



R&R Weekly Column
By Brunello Rosa



Can Liz Truss's Debacle Teach A Lesson To Giorgia Meloni?

Last week the UK went through one of the most dramatic periods of its recent history. The events started with the [not so-mini-budget that was presented on Friday, September 23rd](#) by the Chancellor of the Exchequer Kwasi Kwarteng, which we discussed at length [in our previous column](#) and [subsequent podcast](#).

As we argued in our column, the fiscal measures introduced by the Chancellor represent an economic gamble, as they consist of unfunded tax cuts worth GBP 45bn, to be added to the roughly GBP 100bn of measures that were adopted to cushion the effects of the energy crisis on households and companies. This would imply an additional GBP 150bn of borrowing by the government; i.e. gilts to be issued by the Treasury and presumably absorbed by the market. All this, without any forecast on economic growth and related fiscal deficit projections by [the Office for Budget Responsibility](#) (OBR), which generally accompany the issuance of the budget.

The results of these decisions have been disastrous. Investors have started to ask for higher yields to absorb the upcoming extra borrowing planned by the UK Treasury. [Pension funds have been caught in margin calls](#), which forced them to sell even more gilts to get hold of cash to close these margins. This has made the price of gilts collapse and their yields rise rapidly. To stop this vicious circle, the [Bank of England had to step in and launch an emergency program of GBP 65bn of purchases of gilts](#) to be carried out over the following fortnight. Meanwhile, the GBP collapsed to its lowest level in recent history. [Tory MPs threatened a no-confidence vote on Truss](#) just weeks after having [chosen her as their new party leader](#). Truss and Kwarteng had to meet with the OBR in order to inject confidence into the market, even though the meeting [did not end with any sign of a policy U-turn](#) by the government.

The question we are asking ourselves is the following: is there any lesson that Giorgia Meloni, likely to be appointed PM in Italy, may learn from Liz Truss? After all, Liz Truss, in spite of all her shortcomings in communicating her policy intentions to the public, is an experienced politician and member of government, [who studied Philosophy, Politics and Economics](#), the famous PPE course of the University of Oxford attended by many prime ministers before her. And Kwasi Kwarteng, after studying at Eton, has obtained various degrees, [including a PhD at Cambridge University](#). In spite of these prestigious pedigrees, they made a mess of their first few days at the helm of the government.

Giorgia Meloni and [her closest aids](#) lack the academic background of her UK counterparts, so she may seemingly be starting at a disadvantage. Yet she may be able to learn a few lessons from what happened to Truss and so avoid making the same mistakes. The first lesson to learn is that being a person of conviction only buys you some time and credibility: it is the test with *reality* that makes the difference, especially if one is extremely convinced about the wrong ideas. The second lesson is to always be surrounded by the best people you can find, not just by acolytes and minions. Finally, never challenge the markets if you have a large amount of debt to refinance. You may end up needing to ask for the intervention of the central bank. In the case of Italy, this is [now mediated by the eligibility for TPI](#), which is subject to a high degree of discretion by the ECB.

[As we said in our preview](#), we do not expect Giorgia Meloni to start her period of PM with bellicose intentions. However, as Liz Truss shows, a couple of wrong moves may transform the honeymoon phase into a debacle. Giorgia Meloni may end up being on a collision course with the markets and European authorities before show knows it.

Our Recent Publications

- [Saudi Arabia Re-Gains Centre Stage in a More Multipolar World](#), by Giorgio Cafiero, 29 September 2022



- [Market Views: "King" Dollar Dominates Market Dynamics](#), by Filippo Ramigni, 27 September 2022

Looking Ahead

The Week Ahead: US Unemployment Seen To Be Unchanged; Composite PMIs To Decrease In EZ And UK, While Rising In the US

In the US, September's unemployment is expected to stay unchanged at 3.7% and NFPs are likely to decrease to 250K (*p*: 315K). In September, manufacturing PMI is expected to increase to 51.8 (*p*: 51.5). Services and Composite PMIs are seen rising to 49.2 (*p*: 43.7) and to 49.3 (*p*: 44.6) respectively.

In the EZ, in September, manufacturing and services PMIs are expected to decrease to 48.5 (*p*: 49.6) and to 48.9 (*p*: 49.8). Composite PMI is seen decreasing to 48.2 (*p*: 48.9). August's retail sales are likely to shrink by -0.5% m-o-m (*p*: 0.3%) and -1.7% y-o-y (*p*: -0.%).

In the UK, in September, manufacturing PMI is expected to increase to 48.5 (*p*: 47.3), whereas services PMI is expected to fall to 49.2 (*p*: 50.9). Composite PMI is seen decreasing to 48.4 (*p*: 49.6).

The Quarter Ahead: The EU Agreed On Energy Windfall Levies; Truss And Kwarteng Met OBR; Putin Announced Annexation

The EU countries approved energy windfall levies. Ministers agreed on the levy on fossil fuel companies' surplus profits made this or next year, another levy on excess revenues low-cost power producers make on skyrocketing electricity costs and a mandatory 5% cut in electricity use during peak price periods. EU member states began discussing the EU-wide price cap, with many countries preferring a broader gas price cap, whereas - for example - Germany remains opposed to that.

UK PM Truss and Chancellor Kwarteng met the Office for Budget Responsibility (OBR). As OBR stated, it has been asked by Kwarteng to produce the first piece of its next economic forecasts on October 7 ahead of the planned budget statement on November 23. Following Kwarteng's 'mini-budget', the pound plummeted to a record low and the market entered turmoil.

Moscow is expected to recognize four Ukrainian regions as Russia – Luhansk, Donetsk, Kherson and Zaporizhzhia. Russia's President Putin vowed to use 'all the means' at Russia's disposal to defend the territory, leading to further escalation in the war against Ukraine. Putin announced the illegal annexation of Ukrainian regions, saying people there will become Russian citizens 'forever'.

Hurricane Ian moves across Florida, Georgia and Carolina after the Cayman Islands and Cuba. Biden warns of 'substantial loss of life'. More than 2 million people still had no power on Friday morning.

Last Week's Review

Real Economy: QoQ GDP Shrank In US And Advanced In UK; Inflation Rose In EZ; Headline PCE Fell In US, Whereas Core PCE Rose

In the US, in Q2, GDP shrank by -0.6% q-o-q (*p*: -1.6%) as expected. In August, headline PCE prices decreased to 6.2% y-o-y (*p*: 6.4%) and core PCE rose by 4.9% y-o-y (*c*: 4.7%; *p*: 4.7%). September's consumer sentiment fell to 58.6 (*c*: 59.5; *p*: 58.2).

In the EZ, in August, the unemployment rate stayed unchanged at 6.6% as expected. In August, as flash estimates showed: *i*) headline inflation surged to 10% y-o-y (*c*: 9.7%; *p*: 9.1%); and *ii*) core inflation increased to 4.8% y-o-y (*c*: 4.7%; *p*: 4.3%). Monthly inflation also rose by 1.2% (*p*: 0.6%). In September, economic sentiment decreased to 93.7 (*c*: 95; *p*: 97.3) and consumer confidence deteriorated further to -28.8 (*c*: -28.8; *p*: -25).

In the UK, in Q2, the economy advanced by 0.2% q-o-q (*c*: -0.1%; *p*: 0.7%). Also in Q2, GDP rose by 4.4% y-o-y (*c*: 2.9%; *p*: 10.9%).

Financial Markets: Stocks Were Down And Yields Rose; Dollar Is Down; Oil and Gold Prices Are Up

Market Drivers: Investors eye market turmoil in the UK and hawkish central banks. As a result, stock prices staged their third consecutive weekly decline, while the 10y UST yield reached 4% for the first time since 2008. US dollar was slightly lower after inflation data.

Global Equities: Decreased *w-o-w* (MSCI ACWI, -2.6%, to 553.37). The US S&P 500 index fell (-2.9% *w-o-w*, to 3,585.62). In the EZ, share prices were down (Eurostoxx 50, -0.9% *w-o-w*, to 3,318.20). In EMs, equity prices decreased (MSCI EMs, -3.3%, to 875.79). Volatility rose significantly to 31.3 (VIX S&P 500, 52w avg.: 24.5; 10y avg.: 18.2).

Fixed Income: *w-o-w*, 10-year US treasury yields rose (+14 bps to 3.83%). The 2-year US Treasury yields rose as well (+7 bps to 4.27%). The German 10-year bund yield rose (+8 bps to 2.11%).

FX: *w-o-w*, the US Dollar Index was down (DXY, -0.7%, to 112.16; EUR/USD +1.1%, to 0.98). In EMs, currencies fell (MSCI EM Currency Index, -1.0% *w-o-w*, to 1,581.44).

Commodities: *w-o-w*, oil prices rose (Brent, +0.6% to 85.56 USD/b). Gold prices increased *w-o-w* (+0.8% to 1,668.30 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