

MAKING SENSE OF THIS WORLD

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R&R Weekly Column By Brunello Rosa



Fico's Victory in Slovakia Proves the Shifting Equilibria in European Politics

Last week, Smer SSD, the party of the former Slovak prime minister Robert Fico, won the general election held in the country, with nearly 23% of votes. It finished ahead of Progressive Slovakia, the pro-European party led by the young leader Michal Šimečka (with 18% of votes), and ahead of the social-democratic party Hlas–SD, led by Peter Pellegrini (with 14%; the party was born after splintering from Smer). Smaller parties received 5% and 9% of votes, respectively. In terms of seats, Fico will have to form a coalition, as his 42 MPs are far from the 76 seats needed for a majority in a the 150-seat National Council.

Fico's comeback is astonishing for two reasons. *First*, Fico has been in power <u>almost un-interruptedly between 2006 and 2018</u>, when the killing of Jan Kuciak, an investigative journalist, cast a shadow on the Slovak government, as Kuciak had been writing articles about the relationships between Fico's closest aides and the Calabrian mafia 'Ndrangheta. A few months after that tragic event, Fico resigned and did not return to power, until now. *Second*, Fico's party won the election with an openly anti-Ukrainian and pro-Russian campaign, in which he promised to stop sending weapons to Ukraine.

What are the implications of this victory? First of all, this is likely to break the unity of the European front in the unconditional support for Ukraine. Even Hungary, under Victor Orban, has not been able to achieve this goal. Now, Ukraine without the unwavering support of the US and the EU will not be able to stop the Russian aggression. Considering how many decisions need to be taken with a unanimous vote at the EU level, Fico's victory represents a problem in this respect, at a time when <u>Joe Biden is having a hard time passing fiscal legislation – including financial support for Ukraine</u> – through Congress, under the Damocles' sword of the US government shutdown.

Secondly, Fico's return to power, with a pro-Russian stance, also risks breaking the unity of NATO against Russia, at a time when <u>Turkish President Erdogan is asking Sweden further "concrete steps" against extremist organisations</u> supposedly being harboured by the Scandinavian country, in return for removing the veto that Erdogan is holding against Sweden's access to NATO. Again, for the US which is trying to re-organise the Western front for the long-lasting Cold War 2 against China, having rebellious pro-Russian partners in Europe and within NATO does not help. This is happening just as Lars-Hendrik Röller, the key economic adviser to to Angela Merkel when Merkel was German Chancellor, admitted that she left Germany too reliant on Russian gas.

The only positive piece of news for the pro-European parties in Europe is that the so-called Viségrad group, comprising Poland, Hungary, Czechia and Slovakia, is now more divided than ever. Poland and Hungary are under the procedure of Article 7 of the EU Treaties, for violation of key principles of the Union, including the rule of law and the independence of the judiciary. But while Poland is resolutely pro-Ukraine, Hungary and Slovakia have a more nuanced position. Czechia, which was leaning towards Russia under former PM Andrej Babis, has recently returned towards a more pro-European position under the leadership of President Petr Pavel.

All this shows that European political equilibria are continuously shifting and cannot be taken for granted. The situation may further evolve in coming years, especially if Marine Le Pen were to become the next French president in 2027.

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Looking Ahead

The Week Ahead: Unemployment To Fall in US And Stay Unchanged In EZ; Composite PMIs To Decrease In UK, While Rising In EZ

In the US, in September, unemployment rate is seen edging down to 3.7% (p: 3.8%). NFPs are likely to increase by 163K (p: 187K). In September, S&P Global manufacturing PMI is expected to rise to 47.7 (p: 47.6), while services PMI is likely to fall to 50.2 (p: 50.5). In the EZ, in August, unemployment rate is likely to stay unchanged at 6.4%. In September, HCOB manufacturing PMI is expected to

In the EZ, in August, unemployment rate is likely to stay unchanged at 6.4%. In September, HCOB manufacturing PMI is expected to decrease to 43.4 (p: 43.5), while services PMI is seen increasing to 48.4 (p: 47.9). Composite PMI is likely to edge up to 47.1 (p: 46.7). August's retail sales are expected to shrink by 0.3% m-o-m (p: -0.2%).

In the UK, in September, S&P Global/CIPS manufacturing PMI is expected to increase to 44.2 (*p:* 43.0), whereas services PMI is likely to edge down to 47.2 (*p:* 49.5). Composite PMI is seen falling to 46.8 (*p:* 48.6).

The Quarter Ahead: US Government Shutdown Seems Imminent; War In Ukraine; Slovak Parliamentary Elections 2023

US government shutdown. The US Senate voted with an 88-9 majority a bill to avert a government shutdown which will fund the government until mid-November, while leaving out extra funding for Ukraine. Earlier in the week, the Republicans in the U.S. House of Representatives turned down a proposal from their leader to temporarily finance the government: with a 232-198 vote, the House rejected a proposal to extend government funding for 30 days.

War in Ukraine. Ukrainian residents in Vinnytsia received an evacuation order following a Russian strike on an "infrastructure site." At the same time, NATO member Romania is looking into a potential breach of airspace as its radar system detected a signal during a Russian drone attack on Ukraine.

2023 Slovak parliamentary elections were held on 30 September. The election was won by former Prime Minister Robert Fico, who has pledged to end military aid for Ukraine, against the pro-Western liberals of Progresivne Slovensko (Progressive Slovakia).

Last Week's Review

Real Economy: QoQ GDP Rose In US And UK; US PCE Increased, While Core PCE Fell; EZ Inflation Eased Off

In the US, in Q2, GDP growth rate advanced by 2.1% q-o-q (*c*: 2.1%; *p*: 2.2%). In August, PCE price index rose to 3.5% y-o-y (*c*: 3.5%; p: 3.4%), while core PCE price index decreased to 3.9% y-o-y (*c*: 3.9%; *p*: 4.3%).

In the EZ, in September both headline and core inflation rate eased off to 4.3% y-o-y (*c*: 4.5%; *p*: 5.2%) and 4.5% y-o-y (*c*: 4.8%; *p*: 5.3%). In September, economic sentiment fell to 93.3 (*c*: 92.5; *p*: 93.6) and consumer confidence fell to -17.8 (*c*: -17.8; *p*: -16.0). *In the UK*, in Q2, GDP growth rate advanced marginally by 0.2% q-o-q (*c*: 0.2%; *p*: 0.3%) and 0.6% y-o-y (*c*: 0.4%; *p*: 0.5%).

Financial Markets: Stock Prices Decreased; 10Y Bond Yields Were Up; Dollar Index And Oil Prices Rose, Whereas Gold Prices Fell

Market Drivers: Rising oil prices raised worries that controlling inflation might become harder for central banks, leading to a bond sell-off. The rising likelihood of a U.S. government shutdown may have also weighed on investor sentiment. As a result, US stock prices decreased. In Europe, shares edged down too as concerns increased about a prolonged period of higher interest rates and a weak Chinese economy. European government bond yields increased as investors started to buy the idea that interest rates will remain high for longer than expected by financial markets.

Global Equities: decreased w-o-w (MSCI ACWI, -1.0%, to 656.82). The US S&P 500 index edged down (-0.7% w-o-w, to 4,288.05). In the EZ, share prices were down (Eurostoxx 50, -0.8% w-o-w, to 4,173.35). In EMs, equity prices moved down (MSCI EMs, -1.2%, to 952.78) Volatility rose to 17.60 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

Fixed Income: w-o-w, the 10-year US Treasury yields edged up (+14 bps to 4.58%). The 2-year US Treasury yields decreased (-6 bps to 5.05%). The German 10-year bund yield rose (+12 bps to 2.85%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.6%, to 106.17; EUR/USD -0.8%, to 1.06). In EMs, currencies decreased (MSCI EM Currency Index, -0.3% w-o-w, to 1,668.97).

Commodities: w-o-w, oil prices increased (Brent, +0.1% to 92.09 USD/b). Gold prices decreased w-o-w (-4.2% to 1,864.60 USD/Oz).



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Abbreviations, Acronyms and Definitions

| а | Actual | LN | Northern League, Italy |
|-------|---------------------------------------|---------|--|
| AKP | Justice and Development Party, Turkey | M5S | 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 |
| ВоС | 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 Developmen |
| С | Consensus | Орес | Organization of Petroleum Exporting Countries |
| C/A | Current account | p | Previous |
| СВ | 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-0-W | Week-on-week |
| IPO | Initial public offering | у | 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 |
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