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Macro Research
Strategy Research
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“The mother of all recessions has arrived”

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Contents

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The mother of all recessions has arrived

- **Global**: Measures deemed necessary to contain the spread of COVID-19 have paralyzed the global economy. While China has now started to lift restrictions, in the rest of the world a flattening of the epidemic curve is still some weeks away. We expect the bulk of containment measures in the US and Europe to last through June. In this environment, uncertainty surrounding forecasts is huge. Nevertheless, today, we present our best guesses. We think that global GDP will shrink by about 6% this year, with a huge fall in 1H20 followed by a rebound in 2H20 and annual average growth of 8-9% in 2021. Impressive fiscal and monetary stimulus will not be able to prevent activity from slumping in the next few months but will be key to supporting the recovery once restrictions are eased. We suspect that the trough is likely to be much deeper – and the recovery swifter – than in the 2008-09 financial crisis. Risks are skewed to the downside, particularly with respect to the strength of the recovery. There is a risk of a second wave of infection, while business failures and much-higher unemployment may cause long-term damage to productive potential. However, concerns regarding public-debt sustainability are overblown.

- **US**: The economy will likely shrink by 10-11% this year, with a 25% cumulated contraction in 1H20 as containment measures become more stringent in the coming weeks. The labor market is already under great pressure, and the unemployment rate will probably climb to more than 10% from its current 3.5%. We forecast a strong economic rebound in 2H20 and annual GDP growth of about 12% in 2021, supported by massive fiscal and monetary stimulus and high flexibility in the labor market. The projected recovery is likely to allow the US economy to reach its pre-crisis level of output by the end of 2021.

- **Eurozone**: GDP might contract by about 13% in 2020, dragged down by a 25% drop in 1H20 that reflects the intensification of lockdown measures. Here, we also forecast a rebound in 2H20 and we expect average growth for 2021 to be about 10%. The policy response has been multifaceted. The ECB has stepped up interventions to preserve the functioning of key markets and safeguard the transmission of monetary policy amid a quickly deteriorating fiscal outlook. With its pandemic emergency purchase program, it stands ready to act as a buyer of last resort in the government-bond market for as long as needed. This backstop has created much-needed fiscal headroom. However, member states' responses have been uncoordinated and have lacked a common approach. The eurozone's north-south split has re-emerged, and financial solidarity is still elusive.

- **UK**: GDP is likely to shrink by 10-11% this year, with a drop of more than 20% in 1H20 followed by a rebound in 2H20 and annual growth of about 10% in 2021. More uncertainty than usual surrounds our forecasts, and Brexit negotiations add to risks that loom over the expected recovery. However, we think that the UK will avoid a fallback to WTO rules.

- **China**: The economy will probably expand by less than 1% in 2020, with a sharp contraction in 1Q20 (by 7-8% qoq, or an annualized 30%) followed by rapid recovery in 2Q20 and 3Q20. Activity was extremely weak in February, and while some improvement has materialized since then, the economy still seems to be running at 85-90% capacity. In 2021, GDP growth is likely to rebound to about 10%. Additional cuts to both the reserve requirement ratio and the loan prime rate are in the cards, as is the injection of more liquidity for SMEs, with a focus on export-oriented firms. On the investment front, digital-infrastructure projects are likely to take priority over traditional ones.

Table 1: Annual macroeconomics forecasts

	GDP (%)			CPI inflation (%)			Central Bank Rate (EoP)			Government budget balance (% GDP)			General government debt (% GDP)			Current account balance (% GDP)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
World	**3.0**	**-6.0**	**8.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
US	**2.3**	**-10.8**	**11.8**	**1.8**	**1.2**	**1.9**	**1.75**	**0.25**	**0.25**	**-4.6**	**-13.0**	**-10.0**	**107.1**	**123.0**	**133.0**	**-2.3**	**-2.0**	**-2.5**
Eurozone	**1.2**	**-13.0**	**10.0**	**1.2**	**0.3**	**1.2**	**-0.50**	**-0.50**	**-0.50**	**-0.7**	**-11.0**	**-4.0**	**85.0**	**111.0**	**102.0**	**3.3**	**1.8**	**2.7**
Germany	0.6*	-10.0*	10.0*	1.4	0.5	1.6	-	-	-	1.4	-12.9	-2.9	58.8	77.8	72.6	7.3	3.0	5.0
France	1.3	-13.8	11.6	1.1	0.4	1.0	-	-	-	-3.0	-12.3	-4.5	98.1	123.4	112.7	-0.4	-0.5	-0.6
Italy	0.3	-15.0	9.0	0.6	-0.4	0.8	-	-	-	-1.6	-12.2	-4.9	134.8	167.0	155.5	3.0	1.7	2.3
Spain	2.0	-15.5	9.5	0.8	0.1	1.1	-	-	-	-2.3	-12.5	-4.5	95.5	126.2	119.7	2.4	2.5	2.2
Austria	1.6	-9.1	7.9	1.5	0.9	1.9	-	-	-	0.7	-9.6	-2.0	70.4	86.2	80.4	1.9	0.8	1.4
Greece	1.9	-18.6	15.5	0.3	0.2	0.8	-	-	-	1.2	-11.7	-3.5	174.7	218.6	187.5	-0.9	-1.1	-0.8
Portugal	2.0	-15.0	9.6	0.3	0.2	0.7	-	-	-	0.2	-10.9	-4.1	117.7	145.7	135.9	-0.5	-0.5	-0.5
CEE	**1.8**	**-6.3**	**6.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Europe																		
UK	1.4	-10.5	9.8	1.8	0.9	1.6	0.10	0.10	0.10	-2.1	-9.0	-7.0	79.5	93.0	99.0	-3.8	-3.0	-3.3
Sweden	1.3	-6.0	5.3	1.7	1.2	1.5	0.00	0.00	0.00	0.5	-5.0	-0.3	37.0	43.0	39.0	3.9	3.0	4.0
Norway	2.4**	-5.5**	6.5**	2.2	2.0	2.2	1.50	0.25	0.25	6.4	3.0	7.0	40.0	45.0	40.0	4.0	3.5	4.5
Switzerland	0.9	-10.2	9.7	0.4	-0.9	0.2	-0.75	-0.75	-0.75	1.2	-2.7	-0.8	40.0	48.2	44.3	10.7	4.5	8.6
Others																		
China	6.2	0.6	10.0	2.3	3.0	2.5	4.35	4.15	4.15	-6.0	-12.0	-7.0	55.0	67.0	64.0	1.0	0.9	0.7
Japan	0.7	-7.5	6.0	0.5	0.0	0.3	-0.10	-0.10	-0.10	-2.8	-8.0	-4.5	238.0	260.0	250.0	3.3	1.5	3.0

*Non-wda figures. Adjusted for working days: 0.6% (2019), -10.4% (2020) and 10.0% (2021).
**Mainland economy figures. Overall GDP: 1.2% (2019), -4.7% (2020) and 4.5% (2021).

Source: UniCredit Research

Table 2: Quarterly GDP and CPI forecasts

REAL GDP (% QOQ, SA)

	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
US (annualized)	**2.1**	**-10.0**	**-65.0**	**65.0**	**70.0**	**5.0**	**3.0**	**1.8**	**1.9**
Eurozone	**0.1**	**-3.5**	**-21.5**	**10.0**	**10.0**	**3.0**	**1.0**	**0.4**	**0.4**
Germany	0.0	-2.5	-18.5	9.0	9.0	3.0	1.0	0.4	0.4
France	-0.1	-5.0	-21.4	10.9	10.9	3.2	1.2	0.4	0.4
Italy	-0.3	-5.0	-22.0	9.0	9.5	2.8	1.2	0.3	0.3
Spain	0.5	-4.0	-24.0	9.5	10.0	3.0	1.5	0.5	0.5
Austria	0.2	-0.1	-18.6	7.3	7.8	2.9	1.0	0.4	0.4
Other Europe									
UK	0.0	-2.5	-20.0	12.0	8.0	3.0	1.0	0.2	0.3
Sweden	0.2	-1.0	-12.0	5.0	6.0	1.0	0.5	0.4	0.4
Norway (mainland)	0.2	-2.5	-10.0	5.0	7.0	1.0	0.3	0.3	0.3
Switzerland	0.3	-2.5	-19.0	9.5	9.0	3.0	0.9	0.3	0.4

CPI INFLATION (% YOY)

	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
US	**2.0**	**2.1**	**0.7**	**0.9**	**1.0**	**1.2**	**2.1**	**2.2**	**2.2**
Eurozone	**1.0**	**1.1**	**-0.2**	**0.1**	**0.2**	**0.5**	**1.5**	**1.4**	**1.3**
Germany	1.2	1.6	-0.1	0.2	0.4	0.8	2.0	1.8	1.6
France	1.1	1.2	0.0	0.1	0.1	0.4	1.2	1.2	1.2
Italy	0.3	0.2	-0.9	-0.5	-0.4	0.0	1.1	1.0	0.9
Spain (HICP)	0.5	0.7	-0.4	0.0	0.4	0.9	1.4	1.2	1.0
Austria	1.3	2.0	0.6	0.6	0.7	0.9	2.2	2.3	2.3
Other Europe									
UK	1.4	1.6	0.6	0.7	0.8	1.1	1.7	1.7	1.8
Sweden	1.6	1.1	1.2	1.3	1.1	1.5	1.5	1.5	1.5
Norway	1.6	1.5	2.0	2.1	2.1	2.2	2.2	2.1	2.1
Switzerland	-0.1	-0.2	-1.7	-0.9	-0.6	-0.5	0.7	0.3	0.2

Source: UniCredit Research

Table 3: Oil forecasts

	Current	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Brent (USD/bbl, average)	27	35	38	40	45	45	50	50

Source: Bloomberg, UniCredit Research

Table 4: FI forecasts

INTEREST RATE AND YIELD FORECASTS (%)

	Current	2Q20	3Q20	4Q20	1Q201	2Q21	3Q21	4Q21
EMU								
Refi rate	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	**0.00**
Depo rate	-0.50	-0.50	-0.50	**-0.50**	-0.50	-0.50	-0.50	**-0.50**
3M Euribor	-0.34	-0.40	-0.40	**-0.40**	-0.40	-0.40	-0.40	**-0.40**
2Y Schatz	-0.65	-0.65	-0.70	**-0.60**	-0.55	-0.55	-0.50	**-0.50**
fwd		-0.66	-0.66	**-0.66**	-0.67	-0.65	-0.63	**-0.62**
5Y Obl	-0.60	-0.60	-0.60	**-0.50**	-0.40	-0.35	-0.25	**-0.10**
10Y Bund	-0.44	-0.50	-0.50	**-0.40**	-0.30	-0.20	-0.05	**0.10**
fwd		-0.41	-0.39	**-0.38**	-0.36	-0.35	-0.33	**-0.31**
30Y Bund	-0.04	0.00	0.00	**0.10**	0.20	0.35	0.50	**0.70**
2/10	21	15	20	**20**	25	35	45	**60**
2/5/10	-11	-5	0	**0**	5	5	5	**20**
10/30	40	50	50	**50**	50	55	55	**60**
2Y EUR swap	-0.29	-0.25	-0.30	**-0.25**	-0.25	-0.25	-0.20	**-0.20**
5Y EUR swap	-0.23	-0.15	-0.15	**-0.10**	-0.05	0.00	0.10	**0.25**
10Y EUR swap	-0.04	-0.05	-0.05	**0.00**	0.05	0.15	0.30	**0.45**
US								
Fed Fund	0.25	0.25	0.25	**0.25**	0.25	0.25	0.25	**0.25**
3M Libor	1.45	0.40	0.35	**0.35**	0.35	0.35	0.35	**0.40**
2Y UST	0.22	0.25	0.30	**0.35**	0.35	0.45	0.50	**0.60**
fwd		0.27	0.29	**0.32**	0.35	0.37	0.39	**0.41**
5Y UST	0.36	0.40	0.60	**0.70**	0.80	1.05	1.25	**1.40**
10Y UST	0.59	0.70	0.95	**1.15**	1.25	1.50	1.75	**1.95**
fwd		0.64	0.68	**0.71**	0.75	0.78	0.82	**0.85**
30Y UST	1.23	1.40	1.55	**1.70**	1.80	2.00	2.25	**2.40**
2/10	37	45	65	**80**	90	105	125	**135**
2/5/10	-8	-15	-5	**-10**	0	15	25	**25**
10/30	64	70	60	**55**	55	50	50	**45**
2Y USD swap	0.46	0.45	0.45	**0.50**	0.50	0.60	0.65	**0.75**
10Y USD swap	0.67	0.70	0.95	**1.15**	1.25	1.50	1.75	**1.95**
UK								
Key rate	0.10	0.10	0.10	**0.10**	0.10	0.10	0.10	**0.10**

Spreads	Current	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
10Y UST-Bund	103	120	145	**155**	155	170	180	**185**
10Y BTP-Bund	192	250	225	**225**	200	200	200	**200**
10Y EUR swap-Bund	40	45	45	**40**	35	35	35	**35**
10Y USD swap-Bund	8	0	0	**0**	0	0	0	**0**

Source: Bloomberg, UniCredit Research

Table 5: FX forecasts

EUR	Current	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	3M	6M	12M
G10											
EUR-USD	1.08	1.10	1.12	**1.14**	1.16	1.17	1.18	**1.18**	1.11	1.13	1.16
EUR-CHF	1.06	1.06	1.07	**1.08**	1.08	1.09	1.10	**1.12**	1.06	1.07	1.08
EUR-GBP	0.88	0.89	0.88	**0.88**	0.88	0.88	0.88	**0.87**	0.89	0.88	0.88
EUR-JPY	117	119	119	**120**	122	122	122	**122**	119	119	122
EUR-NOK	11.27	11.60	11.50	**11.40**	11.30	11.20	11.10	**11.00**	11.57	11.47	11.27
EUR-SEK	10.99	10.90	10.80	**10.70**	10.60	10.50	10.40	**10.30**	10.87	10.77	10.57
EUR-AUD	1.79	1.80	1.81	**1.81**	1.81	1.80	1.79	**1.74**	1.80	1.81	1.81
EUR-NZD	1.84	1.83	1.84	**1.84**	1.84	7.03	1.82	**1.79**	1.83	1.84	1.84
EUR-CAD	1.53	1.52	1.52	**1.54**	1.55	1.54	1.53	**1.51**	1.52	1.53	1.55
EUR-TWI	96.7	98.6	98.3	**99.0**	99.7	100.4	100.8	**101.0**	98.5	98.5	99.9
CEEMEA & CHINA											
EUR-PLN	4.56	4.45	4.30	**4.35**	4.29	4.35	4.30	**4.35**	4.30	4.29	4.31
EUR-HUF	364	345	336	**340**	335	338	338	**345**	329	334	329
EUR-CZK	27.5	27.0	26.6	**26.2**	26.0	25.8	25.6	**25.3**	25.5	25.5	25.4
EUR-RON	4.83	4.84	4.82	**4.85**	4.92	4.93	4.92	**4.95**	4.83	4.83	4.92
EUR-TRY	7.20	7.56	7.44	**7.44**	7.59	7.73	7.87	**8.06**	6.81	7.09	7.57
EUR-RUB	84.1	86.9	81.9	**79.8**	80.0	80.7	82.0	**82.1**	74.4	76.6	81.3
EUR-ZAR	20.0	18.9	19.0	**19.2**	19.3	19.2	19.1	**18.9**	19.0	19.1	19.2
EUR-CNY	7.70	7.76	7.84	**7.92**	8.06	8.19	8.28	**8.32**	7.78	7.87	8.10

USD	Current	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	3M	6M	12M
G10											
EUR-USD	1.08	1.10	1.12	**1.14**	1.16	1.17	1.18	**1.18**	1.11	1.13	1.16
USD-CHF	0.97	0.96	0.96	**0.95**	0.93	0.93	0.93	**0.95**	0.96	0.95	0.93
GBP-USD	1.24	1.23	1.28	**1.30**	1.32	1.33	1.34	**1.35**	1.25	1.29	1.32
USD-JPY	108	108	106	**105**	105	104	103	**103**	107	106	105
USD-NOK	10.39	10.55	10.27	**10.00**	9.74	9.57	9.41	**9.32**	10.45	10.18	9.68
USD-SEK	10.14	9.91	9.64	**9.39**	9.14	8.97	8.81	**8.73**	9.82	9.56	9.08
AUD-USD	0.60	0.61	0.62	**0.63**	0.64	0.65	0.66	**0.68**	0.61	0.62	0.64
NZD-USD	0.59	0.60	0.61	**0.62**	0.63	0.64	0.65	**0.66**	0.60	0.61	0.63
USD-CAD	1.41	1.38	1.36	**1.35**	1.34	1.32	1.30	**1.28**	1.37	1.36	1.33
USTW$	90.8	94.2	92.5	**91.3**	90.2	89.2	88.3	**87.8**	93.6	92.1	89.9
USD-DXY	100.2	99.1	97.1	**95.6**	94.2	93.4	92.5	**92.3**	98.4	96.6	93.9
CEEMEA & CHINA											
USD-PLN	4.21	4.05	3.84	**3.82**	3.70	3.72	3.64	**3.69**	3.88	3.81	3.70
USD-HUF	336	314	300	**298**	289	289	286	**292**	297	296	283
USD-CZK	25.4	24.6	23.8	**23.0**	22.40	22.10	21.70	**21.40**	23.0	22.6	21.8
USD-RON	4.46	4.40	4.30	**4.25**	4.24	4.21	4.17	**4.19**	4.37	4.29	4.23
USD-TRY	6.61	6.87	6.64	**6.53**	6.54	6.61	6.67	**6.83**	6.15	6.29	6.50
USD-RUB	77.6	79.0	73.1	**70.0**	69.0	69.0	69.5	**69.6**	67.2	68.0	69.9
USD-ZAR	18.46	17.20	17.00	**16.80**	16.60	16.40	16.20	**16.00**	17.13	16.93	16.53
USD-CNY	7.09	7.05	7.00	**6.95**	6.95	7.00	7.02	**7.05**	7.03	6.98	6.97

Forecasts are end-of-period

Source: Bloomberg, UniCredit Research

Global

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- We expect global GDP to fall about 6% this year, with a very sharp contraction in the first half of the year and a rebound in 2H20, followed by growth of 8-9% in 2021. Compared to the 2008-9 financial crisis, we expect the fall in output to be more than twice as deep, but the recovery swifter. Across the world, the necessary social distancing measures to contain the spread of COVID-19 has meant a large part of the global economy has essentially been shut down, particularly those firms supplying non-essential goods and services. China has now started to lift restrictions, including in the epicenter Hubei, as daily new cases have fallen to a trickle, but most of the rest of the world is at the explosive section of the epidemic curve with a flattening likely still weeks away. We expect containment measures in the US and in Europe to last through June and to ease only gradually in 2H20. Although there is little hard data to gauge the magnitude of the downturn, very weak economic activity data out of China for February, slumping PMIs globally for March, and reports of surging jobless claims and reduced working hours in the US and Europe, all point to double-digit falls in output in 1H20.

- Once the epidemic curve is flattened and (with a lag) containment measures are eased, output should recover fairly strongly in 2H20, driven by pent-up demand from households who deferred consumption of non-essential items. However, output will not simply snap back to its pre-COVID-19 levels. Containment measures will likely have to continue through year-end, albeit scaled-down from the current situation, until a vaccine and/or human immunity is amassed to prevent a second wave of the outbreak. The risk alone of a second wave will weigh on investment and lift precautionary saving. Potential output might be damaged as a result of firm bankruptcies and higher (long-term) unemployment. Of course, for 2020 GDP growth, substantial activity will be lost, e.g. meals out, travel from 1H20, as people will not simply double-up in their consumption in 2H20 from foregoing spending in 1H20.

- The unprecedented policy response has rightly been to support firms and households in bridging this period of huge economic disruption, via providing grants, credit (including through guarantees) and liquidity. But income support will only replace a portion of lost income, and there are concerns over the timely and effective implementation of fiscal measures. Strong policy support will not prevent a sharp fall in output and a sharp rise in unemployment and firm bankruptcies in the near term, but it will reduce the depth of the crisis and support the expected recovery once the spread of the virus is contained. Concerns over public debt sustainability are overblown: key central banks have pledged to purchase large quantities of government debt (unlimited in the Fed's case) and rates will stay low. Generally healthier balance sheets before the crisis, unprecedented policy support, and the temporary nature of the virus should see a quicker recovery than after the 2008-9 financial crisis.

- Much uncertainty surrounds the depth of the crisis and the strength of the expected recovery. The risks to the latter in particular are skewed to the downside. There is the risk of a second wave of infections as containment measures are eased and/or the virus evolves slightly to evade human immunity (as is the case with the seasonal flu). A surge in business failures and unemployment may cause greater long-term damage to productive potential.

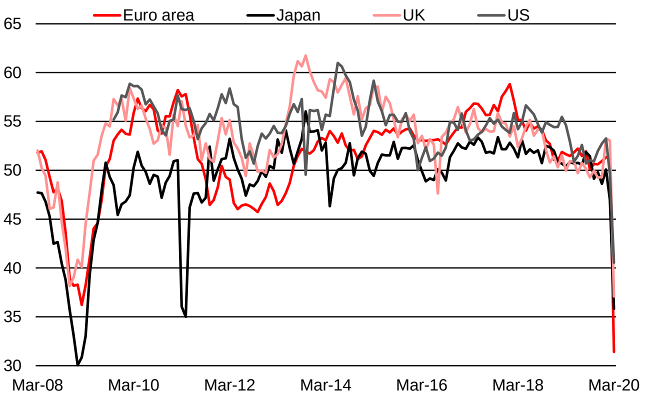
Global

TABLE: FISCAL STIMULUS PACKAGES FOR SELECTED MAJOR ADVANCED ECONOMIES

	Fiscal measures (including capital provision for public guarantees where this is applicable)		Public guarantees		Stabilization fund
	bn (national currency)	% GDP (2019)	bn (national currency)	% GDP (2019)	
Germany	156 (central) + 57 (federal states)	6.1	822	23.9	200bn or 5.8% of GDP (ex-guarantees)
France	45	1.8	300	12.4	
Italy	25	1.4	100*	5.6	
Spain	18	1.4	102	8.4	
Austria	29	7.3	9.0	2.3	
UK	70**	3.2	330	15	
US	1,583	7.5	529	2.5	

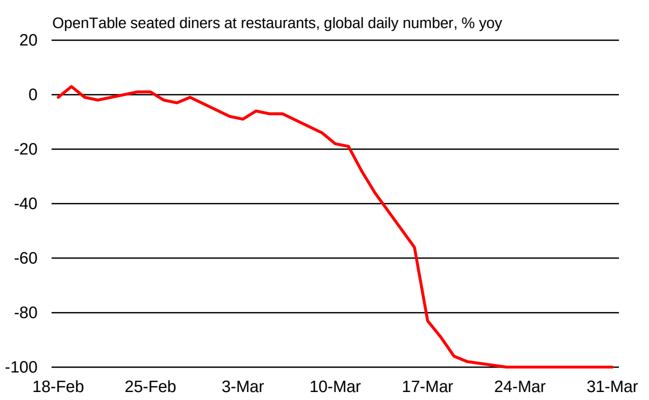
* Estimated amount of guarantees available through the nearly EUR 5bn of public resources set up to guarantee funds in the Cura Italia decree approved in March. ** Based on some assumptions on take up of the Coronavirus Jobs Retention Scheme and Self-Employed Income Support Scheme, which are open-ended.
Source: National governments, UniCredit Research

PMIs



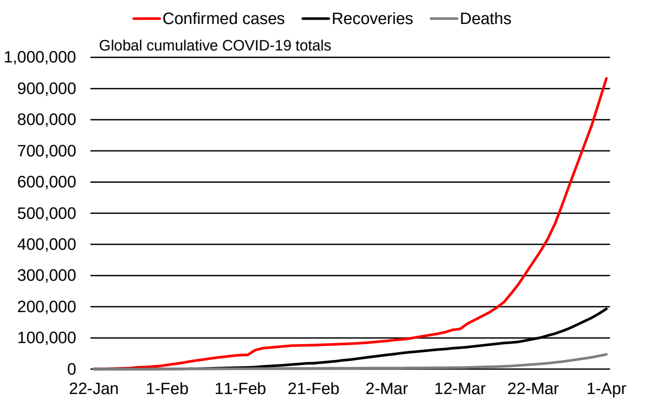
- The flash composite output PMIs for March fell sharply in all major economies.

RESTAURANT SEATINGS



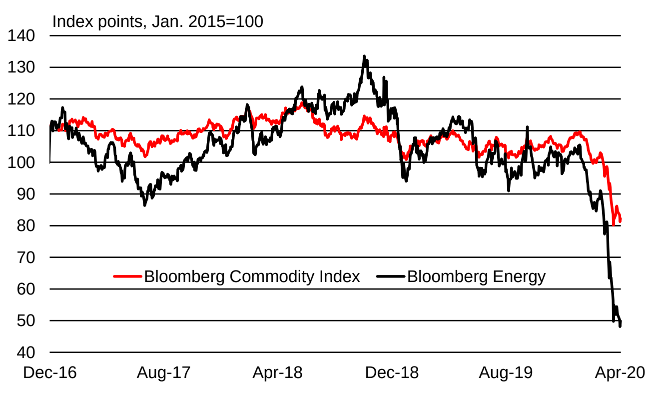
- The OpenTable global number of seated diners at restaurants fell 100% yoy by 23 March due to social distancing measures.

COVID-19 TOTALS



- Globally, a flattening of the COVID-19 epidemic curve is likely some weeks away.

COMMODITIES



- Energy prices fell more than other commodities because of the combined effect of the coronavirus-related demand shock and the price war between Saudi Arabia and Russia.

Source: Bloomberg, IHS Markit, John Hopkins University, OpenTable, UniCredit Research

US

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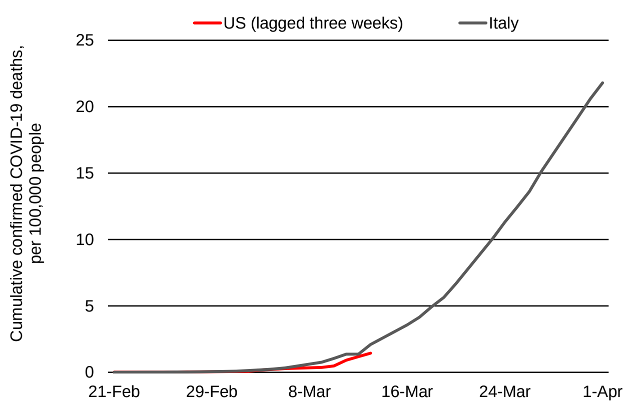
- We forecast the US economy to contract about 11% this year, with a huge peak-to-trough fall of 25% between 4Q19 and 2Q20, due to the current and likely measures necessary to contain the spread of COVID-19. The US economy has largely shut down, with most states and cities ordering people to stay at home (or "shelter-in-place"), affecting more than two-thirds of Americans. President Donald Trump announced social distancing measures (to avoid nonessential travel; going to work, bars and restaurants; or gatherings of more than 10 people) will be extended until at least end-April and perhaps until June (after initially wanting to lift restrictions by mid-April). The US, which has 188,000 confirmed COVID-19 cases – the most of any country – is currently on the explosive part of its epidemic curve, roughly three weeks behind Italy, and social distancing methods and COVID-19 testing have been lower than peers. Around 28mn Americans (8.5% of the population) have no health insurance. We expect containment measures to become more stringent in the coming weeks, and only to be gradually lifted beyond June. As yet, there is little hard data to gauge the depth of the crisis. In March, ISM manufacturing new orders and employment balances fell to the lowest level since 2009, but lockdowns generally exempted manufacturing so far – the non-manufacturing ISM will likely post a much steeper decline. Cumulative initial jobless claims for the two weeks ending 28 March were 10mn – more than seven times the previous high set in 1982. The unemployment rate is likely to rise well above 10% from 3.5% currently.

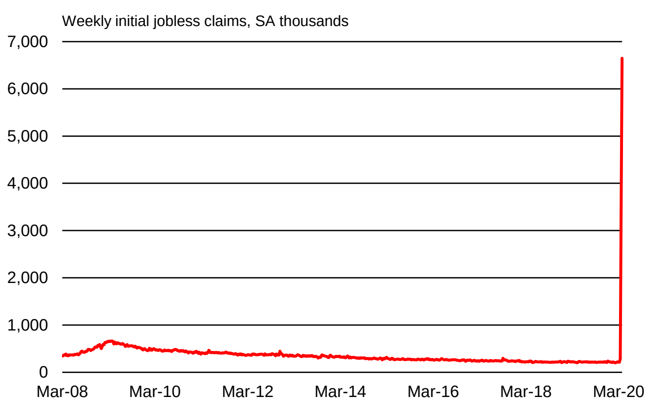
- We expect a strong recovery in 2H20 and annual GDP growth of around 12% in 2021, a faster recovery than the eurozone due to greater flexibility of the US labor market. We expect the economy to have almost reached its pre-crisis level of output by the end of 2021.

- The fiscal response so far amounts to around 1.6tn (7.5% of GDP) of stimulus and more than USD 500bn (2.5% of GDP) of loans and guarantees that need to be paid back. The USD 2tn Coronavirus Aid, Relief, and Economic Security (CARES) Act includes USD 290bn in direct payments to households, USD 260bn in enhanced unemployment insurance, USD 300bn in tax breaks mostly for businesses, and USD 350bn in forgivable loans to SMEs if they retain workers. The Fed has done what they can to support the economy, including lowering the fed funds rate by 150bp to 0-0.25%, pledging to purchase Treasuries and agency securities in unlimited quantities, massively expanding liquidity operations, supporting the flow of credit by purchasing commercial paper and corporate debt, and reintroduced the Term Asset-Backed Securities Loan Facility (TALF) to purchase asset-backed securities backed by student, car, credit card, and small business loans.

US EPIDEMIC CURVE THREE WEEKS BEHIND ITALY



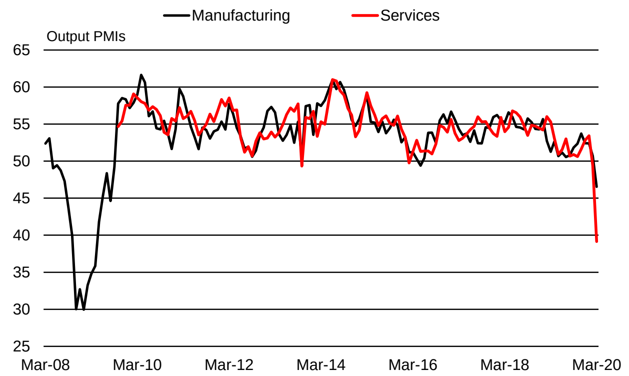
INITIAL JOBLESS CLAIMS HAVE SURGED



Source: BLS, John Hopkins University, UniCredit Research

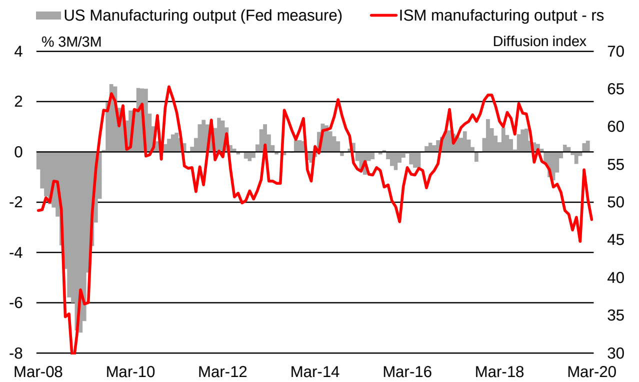
US

PMI



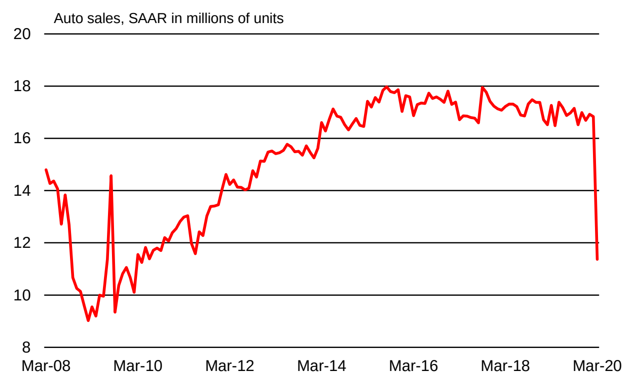
■ The services PMI fell to a record low of 39.1 in March, while the manufacturing output PMI fell to 46.5, its lowest level since 2009.

ISM MANUFACTURING



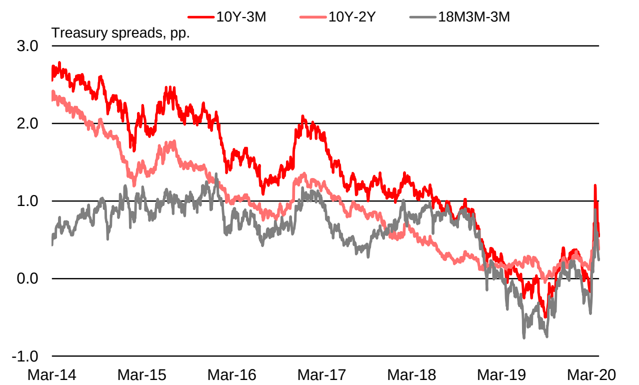
■ The ISM manufacturing output and new orders balances fell to their lowest level since 2009, at 47.7 and 42.2, respectively.

AUTO SALES



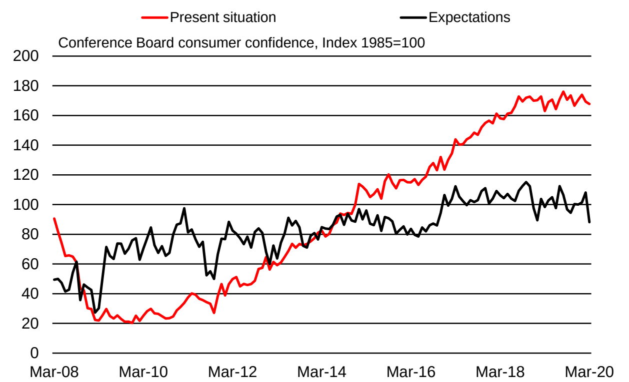
■ Auto sales fell to 11.4mn units in March, down from 16.8mn in February.

UST SPREADS



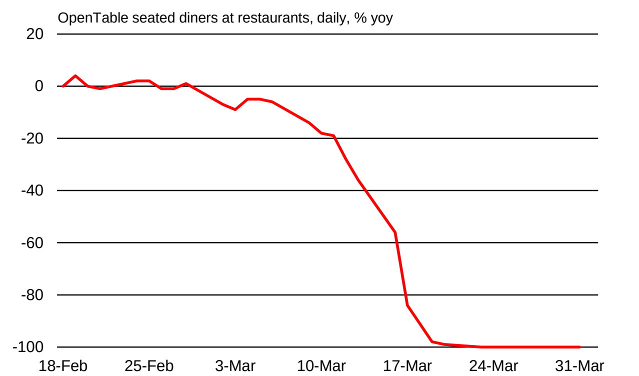
■ Treasury spreads, historically a good predictor of recessions, turned negative again as COVID-19 spread to the US. Recently spreads turned positive after strong policy support.

CONSUMER CONFIDENCE



■ The Conference Board measure of consumer expectations fell to 88.2 in March from 108.1 in February, the lowest reading since October 2016.

RESTAURANT SEATINGS



■ The number of seated diners at restaurants fell 100% yoy by 23 March due to social distancing measures.

Source: Bloomberg, Conference Board, IHS Markit, ISM, OpenTable, WARD's Automotive Group, UniCredit Research

Eurozone

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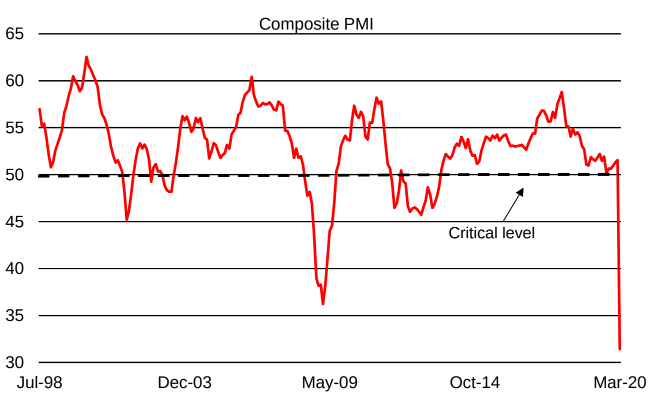
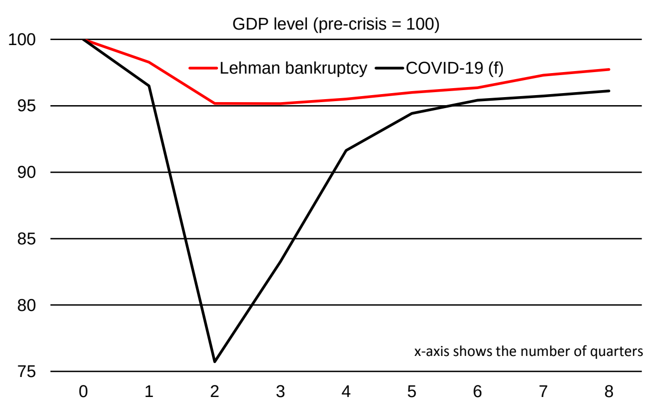
- We expect GDP to contract by 13% this year, reflecting the intensification across countries of lockdown measures to slow the spread of COVID-19 and expectations that any meaningful lifting of restrictions will only start after June. In greater detail, we assume that 1. epidemic curves in most eurozone countries will flatten by the end of April (with Italy leading by one or two weeks); 2. containment measures will keep the eurozone economy running at about 75% of its normal speed until the end of 2Q20; 3. relaxation of restrictions will only happen very gradually and 4. large-scale fiscal and monetary support will limit but not fully neutralize permanent damage to productive capacity, household income and human capital. Overall, we forecast that GDP will contract by about 3.5% qoq in 1Q20 and by more than 20% qoq in 2Q20. The huge drop in the composite PMI in March, to an all-time low, is likely to be followed by further deterioration in April as lockdown measures display their full effects on the economy. We expect GDP to rebound by about 10% qoq in both 3Q20 and 4Q20 as restrictions are progressively eased. The strong carryover at the end of the year might boost average growth for 2021 to 10%. However, at the end of next year, GDP is likely to remain 4% below its level at end-2019.
- The policy response at the European level has involved several actors. The ECB stepped up its intervention to preserve the functioning of key markets and safeguard the transmission mechanism of monetary policy amid a quickly deteriorating fiscal outlook. The central bank will buy, on average, more than EUR 100bn of assets per month at least until the end of the year and will deploy most of this firepower in a flexible way to maximize its impact on markets across asset prices and jurisdictions. The decision to scrap concentration limits of 33% for its pandemic emergency purchase program (PEPP) sends a very strong signal that the ECB stands ready to act as a buyer of last resort in the government-bond market for as long as needed. This powerful backstop has created much-needed fiscal headroom. EU finance ministers agreed to trigger the general escape clause of the Stability and Growth Pact to ensure that member states enjoy maximum fiscal flexibility, while the European Commission has eased state-aid rules to allow for effective implementation of public support to firms. However, member states' policy responses have been uncoordinated and have lacked a common approach. The eurozone's north-south split has re-emerged, with Germany acting most boldly in the wake of its better starting position with regard to its public finances, while Italy and Spain have passed less-ambitious measures. Financial solidarity is also missing. EU-wide spending and guarantee programs (including those involving the European Investment Bank) have been small so far but could be the right tool to use if political leaders eventually agree to strengthen their joint response to the crisis. The issuance of eurobonds remains unlikely.

DROP IN COMPOSITE PMI IS UNPRECEDENTED



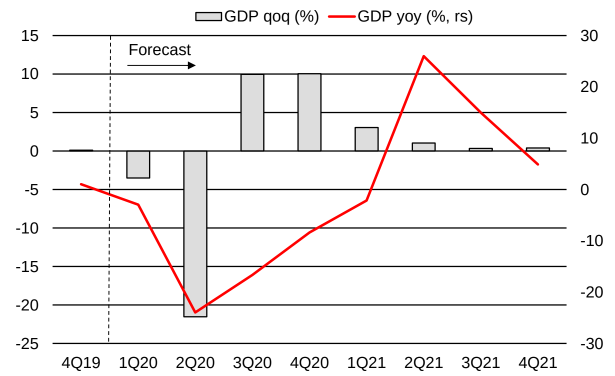
RECESSION TO BE MUCH DEEPER THAN IN 2008-09



Source: Eurostat, Markit, UniCredit Research

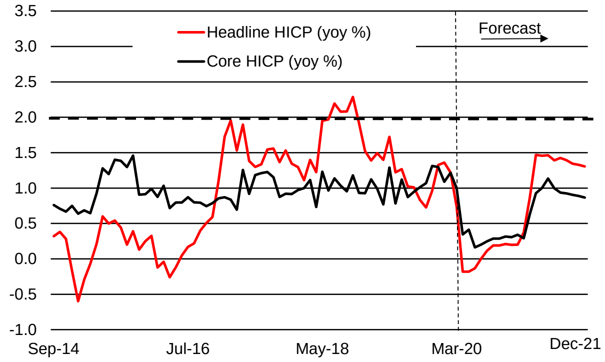
Eurozone

GDP



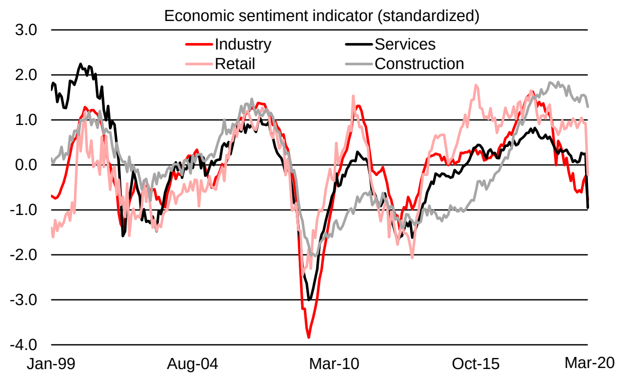
■ GDP is heading for a massive decline in 1H20.

INFLATION



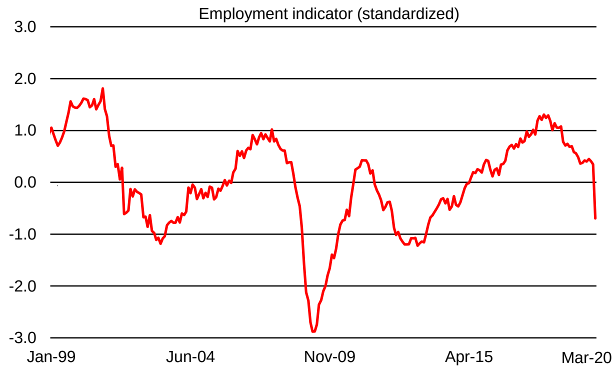
■ COVID-19 and oil-price war weigh on inflation.

SECTORS



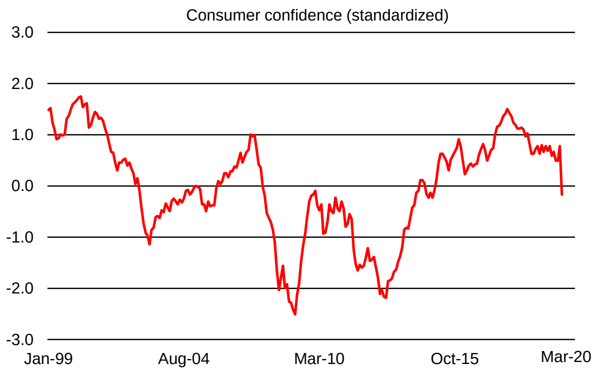
■ The services and retail sectors have been hit the hardest so far.

LABOR MARKET



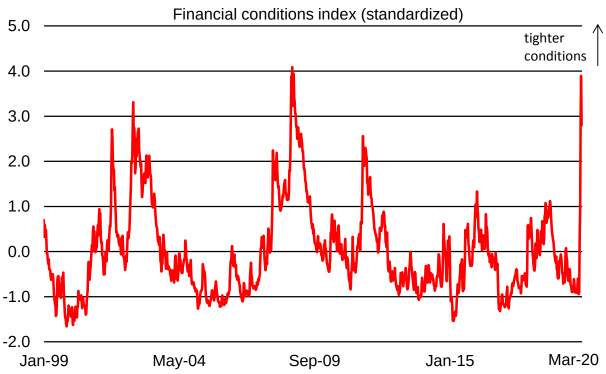
■ The labor market is worsening quickly.

HOUSEHOLDS



■ Deterioration in consumer confidence has only begun.

FINANCIAL MARKETS



■ Financial conditions have tightened abruptly.

Source: Bloomberg, Eurostat, European Commission, UniCredit Research

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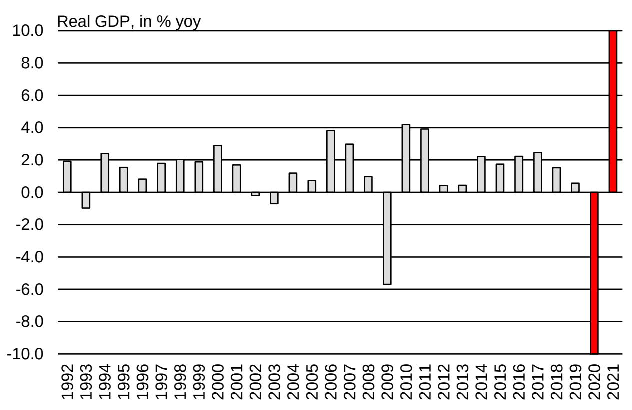
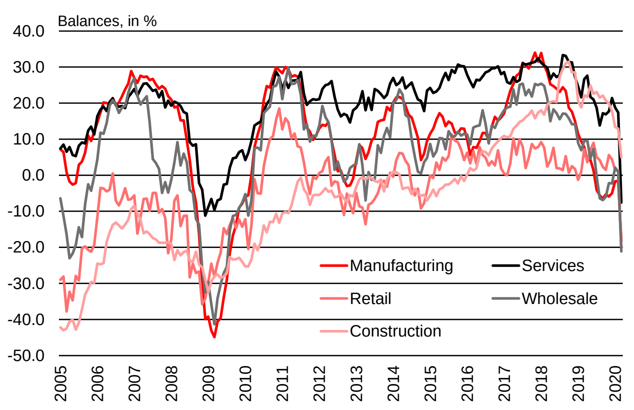
- We expect a shrinking economic activity of about 10% in 2020. On a yearly basis, such a steep decline would be a record-high in the history of the federal republic and nearly double the one in 2009 (-5.7%) in the aftermath of the global financial crisis (see left chart). For 2021, we expect GDP growth of roughly 10%. It would be the strongest growth reading since 1955. The forecast risks for 2020 and 2021 are tilted to the downside.
- Our scenario for 2020 includes a plunge in economic activity by roughly 18% qoq in the second quarter. This quarterly decline would be roughly four times the decrease in the first quarter of 2009 (-4.7% qoq). For 3Q20 and 4Q20, we expect strong rebounds of 9% qoq each. Higher economic activity levels in the second half of this year do not prevent yearly GDP in 2020 from shrinking strongly but largely carry over into 2021. As a result, yearly growth is likely to surge next year.
- Timely available business sentiment data already points to a massive decline in economic activity in the short-term (see right chart). The Ifo index plunged across sectors in March. The same is true for consumer climate (GfK).
- In order to dampen the negative economic impact, the government swiftly implemented various fiscal measures intended to support companies and private households. With a volume of about EUR 1,200bn, or more than one third of national GDP, it is the largest stimulus program in the history of the federal republic. Furthermore, finance minister Olaf Scholz announced a fiscal stimulus for the period after the coronavirus crisis in order to kick-start the economy.
- The major components of the rescue package are as follows: “unlimited” credit guarantees for companies which apply for a bank loan with a coverage of up to 90% for the bank provided by KfW (currently more than EUR 400bn are earmarked for this); creation of a stabilization fund worth EUR 600bn which aims at supporting bigger companies through government stakes (EUR 100bn), credit guarantees (EUR 400bn), and refinancing for KfW (EUR 100bn); an extension of short-time work, i.e. companies can already apply when 10% (previously 30%) of employees are affected by stoppages; and an increase in fiscal spending of about EUR 120bn including emergency relief of EUR 50bn for SMEs without the need to pay it back and roughly EUR 60bn in additional funding for health care.

“V”-SHAPED GDP PATTERN



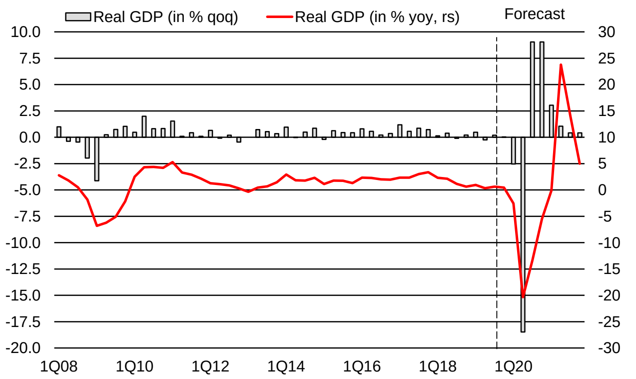
BUSINESS SENTIMENT (IFO) PLUNGING ACROSS SECTORS



Source: destatis, fo, UniCredit Research

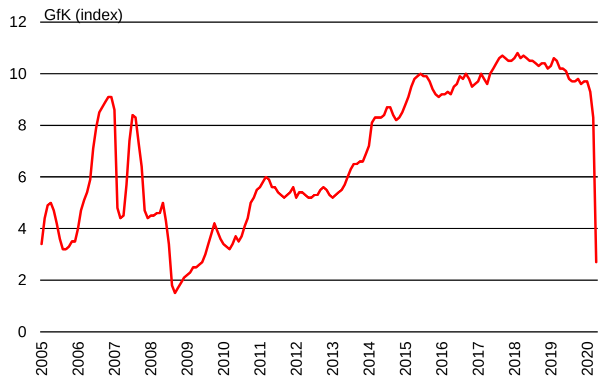
Germany

GROWTH



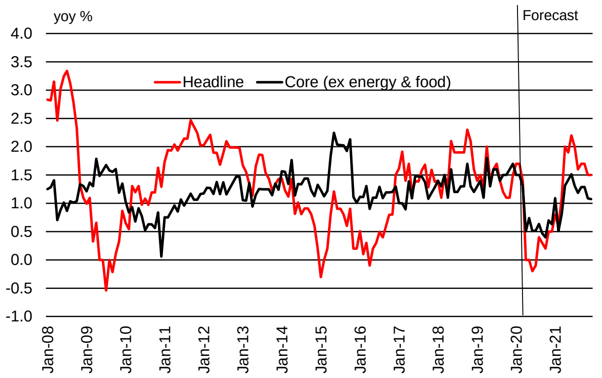
■ GDP is set to post a double-digit decline (qoq) in 2Q20 before rebounding strongly in 2H20.

CONSUMER CLIMATE



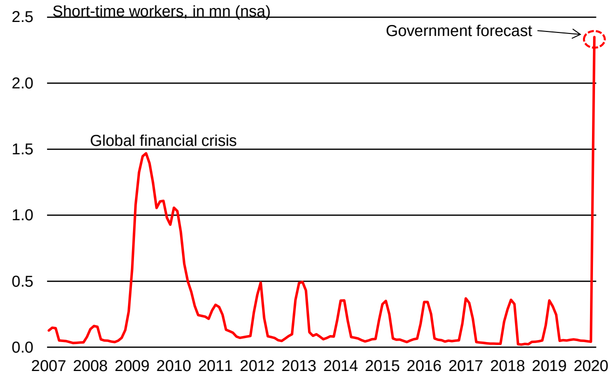
■ Consumer climate (GfK) showed its biggest monthly drop and nosedived to its lowest level since mid-2009.

INFLATION



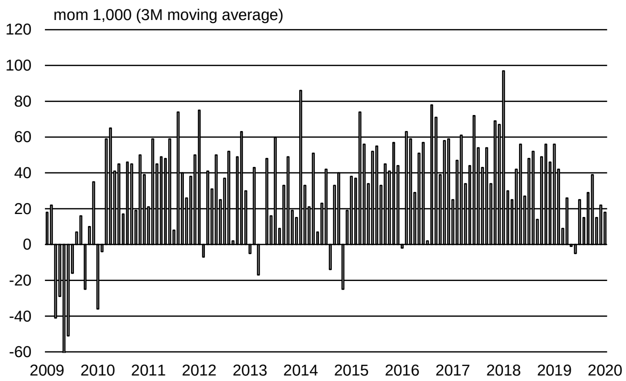
■ We expect headline and core inflation to decline sharply in the next few months before a rebound sets in.

LABOR MARKET (I)



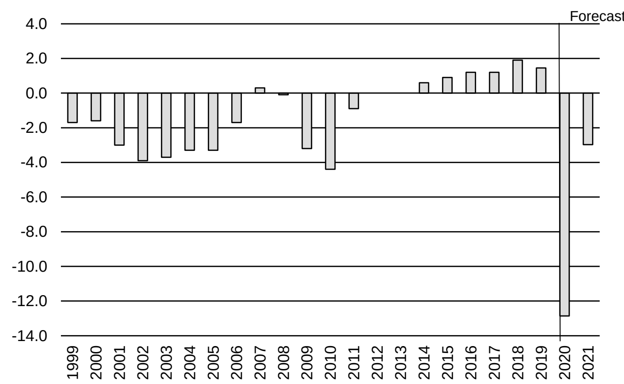
■ The German government expects the number of short-time workers to increase to 2.35mn.

LABOR MARKET (II)



■ Job creation is likely to come to a sudden halt. Before the COVID-19 outbreak, employment rises were already sluggish.

PUBLIC BUDGET BALANCE



■ We expect a budget deficit of about 13% of GDP in 2020. This is the result of increased public spending, strongly declining tax revenues and money raised for government stakes in companies.

Source: Feri, UniCredit Research

France

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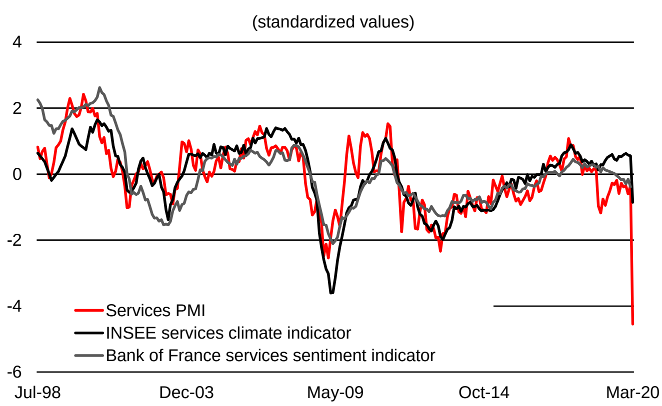
- We expect GDP to contract by almost 14% in 2020 and to rise by 11-12% in 2021. Our baseline profile foresees a sharp drop in GDP in 1H20 (25% on a cumulative basis), followed by a rebound in 2H20 as confinement measures start to be eased and firms gradually resume production. We expect that GDP losses will not be fully recovered by the end of the forecast horizon (GDP will remain 3% below the end-2019 level by 4Q21). The strength of the policy response will be a key driver of the path of activity after the trough.

- Latest analysis by the French national statistical agency (INSEE) based on timely high-frequency spending data, such as electricity consumption, rail transport and statistics on bank-card transactions, points to a sudden and unprecedented (in modern history) stop in economic activity resulting from the confinement measures during the last week of March. The INSEE estimates that economic activity dropped by 35% relative to a "normal week" counterfactual, with services that involve face-to-face interaction (especially accommodation, food services and transport) being among the sectors most heavily hit. This estimate supports the latest indication from the services PMIs, which points to a dramatic deterioration in services activity in March, dropping by more than 20 points to an all-time low of 29.

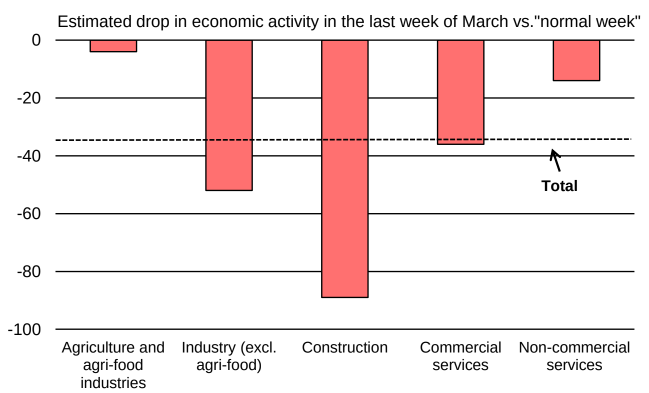
- It is reasonable to think that the decline in economic activity recorded in the last week of March could overestimate the extent of contraction we will observe in the second quarter. For example, in that week, several building-site closures (80% of the sites closed, according to press reports) reflected either the lack of coordination between different layers of government or between government officials and sectoral representatives, or workers' contagion fear due to a lack of protective equipment (such as masks). However, the government has since taken steps to ensure the safety of all workers and also to introduce exceptional bonuses exempt from social contributions and taxes that firms can pay workers who agree to return to their jobs. This is likely to contribute to a (slight) increase in activity levels from end-of-March lows.

- The government announced a (preliminary) fiscal package of EUR 45bn (1.8% of GDP) and EUR 300bn (12% of GDP) of state guarantees (provided through Bpifrance) for new bank loans to companies. Specifically, fiscal support measures include: **1.** EUR 11.5bn of liquidity support for companies through the postponement of social security and tax payments; **2.** EUR 8.5bn of support for workers under the reduced-hour scheme; **3.** EUR 2bn for the health sector; **4.** EUR 1bn of direct financial support for affected micro enterprises.

CONFIDENCE COLLAPSED IN THE SERVICES SECTOR…



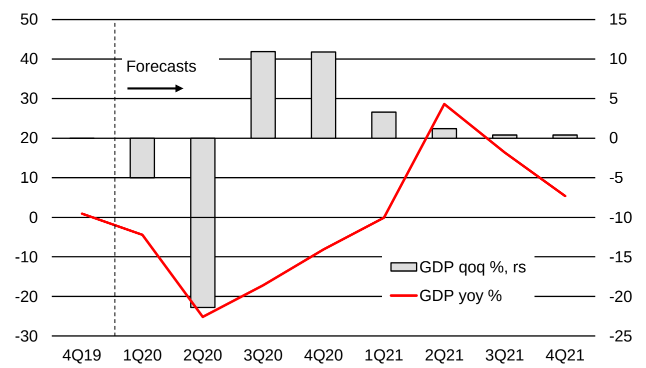
…BUT THE NEGATIVE IMPACT OF THE OUTBREAK HAS LIKELY BEEN WIDESPREAD



Source: Banque de France, INSEE, Markit, UniCredit Research

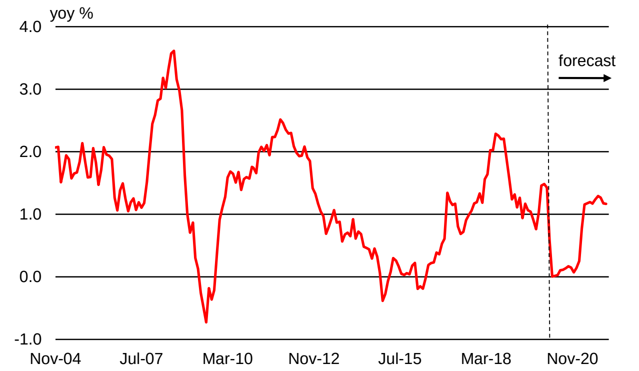
France

GDP



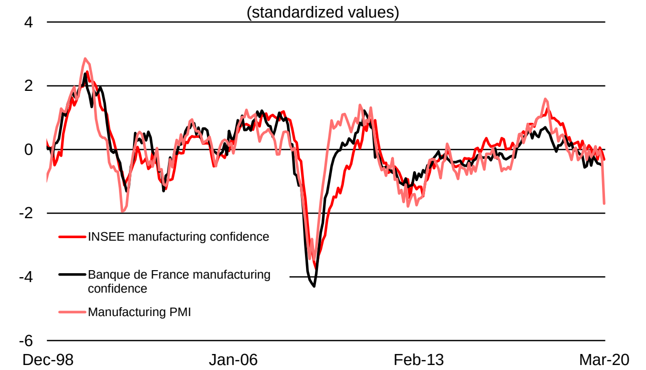
- We expect GDP to contract by almost 14% in 2020 and to rise by 11-12% in 2021.

CPI



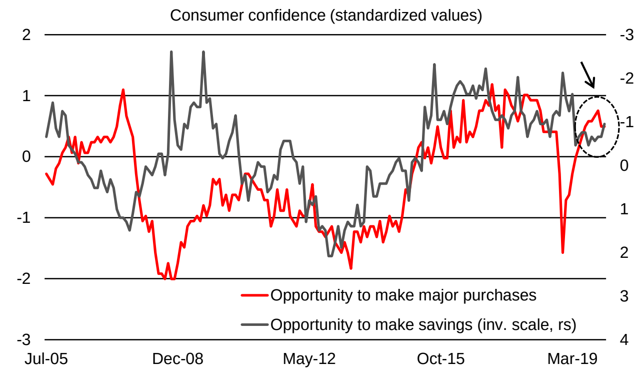
- Inflation is likely to hover around zero until end-2020 before re-accelerating somewhat next year.

MANUFACTURING SURVEYS



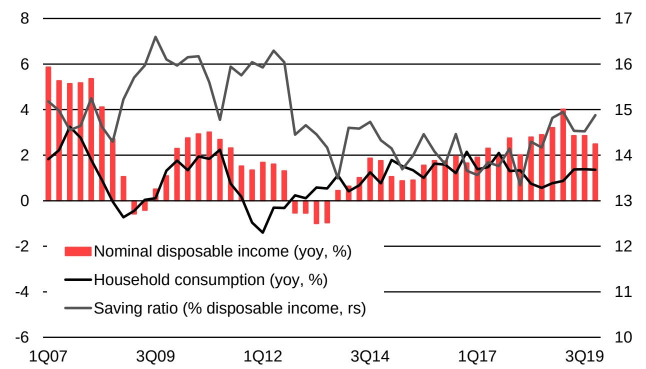
- The manufacturing PMI, which is usually more reactive than other manufacturing surveys, dropped substantially in March.

CONSUMER CONFIDENCE



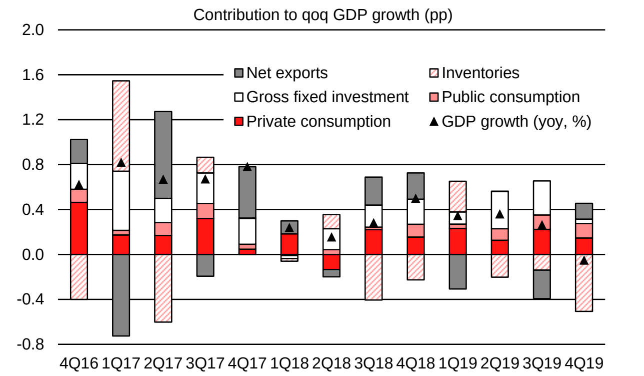
- Consumers have become less optimistic about the opportunity to make major purchases in the near future.

SAVINGS RATIO



- The savings rate is likely to increase further in the short term as uncertainty regarding the outcome from the coronavirus outbreak remains high.

GROWTH DRIVERS



- Domestic demand has been the main growth driver in 2019, also due to a large contribution from investment.

Source: Banque de France, Eurostat, INSEE, Markit, UniCredit Research

Italy

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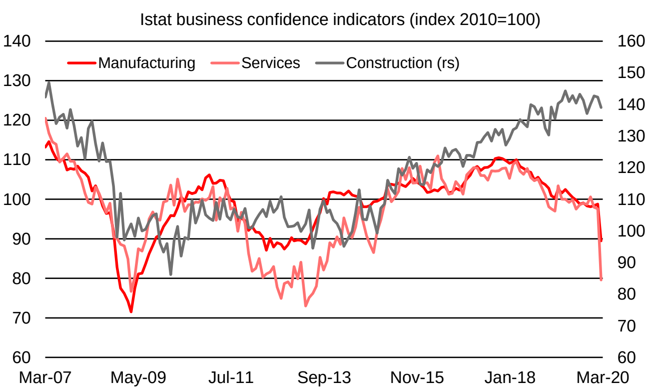
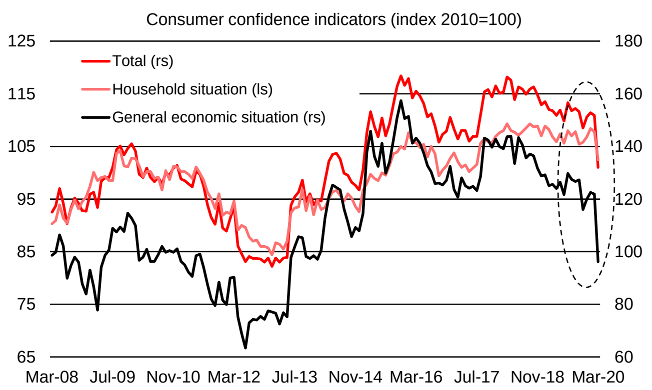
- In Europe, Italy was the country first and worst affected by the spread of COVID-19. We expect GDP to decline by 15% in 2020, its largest drop in 60 years, and to increase by about 9% in 2021. The implementation of restrictions to contain the spread of the virus started in the last week of February and intensified during March. Therefore, a significant impact on economic activity is likely to have already been felt in the first quarter. GDP is expected to show a 5% qoq contraction in 1Q20, and the decline is projected to worsen further in 2Q20 (-22% qoq), as an intensification of the supply shock adds to the demand shock that has mostly affected services sectors (e.g. trade, transport and tourism). We forecast a rebound in 2H20, as firms rebuild inventories and confidence gradually recovers, supporting pent-up demand from the private sector. Still, the strength of this recovery represents one of the main uncertainties to the outlook.
- In an attempt to overcome the coronavirus emergency, in March the government approved a fiscal package (the Cura Italia decree) worth EUR 25bn (or 1.4% of GDP). It consists of four main pillars: **1.** strengthening the national health system, civil protection and security forces; **2.** supporting workers and guaranteeing that they do not lose their jobs (e.g. all employees will be eligible for support from a wage-supplementation fund, while the self-employed will receive a one-off payment); **3.** allowing guarantees and enhancing firms' liquidity (e.g. increasing accessibility to the SME Guarantee Fund and liquidity support for firms, including mid-cap firms, affected by the epidemiological emergency); **4.** approving tax-related measures to directly support firms (e.g. tax deferrals and tax credits).
- We expect the government to take additional steps in April, with a commitment of resources that is at least similar to that of its March decree. The new measures will be mainly aimed at providing further support to income and liquidity for households, workers and firms to limit the economic fallout of the pandemic. We also expect the government to further increase the amount of the guarantees it is willing to provide to the corporate sector. The process for granting such guarantees is likely to be further simplified and its offer extended to larger firms. This will be crucial to helping SMEs and other businesses affected by the emergency, paving the way for a recovery in the second half of the year.
- The following rating agencies are scheduled to review their sovereign ratings of Italy in 2Q20: S&P on 24 April (BBB, with negative outlook), Moody's (Baa3, stable outlook) and DBRS (BBB[high], stable outlook) on 8 May. While we do not expect a rating change in the middle of the crisis, agencies are likely to closely scrutinize Italy's ability to recover from the slump and thus to manage an even higher public-debt/GDP ratio. Outcomes achieved before the current crisis with regard to imbalances in the private, external and banking sectors help allay rating agencies' concerns.

BUSINESS AND CONSUMER CONFIDENCE HAVE BEEN SERIOUSLY AFFECTED, AND MORE IS LIKELY TO COME

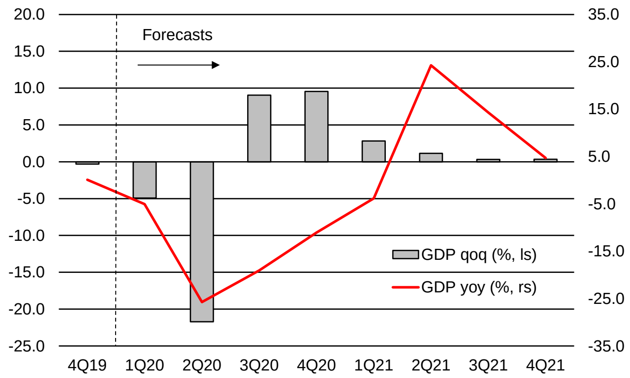




Source: Istat, UniCredit Research

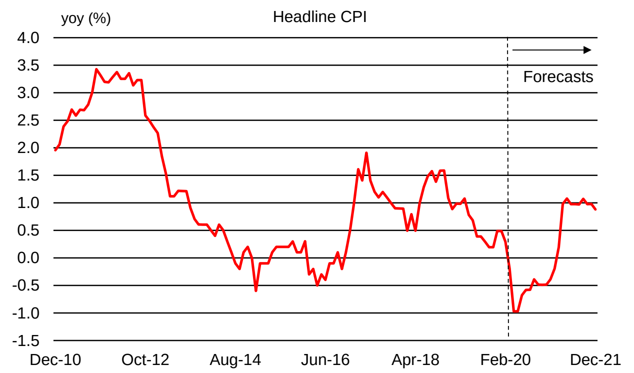
Italy

GROWTH



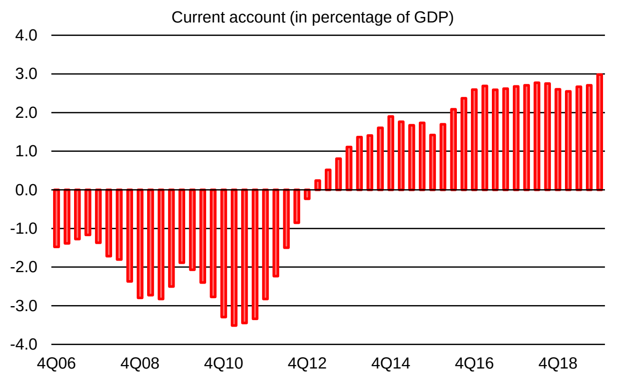
- We expect GDP to be hit hard in 1H20 and to rebound in 3Q20 and 4Q20 as restrictions are eased.

INFLATION



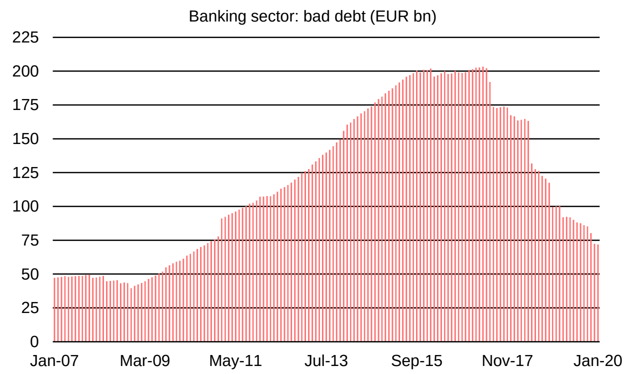
- Inflation is expected to significantly decline, mainly due to a reduction in transport and services prices.

EXTERNAL SECTOR



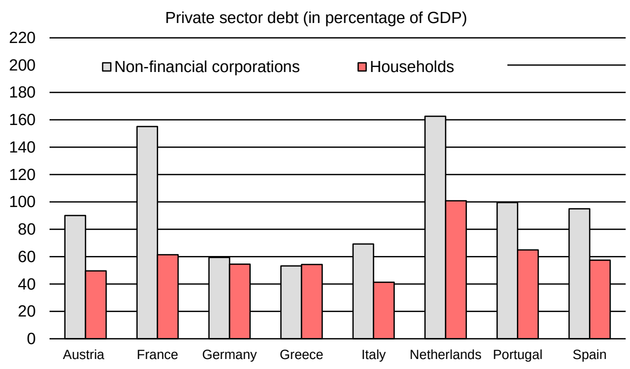
- Italy's current account surplus amounted to 3.0% of GDP in 2019. Its net international investment position was around -2.0% of GDP in 4Q19, which is essentially on balance.

BANKS



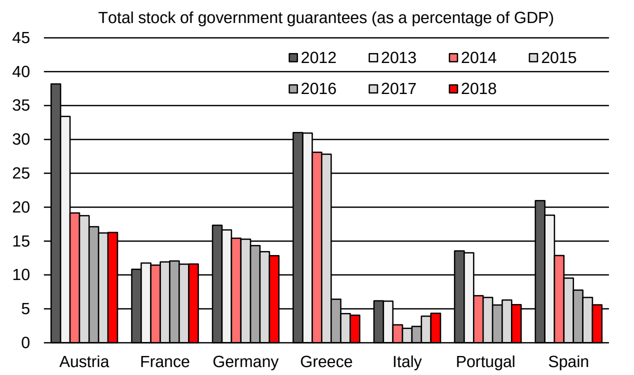
- Bad debt was back to August 2010 levels just before the coronavirus crisis started.

PRIVATE SECTOR



- Indebtedness in the private sector is low.

GOVERNMENT GUARANTEES



- The total guarantees underwritten by the government amounted to just 4.5% of GDP in 2018.

Source: Istat, Bank of Italy, Eurostat, UniCredit Research

Spain

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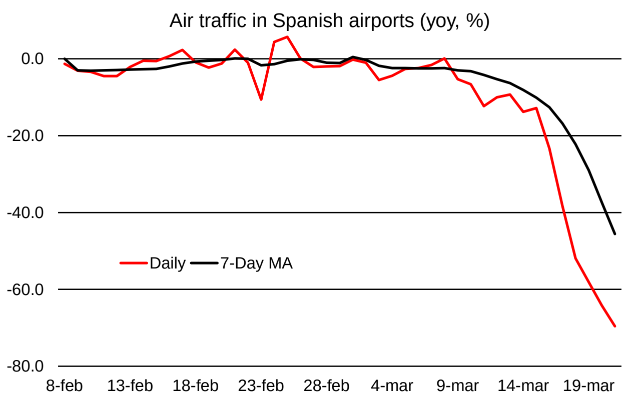
- As a result of the coronavirus health crisis, we see Spanish GDP contracting 15.5% in 2020 and rising 9.5% in 2021. There is still little information concerning Spain's economic activity in March; the most important indicator is the manufacturing PMI, which declined to 45.7 from 50.4. However, it is fair to assume that anti-pandemic containment measures will hit the Spanish economy comparatively more than the rest of the eurozone. Retail, transportation, tourism and restaurants roughly account for 24% of Spanish GDP, as opposed to an average of 19% for the eurozone as a whole. Also, given the severity of the health crisis in Spain, where a state of emergency was declared on 15 March, curbs on face-to-face business activities will likely be relaxed more gradually than other measures and might be extended well into the summer, thus preventing the economy from getting back to normal soon. Thus, we see a sharp GDP contraction in 1H20 (around 25pp of cumulated output losses), followed by a solid recovery in 2H20 with an average quarterly pace of 10% qoq.

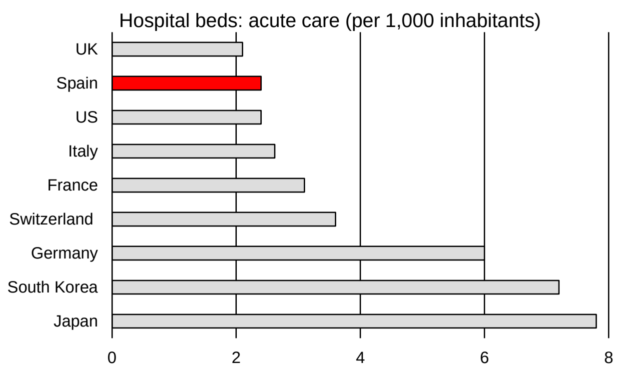
- Spain's public finances are expected to significantly deteriorate in 2020, with the budget deficit hitting 12.5% of GDP from a previously expected 2.5% due to a combination of contracting activity, falling tax revenues and stimulus measures recently approved by Madrid -- the latter amounting to around EUR 18bn (or 1.4% of 2019 GDP). The package includes an increase in health spending to address the COVID-19 crisis, unemployment benefits for workers who have been temporarily laid off, increased sick pay for COVID-19-infected workers, tax-payment deferrals for SMEs and the self-employed for six months and a temporary exemption from social-security contributions. In addition, Madrid has extended up to EUR 100bn in government loan guarantees for firms and the self-employed and up to EUR 2bn in public guarantees for exporters through the Spanish Export Insurance Credit Company. These guarantees amount to 8.4% of 2019 GDP. In terms of public debt to GDP ratio, we expect a jump from 95.5% to about 125%.

- The COVID-19 pandemic has hit Spain particularly hard. At the time of writing, the country ranks third globally in terms of the number of its confirmed cases (after the US and Italy) and second in terms of the number of deaths from the coronavirus (after Italy). Spain boasts a high-quality public health system. However, the current pandemic is overwhelming it. Among the world's largest advanced economies, Spain has the lowest number of hospital beds for acute care per inhabitant (2.4), just ahead of the UK (2.1) and slightly less than the US and Italy, while the gap is rather wide with respect to Germany (6), South Korea (7.2) and Japan (7.8).

TOURISM HAS BEEN AFFECTED BY THE HEALTH CRISIS



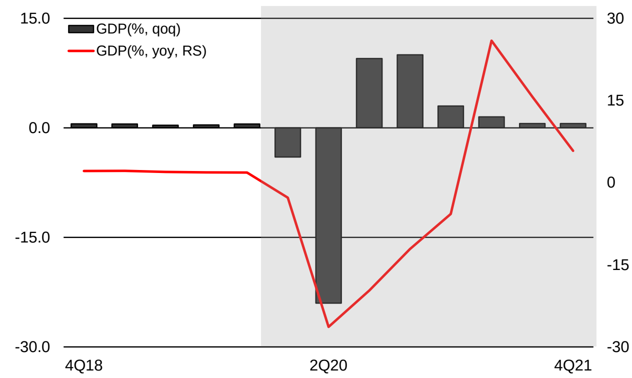
NOT READY FOR THE COVID-19 CRISIS



Source: Spanish Aviation Association, OECD, UniCredit Research Spain

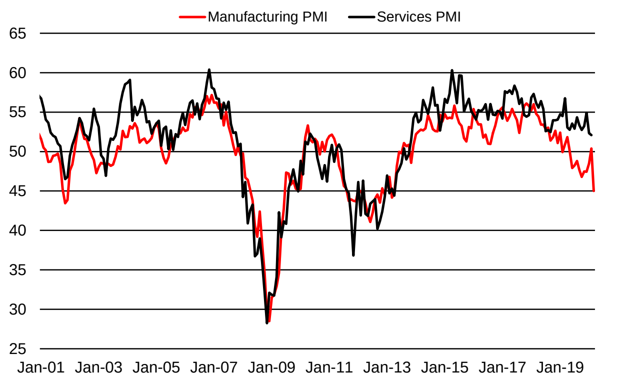
Spain

GDP



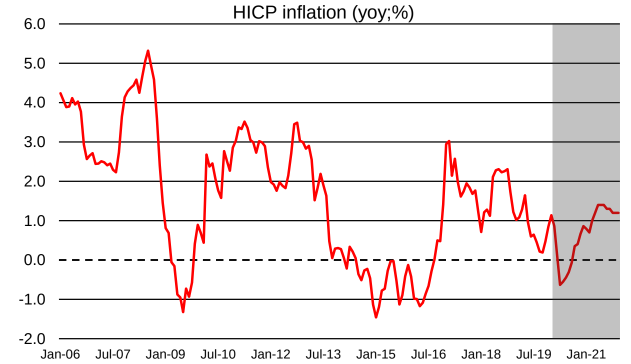
- After a sharp contraction in 1H20, GDP growth is likely to bounce back in 2H20, before gradually returning to a pre-crisis path.

PMIs



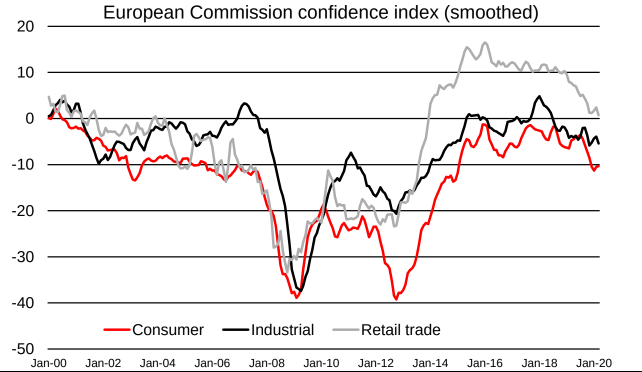
- The manufacturing PMI dropped significantly in March; we expect a sharper downward move for the services index, as it includes activities more directly affected by the containment measures.

PRICES



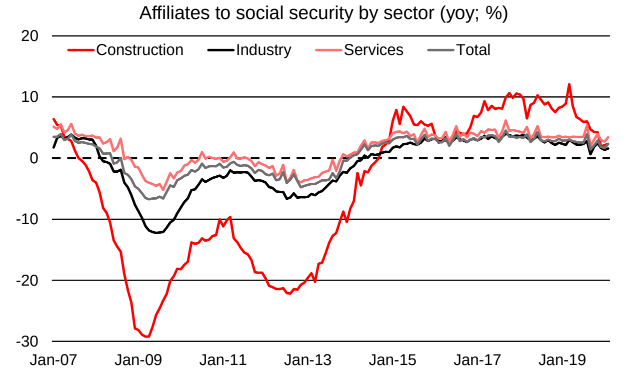
- Inflation is expected to keep falling as a result of weak oil prices and price weakness in sectors more affected by containment measures, before recovering in 2H20.

CONFIDENCE



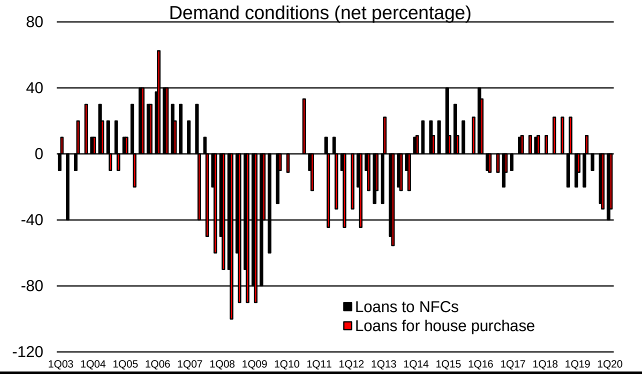
- Confidence in March declined across the board – albeit the smoothed series does not capture the leg down of consumer confidence.

LABOR MARKET



- Employment creation across sectors reaccelerated slightly in February. The services sector is likely to be relatively more affected by containment measures.

CREDIT CONDITIONS



- In 1Q20, demand for credit was extremely weak for both households and non-financial companies.

Source: INE, Eurostat, ECB, UniCredit Research

Austria

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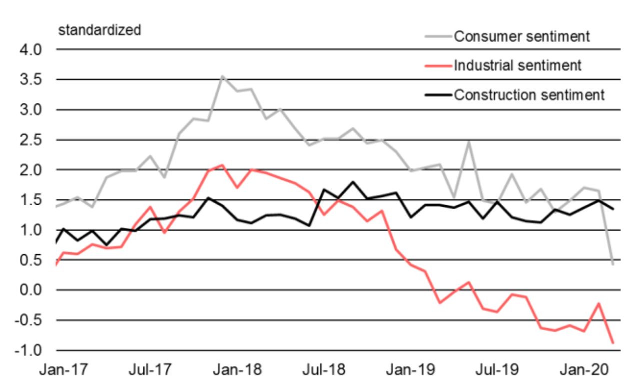
- The economic downtrend that occurred in 2019 led to a decline in economic growth to an average of 1.6%. However, the stabilization of the economy, which was apparent in improved sentiment indicators and other early indicators at the beginning of 2020, ended abruptly in mid-March. The spread of the coronavirus and measures implemented to contain it are sure to cause a deep recession in Austria. If the outbreak of coronavirus in Austria follows a similar timeline as the outbreak in China, such containment measures could be gradually reduced in Austria over the summer, and a strong economic rebound could set in. We therefore now expect GDP to decline by more than 9% in 2020 as a whole. This would be a sharper, but shorter, slump than that experienced during the financial crisis of 2008-09. In 2021, a large part of the lost economic output could be offset by growth of almost 8%.

- Since the second half of March, the effects of crisis measures have also been felt in the labor market. The unemployment rate, which fell to 4.5% in 2019 and continued its downward trend at the beginning of 2020, is expected to rise sharply in the coming months. Unemployment rate is expected to reach a peak of around 8% in the summer. We expect the unemployment rate to amount to 6.6% for the year.

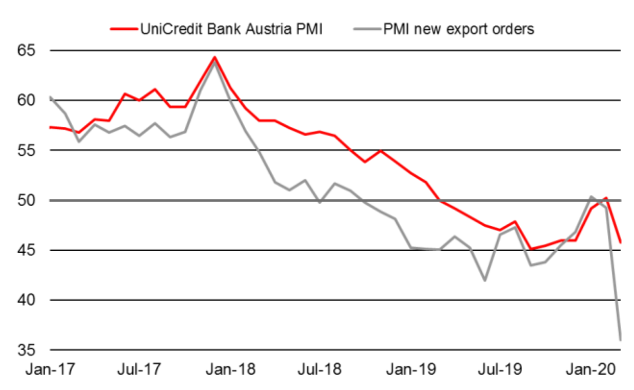
- In the coming months, the slump in oil prices and the loss of demand due to restrictions on public life will significantly reduce inflation, which had risen to over 2% year-on-year at the beginning of 2020. We expect inflation to average only 0.9% in 2020. In 2021, inflation is expected to rise above 2%, especially later in the year, due to the recovery in oil prices and the expected economic rebound. We expect inflation to average 1.9% over the year.

- After enjoying a slight budget surplus for two years in a row, thanks to a good economy, a disciplined spending policy and low interest rates, the general government budget is likely to slide into deficit as a result of measures to mitigate the economic consequences of the coronavirus crisis. The Austrian government has launched a package of measures amounting to EUR 38bn (or 10% of GDP). Of these, EUR 9bn is earmarked for guarantees and warranties to ensure the liquidity of companies. EUR 10bn is to be made available for tax deferrals and EUR 15bn for emergency aid. Since the new government was only formed in January 2020, the budget is currently being managed via a provisional budget. In order to maintain the greatest possible flexibility, the provisional budget is being used until further notice. For 2020 as a whole we now expect a budget deficit of around EUR 35bn, or almost 10% of GDP. This will also put an end to a four-year downward trend in public debt.

CORONA CRISIS BEGINS TO BE REFLECTED IN SENTIMENT



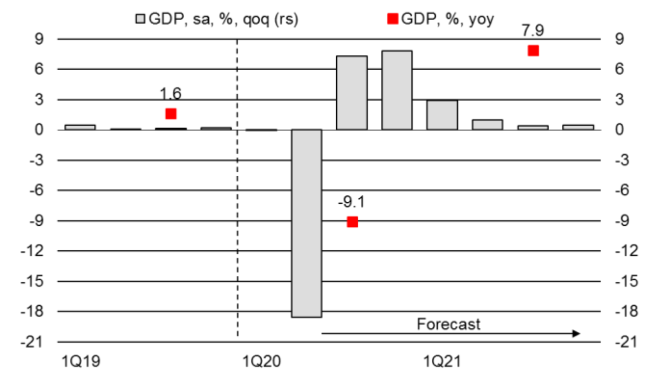
SLUMP IN DEMAND SLOWS DOWN MANUFACTURING



Source: European Commission, IHS Markit, Statistik Austria, UniCredit Research

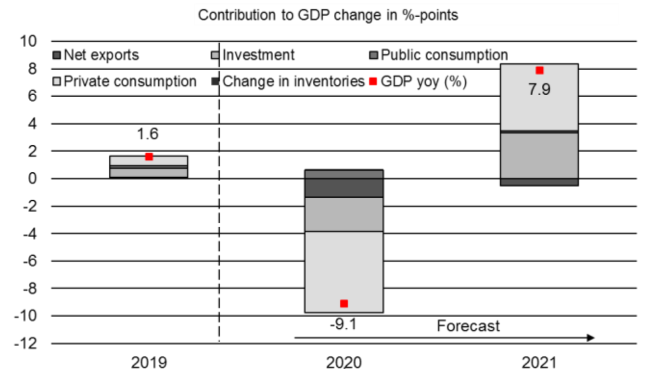
Austria

GDP GROWTH



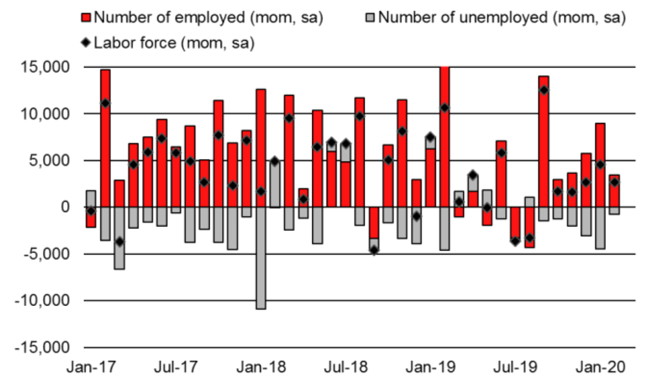
■ The economic shock is expected to affect the economy in 2Q20 especially. With the gradual withdrawal of the crisis measures, a rebound can be expected from the middle of the year.

GROWTH DRIVERS



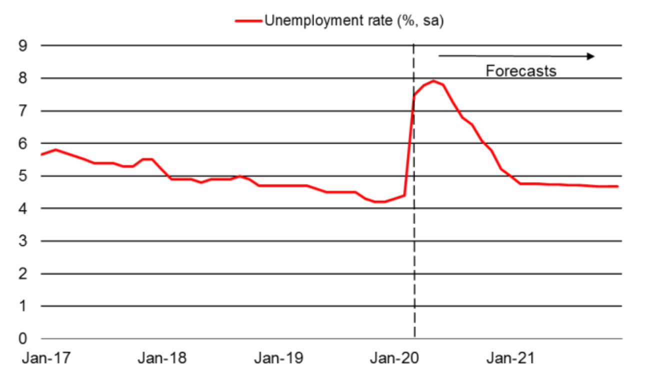
■ On the demand side, the crisis should be reflected in a sharp drop in investment and in private consumption due to restrictions in the service sector

LABOR MARKET



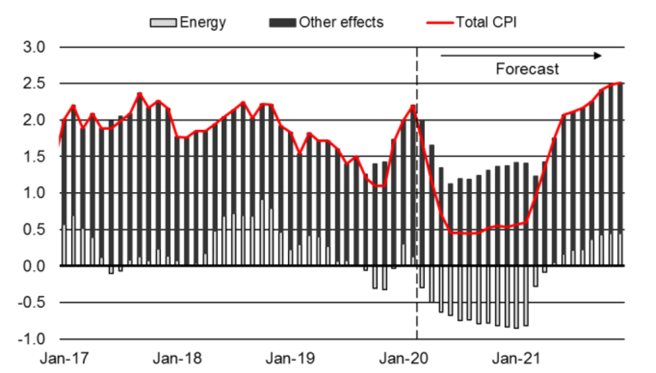
■ Before the outbreak of the coronavirus, the Austrian labor market had shown signs of improvement. Seasonally adjusted figures showed a decrease in unemployment until February.

LABOR MARKET (II)



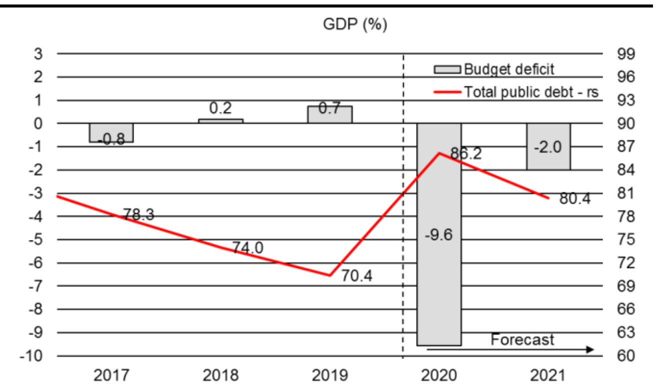
■ As a result of the economic slump, the unemployment rate is expected to temporarily rise significantly. We expect the annual average for 2020 to increase by 2 percentage points, to 6.6%.

INFLATION



■ Inflation is expected to temporarily fall to as low as 0.5% year-on-year in 2020 due to the collapse of oil prices and falling service prices.

BUDGET BALANCE AND PUBLIC DEBT



■ For 2020, we expect the budget deficit to amount to EUR 35bn. About half of the deterioration compared to 2019 will be due to revenue shortfalls, and the other half to increased expenditures.

Source: Statistik Austria, UniCredit Research

Greece

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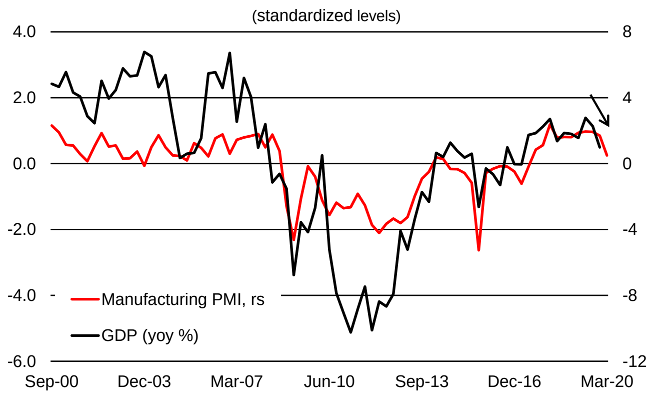
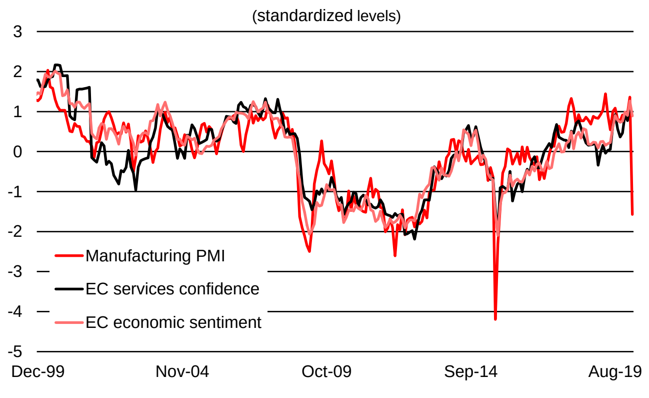
- We expect GDP to contract by almost 20% in 2020. Our baseline profile foresees a sharp drop in 1H20 (35% on a cumulative basis), followed by a rebound in 2H20 as confinement measures start to be eased. The strong carryover effect at the end of the year will boost average growth to 15-16% in 2021. However, we expect that GDP will remain 5% below the level of end -2019 by 4Q21.
- The great importance of tourism-related sectors (which account for 35% of GDP and 20% of the workforce) makes Greece more vulnerable than many other eurozone countries to the negative impact of restrictions on travel and movement. Even assuming that the epidemic curve will flatten by the end of April, (the country is lagging behind Italy by one or two weeks), it will take time before air links are re-established, virus mitigation measures are lifted and people feel safe enough to make the decision to resume travel for holidays. This reality also explains why the government has already extended its financial support for firms and workers – covering up to 76% of all legal business entities and 81% of private-sector workers – for two months until June.
- The government has so far mobilized national resources totaling EUR 6.8bn (3.5% of GDP) to cushion the negative impact of the virus outbreak on the economy. This strong fiscal response follows the Eurogroup's decision to grant Greece exceptional fiscal flexibility and temporarily scrap the 3.5% primary surplus target for 2020. Key measures include: **1.** transfers to vulnerable individuals, including a EUR 800 cash bonus for employees working in hard-hit firms, unemployment benefits, and paid leave for parents who have children not going to school; **2.** liquidity support to hard hit businesses through subsidized loans, loan guarantees, interest payment subsidies, and deferred payments of tax and social security contribution; **3.** health spending increases for new hiring of 2,000 doctors and nurses, procurement of medical supplies, and cash bonuses to health sector workers. The government estimates that it can sustain such financial measures for two-three months without tapping the EUR 30bn cash buffer devoted to debt service.
- At the March meeting, the ECB announced a waiver for Greek sovereign bonds under its pandemic emergency purchase program (PEPP), opening the door to buy Greek debt which, instead, is not eligible for QE. Greece's sovereign credit rating improved significantly since last summer, when a new conservative government came to power. However, it still remains, at best, two notches from investment grade. The ECB' decision is expected to maintain Greece's funding cost at low levels through the current exceptional circumstances.

PMI SIGNALS DETERIORATION



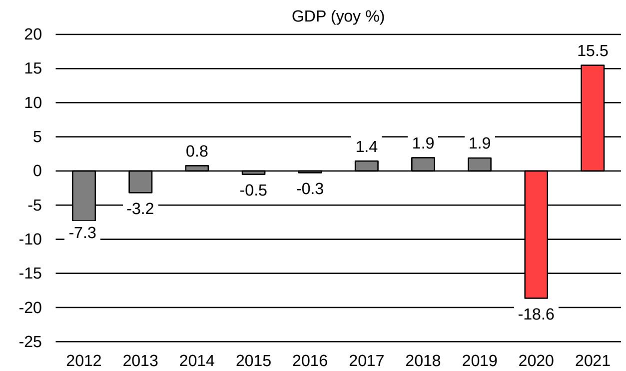
PMI IS USUALLY MORE VOLATILE THAN OTHER SURVEYS



Source: Markit, European Commission, Eurostat, UniCredit Research

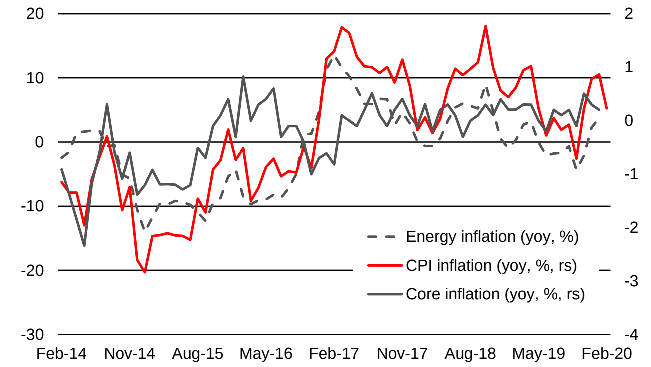
Greece

GDP



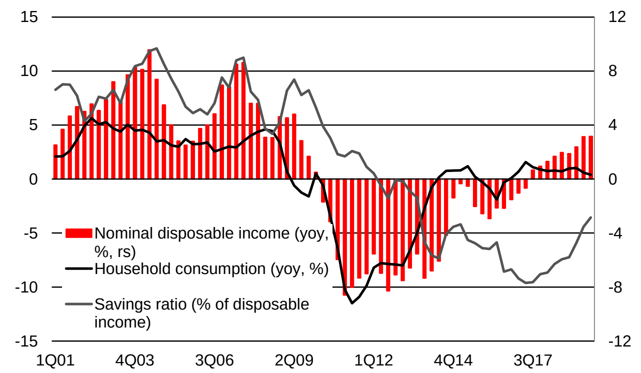
■ We expect GDP to contract by almost 20% in 2020 and to rise by 15-16% in 2021.

CPI



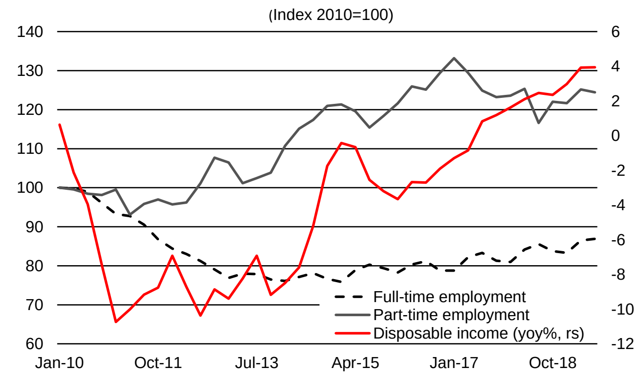
■ Consumer inflation eased significantly in February, coming in at 0.2%. A further slowdown is in the pipeline.

SAVINGS RATIO



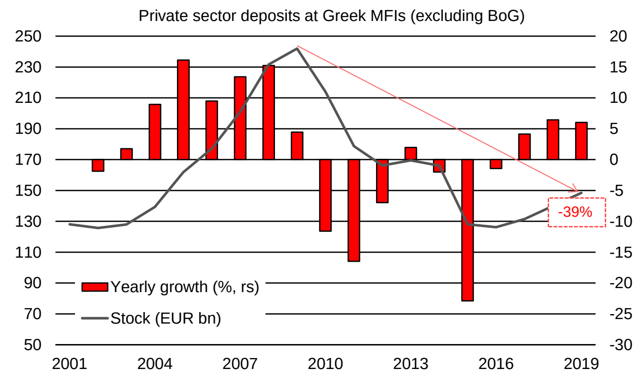
■ The savings ratio has increased sharply in 2019, reflecting the improvement in disposable income amid weak consumption.

DISPOSABLE INCOME



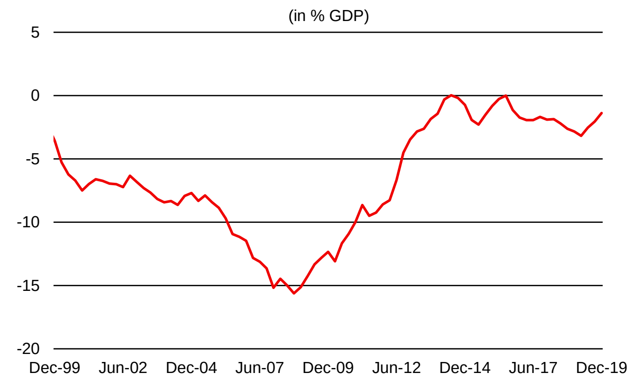
■ The upward trend in disposable income growth has gone hand in hand with the steady growth in part-time employment.

PRIVATE-SECTOR DEPOSITS



■ Private-sector deposits rose by a further 5% in 2019 but they remain around 40% below the 2009 level.

CURRENT ACCOUNT



■ The current account deficit narrowed to 1.4% of GDP in 2019 (after 2.8% in 2020).

Source: BoG, Eurostat, Elstat, UniCredit Research

Portugal

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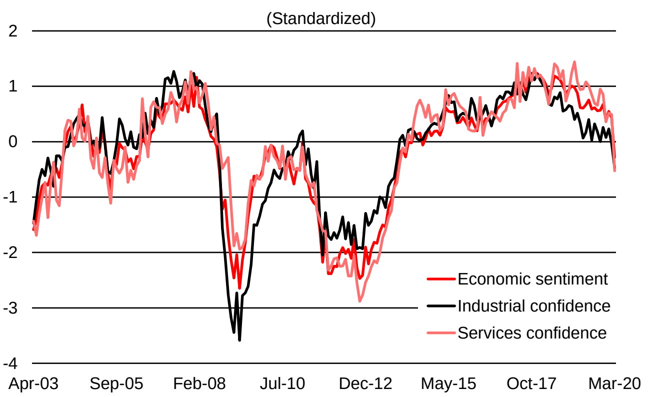
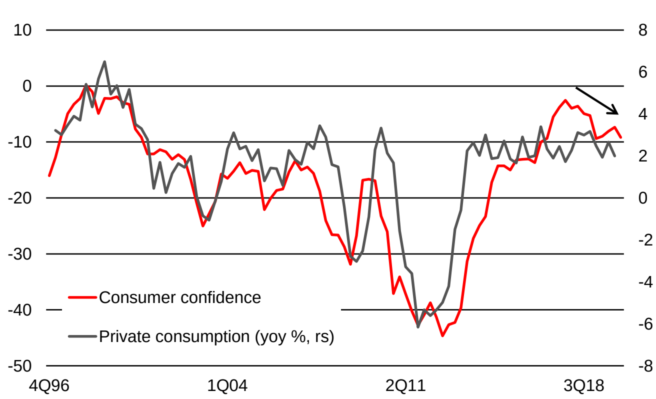
- We expect GDP to contract by about 15% this year, with a decline of almost 5% qoq in 1Q20 and 20-25% in 2Q20, followed by a rebound by about 10% qoq both in 3Q20 and 4Q20 as restrictions are progressively eased. This development would represent the worst downturn the country has ever experienced, worse than the one recorded in the wake of the great recession (when GDP contracted 3.1% in 2009) or the 1975 oil crisis (GDP growth shrank 5.1% at that time). GDP growth is likely to increase by 9-10% in 2021.
- The outlook for the Portuguese economy has undergone a sudden and marked deterioration as a result of the impact of the COVID-19 pandemic. This reflects some factors which are characteristic of the Portuguese economy and which make the country particularly vulnerable to a shock of this kind. These factors include the importance of tourism-related sectors in the economy (27% of gross value added) for which demand has already been significantly curtailed. Hotels have reported a marked drop in reservations amidst increasingly stringent restrictions on travel. The country's flagship air carrier TAP has reduced its operations to only two weekly flights to Madeira and the Azores and announced a freeze on hiring and investment. Furthermore, the corporate sector is almost entirely composed of micro and small firms (97% of total), whose relatively fragile financial situation will be tested by the abrupt disruption of cash flow that this crisis will entail. Finally the high percentage of households below the poverty line (18%) means that there is only a small margin to absorb the shock on income, as the Bank of Portugal recently warned.
- To support the economy in the face of the COVID-9 outbreak and limit damage to productive capacity and human capital, the government promptly adopted measures to provide financial relief to the hardest-hit firms and households. Measures to alleviate firms' financial and cash flow constraints amount to EUR 9.2bn (4.3% of GDP) and they include the following: **1.** flexible payment schedules for tax payments and social contributions due by firms in 2Q20, and a reduction of social security contributions between March and May (estimated costs: EUR 5.2bn); **2.** EUR3bn (1.4% GDP) of state-guaranteed credit lines for medium, small and micro enterprises in affected sectors, operated through the banking system; **3.** EUR 1bn (0.5% of GDP) of relief from social security payments. In addition, the government extended the scope of the "simplified lay-off" scheme allowing firms to circumvent existing labor regulations and reduce work hours, wages or even temporarily suspend labor contracts. PM Antonio Costa said that this measure will cost the government EUR 1bn per month and that he expects this support scheme to last 3 months or until June, for a total of EUR 3bn. Additional financial support to household income is being provided through the solidarity supplement for the elderly and through social insertion income payments.

SENTIMENT HAS WORSENED SIGNIFICANTLY



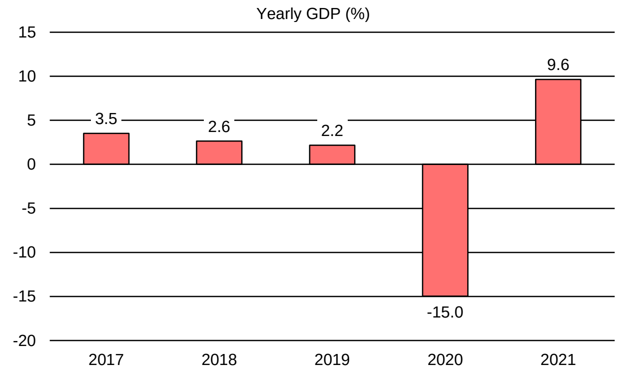
CONSUMPTION IS LIKELY TO DETERIORATE FURTHER



Source: European Commission, INE, UniCredit Research

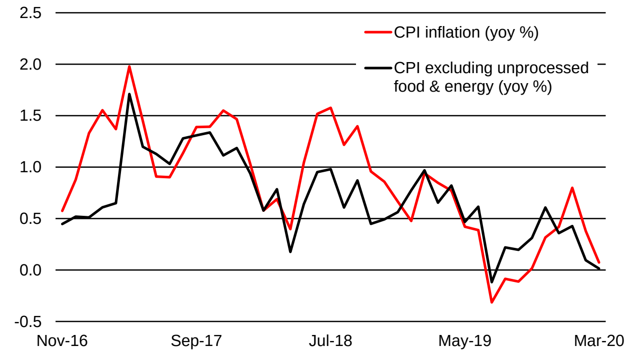
Portugal

GDP



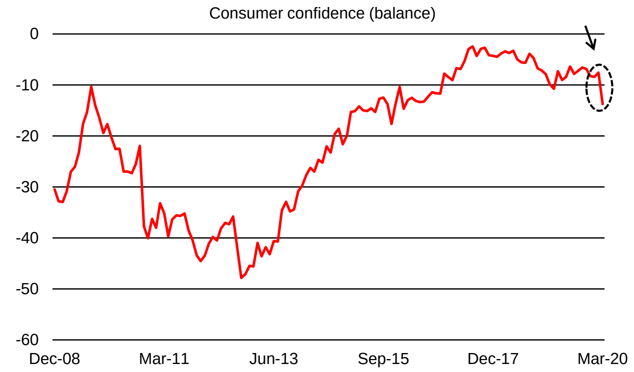
■ We expect GDP to contract by almost 15% in 2020 and rise by 9-10% in 2021.

CPI



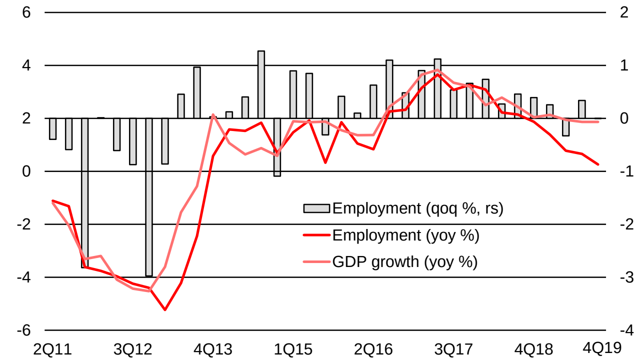
■ Consumer inflation has eased significantly since the beginning of the year, coming in at 0.1% yoy in March.

CONSUMER CONFIDENCE



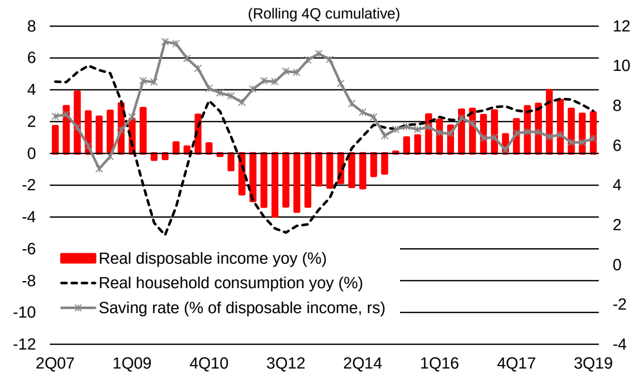
■ Consumer confidence declined significantly in March, although it remained slightly above its long-term average.

EMPLOYMENT



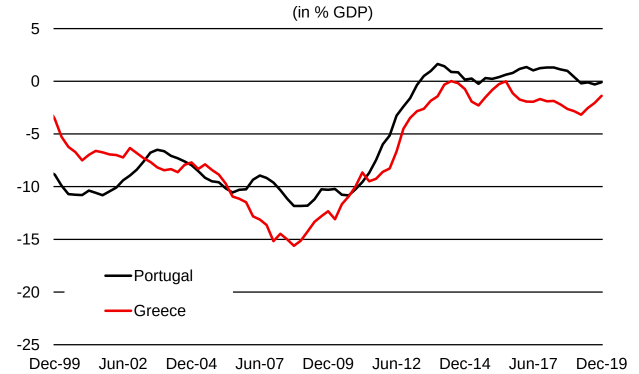
■ Employment growth decelerated to 0.8% in 2019 (from 2.3% in 2018).

DISPOSABLE INCOME



■ Household consumption growth lost some steam in 2019, mirroring a moderation in disposable income growth.

CURRENT ACCOUNT



■ The current account deficit closed by end-2019.

Source: European Commission, INE, UniCredit Research

UK

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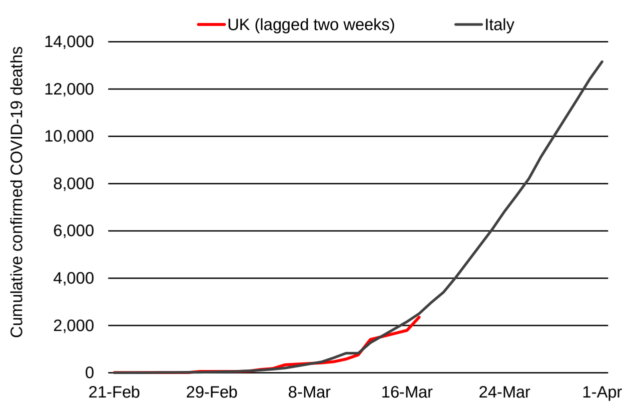
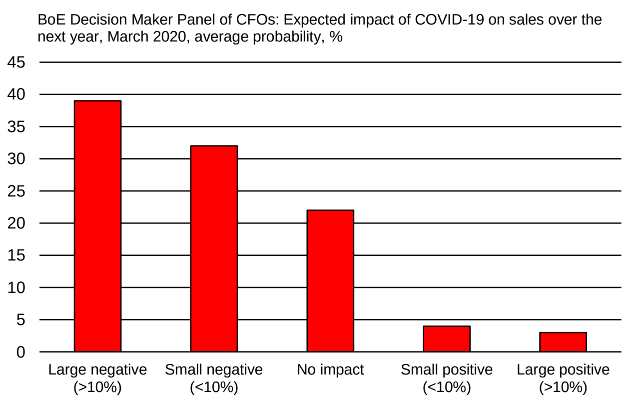
- We see UK GDP contracting about 10% this year, with a peak-to-trough fall of 22% between 4Q19 and 2Q20, due to the social distancing measures necessary to contain the spread of COVID-19. From 21 March, all businesses selling non-essential goods and services were ordered to close, including all restaurants, pubs, entertainment venues, hotels, museums and schools. UK car producers have temporarily shut down. We expect these containment measures (and more) to last through June and to ease gradually in 2H20. The UK is a couple of weeks behind Italy in its epidemic curve. Higher spending on essential items, particularly the stockpiling of food, will only partly offset much lower output elsewhere. Firms are cancelling or deferring investment to preserve cash flow. The flash composite PMI fell to a record low of 37.1 in March, but the data-collection period preceded the implementation of more stringent social distancing measures. UK officials said that claims for universal credit, the main benefit for the jobless, was almost ten times the normal rate for the last two weeks of March. The BoE's Decision Maker Panel of CFOs for March reported that 71% expected a negative impact on sales, and the proportion expecting a large negative impact rose from 25% at the start of the survey window to almost 60% at the end. Inflation is likely to fall well below 1% in the near term.
- The weakness should prove temporary: we forecast a strong rebound in 2H20 and annual GDP growth of around 10% in 2021. Still, economic activity would be 1.4% lower at the end of 2021 than before the onset of the COVID-19 crisis, due to reduced potential output (from bankruptcies and higher long-term unemployment) and a small margin of spare capacity. More uncertainty than usual surrounds our forecasts, and the risks to the expected recovery are skewed to the downside. Uncertainty around the future UK-EU relationship will weigh on the recovery, but we expect a default to WTO rules to be avoided.
- The government has announced fiscal stimulus worth around GBP 70bn (or 3.2% of GDP), including GBP 27bn in support for businesses. A Jobs Retention Scheme (HMRC will reimburse 80% of wages up to GBP 2,500 per month for all "furloughed workers" for three months) and support for the self-employed will help, but implementation lags will cost jobs. It has also offered loans and guarantees worth GBP 330bn (15% of GDP). The Bank of England has announced a 65bp cut in the bank rate to 0.10%, a GBP 200bn increase in its stock of asset purchases, a term-funding scheme with additional incentives for SMEs, purchases of commercial paper, additional liquidity operations, and a reduction in the countercyclical buffer rate to 0% from 1%. The MPC has said it can expand asset purchases further, if needed. These measures will not prevent output from falling sharply in the near term, but they should support a decent recovery in 2H20.

THE UK EPIDEMIC CURVE IS TWO WEEKS BEHIND ITALY



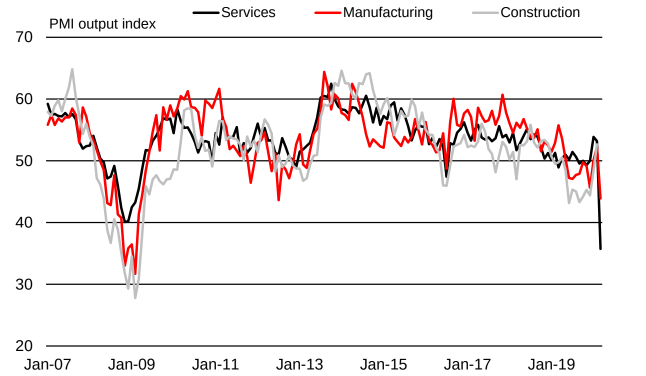
COVID-19 EXPECTED TO HAVE A LARGE NEGATIVE IMPACT



Source: BoE, John Hopkins University, UniCredit Research

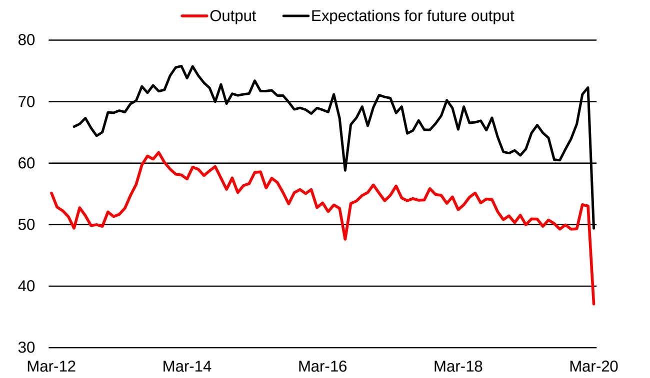
UK

PMI OUTPUT



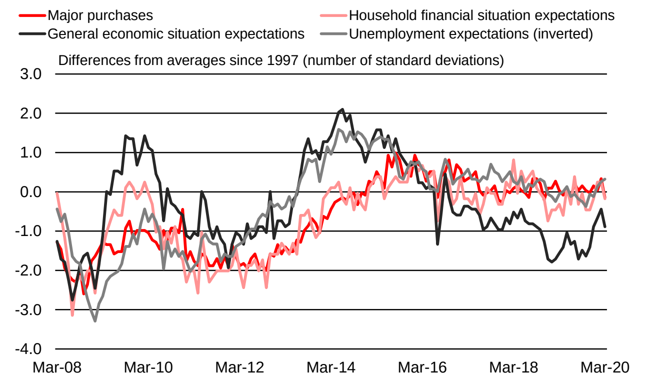
■ The composite output PMI fell to a record low of 37.1 in March, slightly below the previous low of 38.1 in November 2008.

PMI EXPECTATIONS



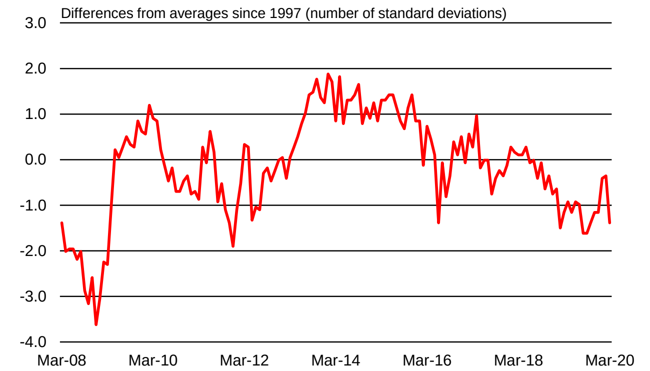
■ PMI expectations of future output fell more sharply than the PMI (current) output balance in March.

CONSUMER CONFIDENCE



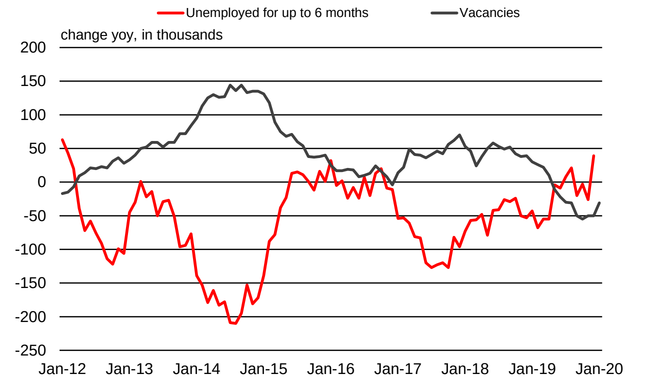
■ Consumer confidence fell slightly in March but the data collection period largely preceded more stringent social distancing measures.

BUSINESS CONFIDENCE



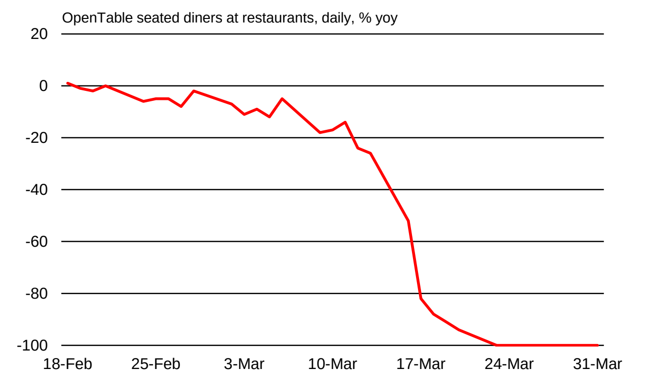
■ Business confidence fell quite sharply in March, reversing the "Boris bounce" following the 12 December election.

LABOR MARKET



■ Short-term unemployment was rising, and vacancies falling, even before the spread of COVID-19.

RESTAURANT SEATINGS



■ The number of seated diners at restaurants fell 100% yoy by 23 March due to social distancing measures.

Source: GfK, Lloyds Banking Group, Markit, OpenTable, ONS, UniCredit Research

Sweden

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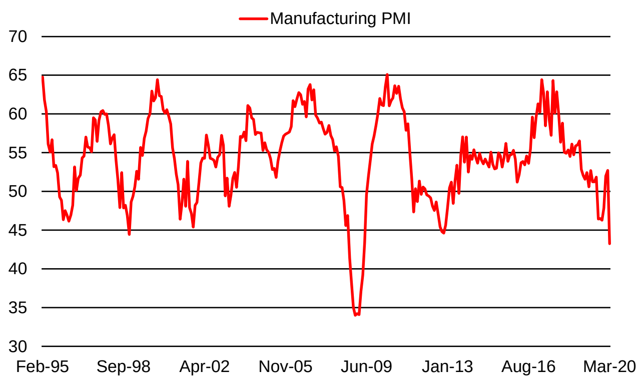
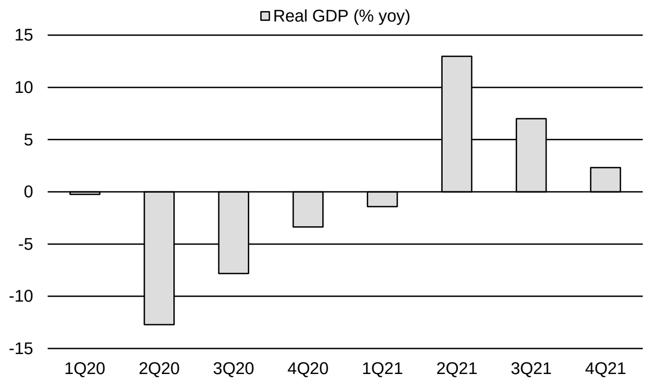
- This year, Swedish GDP will probably shrink just over 6.0%. At the time of writing, Sweden's government has not yet imposed a complete lockdown: most restaurants, shops and schools have remained open, with people being asked to respect social distancing measures and avoid crowds. The latter measures have started to keep households away from shops and restaurants, leading many enterprises to halt production due to both demand and supply disruption. Although the lockdown is not complete and fiscal and monetary policy stimulus should provide support, the Swedish economy is likely to shrink this year due to the constraining effects of the COVID-19 and containment measures on the domestic economy coupled with consequences of waning foreign demand on exports. We expect that GDP will decline by 1.0% qoq in 1Q20, with the bulk of the drop to come in 2Q20, when we envisage GDP contracting by about 12% qoq. We then forecast GDP to rebound, rising by about 5% and 6% in 3Q20 and 4Q20, respectively. In 2021, the complete removal of restrictions and the return to more normal activity is likely to lift average growth to 5-5.5%.
- There were three packages of stimulus measures announced by the Swedish government in response to the COVID-19 outbreak. **1.** The new crisis package (16 March), among whose main measures were that companies be able to defer payment of employers' social security contributions, preliminary taxes on salaries and VAT. Overall, the government estimates that this package will cost at least SEK 300bn (6% of GDP). **2.** New credit guarantees for airlines and for Swedish export companies and, by extension, the shipping industry (18 March). Overall, the proposal would mean that the Swedish Export Credit Agency's credit guarantee framework would be expanded by SEK 50bn. **3.** Further stimulus targeted at SMEs (25 March), which will raise Sweden's emergency spending to 1.3% of GDP. The announced measures will bring Sweden's discretionary fiscal stimulus to SEK 70bn. We expect the government to announce further stimulus before the spring bill due in mid-April.
- In an attempt to curb the risk of financial distress stemming from the COVID-19 outbreak, the Riksbank's board took three emergency actions: **1.** to lend up to SEK 500bn to companies through the banks (13 March); **2.** to spend an additional SEK 300bn (or almost 6% of GDP), from March to December of this year on government bonds, municipal bonds and covered bonds, with an indication that it may decide later to expand into corporate bonds (16 March); and **3.** to enable dollar loans (USD 60bn swap line with the Fed) and to start buying corporate bonds (19 March). While a number of other central banks have recently cut rates, we think it is unlikely that the Riksbank will reverse the course of its monetary policy and come back to a sub-zero repo rate after having lifted it out of negative territory last December. The measures taken so far are more effective than a rate cut. According to a recent study led by the Riksbank, the central bank's bond buying scheme equates to 50bp in rate cuts.

STEEPEST MONTHLY PLUNGE IN MANUFACTURING PMI



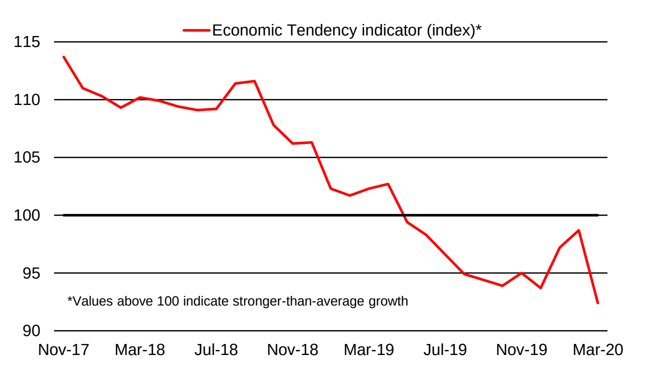
COVID-19 CONSTRAINING EFFECT ON GDP



Source: Swedbank & Silf, Statistics Sweden, UniCredit Research

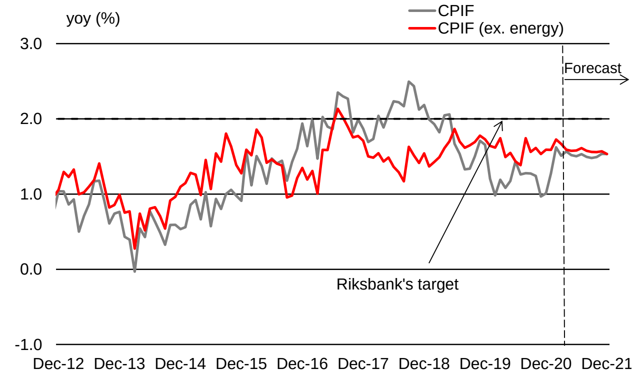
Sweden

ECONOMIC SENTIMENT



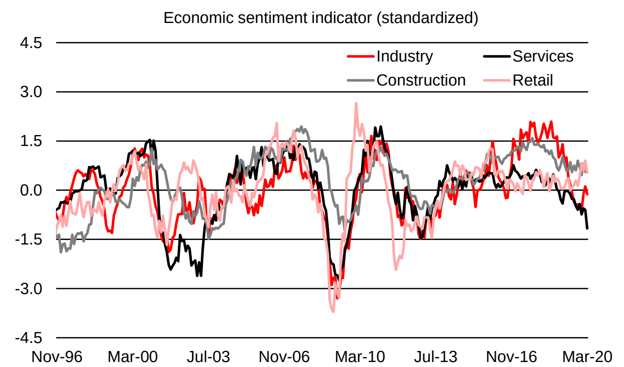
■ The economic tendency indicator fell 92.4 in March from 98.7 in February representing a near seven-year low.

INFLATION



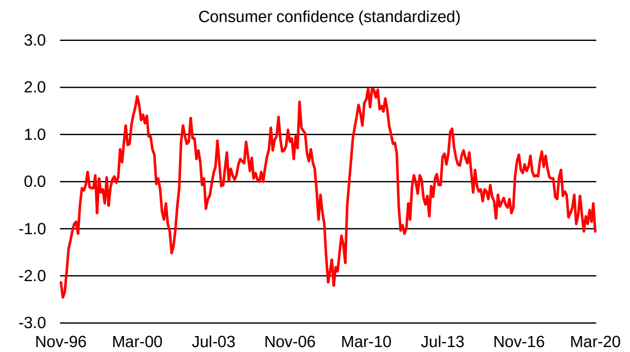
■ Subdued inflation due to lower oil prices and the COVID-19 virus.

BUSINESS SECTOR



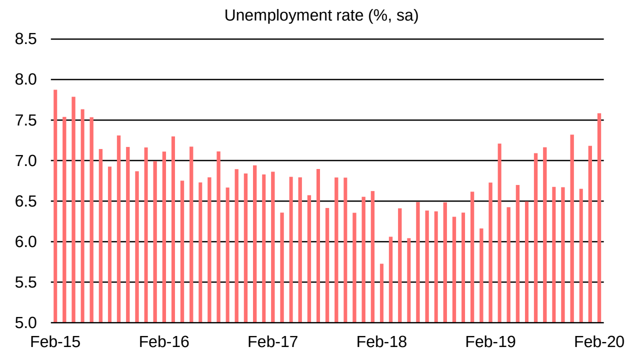
■ The services sector has been severely damaged by the downturn.

CONSUMER SECTOR



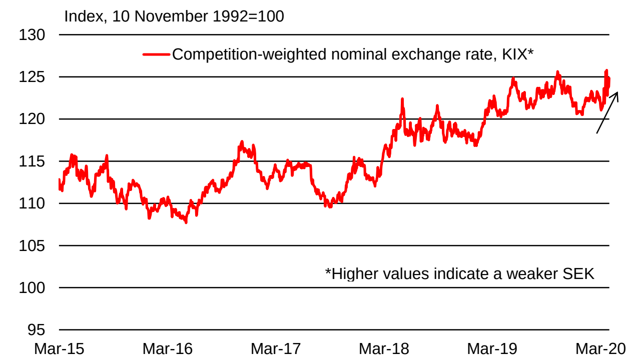
■ Fall in consumers' confidence in March following the assessment of their personal finances, likely due to concerns about the economic impact of the spread of COVID-19.

LABOR MARKET



■ The unemployment rate rose to a four-and-a-half year high in February.

SEK



■ The SEK weakened sharply in March partly due to the economic hit of the COVID-19 pandemic.

Source: European Commission, Statistics Sweden, Riksbank, UniCredit Research

Norway

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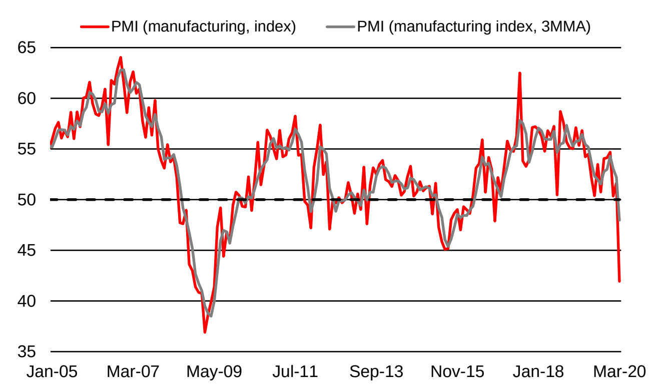
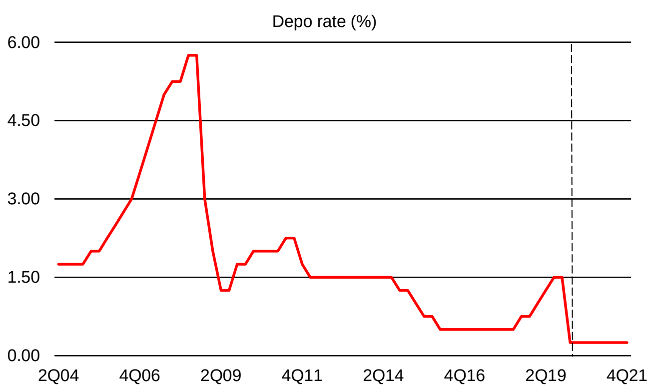
- We expect both the mainland and overall GDP to contract this year, by about 5.5% and 4.7%, respectively. The Norwegian government has recently extended to 13 April the far-reaching restrictions to try to halt the spread of the COVID-19 outbreak. These measures are likely to be extended again thereafter, which would hurt businesses and the economy further. Norway has started to be negatively impacted by the global downturn, the plunge in oil prices, and the restrictions imposed domestically. The economic impact from lockdown measures are likely to lead to mainland GDP shrinking for two consecutive quarters: by about 2.5% in 1Q20 and by a more significant 10% in 2Q20. Once the lockdown measures are gradually removed, mainland GDP is expected to rebound by about 5% in 3Q20 and 7% in 4Q20. The carryover effect at the end of this year will likely boost average mainland GDP growth to 6.5% and overall GDP towards 4.5% in 2021.
- The Norwegian government has recently announced a number of measures to help alleviate the economic shock of the COVID-19 outbreak, including **1.** offering NOK 6.5bn worth of tax relief and deferment; **2.** confirming that workers will now receive full pay for the first 20 days if laid off – their employers will only have to pay the first two days of their salaries, while the state will pay for the next 18 days; and **3.** proposing two new loan measures, providing support of a total of NOK 100bn. The first measure is a state guarantee targeted at bank loans to small and medium-sized enterprises worth NOK 50bn, while the second measure is a re-instatement of the Government Bond Fund worth up to NOK 50bn, to be invested in bonds issued by Norwegian companies. This latter tool was first used in the aftermath of the 2008-09 crisis. We think that the government will undertake much more significant fiscal expansion under these extraordinary circumstances as there is room to spend from the oil wealth fund, with the sovereign wealth fund providing a sizeable fiscal buffer.
- The monetary policy response was decided in two stages. First, during an extraordinary meeting on 12 March, the Norges Bank's Committee voted unanimously to reduce the policy rate by 50bp to 1.0% due to the outbreak of COVID-19. During the same meeting, the Norges Bank also announced that it would offer extraordinary three-month NOK F-loans (which are the primary instrument used to provide liquidity to the banking system) to banks as from 13 March 2020 "for as long as is deemed appropriate". The Norges Bank has advised the Ministry of Finance to reduce the countercyclical capital buffer for banks from 2.5% to 1%, with immediate effect. A reduction in the countercyclical capital buffer can counteract a tightening of banks' lending standards. Second, at another extraordinary meeting on 19 March, in response to the actions of other central banks, the collapse of the oil price, and the likely shock to economic growth, the Norges Bank decided to deliver a 75bp cut, bringing the depo rate down to 0.25%. We do not expect further policy action by the Norges Bank.

MANUFACTURING PMI DETERIORATED STRONGLY IN MARCH



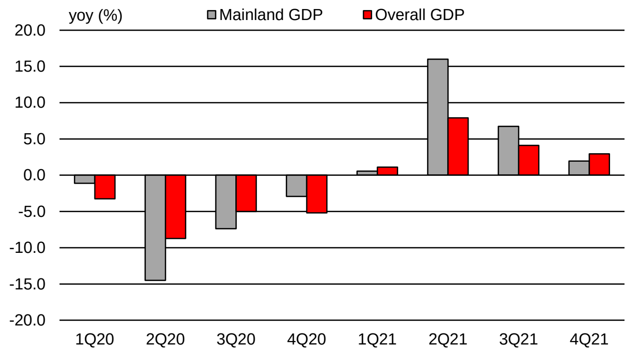
THE NORGES BANK DELIVERED



Source: NIMA Norwegian Association of Purchasing & Logistics, Norges Bank, UniCredit Research

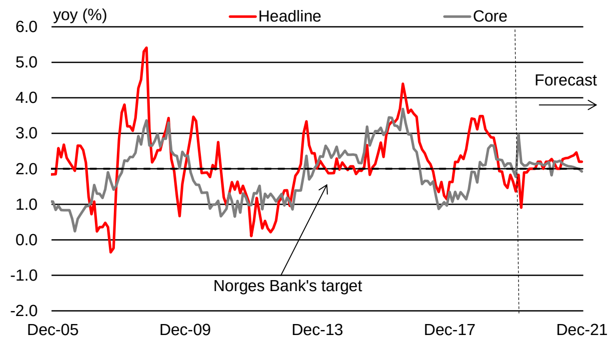
Norway

GDP



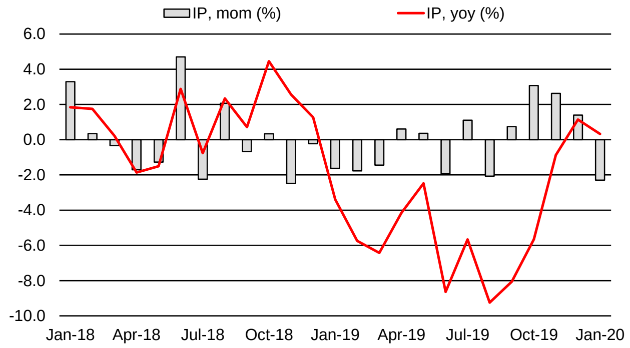
- GDP set to contract during 2020 due to COVID-19.

INFLATION



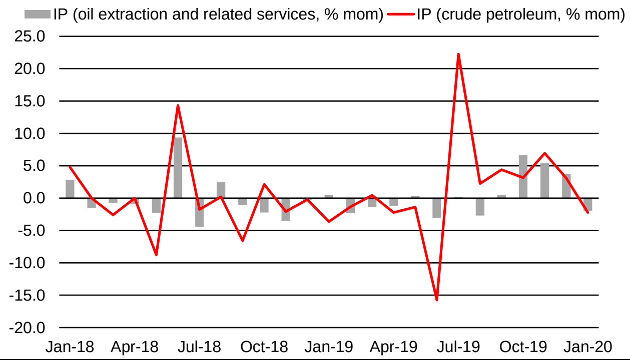
- Subdued inflation due to lower oil prices and COVID-19.

INDUSTRIAL PRODUCTION (I)



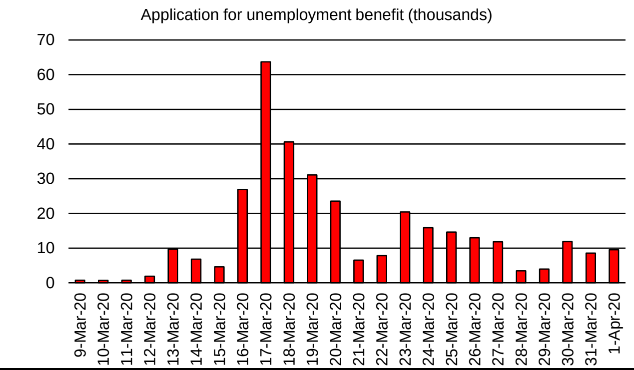
- Industrial production decreased 2.3% mom in January due to…

INDUSTRIAL PRODUCTION (II)



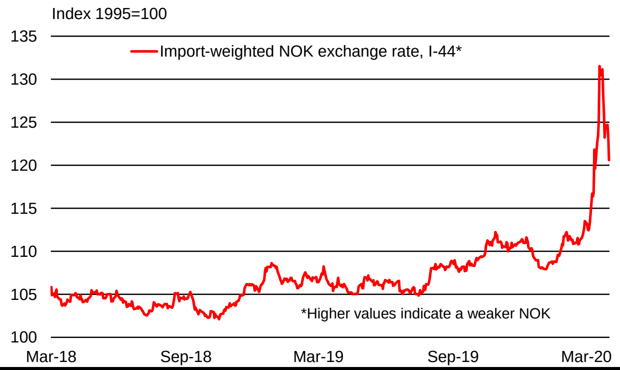
- … a contraction in the oil production, extraction and related services sector.

LABOR MARKET



- Daily data collected by the Norwegian Labor and Welfare Administration (NAV) indicate that about 11% of the labor force was unemployed in March due to COVID-19 disease.

NOK[1]



- After weakening in March, the NOK appreciated sharply at the beginning of April after the Norges Bank made clear that it is ready to intervene to defend its own currency.

Source: Norges Bank, Norwegian Labor and Welfare Administration, Statistics Norway, UniCredit Research

[1] The I-44 (NOK index) is a nominal effective exchange rate index based on NOK exchange rates as measured against the currencies of Norway's most important trading partners. A rising index indicates a depreciating krone.

Switzerland

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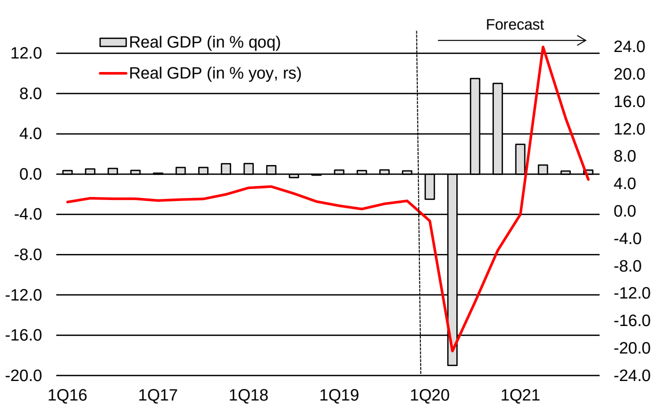
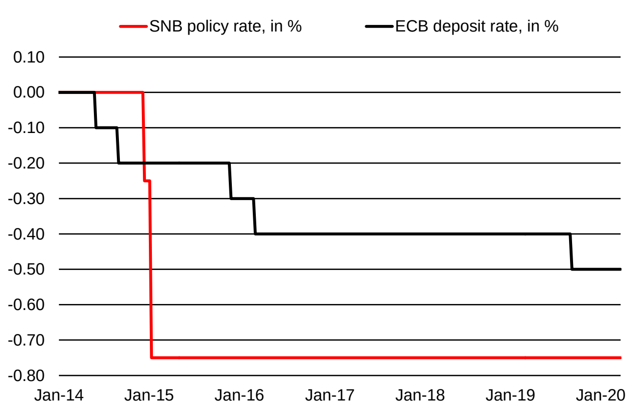
- The Swiss economy is likely to show a markedly strong decline in 2020 as we expect economic activity to plunge by about 10%. For 2021, we expect a significant rebound in GDP growth of around 9-10%. However, the risks are skewed to the downside. In terms of quarterly growth rates, we project economic activity to drop in 1Q20 (-2½% qoq) but mainly in 2Q20 by 19% qoq. For 3Q20 and 4Q20, we expect growth to recover by around 9% qoq each quarter. However, despite the strong rebound, GDP growth is likely to decline on average in 2020, with a large carry over into 2021, which should lead to a strong acceleration in economic activity next year.
- In March, the Federal Council announced two rescue packages totaling CHF 42bn (around 6% of GDP) to cushion the economic fallout from the **COVID-19 outbreak**. The aim of these measures, which target various groups, is to maintain employment, safeguard wages and support self-employed workers. Measures have also been taken in the cultural and sports sectors to prevent bankruptcies and to dampen drastic financial consequences.
- The major components of the second and larger rescue package (around CHF 32bn) are: **1.** liquidity support for companies to ensure that affected SMEs receive bridging loans (CHF 20bn); **2.** temporary, interest-free deferral of social security contributions; **3.** extended interest-free payment periods for taxes; **4.** extension and simplification of compensation for short-time working; **5.** compensation for loss of earnings for self-employed persons and employees; **6.** immediate financial aid for the cultural sector (e.g. arts, design, film, music and museums) and sports organizations as popular sporting events have had to be cancelled; and **7.** further measures to help the tourism industry and hospitals.
- Due to our baseline of a plunge in economic activity and a sharp decline in oil prices in 1H20, headline inflation is likely to decrease around 1% yoy on average in 2020, while being largely flat in 2021. The appreciation of the Swiss franc against other major currencies (due to its safe-haven status) will probably dampen inflation further.
- In March, the SNB left its key policy rate unchanged at -0.75%, instead relying on FX market interventions to counteract upward pressure on the CHF. The central bank also announced it would raise the threshold factor for exempting sight deposits from negative interest rates from 25 to 30. It further introduced a new lending instrument, the COVID-19 refinancing facility (CRF), which provides banks additional liquidity, charged at the SNB target rate, to support the economy. Additionally, the SNB reduced the countercyclical capital buffer to 0%. In our baseline scenario, we expect the SNB to remain on hold for the time being and to continue its FX market interventions to dampen upward pressure on the CHF, if necessary.

SWISS ECONOMY TO DROP MARKEDLY



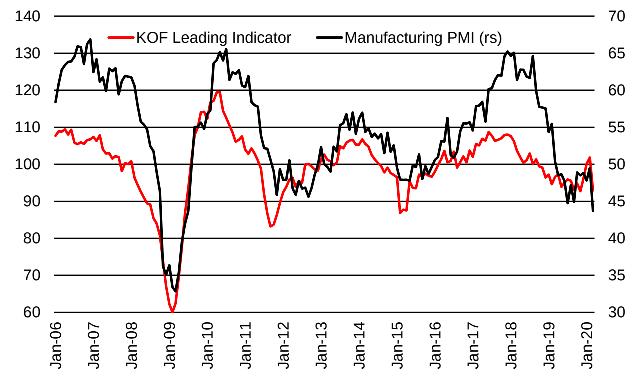
SNB TO REMAIN ON HOLD



Source: Bloomberg, Swiss Federal Department of Economic Affairs, UniCredit Research

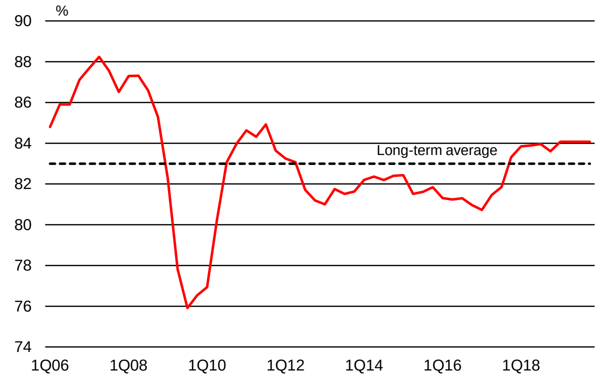
Switzerland

LEADING INDICATORS



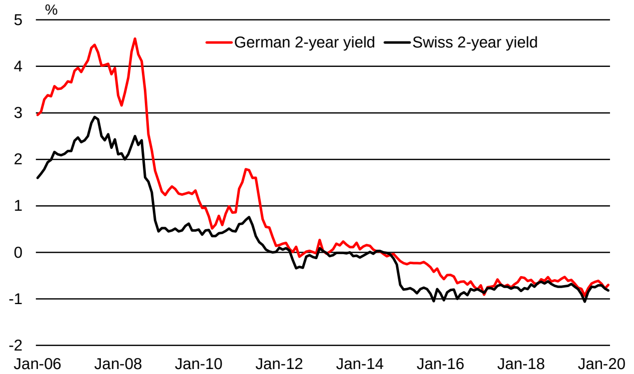
- The KOF Leading Indicator and the manufacturing PMI dropped significantly in the wake of the COVID-19 outbreak.

CAPACITY UTILIZATION



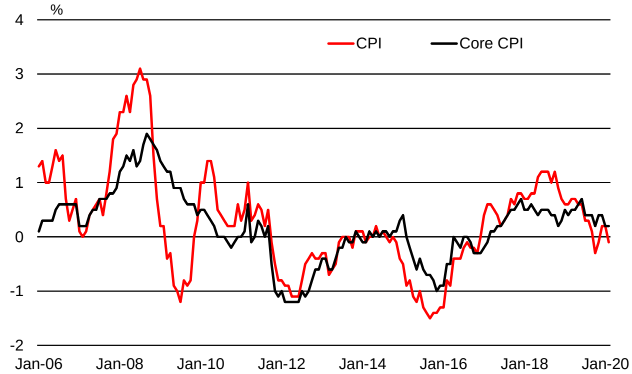
- Capacity utilization in the manufacturing sector remained above its long-term average before the COVID-19 outbreak but is likely to plunge in 2Q20.

GOVERNMENT BOND YIELDS



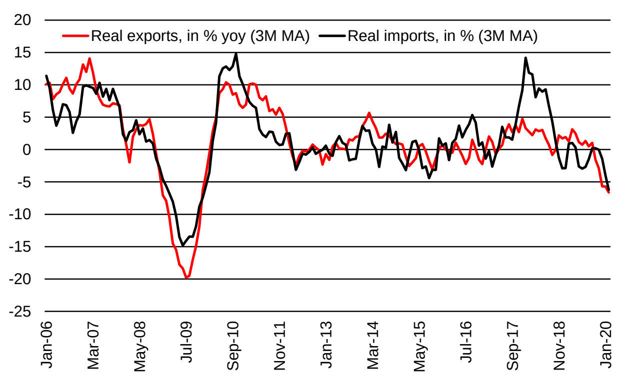
- The spread between German 2Y government bond yields and Swiss 2Y government bond yields has remained tight recently.

INFLATION



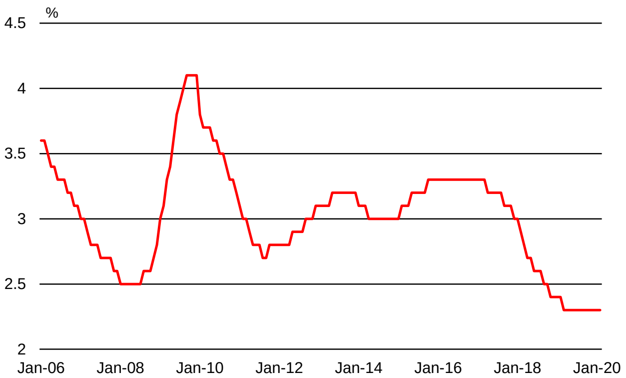
- Headline and core inflation were close to zero in February but are likely to decline sharply in the next few months.

INTERNATIONAL TRADE



- Exports have already been shrinking (latest available data: February 2020) but are likely to decline even more markedly in the next few months.

LABOR MARKET



- The unemployment rate has remained at a low 2.3% recently, but is likely to increase soon.

Source: Bloomberg, KOF, Federal Statistics Office of Switzerland, Federal Customs Administration, State Secretariat for Economic Affairs, UniCredit Research

China

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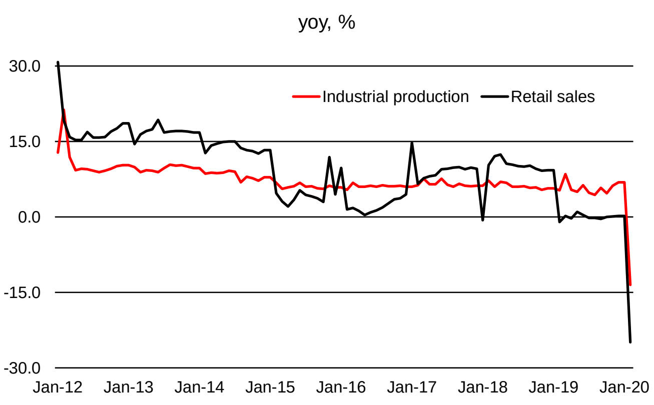
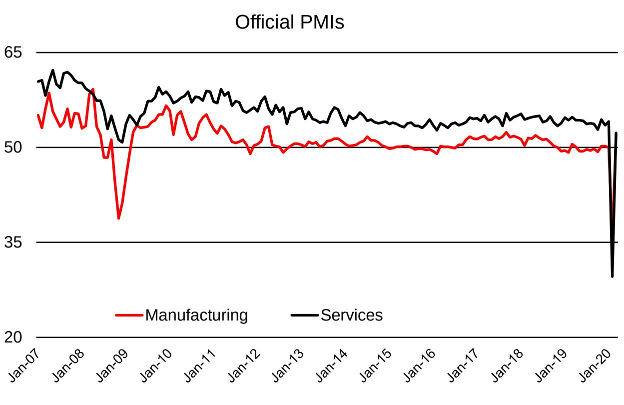
- We are downgrading our GDP growth forecast for China for 2020 to 0.6% from 4.2% . We expect a sharp contraction of 30% qoq in annualized terms in 1Q20 to be followed by rapid recovery in 2Q20 and 3Q20, of about 18% each quarter – with 2Q20 benefiting from a bounce back in domestic demand and 3Q20 supported by a gradual recovery from the health crisis in advanced economies in the summer. Economic growth should then start stabilizing in 4Q20 before moderately converging towards the quarterly path it was on prior to the COVID-19 outbreak. Given this growth backdrop, we expect that Beijing will fail to achieve its goal of doubling overall GDP from 2010 to 2020. For 2021, we expect GDP to grow by about 10% (previously 5.9%). These estimates are based on the assumptions that there will not be a second coronavirus wave, although the risk is non-negligible.
- The official manufacturing PMI rebounded in March, rising to 52.0 from 35.7. The services index also jumped above the 50 threshold to 52.3 from 29.6. The Caixin PMIs reported similar movements. These figures confirm that the Chinese economy has started to normalize, but the data should be treated with caution. The PMI survey asks firms whether there was an increase in activity compared to the previous month. Since in February the extension of Lunar New Year holidays, factory shutdowns, quarantines and other containment measures basically froze the economy, respondents are seeing improvements from a level of activity that was extremely low. Data on coal consumption and urban mobility, for example, seem to indicate that the Chinese economy is operating at 85-90% capacity, with a lot of variation across sectors and regions. Hard data indicate that economic activity was much weaker than expected in February. Industrial value-added figures, retail sales and fixed-asset investment recorded unprecedented contractions, while construction starts were down by over 40% yoy, and auto sales were down 42% yoy.
- On the policy front, Beijing has limited room for maneuver, having already adopted a combination of monetary, regulatory and fiscal measures, and showing little appetite for additional aggressive measures given that the shock also hit the supply side of the economy. The PBoC has activated a number of targeted lending facilities, lowered the reserve requirement ratio (RRR) and cut the loan prime rate (LPR) by 10bp. Some additional cuts to both the RRR and the LPR are in the cards, as well as the injection of more liquidity for SMEs, with a special focus on export-oriented firms. Some more action is likely to take place on the investment front, with digital infrastructure projects taking priority over traditional ones. To support the declining profits of SOEs that are primarily active in upstream industries, Beijing will likely stimulate the real estate and construction industry in order to activate demand for industrial commodities, boost their prices and increase SOEs' profits. Also the auto sector might benefit from fiscal incentives to purchase cars.

UNPRECEDENTED DROP IN ECONOMIC ACTIVITY



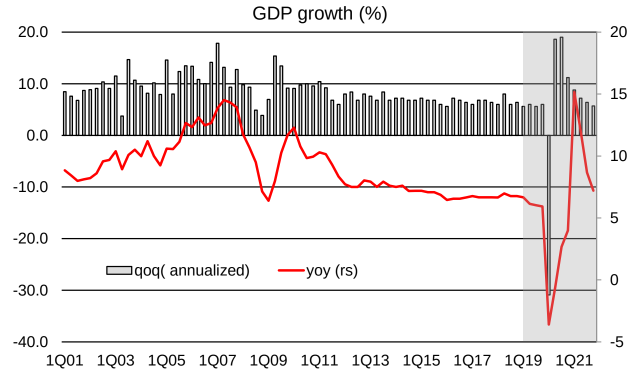
PMIs REBOUNDED IN MARCH



Source: NBS, UniCredit Research

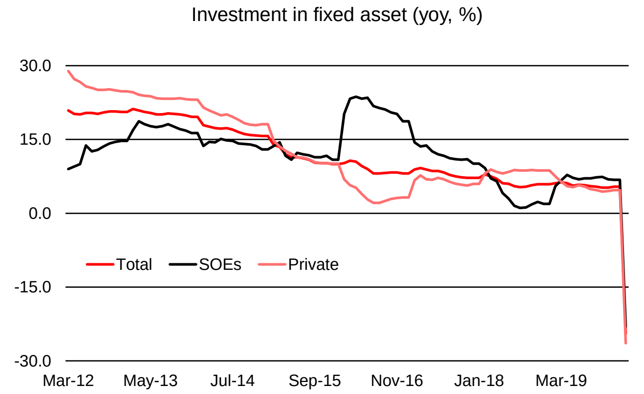
China

GDP



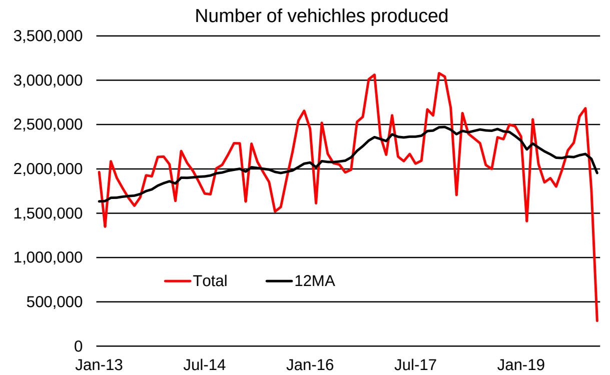
- GDP is expected to contract massively in 1Q20, before recovering ground in 2Q20 and 3Q20.

FIXED ASSET INVESTMENT



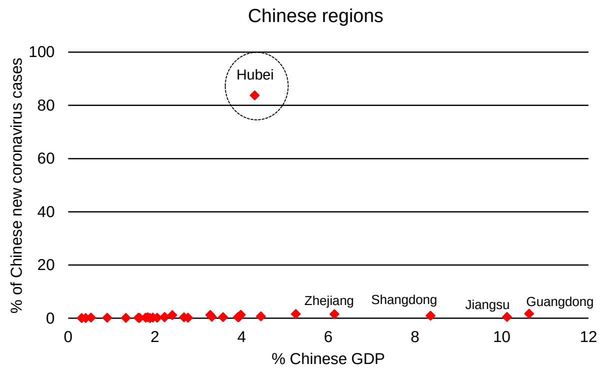
- Fixed asset investment sank in February across the board.

CAR PRODUCTION



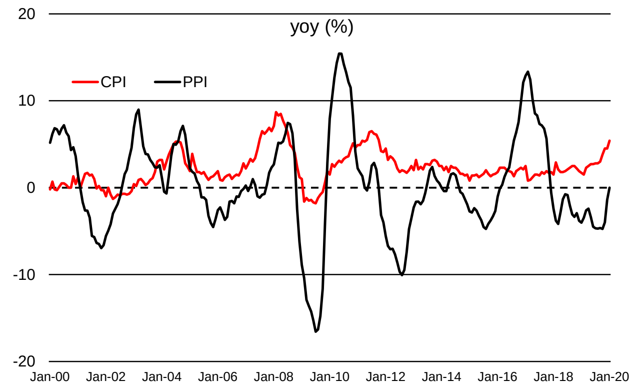
- Vehicle production sank in February, after having recorded a deceleration in previous months due to the trade war with the US.

COVID-19 SPREAD



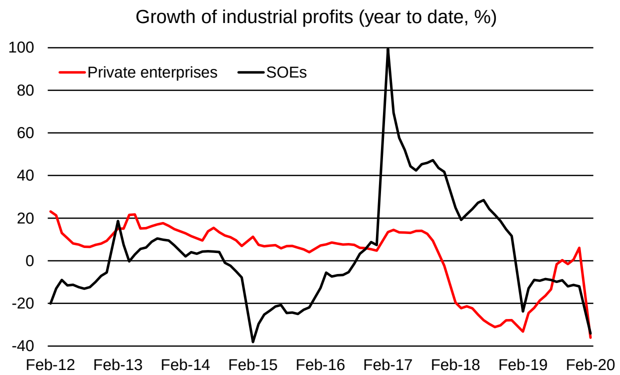
- Most of the COVID-19 cases in China were concentrated in Hubei, leaving many of the key production centers almost unaffected.

PRICES



- Consumer prices were on the rise at the turn of the year, primarily driven by food-related pressure due to rising pork-meat prices.

PROFITS



- Unlike in 2015, when SOE profits sank and Beijing adopted supply-side policies to boost them, February profits for private firms as well were deep in the red.

Source: China Automobile Manufacturers Association, Markit, NBS, UniCredit Research

Oil

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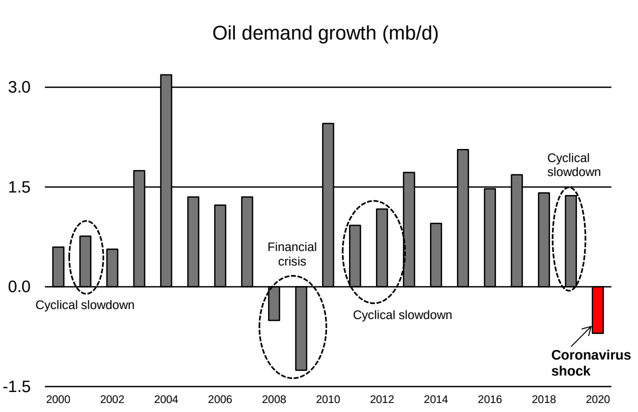
- We expect Brent prices to stabilize within the USD 35-40/bbl range for the rest of the year. Since the global demand outlook is deteriorating by the day, only a significant reduction in supply will be able to bring some price relief to the market. Some output adjustment is inevitable, with both traditional and US shale producers being forced to remove barrels from the market to allow prices to stabilize.

- In its March update, the International Energy Agency (IEA) lowered its demand forecast for a second consecutive month, penciling in a contraction of 90kb/d for 2020 – the first annual decline since 2008. However, its baseline scenario is benign, as China remains the main source of demand weakness while the global economy is expected to slow with a limited impact on oil demand. Therefore, it is more informative to consider the worst-case scenario provided by IEA that is closer to our baseline of a global recession in 1H20. This assumes around a 0.7mb/d contraction in global demand in 2020 due to the global spread of COVID-19 and a slower recovery in oil demand. In this scenario, output losses in terms of barrels would be slightly more than those recorded in 2008. Since the global macroeconomic outlook is rapidly deteriorating, we do not rule further downward revisions by IEA.

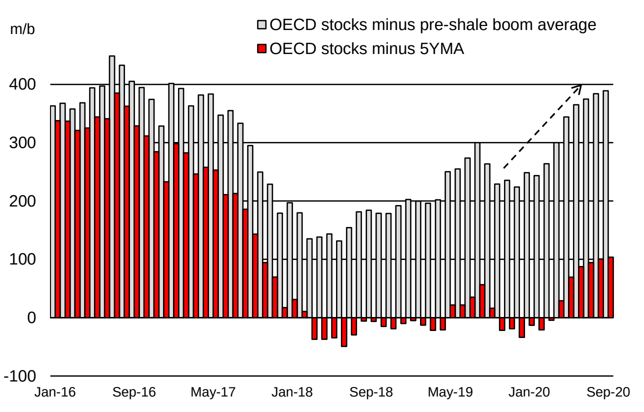
- The price war between Saudi Arabia and Russia risks flooding the market as soon as April, when OPEC+ members will no longer have to comply with any production quota and will be free to pump as much oil as they want. In our view, Riyadh, whose fiscal breakeven price is above USD 80/bbl, is playing hardball to force Moscow to decide where to stand: either it cooperates with OPEC to deepen and extend the curbs until December (for an overall cut of 3.5mb/d) or the OPEC+ alliance will collapse. In the latter case, OPEC will go it alone and remove barrels from the market (around 2mb/d), while the price that Russia will have to pay is a loss of influence in the Middle East from its OPEC+ membership. Also the Trump administration is currently intervening to facilitate dialogue between Russia and Saudi Arabia to address the current tensions. If there is no intervention at all, our risk scenario envisage prices to stay well below USD 30/bbl for the rest of the year.

- Whether the price war ends or not, the least competitive US producers will likely be pushed out of the market anyway as most of them need Brent price above USD 45/bbl. According to Energy Aspects, several US operators have announced cuts to their 2020 budget. And some key American producers asked the state of Texas to introduce curbs on overall production.

OIL DEMAND TO CONTRACT FOR FIRST TIME SINCE 2008



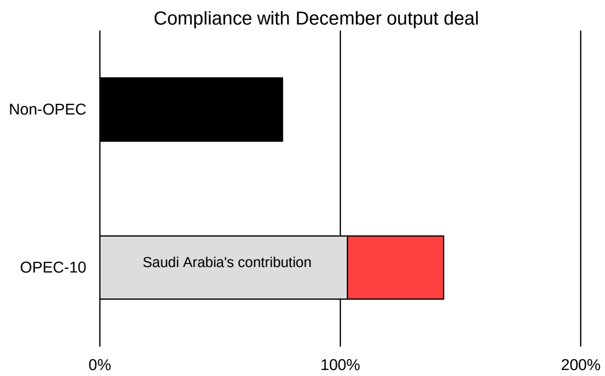
OECD INVENTORIES TO RISE SHARPLY



Source: EIA, UniCredit Research

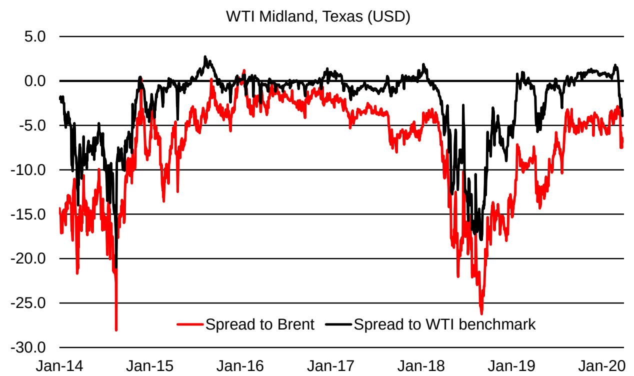
Oil

OPEC+ DEAL



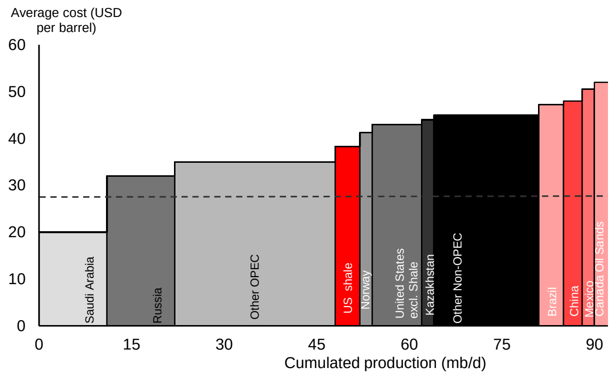
- Saudi Arabia is engaged in a price war with Russia, because Moscow was never been fully committed with the OPEC+ alliance.

PRICE SPREADS



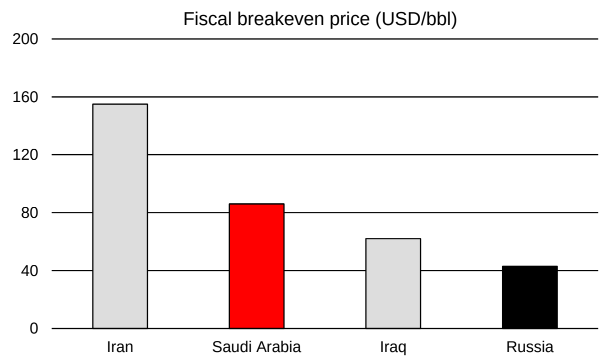
- The spread between the WTI Midland price (a gauge of the shale-oil price) and regular WTI is widening again – implying that shale-oil producers are pumping too much.

COST CURVE



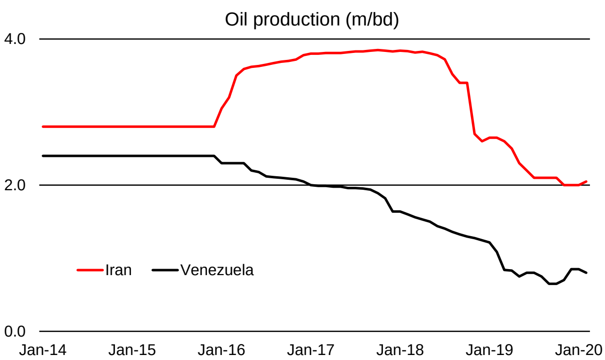
- With Brent hovering around USD 30/bbl, only Saudi Arabia would be able to fully cover its operational costs.

FISCAL BREAKEVEN PRICE



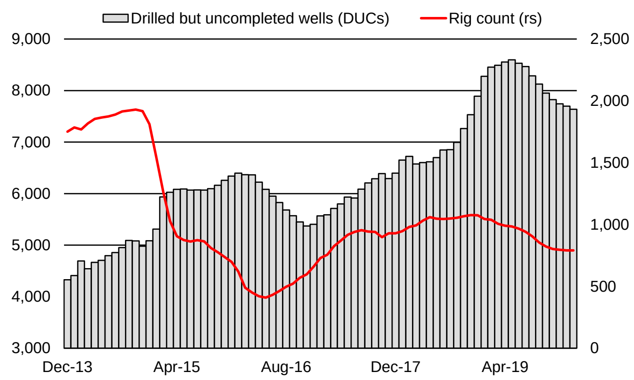
- Saudi Arabia is far less competitive than Russia in terms of the Brent price needed to balance its fiscal budget.

OPEC PRODUCTION



- As a result of stifling US sanctions, both Iran and Venezuela are giving a helping hand to OPEC with a heavily curtailed production.

US SHALE PRODUCTION



- DUCs in the US have peaked, meaning that producers are getting ready to adjust production.

Source: Energy Aspects, IEA, OEPC, UniCredit Research

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