



R&R Weekly Column
By Brunello Rosa



Central Banks Try To Avoid A Coronavirus-Induced Global Recession

The latest news from the COVID-19 front is a mixed bag. In China, following the draconian measures of containment the country adopted during the last few weeks, the official [number of new cases is close to zero](#). A number of existing cases still need to be resolved, but there are not new infections occurring that would aggravate the situation. In the rest of the world, however, the situation is starting to become increasingly bad. In Italy, which has been [the country with the second highest number fatalities \(almost 370\)](#), the daily percentage increase of new cases is still around 20-25%, which means that the number of reported cases doubles every 4-5 days. Thus the diffusion of the infection is still in its exponential phase. And the number of cases is increasing in other countries too, including Germany and the UK and, of course, the US.

Albeit slowly, authorities in [Germany](#), the [UK](#) and at [EU level](#) are awakening to the fact that COVID-19 is not going to remain a phenomenon limited to Italy, a conviction some European leaders have deluded themselves with for too long. This means that, in time, a larger response will be put in place. In the US, it seems that we are still in the delusional phase in which COVID-19 will remain primarily limited to China and Europe, with only a limited spread in the US. The response has therefore been limited and insufficient so far. The [number of swab tests being carried out is still ridiculously low](#), and the official number of infected people is being kept artificially low by the fact that they are not being detected.

But the story of this virus always shows the same news cycle.

Initially, politicians delude themselves that the problem will remain limited to other countries. As soon as the first person dies in that country as a result of COVID-19, this delusion is no longer tenable, and so the initial timid admission and response occurs. When the number of deaths increases, one can easily infer the total number of infected people by knowing that the [mortality rate at global level is around 3.4%](#). When the number of cases reaches the thousands, the response then becomes forceful. In Italy, the entire region of [Lombardy has been quarantined, as have other provinces from neighbouring regions: people cannot get in or out](#).

As the disease spreads, the economic damage worsens. In our upcoming updated outlook, we will show how we expect global growth to be closer to 2% in 2020 than 3%. This means that in some countries, such as Italy and Japan, there will be a recession this year. Other countries could be equally badly affected – Germany might also fall into a recession, and US growth is likely to be around half of what was expected back in December. To prevent the economic downturn from becoming too large, policy makers are coming to the rescue. Fiscal authorities are trying to design targeted relief plans, in particular to support solvent but illiquid small and medium sized enterprises.

Central banks can also act faster to support market sentiment. A number of them have cut rates in the last few days: the Federal Reserve by 50bps to 1.00-1.25% (intra-meeting), the [RBA by 25bps to 0.50%](#), the [BoC by 50bps to 1.25%](#). Elsewhere, the central banks of Hong Kong and Malaysia cut their interest rates by 50bps (to 1.50%) and by 25bps (to 2.50%), respectively. These interventions are necessary to support market sentiment but will do little to solve the problem generally. The market understands all this, and therefore the selloff in equities continues. Equities will continue to adjust until market participants believe that the virus has been successfully contained at the global level. Even in the best-case scenario, this could take at least a couple of quarters. If the US delays its response to the virus in order to keep the economy strong during an electoral year, the process will be severely delayed, with the result being that immense damage to global health and economic activity could ensue.

Our Recent Publications

-  [UK Battling Over Brexit, Budget and Coronavirus](#), by Nouriel Roubini and Brunello Rosa, 6 March 2020
-  [Flash Review: RBA Kicks Off The New Round Of Monetary Easing In G10](#), By Brunello Rosa and Karmen Meneses, 3 March 2020
-  [EU Slowly Awakening To Covid-19 Reality](#), by Brunello Rosa and Nouriel Roubini, 6 March 2020
-  [Germany Inching Towards Limited and Targeted Fiscal Stimulus](#), by Brunello Rosa and Nouriel Roubini, 2 March 2020
-  [BoC Follows The Fed \(And Cuts Rates By 50bps\) And Anticipates Other G10 Central Banks](#), by Brunello Rosa, 4 March 2020
-  [GEOPOLITICAL CORNER: Brexit Painfully Illuminates Europe's Weakness, But Is There Light at the End of the Tunnel?](#), John C. Hulsman, 11 February 2020

Looking Ahead

The Week Ahead: US Expects Lower Demand And Lower Inflation, ECB To Ease Its Policy Stance

In the US, a 'preliminary March consumer-sentiment survey' is expected to hint at lower demand ahead (Michigan Consumer Sentiment Survey, c: 96.4; p: 101.0). Falling energy prices will slow inflation. February's core CPI is expected to remain flat at 2.3% y-o-y, while lower energy prices are expected to reduce the headline reading to 2.3% y-o-y (p: 2.5).

In the EZ, in the upcoming rate-setting meeting, the ECB will likely introduce a package of easing measures, including targeted measures to support corporate and SME lending (i.e. TLTROs targeting enterprises), a cut to the deposit rate and an increase in the monthly pace of asset purchases.

The Quarter Ahead: COVID-19 Worries Intensify, CBs To Follow The Fed's Lead.

The **COVID-19 outbreak** is: 1) likely to develop into a pandemic, spreading on a wide scale to all regions of the world; all major economies are likely to suffer thousands - rather than hundreds - of cases; and 2) is unlikely to be successfully contained before the end of Q2-2020. The WHO's warned against the 'false hope that the virus will disappear in the summer'. As the pandemic escalates most governments are set to announce fiscal stimuli to mitigate its impact.

However, **in the US** President Trump and White House officials said they 'do not see an immediate need to craft a broader fiscal-policy response'. Elizabeth Warren ended her presidential bid, limiting the Democratic contest to Joe Biden and Bernie Sanders. Fed Chair Powell hinted at further action in the next scheduled meeting on March 18; the market-implied probability of: a) a 75 bps rate cut rose to 61.5% (p: 0.0); and b) a 50 bps cut to 0.50-0.75% rose to 38.5% (p: 0.0).

In DMs, G7 finance ministers and CBs promised to 'use all appropriate policy tools to achieve strong, sustainable growth and safeguard against downside risks'.

Last Week's Review

Real Economy: Virus-Related Slowdown Prompts Central Banks, Led By The FED, To Support Growth

In the US, where data do not yet reflect the outbreak's impact: 1) manufacturing PMI fell slightly, but remained above 50 (ISM Manuf. PMI Feb., a: 50.1; c: 50.5; p: 50.9); and 2) February's labor market data showed strength as: i) nonfarm payrolls rose (a: 273k; c: 175k; p: 273k); ii) the unemployment rate declined to 3.5% (c: 3.6; p: 3.6); while iii) average hourly earnings stagnated at 3.0% y-o-y (c: 3.1; p: 3.0). The Fed announced a 50bps emergency cut, the first such move since the 2008 financial crisis. While the Fed reiterated that 'the fundamentals of the US economy remain strong', the vote for the rate cut was unanimous.

In China: 1) Jan/Feb's exports contracted by -17.2% (c: -14.0; p: +7.9), and imports fell by -4% (c: -15.0; p: +16.5); and 2) the services PMI collapsed to 26.5 (Caixin Feb., p: 51.8), due to the impact of quarantines and reduced travel.

In the EZ, January's core inflation rose to 1.2% y-o-y (c: 1.3; p: 1.4), while headline decelerated to 1.2% y-o-y, as COVID-19-related disruptions reduced energy prices (c: 1.2; p: 1.4).

In Canada, the BoC cut its key rate by 50 bps to 1.25%.

In Australia, the RBA cut its key rate by 25 bps to 0.50% and noted that the outbreak is having a 'significant effect' on the economy.

Central Banks in Hong Kong and Malaysia cut interest rates to 1.50% (p: 2.00) and 2.50% (p: 2.75), respectively.

Financial Markets: COVID-19's Rapid Spread Spurred Risk Aversion In Financial Markets

Market drivers: The Fed's emergency rate cut did not reduce volatility; global flight to safety continued as DM bond yields fell, credit spreads widened, and the USD depreciated.

Stocks: w-o-w, global indices rose marginally (MSCI ACWI, 0.4% to 513), supported by the US (S&P 500, +0.6% to 2,972) while other DMs (Eurostoxx 50, -2.9% to 3,232; Nikkei 225, -1.9% to 20,750). Volatility rose further (VIX S&P 500, +1.8pts to 41.9; 52w avg.: 15.6; 10y avg.: 16.8).

Bonds: w-o-w, global bond indices rose (BAML Global, +1.3% to 297.1), while the yields of safe-haven sovereign bonds plunged: i) 10y UST fell by 42 bps, to 0.71%; and ii) 10y German bunds fell by 12 bps, to -0.73%.

FX: w-o-w, the USD weakened against a basket of currencies (DXY, -2.2% to 95.951), while the EUR, JPY, and CHF strengthened (EUR/USD, +2.4% to 1.129; USD/JPY, +2.6% to 105.300; USD/CHF, +3.0% to 0.937).

Commodities: Oil prices continue to decline; Brent suffered its largest one-day drop in more than a decade (Brent, -10.4% to 45.3 USD/b) as, at a meeting of Opec and its allies, Saudi Arabia failed to convince Russia to agree to deeper production cuts to prop up prices in the face of weakening demand. Gold, a refuge in times of financial distress, rose w-o-w (Gold, +5.6% to 1,674 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