



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



## Tug of War Between Headwinds and Tailwinds For The Global Economy

Last week, [Pfizer reported initial results of the tests of its anti-Covid vaccine](#), exhibiting a 90% efficacy rate. The news sparked optimism among global investors, with equity markets rallying (MSCI was up 2.2% on the week). This occurred while a number of European countries started to enter national lockdowns ([as we discussed last week](#)), as the infection rates soared again, posing a risk that national health systems will be overwhelmed. This second round of lockdowns will have dramatic effects on societies and their economies. A double-dip recession has now become the baseline scenario for European economies, as Q4 is likely to be another quarter of negative growth.

In the US, daily infection rates have reached 180,000, the highest level on record. Nonetheless, in spite of some localised restrictions, state governors are still reluctant to declare the total closure of economic activities. In this respect, the US presidential election might represent a slightly more positive direction being taken. With 306 votes in the electoral college, Joe Biden has won the presidential race. As we [discussed in our in-depth analysis of the results](#), Donald Trump will try to launch a series of legal challenges to this outcome, but they are unlikely to succeed.

With a 36-vote advantage in the electoral college, Joe Biden may afford to judicially lose a couple of relatively large states, and yet remain president elect. This means that, in spite of the short-term noise and the difficulty in the transition process, this huge element of political uncertainty has been removed for investors. A divided Congress (if the Senate remains, as it seems likely, controlled by the Republicans) means that the fiscal stimulus is likely to be smaller than would otherwise be the case had the Democrats won, but this means the Fed may be required to do a bit more.

As we discuss [in our “Brexit Endgame” preview](#), the Brexit saga is likely to enter its final crunch week. An agreed text needs to emerge at the end of the EU Summit on November 19 for a no-deal Brexit to be avoided on January 1<sup>st</sup>, 2021. A skinny FTA is likely to emerge this week or in coming days, as the government cannot conceal Brexit behind Covid anymore, as Covid has proved to be a national disaster anyway.

Countervailing these events, a new round of monetary and fiscal stimulus is likely to be adopted by national governments and central banks. Central banks in particular are reacting. [The ECB has already announced an expansion of its programs in December](#). [The Bank of England \(BoE\) has approved a new increase in its APF facility](#) by deliberating an increase of GBP 150bn in asset purchases until the end of 2021. The [Reserve Bank of New Zealand](#) (RBNZ) has launched a new credit-easing facility (a Funding For Lending Programme). Both the BoE and the RBNZ have contemplated the possibility of introducing negative policy rates, although the actual implementation of such a program may be postponed well into 2021.

During all of this, equity markets have been continuing to make a timid comeback following the slump of early 2020, while remaining vulnerable to the series of corporate defaults that may follow the peak of the Covid-induced crisis. The only real winners seem to be the tech companies (well represented by NASDAQ), which can take advantage of the massive increase in digital application due to widespread lockdowns.

### Our Recent Publications

[Flash Review: RBNZ Provides More Stimulus With A Funding For Lending Program](#), by Brunello Rosa and Karmen Meneses, 11 November 2020

[GEOPOLITICAL CORNER: The World Through Two Very Different Sets of Eyes: American Politics After the 2020 Election](#), by John C. Hulsman,

12 November 2020



### Looking Ahead

#### The Week Ahead: US Job Market To Continue Its Slow Recovery, While Japanese Inflation Slows Down Further

**In the US**, initial 'jobless claims' for the week ending on November 14 are expected flat at 709k (p: 707k), as the labor market continues its slow recovery. In October: *i*) retail sales are expected to decline (p: 5.4%); and *ii*) IP is expected to recover to 1.0% m-o-m (p: -0.6%).

**In the EZ**, November's consumer confidence is expected to decline further, by -17.6 (p: -15.5).

**In Japan**, Q3 GDP growth is expected to rebound by 4.4% q-o-q (p: -7.9%) and 19.9% y-o-y (p: -28.1%). In October, exports are likely to stay subdued at -4.5% y-o-y (p: -4.9%), while imports are expected to recover to -9% y-o-y (p: -17.2%). November's manufacturing PMI is expected to stay flat at 48.9 (p: 49.7). Inflation is expected to decline by -0.3% (p: 0.0%).

**In China**, IP is expected to slow down slightly, to 6.5% y-o-y (p: 6.9%), while retail sales are likely to increase by 5.0% y-o-y (p: 3.3%). October's unemployment rate is expected to remain subdued (p: 5.4%).

#### The Quarter Ahead: Slower Global Recovery; Geopolitical Risk To Hinder Growth; CBs To Remain Dovish

**At global level, while challenges remain around the speed of production and distribution of the vaccine:** *i*) a 2021 GDP recovery is more probable; but *ii*) over the next few years monetary policy is likely to remain loose and supportive.

**Meanwhile, the COVID-19 pandemic is accelerating in:** 1) the US, daily cases topped 180,000, the highest increase on record; and 2) Europe, where: *i*) while GDP is still between 5-10% below pre-virus levels; and *ii*) new lockdowns - so far less stringent than the Spring ones - have come into force in Germany, UK, France, Italy and Austria - with more countries likely to follow suit. Inevitably, renewed lockdowns will entail further economic downturns.

**Pfizer Inc and the drug maker BioNTech** announced that "early data suggest [the] COVID -19 vaccine is more than 90% effective". US Fed Chair Jay Powell, ECB President Christine Lagarde and BoE Governor Andrew Bailey stated that a breakthrough on a COVID-19 vaccine would "lift the uncertainty weighing on the global economy".

**In the US**, President-elect Joe Biden named Mr. Ron Klain as his White House Chief of Staff - the first major appointment. President Donald Trump continues to: *i*) dispute the election results; and *ii*) file lawsuits, despite losing four in court.

**In the UK**, as the government faces important decisions over: 1) COVID-19 management; and 2) the post-Brexit trade-deal with the EU - two top officials resigned: *i*) PM Boris Johnson's closest aid and Director of communications Lee Cain; and *ii*) Dominic Cummings, Johnson's chief adviser and Brexit's architect.

### Last Week's Review

#### Real Economy: Despite Vaccine Hopes, Virus-Induced 'Double-Dip Recession' Fears Rise

**In the US**, the labor market continues to improve despite surging Covid-19 infection rates. Initial 'jobless claims' for the week ending November 7 declined to 709k (c: 735k; p: 757k), the lowest number since late March but still well above pre-pandemic levels. October's inflation declined: *i*) CPI to 1.2% y-o-y (c: 1.3%; p: 1.4%); and *ii*) core to 1.6% y-o-y (c: 1.8%; p: 1.7%), both well below the 2.3% recorded in February, before the coronavirus pandemic.

**In the EZ**, September's IP eased further, to -6.8% y-o-y (c: -5.8%; p: -6.7%).

**In the UK**, Q3 GDP growth rebounded by 15.8% q-o-q (c: 15.5%; p: -19.8%) and recovered to -9.4% y-o-y (p: -21.5%).

**The RBNZ** maintained its policy rate at 0.25% but introduced a Funding-For-Lending Programme.

#### Financial Markets: Global Stocks Rallied; Bonds Remained Flat; Oil Rose And Gold Fell

**Market drivers:** the announcement of a Covid-19 vaccine drove investors' optimism. Weekly inflows into equity funds hit a 20-year, the largest on record and the second-biggest intake by US stock funds since 2000.

**As a result, global stocks rose w-o-w** (MSCI ACWI, +2.2%, to 606), lifted by the S&P 500 (+2.2%, to 3,585), and by a rally in EZ stocks (Eurostoxx 50, +7.1%, to 3,432). BioNTech, the company developing a COVID-19 vaccine with Pfizer, is now worth more than USD24 bn. Technology stocks were among this week's laggards as investors shifted bets to economically sensitive sectors such as banks and energy.

**Fixed income:** w-o-w global bonds fell slightly (BAML Global, -0.2% to 297.9); longer-term UST yields rose (UST, +7 bps, to 0.89%).

**FX:** w-o-w, the USD index gained (DXY, +0.6%, to 92.755) but the USD slightly depreciated against the EUR (EUR/USD, -0.3%, to 1.183). The TRY rallied by +11.2%, the best EM performer, as investors reacted positively to the announcement of a new economic team.

**Commodities:** positive vaccine-news lifted oil prices (Brent, +8.4% to 42.8USD/b) but hampered gold (-3.3% to 1,888 USD/Oz.) as appetite for risk rose.



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The picture in the front page comes from [this website](#)



## 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

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