What's going on in the world?

Weekly market wrap up by PwC Treasury Advisory

13 March 2020

Implications of the COVID-19 virus have continued to wreak havoc on financial markets this week, as containment measures could potentially send the global economy into a deep recession. The US Federal Reserve stepped in yesterday (after President Trump underwhelmed with a lack of policy response), announcing considerable stimulus. This included increasing the size of the Fed's repo auctions and a retooling of the balance sheet expansion into what amounts to a full-blown return to quantitative easing. Despite this, US equities are down 7% overnight. The Hunger Games fight for liquidity is on as US firms rush to raise cash. Amidst all of this, the VIX (a measure of S&P 500 volatility) skyrocketed to over 75, reflecting investors nervousness about what is to come.

The preliminary read on the ANZ's business outlook survey for March unsurprisingly showed a significant slump in confidence. The own activity indicator slumped back into levels consistent with an economic recession. A timely paper released this week shed some light on the RBNZ's thoughts around unconventional monetary policy. RBNZ Governor Orr's accompanying statement detailed that negative interest rates remain the first likely plan of action if required. However, Orr indicated some reluctance to cut rates too far, too quickly. Markets are currently pricing in a significant 45bps of cuts by the RBNZ at their 25 March meeting. Here's hoping for more constructive tag-teaming from the RBNZ and NZ government over coming weeks, to help weather the economy from the COVID-19 storm.

Three months into 2020 and I think it's safe to say that 'this is not our year' so far. Amid the COVID-19 pandemic, 9th March marked a 'Black Monday' as oil (and equity) markets tanked following a dispute between Russia and Saudi Arabia on production cuts. Russia did not agree to lower its oil production last week, which prompted Saudi Arabia to retaliate by discounting selling prices and threatening to raise production levels. Oil prices consequently plummeted over 20%. Further, Trump's announcement yesterday that the US will suspend all travel from Europe has put further downward pressure on oil prices. WTI crude oil is currently trading at a 'cheap as chips' USD$31/bbl. The silver-lining being flow through to cheaper petrol prices at the pump.

As cases of COVID-19 in the UK continue to climb, the Bank of England jumped into action this week, delivering a 50bps emergency interest rate cut to an all-time low of 0.25%. This was followed by the UK budget, which included a £30bn COVID-19 package and a pledge to spend £600bn on infrastructure. Later in the week, the European Central Bank (ECB) were in the spotlight with some expectation that they would cut interest rates further into negative territory. The Central Bank (understandably) decided that cutting rates would likely hinder, rather than help economic growth. While the ECB is providing stimulus through further asset purchases (QE), they are now calling on governments to cooperate with their respective central banker on a fiscal policy response. Have a great weekend!

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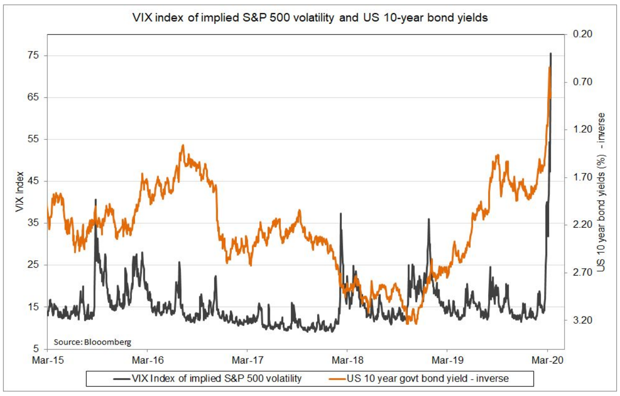
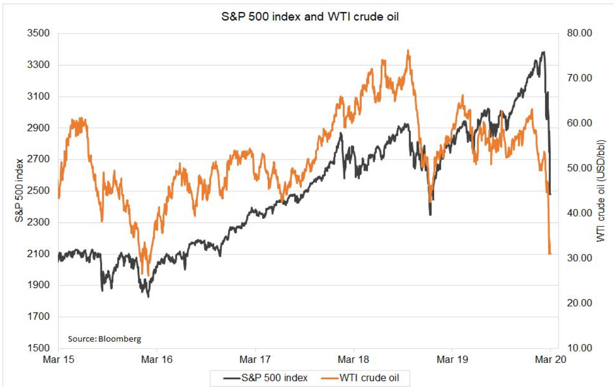
Charts of the week





Link of the week: ***'What could COVID-19 mean for your Treasury and cash activities?'***

'Big movers' over the past week		
	Current	Chg over week
Stu's hay bales (NZD/bale)	$22	+50.0%
AUD/USD	0.6290	-5.23%
S&P 500 index	2,480	-16.54%
NZX 50	9,482	-17.02%
WTI crude oil (USD/bbl)	0.92%	-23.69%

Source: Bloomberg

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