



R&R Weekly Column  
By Brunello Rosa



## Election in Brandenburg Confirms the AfD's Rise in East Germany

Elections took place in the German state of Brandenburg yesterday. This is the third state election to be held in the past few weeks, following those in Saxony and Thuringia at the beginning of September. Ahead of those two previous elections, [we raised a red flag](#) for the possible victory of the far right movement Alternative für Deutschland. In Saxony and Thuringia, the AfD fared very well. In *Thuringia*, where 45 seats in the local parliament are needed for a majority, the AfD won 32 seats with 32.8% of the vote, placing ahead of the CDU, with 23 seats and 23.6%, and [BSW](#), with 15 seats and 15.8%. In *Saxony*, where 61 seats in the local parliament are needed for a majority, the AfD won 40 seats with 30.6% of the vote, just one less seat than the CDU, which received 31.9%. This is making it very hard for the traditional centre-right party to form a governing coalition, especially considering the excellent result of the [BSW](#) candidate (receiving 11.8% of votes).

In *Brandenburg*, the [projections show that the AfD may have gathered around 29.5% of the vote](#), just decimals behind Chancellor Olaf Scholz's SPD, which has governed the state since Germany's reunification. Although mainstream media are portraying this as a much-needed reprieve for the Chancellor, we read these results as further confirmation of strength of the AfD in East Germany, and of the rise of populist parties, considering the result of BSW, with around 13% of votes, according to projections by TV channels ARD and ZDF. On the back of this, two key considerations could be made. *First*, the rise of the populist and extreme right (AfD) and left (BSW) show the dissatisfaction of Eastern Germany's electorate with the current political system and its results, which are epitomised by the collapse of Germany's business model, based on cheap energy imports from Russia, assured exports to China, reliable value chains in Eastern Europe and security being paid for by the Americans. These days, in Eastern Germany, the AfD and BSW together are gathering between 43% and 49% of votes. [According to polls](#), at the national level they are favoured by 29% of respondents.

Given this first consideration, the *second* follows: the same polls show that no party is likely to gain an outright majority in the next Bundestag, leading to the necessity of forming a coalition government again. So, assuming that the CDU led by Friedrich Merz ([who was just confirmed as the party candidate for the Chancellorship](#)) will be the first party again in the September 2025 election, the real question is: what coalition partners will the CDU be willing to accept? So far, at both the national and local levels, Friedrich Merz has ruled out forming a coalition with the AfD. This would lead to a re-proposition of a grand coalition with the SPD, and possibly with the Greens (the so-called "Kenya coalition"). But the case of the election of [Thomas Kemmerich in Thuringia in 2020](#), when the votes of both the CDU and the AfD converged on the FDP candidate to the state premiership, shows that this "veto" against any CDU-AfD cooperation may eventually fall, the same way a [part of the Republicans in France has decided to support Marine Le Pen during the latest legislative elections](#). If the AfD does particularly well in this local election, it will be harder for Merz to keep its position, especially if the AfD group, after entering the Bundestag, splits into an extremist component and a comparatively more centrist component.

On the back of this discussion, we want to raise another red flag here, after that [raised for France in December 2022 about a possible victory by Marine Le Pen in 2027](#). These three local elections, just one year before the general election, could be the beginning of a dangerous path for Germany and Europe. If the AfD were to come to power, possibly at the same time as Le Pen becomes the French president, this would probably mark the end of the European integration process.

### Our Recent Publications

☞ [Review: BOJ Keeps Rates Unchanged, But May Hike More If Its Outlook Materialises](#), by Brunello Rosa and Nato Balavadze, 20 September 2024

☞ [Preview: BOJ To Stay on Hold in September. Another Hike In a Few Months](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 19 September 2024

☞ [Review: Bank of England Leaves Rates Unchanged and Confirms The Same Pace of QT](#), by Brunello Rosa and Nato Balavadze, 19 September 2024

☞ [Review: The Fed Starts Easing Cycle With 50bps Rate Cut](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 18 September 2024

☞ [Preview: Fed To Begin Its Easing Cycle In September, With a 25bps Rate Cut But It is a Close Call on 50bps](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 16 September 2024

☞ [Preview: BOE To Keep Rates Unchanged and Announce Around £100bn of QT In 2024-25](#), by Brunello Rosa and Nato Balavadze, 13 September 2024

Looking Ahead

The Week Ahead: US QoQ GDP To Advance; Manufacturing PMI To Increase In US, While They Are Expected To Fall In EZ

**In the US**, in Q2, GDP growth rate is seen accelerating to 3.0% q-o-q (*p*: 1.4%). In September, S&P Global manufacturing PMI is expected to increase to 48.5 (*p*: 47.9), while services PMI is expected to edge down to 55.2 (*p*: 55.8). In September, Michigan Consumer Sentiment is likely to increase to 69.0 (*p*: 67.9).

**In the EZ**, in September, consumer confidence is seen rising to -12.9 (*p*: -13.5). Still in September, the economic sentiment is likely to fall slightly to 96.5 (*p*: 96.6). In September, HCOB Global manufacturing and services PMIs are expected to edge down to 45.6 (*p*: 45.8) and 52.4 (*p*: 52.9). Composite PMI is likely to decrease to 50.6 (*p*: 51.0).

The Quarter Ahead: EU Tariffs On Chinese EV Companies; Israel Air Attack In Beirut; Biden And Quad Group Summit

**EU tariffs on Chinese EV makers'**. The EU will decide by Oct. 30 whether to raise tariffs on Chinese electric vehicles, adding 9% to 35.3% on top of the current 10% for five years. Chinese car companies have warned they will cut investments in the EU if tariffs on electric vehicle imports are imposed next month. The EU tariffs are lighter than North America's due to strong ties between European and Chinese manufacturers. The U.S. imposed a 100% tariff on Chinese EVs in May, with Canada following last month.

**Hezbollah and Israel exchanged heavy fire after a deadly Israeli strike.** Israeli warplanes bombarded southern Lebanon, while Hezbollah fired rockets into northern Israel. At least 45 people, including women and children, were killed in a Beirut suburb strike, which Israel said targeted Hezbollah's Radwan unit. Israel has restricted gatherings in the north amid the conflict.

**Biden hosted Quad leaders to announce expanded security measures in Asia's waters**, driven by concerns over China. Plans include joint coast guard operations, maritime monitoring, and supplying key technologies to Pacific Islands and Southeast Asia.

Last Week's Review

Real Economy: Fed Cut Rates, While BOE Stayed On Hold; EZ Headline Inflation Fell, While UK Headline Was Unchanged

**In the US**, the Fed to cut its Fed funds range by 50 bps to 4.75% - 5.00% in September. In August, retail sales rose by 2.1% y-o-y (*p*: 2.9%).

**In the EZ**, in August, headline and core inflation rates eased off to 2.2% y-o-y (*c*: 2.2%; *p*: 2.6%) and 2.8% y-o-y (*c*: 2.8%; *p*: 2.9%). In September, ZEW Economic Sentiment Index fell to 9.3 (*c*: 16.3; *p*: 17.9). Still in September, consumer confidence rose -12.9 (*c*: -13.0; *p*: -13.4).

**Among the largest EZ economies**, in August, headline inflation rate: *i*) further ease off to 1.1% y-o-y (*c*: 1.1%; *p*: 1.3%) in Italy.

**In the UK**, In the UK, the BoE maintained its Bank Rate (BR) at 5.00% in September, while confirming GBP 100bn of QT per year. In August, headline inflation rate remained at 2.2% y-o-y as expected, while core inflation increased to 3.6% y-o-y (*c*: 3.5%; *p*: 3.3%). In September, Gfk Consumer Confidence fell to -20 (*c*: -13; *p*: -13). In August, retail sales are expected to increase by 0.3% m-o-m (*p*: 0.5%).

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

**Market Drivers:** Stocks hit new highs as investors celebrated the Fed rate cut. The 10-year Treasury yield surged on optimism about avoiding a recession. Meanwhile, the European markets also surged following the Fed rate cut. German Bund yields saw their biggest weekly jump since June. Investors favored riskier assets, expecting more Fed rate cuts, while caution remains over the ECB's next moves with key data awaited.

**Global Equities:** Increased w-o-w (MSCI ACWI, +1.3%, to 837.37). The US S&P 500 index edged up (+1.4% w-o-w, to 5,702.55). In the EZ, share prices increased (Eurostoxx 50, +0.6% w-o-w, to 4,872.55). In EMs, equity increased (MSCI EMs, +2.2%, to 1,106.4). Volatility decreased rose to 18.06 (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 (+8 bps to 3.74%). The 2-year US Treasury yields increased (+1 bps to 3.60%). The German 10-year bund yields increased (+7 bps to 2.22%).

**FX:** w-o-w, the US Dollar Index decreased (DXY, -0.4%, to 100.74; EUR/USD +0.8%, to 1.11). In EMs, currencies rose (MSCI EM Currency Index, +0.5% w-o-w, to 1,778.52).

**Commodities:** w-o-w, oil prices increased (Brent, +4.3% to 74,72 USD/b). Gold prices increased w-o-w (+1.4% to 2,647.10 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

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