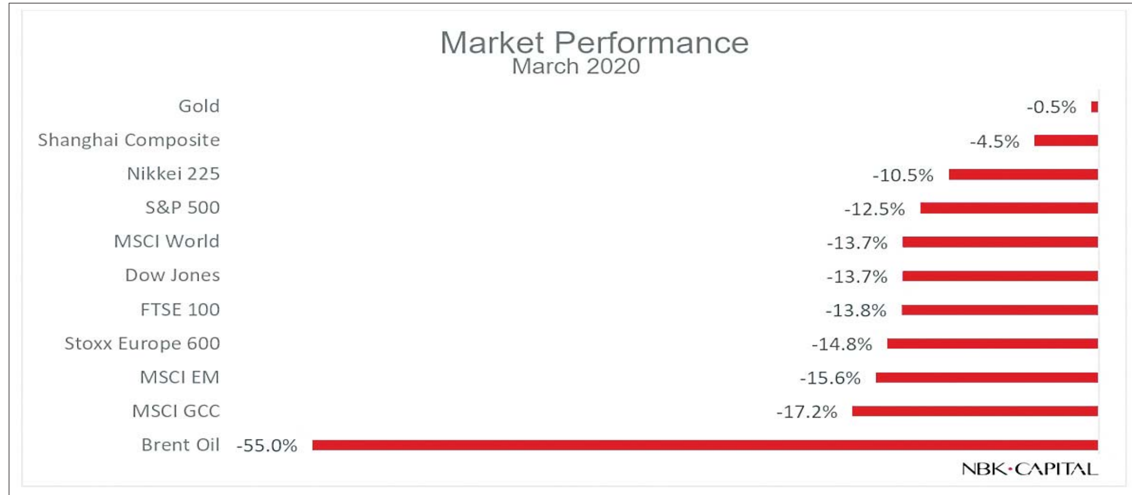
Dramatic losses and a turn for the worse for all markets in the region

Coronavirus entering the world market in a state of panic

Report prepared by NBK Capital

The month of March 2020 saw global markets go into panic mode over the COVID-19 pandemic that is sweeping the planet. With the center of the pandemic moving to the United States now after Europe, the total number of confirmed cases globally surpassed the one million mark with tens of thousands of deaths. In the US, where the pandemic is growing exponentially, more than 250 thousand cases have been declared so far. In the meantime, President Trump has warned of "very painful" two weeks at the beginning of April, as infections are expected to peak around mid-April.

The longest running bull market in the history of the United States came to a dramatic end in March. Major indices tumbled into bear territory with the S&P 500 and Dow Industrial Average (DJIA) declining by 34% and 37% from peak to trough between February 20 and March 23. Volatility spiked as the CBOE Volatility Index (VIX) surpassed 85.5, a level last seen during the financial crisis in 2008. For the month, the S&P 500 and the DJIA registered declines of 12.5% and 13.7%, while declining 20.0% and 23.2% respectively for the first quarter. The Nasdaq Composite held better than the broad market, declining 10.1% for the month and 14.2% for the quarter. Treasury yields, on the other hand, continued to sink to all-time lows, especially on the short end. The 2-year yield closed the month at 0.23% down from 0.86% at the end of February, while the 10-year closed at 0.62% down from 1.13% over the same period.



Markets around the world recorded double-digit losses, while central banks and governments scrambled to enact measures that would provide support for their economies amid fears of a deep global recession. The MSCI AC World Index declined by 13.7% in March bringing its quarterly performance to a negative 21.7%, while the MSCI EAFE saw declines of 13.8% for the month and 23.4% for the first quarter. The Federal Reserve slashed its federal funds rate by 50bps to a range of 1.0-1.25% then by a full percentage point to a range 0.0-0.25% in two emergency meetings on March 3 and March 15. The Fed also announced a massive easing program, which includes an unlimited asset purchase program, a lending program for businesses, and for the first time, a program to buy corporate bonds. On top of this monetary easing program, the US government is finalizing an economic stimulus package that is the largest in US history.

A $2 trillion bill that will provide the economy with a massive amount of loans, tax breaks, and direct payments to large and small corporates and individuals. In terms of economic activity, the numbers that were published for March would carry little meaning in terms of reflecting the actual state of the economy due to their lagging nature. Of the number announced so far and that would give a glimpse of how the lockdowns are affecting the US economy is the initial jobless claims for the week ending March 20, which shot up to 3.28 million from 282,000 the previous reading then recorded 6.65 million for the week ending March 27 shattering all expectations, while the Nonfarm payrolls for March, representing new jobs created by the US economy, plummeted to a negative 701,000. In the meantime, the unemployment rate ticked higher to 4.4% from 3.5%. It is worth noting here that these numbers still don't reflect the full picture of the economic reality which will become clearer in the coming weeks.

The picture in Europe wasn't any better during March where Italy, Spain, France and Germany were at the center of the global coronavirus pandemic. Travel bans across the globe including that to the US from Europe in addition to the underwhelming policy response from the European Central Bank pushed European markets further into negative territory during the month. The Stoxx Europe 600 fell by 14.8% to end the first quarter of the year down 23.0%. The German DAX and French CAC 40 dropped by 16.4% and 17.2% during the month to record declines of 25.0% and 26.5% respectively for the first quarter. Prior to the pandemic-induced market rout, the European economy was growing modestly.

GDP estimate for the fourth quarter was revised up to 1.0% year-on-year from 0.9% previously, compared to 1.2% for the two previous quarters. All economic indicators are, however expected to increasingly show significant declines. The Markit Manufacturing PMI declined to 44.8 in March compared to 49.2 a month earlier, but this level is still far from reflecting the full effect of the current crisis. The market is generally expecting much worse statistics to come out in the coming few weeks. The same applies to the UK were the FTSE 100 plunged by 13.8% during March recording a quarterly decline of 24.8% for the quarter.

In Emerging markets, the slump was generally more severe especially outside Asia. The MSCI EM Index declined by 15.6% during the month and 23.9% for the first quarter, whereas the MSCI Asia ex-Japan declined by 12.2% in March and 18.6% for quarter. The hardest hit markets during the month were Brazil's Ibovespa Index with a decline of 29.9% followed by India's Nifty 50 which lost 23.3% during the month. Elsewhere, Turkey's Borsa Istanbul 100 was down 15.4% and Russia was 9.9%, whereas Mexico and Taiwan were down 16.4% and 14.0% respectively.

In the GCC, equity markets sustained heavy losses during the month pressured by the global fallout of the coronavirus pandemic and by the unprecedented drop in oil prices which was triggered by the collapse of the production cut agreement. The collapse of oil prices was further compounded by concerns of significant demand declines for oil triggered by the worldwide drop in transportation activities as many countries moved into lockdowns in an effort to stem the spread of the pandemic.

The S&P GCC composite lost 17.7% during March compounding its first quarter losses to 24.8%, while the S&P Pan Arab Index recorded declines of 18.6% and 24.8% for March and Q1 respectively. Dubai's DFM General Index and Abu Dhabi's ADX General Index topped the list of decliners with 31.6% and 23.8% for the month respectively. Kuwait followed with The Boursa Kuwait All Share Index down 20.6% and the Premier Market Index down 22.8%. Bahrain's All Share Index and Oman's MSM 30 index, on the other hand, recorded losses of 18.7% and 16.5% respectively, while the Qatar Exchange Index was down 13.5%. Elsewhere in the Middle East, Egypt's EGX 30 dropped by 26.3% while the Morocco's Madex was down 21.3%.

Potential global economic rebound requires aggressive virus mitigation

Report prepared by QNB Economics

There is no future without a certain degree of uncertainty. In fact, all meaningful activities that are undertaken continuously or within a particular time frame carry risks, i.e., measured uncertainties. In a modern society, most events tend to fall within the confines of our regular expectations. However, certain occurrences are complete outliers, standing in the very extreme of the probability curve and unfolding consequences of massive impact to society. It is a convention now to call such events "black swans." Deriving their name from the legendary birds of Western Australia, black swan events are not only rare but also extremely difficult to predict and, not least, hard to quantify.

The spread of the pneumonia-like virus COVID-19 is a classic black swan event. After a massive outbreak in the city of Wuhan in China in late 2019 and early 2020, the virus spread throughout Asia before producing other outbreaks globally, including in Western Europe and the US. While the possibility of a global pandemic was widely known and even openly discussed by experts, the probability of its occurrence at any particular point in time was rather low or hard to predict.

Moreover, the overall impact of a pandemic was knowingly high but difficult to measure properly. Thus, it is not evident to find immediate, effective and unanimous reponse on a global level. As ever more countries had to move from containment to mitigation strategies globally, given the existence of community or local outbreaks of the virus in Asia, Europe and the US, stronger actions had to be taken in those countries.

At the time of writing, mass testing and different degrees of social distancing measures such as quarantines and lock downs have proven to be the "only game in town" in terms of credible mitigation strategies.

The main objective of mitigation measures is to lengthen the time through which the virus spreads, flattening the curve of infections before hospitals get overloaded by a sudden surge of severe cases. The aim is to save lives, increase recovery rates and avoid unintended consequences associated with an overwhelmed health system.

While necessary for mitigation, social distancing comes with economic costs. This piece dives into three key points associated with the strong relationship between mitigation measures and the global economy, which are expected to dominate the worldwide macroeconomic agenda over the coming quarters.

First, social distancing on a global scale produces powerful cascading sudden economic stops that bring both supply and demand to a virtual halt. As such, even the service sector, which is normally more resilient and less cyclical than manufacturing, is particularly affected. In this sense, large service-based economies such as the US, UK and other advanced economies are particularly vulnerable.

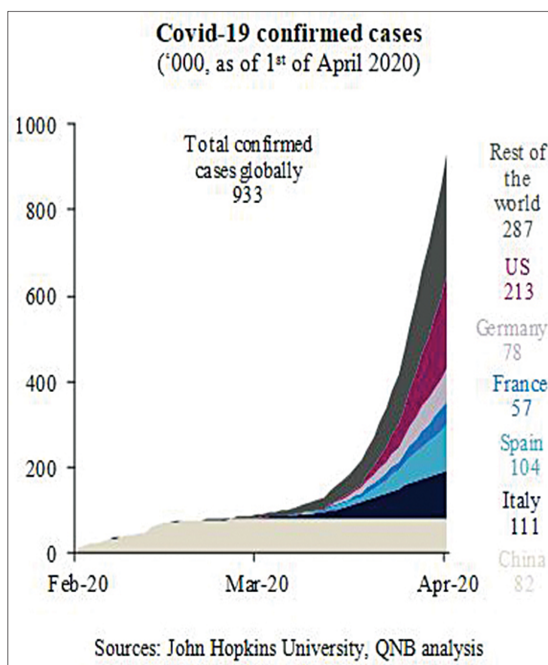
The global economy is expected to head this year to the sharpest and deepest slowdown since the post-World War II demobilization in the late 1940s.

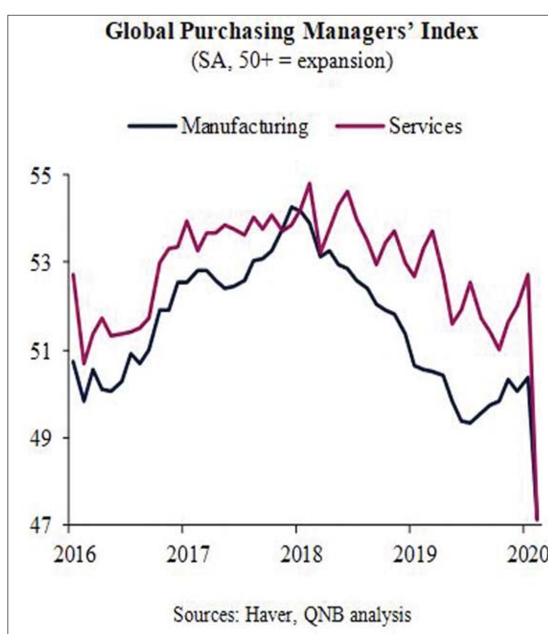
Second, over the medium term, there is no trade-off between COVID-19 mitigation and the economy. Make no mistake, there is hardly any chance of "normal" economic activity if a large share of the population gets infected in a short period of time and health facilities collapse.

Moreover, preliminary studies support that early and aggressive social distancing measures during the Spanish influenza outbreak in 1918 were key to reduce both mortality and the adverse economic consequences of the pandemic.

The recent experience of early adopters during the initial phase of Covid-19 spread (Hong Kong, Taiwan, Korea and Singapore) are consistent with the above findings.

Third, in countries with significant outbreaks, an orderly transition to economic and social normalcy requires a cautious stance with the use of new tools and approaches to prevent a "second wave" or further spread of the disease.





After transmission slows down and health infrastructure is scaled up to safely handle the outbreak, a gradual "re-opening" of the economy can take place. But this requires adequate testing capacity for early identification and isolation of existing cases. Data is of utmost importance to pinpoint areas of the spread and the rate of exposure and immunity of the population.

This, along with infrastructure for case containment and sufficient medical supplies, would be important for a smooth transition from horizontal social distancing (entire populations) to vertical social distancing (only the most vulnerable and the infected patients). Such a transition would precede a full-scale normalization.

All in all, the COVID-19 pandemic will have a deep but rather temporary effect on the global economy. Comprehensive fiscal and monetary support in all major markets should provide "economic security" during the slump and set the conditions for a healthy recovery. In fact, we expect an economic rebound in Q3 and Q4 2020.

However, this requires early and aggressive actions for COVID-19 containment and mitigation globally in an orchestrated manner.

UAE non-oil 'economy' faces stagnation in '20

Impact to be offset by rise in oil production: ICAEW

DUBAI, April 7: The UAE's non-oil economy will likely face recession in the first half of 2020, according to the latest Economic Update from chartered accountancy body ICAEW. This is due to the ramifications of the escalating coronavirus pandemic and the slump in oil prices temporarily impacting public spend. However, the total impact on the economy will be offset by the increase in oil production, following the collapse of the OPEC+ deal in March. This will result in overall GDP growth of 2.5% for the UAE in 2020, one of the strongest forecasts in recent years.

Economic Update: Middle East Q1 2020, produced in partnership by ICAEW and Oxford Economics, reports that the UAE's non-oil sector is expected to stagnate in 2020 with just 0.1% GDP growth, down from 2.5% forecast previously. Although the number of coronavirus cases in the UAE is still limited, the pandemic is taking its toll on activity. Momentum already slowed in the second half of 2019 and, in February 2020, the Purchasing Managers' Index (PMI) fell to its lowest level since Dubai's 2009 debt crisis. With output levels contracting, further sharp declines are expected. Only 39% of respondents of the latest PMI survey data were hopeful that activity would improve over the next year.

The tourism sector, a key pillar of the UAE non-oil economy, is looking particularly vulnerable now that the virus epicentre has shifted to Europe – which is a key market for inbound travel and tourism. The industry contributes over 10% of GDP, directly and through its impact on the supply chain, as well as the spending its employees support. Travel restrictions in place around the world and reluctance to travel from countries where restrictions aren't in place have caused tourist arrivals and hotel occupancy to slump significantly. With tourist attractions, restaurants, and shopping malls empty and operating on reduced opening hours, there is reduced scope for domestic visitors to compensate. Most restrictions are scheduled until end-March/early-April but are likely to be extended – which may lead to the economy grinding to a standstill in Q2. According to the Economic Update, any extension of restrictions would trigger further downgrades to the current forecast. However, robust oil sector performance is expected to offset these declines. Like other regional producers, the UAE has had to abide by OPEC-mandated oil production cuts, which has held back the contribution to growth from the oil sector. But with the OPEC+ deal collapsing, oil output may rise by over 8% this year, the strongest pace since 2011. Although the plunge in oil prices will temporarily affect the UAE public purse, the country's finances are robust enough to sustain spending during this temporary weakness. The Dubai Government started the year with its largest-ever budget, which underlined its commitment to a successful implementation of Expo 2020. The Abu Dhabi Government is also implementing its stimulus plan, which was announced in H2 2018.

Michael Armstrong, FCA and ICAEW Regional Director for the Middle East, Africa and South Asia (MEASA), said: "We applaud the UAE's proactive approach in fast-tracking the necessary economic relief measures, in line with the International Monetary Fund and World Bank's recommendations for countries globally during the COVID-19 pandemic. We also commend HH Sheikh Mohamed bin Zayed Al Nahyan's message in reassuring the country during these trying times and his support of the G20's $5 trillion global stimulus plan. We expect that these efforts will help ease the economic pressure on businesses and households so that they can bounce back quicker from this crisis. "The postponement of Expo 2020 Dubai eliminates one of the factors that could drive a strong economic rebound in the second half of this year. However, a delay of up to a year poses a greater opportunity for success – which will result in a more significant overall contribution to the economy. We are hopeful that the global efforts to manage the virus will succeed."

The UAE Central Bank and Federal Government have announced additional measures to support the economy through the crisis. These include support for banks through zero-interest collateralized loans and freeing up banks' capital buffers. The Dubai and Abu Dhabi Governments have announced measures to help businesses with rents, lower utility bills, and accelerating capital investment measures. These policies are not only aimed at supporting households and businesses throughout the crisis period, but to enable them to benefit in the subsequent upswing. The weakening momentum in the UAE economy is expected to weigh on prices, as inflation remains negative, with the Consumer Price Index (CPI) falling 1.9% year on year in 2019. According to the Economic Update, headline inflation is mostly being dragged down by the weak property market that has resulted in an ongoing decline in rents. While the relevant authorities have taken measures to tackle oversupply, residential sales prices have continued to fall. ICAEW says that market conditions are unlikely to see much of a rebound in the near future, given the job market uncertainty and subdued demand. Price pressures in other sectors are also uncertain – resulting in another year of deflation in the UAE.

As part of Reliance Worldwide CSR in tackling virus

Reliance Worldwide provides Smart eToilet at (KIPIC) Quarantine zones at Al Zour Area

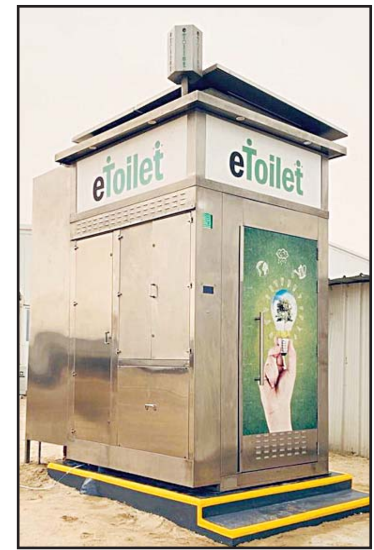
KUWAIT CITY, April 7: As part of Reliance Worldwide, Corporate Social Responsibility (CSR), acting first responders to tackle coronavirus in providing the full-stream with latest technology known to break through sanitation. The Smart eToilet is going to be provided at special camps to support KIPIC (Kuwait Integrated Petroleum Industries Company) quarantine and the people of (KIPIC) during the phase of corona fight.

Al Saleh

On this situation, the CEO of the Reliance Worldwide, Amjad Al-Saleh, mentioned that Reliance has provided the quarantine zone that implemented by (KIPIC) at Al-Zour zone smart electronic toilets, which are the first Smart eToilets in the Middle East and North Africa, equipped with the latest technologies related to the public health and sanitation sector, explaining these Smart eToilets are environmentally friendly IoT-Based (Internet of Things) system with advanced smart solutions to ensure the safety of users with sanitation which approved by the FDA.

Al-Saleh added in a press that the integrated services provided by Reliance Worldwide to its clients are very sophisticated and contribute as means to combat diseases and provide an appropriate healthy environment facing the consequences of the spread of this virus, adding that the designs provided by the company are compatible with environmental, health and technical standards and the nature of the existing climate, in addition to its keenness to provide the best solutions for the safety of the human and the environment through self-sterilizing, cleaning and solar energized eToilets according to the highest standards of WHO.

He explained that the cooperation between the two parties comes within the framework of what the company possesses of the capabilities provided by the IoT (Internet of Things) system and integrated services that can be provided in this regard, and that the company is working to put all its technical and human capabilities in order to contribute to facing the repercussions of this epidemic and to preserve the citizens and residents and their safety, confirming Reliance believes in proactive social responsibility to act accordingly and to be among frontliners, reflecting the role of the Kuwaiti private sector organization in supporting the oil & gas sector organizations in relation to the interest of the country.



Smart eToilet

Al-Saleh added also that Reliance Worldwide is fully prepared to cooperate with the authorities to provide its integrated technical solutions and help increase the capabilities of government agencies and the private sector through its specialization in the areas of public health and catering services supplies and integrated solutions related to public health and the environment in order to support in this situation and contribute to increase capabilities of government agencies and organizations in order to achieve the required goals and achieve the desired results.

It is worth noting that Reliance Worldwide is one of the best companies in Kuwait and the Gulf region that is capable to develop high-level technological solutions in the sector of building Smart eToilets where its capable of achieving the best results required and safely.

Emerging markets confront rising risks – S&P

LONDON, April 7: Emerging markets (EMs) are facing severe stress resulting from three simultaneous shocks, as COVID-19 pandemic spreads globally, according to a report S&P Global Ratings published earlier today, titled "Emerging Markets: Empty Streets And Rising Risks".

All key emerging economies that we cover will fall into recession or see sharply lower growth in 2020.

We believe stress could become more significant in the coming weeks given that most EMs are only beginning to show an escalation of COVID 19 cases.

As the epidemic accelerates, measures to contain the spread of the virus will compound the hit to economic activity from external shocks. The strength of eventual recovery will crucially depend on policy measures to cushion the blow and limit economic dislocation. Policy space differs across EMs.

Downside risks are significant. Prolonged outbreak will depress activity and stress health systems. Extended shock to investor sentiment could result in heightened refinancing risk, especially for low rated issuers.

This report does not constitute a rating action.