

This newsletter is translated from the Japanese edition distributed on March 24th
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Are we better to focus on the impacts of re-emergence of
“left” rather than “far-right” in Europe?, etc.

Global Risk Watch Vol.24
29 March 2017

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《index》

1. # Are we better to focus on the impacts of re-emergence of “left” rather than “far-right” in Europe?
(Tsuyoshi Oyama)
 2. # The prospects of the global financial regulation (Yuri Nakano)
 3. # ECB’s stance and the tone of prices (Toshikazu Kumagai)
 4. Seminars, Conference & Publications
- =====

1. Overview Macroeconomic and Financial Risks (Trends & Topics)

**# Are we better to focus on the impacts of re-emergence of “left” rather than “far-right” in Europe?
(Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy (CRMS) at Deloitte Touche
Tohmatsu LLC/Deloitte Asia Pacific Risk and Capital Management Leader)**

The global economy has been notably robust. A tone for inflation has been reinforced in the advanced countries, and previous dovish modes have been changing in monetary policies as evidenced by the first FRB (Federal Reserve Board) interest rate hike of this year. As a result, interest rates are gradually rising. On the other hand, the risk-on trend in risk assets have been gaining enough momentum to repel many concerning factors associated with increasing uncertainty. This is not limited to stock prices in advanced countries, but also applicable to currencies and stock prices in emerging economies.

It appears evident that this bull market is bound to adjust itself someday unless the Trump administration clarifies the substance of fiscal and other policies in the near future. The shift in monetary policy modes as mentioned in the beginning, however, may not proceed smoothly. FRB has rushed to the mode shifting to rate hike since early March, but Chair Yellen has shown a little “surprisingly” moderate stance towards future rate increase at a press conference after the decision. If the extremely favorable employment statistics, released early March, are thanks to the cold wave last year, the figures of early April may be deteriorated because of the blizzards in March this year. If the shift in monetary policy remains at a temporary halt, even with the ongoing confusion of the Trump regime, the rewind of the market would be limited and the overall Goldilocks economy would last for more months... such “signs of spring” have come into the picture.

The current biggest enemy to this Goldilocks situation seems to be neither FRB's rate hike, nor the chaotic Trump administration, but European politics. The Dutch general election has brought a relieving result for those who hope for a political stability where the far-right Freedom Party failed to win as many seats as forecasted. As for the French presidential election planned in April and May, in contrast to the media reportage fuelling public anxiety, left-leaning Macron leads far-rightist Le Pen by a large gap according to bedding odds etc. Under these conditions, there might be a bias among (especially American and British) media, which are strangely calm over a possibility for consecutive victories of the left factions at key European elections while paying a lot attention only to the rightward tilt in political sentiment.

In contrast with this media's preference, the reality is that we have now seen the rising support for the left wing to unify Europe, in the face of "unexpected" development in the U.S. and the U.K during last year. In fact, at the Dutch election, the growth of the leftist force stood out while the extreme-right was not proven as popular. As previously discussed, partly assisted by the scandal of rightist Republican candidate Fillon, left-wing Macron is highly likely to win the French presidential election. Furthermore, at the German federal election this fall, some began to predict that Schultz of the left fraction will beat the incumbent Chancellor Merkel, the "queen of Europe." Regarding the Italian general election possibly in February 2018, former Prime Minister Renzi is aiming for a comeback. In this manner, depending on the conditions, principal European states can be entirely occupied by the pro-EU leftist regimes by the early next year.

For media in pursuit of "crisis," this scenario where key European states are governed by pro-EU leftists may be too "dull" in a sense that economic and political stability increases. However, there is a potential for one significant crisis in this scenario. It is the "quagmire of an economic war" between the EU and the U.K. over the conditions for Brexit. With the Britain's notification of withdrawal on the doorstep, fierce debates have already sparked between the U.K. and EU whether the U.K. will pay the 60 billion-euro compensation, the negotiation should take place simultaneously for the compensation and the free trade agreement (FTA), and whether the U.K. is entitled to start FTA negotiations with other states prior to finalizing Brexit. If the main European countries are to welcome the leftist governments, it is obvious for them to adopt a more hostile approach to Britain to make an example of the "traitor."

From a slightly cynical point of view, it may be comforting for American and British press to witness other states following the same experiences. By contrast, what if the complete opposite happens to torment the U.K.? The "unexpected" of this year, based on media bias, may be this type of events.

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