The Week Ahead

Active is: Keeping an eye on capital markets

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Nothing is impossible

Even though OPEC and its allies recently agreed to reduce oil production by 9.7 million barrels per day from May to mitigate the increase in inventories due to the demand shock, **oil prices** did not remain supported for long; for a short time, they even dropped below zero for the first time in history. While this phenomenon was largely due to the contango situation in the futures market, there is still a global “oil glut”, despite the unprecedented production cuts. And oil prices are unlikely to rise, as demand remains low and additional oil storage capacities are scarce. The budgets of the oil-producing countries will probably come under considerable stress as a result (see our *Chart of the Week*).

The coronavirus pandemic has triggered an unprecedented shock to both supply and demand, which has driven the world economy into the deepest recession since the Great Depression of the 1930s. According to the latest International Monetary Fund (IMF) forecast for **global growth**, global GDP is likely to shrink by -3% this year (by comparison, it contracted by only -0.1% in 2009, in the wake of the financial crisis). This development is increasingly reflected in the cyclical data. Some US leading indicators dropped to their lowest levels in 40 years; during the past month alone, the aggregate number of US jobs created during the past decade was lost. This will certainly impact retail sales. Waning demand from the Western industrialised countries will weigh on Japanese and Chinese exports in particular; in the first quarter of 2020, China registered negative year-on-year growth for the first time ever (-6.8%).

The IMF forecasts a recovery and a growth rate of 5.8% for 2021, provided that the pandemic is contained, and activity picks up during the second half of 2020.

The **fiscal and monetary measures** taken around the globe will help to support the economy. The US government, for example, has adopted spending packages equivalent to 8.3% of GDP in total.

Publications

Shockingly low oil prices will shake up the energy industry, but it should recover

The coronavirus crisis and a price war have pushed the oil price well under USD 20 per barrel, with some futures contracts even falling below zero. We expect this to trigger many structural changes – both positive and negative – that investors will be able to factor into their portfolios before the energy industry recovers.

Artificial Intelligence – Part of everyday life, driving our future

Artificial intelligence is all around us. It is part of everyday life, and gaining ground all the time. The investment opportunities are many and varied. The “creative power of destruction” is unstoppable. On the contrary. And it’s only just beginning.

With China going back to work, how are other Asian economies faring?

Asian markets experienced a rollercoaster ride in Q1, chiefly due to the impact of the coronavirus outbreak. Now there are signs that a recovery in China, albeit moderate, may help wider Asian economies to stabilise. This could create opportunities for long-term investors.

In addition, it will provide guarantees and loans worth 2.4% of GDP. Meanwhile, the US Federal Reserve increased its balance sheet volume by more than USD 2.2 trn (a 53% uplift) to USD 6.4 trn between the end of February and mid-March. We expect the balance sheet to expand further, to USD 8-9 trn, by the end of this year. By comparison, EU governments are planning fiscal packages worth almost 21% of GDP in aggregate.

The Week Ahead

In the **US**, the first piece of data to be released next week is the Economic Activity Index compiled by the Dallas Federal Reserve (on Monday). Manufacturing activity looks set to decline further from its all-time low in the preceding month, not least due to the oil market disruptions. Since Texas is the US state with the largest exports and produces almost 10% of total US output, this development will likely have an impact on the national economy as well. The first **US GDP growth estimate** for Q1 will therefore attract much attention on Wednesday, together with the Fed rate decision. On Thursday, the focus will be on consumer spending and on initial claims, and the ISM Index for the manufacturing sector might drop to its 2008/2009 levels on Friday.

The most important **euro-area** figures will be released on Thursday, above all the latest labour-market figures for the euro area as a whole and for its three largest economies (Germany, France and Italy). Consumer prices are likely to decline further, and attention will focus more on the press conference of the **European Central Bank** than on the rate decision.

In **Asia**, attention will focus on **China** and its manufacturing Purchasing Managers' Index (PMI) on Thursday. Following recent signs of a V-shaped recovery, observers will be particularly interested in whether the recent increase in production capacities will affect local companies' assessment of the current situation. The monetary policy committee of the **Bank of Japan** will meet on Tuesday. The release of its quarterly economic outlook, which will include adjusted growth forecasts, and the recent global monetary policy measures might give it a reason to act, particularly since the real economy data will probably indicate further weakness on Thursday.

Active is:

The race for coronavirus drugs, vaccines and quick tests, and the significant fiscal and monetary packages, have triggered a recovery rally on the asset markets during the past four weeks, which is largely based on hopes: hopes that the supply and demand shocks and the worsening financial conditions can be buffered. The American Association of Individual Investors (AAII) has registered a steady decline in the proportion of bears since the beginning of the month. According to data provider EPFR, riskier assets, such as corporate bond or equity funds, recently saw weekly record net inflows. Only fund managers are still cautious, as the latest survey by the Bank of America suggests: high cash ratios and the lowest equity allocation since March 2009 indicate that professionals are still reluctant to invest.

Keep well! Yours

Stefan Scheurer

Upcoming Political Events 2020

Apr 27: BoJ meeting

Apr 28: FOMC meeting

Apr 30: ECB meeting

Overview political events 2020 (click here)

Overview Central Banks Calender (click here)

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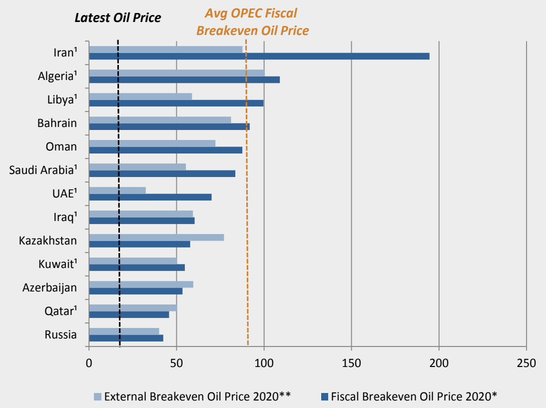
Chart of the Week

Oil price puts budgets of the oil-producing countries under pressure



*Notiz: * The oil price that would balance the budget ** the oil price that balance the current account. Sources: Bloomberg, Datastream, AllianzGI Global Economics & Strategy.*
[1] OPEC members

Calendar Week 18:

Monday			Consensus	Previous
US	Dallas Fed Manf. Activity	Apr	-75	-70
Tuesday				
FR	Consumer Confidence	Apr	--	103
JN	Jobless Rate	Mar	--	2.40%
JN	BoJ Interest Rate	Apr 28	--	-0.10%
JN	BoJ 10-Yr Yield Target	Apr 28	--	0.00%
US	Wholesale Inventories MoM	Mar P	--	-0.70%
US	Conf. Board Consumer Confidence	Apr	90	120
US	Richmond Fed Index	Apr	--	2
Wednesday				
EC	M3 Money Supply YoY	Mar	--	5.50%
EC	Economic Confidence	Apr	--	94.5
EC	Industrial Confidence	Apr	--	-10.8
EC	Services Confidence	Apr	--	-2.2
GE	CPI YoY	Apr P	--	1.30%
IT	PPI YoY	Mar	--	-3.80%
US	GDP Annualized QoQ	1Q A	-3.00%	2.10%
US	Personal Consumption QoQ	1Q A	--	1.80%
US	Pending Home Sales NSA YoY	Mar	--	11.50%
US	FOMC Rate Decision (Upper Bound)	Apr 29	0.25%	--
Thursday				
CH	NBS Manufacturing PMI	Apr	--	52
CH	NBS Non-manufacturing PMI	Apr	--	52.3
EC	Unemployment Rate	Mar	--	7.30%
EC	GDP SA QoQ	1Q A	--	0.10%
EC	CPI Estimate YoY	Apr	--	0.70%
EC	CPI Core YoY	Apr P	--	1.00%
EC	ECB Main Refinancing Rate	Apr 30	--	0.00%
EC	ECB Deposit Facility Rate	Apr 30	--	-0.50%
FR	GDP QoQ	1Q P	--	-0.10%
FR	CPI YoY	Apr P	--	0.80%
FR	PPI YoY	Mar	--	-0.90%
FR	Consumer Spending YoY	Mar	--	-0.60%
GE	Unemployment Change	Apr	--	1.0k
GE	Umemployment Rate	Apr	--	5.00%
IT	Unemployment Rate	Mar P	--	9.70%
IT	CPI YoY	Apr P	--	0.10%
IT	GDP WDA QoQ	1Q P	--	-0.30%
JN	Retail Sales MoM	Mar	--	0.60%
JN	Industrial Production YoY	Mar P	--	-5.70%
JN	Vehicle Production YoY	Feb	--	-3.50%
JN	Construction Orders YoY	Mar	--	0.70%
JN	Consumer Confidence Index	Apr	34.2	30.9
US	Personal Income MoM	Mar	-1.20%	0.60%
US	Personal Spending MoM	Mar	-3.30%	0.20%
US	PCE Deflator YoY	Mar	--	1.80%
US	Initial Jobless Claims	Apr 25	--	--
US	PCE Core Deflator YoY	Mar	--	1.80%
US	Continuing Claims	Apr 18	--	--
US	MNI Chicago PMI	Apr	40.5	47.8
Friday				
JN	Tokyo CPI Core YoY	Apr	--	0.40%
JN	Tokyo CPI YoY	Apr	--	0.40%
JN	Vehicle Sales YoY	Apr	--	-10.20%
UK	Mortgage Approvals	Mar	--	73.5k
UK	M4 Money Supply YoY	Mar	--	4.90%
US	Construction Spending MoM	Mar	-3.20%	-1.30%
US	ISM Manufacturing	Apr	39	49.1