



*R&R Weekly Column*  
By Brunello Rosa



## Tusk's Victory In Poland Revives European Integration Hopes

General elections took place in Poland on October 15<sup>th</sup>. The turnout was 74.4%, the largest since the country's return to democracy in 1989. At the general elections in 1989, when the country refused Soviet rule, turnout was 63%. [Since the exit polls came in](#), it has appeared that the ruling Law and Justice (PiS) party, led by Jarosław Kaczyński, has remained the largest party, but that it will be unable to form a governing coalition. Instead, the Civic Coalition led by Donald Tusk could be at the centre of a three-party pact to form a new government.

[The official ballot announced by the National Electoral Commission](#) confirmed the exit polls. PiS won 35.4% of votes, and 194 seats (down from the 43.6% of votes and 235 seats it received in the 2019 election). The Civic Platform (CO) received 30.7% of votes and 157 seats; the left-wing Lewica gathered 8.6% and 26; the Third Way (Trzecia Droga, a political alliance formed in April 2023 between Poland 2050 and Polish People's Party, to provide an alternative to both the PiS and Civic Platform) reached 14.4% and 65 seats, and the nationalistic, right-wing Confederation got 7.2% and 18 seats. In the upper house, which maintains some limited power in the legislative process, the new winning coalition secured 66 votes, versus 34 that went to PiS.

Even if PiS were to coalesce with the Confederation, it could count at most on 212 seats, versus the 231 needed for a majority. On the other hand, the coalition between CO, Third Way and Left could reach a comfortable majority of 248 seats in the lower house (Sejm).

President Andrzej Duda, coming from PiS, called for the new parliament to convene on November 13<sup>th</sup>, for its first meeting. Following that, he will appoint the new PM. Duda recently declared that there are two credible candidates for the job: incumbent PM Mateusz Morawiecki, and CO leader Donald Tusk. Tusk has previously been PM during the period 2007–2014, before becoming EU Commission President between 2014 and 2019. In theory, Duda may ask Morawiecki to form a government, and wait for him to fail before asking Tusk to do the same; similar to what has happened in Spain recently, [when King Felipe IV asked first Alberto Nunez Feijoo](#), the numerical winner of an election, and then incumbent PM Sanchez, the political winner, to form a government.

But this would be just a tactical move to show his allegiance to PiS's leader Kaczyński. But that move could antagonize the new coalition, with which he will have to work anyway. In the background, [there are the 2025 Presidential elections approaching](#): PiS's chances of electing one of their potential candidates, including Morawiecki, impinge on the way Duda will behave and the choices he could make in the next few weeks. Tusk has gained the possibility of being re-appointed PM after being [subject to all sorts of attacks during the electoral campaign](#), when his adversaries tried to depict him as a puppet in the hands of the Germans, the Americans, or – alternatively – the Russians: allegations that the general public clearly considered baseless.

If Tusk becomes Poland's PM, he will have several issues to fix. On the domestic front, he will have to reduce his public deficit, which runs around 4% of GDP, while re-affirming the importance of military spending, which is around 3% of GDP (and well above the NATO-mandated 2%). On the international front, he will have to try to close the Article 7 procedure that the EU has opened against Poland for violation of the rule of law (given the PiS influence over the judiciary and the press, in particular over Poland's state-owned TV channels), which has resulted in the freezing of EUR 75bn of EU funds, of which 25bn are in grants. On the Russia-Ukraine front, Tusk will have to reassure the European and American allies about Poland's willingness to continue providing ammunitions and logistical support to Ukraine. In general, Tusk will have to rebuild all the relationships with Poland's traditional allies that had gone sour after many years of PiS's rule.

As we noted recently in the [aftermath of the victory of Robert Fico in Slovakia](#), the Viségrad group is now more divided than ever, with Slovakia and Hungary still insisting on their populist, right-wing, nationalistic and pro-Russian positions, while Czechia and Poland have re-embraced a pro-European stance. But while Slovakia is a small country, Poland, with more than 40 million people, is the fifth largest country of the EU, after Germany, France, Italy and Spain. So, the fact that Poland has returned to a pro-European stance definitely revives the hopes of further integration at the EU level.

### Our Recent Publications

- 🌀 [Review: ECB is "On Hold" But It Does Not Rule Out Further Rate Hikes](#), by Brunello Rosa and Nato Balavadze, 26 October 2023
- 🌀 [IMF World Economic Outlook: Limited Optimism And Newly Emerging Concerns](#), by Lāsma Kokina, 25 October

- 🌀 [Preview: ECB to Stay on Hold In October, The Battle Will Be On The Length of The "Pause"](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 24 October 2023
- 🌀 [The Javier Milei and His Libertarian Agenda: How Likely Is He To Succeed In Implementing Radical Structural Reforms?](#), by Fernando Prats, 18 October 2023

### Looking Ahead

#### The Week Ahead: EZ QoQ GDP To Contract; EZ Inflation To Fall; US Unemployment To Remain Unchanged; CBs To Hold Rates

**In the US**, in October, unemployment rate is expected to remain unchanged at 3.8%. NFPs are expected to increase by 188K (*p*: 336K). In October, S&P Global Manufacturing and Services PMIs are seen increasing to 50 (*p*: 49.8) and to 50.9 (*p*: 50.1).

**In the EZ**, in Q3, according to flash estimates, GDP is expected to shrink by -0.1% q-o-q (*p*: 0.1%). On a yearly basis, the economy is seen decelerating to 0.2% (*p*: 0.5%). In October, both headline and core inflation rates are expected to ease off to 3.4% y-o-y (*p*: 4.3%) and 4.2% y-o-y (*p*: 4.5%) respectively. In October, consumer confidence is likely to deteriorate to -17.9 (*p*: -17.8) and economic sentiment is expected to fall slightly to 93 (*p*: 93.3). In October HCOB Manufacturing PMI is seen decreasing to 43.0 (*p*: 43.4).

**In the UK**, in October S&P Global/CIPS Manufacturing PMI is seen increasing to 45.2 (*p*: 44.3), while Services PMI is expected to fall marginally to 49.2 (*p*: 49.3). Composite PMI is likely to rise to 48.6 (*p*: 48.5).

**CBs are expected to hold rates.** In the US, the Fed is likely to maintain the target Fed funds range at 5.25% - 5.50%. In the UK, BoE is expected to hold its Bank Rate (BR) at 5.25% November.

#### The Quarter Ahead: Israel-Hamas War; International Reactions To Israel-Hamas War; US Hits Hamas With Sanctions

**Israel-Hamas War.** Israeli forces went into Gaza, as confirmed on Saturday. They increased their ground and air operations in the Gaza Strip overnight, despite the United Nations' request for a humanitarian ceasefire. Hamas offers to swap hostages for all the Palestinian prisoners held by Israel.

**International response to the Israel-Hamas war.** Turkey's Erdogan, speaking to a large pro-Palestinian crowd, referred to Israel as an "occupier." He accused the Western countries of being primarily responsible for the conflict in Gaza. Biden reiterated support for Israel's defense while emphasizing civilian protection during an appearance with the Australian prime minister. Meanwhile in Germany, Berlin authorities have prohibited most pro-Palestinian rallies and demonstrations in the weeks following the Hamas attack on October 7th.

**US Treasury hits Hamas with new sanctions.** These sanctions also apply to members of Iran's Revolutionary Guard Corp and a Gaza-based group that transferred illicit funds from Iran to Hamas and the Palestinian Islamic Jihad.

### Last Week's Review

#### Real Economy: US QoQ GDP Rose; UK Unemployment Remained Unchanged, ECB Maintained Its Main Policy Rates Unchanged

**In the US**, in Q3, according to an advance estimate, the GDP growth rate rose by 4.9% y-o-y (*c*: 1.7%; *p*: 2.1%).

**Still in the EZ**, the ECB maintained its main policy rates unchanged, i.e. its *i*) interest rate on the 'main refinancing operations' to 4.50%; *ii*) interest rate on the 'marginal lending facility' to 4.75%; and *iii*) 'deposit facility' to 4.00%.

**In the UK**, in August, the adjusted unemployment rate is at 4.2%.

#### Financial Markets: Stock Prices Decreased Globally; Bond Yields Fell; Dollar Index And Gold Prices Rose, While Oil Prices Were Down

**Market Drivers:** Major U.S. stock indices fell for a second week due to mixed earnings reports and worries about rising interest rates, with the 10-year Treasury yield briefly exceeding 5% for the first time in 16 years. Similarly, the stocks in Europe fell due to uncertainty about interest rates, weakening economy and conflicts in the Middle East.

**Global Equities:** decreased w-o-w (MSCI ACWI, -1.8%, to 630.65). The US S&P 500 index edged down (-2.5% w-o-w, to 4,117.37). In the EZ, share prices were down (Eurostoxx 50, -0.2% w-o-w, to 4,014.65). In EMs, equity prices moved down (MSCI EMs, -1.6%, to 910.91) Volatility rose to 21.00 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

**Fixed Income:** w-o-w, the 10-year US Treasury yields edged down (-6 bps to 4.85%). The 2-year US Treasury yields edged down (-6 bps to 5.02%). The German 10-year bund yield fell (-9 bps to 2.81%).

**FX:** w-o-w, the US Dollar Index edged up (DXY, +0.4%, to 106.58; EUR/USD -0.3%, to 1.06). In EMs, currencies are virtually unchanged (MSCI EM Currency Index, +0.0% w-o-w, to 1,667.36).

**Commodities:** w-o-w, oil prices fell (Brent, -1.9% to 90.44 USD/b). Gold prices increased w-o-w (+1.1% to 2,016.30 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