



R&R Weekly Column
By Brunello Rosa



US, Israel And Italy: Political Risk Abounds At The Beginning Of 2021

In our [global outlook published at the end 2020](#), we argued that 2021 will be a volatile macroeconomic and geopolitical year. From a purely macroeconomic perspective, if the anti-Covid restrictions in place in 2021 are milder than those put in place for 2020, the global economy should experience a rebound that could see it grow by 4% (according to our central scenario). This means that, following a 5% contraction in 2020, by the end of this year economic activity might still be at a level lower than it was at the end of 2019. There are significant upside and downside risks to this central scenario, and the unfolding of events directly and indirectly related to the evolution of the pandemic will likely lead to a volatile 2021 from a macroeconomic perspective.

Geopolitics will be volatile as well. 2020 started with [the killing of Quasem Suleimani](#), the head of Iran's Islamic Revolutionary Guard Corps, by the US, and ended with [the assassination of Mohsen Fakhrizadeh](#), the father of Iran's nuclear programme, presumably by Israel. There are fears of [renewed tensions between the US, Israel and Iran](#) occurring on the anniversary of the assassination of Suleimani on January 3rd.

The US and Israel will themselves be at the centre of heightened political risks in the next few days and weeks. In the US, this week will be crucial, given the runoff election for the two Senatorial seats in Georgia. As discussed [in our report](#), if these seats were to be won by the Republicans (currently the baseline scenario), there might be a last attempt by the Republican party in the Senate to block the ratification of the results of the Electoral College for the election of Joe Biden as 46th President of the United States, which is scheduled to take place January 6th. If this were to happen, we could witness the beginning of a serious constitutional crisis, which could end up in the Supreme Court. Even if that fails, a Senate in the hands of the Republicans mean that Biden's presidency will be held hostage to Mitch McConnell's delaying practices.


If the Democrats win both seats (currently a risk scenario), the 50-50 count in the Senate would give [Kamala Harris the decisive say in many crucial votes](#), including in confirmation hearings for cabinet ministers. At that point Biden may become hostage to the leftist component of the Democratic party, which would push him to spend large amounts of money to fund infrastructure projects and fiscal stimuli. Between these two risks, perhaps paradoxically the traditionally moderate and centrist Biden may actually prefer being hostage to McConnell's practices, rather than to those of his own party's left wing.

Israel meanwhile will hold another general election on March 23rd, its fourth in two years. These frequent elections are a sign that Israel's political system remains highly fragmented and ineffective. The formal reason for the collapse of Benjamin Netanyahu's government was the refusal by the prime minister to pass a budget that would cover 2020 and 2021, as demanded by the leader of the Likud's coalition partner Benny Gantz, who was supposed to take over from Netanyahu in November 2021 according to the agreements made at the time the current government was formed in May 2020. Netanyahu's intention in holding another election in March is to avoid having to give up his job to Gantz.

In Europe, Italy is about to start a period of political instability which might eventually lead to general elections in the spring (an unlikely outcome at this stage), if a compromise for a new government, or a new version of the current government, is not reached between the parties supporting Giuseppe Conte in parliament. In fact, [press reports](#) suggest that by the 7th of January, Matteo Renzi might withdraw Italia Viva's delegation from government, thus formally opening the political crisis, whose final outcome is yet unknown.

Our Recent Publications

 **GLOBAL OUTLOOK AND STRATEGIC ASSET ALLOCATION FOR 2021: A Volatile Macroeconomic And Geopolitical Year Ahead**, by Nouriel Roubini, Brunello Rosa and Alessandro Magnoli Bocchi, 23 December 2020

 **GEOPOLITICAL CORNER: Assessing the Impact Of Cyber Attacks From A Wrecking Power: Russia Can Wound The Global Order But Cannot Change It**, by John C. Hulsman, 22 December 2020

Looking Ahead

The Week Ahead: US, EZ And China PMI Data To Show Signs Of Deceleration While Inflation Is Expected To Remain Subdued

In the US, December's manufacturing PMI is expected to slow down to 56.5 (*p*: 57.5) while non-manufacturing is likely to decrease to 54.6 (*p*: 55.9). Non-farm payrolls are expected to fall to 100k (*p*: 245k), keeping the unemployment rate stagnant at 6.8% (*p*: 6.7%).

In the EZ: *i*) November retail sales are expected to decrease to 0.8% y-o-y (*p*: 4.3%); *ii*) economic sentiment is likely to fall to 87.6 (*p*: 90.0); and *iii*) the unemployment rate could slightly move up to 8.5% (*p*: 8.4%). December's inflation is expected to ease at -0.2% y-o-y (*p*: -0.3%).

The Quarter Ahead: COVID-19 Cases Surge As Vaccine Distribution is Delayed; Additional US Stimulus To Boost Economic Outlook

In the US: *i*) more than 125k COVID-19 patients are hospitalized (+25% versus December); *ii*) the first case of 'a new coronavirus strain' has been reported in Colorado; while *iii*) the distribution and administration of the government-approved Pfizer-BioNTech and Moderna vaccines is progressing slower than expected across the country. Around 2.8m Americans received a COVID-19 vaccine by December 31 – falling far short of the official 20m target.

President-elect Joe Biden reiterated that - once he takes office on January 20 - his administration will: 1) administer in his first 100 days 100m doses of vaccine; and 2) "move heaven and earth to accelerate both distribution and administration [of the vaccines]".

The focus of the USD 2.3tn bill is a USD 900bn stimulus package, which includes: *i*) a USD 600 direct payment to each eligible adult "under given income levels and children under certain ages"; *ii*) various unemployment benefits to workers; and *iii*) financial support to enterprises. In addition, language has been added to the bill forcing the Federal Reserve to: 1) close four lending facilities; 2) return "unused funds [from the closed facilities] to the Treasury"; and 3) refrain from restarting the facilities "in absence of new legislation" from Congress.

In the US, the Federal Reserve stated it will keep buying government bonds until the economy makes "substantial progress", a step intended to: *i*) reassure financial markets; and *ii*) keep long-term borrowing rates low "for the foreseeable future".

In the EZ, companies trading goods between the UK and the EU will be given a year "to produce supporting paperwork proving their goods are eligible for zero-tariff access to the EU" – offering most industries temporary relief from the new, post-Brexit red tape.

Last Week's Review

Real Economy: Geopolitical Risks Ease; The 2021 Recovery Remains Fragile; Central Banks Stay Dovish

In the US, in November contracts to buy 'previously owned homes' rose by 16.4% y-o-y (*p*: 20.2%), as: *i*) interest rates are near all-time lows; and *ii*) supply keeps declining.

In December Chicago's PMI increased by 1.3 points, to 59.5 (*c*: 57.0; *p*: 58.2); among the main five indicators, 'employment' saw the largest monthly gain, hitting a one-year high.

In the week ending on December 26, the number of 'filings for unemployment benefits' decreased to 787k (*c*: 833k; *p*: 806k) but: *i*) remained well-above the '200k level' reported in February; and *ii*) will likely remain elevated for months to come, as the pandemic is far from controlled despite the start of the vaccination campaign.

In Japan, November's preliminary IP data showed a decline of -3.4% y-o-y (*c*: -10.0%; *p*: -3.0%).

Financial Markets: Global Equities Close The Year With Solid Gains; Oil And Gold Rise

Market drivers: US's 'coronavirus relief bill' and optimism over the rollout of new COVID-19 vaccines helped global markets to end 2020 on a high note.

Global equities closed higher w-o-w (MSCI ACWI, +1.4%, to 646). In the US, the S&P 500 Index was lifted by: *i*) healthcare shares; *ii*) consumer discretionary shares; and *iii*) electric vehicle maker Tesla (+1.4%, to 3,756). In the EZ, shares rose (Eurostoxx 50, +0.3%, to 3,553), lifted by the approval of: *i*) the UK-EU trade accord; and *ii*) the US fiscal stimulus package.

Fixed income: w-o-w global bonds remained flat (BAML Global, +0.2% to 299.8), with USTs falling slightly (-2 bps, to 0.91%), due to: 1) a fading likelihood of larger US 'stimulus payments'; along with 2) month-end profit-taking activity.

FX: w-o-w, the USD traded lower against other currencies (DXY, -0.4%, to 89.937), while the EUR/USD weakened (-0.5%, to 1.214).

Commodities: Oil rose (Brent, +1.0% to 51.8 USD/b), on OPEC+ plans to increase production at their next meeting. As the USD hit a multi-year low, gold prices rose (+1.2% to 1,838 USD/Oz.).



@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	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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