KWR International has begun to prepare a timely Macro-Outlook Bulletin, which is now in beta development. To be placed on the no-obligation trial subscription list or for questions and more comprehensive monitoring, advisory support and customized bespoke research, please email KWR-Macro-Outlook@kwrintl.com . Thank you for your interest and support!

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"Desert locusts on Saturday (June 27) invaded Gurugram, a satellite city of India's capital New Delhi, prompting authorities to ask people to keep their windows shut and bang utensils to ward off the fast-spreading swarms." Straits Times, June 27, 2020

It's biblical man!

Summary: Between the COVID-19 pandemic, Africa swine fever, locusts in East Africa and South Asia, an unprecedented heatwave in northern Russia, a massive Saharan dust cloud moving through the Caribbean and into the southern United States, and social upheaval in the United States, there is a certain biblical feel. Will global warming bring a new great flood? This feeling was not helped by the International Monetary Fund's downward revision of its global economic

growth outlook. In April 2020, the IMF was calling for a 3 percent contraction; the new outlook calls for a shrinkage of 4.9 percent. Still, that is more upbeat than the World Bank's forecast for a 5.2 percent contraction in global GDP in 2020. Where does this leave us?

First and foremost, fear has crept back into markets. Consequently, the narrative for the global economy and markets has become a little bit starker. The rest of 2020 is going to be shaped by the following: COVID-19 infection levels; how various societies contend with the pandemic (such as greater fiscal spending); trade issues (is another round of trade wars looming); the U.S. presidential elections; and geopolitical tensions with China in Asia and with the United States. A potential game changer is finding a medical solution, which it has been suggested could be in December - though we will believe that when we see it.

This week's data in the U.S. will focus on pending home sales, the Case-Shiller home price index, Chicago PMI, consumer confidence index, ISM manufacturing index, FOMC minutes and the unemployment rate. The U.S. Labor Department's monthly jobs report will be important in terms of market direction, with the signs pointing to some downside concerns. Investors will be watching to see if the "green shoots" have made further progress in pulling the U.S. economy out its downturn. The other items that will be closely watched are:

- COVID-19 infection and hospitalization numbers, which are spiking in California, Texas and Florida;
- Stalled plans for further stimulus from Congress;
- Quarter- and month-end portfolio rebalancing conducted by pension and mutual funds.
- Hong Kong news will be closely watched as China's National People's Congress wraps up a meeting that will review and pass a controversial national security law for Hong Kong that will then come into immediate effect. July 1 also marks the anniversary of Hong Kong's handover to China; China has banned an annual protest march. Adding to the tension, Taiwan will open a new office dedicated to offering humanitarian assistance to Hongkongers seeking refuge from China's heavier hand.
- Disney in Tokyo is set to reopen on July 1.

Both in the short and medium term uncertainty is the main factor, largely built up around the pandemic. This uncertainty plays to gold, silver and the Japanese yen, but we would also consider defensive sectors in the U.S. and Europe. For those with stronger stomachs for risk we very selectively look to EM names. Although the Federal Reserve and other major central banks maintain considerable market support, fear can still run stronger. Despite all of the algorithms, animal spirits remain a powerful factor. Look to the fear factor keeping its place as the dominant narrative until there is a decline in COVID-19 infection rates. Until then, we see a greater tendency toward risk-off, than risk-on. (Scott B. MacDonald)

The IMF has the blues: The IMF June update on the global economy makes for sober reading. The report is straightforward; the IMF admits that it underestimated the negative impact of COVID-19. This also means the recovery is going to take longer and will not be as strong as initially thought. Advanced economies are expected to contract by 8.0 percent in 2020, before recovering by 4.8

percent in 2021. As for Emerging Markets and Developing Economies the contraction in 2020 will be 3.0 percent, followed by a rebound of 5.9 percent. The U.S. is expected to see a brutal 8.0 percent contraction. The economic landscape is highly challenging, to put it mildly, and there is a lot of room for things to get worse.

We take three things from the IMF forecast. **First and foremost**, there is tremendous uncertainty hovering over any projections. Among the variables conditioning uncertainty are:

- The length of the pandemic and required lockdowns;
- The ability of displaced workers to secure new employment, many in different sectors;
- The impact of changes to strengthen workplace safety – such as staggered work shifts, enhanced hygiene and cleaning between shifts, new workplace practices relating to proximity of personnel on production lines – which incur business costs.
- Global supply chain reconfigurations that affect productivity as companies attempt to enhance their resilience to supply disruption.

Latest World Economic Outlook Growth Projections (Real GDP %)

Country	2019	2020	2021
World Output	2.9	-4.9	5.4
Advanced Economies	1.7	-8.0	4.8
United States	2.3	-8.0	4.5
Euro Area	1.3	-10.2	6.0
Germany	0.6	-7.8	5.4
France	1.5	-12.5	7.3
Italy	0.3	-12.8	6.3
Spain	2.0	-12.8	6.3
Japan	0.7	-5.8	2.4
United Kingdom	1.4	-10.2	6.3
Canada	1.7	-8.4	4/9
Other Advanced Economies	1.7	-4.8	4.2
Emerging Markets and Developing Economies	3.7	-3.0	5.9
China	6.1	1.0	8.2
India	4.2	-4.5	1.0
ASEAN-5	4.9	-2.0	6.2
Russia	1.3	-6.6	4.1
Brazil	1.1	-9.1	3.6
Mexico	-0.3	-10.5	3.3
Nigeria	3.1	-3.2	3.4
South Africa	0.2	-8.0	3.5
Low-Income Developing Countries	5.2	-1.0	5.2

Source: International Monetary Fund.

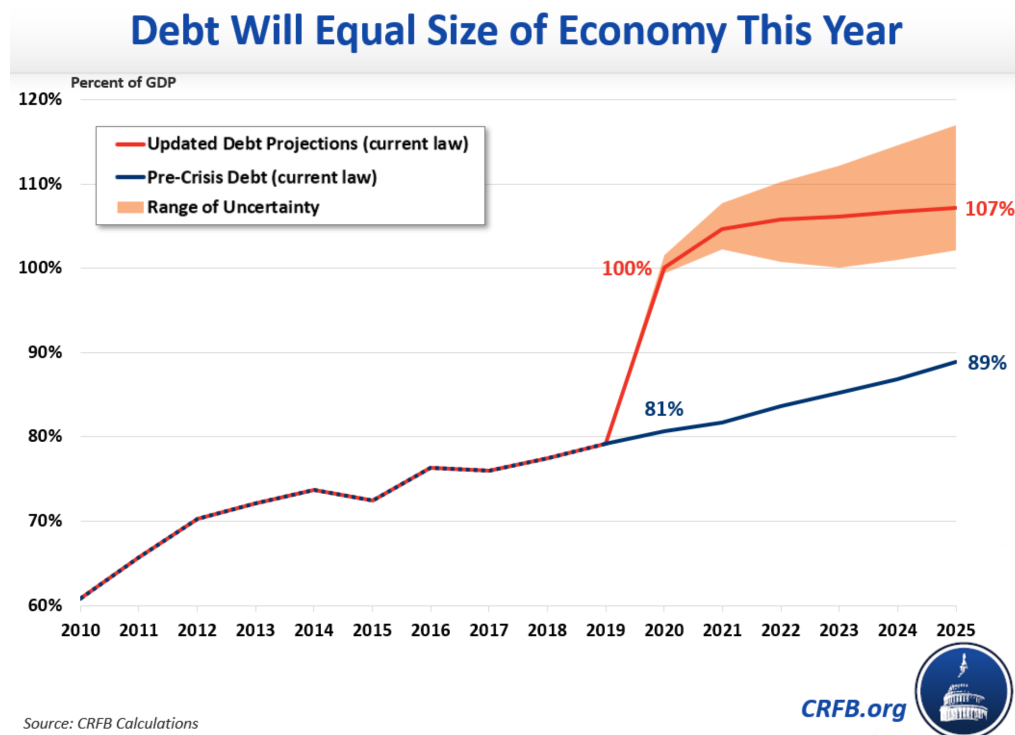
The **second** is there is a pressing need for better international coordination. The U.S., which has traditionally been at the forefront of pulling together or supporting multilateral efforts to coordinate policy measures, is largely missing in action. Indeed, the Trump administration has

opted to pull out of the World Health Organization (WHO) at a critical juncture. At the same time, China has used the COVID-19 pandemic to push a more aggressive stance around the world, playing military hardball with India over borders, threatening Taiwan and clamping down on Hong Kong, while at the same time extending a hand to many pandemic stricken countries with medical advice and equipment. And Europe is highly focused on internal challenges and lacks the clout to lead a multilateral effort. The outcome of all of this is a very disjointed international response, which hinders cross-border coordination and, indeed, fosters rivalry.

The risk from a lack of global leadership and the narrow, transactional pursuit of national interests reads like a playbook of the 1930s, when countries were often guided by governments playing to domestic audiences and were willing to kill trade via ongoing trade wars. The IMF rightfully makes the following point: "Strong multilateral cooperation remains essential on multiple fronts. Liquidity assistance is urgently needed for countries confronting health crises and external funding shortfalls, including through debt relief and financing through the global financial safety net. Beyond the pandemic, policymakers must cooperate to resolve trade and technology tensions that endanger an eventual recovery from the COVID-19 crisis." To this we would add that another round of trade wars (pushed by the Trump administration) could only delay an economic recovery.

The **third** item is that the crisis is likely to leave a long-term structural problem in terms of fiscal and debt matters, especially in the United States, Italy and the UK. As government spending has increased so has government debt. Italy's public sector debt to GDP was at around 130 percent of GDP prior to the pandemic; it is expected to head to around 150 percent before the economic disruption ends.

U.S. debt levels are heading into 1940s territory, a time when the U.S. economy was emerging from the 1930s depression and coping with a world war. The federal deficit is expected to reach record levels in 2020 (estimated by the Committee for a Responsible Federal Budget or CRFB to reach $3.8 trillion equal to 18.7 percent of GDP), much of which will be funded by Treasury bond sales. According to the CRFB, this will take U.S. debt to 100 percent of GDP and leave it on an upward trajectory through 2025. Although this manageable in the short term, it does raise issues of creditworthiness going forward, even for a country that provides the main international currency. It also raises very serious issues for whoever wins in November 2020 as to how to remedy the gushing tide of red ink.



The IMF's June 2020 economic update, *A Crisis Like No Other, An Uncertain Recovery*, provides an accurate depiction of where the global economy and by extension markets – are heading. The answer is they will be heading through a challenging environment, dominated by uncertainty rooted in dealing with the first truly global pandemic since the 1918-1919 Spanish Influenza. The problem is many countries went into the pandemic crisis with economies that had not fully dealt with some of the structural imbalances caused by the 2008-09 financial crisis. COVID-19 has amply shown the inadequacies in many economies; the next several years are likely to be consumed by dealing with those problems. The bottom line is there will be a recovery, but it will not be coming as fast as most people want it to. We are left to ponder the wisdom of Benjamin Franklin, who stated: "He that can have patience can have what he will." We are going to need a lot patience before the global economy hits "normal". (Scott B. MacDonald)

COVID-19, The Caribbean and what comes next: The COVID-19 pandemic has been an economic disaster for the Caribbean. In 2019 most the region enjoyed solid economic advances and forecasts for 2020 were promising. COVID-19, which arrived in March to the region, changed that. With the interruption of tourism and severe global downturn, many Caribbean nations have been forced to scramble to keep their economies afloat and a number are finding themselves squeezed in terms of their ability to repay their international debt obligations. No doubt 2020 will go down as one of the worst years in memory for the Caribbean. The IMF is forecasting a 10.3 percent contraction for tourist dependent economies before a recovery in 2021 of 4.8 percent growth.

The Caribbean holds one of the most open set of economies in the world. Most countries are small, import many of their necessities, and depend on foreign demand to pay their way in the world. While the export of gold, oil, natural gas, bauxite and nickel play an important role in a

handful of economies (Cuba, Jamaica, Trinidad and Tobago, Guyana and Suriname), the region is highly dependent on tourism. According to the International Monetary Fund, tourism accounts for 50 to 90 percent of GDP and employment for most Caribbean countries and territories. Among the most dependent on the flow of airborne tourists and cruise ships are Aruba, Antigua and Barbuda, the Bahamas, Barbados, Belize, and Dominica. Tourism also plays an important role in the Cuban economy, though economic data is less available.

Selected Caribbean Countries

	Real GDP % 2020	Inflation Rate % 2020
Antigua & Barbuda	-10.0%	1.4%
Aruba	-13.7%	1.5%
Bahamas	-8.3%	2.4%
Barbados	-7.6	4.5%
Belize	-12.0%	1.0%
Dominica	-4.7%	1.8%
Dominican Republic	-1.0%	3.5%
Guyana	52.8%	1.8%
Haiti	-4.0%	22.2
St. Kitts-Nevis		
St. Lucia	-8.5%	0.2%
St. Vincent & the Grenadines	-4.5%	0.9&
Suriname	-4.9%	27.9%
Trinidad & Tobago	-4.5%	-1.0%

Source: International Monetary Fund.

Caribbean leaders took a strong leadership role in dealing with the pandemic. This was prompted by a perception that the international multilateral system was faltering, strong global leadership was absent, and many of the key countries, like the US and UK, were struggling to deal with their own problems. Consequently, most Caribbean countries moved quickly to unilaterally close their borders, introduce quarantine measures, impose social distancing protocols, and worked harder to coordinate regional policies, especially in the procurement of PPE (personal protective equipment). The last was made harder for individual countries due to a traditional reliance on the United States in a time of crisis and the Trump administration's decision to block distributors from selling PPE overseas due to shortages at home.

CARICOM, the regional organization, was able to procure equipment and both the People's Republic of China and Taiwan were active in providing PPE to the region. Caribbean leaders have taken a strong role in dealing with the COVID-19 pandemic. Although the virus has caused considerable damage to local economies, it has not spread in the same fashion as it did in the United States, Italy or the United Kingdom. Some countries are reopening tourist facilities, though this is going to be a slow process, as many of the places tourists come from are still grappling with COVID-19 problems (the U.S. looms large in this). The IMF in June 2020 gave a particularly gloomy outlook:

> With tourism coming to a virtual standstill and key source markets in advanced economies plunging into deeper recession, the region is likely to experience a very sharp and

> protracted contraction in economic activity. Despite the reopening of borders starting in June for some Caribbean countries, international tourist arrivals are expected to return to pre-crisis levels only gradually over the next three years. In addition, the steep drop in oil prices is hurting commodity exporters through a loss in exports and fiscal revenues. The ongoing hurricane season poses additional risks.

Considering the bleak outlook (which could be a little overstated), sovereign ratings for Caribbean countries are likely to come under pressure. The Bahamas has already been hit hard; Moody's cut the Caribbean country from Baa3 to Ba2, a two-notch downgrade. Moreover, it left the Bahamas outlook negative.

The main reason for the downgrade was the COVID crisis, which worsened the country's fiscal and debt picture. The agency predicted that the Bahamas' debt burden could hit 85 percent of GDP by June 2021. As for the negative outlook, Moody's noted: "The negative outlook reflects Moody's expectations that given the severity of the Coronavirus shock, the government credit profile will continue to be exposed to downside risks related to the recovery of the tourist sector." The Bahamas is now rated Ba2 (negative)/BB (negative). The latter rating is from Standard & Poor's, which downgraded the Caribbean country in April 2020 from BB+.

Looking ahead, the Caribbean is likely to experience a more difficult time accessing international credit markets. The COVID-19 pandemic has hit the region hard and until there is a marked improvement on the health and economic fronts in key countries, such as the US, UK, Europe, and China, tourism is going to languish. This also means that the rating agencies are likely to keep ratings across the region on a downward trajectory. Aruba's BBB+ rating with Standard & Poor's in April was moved to negative as was Fitch BB rating. Jamaica's ratings (B2/B+/B+) are also likely to see more pressure as are Trinidad and Tobago's (Ba1/BBB-).

Most Caribbean governments are in emergency mode and they need to be. There is a way out of the crisis, but the region will require external assistance to buffer the worst of the downturn especially as access to international capital markets has become more restricted and ratings pressures have mounted. This means multilateral institutions need to be more flexible in providing assistance to the region, while the US, Canada and Europe should step up. There is also a geopolitical element in all of this – China has been active throughout the Caribbean in providing medical equipment and advice to deal with COVID-19. Its major state-owned banks, including the Industrial Commercial Bank of China (the world's largest bank by assets at $3.5 trillion), China Development Bank, and China EXIM Bank, are also opening up branches in Panama to better service the region. China has an opportunity to build on its reputation as a good partner in the region.

The Caribbean faces a radically different world from January 2020 as it confronts the present and future. At the beginning of the year, it was on an upswing, with the tourist sector looking to a strong world and commodity prices seemingly lined up for advances. By mid-2020 the entire region faces steep economic contractions, higher unemployment, and pressures on debt management. Regional leadership has stepped up and there is a greater awareness, as well as an

ongoing cynicism, of the need to better use regional organizations like CARICOM (the Caribbean Community) to pool resources and tackle issues such as food security. 2020 has thus far been a horrible year for the Caribbean, but the region has managed itself well thus far. With a little help, it can manage its way to a recovery. (Scott B. MacDonald)

Not a Good Year for India: India's geopolitical and socio-economic positions have been greatly affected by several extraordinary events in the first part of 2020. The country's rising COVID-19 infection rates and the government's response, related economic pressures, and intensified border tensions with China justify heightened concerns surrounding the macro outlook for India. Moreover, COVID-19 revealed many of the structural inadequacies that had been obscured by the country's economic advances over the last two decades.

In March 2020 the government imposed the largest coronavirus lockdown in the world, which left more than 100 million migrant workers unemployed and stranded in urban areas or industrial zones. According to the International Red Cross and WHO, many of these migrants starved to death during the long journeys back to their villages. On June 4, India's Supreme Court ordered the government to urgently comply with its directive to ensure the wellbeing of the millions of migrant workers. As of June 27, according to the Indian Ministry of Health, the country has 529,000 positive cases (one of the highest in the world). Sixteen thousand deaths have been registered. The numbers of infected and deaths continue to increase.

Among the inadequacies India suffers is its medical system. While parts of India's medical system have made considerable strides in recent decades, it has proven to be ill-equipped for the pandemic. According to the WHO, India has approximately one doctor per 1,500 residents. In rural areas, where two-thirds of the population resides, the ratio is one doctor to more than 10,000 residents. The WHO standard for reasonable medical care is one doctor per 1,000 residents.

Food security is another potential worry. According to the UN's World Food Program (WFP), roughly 195 million of India's 1.3 billion people are undernourished. This includes nearly 40 percent of its children who experience stunted growth, which hampers learning capacity, school performance, reduces wage earnings, and raises chronic disease levels. Although the government's large food security and anti-poverty programs have led to near national food self-sufficiency, new challenges have arisen, such as slowing agriculture growth, land degradation, and shrinking bio-diversity. WFP continues to strengthen the government's food distribution systems to improve efficiencies across all regions. The COVID-19 pandemic has added pressure on India's food security.

India is also coping with the devastating aftermath of Cyclone Amphan that tore through its southeast region and Bangladesh during mid-May. The cyclone left scores of dead and wide-spread destruction. According to the United Nations, more than 2.4 million people and 500,000 livestock had been evacuated to cyclone shelters. With an estimated $13.6 billion in damages, this cyclone was more destructive than Cyclone Aila that ripped through the region in 2009. International aid agencies will be working in these areas for some time.

Another challenge facing India is the country's growing debt levels. This is due in large part to a long-running problem with large fiscal deficits. Despite recent improvements, public sector debt has remained around 70 percent of GDP. Greater-than-expected expenses related to dealing with COVID-19 have raised the fiscal deficit and are expected to nudge public sector debt higher. The Indian government needs to borrow around 8.5 percent of GDP on a yearly basis. This has kept borrowing costs high for its private sector. It has led to capital constraints for Indian companies and probably slowed India's convergence with more developed Asian economies.

Key Indian Economic Data:

Real GDP Growth (Pct.)				**External Debt/ GDP (Pct.)**			**External Reserves (Mos. G&S)**		
2018	**2019**	**2020f**	**2021f**	**2018**	**2019**	**2020f**	**2018**	**2019**	**2020f**
6.8	6.1	-4.5	1.0	20.0	18.9	19.1	7.9	7.4	6.9

Source: IMF

Rounding out the bad news on the Indian economy, the IMF's chief economist, Gita Gopinat noted in June that India's economic downturn was "incredibly deep this year" with a revised outlook for its economy to contract by 4.5 percent in 2020 and rise slightly to approximately 1 percent in 2021. The government has limited means to inject a further direct stimulus into the economy. The May relief package equated to less than 2 percent of GDP. As a means to generate needed fiscal resources amidst the present lower tax receipt environment, the government raised petrol prices during the past several weeks believing it would limit public pushbacks as the commodity is deemed vital across all socio-economic classes. In light of current global economic trends, we believe the below listed sovereign ratings are subject to downgrade pressures.

India Sovereign Debt Ratings:

S&P Moody'sFitch
BBB- Baa3 ↓BBB- ↓

Source: Trading Economics.

India's macro outlook has been affected by a new round of tensions over borders (covered in our last issue). While Prime Minister Modi and President Xi had pledged to escalate relations between their countries to "greater" heights in 2020 with a series of celebration activities to recognize the 70th anniversary of their formal relations, 2020 is heading in the other direction. On June 15, 2020 the Galwan Valley border witnessed a major military flare-up, resulting in both Chinese and Indian casualties. Since early May, Chinese and Indian troops have been reportedly involved in several encounters at multiple points along the oft-disputed border in this remote region. In the aftermath, both sides presented various reasons for the skirmish based on supposed recent heightened provocations. This conflict recalled the border dispute between China and India that led to a full-scale war in 1962. Although China conclusively won that war, it retreated after a cease-fire to its pre-war position, later known as the Line of Actual Control. The June skirmish, which resulted in the first casualties along the border in 45 years, clearly signals the Sino-Indian relationship has now reached an ultra-competitive level that could present greater implications for geo-political positions throughout Asia.

The Indian government now faces several critical choices regarding its military capabilities and its relations with fellow democratic nations to balance a more aggressive China. In the aftermath of the border skirmish and surrounding the proposed new Hong Kong Security Law, it is clear Beijing is testing the limits of its assertive stance while India and its allies like the U.S. are focused on the coronavirus pandemic and its harmful impacts. Moreover, Washington's brewing battles with Beijing on several fronts including trade, cybercrime, and original mismanagement of the coronavirus outbreak arguably strengthen China's resolve against India. The U.S. has indicated a supportive position for India, while an effort has been made to bolster cooperation among what is being called the Quad-4, Australia, India, Japan and the United States. The Quadrilateral Security Dialogue was formed in 2007 and re-launched in 2017 and has served to deepen diplomatic and security ties among these nations, recently exhibited by upgraded military alliances between India and Australia. The geopolitical situation becomes even more interesting as New Delhi was voted onto the UN Security Council; India will be staring across the table at China on global issues for the next two years.

2020 will go down as one of India's most challenging years. It has been hit on the medical, natural disaster (including locusts), and geopolitical fronts. The economy has also been battered by events. Although the country is under considerable pressure, India has demonstrated considerable resilience in the past in overcoming major challenges. No doubt 2020 will see an overcoming of many of these challenges. The Modi government has a lengthy menu of challenges; the right selection is to shore up its international position, contain COVID-19, work to improve its healthcare system and return the economy to growth. (Robert Windorf)

Briefs (Scott MacDonald)

Egypt, COVID-19 and the IMF Rescue: Prior to COVID-19 Egypt made a considerable comeback from an earlier period of political and economic disruption. Working with the IMF, Egypt introduced a number of economic reforms, which made it one of the faster growing developing economies, marked (according to the IMF) by "strong growth, falling unemployment, moderate inflation, buildup in strong reserve buffers, and significant reduction in public debt." The pandemic has hurt Egypt's economy, slowing it to around 2.0 percent growth in 2020. To help Egypt maintain progress on reforms as well as meet the demands of the health crisis, the IMF decided in late June to provide Egypt with a 12-month Stand-by Arrangement with total access to about $5.2 billion, much of it earmarked for balance of payments financing needs arising from COVID-19. Egypt is rated B2/B/B+ and the outlook is stable for all three major rating agencies. Depending on the duration of the pandemic, we see Egypt's ratings stable in the short term, but would have to reassess that view if the global pandemic worsens and further downgrades global growth.

Singapore's Parliamentary Election: In late June, Prime Minister Lee Hsein Loong dissolved Singapore's parliament and set elections for July 10. The snap election comes at a time when the country is still dealing with COVID-19, which has plunged the economy into one of its rare recessions and left a degree of uncertainty about the future. The dominance of the People's Action Party (PAP), which has held power since 1959, is not in question. The ruling party faces 10

small opposition parties, many of which were unprepared for the snap election call. Although the economy is expected to contract by 3.5 percent in 2020, the government's handling of COVID-19 (with a total of 213 cases as of June 28, 2020) has been regarded as competent and transparent. The PAP is expected to retain its overwhelming majority in the 93-seat parliament. Singapore's sovereign ratings are Aaa, AAA and AAA. The outlook is stable.

Suriname's Empty Pantry: Suriname's new government is expected to arrive in office on July 15 and has its work cut out for it. Besides having to contend with the actual transition of power, dealing with the sticky problem of how to deal with outgoing president Desi Bouterse's criminal sentencing, COVID-19 and a steep recession, there is a risk of a default on foreign debt obligations. According to Trading Economics, Suriname's debt stands at $2.3 billion, which is a heavy burden on the country.

Part of the pressure on the debt front is from payments coming due on a $125 million bond which was issued via New York-based Oppenheimer to pay arrears to Alcoa (which has left the country) so that the Afobaka Dam would be fully owned by Suriname. The dam is a major source of power generation in the Caribbean country. We have heard that Suriname needs to repay $23 million by month-end. Suriname also has a 10-year $550 million bond, which it issued in 2016. Suriname was then rated B1/B+/B+; it now rated B3 (negative)/CCC+ (negative)/CCC.

The new government also has to deal with the outcome of the trial of the former head of the central bank, Robert van Trikt, for a major scandal involving the disappearance of $100 million (which has more or less been accounted for) as well as dealing with a review of the country's money laundering laws by the Caribbean Financial Action Task Force. Suriname has made some progress on anti-money laundering laws, but more needs to be done, especially considering the implications of not meeting international anti-money laundering standards – blacklisting of the country, which would greatly complicate the ability of local banks and businesses to conduct business. De-risking has already severely limited the number of international banks doing business with Suriname. We wish the incoming government good luck.

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