

MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa



“Quarantine Wars” Reveal The Political Side Of The Fight Against Covid

Last week we discussed the so-called Delta variant of the SARS-Covid-2 virus, which is causing a new wave of restrictions being imposed by countries such as the UK, Australia and India. But even when countries do reopen their domestic economies almost fully, they tend to keep severe restrictions on international travel. Most countries are adopting a dangerously autarchic model of domestic reopening yet international closure.

The reasoning behind this model is that banning virtually all international travel prevents the virus from spreading over the globe. However, this is proving to be illusory: travel is still being allowed for business, diplomatic and related reasons, and so the virus is still finding its way around the globe one way or the other. One wonders why, a year and a half after the virus has become a pandemic, restrictions on international travel are still so severe. The US still only allows US citizens to land on its soil. Until recently the UK considered travel for leisure illegal, and it still has the vast majority of other countries on its so-called “amber list”, requiring visitors to quarantine for ten days upon arrival in the country. Most EU countries have similarly reimposed quarantine periods for people arriving from the UK, since the discovery of the Delta variant.

As we discussed in our in-depth analysis on the need to balance the economic and healthcare risks posed by the virus, we are in favour of all sensible restrictions that prevent the virus from spreading and the pandemic from claiming more victims, and yet we wonder whether there are ulterior motives behind keeping, introducing or re-introducing quarantine periods for travellers. Already in December 2020 the EASA/ECDC urged governments to abolish quarantines, given their ineffectiveness. The UK authorities have found that only 0.5% of passengers returning from amber list countries test positive for Covid two days after their arrival. These results derive from the fact that passengers are required to test negative before flying, so the likelihood of being infected with Covid during their time of travel is limited.


We suspect that what may be taking place is an opportunistic use of quarantine periods, deriving from political motives. Most countries want to make sure that their citizens spend the money accumulated during the pandemic domestically rather than abroad. For example, internal travel in the US is booming while international travel is still restricted. In the UK, the government is trying to encourage people to spend their summer holidays in the country rather than flying to the popular holiday destinations in Spain, Italy and Greece. For this reason, most of these popular destinations are still on the amber list.


Italy has just introduced a bizarre form of quarantine. If a traveller spends less than 120 hours in the country for work reasons, he or she does not need to quarantine. If a traveller spends more than 120 hours they must quarantine immediately. Yet the two types of travellers clearly bare the same healthcare risk. Even more absurdly, if travellers they will spend less than 120 hours in the country but then end up spending more than that, they will have to start quarantining at the 120th hour (after having already toured the entire country, potentially, and possibly infected many people).


This new wave of quarantines is being intertwined with the discussion about the UK hosting the final of the Euro 2020 football tournament, with 60,000 people being expected at the stadium. Germany’s Merkel and Italy’s Draghi have already spoken about the possibility of choosing a new location for the event, but Boris Johnson is fiercely defending the initial choice of Britain as the finals host.


The conclusion that seems to emerge from this discussion is that while the effectiveness of quarantines is questionable in this phase of the pandemic, their main motivation is political, with countries retaliating against other countries’ decisions. In our view, this is hardly an effective way of defeating the virus and its new variants.

Our Recent Publications


 **Flash Review: The Riksbank Confirms Its Policy Stance And Remains Dovish**, by Brunello Rosa and Karmen Meneses, 1 July 2021

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 **GEOPOLITICAL CORNER: Merkellism Triumphant: Why the German Election Will Not Change Very Much For Germany and Europe**, by John C. Hulsman, 29 June 2021.

Looking Ahead

The Week Ahead: US Jobless Claims Are Expected To Fall And Retail Sales To Plunge Both In The EZ And Japan

In the US, initial jobless claims for the week ended July 3, are expected to fall to 320k (p:364k).

In the EZ, May's retail sales are expected to plunge 4.5% y-o-y (p: 23.9%).

In Japan, May's unemployment rate is expected to stay stable at 2.9% (p: 2.8%) while retail sales are expected to fall to 7.9% y-o-y (p: 12.0%).

The Quarter Ahead: US Economic Recovery Gains Pace; EZ Restrictive Measure May Be Re-Imposed; CBs To Remain Mute

President Joe Biden said the strong June jobs report proves his economic plan and his nationwide vaccination plan are working better than expected. The President also argued for: *i)* the passage of the roughly USD 1tn infrastructure proposal that he and a bipartisan group of senators agreed on; and *ii)* a multi-trillion USD social safety net expansion.

The US Fed Chairman Powell met in May with the CEO of cryptocurrency exchange Coinbase amid heightened scrutiny of cryptocurrency trading as prices for digital coins have soared. Explosive gains in products such as Bitcoin, Ethereum and Dogecoin have been linked to fears of inflation, which has been in turn linked to easy Fed monetary policy.

A 10-week decline in the number of COVID-19 cases in the 53 countries in EZ has come to an end, as the WHO's regional director for Europe warned. "Last week the number of cases rose by 10% driven by increased mixing, travel, gatherings and an easing of social restrictions". The cases being reported by the delta variant, are particularly among younger, unvaccinated or not yet fully vaccinated people.

OPEC+ held its meeting to decide on its output policy and agreed to ease cuts and their extension to the end of next year. However, UAE objected on the deal saying the extension is conditional to revising its baseline production. OPEC+ will meet again this week to reconvene, as the meeting is likely to be closely watched – given rising concerns about inflation across markets.

As part of a worldwide effort to keep multinational companies from dodging taxes, world's leading economies came to an agreement on a global minimum tax backed by US President Biden, at the OECD meeting in Paris. The agreement announced is an attempt to address challenges presented by a globalized and increasingly digital world economy in which profits can be relocated across borders and companies can earn online profits in places where they have no taxable headquarters.

Last Week's Review

Real Economy: Global Growth Remains Fragile As Delta Variant May Disrupt Business Activity

In the US, labor market data showed: *i)* nonfarm payrolls rose more-than-expected to 850k (c: 700k; p: 583k); *ii)* average hourly earnings increased to 3.6% y-o-y (c: 3.7%; p: 1.9%); while the unemployment rate edged up above consensus expectations (a: 5.9%; c: 5.7%; p: 5.8%).

In the EZ, the unemployment rate fell to 7.9% (c: 8.0%; p: 8.1%). In June, economic sentiment rose to 117.9 (c: 116.5; p: 114.5) the highest since an all-time high of 118.2 was reached in May 2000.

In Japan, May's unemployment rate increased slightly to 3.0% (c: 2.9%; p: 2.8%).

In Sweden, the Riksbank kept its interest rate on hold at 0.0% during its July 2021 meeting, stating it will also continue purchasing assets within the envelope of SEK 700bn which will be fully utilized up until the end of 2021.

Financial Markets: Stocks Hit New Highs; Bonds Up; USD Strengthens; Gold Prices Rise

Market drivers: US labor data boosted investor sentiment as figures pointed to a continued rebound in the US economy.

Global equities rose w-o-w (MSCI ACWI, +0.4%, to 725); closing at another record high. The S&P 500 Index reached a new high (+1.7% w-o-w, to 4,352), as: *i)* technology and health care stocks led the gains; while *ii)* consumer discretionary stocks were also strong, boosted by a solid rise in Nike shares. In the EZ, stocks were down slightly as: *i)* worries that inflationary pressures might bring forward interest rate increases; and *ii)* the spread of the delta COVID-19 variant, which clouded the outlook for an economic recovery (Eurostoxx 50, -0.9% to 4,084).

Fixed Income: w-o-w global bonds rose (BAML Global, +0.5% to 294.9) and UST yields fell (-9 bps, to 1.43%).

FX: w-o-w, the USD gained against the EUR (DXY, +0.4%, to 92.226; EUR/USD -0.6%, to 1.186).

Commodities: Oil prices were flat (Brent, 0% to 76.2 USD/b), remaining close to their highest level since October 2018. Gold prices rose (+0.4% to 1,787 USD/Oz) as rising fears of the COVID-19 Delta variant sweeps across Asia and Europe.



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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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