GLOBAL INSIGHT

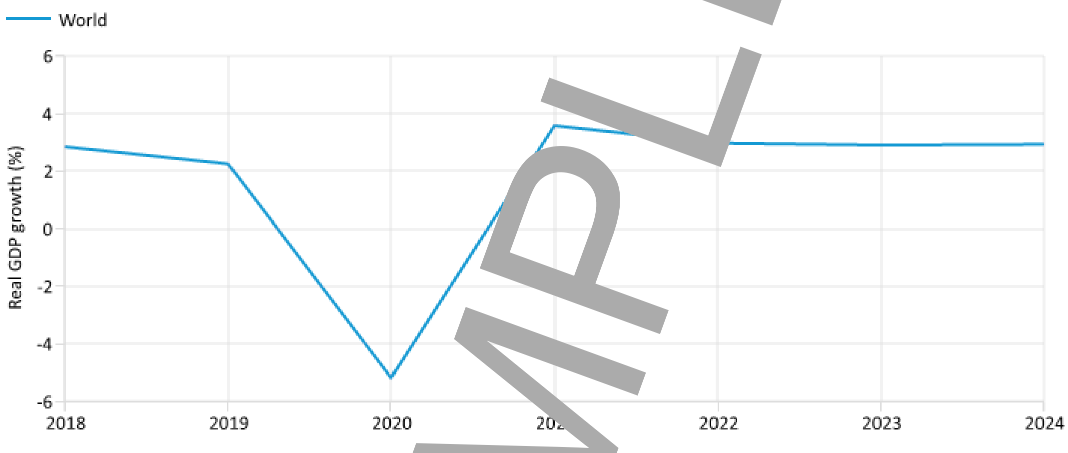
Trend: Deteriorating

Headline Global Issues

- The global coronavirus shock will be the greatest since at least the 1940s or 1929, easily eclipsing the 2008-09 shock.
- Widespread quantitative easing means that financial asset prices globally are not reflecting the shock to fundamentals.
- The world economy will not attain pre-pandemic levels of activity before 2022.

GLOBAL OUTLOOK

Global Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Global Economic Outlook: World economy will contract sharply

We are currently forecasting that the global economy will contract by 5.2% in 2020 – the biggest decline since the Second World War and a far stronger contraction than the 1.7% recorded in 2009 during the global financial crisis. Furthermore, unlike in 2009, all regions will experience a contraction. We also expect the recovery to be weaker on this occasion: in 2010 growth came in at 4.3%, against our 2021 forecast of 3.[illegible]%. Indeed, the global economy will not reach pre-pandemic levels of activity again before 2022, even if economies that managed to contain the virus accelerate their divergence from those that failed to do so.

Central banks continue to extend a tide of liquidity to stop the pandemic bringing a global solvency crisis; according to the IMF these measures total USD6trn. However, widespread use of monetary easing since 2008 has reduced room for these policies to be as effective as they were previously. Meanwhile, government support packages (totalling USD10trn) will bring fiscal problems into the medium term. Weak CPI inflation will keep the debt-servicing burdens high, even amid fears of supply-side damage and monetary growth.

Looking ahead, any recovery into 2021 (even without a second bout of the pandemic) is going to be curtailed by several factors. Foremost will be the presence of degrees of social distancing (despite the easing of lockdowns), higher levels of post-lockdown unemployment and poverty, and increased saving by those in employment. Physically, global supply chains have been resilient, despite the collapse of air freight capacity and difficulties in replacing seafarers. However, the copper price has been lifted by mine closures in a demonstration of the supply-side shocks, and emerging economies will still suffer from lower levels of commodity demand, remittance inflows and tourism.

Commodity Prices

Commodity	Mar 2020	Apr 2020	May 2020	2019	2020f	2021f	2022f	2023f	2024f
Aluminium (USD/tonne)	1,611	1,457	1,460	1,791	1,498	1,554	1,700	1,850	2,025
Copper (USD/tonne)	5,178	5,048	5,234	6,003	5,334	5,246	6,295	6,358	6,421
Gold (USD/ounce)	1,592	1,683	1,716	1,392	1,630	1,585	1,323	1,322	1,318
Brent Oil Price (USD/barrel)	34.2	27.1	32.6	64.0	34.8	39.4	55.0	51.0	53.0
WTI Oil Price (USD/barrel)	29.5	16.6	28.5	57.0	32.0	32.3	48.0	45.0	48.0
Cocoa (USD/kg)	2.34	2.27	2.32	2.34	2.38	2.36	2.36	2.36	2.36
Coffee (US cents/lb)	158.5	162.3	155.4	133.4	140.0	131.0	131.0	131.0	131.0
Phosphate (USD/tonne)	71.9	70.8	72.9	88.0	70.9	75.0	78.0	83.0	87.0
Platinum (USD/ounce)	759	754	793	864	807	858	975	1,025	1,075
Soybeans (USD/tonne)	373	361	[illegible]	369	381	381	384	400	400

Source: World Bank/Dun & Bradstreet

Exchange and Interest Rates

Metric	Mar 2020	Apr 2020	May 2020	2020f	2021f	2022f	2023f	2024f
EUR-USD	0.9	0.92	0.92	0.91	0.9	0.89	0.88	0.87
JPY-USD	107.67	[illegible]	107.2	109.0	105.0	109.0	120.0	112.0
GBP-USD	0.81	0.81	[illegible]	0.8	0.8	0.8	0.79	0.79
BRL-USD	4.86	[illegible]	5.61	5.23	4.89	4.71	4.35	4.29
CNY-USD	7.01	7.07	7.1	7.16	7.24	7.35	7.35	7.35
BOJ Interest Rate (EOP)	-0.07	-0.06	-0.07	0.0	0.1	0.1	0.3	0.3
ECB Key Interest Rate (EOP)	0.0	[illegible]	0.0	0.0	0.0	0.5	1.0	1.5
US Federal Funds Rate (avg)	[illegible]	0.13	0.13	0.13	0.13	0.38	1.38	1.38

Source: Dun & Bradstreet, Haver Analytics, Federal Reserve Board, Eur[illegible]an Centra[illegible]k, Bank of Japan

Key Risk: Long-tail shocks loom as central bank[illegible]boost asset prices

The disease has continued to spread [illegible]ny emerging markets, especially in the Americas. Large economies in the developing and developed [illegible]ld remain at risk of a second wave of coronavirus infections, or have yet to control the first wave. [illegible]he productivity of urban space will suffer a prolonged negative shock as lon[illegible]ncing applies and people fear the coronavirus, whether or not countries have co[illegible]ained [illegible]eir epidemics, with consequences for commercial real estate, employment and credit qualit[illegible] Or[illegible]y a small fraction of commercial rents were paid in the UK in Q2, and this pattern could pers[illegible] while Dun & Bradstreet has classed 30% of all US industrial sectors as 'high pro[illegible]mity' – an[illegible]hus disproportionately affected by social distancing measures.

As of June, two-thirds o[illegible] the [illegible]bal po[illegible]ulation and close to half of all economies Dun & Bradstreet covers (in US [illegible] terms) were on a 'deteriorating' country risk outlook. The improvement from May was mostly [illegible]o the reassigned 'stable' trend for the US in June, despite increased infections in the south and west of the world's largest market since lockdowns eased in recent weeks. But unemployment in the US may end the year at double-digit rates even in a 'full containment' scenario. Although quantitative easing has reversed the emerging market liquidity shock since Q1, as a consequence global asset prices – from stocks to bonds, but also currencies – are failing to signal the shock to fundamentals. Even emerging market central banks, not yet at the zero rate policy limit, have bought up assets. The result is that post-Q2 lockdown shocks are not being priced in.

Recommendations

- Be aware that defaults are rising even in Asia, a region where many economies were able to contain the coronavirus at least for the short term.
- Note that only government support is sustaining European export credit insurance availability and that cover has often already been withdrawn in other geographies.
- Tighten trade terms and underwriting standards and cap all short-term exposure.