



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



## The Strength of The Global Economy Still Depends on Pandemic Control

This week the traditional [IMF-World Bank Spring Meetings](#) will take place in Washington DC, albeit still in an online format for the most part. The IMF will be releasing its latest [World Economic Outlook](#) (WEO), the much-revered guidance as to how the world economy is expected to perform over the next several years. Even if most market participants believe that the IMF always provides very cautious forecasts – forecasts that tend to be less pessimistic during market downturns and less optimistic during upswings – their projections will still be a very relevant baseline to consider.

In its last two WEO editions ([in October](#), followed by an update in [January](#)), the IMF has upwardly revised its forecasts for global economic activity, following the shock that occurred in Q1/Q2 2020 when economic activity collapsed by double-digit percentage points. This upward revision was mostly due to the rebound recorded in Q3 of 2020, as well as the fact that some key economies performed better than expected, with China even managing to stage positive growth in 2020 and the US weathering the crisis (from an economic perspective that is; less so from a healthcare standpoint) much better than had been feared.

How will the IMF alter its forecasts in April 2021? After the rebound in Q3 2020, the global economy slowed down significantly in Q4 and Q1 2021 as a result of the new restrictions imposed by governments in response to the new waves of the pandemic, which are still partly ongoing. At the same time, some positive news started to emerge on the fight against the virus, and in particular with the beginning of vaccination campaigns in many countries. [As discussed in previous columns](#), the dispersion in the [success of those campaigns is huge](#).


Countries as diverse as the US, UK, Israel, Chile and the United Arab Emirates are exhibiting very encouraging vaccination rates, with large segments of their populations being vaccinated. But large countries or regions such as the EU, China, Russia and India are falling way behind in the vaccination schedule (to say nothing of Latin America – excluding Chile – and Africa). Clearly, the fact that the US and the UK could count on home-developed vaccines provided them with a competitive advantage. But the way the procurement was made and the vaccination campaign organised also played a significant role, as exemplified by countries such as Serbia, which has secured doses from all major vaccine producers and is even able to offer inoculations to foreigners.

As discussed in our recently-published [Global Outlook and Strategic Asset Allocation paper](#), for us this means that some countries will be able to exhibit a truly V-shaped recovery, most notably the US and China. Other regions however, such as the EU, will remain mired in a painful U-shaped recovery, with risk [of permanent scarring and damage to growth potential](#). In the UK, meanwhile, the effects of Brexit will limit the potential economic upswing. This means that US long-term yields will likely continue to rise, however gently, as economic activity recovers and inflation increases. And the US dollar will continue to appreciate against major currencies; chiefly, against the EUR and JPY.

But this means that Emerging Markets will become more vulnerable in coming months and years – as suggested by indicators such as the [Brookings-FT Tracking Index for the Global Economic Recovery \(Tiger\)](#), as the huge amount of debt issued to counter the pandemic will become harder to sustain. There is no doubt that the IMF's [Global Financial Stability Report](#) (GFSR), which will [also be issued this week](#), will discuss the financial stability implications of this worrisome development. [G20 Governors and Finance Ministers](#) are set to use the IMF meetings as an occasion to discuss how to make EM debt more sustainable, including through debt-relief measures.

### Our Recent Publications

 [GLOBAL OUTLOOK UPDATE - MARKET VIEWS - Q2-2021](#)  
[STRATEGIC ASSET ALLOCATION: Growth And Liquidity To Support Markets](#), by Alessandro Magnoli Bocchi and Fawaz Sulaiman Al Mughrabi, 1 April 2021

 [GEOPOLITICAL CORNER: Clash of the Titans: A Shock Judicial Ruling Sets Up The Great Lula-Bolsonaro Battle To Come In Brazil](#), by John C. Hulsman, 23 March 2021



Looking Ahead

**The Week Ahead: US Factory Orders Expected To Fall While Japan's Household Spending Improves**

**In the US:** i) February's factory orders are expected to fall to -0.5% m-o-m (p: 2.6%); and ii) the trade balance is expected to decline further to USD - 70.2bn (p: USD - 68.2bn).

**In EZ,** February's unemployment rate is expected to remain elevated at 8.2% (p: 8.1%).

**In Japan,** February's household spending is expected to improve slightly to -5.5% y-o-y (p: -6.1%) and in March consumer confidence is expected to rise to 36.0 (p: 33.8).

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

**The Quarter Ahead: Vaccination Campaigns Ongoing In 150 Countries And Further US Fiscal Spending To Boost Growth Outlook**

**According to the WTO,** in 2021 North America will drive demand in merchandise trade, with US imports set to rise by 11.4% after tumbling 6.1% last year. Most demand for imports will be met by producers in China and across Asia, where exports are expected to grow by 8.4% this year.

**In the US,** Republican lawmakers: 1) challenged President Biden's USD 2.3tn infrastructure spending plan, which would provide over the next 8 years: i) USD 621bn for surface transportation; ii) USD 400bn for long-term care for elderly and disabled people under Medicaid; and iii) USD 300bn for domestic manufacturing; and 2) criticized the proposed corporate tax increases, expected to be phased in over 15 year, well beyond the US government's traditional 10-year budget window.

**The US Fed said it will keep short-term interest rates at 'near zero' until:** 1) the labor market has reached maximum employment; and 2) inflation has risen to 2% and is on track to moderately exceed that level for some time.

**The US State Department stated that negotiations between US and Iran will begin in Vienna next week,** and will "bring both countries into compliance with the initial agreement" by including: i) what Iran must do about curtailing nuclear enrichment; and ii) the needed steps by the US to lift economic sanctions the Trump administration imposed after leaving the pact in 2018.

**With the Ever-Given container vessel freed from the vital trade way after being stuck for six days,** Europe's ports are bracing to minimize the disruption to supply chains caused by the blockage.

Last Week's Review

**Real Economy: Global Recovery Supported By Vaccine Rollout; Central Banks Maintained Their Easing Bias**

**In the US,** March's labor market data showed: i) an above-consensus increase in nonfarm payrolls, to 916k (c: 647k; p: 468k) – the highest in 7 months; ii) a fall in average hourly earnings to 4.2% y-o-y (c: 4.5%; p: 5.2%), marking the first decrease since June 2020; and iii) the unemployment rate edged down to 6.0% (c: 6.0%; p: 6.2%).

**In the EZ,** in March the 'industry confidence indicator' increased for the fourth month in a row, to 2.0 (c: 0.0; p: -3.1), the highest level since December 2018.

**In the EZ,** preliminary data for March's CPI inflation shows an acceleration to 1.3% y-o-y in, the highest level since January 2020; conversely, core-CPI inflation –the ECB' preferred gauge in its policy decisions – is expected to fall above-consensus to 0.9% y-o-y (c: 1.2%; p: 1.1%).

**Financial Markets: Stocks Reach New Highs; Bonds Remain Flat; USD Up; Gold Down ~10% In Q1**

**Market drivers:** DM equities reaching fresh records, as investors continue to bet on: i) a strong economic recovery led by US stimulus; and ii) progress in global vaccination.

**Global equities** closed higher w-o-w (MSCI ACWI, +1.1%, to 681). In the US, the S&P 500 Index hit a new high (+1.1%, to 4,020), driven by expectations for: i) the strongest job growth in 7 months; and ii) US infrastructure spending. The announced fiscal stimulus alleviated concerns of a longer-than-anticipated lockdown. In the EZ, shares rose to record highs (Eurostoxx 50, +2.1%, to 3,946) on optimism about a speedy economic recovery.

**Fixed Income:** w-o-w global bonds were flat (BAML Global, 0.0% to 292.0), but the yield on the 10-year UST rose (+5 bps, to 1.71%).

**FX:** w-o-w, the USD rose against other currencies (DXY, +0.3%, to 93.022; EUR/USD -0.3%, to 1.176).

**Commodities:** Oil prices rose (Brent, +0.4% to 64.9 USD/b) despite the surprise decision by OPEC+ to increase production, as market-makers interpreted the decision as promising for future demand. Gold fell (-0.2% to 1,729 USD/Oz), driven by a strengthening USD. In Q-2021, gold fell by -10% - the biggest quarterly drop in over 4 years - and is back where it was in February 2020.



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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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