**MAKING SENSE OF *THIS* WORLD *12 September* *2022***



***R&R Weekly Column***

***By Brunello Rosa***

**With The Departure Of Queen Elizabeth II, A New And Difficult Era For Britain Begins**

Last week, Elizabeth II, Queen of the United Kingdom and other Commonwealth realms, died at the age of 96. Her kingdom lasted 70 years, making her the longest-serving monarch in British history. Only months ago the country celebrated the [platinum jubilee](https://en.wikipedia.org/wiki/Platinum_Jubilee_of_Elizabeth_II) of her accession to the throne, which took place on 6 February 1952, when she was just 25 years old. During her life, Queen Elizabeth has appointed 15 prime ministers, the first one being Winston Churchill, the last being Liz Truss.

The world has changed around her during her time as Queen. The first US President she met was Harry Truman, who succeeded Franklin D. Roosevelt; the last one was Joe Biden. In between these, she met with diverse characters such as John F. Kennedy, Richard Nixon, and Barack Obama. The UK has gone through tragedies and humiliations such as [the Suez Crisis in 1956](https://en.wikipedia.org/wiki/Suez_Crisis), and triumphs such as the [Falklands war in 1982](https://en.wikipedia.org/wiki/Falklands_War). During her kingdom, the UK entered the EU (in 1973) and later exited it (2020), and London has become the world’s foremost financial centre.

Overall, during this long span of time, the UK has certainly increased its influence and prestige at the global level. Domestically, the UK has gone through difficult periods, such as *the troubles* in Northern Ireland, which ended only in 1997 with the Good Friday agreement. In 2014, the UK survived an independence referendum by Scotland. So, one can say that, during the second Elizabethan era, the UK has strengthened domestically and on the global stage. Elizabeth leaves a heavy legacy for her successors in this regard.

King Charles III will have to begin from where his mother left. His name is a difficult one. Charles I was the first king executed in European modern history (in 1649, more than a century before the French Revolution). Charles II was forced to live in exile during the rule of Oliver Cromwell as Lord Protector of the UK, and was able to return only at the death of the dictator. Charles III will be confronted with phenomenal secession pressures, from Northern Ireland and from Scotland.

[As we discussed in our previous column](https://secureservercdn.net/160.153.138.10/4ec.b08.myftpupload.com/wp-content/uploads/2022/07/RR-Making-Sense-of-This-World-11-July-2022.pdf), the victory of the Sinn Fein on the two sides of the isle of Ireland makes a re-unification referendum for the island more likely. On that occasion we said that such a referendum would not take place while the Queen was alive. But now the clock is ticking, and it will take some serious effort by Charles to convince Northern Ireland that they are better off inside the UK rather than within the EU. This task will become even harder, as Liz Truss has declared her intention to re-discuss the Northern Ireland protocol with the EU. Meanwhile, regarding Scotland*,* First Minister Nicola Sturgeon has also said that it intends to launch a new independence referendum by 2023. Anow that the UK is out of the EU, pro-European Scotland may opt for the independence route.

Domestically, Charles will likely oversee an autumn and winter of severe discontent among the UK population, given the cost-of-living crisis originating from the rise in energy prices.

For all these reasons, a very steady hand will be needed to keep the country together and drive it out of this current difficult situation. This is the reason why Charles has immediately appointed his son William as Prince of Wales, making him a de-facto right hand to the throne, in the hope that this “duumvirate” will help Britain navigate the new few difficult years.

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***Looking Ahead***

***The Week Ahead: US Headline Inflation To Fall, While Core Rises; EZ And UK Inflation To Surge; CBs To Remain Hawkish***

***In the US***, in August, headline inflation rate is expected to fall to 8.1% y-o-y (*p:* 8.5%), whereas core inflation is seen increasing to 6.0% y-o-y (*p:* 5.9%).  ***In the EZ,*** in August, headline and core inflation rate are expected to increase to 9.1% y-o-y (*p:* 8.9%) and 4.3% y-o-y (*p:* 4.0%), respectively. In July IP is expected to decelerate to 0.6% y-o-y (*p:* 2.4%).  ***In the UK,*** in August, headline and core inflation rate are expected to increase to 10.2% y-o-y (*p:* 10.1%) and 6.3% y-o-y (*p:* 6.2%).In July, unemployment rate is likely to stay unchanged at 3.8%. In August, retail sales are seen shrinking further to -4.2% y-o-y (p: -3.4%).  
***Also in the UK***, the BoE is expected increase its Bank Rate by 50bps to 2.25%

***The Quarter Ahead: The European Commission Outlined Its Energy Plan; Liz Truss Expected To Freeze Energy Bills; Swedish Elections***  
***Queen Elizabeth II dies at age 96.*** The Queen came to the throne in 1952. Her eldest son, King Charles III, takes throne.   
***The European Commission president, Ursula von der Leyen, set out a plan, proposing five ‘immediate’ moves to tackle Europe’s energy emergency.*** The measures are: *i)* reducing electricity demand during peak hours; *ii)* setting a cap on revenues of companies that are producing electricity with low costs and these *‘unexpected profits’* should be redirected to help vulnerable consumers; *iii)* imposing solidarity tax on fossil fuel companies making big profits, and these fundsshould be redirected to help vulnerable consumers; *iv)* facilitating funding support for utility companies struggling to pay for supplies on the market; and *v)* setting a price cap on Russian gas. The most controversial issue is the last measure. Indeed, Hungary and Slovakia are against the Russian price cap, whereas Germany is skeptical about it.   
***In the UK***, PM Liz Truss unveiled a plan to subsidize energy bills. Starting next month, households will pay no more than £2,500 for their energy for the next two years. This decision comes in addition to £400 discount imposed through Energy Bills Support Scheme.   
***Swedish general elections were held on 11 September*** to elect the 349 members of the Riksdag. Elections polls showed a tight race between the left-wing block led by the Social Democrats, and the right-wing alliance, including for the first time the anti-immigration party of the Swedish Democrats.

***Last Week’s Review***

***Real Economy: EZ QoQ GDP Advanced; PMIs Fell In DMs Below 50; EZ Retail Sales Recovered Slightly; CBs Remained Hawkish***   
***In the US***, in August, services and composite PMI were down to 43.7 (*c:* 44.8 *p:* 47.3) and to 44.6 (c: 45; *p:* 47.7), respectively.  ***In the EZ,*** in Q2, according to a third estimate, GDP rose by 0.8% q-o-q (*c:* 0.6%; *p:* 0.7%) and 4.1% y-o-y (*c:* 3.9%; *p*: 5.4%).In August, services and composite PMI fell to 49.8 (*c:* 50.2; *p:* 51.2) and to 48.9 (*c:* 49.2; *p:* 49.9). In July, retail sales recovered slightly to -0.9% y-o-y (*c:* -0.7%; *p:* -3.2%) and 0.3% m-o-m (*c:* 0.4%; *p:* -3.7%).   
***Also in the EZ***, the ECB increased its key interest rates by 75 basis points.

***In the UK,*** in August, services and composite PMI decreased to 50.9 (*c:* 52.5; *p:* 52.6) and to 49.6 (*c:* 50.9; *p:* 52.1), respectively.

***Financial Markets: Stocks Rose And Yields Rose Too; Dollar Is Down; Oil Prices Are Down And Gold Prices Are Up***

***Market Drivers:*** US stock snap three straight weeks of losses, as investors became more confident that the stocks have reached the bottom as the summer rally fizzles out. In Europe, shares also rose, as investors are optimistic about the new energy plan to boost eurozone economies.   
***Global Equities:*** Increased *w-o-w* (MSCI ACWI, +2.6%, to 622.92). The US S&P 500 index increased (+3.6% w-o-w, to 4,067.36). In the EZ, share prices were up (Eurostoxx 50, +0.7% w-o-w, to 3,580.04). In EMs, equity prices decreased (MSCI EMs, -0.2%, to 970.29). Volatility rose to 23.85 (VIX S&P 500, 52w avg.: 24.3; 10y avg.: 18.2).   
***Fixed Income:*** *w-o-w*, 10-year US treasury yields rose (+12 bps to 3.32%). The 2-year US Treasury yields rose as well (+17 bps to 3.56%). The German 10-year bund yield rose (+18 bps to 1.70%).   
***FX:*** *w-o-w,* the US Dollar Index was down (DXY, -0.6%, to 108.97; EUR/USD 0.9%, to 1.00). In EMs, currencies fell (MSCI EM Currency Index, -0.2% w-o-w, to 1,632.00).   
***Commodities:*** *w-o-w,* oil prices fell (Brent, -0.6% to 92.42 USD/b). Gold prices increased w-o-w (+0.3% to 1,727.6 USD/Oz).

***Nato Balavadze*** *contributed to this Viewsletter The picture in the front page comes from* [*this website*](http://rosa-roubini-associates.com/)

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**Abbreviations, Acronyms and Definitions**

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| *a Actual*  *AKP Justice and Development Party, Turkey*  *ann. annualized*  *ARS Argentinian Peso*  *avg. Average*  *bn Billion*  *BoC Bank of Canada*  *BoE Bank of England*  *BoJ Bank of Japan*  *bpd Barrels per day*  *bps Basis points*  *BS Balance sheet*  *c Consensus*  *C/A Current account*  *CB Central bank*  *CBB Central Bank of Bahrain*  *CBK Central Bank of Kuwait*  *CBT Central Bank of Turkey*  *CDU Christian Democratic Union, Germany*  *CNY Chinese Yuan*  *CPI Consumer Price Index*  *DJIA Dow Jones Industrial Average Index*  *DJEM Dow Jones Emerging Markets Index*  *d-o-d Day-on-day*  *DXY US Dollar Index*  *EC European Commission*  *ECB European Central Bank*  *ECJ European Court of Justice*  *EIA US Energy Information Agency*  *EM Emerging Markets*  *EP European Parliament*  *EPS Earnings per share*  *EU European Union*  *EUR Euro*  *EZ Eurozone*  *Fed US Federal Reserve*  *FOMC US Federal Open Market Committee*  *FRB US Federal Reserve Board*  *FX Foreign exchange*  *FY Fiscal Year*  *GCC Gulf Cooperation Council*  *GBP British pound*  *GDP Gross domestic product*  *IMF International Monetary Fund*  *INR Indian Rupee*  *IPO Initial public offering*  *IRR Iranian Rial*  *JPY Japanese yen*  *k* thousand  *KSA Kingdom of Saudi Arabia* | *LN Northern League, Italy*  *M5S Five Star Movement, Italy*  *m-o-m Month-on-month*  *mb Million barrels*  *mb/d Million barrels per day*  *MENA Middle East and North Africa*  *MHP Nationalist Movement Party, Turkey*  *mn Million*  *MPC Monetary Policy Committee*  *NAFTA North-American Free Trade Agreement*  *NATO North Atlantic Treaty Organization*  *OECD Organization for Economic Cooperation and Development*  *Opec Organization of Petroleum Exporting Countries*  *p Previous*  *P2P Peer-to-peer*  *PBoC People’s Bank of China*  *PCE Personal Consumption Expenditures*  *PE Price to earnings ratio*  *PM Prime minister*  *PMI Purchasing managers' index*  *pps Percentage points*  *pw Previous week*  *QCB Qatar Central Bank*  *QAR Qatari Riyal*  *QE Quantitative easing*  *q-o-q Quarter-on-quarter*  *RE Real estate*  *RBA Reserve Bank of Australia*  *RRR Reserve Requirement Ratio*  *RUB Russian Rouble*  *SWF Sovereign Wealth Fund*  *tn Trillion*  *TRY Turkish Lira*  *UAE United Arab Emirates*  *UK United Kingdom*  *US United States*  *USD United States Dollar*  *USD/b USD per barrel*  *UST US Treasury bills/bonds*  *VAT Value added tax*  *VIX Chicago Board Options Exchange Volatility Index*  *WTI West Texas Intermediate*  *WTO World Trade Organisation*  *w Week*  *w-o-w Week-on-week*  *y Year*  *y-o-y Year-on-year*  *y-t-d Year-to-date*  *ZAR South African Rand*  *2y; 10y 2-year; 10-year* |



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