



R&R Weekly Column
By Brunello Rosa



The Failure of the EU Summit on Migration Exposes Italy's Outstanding Challenges in Europe

An EU Council was held last week, with several items on the agenda. The first item to discuss was clearly the developments in Russia after the near-coup attempted by the Wagner division, which ended up with its leader Yevgeny Prigozhin exiled to Belarus. EU leaders agreed on continued military support for Ukraine and a further increase of the financial ceiling of the European Peace Facility. The second item on the agenda was a strategic discussion about the EU's relationship with China. The EU reiterated its intention of "pursuing constructive and stable relations" with China, while following a strategy of de-risking, i.e. diversifying supply chains.

The third point on the agenda was a discussion of the EU's migration policy. On this issue, the Council could not find consensus for the opposition of the leaders of Poland and Hungary. In theory, the Council was supposed to approve a text that would meet Mateusz Morawiecki's and Viktor Orbán's desire to make it difficult for migrants to leave for Europe from countries such as Tunisia. But Poland and Hungary were still upset about the conclusions of the Justice and Home Affairs Council, which in early June approved the asylum and migration management regulation and the asylum procedure regulation.

The asylum procedures regulation (APR) establishes a common procedure across the EU that member states need to follow when migrants are seeking international protection. The asylum and migration management regulation (AMMR) meanwhile should replace the current Dublin regulation. The combination of these two pieces of legislation de-facto establishes that all EU countries need to provide assistance to the countries of first arrival of migrants. That includes Poland for example in the case of Ukrainian refugees, but also Italy and Greece for migrants coming across the Mediterranean Sea. Given the opposition of Poland and Hungary, the EU's final communique says that "*President Michel took further note that Poland and Hungary declared that, in the context of the ongoing work on the pact on migration and asylum, there is a need to find consensus on an effective migration and asylum policy. The European Council will keep this work under review.*"

This matters a lot for future European politics, ahead of next year's elections. Giorgia Meloni's dream is to bring the European group she leads, the European Conservatives and Reformists, into the majority that will elect the next EU Commission President, potentially Ursula Von Der Leyen again. But the veto posed by Poland and Hungary to the EU Council's conclusions on migration will make it much harder for the European Conservatives and Reformists (ECR) to join the European People's Party (EPP), socialists and liberals in the next majority. Mainstream leaders asked Meloni to make a last-minute attempt to convince Morawiecki and Orbán to withhold their opposition, but she failed to do so.

Another item about which Meloni is trying to put pressure on her European colleagues is the ratification of the reform of the European Stability Mechanism (ESM). Italy is the only country that has not yet ratified the treaty, even though it is the third largest contributor to the fund. According to Meloni, Italy should only ratify the ESM reform together with the approval of the new rules of the stability and growth pact (SGP), which will come into force as of 2024, in a sort of "package deal." However, this position is only creating frustration among Italy's European partners, and some incredulity, since Italy would be the most relevant beneficiary of the fund, in case of a banking crisis.

These last few episodes are starting to expose the challenges that Meloni faces in Europe, at a time when the EU has not yet sent out the third instalment of the Recovery funds. She has surprised many to the upside, by taking a rather mainstream and cautious approach. But these episodes will test her real ability to drive her agenda through Europe.

Our Recent Publications

✿ Central Banks Between Delusions And Certainties, by Filippo Ramigni, 27 June 2023



✿ Key Takeaways from Antony Blinken's Visit to China, by London Politica, 23 June 2023

Looking Ahead

The Week Ahead: US Unemployment To Stay Unchanged, While NFPs Continue To Rise; PMIs To Edge Down In DMs

In the US, in June, the unemployment rate is expected to stay the same at 3.7%. NFPs are seen increasing by 225K (*p*: 339K). In June, S&P Global Services is expected to edge down to 54.1 (*p*: 54.9).

In the EZ, in May, retail sales are expected to contract by 2.7% y-o-y (*p*: 0.2%) and advance by 0.2% m-o-m (*p*: 0.0%). In June, HCOB Manufacturing and Services PMIs are likely to fall to 43.6 (*p*: 44.8) and 52.4 (*p*: 55.1) respectively. Composite PMI is expected to edge down to 50.3 (*p*: 52.8).

In the UK, in June, S&P Global/CIPS Manufacturing and Services PMIs are likely to fall to 46.2 (*p*: 47.1) and 53.7 (*p*: 55.2) respectively. Composite PMI is seen decreasing too to 52.8 (*p*: 54).

The Quarter Ahead: Russia Accuses Wagner Leader of Armed Mutiny; Blinken's Visit To China; US Tech Met With India's Modi

The unrest follows the fatal shooting of a teenager in France. There are protests and unrest in the Paris region following the fatal shooting of a 17-year-old by police, who had disregarded orders to stop from traffic police. Macron rescheduled his visit to Germany in order to address the most severe crisis during his leadership since the "Yellow Vest" protests paralyzed much of France in late 2018. The French government is taking measures to prevent a recurrence of the events in 2005 when the deaths of two teenage boys who were evading the police led to a state of emergency and three weeks of widespread rioting.

War in Ukraine. In the past 12 days, Russia launched its first drone attack on Kyiv during the nighttime, while Ukrainian officials noted an increase in civilian casualties in the Donetsk region. According to Zelensky, at least 21,000 Wagner mercenaries have been killed fighting in Ukraine.

Brazil's Jair Bolsonaro was barred from running for office for 8 years. Brazil's highest electoral court has barred former President Jair Bolsonaro from seeking political office until 2030 due to his conviction of abusing his power and misusing public media.

Last Week's Review

Real Economy: US QoQ GDP Decelerate; UK QoQ GDP Advanced Slightly; EZ Headline Inflation Fell; US PCE Prices Also Declined

In the US, in Q1, according to the final estimate, GDP growth decelerated to 2.0% q-o-q (*c*: 1.4%; *p*: 2.6%). May's PCE and Core PCE Price Index fell to 3.8% y-o-y (*p*: 4.3%) and 4.6% y-o-y (*c*: 4.7%; *p*: 4.7%).

In the EZ, in May, the headline inflation rate fell to 5.5% y-o-y (*c*: 5.6%; *p*: 6.1%), while core inflation rose to 5.4% y-o-y (*c*: 5.5%; *p*: 5.3%). Still in May, the unemployment rate stayed unchanged at 6.5%. In June, economic sentiment declined to 95.3 (*c*: 96; *p*: 96.5). Consumer confidence increased to -16.1 (*p*: -17.4) as expected.

In the UK, in Q1 2023, according to the final estimates, the economy advanced by 0.1% q-o-q (*c*: 0.1%; *p*: 0.1%) and decelerated to 0.2% y-o-y (*c*: 0.2%; *p*: 0.6%).

Financial Markets: Stock Prices Increased; Yields Edged Up; Dollar Index Is Virtually Unchanged; Oil And Gold Prices Rose

Market Drivers: The major benchmark indices concluded a strong quarter on a positive note, thanks to unexpected growth and inflation surprises. Stocks also rose in Europe fueled by optimism that China would take additional measures to stimulate consumption. Furthermore, the lower-than-anticipated inflation data indicated the possibility of interest rates nearing their peak.

Global Equities: Increased w-o-w (MSCI ACWI, +2.0%, to 682.84). The US S&P 500 index edged up (+2.3% w-o-w, to 4,450.38). In the EZ, share prices were up (Eurostoxx 50, +3.0% w-o-w, to 4,399.09). In EMs, equity prices moved down (MSCI EMs, -0.2%, to 989.48). Volatility fell to 15.1 (VIX S&P 500, 52w avg.: 24.6; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US Treasury yields were up (+10 bps to 3.84%). The 2-year US Treasury yields increased (+15 bps to 4.90%). The German 10-year bund yield edged up (+4 bps to 2.39%).

FX: w-o-w, the US Dollar Index is virtually unchanged (DXY, +0.0%, to 102.58; EUR/USD +0.2%, to 1.09). In EMs, currencies decreased (MSCI EM Currency Index, -0.5% w-o-w, to 1,676.27).

Commodities: w-o-w, oil prices increased (Brent, +1.8% to 75.19 USD/b). Gold prices rose w-o-w (+0.4% to 1,927.80 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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