



R&R Weekly Column
By Brunello Rosa



UK Budget Will Keep The Fiscal Support Tap Wide Open

The Chancellor of the Exchequer will present its first [budget since March 2020 this week](#), the first time it has done so since the pandemic fully started. On March 8, Rishi Sunak will present to Parliament the new set of measures that are designed to provide support to the UK economy, which has been severely hit by the pandemic.

In 2020, [the UK real GDP fell by 9.8% over the previous year](#), one of the worst performances among G7 countries. The unemployment rate rose from 3.8% at the end of 2019 to 5.4% at the end of 2020, [according to the latest IMF data](#). The collapse in economic activity has been contained by the fact that the government provided generous support through fiscal expansion. The rise in unemployment has been contained by a series of rounds of furlough schemes, which prevented many workers from being laid off. The latest scheme, [which in November was extended until March 31](#), will most likely be further extended into June at the very least, and perhaps beyond.

In the meantime, the UK has gone through two additional rounds of lockdown, which have further weighed on economic activity. At the same time, the government has launched a successful Covid vaccination campaign, [which has resulted in more than 20 million people](#) receiving the first dose of one of the various vaccines available, corresponding to around 30% of the population. For comparison, [in the entire EU/EEA](#), only 22 million doses have been distributed on a population of around 500 million, i.e. around 4.5%. If the UK's vaccination campaign continues at its current pace, the government estimates that it will be able to provide vaccination to the vast majority of the UK population by the end of H1 2021.

Given these estimates, Boris Johnson's government has launched [a 4-step plan for a cautious, irreversible reopening of the economy](#) by the end of June 2021. This should hopefully provide some relief to the strained economy and public finances (it may include [an anticipated GBP 5bn relief package](#) for various categories of businesses that have been most hit by the pandemic), which have observed the public deficit rising to the astronomical level of 19%, while debt has soared well above the 100% threshold. Beyond this short-term fiscal expansion, Sunak will have to show a credible fiscal consolidation plan during the post-pandemic period.


Despite all this, this week Sunak will likely announce a plan of further fiscal expansion, considering that all major national and supranational policy organisations now agree that withdrawing policy stimulus too soon is much more dangerous than withdrawing it too late, even for the overall soundness of public finances. (In the 1990s-2000s, notably, Japan showed the detrimental impact to public finances of a premature tightening of fiscal policy). Among the most anticipated measures there is the [so-called Future Fund: Breakthrough](#), a fund that will invest up to £375m of public money in fast-growing UK technology companies, with the result being an increased exposure of taxpayers to stakes in tech start-ups.


Through all of this, Sunak will have to take into account the impact that Brexit has had on the UK economy, even if this impact has been concealed behind Covid, so far. But the impact thus far on the cost of imports and exports has much more to do with Brexit than Covid, for example, at a time when most households and businesses relied on deliveries by post or courier to keep their economic activity going during repeated lockdowns. It won't be easy for the Chancellor (who has the ambition of becoming PM himself one day) to navigate the UK economy between the Scylla of Covid and the Charybdis of Brexit.

Our Recent Publications

 **Flash Preview: RBA To Stand Pat While Fighting Rises in Market Rates**, by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 25 February 2021

 **European Banks: Are AMCs Coming to Deal With Looming Surge in NPLs?**, by Brunello Rosa and Nouriel Roubini, 25 February 2021

 **Flash Review: RBNZ On Hold, But Ready to Deploy Negative Rates If Necessary**, by Brunello Rosa and Karmen Meneses, 24 February 2021

 **GEOPOLITICAL CORNER: Navigating The Pandemic, Between Scylla and Charybdis**, by John C. Hulsman* And Brunello Rosa, 23 February 2021

Looking Ahead

The Week Ahead: The Unemployment Rate Is Expected To Rise In the US While Remaining Unchanged in the Eurozone

In the US, February's labor market data is expected to show: *i*) non-farm payrolls rising to 110k (*p*: 49k); average hourly earnings falling to 5.1% y-o-y (*p*: 5.4%); and *iii*) the unemployment rate rising to 6.4% (*p*: 6.3%).

In EZ, in January: *i*) retail sales are likely to fall by -1.3% y-o-y (*p*: 0.6%); and *ii*) the unemployment rate is projected to stay unchanged at 8.3%.

The Quarter Ahead: COVID-19 Vaccines Reach 103 Countries; Geopolitical Tensions Rise; Central Banks to Stay Accommodative

Optimism around a global expansion rekindled concerns about a spike in inflation, and the prospect that central banks may have to rein-in their expansionary policies.

More than 231m COVID-19 jabs have been given across 103 countries, i.e.: around 6.2m doses per day.

Biden takes first military action, with Syria strike on Iran-backed militias. The Pentagon said the strike: *i*) was ordered in response to attacks against US and coalition personnel in Iraq; *ii*) destroyed multiple facilities near the Iraqi border in eastern Syria; and *iii*) was a "proportionate military response", taken "together with diplomatic measures", including consulting coalition partners.

After a cyber-espionage campaign, where hackers "used a dozen different ways to infiltrate government and corporate networks", the US is readying "sanctions and other measures to secure commercial networks and improve third-party services with Russia" – with around 18k companies and agencies potentially exposed.

As China seeks to become an advanced nation, Chinese President Xi Jinping highlighted that it was "possible to double the country's GDP and per capita income by 2035", implying an average annual growth of 4.7% for the next 15 years.

In the US, Fed Chairman Powell stated that inflation and employment remain well below the Fed's goals, and – despite "a sharp rise in bond yields accompanying heightened concern over inflation" – price pressures remain mostly muted and the economic outlook is still "highly uncertain" – requiring easy monetary policy to stay in place.

Last Week's Review

Real Economy: Economic Recovery In DMs Remains Fragile; Vaccine Rollout Continues

In the US, January's durable goods climbed by 3.4% m-o-m (*c*: 1.1%; *p*: 1.2%), the ninth consecutive gain in 'durable goods orders' – and the biggest since July 2020, mainly driven by a 7.8% rise in 'transportation orders'.

In the EZ, in February, 'economic sentiment' increased by 1.9 pts to 93.4 (*c*: 92; *p*: 91.5) – the highest reading since March last year, driven by improving confidence in: *i*) industry (*a*: -3.3; *p*: -6.1); *ii*) services (*a*: -17.1; *p*: -17.7); and *iii*) consumers (*a*: -14.8; *p*: -15.5).

In Japan, January's retail sales declined by -2.4% (*c*: -2.6%; *p*: -0.2%), and IP declined further by -5.3% y-o-y (*p*: -2.6%).

In US, February's 'PCE Price Index' rose above-consensus to 1.5% y-o-y (*c*: 1.1%; *p*: 1.3%), and 'core PCE price index' rose to 1.5% y-o-y (*c*: 1.4%; *p*: 1.4%).

In New Zealand, the RBNZ held its: *i*) official cash rate at a record low of 0.25%; *ii*) the Large-Scale Asset Purchase (LSAP) Program "up to USD 100bn"; and *iii*) the Funding for Lending Program (FLP) operation unchanged.

Financial Markets: Stocks Fell On Interest Rate And Inflation Fears; Bond Yields And USD Up

Market drivers: most major benchmarks pulled back sharply in response to a steep rise in longer-term US Treasury interest rates, and rising inflation.

As a result, **global equities closed lower w-o-w** (MSCI ACWI, -3.3%, to 657). In the **US**, the S&P 500 Index recorded its biggest weekly decline in a month (-2.4%, to 3,811), as: *i*) 'consumer discretionary' shares were dragged lower, in part by a steep decline in automaker Tesla; while *ii*) a drop in Apple shares weighed on the IT sector. In the **EZ**, shares fell (Eurostoxx 50, -2.1%, to 3,636), as trading remained volatile on concerns that CBs might have to act sooner-than-expected to quell inflationary pressures that could accompany an economic recovery.

Fixed Income: w-o-w global bonds fell (BAML Global, -0.7% to 292.4), as a dovish rhetoric from Fed Chair Powell triggered a sharp bond sell-off across most DMs, pushing 10-year UST yield to its highest level in over a year (+11 bps, to 1.46%).

FX: w-o-w, the USD traded higher against other currencies (DXY, +0.6%, to 90.879; EUR/USD -0.4%, to 1.207).

Commodities: Oil prices surged to their highest level in more than a year (Brent, +5.1% to 66.1 USD/b) as investors looked ahead, toward an accelerating decline in global inventories and a comeback in demand. Gold fell (-2.7% to 1,733 USD/Oz) due to rising US bond yields, and a stronger USD.



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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



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