



R&R Weekly Column
By Brunello Rosa



Johnson's Resignation Opens The Gate To A Real Post-Brexit Britain

Last week's news [extensively reported](#) on Boris Johnson's resignation as leader of the UK Conservative party. Johnson said that he will remain Prime Minister (PM) until the Tory party identifies his successor, who (by way of the UK's unwritten constitution) will also become Britain's new PM. In theory, this will happen by the time of the [Tory party conference](#), which is scheduled to take place in Birmingham between October 2nd and 5th 2022. But the Labour and SNP opposition may push a confidence vote through parliament in order to speed up the substitution process. We suspect however that the conservative MPs will manage to avoid that; Johnson's resounding victory in December 2019 gave the Tories their largest parliamentary majority since 1987.

The [list of candidates vying to succeed Boris Johnson is a long one](#). The first to present his candidacy [was Rishi Sunak](#), the former Chancellor of the Exchequer. His and Sajid Javid's resignations triggered the collapse of Johnson's government, and he is probably one of the most credible candidates alongside Ben Wallace, the Defence Minister, [who is reportedly loved by the party base](#) (but Wallace rule out his candidacy). Other competitors are Sajid Javid himself, the former Health Minister, who [will run together with Jeremy Hunt](#) (who was defeated by Johnson in the last leadership race) and Liz Truss, the incumbent Foreign Minister. Inevitably, other names will appear on the horizon as we approach the party conference.

Boris Johnson's legacy will be that of leaving behind a divided country, politically and geographically. His main success might have been that of "Getting Brexit Done", but this has also meant shovelling Brexit down the throat [of two nations that voted against it](#), i.e. Northern Ireland (NI) and Scotland. As a result, Scotland has already started the [process to hold another referendum for independence](#), after the one narrowly lost by the secessionists in 2014.

Northern Ireland meanwhile is constantly on the verge of a crisis, as the UK government has suggested the repeal of the so-called NI Protocol, which regulates the commercial relationships with the EU in the region (which imply customs check in the British Sea, to keep the border between Northern Ireland and the Republic of Ireland open). Additionally, [the victory by the Sinn Féin](#) in the recent elections in Northern Ireland has made a referendum on the reunification of the Irish island much more likely in coming years.

The Brexiter dream of launching a "Global Britain" after the UK's divorce from the EU may ultimately lead to a return of the "little England" of the 1970s, facing the economic consequences of its departure from the bloc: [endemic strikes](#), high inflation, slow growth, and increasing difficulties in remaining part of global supply chains (which are themselves in the process of becoming balkanised).

The task of the next UK PM, whoever that will be, and whenever he or she will enter office, will be that of "Making Brexit Work" for the UK: making sure that the country can reap the benefits of the regulatory divergence that it has fought so hard to achieve. Part of the task will also be re-building a relationship with the EU, which ought to be less fractious than the current relationship has been. The risk of not doing so would be to end up leading a country with much less influence on the world stage.

Our Recent Publications

✿ [Bold and Intriguing Reforms in Post-Qaboos Oman](#), by
Gulf State Analytics, 7 July 2022

✿ [GEOPOLITICAL CORNER: The Neutrals React: The Promise and Peril of Sweden and Finland Joining Nato](#), by John C. Hulsman, 28 June 2022

Looking Ahead

The Week Ahead: Headline Inflation To Accelerate, While Core Inflation To Fall In US; Yearly IP To Rise In EZ And To Shrink In UK

In the US, in June, headline inflation rate is seen surging to 8.8% y-o-y (p : 8.6%), whereas core-inflation is likely to cool down to 5.8% (p : 6.0%). On a monthly basis, inflation is expected to increase to 1.1% (p : 1.0%). June's PPI is expected to stay unchanged at 10.8% y-o-y and IP is likely to increase by 0.2% m-o-m (p : 0.1%). According to a preliminary estimate, July's Michigan consumer sentiment is seen decreasing to 49.8 (p : 50). Also in July, retail sales are likely to recover to 0.8% m-o-m (p : -0.3%).

In the EZ, May's IP is expected to increase by 0.2% y-o-y (p : -2.0%) and 0.2% m-o-m (p : 0.4%).

In the UK, May's IP is expected to shrink by -0.5% y-o-y (p : 0.7%), whereas it is likely to be stagnant on a monthly basis (p : -0.6%).

The Quarter Ahead: 2022 UK Government Crisis; Japan Ex-PM Shot And Dead; Covid Cases Surge Globally; Twitter Deal Terminated

Boris Johnson resigned from the Conservative party leadership but remains as PM until the party chooses a successor. In the immediate aftermath of the scandal, related to allegations of sexual misconduct by the former Deputy Whip, Chris Pincher, Sajid Javid, ex-Secretary of State for Health and Social Care and Rishi Sunak, ex-Chancellor of the Exchequer, resigned from the cabinet. These resignations in turn led to the largest number of ministerial resignations in a 24-hour period. The Conservative Party leadership contest will likely take place between July and September. As reported, until then Johnson will stay as 'caretaker' UK Prime Minister. **Japan's former PM Shinzo Abe assassinated at campaign event.** Shinzo Abe was Japan's longest-serving prime minister and stepped down citing health reasons. He advocated for government's economic policies, also known as Abenomics, founded on monetary easing, fiscal responsibility and structural reforms.

Cases of COVID-19 are increasing globally. In the United States, Omicron variant BA.5, which is known to be much more contagious, is now responsible for more than half of new cases. Italy daily COVID cases exceed 100K for first time since February. French authorities encourage mask use and German Health Minister Karl Lauterbach argues doing 'whatever it takes to address the situation'.

Elon Musk said he's terminating the Twitter deal. Previously Musk threatened to abandon the USD 44bn takeover, accusing Twitter of 'material breach' and claiming that social network failed to provide details of fake accounts.

Last Week's Review

Real Economy: US Unemployment Rate Remained Unchanged And NFP Rose; PMIs Fell In US And EZ, While Rose In the UK

In the US, June's unemployment rate stood unchanged at 3.6% and NFP rose more-than-expected by 372K (c : 268K; p : 384K). Participation rate slightly decreased to 62.2% (p : 62.3%). Also in June services and composite PMIs decreased to 52.7 (c : 51.6; p : 53.4) and 52.3 (c : 51.2; p : 53.6) respectively.

In the EZ, in June services and composite PMIs fell to 53 (c : 52.8; p : 56.1) and 52 (c : 51.9; p : 54.8). May's PPI decelerated to 0.7% y-o-y (c : 1.0% p : 1.2%) and to 36.3% m-o-m (c : 36.7%; p : 37.2%) respectively. In May, retail sales decelerated to 0.2% y-o-y (c : -0.4%; p : 4.0%), whereas on a monthly basis, retail sales recovered to 0.2% (c : 0.4%; p : -1.4%).

In the UK, in June services and composite PMIs rose to 54.3 (c : 53.4; p : 53.4) and to 53.7 (c : 53.1; p : 53.1) respectively.

Financial Markets: Equities Climb; Yields Rose Over Strong US Labor Market; Dollar Index Was Up, While Oil And Gold Prices Fell

Market Drivers: Investors remained somewhat optimistic about an economic soft landing as the Fed reiterates its commitment to taming inflation according to its latest minutes. As a result, stocks were boosted back higher with S&P 500 pulled out of bear territory. The minutes also reinforce the expectations for a higher terminal Federal funds rate, pushing yields up. While stronger-than-expected jobs data shows no signal of a recession, the closely watched 2year-10year segment of the Treasury yield curve is inverted.

Global Equities: Increased w-o-w (MSCI ACWI, +1.6%, to 608.58). The US S&P 500 index rose (+1.9% w-o-w, to 3,899.38). In the EZ, shares were up (Eurostoxx 50, +1.7% w-o-w, to 3,506.6). In EMs, equities increased (MSCI EMs, +0.7%, to 999.57). Volatility rose to 26.1 (VIX S&P 500, 52w avg.: 23.0; 10y avg.: 18.1).

Fixed Income: w-o-w, 10-year US treasury yields rose (+19 bps to 3.08%). The 2-year US Treasury yields were up too (+27 bps to 3.10%). The German 10-year bund yield increased (+11 bps to 1.33%).

FX: w-o-w, the US Dollar Index was up (DXY, +1.7%, to 106.9; EUR/USD -2.3%, to 1.019). In EMs, currencies weakened (MSCI EM Currency Index, -0.18% w-o-w, to 1,660.39).

Commodities: w-o-w, oil prices fell (Brent, -4.0% to 107.2 USD/b). Gold prices decreased w-o-w (-3.4% to 1,740.9 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