



R&R Weekly Column  
By Brunello Rosa



## Central Bank Independence Remains Under Attack By Autocratic Regimes

Two different headlines appeared at the end of last week, coming from two sides of the world, seemingly unrelated to one another but in reality sharing a solid point in common.

The [Financial Times reported Donald Trump saying he would replace the Federal Reserve's Chairman Jay Powell](#) if he is elected President in November. He accuses Powell of being "too political", and of planning to make a move that would help the Democrats ahead of the elections, i.e. cutting rates. As we discussed in [our recent review of the January 2024 FOMC meeting](#), rate cuts are probably coming this year, as was [already signalled in December](#), but this has nothing to do with political motivations. As we [discussed in our global outlook](#), the US economy, while remaining resilient with a still-strong labour market, has started to feel the effects of the monetary tightening of the past 22 months, and therefore it's about time for the Federal Reserve to start to ease its policy stance.

But clearly Trump is trying to bully Powell as he did in 2018, when he was saying that Powell was keeping rates unnecessarily high. At that time, Powell resisted for as long as he could, but in 2019 the FOMC implemented 3 "precautionary cuts" as it thought that the US' economic momentum was weakening. The intention of replacing Powell as central bank governor must be part of [his plan of being "dictator on day one,"](#) as he emphatically announced in December (thankfully he added "only on day one..."). Given the US spoils system, this was the announcement of his intention to replace all the civil servants from the hated "deep state" that could potentially oppose his intention of ruling without constraints. These intentions clearly signal Trump's inclination to bend the US liberal democracy into an electoral democracy at best, and [potentially into in an electoral autocracy](#), if he has enough time and energy to do so.

Examples of this behaviour are abundant. As the headlines from Turkey show, the recently-appointed central bank governor of the CBRT, the Turkish central bank, [had to resign following a defamatory media campaign that lasted for weeks](#). Hafize Gaye Erkan, the bank governor, had increased rates from 8.5% in June last year to 45% recently, to prevent a further slide of the Turkish lira and attempt to stop the further increase of Turkey's inflation, which had overcome the 80% mark only a few months ago, and now is above 60%, after briefly touching 40%. This must have sounded ridiculous to President Recep Tayyip Erdoğan, whose bizarre economic theory, [dubbed Erdonomics](#), suggests that interest rate hikes cause a rise in inflation. Erkan will be replaced by deputy governor Fatih Karahan, a former Federal Reserve economist; he will be Erdoğan's sixth central bank governor in five years.

These examples, coming from two different areas of the world, one in the developed Americas, the other from emerging Europe, show that autocrats, or wannabe autocrats, behave the same way no matter where they are found: they have little tolerance for critics and for independent authorities that could seemingly pose obstacles to their unconstrained rule.

### Our Recent Publications

❖ [Flash Preview: BoE To Start Signalling A Shift In Its Policy Stance in January](#), by Brunello Rosa and Nato Balavadze, 26 January 2024

❖ [Review: ECB Tries To Push Back Expected Time of First Rate Cut To The Summer](#), by Brunello Rosa and Nato Balavadze, 25 January 2024

❖ [2024: A Year Of Living Dangerously In Geo-Politics, While Economies and Markets Remain Resilient](#), by Nouriel Roubini and Brunello Rosa, 24 January 2024

❖ [Review: BOJ Suggests The End of Extra Easing Is On The Cards, But The Timing Remains Uncertain](#), by Brunello Rosa and Nato Balavadze, 23 January 2024

❖ [Preview: ECB to Push Back Against Market Expectation of Early Rate Cuts](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 23 January 2024

❖ [Preview: BOJ To Keep Its Policy Stance Unchanged Post Earthquake](#), by Nouriel Roubini and Nato Balavadze, 22 January 2024

Looking Ahead

The Week Ahead: Composite PMIs To Increase In DMs; Inflation To Cool In Germany; EZ Retail Sales To Shrink

**In the US**, in January, S&P Global Services PMI is expected to rise to 52.9 (*p*: 51.4).

**In the EZ**, in January, HCOB Services PMI is expected to edge down to 48.4 (*p*: 48.8), while Composite PMI is likely to increase to 47.9 (*p*: 47.6). In December, retail sales are seen shrinking by -1.1% y-o-y (*p*: -1.1%) and -1.0% m-o-m (*p*: -0.3%).

**Among the largest EZ economies**, in January the inflation rate is likely to ease off to 2.9% y-o-y (*p*: 3.7%) in Germany.

**In the UK**, in January, S&P Global Services and Composite PMI are expected to edge up to 53.8 (*p*: 53.4) and 52.5 (*p*: 52.1) respectively.

The Quarter Ahead: Israel's War In Gaza; 2024 US Presidential Elections; Trump's Defamation Trial

**Tensions between Hungary and the EU.** The EU leaders approved a €50 billion aid package for Ukraine, overcoming Orban's earlier opposition. Previously Hungary claimed the EU engaged in blackmail, alleging that a leaked document indicated the EU's intention to harm Budapest's economy if it opposes additional aid for Ukraine. Pressure is mounting on Hungary to ratify Sweden's bid to join NATO.

**The US launched retaliatory strikes on Iranian-linked militia targets in Iraq and Syria.** This marks the beginning of a potential series of larger-scale retaliatory strikes in response to attacks on US troops in the Middle East. President Joe Biden recently attended a dignified transfer for the soldiers killed in Jordan and met their families.

**Israel-Gaza war.** Israel's defence minister announced a shift in military focus to Rafah, the southernmost Gaza city, where many Palestinians have sought refuge, after completing operations in Khan Younis.

Last Week's Review

Real Economy: EZ GDP Stalled Q/Q; EZ Inflation Fell; US Unemployment Stood Unchanged; CBs Stayed On Hold

**In the US**, in January, the unemployment rate remained unchanged at 3.7% (*c*: 3.8%; *p*: 3.7%). NFPs increased by 353K (*c*: 180K; *p*: 333K). In January, S&P Global Manufacturing PMI edged up to 50.7 (*p*: 47.9).

**In the EZ**, in Q4, according to the flash estimates, the economy stalled q-o-q (*c*: -0.1%; *p*: -0.1%) and advanced by 0.1 y-o-y (*c*: 0.0%; *p*: 0.0%). In January, headline and core inflation eased off to 2.8% y-o-y (*c*: 2.8%; *p*: 2.9%) and 3.3% y-o-y (*c*: 3.2%; *p*: 3.4%). December's unemployment stood unchanged at 6.4% as expected. In January, economic sentiment fell to 96.2 (*c*: 96.2; *p*: 96.3). Consumer confidence deteriorated to -16.1 (*p*: -15.1) as expected. In January, HCOB Manufacturing PMI edged up to 46.6 (*c*: 46.6; *p*: 44.4).

**Among the largest EZ economies**, according to preliminary estimates, in Q4, the GDP growth rate: *i*) stalled q-o-q (*p*: -0.1%) and rose by 0.7% y-o-y (*p*: 0.6%) in France; *ii*) shrank by -0.3% q-o-q (*c*: -0.3%; *p*: 0.0%) and -0.2% y-o-y (*c*: -0.2%; *p*: -0.3%) in Germany; and *iii*) advanced by 0.2% q-o-q (*c*: 0.0%; *p*: 0.1%) and 0.5% y-o-y (*c*: 0.3%; *p*: 0.1%) in Italy.

**In the UK**, in January, S&P Global Manufacturing PMI increased to 47.0 (*c*: 46.9; *p*: 46.2).

**CBs stayed on hold.** In the US, the Fed kept rates on hold. In the UK, the BoE held its policy rates unchanged.

Financial Markets: Stock Prices and US Bond Yields Increased; Dollar Index And Gold Prices Edged Up, While Oil Prices Fell

**Market Drivers:** The US stocks and 10Y UST note ended higher over robust earnings and a strong January employment report. European stocks also rose driven by positive U.S. tech earnings and anticipation of more relaxed monetary policies from central banks.

**Global Equities:** Increased w-o-w (MSCI ACWI, +0.9%, to 740.45). The US S&P 500 index edged up (+1.4% w-o-w, to 4,958.61). In the EZ, share prices rose (Eurostoxx 50, +0.4% w-o-w, to 4,655.15). In EMs, equity prices increased (MSCI EMs, +0.3%, to 988.21). Volatility rose slightly to 14.65 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

**Fixed Income:** w-o-w, the 10-year US Treasury yields rose (+12 bps to 4.02%). The 2-year US Treasury yields increased marginally (+1 bps to 4.37%). The German 10-year bund yields fell (-7 bps to 2.23%).

**FX:** w-o-w, the US Dollar Index increased (DXY, +0.5%, to 103.96; EUR/USD -0.6%, to 1.08). In EMs, currencies edged up (MSCI EM Currency Index, +0.3% w-o-w, to 1,726.17).

**Commodities:** w-o-w, oil prices decreased (Brent, -7.0% to 77.67 USD/b). Gold prices increased w-o-w (+1.5% to 2,057.10 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