

Is the world approaching a healing phase of the CoVid19 crisis? Finally, Reasons for optimism!

The Sars-CoV-2 virus has been spreading across the world for a year now. Finally, there are several signs that we are going through the worst, and that we can expect a better 2021. There are several Vaccine promises. Asia is leading the Economic recuperation, and geo-politics seems to be on the backburner. Add a low oil-price, investments in carbon neutral energy, and Corporates finally taking social responsibility as well.

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1st wave Americas

2nd wave Europe

3rd wave Asia

The airborne corona virus spread around the world exponentially from Wuhan to the most remote locations.

Different countries, with different ideologies, reacted according to their social structure, and this has created a different reality.

The mortality and the economic consequences are very different from one continent to the other.

In **Asia**, a strict localized lock-down and respected social distancing measures were quite effective. Most countries in the region have been able to revert to normal quite fast.

Now, one year later, some countries are seeing a 3rd wave of infections, but the spread in the population is far below what is seen in the western world.

In **Europe**, the first wave of infections hit hard. The death toll and

excess mortality in the second quarter was scary.

Most countries went into a strict spring lock-down and travelling was prohibited. The summer warmth brought expected relief with fewer infections.

The start of the new school year and the colder flu-season brought the virus back. A second but better targeted autumn lock-down and an advanced testing strategy is now imposed.

In Europe, the infection rate and hospital admissions seem to have peaked almost everywhere.

Reason 1 for optimism...

Across the Atlantic, few countries took containment measures, and the virus continued its spread.

The **Americas** are still riding the first wave, getting relieve in the South with the summer months, but getting worse up north into the winter.

This leaves the USA as virtually the only major country with an infection rate and death toll that is

still climbing fast, 2 weeks after election rallies and parties...

The second wave, historically the lethal one, seems flattening almost everywhere...



The Vaccine:

+90% effective

Mid-November, several big-pharma multinationals announced encouraging news that an effective vaccine is in stage 3 testing. A large and diverse test population is being checked for effectiveness and side effects.

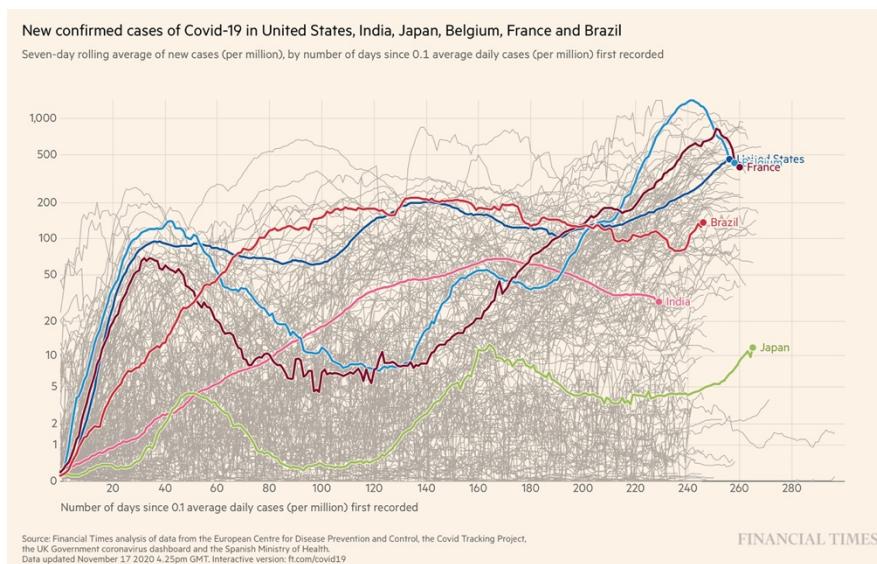
Pfizer was the first to announce formal interim results of a stage 3 trial with a 90% effectiveness to prevent CoVid-19 in a test population of over 42,000.

The tests were conducted with a diverse sample and generated negligible safety concerns.

Reason 2 for optimism...

The mRNA based vaccine consists of 2 doses taken 21 days apart, and prevents infection by the SARS-CoV-2 virus from 7 days after receiving a second dose.

Just one issue: transport needs a cold chain at -80°C, so not your run of the mill pharmacy distribution.



The US Based Moderna presented test results of a different mRNA based vaccine with a test population of 30,000 and >90% effectiveness, also based on 2 shots a month apart, to be maintained at -20°C.

Astra Zeneca and Oxford University are expecting to announce the results across various age-bands in the next week. The latter is a vaccine vector-based on the common cold virus and has the advantage of distribution in a normal refrigerated cold chain.

These 3 products together have the potential to generate regional herd-immunity if 70% of people can be vaccinated.

China (SinoPharm) and Russia (Sputnik V) are said to have distributed large quantities of vaccines to its local officials and armies.

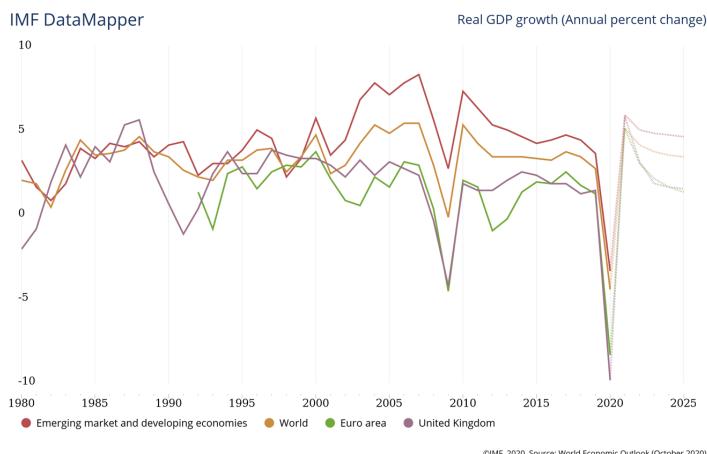


SinoPharm is conducting a stage 3 testing in UAE. A different Chinese biotech company is in stage 3 testing in Brazil and other most large big pharma companies have a candidate vaccine in Stage 3 testing.

With a series of good vaccines and a structured vaccination strategy, the WHO expects CoVid19 to change from epidemic to endemic.

Controlled occasional small-scale outbreaks like measles or flu could still exist though.

GDP Growth	2019 FY	1Q2020 q/q	2Q2020 q/q	3Q2020 q/q	3Q2020 y/y
Eurozone	1.70%	-3.60%	-12.10%	12.70%	-4.30%
USA	2.30%	-1.20%	-9.50%	7.40%	-2.90%
Japan	0.70%	-0.60%	-7.60%	5.00%	-3.60%
China	5.10%	-6.80%	3.20%	2.70%	4.90%
Germany	0.60%	2.20%	-10.10%	8.20%	-4.20%
France	1.30%	-5.90%	-13.80%	18.20%	-4.30%
Spain	2.00%	-5.20%	-18.50%	16.70%	-8.70%
Italy	0.30%	-5.30%	-12.40%	16.10%	-4.70%
UK	1.40%	-2.20%	-19.80%	15.50%	-10.60%
Belgium	1.40%	-3.60%	-12.20%	10.70%	-5.20%



And the economy...

Looking back to the summer, there is actually a nice surprise. Even though the summer didn't feel «normal» at all, the economy did actually bounce back in 3Q2020.

Reason 3 for optimism...

There wasn't a depression, technically not even a 3-quarter recession, at least not yet.

The rebound doesn't mean that the world economy is out of the woods though.

IMF expects the world-GDP to **contract** -4.4% at the end of 2020, with a EURO-zone contraction of -8.3%, and for the UK, caused by a combination of Brexit and CoVid19 a scary -9.8%.

Fortunately, the 2nd lock-down in the autumn is better targeted and quite a bit less disruptive than the instant full-stop in the spring.

Question remains on the recuperation that can be expected, in terms of timing, amplitude and shape.

A quick V-shape or U-shape recovery in 2020 hasn't happened, as the winter months see again a fresh

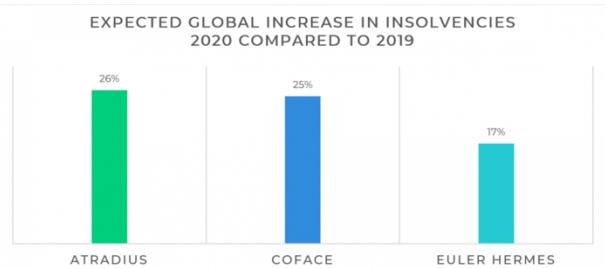
lock down and negative growth.

A W-shape sounds more likely in the current context, with the northern-hemisphere 2021 spring bringing both good weather and a vaccine at the same time.

A K-shape recuperation is also still possible: some countries and sectors (and people) on the upward leg, while others on the downward leg of the "K".

Many people can expect to lose their jobs in 2021, and many small businesses may never restart after the lockdowns are lifted. The downward leg of the "K" is scary for many business owners.

Trade Credit Insurers are expecting a significant rise in insolvencies for 4Q2020 and 1H2021.



The companies that survive will have adapted and emerge stronger. But the «VUCA» (Volatile, Uncertain, Complex and Ambiguous) world creates many opportunities...

Geo-politics with a new twist

While countries and continents are dealing with the fall-out from the pandemic, the 3 largest economic blocks are looking inwards at their post-CoVid19 realities.

Even though there is good hope to go back to «Normal» somewhere in the summer of 2021, it will be a «**new normal**». The world will not just return to what it was in 2019.

In China: The Dual Circulation strategy

Chinese President Xi Jinping first mentioned this strategic idea in May 2020.



The objective is to make Chinese development less dependent of external technology and events, following a deepening trade-rift with the US administration. Dual Circulation will be central in the 2020-25 plan.

China will promote «internal circulation» for growth: domestic production, distribution and consumption, depending on and providing for a growing middle class of 400 mln out of its 1.4 bln population.

The internal circulation would be supplemented with «external circulation» with mainly import of commodities and export of finished products, pushing Chinese companies consciously far up the value chain.

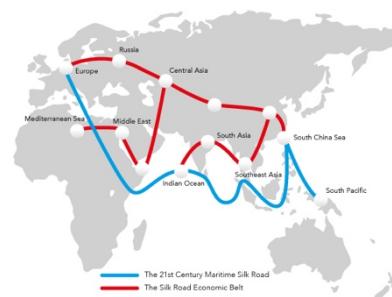
Through this 5-year plan, investment would be focused on domestic Chinese capacities and technology.

Chines growth is expected to find a new equilibrium around 5%.

From China: Downstream

For some emerging countries, this would probably mean that the post-CoVid19 reality will be with a disengagement of China as source of finance and infrastructure.

The previous «Belt & Road» initiative put Chinese foreign investment in the spotlight.



China has been explicitly present in commodity producing countries with investments in infrastructure (Finance + Build), seen as a win-win agreement.

A new focus on domestic Chinese development and investments creates a significant gap in finance of countries like Ecuador, Argentina, Brazil, Ethiopia, South-Africa and Kenya.

The development and infrastructure of these countries, largely financed and build by China and Chinese contractors, risk stagnating.

From China: Supply-line de-risking

During the severe interruption 2020 of production and shipping lines, many companies recognized the need to make their

supply lines more robust and resilient.

Companies are working on different axes to make the supply more reliable:

- Diversification,
- Regionalization and
- Moving from just-in-time.

For many multinational companies that have complex supply lines, an excessive reliance on a single producer or producing country increases the risk for disruption.

The reliance of many governments on the goodwill of China for the production of something as simple as a mouth mask was an exclamation mark about offshoring gone too far.

The expected swing of the pendulum is a new tendency of reshoring, nearshoring or regionalization of production capacity.

Six strategies for supply chain resilience



Diversity of production and alternate supply lines become part of Corporate responsibility and de-risking of many business model.

The third strategy is built strategic stocks of critical components or products.

This goes against the cost reduction strategy of Just-In-Time delivery but creates value through reduction in volatility. De-risking as an investment strategy...

The place of the USA...

In the first 2 weeks of November, we are seeing an unexpected

	Debt channel		Investment channel			Trade channel	
	External financing needs (as % of GDP), 2021-2025	Debt owed to China (as % of total external debt), latest	Stock of total FDI (as % of GDP), 2018	Stock of FDI from China (as % of GDP), 2018	Change (%) in stock of FDI from China, 2018 vs. 2012	Total exports (as % of GDP), 2019	Exports to China (as % of total exports), 2019
Argentina	109%	6%	14.0%	0.3%	76%	13.5%	10.6%
Brazil	42%	9%	30.4%	0.2%	163%	12.2%	28.0%
Ecuador	55%	21%	17.3%	1.2%	204%	20.1%	13.0%
Angola	71%	30%	21.5%	2.2%	85%	38.8%	67.6%
Egypt	54%	5%	47.1%	0.4%	135%	10.2%	1.7%
Ethiopia	36%	49%	27.9%	3.2%	323%	4.3%	8.8%
Ghana	62%	14%	55.1%	2.7%	256%	25.1%	16.7%
Kenya	63%	37%	16.4%	2.0%	336%	4.1%	3.8%
South Africa	133%	16%	37.6%	1.8%	37%	25.7%	10.7%
Zambia	37%	45%	74.9%	13.4%	76%	31.4%	20.6%

Sources: national statistics, Euler Hermes, Allianz Research

side effect of the democratic process in the country that is generally used as an example of grass roots democracy.



Even though President Donald Trump delivered what he promised in 2016, recognized by a large portion of the US voters, his «personal style» has alienated and even larger portion of the electorate.

The division of the country brought out a record 153 mln of voters.

Seen from outside, the sitting republican president lost a tight race to his democratic challenger in suburban households because of his style.

Within the US, a record 73.5 mln voters approved the incumbent's track record, mainly on the economy, and voted for a 2nd term. But even more voters (79 mln) turned out to look for a change.

Come 20th of January, the president of the USA will have a big domestic challenge to address.

Healing a rampant CoVid19 infected economy will have to be combined with governing for both blue and red Americans.

A stimulus package and investment in infrastructure will probably get bi-partisan support and can be kicked off fast.



Other necessary investment such as healthcare, local authorities and the reduction of in-equality may be harder to get approved.

European dis-Union

Meanwhile, the European Union has 3 major standoffs to tackle

Brexit isn't getting done. Unless there is some last-minute compromise to unblock the stalled negotiations, the UK is crashing out of the EU on 1st January.



The *military confrontation* between Greece (supported by France) and Turkey in the eastern Mediterranean has the danger of fast escalation on a volatile border.

And the *EU-budget-veto* of Poland and Hungary adds to the confusion and the necessity for healing hands.

In the meantime, the migration crisis on the southern borders is surging again, with a matching flow of boat people between the continent and the British Isles.

All 3 major economic and power blocks are locked in regional challenges and priorities. At the same time, the Just-in-time supply lines from China are being reconsidered and regional investments are preferred over cost cutting...

Reason 4 for optimism...

The world, the economy and the people will be getting time to heal before old rivalries and

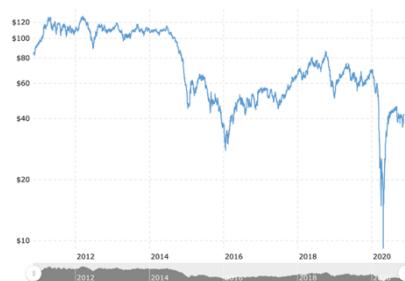
The world is in a strange place. People can't travel, executives are working from home, governments are getting in debt to support their business and economic blocks are looking inwards. Yet there are many reasons for optimism. We aren't getting back to the old-world order, but maybe, just maybe, the post CoVid19 world maybe greener, with less power play and with responsible corporates. We live in a «VUCA» world full of opportunities and now with several reasons for Optimism...

Maybe we are at the turning point for a new golden decade to start...

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geopolitical confrontations will surface again...

Sustainable or Oily?



Over the last few years, oil markets have been out of balance, and oil prices have been sliding downwards on a structural basis.

Market-share competition between OPEC members, shale oil production in North America and an advanced investment in non-carbon-based energy sources have fundamentally changed the energy market dynamics.



Reason 5 for optimism...

With US expected to re-join the Paris accord on climate change, there is a broad consensus across the Western world and the main Asian economies and between governments and corporates to shift from oil to clean electric power.

CSR (Corporate social responsibility) is now expected from multinationals and ESG is increasingly part of the corporate priorities.