



R&R Weekly Column
By Brunello Rosa



Fico's Victory in Slovakia Proves the Shifting Equilibria in European Politics

Last week, Smer SSD, the party of the former Slovak prime minister Robert Fico, [won the general election held in the country, with nearly 23% of votes](#). It finished ahead of Progressive Slovakia, the pro-European party led by the young leader Michal Šimečka (with 18% of votes), and ahead of the social-democratic party Hlas–SD, led by Peter Pellegrini (with 14%; the party was born after splintering from Smer). Smaller parties received 5% and 9% of votes, respectively. In terms of seats, Fico will have to form a coalition, as his 42 MPs are far from the 76 seats needed for a majority in the 150-seat National Council.

Fico's comeback is astonishing for two reasons. *First*, Fico has been in power [almost un-interruptedly between 2006 and 2018](#), when the killing of Jan Kuciak, an investigative journalist, cast a shadow on the Slovak government, as Kuciak had been writing articles about the relationships between Fico's closest aides and the Calabrian mafia 'Ndrangheta. A few months after that tragic event, Fico resigned and did not return to power, until now. *Second*, Fico's party won the election with an openly anti-Ukrainian and pro-Russian campaign, in which he promised to stop sending weapons to Ukraine.

What are the implications of this victory? First of all, this is likely to break the unity of the European front in the unconditional support for Ukraine. Even Hungary, under Victor Orban, has not been able to achieve this goal. Now, Ukraine without the unwavering support of the US and the EU will not be able to stop the Russian aggression. Considering how many decisions need to be taken with a unanimous vote at the EU level, Fico's victory represents a problem in this respect, at a time when [Joe Biden is having a hard time passing fiscal legislation – including financial support for Ukraine](#) – through Congress, under the Damocles' sword of the US government shutdown.

Secondly, Fico's return to power, with a pro-Russian stance, also risks breaking the unity of NATO against Russia, at a time when [Turkish President Erdogan is asking Sweden further "concrete steps" against extremist organisations](#) supposedly being harboured by the Scandinavian country, in return for removing the veto that Erdogan is holding against Sweden's access to NATO. Again, for the US which is trying to re-organise the Western front for the long-lasting Cold War 2 against China, having rebellious pro-Russian partners in Europe and within NATO does not help. This is happening just as Lars-Hendrik Röller, the key economic adviser to Angela Merkel when Merkel was German Chancellor, [admitted that she left Germany too reliant on Russian gas](#).

The only positive piece of news for the pro-European parties in Europe is that the so-called Viségrad group, comprising Poland, Hungary, Czechia and Slovakia, is now more divided than ever. Poland and Hungary are under the procedure of Article 7 of the EU Treaties, for violation of key principles of the Union, including the rule of law and the independence of the judiciary. But while Poland is resolutely pro-Ukraine, Hungary and Slovakia have a more nuanced position. Czechia, which was leaning towards Russia under former PM Andrej Babis, has recently returned towards a [more pro-European position under the leadership of President Petr Pavel](#).

All this shows that European political equilibria are continuously shifting and cannot be taken for granted. The situation may further evolve in coming years, especially if Marine Le Pen were to become the next French president in 2027.

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Looking Ahead

The Week Ahead: Unemployment To Fall in US And Stay Unchanged In EZ; Composite PMIs To Decrease In UK, While Rising In EZ

In the US, in September, unemployment rate is seen edging down to 3.7% (*p*: 3.8%). NFPs are likely to increase by 163K (*p*: 187K). In September, S&P Global manufacturing PMI is expected to rise to 47.7 (*p*: 47.6), while services PMI is likely to fall to 50.2 (*p*: 50.5).

In the EZ, in August, unemployment rate is likely to stay unchanged at 6.4%. In September, HCOB manufacturing PMI is expected to decrease to 43.4 (*p*: 43.5), while services PMI is seen increasing to 48.4 (*p*: 47.9). Composite PMI is likely to edge up to 47.1 (*p*: 46.7). August's retail sales are expected to shrink by 0.3% m-o-m (*p*: -0.2%).

In the UK, in September, S&P Global/CIPS manufacturing PMI is expected to increase to 44.2 (*p*: 43.0), whereas services PMI is likely to edge down to 47.2 (*p*: 49.5). Composite PMI is seen falling to 46.8 (*p*: 48.6).

The Quarter Ahead: US Government Shutdown Seems Imminent; War In Ukraine; Slovak Parliamentary Elections 2023

US government shutdown. The US Senate voted with an 88-9 majority a bill to avert a government shutdown which will fund the government until mid-November, while leaving out extra funding for Ukraine. Earlier in the week, the Republicans in the U.S. House of Representatives turned down a proposal from their leader to temporarily finance the government: with a 232-198 vote, the House rejected a proposal to extend government funding for 30 days.

War in Ukraine. Ukrainian residents in Vinnytsia received an evacuation order following a Russian strike on an "infrastructure site." At the same time, NATO member Romania is looking into a potential breach of airspace as its radar system detected a signal during a Russian drone attack on Ukraine.

2023 Slovak parliamentary elections were held on 30 September. The election was won by former Prime Minister Robert Fico, who has pledged to end military aid for Ukraine, against the pro-Western liberals of Progresívne Slovensko (Progressive Slovakia).

Last Week's Review

Real Economy: QoQ GDP Rose In US And UK; US PCE Increased, While Core PCE Fell; EZ Inflation Eased Off

In the US, in Q2, GDP growth rate advanced by 2.1% q-o-q (*c*: 2.1%; *p*: 2.2%). In August, PCE price index rose to 3.5% y-o-y (*c*: 3.5%; *p*: 3.4%), while core PCE price index decreased to 3.9% y-o-y (*c*: 3.9%; *p*: 4.3%).

In the EZ, in September both headline and core inflation rate eased off to 4.3% y-o-y (*c*: 4.5%; *p*: 5.2%) and 4.5% y-o-y (*c*: 4.8%; *p*: 5.3%). In September, economic sentiment fell to 93.3 (*c*: 92.5; *p*: 93.6) and consumer confidence fell to -17.8 (*c*: -17.8; *p*: -16.0).

In the UK, in Q2, GDP growth rate advanced marginally by 0.2% q-o-q (*c*: 0.2%; *p*: 0.3%) and 0.6% y-o-y (*c*: 0.4%; *p*: 0.5%).

Financial Markets: Stock Prices Decreased; 10Y Bond Yields Were Up; Dollar Index And Oil Prices Rose, Whereas Gold Prices Fell

Market Drivers: Rising oil prices raised worries that controlling inflation might become harder for central banks, leading to a bond sell-off. The rising likelihood of a U.S. government shutdown may have also weighed on investor sentiment. As a result, US stock prices decreased. In Europe, shares edged down too as concerns increased about a prolonged period of higher interest rates and a weak Chinese economy. European government bond yields increased as investors started to buy the idea that interest rates will remain high for longer than expected by financial markets.

Global Equities: decreased w-o-w (MSCI ACWI, -1.0%, to 656.82). The US S&P 500 index edged down (-0.7% w-o-w, to 4,288.05). In the EZ, share prices were down (Eurostoxx 50, -0.8% w-o-w, to 4,173.35). In EMs, equity prices moved down (MSCI EMs, -1.2%, to 952.78) Volatility rose to 17.60 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

Fixed Income: w-o-w, the 10-year US Treasury yields edged up (+14 bps to 4.58%). The 2-year US Treasury yields decreased (-6 bps to 5.05%). The German 10-year bund yield rose (+12 bps to 2.85%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.6%, to 106.17; EUR/USD -0.8%, to 1.06). In EMs, currencies decreased (MSCI EM Currency Index, -0.3% w-o-w, to 1,668.97).

Commodities: w-o-w, oil prices increased (Brent, +0.1% to 92.09 USD/b). Gold prices decreased w-o-w (-4.2% to 1,864.60 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
DIJA	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