

Confidence
must be earned

Amundi
ASSET MANAGEMENT

Latest From the Markets

15 April 2020

Economy and Markets Update

As had been expected, this morning the People's Bank of China (PBOC) reduced the rates on their Medium-term Lending Facility, the rate at which 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, the PBOC are also expected to cut rates on the Prime Lending Rate, the rate at which banks lend to their best customers.

Yesterday morning began with a positive tone in the markets that continued throughout the day, thanks to:

- a. improving data on the spread of the pandemic in Europe; and
- b. the publication of better-than-expected Chinese trade balance data for the month of March.

The data shows that exports contracted by -6.6% compared to analysts' estimates of -14%, and imports also fell less than expected, -0.9% compared to -9.5%. However, many commentators have warned against inferring a trend from these figures, as the effects of the "lockdown" in the West are sure to be felt in the months to come.

The International Monetary Fund (IMF) has published its revised estimates for global economic growth in 2020. The IMF now expects world GDP to contract by -3%, a reduction that could prove to be the deepest since the Great Depression of 1929. Forecasts in January were for growth of +3.3% in 2020. For 2021 the expected rebound is +5.8%, but this forecast is unpredictable for now, as explained by the IMF's chief economist who noted that a possible further round of contagion next year could push the world into recession for two consecutive years. The detailed forecasts by geographical areas show expected contractions of -5.9% for the US economy and -7.5% for the Eurozone. China is expected to show a slight positive growth of 1.2% compared to 6% forecast in January.

In the US Q1 corporate 'results season' is now in full swing. Major banking corporations, JP Morgan and Wells Fargo, both reported a sharp increase in financial provisions, \$8 billion and \$4 billion, respectively, set aside against an almost certain increase in loan defaults. JP Morgan's profit thus fell by two-thirds, despite trading activity showing a good result. Wells Fargo's profits fell by as much as 90%, which, unlike JP Morgan, has no investment banking business.

Yesterday's Market Roundup

Asian markets closed very positive, thanks to comforting data on the Chinese trade balance in March and reassuring data on the spread of the pandemic. In Japan, the Nikkei 225 index rose by 3.1%. Australia closed at 1.9%. Well also South Korea at +1.66%, China at +1.9% and Hong Kong at +0.56%.

After a strong opening, European markets lost some ground by the end of the trading day. The Eurostoxx 50 index still managed to close positive by +0.86%, but far from the +2.2% of the day's peak. Positive the German Dax with +1.25%, the Spanish Ibex with +0.54%, the French Cac 40 with +0.4%. The Italian market closed in negative territory with the FTSE Mib at -0.36%, as did London with the FTSE 100 at -0.9%.

Wall Street closed higher, with the S&P 500 index up by +3%, once again driven by the Nasdaq which closed positively by +3.95%. This was despite the negative performance of the financial sector on the back of data from JP Morgan and Wells Fargo, and the Oil sector due to the price correction.

Yields on the 10-year US Treasury remained unchanged at 0.75% and those on the 10-year Bund at -0.37%. Strong widening of the Italian spread with Germany by 19 basis points to 214 due to disappointment around the Eurogroup not including 'Eurobonds' in its proposed measures.

In Commodities, we saw a strong correction in the oil prices, fears of a continued decline in demand more than offset the cut in production announced last weekend. Brent oil lost -5.4%, closing at 30 dollars a barrel. The gold price continues to rise by +0.7% to \$1,726 an ounce. The US dollar weakened against the Euro at 1.0990.

Today's Opening Bell

The Asian markets this morning were mixed, with the Japanese Nikkei 225 index unchanged and Australia at -1% half an hour before closing. China, despite the expected cut in the PBOC rates, slightly declined with the CSI 300 index at -0.1%. India, closed yesterday at +2.6% while Hong Kong remains unchanged. South Korea is closed today.

Brent oil closed at \$30 per barrel and gold was slightly down by -0.1% at \$ 1,725 an ounce. The US dollar slightly recovering against the Euro at 1.0975. European futures are unchanged and those on the US are at -0.35%.

Our View

- The international stock markets, led by the US, appear confident that a gradual reopening of activities is imminent and seem to be looking beyond the IMF's negative forecasts.
- This is despite the negative data coming from the United States with over 23,000 new infections and over 2,000 deaths yesterday, or the disagreements between President Trump and some Governors (such as Mario Cuomo in New York) who consider the President's plans to reopen too optimistic.

IMPORTANT INFORMATION

Unless otherwise stated, all information contained in this document is from Amundi Asset Management and is as of 15 April 2020. Diversification does not guarantee a profit or protect against a loss. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management and are subject to change at any time based on market and other conditions and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, recommendation, indication of trading for any Amundi product and this material does not constitute an offer or solicitation to buy or sell any security, fund units or services. Investment involve risks, including political and currency risks. **Past performance is not a guarantee or indicative of future results.**

Date of First Use: 15 April 2020

Doc ID: 1152305