



R&R Weekly Column
By Brunello Rosa



Spanish Elections Show The Difficulties of Forming A Right-Wing Coalition In The EU

On July 23rd, [the Spanish general election took place](#). As we will discuss in greater detail in our upcoming review, the election result was inconclusive. The Partido Popular (PP) led by Alberto Núñez Feijóo won the most votes (33%) and seats (137), but the Partido Socialista Obrero de España (PSOE) led by Prime Minister Pedro Sanchez performed better than expected, with 32% of the vote and 121 seats, two more seats than his party had won in the previous election. Vox, the right-wing party with controversial positions on immigration and civil rights, did not gain votes as initially it had been expected to, but instead lost votes and seats. Its seat count declined to 33, 19 less than it won in the last election. Sumar, however, the coalition of left-wing movements led by Yolanda Diaz, which inherited the position of the populist party Podemos, staged an excellent performance, receiving more than 3 million votes and 31 seats. Regional parties meanwhile more or less held steady their share of votes and seats; they may once again prove decisive in the formation of a coalition government.

The distribution of seats in parliament could make it difficult for any major party to form a working majority. A coalition between PP and Vox could only count on 170 seats, 6 less than the 176 majority required to install a prime minister. Theoretically speaking, a new edition of the coalition led by Sanchez, between PSOE, Sumar and regional parties could lead to a new mandate for the incumbent prime minister, if the Catalan party of Junts por Catalunya (JxCat) were to abstain in the parliamentary vote to elect the Prime Minister – or to vote for Sanchez's coalition. The problem is that on July 24th the Spanish state prosecutor's office — Fiscalía — [asked Supreme Court judge Pablo Llarena to issue a new European arrest warrant for the JxCat's leader](#), Carles Puigdemont, who has lived in exile in Brussels during the past few years after having held an illegal referendum for Catalonia's independence in 2017. This is not going to make the solution of this intricate political situation any easier. One cannot rule out that new elections will be called soon, especially if Sanchez remains prime minister.

However, there is a more relevant political consideration that is worth taking account of in our view. We have [discussed in previous columns](#) and in a [dedicated report](#) how there is an ongoing attempt within the EU to build a coalition between the European People's Party (EPP) and centre-right parties, such as the European Conservative and Reformists and even Democracy and Identity, as an alternative to the usual grand coalition between the EPP and the Socialists and Democrats (S&D). The Spanish vote shows how difficult it will be to build such an alternative scenario. The PP belongs to the EPP and Vox to ECR. In a country that is moving its political axis to the right, voters rejected the possibility of a national alliance of the two parties to form a government, by punishing the more extremist of the two (Vox).

The leader of the ECR in Europe is Italy's Prime Minister Giorgia Meloni. Italy's exemplifies well the divisions of the right-wing side of the political spectrum. In fact, she governs in Italy with Forza Italia (which belongs to the EPP) and Lega (which is part of Democracy and Identity, together with Marine Le Pen's Rassemblement National – RN – and Germany's Alternative für Deutschland – AfD). Lega's leader Salvini has already said that the only way for a right-wing coalition to emerge in Europe would be to include Democracy and Identity, but the idea of coalescing with the extremists of the RN in France and AfD in Germany is highly unpalatable for the majority of EPP party leaders, who remember how autocratic governments emerged in Europe in the 1930s when centrist parties coalesced with the Nazis in Germany and the Fascists in Italy. The next few months will tell us whether this attempt at forming a right-wing coalition to elect the next EU Commission President after the European election of 2024 may still survive, or is already dead.

Our Recent Publications

- ❖ [Flash Preview: BoE To Continue Its Tightening Policy In July](#), by Brunello Rosa and Nato Balavadze, 28 July 2023
- ❖ [Review: BOJ To Conduct Yield Curve Control With Greater Flexibility](#), by Brunello Rosa and Nato Balavadze, 28 July 2023
- ❖ [Review: ECB Hikes Rates and Moves to Fully Data-Dependent Mode](#), by Brunello Rosa and Nato Balavadze, 27 July 2023
- ❖ [Flash Review: The Fed Hikes Rates in July And Will Decide About Future Moves At Each Meeting](#), by Brunello Rosa and Nato Balavadze, 26 July 2023
- ❖ [Preview: BOJ Most Likely To Stay Put In July](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 25 July 2023
- ❖ [Preview: Fed To Hike in July But Not Decided If That Is The Last Hike](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 24 July 2023
- ❖ [Preview: ECB To Hike Rates in July and Signal Possible Further Tightening Ahead While Remaining Data Dependent](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 24 July 2023
- ❖ [Elections in 2024: The Year That Can Change The World's Fate \(Part 1 – DMs\)](#), by London Politica, 19 July 2023

Looking Ahead

The Week Ahead: US QoQ GDP To Decelerate; US Core PCE To Ease; Composite PMIs To Decrease In DMs; BoE To Raise Rates

In the US, in July, the unemployment rate is likely to stay unchanged at 3.6%. NFPs are expected to rise by 200K (*p*: 209K).

In the EZ, in Q2, according to flash estimates, GDP growth rate is expected to advance by 0.2% q-o-q (*p*: 0.0%) and decelerate to 9.5% y-o-y (*p*: 1.1%). In July, the headline and core inflation rates are seen easing off marginally by 5.3% y-o-y (*p*: 5.5%) and 5.4% y-o-y (*p*: 5.5%), respectively. In June, the unemployment rate is expected to remain unchanged at 6.5%. June's retail sales are expected to rise by 0.2% m-o-m (*p*: 0.0%).

In the UK, the BoE is expected to increase its Bank Rate by 25 bps to 5.25%.

The Quarter Ahead: BoJ Said It Will Be More Flexible With Its Monetary Policy; Moscow Accuses Ukraine Of A Drone Attack

The Bank of Japan (BoJ) announced "greater flexibility" in its monetary policy - surprising global markets. The BoJ kept its policy stance unchanged, but will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level. Importantly, it will conduct yield curve control "with greater flexibility," regarding the upper and lower bounds of the range as "references," not as rigid limits, in its market operations. To enforce the "cap" on the 10y yield at 1%, the BoJ will conduct daily purchases at a fixed rate.

Russia accuses Ukraine of Moscow drone attack. The attacked wounded one and damaged two people, as officials say. Putin reported that an African and Chinese initiative could serve as a basis for finding peace. Moscow insists that negotiations can only occur if Kyiv acknowledges its country's "new territorial reality."

Last Week's Review

Real Economy: US QoQ GDP Accelerated; US PCE And Core PCE Eased; Composite PMIs Decreased In DMs; CBs Remained Hawkish

In the US, in Q2, GDP growth accelerated to 2.4 % q-o-q (*c*: 1.8% *p*: 2.0%). June's PCE Core PCE cooled off to 3.0% (*c*: 3.0%; *p*: 3.8%) and 4.1% y-o-y (*c*: 4.2%; *p*: 4.6%). In July, according to flash estimates, S&P Global Manufacturing rose to 49 (*c*: 46.2; *p*: 46.3), whereas Services PMI decreased to 52.2 (*c*: 54; *p*: 54.4). Composite PMI fell to 52 (*p*: 53.2)

In the EZ, in July, Economic Sentiment slightly deteriorated to 94.5 (*c*: 95; *p*: 95.3) while Consumer Confidence rose marginally to -15.1 (*p*: -16.1) as expected. In July, according to flash estimates, HCOB Manufacturing and Services PMIs fell to 42.7 (*c*: 43.5; *p*: 43.4) and 51.51 (*c*: 51.5; *p*: 52). Composite PMI also decreased to 48.9 (*c*: 51.5; *p*: 49.9).

In the UK, in July, according to flash estimates, S&P Global Manufacturing and Services edged down to 45.1 (*c*: 46.1; *p*: 46.5), and 51.5 (*c*: 53; *p*: 53.7). Composite PMI fell to 50.7 (*c*: 52.4; *p*: 52.8).

CBs remained hawkish. In the US, the Fed increased its target Fed funds range by 25 bps to 5.25% - 5.50%. In the EZ, ECB raised its main policy rates by 25 bps, with the deposit rate reaching 3.75%.

Financial Markets: Stock Prices Increased; Yields Edged Up; Dollar Index Increased; Oil Prices Rose, While Gold Prices Decreased

Market Drivers: In the US, sentiment seemed to improve due to a string of generally positive economic reports, especially concerning cooling inflation. In Europe, investor sentiment seemed to be positively influenced by policymakers adopting a dovish tone. Additionally, reports from China earlier in the week, indicating potential additional support to bolster the world's second-largest economy, further boosted investor confidence.

Global Equities: rose w-o-w (MSCI ACWI, +1.2%, to 705.51). The US S&P 500 index edged up (+1.0% w-o-w, to 4,582.23). In the EZ, share prices were up (Eurostoxx 50, +1.7% w-o-w, to 4,467.55). In EMs, equity prices moved up (MSCI EMs, +4.2%, to 1043.20). Volatility fell to 15.10 (VIX S&P 500, 52w avg.: 24.6; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US Treasury yields rose (+12 bps to 3.96%). The 2-year US Treasury yields increased (+4 bps to 4.89%). The German 10-year bund yield edged down (+3 bps to 2.46%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.6%, to 101.70; EUR/USD -1.0%, to 1.1). In EMs, currencies increased (MSCI EM Currency Index, +0.3% w-o-w, to 1,702.53).

Commodities: w-o-w, oil prices increased (Brent, +4.0% to 84.29 USD/b). Gold prices declined w-o-w (-0.4% to 1,958.85 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