



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



### France's Presidential Race Begins With The Selection of The Republican Candidate

On Saturday, France's Republican Party (Les Républicains) chose by way of a primary election its candidate for the presidential race that will take place in April 2022. [The winner of the contest](#) was Valérie Pécresse, president of the Île-de-France region since 2015 and former minister for higher education and the budget under Nicolas Sarkozy. She defeated some party heavyweights, such as Michel Barnier, who had been touted as the most credible candidate a serious potential contender against Macron in the general election.

The Republicans are the heirs of the glorious tradition of Gaullist presidents (such as Giscard D'Estaing and Jacques Chirac), but realized their worst ever result in 2017 when their candidate François Fillon was embroiled in an embezzlement scandal which prevented him from reaching the run-off stage of the election against Emmanuel Macron. Given the party's historical tradition, [as we discussed in our recent trip report](#), we would have not considered the presidential election to have started until the Republican candidate was chosen.


Valérie Pécresse is a moderate centrist within the party, who defeated right wingers such as Eric Ciotti. The party is clearly trying to win back their centrist voters who preferred Macron's political offer in 2017. At the same time, it is the right flank of the political spectrum that Pécresse should guard more closely against. Plenty of competition will come from Marine Le Pen, the leader of the Rassemblement National (formerly the Front National), who reached the run-off round of the election in 2017, and from Eric Zemmour, the former journalist and polemicist who is also running with a radical right-wing agenda, especially regarding immigration.

With current polls suggesting no more than 11% support for her candidacy, Pécresse will have to erode support from the right-wingers if she is to reach the run-off vote against (presumably) Macron. At the same time, her victory in the Republican primary may not make Macron's life easier. With her modern anti-climate change agenda, Pécresse may also attract some moderate and even progressive voters of Macron's.

Macron also faces the risk that Marine Le Pen does not reach the second, run-off round of the election. Macron believes that the unwritten "republican pact" that has existed in previous elections, which implies that all non-extremist voters will vote for anyone who is not the representative of the Front/Rassemblement National, will hold once again. But If Le Pen does not reach the second round, this pact may simply no longer apply.

As we discussed [in previous analysis](#), the French presidential and subsequent parliamentary elections, together with the German general election of September 2021 and the Italian presidential election of January/February 2022, will represent the three key elections of the 2021-2022 period, which together may determine the future of Europe. The German election has now resulted in a three-party coalition (unheard of in Germany's recent history), which still needs to prove its cohesiveness. The Italian presidential election may result in the choice of a strong pro-European president such as Mario Draghi, but could also lead to controversial political figures such as Silvio Berlusconi. The results of these three important votes will determine the shape and speed of the European integration process in coming years.

#### Our Recent Publications

 [TRAVEL NOTES - WASHINGTON, DC: Both The Democrats And The Republicans Have Fallen Into 'The Hemingway Trap'](#), by John C. Hulsman, 30 November 2021

 [TRAVEL NOTES - France: Getting Ready For The Presidential Race](#), by Brunello Rosa, 26 November 2021



Looking Ahead

The Week Ahead: Inflation Pressures Remain High Globally

**In the EZ**, year-on-year economic growth for Q3 is expected to decelerate to 3.7% (p: 14.2%).

**In China**, in December inflation rate is expected to increase to 2.5% y-o-y (p: 1.5%).

**In Germany**, final data for HICP inflation is seen rising to 6.0% y-o-y (p: 4.6%).

**In the US**, CPI inflation rate is expected to increase to 6.7% (p: 6.2%), with core inflation reaching 4.9% y-o-y (p: 4.6%).

The Quarter Ahead: FED Turns Hawkish; OPEC+ Increases Production; Turkey Currency Crisis

**Fed Chair Jerome Powell argued for speeding up the bond-buying tapering amid higher inflation.** Powell warned that the price gains could become long-lasting and he retired the use of “transitory” when speaking of inflation. Powell’s hawkish remarks weighed on global stocks.

**OPEC+ agree to increase oil output by 400,000 bpd in January, despite concerns over the Omicron variant.** The decision came in force following the pressure from the White House, calling for more supply to lower prices. Previously, Biden Administration announced the coordinated release of the strategic oil reserves between the U.S., China, India, South Korea, Japan and the U.K. to cool prices.

**The Omicron strain is said to weigh on global economic recovery.** First detected in South Africa, the new variant is more transmissible than the dominant Delta variant. As forecast by the European ECDC, the Omicron variant could account for half of EU cases within months. Importantly, experts argue that the risk of the emergence of new variants, such as the Omicron, is linked to vaccine inequality, as they originate mostly in regions with low vaccination rates.

**Turkey’s central bank decided to intervene in the currency markets for the first since 2014**, in order to halt “unhealthy price formations in exchange rates”. The central bank sold foreign currencies, including the U.S. dollar in an attempt to stabilize the lira, which reached a record low following President Erdogan’s call for cutting rates. After the announcement, the Turkish finance minister resigned.

Last Week’s Review

Real Economy: US GDP and NFP Surprise On The Downside, While Inflation Surges In EZ and the UK

**In the US**, Non-Farm Payrolls (NFP) rose by 210K in November, versus expectations of a 550K increase. The unemployment rate fell to 4.2% versus 4.5% expected and 4.6% in October. US GDP rose at 2.1% y-o-y SAAR in Q3, a lower-than-expected rate.

**In the EZ**, Composite PMIs surged to 55.8 in November from 54.2 in October. The increase occurred also in France and Germany, where business activity accelerated despite persistent supply bottlenecks. Meanwhile, inflation accelerates. Consumer prices were up 4.1% y-o-y, reaching the highest level since July 2008.

**In the UK**, CPI rose to a 10-year high of 4.2%, while BoE held interest rates steady in November.

Financial Markets: Inflation Fears and Omicron Weigh On Market Sentiment

**Market drivers:** investor sentiment weakened, driven by: i) concerns about surging inflation with a stagnating economic recovery, in the face of the spreading Omicron variant that is highly transmissible; ii) weaker-than-expected US jobs gains; iii) volatility surged amid news about the COVID cases; and iv) speeding up bond-buying tapering.

**Global equities** fell w-o-w (MSCI ACWI, -1.3%, to 724). The US S&P 500 Index fell by a similar amount (-1.2% w-o-w, to 4,538), following a ‘colossal miss’ in job report in November and Powell’s hawkish remarks. In the EZ, shares fell (Eurostoxx 50, -0.23% to 4,080), as pessimism was fueled by: i) Omicron variant concerns and related restrictions on travel and leisure; and ii) downturn in the US stocks after the disappointing jobs data. In EMs, equities recovered slightly (MSCI EMs, +0.1%, to 1,224) from a one-year low hit due to concerns over Omicron variant. Chinese stocks increased as well (Shanghai Comp., +1.2%, to 3,607). Volatility rose above averages (VIX S&P 500, -2.2 pts to 28.5, 52w avg.: 21.0; 10y avg.: 17.8).

**Fixed Income:** UST yields fell (-12 bps, to 1.36%), the lowest closing yield since September 22. German 10-year bonds decreased (-5 bps, to -0.39%) to multi-month low as COVID variant weighs on.

**FX:** w-o-w, the US Dollar Index increased only slightly (DXY, +0.0%, to 92.15; EUR/USD +0.0%, to 1.132) – despite Fed dovish comments and November’s US labor market report. In EMs, currencies rose against the USD (MSCI EM Currency Index, +0.4% w-o-w, to 1,726).

**Commodities:** Oil prices declined to the lowest point since mid-August (Brent, +3.9% to 69.9 USD/b), as OPEC+ agreed to incrementally boost the output. Gold prices fell compared to last week (-0.2% to 1,784 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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