks Weigh On The Outlook

In the US, in July: *i)* retail sales rose 1.2% m-o-m (*c:* 1.9; *p:* 8.4); and *ii)* IP rose 3.0% m-o-m (*c:* 3.0; *p:* 5.7)–and economic activity still remains 8.7% below its pre-pandemic February levels. For the first time since mid-March, initial jobless claims fell below 1m (*a:* 963k; *c:* 1,120k; *p:* 1,191k)–as 'supplemental unemployment benefits' expired. July's core CPI inflation rose unexpectedly to 1.6% m-o-m (*c:* 1.1; *p:* 1.2), reflecting the unwinding of pandemic-induced price cuts (e.g. apparel discounting in April and May); hence, the start of a sustained pickup in inflation is unlikely. Headline inflation rose to 1.0% y-o-y (*c:* 0.8; *p:* 0.6), on the back of higher gasoline prices.

In the EZ, IP rose by less than expected, by 9.1% m-o-m (*c:* 10.0; *p:* 12.3) and remains notably lower than a year ago, at -12.3% y-o-y.

In the UK, Q2 GDP contracted by -20.4% q-o-q (*c:* -20.5; *p:* -2.2)–roughly double than in the US and Germany–due to substantial weakness in: *i)* consumer spending (-23.1% q-o-q); *ii)* business investment (-31.4% q-o-q); and *iii)* exports (-11.3%). Yet, in June the economy showed signs of recovery–with UK output jumping by a record 8.7% m-o-m (*c:* 8.0; *p:* 2.4).

In China, July's IP matched June's performance at 4.8% y-o-y (*c:* 5.1), while retail sales remained in negative territory (*a:* -1.1%; *c:* 0.1. *p:* -1.8)–as public-health concerns continue to hamper consumption.

The RBNZ: *i)* kept its official cash rate at of 0.25%; *ii)* expanded bond purchases to as much as NZD 100bn from NZD 60bn; and *iii)* extended its QE program until June 2022.

Financial Markets: Vaccine Breakthrough And Stimuli Hopes Uplift Investors

Market drivers**:** progress on vaccine development and US fiscal stimulus lifted risky assets.

Equities: w-o-w, global stocks rose (MSCI ACWI, +1.2%, to 569), led by the US (S&P 500, +0.6% to 3,373), where the S&P 500 reached its 52w high; and by Europe (Eurostoxx 50, +1.6% to 3,305), where weekly gains were capped by fresh travel curbs on Friday. In the *US: i)* Buffett's Berkshire Hathaway unloaded bank stocks–a regulatory filing showed; and *ii)* the fiscal impasse points to risks for equities.

Fixed income: w-o-w, global debt indices fell (BAML Global, -0.7% to 296.9). In the US, yields rose (10y UST, +15bps to 0.71), likely triggered by: *i)* bond dealers paring some of their holdings; and *ii)* fund managers making room in their portfolios for new UST issuances.

FX: w-o-w, the USD spot index fell (DXY, -0.4% to 93.096) against the EUR (EUR/USD, +0.5% to 1.184) and EM FX (MSCI EMs FX, +0.2% to 1,613). The TRY continued to weaken (USD/TRY, -1.0% to 7.366).

Commodities**:** oil prices strengthened (Brent, +0.9% to 44.8 USD/b); yet, the price rally is limited by growth concerns - as the IEA downgraded most of its demand forecasts for the next 18 months. Gold posted its first weekly loss since June (Gold, -4.5% to 1,944 USD/Oz.)–as rising UST yields weighed on investors' appetite for haven assets.

@RosaRoubini Rosa & Roubini Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

Abbreviations, Acronyms and Definitions

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