
TRENDMACRO LIVE!

On Monti's Resignation

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He's not conceding to Berlusconi -- he's depriving him of political momentum.

When Silvio Berlusconi's center right People of Freedom (PDL) party [abstained in a vote of confidence](#) in Italian Prime Minister Mario Monti's leadership on Thursday, it was broadly dismissed as just noise from a leader whose time in power is over. After all, Berlusconi wasn't going to run in the next election (see "[Calm Breaks Out in Europe](#)" October 31, 2012). That all changed on Friday when Berlusconi confirmed that [he would be leading his party](#) in the next election.

On Saturday Monti announced his resignation. On the face of it, it might seem as if Monti is throwing in the towel -- the best hope for reform abdicating to a resurgent *ancient regime*. But there is much more to it than that. Monti's move is designed to put Berlusconi at a disadvantage. If it bears fruit, in hindsight this will be viewed as a stroke of genius.

- Monti is not departing immediately. He announced that he [will resign once](#) the 2013 budget is passed through parliament. In effect, this means that elections in Italy will not happen before mid-February at the earliest -- about a month earlier than originally planned.
- Monti's early exit tactic is not without cost. There are several reforms that will not now make it through parliament before the election, one of the most important being changes to Italy's [less than democratic election laws](#).
- Having the old electoral rules in place does benefit Berlusconi's PDL party, but forcing an early election has offsetting benefits for Monti's vision of ongoing reform.
- Berlusconi's PDL party [does not seem ready](#) to fight a snap election, a weakness for which Berlusconi himself has to shoulder much of the blame. His on-again off-again political ambitions have kept the PDL stuck in the Berlusconi era, unable to shape new messages for Italy's new realities.
- Berlusconi's tactics have been to abstain in parliamentary votes on Monti's reform packages and thereby -- through press coverage of his position opposing Monti's "austerity" -- start to rebuild his party's position in the polls. The genius of Monti's move is to take that opportunity away from Berlusconi. The only vote that will occur now

Update to strategic view

EUROPE MACRO, EUROPE BONDS, EUROPE STOCKS: Mario Monti's announcement that he will resign after the 2013 Italian budget is passed should not be seen as a victory for Silvio Berlusconi or a defeat for reform. Monti's resignation is a tactic to take political momentum away from Berlusconi. There will be some short term market volatility from this surprise, but it will likely lead to a longer term more stable political landscape in Italy. The key ingredient that is still missing is Monti's own candidacy in the coming election.

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is on the budget, and the PDL has already committed to vote in favor of that.

- Further, by resigning, Monti makes the early election Berlusconi's fault, so Berlusconi starts out on the wrong foot.

This is not to say that there is no downside to Monti's decision. It is a calculated risk.

- We don't yet know whether Monte himself will be a candidate.
- The leading party in the polls at the moment is Pier Luigi Bersani's center left Democratic Party -- usually abbreviated as PD, not to be confused with Berlusconi's PDL -- but they are only polling at 33%.
- This will be the first national election fought by Beppe Grillo's [Five Star Movement](#) (M5S). Currently sharing second in the polls with Berlusconi's PDL, they are a politically untried, with policies ranging from anti-euro to anti-corruption to pro-environmental.
- So, another coalition government is a certainty. By far the most likely outcome is a center-left Bersani government. But until we know more about Monti's own candidacy, we will not rule out the chances of the best outcome -- a Monti led administration.

Monti has made the best play he could. Market reaction this morning has been negative, with Italian bonds selling off, and the FTSE MIB down over 3%. Understandable, as political risk is always the key uncertainty as Europe struggles to come out of its debt crisis. But, these moves have to be seen in context. Italian markets are seeing lows for the month, but there is no major break-out to the downside happening here. And if this plays out Monti's way -- and some version of that is what we expect -- this will prove to have been just another buying opportunity.

Unless there is a clear change in sentiment towards Berlusconi, the most likely outcomes from the election are a Bersani-led coalition, or -- if he decides to run -- a unity government under Monti. The second of these outcomes would be the ideal -- a Monti government with an unquestionable mandate and a full term in which to implement reforms.

Bottom line

Mario Monti's announcement that he will resign after the 2013 Italian budget is passed should not be seen as a victory for Silvio Berlusconi or a defeat for reform. Monti's resignation is a tactic to take political momentum away from Berlusconi. There will be some short term market volatility from this surprise, but it will likely lead to a longer term more stable political landscape in Italy. The key ingredient that is still missing is Monti's own candidacy in the coming election. ▶

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