Latest From the Markets

16 April 2020

Economy and Markets Update

Yesterday was a "risk-off" day, with stock markets correcting sharply after the recent rises as attention shifted back to the negative macroeconomic data and problematic US banks' quarterly data.

The most disappointing data was published in the US, starting with the New York Federal Reserve's manufacturing index, which fell in April to -78 compared to the expected -35. This was followed by March retail sales, down by -8.7% compared to the expected -8%. The figure adjusted for car sales, however, was better than expected (-4.5% compared to -4.8%), as well as the important figure known as "retail control", which is used to calculate Personal Consumption Expenditure that contributes to GDP. In this case, sales of building materials, cars and energy are excluded, and the figure was actually positive at +1.7% compared to -2% expected. This was followed by March industrial production at -5,4% compared to -4% expected and the use of production capacity at 72,7% compared to 73,8% expected and a significant drop from 77% in February, highlighting the reduction in manufacturing activity due to containment measures.

On the corporate earnings front, “reporting season” continued in the US with Goldman Sachs, Citigroup and Bank of America. These banks saw profits halved versus Q1 2019 due to the necessary provisions to credit reserves. However, revenues were in line with, or above, expectations thanks to the sharp jump in trading in February and March due to the increased volatility in the markets.

Yesterday, the People’s Bank of China (POCB) reduced rates on the so-called Medium-term Lending Facility (MLF), the rate it lends to financial institutions, by 20 basis points from 3.15% to 2.95%, the lowest level since the parameter was introduced in 2014. On April 20, it is expected that the PBOC will also cut rates on the Loan Prime Rate (LPR), the rate at which banks lend to their best customers.

Yesterday’s Market Roundup

Negative closures for the Asian markets with the Japanese Nikkei 225 index down by -0.45% and Australia by -0.4%. China, despite the expected cut in PBOC rates, closed at -0.74% and Hong Kong fell -1.2%. India was positive for most of the day, but turned negative in the final closing at -1.06%. South Korea was closed yesterday.

European markets closed negative, with the Eurostoxx 50 index down by -3.75%. Once again the most impacted was the Italian market at -4.8% followed by the German DAX at -3.9%, the French CAC and Spanish Ibex at -3.8% and London at -3.34%.

Wall Street also closed negative with the S&P 500 index down by -2.2%; the Technology sector continued to outperform the broader market, while Financials, Oil and large retailers closed negative.

Yields on the 10-year US Treasury fell sharply to 0.64% (-11 basis points) and those on the 10-year Bund to -0.45% (-8 basis points). The Italian spread continued to widen with Germany by 28 basis points to 240.

In Commodities, the correction of the oil price continued with Brent crude falling by a further -6% to 27.8 dollars a barrel. Not even gold was spared yesterday, falling by -0.8% to 1,713 dollars an ounce. The USD strengthened against the Euro at 1.0915.

Today’s Opening Bell

Asian markets opened negatively this morning with the Japanese Nikkei 225 index down -1.5% and Australia -1.2% half an hour before closing. China in slight decline with the CSI 300 index at -0.25%. South Korea fell by -0.2% and Hong Kong by -0.8%. India remains unchanged. Oil and gold almost unchanged at $28 a barrel Brent and $1,715 an ounce respectively. USD in slight recovery against the Euro at 1.0880. European futures are shown at -0.2% and those on the United States at -0.5%.

Our View:

- After the strong rally seen in recent weeks, the markets have had to deal with the harsh reality of macroeconomic data, disappointing corporate results and concerning data on the spread of the pandemic in the US, with over 26,000 new infections and 2,259 deaths in a single day.

- The recent fall in oil prices has put pressure on the Energy sector, retail sales figures have weighed on large retailers and the collapse in profits in the Financial sector has caused a sharp drop in banking stocks.

IMPORTANT INFORMATION

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