



**R&R Weekly Column**  
**By Brunello Rosa**



### With Biden's Nomination The Race For The White House Officially Begins

The [Democratic National Convention](#) (DNC) was held in Milwaukee last week – mostly in virtual format, given Covid-19 – with the nomination of Joe Biden as the Democratic candidate for the US presidential election on November 3<sup>rd</sup>. On August 11<sup>th</sup>, [Biden chose Kamala Harris as his running mate and candidate for the Vice-Presidency of the United States](#). With Harris' appointment and [Biden's nomination by the Democrats](#), the race for the White House against the incumbent Republican President Donald Trump and his VP Mike Pence has officially begun.

Donald Trump is currently under attack for his management of the Covid-19 crisis, with the number of infected people in the US having reached 5.6 million people and the number of deaths 175,000, [the highest number of confirmed cases and reported deaths in the world](#). This has led to the sharpest contraction of the economy since the Great Depression of the 1930s ([-32.9% SAAR in Q2](#)), with a rise in the number of unemployed people, which reached in [14.7% of the workforce in April 2020](#), before falling to the current level of 10.2%. The successful management of the pandemic and the economic track record will not be arguments that Trump will be able to credibly run on during the electoral campaign. Equally, the divisive and polarising nature of his presidency, including [the rise of "white supremacist" movements across the US](#), will make Trump's re-election harder.

At the same time, the incumbent President always enjoys a special status, which gives him a slight head start in the race. Policies, including further tax cuts and fiscal stimuli, can be adopted between now and the day of the election in an attempt to swing voters in his favour. Some [further "successes" in foreign policy](#) such as the [recent agreement between the UAE and Israel](#), or the [continued implementation of the Phase-1 deal with China](#) can be used as "weapons of mass distraction". So, in spite of his recent difficulties, it would be wrong to write Trump off at this stage.

In the opposite camp, Biden has emerged as the obvious centrist choice to fight against a polarising figure such as Trump. He can enjoy the support of former presidents Obama and Clinton (whereas Trump [faces the disapproval of former presidents such as G.W. Bush and other GOP grandees](#)), and Trump's mistakes on Covid and the economy are defining the campaign for him. The choice of Harris as running mate is supposed to bring on board the votes of ethnic minorities and socially disadvantaged groups, in an attempt to win back crucial votes in swing states that in 2016 allowed Trump to win the race even with nearly 3 million fewer votes than Hillary Clinton.

At the same time, some of the Republican votes that might have gone for Biden just to get rid of Trump could be put off by Biden's choice of a VP – a VP who could potentially become President, if Biden became "unavailable" for whatever reason during his first term in office. Additionally, Harris' centrist approach might not be enough to win back the votes of the party's left wing, represented by Bernie Sanders and Alexandria Ocasio-Cortez.

Pollsters are divided as to what the eventual outcome of the election will be. [Recent national polls suggest that Biden is ahead](#), but we know that what really matters is the [distribution of votes in key swing states](#). Those using sophisticated statistical methods that managed to predict Trump's surprising victory in 2016 are also divided. The outcome is still uncertain at this stage, therefore. There are however three things we can be sure about: 1) The campaign will be acrimonious, and full of ruthless accusations thrown by both sides at their adversary. 2) In the event of a narrow defeat in the electoral college, Trump will fight hard not to leave the White House. 3) The US will emerge more divided than ever after this campaign, and a lot of effort will need to be made by whoever wins to unite the country behind the President.

#### Our Recent Publications

 [Flash Review: Norges Bank Remains On Hold, And Cautiously Optimistic](#), by Brunello Rosa and Fawaz Al Mughrabi, 20 August 2020



 [Fed's QE Infinity Suppresses Rates Volatility, But May Not Revitalise The Economy And Inflation](#), by Peter Cecchini, 18 August 2020

Looking Ahead

**The Week Ahead: US PCE To Remain Unchanged Whilst Economic Sentiment Picks Up In The EZ**

**In the US**, July's PCE is likely to remain unchanged at 0.8% y-o-y, and core-PCE—the Fed's preferred inflation gauge—is expected stable at 0.9% y-o-y. Durable goods orders are likely to decline to 3.3% (p: 7.6%), and nondefense capital goods orders ex. aircraft to 2.4% (p: 3.4%). **In the EZ**, economic sentiment is expected to pick up to 84.9 in August (p: 82.3).

**The Quarter Ahead: Rising Geopolitical Risks, COVID-19 "Over Within Two Years", Vaccine Distribution In Russia**

**According to the head of the WHO**, the COVID-19 pandemic "could be over within two years".

**In the US**, the stand-off over the extension of the stimulus bill is likely to be resolved, with Republicans accepting higher emergency jobless benefits. Democratic presidential candidate Biden said that—if elected—he is willing to "shut down the country to stop the spread [of COVID-19], were scientists to recommend it".

**President Trump** maintained a tough line against China, including: i) sanctions over Hong Kong's security crackdown; and ii) forcing the sale of Chinese-owned app TikTok. The six-month review of the 'phase one' US-China trade deal—planned for August 15—was postponed, as China's purchases of US goods are running well behind target.

**In the US**, the Trump administration reiterated it will continue its "maximum pressure campaign in order to rein in Tehran's missile and nuclear weapons" programs. The US Secretary of State stated that the US would "enforce sweeping sanctions" on Iran "even if the 15 member nations of the UN Security Council voted to not extend the embargo".

**In the EZ**, France and Germany quit talks on reforming the WHO in frustration at attempts by the US to lead the negotiations—despite its decision to leave the institution.

**In Russia**, the government will start a mass vaccination campaign against the coronavirus in October. The health minister stated that clinical trials were completed by the Moscow-based Gamaleya Institute, and the test results showed "an immune response in all subjects, with no side effects or complications".

Last Week's Review

**Real Economy: The Recovery Remains Fragile As Geopolitical Risks Weigh On The Outlook**

**In the US**, record-low mortgage interest rates spurred demand for homeownership, which unprecedentedly surged during a recession; in July: i) existing home sales rose by 24.7% m-o-m (c: 14.7%; p: 20.2%), the strongest monthly gain on record; and ii) housing starts—i.e.: construction of new homes—surged by 22.6% to 1.45m m-o-m (c: 1.22m; p: 1.22m), marking the fifth straight monthly gain. In the week ending on August 15, as a resurgence of COVID-19 cases hit the labor market, the number of filings for unemployment benefits rose by 1,106k (c: 965k; p: 971k)—bringing to 57.4m the total reported since March 21.

**In Japan**, in Q2 the economy shrank by 7.8% q-o-q (c: -7.6%; p: -0.6), the third consecutive quarter of contraction and the steepest on record. **In the EZ**, annual CPI inflation edged up to 0.4% y-o-y in July (c: 0.4; p: 0.3%), reaching the highest level in 4 months, while core-CPI rose to 1.2% y-o-y (c: 1.2%; p: 0.8%)—the highest reading in 5 months.

**In Japan**, CPI inflation climbed to 0.3% y-o-y in July, from a 3-year low of 0.1%, while core-CPI continued to hover at 0.0% — as the pandemic hampers consumption.

**In Norway**, Norges Bank held its benchmark policy rate at 0.0%, highlighting "a considerable uncertainty surrounding the economic recovery, as some containment measures were reintroduced".

**In China**, the one-year loan prime rate (LPR) remained unchanged at 3.85%.

**In Turkey**, the CBT held its policy rate at 8.25%, despite concerns about a depreciating TRY and rising inflation pressures.

**Financial Markets: The S&P 500 Marked Its Fastest Recovery From A Bear Market In History**

**Market drivers**: economic data and corporate profits supported the view that the recovery — while slowing down — is still ongoing; technology stocks hit new record highs.

**Equities**: w-o-w, global stocks rose (MSCI ACWI, +0.3%, to 571), as the S&P 500 advanced for the fourth straight week, with technology stocks leading the index to a new record high (+0.7% to 3,397); European shares weakened on worsening US-China relations and growing concerns that a resurgence in COVID-19 infections could derail the economic recovery (Eurostoxx 50, -1.4% to 3,260).

**Fixed income**: w-o-w, global debt indices rose (BAML Global, +0.3% to 297.8). In the US, Treasury yields drifted lower, as disappointing jobless claims and manufacturing data added to concerns that the economic recovery could slow (10y UST, -7bps to 0.64).

**FX**: w-o-w, the USD strengthened against other currencies (DXY, +0.2% to 93.247; EUR/USD, -0.4% to 1.180). EM FX was flat (MSCI EMs FX, 0% to 1,612) and the TRY stabilized (USD/TRY, +0.4% to 7.337).

**Commodities**: oil prices weakened (Brent, -1.0% to 44.4 USD/b) as OPEC predicted a slow recovery in global oil demand. Gold fell slightly (Gold, -0.2% to 1,939 USD/Oz.).



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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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