



R&R Weekly Column
By Brunello Rosa



Central Banks Take A Breather Following Covid-Related Monetary Stimulus

The number of Covid-19 cases worldwide is increasing. It has now nearly [reached the 13 million mark](#), causing almost 600,000 reported deaths. Some countries, especially [in Europe](#) and [Asia](#), are experiencing an increase in new cases, though only to a limited extent so far, after re-opening their societies following long periods of lockdown. In other countries, such as the US and Brazil, the situation is worse; [according to some experts](#), infection rates may already be out of control in these countries. In the US in particular, where the number of cases has now reached 3.2 million, the spread of the virus is still [increasing exponentially](#), suggesting that the adoption of new social-distancing measures is likely to occur during the next few weeks.


As lockdown measures have eased, economic activity has been picking up, recovering from the lows touched in Q1 and Q2. Unless restrictions are re-imposed to the same extent as occurred during the first part of the year, or new restrictions imposed upon large economies such as the US have massive spillovers to the rest of the global economy, [Q3 GDP growth should show a positive figure in many countries](#), given base effects.

In spite of the recovery in economic activity, the support of economic policy remains essential. As far as fiscal policy is concerned, most governments are still providing stimulus by way of new or renewed packages. In the US, a third [fiscal easing package is underway](#). In the UK, the Chancellor of the Exchequer has just announced [a new set of measures to support economic activity](#), such as the temporary reduction of VAT on certain products and services and of the stamp duty on certain real-estate transactions. In the EU, this week there will be [another summit to make progress towards the approval of the EU Recovery and Resilience fund](#), which should support the economies most hit by the Covid pandemic, such as Italy and Spain.

In all this, central banks are taking a breather. In recent weeks, after the [massive monetary easing programs announced during H1](#), most central banks are adopting a wait-and-see approach. Some of them, such as the [Reserve Bank of Australia](#), have even started to reduce their intervention in markets as the economy stabilises. This week, there will be the monetary policy meetings of the European Central Bank (ECB), Bank of Japan (BOJ) and Bank of Canada (BOC). The BoC will release its first set of forecasts since the pandemic begun, and the BoJ will update its economic outlook. As we have written in [our preview](#), we expect them not to change their policy stance, while remaining ready to add monetary stimulus should economic and financial conditions deteriorate in coming weeks.

Central banks, which have been at the [forefront of the policy response during the global financial crisis](#), have already used most of their conventional and unconventional arsenal. At this point, they prefer fiscal policy, and regulation, to be in the driving seat. At the end of July, the FOMC of the Federal Reserve, which sets the tone for most central banks with its decisions, will meet. It is likely to adopt a [similarly cautious approach](#), although with the worsening healthcare conditions in the US discussed above, the meeting might result in the decision to further increase its stimulus, for example by widening the depth and spectrum of its credit-easing facilities.

Our Recent Publications

 [Flash Previews: ECB, BOJ and BOC to Remain on Hold but Alert in July](#), by Brunello Rosa, Farah Aladsani, Fawaz Sulaiman Al Mughrabi and Karmen Meneses, 10 July 2020

 [An Aura of Treasure: Gold as a Store of Dollar Value](#), by Peter Cecchini, 8 July 2020

 [How The Global Pandemic Is Boosting Global Cyber-Wars \(Part 1\)](#), by Marco Lucchin, 9 July 2020

 [Flash Review: RBA Remains On Hold, But Is Wary Of Uncertainty Ahead](#), by Brunello Rosa and Farah Aladsani, 7 July 2020



Looking Ahead

The Week Ahead: US Inflation Expected To Rise And Central Banks Likely To Remain On Hold

In the UK, monthly GDP data are likely to show a slight rebound in May (c: 5.0% m-o-m; p: -20.4).

In China, Q2 GDP figures are expected to return in positive territories (c: 2.1% y-o-y; p: -6.8).

In the US, June CPI is expected to rise by 0.6% y-o-y (p: 0.1).

In the EZ and Japan, the ECB and BoJ are expected to keep: i) key interest rates unchanged at 0.0% and -0.1%, respectively; and ii) maintain the size of asset purchases and other pandemic-related stimuli unchanged.

The Quarter Ahead: Covid-19 Infections Surge Worldwide; Deteriorating US-China Relations; EU Fiscal Initiative To Face Opposition

Worldwide, COVID-19 cases are on the rise, recording every day a new record; fresh outbreaks have led to: i) a re-closure of schools in Hong Kong; and ii) a re-imposition of selective lockdowns in Australia.

In the US, the three most populous states—Florida, Texas, and California—have seen record rises in COVID-19 related deaths, leading Dr. Anthony Fauci—the top advisor of the ‘US COVID-19 taskforce’—to recommend affected states to ‘seriously look at shutting down again’. **According to President Trump**, ‘a phase two trade-deal with China is not under consideration’ as the ‘relationship with Beijing has been severely damaged’. The recent comments reflect the steady breakdown of ties between the two nations over: i) the COVID-19 pandemic; ii) trade; iii) Hong Kong’s autonomy; and iv) competition for military supremacy in the South China Sea.

EU leaders are set to discuss a EUR 750bn recovery (EUR 500bn in grants, EUR 250bn in loans) to support most EZ-periphery economies, hit hardest by the pandemic. The plan faces opposition from the Netherlands, Sweden, Denmark, and Austria (the so-called ‘frugal four’ countries), which requested the proposal to be amended so that: i) only loans, which eventually have to be paid back, are offered; and ii) recipient countries eligibility remains contingent on implementing competitiveness-enhancing reforms to their labor, tax and pensions systems.

The UK said talks with the EU ‘made little progress’ as ‘significant differences still remain’ on a number of issues, including: i) accesses to British’s fishing waters; and ii) the future influence of EU courts. Without a deal, on January 1 the UK and EU will start trading on WTO terms with tariffs and quotas re-imposed.

Last Week’s Review

Real Economy: Fresh Virus Outbreaks Threaten The Economic Rebound, CBs To Remain On Hold

In the US, as a result of the re-opening of the economy July’s non-manufacturing ISM/PMI—a measure of the direction and not of the magnitude of economic trends—jumped by 11.7pts to 57.1 (c: 49.5; p: 45.4). Weekly ‘initial unemployment claims’ fell slightly more than expected (a: 1.314m; c: 1.375m; p: 1.413m). PPI—a gauge of inflation for producers—fell unexpectedly in June, as rising energy costs were offset by weakness in services (a: -0.2% m-o-m; c: 0.4; p: 0.4).

In the EZ, May retail sales surged by 17.8% m-o-m (c: 15.0; p: -12.1) with monthly gains ranging from 13.9% m-o-m in Germany to 37.0% in France. The large increase has regained most, but not all, of the recent losses: retail sales are still down -5.1% y-o-y. The EZ manufacturing sector also showed signs of recovery, with rising industrial output in: i) Germany (a: 7.8% m-o-m; c: 10.0; p: -17.5); ii) France (a: 19.6% m-o-m; c: 15.1; p: -20.6); and iii) Italy (a: 42.1% m-o-m; c: 22.8; p: -20.5).

In Australia, the RBA: i) kept interest rates on hold at 0.25%; and ii) maintained its yield target on 3-year government bonds at 0.25%.

Financial Markets: Treatment Hopes And Liquidity Lifted Equities, Bonds, Copper, Oil And Gold

Market drivers: hopes for a COVID-19 treatment overrode concerns that a rising number of infections could undermine the global recovery.

Equities: w-o-w, global stocks rose (MSCI ACWI, +1.7%, to 542), driven by US equities (S&P 500, +1.8%, to 3,185) - while EZ equities remained flat (Eurostoxx 50, +0.1% to 3,296). EM equities rose (MSCI EMs, +3.5%, to 1,069), lifted by a rally in Chinese equities (Shanghai Comp., 7.3% to 3,383) prompted by state-media endorsing a ‘healthy bull market’.

Fixed income: w-o-w, global debt indices rose (BAML Global, 0.4% to 296.6) and yields across DMs fell (10y UST, -4bps to 0.63%; 10y German Bunds, -4 bps to -0.47%). The yield on a 10y UST fell as low as 0.56% on Friday, over fresh lockdowns concerns.

FX: w-o-w, the USD weakened against a basket of currencies (DXY, -0.5% to 96.652).

Commodities: crude struggled to extend a recent rally as the IEA warned ‘the uptick of COVID-19 infections is casting a shadow over the outlook’ (Brent, +1.0% to 43.2 USD/b). Gold maintained its haven appeal (Gold, +1.3% to 1,798 USD/Oz.). Copper prices rose, given: i) supply disruptions; and ii) a robust recovery in Chinese manufacturing (LME, +6.6% to 6,319 USD/T.).



@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



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. **Analyst Certification:** We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

