



R&R Weekly Column
By Brunello Rosa



Draghi Set To Revitalise Italian (And European) Hopes

At the beginning of last week, Italy's President Sergio Mattarella shocked the Italian political system by announcing that [he will confer the charge of forming the government upon Mario Draghi](#), one of the [most well-known public figures at the international level](#). Mario Draghi has been President of the European Central Bank, inaugural Chair of the Financial Stability Board, Governor of Bank of Italy and Director General at the Italian Treasury. This career in public service has been briefly interrupted by a significant stint between 2002 and 2005 at Goldman Sachs, as Vice Chairman and Managing Director and member of the Executive Committee.

Mario Draghi is mostly known, internationally, [for his pronouncement "whatever it takes"](#), when he promised in July 2012 in London that the ECB will do anything to preserve the integrity of the Euro. These few words anticipated the introduction of the Outright Monetary Transactions (OMTs), i.e. potentially unlimited purchases of bonds of countries subject to idiosyncratic speculative attacks. Between 2014 and 2015 he managed to introduce negative policy rates and even direct purchases of public and private assets, the so-called Quantitative Easing, in the conservative setting of the ECB, a Frankfurt-based institution still dominated by the Bundesbank monetarist approach.

By making those moves, Draghi was [internationally praised for having "saved the euro"](#) from what technically was called "redenomination risk", but what in reality would have been a catastrophic collapse of the single currency and – with it – of the entire European integration project.

Now Draghi has been called upon [to save the European project from another danger](#). Because of the pandemic, Italy (the first country to be hit by Covid-19) [has lost almost 10% of GDP in 2020](#), its public deficit has exploded to 10% of GDP and its debt/GDP ratio skyrocketed to almost 160%, only a tad below Greece in the Eurozone. As the pandemic hit other European countries, it became evident that Covid was not a idiosyncratic shock to Italy, but rather a systemic shock that – once again – threatened the survival of the EU.

After many months of negotiations, [EU leaders finally agreed an economic rescue plan in July 2020](#), the so-called Next Generation EU plan, which contains the crucial *Recovery and Resilience Facility* (RRF). The [Next Generation EU plan is the legacy that Germany's Chancellor Angela Merkel](#) wanted to leave to the next generation of EU leaders, a plan to make the EU more resilient, just, environmentally sustainable and digitalised. It was also an extreme exercise of solidarity from the countries "of the North" (Germany, Netherlands, Finland, Sweden, etc.) to the countries "of the South" (Italy, Spain, etc.) at the time in which most of the latter needed it.

Now it is obvious that if this exercise of solidarity were to fail because the southern countries (chiefly Italy) prove not to be able to spend the funds coming from Europe efficiently and effectively, while accompanying them with a plan of reforms, the entire edifice of European solidarity would be badly shaken, with the risk of collapse of the integration process existing again over the next few years. Draghi's job in Italy will need to show that the country as a whole is able to [devise a plan of investment and reform that would make Italy ready for the challenges of the future](#). For him, the biggest challenge will be convincing a highly divided and reluctant parliament to vote for such a plan of reform to re-launch the country, however painful that may be.

Our Recent Publications

📄 [Flash Preview: Riksbank To Stage A "Dovish Hold" in February](#), by Brunello Rosa and Karmen Meneses, 5 February 2021

📄 [Flash Review – Bank of England Confirms Negative Policy Rates Are Feasible But Not Imminent](#), by Brunello Rosa and Alessandro Magnoli Bocchi, 4 February 2021

📄 [Flash Preview: BoE To Remain on Hold and Signal That Negative Policy Rates Are Feasible, But Not Imminent](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 1 February 2021

📄 [Flash Review: Federal Reserve Remains On Hold While Sounding Cautiously Upbeat](#), by Brunello Rosa, 27 January 2021.

Looking Ahead

The Week Ahead: US Inflation To Remain Below Fed's Target

In the US, 'initial jobless claims' for the week ending on February 6 are expected stable at 775k (*p*: 779k).

Still in the US, in January, inflation is expected to rise slightly to 1.5% y-o-y (*p*: 1.4%) and core inflation to stay unchanged to 1.6% y/y.

The Quarter Ahead: US Stimulus Talks Show Progress; EZ Vaccine Distribution Suffer Challenges; Geopolitical Tensions Rise

In the US, the House gave its final approval to a 'budget blueprint' that included President Biden's USD 1.9tn stimulus plan, endorsing it over unanimous Republican opposition (219 vs. 209); Democrats pressed forward with plans to: 1) begin drafting the 'detailed aid package' next week; and 2) getting it approved by the House by the end of the month. President Biden cited the weak 'jobs report' to "justify the measures of speeding aid to families, businesses, health care providers, and local governments".

US Fed's Chairman Powell warned that "the economy remains vulnerable to setbacks because of the trajectory of the virus as well as the structural shifts in the economy", including long-term scarring associated with the pandemic.

The Biden administration has identified 'a rising and more assertive China' as one of its biggest foreign policy challenges, and stressed the importance of allies in responding to the strategic competition posed by Beijing. In the first high-level phone call with China's top foreign policy official Mr. Yang Jiechi, US Secretary of State Mr. Antony Blinken warned China over "human rights and regional destabilization" – saying the US would hold China "accountable for its abuses". In particular, Mr. Blinken told its Chinese counterpart that the US would press China over: *i*) its human rights record in the Xinjiang, Tibet regions, and Hong Kong; and *ii*) urged Beijing to condemn the military coup in Myanmar.

In the EU, MEPs of the 'Environment, Public Health and Food Safety Committee' requested each country to "transparently provide on a monthly basis until the summer" data on the: *i*) number of vaccine-doses supplied; and *ii*) the vaccination schedules - in order to respond to European citizens' growing concerns.

The vaccine developed by AstraZeneca and Oxford University displayed the same level of efficiency against the COVID-19 variant first discovered in the UK, compared to previous variants.

Last Week's Review

Real Economy: US Stimulus Talks Continue As The US Labor Market Recovery Improves

In the US, in January: *i*) 'nonfarm payrolls' increased to 49k (*c*: 50k; *p*: -227k); *ii*) average hourly earnings increased at the same pace as in December (*a*: 5.4% y-o-y; *c*: 5.1%; *p*: 5.4%); and *iii*) the unemployment rate declined more-than-expected to 6.3% (*c*: 6.7%; *p*: 6.7%).

In the week ending on January 30, the number of 'filing for unemployment benefits' declined to 779k (*c*: 830k; *p*: 812k) – the third straight week of falling claims, and the lowest number since the last week of November 2020.

In the EZ, preliminary data for Q4 2020 GDP showed the economy contracted by -5.1% y-o-y (*c*: -5.4%; *p*: -4.3%), extending the recession to the fourth quarter and bringing the 'full 2020 average' to -6.8%.

In the UK and Australia, both Central Banks kept policy rates unchanged at record lows of 0.10%.

Financial Markets: Equities Rebound, Bonds Remain Flat; Oil Reach ~60 USD/B, USD Strength Weigh On Gold

Market drivers: most major benchmarks rebounded from last week's steep losses, helped by: 1) fiscal stimulus plans; and 2) vaccine optimism.

Global equities closed higher w-o-w (MSCI ACWI, +4.3%, to 671). In the US, the S&P 500 Index booked a fresh high (+4.6%, to 3,887), as further stimulus hopes lifted most stocks to their best week since November. In the EZ, European shares rose with global markets (Eurostoxx 50, +5.0%, to 3656), spurred by hopes for: *i*) a quicker economic recovery; *ii*) a faster pace of COVID-19 vaccinations; and *iii*) prospect of more US fiscal stimulus.

Fixed Income: w-o-w global bonds remained flat (BAML Global, -0.4% to 296.8), while USTs rose (+8 bps, to 1.17%).

FX: w-o-w, the USD traded higher against other currencies (DXY, +0.5%, to 91.042; EUR/USD -0.8%, to 1.204).

Commodities: Oil prices rose (Brent, +6.2% to 59.3 USD/b) on increased investors' demand, due to: *i*) economic optimism; *ii*) improved global prospects driving price buoyancy; and *iii*) rising stock markets. Gold fell (-1.9% to 1,812 USD/Oz.), due to inflows into USD, as the greenback was favored as a short-term safe haven asset.



@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



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. **Analyst Certification:** We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

