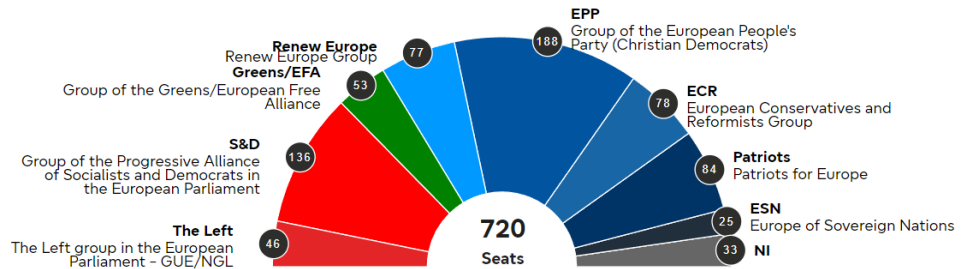




R&R Weekly Column
By Brunello Rosa



The Double Mistake of “Ursula” and “Giorgia” Doesn’t Bode Well For the EU

On Thurs 18 July, Ursula von der Leyen, the recently re-appointed EU Commission president, [received the necessary vote of confidence from the EU parliament](#) that will allow her new Commission to be formed and begin operating. The new Commissioners will also have to be confirmed by the EU parliament; there have been cases in the past in which [some appointed Commissioners were voted down](#). The final score in parliament, where MEPs voted with a secret ballot, recorded 401 votes in favour, 284 against and 22 blank or invalid votes.

Who voted for her? [Officially, the European People’s Party \(EPP\), the Socialists and Democrats \(S&D\), the Liberals and the Greens](#). [According to the official group sizes](#) (see **picture** above), she could have counted on 454 votes, which means that – as usually occurs – dissenters likely emerged in all groups. In any event, she had a large safety margin compared to the 360 MEP majority needed to win the vote. On the other hand, the European Conservative and Reformist (ECR) group, led by Italian Prime Minister Giorgia Meloni, voted against, even if the vote was only declared after the result was announced. While it is obvious that von der Leyen got what she wanted, we believe that both “Ursula” and “Giorgia” have made a mistake in their respective strategies. Let’s see why.

In the run up to the vote, “Ursula” had been trying to enlarge her majority beyond the traditional tri-party bloc of Socialist, Christian Democrats and Liberals. She has approached the Greens (to the left) and the ECR (to the right). Eventually, [she understood that only the Greens could be trusted to provide a positive vote](#), which they did mostly to block the mounting right-wing parties, and so she opted for them. In her speech, [she promised the “Green Deal” \(“clean industrial deal”\) to be approved within the first 100 days](#). While securing a larger and probably more cohesive coalition, she has moved the political axis of the future Commission to the left.

This could prove to be a fatal mistake. In the last few elections for the EU parliament (2014, 2019 and 2024), right-wing parties have increased their relevance in terms of votes and seats. The three right-wing groups (ECR, the Patriots recently formed by Hungarian PM Victor Orban and led by France’s Jordan Bardella, and the new Europe of Sovereign Nations - ESN, where the German AfD resides) now control 25% of the seats in the EU Parliament. While the continent was moving to the right, the Commission has shifted to the left in an attempt to isolate the rising anti-European, pro-Russian parties. But this has fed the sense of frustration of large swathes of the European electorate, those tired of the Euro-bureaucracy of Brussels and its policies that are perceived to be as elitist, such as the “green deal.” Further ignoring these demands, and doubling down on these policies, will further feed anti-European sentiment. Five years from now, the right-wing parties that are now in opposition may take the lead in the European parliament, especially if Marine Le Pen becomes French President in the meantime.

But “Giorgia” also made a mistake. Reasoning as leader of the ECR, [she said she was “coherent” with her declared intention](#) of never mixing her votes with those of the Socialists and the Greens. But by doing so she has completely nullified the results of the European elections in Italy, where she had a resounding success. In fact, she was not consulted for the top jobs of the EU institutions, and now – being in opposition – Italy will have to give up one of the positions of the Executive Vice President, and most likely also a heavy Commissioner role for Raffaele Fitto (or other politicians from her coalition).

Meloni said that the “weight” of the Commissioner will depend only on the relative weight of Italy within the EU, as its third largest economy and second largest manufacturing country behind Germany. But things don’t work like this in politics: Why should von der Leyen give an important portfolio to the Commissioner of a country whose PM has voted against her Commission, when she already enjoys a massive margin above the needed majority? Meloni should have seized the opportunity to enter the big games of EU politics and continue her march towards the centre, and to a possible convergence with the EPP at some point. The moves she made instead will leave Italy isolated and under-represented.

Unfortunately, both mistakes will be paid for by future generations.

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Looking Ahead

The Week Ahead: PMIs Seen Increasing in Eurozone and UK, While Falling in US

In the US, in Q2, according to advance estimate, GDP growth rate is seen advancing by 2.0% q-o-q (*p*: 1.4%). In July, S&P Global Manufacturing and Services PMIs are expected to edge down to 51.5 (*p*: 51.6) and 55 (*p*: 55.3). In July, Michigan Consumer Sentiment is likely to decrease to 66.0 (*p*: 68.2).

In the EZ, in July, consumer confidence is likely to rise to -13.2 (*p*: -14.0). In July, HCOB Manufacturing and Services PMIs are expected to edge up to 46.3 (*p*: 45.8) and 53.0 (*p*: 52.8).

In the UK, in July, S&P Global Manufacturing PMI is seen rising to 51.1 (*p*: 50.9). Composite PMI is expected to increase to 52.5 (*p*: 52.3).

The Quarter Ahead: Largest IT Outage Ever; Zelensky's Trip To Britain; Protests In Bangladesh

Financial services, airlines, and media sites were among those affected by one of the largest IT outages ever. Businesses and services worldwide are gradually recovering from a major IT outage that lasted for hours on Thursday and Friday. The outage, caused by a faulty software update from cybersecurity firm CrowdStrike, severely impacted banks, hospitals, and airlines, particularly affecting Microsoft Windows systems.

In an address to the UK cabinet, Zelensky urged for help to enhance Ukraine's long-range capabilities. New UK PM Keir Starmer pledged support for Ukraine "as long as it takes." Zelensky called on Western allies to permit long-range strikes on Russia and asked Britain to convince its partners to lift the restrictions. Trump announced on Friday that he spoke with Ukrainian President Volodymyr Zelensky and pledged to end the war with Russia.

Protests in Bangladesh. Protests began last month after the High Court reinstated a government job quota system, reversing a 2018 decision by Prime Minister Sheikh Hasina. This week, violence erupted as anti-quota demonstrators clashed with Hasina's party's student wing. Police used rubber bullets, sound grenades, and tear gas to disperse protesters blocking railway tracks and major roads.

Last Week's Review

Real Economy: Headline Inflation Cooled Off, While Core Remained Unchanged In EZ; ECB Remained On Hold

In the EZ, in June, headline inflation rate eased off to 2.5% y-o-y (*p*: 2.6%), while core inflation stayed unchanged at 2.9% y-o-y as expected. In May, IP shrank by -2.9% y-o-y (*p*: -3.1%). Among the largest EZ economies, headline inflation rate rose by 0.8% y-o-y (*c*: 0.8%; *p*: 0.8%) in Italy.

In the UK, in June, headline inflation holds steady at BoE's 2.0% y-o-y target (*c*: 1.9%; *p*: 2.0%). Core inflation also stayed at 3.5% y-o-y as expected. In May, unemployment rate remained unchanged at 4.4%. In June, retail sales shrank by -0.2% y-o-t (*c*: 0.2%; *p*: 1.7%).

CBs stayed on hold. In the EZ, the ECB kept its key policy rates unchanged.

Financial Markets: Stock Prices Were Mixed; US Yields Rose; Dollar Edged Up, While Oil And Gold Prices Fell

Market Drivers: In the US, investors reacted negatively to the news regarding the tech sector (further scrutiny on semiconductors import and Trump's declaration that "Taiwan will have to pay for its defense") and positively to Thursday's CPI report showed a 0.1% drop in headline prices for June, the first decline since May 2020. In Europe, share prices rose on lower-than-expected U.S. inflation data. Following the CPI report, the yield on the 10-year Treasury note dropped sharply, briefly hitting its lowest level of 4.16% since March 12th.

Global Equities: Decreased w-o-w (MSCI ACWI, -2.1%, to 810.87). The US S&P 500 index edged down (-2.0% w-o-w, to 5,505.00). In the EZ, share prices fell (Eurostoxx 50, -4.3% w-o-w, to 4,825.60). In EMs, equity prices decreased (MSCI EMs, -3.0%, to 1,089.61). Volatility rose to 15.90 (VIX S&P 500, 52w avg.: 14.6; 10y avg.: 18.1).

Fixed Income: w-o-w, the 10-year US Treasury yields edged up (+6 bps to 4.24%). The 2-year US Treasury yields increased (+6 bps to 4.52%). The German 10-year bund yields decreased (-4 bps to 2.46%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.3%, to 104.36; EUR/USD -0.2%, to 1.09). In EMs, currencies fell (MSCI EM Currency Index, -0.3% w-o-w, to 1,724.79).

Commodities: w-o-w, oil prices decreased (Brent, -2.9% to 82.58 USD/b). Gold prices decreased w-o-w (-0.7% to 2,402.80 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