



R&R Weekly Column
By Brunello Rosa



The US Presidential Campaign Heats Up, With Impeachment Hearings and Bloomberg Candidacy

For better or worse, 2020 will be characterised by the US Presidential race, which will not end until November 3, the day the election will be held. President Trump has made all possible efforts to make this election a referendum on himself and his style of being president. He has polarised the US political landscape like very few presidents before him ever have, with his abrasive conduct of government affairs, partly inherited from his business days when he was using his “art of the deal” to get things done.

In politics, and especially in foreign policy, his approach of hitting counterparts as hard as possible before inviting them to the negotiating table has not always worked. Sovereign institutions are not businesses that can be brought to the brink of bankruptcy to soften their negotiating positions. Hence the [failed negotiations with the North Korean](#) dictator over that country’s nuclear program, [the standstill with the Iranians](#) over the nuclear deal and Middle East policy in general, and the [protracted negotiations with China over trade and tech arrangements](#), which have so far produced at most a “Phase-1” informal agreement.


Regarding the US domestic agenda, President Trump is trying to show that he continues to side with the deprived working class in urban areas and with under-privileged populations in rural areas. For some reason, the president’s narrative is still popular in the country, even though the reality is that some of these domestic issues are actually bi-partisan. For example, every president, Republican or Democratic, would have had to start taking on China and its trade surplus vis-a-vis the US, as well as its unfair tech and IP practices. Perhaps Trump’s unorthodox style and abrasive approach make his positions less acceptable to many who would otherwise support such positions if it were a more conventional politician who was championing them.

Indeed, to some extent Trump may have actually surprised to the upside in his policy stances, by being less trigger happy than what could have been expected from him, especially after surrounding [himself with very hawkish advisers and officials such as John Bolton and Mike Pompeo](#). For example, he did not respond to the provocations of North Korea and Iran in the last couple of years, and has [not directly intervened in Venezuela](#) as some of his predecessors would perhaps have done. Trump might turn out to be just another isolationist Republican president.

In any event, the electoral campaign is beginning to heat up. The [impeachment hearings are turning awry for Trump](#), with the testimony of people close to the president such as Gordon Sondland, the US ambassador to the EU, and Fiona Hill, a senior National Security Council official. For now, the baseline scenario will continue to be that President Trump is likely to be impeached in the House, but not convicted in the Senate, where 20 Republican votes are needed to reach the necessary two-third majority of 67 votes. However, the more embarrassing the hearings become for the Trump administration, the more Republican senators might decide to turn their back on the president if and when an impeachment vote is held. If the president’s position weakens as a result, he might induce some of his external enemies, like China, Iran, or North Korea, to scale up the level of provocations during the electoral year, to see whether a more tense international environment make Trump lose enough votes in the key swing states he will need to win a second term.

What about Trump’s Democratic opponents? As we [discussed in our recent analysis](#), the frontrunner Joe Biden has been damaged by “Kyiv-gate” more than Trump has so far, so much so that Pete Buttigieg now seems to be leading the race in Iowa and New Hampshire, which are the first states that will hold primary elections. To counterbalance the rise of Elizabeth Warren, a left-wing candidate who has spooked the market with her radical reforms made up of universal healthcare coverage and wealth taxes, [Michael Bloomberg](#), the former mayor of New York, has now [launched his own campaign to win the Democratic nomination](#). His presence will make the race in the Democratic camp more uncertain. If he wins the nomination, we would then see two New York billionaires running against each other to become, or in Trump’s case, to remain, President of the United States in November.

Our Recent Publications

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Looking Ahead

The Week Ahead: Signs Of Macroeconomic Stabilisation Start To Emerge

In the US, October's core PCE is expected to stagnate (c: 1.7% y-o-y; p: 1.7%), while the PCE price index is expected to slightly decline (c: 1.2% y-o-y; p: 1.3%). Durable Goods Orders ex Defense is likely to improve (Oct., c: -0.3%; p: -1.3%), while remaining in contractionary territory.

In the EZ, CPI inflation is expected to pick up in November to 0.9% (p: 0.7%), while October unemployment is likely to remain at 7.5%, unchanged.

In Japan, the economy is expected to start showing signs of stabilisation, as: *i*) IP is expected to increase (IP Oct., c: 1.9% y-o-y; p: 1.3%); *ii*) unemployment is likely to fall (Oct., c: 2.2%; p: 2.4%); and *iii*) inflation to remain flat (CPI Nov., c: 0.4% y-o-y; p: 0.4%).

The Quarter Ahead: Geo-Political Tensions Ease, But Keep Hampering Growth Prospects, While Central Banks Remain Supportive

The US and China are expected to reach a "phase-one" trade-deal; yet, the agreement could slide into next year.

In the US the Senate unanimously passed a bill supporting protesters in Hong Kong. In response, China threatened to retaliate if the bill becomes law. In the US, the market expectations of a Fed rate cut next year rose to 67% (p: 62%) and the New York Federal Reserve added USD 80.6bn in temporary liquidity to the financial system. The intervention came via 3-day repurchase agreements, or repos, that totalled: *i*) USD 64.4bn in Treasury's; and *2*) USD 16.2bn in mortgage securities; and the central bank took all that was offered.

In the EZ, the car industry remains vulnerable to Trump's import-tariffs threat but countries with fiscal space - Germany above all - resist stimulus demands. ECB's Lagarde called "due to downward risks (...) for a stronger policy mix (supportive monetary policy and higher public investment)" and committed to maintaining a highly accommodative monetary policy for an extended period of time.

In the UK, PM Johnson's aims at reducing the probability of 'hard-Brexit' with a comprehensive free-trade agreement, to be reached before the transitional deal expires in December 2020.

In Bolivia, Chile and Ecuador; France and Spain; Hong Kong and Indonesia; Egypt, Iraq, Iran and Lebanon recent mass protests reflect economic malaise and rising political resentment over inequality.

In the Middle East, geopolitical tensions could trigger an oil shock and a risk-off sentiment in the markets.

In Hong Kong a Chinese crackdown would derail the trade deal and shock financial markets.

Last Week's Review

Real Economy: Manufacturing In DMs Begin To Improve, Stimulating Economic Activity

In the US, the November PMIs rose more-than-expected in both manufacturing (Manuf. PMI Nov., a: 52.2; c: 51.5; p: 51.3) and services (Services PMI Nov., a: 51.6; c: 51; p: 50.6), underpinned by: *i*) improved output; *ii*) new orders; and *iii*) employment. The Markit PMI Composite remained flat (Nov., a: 51.9; c: 51.9; p: 50.9).

In the EZ, concerns remain about a possible contagion from 'weak manufacturing' to domestic demand remain; the PMI composite fell slightly in November (Markit PMI Composite Nov., a: 50.3; c: 50.9; p: 50.6), driven by worsening service confidence (Services PMI Nov., a: 51.5; c: 52.5; p: 52.2) – despite the ongoing stabilization in the manufacturing sector (Manuf. PMI Nov., a: 46.6; c: 46.4; p: 45.9).

In Japan, weak household sentiment is keeping companies from passing through their rising costs. Inflation accelerated below-consensus (National CPI Oct., a: 0.2% y-o-y; c: 0.3; p: 0.2), despite the boost from the 'October sales-tax hike'.

In China, the PBoC cut its key lending rate – the loan prime rate – by 5bps to 4.15% (p: 4.20%).

Financial Markets: Caution Prevailed, As US-China Trade Talks Stumble

Market drivers: Despite declining short-term risks and CB easing, softer economic data from both the US and EZ increased investors' appetite for safe-haven bonds.

Stocks: w-o-w, global equity indices fell (MSCI ACWI, -0.3% to 543), led by DMs (MSCI World, -0.4% to 2,274; S&P 500, -0.3% to 3,110); EM stocks stalled (MSCI EMs, 0% at 1,049).

Bonds: DM yields fell, as investors bought safe-haven assets (10y UST -6bps to 1.77%; 10y German -3bps to -0.36).

FX: w-o-w, the USD strengthened against a basket of currencies (DXY, +0.3% to 98.270), while the EUR (EUR/USD, -0.3% to 1.102) and the GBP (GBP/USD, -0.5% to 1.283) weakened. While EM FX fell (MSCI EM, -0.2% to 1,632), the TRY recovered (USD/TRY, +0.6% to 5.712).

Commodities: Oil prices rose as OPEC+ is likely to extend its output cuts next month (Brent, +0.1% to 63.4 USD/b). Despite the cautious tone of the financial markets, the VIX remains below historical lows at 12.3 w-o-w (p: 12.1).



@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