



R&R Weekly Column
By Brunello Rosa



EU Parliamentary Elections: A Moment of Truth For The Future of Europe

This week, elections for the European Parliament will take place all across the continent, [on different days](#). (This will however be a small undertaking when compared to the complexity of the [7 stages of the ongoing Indian elections](#)). While the EU parliament still has limited powers compared to national parliaments, it does have the power to approve or reject the next EU Commission President. The EU Commission proposes, together with the Council, the vast majority of the legislation in place in EU member states. A rejection by the EU parliament therefore provides a strong political signal to national governments, potentially influencing their negotiations for the composition of the EU executive branch.

The European political landscape is slightly less fragmented than are those of its national components. Parties are required to gather MEPs from at least seven countries in order to form a political group in the EU parliament. This forces MEPs to make compromises in order to be part of a group. In the EU parliament, [MEPs belong to one of the following groups](#): radical left (the Left), Socialists and Democrats (S&D), Greens, Liberals, Christian Democrats (EPP), Conservatives and Reformists (ECR), and radical right (Identity and Democracy, ID). Traditionally, the governing coalition derives from a cohabitation of the EPP and S&D. In 2019, the coalition was enlarged to include the Liberals (Renew Europe) led by Macron.

For the next parliament, the big political bet is the [attempt by right-wing parties to form a centre-right coalition with the EPP](#), pushing S&D and Liberals into the opposition. According to the [latest polls](#), this seems unachievable; it is much more likely that we will see a repetition of the previous coalition with EPP, S&D and Liberals.

Who is going to be the president of the Commission that will grant this political equilibrium? According to the method of the *Spitzenkandidaten*, the leader of the party that gets the most votes in European Parliament become the Commission President. So in theory it should be Ursula Von Der Leyen again. However, in 2019 things didn't go that way. After the election Ursula Von Der Leyen herself became Commission President instead of Manfred Weber, the *Spitzenkandidat* of the EPP back then.

However, the EPP would like to re-balance the coalition towards the right side of the political spectrum, to make sure that the next Commission does not become hostage of the votes of the Greens and the extreme Left. For this reason, Von Der Leyen would like to receive the votes from at least one component of the ECR, the one led by Giorgia Meloni, the Italian Prime Minister. A valid argument the EPP is making is the following: while the European parliament is moving progressively towards the right, the majority expressed by this parliament has been increasingly "progressive", because the right-wing parties (led by Marine Le Pen, Matteo Salvini, Santiago Abascal, etc.) are considered "unelectable" for their extreme and anti-European views. This fracture between the "will of the people" who elected those right-wing leaders, and representation at the EU level, risks becoming pathological, and it will eventually lead to a deep political and institutional crisis.

However, French President Macron and [German Chancellor Scholz have warned Von Der Leyen that if she insists on seeking votes from right-wing parties](#), she may not get re-appointed as Commission President, and she may suffer the same fate that Weber faced five years ago. A possibility therefore is that Von Der Leyen will get re-appointed but then her Commission will be voted down by the EU parliament, opening a political crisis of vast proportions that could lead to new political scenarios difficult to imagine at this stage.

In any case, it is obvious that the EU, with two wars at its doorstep, is about to face an existential challenge. The result of the next EU parliamentary elections could be the trigger for it.

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Looking Ahead

The Week Ahead: EZ GDP QoQ To Advance; US Unemployment Rate To Stay Unchanged; ECB To Cut Its Policy Rate

In the US, in May, the unemployment rate is likely to remain unchanged at 3.9%. NFPs are seen rising by 180K (*p*: 175K). In May, S&P Global Manufacturing and Services PMIs are expected to edge up to 50.9 (*p*: 50) and 54.8 (*p*: 51.3). Composite PMI is likely to increase to 54.4 (*p*: 51.3).

In the EZ, in Q1, according to third estimate, GDP growth rate is likely to advance by 0.3% q-o-q (*p*: -0.1%) and 0.4% y-o-y (*p*: 0.1%). In May, HCOB Manufacturing PMI is expected to rise to 47.4 (*p*: 45.7), while Services PMI is likely to stay unchanged at 53.3. Composite PMI is seen increasing to 52.3 (*p*: 51.7).

Still in the EZ, the ECB is expected to cut its main policy rates by 25 bps, i.e. its *i*) interest rate on the 'main refinancing operations' to 4.25%; *ii*) interest rate on the 'marginal lending facility' to 4.50%; and *iii*) 'deposit facility' to 3.75%

In the UK, in May, S&P Global Manufacturing PMI is expected to rise to 51.3 (*p*: 49.1), while Services PMI is likely to edge down to 52.9 (*p*: 55.0). Composite PMI is seen falling to 52.8 (*p*: 54.1).

The Quarter Ahead: Biden Outlined 3-Phase Israeli Ceasefire; Trump Was Found Guilty; India Elections 2024

Biden's truce offer. Biden outlined a three-phase Israeli ceasefire proposal for Gaza, tied to the release of Israeli hostages. The first phase would involve negotiations on a permanent ceasefire. Hamas responded positively, raising hopes for an end to the eight-month conflict that has killed over 36,000 Palestinians, mostly children and women.

Trump found guilty. Donald Trump found guilty on all counts in 'hush money' trial. Jury delivers unanimous verdict in historic first for a former US president. Trump plans to appeal and awaits his 11 July sentencing, potentially involving prison and a hefty fine.

India Elections 2024. The 7th and final phase of voting ended on Saturday. Votes will be counted on June 4.

Last Week's Review

Real Economy: US QoQ GDP Decelerated; PCE And Core PCE Price Index Remained Unchanged; EZ Inflation Rose

In the US, in Q1, according to the second estimate, GDP growth rate decelerated to 1.3% q-o-q (*p*: 3.4%) as expected. In May, PCE and core PCE Price Index remained unchanged at 2.7% y-o-y and at 2.8% y-o-y as expected respectively.

In the EZ, in May, headline and core inflation edged up to 2.6% y-o-y (*c*: 2.5%; *p*: 2.4%) and 2.9% y-o-y (*c*: 2.8%; *p*: 2.7%). In May, the unemployment rate edged down to 6.4% (*c*: 6.5%; *p*: 6.5%). Consumer confidence and economic sentiment rose to -14.3 (*c*: -14.3; *p*: -14.7) and 96 (*c*: 96.2; *p*: 95.6).

Among the largest EZ economies, in Q1, GDP growth rate: *i*) advanced by 0.3% q-o-q (*c*: 0.3%; *p*: 0.1%) and rose by 0.7% y-o-y (*c*: 0.6%; *p*: 0.7%) in Italy; *ii*) rose to 0.2% q-o-q (*c*: 0.2%; *p*: 0.1%) and 1.1% y-o-y (*c*: 1.1%; *p*: 0.8%) in France. Headline inflation rate stood at 2.2% y-o-y (*c*: 2.4%) in France, while edged up to 2.4% y-o-y (*c*: 2.4%; *p*: 2.2%) in Germany. Headline inflation remained at 0.8% y-o-y as expected in Italy.

Financial Markets: Stock Prices Decreased; Long-Term Yields Increased; Dollar And Oil Prices Fell, While Gold Prices Edged Up

Market Drivers: In US, Nasdaq Composite struggled, notably due to Salesforce's disappointing first-quarter revenue. S&P 500 fell as rising Treasury yields and ongoing interest rate concerns weighed on stocks. In Europe, the shares ended lower as higher-than-expected eurozone inflation raised doubts about the ECB's policy easing beyond June.

Global Equities: Decreased w-o-w (MSCI ACWI, -0.8%, to 785.54). The US S&P 500 index decreased (-0.5% w-o-w, to 5,277.51). In the EZ, share prices declined (Eurostoxx 50, -1.1% w-o-w, to 4,979.55). In EMs, equity prices decreased (MSCI EMs, -3.1%, to 1,048.96). Volatility fell to 12.92 (VIX S&P 500, 52w avg.: 14.6; 10y avg.: 18.1).

Fixed Income: w-o-w, the 10-year US Treasury yields rose (+3 bps to 4.50%). The 2-year US Treasury yields decreased (-7 bps to 4.88%). The German 10-year bund yields increased (+6 bps to 2.66%).

FX: w-o-w, the US Dollar Index decreased (DXY, -0.1%, to 104.72; EUR/USD +0.0%, to 1.08). In EMs, currencies edged down (MSCI EM Currency Index, -0.4% w-o-w, to 1,723.83).

Commodities: w-o-w, oil prices decreased (Brent, -0.9% to 81.37 USD/b). Gold prices rose w-o-w (+0.1% to 2,347.7 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