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R&R Weekly Column
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"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 deferments.

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*

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Abbreviations, Acronyms and Definitions

a	*Actual*	*LN*	*Northern League, Italy*
AKP	*Justice and Development Party, Turkey*	*M5S*	*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*