Coronavirus Global Crisis (23032020)

Economic ongoing assessment

1. The coronavirus pandemic has acted as an **external shock on the global economy**, whose effects gave entailed international and domestic supply chains and payments disruptions.
2. The **effect on the real economy** has been a health-mandated **shuttering of supply**, ushering financial strain on workers and families. A helicopter money bailout (checks to citizens, airlines bailout and SME grants) is being discussed in the US (19.03), in Germany and in France. Unemployment claims to climb in the coming weeks.
3. There is also an **oil price war** going on (since 09.03) between Russia and Saudi Arabia, with the suspected intent of squeezing US shale producers.
   1. Concurrently, the Coronavirus crisis has caused the most instant and steep oil demand [decline](https://earther.gizmodo.com/the-coronavirus-outbreak-has-caused-the-biggest-global-1842123322) in history, as the Chinese economy has halted in January and february.
4. The effect on the global financial sector is a **liquidity squeeze**, as global economic activity contraction has led to refinancing conditions tightening for financial institutions. Short-term money market are critical to global economic functioning.
   1. As a side remark, since dollar acts as quasi-global currency, a strengthening of its demand will harm global activity.
5. The Fed and the ECB have reacted by opening **emergency financing windows**, including much more flexible collateral conditions.
   1. Suggestions: asset purchase program, swap lines, euro-bond (burden sharing for national stimulus plans that would alleviate added pressure on strained public finances such as Italy’s).
6. However, much of the posted financing hasn’t been taken on by market participants, since a **lack of pristine collateral** been revealed in the crisis (pristine collateral for Fed funding: MBS, UST, agency debt).
   1. As a result, **many asset classes have unwound**, as participants have scrambled to sell assets in order to raise capital to buy collateral.
   2. It looks like primary dealers are not posting the raised pristine collateral for Fed money. Instead, they keep it in their own balance sheets.
   3. Therefore, the Fed has rolled out the PDCF, which does not require the same collateral quality as the repo window (anything will do, really).
   4. Concurrently, crashing assets prices have also unleashed wide-ranging **margin calls** among markets participants and debt roll-over conditions tightening.
7. China and the US are in the early stages of information warfare regarding the pandemic: Trump dubs the diseases the ‘Chinese Virus’, while Chinese authorities are pushing the theory that the US military has released the virus in China in order to stifle its economic momentum.

Geopolitical monitoring

Confirmed cases: 294’110 / deaths: 12’944 ([source](https://experience.arcgis.com/experience/685d0ace521648f8a5beeeee1b9125cd), 22032020)

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|  | Economy | Oil | Financial markets | Airlines | Foreign trade | SME | Derivatives |  |
| World | * GDP instant drop | * Global oil demand plunges | * Global dollar shortage |  |  |  |  |  |
| US | * Helicopter money program * 1.6 trillion $ stimulus package | * Shale industry impacted by RU-SA price war * Administration to buy shale oil for strategic reserves | * Repo crisis * Collateral run |  |  |  |  |  |
| Switzerland | * Consumer demand contraction * Drop in exports * 40 billion CHF stimulus package (up to 100 needed needed, KOF) |  |  |  | * Impact through trade partners * Tourism, transports, cyclical industries. | * Public real estate providers in Genève and Lausanne suspend rent collection for SME’s |  |  |
| EU | * Stability pact debt/deficit rules suspension |  | * Liquidity squeeze on Eurodollar market |  |  |  |  |  |
| Germany | * Sacking of black zero policy * 356 billion EUR stimulus package |  |  |  |  |  |  |  |

**US**

* Trump under pressure for his handling of the crisis.
* Early bungling as health authorities chose developing own covid-19 test kits, with consequential testing capacity delays.
* Potential wide-ranging economic damage, as many Americans do not have either health insurance or unemployment benefits.

**Brazil**

* Officials tested positive for covid-19.

**EU**

* The EU is already [botching](http://www.eurointelligence.com/public/briefings/2020-03-19.html?cHash=dc1eb574824a1f6b899baa14b3fa1bad) its response to the crisis. As the ECB put forward a proposal for a EU-wide corona-bond, a mutualized safe asset that could ease pressure on southern European bond markets, Rutte rejected it. Macron and Conte welcomed it. Kurz and Merkel were open in principle, but Merkel made clear that she wanted to do the minimum required. The effects of that lack of leadership will cost the EU very dearly. Think Italexit.
* Rising anti-EU sentiment in Italy as a lack of support from Europe.
* Simon 1234567810