COVID-19 Market Research: Looking beyond the storm

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Macro Outlook 2020-21

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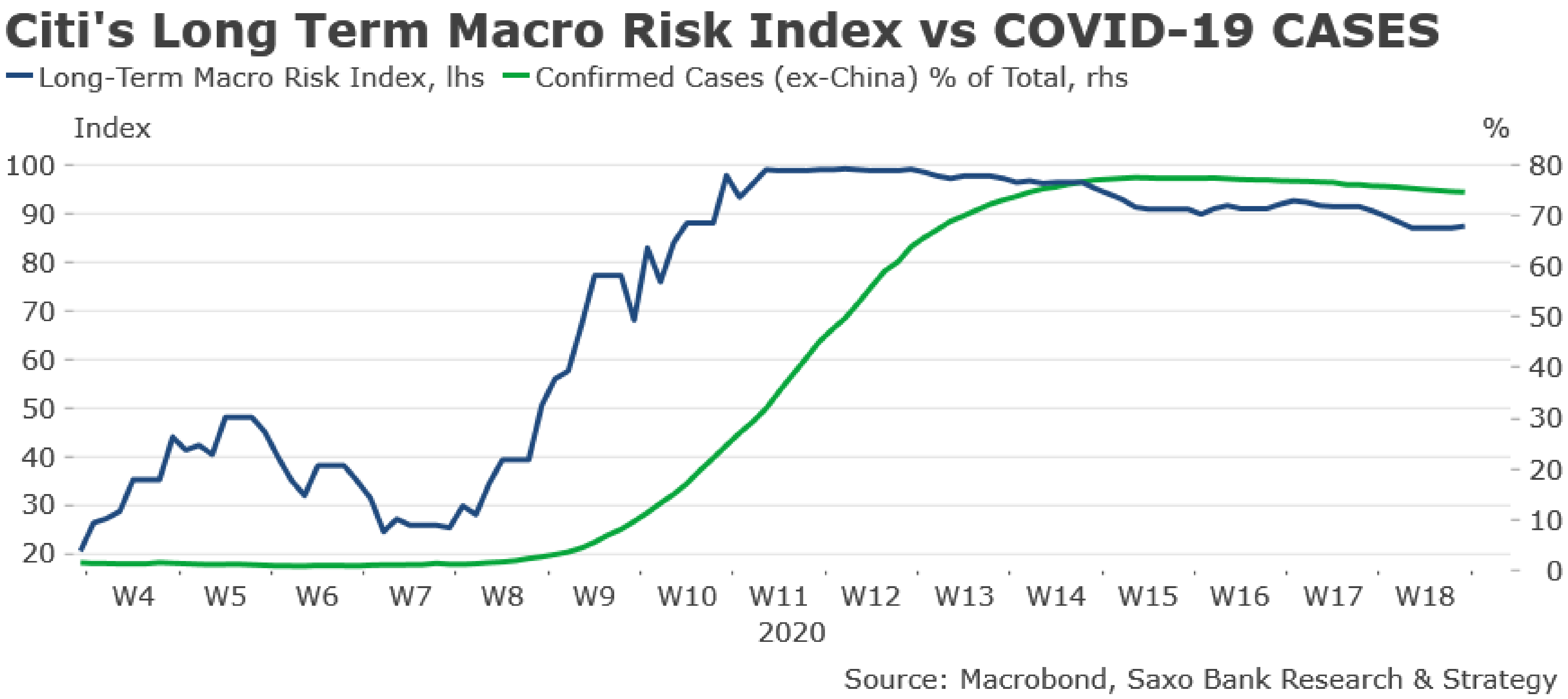
Tracking coronavirus cases: The global economy (ex-China) has not passed through peak yet and the risk of second wave remains. John Hopkins University has created an interactive map to track in real-time the spread of the pandemic https://coronavirus.jhu.edu/map.html



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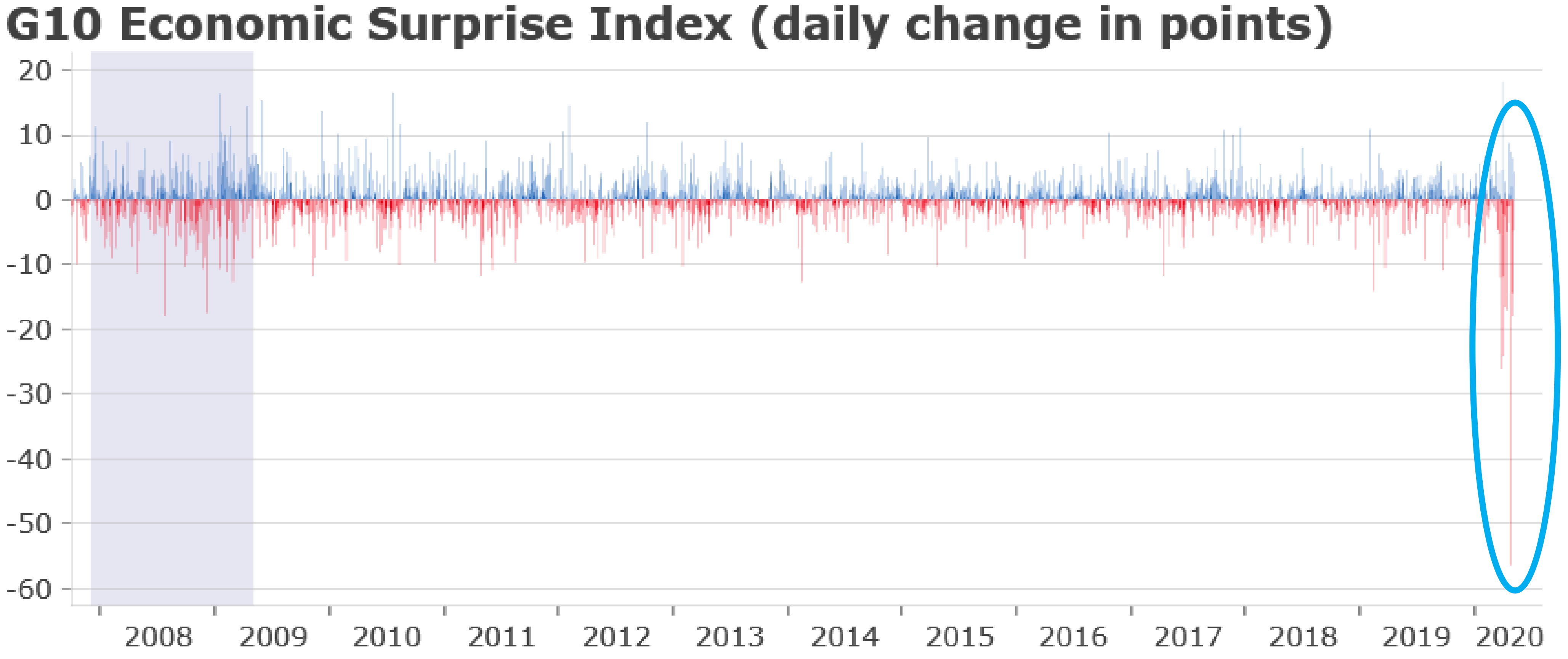
Coronavirus panic is bringing the global economy to its knees this year: World -3%, United States -5.9%, Japan -5.2%, Russia -5.5% and the European Union -7.5%. Total economic losses are estimated at $9 trillion for 2020-21 (IMF forecasts).



Source: Macrobond, Saxo Bank Research & Strategy

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Asia will suffer **zero growth** this year for the first time in 60 years, versus +4.6% in 2019. Downward revisions are ranging from 3.5 ppts in the case of South Korea to over 9 ppts in the case of Thailand.

Annex Table 1.1.2. Asian and Pacific Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Asia	**4.6**	**0.0**	**7.6**	**2.7**	**2.5**	**2.5**	**1.8**	**1.0**	**1.2**	...	...	...
Advanced Asia	**1.2**	**–4.5**	**3.8**	**0.7**	**0.5**	**0.8**	**4.3**	**2.9**	**3.0**	**3.1**	**4.1**	**3.7**
Japan	0.7	–5.2	3.0	0.5	0.2	0.4	3.6	1.7	1.9	2.4	3.0	2.3
Korea	2.0	–1.2	3.4	0.4	0.3	0.4	3.7	4.9	4.8	3.8	4.5	4.5
Australia	1.8	–6.7	6.1	1.6	1.4	1.8	0.5	–0.6	–1.8	5.2	7.6	8.9
Taiwan Province of China	2.7	–4.0	3.5	0.5	0.5	1.5	10.5	8.2	8.3	3.8	4.4	4.0
Singapore	0.7	–3.5	3.0	0.6	–0.2	0.5	17.0	14.8	15.7	2.3	2.5	2.4
Hong Kong SAR	–1.2	–4.8	3.9	2.9	2.0	2.5	6.2	6.0	5.0	3.0	4.5	3.9
New Zealand	2.2	–7.2	5.9	1.6	1.2	1.4	–3.0	–4.5	–3.2	4.1	9.2	6.8
Macao SAR	–4.7	–29.6	32.0	2.8	2.0	2.3	34.8	13.1	30.0	1.7	2.0	1.8
Emerging and Developing Asia	**5.5**	**1.0**	**8.5**	**3.2**	**3.0**	**2.9**	**0.6**	**0.1**	**0.5**	...	...	...
China	6.1	1.2	9.2	2.9	3.0	2.6	1.0	0.5	1.0	3.6	4.3	3.8
India[4]	4.2	1.9	7.4	4.5	3.3	3.6	–1.1	–0.6	–1.4	...	...	...
ASEAN-5	**4.8**	**–0.6**	**7.8**	**2.1**	**1.8**	**2.7**	**1.2**	**–0.5**	**0.1**	...	...	...
Indonesia	5.0	0.5	8.2	2.8	2.9	2.9	–2.7	–3.2	–2.7	5.3	7.5	6.0
Thailand	2.4	–6.7	6.1	0.7	–1.1	0.6	6.9	5.2	5.6	1.1	1.1	1.1
Malaysia	4.3	–1.7	9.0	0.7	0.1	2.8	3.3	–0.1	1.7	3.3	4.9	3.4
Philippines	5.9	0.6	7.6	2.5	1.7	2.9	–0.1	–2.3	–2.2	5.1	6.2	5.3
Vietnam	7.0	2.7	7.0	2.8	3.2	3.9	4.0	0.7	1.0	2.2	...	...
Other Emerging and Developing Asia[5]	**6.3**	**1.2**	**7.5**	**5.6**	**5.3**	**5.3**	**–2.6**	**–3.7**	**–2.3**	...	...	...
Memorandum												
Emerging Asia[6]	**5.4**	**1.0**	**8.5**	**3.2**	**2.9**	**2.8**	**0.7**	**0.3**	**0.6**	...	...	...

Source: IMF staff.
Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.
[1]Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A5 and A6 in the Statistical Appendix.
[2]Percent of GDP.
[3]Percent. National definitions of unemployment may differ.
[4]See country-specific note for India in the "Country Notes" section of the Statistical Appendix.
[5]Other Emerging and Developing Asia comprises Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, Kiribati, Lao P.D.R., Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Palau, Papua New Guinea, Samoa, Solomon Islands, Sri Lanka, Timor-Leste, Tonga, Tuvalu, and Vanuatu.
[6]Emerging Asia comprises the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam) economies, China, and India.

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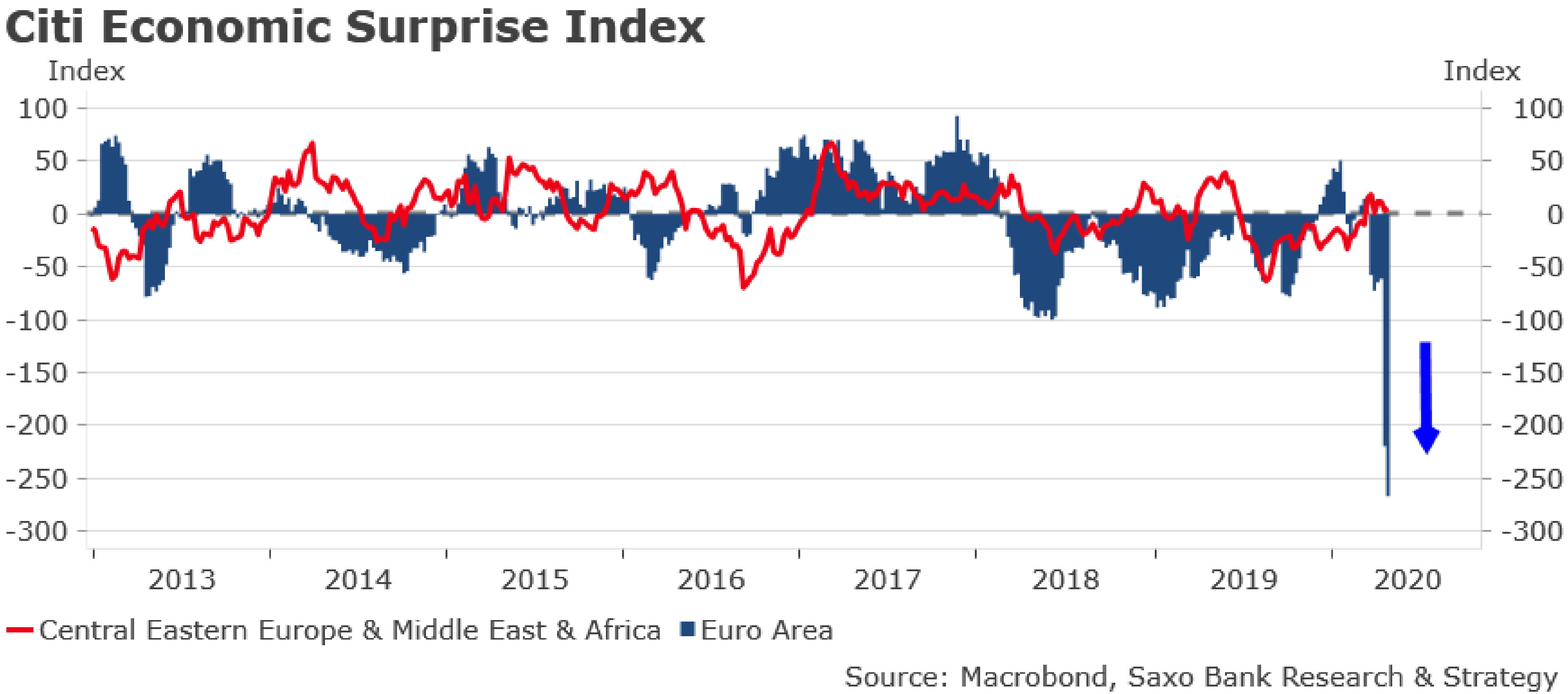
Better resilience of CEE countries: CESI for CEE at **+5.4** vs -267 for the euro area. It is mostly explained by lower political risk, solid public finances, activism on the part of policymakers, effective containment (the tighter the lockdown, the lower the number of infections) etc.



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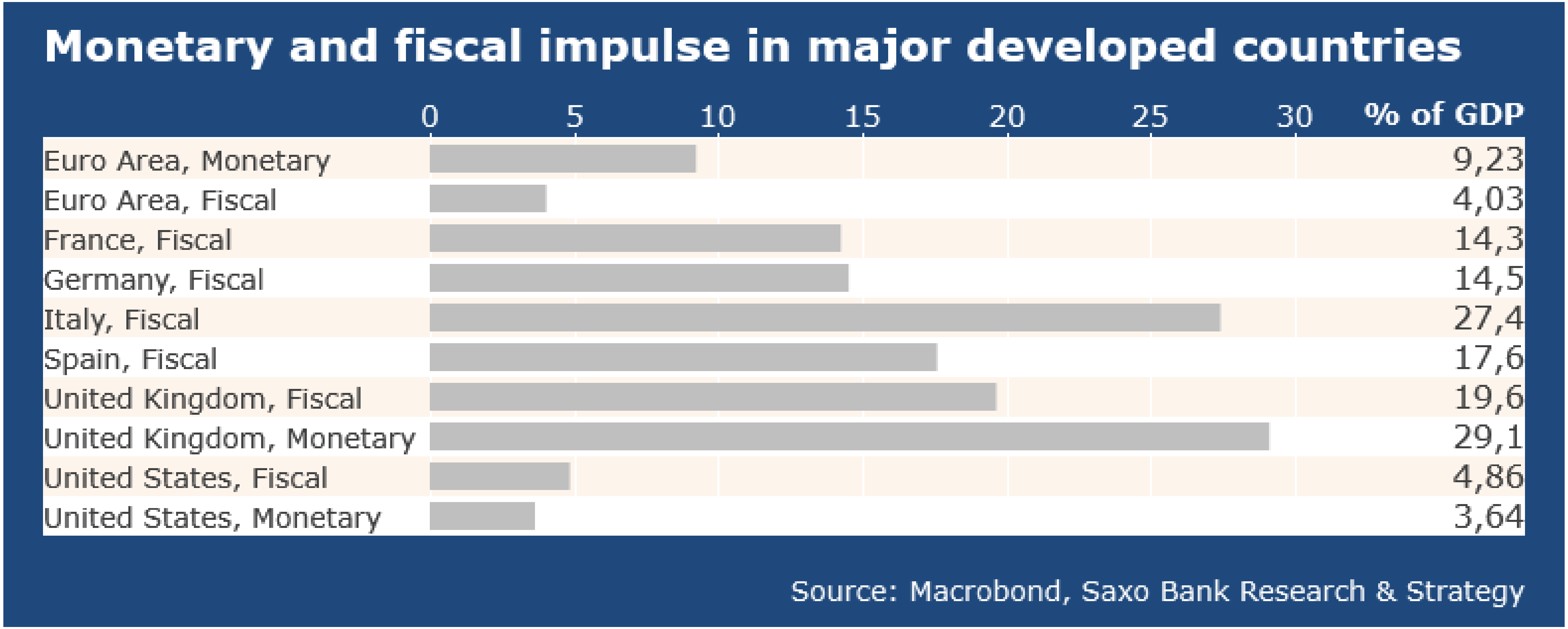
Go Big or Go Home: Very strong and fast policy response to the outbreak. Based on our calculations, the total stimulus package from G7-countries, including state guarantee, is about €5.5tr or **17% of combined GDP** - a level that has never been reached in previous crisis. Adding to that, G-3 central banks have injected **$2.76bn** into financial markets since early March (x2 compared with the initial response in 2008).



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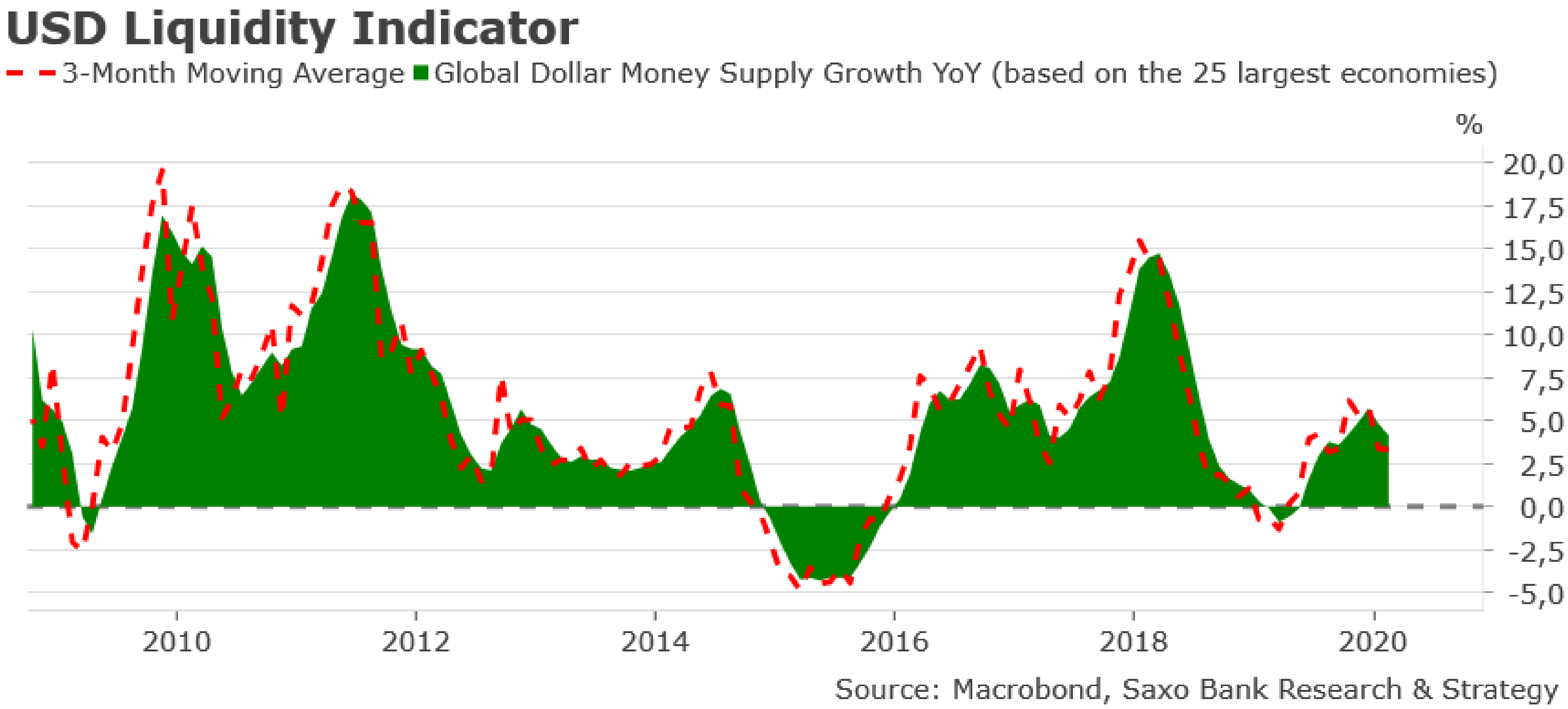
POSITIVE - The CB's bazooka liquidity injections have managed to alleviate funding pressures in USD funding markets.



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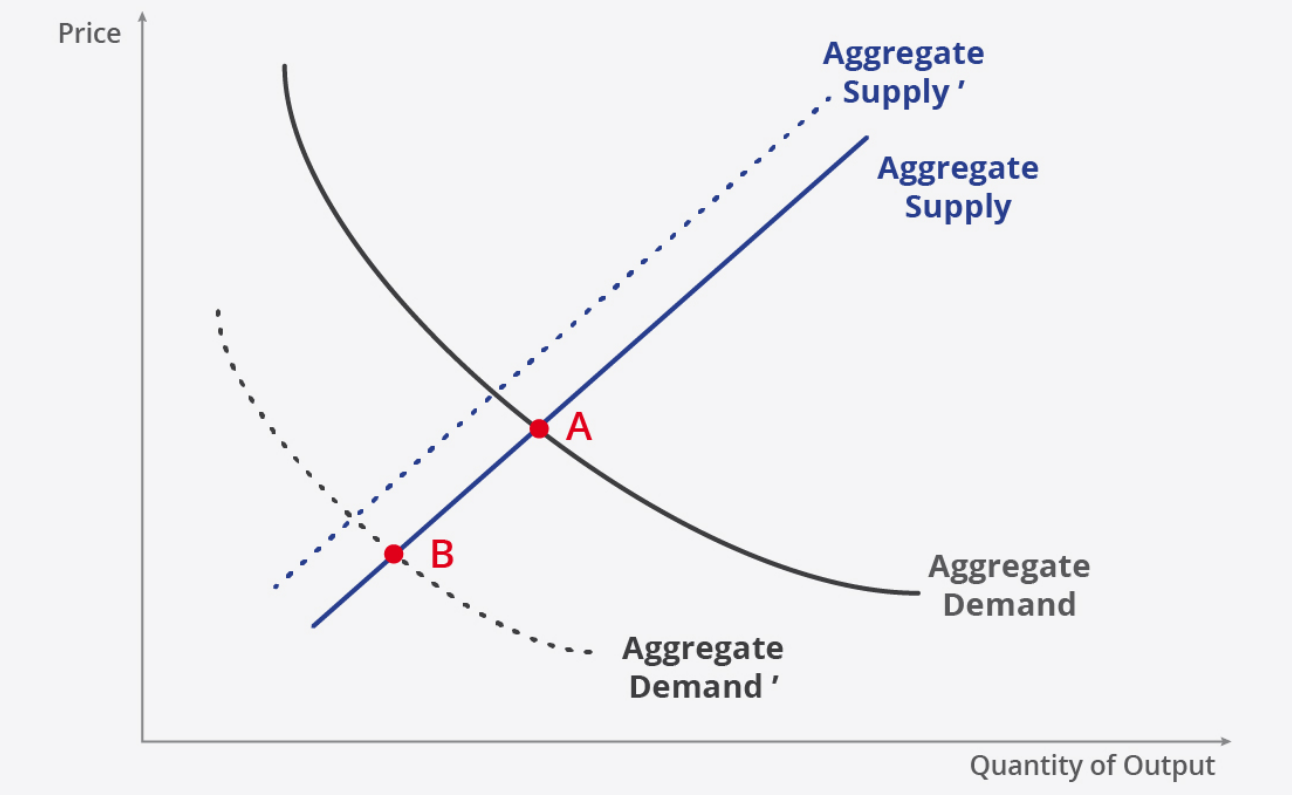
The initial supply shock is offset by a global aggregate demand shock. The fact that global commodity prices are plunging also speaks to the fact that we are dealing with a demand shock. This is represented in the chart by the shift in the demand curve to the right. The main risk is a deflationary shock in the short-medium term that could be amplified by a strong dollar.



Source : Saxo Bank Research & Strategy

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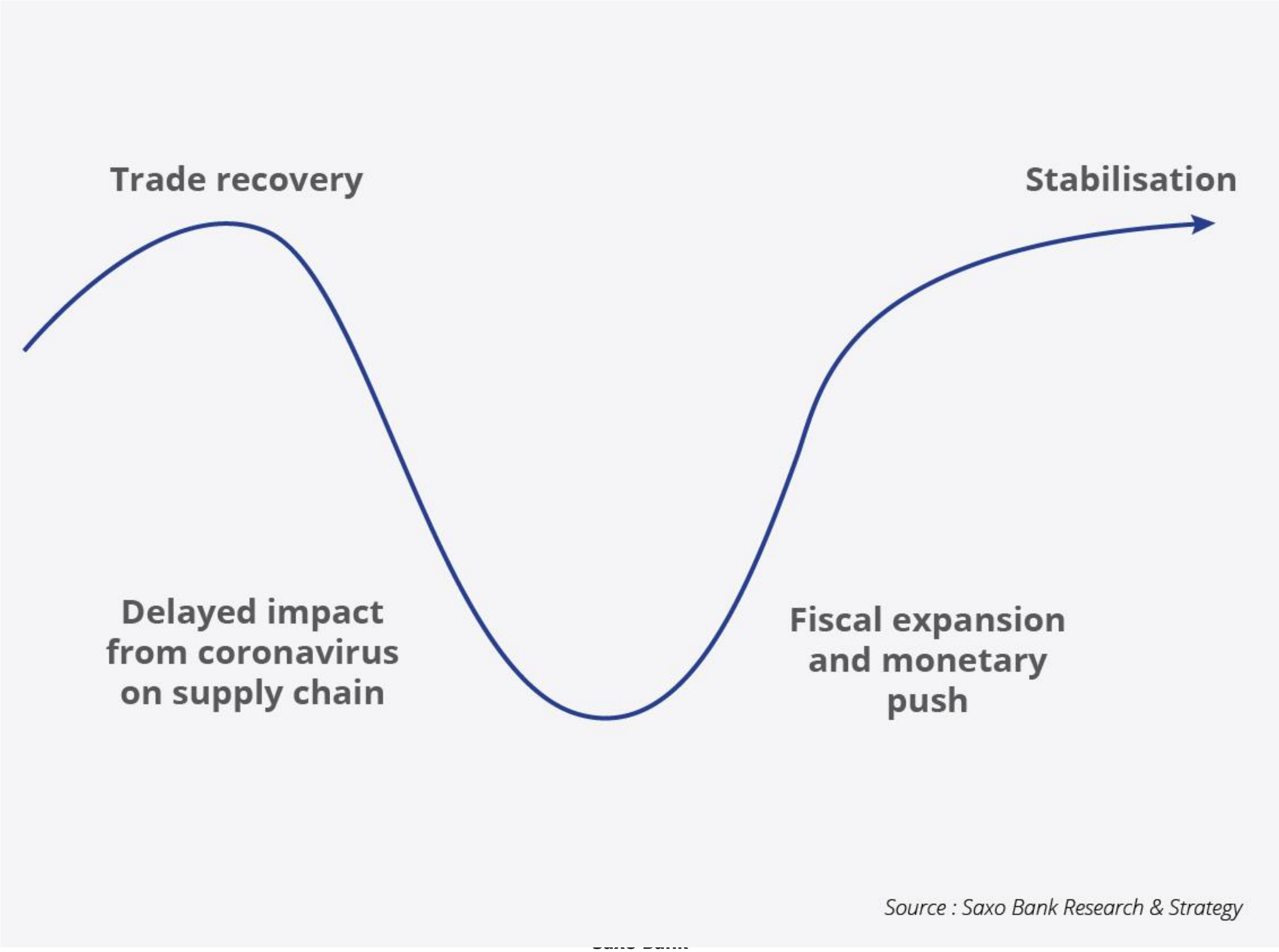
Baseline scenario: Worst recession since 1929 followed by a U-shape recovery. Production should get back to full capacity one or two months after the lockdown is lifted, but the service sector (especially tourism) will take more time to recover. Global growth back to normal in 2022-23.



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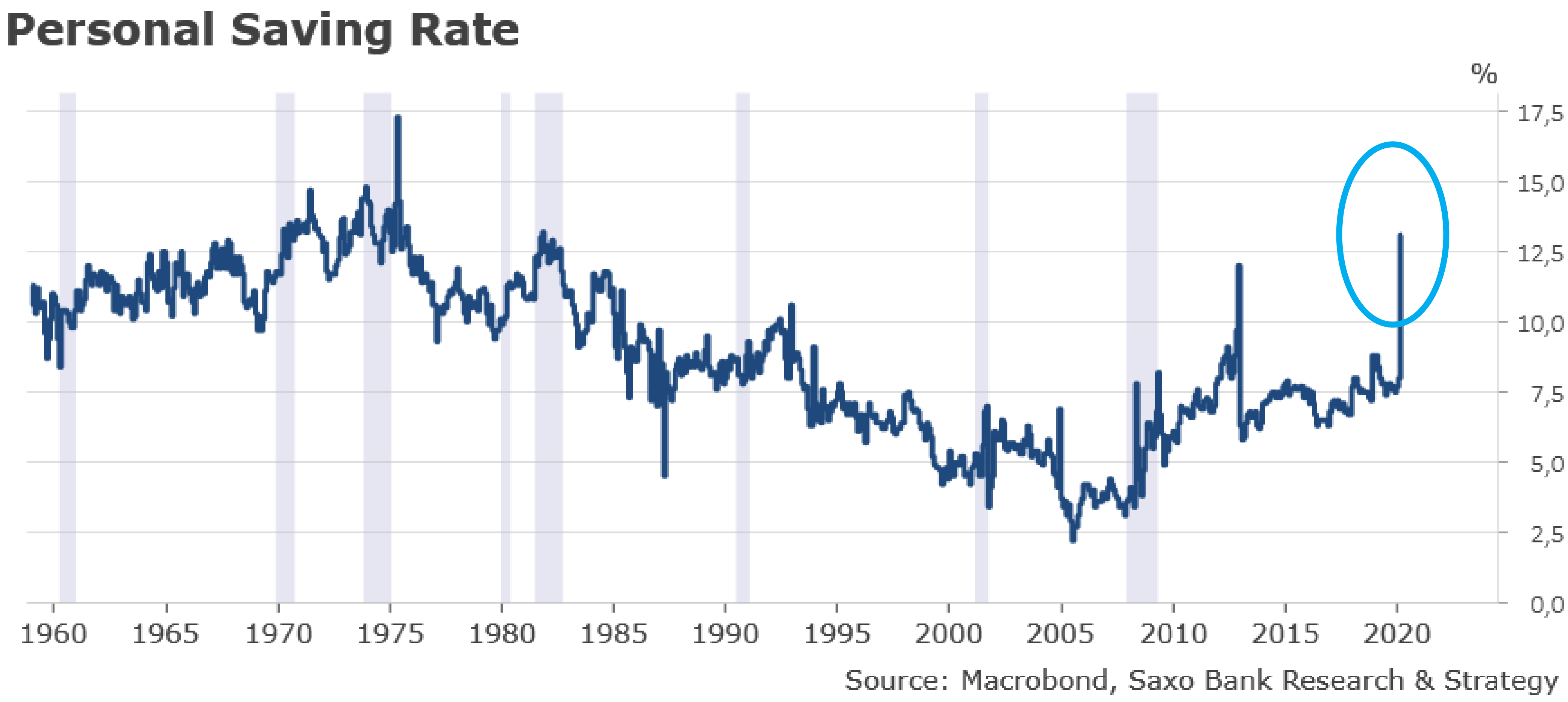
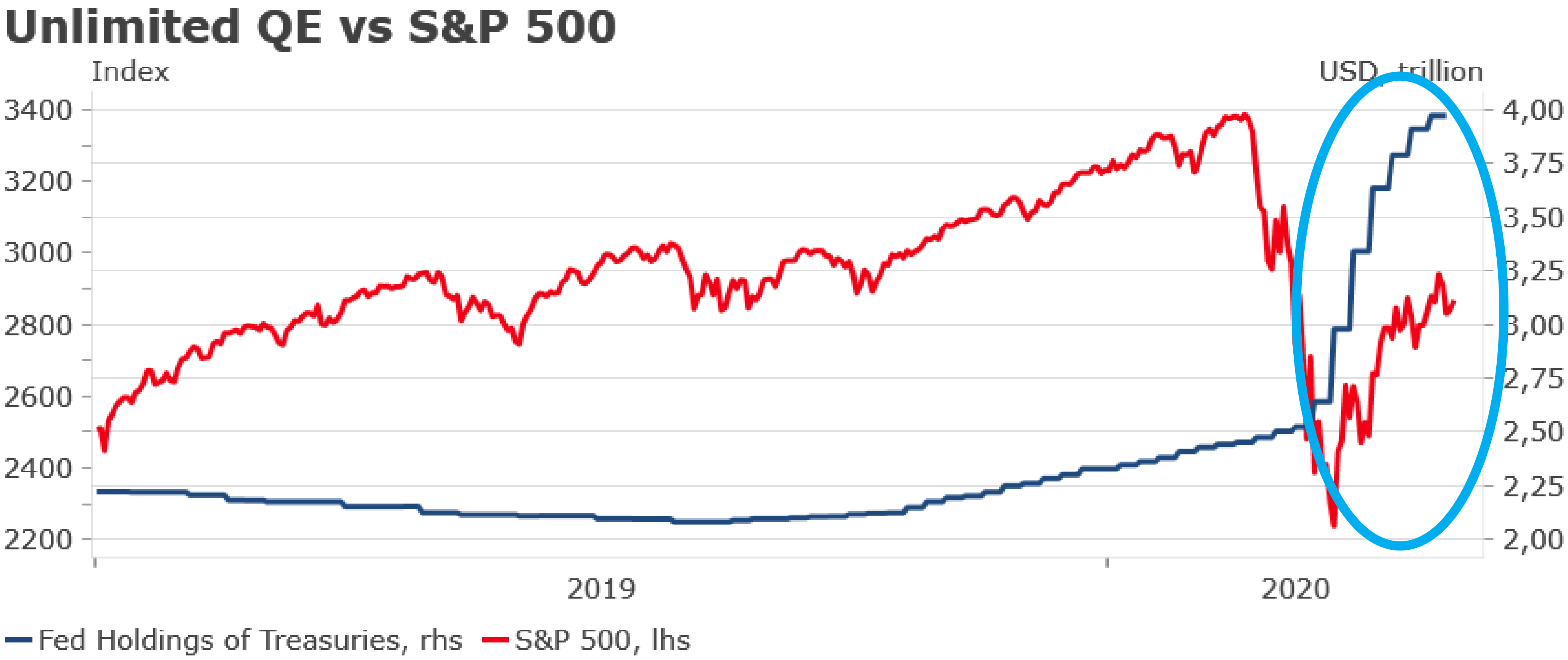
The speed of the recovery will highly depend on sentiment. Are we heading towards revenge consumption or an increase in saving due to the *hysteresis effect* ? The latest U.S. statistics give us a clue. U.S. personal savings rate has surged by 5%. This is a huge negative for aggregate demand, and it is likely to amplify the current economic downturn.



The creeping nationalization of financial markets

Central banks are becoming market markers in key segments (notably the sovereign debt market). They provide liquidity and fix the price which pushes the equity market higher but also causes misallocation, mispricing, complacency and muted volatility.



Source: Macrobond, Saxo Bank Research & Strategy

BANK OF JAPAN: JAPAN YIELD CURVE CONTROL REGIME
This is the NEXT step of monetary policy

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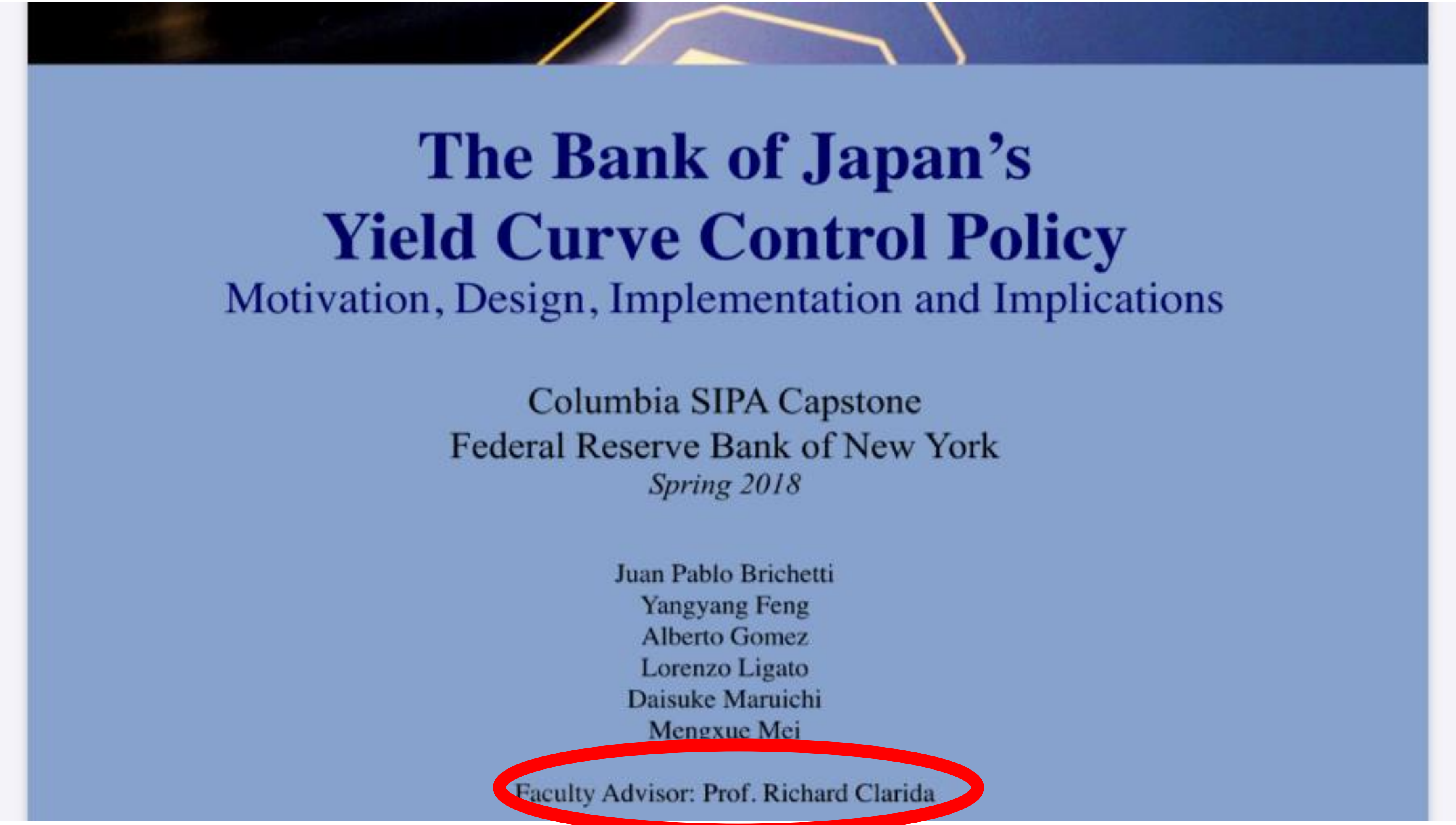

The Bank of Japan's
Yield Curve Control Policy
Motivation, Design, Implementation and Implications

Columbia SIPA Capstone
Federal Reserve Bank of New York
Spring 2018

Juan Pablo Brichetti
Yangyang Feng
Alberto Gomez
Lorenzo Ligato
Daisuke Maruichi
Mengxue Mei

Faculty Advisor: Prof. Richard Clarida

Market Risk: Introducing Saxo Sovereign CDS Monitor

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Saxo Sovereign 5-y CDS Monitor

	Last value	Daily change	Historic low	0 1000 2000 3000 4000	Historic high	Mean	Median	3M Chg
Americas								
United States	30,5	-0,5	1		69	23,9	27,5	15
Brazil	325	7	60,8		4175	416	213	228
Colombia	266	-6	64		1483	290	163	189
Mexico	289	-3	27,5		825	156	125	209
EMEA								
United Kingdom	38	-1	0,5		169	33,1	24	19,5
France	44	0	1,5		247	43,6	39	26
Germany	26	0	1,5		122	21,5	18,5	17
Italy	252	-20	5		652	99,5	80,5	124
Spain	150	15	2,5		596	86,5	52	108
Portugal	140	3	3,5		1634	184	87,5	104
Sweden	16	-0,5	1		154	20,2	15,5	8
Netherlands	34,5	-0,5	0,5		138	39,9	35	17
Greece	300	27	6,5		1563	346	139	177
Poland	66,5	-2	7,5		431	75,9	57,5	31
Russia	107	-3,5	38		2313	332	182	46,5
South Africa	303	-10,5	25		605	176	176	129
Asia/Pacific								
Japan	33,5	-1	2,5		155	34,2	23,5	16,5
Australia	23,5	-0,5	1,5		185	25,8	17,5	14
New Zealand	23	-0,5	2		188	42,3	35	11,5
China	49,5	0,5	9,5		280	70,8	65	15,5
South Korea	37	2,5	13,5		905	88	64	14

Long-term range (low, high) ● Mean ♦ Latest

Source: Saxo Bank Research & Strategy, Macrobond

Market Risk: Italy

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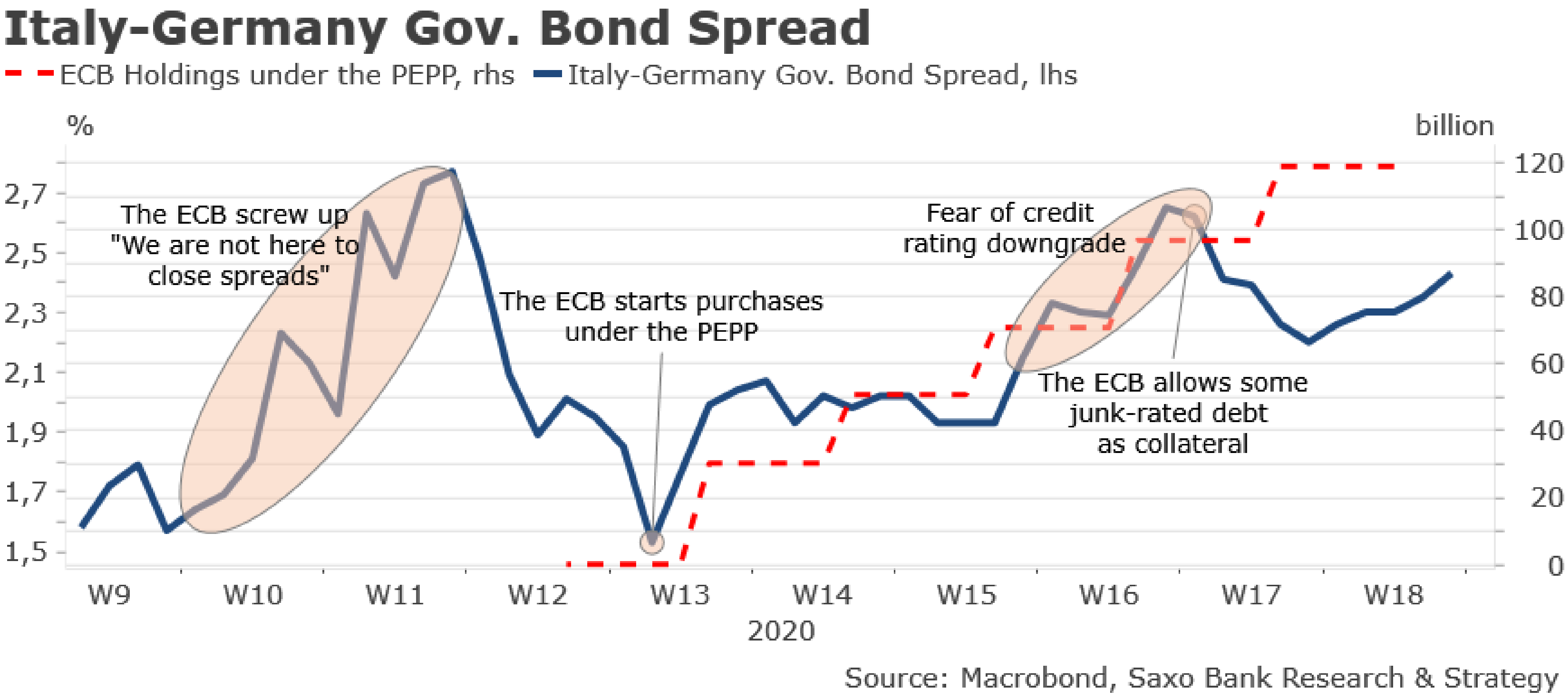
The ECB's action has been decisive to limit sovereign debt risk. It is literally cleaning up all the secondary market, with a total amount of asset purchases that will likely be increased to **€1.5tr** this year in order to absorb all new coronavirus debt issuance in the euro area.



Market Risk: Turkey – A remake of 2008?

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Market Risk: It's a different story for CEE countries

Market Risk: Chinese Yuan

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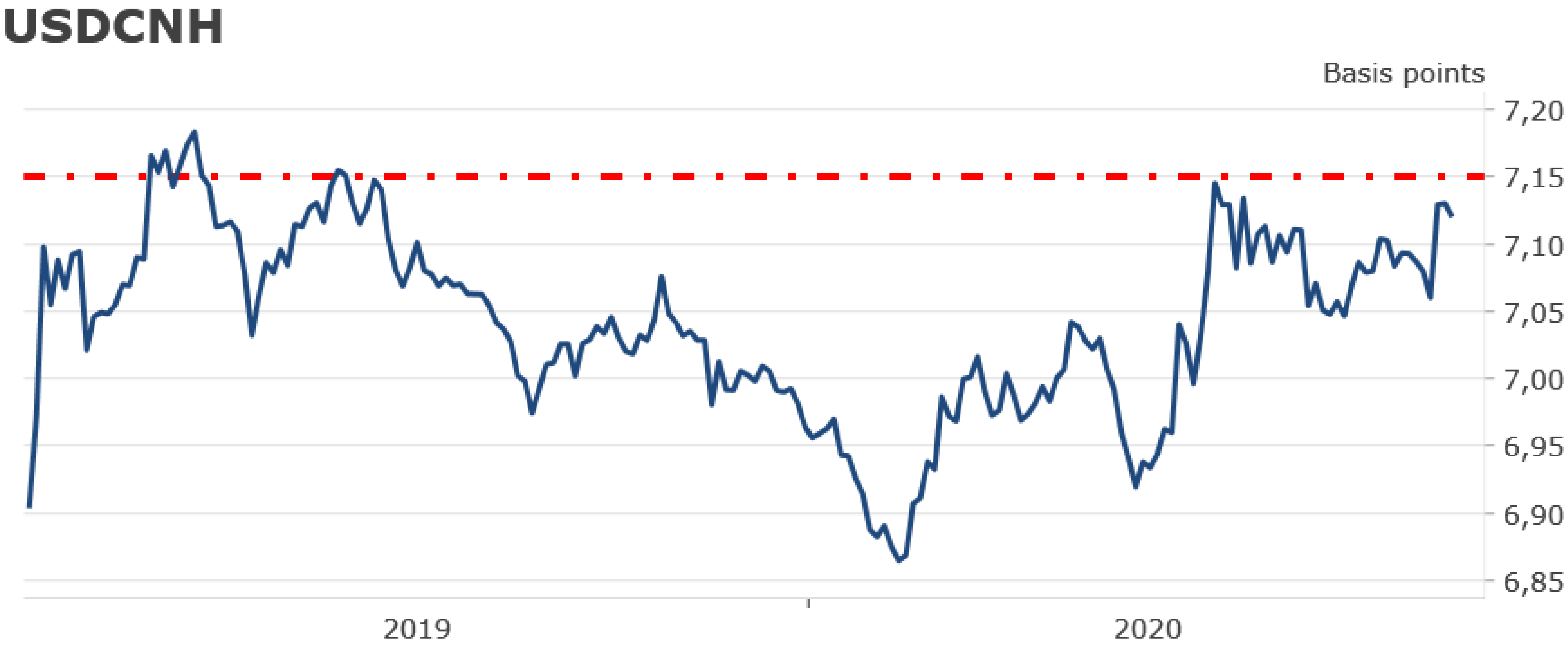
The CNH – our ultimate barometer for US-China trade war – is on high alert again. Key technical resistance at 7.15. If broken, it could signal that China is ready to let go further its currency. It would induce a big move in the dollar and put negative pressure on equities and emerging market assets.



Source: Macrobond, Saxo Bank Research & Strategy

Market Risk: Unbalanced oil market, fiscal impact and looming currency depreciation

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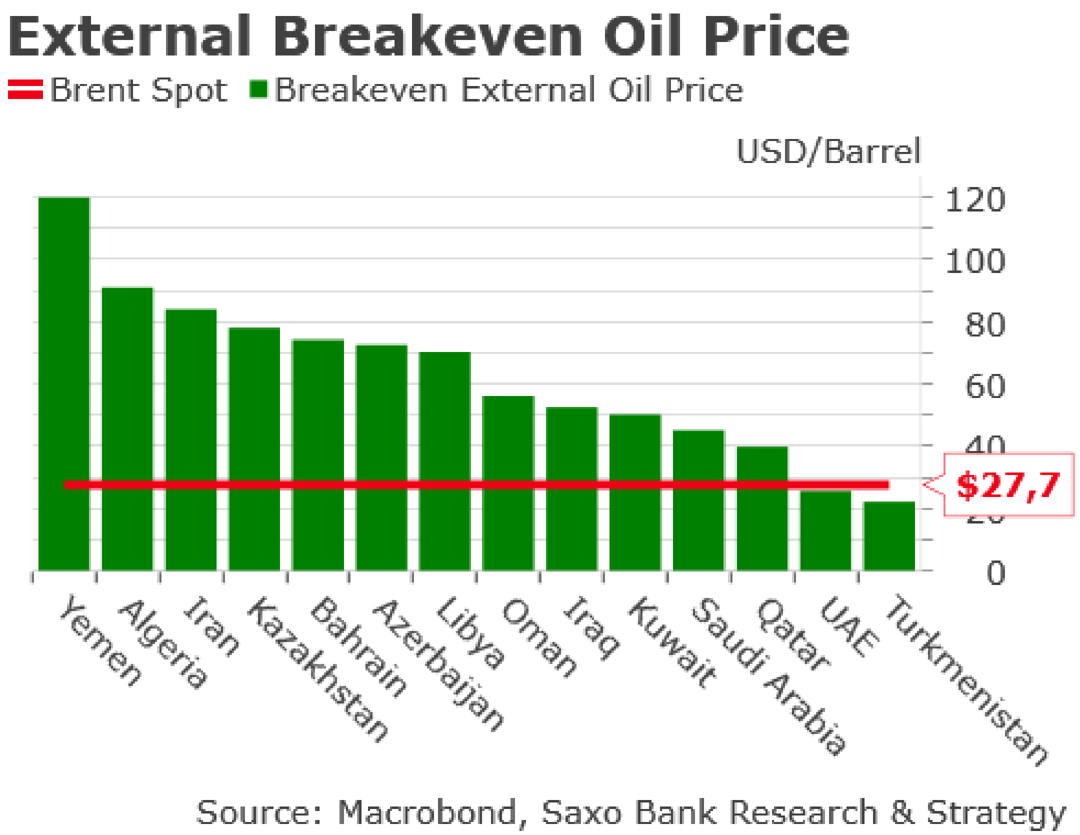
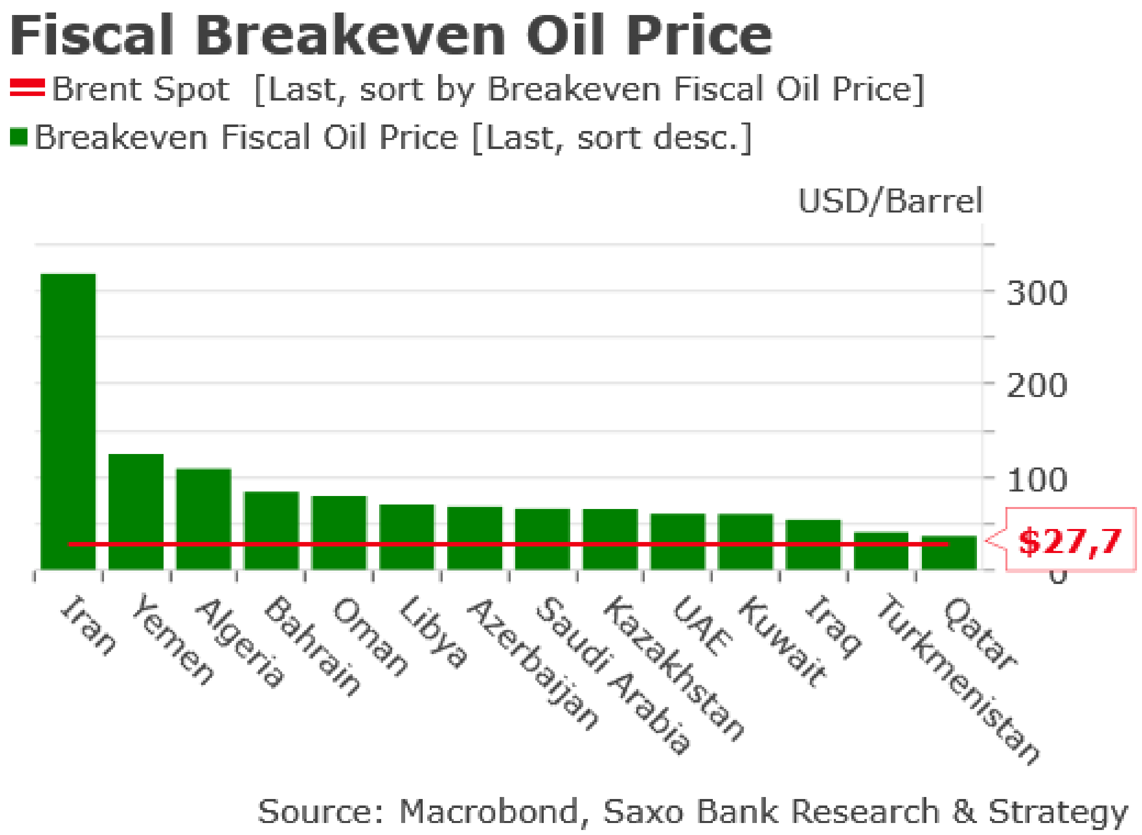
Most vulnerable oil-exporting countries based on breaken oil price: Yemen, Algeria, Iran, Oman, Libya.





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Conclusion

An unprecedented crisis: Almost 100% of businesses are affected by the COVID-19 outbreak vs 60% in a « normal » recession.

Main downside risks to growth (from U-shaped recovery to L-shaped recovery): Weak global aggregate demand (*hysteresis effect*), tourism not back to normal before 2021-22 (more than 15% of direct GDP contribution in Spain, Portugal and Greece), wave of bankruptcies in the service sector.

New policy innovations: MMT, monetization, UBI to address social discontent and higher unemployment, YCC – Yiel Curve Control to limit the appreciation in interest rates.

Regime shift back towards the 1950s: Big government and ultra-loose monetary policy (*"lean against the wind"* monetary policy). Long-term risk: higher inflation amplified by de-globalisation forces, debt monetization and the redirection of value chains.

Higher taxation everywhere.

Governments will stop using nominal GDP and will refer to wellbeing indicators.

Thank you

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