MAKING SENSE OF *THIS* WORLD

14 September 2026

R&R Weekly Column
By Brunello Rosa

The Rise of the Far Right Will Prevent Further European Integration

Magdeburg has delivered the verdict that Berlin spent two years pretending was hypothetical. On 6 September the Alternative für Deutschland took 43.8 per cent of the vote in Saxony-Anhalt, the first time the party has topped a German state poll.It won 39 of 83 seats, three short of an outright majority, while Friedrich Merz's CDU collapsed from 37.1 to 17.2%. The detail that should trouble Merz however is not the headline but the context: voter turnout rose 17.5 points to 77.8 per cent, and the AfD carried all fourteen districts and 38 of 41 constituencies. The CDU won none. This was mobilisation, not abstention: the electorate turned out in order to repudiate the existing government. It is not yet clear whether the AfD will have a working majority in the state parliament: the 5 seats won by BSW (Bündnis Sahra Wagenknecht) may prove decisive in forming a local government.

Merz has ruled out resigning before 2029. He has spoken vaguely of "consequences" of the political defeat, and asked aloud what fears his government had underestimated. Thus, the more instructive question raised by these election results is structural, rather than personal. Grand coalitions were conceived as instruments of stabilisation, now they are just the last resort before a new election round. The SPD, polling third nationally, and now blaming the government's own rhetoric on work and welfare, cannot afford to concede further. Therefore, the risk from the 20 September votes in Berlin and Mecklenburg-Vorpommern is not that Merz falls, but that he survives defensively: a chancellor who purchases domestic quiet by withdrawing from European ambition on defence financing, capital-market integration, enlargement and Ukraine.

And yet the celebration was conspicuously incomplete. Éric Zemmour's Reconquête rejoiced; Santiago Abascal from Vox in Spain saluted; Marine Le Pen and Jordan Bardella said nothing at all. Read this as strategy, not squeamishness. Le Pen imposed her *cordon sanitaire* on the AfD in 2024 and has no intention of surrendering a decade of *dédiabolisation* now that the July appeal has trimmed her ineligibility to 45 months, two-thirds suspended, restoring a path to 2027 — and now that the gains made in the municipal elections held in March and this month's senatorial contest are converting the RN from protest vote into mainstream political choice.

Hence the European far right has now three churches: Patriots for Europe (RN, Vox, Lega), the ECR (Meloni, PiS), and Europe of Sovereign Nations, which houses both the AfD and — decisively — Roberto Vannacci's Futuro Nazionale, founded in February and now polling 7-8 per cent, above both Lega and Forza Italia. Note where the growth originates: Vannacci is a tax on Meloni's moderation, exactly as Vox at 18-20 per cent after the Ceuta crisis is a tax on Feijóo's Partido Popular. In fact, in Germany, Italy and Spain alike, the insurgents are cannibalising the incumbent right, not the left. From this one can see how the political spectrum has shifted towards the right.

The implication for further European integration seems obvious: the moderate parties of the right (CDU, Les Républicains, Partido Popular, Forza Italia) and the left (SPD, Socialists, PSOE, PD) will have increasingly hard time creating working majorities to govern their respective countries and promote further integration at EU level. If the far right gets to power, whether alone or in coalition, the first victim will be further integration and speedier decision making in Brussels. Paradoxically, the far right will continue blaming Brussels for that. One hopes that the electorate is mature enough to be able to distinguish the cause from the effect.

Our Recent Publications

- *Preview: BoE To Keep Rates on Hold, While Further Reducing The Pace of QT*, by Brunello Rosa and Nato Balavadze, 11 September 2026
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- *Preview: ECB To Hike Rate in September, To Insure Against Second Round Effects*, by Brunello Rosa and Nato Balavadze, 7 September 2026

Looking Ahead

The Week Ahead: EZ Headline Inflation To Rise; UK Inflation To Edge Up; Fed and BoJ To Hike, While BoE To Stay On Hold

In the US, in August, retail sales are expected to increase by 0.9% n-o-n (*p:* -0.6%). In August, IP is seen rising to 0.3% m-o-m (*p:* 0.2%).

In the EZ, in August, headline inflation rate is expected to rise to 3.3% y-o-y (*p:* 2.9%), while core inflation rate is likely to ease off to 2.4% y-oy (*p:* 2.5%). In July, IP is seen shrinking by 0.4% y-o-y (*p:* 0.1%).

In the UK, in August, headline and core inflation rates are likely to increase to 3.1% y-o-y (*p:* 2.9%) and 2.7% y-o-y (*p:* 2.6%). In July, unemployment rate is expected to increase to 5.0% y-o-y (*p:* 4.9%). In August, retail sales are seen rising to -0.3% m-om (*p:* -0.5%).

CBs to be Mixed. In the US, the Fed is expected to increase its target Fed funds range by 25bps to 3.75% - 4.00%. In the UK, the BoE is likely to maintain its Bank rate at 3.75%. The BoJ is also expected to increase its main policy rate from 1% to 1.25%.

The Quarter Ahead: Xi Urges BRICS Middle East Ceasefire; Saudi Pipeline Hit by Drones

President Xi Jinping urged BRICS nations to push for a political solution and a "permanent and comprehensive ceasefire" in the Middle East. Speaking at the BRICS Summit in New Delhi, Xi called for addressing the conflict's root causes, reaffirmed support for a two-state solution and said China was willing to play a role in regional peace efforts. Meanwhile Iran and the UAE backed a joint BRICS declaration calling for restraint in the Middle East war, protection of civilians and safeguarding global trade and energy flows.

Tensions in Middle East escalate. Saudi Arabia temporarily shut its East-West oil pipeline after drone attacks launched from Iraq caused injuries and infrastructure damage. Riyadh asked for support to Washington, but Trump didn't authorize further strikes in the region. Saudi Arabia also held off retaliation at Baghdad's request, while Iraq condemned the attack, launched an investigation and dismissed a military commander after confirming the drones originated from Maysan province.

Last Week's Review

Real Economy: US Headline Inflation Remained Unchanged, EZ GDP Advanced, ECB Increased Rates

In the US, in August, headline inflation rate remained at 3.4% y-o-y (*c:* 3.4%), while core inflation rate cooled off to 2.4% y-o-y (*c:* 2.4%; *p:* 2.5%).

In the EZ, in Q2, according to the third estimate, GDP growth rate expanded at 0.6% q-o-q (*c:* 0.4%; *p:* 0.0%) and 1.2% y-o-y (*c:* 1.0%; *p:* 0.6%).

In the UK, in July, IP increased by 0.6% y-o-y (*c:* 0.2%; *p:* -0.2%).

CBs Hiked. In the EZ, the ECB increased its main policy rates by 25 bps i.e. its *i)* interest rate on the 'main refinancing operations' to 2.65%; *ii)* interest rate on the 'marginal lending facility' to 2.90%; and the key *iii)* 'deposit facility' to 2.50%.

Financial Markets: Stock Prices and USD Fell; Yields and Oil Prices Were Up, While Gold Prices Decreased

Market Drivers: US equities ended the holiday-shortened week lower as escalating Middle East tensions pushed oil prices higher, fueling inflation concerns and lifting Treasury yields. Treasury yields rose, with the 10-year reaching around 4.97% and the two-year exceeding 4.63%, amid higher oil prices, firm inflation data and heavy issuance. European equities also weakened, as higher energy prices intensified inflation and rate concerns.

Global Equities: declined *w-o-w* (MSCI ACWI, -0.8%, to 1,143.16). The US S&P 500 index decreased (-0.8% w-o-w, to 7,656.98). In the EZ, share prices were down (Eurostoxx 50, -1.1% w-o-w, to 6,325.13) In EMs, equity fell (MSCI EMs, -0.3%, to 1,721.53). Volatility rose to 18.36 (VIX S&P 500, 52w avg.: 19.98; 10y avg.: 19.9).

Fixed Income: *w-o*-w, the 10-year US Treasury yields were up (+20 bps to 4.98%). The 2-year US Treasury yields increased (+26 bps to 4.64%). The German 10-year bund yields edged up (+16 bps to 3.50%).

FX: *w-o-w,* the US Dollar Index decreased (DXY, -0.1%, to 99.12; EUR/USD -0.1%, to 1.16). In EMs, currencies declined (MSCI EM Currency Index, -0.1% w-o-w, to 1,935.75).

Commodities: *w-o-w,* oil prices rose (Brent, +9.0% to 104.47 USD/b). Gold rose decreased w-o-w (-1.9% to 4,390.00 USD/Oz).

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Nato Balavadze contributed to this Viewsletter. *The picture in the first page was taken from this website.*

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	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