Latest From the Markets

30 March 2020

Economy and Markets Update

The recent action taken on the monetary and fiscal policy front have had a positive impact on the international stock markets over the course of last week, despite the markets closing negatively on Friday 27 March. The unprecedented actions taken by the Fed, consisting mainly in unlimited quantitative easing and direct financing of large companies through the subscription of bonds by the Fed itself, act as a safety net for the entire economic system.

The ECB is also doing its part with an increased quantitative easing amounting to a further €750 billion, bringing the arsenal of purchases of government bonds, corporate bonds and commercial paper (a first for the ECB) to over 1,000 billion. Furthermore, the extraordinary Pandemic Emergency Purchase Programme (PEPP) plan has suspended the rule limiting purchases to 33% of the issues of a single state.

Governments are also taking extraordinary measures to provide immediate help to businesses and citizens and to lay the foundations for fiscal expansion manoeuvres to ensure that the recovery, when it comes, will hopefully be rapid and decisive. For example, last Friday US Congress approved a plan worth over $2 trillion, or almost 10% of GDP. In Europe, for the moment, individual countries are moving independently. Germany, first and foremost, waived the principle of non-increase in debt, also launching a plan of interventions equal to about 10% of its GDP.

For now, the coordination of common measure at EU level has been less effective. The European Council meeting of European leaders, held last Thursday, did not reach agreement on the critical issues of the introduction of Eurobonds, opposed by the German-Dutch axis, or the use of the European Stability Mechanism (ESM). However, the EU Member States have given themselves two weeks to try to develop common responses.

Yesterday’s Market Roundup

Asian markets closed positively last Friday, in Japan the Nikkei 225 went up by +3.9%, China by +0.3%, Korea by +1.9% and Indonesia by +4.8%. However, there were notable exceptions, with Australia (-5.3%), India (-0.4%), New Zealand (-0.8%) and Taiwan (-0.4%).

In Europe, after the week started in strong recovery mode, markets fell back on Friday as the European Council failed to reach an agreement. The Eurostoxx 50 index closed at -4.2%, with the CAC 40 at -4.2%, the German Dax at -3.7% and the Italian FTSE MIB at -3.15%. London fell by -5.25%, The US stock exchange was also down, despite regaining 10% during the week, on Friday corrected by -3.4% (S&P 500 index).

The return to a so-called "risk off" phase pushed core government bond yields down, with the 10-year US yield down 13 basis points to 0.67% and the yield of the corresponding German Bund down 10 basis points to -0.47%. The Italian spread widens again with Germany closing at 180 basis points per week from 157 basis points on Thursday.

In commodities, Brent fell sharply, losing -6.7% and closing at $24.9 per barrel; gold fell slightly by-0.5% of gold at $1,623 an ounce, after the strong increases of the week. Finally, the U.S. dollar slipped above 1.11 against the Euro, bringing the depreciation in the week to -4%.

Today's Opening Bell

Despite the fact that the Chinese Central Bank lowered its reverse repo rates tonight by 20 basis points to 2.2%, most Asian markets are closing on the negative side. Only Australia closed sharply up to +7%, the Japanese Nikkei 225 lost about -3.3%, China -1.2%, Hong Kong -0.7%, Korea -0.6%, India -1.2%. Oil still falling sharply to 23.3 (-6.6%) dollars a barrel Brent. Up by about 0.7% European futures and the future on the S&P 500.

IMPORTANT INFORMATION

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