



*R&R Weekly Column*  
By Brunello Rosa



## The EU Struggles With Recovery Funds, While The UK Strikes A Trade Deal With Canada

In July 2020, an [agreement was made between EU leaders](#) to approve the Next Generation EU (NGEU) rescue package to assist the recovery of economies that are being [plagued by the pandemic and its socio-economic consequences](#). The agreement was saluted by some as Europe's "Hamilton moment" (when US states' debt were federalised). While we consider the agreement a historic step in the process of European integration, [we never subscribed to the idea that NGEU represents the EU's Hamilton moment](#), at the very least because there is no "joint and several" guarantee by member states on the bonds issued by the Commission. Moreover, the amount of "federal" fiscal expenditure remains modest compared to national budgets and the overall EU GDP. In our analysis of the agreement, we also highlighted the risks to the ratification process, which requires each parliament of the 27 EU countries to approve the package (a unanimous process akin to a Treaty change).

The implementation of the NGEU package, which includes the Recovery and Resilient Facility (RRF), is proving as hard as we expected it to be. Two countries, Hungary and Poland (both of which are currently subject to the proceedings of Article 7 for the violation of basic EU values, such as the independence of the judiciary) blocked the adoption of the agreement, and also vetoed the Multiannual Financial Framework for the years 2021-27, [unless the provisions of the agreement regarding the respect of the rule of law are removed or softened](#). The ratification process is likely to be bumpy in the Netherlands as well, given the upcoming general elections in the spring of 2021. We expect these hiccups to be overcome eventually, but the actual introduction of the package is likely to be postponed at best.

Additionally, it is taking time for countries to present their respective national recovery plans, on the basis of which EU funds will eventually be disbursed. Only 5 out of 27 countries have presented such plans, without which the RRF remains a theoretical exercise. Recently, the EU Commissioner for economic affairs, Paolo Gentiloni, [encouraged countries to speed up the process of presenting those plans](#), by establishing emergency procedures. [He was particularly explicit in the case of Italy](#), one of the largest beneficiaries of the NGEU in absolute terms (though less so as a percentage of its GDP).

As we have [highlighted in our analysis](#), the NGEU package would have never been approved in its current form if the UK had remained part of the EU. In 2015, the UK opted out of the establishment and use of the EFSM, the facility created to sort out the Greek – and subsequent Eurozone debt – crisis, the model from which the NGEU and RRF have been designed. Post-Brexit, the presence of the UK was not an obstacle to the approval of a package that further pushed the process of European integration. As we discussed in our [recent publication](#), the UK and EU are approaching the endgame of the Brexit negotiations. We expect a skinny deal to emerge eventually, in order to avoid the most catastrophic consequences of a no-deal Brexit.

Meanwhile, the UK [has struck a deal in principle with Canada](#), rolling over the terms of [the deal that Canada and the EU made in 2017](#). This follows the trade agreement the UK made with Japan. Both agreements get the UK closer to joining, or at least benefiting from, the [Comprehensive and Progressive Agreement for Trans-Pacific Partnership](#), i.e. what remained from TPP after the US pulled out of it. If Trump had won the US presidential election (and it is becoming increasingly unlikely that he will do so, [as most of his lawsuits against Joe Biden's victory are being rejected by judges](#)), the UK might have struck an FTA with the US and used it to put pressure on the EU to compromise on Brexit. But now this solution is not at hand. Also, the UK could reach FTAs with Canada and Japan quickly only because they are based on the deals made by the EU with those countries in recent years, both made following years of negotiations.

Given these circumstances, it is becoming increasingly clear that an agreement on Brexit between the UK and the EU is the most convenient option for both sides.

### *Our Recent Publications*

 [Flash Preview: Riksbank Likely To Expand QE In November](#), by Brunello Rosa and Karmen Meneses, 20 November 2020



 [BREXIT ENDGAME: Given Covid and Biden's Election, UK and EU to Eventually Land on a Skinny FTA](#), by Brunello Rosa and Nouriel Roubini, 16 November 2020

Looking Ahead

**The Week Ahead: PMIs to Point At Stagnation, While US Inflation Is Expected To Remains Broadly Unchanged**

**In DMs**, November PMI data are expected to hint at 'stagnation', as: i) US PMIs are likely to remain flat, with manufacturing at 53.0 (p: 53.4) and services to slightly decline to 55.5 (p: 56.9); ii) EZ manufacturing is likely to slow down to 53.1 (p: 54.8), along with services to 42.5 (p: 46.9).

**Inflation: In the US**, both the PCE and the core PCE Index are expected to stay unchanged - at 1.4% and 1.5% y-o-y, respectively.

**In next week's monetary policy meeting, the Riksbank** will likely keep the interest rate unchanged at 0% but may increase and extend its asset purchase program.

**The Quarter Ahead: Global Economic Activity Still Subdued, Due To Flat Consumption; Central Banks To Stay Dovish**

**According to US expert Dr. Fauci**, 'high efficacy vaccines could help end the pandemic' in 2021. Pfizer and BioNTech will submit their COVID-19 vaccine for emergency authorization to the FDA, the first pharmaceutical company to apply for regulatory approval. Moderna declared that preliminary data showed their experimental COVID-19 vaccine to be 94.5% effective.

**In the US**, where COVID-19 cases surged to 182k in a single day, topping the November 13 record: 1) new measures are being implemented to curb surging infections; and 2) the CDC urged citizens not to travel during the upcoming Thanksgiving holiday.

**Treasury Secretary Mnuchin**: i) decided not to extend several emergency lending facilities set up by the Fed at the start of the pandemic; and ii) requested the Fed to return unused funds from five emergency programs, before they expire in December. In a rare expression of disappointment, the Fed warned that: 1) the economy remains "strained and vulnerable"; and 2) it would "prefer that the full suite of emergency facilities established during the pandemic continue to serve their important role". Among surging virus cases, Fed Chair Powell spoke in favor of extending 'emergency credit programs' as the economy is still "a long way to recover".

**In the EU**, after a member of the EU negotiating team on Brexit tested positive for COVID-19, Michel Barnier suspended the high-level talks. While the negotiating teams "will continue their [virtual] work in full respect of guidelines", currency markets: i) are pricing in a deal; but ii) no longer believe in a hard deadline.

**Meanwhile, UK Chancellor of the Exchequer Sunak** will unveil the "largest downgrade in UK economic performance and the public finances" since WWII.

Last Week's Review

**Real Economy: Despite Vaccine News, Outlook Constrained By Increase In COVID-19 Cases**

**In the US**, in the week ending on November 14 'initial jobless claims' came in at 742k (c: 707k; p: 711k), the first rise in over a month. In October: i) retail sales declined to 0.3% m-o-m (c: 0.5%; p: 1.6%); while ii) IP expanded by 1.1% m-o-m (c: 1.0 %; p: -0.4%).

**In the EZ**, November's consumer confidence fell to -17.6 (c: 17.7; p: -15.5) the lowest level since May, amid rising COVID-19 cases and renewed lockdowns. October's headline and core inflation remained unchanged (CPI, a: -0.3% y-o-y; c: -0.3%; p: -0.3%; core-CPI, a: 0.2% y-o-y; c: 0.2%; p: 0.2%); CPI matched the previous month's decline, the sharpest since April 2016.

**In Japan**, activity and demand rebounded and preliminary Q3 GDP data showed a rise of 5.0% q-o-q (c: 4.4%; p: -8.2%) - the first quarterly growth in a year. October inflation declined to -0.4% (c: -0.3%; p: 0.0%) as the pandemic continues to hamper consumption.

**In Turkey**, the CBT raised its key policy rate by 475 bps to 15.0% (c: 15.0%; p: 10.25%) and stated it will maintain a tight monetary policy "until a permanent fall in inflation is achieved".

**Financial Markets: Global Equities, Fixed Income And Oil Prices Rose; The USD Weakened**

**Market drivers**: the news of a coronavirus vaccine were offset by worries about the worsening of the pandemic.

**As a result, global stocks rose w-o-w** (MSCI ACWI, +0.6%, to 610) but the S&P 500 fell (-0.8%, to 3,558) due to: i) deteriorating COVID-19 trends; and ii) renewed activity restrictions. In Europe, shares rose for a third consecutive week (Eurostoxx 50, +1.0%, to 3,468), amid: i) optimism about potential coronavirus vaccines; and ii) upcoming ECB liquidity provision.

**Fixed income**: w-o-w global bonds rose (BAML Global, +0.5% to 299.2), as growing concerns about the economic outlook pushed UST yields to their lowest level in two weeks (UST, -6 bps, to 0.83%).

**FX**: w-o-w, the USD index weakened against other currencies (DXY, -0.4%, to 92.392; EUR/USD, +0.2%, to 1.185). The TRY rose by +0.4% to 7.632, after the CBT: i) hiked its key interest rate; and ii) signaled a return to monetary orthodoxy.

**Commodities**: hopes for an end to the pandemic in 2021 lifted oil prices (Brent, +5.1% to 45.0 USD/b) but hampered gold (-0.9% to 1,870 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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