



R&R Weekly Column
By Brunello Rosa



Will The Conference On the Future of Europe Lead to Faster EU Integration?

This week, [the Conference on the Future of Europe will](#) formally begin. The conference had been scheduled to take place last year, but was postponed following the beginning of the Covid pandemic. A lot has happened since then of course, and this conference will be able to help set the discussion that will take place over the next few months in response to these events.

When there was still the wrong impression that Covid represented an idiosyncratic shock to Italy last year, for example, the ECB President, on 12 March 2020, during the ECB's press conference, [said that the central bank's job wasn't that of closing the spread](#). Soon after, the [ECB launched the PEPP program](#), with elements of flexibility in its operational mode that allow, among other things, the ECB to temporarily deviate from the capital key allocation for the determination of the quotas of asset purchases. Last week, speaking from Florence, EU Commission President [Ursula Von der Leyen said that Italy was right in asking for solidarity](#) in the early stages of the pandemic, when it was clear that Covid was a systemic and symmetric shock, rather than an idiosyncratic one.

When that realisation became common sense, [in July the EU heads of states and government agreed on the Next Generation EU package](#), which plans an increase of the EU Commission's own resources, including by introducing EU taxation, as well as the launch of a large program of issuing EU debt which – even if it does not enjoy a formal joint and several guarantee – does resemble very closely common EU debt, and could be a potential embryo of future Eurobonds.

With so much progress made by policymakers in the response to the largest healthcare, social and economic shock to have occurred since WWII, one wonders what a formal Conference on the future of Europe can actually bring about.

In reality, there is still a lot Europe needs to do before finding its *ubi consistam*. *First*, a roadmap must be designed that will lead to the completion of the EU (and – within it – Eurozone) integration. With the banking union still to be completed and the capital markets union still in its infancy, there is still a lot of ground to cover before the integration process, which eventually will include some form of fiscal and political union, can be considered anywhere near completed. *Second*, the EU will need to find some form of cooperation/association with large countries which are not, or not anymore, part of the EU but gravitate around it, such as Ukraine, Turkey and the post-Brexit UK. *Third*, in order to function properly and smoothly, the EU needs to introduce a more regular use of decisions taken with a majority vote, as opposed to with unanimity. The cases of Poland and Hungary being able to block the ratification process of the Next Generation EU plan for weeks shows how urgent this reform (or actual implementation of existing clauses) is.

These changes are so radical that one would expect that the outcome of the Conference would allow a change in the EU Treaties. However, some countries, including Germany, have already said that this is not a possibility. But if that is the case, the Conference risks confirming the EU's characteristic of having massive ambitions while moving at a snail's pace. One would hope that such an important occasion helps political leaders understand that the EU does need, first and foremost, a change of pace in its integration and decision-making process.

Our Recent Publications

 [Flash Review: Bank of England Stays Put But Rises Its Short-Term Growth and Inflation Forecasts](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 6 May 2021

 [2021-22: Oil Prices To Recover, As Global Demand Improves](#), by Alessandro Magnoli Bocchi and Fawaz Sulaiman Al Mughrabi, 5 May 2021

 [While There Will Not Be a Coup in France, There May Be a Revolution](#), by John C. Hulsman, 4 May 2021

 [Flash Preview: BOE on Hold While Reflecting Successful Vaccination Campaign in Growth Forecasts](#), by Brunello Rosa and Karmen Meneses, 30 April 2021

Looking Ahead

The Week Ahead: US Retail Sales And Inflation Rate Are Expected To Increase As Well As EZ's IP

In the US, in April, retail sales are expected to increase to 30% y-o-y (p : 27.7%). Concomitantly, export prices are expected to rise to 13.9% y-o-y (p : 9.1%), and import prices are expected to increase to 8.3% (p : 6.9%).

Still in the US, April's core-CPI inflation rate is expected to increase to 2.3% y-o-y (p : 1.6%), with CPI inflation expected to increase to 3.6% y-o-y (p : 2.6%).

In the EZ, March's IP is expected to rebound to 12.1% y-o-y (-1.6%).

The Quarter Ahead: Vaccine Distributions Face Delays, COVID-19 Cases On The Rise; Central Banks To Remain Dovish

In the US and the EZ, economic momentum is accelerating. While policy rate hikes are unlikely at least until: 1) the end of 2022 for the Fed; and 2) late 2023 for the ECB, discussion on how to gradually start tapering asset purchases are likely to start in H2-2021.

Globally, to date, the coronavirus pandemic has infected more than 155m people, and killed more than 3.2m globally. The WHO warned that "EMs are falling behind on the vaccine rollouts".

The world is fast becoming reliant on China for vaccines, despite concerns about their effectiveness, as: 1) India's raging virus outbreak is stifling the country's ability to deliver on supply deals; and 2) the US tries to position itself as a champion of wider access.

In the US, to help end the pandemic, the Biden administration took the unprecedented step of supporting a waiver of IP protections on COVID-19 vaccines. According to the US trade representative, "the extraordinary circumstances of the COVID-19 pandemic call for extraordinary measures."

The US Fed stated that "the current state of the system is sound", with: i) household balance sheets in good shape; ii) corporations supported by an improving economy; and iii) low rates allowing default rates to fall – but at the same time warned that "rising asset prices are posing increasing threats to the financial system", as they "may be vulnerable to significant declines" should risk appetite fall.

The UK government officials confirmed that people in their 30s will be offered an alternative to the Oxford/AstraZeneca vaccine as "potential risks from the jab may outweigh the dangers of contracting the disease". The UK regulator found blood clotting condition in "roughly one in 60k for people in their 30s".

Last Week's Review

Real Economy: COVID-19 Cases Pose Downside Pressure To Global Economic Activity

In the US, April's labor data showed that: i) nonfarm payrolls fell well below-consensus, to 266k (c : 978; p : 770), as employers faced worker shortages; ii) average hourly earnings increased more-than-expected to 0.3% y-o-y (c : -0.4%; p : 4.2%); and iii) the unemployment rate rose to 6.1% (c : 5.8%; p : 6.0%), as more workers began looking for work and re-entered the labor market.

In the EZ, March's retail sales accelerated to 12.0% y-o-y (c : 9.6%; p : -1.5%).

In their May monetary policy meetings, the CBs of Australia, Norway, England, and Turkey all kept their interest rates unchanged (RBA: 0.1%; Norges: 0.0%; BoE: 0.1%; CBT: 19.0%), while reaffirming their commitment to maintaining highly supportive monetary conditions.

Financial Markets: Stocks Hit New Highs; Bond Yields Fall; USD Down As Oil And Gold Rise

Market drivers: investor sentiment was boosted by: i) stronger-than-expected earnings results; and ii) growing confidence in the upcoming economic recovery.

Global equities rose w-o-w (MSCI ACWI, +1.2%, to 710). In the US, the S&P 500 Index rose (+1.2%, to 4,233), as a disappointing payroll report eased worries about the Fed reducing its massive support anytime soon. In the EZ, European stocks hit record highs (Eurostoxx 50, +1.5%, to 4,034), after: i) the US Fed signaled it was in no hurry to tighten its monetary policy; and ii) optimism grew around a global stimulus-fueled economic rebound.

Fixed Income: w-o-w global bonds rose (BAML Global, +0.2% to 292.7), as UST yields fell (-5 bps, to 1.58%) after April's jobs report fell short of expectations.

FX: w-o-w, the USD weakened (DXY, -1.1%, to 90.233; EUR/USD +1.2%, to 1.216), mostly in reaction to US payroll report, recording its worst week since November 2020.

Commodities: Oil prices rose (Brent, +1.5% to 68.3 USD/b), boosted by: i) optimism over restrictions being eased in the US and Europe; ii) strong economic data out of China; and iii) US crude stocks falling the most in three months. Gold rose (+3.5% to 1,830 USD/Oz) as safe-haven demand rose, helped by accelerating infection rates in India and Japan.



@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