



*R&R Weekly Column*  
By Brunello Rosa



## Taiwan Chooses Continuity, Elects The DPP Candidate

In the long-awaited elections in the Republic of China (Taiwan), [the ruling Democratic Progressive Party \(DPP\) won an unprecedented third term in office](#). Tsai Ing-wen, the incumbent President of Taiwan, was ineligible to seek re-election after serving two terms. Lai Ching-te, the current vice-President, will become President on May 20<sup>th</sup>. Lai's running mate for the vice-Presidency was Hsiao Bi-khim, who is currently Taiwan's representative to the United States. [Lai gathered 40% of the votes](#), versus 33.5% for Hou Yu-ih from the Kuomintang (KMT), and 26.5% for Ko Wen-je from the Taiwan People's Party (TPP).

At the legislative level, [the results were less clear](#). Members were elected by parallel voting. 73 members were elected by first-past-the-post, 6 were reserved for indigenous candidates by single non-transferable vote, and 34 were elected via party-list proportional representation. The KMT won the largest number of seats (52), 14 more than in 2020, versus 51 for the DPP (down 11 seats from 2020) and 8 for the TPP (up 3 additional seats from 2020). No party has reached the 57 seats needed for a majority, so the DPP will be forced to either form a minority government and make compromises with the other two parties in parliament, or else to create a coalition with the TPP.

As we [discussed in our preview](#), the most relevant issue at stake was Taiwan's relationship with China. China would have preferred a victory by the KMT, which is perceived as the party that pushes for the closer relationship with the "motherland" (somewhat surprisingly, considering that the Republic of China was formed in Formosa by Mao's fiercest opposed, [Chiang Kai-Shek](#), founder of and for decades the leader of the KMT). The incumbent president Tsai Ing-wen has been a staunch defender of Taiwan's autonomy and self-determination rights.

For that reason, Chinese representatives said the result "shows that the DPP does not represent majority public opinion on the island," given the lack of a majority for the DPP both at the presidential and parliamentary level. Additionally, the Taiwan Affairs Office, the Chinese government department that implements the Taiwan policy, said that both sides should "promote the great cause of the reunification of the motherland." Just before the election, [in his year-end speech, Chinese President Xi](#) said that "the reunification of the motherland is a historical inevitability," and that "China will surely be reunified," to put pressure on the Taiwanese electorate.

What's going to happen now? The fact that Lai won't have a parliamentary majority means that any major re-armament plan will need to be agreed upon with other political parties, making any such plan less likely. China will not have any incentive to pursue aggressive moves (which we have always considered a tail risk event), but rather will continue with its strategy of destabilisation, which it is likely to intensify in coming months and years.

Overall, this result keeps the status quo relatively intact. Given the alternative, this should be considered a positive outcome at this stage.

### Our Recent Publications

🌀 [EU AI Act: The EU Confirms Its Leadership in Reg-Tech](#), by Lāsma Kokina, 10 January 2024

🌀 [Eurozone Economy: Stagnation Ahead](#), by Lāsma Kokina, 9 January 2024

🌀 [Gaza Crisis: Regional and International Dimensions](#), by Giorgio Cafiero, 4 January 2023

🌀 [Annexation Motivated by Oil? Essequibo: Venezuela vis-a-vis Guyana \(and its international allies\)](#), by Marina Tovar i Velasco, 3 January 2024

Looking Ahead

**The Week Ahead: Headline Inflation Rate To Rise In EZ An Germany, While Both Headline and Core Inflation Will Fall In UK And Italy**

**In the US**, in December retail sales are seen increasing by 0.4% m-o-m (*p*: 0.3%).

**In the EZ**, in December, headline inflation rate is expected to increase to 2.9% y-o-y (*p*: 2.4%), while core inflation is seen falling to 3.4% y-o-y (*p*: 3.6%).

**Among the largest EZ economies**, in December inflation rate is expected to: i) increase to 3.7% y-o-y (*p*: 3.2%) in Germany; and ii) fall to 0.6% y-o-y (*p*: 0.7%) in Italy.

**In the UK**, in November, unemployment rate is likely to edge up to 4.3% (*p*: 4.2%). In December, headline and core inflation rate is expected to decrease to 3.8% y-o-y (*p*: 3.9%) and 4.9% y-o-y (*p*: 5.1%). In December retail sales are seen increasing by 1.1% y-o-y (*p*: 0.1%).

**The Quarter Ahead: Results of the Elections in Taiwan and Risk of an Escalating Conflict in the Middle East**

**Lai Ching-ten Wins Presidential elections in Taiwan**. Taiwan's ruling Democratic Progressive Party won a third-straight presidential term and incoming leader Lai Ching-te earned more than 40% of the popular vote. Kuomintang (KMT), Beijing's preferred political partner, gained roughly 33% of the vote. China rejected Lai's win in the presidential vote, branding him as a "stubborn worker for Taiwan independence". Concerns arise that this development might further impact already strained China-U.S. relations and pose potential security risks in the wider Indo-Pacific region.

**US and UK launch strikes against Yemen**, as a countermeasure to Houthi rebel assaults on shipping in the Red Sea. The Houthi militia threatened to retaliate, while the UN envoy urges restraint by all involved in Yemen. This has sparked concerns about a potential escalation of conflict in the region.

Last Week's Review

**Real Economy: Headline Inflation Rate Increased In the US and France**

**In the US**, in December headline inflation edged up to 3.4% y-o-y (*c*: 3.2%; *p*: 3.1%), while core inflation fell to 3.9% y-o-y (*c*: 3.8%; *p*: 4.0%).

**In the EZ**, in November unemployment rate decreased to 6.4% (*c*: 6.5%; *p*: 6.5%). In December, consumer confidence increased to -15.0 (*c*: -15.1; *p*: -16.9). November's retail sales shrank by -1.1% y-o-y (*c*: -1.5%; *p*: -0.8%).

**Among the largest EZ economies**, in France, the headline inflation rate rose to 3.7% y-o-y (*p*: 3.5%) as expected.

**In the UK**, in November IP rose to -0.1% y-o-y (*c*: 0.7%; *p*: -0.5%).

**Financial Markets: Stock Prices Increased; Bond Yields Fell; Dollar Index Is Unchanged; Oil Prices Fell, While Gold Prices Rose**

**Market Drivers**: Stocks rose during the week, with large-cap growth and the tech-index Nasdaq outperforming the broader market. Fixed income investors gained from the slightly positive surprises in consumer inflation data. The yield on the 10-year UST note dropped below 4% during the week. European markets gained on Friday, buoyed by optimistic comments from ECB President Lagarde on potential interest rate cuts made on Thursday.

**Global Equities**: Increased *w-o-w* (MSCI ACWI, +1.3%, to 724.77). The US S&P 500 index edged up (+1.8% *w-o-w*, to 4,783.83). In the EZ, share prices rose (Eurostoxx 50, +0.4% *w-o-w*, to 4,479.65). In EMs, equity prices decreased (MSCI EMs, -0.6%, to 996.30) Volatility fell slightly to 13.35 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

**Fixed Income**: *w-o-w*, the 10-year US Treasury yields edged down (-11 bps to 3.94%). The 2-year US Treasury yields decreased (-25 bps to 4.15%). The German 10-year bund yield edged down (-1 bps to 2.15%).

**FX**: *w-o-w*, the US Dollar Index is virtually unchanged (DXY, +0.0%, to 102.4; EUR/USD +0.1%, to 1.09). In EMs, currencies edged up (MSCI EM Currency Index, +0.1% *w-o-w*, to 1,729.77).

**Commodities**: *w-o-w*, oil prices decreased (Brent, -0.6% to 78.32 USD/b). Gold prices increased *w-o-w* (+0.2% to 2,053.60 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                                       |