



R&R Weekly Column
By Brunello Rosa



All The President's Men (Have Left)

In our column on [March 26th](#), entitled *Who Checks on "The Boss" in Washington*, we discussed the possible implications of a series of resignations by key respected figures of the Trump's Administration, among them the Director of the National Economic Council (NEC) Gary Cohn, Secretary of State Rex Tillerson, and National Security Advisor H.R. McMaster. At that time, we highlighted how the team of experts that was advising the president on strategic economic and geopolitical matters (and to a certain extent was even managing to moderate some of his more extreme policy plans) was in the process of being dissolved, to be replaced by more hawkish figures such as neoconservative John Bolton as the new National Security Advisor and Larry Kudlow as the new Director of the NEC. On that occasion we warned that "one can reasonably wonder when the other two former generals that currently are in key government positions, James Mattis as Defense Secretary and John F. Kelly as Chief of Staff, will also depart, leaving room for less moderate substitutes." We also added: "As the example of Jay Powell shows, the choice of people in charge determines the credibility, policy direction and ability to deliver of institutions."

The time for both [Kelly](#) and [Mattis](#) to leave has now come. Meanwhile, [Jay Powell's position has come under attack](#), as has [Steve Mnuchin](#), the Secretary to the Treasury who de-facto chose him. If these changes were not enough, the [US anti-ISIS envoy Brett McGurk also quit](#) over Trump's decision to withdraw US troops from Syria, which was made almost at the same time as the decision to [withdraw about 7000 troops from Afghanistan](#). The impression one gets from this raft of news is that all the key, respected and moderating advisors to President Trump have left, some abrupt decisions on Syria and Afghanistan have been taken, and this political shake-up could continue if Mnuchin were also to be let go (or decides to quit) and Powell's position were to be put under further scrutiny.

From a geopolitical standpoint, the risk now is that the US might become more vulnerable at the same time as its forces are withdrawing from hostile theatres of war, as key members of the administration coming from the military have left. As we warned [in our review of the US mid-term election results](#), Trump's loss of the House of Representatives would have meant a re-focusing of his attention on foreign policy, considering the limited ability the executive branch has to dictate the agenda on domestic and economic issues independent of Congress, as proven by the government shutdown (which we also thought would become likely after the Democratic victory in the House). From a financial market perspective, as we have observed [in Turkey](#), [India](#), and [Argentina](#), when the independence of a central bank comes under attack (*a fortiori* if we talk about the most influential central bank in the world, the US Federal Reserve), serious market volatility tends to ensue. Hopefully Trump will refrain from continuing to put pressure on the Fed and its chairman, otherwise 2019 could get off to a very troublesome start.

Our Recent Publications

 [Global Economic Outlook and Strategic Asset Allocation For 2019: Skating on Thinner Ice](#), by Nouriel Roubini, B. Rosa, and A. Magnoli Bocchi, 19 December 2018

 [REVIEW: Fed Reduces the Expected Number of Rate Hikes in 2019](#), by B. Rosa, Alex Waters, 19 December 2018

 [REVIEW: Riksbank Hikes Its Policy Rate by 25 bps](#), by Brunello Rosa and A. Waters, 20 December 2018

 [TRAVEL NOTES: FRANCE: Social Tensions Upend French and Eurozone Politics](#), by R. Bourgeot, 19 December 2018

 [The Geopolitical Corner: Top Geopolitical Predictions for 2019](#), by John Hulsman, 19 December 2018

Looking Ahead

Next week, in Germany, inflation is expected to decline with its flash estimate (CPI December, c: 2.0%; p: 2.3%).

Over the next quarter, in the EU, political risks will remain high: a) in the UK, the rising likelihood of a disorderly Brexit prompted the government to announce the deployment of 3,500 soldiers on borders to handle the potential chaos of a no-deal. Calls for another referendum or another election are gaining traction; b) In Italy, in early 2019, tension will rise as the EC will assess whether the contents of the agreement are being effectively implemented.

Last Week's Review

Real Economy: Rising Risks In DMs Threaten Growth Outlook

In the US concerns about increasingly erratic foreign policy and its impact on the Middle East rose after: a) the US president announced the withdrawal of US forces from Syria and; b) the US secretary of defence resigned as a result of the decision; and c) Turkey's president announced an offensive on Kurds forces in the coming months.

In the US, the government entered a partial shutdown as President Trump refused to sign a bipartisan spending bill that did not include funding for the Mexican border wall project.

In the EZ, political risks remain a threat: a) in the UK, Brexit uncertainty is hurting the economy: in Q3, the current account deficit rose to a two-year high of 4.9% of GDP, and investment fell for a third consecutive quarter, the longest period since the financial crisis; and b) in Italy, the government reached an agreement with the EC after lowering the fiscal deficit target to 2.04%.

Eurozone inflation fell below the 2% target (CPI November, a: 1.9%; c: 2.0%; p: 2.0%) while core inflation remained unchanged (CPI core November, a: 1.0%; c: 1.0%; p: 1.0%).

Policy: Monetary Policy Normalization Continued In The US (And GCC Followed); China Announces Further Stimulus

The Fed increased the policy rate to 2.5%, in line with expectations (Fed, a: 2.5%; c: 2.5%; p: 2.25%).

The Fed reduced hikes expectations for 2019 from four to two as it lowered growth (2.3% instead of 2.5) and inflation forecasts. The probability of three or more hikes in 2019 fell abruptly to 1.5%, down from 18.5% a week earlier and 45.6% a month ago. Investors are also concerned about president Trump's rising pressure on the Fed.

In Japan and the UK, policy rates were unchanged (BoJ, a: -0.1%; c: -0.1%; p: -0.1%; BoE, a: 0.75%; c: 0.75%; p: 0.75%).

In the GCC, the central banks of KSA, UAE, Qatar and Bahrain raised their benchmark policy rates by 25bps following the Fed's move.

In China, the government announced its intention to adopt a more aggressive fiscal and monetary stance, as the government tries to halt the ongoing slowdown.

Global Markets: US Risks Trigger Stocks Outflows, Oil Down On Lower Demand

All assets were affected by the downward revision to growth—and interest rates—expectations and the threat of a partial government shutdown in the US. Investors sought refuge in bonds and non-USD safe currencies (JPY and EUR). Oil was also impacted by growing global crude production and a slowdown in energy demand.

Global stocks fell w-o-w (MSCI ACWI, -5.1%) driven by the US (S&P 500, -7.3%) which is on track to complete its worst-performing December since 1931. Losses were less pronounced in the EZ (Eurostoxx 50, -3.0%) and EMs (MSCI EMs, -1.1%). Volatility rose significantly (VIX, +8.5 points to 30.1; 52w avg.: 16.1; 10y avg.: 18.5).

Bonds indices rose w-o-w (BAML Global bond index, +0.3%) driven by the US (Reuters US bond index, +0.9%). Sovereign bond yields fell in the US (10y yield, -10bps to 2.79%) and Italy (10y yield, -12bps to 2.82%). FX: w-o-w, the USD fell against a basket of currencies (DXY, -0.5%), the EUR (EUR/USD, +0.5% to 1.135) and the JPY (USD/JPY, +1.9% to 111.235).

Commodities: Brent prices fell by 10.7% to reach a 17-month low of 53.8 USD/b.

Francisco Quintana contributed to this Viewletter.

The picture in the front page comes from [this website](#)



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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	NAFTA	North-American Free Trade Agr.
bpd	Barrels per day	NATO	North Atlantic Treaty Organizat.
bps	Basis points	OECD	Organization for Economic Cooperation and Development
BS	Balance sheet	Opec	Organization of Petroleum Exporting Countries
c	Consensus	p	Previous
C/A	Current account	P2P	Peer-to-peer
CB	Central bank	PBoC	People's Bank of China
CBB	Central Bank of Bahrain	PCE	Personal Consumption Expenditures
CBK	Central Bank of Kuwait	PE	Price to earnings ratio
CBT	Central Bank of Turkey	PM	Prime minister
CDU	Christian Democratic Union, Germany	PMI	Purchasing managers' index
CNY	Chinese Yuan	pps	Percentage points
CPI	Consumer Price Index	pw	Previous week
DJIA	Dow Jones Industrial Average Index	QCB	Qatar Central Bank
DJEM	Dow Jones Emerging Markets Index	QAR	Qatari Riyal
d-o-d	Day-on-day	QE	Quantitative easing
DXY	US Dollar Index	q-o-q	Quarter-on-quarter
EC	European Commission	RE	Real estate
ECB	European Central Bank	RBA	Reserve Bank of Australia
ECJ	European Court of Justice	RRR	Reserve Requirement Ratio
EIA	US Energy Information Agency	RUB	Russian Rouble
EM	Emerging Markets	SWF	Sovereign Wealth Fund
EP	European Parliament	tn	Trillion
EPS	Earnings per share	TRY	Turkish Lira
EU	European Union	UAE	United Arab Emirates
EUR	Euro	UK	United Kingdom
EZ	Eurozone	US	United States
Fed	US Federal Reserve	USD	United States Dollar
FOMC	US Federal Open Market Committee	USD/b	USD per barrel
FRB	US Federal Reserve Board	UST	US Treasury bills/bonds
FX	Foreign exchange	VAT	Value added tax
FY	Fiscal Year	VIX	Chicago Board Options Exchange Volatility Index
GCC	Gulf Cooperation Council	WTI	West Texas Intermediate
GBP	British pound	WTO	World Trade Organisation
GDP	Gross domestic product	w	Week
IMF	International Monetary Fund	w-o-w	Week-on-week
INR	Indian Rupee	y	Year
IPO	Initial public offering	y-o-y	Year-on-year
IRR	Iranian Rial	y-t-d	Year-to-date
JPY	Japanese yen	ZAR	South African Rand
k	thousand	2y; 10y	2-year; 10-year
KSA	Kingdom of Saudi Arabia		