



IEEJ e-NEWSLETTER

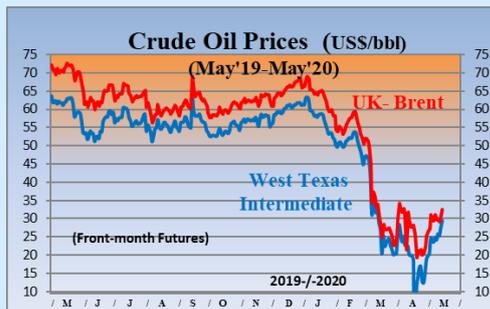
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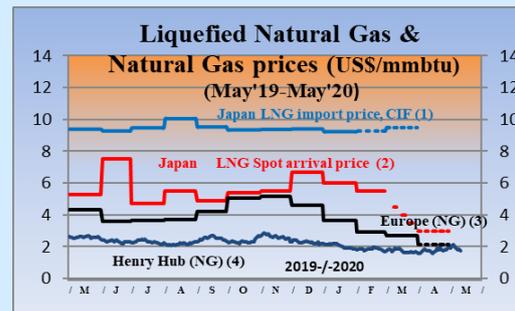
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(As of June 12, 2020)



Source: DOE-EIA, Financial Times, NASDAQ

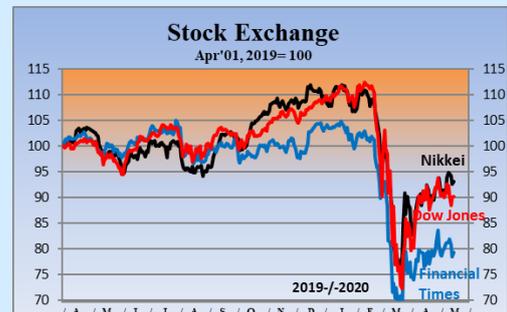


Sources:

- (1) Ministry of Finance "Japan Trade Statistics"
- (2) Ministry of Economy, Trade and Industry (arrival month basis)
- (3) Estimated by World Bank (Netherland Title Transfer Facility)
- (4) DOE-EIA, NYMEX (Front-month Futures)
- (5) Investing.com



Source: x-rates.com



Source: Financial Times

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Summary

【Global Monitoring】

1. US: Policy Debate on Economic Recovery and Reconstruction from the Coronavirus Catastrophe

Ahead of the presidential election, various policies are being put forward for economic recovery and reconstruction from the coronavirus, including regulatory easing, the Green New Deal, and necessary infrastructure investment.

2. EU: Corporate Efforts for Recovery from the Coronavirus Catastrophe

In Europe, various corporate alliances of institutional investors and energy majors have expressed support for economic recovery through green investment. This should give momentum to the European Commission's recovery plan.

3. China: Preventing a Second Outbreak while Reviving the Economy

China has had a major strategic success in its battle against Covid-19, but the crisis is not yet over. The leaders have pledged to simultaneously prevent a second wave of infections while normalizing social and economic activities.

4. ME: Seeking to Contain the Virus Based on the Chinese Model

In the Middle Eastern countries where the coronavirus outbreak continues, China is increasing its presence as the country which "has successfully contained the virus" and as the major source of indispensable knowledge for containing the virus as well as medical supplies.

5. Russia: President Putin Backed into a Corner by COVID-19

Russia now has the third largest number of CovidCOVID-19 cases in the world with more than 300550,000 cases. As the outlook for the domestic economy continues to deteriorate, support for President Putin has declined to an all-time low in his 20th year since coming to power.



1. US: Policy Debate on Economic Recovery and Reconstruction from the Coronavirus Catastrophe

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As of May 22, the US unemployment rate for April stands at 14.7%, with all-time highs recorded in 43 states, most notably in Nevada with 28.2% and Michigan with 22.7%. Chair of the Federal Reserve Jerome Powell has said that unemployment will reach 25%, the peak during the Great Depression, before the end of June, and will not return to the pre-crisis level of 3.5% until the end of 2021. States have begun to reopen their economies in response to the severe economic slump. Generally speaking, Republicans are eager to reopen the economy while Democrats are more cautious. Debate is under way on who is responsible for the world's worst coronavirus catastrophe: a Congressional committee for federal response oversight is being established while measures are being taken to contain the virus. However, the most important issue in the race toward the autumn presidential election is which of the two, Trump or Biden, can offer a more plausible path to economic recovery. Democrats and Republicans had worked hand in hand in Congress up to the fourth coronavirus stimulus bill. However, although the fifth stimulus bill worth \$3 trillion has passed the Democrat-led House of Representatives, Republicans are struggling to coordinate opinions within the party due to opposition from those unwilling to spend more.

President Trump's instruction to government agencies to ease regulations to support the economy has led to the relaxing of companies' obligations to monitor pollutants and cutting royalty payments for oil companies. There is growing concern over rollbacks in environmental policy and less protection for food and workplace safety after the president signed an executive order on regulatory relief to support economic recovery on May 19. As such, the Trump administration is using the crisis as an opportunity to pursue the traditional minimal-government policy of the Republican Party by easing regulations. Meanwhile, the Democratic Party is oriented toward large government in comparison, but the presumptive Democratic nominee Joe Biden appears less eager than expected to use the crisis to spur the Green New Deal. In fact, the clean energy sector is criticizing the Democrats' economic relief package for its lack of support for the sector, which has shed 600,000 jobs. There was, of course, pressure from party leftists who place climate action above all else. Nevertheless, clean energy lost out to many other sectors in the fierce competition for relief amid the unprecedented crisis. Many Democrats also consider enacting the infrastructure investment bill, the party's long-term focus, as the pillar for economic growth. Interestingly, relief measures for clean energy were proposed by Republican lawmakers, not Democrats.

Which type of infrastructure will drive the post-covid economic recovery? Roads, bridges, ports, airports, power grids, and universal internet access have been the usual line-up to date. However, with digitalization and teleworking expected to grow as a result of this crisis, the deliberations on future infrastructure bills will likely shift focus to upgrading the telecoms network, particularly data security including breaking the dependency of the supply chain on China. It is notable that the Chair of the House Committee on Transportation and Infrastructure, who is a Democrat, recently submitted a bill on the US' withdrawal from the WTO. However, it is not clear how many jobs digital social infrastructure can create. Unlike the 2008-2009 financial crisis, the coronavirus has hit jobs in the service sector the hardest. Statistics show that the unemployment rate is especially high among young workers with low educational backgrounds in the service sector, as well as African Americans and Hispanics. As service-sector jobs are unlikely to recover to pre-crisis levels due to digitalization, teleworking, and automation even after the pandemic ends, there is a need to educate and retrain such workers. How will the two parties respond to the transformation in industrial structure and the labor market heading toward the presidential election in the midst of this crisis? It will be interesting to see the policies put forward by the parties. (As of May 23)



2. EU: Corporate Efforts for Recovery from the Coronavirus Catastrophe

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In Europe, some countries have begun to gradually lift their lockdowns, and discussions are turning to plans for recovering from the coronavirus pandemic. As was covered by this Newsletter last month, the Green Recovery Alliance was established at the European Parliament, joined by more than 50 CEOs from the banking and insurance sectors, from such companies as BNP Paribas, AXA, Allianz, and Santander. The Alliance aims to place climate action and maintaining biodiversity at the center of Europe's post-coronavirus economic policies, and has strong backing from the financial sector. This move follows similar statements by the Institutional Investor Group on Climate Change (IIGCC).

Further, an alliance of 40 global companies including energy majors is calling on the governments of various countries for major investments in renewable electricity and support for low-carbon energy solutions in formulating their pandemic recovery plans. This alliance of companies, the Energy Transitions Commission, is currently joined by companies from the energy, industrial, and financial sectors including Allianz, BP, Dalmia Cement, Iberdrola, Envision, Heathrow Airport, HSBC, Orsted, Schneider Electric, Shell, and SNAM. The support expressed by institutional investors and major energy companies for economic recovery through green investment should give momentum to the recovery plan that the European Commission will release on May 27.

In a move related to the 2050 climate-neutrality goal, the European Investment Bank decided to provide a loan to improve the steelmaking process. This comes in the form of a 75 million euro loan for two projects that will help to develop low-carbon steelmaking technologies at ArcelorMittal. One of the projects is an industrial-scale plant that will capture waste gases from blast furnaces and biologically convert them into recycled-carbon ethanol, which can then be blended for use as a liquid fuel. The other project is a large-scale demonstration plant to convert waste wood into bio-coal, partially replacing the coal currently injected into the blast furnace. The low-carbon steel-making process is one of the areas named in the European Commission's industrial strategy. The results of these demonstration plants are keenly awaited.

Further, Equinor, Shell, and Total have decided to invest in the Northern Lights project, which is part of a CCUS project on the Norwegian continental shelf. The Northern Lights project consists of the transportation, receipt, and permanent storage of CO₂, and the facility is scheduled to start operation in 2024. With this investment decision, the research phase will be complete and the parties concerned are due to establish a joint venture. A string of European majors has committed to achieving net-zero emissions in 2050, and this investment decision marks a concrete step forward in CCUS.

While moves toward climate-neutrality are increasing among companies and at the EU level, some countries have yet to establish a solid plan for recovery from the coronavirus. Attention must continue to be paid to the initiatives of the European Commission, which focuses on "leaving no country behind." (As of May 23)



3. China: Preventing a Second Outbreak while Reviving the Economy

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In China, the Xi-Li leadership has declared the fight against the coronavirus a “people’s war” and mobilized the entire country in the battle. As a result, the number of new cases per day peaked on February 12 at 15,000 then decreased, remaining below single digits since March 6 (except April 12). Emergency measures including lockdowns and outing restrictions were gradually lifted as the country moved away from the possible emergency situation of an explosive spread of Covid-19, and social and economic activities began to normalize.

According to an announcement by the National Bureau of Statistics on May 15, the sum of the value added in companies above a certain size, electricity output and automobile production, as well as total exports for April all recorded year-on-year increases. Consumption and investment remained negative, but the decrease was smaller than in the January-March quarter. The economic growth rate improved significantly from minus 6.8% in the January-March term. Further, the National People’s Congress (NPC, the equivalent of parliament) finally opened on May 22, 78 days later than scheduled. Nevertheless, it is difficult to state that China has overcome the coronavirus crisis ahead of other countries.

In his report on government activities at the NPC, Premier Li Keqiang said, “We have achieved a major strategic success in our battle against Covid-19; however, it is not yet over.” Behind these words lies the fact that the number of new cases has not yet become zero, the number of asymptomatic cases has not been confirmed, people infected with the virus entering China from other countries are not being shut out completely, a safe and effective remedy and vaccine have yet to be developed, and people still have a deep-rooted fear of the coronavirus. Further, many epidemic experts warn that China has a relatively high risk of a second outbreak as it has had only about 90,000 cases in total (including asymptomatic cases), much lower than, for example, the US, and therefore has low “herd immunity.”

As the basic policy for government action this year, the Xi-Li leadership pledged to simultaneously prevent a second wave of infections while normalizing social and economic activities. To prevent a second outbreak, the government will firmly adhere to the people’s-lives-first policy, accelerate R&D on testing, treatment, and prevention, and upgrade the system and enhance capabilities for “swift detection, reporting, isolation, and treatment.” Regarding economic recovery, the government will focus on “ensuring job stability, basic living standards, sustainability of businesses, food and energy security, supply chain stability, and normalization of basic operations (Chinese original: 保居民就业、保基本民生、保市场主体、保粮食能源安全、保产业链供应链稳定、保基层运转). To this end, the government will embrace an active fiscal policy, increasing 1 trillion yuan (approx. 15.2 trillion yen) of fiscal deficit by raising the ratio of fiscal deficit to GDP from 2.8% last year to 3.6%, issuing 1 trillion yuan of special government bonds to fight the coronavirus, and issuing 3.75 trillion yuan of infrastructure construction bonds for regional governments, up 1.6 trillion yuan from last year. Regarding monetary policy, the deposit reserve ratio and loan interest rates will be slashed and additional loans will be comprehensively increased. In the energy and environment areas, efforts will continue to focus on reducing energy consumption per unit GDP, cutting emissions of major pollutants, promoting clean and efficient use of coal, developing renewable energies, boosting energy stockpiling capabilities, building electricity charging infrastructure, and expanding the use of new energy vehicles.



4. ME: Seeking to Contain the Virus Based on the Chinese Model

Sachi SAKANASHI, Senior Research Fellow
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Covid-19 continues to hit the Middle East. The countries have announced a string of measures to contain the virus by restricting the movement of the people, ranging from stay-at-home orders to requests to close businesses. While Saudi Arabia and Iran partially reopened their economies around the end of April, it resulted in an increase in both new cases and deaths particularly in Iran, demonstrating the difficulty of tackling the issue.

Under such circumstances, China's presence in the Middle East, particularly in the oil producing Gulf countries, is growing. In those countries, China is praised as a country which successfully contained the virus (unlike the United States), and is extending its influence through Covid-19 diplomacy, providing medical supplies and dispatching experts to these countries. China had already established close economic ties with the oil-producing countries in the region, anticipating an increase in domestic energy demand. At first the Gulf countries were the donors, sending aid supplies to China, while the virus started to hit the country. However, the direction has now reversed and the recipients of China's aid now range from Egypt, Lebanon, Tunisia, Algeria, Syria, to the Gulf countries.

In April, the Arab League held a video conference between medical experts from China and Arab states to share knowledge and exchange opinions on Covid-19 prevention. Thereafter, the Arab media started to increasingly praise the Chinese model, which has urged social distancing and strict restrictions on the movement, as the best way to cope with the virus. China is now cementing its status as the global power that swiftly overcame Covid-19, through its diplomatic efforts. In Iran, Saudi Arabia, as well as Egypt, China is trying its best to help fight against the coronavirus in each country. Images of Chinese ambassadors busily distributing medical supplies here and there frequently appear on social and other media.

Japan and South Korea have also provided help to the Middle Eastern countries to fight the coronavirus. However, China's support stands out in terms of scale: South Korea has sent 160,000 test kits to Saudi Arabia while China has agreed with the Saudi government to send 9 million kits. European countries, who are often the first to provide medical assistance to foreign countries, have been busy battling their own situation, which has also worked in China's favor.

Once they are successful in containing the coronavirus, reviving the battered economy will be the next major challenge for the Gulf oil producing countries. China presumably intends to be involved in the post-pandemic economic recovery of these countries in various ways too.
(As of May 23)



5. Russia: President Putin Backed into a Corner by COVID-19

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Russia now has the third largest number of COVID-19 cases in the world following only the United States and Brazil. The number has surpassed 550,000 in total as of June 17, with some 7,500 deaths. On May 12, Press Secretary for the President Dmitry Peskov revealed that he had tested positive for the virus, joining Prime Minister Mishustin who had also had tested positive for COVID-19 at the end of April. Thus, various high government officials have now been infected, including the construction minister, the culture minister, and the minister of science and higher education.

On April 29, when announcing the extension of the business shutdown and stay-at-home orders from April 30 to May 11, President Putin did not hide his concern that the “peak of (the spread of COVID-19) is approaching but may still be far away” (Presidential Executive Office’s website). However, on the same day, the president announced, while teleworking from his house in the Moscow suburbs, that he will lift the lockdown nationwide and respect the decisions of the heads of municipalities, giving in to people’s mounting frustration even though the pandemic is still worsening, reaching the 10th consecutive day by then with more than 10,000 new cases. Incidentally, in Moscow, which accounts for half of COVID-19 deaths, the stay-at-home order was extended till the end of the month, but lifted on June 9. Moscow Mayor Sergey Sobyenin tweeted on May 2 his view that 2% of Moscow’s population may have been infected with the virus, more serious than President Putin’s estimate (0.4%).

Russia’s nominal GDP for April 2020 plummeted by 28% year-on-year (by \$33 billion), with one-third of the decline caused by the oil price crash (May 19, RBK Daily). The latest edition of the IMF’s World Economic Outlook (released in April) significantly revised the forecast for Russia’s 2020 real GDP growth rate from plus 1.9% released as of January 2020 to minus 5.5%. Meanwhile, Chairman of the Accounts Chamber Alexei Kudrin, one of the top economic experts in the Putin administration, gave an even more pessimistic view in a TV interview on April 28 that the annual GDP may shrink by 7–8%. On May 19, Prime Minister Mishustin returned to work three weeks after testing positive, and held a video conference with cabinet members in which he ordered them to swiftly start formulating a national action plan for economic recovery. However, no concrete plans have been compiled to date.

May 7 marked the 20th anniversary of President Putin’s coming to power, including a four-year premiership period. According to a poll by a Russian independent polling organization Levada Center in Moscow, support for the president fell 4% from the previous month to 59%, marking an all-time low. The president has repeatedly said that a “strong Russia” needs a “strong leader,” but Russian media continue to report that “the president is running out of options and seems to have no confidence or ambition.” Whether President Putin can revive Russia will have direct and indirect effects on world politics and the international energy situation in the years to come. (As of May 23)



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