



R&R Weekly Column
By Brunello Rosa



PM Sunak Ends Uncertainty and Calls UK General Election

On Wednesday 22 May, in what is likely to be remembered as [one of the most disastrous announcements in UK politics from a communication perspective](#), PM Rishi Sunak announced that Parliament was dissolved and general elections were being called for July 4th. This was also the day on which the latest inflation figures were released: [CPI inflation had fallen to 2.3% y/y, from 3.2% previously](#).

The inflation figures allowed Sunak to claim that he kept one of the promises made in the past, namely that he would reduce inflation back to more “normal” levels. The merit for this should however go mostly to the Bank of England, which increased its policy rates by 500bps in the space of about 18 months. Given the [polls showing the Tory party trailing the Labour party by 22 points](#), a heavy defeat for the Tory party is likely. Sunak therefore had to choose the moment in which the Tory party could flag a victory, hoping to minimize the damage.

In a country with a first-past-the-post electoral system, the real question is how a lead in the polls will translate into a parliamentary majority. In a 650 seat House of Commons, the numerical majority is 326 MPs. As [Peter Kellner reminded his readers in a recent article for The Times](#), Sunak may also win with 315 seats, if the Democratic Unionist Party (DUP) agreed to enter into a coalition with him, as they did with Theresa May in 2017 – and assuming that the Sinn Féin’s MPs continue to boycott the UK Parliament.

For Labour’s Keir Starmer, forming an anti-Tory coalition is easier. Depending on how many MPs are elected by the Liberal Democrats, Scottish National Party, the Welsh Plaid Cymru, Greens, and Northern Ireland’s parties, Starmer may be asked to form a government with as little as 270 Labour MPs. But how long would such a minority, or coalition, government last?

The truth is that Labour will need at least 340 seats to make sure it can stay in power for five years. Some pollsters expect a landslide victory for Labour, similar to the one that catapulted Tony Blair to No.10 Downing Street in 1997. This may not necessarily be good news. Given the tradition of in-fighting and splintering by left-wing parties, especially during periods of war, a “too-large” parliamentary group may convince the fringes to break up with the rest of the party, putting Labour’s parliamentary majority at risk.

In terms of policies, Labour has recently launched the idea of “Securonomics,” [which was recently presented at Chatham House](#) by the Shadow Chancellor Rachel Reeves and the Shadow Foreign Secretary, David Lammy, taking inspiration from Joe Biden’s administration. “Securonomics” is a political strategy seeking a synergy between economic and foreign policy to make sure the UK will be resilient to future economic and geopolitical shocks. Lammy has spoken of putting economic prosperity and resilience at the centre of the FCDO’s objectives, if he were to take that role, within a foreign policy doctrine that he labelled “progressive realism.”

The Tories have very little to defend, in terms of legacy. Their major contribution has been “Get Brexit Done,” as the slogan by Boris Johnson said. [But the number of people in the UK that believe that Brexit was a mistake reached 55% recently, with only 31% thinking it was a good idea](#), thus signalling that it is not going to be a very popular electoral campaign argument. Sunak’s decision to [re-instate compulsory national service was not well received by his fellow party members either](#). This electoral campaign should be aimed at damage control for the Tory party.

Our Recent Publications

- 🌀 [**Indian Subcontinent 2024: Elections in a Geopolitical Landscape**](#), by Ridipt Singh, 23 May 2024
- 🌀 [**"Bumpy" or "Sticky"? Inflation Dynamics for the Eurozone and US**](#), by Lāsma Kokina, Nato Balavadze and Brunello Rosa, 22 May 2024

- 🌀 [**A Fading Rainbow: South Africa Election Run Up**](#), by Azaria Kidane, 21 May 2024
- 🌀 [**At \\$60 Billion Crossroads: The Vital Role and Uncertain Future of US Aid to Ukraine**](#), by Maria Ascencio, 16 May 2024

Looking Ahead

The Week Ahead: US QoQ GDP To Decelerate; PCE And Core PCE Price Index To Remain Unchanged; EZ Headline Inflation To Rise

In the US, in Q1, according to the second estimate, GDP growth rate is seen decelerating to 1.4% q-o-q (*p*: 3.4%). In May, PCE and core PCE Price Index is expected to both remain unchanged at 2.7% y-o-y and at 2.8% y-o-y respectively.

In the EZ, in May, headline inflation is likely to edge up to 2.5% y-o-y (*p*: 2.4%), while core inflation is expected to stay unchanged at 2.7% y-o-y. In May, unemployment rate is likely to remain unchanged at 6.5%. Consumer confidence and economic sentiment are seen rising to -14.3 (*p*: -14.7) and 96.2 (*p*: 95.6).

Among the largest EZ economies, in Q1, GDP growth rate is expected to: *i*) advance by 0.3% q-o-q (*p*: 0.1%) and decelerate to 0.6% y-o-y (*p*: 0.7%) in Italy; *ii*) rise to 0.2% q-o-q (*p*: 0.1%) and 1.1% y-o-y (*p*: 0.8%) in France. Headline inflation rate is seen edging up by 2.4% y-o-y (*p*: 2.2%) both in France and in Germany.

The Quarter Ahead: Israel Attack On Rafah; ICC Prosecutor Seeks Arrest Warrants For Netanyahu And Hamas Leaders

Israeli assault on Rafah tent camp sparks worldwide outrage. An Israeli airstrike killed at least 35 people in a tent camp in Rafah, Gaza. The attack, which occurred late Sunday night, ignited tents and makeshift shelters. European leaders condemned the strike on Monday, urging the enforcement of a World Court ruling to stop Israel's offensive.

ICC prosecutor seeks arrest warrants for Israel's Netanyahu and Hamas leaders. ICC prosecutor Karim Khan stated that after more than seven months of war in Gaza, he had reasonable grounds to believe that five men were "criminally responsible" for alleged war crimes and crimes against humanity. France supports the ICC, while Chancellor Scholz declined to speculate on Germany executing an ICC arrest warrant for Netanyahu, noting no warrant has been issued and Israel has an independent judiciary.

Last Week's Review

Real Economy: UK Inflation Rate Decreased; Composite PMIs Decreased In UK, Increased In EZ And US; German QoQ GDP Advance

In the US, in May, S&P Global Manufacturing and Services increased to 50.9 (*c*: 50; *p*: 50) and 54.8 (*c*: 51.3; *p*: 51.3). Composite PMI rose to 54.4 (*c*: 51.1; *p*: 51.3).

In the EZ, in May, HCOB Manufacturing PMI rose to 47.4 (*c*: 46.2; *p*: 45.7), while services PMI stood unchanged at 53.5 (*c*: 53.5). Composite PMI edged up to 52.3 (*c*: 52.0; *p*: 51.7).

Among the largest EZ economies, in Q1, according to final estimate, in Germany GDP growth rate advanced by 0.2% q-o-q (*c*: 0.2%; *p*: -0.5%) and shrank by -0.2% y-o-y (*c*: -0.2%; *p*: -0.2%).

In the UK, in April, headline and core inflation edged down to 2.3% y-o-y (*c*: 2.1%; *p*: 3.2%) and 3.9% y-o-y (*c*: 3.6%; *p*: 4.2%). In April, retail price index eased off to 3.3% y-o-y (*p*: 4.3%) as expected. In May, S&P Global Manufacturing PMI increased to 51.3 (*c*: 49.5; *p*: 49.1), while services PMI fell to 52.9 (*c*: 54.7; *p*: 55.0). Composite PMI decreased to 52.8 (*c*: 54; *p*: 54.1). In May, consumer confidence increased to -17.0 (*c*: -18.0; *p*: -19.0).

Financial Markets: Stock Prices Decreased; Yields Increased; Dollar Rose, While Oil And Gold Prices Fell

Market Drivers: In US, global data fueled a rise in long-term bond yields, with futures markets reducing the chance of more than one Fed rate cut this. In Europe, the stocks ended lower amid uncertainties about the timing of potential interest rate cuts this year.

Global Equities: Decreased w-o-w (MSCI ACWI, -0.4%, to 791.57). The US S&P 500 index slightly up (+0.0% w-o-w, to 5,304.72). In the EZ, share prices declined (Eurostoxx 50, -0.6% w-o-w, to 5,035.41). In EMs, equity prices decreased (MSCI EMs, -1.5%, to 1,082.98). Volatility rose to 13.45 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury yields rose (+5 bps to 4.47%). The 2-year US Treasury yields increased (+13 bps to 4.95%). The German 10-year bund yields increased (+6 bps to 2.58%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.3%, to 104.72; EUR/USD -0.2%, to 1.08). In EMs, currencies edged down slightly (MSCI EM Currency Index, -0.2% w-o-w, to 1,731.50).

Commodities: w-o-w, oil prices decreased (Brent, -2.2% to 82.12 USD/b). Gold prices fell w-o-w (-3.4% to 2,334.5 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

Nato Balavadze contributed to this Viewsletter

The picture in the front page was taken by the author



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.

