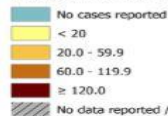




**R&R Weekly Column**  
**By Brunello Rosa**



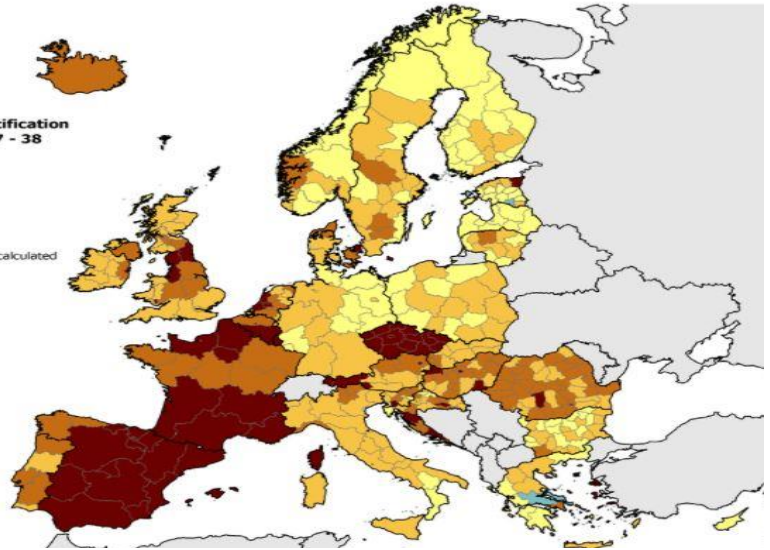
14-day COVID-19 case notification  
rate per 100 000 weeks 37 - 38



Regions not visible  
in the main map extent



Countries not visible  
in the main map extent



## Covid's Second Wave Threatens Economic Recovery and Market Stability

In many countries in Europe, a second wave of Covid-19 infections is materialising. [According to the European Centre for Disease Prevention and Control](#), recent developments in Spain, France and the UK seem to be particularly serious. Unlike during the first wave, Italy is less exposed this time. The 14-day cumulative number of Covid-19 cases for 100,000 inhabitants is 320 in Spain, 230 in France, 96 in the UK and 32 in Italy. For reference, the same figure is 30 for Germany, which has responded best to the epidemic among large countries in Europe.

As the map above shows, in Spain the situation already seems to be close to critical, with Intensive-Care Units (ICUs) on their way of being filled up again like they had during the first wave from March to June. In France, the situation is also alarming, with large portions of the country reporting some of the highest infection rates in Europe. In these two cases, the recurrence of the virus seems to be connected to the relaxation of social distancing policies during the summer, which had been adopted to at least partially save the tourism season.


In Italy, the rules have remained as stringent as they had been before (although people became more relaxed in implementing them, as was the case in Sardinia), but the severity of the initial lockdown seems to be having beneficial long-term effects. In the UK, the situation is also becoming increasingly critical, as the government openly incentivised people to return to work and go out for dinner, with the scheme Go Out To Help Out. The idea that the situation is more severe in the UK than in Germany and Italy because “British people love freedom,” [as declared by UK PM Boris Johnson during his recent Question Time, is simply laughable](#). [\[Italy's President Mattarella's response](#) that “also Italians love freedom, as well as seriousness” was impeccable]. In all cases, the re-opening of schools is constituting, at the very least, an amplifying factor in the spread of the virus.


As a result of this second wave of infections, governments are imposing new sets of restrictions. In particular, in the UK the government extended the emergency state for six more months and has taken a U-turn on public exercises (bars and restaurants must close by 10pm) and on business policies (once again suggesting people to work from home whenever possible). It seems to be a repeat of what happened in March-April, when the government declared a total lockdown after a series of initial restrictions. Press reports suggest that a total lockdown could be declared in coincidence with the two-week school holidays at the end of October.


Needless to say, these new restrictions will take their toll on economic activity in Q4, making the materialisation of [the so-called V-shaped recovery even less likely to occur](#). The big hope of having a vaccine ready by this winter seems to be vanishing rapidly, leaving us all no other option than co-existing with the virus for a few more months, perhaps until the summer of 2021. Financial markets will react to this new situation with further corrections in equity valuations and, given the [continued accommodative stance by central banks](#), with a further fall in sovereign bond yields.

### Our Recent Publications

 [Flash Review: RBNZ Steps Up Preparations For More Easing \(And What This Means For The BoE\)](#), by Brunello Rosa, 23 September 2020

 [Flash Review: Riksbank Remains On Hold And Pledges The Policy Rate To Be At Zero \(or Lower\) In Coming Years](#), by Brunello Rosa and Karmen Meneses, 22 September 2020

 [Flash Review: Italian Regional Elections and Referendum End Up Stabilising The Government](#), by Brunello Rosa, 22 September 2020

 **GEOPOLITICAL CORNER:** [Why An Unsung Abe Will Be Greatly Missed](#), by John C. Hulsman, 22 September 2020

Looking Ahead

**The Week Ahead: U.S. Non-Farm Payrolls Are Expected To Fall**

**In the US**, September's nonfarm payrolls are expected to fall to 875k (*p*: 1,371k). The PCE index is expected to rise (*p*: 0.3% m-o-m; 1.0% y-o-y).

**In the EZ**, in September the economic sentiment indicator is expected to fall to 85 (*p*: 87.7). CPI inflation is expected to rise to 0.2% (*p*: -0.2%), still remaining below the ECB's 2.0% target.

**In Japan**, August retail trade is expected to fall by -8.5% (*p*: 2.9%), while IP is expected to recover from -15.5% to -10.0% y-o-y.

**In its upcoming monetary policy meeting**, the Reserve Bank of Australia (RBA) is expected to keep its interest rate steady at 0.25%.

**The Quarter Ahead: US-China Tensions Remain Elevated, A Hard Brexit Looms; Central Banks Remain Supportive**

**The pandemic will create deflationary pressure**, hitting demand (given social distancing), leading to job losses and corporate cutbacks.

**In the US**, as the Presidential election approach, aggressive sanctioning of China has gained strong bipartisan support among policymakers; key issues are: *i*) the expansion of national security laws in Hong Kong; *ii*) the treatment of the Uyghurs in Xinjiang; *iii*) China's trade practices and industrial policies; *iv*) the COVID-19 pandemic; and *v*) South China Sea. President Trump announced a replacement for the late Judge Ruth Ginsburg, despite Democrats' insistence that the decision should be left to the incoming President. The US, amid a continued Congress deadlock over an additional coronavirus relief package, further government is becoming unlikely before the election. As a result, Fed Chairman Powell issued a fresh warning, stating that "failure to deliver more government aid to households could precipitate a wave of mortgage defaults and evictions".

**In the EZ**, COVID-19 infections are rising rapidly, but: *i*) measures such as social distancing and mask-wearing have become the norm; and *ii*) hospitals are now better equipped for treating patients. However, the WHO warned of a "very serious situation" likely to unfold "if new restrictions are not imposed throughout Europe".

**The EU continues to warn** that it "will not budge on its decision" and will not re-negotiate: 1) the Brexit deal; and 2) the UK's plan to override parts of the deal on Northern Ireland.

Last Week's Review

**Real Economy: Manufacturing Recovers, Services Suffer. Second-Wave Risks, Dovish Central Banks**

**In the US**, September manufacturing PMI rose to 53.5 (*c*: 53.1; *p*: 53.1), marking the strongest expansion since January 2019. However, services PMI fell slightly below expectations, to 54.6 (*c*: 54.7; *p*: 55.0). In the week ending on September 19, the number of 'claims for unemployment benefits' rose to 870k (*c*: 843k; *p*: 860k), well above the 665k registered in March 2009 at the peak of the Great Recession, showing the depth of the COVID-19 crisis and suggesting a reversal in the labor market recovery – due to decreasing government support. In August, durable goods orders rose by 0.4% m-o-m (*p*: 11.7%), marking the 4<sup>th</sup> straight month of improvement – as the economy recovers from the big plunges of March and April.

**In the EZ**, September Markit manufacturing PMI rose to 53.7 (*c*: 51.9; *p*: 51.7), the fastest expansion since August 2018. However, services PMI contracted to 47.6 (*c*: 50.5; *p*: 50.5), due to rising Covid-19 infection rates. In September, consumer confidence eased to -13.9 (*p*: -14.7).

**In Japan**, September's Jibun manufacturing PMI increased slightly to 47.3 (*p*: 47.2), and services PMI rose to 45.6 (*p*: 45.0).

**Financial Markets: S&P500 4<sup>th</sup> Consecutive Week Of Losses; Bonds Stable, Oil And Gold Fell**

**Market drivers**: investors sentiment continued to fall, as: *i*) the global economic recovery is slowing; *ii*) coronavirus infections surge in the US and Europe; *iii*) US-China trade tensions kept rising; *iv*) a coronavirus vaccine is unlikely to be widely available until April 2021; *v*) US jobs data came out worse than expected; and *vi*) expectations of a new US fiscal stimulus package are starting to fade. Global stocks fell w-o-w (MSCI ACWI, -2.1%, to 555). US equities closed lower (S&P 500, -0.6% to 3,298). In Europe, as a surge in coronavirus infections prompted most countries to implement stricter containment measures, shares tumbled (Eurostoxx 50, -4.5% to 3,137).

**Fixed income**: w-o-w, bonds remained unchanged (BAML Global, 0.0% to 297.9), and the yield on US Treasury notes fell slightly (10y UST, -3bps to 0.66%).

**FX**: w-o-w, the USD gained against most currencies (DXY, +1.8% to 94.642; EUR/USD, -1.7% to 1.163).

**Commodities**: oil prices fell (Brent, 2.9% to 41.9 USD/b), as the pandemic continues to: *i*) cloud the outlook for oil demand; and *ii*) stoke oversupply concerns. Gold plunged to new lows (-4.6% to 1,860 USD/Oz.), due to a reduction of currency debasement fears, driven by: *i*) a stronger USD; and *ii*) declining CB liquidity.



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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