



LA LETTRE DU 211

Editorial - “Mais oui mais oui l'école est finie/ Nous irons danser ce soir peut-être/ Ah non, y'a le covid”

Spring is here. Trees are waking up like Paris, and that's how almost 20 years of studies come to an end. One door closes, another opens: let's be proud, let's be crazy! Remember that, even if it's Spring, if 'Raindrops keep fallin' on [our] head' as B.J Thomas sang, 'the blues they send to meet [us] won't defeat [us] (...) because [we're] free'. Remember that education, it's to realize the greatness of humanity; it's to become independent and, at the same time, realising that Hell isn't other people; it's to ask questions about everything, without taking the easy route; it's to flee from all prejudices, all of them. Thus, even if the music of this world stops and there are clouds in the sky, remember that, as Cass Eliott sang, 'Nobody can tell ya / There's only one song worth singin' (...) You've gotta make your own kind of music'. It's Spring. The trees are blooming, and they will for a long time because their roots are so strong. Any wind? 'Le vent se lève !... Il faut tenter de vivre !'

Macro news

Ohé, ohé, capitaine abandonné/Ohé, ohé, mets des ailes à ton voilier

There is something fascinating about seeing the fate of a significant part of the world's GDP in the hands of a small backhoe, which looks like something out of a Pixar film. A boat stucked, and the world wavers. As the FT reminds us, the Suez Canal accounts for \$10bn of trade every day; 12% of world trade. The insurers are getting down to work: there are a lot of people to compensate (the goods, the other ships, Egypt, and many others), we need to know who is responsible: anyway, good luck with the headache to come for many years. A boat stucked, and everything is called into question: oil rises, the Cape of Good Hope is bypassed again, N. Taleb's Antifragile is in mind. We laugh at a small backhoe (after all, we have all become epidemiologists, we can become experts in boat rescue in 2 minutes), and during this time,

the same people question globalisation; we discover that yes, a ship can ship sheep (and that's funny). Finally, the boat is free, and before we know 'To figure out who'd be eaten' as a popular French song asks, it left; left at the same time as our questions. No, the new world is not here yet: instead of the 90 boats usually sailing on the canal, there will be 150 for a few days, illustrating that often everything is just sound and fury.

Emerging countries focus



Erdoğan fired the Central Bank governor (again) and its deputy, the Turkish lira fell down

On March 30th, Turkey's President Recep Tayyip Erdoğan fired Murat Çetinkaya, the Central Bank deputy governor since mid-2019, and replaced him with the banker Mustapha Duman. Only ten days before, Erdoğan ousted the orthodox Central Bank governor Naci Agbal, who was only appointed governor last November. Three days after Agbal's departure, the lira had already lost 14 percent of its value against the dollar, and the stock market fell by ten percent.

The last governor Agbal has tightened monetary policy to face the high double-digit inflation and had lifted the lira from the record historic lows reached last November. Indeed, Agbal has restored the credibility of the country's monetary policy, by increasing the policy rate by a total of 8.75 percentage points to 19 percent since November. \$16bn have flowed into lira swap during Agbal's tenure. Two days after its firing, more than \$6.5bn have left (Refinitiv, Financial Times), due to rising investors' defiance.

The main reason behind these Turkish President's decisions is that Erdoğan rallied a controversial and heterodox economic theory that inflation is caused by higher interest rates. Sahap Kavcioglu, the new governor also believes that interest rate rises accelerate inflation: in an interview with Bloomberg, he put away “prejudiced expectations” of an early policy rate cut in the following months.

This reverting monetary policy can lead to huge risks for Turkey's economy, which is already low on foreign exchange reserves and needs to refinance \$180 bn in foreign borrowings in 2021.



Serbia may vaccinate, but do they have a head of state epidemiologist like in France?

Amid the Covid-19 pandemic, Serbia has managed to stand out from his peers from the region, drawing on strong economic performances in recent years and a sound policy response to the shock. Serbia has put on the table a support package of 9% of its GDP (of which 5% directly for households and enterprises) that contributed to smooth the social impact of the crisis. The country has experienced a mild 1.5% recession in 2020 thanks to a strong rebound of agricultural and industrial production and has good economic perspectives for 2021 being the most vaccinated country in Europe (18% of its population has received a first dose) - combining SinoVax, Astrazeneca and Sputnik vaccines. The country has also kept its debt trajectory sustainable (58% of GDP debt stock in 2020) thanks to (i) a stable exchange rate (ii) strong diversification of its financing sources (iii) favourable access to international market: Serbia issued a 7 years 700 Mns Eurobond in early March at an historical low rate of 1.69%. Serbia 's ongoing convergence toward EU standards (official candidate since 2014) and proximity with international organizations (2-years IMF Policy Coordination Instrument that begun in 2018) are strong signals of its efforts to build a credible institutional and fiscal framework.

Climate focus

Controversial Climate Law

The project of law climate, which is currently debated in the French Parliament, arouses a lot of critics among NGO, deputies and citizens. Last weekend, more than 100,000 people demonstrated their dissatisfaction against this project, judged insufficient compared to the recommendations of the citizens' climate convention, yet created by the government for this purpose. More actions are desired, regarding for example thermal renovation, polluting vehicles or advertising regulation. According to the High Council on Climate, the project clearly lacks ambition, while the Economic, Social and Environmental Council underlines limited actions to reach the official objective to reduce greenhouse gas emissions by 40% in 2030. This project appears to be a rising issue, at one year before presidential elections.

Markets news

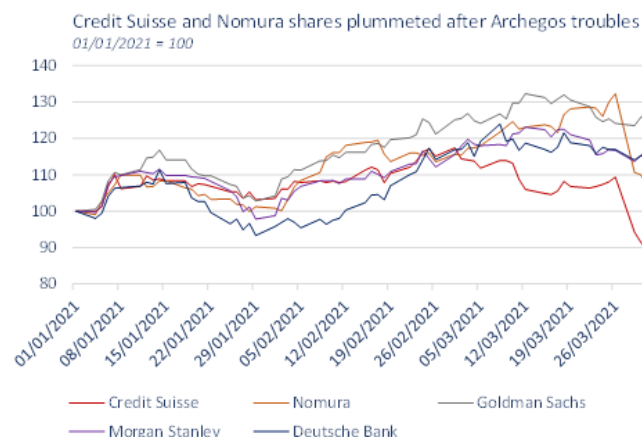
Lehman moment?

After setbacks with the law that led him to be excluded from trading in Hong Kong for 4 years, Bill Hwang founded in 2013, from the ashes of Tiger Asia Management, the family fund Archegos Capital. This fund is heavily leveraged and has (had...) numerous positions in big US and Chinese tech stocks such as ViacomCBS, Discovery, Baidu or Tencent Music, held by some of the world's biggest banks. Archegos has been seriously affected when these stocks plummeted on last Tuesday and Wednesday, so that on Friday, many of its prime brokers started to send margin calls to him, pushing others to do the same. As the fund defaulted on its margin calls, its prime brokers were forced to close its positions and sell about \$20bn of the Chinese and US tech stocks at knock-down prices causing their prices to fall even further. In the end, ViacomCBS stock suffered a loss of 50.3% over the past week, including 27% on Friday alone.

Banks with low exposure to Archegos, such as Deutsche Bank, as well as those that reacted the most quickly, including Goldman Sachs and Morgan Stanley, were able to limit losses. Unfortunately, this was not the case for all banks. Indeed, the Japanese Nomura, whose stock fell by 16.3%, estimated its losses at 2 billion dollars. For its part, Credit Suisse saw its share price fall by 13%, its biggest drop since the crash of March 2020.

Investors feared a resurgence of volatility on the markets on March 29th, but it was ultimately quite limited. Indeed, the VIX index rose 13.3%, which is not among its three largest intraday moves since January.

While the damages on the markets appear to be relatively limited, the degree of exposure of some of the world's largest banks to such a (obscure) leveraged fund leads one to wonder if this is not just the tip of the iceberg, and brings out the fears of a Lehman moment.



Geopolitical event

Icy talks in Alaska

During the Alaska meeting with China, the Biden's administration reaffirmed its tension points: political repression in Hong Kong, Chinese economic coercion of other countries, and the campaign against Uighur Muslims in Xinjiang. This meeting did not lead to any change in the current stressed relationship between those giants, and this is a confirmation that Biden's election will not lead to a new start. For now, we do not expect any easing in trade tensions, and China is unlikely to concede on its domestic policies. But further talks are likely to focus on economics and trade. Overall, the Alaska meeting was probably more about setting the tone and reassuring allies than about listening to each other: the US wanted to show that they are not weak on China and that they intend to support its allies, while China argued that it is a power on its own.

The icy location of the meeting is far from the only indicator that relations between the world's two largest economies are unlikely to thaw anytime soon.

Corporate news

Everybody's got a hungry heart/Everybody's got a hungry heart /Lay down your money and you play your part

Is something rotten in the state of gig economy ? Was Abba right, when they sang 'the history book on the shelf, is always repeating itself'? Yet, in a world without restaurants, and where eating without doing anything rhymes with Uber Eats, Deliveroo, or eating nothing, wasn't this the right time? British food delivery company Deliveroo is set to carry out the biggest Initial Public Offering (IPO) in 10 years in London, with an expected valuation of £7.6 billion (or €8.9 billion). The company was hoping to price its offering at a minimum of £3.90 (€4.6) per share, after lowering its expectations of a £4.6 per share fearing volatile market conditions on technological stocks in recent days. Deliveroo, which has not made any profit in its seven-year history, is to be listed on the London Stock Exchange amid rising questions about its business model and its workers' precariousness. Regulatory concerns have emerged for investors since the UK Supreme Court's February decision to consider Uber's delivery workers as salaried employees and entitle them to social rights. Anyway, all this won't tell me what I'm going to eat tonight.

News from the Master

S.M (her name has been anonymised for confidentiality), one of the people in charge of our master's programme, has done an interview for Urbn, an association of Dauphine, where she declares her love for rap music. 'I grew up with MC Solar (...) Rap was hardcore'. When asked about Dinos, she says that 'it's classic (...) we don't care [that he goes to LIDL]. 5/10'. We also learn that 'a woman is priceless'. A poignant interview that shows the richness of our master, thank you S.M.

Press review

 (clickable link)

On Covid

- [What have we learned from a year of COVID?](#), T. Harford (FT): That 2019 was an amazing year.
- [The truth is that many of us have had a good pandemic](#), S. Kuper (FT): Why not.
- [Effets économiques des épidémies](#), DGTrésor.

On USA & inflation

- [The return of the inflation spectre](#), M. Wolf (FT): What about the return of the life spectre?
- [Inflation bogeyman unsettles markets](#), R. Wigglesworth (FT): Bogeyman.
- [America's growing fixation on race](#), E. Luce (FT).
- [Joe Biden's popular stimulus reveals a changed America](#), J. Ganesh (FT): AMERICA.

On Education

- [Teaching Current Monetary Policy](#), T. Taylor: Money, Money, Money/ Must be funny.
- [What is the point of School?](#), L. Kellaway (FT): see the editorial.

On other stuff

- [It's a bird ! It's a plane ! It's Emmanuel Macron](#), R.Momtaz (Politico): No, it's an epidemiologist.
- [Why the young should shun government for business](#), J.Ganesh (FT): Money, Money, Money/Always Sunny.
- [The OECD is an underrated institution](#), FT.
- [Distinguish post-communist privatizations from the Big Bang](#), B.Milanovic: Elephant.

Our viewings:

- Claude Sautet's movies: Netflix had the excellent idea of putting a lot of Claude Sautet's films in its catalogue. Certainly the greatest French director ever (with Melville perhaps, the debate is allowed), it will be a pleasure to see *Les Choses de la Vie* or *Max et les fêraillers* again. Unfortunately, his greatest film, *Un cœur en hiver*, is missing: an absolute masterpiece, worthy of a Dostoevski novel. *Garder le Calme !!!* *Devant la DISSONANCE !!!*