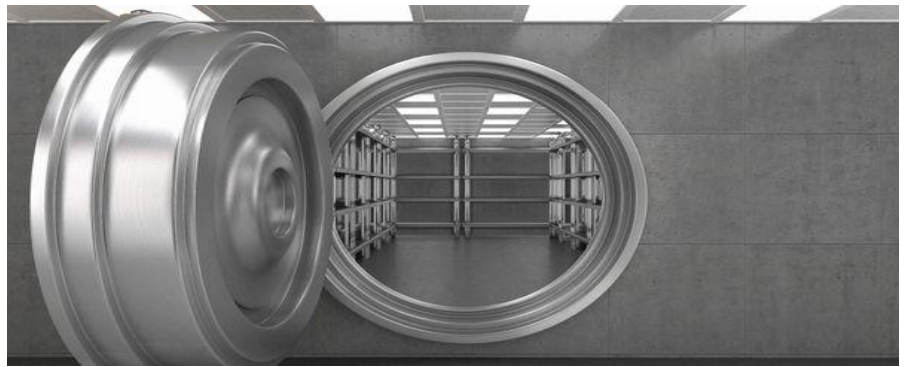




**R&R Weekly Column**  
**By Brunello Rosa**



### **G10 Central Banks Set To Finish 2020 With A Final Shot Of Monetary Accommodation**

As we discussed in [our column last week](#), 2020 is ending with a number of issues unresolved. The second wave of the pandemic is [raging across the globe](#), with the US registering [the highest number of daily cases and deaths since the beginning of the crisis](#), Europe mired in its second round of severe restrictions (with [Germany moving to a full lockdown that is set to last until January 10<sup>th</sup>](#)), and a number of EMs still struggling to flatten their infection curves.

Today, the US electoral college will finally elect the country's 46<sup>th</sup> President, after the [Supreme Court ruled against a lawsuit filed by Texas'](#) attorney general against Michigan, Georgia, Pennsylvania, and Wisconsin. However, [alt-right supporters of Trump](#) (including the so-called Proud Boys) gathered in Washington until yesterday to protest against the electoral result, suggesting that another four years of political tensions in the United States may underway. The EU, meanwhile, is getting closer to [approving its multi-annual budget](#), but the implementation of the Recovery and Resilience Facility remains problematic. A no-deal Brexit looms large. As a result of these uncertainties, economic activity remains weak, and [Q4 is likely to be another quarter of stagnation](#), or even contraction, with carry-over effects likely into Q1 2021.

Given this background, policymakers know that monetary and fiscal stimulus is still very much needed to support aggregate demand and supply. Job-retention and salary-support schemes have been renewed anywhere. New rounds of fiscal stimuli are being planned globally. Even in the US, after the formal election of Joe Biden as president, [the long-awaited-for USD 1tn plan seems ready to be agreed upon](#).


Through all this, central banks realised that they could not just sit on their hands. In the G10, a number of central banks have decided to provide another "shot" of monetary stimulus before the year ends. In November, the [Reserve Bank of Australia](#) cut rates to its all-time low, and begun formal QE; the [Reserve Bank of New Zealand introduced a Funding For Lending Program](#) ahead of a possible adoption of negative rates in 2021; the [Bank of England \(BoE\)](#) increased the size of QE by GBP 150bn (while keeping its powder dry [in case of no-deal Brexit](#)); the [Riksbank increased and extended its QE program](#) by SEK 200bn. So far, in December, the [ECB increased the size of its PEPP program by EUR 500bn](#), while also further boosting its credit-easing facilities (TLTRO3 and PELTROs).

This week, [another four G10 central banks](#) will hold policy meetings: the Federal Reserve (Fed), Norges Bank, the Bank of England, and the Bank of Japan (BoJ). The Fed is unlikely to add further monetary stimulus after the [strategy review](#) made it clear that the Fed will not increase rates and that QE will remain part of the "conventional" landscape for the foreseeable future. The [BoJ has been happy to be on the back-seat](#) of the policy response for some time, following years of audacious monetary experiments, including yield curve control. It will likely remain so in December, though it may announce an extension of its credit easing facilities. The BoE is not expected to do anything after last month's surprisingly large package; not before knowing whether or not it will have to use its bazooka [to stem the effects](#) of a final breakdown in the Brexit negotiations with the EU. Norges Bank will likely keep its key policy rate unchanged at zero, and continue promising to keep it at that level for the foreseeable future.


In any case, even with rates at zero, or negative, and all sorts of monetary instruments being put in place, G10 central banks will remain ready to intervene to support aggregate demand. Meanwhile they are working on their next big tool: their own digital currency (the Riksbank, PBoC and ECB are at the forefront of this trend), which will allow them to take policy rates deep into negative territory to fight the next systemic crisis – which hopefully will not manifest itself for many years yet.

#### ***Our Recent Publications***

 [Flash Previews: BOJ, BOE and Norges Bank To Stay Put In December, But With An Easing Bias](#), by Brunello Rosa, Fawaz Al Mughrabi and Karmen Meneses, 11 December 2020

 [ECB Extends and Expands Its Easing Programs, But Underwhelms The Market](#), by Brunello Rosa, 10 December 2020

 [Flash Review: Bank of Canada Stands Pat in December](#), by Brunello Rosa and Karmen Meneses, 9 December 2020

 **GEOPOLITICAL CORNER:** [An Assassination in Tehran Reveals the "Rashomon Effect" in the Middle East](#), by John C. Hulsman, 8 December 2020

Looking Ahead

**The Week Ahead: US And EZ PMIs Are Expected To Soften Whilst Japan's To Improve; G10 CBs To Remain Accommodative**

**In DMs, US and EZ December PMIs are expected to soften, while Japan's are likely to slightly improve:** i) US manufacturing is expected to decrease to 55.8 (p: 56.7) and services to 56.5 (p: 58.4); ii) EZ manufacturing is likely to decline to 53.1 (p: 58.8) while services are expected to stay muted at 41.7 (p: 41.5); and iii) Japan's manufacturing is likely to rise towards expansion, to 50.0 (p: 49.0) and services to improve to 48.5 (p: 46.7).

**While confirming their easing bias,** the Fed (0.25%); BoJ (-0.10%); BoE (0.1%); and Norges Bank (0.00%) are nonetheless all expected to keep their key policy rate unchanged.

**The Quarter Ahead: Vaccine Distribution, Abundant Liquidity And Cyclical Upturn To Drive The Global Economic Recovery**

**In 2021,** economic growth and corporate earnings will be supported by: 1) the vaccine approval and rollout by Q2-2021; 2) fiscal and monetary stimuli; and 3) a recovery of cyclical sectors, many of which underperformed in 2020.

**Since the beginning of the pandemic, the US witnessed:** i) the worst week of COVID-19 infections and hospitalization, with 232k new cases and 108k patients reported; and ii) the highest deaths of more than 3k in a single day.

**The US Food and Drug Association (FDA)** granted permission to Pfizer/BioNTech company for the inoculation of the first COVID-19 vaccine, making the United States the sixth country in the world to obtain the authorization – after the UK, Canada, Saudi Arabia, Bahrain and Mexico. **US Fed policymakers** will meet this week amid worries over the impact on the rise of infections on the economy. Financial markets will be watching for Fed movement on its bond purchases: the FOMC could decide to: i) lengthen bond maturities; ii) expand total purchases; and iii) enhance forward guidance, by listing its desired outcomes.

**In the EU,** the EU and UK will continue the negotiations for a Brexit deal, after both sides could not break the deadlock. Yet, according to Prime Minister Boris Johnson *"Britain is set to end the Brexit transition period on December 31 without a trade deal in place"*.

**ECB policymakers** said they would *"continue to monitor very carefully developments in the EUR exchange rate, with regard to their possible implications for the medium-term inflation outlook"*.

**Last Week's Review**

**Real Economy: Infection Numbers Rise, Vaccine Distribution Starts; CBs Remain Dovish**

**In the US,** the number of 'filings for unemployment benefits' increased to 853k (c: 725k; p: 716k) – the highest number since mid-September, due to: i) rising COVID-19 cases; and ii) new lockdowns across the country. November's CPI inflation and core-CPI inflation stayed unchanged at 1.2% and 1.6% y-o-y, respectively.

**In the EZ,** December's economic sentiment jumped by 21.6 points, to 54.4 – the highest since September, amid COVID-19 vaccine optimism. **The ECB:** 1) kept its main refinancing rate unchanged at 0.0%, and the deposit rate at -0.5%, a record low; 2) expanded its Pandemic Emergency Purchase Program (PEPP) by another EUR 500bn and extended it *"to at least the end of March 2022"*; and 3) tweaked TLTRO3 operations to make them even more attractive – aiming to support the EZ's struggling economy, amid the resurgence of the coronavirus crisis.

**In Canada, the BoC** kept its policy rate unchanged at 0.25%, and committed to continue its QE program of large-scale asset purchases of *"at least CAD 4bn per week of government bonds"*.

**Financial Markets: Equities Fell As Restrictive Measures Are Re-Imposed; Bonds And Gold Flat, Commodities Up**

**Market drivers:** stalling employment growth, as restrictive measures are re-imposed amid surging COVID-19 cases, hampered markets.

**Global equities closed the week lower** (MSCI ACWI, -0.5%, to 630) with the US S&P 500 falling from record highs (-1.0%, to 3,663), as talks over another round of fiscal stimulus continue to drag on. In the EZ, shares fell (Eurostoxx 50, -1.5%, to 3,486) on concerns about: i) rising coronavirus cases in key economies; and ii) post-Brexit uncertainty. In 2021, investors will likely focus on: 1) companies exposed to a cyclical recovery; and 2) disruptors set to drive the ongoing technological transformation - including 5G, fin-, health-, and green-tech.

**Fixed income:** w-o-w global bonds rose slightly (BAML Global, +0.5% at 299.8), with USTs flat (UST, -8 bps, to 0.89%).

**FX:** w-o-w, the USD strengthened against other currencies (DXY, +0.3%, to 90.976; EUR/USD, -0.1%, to 1.211).

**Commodities:** energy shares bounced back on vaccine optimism and increased demand prospects in 2021 (Brent, +1.5% to 50.0 USD/b); gold maintained its safe-haven appeal (+0.1% to 1,839 USD/Oz.).

*Farah Aladsani contributed to this Viewsletter.*



@RosaRoubini



Rosa & Roubini



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

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](mailto:info@rosa-roubini-associates.com)

[www.rosa-roubini-associates.com](http://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' 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.

