

MAKING SENSE OF *THIS* WORLD

4 March 2024



R&R Weekly Column
By Brunello Rosa



Budget, Central Bank, Elections: Crunch Time For The UK

As we discussed in our [article on 2024's elections in Developed Markets](#), one of the major events of this year's political landscape is parliamentary elections in the UK. After being in power uninterrupted since 2010, the Tory party now seems on the verge of ceding power to the Labour Party, led by Keir Starmer.

The Conservatives have faced a rollercoaster over the past 15 years. First they had to enter a coalition with the Liberal Democrats led by Nick Clegg, as they did not have a majority in Westminster. Then they faced [the Scottish independence referendum in 2014](#), which was narrowly won. At the end of the coalition parliament, they won the 2015 election with an unexpectedly large majority, which caused more harm than good. Prime Minister David Cameron had promised a referendum on EU participation in case of victory, because he thought that a coalition with the LibDems would be needed to have a majority in parliament as had been the case 5 years prior, and would prevent him from calling any such referendum.

After obtaining a victory with a large majority for the Tory party, Cameron had to make good of his promise, and called the Brexit referendum, which [resulted in a victory for the "Leave" camp](#), in June 2016. Since Cameron had campaigned for the UK to "remain" in the EU, he resigned, and was replaced by Theresa May. [She called an election in June 2017](#), which turned out to be disastrous. Instead of increasing her majority in parliament, she was forced to enter a coalition with [Northern Ireland's DUP party](#). Her majority wobbled to the point that eventually Boris Johnson replaced her, and led the Tory party to a landslide victory in December 2019, to "get Brexit done."

Johnson himself was destabilised by the Covid crisis, and [had to resign in 2023](#), when he was replaced by Liz Truss, [the shortest-serving UK Prime Minister](#) in British history, who caused a [bond market rout in the space of 2 months after taking office](#). She was replaced by Rishi Sunak, Johnson's Chancellor of the Exchequer, who has never been particularly popular.

Meanwhile, the Labour Party has changed its face, and after shifting massively to the left, and recording the worst defeat since 1935 in 2019, has now moved back to the centre under the leadership of Keir Starmer, [and is around 15-20 points ahead of the Tory party in the polls](#). The Conservatives will announce the budget on March 6th, and are ready to provide some fiscal giveaways such as a reduction in the income tax or a reduction in national insurance contributions. This will be the case even if Chancellor Hunt says that the UK will still need to wait before seeing a substantial easing of its fiscal stance. Press reports suggest that [the Tory party is ready to "steal" some of the key policies of the rising Labour Party](#) (such as a reform of the resident, non-domiciled fiscal regime) to finance these fiscal giveaways. Some speculate that a "sweet" budget [may pave the way for an early election, possibly in May](#).

Meanwhile the Bank of England is facing the dilemma of a slowing economy and a persistent inflation rate, which remains at 4%. For this reason, [the MPC has recently voted with a three-way split](#), with some members voting for a hike, while other preferred a cut, with the majority imposing another month of "no change." The BoE's Chief Economist Huw Pill said that in his opinion [rate cuts are still "some way off."](#) So, both monetary and fiscal policies cannot be as easy as is desirable, while policy uncertainty and political noise will keep investors wary of UK assets.

Our Recent Publications

- 📖 [The Meteoric Rise of the Alternative für Deutschland](#), by Christopher Healey, 28 February 2024
- 📖 [The Dragon's Descent: Navigating Through China's Deflation and Economic Challenges](#), by Elin Roberts, 27 February 2024

- 📖 [Russia's New Scramble for Africa](#), by Shahed Hassanal, 21 February 2024
- 📖 [Semiconductors, AI, and Quantum Technologies: The Race to Emerging Technologies](#), by Vanina Meyer, 23 February 2024



Looking Ahead

The Week Ahead: QoQ GDP To Stall In EZ; US Unemployment To Stay Unchanged; Composite PMI To Fall In US, While Rising In EZ
In the US, in February, the unemployment rate is expected to remain unchanged at 3.7%. NFPs are seen increasing by 200K (p: 353K). In February, the S&P Global Composite PMI is likely to edge down to 51.4 (p: 52.0).

In the EZ, in Q4, according to the third estimate, the GDP growth rate is seen stalling q-o-q (p: -0.1%) and rising by 0.1% y-o-y (p: 0.0%). In February, HCOB Services and Composite PMIs are expected to rise to 50.0 (p: 48.3) and 48.9 (p: 47.9).

Among the largest EZ economies, in Q4, according to the final estimate, the GDP growth rate is expected to rise by 0.2% q-o-q (p: 0.1%) and 0.5% y-o-y (p: 0.1%) in Italy.

In the UK, in February, S&P Global Services PMI is likely to stand unchanged at 54.3.

CBs are expected to stay on hold. In the EZ, the ECB is likely to leave key policy rates unchanged.

The Quarter Ahead: Gaza Aid Convoy Deaths; US To Begin Airdropping Aid Into Gaza; US Republican Primaries; Trump Trial

Israel-Hamas War. Gaza health authorities reported that on Thursday, Israeli forces shot dead more than 100 Palestinians who were awaiting an aid delivery, pushing the total death toll beyond 30,000. Israel attributed the deaths to crowds around aid trucks, asserting that victims were either trampled or run over. Biden criticized Israel, stating that it had "no excuses" for restricting aid to Gaza. Simultaneously, he declared that the US would airdrop food into the enclave.

US Politics. Trump won Michigan's primary Tuesday. Trump and Haley collided in North Carolina on Saturday. Meanwhile, in a Florida court, a judge hinted at a potential delay in Trump's alleged mishandling of classified documents trial, initially set for May. Delays arise from a legal dispute over evidence, with prosecutors advocating for a July 8 start, while Trump prefers a post-election or August date.

Last Week's Review

Real Economy: QoQ GDP and PCE Inflation Decelerated In the US, While Inflation Fell In the EZ

In the US, in Q4, according to the second estimate, the GDP growth rate decelerated to 3.2% q-o-q (c: 3.3%; p: 4.9%). In January, the PCE and core Price Index edged down to 2.4% y-o-y (p: 2.6%) and 2.8% y-o-y (p: 2.9%) as expected. In February, Michigan consumer sentiment fell to 76.9 (c: 79.6; p: 79.0).

In the EZ, in February, headline and core inflation rates fell to 2.6% y-o-y (c: 2.5%; p: 2.8%) and 3.1% y-o-y (c: 2.9%; p: 3.3%). In January, the unemployment rate edged down to 6.4% (c: 6.4%; p: 6.5%). In February, the economic sentiment increased to 95.4 (c: 96.7; p: 96.1). Consumer confidence rose to -15.5 (p: -16.1) as expected. February's HCOB manufacturing PMI declined marginally to 46.5 (c: 46.1; p: 46.6).

Among the largest EZ economies, in Q4, according to the final estimate, the economy rose by 0.1% q-o-q (c: 0.0%; p: 0.0%) and 0.7% y-o-y (p: 0.6%) in France. In February, the inflation rate fell to 2.5% y-o-y (c: 2.6%; p: 2.9%) in Germany.

In the UK, in February, S&P Global Manufacturing PMI edged up to 47.5 (c: 47.1; p: 47.0).

Financial Markets: Stock Prices Were Up; US Bond Yields Fell, While German Rose, Dollar Index Decreased; Gold And Oil Prices Rose

Market Drivers: As investors digested inflation data, US stocks ended mostly higher. Major benchmarks, including the Nasdaq Composite and the S&P 500 Index, closed the week higher, both reaching record levels for the first time in over two years. UST yields fell due to Fed officials expressing support for a slower reduction of Treasury securities from their asset portfolio.

Global Equities: Increased w-o-w (MSCI ACWI, +0.8%, to 767.07). The US S&P 500 index edged up (+0.9% w-o-w, to 5,137.08). In the EZ, share prices rose (Eurostoxx 50, +0.4% w-o-w, to 4,894.05). In EMs, equity prices increased (MSCI EMs, +0.4%, to 1,024.68). Volatility fell to 14.03 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury yields fell (-6 bps to 4.19%). The 2-year US Treasury yields fell (-16 bps to 4.53%). The German 10-year bund yields increased (+5 bps to 2.41%).

FX: w-o-w, the US Dollar Index decreased (DXY, -0.0%, to 103.83; EUR/USD +0.2%, to 1.08). In EMs, currencies edged down (MSCI EM Currency Index, -0.2% w-o-w, to 1,728.2).

Commodities: w-o-w, oil prices increased (Brent, +2.3% to 83.46 USD/b). Gold prices increased w-o-w (+2.6% to 2,091.6 USD/Oz).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

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



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. **Analyst Certification:** We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

