Latest From the Markets

21 April 2020

Economy and Markets Update

The US oil futures market had a very unusual day on Monday. The WTI (West Texas Intermediate) futures contract expiring today for May delivery, not only lost all its value, but for the first time in history it closed at a negative value, around -37 dollars a barrel, while the June futures contract also fell by -15% to 21 dollars a barrel.

What happened is due to the technicality that WTI futures have a physical delivery date, unlike Brent futures, which are settled in cash. The barrels from the purchased WTI futures contracts are stored in Cushing, Oklahoma. Given the collapse in global oil demand due to the pandemic, the storage location is almost full, effectively preventing the possibility of acquiring the barrels underlying the contracts due to the impossibility of storing them. Hence, the mad rush to sell at any price in the search for buyers for the contracts. While this may seem absurd, what happened was that those who bought oil futures yesterday expiring today, instead of paying for them, were actually paid to keep them – now finding themselves with the barrels in hand.

Limited macroeconomic news yesterday, with only the Japanese trade balance data for March worth mentioning. Exports contracted by -11.7% compared to the expected -10%, while imports fell by -5% compared to the expected -9.8%. In particular, exports to the US contracted by -16%.

As mentioned yesterday, the Chinese Central Bank has reduced the Prime Loan Rate on 1 year and 5 years by 20 basis points to 3,85% and 10 basis points to 4,65% respectively (this is the rate at which banks lend to the best customers).

Meanwhile, in the US negotiations are continuing between the Trump Administration and Congress to launch a further aid package for small and medium-sized businesses that could amount to up to 450 billion dollars, in addition to the total package already allocated of 2,300 billion dollars.

Yesterday's Market Roundup

Mixed closures in Asia yesterday, with the Japanese Nikkei 225 index down -1.15% and Australia -2.45%. China after, a negative opening, turned positive with the CSI 300 index closing at +0.36%. South Korea closed negative by -1.13% and Hong Kong by -0.2%, while India rose slightly by +0.2%.

A mixed day also on European markets with a positive opening then falling to -1.7% in the middle of the session and then again closed positively with the Eurostoxx 50 index at +0.73%. The French CAC 40 rose by +0.65%, the German DAX by +0.5%, while Italy closed unchanged and the Spanish Ibex fell by -0.64%. London went up +0.45%.

Wall Street had a negative day, made worse by the extraordinary events concerning oil futures on the WTI. The S&P 500 index down by -1.8% and the Dow Jones Industrial by -2.4%. The Nasdaq held better with a smaller decline to -1%, supported by biotech stocks and home entertainment providers, considered the champions of "stay at home".

Yields on the 10-year US Treasury fell slightly to 0.62% (-2 basis points) and those on the 10-year Bund rose slightly to -0.45% (+2pb). The Italian spread widens again with Germany by 16 basis points to 242 basis points.

In commodities, the price of oil fell with Brent at -7% to $26 per barrel and the WTI expiring in June by -15% to $21 per barrel, while gold rose by +0.6% to $1,694 per ounce. The USD was stable against Euro at 1.0860.

Today's Opening Bell

Negative openings in Asia this morning due to Wall Street closing negative and the collapse of oil; the Japanese Nikkei 225 index down by -2% and Australia by -1.9% half an hour from closing. In China, the CSI 300 lost -1.8% and Hong Kong fell -2.3%. South Korea is also down -1.4% and India -2.7%.

Oil is still declining with Brent falling by -0.9% to $25.33 per barrel. Gold slightly down to $1,688 an ounce. The USD appreciated against the Euro at 1.0835. European futures are down to -1.9% and US futures to -0.6%.

Our view:

- After last week's strong performance, the markets appear to have run out of steam. There is concern around the sharp drop in oil, which has penalized the energy sector, and there are fears about corporate profits due to be published later this week.

- At least in Europe, the markets appear supported by hopes that some countries are entering “Phase 2” which will permit a gradual reopening of businesses, thanks to signs of moderation in the growth of daily contagions and admissions to intensive care.

IMPORTANT INFORMATION

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