

## MAKING SENSE OF *THIS* WORLD

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



### **A Vaccine Marshall Plan For Europe**

The [third wave of the Covid-19 pandemic is in full swing](#). According to the latest figures from [Johns Hopkins University](#), there have now been 126 million cases and 2.8 million deaths. The number of variants has increased to the point that the new strain of the virus may be very different from the original strain – there are some who are already openly [speaking about a Covid-21](#). A number of European countries are now [introducing new restrictive measures](#), with Germany, France and Italy all now being very close to lockdown situations, which would last at the very least until Easter, and more likely until the end of April. As we discussed in [previous columns](#), the evolution of the pandemic is dramatically uneven across different countries and regions. In the US and the UK the number of new cases (i.e. the pace of increase) is falling, while in other countries, such as Brazil and India, it is rising. In China and Japan, the virus seems to be contained for the time being.


An important reason behind this difference in the pandemic's evolution is the variety of success in vaccination campaigns. In the US, [100 million citizens have received at least the first inoculation](#) of the anti-Covid vaccine thus far (in the first 59 days of Joe Biden's presidency), [corresponding to 40% of the US population](#). Biden now plans to have vaccinated the entire adult population of the US by May 1<sup>st</sup>. In the UK, almost 30mn people have been vaccinated, corresponding to 47% of the population. In other countries, Israel has already vaccinated 100% of its population, the United Arab Emirates 79% and Chile 50%. In the EU, only around 15% of the population has received at least a first dose, while China, India and Russia are clearly laggards, with 7.5% or less of people having received a first inoculation.


As discussed previously, the US clearly enjoys the fact that three out of four vaccines developed in advanced economies are produced by US companies: Pfizer, Johnson & Johnson and Moderna. The UK, meanwhile, has been able to take advantage of the vaccine produced in Oxford by the Anglo-Swedish company AstraZeneca. The low level of vaccination in Russia is explained by the low trust the general population has in the government, and the fact that President Putin has not yet taken the Sputnik V vaccine himself.

In the EU, it is astonishing how the pharmaceutical companies of the three largest economies (Germany, France and Italy), did not develop an in-house vaccine, but rather had to rely on the US, Russia and the UK to have access to vaccines. Badly written contracts meant a dearth of doses and a very slow start of the vaccination campaign. In its [latest EU Council meeting on the subject](#), held last week, divergences regarding how to proceed on this issue emerged. Luckily, from the US, [President Biden promised to help the Europeans](#) as soon as the coverage of the US population is complete. Once again, the Europeans have to rely on their American ally to sort out their problems. A "Vaccine Marshall Plan" is clearly needed at this point, to allow EU countries to begin to catch up with the Americans.

Meanwhile, even the grand coordinated fiscal plan Europe has devised in order to counter the pandemic, the Next Generation EU, is encountering difficulties, whereas the gigantic USD 1.9tn fiscal package by Biden has been approved and is already operational. So far, only 14 out of 27 countries have ratified the European recovery plan, including Germany. However, the German constitutional Court has opened a case aimed at assessing the legitimacy of the plan according to the German constitution. This risks further delaying, if not derailing, the already slow response of the Europeans to the pandemic and the economic damage it has caused. Once again, Europe will have to rely on the spill-overs of US fiscal expansion ([which the OECD calculated to be around 0.5% of its GDP](#)) to revive its economic activity.

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

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Looking Ahead

**The Week Ahead: US Employment Rate, EZ's Inflation And RBA's Policy Are Expected To Stay Unchanged**

**In the US**, in March, 'non-farm payrolls' are expected to rise to 500k (p: 379k) and the 'unemployment rate' is seen to remain stable at 6.1% (p: 6.2%).

**In the EZ**, March 'inflation' and 'core inflation rate' are expected to stay unchanged at 0.9% y-o-y and 1.1% y-o-y, respectively.

**In Australia**, the RBA is expected to keep its policy rate unchanged at 0.10%.

**The Quarter Ahead: Vaccines Reach 140 Countries, Aiding The Recovery; Supply Chain Disruptions To Add To Inflationary Pressures**

**One of the world's most vital trade arteries – the Suez Canal, which handles about 12% of global trade - has been blocked by a quarter-mile-long container ship**, creating a traffic jam that has ensnared over 321 vessels, including oil tankers and dozens of container ships, and could take weeks to clear. Even before the jam, businesses were struggling with supply shortages because of the pandemic. If not cleared soon, the blockage could entail higher prices for consumers, adding upward pressure to rising inflation.

**In the US**, in his first press conference, President Biden announced: 1) a new coronavirus vaccination target of 200m shots in his first 100 days in office; and 2) support for the "Build Back Better" infrastructure plan, to rebuild both physical and technological infrastructure across the US.

**The US Fed Chair Powell said "prices will likely rise this year as the pandemic recedes, and Americans are able to go out and spend"**, but he played down the risk that this would spur unwanted inflation. Fed policymakers stated that they "do expect that inflation will move up over the course of this year" citing: i) pent-up demand; ii) supply-chain bottlenecks; and iii) base-effect, i.e.: the comparison with very weak price pressures last year.

**In a MoU**, the two sides agreed to establish a 'Joint UK-EU Financial Regulatory Forum', which will serve as a platform to facilitate dialogue on financial services. The move could help UK financial firms to win back access to the EU, but the initial agreement still has to go through the formal validation process.

Last Week's Review

**Real Economy: Global Recovery Fragile As Global Trade Disruptions May Lift Inflation Worries**

**In the US**, in Q4 2020 the economy expanded an annualized 4.3% (c: 4.1%; p: 33.4%), driven by an upward revision to 'private inventory investment', partly offset by a downward revision to 'non-residential fixed investment'.

**In February**, new orders for 'manufactured durable goods' unexpectedly dropped by -1.1% m-o-m (c: 0.8%; p: 3.5%), marking the first decline in durable goods order in ten months; at the same time, orders for 'non-defense capital goods, excluding aircraft' – a closely watched proxy for business spending plans – fell by -0.8% (c: 0.5%; p: 0.6%).

**In Japan**, the 'index of leading economic indicators' – a gauge of future economic activity – rose to 98.5 in January (c: 99.1; p: 97.7), showing the highest reading since October 2018.

**Still in the US**, in February: i) the PCE price index rose to 1.6% y-o-y (c: 1.6%; p: 1.4%), the biggest gain in a year as energy cost increased; while ii) core-PCE prices fell below consensus to 1.4% y-o-y (c: 1.5%; p: 1.5%).

**In Switzerland (a: -0.75%), Mexico (a: 4.00%), and China (a: 3.85%)**, all CBs kept their key policy rates unchanged.

**Financial Markets: Stocks And Bonds Rise; UST Yields Return Below 1.7%; USD Up, Gold Down**

**Market drivers**: investors showed optimism about 'post-virus re-openings' and downplayed inflation and interest rate concerns.

**Global equities** closed higher w-o-w (MSCI ACWI, +0.3%, to 673). In the US, the S&P 500 Index hit a new high (+1.6%, to 3,975), lifted by: i) stocks likely to benefit from an economic reopening, and ii) bank shares, after the Fed announced that restrictions on dividends and share repurchases currently in place might end after June 2021. In the EZ, shares rose (Eurostoxx 50, +0.8%, to 3,867) on recovery hopes.

**Fixed Income**: w-o-w global bonds rose (BAML Global, +0.4% to 292.1), as the yield on the 10-year UST fell (-7 bps, to 1.66%), after February data showed lower-than-expected consumer spending and personal income tumbled the most on record.

**FX**: w-o-w, the USD rose against other currencies (DXY, +0.9%, to 92.766; EUR/USD -0.9%, to 1.180). In EMs, the TRY continued to tumble (USD/TRY -11.3%; to 8.135), following the replacement of the CBT governor.

**Commodities**: oil prices remained flat (Brent, +0.1% to 64.6 USD/b), as demand concerns outweighed the Suez disruption. Gold fell (-1.7% to 1,732 USD/Oz), as: i) elevated UST yields; and ii) a firm USD dented its safe haven appeal.



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The picture in the front page comes from [this website](https://www.rosa-roubini-associates.com)



## 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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