



R&R Weekly Column
By Brunello Rosa



Argentina and Uruguay Hold Elections, While Latin America Is In Turmoil

Argentina and Uruguay went to the polls yesterday to elect new presidents, at the same time as a wave of protests has been hitting Latin America. Argentina elected a Peronist president again: Alberto Fernández, who will have as his Vice President Cristina Fernández de Kirchner, the former president of Argentina from 2007 to 2015. This is coming after the failure of the Macri presidency to implement liberal reforms and bring Argentina back to international capital markets. When Mauricio Macri was elected president of Argentina in 2015, his campaign was based on the motto “Argentina is open for business.” [Macri’s plan was to definitively end the preceding Peronist era](#), in which Argentina had experienced a very volatile economic performance, rising public subsidies and inflation, and endless disputes with international investors over bonds restructured after the 2001 default.

Things seemed to be going in the right direction until early 2018, when a drought hit the country and a series of policy mistakes led [markets to massively short the peso](#). The subsequent collapse in economic activity, the rise in inflation (55% y/y, the highest in the world after Venezuela and Zimbabwe) and a shortage of reserves [led Macri to go back, cap in hand, to the IMF to ask for a bailout](#). The IMF granted the bailout: USD 57bn, the largest loan in the IMF’s history. This gave Fernández a formidable argument against Macri in the recent election campaign. He was able to say that the 2018 bailout was brought about by the Macri government’s adoption of the IMF-inspired liberal reforms (just like how the 2001 default was caused in part by [the collapse of the “currency board” inspired by the “Chicago school”](#)). In other words, instead of opening the country for business, liberal reforms have led it to default. The obvious conclusion (Fernández’ argument goes) is that only Peronism can work in Argentina. This argument has clearly been accepted by Argentina’s population in 2019.

At this point, the key question is what type of policies Fernández will adopt once he is elected. As we [discussed in our recent in-depth analysis](#), Fernández is likely to opt for a middle ground between an orthodox approach and a fully populist approach. He knows Argentina needs a constructive dialogue with the IMF, as it will likely need more financial support in coming months. The IMF too knows that a constructive dialogue with Argentina is necessary: having already disbursed USD 44bn, it will need to keep the relationship healthy and intact if it wants to have a chance of seeing this debt repaid at some point.

Argentina might be a special case, but other LatAm countries are undergoing a difficult transition period as well. As mentioned above, [Uruguay also went to the polls yesterday](#), to elect a successor to President Tabaré Vázquez, who could not run again due to constitutional term limits. [Polls were held in the middle of a surge in crime](#) (specifically, of murders and burglaries), which some attribute to the liberalisation of cannabis adopted by the government. [Bolivia just had its presidential election](#), meanwhile, the result of which was that Evo Morales managed to win a second term, which led to disputes about transparency and [protests against claims of alleged fraud](#) in the election results.

Besides the [basket case of Venezuela](#) and the yet-to-be-confirmed hopes in [AMLO’s Mexico](#), the two most worrying cases in the region of late are Ecuador and Chile. In Ecuador, [protests recently erupted](#) as Lenín Moreno, who in 2017 succeeded Rafael Correa (from the same party), in practice made a U-turn on a number of the government’s previous policies, for example by handing back a US military base that had previously been confiscated by Correa, and by steering the country back toward austerity and neoliberal reforms. In Chile, [President Sebastian Piñera](#) has reshuffled his entire cabinet as a result of the widespread protests that were triggered by an increase in transportation costs and the more general [rise in inequality](#). All this has been occurring while, in Colombia, President [Iván Duque Márquez is trying to secure a final peace arrangement with the FARC](#), and in Brazil President Bolsonaro is [passing a controversial pension reform in parliament](#).

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Looking Ahead

The Week Ahead: Fed Likely To Cut Rates and Growth Is Expected To Slow Down In Both US And EZ

In the US, growth is expected to slow (GDP Q3, c: 1.6% y-o-y; p: 2.0%). October labor data are expected to show: *i*) an increase in the unemployment rate (Oct., c: 3.6%; p: 3.5%); *ii*) a drop in nonfarm payrolls (c: 105K; p: 136K); and *iii*) a slight pickup of average hourly earnings (c: 3.0% y-o-y; p: 2.9%). In the US, the Fed's preferred inflation gauge is expected to remain mute in September (PCE, c: 1.4% y-o-y; p: 1.4%), while core PCE is likely to fall slightly (c: 1.7% y-o-y; p: 1.8%).

In the US, the Fed is likely to cut its policy rate at the October meeting (market-probability of 'one rate cut': 94%; p: 87%). The New York Fed's rising liquidity supply (w-o-w, it bought T-bills worth USD7.501bn) encountered strong demand from eligible banks, and is likely to continue.

In the EZ, growth is expected to deteriorate slightly (GDP Q3, c: 1.1% y-o-y; p:1.2), and unemployment is likely to pick up marginally (Sep., c: 7.5%; p: 7.4). Inflation is expected to rise, while remaining below target (CPI Oct., c: 1.0% y-o-y; p: 0.8%; Germany CPI Oct., c: 1.3% y-o-y; p: 1.2%).

In Canada and Japan, the BoC and BoJ are likely to keep their interest rates unchanged at 1.75%, and -0.10%, respectively.

The Quarter Ahead: Trade Tensions To Linger

In the US-China trade dispute, the tentative "phase-one agreement" is spurring hopes that a breakthrough may be attainable in the coming weeks. However, negotiations are expected to continue until 2020, as the two sides have yet to solve key issues, such as: *i*) IP and tech transfers; *ii*) financial market liberalization; *iii*) exchange-rate reform; and *iv*) enforcement mechanisms.

In the EU, member states agree "on the need for a Brexit extension to January 31, in line with UK PM's request last weekend", through a written procedure rather than an emergency summit. Yet, France asked for a shorter extension "to keep the pressure on the UK to find a solution". Were the EU to grant a further Brexit delay, PM Johnson would call for a December general election.

In China, the government is likely to replace Hong Kong's leader Carrie Lam with an "interim" chief executive, following the recent violent protests.

In Turkey, the Army suspended combat operations – announcing "a permanent ceasefire" – after Turkey and Russia agreed to create a 300-mile safe-zone in north-eastern Syria. As a result, the US lifted the sanctions it recently imposed on Turkish imports. Yet, tensions are likely continue, as Russia and Syria announced they will "facilitate the removal from the border region" of the Kurdish People's Protection Units (YPG).

Last Week's Review

Real Economy: Global Economic Activity Improves, But Investors Remain Cautious

In the US, manufacturing expanded at a more robust pace than expected (Markit Manuf. PMI Oct., a: 51.5; c: 50.7; p: 51.1) and services improved slightly (Markit Services PMI Oct., a: 51.0; c: 51.0; p: 50.9).

In the EZ, leading indicators deteriorated in October: *i*) consumer confidence fell further (a: -7.6; c: -6.7; p: -6.5); *ii*) manufacturing stalled (Markit manuf. PMI Oct., a: 45.7; c: 46.0; p: 45.7); and *iii*) services grew below consensus (Services PMI, a: 51.8; c: 51.9; p: 51.6). The ECB kept unchanged both: *i*) its deposit rate, at -0.50%; and *ii*) its main refinancing rate, at 0%.

In Norway, Sweden, and China CBs have kept their interest rates at 1.50%, -0.25%, and 4.20% respectively.

In Turkey, the CBRT cut its interest rates more-than-expected, by 250bps, to 14.00% (p: 16.50%).

Financial Markets: Positive Breakthroughs In Global Risks Support Risky Assets

Market drivers: Improved US-China trade relations and lower Brexit fears lifted investor confidence and helped market performance.

Stocks: w-o-w, global equity indices rose (MSCI ACWI, +1.2% to 532), driven by both DMs (MSCI World, +1.3% to 2,223; the S&P 500, +1.2% to 3,023, was back in record territory) and EMs (MSCI EMs, +1.2% to 1,036). Volatility continued to fall below historical averages (VIX S&P 500, -1.6 points to 12.7, 52w avg.: 17.0; 10y avg.: 17.0).

Bonds: w-o-w, sovereign bond yields fluctuated, ending the week flat (BAML Global bond index, -0.1% to 285.1; DMs S&P Global, -0.1% to 110.4).

FX: w-o-w, the USD strengthened against a basket of currencies (DXY, +0.6% to 97.831) while the EUR (EUR/USD, -0.8% to 1.108) and the GBP fell (GBP/USD, -1.2% to 1.282). As EM FX strengthened (MSCI EMs, +0.5% at 1,635), the TRY gained after Trump lifted sanctions, but fell slightly after the CBT delivered its above-consensus rate cut (USD/TRY, +0.3% to 5.774).

Commodities: Oil prices rose, led by a drop in inventories (Brent, +4.4% to 62 USD/b). Gold prices keep rising, continuing to show safe-haven appeal (Gold, +1.0% to 1,504 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