



R&R Weekly Column
by Brunello Rosa



The Italian Presidential Election: Will Draghi Make It to The Quirinale Palace?

The process to elect the next Italian president begins this week. The president is elected by an electoral college composed of 1008 “grand electors”, made up of current MPs (deputies and senators) as well as 58 regional representatives. A super-majority of 2/3rd of votes is necessary for a president to be selected in the first three rounds of voting. From the fourth round onward a simple majority of 505 votes will be sufficient.

There are a lot of misconceptions regarding the role of the president in Italy. Most people believe it is only a ceremonial position, carrying little weight in the actual decision-making political process of the country. This may be true in relatively tranquil times, in which political parties have full control of parliament and the government in general. But in turbulent times, when a political crisis emerges, the president is akin to the “reset button” of the system. The president appoints the PM and, by way of the PM’s suggestion, all the ministers as well. The president can also dissolve parliament, calling early elections. Other powers at the president’s discretion include the possibility of vetoing a law before it is promulgated (though he or she can do so only once), as well as being the formal commander in chief of the military. The president also presides as the governing body of the judiciary. As we have previously discussed, the next Italian parliament will be reduced in size relative to the current parliament, a result of the referendum which cut the number of MPs by almost half. The next parliament will also be a balkanized one, given the fragmentation of the political system and the reduced electoral size of the major parties ([the four largest parties each poll between 16% and 21%](#)). In such a situation, we know that the next president will almost inevitably be the “*deus ex machina*” of the political system.

So, who will be chosen by the parties to be “commanded” for the next seven years? The parties may opt for a second-tier political figure, as has happened in the past. Such a pick would be less likely to disturb their political manoeuvring, after all. At the same time, the proven inability of parties to provide viable political solutions in the past suggests that political leaders may be wise to choose somebody of a higher calibre, somebody who can actually resolve possible future crises constructively. At the same time there is the need for Italy to have a very competent PM who is able to implement the recovery plan, which will allow Italy to receive around EUR 50bn in the next few months as part of the NextGenEU plan. Both of these requirements point to the figure of Mario Draghi, who is certainly an extremely competent PM and would be an equally good president. [Already in 2020 we discussed the pros and cons of having Draghi at Palazzo Chigi \(as PM\) or at Quirinale palace \(as President\)](#). At that time, Draghi was nowhere near entering Italy’s political system.

[More recently, we said that Draghi would be able to better exert his influence on the system as president](#), while most commentators thought he should remain PM. More recently, there seems to have been a conversion on the road to Damascus moment: all of the most influential press is pushing for Draghi to become president and thereby hope to ensure seven uninterrupted years of institutional stability. [Most recently the FT joined this group calling for Draghi to become president, in an unsigned editorial](#).

We still consider Draghi at Quirinale a far better option than at Chigi, especially if the government remains similar to the current one, and if its parliamentary majority remains intact. But we know from experience that the election of the president is a roulette. Even much more powerful first-tier political leaders of the so-called First Republic (1948-1994) did not manage to ascend to the Quirinale. If Draghi does not make it, then, perhaps an institutional figure from the centre-right (Marcello Pera, Elisabetta Casellati, Gianni Letta, etc.) may emerge instead, or else perhaps a relatively independent institutional figure will emerge (such as the former president of the Chamber Pierferdinando Casini). The centre-left however does not seem to stand a chance to elect its president this time around, even if it could put forward credible candidates such as Romano Prodi or Paolo Gentiloni.

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Looking Ahead

The Week Ahead: PMI To Fall In US And EZ And To Rise In The UK

In the US, PMIs are expected to fall as: i) manufacturing PMI stumbles (c: 56.7; p: 57.7); and ii) services PMI drops (c: 54.8; p: 57.6).

In the EZ, activity is projected to slows as: i) manufacturing PMI falls (c: 57.5; p: 58); and ii) services PMI decreases (c: 52.2; p: 53.1).

In the UK, business activity is seen to remain almost stable as: i) manufacturing slows (c: 57.6; p: 57.9); while ii) services PMIs rises (c: 54; p: 53.6). As such the composite index is seen increasing slightly to 54.0 from 53.6.

The Quarter Ahead: EU Discord About Deterrence vs Russia; Italian Presidential Election; Agreement Between Turkey and UAE

The EU has been put between a rock and a hard place after last week cyber-attack on Ukraine by Russia. Disagreement between member states on what the Russian aggression meant has not found a common ground, while the EU has reached unity on the need for a response. A list of potential sanctions has been drafted by the European Commission, but still needs final approval.

The US secretary of state will meet his Russian counterpart for talks, as the White House is seeking for a diplomatic approach to cease tensions over Ukraine. The trip for the US secretary of state Blinken involves meeting with the Ukrainian president and the foreign ministers of France, Germany, and the UK. It is likely that Europe will be forced to respond to any threat to EU rules, while the UK will continue supplying Ukraine with short-range anti-tank missiles.

UK's financial watchdog proposes to tighten the rules for the promotion of cryptocurrencies. The Financial Conduct Authority has suggested a rearrangement of the rules on selling risky investments to the public, responding to the "rapid growth" in risk-taking during the Covid-19 pandemic. Final rules, which are likely to be published by this summer by the FCA, should revise marketing restrictions as well as plans to improve risk warning attached to ads. The Treasury warned the new approach to crypto will also require legislation in Parliament.

Iran seeks to boost relations with Russia and China to better withstand American political and economic pressures. Tehran has set tough conditions for Washington, it will retract nuclear advances only if the US will lift all sanctions and will guarantee that no future government will withdraw from the agreement. As for now, Iran is pushing for economic progress and is seeking to do business with all countries other than the US and Israel, being China and Russia already among the top trading partners.

Turkey and the United Arab Emirates have signed a swap agreement worth \$5bn to boost the Turkish lira. The agreement is said to reflect nation's desire to enhance bilateral co-operation in financial matters by establishing a borrowing agreement rather than an investment by the Gulf nation in the country. President Erdogan is planning trips to Egypt, Israel, and Saudi Arabia to enhance diplomatic relations and attract foreign investments.

Last Week's Review

Real Economy: Stable Core Consumer Prices and CPI In The EZ; Higher Inflation Rates In The UK; Negative Interest Rate in Japan

In EZ, in December, the final inflation reading has been confirmed at 5.0% y-o-y (p: 4.9%) and core consumer prices increased to 2.6% y-o-y (p: 2.6%) as the cost of oil and natural gas continued to soar and supply chain disruptions continue. On a monthly basis, CPI stayed unchanged at 0.4% (p: 0.4%).

In the UK, headline inflation rose above market forecast to 5.4% in December (p: 5.1%), as inflationary pressure persists, namely from increasing energy prices, supply chain disruptions and a low base effect from last year. Core inflation increased at 4.2% y-o-y.

In Japan, BoJ left its key short-term interest rate unchanged at -0.1% confirming its policy stance.

Financial Markets: Bond Yields Rise, While US and EZ Stock Prices as well as Oil And Gold Prices Fell

Market drivers: Last week's main market movers were: i) fall in stock market prices; ii) rising interest rates in the U.S. which led the S&P Index to decline; iii) expected tighter monetary policies by the Fed, ECB and the BoE.

Global equities decreased w-o-w (MSCI ACWI, -4.25%, to 713). In the US, the S&P 500 ended lower (-5.68% w-o-w to 4,398). In the EZ, shares fell (Eurostoxx 50, -1.00% w-o-w, to 4,230). In EMs, equities also fell (MSCI EMs, -1.05%, to 1,244), while the Chinese stocks rose (Shanghai Comp., +0.04%, to 3,523). **Volatility** gained (VIX S&P 500, +7.24 pts to 28.85, 52w range.: 14.1-37.51).

Fixed Income: US 10-year bond yield fell (-4bps, to 1.77%), as well as Germany's 10-year bond yield, remaining in negative territory (-4bp, to -0.06%). The EMTX 7-10 RT increased by +0.53pts, to 278.578.

FX: w-o-w, the US Dollar Index rose (DXY, +0.5%, to 95.62; EUR/USD fell by +0.65%, to 1.1344). In EMs, currencies weakened against the USD (MSCI EM Currency Index, -0.01% w-o-w, to 1,743).

Commodities: Oil prices rose w-o-w (Brent, +2.13% w-o-w, to 87.89 USD/b). Gold prices fell by -0.6% w-o-w to 1,832 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