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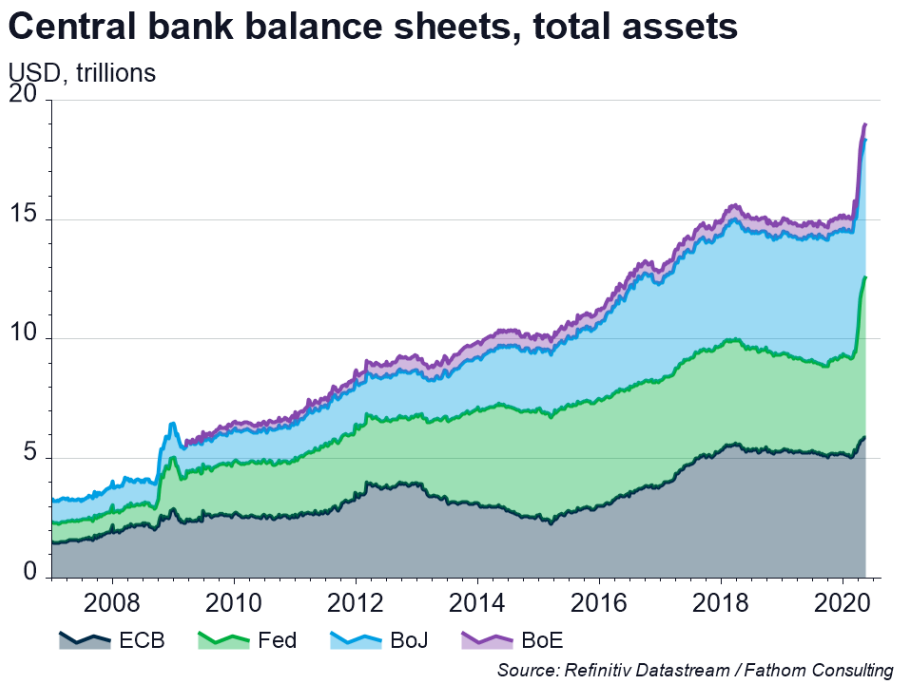
EIGHT INTERNATIONAL

GLOBAL INSIGHT

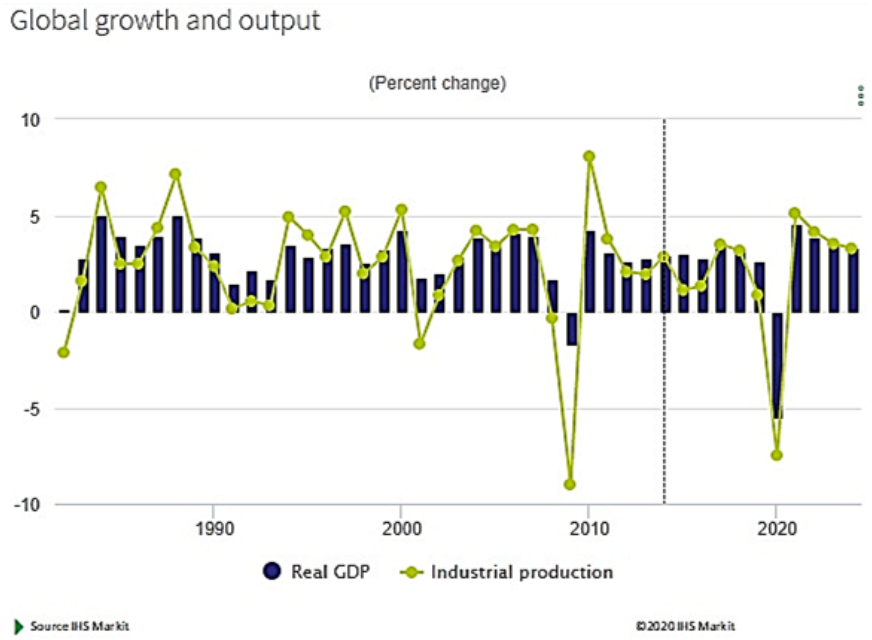
Central banks to the rescue again?

The Great Financial Crisis saw the biggest ever intervention by the major central banks, with the Fed, the ECB and the BoJ between them expanding their asset books by $3 trillion. But that intervention has been dwarfed by what has happened since, with a further $9 trillion added even before the onset of COVID-19. The pandemic has triggered a further increase of around $5 trillion so far - and the number is unlikely to stop here. The assets of these three central banks are likely to exceed $20 trillion in total soon. Unconventional monetary policy is here to stay./ **Fathom Consulting**



Global recovery to take years

The global economy is in the midst of the worst downturn since the 1930s. China's real GDP plunged a record annual rate of 33.8% quarter on quarter (q/q) in the first quarter of 2020. On a comparable basis, **IHS Markit** estimates that US real GDP will plummet a record 36.5% or more in the second quarter. Modest recoveries are expected in subsequent quarters. For calendar year 2020, IHS projects real global GDP to fall 5.5%. Given the unrelentingly bad news and data on the coronavirus disease 2019 (COVID-19) virus and the economic carnage, there is high likelihood that the near-term outlook will get worse before it gets better.



Macron and Merkel propose €500 billion plan to relaunch EU economy

France and Germany proposed a €500 billion recovery fund to finance the relaunch of the European Union's economy, which is facing the biggest economic crisis since the World War II because of the coronavirus pandemic. The borrowing would not amount to the so-called "coronabonds" sought by Italy and Spain because it would be made and repaid under the framework of EU budgets, rather than a direct mutualisation of debt by member states./ **The Local**

Slow recovery in markets seen as COVID-19 risks persist, cash still king

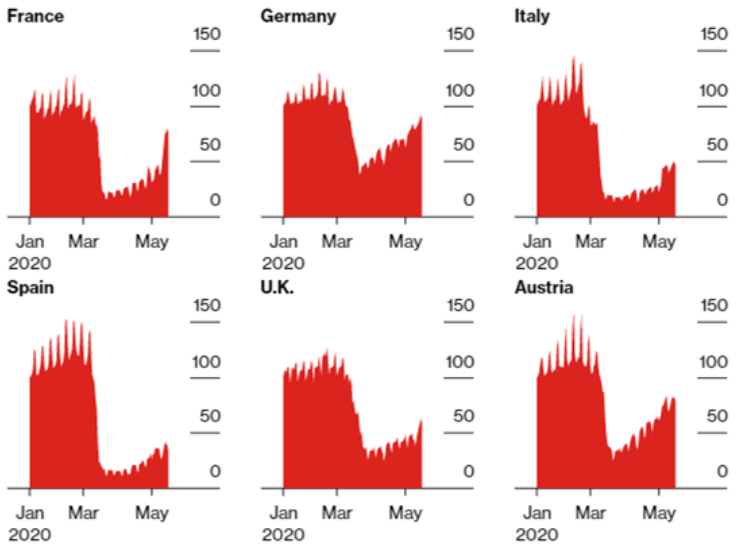
Investors are bearish on stocks, especially riskier assets, and expect a slower economic recovery as the risk of a second wave of infections from the novel coronavirus persists, a BofA fund manager survey showed. World stocks have bounced back by a whopping 31% in less than two months from a March selloff, recovering more than half their losses, as investors bet that economic activity would rebound rapidly once lockdowns were eased. But evidence of fresh coronavirus infections in some countries has dampened those hopes. BofA's survey showed that a pandemic "second wave" was seen as the biggest risk to markets for the second straight month./ **Reuters**

Europe is waking up

Europe is slowly waking up from its forced hibernation to contain the coronavirus. Figures on movement, restaurant bookings and energy consumption show the pickup in activity as governments ease back on some of the restrictions they've imposed over the past two months.

Get Around

Driving data show mobility still is vastly reduced

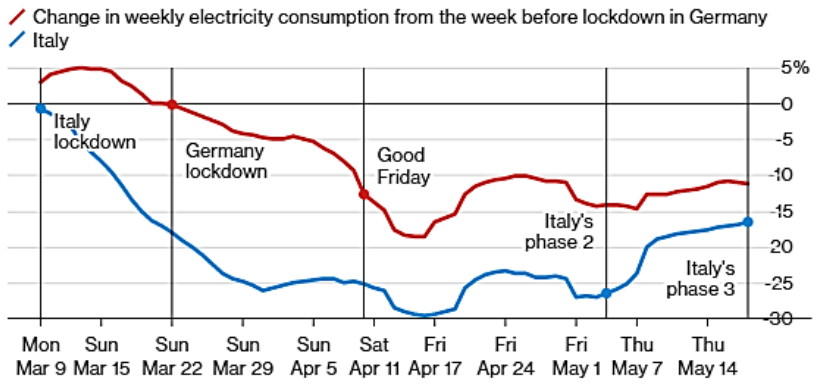


Source: Apple Mobility Trends Reports
Note: Charts show relative volume of directions requests per country compared to baseline volume on Jan. 13

Power demand is a key metric for tracking economic recovery across the region. In Italy, electricity demand is 3.4% higher since it began reopening on May 5. It was the worst affected country in Europe, with power use down as much as 28% during several weeks in April compared with a year earlier. German demand has increased 4% since measures were eased on April 23. Here, the drop off was less marked with heavy industry that processes chemicals and steel able to continue operations. Britain has started to fall behind other nations with power demand yet to see much of a come back./ **Bloomberg**

Demand Recovery

Electricity use is starting to recover but remains below normal levels



Source: Bloomberg calculations on SMARD and TERNA data
Note: Benchmark week for Italy is from March 2 to March 8. For Germany is from March 15 to March 21

FRANCE

Fitch revised its outlook on France's sovereign rating to Negative owing to the impact of the COVID-19 virus shock on economy. The rating has been affirmed at AA, but the impact of the COVID-19 virus shock on the economy and public finances has caused Fitch to revise the outlook from Stable to Negative/ **IHS Markit Economist Diego Iscaro**

- A combination of falling activity with the large fiscal measures put in place to limit the impact of the COVID-19 virus shock on the economy will lead to a large increase in government borrowing and indebtedness. Fitch notes that France's public-debt levels are already high compared with other AA-rated sovereigns, while fiscal consolidation since the global crisis has been limited.
- Fitch expects France's GDP to decline by 7.0% in 2020, in line with its estimate for the eurozone. It then expects France's real GDP to partially recover by 4.1% in 2021, although it projects the level of the country's real GDP during the fourth quarter of 2021 to be around 2.4% below where it was during the fourth quarter of 2019.
- The ratings agency projects the fiscal deficit to widen from 3.0% of GDP in 2019 to 9.2% this year, driving the gross general government debt ratio to 115.3% by the end of 2020.

Trimming the number of public holidays to facilitate economic growth is an idea that's done the rounds long before the coronavirus showed up in France, but it's quickly gained momentum as strategies for France's "new normal" are put forward./ **rfi**

GERMANY

The deep recession caused by the COVID-19 virus and the measures taken to contain its spread are expected to depress Germany's tax revenues in 2020 by almost EUR100 billion, a loss of 12% compared with the government's expectations only six months ago. The knock-on effect of lower GDP levels in 2021-24 is reducing revenue projections by roughly EUR40 billion in each of the subsequent years./ **IHS Markit Economist Timo Klein**

- The underlying assumption for nominal GDP growth in 2020 has deteriorated to a degree never seen before. Germany's GDP is now expected to contract by 4.7% year on year (y/y) instead of growing by 2.9%. Owing to the partial economic rebound, the nominal growth assumption for 2021 was raised from 3.1% to 6.8%, while the assumptions for 2022-24 have been kept at 2.8%.
- Wage growth assumptions are even more important for tax revenue estimates. For 2020, the projection has been reduced from 3.2% to -1.5%, whereas that for 2021 was increased from 3.2% to 4.1%. Once again, assumptions for 2022-24 were retained at 2.8%.
- The government projects that the overall public-sector tax revenues will decline from EUR799.3 billion in 2019 (then up by 3.0% y/y) to EUR717.8 billion in 2020 (-10.2% y/y), subsequently rebound by 10.4% to EUR792.5 billion in 2021, before resuming a moderate growth path averaging 3.7% during 2022-24.

UK

The United Kingdom announced a new post-Brexit tariff regime on Tuesday to replace the European Union's external tariff, maintaining a 10% tariff on cars but cutting levies on tens of billions of dollars of supply chain imports./ **Reuters**

SPAIN

Spain's tourism-dependent economy could experience a harsher and longer hit from COVID-19 than initially expected, the Bank of Spain governor said, warning of tough times ahead for one of the world's worst-affected nations. Pablo Hernandez de Cos, who also sits on the European Central Bank's governing council, said the Spanish economy was heading for a significant second quarter deterioration after shrinking a record 5.2% in the first./ **Reuters**

POLAND

Poland's first-quarter GDP results were stronger than anticipated, but a significant deterioration is expected starting in the second quarter owing to weakening household demand and fixed investment. First-quarter data showed only modest effects from the lockdown, which took effect in mid-March./ **IHS Markit Economist Sharon Fisher)**

- Seasonally adjusted GDP fell by 0.5% quarter on quarter (q/q), somewhat less pronounced than our new May forecast (at -1.0% q/q).
- GDP rose by 1.6% y/y in seasonally adjusted terms and by 1.9% y/y in unadjusted terms.
- Seasonally adjusted GDP fell by 0.5% quarter on quarter (q/q), somewhat less pronounced than our new May forecast (at -1.0% q/q).
- Although the first-quarter results were somewhat better than expected, IHS Markit plans to keep its 2020 GDP growth forecast for Poland stable at -4.7% in the May detailed forecast round. Confidence data signal a much steeper drop in economic activity in April than in March, and IHS Markit is projecting a severe second-quarter decline that will keep y/y growth negative at least through early 2021.

BELGIUM

European competition authorities gave their blessing to a €903 million ($984.59 million) Belgian reinsurance plan to shore up trade credit insurance, which helps buyers pay for goods and services without cash upfront, as the coronavirus wreaks havoc on the global economy. The scheme was approved under European Union state aid rules designed to prevent individual countries within the European bloc from unfairly subsidizing their own industries. The European Commission only approved the plan as a coronavirus response./ **Law360**

RUSSIA

The Russian economy is expected to have contracted from 2.1% to 1.8% growth between this quarter and the last, a result of a drop in oil prices and the early effects of the COVID-19 pandemic.
Over the past two weeks Russia has seen a surge in cases, with over 282,000 total cases reported and more than 2,500 deaths. Despite this, Russian President Vladimir Putin has been easing lockdown restrictions on the country as the economic damage continues to mount—Russia's economic activity has shrunk by a third and bankruptcies have surged 70%./ **Foreign Brief**

The Bank of Russia expects further growth of annual inflation that amounted to 3.1% in April but the price hike acceleration is temporary, the regulator said on Monday./ **TASS**

JAPAN

Japan's real GDP growth fell by 0.9% quarter on quarter (q/q), or 3.4% q/q annualized, for the first quarter of 2020 following a 1.9% q/q (or 7.3% q/q annualized) drop in the previous quarter. While all major components, except government consumption, declined because of the spread of the COVID-19 virus and related containment measures, the major factor behind the contraction of real GDP growth was consumer spending, which fell by 0.7% q/q. / **IHS Markit Economist Harumi Taguchi**

- Japan's containment measures for the COVID-19 virus in the first quarter were modest, as stores and restaurants remained open. Spending on non-durable and durable goods rose by 1.1% q/q and 1.6% q/q, respectively, reflecting the drop-out downside from disruption caused by the consumption tax increase and natural disasters in October 2019.
- Spending on semi-durable goods and services continued to drop, by 5.2% q/q and 2.3% q/q, respectively, in response to social distancing moves and the government's request that sports and cultural events be cancelled or postponed in March.
- According to the Ministry of Economy, Trade and Industry, the Indices of Tertiary Industry Activity (ITIA) fell by 5.7% month on month (m/m) in March, with an 8.3% m/m drop for broad-ranging personal services, including eating and drinking places and take-out and delivery services (down 24.4% m/m), accommodations (down 46.3% m/m), sports facilities (down 25.3% m/m), amusement and theme parks (down 93.6%), and passenger transport (down 50.1% m/m).
- Private residential investment continued to decline (down 4.5% q/q), reflecting continued sluggishness for new housing starts following the consumption tax increase.
- Private capital expenditure (capex) also fell (down 0.5% q/q) in line with declines in machinery orders and manufacturers' shipments of capital goods.
- Public investment turned to a decline (down 0.4% q/q) following four consecutive quarters of increases, as the effects of fiscal stimulus moves introduced early 2019 faded.

CHINA

Most of China's macro indicators continued to improve in April with easing monetary policy and ongoing work resumption; headwinds from global economic shock, rising unemployment rate and declining profits will be obstacles for Chinese government to revive the economy from the demand side./ **IHS Markit Economist Yating Xu**

- China's month on month (m/m) industrial value-added growth was 2.3% in April, following a 33.0% m/m expansion in March, suggesting consecutive sequential recovery in industrial production. However, the year-to-date growth remained in 4.9% y/y contraction.
- 28 out of 41 surveyed sectors reported increase in production in April, compared to 16 in March. Manufacturing led the headline growth, with raw chemical materials and products, ferrous metals smelting and pressing, non-ferrous metals smelting and pressing and equipment manufacturing all reporting increase in production from a year ago.
- Auto manufacturing registered 5.8% y/y growth, compared to a 22.4% contraction in the previous month.
- Service production index fell 4.5% in April, improving from a 9.1% drop in the first quarter, suggesting a sequential improvement in service sector with the ongoing work resumption and easing restrictions.
- The year-to-date Fixed asset investment (FAI) declined 10.3% y/y in April, compared to a 16.1% y/y contraction in the first quarter. The April FAI increased 6.2% from a month ago, following a 6.1% m/m expansion in March.
- Nominal retail sales contracted 7.5% y/y in April, compared to a 15.8% y/y decline in March.
- Auto sales recovered to the level a year ago from a 18.1% y/y contraction; sales of oil products, furniture, clothing and building materials declined at a slower pace.
- Online sales rose 1.7% y/y through April, compared to a 0.8% y/y contraction in the first quarter. Online commodity sales growth continued to accelerate to 8.6% y/y expansion, driving up its share in total retail sales to 24.1%. The gap between online sales and online commodity sales reflected the flattering online service consumption.

China retail sales (Y/Y, % change, monthly)

	Apr 20	Mar 20	Feb 20	Jan 20	Dec 19	YTD	2019	2018
Total	**-7.5**	**-15.8**	**-20.5**	**-**	**8.0**	**-16.2**	**8.0**	**9.0**
Grain, Oil and Foodstuff	18.2	19.2	9.7	-	9.7	13.8	10.2	10.2
Textiles	-18.5	-34.8	-30.9	-	1.9	-29.0	2.9	8.0
Medicine	8.6	8.0	0.2	-	8.2	4.3	9.0	9.4
Furniture	-5.4	-22.7	-33.5	-	1.8	-23.1	5.1	10.1
Communication Appliances	12.2	6.5	-8.8	-	8.8	0.1	8.5	7.1
Petroleum and Related Products	-14.1	-18.8	-26.2	-	4.0	-21.1	1.2	13.3
Building and Decoration Materials	-5.8	-13.9	-30.5	-	0.6	-18.9	2.8	8.1
Automobile	0.0	-18.1	-37.0	-	1.8	-22.6	-0.8	-2.4

Note: February data is for January-February.
Source: National Bureau of Statistics

SECTOR NEWS

Global market data (as of May 19, 2020)./ **Reuters**

SECTORS & **INDUSTRIES**

+0.29%	**Energy** Renewable Fuels, Integrated Oil & Gas, Oil & Gas Transport	+0.50%	**Financials** Banks, Diversified Investment Services, Property & Casualty Ins
+0.63%	**Basic Materials** Chemicals Diversified, Aluminum, Construction Materials	+0.07%	**Healthcare** Pharmaceuticals, Biotechnology & Medical Research
+0.73%	**Industrials** Industrial Machinery & Equipment, Construction & Engineering	+0.11%	**Technology** Semiconductors, Computer Hardware, IT Services & Consulting
+0.48%	**Cyclical Goods & Services** Auto & Truck Manufacturers, Homebuilding, Cons Electronics	-0.17%	**Telecoms** Integrated Telecoms, Wireless Telecoms
+0.10%	**Non-Cyclical Goods & Services** Brewers, Personal services, Food Distn & Convenience Stores	+0.13%	**Utilities** Electric, Gas, Water

Sector Percentage changes powered by Thomson Reuters Indices.

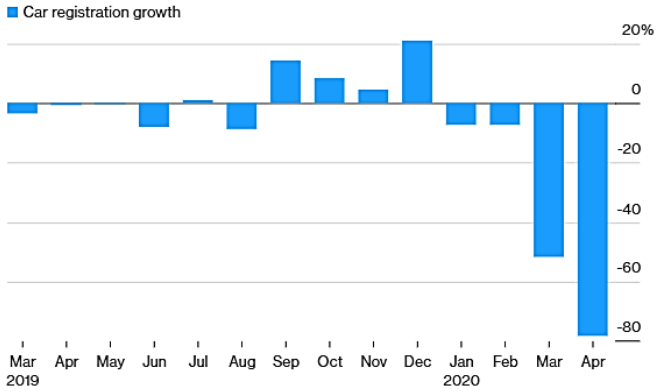
Automotive

The auto industry represents a significant share of Italy's economy and it is right to support those who create jobs, Deputy Economy Minister Laura Castelli said when asked about Fiat Chrysler's (FCHA.MI) request for state-backed loans. The Italian-American group (FCA) said last week its Italian unit was seeking state guarantees on a 6.3 billion euro ($6.88 billion) loan facility designed to help Italy's automotive industry weather the coronavirus crisis./ **Reuters**

European car sales virtually stopped in April, dropping the most on record after the coronavirus halted production and closed dealerships from Spain to Germany. Passenger vehicle registrations in the European Union, the European Free Trade Association and the U.K. fell 78% year-over-year. Companies sold just 292,182 cars -- the lowest number since data-gathering began in 1990, and a further drop from March, itself a month of plummeting sales, the European Automobile Manufacturers Association said./ **Bloomberg**

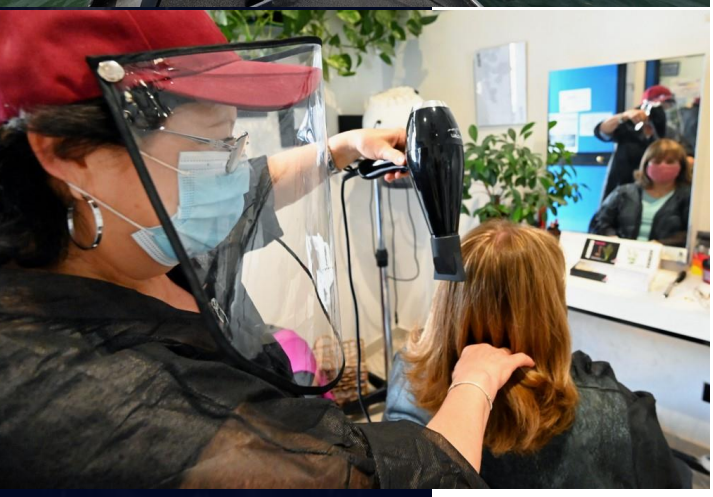
Car Demand Collapses

Passenger vehicle registrations dropped the most ever in April

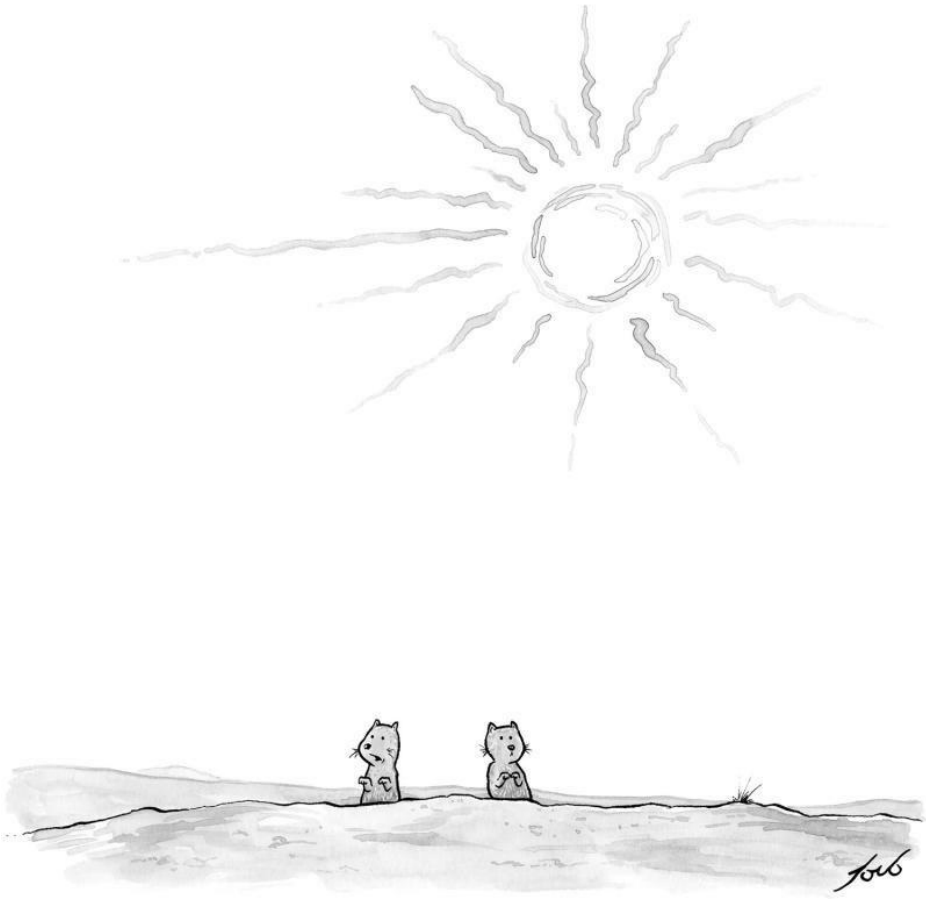


Source: European Automobile Manufacturers Association
Note: Data for EU, EFTA and U.K.

What 'living with the coronavirus' looks like around Italy/ **The Local IT**



And speaking about noodles ... long time no hear, brought to you by **The New Yorker**



"Other than the constant looming threat of danger, it's a beautiful day."

About Eight International

Eight International is a global advisory organization founded in 2016 by six consultancies sharing the same values. A globally integrated team of over 70 leaders and over 600 professionals seamlessly advises corporate clients, businesses, private equity funds and leading investment banks to help navigate challenges across transactions, restructuring and operational transformation. Eight International brings innovative solutions in a broad array of industries through its three key pillars: Reactivity via its nimble business model, Quality of its experienced practitioners and Independence, given no conflicts of interest.

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