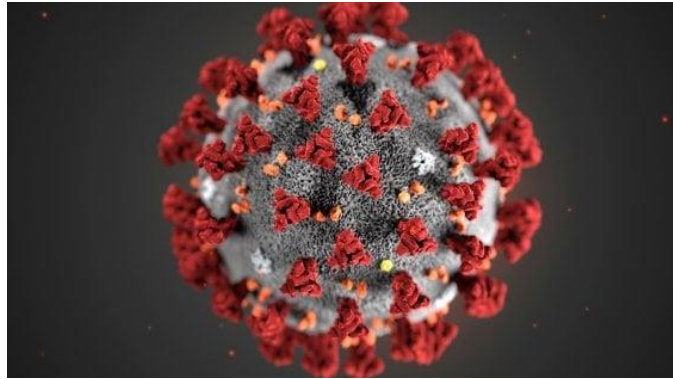




*R&R Weekly Column*  
*By Brunello Rosa*



### Coronavirus Poses Downside Risk To The Global Economy

In the last couple of weeks, the world has witnessed the outbreak of the Coronavirus (2019-nCov) infection, and its global diffusion. According to the [most recent statistics](#), there are 14,500 people reported as infected in Asia, more than 9000 of whom are in China. The virus has been detected in at least 24 countries. Even then, it is likely that the number of infected people has been under-reported. So far, 305 people have died, with the first victim reported being located outside of China, [in the Philippines](#).

It is understood that the virus originated in Wuhan, a city of 11 million people in central China. It was initially reported that the origin of the virus was the seafood and poultry market in Wuhan. However, the origin remains disputed. A study published on *Lancet* says that the Wuhan market [might not be the origin of the virus](#). According to some theories (bordering on conspiracy theories), the virus might have originated from a biosafety laboratory – also based in Wuhan – [housing some of the world's most deadly illnesses](#). The lab, opened after the outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003, is used to study class four pathogens (P4), referring to the most virulent viruses which pose a high risk of “aerosol-transmitted person-to-person infections,” according to a press release. It is possible that we will not be able to establish for certain the origin of this virus, but we cannot exclude a-priori that the virus originated from lab experiments.

Plenty of comparisons have been made with the SARS episode, [which in 2002-03 infected more than 8,000 people, killing around 700 of them](#). [Some studies have also analysed the economic costs of SARS](#) (estimated to be around USD 13bn). According to initial statistics conducted on the first 99 patients at a hospital in Wuhan, the Coronavirus has a case-fatality rate (the percent of deaths among those infected) of 11%. Initial estimates show that the virus has an R0 of 2.2, meaning each case patient could infect more than 2 other people. If those statistic prove accurate, this virus would be [more infectious than the 1918 “Spanish-Flu” pandemic virus](#), which had an R0 of 1.80. Based on current statistics, Coronavirus is definitely more infectious and deadly than SARS, and possibly also than the Spanish Flu of 1918-19, which infected more than half a billion people and killed an estimated 20-50 million (statistics were not very accurate in that case, in part because of World War I). At the same time, to most people’s surprise, [the Coronavirus is less severe than the usual seasonal flu](#). Just to give an example, seasonal influenza epidemics cause 3 to 5 million severe cases and kill up to 650,000 people every year, according to the World Health Organization. So far in this season, there have been an estimated 19 million cases of flu, 180,000 hospitalizations and 10,000 deaths in the US alone, according to the Centers for Disease Control and Prevention.


So, what is making the Coronavirus so special, and worthy of attention, to the point that every major central banker (e.g. [Fed’s Powell](#), [BoE’s Carney](#) and [ECB’s Lagarde](#)) had to answer a question about its impact? The point is that the panic that the outbreak has created, and the defensive reactions to it, might be causing quite a severe level of damage to the global economy (even if perhaps only temporarily, in which case the losses might be mostly recouped in the following quarters). A number of airline companies have completely interrupted all of their flights in an out from China; [British Airways, which has cancelled every flight until March, being only a very notable example of this](#). Most importantly, the [US has barred entrance to any foreigner travelling from mainland China](#). A number of [other countries, such as Australia](#), have followed the US’ example. China has [reacted with anger to the measures adopted by the US](#) and other countries. China risks being isolated by the rest of the world, a position that is politically and economically difficult for Beijing to tolerate, especially as the trade and tech negotiations with the US are still ongoing, following the Phase-1 deal between the two countries.


So, more than the virus per se, it is the various countries’ reactions to the virus which pose [serious downside risks to the global economy](#). [Indeed, the global economy risks another year of stagnation, following a disappointing 2019](#). If that happens, central banks and fiscal authorities will likely have to do their part to support aggregate demand in the various countries directly or indirectly hit by the outbreak.

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Looking Ahead

The Week Ahead: US Senate Blocks A Call For New Witnesses In The Impeachment

**In the US**, the Senate blocked a call for new witnesses into the Presidential impeachment case. As a result, the final vote will take place on February 5 and the Senate will likely acquit Mr. Trump.

**In the US**, January's labour market data is expected to indicate: *i*) a pick-up in non-farm payrolls (c: 165k; p: 145k); *ii*) acceleration in earnings (Avg. hourly earnings; c: 3.0% y-o-y; p: 2.9); and *iii*) still low unemployment (c: 3.5%; p: 3.5).

**In Australia**, the RBA will likely remain on hold (c: 0.75%; p: 0.75).

**In Turkey**, inflation will likely remain in double-digits (c: 11.8% y-o-y; p: 11.8).

The Quarter Ahead: Coronavirus Threatens Growth Prospects

**The WHO** declared the coronavirus a 'global public-health emergency', as the number of confirmed cases exceeded the total of the 2003 SARS epidemic. According to the WHO, the virus outbreak could expand beyond China; however, for now, 'there is no need for measures that interfere with travel and trade'. Several international airlines suspended flights to and from China and international businesses shut down their operations.

**In the US**, Chair Powell stated that the Fed is: *i*) 'yet to see a decisive recovery in the manufacturing sector', which has weighed on domestic growth; and *ii*) unlikely to change its policy rate unless 'the economic outlook materially changes. Yet, the market probability of 'one or more' rate cut increased to 88.5% (p: 67.8).

As **the UK** formally left the EU, the BoE revised down its growth projections for the next three years; yet, all current trading agreements will remain unchanged until the end of 2020. According to BoE governor Mark Carney economic data are 'good enough', but a 'pick-up in economic activity is needed' to avoid a rate cut in the future.

**In China**, in Q1-2020: 1) the lockdown of several cities will negatively impact sales, tourism, and transport; and 2) the three-day extension of the lunar new year holiday will further reduce economic growth.

Last Week's Review

Real Economy: Economic Growth Prospects Weaken, DM Central Banks Stay 'On Hold'

**In the US**, in Q4-2019 the economy expanded at 2.1% on a yearly basis (y-o-y), as expected (c: 2.1; p: 2.1); yet, on a quarterly basis (q-o-q) GDP growth slowed to 1.5%, below-consensus (c: 1.8; p: 1.7) - as softer spending and restrained business investment weighed on economic activity. For 2019 in total, growth expanded by 2.3% (p: 2.9), missing the Trump administration's goal of 3% annual growth. In December, the Congress' approval to boost military spending increased 'defence orders' and supported a rise in 'overall durable goods orders' (a: 2.4% m-o-m; c: 0.4; p: -3.1); yet, 'durable goods orders excluding defence' - a proxy for business investment - fell sharply, below-consensus (a: -2.5% m-o-m; c: 0.5; p: -0.5). Headline and core readings of inflation rose (Core PCE Dec., a: 1.6% y-o-y; c: 1.6; p: 1.5; PCE, a: 1.6% y-o-y; p: 1.4). As widely expected, the Fed kept the Fed funds target unchanged, between 1.50-1.75%.

**In the EZ**, the slowdown was greater than anticipated, as the bloc suffered its weakest quarterly growth since 2012 (a: 0.1% q-o-q; c: 0.2; p: 0.3; GDP Q4, a: 1.0% y-o-y; c: 1.1; p: 1.2). Core inflation slowed to 1.1% y-o-y, further away from the ECB's target (Jan., c: 1.2%; p: 1.3), while the headline reading rose as expected 1.4% (c: 1.4; p: 1.3).

**In the UK**, the BoE maintained its key rate at 0.75%, as committee members voted 7:2 in favour of holding rates - in line with the December vote.

Financial Markets: Uncertainty Over Economic Impact Of Coronavirus Hinders Markets

**Market drivers:** As the coronavirus outbreak threatens to hurt already-fragile growth prospects, investors sought haven assets. In China, the financial markets were closed due to the lunar new year holiday.

**Stocks:** w-o-w, global indices fell (MSCI ACWI, -2.6% to 559), driven by DMs (S&P 500, -2.1% to 3,226; Eurostoxx 50, -3.7% to 3,641). Volatility rose (VIX S&P 500, +4.2 pts to 18.8; 52w avg.: 14.8; 10y avg.: 16.7).

**Bonds:** w-o-w, returns rose (BAML Global, +0.7% to 289.8), driven by 'risk-off' sentiment, and yields fell across DMs (10y UST, -16 bps to 1.52%; 10y German bund, -11 bps to -0.44%). The US yield curve inverted, as the yield on 10y USTs fell below the yield of 3m bills.

**FX:** w-o-w, the USD fell against a basket of currencies (DXY, -0.5% to 97.390) while the EUR and GBP strengthened (EUR/USD, +0.6% to 1.109; GBP/USD, +0.9% to 1.320). EM currencies declined (MSCI EM Currency, -0.9% to 1,647).

**Commodities:** Amid concerns that the coronavirus outbreak will weaken oil demand, Opec is considering an earlier meeting to discuss production cuts. W-o-w, prices declined steeply (Brent, -4.2% to 58.2 USD/b). Given its safe-haven appeal, gold rose (Gold, +1.2% to 1,590 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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