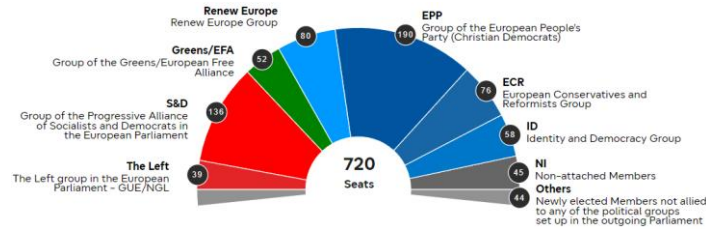




R&R Weekly Column
By Brunello Rosa



Macron's Gamble Could Cost Europe Dearly

Elections for the European parliament took place last week. When [reading the results](#), two main elements appeared quite clearly. First, the majority that had controlled the previous EU parliament, made up of Christian Democrats (EPP), Socialists and Democrats (S&D) and Liberals (Renew Europe), will continue to control the newly elected parliament. The three parties will hold 406 seats together; well above the required 361 seat majority, with a safety margin of 45 seats that should be large enough to contain the potential dissenters in each group (which always materialise when there is a secret vote). Given the numbers, no other majority is possible. More specifically, the right-wing majority that some leaders were hoping to build, comprised of the EPP, European Conservatives and Reformist (ECR) and Identity and Democracy (ID), won only 324 seats, and so is far away from the minimum number of seats required to hold a majority in parliament.

Second, the left-wing parties (S&D and Greens) as well as the Liberals have lost seats (-44 in total) in favour of the EPP (+ 14), the radical Left (+2), and especially the radical right-wing parties (ECR +7) and (ID +9).

In sum, while it is undoubtable that there has been a shift to the right in this EU parliament, if we look at the numbers only, the cataclysmic effect of the rise of right-wing parties has failed to materialise. Things look different however when one looks at the national repercussions of the vote, especially in France and Germany.

[In Germany](#), the largest party in the governing coalition, the SPD, finished in third place, behind the resurgent CDU and the rising AfD in these European elections. The radical right party AfD, in particular, [has surged in Eastern Germany](#), where it has reached 30% of the votes in some instances. While this is not going to have immediate implications, the CDU has already started [to discuss whether an alliance with the AfD may be considered possible](#), thus breaking a [taboo that had seemed impossible to consider](#).

But the largest effect has been felt in France, [where President Macron dissolved parliament and called for a parliamentary election on June 30-July 7](#), which may have momentous consequences for Europe.

In our [recent trip reports from France](#) we had highlighted how Macron had failed to leave a legacy in terms of policies, and most importantly had failed to build a clear succession plan. Now these failures risk deflagrating in the most consequential manner. Especially if we consider that the head of the neo-Gaullist party (Les Républicains - LR) has also infringed the so-called "pact républicaine" that has remained in place since the beginning of the Fifth Republic; that is, to leave the National Front (the post-fascist party founded by Jean Marie Le Pen) out of government at all costs. In fact, Mr [Éric Ciotti has made an opening towards forming an alliance with Marine Le Pen](#) at the next elections, thus causing a revolt in his own party, but breaking a taboo similar to that prevailing in Germany.

Even without a pact between the *Rassemblement National* (RN) and LR, [the polls show damning numbers for Macron](#), considering that the radical left and the radical right are ahead in virtually all constituencies. At this point, it is very likely that Macron will be forced into a cohabitation with a prime minister of a different political colour. This may be Jordan Bardella, from the RN.

What would be the consequences of such an outcome? In theory, Macron could show what the RN could do negatively once in power, while still having a massive power of interference in government policies, and with foreign policy remaining as it does in the hands of the President of the Republic. His gamble is that the French people will not want to give the RN full powers by electing Marine Le Pen as President in 2027. But things may go differently: Bardella may prove to be moderate and mainstream while constrained by the presence of Macron, and then reveal his true colours once Le Pen becomes President.

Through all of this, [the market is very nervous](#), and has sold OATs since the announcement, with the 10y OAT - Bund spread [having reached 83bps recently](#). Markets believe that the future Bardella's government will be less fiscally responsible than the current Attal's executive. In case of a victory by Macron, the OAT yield will retrace. In case of a victory by the RN it will initially widen, and two scenarios may then play out: either the RN proves as destructive as feared, in which case the spread will continue to widen further, or the RN proves to be more moderate than is feared, in which case the OAT-bund spread will shrink in coming months.

Our Recent Publications

- ☞ [Fed Review: FOMC on Hold, With Dot-Plot Showing Only One Rate Cut in 2024 \(But 4 in 2025\)](#), by Brunello Rosa and Nato Balavadze, 12 June 2024
- ☞ [Is Semi-Democracy Now Part of Kuwait's Past?](#), by Gulf State Analytics, 13 June 2024
- ☞ [Review: BOJ Remains On Hold in June, But Announces A Reduction in Bond Purchases in July](#), by Brunello Rosa and Nato Balavadze, 14 June 2024

- ☞ [Preview: BOJ To Keep Rates on Hold, But a July Hike Is More Likely](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 12 June 2024
- ☞ [Preview: Fed Continues To be On Hold, As The Economy Remains Strong](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 11 June 2024

Looking Ahead

The Week Ahead: Headline And Core Inflation To Increase In EZ, While Decreasing In UK; PMIs To Fall In US; BoE To Stay On Hold

In the US, in May, IP is likely to increase by 0.2% m-o-m (*p*: 0.0%). In June, S&P Global Manufacturing and Services PMIs are likely to edge down slightly to 51 (*p*: 51.23) and 53.5 (*p*: 54.8) respectively.

In the EZ, in May both headline and core inflation rates are seen rising to 2.6% y-o-y (*p*: 2.4%) and 2.9% y-o-y (*p*: 2.7%). In June, consumer confidence is likely to rise to -14 (*p*: -14.3). In June, HCOB Manufacturing and Services PMI are expected to edge up to 48 (*p*: 47.3) and 53.5 (*p*: 53.2).

Among largest EZ economies, in May, headline inflation rate is expected to rise by 0.7% y-o-y (*p*: 0.8%) in Italy.

In the UK, in May, headline and core inflation are likely to cool off to 2.0% y-o-y (*p*: 2.3%) and 3.5% y-o-y (*p*: 3.9%). Gfk Consumer Confidence in June is seen rising to -16 (*p*: -17). Retail sales are expected to increase by 1.6% m-o-m (*p*: -17). In June, S&P Global Manufacturing PMI is likely to edge down slightly to 51 (*p*: 51.2), while Services PMI is expected to increase to 53.2 (*p*: 52.9).

CBs to stay on hold. In the UK, the BoE is expected to maintain its Bank Rate at 5.25%.

The Quarter Ahead: G7 Summit 2024 In Italy; The US Imposed New Sanctions On Russia

G7 Summit 2024. G7 leaders gathered in Italy to discuss various topics, including climate change, migration, Africa, Iran, and nuclear proliferation. Pope Francis delivered a speech on AI, and leaders from non-G7 countries, such as India's Narendra Modi, also participated. They addressed several complex issues, from frozen Russian assets to increasing tensions between the West and China.

Ukraine Peace Conference in Switzerland. An international peace summit in relation to the Russo-Ukrainian war was held in Bürgenstock Resort in Switzerland on 15–16 June 2024. In the final communiqué, it was reiterated that the “UN Charter, including the principles of respect for the territorial integrity and sovereignty of all states, can and will serve as a basis in achieving a comprehensive, just and lasting peace in Ukraine.” 80 out of 92 countries signed the final declaration: among those who abstained there are countries such as Saudi Arabia, India, South Africa, Mexico, Indonesia and Thailand.

The US has imposed new sanctions on over 300 individuals and companies accused of supporting Russia's war efforts in Ukraine, including entities from China, South Africa, the UAE, and Turkey. Sanctions against Russia have led to an immediate suspension of dollar and euro trading on the Moscow Exchange. In response, China criticized these new U.S. sanctions on its enterprises.

Last Week's Review

Real Economy: US Inflation Eased; Inflation Increased In Germany And France; Fed And BOJ Maintained Their Policy Rates

In the US, in May, headline and core inflation rate edged down to 3.3% y-o-y (*c*: 3.4%; *p*: 3.4%) and 3.4% y-o-y (*c*: 3.5%; *p*: 3.6%). In June, Michigan consumer expectations decreased to 67.6 (*c*: 70; *p*: 68.8).

In the EZ, in April, IP contracted by -3.0% y-o-y (*c*: -1.9%; *p*: -1.2%) and -0.1% m-o-m (*c*: 0.2%; *p*: 0.5%).

Among largest EZ economies, in May, inflation rate: *i*) increased to 2.4% y-o-y (*xi*: 2.4%; *p*: 2.2%) in Germany; and *ii*) edged up to 2.3% y-o-y (*p*: 2.2%) in France as expected.

In the UK, in April, unemployment rate increased to 4.4% (*c*: 4.3%; *p*: 4.3%).

CBs stayed on hold. In the US, the Fed maintained the target Fed funds range at 5.25% - 5.50% in June. In Japan, the BOJ held its policy rates in June.

Financial Markets: Stock Prices Increased, But Fell In the EZ; Yields Decreased; Dollar, Oil And Gold Prices Edged Up

Market Drivers: The S&P 500 and Nasdaq hit record highs, driven by cooling inflation. Treasuries rallied, lowering yields, indicating risk aversion. European stocks fell amid political uncertainty from far-right gains in European Parliament elections. France's 10-year yield surged over 20 basis points to 3.34%, while German bond yields fell as investors sought safety.

Global Equities: Increased *w-o-w* (MSCI ACWI, +0.4%, to 797.26). The US S&P 500 index increased (+1.6% *w-o-w*, to 5,431.60). In the EZ, share prices decreased (Eurostoxx 50, -4.2% *w-o-w*, to 4,838.55). In EMs, equity prices increased (MSCI EMs, +0.3%, to 1,076.89). Volatility is virtually changes at 13.00 (VIX S&P 500, 52w avg.: 14.6; 10y avg.: 18.1).

Fixed Income: *w-o-w*, the 10-year US Treasury yields fell (-21 bps to 4.22%). The 2-year US Treasury yields fell (-18 bps to 4.71%). The German 10-year bund yields decreased (-25 bps to 2.37%).

FX: *w-o-w*, the US Dollar Index increased (DXY, +0.6%, to 105.52; EUR/USD -0.9%, to 1.07). In EMs, currencies edged down (MSCI EM Currency Index, -0.3% *w-o-w*, to 1,722.14).

Commodities: *w-o-w*, oil prices increased (Brent, +3.8% to 82.67 USD/b). Gold prices rose *w-o-w* (+1.0% to 2,348.4 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