



R&R Weekly Column
By Brunello Rosa



“Helicopters” Take Off To Fight the Covid-19 Threat


This year, we have discussed Coronavirus in a series of columns of our weekly ViewsLetter: this is inevitable, considering the importance the COVID-19 will have on all aspects of life for a large part of the world population – health, economic conditions and financial repercussions. Our first column on COVID dates February 3rd, when China was starting to impose some of its most draconian measures, while all other countries were ignoring the risk or happily leaving in denial. In that occasion we warned that [“Coronavirus Pose\[d\] a Downside Risk To The Global Economy.”](#) One month later, on March 2nd we commented how financial markets had finally caught up with reality and [“Belatedly Correct\[ed\] on Coronavirus Concerns.”](#) The week after we discussed [how central banks had tried to come to the rescue](#) with more of the same “medicine” (rate cuts and a limited increase in asset purchases). Finally, [last week](#) we made a more long-term consideration that, a year from now, the world will look radically different from today.


This week, we discuss how central banks and governments have finally realised the magnitude of the shock and the therapy needed to mitigate its impact. As we discussed in [PART 1 of our global outlook update](#), we now expect the global economy to expect a global recession in 2020, as our baseline. In downside scenarios, the contraction could be much more pronounced and prolonged. As most countries are now realizing what was, in our opinion, self-evident, i.e. that Italy has simply been a leading indicator of what could happen if they don’t contain the spreading of the virus early on, the policy decisions deriving from this “epiphany” are now finally starting to appear on the horizon.


As we discuss in [PART 2 of the global outlook update](#), most countries are now adopting monetary and fiscal expansion measures to limit the damage to the economy deriving from the draconian measures adopted to contain the virus: partial or total lockdown of the country, suspension of all international travel, re-instatement of borders, even within the EU with the suspension of Schengen. In the US, the [Fed has brought its policy rate to zero and re-started QE](#), and the government has discussed a USD 1tn fiscal easing package, potentially including forms of cash directly sent directly to households. The UK government has announced a GBP 330bn fiscal easing package, while the [BOE slashed rates to virtually zero and re-started QE](#). In France, [President Macron has announced a EUR 300bn fiscal package](#), while Germany has finally thrown out of the window its ridiculous “schwarz null” policy and [pledged EUR 550bn of fiscal stimulus](#) (including loans and credit guarantees), of which EUR 156bn of fresh money expenditures. The ECB, after the initial mishap by President Lagarde has [staged its “Whatever it Takes – 2” moment, when it launched its new PEPP plan of EUR 750bn of asset purchases](#).


The next stage in this process is the increased coordination between the monetary and fiscal response, which are both needed for this response to be effective. This will likely translate into forms of direct or indirect debt and deficit monetisation, which has been variously labelled as People’s QE, MMT or helicopter drops of money. [It is with some relief that we finally see these “helicopters” taking off](#) to fight the effects of COVID on the economy and financial markets.

Our Recent Publications

 [GLOBAL OUTLOOK UPDATE – PART 2 – Policy Response To COVID-19: Governments and Central Banks Moving Rapidly Towards Policy Coordination To Speed Up “Helicopter Drop”](#), by Nouriel Roubini and Brunello Rosa, 20 March 2020

 [Flash ECB, BOE and SNB Reviews: Central Banks Step Up Their Monetary Stimulus](#), by B. Rosa and Karmen Meneses, 19 March 2020

 [Flash Review: Fed and Other Central Bank Easing Doesn’t Stop Market Rout](#), by Brunello Rosa, 16 March 2020

 [GLOBAL OUTLOOK 2020 UPDATE – PART 1: COVID-19 Leads To A Global Recession With Severe Bear Market and Debt Crises](#), by Nouriel Roubini, Alessandro Magnoli Bocchi and Brunello Rosa, 16 March 2020

 [Flash Review: BOJ Leaves Rates Unchanged But Increases Private Sector Asset Purchases](#), by Brunello Rosa, 16 March 2020

 [SNB Flash Preview: Markets Expect No Change, But SNB Will Likely Provide Monetary Stimulus](#), by Brunello Rosa, 16 March 2020



Looking Ahead

The Week Ahead: Global Growth To Collapse Due To The COVID-19 Pandemic; Risks Remain Elevated

In DM economies, March manufacturing and services PMIs are expected to: 1) fall below the 50-benchmark; and 2) show the steepest global contraction since 2009, as the COVID-19 outbreak: *i)* disrupts manufacturing supply chains; and *ii)* hits services, especially in travel, tourism, hospitality and transport.

In the US, durable goods orders will fall (Feb., c: -0.7% m-o-m; p: -0.3), as uncertainty delays capital investment and supply disruptions hit producers. For the week ending March 21, 'initial jobless claims' are expected to jump (c: 775K; p: 281K), and state-level reports indicate a possible rise to 2.25 million – the highest level recorded in US history.

The Quarter Ahead: Steep Recession Ahead

Due to the stringent measures adopted to contain the outbreak, **most economies will experience a permanent loss of output**. Risks remain elevated, namely: 1) COVID-19-induced de-globalization forces; 2) contagion in EMs; and 3) a corporate credit crisis.

Globally, governments are considering ~USD 3tn in fiscal support, e.g.: via guarantees on bank loans and tax deferrals.

In the US, the Trump administration is likely to pass a stimulus package that could include direct cash-transfers to individuals and loans to SMEs. After the announcement of USD 700bn in bond purchases the Fed bought: *i)* USD 272 bn of UST; and *ii)* USD 68 bn of MBS – and suggested it could expand purchases further, to 'support the smooth functioning' of markets.

Last Week's Review

Real Economy: Lockdown Measures Enacted Across Major Economies; Central Banks' Easing Intensifies

In China, Jan.-Feb. data showed a sharper-than-expected decline in economic activity: *i)* IP contracted by -13.5% y-o-y (c: 1.5; p: 6.9); and *ii)* retail sales fell -20.5% y-o-y (c: 0.8; p: 6.9).

In Japan, core inflation decelerated (a: 0.6% y-o-y; c: 0.6; p: 0.8) due to lower fuel prices, while the headline reading eased below-forecasts (a: 0.4% y-o-y; c: 0.8; p: 0.7), as consumers became more cautious on spending.

Central Banks, led by the Fed, announce aggressive easing measures: In the US, the Fed announced: *i)* a 100 bps cut of the 'Fed funds target rate', to 0.00-0.25%; *ii)* additional asset purchases of 'at least': a) USD 200bn of MBS; and b) USD 500 bn of UST; *iii)* expanded repo operations, and *iv)* open emergency-lending windows, to support commercial paper issuers and money market funds – a policy measure that was avoided during the 2008 financial crisis. To ease strains in global funding markets, the Fed coordinated actions with key CBs – **in the EZ, Japan, UK, Canada, Switzerland, and nine others countries** – to: *i)* provide a 'liquidity backstop', through existing swap lines, up to 0.25% above the Fed Funds rate; and *ii)* lower the international cost of borrowing USDs.

In the EZ, the ECB announced: *i)* increased QE bond purchases by EUR 750 bn under the 'Pandemic Emergency Purchase Program' (PEPP); *ii)* an expanded range of assets purchases, to include non-financial commercial papers and Greek sovereign bonds; and *iii)* eased collateral standards for 'ordinary' open-market operations, so that corporate bonds can be used as repo collateral.

Several central banks eased monetary policy outside regular meeting: *i)* **in Japan**, the BoJ doubled its net purchases of ETFs, to JPY 12 tn; *ii)* **the UK**, the BoE cut rates by 15 bps, to 0.10% and increased its bond purchase program; *iii)* **in Australia**, the RBA cut by 25 bps, to 0.25% and initiated its first-ever QE program; *iv)* **in New Zealand**, the RBNZ cut by 75 bps, to 0.25%; and *v)* in Turkey, the CBT cut by 100 bps, to 9.75%.

Financial Markets: Sell-Off Across All Asset Classes, Equities Enter Bear Market (>20% Fall)

Market drivers: Going forward, the main market drivers will be: *i)* the evolution of the COVID-19 pandemic; and *ii)* the timing and size of monetary and fiscal stimuli. In absence of coordinated stimuli, fundamentals will quickly deteriorate and financial markets will suffer significant dislocations.

Stocks: w-o-w, global indices fell (MSCI ACWI, -31.0%, to 397), driven by DMs (S&P 500, -30.7% to 2,305; Eurostoxx 50, -31.8% to 2,549) and EMs (MSCI EMs, -28.4% to 803). Volatility remains high (VIX S&P 500, +8.2 pts to 66.0; 52w avg.: 17.4; 10y avg.: 16.9).

Bonds: w-o-w, returns on bond indices fell (BAML Global, -2.0% to 283.6), as yields on DM 10y bonds rose for: *i)* German bunds (+25bps, to -0.34%); *ii)* Japan bonds (+11 bps, to 0.10%); and *iii)* UK gilts (+15 bps to 0.56%), while 10y UST yields fell by 2 bps to 0.94%.

FX: w-o-w, global demand for USD strengthened (DXY, +4.1% to 102.817; EUR/USD, -3.67% to 1.069; USD/CHF, -3.7% to 0.987), and the GBP collapsed to multi-decade lows (GBP/USD, -5.2% to 1.164).

Commodities: Oil prices continue to decline (Brent, -20.3% to 27.0 USD/b) and gold fell (Gold, -2.1% to 1,498 USD/Oz), as extreme volatility drove investors to sell, and raise cash.

Farah Aladsani contributed to this Viewsletter.

The picture in the front page comes from [this website](#)



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED



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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