

MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
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'Bregret' is Now A Majoritarian View In The UK. But Re-Joining The EU Remains Difficult

We have written about the Brexit saga and process [several times in the past few years](#). We have followed the negotiations closely and correctly predicted that (1) Brexit would occur; (2) the terms of the Withdrawal Agreement would be punitive for Britain; and (3) the UK would suffer severe economic damage out of this decision, in spite of the attempt at masking Brexit's impact behind that of the pandemic.

[The IMF](#), in its latest forecasts, [predicts that the UK will be the worst performing G7 country in 2023](#), with a 0.6% contraction in economic activity. Even Russia, with an expected 0.3% expansion, would do better than the UK if that prediction holds. What is the reason for this economic underperformance, which is also being accompanied by an inflation rate that is higher than in other jurisdictions such as the US and the Eurozone (where a disinflation process is well underway)? In a word: Brexit.

All economies have been hit by two major shocks recently: first, the pandemic, and second, the war in Ukraine. Needless to say, these shocks have been asymmetric, depending on the initial conditions and resources available to counter them that existed in each respective economy. Still, they have been common shocks, experienced by all. Brexit, in contrast, is a self-inflicted wound, idiosyncratic to the UK.

Brexit has introduced restrictions on trade, border controls "within" the UK (between the British mainland and Northern Ireland), and additional bureaucratic burdens for corporations and households. It has implied a severe reduction of the available workforce for virtually all sectors, thus creating the conditions for the series of strikes that are plaguing the country. And yet, it has also not put any serious break on immigration, [which has instead reached an all-time high of 504,000 in 2022](#).

It is therefore unsurprising that the sentiment of 'Bregret', i.e. regret for Brexit, has grown over time, and is now a majoritarian view in the UK. [More than 50% of the polled population](#) now think that leaving the EU has been a mistake. Even more tellingly, this sentiment is [prevalent in virtually all UK electoral constituencies](#), including those that voted "Leave" in 2016. On this basis, [Gideon Rachman from the FT believes that the UK could re-join the EU](#) with a 2-step process: a referendum, to be held in 2026 (10 years after the first one) to allow the government to open negotiations with the EU, followed by a second referendum in order to sanction the terms of the re-joining deal that Britain and the EU would have to reach.

However desirable this outcome could be, the political economy of achieving it seems very complicated, for the following reasons. The Labour party, [which leads the polls by a wide margin \(at least 20%\)](#), has no intention to run the electoral campaign for the 2024 general election with an anti-Brexit stance, for example by labelling Brexit as a failed Tory project (which would seem an obvious strategy at this point). But Labour is scared to lose again, or not win back, the 50-60 seats of the so-called "[Red Wall](#)" in the North of England, without which it cannot secure a majority in the commons.

So the Labour party will at most campaign on the "fixes" to be applied to the Brexit deal that would make it work better, and perhaps, timidly, start an anti-Brexit campaign from 2026 onward, without necessarily moving the full way towards a Re-Join campaign.

The situation is even worse for the Tory party, where people are unwilling to admit that Brexit was a mistake, and actually believe that the reason why it is not working is because it wasn't "hard Brexit" enough. (One wonders what else could have been further subtracted from the already minimal Withdrawal Agreement, to make Brexit even "harder" than it has been). So, party insiders suggest that the Tory party will not be ready to admit the mistake before the early part of the next decade, from 2030 onward.

Since both sides of the political spectrum are cautious about running an anti-Brexit campaign, and have not even mentioned the possibility of a Re-join, we conclude that, for the time being, this question is off the table. Despite the dire consequences this may have for the UK economy.

Our Recent Publications

☞ [The Challenging Political Environment of Brazil After the Failed Coup](#), by London Politica, 9 February 2023

☞ [The Growth of Sino-Saudi Relations in a More Multipolar World](#), by Giorgio Cafiero, 8 February 2022

☞ [The Strange Case of Dr. Jekyll and Mr. Powell](#), by Filippo Ramigni, 7 February 2023



Looking Ahead

The Week Ahead: Headline And Core Inflation To Fall In US And UK; EZ QoQ And YoY GDP To Decelerate; UK Retail Sales To Recover

In the US, in January, both headline and core inflation rates are seen falling to 6.2% y-o-y (*p*: 6.5%) and 5.5% y-o-y (*p*: 5.7%). On a monthly basis, the inflation rate is expected to increase by 0.4% (*p*: -0.1%).

In the EZ, in Q4, according to the second estimate, GDP is likely to decelerate to 0.1% q-o-q (*p*: 0.3%) and 1.9% y-o-y (*p*: 2.3%). December's IP is seen contracting by 0.6% (*p*: 2.0%).

In the UK, in December, the unemployment rate is expected to stay unchanged at 3.7%. In January, both headline and core inflation rates are likely to decrease to 10.2% y-o-y (*p*: 10.5%) and 6.2% y-o-y (*p*: 6.3%). On a monthly basis, the inflation rate is expected to fall by -0.4% (*p*: 0.4%). Still, in January, retail sales are seen recovering slightly by -5.5% y-o-y (*p*: -5.8%) and -0.5% m-o-m (*p*: -1.0%).

The Quarter Ahead: Turkey-Syria Earthquake; Russia To Cut Oil Output; Zelenskyy Visited Brussels, London And Paris

Turkey and Syria earthquake update. The death toll is over 18,000 in Turkey, and more than 3,000 in Syria. A second UN convoy of aid entered the rebel-held territory in northwest Syria. As the World Health Organization reports, survivors, many of whom are homeless, could face "a secondary disaster" as cold and snow leads to "worsening and horrific conditions". Turkish President Erdogan states that Turkey's government will pay citizens' rent for one year.

Russia is expected to cut oil output by 5%. Crude oil production will be cut by half a million barrels per day starting in March, after the world's major economies imposed a price cap on Russia's seaborne exports. Russia threatens to retaliate against Western sanctions. Amid the risk of renewed market turmoil, oil prices jumped.

Zelenskyy addressed the European Parliament, making a speech advocating for Ukraine's membership to the EU. Zelenskyy also met with Rishi Sunak in London and Emmanuel Macron and Olaf Scholz in Paris. Zelenskyy has been bestowed with France's highest medal of honor. Meanwhile Downing Street made clear that UK will not send fighter jets to Ukraine, if there is risk to British safety, considering "potential escalation risks".

Last Week's Review

Real Economy: UK GDP Stalled QoQ And Decelerated YoY; EZ Retail Sales Recovered Slightly; US Consumer Sentiment Decreased

In the US, in February, Michigan Consumer Sentiment fell slightly to 64.9 (*c*: 65; *p*: 65).

In the EZ, in December, retail sales shrank further by -2.8% y-o-y (*c*: -2.7%; *p*: -2.5%) and by -2.7% m-o-m (*c*: -2.5%; *p*: 1.2%).

In the UK, in Q4, according to preliminary estimates, GDP stalled q-o-q (*c*: 0.0%; *p*: -0.2%) and decelerated to 0.4% y-o-y (*c*: 0.4%; *p*: 1.9%). In December, IP recovered slightly by 4.0% y-o-y (*c*: -5.3%; *p*: -4.3%).

Financial Markets: Stocks Fell; Bond Yields Increased; Dollar Edged Up; Oil And Gold Prices Increased Too

Market Drivers: Investors' main focus is on January CPI report. US government bond yields surged and yield curve inversion reached the most extreme level since early 1980s indicating flagging confidence in the economy's ability to withstand multiple shocks. Investors fear that additional Federal Reserve's hikes would drag the economy into a recession.

Global Equities: Decreased w-o-w (MSCI ACWI, -1.4%, to 646.87). The US S&P 500 index edged down (-1.1% w-o-w, to 4,090.46). In the EZ, share prices were down (Eurostoxx 50, -1.4% w-o-w, to 4,197.94). In EMs, equity prices moved down (MSCI EMs, -2.4%, to 1,013.67). Volatility rose to 20.8 (VIX S&P 500, 52w avg.: 26.1; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US treasury yields were up (+34 bps to 3.74%). The 2-year US Treasury yields rose (+24 bps to 4.53%). The German 10-year bund yield increased (+16 bps to 2.36%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.7%, to 103.5; EUR/USD -1.1%, to 1.07). In EMs, currencies fell (MSCI EM Currency Index, -1.2% w-o-w, to 1,687.70).

Commodities: w-o-w, oil prices increased (Brent, +8.2% to 86.52 USD/b). Gold prices also rose w-o-w (+0.7% to 1,876.50 USD/Oz).



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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