Latest From the Markets

31 March 2020

Economy and Markets Update

China has just published its PMIs (Purchasing Managers Indices) for March. The good news is that both indices are around 52, i.e. above the threshold of 50, which separates expansion from contraction, showing that the recovery in the production of goods and services in China is underway. The data should be considered carefully, however, because a return to production in March may well be counterbalanced by the slowdown in global demand elsewhere, so we cannot extrapolate a positive trend in the near future. However, the data is above the forecasts, which expected to see the PMI manufacturing index at 45, so that is good news.

The PBOC (Chinese Central Bank) reduced the 7-day “reverse repo” rates (short-term repo transactions through which the central bank provides liquidity to the system) from 2.4% to 2.2%. This suggests it may be followed by a reduction in the rates on the Medium-term Lending Facility -, i.e. the loans that the PBOC makes to banks and the rate at which banks lend to their best customers.

These steps are in addition to the recent measures adopted by the world's leading central banks to support the financial system and the real economy, both of which have been put to the test by the spread of the global pandemic.

Meanwhile, in the US, President Trump abandoned the idea of returning to normal after Easter and extended the "stay at home" guidelines to the end of April, after his healthcare advisor Dr. Anthony Fauci, predicted between 100,000 and 200,000 coronavirus victims in the absence of effective containment measures.

Italy, considered by many a pilot case for the evolution of contagion in the Western world, finally seems to be seeing a slowdown in the rate of increase of virus positives, although the number of daily victims continues to be high. If the growth of new cases were to continue to slow down, it would demonstrate that, while we all wait for a vaccine, the policy of containment and social distancing is working.

Yesterday’s Market Roundup

Although the Chinese Central Bank reduced "reverse repo" rates by 20 basis points to 2.2%, most Asian markets closed on a negative note yesterday, albeit above the day's lows. Only Australia closed sharply up to +7%. The Japanese Nikkei 225 lost -1.6%, China -1%, Hong Kong -1.3%, Korea -0.6%, India -4.6%.

After a mixed day, the European markets, in the wake Wall Street’s positive opening, managed to close mostly positive. The Eurostoxx 50 index closed at +1.35%, with the CAC 40 at +0.6%, the German Dax at +1.9% and the Italian FTSE MIB at +0.3%, and the British stock exchange up +1%. The U.S. stock exchange did well, closing on the highs of the day with the S&P 500 index +3.35%, driven by the technology sector with Microsoft in the lead at +7%.

Slight rise in yields on the 10-year Treasury to 0.71% while the 10-year Bund remains substantially stable at around -0.5%. The Italian differential continues to widen with Germany reaching 200 basis points and then closing at 198, due to fears of possible changes in the rating agencies' assessment of our debt.

In commodities, the decline in oil prices continued with Brent falling another 9.5% to 22.5 dollars a barrel, while gold remained stable at 1,619 dollars an ounce.
Finally, the US dollar appreciated by half a percentage point against the Euro, closing at 1.105.

Today’s Opening Bell

La buona chiusura di Wall Street e i dati incoraggianti sui PMI cinesi in marzo hanno avuto un effetto misto sui mercati asiatici. L’Australia è in ribasso del -2% ed il Nikkei 225 giapponese del -1,1% a mezzora dalla chiusura. Positive le altre piazze con la Cina a +0,3%, Hong Kong a +0,7%, Corea +1,1%, India +2,6%. Petrolio in leggera ripresa dopo il crollo di ieri a 22,9 (+2%) dollari al barile Brent. Invariati i futures europei mentre il future sull’S&P 500 è indicato a -0,5%.

Our Outlook

- The tug-of-war continues between monetary and fiscal policy measures to support the economy on one side and, on the other, a deteriorating macroeconomic framework, a side-effect of efforts to contain the global pandemic.

- Financial markets, while waiting for news of developments on the contagion curves, appear open to trusting the institutions that have moved with timely and historic measures.

IMPORTANT INFORMATION

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