Rosa & Roubini

ASSOCIATES

MAKING SENSE OF THIS WORLD

31 January 2022



R&R Weekly Column By Brunello Rosa



Mattarella's Re-election Eases Short-Term Concerns in the EU

Sergio Mattarella <u>was re-elected Italy's President</u> of the Republic on Saturday, after seven inconclusive ballots. Nervousness had been mounting in political circles, as well as in the country at large, for the inability of the electoral college (made up of MPs and regional representatives) to converge on a figure who would be able to win at least 505 out of the 1009 "grand electors". The political leaders of the parliamentary majority that supports Draghi's government decided in the end to converge on Mattarella, the only name that would find unanimous support (with the exception, perhaps, of Fratelli d'Italia).

This is the most reassuring outcome that one could hope for in the short run, as it guarantees total institutional and governmental continuity. Mattarella is well-respected internationally and is able to guarantee Italy's position within the geopolitical landscape. Draghi, moreover, will remain PM, guaranteeing the implementation of the country's recovery plan, which gives access to the funds of the NextGenEU. For these reasons, this political solution is by far the most favoured by market participants (as <u>we discussed in this interview</u>).

On the other hand, Mattarella's re-election only postpones the resolution of the uncertainty about Italy's medium-term institutional setting by a couple of years, pushing it back to after the election of the country's next parliament in 2023. In fact, Mattarella will likely resign as soon as he perceives that a majority can be found in the new parliament to elect his successor, possibly in early 2024.

Draghi will also start encountering difficulties as PM, as political parties will likely be less willing to accept his decisions in the year ahead of the general election. Furthermore, the fact that the political parties that support his government could not agree on his name to become the next president, even after four or five inconclusive ballots, reveals that they do not want to give him *carte blanche* on every issue.

Additionally, if one needed further proof of the inability of Italy's political system to achieve even the most basic goals, this election showed that parties cannot even discharge their duty of electing Italy's top institutional figure. The complaints that political leaders often make about being subject to the rule of technocrats are therefore totally mis-placed. They had the chance of showing effectiveness in their actions, and failed miserably. But this is hardly a surprise.

If we look at the broader European political landscape, we said that 2021-22 was the crucial period to test the resilience of the European construct. If any of the German general election, Italian Presidential election and French Presidential and parliamentary elections were to "go wrong", the survival of the European project itself would be at risk. German elections have delivered a very fragmented parliament, <u>but a "traffic light" majority, however heterogeneous and weak, ultimately emerged</u>. Italy kicked the can down the road. Now it is France's turn.

In France, Macron is still ahead in the polls and may be re-elected, but <u>the emergence of Valérie Pécresse as leader of the Republicans</u> <u>will make the June parliamentary elections more uncertain</u>, with Macron possibly forced to his first *co-habitation*. In any case, both Macron and Pécresse are mainstream politicians and would keep France on track with the European integration process. A different story would be if Eric Zammour or Marine Le Pen were to prevail, though this outcome remains only a risk scenario at this stage.

Two out of three electoral risks have not materialised so far, and the third – France's – is unlikely to. This bodes well for the continuation of the EU integration process. But EU leaders need to remain alert, as populist parties are still strong in many countries of the Union, including in France and Italy.

Our Recent Publications

 Flash Preview: ECB To Further Clarify Its Policy Stance After March, by Brunello Rosa and Nouriel Roubini, 28 January 2022
Elash Preview: BoF To Increase Rates Again To Keen Un With

- Flash Review: Fed Confirms First Hike in March and Mulls Balance Sheet Run-off, by B. Rosa and Nato Balavadze, 27 January 2022
 Flash Review: Hawkish BOC Flags Upcoming Rate Normalisation,
- Flash Preview: BoE To Increase Rates Again To Keep Up With Inflation Surge, by B. Rosa and Nato Balavadze, 28 January 2022
- by Brunello Rosa and Nato Balavadze, 27 January 2022



Looking Ahead

The Week Ahead: US Weak NFP Expected, While EZ Shows Slower GDP Growth and Lower Inflation, With BOE Likely To Raise Rate

In the US, in January NFP are expected to show a 155k increase (p.199K), with unemployment rate remaining unchanged at 3.9%.

In the EZ, i) Q4 GDP is expected to slow down to 0.3% q-o-q (*p*: 2.2%) and 3.9% y-o-y (*p*: 4.7%); *ii*) in December unemployment rate is likely to decrease to 7.1% (*p*: 7.2%); *iii*) in January headline inflation and core inflation are seen falling to 4.3% y-o-y (*p*: 5.0%) and 1.9% y-o-y (*p*: 2.6%) respectively; *iv*) in December retail sales are likely to contract by -0.5% m-o-m (*p*: 1.0%) and decrease to 5.4% y-o-y (*p*: 7.8%); and *v*) ECB is expected to keep its policy stance unchanged.

In the UK, BoE is expected to raise its base rate to 0.5% (p: 0.25%).

The Quarter Ahead: Tensions over Ukraine Rise; IMF Cuts 2022 Global Growth; Qatar to Discuss Gas Supply to Europe

Ukraine tensions simmer, as Biden warns Putin may invade Ukraine next month. Officials in Moscow said that their principal concerns were not addressed by US and NATO. In case of invasion, Nord Stream 2 pipeline, running from Russia to Germany and doubling Russia's gas exports to Germany, could face serious sanctions. In addition, the US calls for a public UN Security Council meeting to discuss "threatening behaviour by Russia" on January 31, a day before Moscow takes over the rotating presidency of the council. NATO allies discuss deploying more troops to Eastern Europe.

IMF downgraded the global growth forecasts in its World Economic Outlook Update of January 2022, as slower expansions are expected in the two largest economies – the US and China. IMF projects that global GDP growth will weaken from 5.9% in 2021 to 4.4% in 2022. Increasing COVID cases in addition to surging inflation and higher energy prices are seen weighing on economic activity. IMF warned about market's sell-off, as central banks turn hawkish.

US regulator bans Chinese state-owned telecom company Unicom over national security and espionage concerns. In addition to that, in November, the US government already added a number of companies to its restricted trade list.

Qatar's ruling emir and Biden are expected to discuss Europe energy concerns during the meeting at the White House on January 31. Qatar explores providing short-term emergency liquid gas to Europe, facing serious shortages if Russia ceases supplies.

Last Week's Review

Real Economy: EZ GDP Slows Down; US GDP Advances, While Inflation Is on the Rise

Among the largest Euro Zone economies, according to the preliminary estimates, Q4 GDP growth *i*) contracted by 0.7% (p: 1.7%) in Germany; and *ii*) slow downed to 0.7% (p: 3.7%) in France.

In the US, i) Q4 GDP advanced by 6.9% q-o-q (c: 5.5%; p: 2.3%) stronger than expected; *ii*) PCE and core-PCE price index rose to 6.5% q-o-q (*p*: 5.3%) and 4.9% (*p*: 4.6%) respectively; *iii*) in January, the IHS Markit US Composite PMI decreased to 50.8 (*p*: 57.0), as manufacturing PMI and services PMI both fell to 55.0 (*p*: 57.7) and 50.9 (*p*: 57.6) respectively well below the market expectations; and *iv*) the Fed left its funds target range unchanged at 0-0.25%.

Financial Markets: Stock Markets Are Down; Bond Yields Rise; Dollar Strengthens

Market drivers: Most major benchmarks pulled back in response to rising interest rate fears and growth worries. Investors pay close attention to geopolitical risks, involving tensions in the Middle East and Eastern Europe, amid rising oil prices. Escalating the Ukraine crisis and deterioration of relations between Russia and the West also weighed on investor sentiment. On the other hand, Apple reports a record revenue providing encouragement for tech and US markets.

Global Equities fell w-o-w (MSCI ACWI, -2.5%, to 695). The US S&P 500 Index fell (-0.6% w-o-w, to 4,370). In the EZ, shares also decreased compared to last week (Eurostoxx 50, -2.2% w-o-w, to 4,137) dragged by losses in auto and technology stocks. In EMs, equities fell (MSCI EMs, -4.2%, to 1,192). Volatility rose to 28.4 (VIX S&P 500, 52w avg.: 20.7; 10y avg.: 17.8).

Fixed Income: w-o-w, UST yields (+1.4 bps, to 1.78%) and German 10-year bonds (+1.3 bps, to -0.54%) rose as investor sentiment grow that the Federal Reserve will raise interest rates in the months ahead.

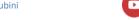
FX: w-o-w, the US Dollar Index rose (DXY, +1.5%, to 97.12; EUR/USD -1.6%, to 1.116), lifted by hawkish messages, possible withdrawal of pandemic-era stimulus and rising geopolitical risks over Ukraine. In EMs, currencies decreased against the USD (MSCI EM Currency Index, -0.5% w-o-w, to 1,734).

Commodities: w-o-w, oil prices extended gains, hitting 7-year high due to supply shortage concerns as well political risks in Ukraine and the Middle East that could disrupt energy markets (Brent, 1.6% to 89.3 USD/b). w-o-w, Gold prices fell following hawkish comments from Fed (-2.7% to 1,783 USD/Oz).



@RosaRoubini





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

а	Actual	LN No	orthern League, Italy
ΑΚΡ	Justice and Development Party, Turkey	M5S	Five Star Movement, Italy
ann.	annualized	т-о-т	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
ВоС	Bank of Canada	МНР	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	МРС	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	pps pw	Previous week
DJA DJEM	Dow Jones Emerging Markets Index	рw QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	QE q-0-q	Quarter-on-guarter
ECB	European Central Bank	q-0-q RE	Real estate
ECJ		RBA	
ELA	European Court of Justice US Energy Information Agency	RRR	Reserve Bank of Australia Reserve Requirement Ratio
EM		RUB	
EIVI EP	Emerging Markets		Russian Rouble
EP EPS	European Parliament	SWF	Sovereign Wealth Fund Trillion
	Earnings per share	tn TRY	Turkish Lira
EU EUR	European Union 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-0-W	Week-on-week
IPO	Initial public offering	У	Year
IRR	Iranian Rial	<i>y-o-y</i>	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
	Ro	sa & Roubini	

Nosa & Noubini

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.

