



R&R Weekly Column
By Brunello Rosa



Taking Stock of a Crucial Round of Elections In Major EU Countries

In February 2019 [we identified the round of elections](#) taking place between the German general election in September 2021 and the French parliamentary election in June 2022 as being crucial to determining the future of the EU integration process. Now, as we approach the end of this round of elections, we want to take stock of what has happened thus far, to revisit our earlier views on the subject.

The German general election (September 2021). The German election resulted in a collapse of the CDU. The CDU was narrowly overtaken by the SPD, which was able to form an unconventional “traffic light” coalition with the Greens and the Liberals. So far, this coalition has managed to navigate both the last phase of the pandemic and the war in Ukraine with relative tranquillity. The pro-European and Atlantic credentials of Germany have been re-affirmed, and the extreme wings of Germany’s political spectrum have been left out of government. However, the fragmentation of the political system, with the collapse of traditional parties, is not reassuring for the stability of Germany, the key pillar of the EU and Eurozone.

The Italian Presidential election (January/February 2022). [The Italian Presidential election resulted](#) in a non-event, with the re-election of Sergio Mattarella as Italy’s head of state for another 7-year term. His re-election, coupled with the permanence of Mario Draghi as PM, for now reassures Italy’s allies regarding its Atlantic ties and pro-European stance. On the other hand, the fact that Mattarella may not remain in charge for the entire duration of his second mandate does not guarantee that Italy will elect a pro-European President during the next parliament, if a Lega-FDI majority were to emerge after the general election of February/March 2023.

The French Presidential election (April 2022). [As we discussed recently](#), Macron’s victory is certainly the best reassurance that the EU integration process will continue (in the areas of defense, security, and migration policies, for example), however slowly. But it is a fact that the majority of Macron’s voters were over-60-year-old pensioners. At the same time, with 41.5% of the vote, Marine Le Pen has gathered the highest number of votes for a right-wing candidate since the beginning of the country’s Fifth Republic, and did so with a much larger geographical dispersion of the vote share than in previous elections. This is already the third time a Le Pen has reached the second round of the presidential election. In 2002 Jean-Marie, the father of Marine, lost to Jacques Chirac; in 2017 and now again in 2022 Marine has faced Emmanuel Macron in the second round of the presidential election. In each of these appearances the far right has increased its votes, both in absolute terms and as a share of total votes cast. One cannot rule out that Marine Le Pen may win the election in 2027, considering that Macron will be blamed for all the misfortunes French people may experience in the meantime. A Le Pen victory would represent a total regime change in France, which would put the EU integration process in peril.

As mentioned above, the results of this round of critical EU elections, which will finish this June with the parliamentary elections in France, has been something of a mixed bag thus far. On the one hand, traditional pro-European parties have “held the fort”, so to speak. On the other hand, this “fort” remains under the siege of the anti-European parties, which may want to stop the integration process, or even reverse it. A few years of high inflation, higher interest rates, low economic growth or recessions may change the tide in favour of these still-strong populist parties.

Our Recent Publications

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🔊 [Flash Review: Federal Reserve Raises Rates, Begins QT, And Signals More Tightening Ahead](#), by Brunello Rosa and Nato Balavadze, 4 May 2022

🔊 [Fed Preview: FOMC To Increase Rates by 50bps And Start QT In May](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 2 May 2022

🔊 [Flash Preview: BOE To Increase Rates For The Fourth Time In A Row To Respond To Surging Inflation](#), by Brunello Rosa and Nato Balavadze, 29 April 2022



Looking Ahead

The Week Ahead: US Inflationary Pressures To Ease Slightly; UK Q1 GDP To Slow Down; EZ Economies Inflation To Rise

In the US, April's core-CPI inflation rate is expected to decrease to 6.0% y-o-y (p: 6.5%), with CPI inflation expected to fall to 8.1% y-o-y (p: 8.5%). In April, retail sales are expected to decelerate to 0.6% m-o-m (p: 0.7%).

In the UK, Q1 GDP growth is likely to slow down to 1.0% q-o-q (p: 1.3%), whereas the economy is expected to advance by 9.0% y-o-y in Q1 (p: 6.6%). March's IP is seen slowing down to 0.4% y-o-y (p: 1.6%).

In the EZ, March's IP is expected to shrink by -0.8% y-o-y (p: 2.0%).

Among the largest EZ economies, in April harmonized inflation rate is expected to accelerate in Germany and France to 7.8% y-o-y (p: 7.6%) and to 6.8% y-o-y (p: 6.6%) in Italy.

The Quarter Ahead: Europe Closer To Russian Oil Embargo Despite Concerns Over Energy Security; China Warns Zero-Covid Doubters

Oil ban is proposed in a new round of EU sanctions. However, the EU finds it difficult to reach consensus on a complete ban on Russian crude oil within six months and refined products by the end of 2022. Hungary premier Orbán says Budapest would not support proposals that threaten its energy security. In addition, Slovakia asked for a three-year transition period and the Czech Republic seeks and agreement on two or three years to adapt. In a list of new sanctions, European Commission President Ursula von der Leyen also included Sberbank, Russia's largest bank, and two other major banks, in Russia's ban from SWIFT.

Russia reroutes internet traffic in occupied Ukrainian regions, making Ukrainians' data vulnerable to hack and censorship by Moscow. The Kremlin also plans to introduce the ruble and Russian curriculum and language in schools, as it seeks to consolidate control.

Xi Jinping vowed to adhere to the general policy of 'dynamic zero-Covid'. Top leader sent the strongest warning against anyone who distorts, questions or denies China's restrictive measures. However, Covid lockdowns weigh on the economy. Sentiment among manufacturing and services fell in April to the lowest since April 2020.

UK local elections took place on 5 May 2022. The Conservatives saw significant losses, losing almost 500 seats and control of 11 councils. The Tories also suffered in Scotland, where the SNP won the most seats, and lost in Wales to Labour.

Last Week's Review

Real Economy: US And EZ Unemployment Falls; In US Composite PMI Falls, Whereas In EZ it Rises; CBs Turn Hawkish

In the US, in April: i) Services PMI decreased to 55.6 (c: 54.7; p: 58.0); and ii) Manufacturing PMI rose to 59.2 (c: 59.7; p: 58.8). As a result, Composite PMI fell to 56.0 (p: 57.7). Also in April, unemployment rate decreased further to 3.6% (c: 3.5%; p: 3.6%) and NFP rose by 428K (c: 391K; p: 428K).

In the EZ, in March, unemployment rate edged down to 6.8% (c: 6.7%; p: 6.9%). In April: i) Services PMI rose to 57.7 (c: 57.7; p: 55.6); ii) Manufacturing PMI fell to 55.5 (c: 55.3; p: 56.5); and iii) Composite PMI increased to 55.8 (c: 55.8; p: 54.9). April's final estimates for consumer confidence fell significantly to -22 (c: -16.9 p: -21.6). In March, retail sales slow down to 0.8% y-o-y (c: 1.4%; p: 5.2%). On a monthly basis, retail sales fell to -0.4% m-o-m (c: -0.1%; p: 0.4%). Also in March, PPI rose to 36.8% y-o-y (c: 36.3%; p: 31.5%).

In the UK, in April: i) Services PMI decreased to 58.9 (c: 58.3; p: 62.6); ii) Manufacturing rose slightly to 55.8 (c: 55.3; p: 55.2); and iii) Composite PMI fell to 58.2 (c: 57.6; p: 60.9).

CBs turn hawkish. BoE raised its Bank Rate by 25bps to 1.0%. Fed increased its target Fed funds range by 50bps to 0.75% - 1.00%.

Financial Markets: US Stocks Tumble; Yields Rise; Dollar and Oil Up; Gold Down

Market Drivers: Investor sentiment was hampered by worries about interest rate and inflation weighing on sentiment. Concerns rise over taming inflation without triggering an economic downturn. As a result, most of the major US stocks end lower. Rising interests rate led to higher yields and lower bond prices.

Global Equities increased w-o-w (MSCI ACWI, +2.05%, to 667). The US S&P 500 index dropped (-0.21% w-o-w, to 4,123). In the EZ, shares were down (Eurostoxx 50, -4.57% w-o-w, to 3,629) too. In EMs, equities declined (MSCI EMs, -2.94%, to 1,044). Volatility rose considerably to 30.8 (VIX S&P 500, 52w avg.: 21.7; 10y avg.: 18.0).

Fixed Income: w-o-w, 10-year US Treasury yields rose (+20 bps to 3.14%) to the highest level since 2018. 2-year US Treasury yields are virtually unchanged at 2.73%. German 10-year bund yield was up compared to the last week (+19 bps, to 1.13%).

FX: w-o-w, the US Dollar Index rose slightly (DXY, +0.41%, to 103.7; EUR/USD remained around 1.05). During the week, the Dollar Index rose above 104, its strongest level since 2002, before falling back. In EMs, currencies were down (MSCI EM Currency Index, -0.21% w-o-w, to 1,691.7)

Commodities: w-o-w, oil prices were up (Brent, 3.5% to 113.22 USD/b) as concerns over tighter supply and gloomy global economic growth rise. W-o-w, gold prices decreased (-1.51% to 1,882.8 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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