WEEKLY UPDATE

Extraordinary Measures (contd.)

The scale of support from central banks and governments to address the public health and economic crises caused by the CoViD-19 pandemic has been extraordinary, as has the speed with which the new measures have been launched. What will be the long-term impact of such policy easing? And what is the outlook for markets?

On Thursday April 9, we had major announcements from the US Federal Reserve (Fed), the Bank of England (BoE) and euro zone finance ministers (the Eurogroup).

The Fed has offered $2.3tn in additional support to businesses and to credit markets. The largest programmes are: 1) It will buy up to $750bn in corporate bonds on both the primary and secondary markets, including the bonds of "fallen angels", that is issuers whose credit rating has been downgraded to the High Yield (HY) or junk category. And it will also buy HY exchange-traded funds (ETFs), the first time it has ventured into the riskiest segment of the bond market. 2) It has earmarked up to $600bn to support loans to "Main Street", shorthand for small and medium sized businesses. This will be a "public/private" partnership with commercial banks, which will originate the loans. 3) The Fed will also buy short-term notes issued by states, the largest counties and cities of over 1 million inhabitants, up to $500bn in total. This is designed to kick-start the municipal bond market which has dried up in recent weeks. These measures are equivalent in aggregate to 11% of US GDP and should be instrumental in returning US credit markets to a more stable footing.

The BoE surprised observers by announcing short-term monetary financing of government spending, a move which the BoE Governor had ruled out only a few days ago. This enables the Treasury to continue to spend on its various support programmes without having to tap the sovereign bond (gilt) market. Already, the Chancellor had increased planned gilt issuance in April from £15bn to £45bn but more will be needed. There is an urgent need to make good on commitments, such as the promise to pay 80% of laid-off workers' monthly wages (this could cost £30-40bn over the next three months according to the Resolution Foundation).

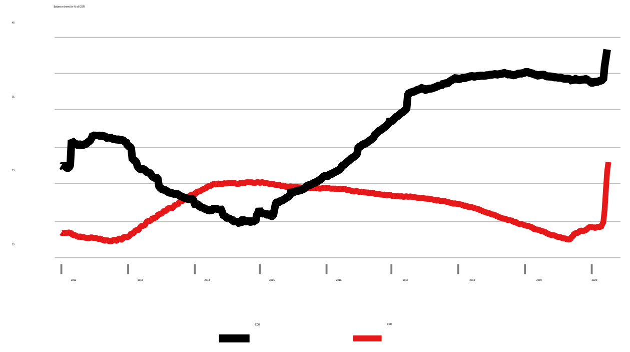
The Eurogroup also reached agreement yesterday on a number of support measures for the euro zone: 1) The European Stability Mechanism will be authorised to extend up to €240bn in non-conditional loans to member countries to finance the direct and indirect healthcare costs they face. 2) The European Investment Bank will extend €200bn in loan guarantees for small and medium sized companies across the region. 3) The European Commission's SURE €100bn programme to finance short-term working was also approved.

In addition to these measures, the Eurogroup also announced a commitment to set up a temporary €500bn fund to finance reconstruction after the coronavirus recession. Encouraging though these announcements are, they still need to be approved by heads of State at a forthcoming meeting, meaning that the support burden will continue to be borne by national governments for now.

Bottom line. The battle to minimise the economic fall-out from coronavirus containment and lockdowns will see debt burdens rise enormously in coming quarters. Governments will hope that their measures will soften the blow to GDP and foster a rapid recovery from recession, thereby enabling them to return to more orthodox budget and fiscal policies in due course. Many investors, however, may fear that government finances will remain on an unsustainable footing, meaning that central bank asset purchases to keep bond yields – and hence borrowing costs – low are likely to remain in place for the foreseeable future.

Continued rapid increase in asset purchases

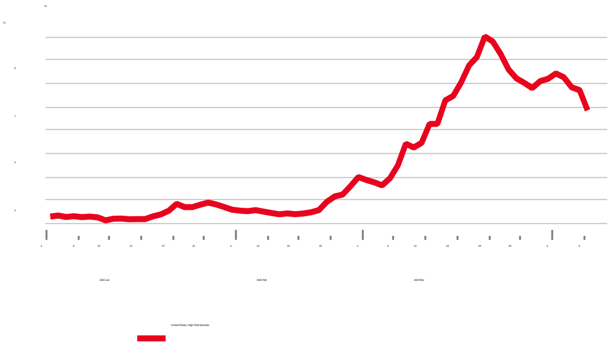
Major central bank balance sheets (in % of GDP)



Sources: SGPB, Macrobond, data as of 10/04/2020

Welcome news from the Fed for High Yield investors

High Yield spreads in the US (in %)



Sources: SGPB, Macrobond, data as of 10/04/2020

Past performance should not be seen as a guarantee of future returns.

OUR MACRO COMMENTS

This week and next

EUROZONE

- The Sentix investor sentiment index dropped to all-time low at -42.9, well below expectations of -37.5 as the Eurozone is facing a sharp recession from the coronavirus shutdown.
- In Germany, factory orders fell 1.4% MoM in February from + 4.8% in January, suggesting that the outbreak had already started to hit orders from abroad. Industrial production grew by only 0.3% MoM in February, down from +3.2% the previous month.

Next week's key events		Per.	Prev.	Cons.
16 Apr	Industrial production YoY	Feb	-1.9%	-1.9%
17 Apr	Inflation rate YoY	Mar	0.7%	0.7%

UNITED KINGDOM

- UK gross domestic product fell -0.1% MoM in February after +0.1% in January.
- According to Halifax, house prices unchanged in March but were up 3% YoY.
- Industrial production fell -2.8% YoY in February, the same rate as January. On a monthly basis, it rose 0.1%. Manufacturing production decreased 3.9% YoY in February after -3.7% the previous month.

Next week's key events		Per.	Prev.	Cons.
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UNITED STATES

- US NFIB index of small business optimism fell to 96.4 in March, from 104.5 in February.
- Bloomberg's consumer comfort index fell to 49.9 for the week ended April 5, from 56.3 the previous week.
- US mortgage applications fell -17.9% for the week ended April 3, from +15.3% the previous week.
- According to the labour department, 6.61 million people filed jobless claims in the week ended April 4 taking the total since mid-March to 16.8 million.

Next week's key events		Per.	Prev.	Cons.
15 Apr	Retail sales MoM	Mar	-0.5%	-6.4%
15 Apr	Industrial production MoM	Mar	0.6%	-4.1%

ASIA & EMERGING

- China's forex reserves fell to $3.06tn in March, from $3.11tn in February.
- Japan's Eco Watchers current conditions index plummeted to 14.2 in March, from 27.4 in February, and only just above the December 2008 low.
- Taiwan exports fell 0.6% YoY in March, from +24.5% in February.

Next week's key events		Per.	Prev.	Cons.
17 Apr	China: Industrial production YoY	Mar	-13.5%	-5.6%
17 Apr	China: Retail sales YoY	Mar	-20.5%	-8.8%

Sources: DataStream, Bloomberg, 09 April 2020. Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, PMI = Purchasing Manager's Index.

Our 3-month targets for currencies and commodities

	Thursday close	3mth target
EUR/USD	1.09	1.11
GBP/USD	1.25	1.27
EUR/CHF	1.06	1.04
USD/JPY	108.5	110
Brent	$31.7	$27
Gold (oz.)	$1682	$1625

No Changes made to our 3-month targets this week.

Forecast figures are not a reliable indicator of future performance.

MARKET PERFORMANCE

Interest rates	Last	1wk		3mth	YTD	12mth
EONIA (EUR)	-0,45 %	0 bp	→	0 bp	-9 bp	-8 bp
3mth Euribor (EUR)	-0,22 %	12 bp	↑	17 bp	9 bp	9 bp
3mth Libor (USD)	1,22 %	-15 bp	↓	-63 bp	-159 bp	-136 bp
3mth Libor (GBP)	0,68 %	4 bp	↑	-10 bp	-23 bp	-14 bp
10-year US Treasury bond	0,72 %	10 bp	↑	-114 bp	-197 bp	-178 bp
10-year German bond	-0,34 %	9 bp	↑	-12 bp	-59 bp	-34 bp
10-year French bond	0,11 %	6 bp	↑	5 bp	-60 bp	-24 bp
10-year UK bond	0,31 %	-3 bp	↓	-52 bp	-96 bp	-80 bp

Credit	1wk		3mth	YTD	12mth
BAML EURO Corp. IG	1,3%	↑	-5,1 %	0,9 %	-2,2 %
BAML EURO Corp HY	3,8%	↑	-11,5 %	-1,4 %	-7,0 %
BAML GBP Corp IG	3,1%	↑	-1,8 %	10,0 %	5,2 %
BAML US IG	2,6%	↑	-1,6 %	12,6 %	7,3 %
BAML US HY	4,4%	↑	-11,1 %	2,1 %	-5,5 %
BAML Global EM Sov. External Plus	2,5%	↑	-13,4 %	-2,0 %	-7,6 %

Exchange rates	Last	1wk		3mth	YTD	12mth
EUR/USD	1,09	0,7 %	↑	-1,6 %	-4,7 %	-3,0%
EUR/CHF	1,06	-0,2 %	↓	-2,3 %	-6,2 %	-6,3%
GBP/USD	1,25	0,5 %	↑	-4,7 %	-2,4 %	-4,6%
USD/JPY	108,5	0,5 %	↑	-1,0 %	-1,0 %	-2,4%
USD/BRL	5,11	-2,8 %	↓	24,8 %	31,6 %	32,6%
USD/CNY	7,04	-0,6 %	↓	1,6 %	2,4 %	4,9%
USD/RUB	74,3	-3,8 %	↓	21,2 %	6,6 %	14,4%

Government bonds*	1wk		3mth	YTD	12mth
United States (3-7yr)	-0,1 %	→	5,9 %	6,1 %	10,6 %
United Kingdom (3-7yr)	0,2 %	↑	2,3 %	2,3 %	3,5 %
Germany (3-7yr)	-0,2 %	↓	0,2 %	0,3 %	0,0 %
Japan (3-7yr)	-0,1 %	→	0,0 %	0,0 %	-0,4 %

Equities*	Last	1wk		3mth	YTD	12mth
MSCI AC World	470	8,9 %	↑	-17,2 %	-16,4 %	-7,0 %
Eurostoxx 50	2 893	7,7 %	↑	-23,5 %	-22,4 %	-12,4 %
DAX	10 565	10,4 %	↑	-21,7 %	-20,3 %	-10,9 %
CAC 40	4 507	6,8 %	↑	-25,2 %	-24,3 %	-14,3 %
S&P 500	2 790	10,5 %	↑	-14,4 %	-13,2 %	-1,1 %
FTSE 100	5 843	6,6 %	↑	-22,4 %	-21,8 %	-18,0 %
SMI	9 453	2,5 %	↑	-9,4 %	-9,2 %	2,3 %
Topix	1 417	6,6 %	↑	-17,0 %	-16,6 %	-10,1 %
IBOV Brazil	77 682	7,5 %	↑	-33,0 %	-32,8 %	-19,3 %
MICEX Russia *	2 702	6,1 %	↑	-13,4 %	14,6 %	5,1 %
MSCI EM	888	5,9 %	↑	-21,1 %	-20,0 %	-16,3 %
SENSEX 30 India	31 160	10,2 %	↑	-24,6 %	-24,2 %	-19,0 %
Hang Seng (H-K)	24 300	4,0 %	↑	-14,8 %	-13,7 %	-16,7 %
Shanghaï Composite	2 826	1,6 %	↑	-8,7 %	13,3 %	-12,8 %

Commodities	Last	1wk		3mth	YTD	12mth
Brent	$31,7	6,2 %	↑	-51,6 %	-40,3 %	-55,2 %
Gold	$1 682	4,7 %	↑	8,7 %	31,3 %	28,9 %
Copper	$4 993	2,3 %	↑	-18,9 %	-16,1 %	-22,9 %

Source: DataStream, on 10 April 2020.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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