

MARKET UPDATE: GLOBAL SHARES FALL AS SPREAD OF CORONAVIRUS RATTLES MARKETS

16th March 2020

LAST WEEK – KEY TAKEAWAYS

Coronavirus: Toughest week for markets in over 30 years

- Global shares fell at the start of the week after a disagreement between the Organization of the Petroleum Exporting Countries (OPEC) and other producers about cutting output led to a drop in oil prices;
- On Wednesday, concerns about the market for Treasuries- US government bonds which are considered among the least risky asset class as the likelihood of default is so low- further weighed on shares;
- Later that day, US President Donald Trump banned travel from many European countries to the US, and shares dropped again when the markets opened on Thursday;
- However, shares recovered on Friday as the Federal Reserve (the US central bank) pledged US\$5 trillion to support the Treasury market, and President Trump's allocation of US\$50 billion to fight what has been classified a national emergency boosted US shares.
- **Omnis view: Governments and central banks (see below) are upping their efforts to support the global economy and minimise the effect on the markets. The turbulence may be dominating the headlines for now, but the impact of the virus is expected to be temporary, while the policies introduced recently should last much longer.**

Central banks: Coordinated response to coronavirus

- The Bank of England (BoE) cut interest rates by 0.5% at an unscheduled meeting on Wednesday and introduced measures to encourage banks to continue lending throughout the crisis;
- The European Central Bank (ECB) expanded its bond buying programme- known as quantitative easing (QE)- but it did not lower rates which are already negative;
- At another unscheduled meeting on Sunday, the Federal Reserve reduced interest rates to zero and announced an increase to QE.
- **Omnis view: Central bank support is key to the global economy overcoming the impact of the coronavirus, although governments also need to take further action to calm investor's fears. The steps taken by the BoE and ECB were overshadowed by concerns about Treasuries and President Trump's travel ban. To make matters worse, the markets did not feel that the ECB went far enough.**

UK: Chancellor uses budget to tackle coronavirus

- New Chancellor Rishi Sunak provided further support for the UK economy when he delivered his first budget on Wednesday, announcing £12 billion worth of tax cuts and government spending.
- **Omnis view: The Chancellor delivered the most expansive budget since the early 90s, featuring a range of policies designed to ease concerns and reduce uncertainty for both businesses and the public as the number of new cases of the virus rise in the UK.**

Commodities: Saudi Arabia escalates oil price war

- Saudi Arabia escalated the price war with OPEC's partners on Tuesday by pledging to increase its daily output of oil to a record level in April.
- **Omnis view: While the markets already have a lot to deal with, a lower oil price will particularly hamper energy-heavy indices like the FTSE 100. Shale gas companies in the US also look vulnerable.**

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LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- UK unemployment rate in January;
- Thursday- Japanese inflation rate in February.

Monetary policy

- Monday- Bank of Japan interest rate decision;
- Wednesday- Federal Reserve meeting.

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