Webcast Live #1 on Covid-19

Q&A Session

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<u>Where the world is headed – likely scenarios</u>

Q: Why is the recovery expected to be slow? Due to the possible re-emerge in September?

Q: I guess the peak depends on the country or we are discussing like for total of Europe?

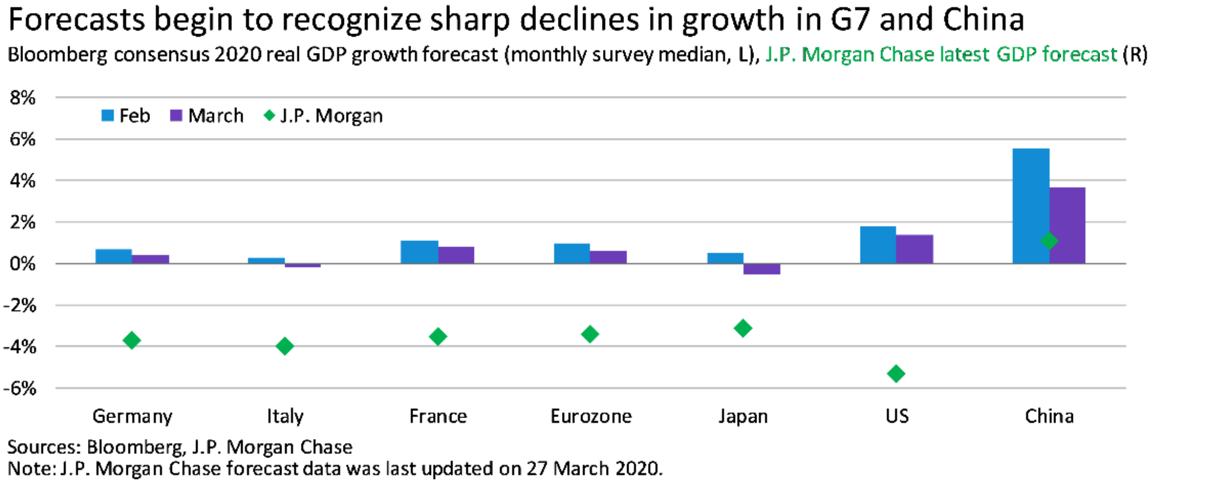
Q: Has pandemic's likely second wave been taken into account in the worst case scenario?

Q: What is the most possible scenario for the world economy after the virus?

Eurasia Group has updated their scenarios based on when the *global* peak occurs – May, August and post-August (the latter being the most severe). Usually we would assign 'likely, credible alternative, unlikely and worst case' probabilities to these, but it is difficult to assign likelihoods in this case as it is based on a large number of factors, including epidemiology and the political response (which as I said, have not necessarily been directly reflective). As such, we would encourage our clients to understand the business implications of all three scenarios and stress-test their plans accordingly. Under all of these scenarios, it is likely that there will be ebbs and flows even after the peak because of possible second waves.

These are global scenarios, which of course will mean different things for different markets, but in the more severe scenarios, there would be a heightened chance of an emerging markets crisis, widespread insolvency etc. Read 'COVID-19: What next' for some hints on how to integrate these scenarios into your business planning.

The chart below shows Bloomberg consensus forecasts for February and March, along with JPMorgan's most recent projections (the green dot). Other major banks that have submitted new forecasts since Friday are broadly in line with JPMorgan. These projections show sharp declines in growth in the second quarter, and only a gradual return of activity later in the year or early 2021. This leaves full year forecasts negative.



Q: Having in mind that decoupling comes from a variety of reasons like national interests over globalization and redesign of national economies, do you have a picture of economies already in transition like the Greek one?

Pre-COVID-19, we already had two major powers looking to diverge in the name of national security, particularly in terms of technology; as this happened, the rest of the world would align with respective powers. The question and key risk was: where does the Digital Iron Curtain go up?

Now, COVID-19 has highlighted chokepoints in business' and national supply chains – and not just in terms of critical (health-related) goods. We will start to see shorter supply chains as firms renationalize supply relationships, and supply concerns will likely lead to more protectionist policies on critical technologies and goods – i.e. it will speed the decoupling up, and expand the scope. While it may not always be a disease, significant and fast-impacting disruptions to trade can be expected in this G-Zero World (think tariffs, cyber warfare against critical infrastructure, and natural disasters).

Read Eurasia Group's Top Risks: Coronavirus Version for more detail – specifically Risks #2 and #3.

EU Response

Q: Is it the financial support from EU sufficient so far, or additional is required?

Q: Great presentation! At the EU level we have seen great diversity in national policy making as a response to COVID-19. Is this a sign that for similar crises it is more realistic to rely less on a single EU response and more on a multi-speed EU?

Q: Assuming that the economic deficits of the south are the surpluses of the north, is there a case of agreement between EU members?

Stimulus packages as they currently stand today is likely to be insufficient (on average across the bloc). It will not be solely up to national governments to navigate through this; I think we will see successful attempts at a unified, bloc-wide response, but it will fall short of the ambitions of either the North or South.

As I mentioned, the Eurogroup has been tasked with short-term crisis management, while the European Commission has been tasked with thinking through the medium-term economic recovery.

Due to North vs. South divisions over the use of the ESM or 'coronabonds', the short-term response is likely to focus on some combination of the ESM, EIB and EFSM model under Article 122.

As for the medium-term, a communique on "economic reconstruction" by the EU's 27 leaders is expected in the coming weeks. Eurasia Group thinks they will likely look to the EU budget in the first instance. However, the EU is at the end of its 7-year budget cycle (which runs till the end of this year) - given how contentious negotiations over the next MFF have proven, re-prioritising EU spending to fight the coronavirus also won't be easy.

Q: What about support of EU citizens as it happened in the US?

Q: Thank you for your insights. What according to your opinion could be the opportunities relay during and after this global crisis?

Couple of opportunities from a business perspective that come to mind:

1. Fast-forwarding transformation – e.g. COVID-19 has been the impetus for a lot of companies to fast-forward automation and AI plans, the drop in the oil price has led to O&G companies speeding up investment in renewables etc.
2. Changing consumer preferences – e.g. shift to online retail. The bricks and mortar stores were, arguably, for the baby boomers who have now been forced into online shopping. Will there be a need to go back? A lot of tech companies have allowed free access to video conferencing facilities – this is not just for societal benefit, there is the possible longer-term commercial value from capturing changing consumer behaviour at the outset.
3. Getting back to 'normal' – I think the follow-on to both of the above is that the 'normal' we return to will be an entirely new normal, and the 'rules of the game' are completely different. What will this 'normal' look like for your sector and market? What opportunities has this opened up? The companies that learn from this, and are prepared for the next time this happens (there are any number of reasons why, for example, cross-border travel could pause for two weeks or more) will have a far more sustainable business model.

Read 'COVID-19: The best worst case scenario' for some great examples of companies that are making the best of a bad situation – not only understanding the risks posed by the pandemic, but successfully adapting to them.

Q: Is there any forecast about what will be the impact on oil prices?

Eurasia Group predicts that the pandemic will cause a sharp decline in global oil consumption that extends beyond this year as demand is undermined by changes in consumer behavior and policy shifts such as travel restrictions, accelerated electric vehicle programs, and repatriation of supply chains.

The slow recovery of demand will only be partially offset by an eventual return to restraint in OPEC+ production and in existing and new non-OPEC production. OPEC+ will attempt to seek price levels that address their needs for reduced domestic budget pressure. But prices will also need to be low enough to incentivize a drawdown in global stocks and guard against prices that support renewed production growth in the US, Canada, and other producers. Russia and Saudi Arabia would likely prefer prices closer to $50/barrel, but with the ongoing pressures on demand and the continued high stock levels, there is a significant risk that price would be in the range of $35-40/barrel.