



R&R Weekly Column
By Brunello Rosa



Preview: Italy's General Election Likely To Lead To A Centre-Right Victory

Italy will hold a general election this Sunday, to elect its 19th parliament since the return of democracy in 1948. This will be an early election, called after the resignation of Mario Draghi in July following the de-facto loss of confidence by parliament in Draghi's government. The no-confidence process was started by M5S's leader Giuseppe Conte, but ultimately it was Berlusconi's Forza Italia and Salvini's Lega that pulled the plug, leaving only Enrico Letta's PD to support the government.

This election will be peculiar mainly for two reasons. Institutionally, following the 2020 constitutional referendum, the number of MPs has been drastically reduced, from 630 to 400 Deputies for the Chamber, and from 315 to 200 Senators for the Senate. This also has a political implication, since the constituencies have also been re-designed, with more weight now being given to peripheral areas and suburbs, and less to city centres where the centre-left is traditionally stronger.

Politically, the general election is widely expected to result in a landslide victory by the centre-right, led by Giorgia Meloni of the Fratelli D'Italia (Fdi). This is due to the fact that Fdi was the only party officially in opposition to Draghi's government in parliament. After the fall of Draghi's government, she therefore emerged as the only credible alternative to the status quo. Also, the decision by centre-left parties (the PD, the M5S and the so-called Terzo Polo of Azione + Italia Viva, both of which splintered from the PD during this parliament) not to run in a coalition will likely allow the centre-right to win all the first-past-the-post seats, which are around 1/3 of the total number of seats (the rest are elected with a proportional representation system), likely leading to a massive defeat.

On the other side of the political spectrum, Fdi is likely to be by far the most voted for party in the centre-right coalition, which should imply that Meloni becomes the most obvious candidate to become Italy's next prime minister. Things may change depending on the overall electoral results, and, in particular, on the results within the centre-right, and the distance between the first and second party in their coalition.

The latest available poll shows that Fdi is at 25.3% of voting intentions, PD at 23.3%, Lega at 12.3%, M5S (12%), Forza Italia 6.7%, Azione + Italia Viva 6.4%, and the Greens and Left together 4.1%. If the eventual outcome of the election is similar to these polls, with Fdi having a number of MPs almost double than that of its immediate follower, Lega, then Meloni can legitimately claim to become Italy's next PM.

What would a Meloni government do? In our opinion, there are two scenarios to consider here. If the centre-right wins enough votes to be able to change the Constitution without requiring a confirmative referendum – it will need a two-thirds majority in each chamber of parliament in order to do so – then we believe the centre-right coalition will devote most of its energy to changing the Constitution towards a presidential or semi-presidential system in which the head of state is elected directly by the people.

If instead the centre-right wins "only" a simple majority, it will devote most of its energy on the economic front. It will likely review the recovery plan (PNRR) and pursue a tax reform to introduce elements of a flat tax.

In any case, markets seem relatively relaxed at this stage, in spite of Italy's large debt/GDP ratio. Partly this is because growth has lately surprised on the upside, and the fiscal deficit on the downside. But things may change rapidly if Meloni, unwisely, decides to set Italy on a collision course with the EU on economic or rule-of-law themes.

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Looking Ahead

The Week Ahead: Composite PMIs To Fall In DMs; Consumer Confidence To Remain Low In UK And EZ; CBs To Remain Hawkish

In the US, in September, manufacturing PMI is expected to fall to 51.2 (p: 51.5), while services PMI is likely to rise to 45 (p: 43.7).

In the EZ, in September, manufacturing PMI is likely to fall to 48.8 (p: 49.6), whereas services PMI is expected to recover slightly to 49.1 (p: 49.8). As a result, composite PMI is seen falling to 48.2 (p: 48.9). In September, flash estimate of consumer confidence is expected to deteriorate to -26 (p: -24.9).

In the UK, in September, manufacturing PMI is expected to increase to 48 (p: 47.3), while services PMI is likely to fall to 50 (p: 50.9). Consequently, Composite PMI is seen decreasing to 49 (p: 49.6). In September, flash estimate of consumer confidence is expected to recover slightly to -42 (p: -44).

Also in the DMs, the Bank of England is expected to increase its Bank Rate by 50bps to 2.25% and the Federal Reserve is expected to increase its fed funds range by 75 bps to 3.0% - 3.25%.

The Quarter Ahead: Germany Seized Rosneft's Refineries; US Railway Strike Averted; Putin, Erdogan And Xi Attend Summit

Germany seizes Russian oil firm Rosneft's refineries under the trusteeship of the industry regulator Bundesnetzagentur (BNA). Chancellor Scholtz pointed out that 'this is a far-reaching energy policy decision to protect our country'. German regulator now has control of Schwedt refinery that supplies 90% of Berlin's fuel. Polish refiner PKN Orlen is interested in a controlling stake in the Schwedt refinery. BNA will also take the control of two other refineries - MiRo in Karlsruhe and Bayernoil in the Bavarian town of Vohburg.

A tentative deal was secured to avert a railway strike in the United States that could cost the economy \$2bn a day. Railway's attendance policies were at the centre of the dispute. The deal follows some earlier recommendations of the Biden emergency mediators. The new contracts include a 24% wage increase during the five-year period. In the UK, Drivers at 12 train companies are expected to strike on 1 and 5 October over the pay dispute.

The 2022 summit of the Shanghai Cooperation Organization was held in Samarkand, Uzbekistan. At their first face-to-face meeting since the war, Putin and Xi discussed Ukraine and Taiwan. As Putin reported, Xi had some questions and concerns about the war, but praised his 'balanced position'. Putin also met with Erdogan, confirming that 25% of gas supplies to Turkey will be paid in roubles.

Last Week's Review

Real Economy: US Headline Inflation Fell, Whereas Core Rose; EZ And UK Inflation Surged; In DMs IP Decelerated

In the US, in August, headline inflation rate eased off to 8.3% y-o-y (c: 8.1%; p: 8.5%), whereas core inflation increased to 6.3% y-o-y (c: 6.1%; p: 5.9%). August's IP decelerated to 3.7% y-o-y (p: 3.8%).

In the EZ, in August, headline and core inflation rates rose to 9.1% y-o-y (p: 8.9%) and 4.3% y-o-y (p: 4.0%) as expected. In July IP shrank 2.4% y-o-y (c: 0.4%; p: 2.2%).

In the UK, in August, headline inflation cooled off slightly to 9.9% y-o-y (c: 10.2%; p: 10.1%) %. Core-inflation rose to 6.3% y-o-y (c: 6.3%; p: 6.2%). In July, unemployment rate fell to 3.6% (c: 3.8%; p: 3.8%). In August, retail sales shrank further to -5.4% y-o-y (c: -4.2%; p: -3.4%). July's IP decelerated to 1.1% y-o-y (c: 1.9%; p: 2.4%).

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

Market Drivers: Still elevated inflation renewed investors' fear of the Fed's more aggressive monetary policy stance. As a result, stock markets suffered one of the largest weekly drops this year.

Global Equities: Decreased w-o-w (MSCI ACWI, -4.1%, to 597.59). The US S&P 500 index fell (-4.8% w-o-w, to 3,873.33). In the EZ, share prices were down (Eurostoxx 50, -2.0% w-o-w, to 3,500.41). In EMs, equity prices decreased (MSCI EMs, -2.7%, to 944.12). Volatility rose to 26.15 (VIX S&P 500, 52w avg.: 24.5; 10y avg.: 18.2).

Fixed Income: w-o-w, 10-year US treasury yields rose (+14 bps to 3.46%). The 2-year US Treasury yields rose as well (+31 bps to 3.87%). The German 10-year bund yield rose (+4 bps to 1.74%).

FX: w-o-w, the US Dollar Index was up (DXY, +0.6%, to 109.39; EUR/USD -0.2%, to 1.00). In EMs, currencies fell (MSCI EM Currency Index, -1.0% w-o-w, to 1,615.68).

Commodities: w-o-w, oil prices fell (Brent, -1.3% to 91.60 USD/b). Gold prices decreased w-o-w (-2.6% to 1,684.50 USD/Oz).



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The picture in the front page comes from [this website](https://www.rosa-roubini-associates.com)



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