



R&R Weekly Column
By Brunello Rosa



Taiwan Chooses Continuity, Elects The DPP Candidate

In the long-awaited elections in the Republic of China (Taiwan), [the ruling Democratic Progressive Party \(DPP\) won an unprecedented third term in office](#). Tsai Ing-wen, the incumbent President of Taiwan, was ineligible to seek re-election after serving two terms. Lai Ching-te, the current vice-President, will become President on May 20th. Lai's running mate for the vice-Presidency was Hsiao Bi-khim, who is currently Taiwan's representative to the United States. [Lai gathered 40% of the votes](#), versus 33.5% for Hou Yu-ih from the Kuomintang (KMT), and 26.5% for Ko Wen-je from the Taiwan People's Party (TPP).

At the legislative level, [the results were less clear](#). Members were elected by parallel voting. 73 members were elected by first-past-the-post, 6 were reserved for indigenous candidates by single non-transferable vote, and 34 were elected via party-list proportional representation. The KMT won the largest number of seats (52), 14 more than in 2020, versus 51 for the DPP (down 11 seats from 2020) and 8 for the TPP (up 3 additional seats from 2020). No party has reached the 57 seats needed for a majority, so the DPP will be forced to either form a minority government and make compromises with the other two parties in parliament, or else to create a coalition with the TPP.

As we [discussed in our preview](#), the most relevant issue at stake was Taiwan's relationship with China. China would have preferred a victory by the KMT, which is perceived as the party that pushes for the closer relationship with the "motherland" (somewhat surprisingly, considering that the Republic of China was formed in Formosa by Mao's fiercest opposed, [Chiang Kai-Shek](#), founder of and for decades the leader of the KMT). The incumbent president Tsai Ing-wen has been a staunch defender of Taiwan's autonomy and self-determination rights.

For that reason, Chinese representatives said the result "shows that the DPP does not represent majority public opinion on the island," given the lack of a majority for the DPP both at the presidential and parliamentary level. Additionally, the Taiwan Affairs Office, the Chinese government department that implements the Taiwan policy, said that both sides should "promote the great cause of the reunification of the motherland." Just before the election, [in his year-end speech, Chinese President Xi](#) said that "the reunification of the motherland is a historical inevitability," and that "China will surely be reunified," to put pressure on the Taiwanese electorate.

What's going to happen now? The fact that Lai won't have a parliamentary majority means that any major re-armament plan will need to be agreed upon with other political parties, making any such plan less likely. China will not have any incentive to pursue aggressive moves (which we have always considered a tail risk event), but rather will continue with its strategy of destabilisation, which it is likely to intensify in coming months and years.

Overall, this result keeps the status quo relatively intact. Given the alternative, this should be considered a positive outcome at this stage.

Our Recent Publications

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Looking Ahead

The Week Ahead: Headline Inflation Rate To Rise In EZ An Germany, While Both Headline and Core Inflation Will Fall In UK And Italy

In the US, in December retail sales are seen increasing by 0.4% m-o-m (*p*: 0.3%).

In the EZ, in December, headline inflation rate is expected to increase to 2.9% y-o-y (*p*: 2.4%), while core inflation is seen falling to 3.4% y-o-y (*p*: 3.6%).

Among the largest EZ economies, in December inflation rate is expected to: i) increase to 3.7% y-o-y (*p*: 3.2%) in Germany; and ii) fall to 0.6% y-o-y (*p*: 0.7%) in Italy.

In the UK, in November, unemployment rate is likely to edge up to 4.3% (*p*: 4.2%). In December, headline and core inflation rate is expected to decrease to 3.8% y-o-y (*p*: 3.9%) and 4.9% y-o-y (*p*: 5.1%). In December retail sales are seen increasing by 1.1% y-o-y (*p*: 0.1%).

The Quarter Ahead: Results of the Elections in Taiwan and Risk of an Escalating Conflict in the Middle East

Lai Ching-ten Wins Presidential elections in Taiwan. Taiwan's ruling Democratic Progressive Party won a third-straight presidential term and incoming leader Lai Ching-te earned more than 40% of the popular vote. Kuomintang (KMT), Beijing's preferred political partner, gained roughly 33% of the vote. China rejected Lai's win in the presidential vote, branding him as a "stubborn worker for Taiwan independence". Concerns arise that this development might further impact already strained China-U.S. relations and pose potential security risks in the wider Indo-Pacific region.

US and UK launch strikes against Yemen, as a countermeasure to Houthi rebel assaults on shipping in the Red Sea. The Houthi militia threatened to retaliate, while the UN envoy urges restraint by all involved in Yemen. This has sparked concerns about a potential escalation of conflict in the region.

Last Week's Review

Real Economy: Headline Inflation Rate Increased In the US and France

In the US, in December headline inflation edged up to 3.4% y-o-y (*c*: 3.2%; *p*: 3.1%), while core inflation fell to 3.9% y-o-y (*c*: 3.8%; *p*: 4.0%).

In the EZ, in November unemployment rate decreased to 6.4% (*c*: 6.5%; *p*: 6.5%). In December, consumer confidence increased to -15.0 (*c*: -15.1; *p*: -16.9). November's retail sales shrank by -1.1% y-o-y (*c*: -1.5%; *p*: -0.8%).

Among the largest EZ economies, in France, the headline inflation rate rose to 3.7% y-o-y (*p*: 3.5%) as expected.

In the UK, in November IP rose to -0.1% y-o-y (*c*: 0.7%; *p*: -0.5%).

Financial Markets: Stock Prices Increased; Bond Yields Fell; Dollar Index Is Unchanged; Oil Prices Fell, While Gold Prices Rose

Market Drivers: Stocks rose during the week, with large-cap growth and the tech-index Nasdaq outperforming the broader market. Fixed income investors gained from the slightly positive surprises in consumer inflation data. The yield on the 10-year UST note dropped below 4% during the week. European markets gained on Friday, buoyed by optimistic comments from ECB President Lagarde on potential interest rate cuts made on Thursday.

Global Equities: Increased w-o-w (MSCI ACWI, +1.3%, to 724.77). The US S&P 500 index edged up (+1.8% w-o-w, to 4,783.83). In the EZ, share prices rose (Eurostoxx 50, +0.4% w-o-w, to 4,479.65). In EMs, equity prices decreased (MSCI EMs, -0.6%, to 996.30) Volatility fell slightly to 13.35 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury yields edged down (-11 bps to 3.94%). The 2-year US Treasury yields decreased (-25 bps to 4.15%). The German 10-year bund yield edged down (-1 bps to 2.15%).

FX: w-o-w, the US Dollar Index is virtually unchanged (DXY, +0.0%, to 102.4; EUR/USD +0.1%, to 1.09). In EMs, currencies edged up (MSCI EM Currency Index, +0.1% w-o-w, to 1,729.77).

Commodities: w-o-w, oil prices decreased (Brent, -0.6% to 78.32 USD/b). Gold prices increased w-o-w (+0.2% to 2,053.60 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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