



R&R Weekly Column  
By Brunello Rosa



## Glimmers of Hope From The Medical Front Of The Fight Against Coronavirus

As we [discussed last week](#), the impact on economic activity and markets from Covid depends crucially on medical advancements made in the fight against the virus. When progress on the medical front is considered sufficient by market participants, it is likely that risky asset prices will then start to recover (certainly, they will do so before economic activity itself stabilises). The impact of the virus on economic activity could also become smaller if enough advancement is made on the medical front.

While China is facing its [second mini-wave of contagion](#), deriving mostly from people returning home from abroad, there are reports that [Spain is tentatively starting to re-open some of its non-essential activities](#), such as factories and some offices. [Italy has started to plan a gradual re-opening, aimed at May 4<sup>th</sup>](#), and a task force led by former Vodafone CEO [Vittorio Colao has been appointed by the government to plan a gradual re-opening of the economy](#). An undersecretary of Conte's government even ventured to say that [Italy's beaches could be open this summer](#), if social distancing measures are in place.

The situation is very different in the UK, the US and Sweden, which have been late to adopt social distancing measures, and are still in the fast-accelerating part of the contagion curve. In particular, in the UK, the country has been following a path not too dissimilar from that of Italy, and its Prime Minister Boris Johnson admitted that [he could have died of Covid-19 during his stay in the hospital](#). In the US, the scenes of [public burials in New York has shocked people around the globe](#). In Sweden, PM Stefan Lofven had to apologise for being too [slow and timid in adopting social distancing measures](#).

However, some glimmers of hope are starting to emerge from the medical front, which, as we said last week, consists of four sub-fronts. On the [increase in intensive-care capacity](#), a lot of progress has been made worldwide, with the construction of field hospitals. This should help manage the expected increase in the number in patients admitted to hospitals in the most-hit countries. On [testing](#), the availability of [antibody tests](#) (which can tell if somebody had been infected and has developed some form of immunity to the virus) has increased massively, and the Lombardy region, one of the areas most affected by the epidemic, has stated that soon a large-scale distribution of what will be considered "Covid-19 health passports" will begin. On the other two medical sub-fronts, namely [treatment](#) and [vaccine](#), plenty of progress has been made as well.

As to a possible cure for the virus, doctors have identified the three phases of infection. Against the first phase, when the virus starts to attack cells, at least two medicines have proved to be effective, [Cloroquine](#) and [L-Asparaginase](#). If a virus still manages to infect the body, anti-inflammatory medicines (such as steroids that reduce inflammation and the immune response) can reduce the impact on the affected person.

In the third phase, when infection becomes serious, the virus causes an [over-production of antibodies](#) that clog the lungs and [create small thrombus that start circulating throughout the body](#), causing multiple organ failure and eventually death. Against this, a group of doctors in various hospitals in Italy have started to test the efficacy of a traditional anticoagulant, [the heparin](#), which prevents the formation of thrombus. Initial clinical tests show that this cure is effective and, if heparin is given early enough, patients might not need to be hospitalised. From this mix of cures, it is likely that very soon [a clinical protocol to treat patients in the various phases of the disease will become standardised](#), thus reducing the need for intensive-care units. The good news is that most of these medicines are quite common and therefore not very expensive.

On the final front, [the vaccine](#), good progress has also been made. [Besides the progress that has been made in Pittsburgh](#), which we mentioned last week, another team of researchers, based in Italy in collaboration with Oxford University, has found a methodology that will be [tested by the end of the month](#), which could result in a vaccine being ready by September (in small samples).

All this is to say that much effort is being made to reduce the impact of the virus on the health of people and on economic activity. While we need to remain vigilant against second and third waves of the virus ([which could be more deadly than the first](#)), [three strains of which have already been identified](#), it is encouraging that some progress is being made on the medical front.

### Our Recent Publications

 [Flash Preview: Bank of Canada To Remain Dovish After The Emergency Stimulus Provided in March](#), By Brunello Rosa and Karmen Meneses, 9 April 2020

 [Ready to Fight: Russia's Cyber and AI Strategies To Navigate The Covid-19 Crisis And Beyond](#), by Marco Lucchin and Brunello Rosa, 8 April 2020

 [Flash Preview: After Beginning QE With YCC, RBA To Stay Put In April](#), by Brunello Rosa and Farah Aladsani, 6 April 2020

 [U.S. Presidential Election: "The Coronavirus Election" Is Now Too-Close-To-Call](#), by John C. Hulsman, 7 April 2020



Looking Ahead

The Week Ahead: Deep Contraction In Consumption and Industrial Production Expected in The US And EZ

**In the US**, retail sales are expected to contract deeper in March (c: -3.4% m-o-m; p: -0.5%), as consumption tumbles. March IP data are also likely to decline (c: -2.2% m-o-m; p: -0.6%), due to the pandemic-induced global economic slowdown.

**In the EZ**, February's IP is expected to shrink further, to -2.5% y-o-y (p: -1.9%) - as investor confidence fades. March inflation is expected to remain muted, with CPI at 0.7% y-o-y and core-CPI at 1.0% y-o-y.

**In Japan**, February IP data are projected to remain unchanged at -4.7% y-o-y.

**In China**, Q1-2020 GDP is forecasted to contract steeply to -6% y-o-y (p: 6%), its lowest level on record. March IP and retail sales data are expected to improve (IP, c: -5.6% y-o-y; p: -13.5%; retail sales, c: -8.8 y-o-y; p: -20.5%), as the country begins to return to normalcy.

**In Canada**, the BoC is expected to keep rates on hold at 0.25%, after a 50bps cut in an emergency meeting on March 17.

The Quarter Ahead: Globally, The Human Cost Of The Outbreak Expected To Rise Further

While **multiday-data start** showing decelerating trends in a few countries, the WHO warned governments "against rolling back measures introduced to curb the pandemic spread". As a result, the world economy will keep suffering the devastating effects of: *i)* COVID-19; and *ii)* related containment measures.

**In the US**, President Trump announced he will "form a council of business and medical leaders" to help him with "the decision on when to reopen America for business". A group of 13 senators from oil producing states voiced frustration over the "oil price war that is damaging US producers", and threatened to "reevaluate the US-Saudi relationship".

Last Week's Review

Real Economy: Globally, Containment Measures Hit The Outlook And Spur Unemployment

**In the US**, the coronavirus pandemic forced the shutdown of large parts of the economy; as a result, initial jobless claims surged (a: 6.6mn; c: 5.3mn; p: 6.9mn), for the third consecutive week. As consumers struggle, confidence fell to a 9-year low (Michigan consumer sentiment index April, a: 71; c: 75; p: 89.1). March's CPI inflation fell at its fastest pace in 5 years, to 1.5% y-o-y (c: 1.6%; p: 2.3%). March's core-CPI inflation also suffered its first decline in 10 years, falling to 2.1% y-o-y (c: 2.3%; p: 2.4%).

**In the US**, the Fed announced additional stimulus measures aimed at providing further direct support to the economy, such as: *i)* a USD 600bn in new loans to 'main street' (e.g.: 4-year loans with favorable terms to SMEs); *ii)* expanding corporate-lending programs by USD 850bn; and *iii)* a USD 500bn in credit to states and municipalities.

The **COVID-19 pandemic** suppresses demand for most goods and services, offsetting shortage-driven price increases - due to supply chain disruptions.

**In the EZ**, investor confidence plummeted to -42.9 in April (c: -30.3; p: -17.1), below expectations.

**In China**, February's CPI inflation decelerated below consensus, to 4.3% y-o-y (c: 4.8%; p: 5.2%); yet, consumption levels are expected to increase, as the government begins to ease restrictions on the lockdown measures.

**In the UAE**, Dubai's PMI fell to a record low of 45.2 in March (p: 49.1), recording the third straight month of contraction in the non-oil private sector, and the steepest on record - amid the deepening impact on tourism, consumer demand and exports.

**In Australia**, the RBA kept its policy rate unchanged at the historical low of 0.25%, as policymakers noted "a very large contraction expected in Q2" and "the jobless rate projected to rise to its highest level in years". At the same time, the RBA warned that, in case of improvement in data, the eventual size of the intervention could be smaller than initially expected.

Financial Markets: S&P 500 Recorded Its Biggest Weekly Gain In 45 Years; USD Down, Oil Up

**Market drivers:** The Fed's USD 2.3tn policy injection lifted investor sentiment.

**Stocks:** w-o-w, global stocks surged on COVID-19 infection slowdowns (MSCI ACWI, +10.5%, to 470), driven by DMs (S&P 500, +12.1% to 2,790; Eurostoxx 50, +8.6% to 2,893) and EMs (MSCI EMs, +6.8% to 888). Volatility remains elevated (VIX S&P 500, -5.1 pts to 41.7; 52w avg.: 19.7; 10y avg.: 17.2), due to recession fears.

**Bonds:** w-o-w, returns on indices rose marginally (BAML Global, +0.2% to 289.9), driven by EMs - as yields rose for: *i)* 10y USTs; and *ii)* across Europe (+13bps, to 0.72%; German bund, +9bps, to -0.34%; French OAT, +3 bps to 0.11%).

**FX:** w-o-w, USD demand weakened against other currencies, hit by lower consumer confidence (DXY, -1.1% to 99.517; EUR/USD, +1.2% to 1.094; USD/CHF, +1.2% to 0.966).

**Commodities:** The G20 backed the largest oil supply-cutting agreement in history (10mb per day), but prices fell (Brent, +36.8% to 34.1 USD/b), as investors saw OPEC's proposal as insufficient to offset lower demand. Gold kept its haven appeal, with prices remaining elevated (Gold, +4.5% to 1,689 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	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