



R&R Weekly Column
By Brunello Rosa



At The Year's End, Many Unresolved Issues Are Keeping Markets On Edge

As we approach the end of the year, many issues that have characterised 2020 remain unresolved, even if some of those issues may be inching towards being solved, or at least towards a stabilisation period. The most dramatic of these remains the Covid pandemic of course, with [many European countries dealing with a severe second wave](#) and the US registering the [highest number of infections and deaths since the beginning of the crisis](#). The commercial and social restrictions imposed by countries to avoid the spread of the virus are pushing a number of economies to [the verge of a new contraction in Q4 2020](#), which could become another technical recession if these restrictions continue in Q1 2021.

It is unclear as of yet when the most acute phase of the pandemic will end. [A third wave is possible between January and March](#), and a [number of central banks](#), including the ECB – the [Governing Council of which meets this week](#) – assume that there will not be significant stabilisation before June 2021, when the vaccination process of large segments of the population is expected to be underway. Regarding vaccines, some good news is emerging: in the UK, regulatory authorities have approved, in an emergency procedure, the [diffusion of the Pfizer Covid-19 vaccine as of this week](#); EU authorities are waiting for further tests before giving the vaccine the green light. Having said all this, the real effectiveness of these vaccines will not be tested until applied to large parts of the population; in part, because the procedure (based on [mRNA procedure](#)) is highly innovative and experimental. In any case, as vaccines are applied and as more effective treatments are discovered, there should hopefully be better news regarding the pandemic by mid-2021.

Another open issue regards the result of the US presidential elections. Incumbent US President Donald Trump still refuses to concede victory to President-Elect Joe Biden, threatening to [take the legal challenge to the Supreme Court](#). However little the chance of succeeding he has, clearly Trump's refusal to concede is creating a wound to the US electoral (and therefore democratic) system. By law, all legal challenges should be settled at least six days before the electoral college meets. [This year this happens on December 14th, so by December 8th](#) all legal challenges are supposed to be settled – the so-called “safe-harbor deadline”. So, hopefully within the next few days the result of the US presidential election will be settled.





However, the type of presidency that Biden will embark on may depend heavily on the run-off elections for the two senatorial seats in Georgia that will be held on January 5th. [As discussed in our analysis](#), if the Democrats manage to win both of these run-offs, they will have fifty senators, which would give Vice-President Kamala Harris the deciding vote in the Senate. If the Republicans win at least one seat, then they will likely block a number of very important decisions by the Biden administration until at least the mid-term elections are held in 2022.

Two other notable issues that remain open are Brexit and the approval and implementation of the Recovery and Resilience Facility (RRF) in the EU. Regarding Brexit, after yet another round of inconclusive talks, the two sides agreed to [make a final attempt this week](#) to see if some of the remaining issues on state aid, fisheries and regulatory divergence can be ironed out. [We still expect a skinny agreement to emerge](#), in order to avoid at least the most catastrophic effects that would result from a no-deal Brexit. But, as the number of days remaining to December 31 shrinks, tensions in the negotiating process are set to increase.

Regarding the RRF, [Poland and Hungary have applied a veto to its approval](#), which they intend to use so long as the link between the rule of law and the disbursement of funds remains part of the final agreement. Again, [we still expect a final agreement to be reached](#), with sticks and carrots used to convince the two countries to remove their veto. But this means that the implementation phase will be at least delayed, and most likely will be a bumpier process than had initially been expected.

Given all these uncertainties, which are weighing on economic sentiment and activity, policymakers have promised to keep the tap of monetary and fiscal stimulus open. As discussed in our [latest Markets Review and Outlook](#), markets remain edgy and volatile, buffeted by the news on the uncertainties described above on the one hand, and the support provided by policymakers on the other.

Our Recent Publications

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Looking Ahead

The Week Ahead: ECB Expected To Increase The Size of Its Policy Stimulus, While The BoC Is Expected to Remain Put

In the US, November's CPI inflation is expected to increase to 1.3% y-o-y (p: 1.2%) and core-CPI to 1.8% y-o-y (p: 1.6%).

In the EZ, the ECB is expected to increase the size of its policy stimulus. Also December's economic sentiment is expected to remain stagnant.

In Canada, the Bank of Canada (BoC) is expected to remain on hold at its December monetary policy meeting.

The Quarter Ahead: Global Economy To Benefit From Improved Politics And Vaccine Distribution; Central Banks To Stay Dovish

In the US, the 'Center for Disease Control and Prevention' (CDC) urged the public to use masks, as *"the US enters a phase of high-level transmission"*. The ongoing 'new wave' threatens to put an unprecedented strain on healthcare systems across the country. President-elect Joe Biden declared that - in his first 100 days of presidency - he will: i) issue an order to make *'wearing mask mandatory in federal buildings and interstate transports'*; and ii) extend the request to the general public.

In the meantime, the pharmaceutical company Moderna announced: *"we are ready to produce 85 to 100 million vaccine doses as soon as we receive regulatory approval, with most of the supply being distributed in US in late December"*. Senate majority leader Mitch McConnell said that *"a compromise on a bipartisan COVID-19 relief"* package was *"within reach"*, increasing hopes for the passing of the bill - within weeks.

Fed Chairman Powell emphasized the importance of the lending programs deployed during the COVID-19 pandemic; according to the Fed, such programs - started in March and expiring in December - should be extended further, as: *"funds would help the economy to get from the current environment (in which virus infections are spiking) to next year (when vaccines should be widely available)"*.

In the EU, after a week of intense negotiation, Brexit talks were paused, as EU's chief negotiator Michel Barnier and his UK counterpart David Frost decided to *"brief [their] principals, to get better guidance on where to go next"*. Key differences still remain on the topics of: i) fishing rights; ii) the rules governing state subsidies for businesses; and iii) how the agreement will be policed and enforced.

Last Week's Review

Real Economy: Vaccine Hopes Boost Economic Recovery; CBs Maintain Easing Stance

In the US, November's labor market data showed weakness, as: i) non-farm payrolls fell to 245k (c: 469k; p: 610k); ii) average hourly earnings remained flat at 4.4% y-o-y (c: 4.3%; p: 4.4%); and iii) the unemployment rate declined to 6.7% (c: 6.8%; p: 6.9%).

In the EZ, October's unemployment rate fell to 8.4% (c: 8.4%; p: 8.5%), down from the two-year high of 8.7 percent hit back in July. Retail sales rose by 4.3% y-o-y (c: 2.7%; p: 2.5%), driven mainly by: i) non-food products; and ii) online trade.

In Japan, October's IP improved for a fifth consecutive month (a: -3.2% y-o-y; c: -14.5%; p: -9%) and retail sales rose by 6.4% y-o-y (c: -7.7%; p: -8.7%) - the first month of increase since February, due to a recovery in demand.

In Australia, during its December meeting the RBA left - as widely expected - its cash rate unchanged at a record low of 0.10%, after cutting it from 0.25% in November.

Financial Markets: Stocks Continue To Reach New Highs; Bonds Flat; Oil Rises To ~50 USD/B

Market drivers: investor sentiment was lifted by: 1) the news on vaccine progress; and 2) rising hopes that a slowdown in the labor market's recovery would fuel prospects for a new round of US fiscal stimulus.

As a result, **global stocks rose** w-o-w (MSCI ACWI, 1.5%, to 633) with the S&P 500 hitting a new record high (+1.7%, to 3,699). In Europe, shares ended the week with a modest gain (Eurostoxx 50, +0.3%, to 3,539), driven by the news of Pfizer, BioNTech, and Moderna applying to EU regulators for 'emergency use authorization'.

Fixed income: w-o-w global bonds remained flat (BAML Global, -0.3% at 298.3), with USTs rising modestly (UST, +8 bps, to 0.92%) - fueled by optimism for a fiscal stimulus deal.

FX: w-o-w, the USD index weakened against other currencies (DXY, -0.4%, to 91.429; EUR/USD, +0.7%, to 1.205). The TRY stabilized w-o-w, at +0.1% to 7.826.

Commodities: energy shares bounced back after OPEC+ reached an agreement to ease *"more gradually than previously planned"* output cuts in 2021. Oil rose (Brent, +2.2% to 49.3 USD/b), as well as gold (+1.9% to 1,822 USD/Oz.), which maintained its safe-haven appeal.



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The picture in the front page comes from [this website](https://www.gettyimages.com/detail/photo/young-woman-wearing-face-mask-social-distancing-people-protecting-theirself-from-coronavirus-pandemic-shutterstock)



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



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