



R&R Weekly Column  
By Brunello Rosa



### Key Appointments This Week: G20 Meeting, COP26 and Central Bank Tightening

The Italian presidency of the G20 forum concluded this past weekend with the [G20 meeting](#) that was held in Rome. All the head of states of the twenty largest economies in the world gathered in Rome to discuss key themes such the fight against the pandemic (and against pandemics in general), climate change, and the implementation of a minimum corporate tax rate.

*Regarding the pandemic*, the G20 highlighted the importance of continuing and intensifying the vaccination campaigns in those countries that have already started them, and of pushing further for a fairer distribution of vaccines around the globe, particularly for developing economies. The target to reach is having 70% of the world population vaccinated by 2022. The monetary and fiscal response to the pandemic needs to remain coordinated to avoid *beggar-thy-neighbour* behaviours. G20 leaders also pledged to make their economies more resilient to future pandemics, which may become more frequent in coming decades as the world population increases. Attending the conference remotely by video, the Chinese president Xi Jinping asked that the discussion about the origin of the virus not be politicalized excessively, saying that doing so does not help the international cooperation and solidarity needed in the face of the ongoing emergency.

Regarding the *minimum corporate tax rate*, the G20 has adopted the recommendations made by the G7 group, which first pledged to implement a minimum corporate tax at 15% in their economies. [As we discussed at that time](#), the logical sequence was for G7 countries to first propose and adopt a policy of this kind, which is a key measure for social justice, and then enlarge its adoption to G20 countries and eventually at the OECD level, [with 38 members](#) including many EMs such as Colombia, Mexico and Costa Rica.

On *climate change*, the G20 highlighted once again the strong connection with pandemics, the two being aspects of the same phenomenon. We discussed in the past how, in our opinion, both climate change and pandemics derived in large part from the rapid rise in the world's population, which has doubled in the last 40 years to 7bn people and is may reach 11bn by 2050. But clearly most of the advancement of the discussion on climate change will be made in Glasgow, when the crucial COP26 starts on Monday. We remain sceptical that lots of progress will be made, especially as China is clearly not engaging in the discussion. Without China's strong commitment to reduce its carbon emissions, any effort to reduce gas emissions would be almost in vain, even if all other major industrialised economies were to reach carbon neutrality by 2040-2050.

There will also be two crucial central bank meetings this week. On Wednesday, the US Federal Reserve will likely announce the beginning of tapering of its asset purchases. As we discuss in [our preview](#), this may happen in November or December, but the direction of travel seems set at this stage. The Bank of England will meet on Thursday and will confirm that it is ready to increase its policy rate – an action that could take place during that November meeting as well ([as we discuss in our preview](#)). When two of the four largest central banks in the world begin tightening their policy stance, it means we are at a turning point in the policy response to the pandemic and its economic repercussions.

#### Our Recent Publications

 [Flash Preview: BoE Ready To Increase Its Bank Rate in November](#), by Brunello Rosa and Nouriel Roubini, 29 October 2021

 [Flash Review: ECB To End PEEP In March, While Avoiding A Cliff Edge](#), by Brunello Rosa, 28 October 2021

 [ECB Flash Preview: ECB Mulling Over Policies For the Post Pandemic Period](#), by Brunello Rosa and Nouriel Roubini, 25 October 2021

 [GEOPOLITICAL CORNER: In Political Risk Terms, Brazil Is In For a Bumpy Ride](#), by John C. Hulsman, 19 October 2021



Looking Ahead

The Week Ahead: US NFP To Increase, PMIs To Weaken; Fed To Announce QE Tapering; BoE May Raise its Bank Rate

**In the US**, Federal Reserve is meeting expected to announce QE tapering.

**In the US**, Non-Farm Payrolls are expected to be 413K in October, versus 194K in September.

**In the US**, i) manufacturing PMI is expected to stumble (c: 59.2; p: 60.7); while ii) services PMI to increase (c: 58.2; p: 54.9).

**In the EZ**, PMIs are expected to fall: manufacturing PMI to 58.5, p: 58.6); and ii) services PMI decreases (c: 54.7; p: 56.4).

**In the UK**, the BOE may increase its Bank Rate by 0.15% to 0.25%.

**In the UK**, COP26 will be taking place Glasgow from Monday, 1 November, to Friday, 12 November.

The Quarter Ahead: COP26 Weeks; General Elections in Japan; ECJ Fine On Poland

**US President Biden faces questions about his ability to deploy meaningful climate policies.** COP26 starts on Monday and the White House has confirmed its spending package to be worth up to \$20 tn. Power companies might try to counter aggressive steps that include diversify away from fossil fuels. Pressure comes from environmental lobbying groups, as well as by democratic lawmakers, who fear a second wave of what happened under President Obama's mandate, when the Senate blocked climate legislation. There seems to be limited support from the Republican party.

**General Elections in Japan will take place on Sunday, 31 October.** The new leader Fumio Kishida is hoping for a quick election victory to spur economic recovery, stagnant as a consequence of the Covid-19 pandemic. While the LDP victory seems assured, the majority in parliament will be determinant for the effectiveness of the government action in implementing the needed reforms and the policies to end the pandemic emergency.

**EU fines Poland for disregarding rule of law.** The European Court of Justice has fined Poland €1M a day for causing "serious and irreparable harm" to the EU legal order and common values. Poland has ignored the ruling that suspended its controversial judicial system changes. As a result, further tensions over the independence of the judiciary between the ECJ and Poland can be expected.

**US Senate Democrats' plan to impose a tax on billionaires collapsed**, as the centrist members of the party have undermined the proposal. The tax was intended to finance President Biden's "Build Back Better" legislation, aimed at funding childcare, education, healthcare and the fight to climate change. New negotiations will likely take place to settle the issue.

Last Week's Review

Real Economy: GDP Maintains A Positive Growth; Inflation Stabilizes

**In the US**, GDP growth rate for Q3 rose by 2% q-o-q SAAR, well below market forecasts of 2.7% and slowing sharply from 6.7% in Q2.

**In the EZ**, the flash estimate of the GDP growth rate for Q3 came in at 2.2% q-o-q (p: 2.2%), and 3.5% y-o-y (p: 14.3%).

**In the US**, September's core-PCE index increased 3.7% y-o-y (p: 3.6%), and PCE index to 4.4% y-o-y (p: 4.3%). Core PCE prices in the US, which do not include food and energy, increased 0.2% m-o-m in September of 2021, below 0.3% in the previous two months and in line with forecasts.

**In the EZ**, October's core inflation came in unchanged at 1.9% y-o-y while headline inflation rose to 3.7% y-o-y (p: 3.4%).

Financial Markets: EM Equities Fall; Bond Yields Rise; Oil Commodity Prices Fall and Gold Prices Rise

**Market drivers:** i) technology and internet-related announcements; as ii) decline in auto sales and in food services and accommodation spending; iii) hawkish signs from CBs.

**Global equities** fell w-o-w (MSCI ACWI, -0.55%, to 742). In the US, the S&P 500 fell (-0.51% w-o-w to 4,552). In the EZ, shares ended higher (Eurostoxx 50, +0.33% w-o-w, to 4,221), as optimism about corporate earnings season overcame worries about the potential risks if CBs tighten monetary policy as economic growth loses momentum. In EMs, equities retracted (MSCI EMs, +1%, to 1,283), as Chinese stocks fell (Shanghai Comp., +1%, to 3,18). **Volatility** fell below averages (VIX S&P 500, -0.27 pts to 16.26, 52w range.: 14.1-39.78).

**Fixed Income:** US 10-year bond yield ended the week virtually unchanged (-0.005%, to 1.561%), Germany 10-year bond yield gained (+0.05%, to -0.11%). The EMTX 7-10 RT index lost -2.27 points to 278,25.

**FX:** w-o-w, the US Dollar Index gained (DXY, +0.84%, to 94.108; EUR/USD -1.04%, to 1.1558). In EMs, currencies fell against the USD (MSCI EM Currency Index, -0.06% w-o-w, to 1,733).

**Commodities:** Oil prices fell (Brent, -2.09% w-o-w, to 82.12 USD/b), as the ongoing energy crunch persists in Europe and Asia. Gold gained (+0.25% w-o-w, to 1,804 USD/Oz), as the USD weakened after Fed Chair Powell said that the Fed is ready to begin QE tapering.

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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	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