



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



### Covid-19 Vaccinations and Green Passes Raise Ethical and Political Issues

While many countries are re-opening their economies in sight of the summer holiday season, the rapid spread of the delta variant of Covid-19 is casting a shadow on the strength and durability of the recovery. [In the UK](#), the July 19<sup>th</sup> Freedom Day occurred when there were 50,000 new cases per day in the country (which has now fortunately been reduced to just over 30,000 new cases per day). New daily cases, almost all linked to the delta variant, [are however on the rise in many countries around the globe](#).

In this environment, track and trace apps are posing their own challenges. With new cases on the rise, more and more people are being “pinged” by these systems, forcing them to self-isolate. In the UK, [more than 500,000 people in a week](#) have been contacted and had to stay home, posing a threat to the continuity of work operations. For example, around the time of Freedom Day, [UK Health Secretary Javid](#) tested positive to Covid, and PM Johnson and Chancellor Sunak both started to self-isolate.

In [previous columns](#), we discussed how central banks are reacting to this increased uncertainty. Last week, the [ECB decided](#) to keep the tap of its accommodation wide open for the foreseeable future, especially as the recovery is still fragile and uneven among the various Eurozone countries. Previously the [Reserve Bank of Australia](#) (RBA) decided to move to open-ended QE, while reducing the weekly pace of its asset purchases. This week, the US Federal Reserve will reveal how advanced the discussion is within the FOMC with regard to tapering its asset purchases. Only [the Bank of Canada](#) (BoC) has continued its progression towards a reduction of its accommodation, which could lead to the end of net asset purchases by December 2021.

Within this context, governments are making an additional push to foster their [vaccination campaigns](#). Countries such as Canada, the UK and Spain have already more than 50% of their populations fully vaccinated. In Canada, more than 70% of the population has received at least one dose of the vaccine. [In the UK](#), 88% of adult population has received at least one dose of the vaccine. The new frontier is providing a vaccine to the younger segments of the population, which have been excluded during the first phases of the campaign but are now more affected by the resurgence of the virus.


Since vaccination is not, nor can be made, obligatory (at least at this stage), governments are now introducing subtle (and not so subtle) methods to “nudge” their populations towards becoming vaccinated. Initially, perks such as [free ice cream](#), beers, or other products were offered to people to entice them to get vaccinated. But now, more coercive measures are starting to be introduced. Countries are developing “green passes” for those who received at least one dose of the vaccine, or for those who recovered from Covid or tested negative in the preceding 24-48 hours.


Those passes are now being made obligatory in order to carry out some activities such as dining in restaurants, using gyms or pools, entering cinemas, or attending sports events. [In Italy](#), with a law decree, the government has imposed such an obligation as of August 6<sup>th</sup>. In the UK, the government is considering the idea of allowing [attendance to large events](#) to fully vaccinated people only. Some [people are rallying](#) in opposition to these decisions, protesting against what they perceive as a violation of their civil liberties.

In effect, some of the restrictions introduced by governments around the world have been considered unlawful or unconstitutional by various courts. Making vaccination, or green passes, mandatory, could also fall into the same category, unless constitutional amendments are made. At the same time, as we [discussed in previous articles](#), there is a difficult balancing act governments must pursue. They need to respect civil liberties, protect public health and keep the economy running at the same time. In all honesty, this is not an easy balance to achieve.

#### **Our Recent Publications**

 [Flash Preview: ECB Starts Implementing Its New Policy Strategy](#), by Brunello Rosa, 22 July 2021

 [Flash Review: BoJ Unveils Details Of Its New “Green” Lending Scheme](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 16 July 2021

 [Flash Preview: ECB Starts Implementing Its New Policy Strategy](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 16 July 2021

 [Flash Review – Bank Of Canada Reduces Further The Pace Of Its Asset Purchases](#), by Brunello Rosa and Karmen Meneses, 14 July 2021

Looking Ahead

The Week Ahead: Inflation On The Rise

**In the US**, Q2 GDP growth rate is expected to increase to 8.0% q-o-q (*p*: 6.4%).

**Still in the US**, the 'PCE price index' for June is expected to rise by 4.2% y-o-y (*p*: 3.9%).

**In the EZ**, Q2 GDP growth is expected to rebound to 1.5% q-o-q (*p*: -1.3%) and 13.2% y-o-y (*p*: -0.3%).

The Quarter Ahead: The Pace Of The Global Economic Recovery Could Be Hampered By The Delta Variant; CBs To Remain On Hold

**Globally, central banks will maintain a dovish stance.** Investors will be watching for clues on Fed tapering bond purchases. The move could hit the markets, as Fed tapering is seen as a first step towards rate hikes.

**In the US**, a resurgence in COVID-19 cases is threatening the Biden administration's promises of a swift economic recovery. The administration is closely monitoring the economic risks associated with the 'Delta variant', and senior officials suggested that *"local restrictions may be re-imposed in response to virus resurgence"*. As a result, the third-wave of the pandemic could dampen consumer spending - especially if fears re-emerge about the safety of returning to key activities. A jump in hospitalizations and deaths among the unvaccinated poses a particular challenge for the more conservative parts of the country, where: *i*) the vaccination rate is low; *ii*) resistance to new restrictions is strong; and *iii*) federal relief aid is starting to expire.

**The EU rejected a call from the British government to overhaul the Northern Ireland Protocol** – a key tenet of the agreement that saw the UK leave the EU in 2020. UK Brexit Minister David Frost and Secretary of State for Northern Ireland Brandon Lewis set out a *"command paper"* urging EU leaders to renegotiate the protocol. The EU worries that *"a physical barrier could become a source of tension"*, and - to protect the integrity of the EU market - does not agree to *"policing the border between Ireland and Northern Ireland"*.

**Under its new anti-foreign sanction law**, China imposed sanctions days before US Deputy Secretary of State Wendy Sherman is due to visit Beijing - amid deeply strained ties.

Last Week's Review

Real Economy: Economic Growth Dimmed By Rising Risks

**In the US**, in July the IHS Markit Manufacturing PMI hit another record high of 63.1 (*c*: 62; *p*: 62.1), while 'new orders growth' accelerated, as new and existing customers ramped up their spending. Services PMI declined to 59.8 (*c*: 64.8; *p*: 64.6), signaling a further softening in service sector growth from May's record high - amid labor shortages and difficulties acquiring stock.

**In the EZ**, in July the IHS Markit Manufacturing PMI remained in expansion but declined to 62.6 (*c*: 62.5; *p*: 63.4), the lowest reading since March. The Services PMI rose to 60.4 (*c*: 59.5; *p*: 58.3), the steepest pace of expansion in the service sector in 15 years – due to the easing of COVID-19 restrictions.

**Still in the EZ**, the ECB revised its forward guidance on interest rates during its July meeting, saying it *"expects interest rates to remain at their present or lower levels until inflation reaches 2%"*.

**In Japan**, in June consumer prices rose by 0.2% y-o-y (*c*: 0.0%; *p*: -0.1%), marking the first CPI rise since August 2020, as consumption recovered after an acceleration in COVID-19 vaccinations. Core consumer prices rose by 0.2% y-o-y (*c*: 0.2%; *p*: 0.1%), reaching the second straight month of gains and the highest level since March 2020.

Financial Markets: Global Stocks Rise; Bond Yields Remain Flat; The USD Strengthens; Oil Prices Declined

**Market drivers:** this week, global investors: *i*) shrugged off concerns about the spread of the COVID-19 Delta variant; and *ii*) bet on the global economic recovery and continued CB support.

**Global equities** rose w-o-w (MSCI ACWI, +1.1%, to 727). The US S&P 500 Index hit a record high (+2.0% w-o-w, to 4,412), as financials and other value sectors rebounded - after a selloff sparked by growth worries earlier in the week. In the EZ, shares rose (Eurostoxx 50, +1.8% to 4,109) on: *i*) optimism about the upcoming corporate earnings season; and *ii*) the ECB re-affirmation of its dovish monetary policies.

**Fixed Income:** w-o-w global bonds (BAML Global, +0.3% to 297.4) and UST yields (-2 bps, to 1.28%) remained flat, as investors turned to riskier assets.

**FX:** w-o-w, the US Dollar Index rose (DXY, +0.2%, to 92.912; EUR/USD -0.3%, to 1.177).

**Commodities:** Oil prices rose (Brent, +0.7% to 74.1 USD/b), as the OPEC+ decided to increase output despite the spread of the Delta variant clouding the demand outlook. Gold prices declined (-0.5% to 1,801 USD/Oz), as investors' risk appetite improved - as investors' focus shifted to the Q2 earnings season.



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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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