



R&R Weekly Column
By Brunello Rosa



Will Liz Truss Show What Brexit Really Means For Britain?

A few weeks ago, after Boris Johnson resigned as UK Prime Minister, [we published a column titled](#) “Johnson’s Resignation Opens The Gate To A Real Post-Brexit Britain.” In that column we discussed the possible contenders for the leadership race, indicating Rishi Sunak and Liz Truss as the clear frontrunners. We also warned that, once that Brexit was “done” by Boris Johnson, the new Tory party leader and future PM will have to deliver on what Brexit will really mean for the country; in particular, by showing what benefits it could derive from leaving the EU.

This week, the leadership race will come to an end, with the election of Johnson’s successor by 161,000 Tory party members on September 5th. Liz Truss is widely expected to win the race. Sunak has been one of the most popular ministers in Johnson’s cabinet, widely praised for his sensible approach to the pandemic, which was epitomised in the furlough scheme that was launched to make sure that millions of people did not lose their jobs. But Truss has been a party member far longer than Sunak, and she is clearly favoured by the party grandees, as well as by the base. She comes from the party ranks, and can probably speak to the belly of the country better than Sunak can.

In spite of the humble origins of his family, Sunak would seem an elitist choice, considering his business studies at Stanford and his marriage with the daughter of one of the richest men in India. The fact that his wife was caught using a legal scheme to pay less taxes in the UK did not help. Sunak would speak to Britain’s minds. But in a period in which populism is still in vogue, speaking to the belly of the country goes a longer way than speaking to the mind. This is the reason Liz Truss will likely win the race.

We have already discussed the differences in policies between Sunak and Truss; [a further comparison between the two can be found here](#). But there is an aspect of the difference between them that it is worth discussing in greater depth. Let us assume that Liz Truss wins the race. She is considered to be a die-hard Brexiter, with a level of zealotry that only “the converted” have (she voted to remain in the EU in 2016).

Truss reportedly wants to transform the UK in a sort of Singapore-on-Thames, with a super low tax rate. Hence, her proposal of reducing taxes by GBP 30bn from “day one” in office. She also wants to reduce the regulatory burden, to take advantage of the divergence in standards with the EU that the UK has gained from Brexit. She also wants to revisit the Northern Ireland protocol, which regulates the relationship between UK and the rest of the EU at the Irish border. In terms of economic policy, she is clearly in favour of tax cuts over “cash handouts.” But even Margaret Thatcher increased taxes (for example VAT), before announcing tax cuts, years later.

Some commentators say that [“Liz Truss can do a lot of damage before she’s thrown out, as she will be, in 2024.”](#) Others believe that, [“If she wins, and enacts her promise of immediate tax cuts, the only safe prediction is that sterling will crash.”](#) While we are somewhat concerned by her proposed policy, we believe that Truss is likely to show to the UK what Brexit really means, in both a positive and a negative sense.

Our Recent Publications

✦ [Restoring The Fed's Credibility Goes Hand In Hand With Fighting Inflation](#), by Filippo Ramigni, 23 August 2022



✦ [Causes and Consequences of Nancy Pelosi’s Visit to Taiwan](#), by London Politica, 16 August 2022

Looking Ahead

The Week Ahead: EZ Inflation To Rise; US NFP To Soften; French And Italian QoQ GDP To Rise; Manufacturing PMI To Fall In DMs

In the US, in August, the unemployment rate is expected to remain unchanged at 3.5% and NFPs are likely to decelerate to 285K (p: 528K). Still in August, manufacturing PMI is likely to decrease to 51.3 (p: 52.2).

In the EZ, in August, headline and core inflation rates are expected to increase to 9.0% y-o-y (p: 8.9%) and 4.1% y-o-y (p: 4.0%) respectively. Also in August, economic sentiment is likely to decrease to 97.7 (p: 99), whereas consumer confidence is expected to recover slightly to -24.9 (p: -27). August's manufacturing PMI is seen decreasing to 49.7 (p: 49.8). In July, the unemployment rate is expected to stay unchanged at 6.6%. July's PPI is likely to rise to 37.0% y-o-y (p: 35.8%).

In the UK, in August, manufacturing PMI is expected to fall to 46 (p: 52.1).

Among the largest EZ economies, in Q2 French GDP is likely to rise by 0.5% q-o-q (p: -0.2%) and Italian GDP is expected to advance by 1.0% q-o-q (p: 0.1%).

The Quarter Ahead: DOJ Released Redacted Trump Mar-a-Lago Raid Affidavit; US Sent Two Warships Through Taiwan Strait

Department of Justice revealed redacted affidavit used to obtain a search warrant for Trump's home in Florida. The affidavit reports that the government had probable reason to believe that the search of Trump's Mar-a-Lago would turn up evidence of illegality. The warrant revealed that FBI was looking for materials demonstrating violations of laws against 'obstruction of justice and the removal of official records, as well as the U.S. Espionage Act'.

Two US Navy warships entered the Taiwan Strait for the first time since US-China tensions intensified. Washington said that its two guided-missile cruisers are making the voyage while demonstrating freedoms of navigation in accordance with international law.

Last Week's Review

Real Economy: US QoQ GDP Contracted; PMIs Fell in DMs, Even Below 50; German QoQ GDP Advanced Slightly

In the US, the second estimate showed that in Q2 GDP contracted by 0.6% q-o-q (c: 0.8%; p: -1.6%). In July, PCE and core-PCE eased to 6.3% y-o-y (p: 6.8%) to 4.6% y-o-y (p: 4.8%) respectively. According to flash estimates, in August, manufacturing and services PMI decreased to 51.3 (c: 52; p: 52.2) and to 44.1 (c: 49.2; p: 47.3) each. Composite PMI fell too to 45 (p: 47.7) August's consumer sentiment rose to 58.2 (c: 55.2; p: 51.5).

In the EZ, according to flash estimates, in August, manufacturing and services PMIs fell to 49.7 (c: 49; p: 49.8) and 50.2 (c: 50.5; p: 51.2) respectively. As a result, composite PMI also declined to 49.2 (c: 49.0; p: 49.9). August's Consumer Confidence recovered to -24.9 (c: -28; p: -27).

In the UK, according to flash estimates in August, manufacturing and services PMIs decreased to 46 (c: 51.1; p: 52.1) and 52.5 (c: 52; p: 52.6). As a result, composite PMI fell to 50.9 (c: 51.1; p: 52.1).

Among the largest EZ economies, in Q2 German GDP rose by 0.1% q-o-q (c: 0.0%; p: 0.8%) and 1.7% y-o-y (c: 1.4%; p: 3.6%).

Financial Markets: Stocks Fell, Whereas Yields Rose; Dollar Is Up; While Oil Is Up And Gold Prices Are Down

Market Drivers: Stocks tumbled, as Fed Chairman delivered a strong warning about Fed's strong determination to tame inflation with more sharp rate hikes, even though it will likely cause pain for Americans in the form of job losses. Despite mixed economic signals, yields moved higher on hawkish comments.

Global Equities: Decreased w-o-w (MSCI ACWI, -2.9%, to 627.9). The US S&P 500 index decreased (-4.0% w-o-w, to 4,057.7). In the EZ, share prices were down (Eurostoxx 50, -3.4% w-o-w, to 3,603.7). In EMs, equity prices increased (MSCI EMs, +0.5%, to 1006.5). Volatility rose to 26.2 (VIX S&P 500, 52w avg.: 23.6; 10y avg.: 18.2).

Fixed Income: w-o-w, 10-year US treasury yields were up (+5.4 bps to 3.03%). The 2-year US Treasury yields up too (+14 bps to 3.38%). The German 10-year bund yield rose (+17 bps to 1.40%).

FX: w-o-w, the US Dollar Index was up (DXY, +0.7%, to 108.8; EUR/USD -0.7%, to 0.99). In EMs, currencies fell (MSCI EM Currency Index, -0.1% w-o-w, to 1,648.5).

Commodities: w-o-w, oil prices rose (Brent, +2.4% to 99 USD/b). Gold prices decreased w-o-w (-0.7% to 1,750.8 USD/Oz).



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The picture in the front page comes from [this website](#)



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