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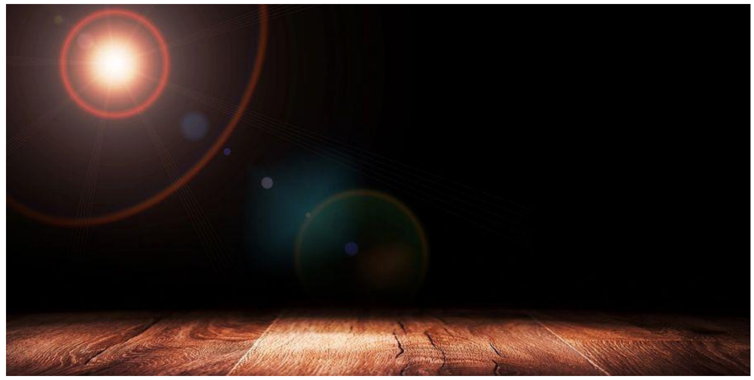
6 April 2020



R&R Weekly Column
By Brunello Rosa

When Will We See The Light At The End of The COVID-19 Tunnel?

The Covid pandemic has now led to more than a 1.2 million people being infected around the world, and 68,000 confirmed deaths. It is now clearly understood that the economic impact of this crisis will be far worse than was the 2008-09 financial crisis, and maybe as bad as that of the Great Depression in the 1930s. It could, potentially, be even worse than the Great Depression (as Nouriel Roubini calls it, a Greater Depression).

After initial hesitations, in particular in the US, UK, Brazil and Sweden, the pandemic has now generated a policy response that is broadly homogeneous around the globe. *From a healthcare perspective*, partial or total lockdowns have been imposed by several countries, with severe restrictions that can be slightly less draconian in those countries which have a population historically used to self-discipline, such as the UK. Of the largest countries, only the US is still reluctant to adopt serious measures of suppression, preferring forms of light mitigation instead. This is a mistake that will cost dearly down the line.

In terms of fiscal policy, virtually every economy has launched schemes aimed at guaranteeing liquidity and credit to large, medium and small enterprises, and fiscal support to workers, without much distinction between protected salaried workers and unprotected self-employed ones. In terms of monetary policy, almost all central banks in the world have adopted a combination of cuts to policy rates, increasing asset purchases, funding for lending schemes, longer-term refinancing operations against wider collateral, easier access to emergency lending, FX intervention and swap lines. Regulators have relaxed capital and liquidity requirements for financial institutions to increase their lending capacity.

Despite all this, stock prices in equity markets, sovereign yields of reserve currency countries and oil prices continue to fall. Why? The answer is simple: there is still no light at the end of the COVID-19 tunnel. Even if policy makers throw the kitchen sink at the crisis, they will not resolve the underlying issue, which is the containment of (or the cure for) the virus. Only medical experts and scientists, in this occasion, hold the key to solving the crisis. The measures introduced so far and discussed above only aim at buying time for scientists to find a solution. Initially, they are intended to flatten the curve of contagion, reduce the influx of patients into hospitals requiring expensive intensive-care units (ICUs), and increase their ICU capacity, perhaps by building field hospitals.

Following these necessary initial measures, progress needs to be made in the other three directions that will lead to the eventual "victory" over the virus. *First*, testing needs to become available on a much larger scale, in order to trace the diffusion of contagion. And, more so than the current antigenic testing (which tells if somebody is *currently* infected), the development of reliable forms of antibody tests will be crucial, to easily determine who *had been* infected and has developed immunity (even if such immunity is only temporary) and could therefore – for example – return to work. *Secondly*, if a treatment is found that alleviates the symptoms and reduces the need for ICUs, this would mark a major change in people's perceptions of the virus. It will help people calculate the risk of living in a world where the virus is still prevalent, which is likely to become necessary at some point unless we are willing to keep the world shut for the next 18 months.

Finally, there is the goal of developing a vaccine that would allow people to develop antibodies and return to work. On this front, there might be some promising progress that could speed up the process compared to the 12-18 months currently being estimated. Even still, we are talking about a timeline of several months before the fastest vaccine could possibly become available to millions of people.

Only when some breakthrough on a combination of these fronts occurs will it become possible to realistically say that there is some light that can be seen at the end of the tunnel. At that point, equity prices will find credible reason to rebound. The bad news is that we do not know when these breakthroughs might occur. The good news is that they could happen at any point in time during the next few weeks.

Our Recent Publications

- Global Outlook Update - PART 3 – Market Outlook – COVID-19 To Depress Valuations Until Pandemic Solution Is In Sight, *by A. Magnoli Bocchi, B. Rosa and N. Roubini, 26 March 2020*
- **GEOPOLITICAL CORNER:** Revisiting the Past to Know the Present: The Spanish Flu, the Coronavirus, and the Political Risk Event of a Generation, *by John C. Hulsman, 24 March 2020*

Looking Ahead

The Week Ahead: US Consumer Confidence To Decline And Jobless Claims To Remain High

In the US, in April consumer confidence will decline (Michigan consumer sentiment, c: 75.0; p: 89.1) and initial jobless claims will remain at historic highs (c: 5.0m, p: 6.6m). CPI is likely to slow, as: *i)* headline (c: 1.6% y-o-y; p: 2.3) is hindered by a decline in energy prices; and *ii)* core (c: 2.3% y-o-y; p: 2.4) suffers a weakening economy and a near-total shutdown in some sectors.

In China, inflation will likely decelerate (c: 4.9% y-o-y; p: 5.2), due to COVID-19 related shutdowns.

In Australia, the RBA is expected to remain on hold (p: 0.25%), as Governor Low defined the current rate as 'the effective lower bound' - after cutting it by 50bps last month.

The Quarter Ahead: Global Economy To Suffer Worst Year Since WW2; Fiscal Stimuli Face Political Resistance

Globally: 1) the longer the economy is suppressed, the bigger the structural damage; and 2) the pace of recovery will depend on the policies undertaken; i.e.: monetary easing must be accompanied by substantial fiscal support – e.g.: loans and grants to both families and businesses. Meanwhile, COVID-19 cases reached 1.2m, with over 68K deaths; the WHO warned 'not to ease lockdowns too soon', as lifting restrictions could lead to a virus resurgence - with an 'even more severe and prolonged' economic impact.

In the US, rising unemployment led the Congress to focus on: *i)* more immediate, direct payments to individuals; and *ii)* expanded loans to business - leaving the USD 800bn infrastructure plan for a later stimulus bill. However, the execution of existing measures is facing challenges; for example, large banks – including Wells Fargo and JPMorgan –stated they 'are not ready to start taking applications' under the federal loan program for small businesses.

Last Week's Review

Real Economy: Globally, COVID-19 Cases Reach 1.2 Million; 312K Cases In The US Alone

In the US, March's ISM manufacturing PMI (a: 49.1; c: 44.3; p: 50.1) hint at an upcoming contraction, with sharp falls in the 'new orders' and 'employment' sub-indices. Labor market data – which cover the first half of March, before the government-mandated shutdowns spurred joblessness – were weaker-than-expected, as: *i)* non-farm payrolls fell by -713K (c: -163K; p: 242K), marking the first decline since 2010; *ii)* the unemployment rate rose to 4.4% (c: 4.0; p: 3.5); while *iii)* average hourly earnings rose by 3.1% y-o-y (c: 3.0; p: 3.0). For the week ending on March 28, initial jobless claims rose by a record 6.6m (c: 3.5m; p: 3.3m), reaching almost 10m in two weeks; in 2009, it took 6.5 months to reach the same amount.

In the EZ, February retail sales – which reflect activity before the lockdowns – rose by 3.0% y-o-y (c: 1.7; p: 2.2). March headline inflation, dragged by lower global oil prices, slowed to 0.7% y-o-y (p: 1.2; c: 0.8), while core inflation – excluding energy and good prices – eased to 1.0% (c: 1.1. p: 1.2).

In the EZ and in the UK, Markit manufacturing and services PMIs were revised lower, falling below the 50-benchmark.

In Japan, February's IP data remained weak (a: -4.7% y-o-y; p: -2.3), due to COVID-19-induced supply chain disruptions.

In China, March manufacturing PMI showed expansion (a: 52.0; c: 45.0; p: 35.7).

In the GCC, March PMIs fell to: 1) 45.2 ***in the UAE*** (p: 49.1), the lowest reading since August 2009; the sub-indices 'new work' (39.4) and 'employment' (44.8) fell at the fastest pace on record, signaling a contraction in the non-oil private sector; and 2) 42.2 ***in Saudi Arabia*** (p: 52.5), the first sub-50 reading in more than 10 years.

Financial Markets: Equities Extended Losses, Bonds Stable, Oil Up On Production Cut Hopes

Market drivers: Rising COVID-19 cases and rapidly deteriorating economic data – e.g.: US labor market, DM PMIs – extended losses across asset classes.

Stocks: w-o-w, global indices fell (MSCI ACWI, -2.6%, to 425), driven by DMs (S&P 500, -2.1% to 2,489; Eurostoxx 50, -2.4% to 2,663) and EMs (MSCI EMs, -1.3% to 832). Volatility remains elevated (VIX S&P 500, -18.7 pts to 46.8; 52w avg.: 19.1; 10y avg.: 17.1).

Bonds: w-o-w, returns on indices rose marginally (BAML Global, +0.4% to 289.4), as the yield on a 10y UST fell (-16bps, to 0.59%), while across Europe yields rose (German bund, +5bps, to -0.44%; French OAT, +14 bps to 1.54%). In the US, in March USD 97bn of corporate debt issued by 13 companies lost their IG status.

FX: w-o-w, demand for USD increased (DXY, +2.2% to 100.576), and most currencies – bar the Chinese Yuan and the Russian Ruble – fell (EUR/USD, -3.0% to 1.081; USD/JPY, -0.5% to 108.450; USD/CHF, -2.7% to 0.978).

Commodities: Oil prices surged (Brent, +36.8% to 34.1 USD/b), as OPEC+ scheduled an urgent meeting to discuss reintroducing production cuts. Russia's President Vladmir Putin stated: 'trimming global production by about 10 million barrels from first-quarter levels is possible', if the US and other countries 'join in the production cuts'. Gold kept its haven appeal, with prices remaining elevated (Gold, -0.1% to 1,616 USD/Oz).

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The picture in the front page comes from this website

Abbreviations, Acronyms and Definitions

a	*Actual*
AKP	*Justice and Development Party, Turkey*
ann.	*annualized*
ARS	*Argentinian Peso*
avg.	*Average*
bn	*Billion*
BoC	*Bank of Canada*
BoE	*Bank of England*
BoJ	*Bank of Japan*
bpd	*Barrels per day*
bps	*Basis points*
BS	*Balance sheet*
c	*Consensus*
C/A	*Current account*
CB	*Central bank*
CBB	*Central Bank of Bahrain*
CBK	*Central Bank of Kuwait*
CBT	*Central Bank of Turkey*
CDU	*Christian Democratic Union, Germany*
CNY	*Chinese Yuan*
CPI	*Consumer Price Index*
DJIA	*Dow Jones Industrial Average Index*
DJEM	*Dow Jones Emerging Markets Index*
d-o-d	*Day-on-day*
DXY	*US Dollar Index*
EC	*European Commission*
ECB	*European Central Bank*
ECJ	*European Court of Justice*
EIA	*US Energy Information Agency*
EM	*Emerging Markets*
EP	*European Parliament*
EPS	*Earnings per share*
EU	*European Union*
EUR	*Euro*
EZ	*Eurozone*
Fed	*US Federal Reserve*
FOMC	*US Federal Open Market Committee*
FRB	*US Federal Reserve Board*
FX	*Foreign exchange*
FY	*Fiscal Year*
GCC	*Gulf Cooperation Council*
GBP	*British pound*
GDP	*Gross domestic product*
IMF	*International Monetary Fund*
INR	*Indian Rupee*
IPO	*Initial public offering*
IRR	*Iranian Rial*
JPY	*Japanese yen*
k	thousand
KSA	*Kingdom of Saudi Arabia*
LN	*Northern League, Italy*
M5S	*Five Star Movement, Italy*
m-o-m	*Month-on-month*
mb	*Million barrels*
mb/d	*Million barrels per day*
MENA	*Middle East and North Africa*
MHP	*Nationalist Movement Party, Turkey*
mn	*Million*
MPC	*Monetary Policy Committee*
NAFTA	*North-American Free Trade Agreement*
NATO	*North Atlantic Treaty Organization*
OECD	*Organization for Economic Cooperation and Development*
Opec	*Organization of Petroleum Exporting Countries*
p	*Previous*
P2P	*Peer-to-peer*
PBoC	*People's Bank of China*
PCE	*Personal Consumption Expenditures*
PE	*Price to earnings ratio*
PM	*Prime minister*
PMI	*Purchasing managers' index*
pps	*Percentage points*
pw	*Previous week*
QCB	*Qatar Central Bank*
QAR	*Qatari Riyal*
QE	*Quantitative easing*
q-o-q	*Quarter-on-quarter*
RE	*Real estate*
RBA	*Reserve Bank of Australia*
RRR	*Reserve Requirement Ratio*
RUB	*Russian Rouble*
SWF	*Sovereign Wealth Fund*
tn	*Trillion*
TRY	*Turkish Lira*
UAE	*United Arab Emirates*
UK	*United Kingdom*
US	*United States*
USD	*United States Dollar*
USD/b	*USD per barrel*
UST	*US Treasury bills/bonds*
VAT	*Value added tax*
VIX	*Chicago Board Options Exchange Volatility Index*
WTI	*West Texas Intermediate*
WTO	*World Trade Organisation*
w	*Week*
w-o-w	*Week-on-week*
y	*Year*
y-o-y	*Year-on-year*
y-t-d	*Year-to-date*
ZAR	*South African Rand*
2y; 10y	*2-year; 10-year*

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