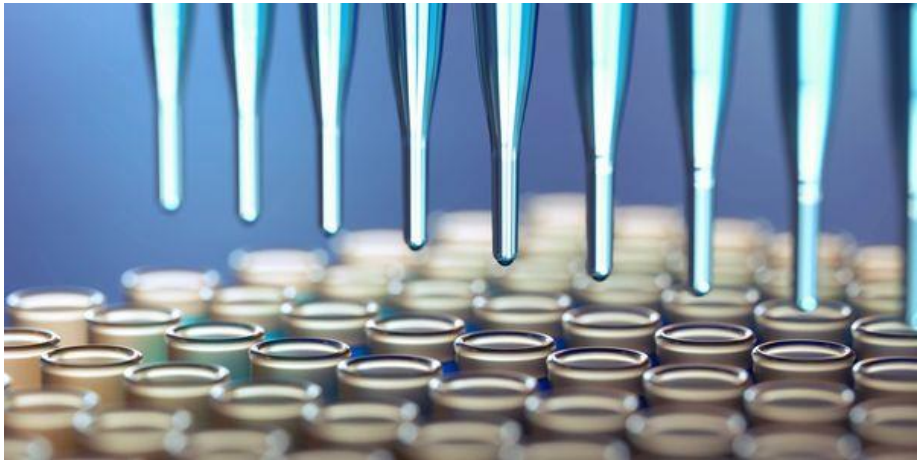




R&R Weekly Column
By Brunello Rosa



The Covid Delta Variant Risks Derailing Countries' Re-Openings and Economic Recoveries

During the last few weeks a new mutation of the Covid-19 virus has emerged, the so-called Delta variant, previously known as Indian variant since it was first isolated in India. This has come after the Alpha variant (first isolated in Kent, in Britain), Beta variant (South African) and Gamma variant (Brazilian), as documented by the [World Health Organization](#). As the prestigious scientific journal [Nature](#) says, "Delta seems to be around 60% more transmissible than the already highly infectious Alpha variant (also called B.1.1.7) identified in the United Kingdom in late 2020."

It is not yet clear whether the new variant, apart from being more infectious, is also more deadly. The first indications suggests it is not more deadly, but one cannot rule out the possibility that it is just yet. For now, it seems that new infections are not leading to as many hospitalisations as during the first wave of the pandemic, but more data is needed before reaching a definite conclusion.

As a result of the Delta variant's high infectiousness, the number of new Covid cases has been increasing in a number of countries around the globe. In *the UK*, for example, new Covid cases hves reached 18,000 on a daily basis, after having collapsed in the last few months as a result of the successful vaccination campaign. This has convinced the government to postpone the end of the Covid-related restrictions from June 21 to July 19, and there is no guarantee that a further push back will not be needed.


In *Australia*, the government has imposed two weeks of lockdown in Sydney, given the rapid rise in new Covid cases related to the variant. This is also due to the sluggishness of the vaccination campaign, which led to only 3% of the population having obtained both inoculations of the vaccine. In *Portugal*, the government has introduced new restrictions in the Lisbon area and the Tago valley. In *Israel*, the use of face-covering masks in closed places has been re-introduced. In *India*, the state of Maharashtra has re-introduced new restrictions.


These examples show how insidious the Covid virus is. Its mutations risk rendering vaccination campaigns less effective, even as it is not yet clear whether or not a new jab will be needed to neutralise this variant. In any case, yearly vaccinations are likely to be the norm in the next few years.

As we have discussed endlessly in the last few months, any healthcare development tends to have immediate economic repercussions. Most countries were just beginning their re-opening phases, and the new Delta variant risk derailing those plans. At the same time, economic recovery is linked to the re-opening of countries. As we have seen in Q3 2020 and in Q2 2021, a bounce back in economic activity can only occur if restrictions are lifted or at least drastically reduced.

So the real risk of this Delta variant is that the planned re-opening of various countries will be severely slowed down or even go into reverse, until it will become clearer how dangerous this new mutation is. This risks stalling the nascent economic recovery, and so may force policymakers to provide more stimulus (monetary and fiscal) for longer than they otherwise would, with obvious implications for asset prices.

Our Recent Publications

 [Flash Review: BOE Pushes Back Against Speculation On Premature Policy Tightening](#), by Brunello Rosa and Karmen Meneses, 24 June 2021

 [Flash Preview: Bank Of England To Leave Policy Stance Unchanged](#), by Brunello Rosa and Karmen Meneses, 18 June 2021.



Looking Ahead

The Week Ahead: US NFP To Rise, And EZ Inflation to Ease Back

In the US, 'initial jobless claims' for the week ending on June 26 are expected to fall to 370k (p: 411k), while non-farm payrolls are expected to increase to 655k (p: 559k). In May, factory orders are expected to increase to 1.5% m-o-m (p: -0.6%). In June, unemployment is expected to remain stable at 5.7% (p: 5.8%).

In the EZ, the unemployment rate in May is expected unchanged at 8.0%. In June, economic sentiment is expected to increase to 116.6 (p: 114.5). In June, 'core inflation' is expected to soften to 0.9% y-o-y (p: 1.0%) and 'headline inflation' to fall to 1.9% y-o-y (p: 2.0%).

In Japan, May's unemployment rate is expected to increase slightly to 2.9% (p: 2.8%).

The Quarter Ahead: US And EZ Labor Market Recovery Subdued; US Fed Clears Banks On Stress Test; EU Leaders Oppose German Chancellor's Plan For Russia Summit

In 2021, the global economy is poised to stage its stronger post-recession recovery in 80 years. Global growth is expected to accelerate to 5.6%, largely on the strength of major economies such as the US and China. However, the rebound is expected to be uneven across countries, as DMs look set to register strong growth while many EMs will lag.

In 2021, the level of global GDP is expected to be 3.2% below pre-pandemic forecasts, and per capita GDP among many EMs is anticipated to remain below pre-COVID-19 peaks for an extended period.

US President Joe Biden reached his "infrastructure deal" with the Republicans, worth nearly USD 1tn. However, the package falls short of the announced USD 2.3tn spending plan, as it will mostly be focused on physical infrastructure i.e. roads, bridges, public transit and broadband, leaving out the comprehensive "human infrastructure" provisions that President announced in March, e.g.: investments in hospitals and child and elder care. Mr. Biden acknowledged that the Democrats will have to "supplement the trimmed-down package with a separate measure" - which is, however, unlikely to earn Republican backing.

In the EZ, German Chancellor Angela Merkel failed to gain support for her foreign policy initiative backed by France's president Emmanuel Macron, to hold a summit with Russian President Vladimir Putin. EU leaders protested against the plan, warning against "free concessions" at a time of worsening relations with the Kremlin.

As most US banks cleared the Fed's stress test, the Fed announced that large banks will no longer face pandemic-era restrictions on how much they can spend buying back stock and paying dividends.

Last Week's Review

Real Economy: Slow And Bumpy Global Recovery; Inflation Pressures Build Worldwide

In DMs, manufacturing PMIs remained in expansion, as: i) US indicators edged up to 62.6 (c: 61.5; p: 62.1); ii) EZ data stayed unchanged at 63.1 (c: 62.1; p: 63.1); while ii) Japan's figures decreased slightly to 51.5 (c: 53.1; p: 53.0).

In the US, services PMIs slowed down to 64.8 (c: 70.0; p: 70.4).

In the EZ and Japan, services PMIs improved to 58.0 and 47.2, respectively (EZ, c: 57.8; p: 55.2 - Japan, c: 47.0; p: 46.5).

In the UK, the Bank of England (BoE) kept its interest rate on hold at 0.1% during its June 2021 meeting, reiterating that it "does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity" and achieving the 2% inflation target sustainably.

Financial Markets: US Stocks Hit Highs On Biden Administration Infrastructure Deal; Bonds Fell; USD Weakened

Market drivers: US stocks rallied to their best week since February, on data signaling a fresh acceleration in the world economy, as well as optimism over the prospect of additional US fiscal stimulus.

Global equities rose w-o-w (MSCI ACWI, +2.3%, to 722); closing at a record high. The S&P 500 Index rose (+2.7% w-o-w, to 4,281), marking its biggest weekly gain since February, as weaker-than-expected inflation data eased worries about a sudden tapering in stimulus by the Federal Reserve. In the EZ, stocks remain below record highs after volatile week (Eurostoxx 50, +0.9% to 4,121).

Fixed Income: w-o-w global bonds fell (BAML Global, -0.4% to 293.3) and UST yields rose (+8 bps, to 1.52%).

FX: w-o-w, the USD fell, weakening against the EUR (DXY, -0.4%, to 91.858; EUR/USD +0.6%, to 1.193).

Commodities: Oil prices rose (Brent, 3.6% to 76.2 USD/b), on expectations that demand growth will outstrip supply, and OPEC+ producers will be cautious in providing more supply to the market from August onwards. Gold prices rose (+1.0% to 1,780 USD/Oz).



@RosaRoubini



Rosa & Roubini



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

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



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