Weekly Economic Report

23 March 2020

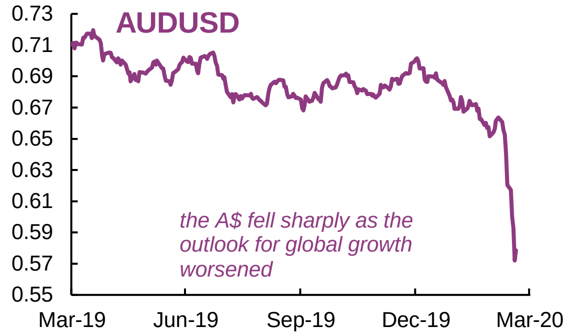
The week that was

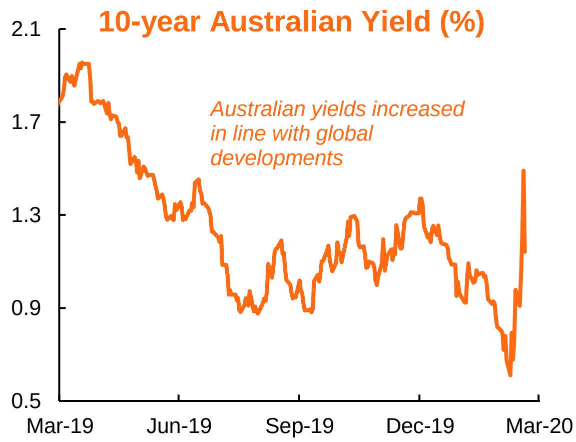
- It was a truly extraordinary week in markets. Not only were there dramatic movements in equity, bond, credit and foreign exchange markets, but we also witnessed unprecedented policy responses from politicians and central bankers.
- First, we'll summarise how markets fared over the week. Equity markets fell very sharply in Australia (the ASX200 fell by 13.9%) and the US where the S&P500 dropped by 15%.
- Losses in other major markets were more subdued last week, with declines in the -2% to -5% range. Over the year to date, however, most equity markets have fallen by around 30%. The notable exception is the Chinese equity market which has fallen by 10%.
- Simply noting the sharp fall in share prices over the week does not, however, reveal the incredible volatility that occurred both across trading sessions and within trading sessions.
- Last week, daily falls and gains of between 5% and 10% became the norm rather than the exception for most markets. And it was not unusual for the share market to be down sharply half way through a session only to reverse all its losses and end higher (or the reverse).
- Usually when share prices fall sharply, bond yields decline as investors seek the safe haven of government bonds. Last week, however, the usual correlations did not work consistently. Such behaviour could be explained if investment funds were forced to sell their liquid assets to raise cash to fund redemptions.
- Australia's 10-year bond yield rose by 16bps over the week to 1.16%. The German 10-year bond yield rose by 22bps to -0.32% and TCorp's 10-year yield rose by 18bps to 1.79%. The US 10-year bond did, however, decline by 11bps to 0.85%. Again, however, looking at the movement in yields over the week only tells half the story. It is the volatility over the week that was truly remarkable.

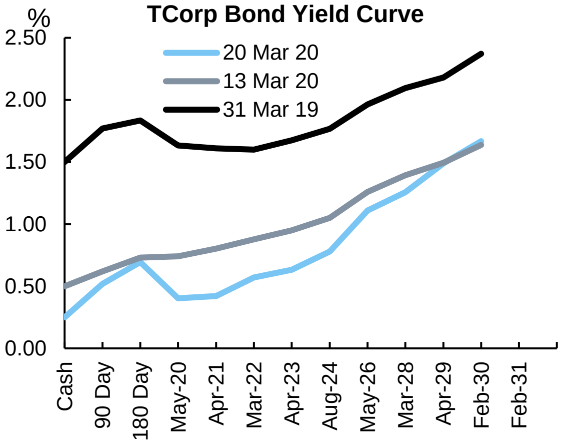
Economic calendar

Monday 23/03	
Tuesday 24/03	Global: PMIs, Mar US: New home sales, Feb
Wednesday 25/03	GE: IFO survey US: Durable goods orders, Feb
Thursday 26/03	US: Jobless claims, Mar UK: Bank of England meeting
Friday 27/03	US: PCE deflator, Mar

Financial markets charts







- The US 10-year yield fell, from 0.96% last week to 0.6% after the US Federal Reserve's announcement that it would cut its policy rate by 100bps to 0-0.25%. Over the next couple of days it rose up to 1.26% before falling back to 0.85% at the end of the week.
- Australia's 10-year bond yield was even more volatile last week, ranging from 0.82% to 2.5% before closing at 1.14%.
- Currency markets were similarly volatile last week as companies sought US$ funding which resulted in sharp falls in many currencies, including the A$.
- The A$ closed the week at US 57.9 cents, down 6.7% over the week. During the week, however, the A$ ranged between US 63 cents and US 55.10 cents. In some years, the A$ has traded in a smaller range than it did last week.
- Accompanying the extraordinary market moves were extraordinary policy measures. New Zealand kicked off proceedings last week announcing a fiscal stimulus plan worth 4% of GDP. France announced stimulus measures worth 1.8% of GDP, including support for ailing companies as well as cancelling utilities bills and offering mortgage relief.
- The US Congress is developing a fiscal stimulus plan worth up to 5-6% of GDP including direct payments to households. Japan is similarly planning a large stimulus.
- In the UK, it was announced that individuals that lose their job because of COVID-19 will be paid 80% of their previous income (up to £2,500 per month) by the Government for an indefinite period.
- And in Australia, the Commonwealth Government announced its second fiscal stimulus over the weekend, extending payments to firms that do not retrench staff (they will receive between $20,000 and $100,000) as well boosting welfare payments.
- While politicians were delivering large and novel policy measures, central banks were also very active.
- The US Federal Reserve extended its US$ swap lines to a further nine central banks, including the Reserve Bank of Australia and the Reserve Bank of New Zealand. This enables firms in these countries to access US$ funding and should help stabilise the currency market.
- After the US Federal Reserve cut its policy rate by 100bps, the Reserve Bank of New Zealand cut its policy rate by 75bps to 25bps. The European Central Bank announced that it would purchase an additional €750 billion in bonds, that helped stabilise the bond market. The Bank of England cut its policy rate from 0.25% to 0.1% and announced that it would re-start its bond buying program and also purchase commercial paper from British firms.
- In addition, the Reserve Bank of Australia announced that it would make an unscheduled policy announcement on Thursday 19 March. Even during the GFC, the RBA did not feel they needed to alter policy between its regular meetings.
- The RBA not only cut the policy rate by 25bps, to 0.25% (which the RBA considers to be the effective lower bound), but also indicated that it doesn't expect to raise the policy rate for the next 3 years. This is the most explicit forward guidance that the RBA has ever undertaken.
- In addition, the RBA announced that it was intent on keeping the Australian 3-year bond yield at 0.25% -- the so-called Yield Curve Control – and that it would purchase Commonwealth Government bonds and semi-government bonds (including TCorp bonds) in whatever quantities were required to achieve that goal as well as restore functioning to markets.
- The RBA also provided support to the banks that was designed to encourage them to keep lending to small and medium-sized businesses. The RBA will provide up to $90 billion of funding to banks at the very low cost of 0.25%. Finally, the RBA will pay banks interest on the reserves that they hold at the RBA which should support profitability. At the same time, the Council of Financial Supervisors announced an easing of regulatory standards that is again designed to encourage lending.
- All in all, a truly historic week.
- The economic data certainly took a backseat last week, although we are beginning to see the size of the damage being wrought by COVID-19. In China, retail sales fell by 20%YoY in February, while investment plunged by 25%. Both were much weaker than expected. In the US, jobless claims rose from 200,000 to 280,000 last week and partial estimates suggest that these surged much further in recent days.

The week ahead

- Initial jobless claims will be closely watched in the US, as they have tended to be highly correlated with the unemployment rate.
- Global Purchasing Manager's Indexes for March will also be released. Last month, these proved surprisingly resilient outside of China, as longer delivery times are usually a sign of strong demand and so are considered a positive development.
- Of course, the reason why delivery times are lengthening now reflects impaired supply chains which is obviously not a good thing. In March, though, these data should more clearly reflect the impact of the collapse in demand.

Financial markets data: Week ending 20 March 2020

Interest Rates	Close (%)	1 Week (bps)		YTD (bps)	
RBA Cash Rate	0.25	-25	▼	-50	▼
90-day BBSW	0.52	-10	▼	-40	▼
3-year Australian Bond Yield	0.28	-26	▼	-62	▼
10-year Australian Bond Yield	1.14	16	▲	-23	▼
20-year Australian Bond Yield	1.89	18	▲	2	▲
10-year Australian Break-Even Inflation	0.21	-51	▼	-120	▼
10-year Australian Real Yield	0.93	67	▲	97	▲
Fed Funds Rate (lower bound)	0.00	-100	▼	-150	▼
2-year US Treasury Yield	0.31	-18	▼	-126	▼
10-year US Treasury Yield	0.85	-11	▼	-107	▼
30-year US Treasury Yield	1.42	-11	▼	-97	▼
10-year German Bund Yield	-0.32	22	▲	-14	▼

NSW TCorp Bonds	Close (%)	1 Week (bps)		YTD (bps)	
6.00% 1 May 2020	0.40	-34	▼	-53	▼
4.00% 8 April 2021	0.42	-38	▼	-58	▼
6.00% 1 March 2022	0.57	-31	▼	-49	▼
4.00% 20 April 2023	0.63	-32	▼	-54	▼
1.00% 8 February 2024	0.77	-28	▼	-51	▼
5.00% 20 August 2024	0.78	-27	▼	-50	▼
4.00% 20 May 2026	1.11	-15	▼	-34	▼
3.00% 20 May 2027	1.26	-14	▼	-32	▼
3.00% 20 March 2028	1.49	0	▼	-18	▼
3.00% 20 April 2029	1.67	11	▲	-11	▼
3.00% 20 February 2030	1.76	12	▲	-9	▼
2.00% 20 March 2031	1.86	11	▲	-10	▼
2.00% 20 March 2032	2.10	11	▲	n/a	n/a
2.00% 20 March 2033	2.20	14	▲	1	▲
3.75% 20 August 2020 CIB	-0.81	9	▲	-13	▼
2.75% 20 November 2025 CIB	1.04	50	▲	95	▲
2.50% 20 November 2035 CIB	1.82	70	▲	110	▲
10-year NSW TCorp Bond Yield	1.79	18	▲	-5	▼
10-year TCV (Victoria) Spread	-0.02	-8	▼	0	▲
10-year QTC (Queensland) Spread	-0.01	-8	▼	-4	▼

Equities	Close	1 Week		YTD	
S&P/ASX 200 (Australia)	4,817	-13.0%	▼	-27.9%	▼
S&P 500 (US)	2,305	-15.0%	▼	-28.7%	▼
FTSE 100 (UK)	5,191	-3.3%	▼	-31.2%	▼
DJ Stoxx 600 (Europe)	293	-2.0%	▼	-29.5%	▼
Nikkei 225 (Japan)	16,553	-5.0%	▼	-30.0%	▼
Shanghai Composite (China)	2,746	-4.9%	▼	-10.0%	▼

Currencies	Close	1 Week		YTD	
AUD/USD	0.579	-6.7%	▼	-17.5%	▼
EUR/USD	1.069	-3.8%	▼	-4.7%	▼
USD/JPY	110.93	3.1%	▲	2.2%	▲
GBP/USD	1.16	-5.3%	▼	-11.7%	▼
US$ Index	102.82	4.1%	▲	6.7%	▲

Commodities	Close	1 Week		YTD	
Brent Oil (US$/bbl)	26.98	-20.3%	▼	-59.1%	▼
Iron Ore (US$/t)	89.12	-1.2%	▼	-2.6%	▼
Coking Coal (US$/t)	1,251	-3.2%	▼	3.6%	▲
Gold (US$/oz)	1,499	-2.0%	▼	-1.2%	▼

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