



R&R Weekly Column
By Brunello Rosa



At the Last Moment in France, Electoral Result Deliver a Blow To The EU Integration Process

After the French parliamentary elections that were held on June 12th and 19th, we are taking final stock of the long electoral cycle that took place over the past 2 years across the three major EU countries, Germany, France, and Italy. We previously carried out a similar exercise after the French presidential election took place, with [our column on 9th of May 2022, but at that time the country's parliamentary elections still lay ahead](#). We said then how Europe's long electoral cycle, which started with the German general election in September 2021, followed by the Italian presidential election in January 2022 and the French presidential election in April 2022, had so far delivered a mixed result regarding the process of European integration.

We said then: "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."

The French parliamentary elections have now delivered a blow to the EU integration process, at the "last curve" of this electoral cycle. [As we discussed in our Viewsletter last week](#), Macron's party won 245 seats (vs 289 needed for a majority), Mélançon's left-wing coalition NUPES won 131, Le Pen's party got 89 seats and the Republicans got 61. All other parties combined won 51 of the seats.

These electoral results meant that Macron only had two options. Either he could try to form a coalition with the Republicans in order to have a stable majority in parliament, or else he will have to seek a different majority for each law that will need to be passed by parliament. After the first round of consultations, it seems that the first route is difficult to implement, as Christian Jacob - the head of the Republican party - said that he wants the party to remain in opposition. But finding a majority with "variable geometries" for each new piece of legislation will also be complicated – it means that the President may have a very difficult time translating his agenda into law.

The French constitution allows an [extensive use of the confidence vote](#) (article 49.3) to allow the government and the president to get his or her agenda through parliament. Still, without a solid majority, it is a very risky strategy to forgo a coalition. Alternatively, the President may dissolve parliament in coming years, but this may also result in a further erosion of Macron's parliamentary support, in favour of the far-right, the far-left and the moderate right. So, Macron will have to thread very carefully in coming months and years.

More so than the domestic agenda, such as the long-awaited reform of the pension system, which will suffer, the advancement of the EU integration process is at risk. Macron has clearly been the stronger voice against Russia within the EU, but also *with* Russia (given his communication channel with Russian President Vladimir Putin) in the Ukrainian war. And he was speaking as the *de-facto* leader of Europe. A weaker French president will not be able to play the same role as convincingly.

Any chance of further EU integration will also necessarily be impacted. We have already seen in the past that when France is against further integration, as for example was the case with [the referendum on the EU Constitution in 2005](#), the process collapses. With almost 90 MPs, Le Pen can now credibly say that she is not representing a fringe movement anymore, but rather is reflecting the needs and desires of a large component of the French electorate.

Our Recent Publications

📖 [Deep Dive Into The Near-Term Future: What Lies Ahead For Global Geopolitics, Macroeconomy, Policy And Financial Markets](#), by Brunello Rosa, 21 June 2022

📖 [Flash Review: Bank of England Increases Rates by 25bps in June](#), by Brunello Rosa and Nato Balavadze, 16 June 2022

📖 [Flash Review: Fed Front-Loads Its Tightening Cycle With A 75bps Hike in June](#), by Brunello Rosa and Nato Balavadze, 15 June 2022

[Flash Preview Change: Fed To Increase Rates by 75bps in June and July](#), by Nouriel Roubini, 14 June 2022



Looking Ahead

The Week Ahead: Quarterly GDP To Shrink In the US And to Decelerate In UK, while EZ Inflation is Set To Rise

In the US, according to a final estimate, Q1 GDP is expected to shrink by -1.5% q-o-q (p: 6.9%). In Q1, PCE and core-PCE prices are likely to increase by 7.0% q-o-q (p: 6.4%) and 5.1% q-o-q (p: 5.0%). On a yearly basis, core-PCE is expected to cool off to 4.8% (p: 4.9%).

In the EZ, in May, the unemployment rate is seen staying unchanged at 6.8%. According to flash estimates, in June, *i*) headline inflation rate is seen raising by 8.3% y-o-y (p: 8.1%); and *ii*) core inflation rate is expected to increase by 3.9% y-o-y (p: 3.8%). June's S&P Global Manufacturing PMI is seen decreasing to 52 (p: 54.6).

In the UK, final estimates for Q1 are expected to show that GDP decelerated to 0.8% q-o-q (p: 1.3%), while advancing to 8.7% y-o-y (p: 6.6%). In Q1, business investment is seen shrinking by -0.5% (p: 1.0%), while is expected to surge on a yearly basis by 8.5% (p: 1.0%).

The Quarter Ahead: Ukraine and Moldova Get EU Candidate Status; US Supreme Court Bans Abortion; Battles Continue In Ukraine

EU leaders agreed to grant Ukraine and Moldova candidate status for EU membership. As European Commission president reports the accession process would be 'merit-based' and 'by the book'. Russia said that this decision would have negative consequences. Member states had initially different views on how quickly the bloc should welcome Ukraine as a member, the Netherlands, Sweden and Denmark among the most skeptical. However, European Commission's recommendation gave a strong boost last week.

US Supreme Court ends constitutional right to abortion. Landmark ruling Roe v Wade was overturned, which effectively is expected to cut off for about 36 million women from abortion access. President Joe Biden described it as 'a tragic error'. Large companies such as JP Morgan, Disney and Meta will cover for abortion travel expenses.

Ukraine war continues. Kyiv orders forces were withdrawn from Severodonetsk, as Russians took the control. According to Zelenskyy the heavy battles in eastern Ukraine represents 'the toughest spot' in the conflict. Tensions rise between Russia and Lithuania, after the latter banned the rail transfer of all EU sanctioned goods. Germany's Scholz wants to discuss the 'Marshall Plan for Ukraine' at the G7 meeting in Germany. He announced that 'rebuilding Ukraine will be a task for generations.'

Last Week's Review

Real Economy: Headline Inflation Rose, While Core Declined In UK; Composite PMIs Fell In US And EZ And Unchanged In UK

In the US, the flash data in June showed: *i*) services PMI edged down to 51.6 (c: 53.5; p: 53.4); *ii*) manufacturing declined to 52.4 (c: 56.0; p: 57.0); and *iii*) composite PMI decreased too to 51.2 (p: 53.6). June's Consumer Sentiment decreased to 50 (c: 50.2; p: 58.4).

In the EZ, the flash data in June showed: *i*) services and manufacturing PMI decreased to 52.8 (c: 55.5; p: 52.8) and to 52 (c: 53.9; p: 54.6) respectively; and *ii*) composite PMI fell too to 51.9 (c: 54.0; p: 54.8). June's consumer confidence fell to -23.6 (c: -20.5; p: -21.1)

In the UK, in May *i*) headline inflation rose to 9.1% y-o-y (p: 9.0%) as expected; *ii*) core inflation eased off to 5.9% y-o-y (c: 6.0%; p: 6.2%); and *iii*) inflation cooled off as well to 0.7% m-o-m (c: 0.6%; p: 2.5%). In May, retail sales shrank by -4.7% y-o-y (c: -4.5%; p: -5.7%) and -0.5% m-o-m (c: -0.7%; p: 0.4%). The flash data in June showed: *i*) services PMI unchanged at 53.4 (c: 53.0); *ii*) manufacturing PMI decreasing to 53.4 (c: 53.7; p: 54.6) and to 52 (c: 53.9; p: 54.6); and *iii*) composite PMI remaining unchanged at 53.1 (c: 52.6)

Financial Markets: Stock Market Is Up And Yields Fell; Dollar Index Is Down; Oil Is Unchanged; Gold Is Down

Market Drivers: All three major averages wrapped up a big come-back week for the stock market, as there are signs that inflation expectations are easing. Investors closely watch the signals that the Fed's monetary tightening indeed has the effect of slowing the economy and moderating inflation. As a result, manufacturing activity was below forecasts in the US. In addition, according to Fed's Chair Powell, inflation expectations remain anchored, which boosted investor sentiment in both equity and fixed-income markets. For this comment as well as for renewed risks of a recession, U.S. treasury yields fell sharply.

Global Equities: Increased w-o-w (MSCI ACWI, +4.5%, to 612.7). The US S&P 500 index rose (+6.5% w-o-w, to 3,911.7). In the EZ, shares were up (Eurostoxx 50, +2.8% w-o-w, to 3,533.17). In EMs, equities rose (MSCI EMs, +0.7%, to 1,011.18). Volatility rose to 28.35 (VIX S&P 500, 52w avg.: 22.6; 10y avg.: 18.1).

Fixed Income: w-o-w, 10-year US treasury yields fell (-9.3 bps to 3.14%). The 2-year US Treasury yields were down too (-11 bps to 3.06%). The German 10-year bund yield decreased (-23 bps to 1.44%).

FX: w-o-w, the US Dollar Index was down (DXY, -0.6%, to 103.9; EUR/USD +0.5%, to 1.055). In EMs, currencies weakened (MSCI EM Currency Index, -0.1% w-o-w, to 1,670.9).

Commodities: w-o-w, oil prices were virtually unchanged (Brent, +0.0% to 113.2 USD/b). Gold prices decreased w-o-w (-0.7% to 1,828.1 USD/Oz) on worries of aggressive rate hikes adopted by central banks globally aimed at taming inflation.



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The picture in the front page comes from [this website](#)

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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