

# CROSSROADS

*At the Intersection of Geopolitics and Geoeconomics*

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## [Re-election of Turkish President Recep Erdoğan](#)

### *Facts*

- Turkish president Recep Erdoğan has claimed victory in the recent Turkish presidential election, reaching 52.5% of the popular vote and avoiding a runoff.
- Erdoğan's ruling AK party also gained a majority in Parliament by partnering with nationalist party MHP.

### *Potential Outcomes*

- President Erdoğan's victory will contribute to Turkey's shift away from Western spheres of influence.
- Faced with a troubled economy, Erdogan has blamed external factors for Turkey's economic woes. The Turkish lira has depreciated from 2.14 to the dollar when Erdoğan was first elected president in 2014, to 4.68 to the dollar today.
- Erdoğan will aim to clamp down on inflation and to tackle Turkey's unemployment rate, which has hovered around 10% over the course of the last year.
- Uncertainty and higher volatility seem to be the main factors in the near future.

## [OPEC meeting demands higher production](#)

### *Facts*

- At the most recent OPEC meeting on June 22<sup>nd</sup>, OPEC countries agreed to pump 1 million more barrels of crude oil per day.
- Oil prices rose 5% on Friday after OPEC's announcement because markets were expecting higher quotas.
- OPEC will shift its compliance rate from the previous 152% for May to 100%. The decrease in compliance likely means that, in real numbers, OPEC countries would fall short of the 1 million b/day benchmark.

### *Potential Outcomes*

- Despite OPEC's decision to increase production, there is a chance prices could still increase as most of the member countries are not in a position to increase their output quickly.
- Sanctions against Iran and political turmoil in Venezuela could prevent those countries from meeting the production ceiling. Additionally, a Libyan militia's actions have drawn into question the country's ability to meet the one million b/d output.
- Some non-OPEC countries agreed to decrease production in 2016, but it remains to be seen how they will respond to OPEC's recent decision.

## [Eurozone delivers new debt relief to Greece](#)

### *Facts*

- The EU granted new debt relief measures to Greece in an effort to make debt repayments easier.
- Greece now does not have to make payments on its debts until 2032 and must maintain a budget surplus of 3.5% GDP until 2022.
- This agreement also states that any profits made by eurozone central banks on Greek bonds must be returned to Greece in two equal tranches every year between 2018 and 2022.

### *Potential Outcomes*

- Greece will still have to cut pensions and in reality will remain under the supervision of the Troika.

- The drop in yields signifies increased levels of confidence and Greece will test its exit to the bond markets.
- The Athens composite index of leading Greek equities seems to be attracting interest.

### Upcoming: Mexican Presidential Election

#### *Facts*

- The left-leaning populist, Andres Manuel Lopez Obrador (AMLO), has consistently hovered around 50% support and looks like the likely winner of the election on July 1.
- There are no runoff elections in the Mexican political system—a simple majority will carry the day.
- This election cycle has seen the highest level of political assassinations in Mexico's history.

#### *Potential Outcomes*

- AMLO has consistently spoken out against the policies of President Trump, offered sharp rebukes, and promised to stand firm against the Trump Administration's policies toward Mexico.
- It is possible that we will see a small sell-off of the peso and of Mexican equities if AMLO wins. The election of AMLO will likely lead to heightened tension between the US and Mexico.
- These tensions will likely culminate in talks surrounding NAFTA, US tariffs, and US immigration policy.

### MSCI upgrades Argentina and Saudi Arabia to Emerging Market status

#### *Facts*

- MSCI, the New York-based index provider, announced last week that it will be adding Saudi Arabia to its emerging market index in 2019.
- MSCI also increased exposure to Argentina, despite Argentina's ongoing currency crisis and having previously ejected Argentina from the MSCI Emerging Markets Index in 2009.

#### *Potential Outcomes*

- Passive funds tracking the MSCI will have to adjust portfolios and purchase Saudi and Argentine stocks.
- MSCI admitted hesitancy about Argentina, having stated that it still had concerns about the country and would review its decision if Argentina used capital controls or other restrictions to handle its ongoing currency crisis.
- Saudi Arabia's inclusion in the MSCI presents an opportunity for foreign investors in a country that has typically been dominated by domestic investors.

### A U.S. – China trade war looms

#### *Facts*

- President Trump is expected to announce details of plans to further restrict Chinese investment in American businesses and prevent US businesses from selling some high-tech products to China.
- This expected announcement comes on top of an earlier June announcement to impose tariffs on \$50 billion worth of Chinese goods and long-term threats of tariffs on up to \$400 billion worth of goods.
- These planned restrictions on Chinese investment and on US exports to China represent another installment in the ongoing trade disputes between the world's two biggest economies.

#### *Potential Outcomes*

- If a trade war erupts, then a flight to safety may follow with negative effects for equities and incomes.
- China will most likely respond, and it has options: it could reverse orders on major US goods such as Boeing airplanes or make it harder for US companies to get business licenses to operate in China.