

MARKET UPDATE: TURBULENT WEEK FOR MARKETS AS CORONAVIRUS CONTINUES TO SPREAD WEST

23rd March 2020

LAST WEEK – KEY TAKEAWAYS

Markets: Shares fluctuate despite government and central bank measures

- Global shares fell sharply at the start of the week after governments introduced stricter rules to contain the spread of the coronavirus;
- Further support from governments and central banks helped stock markets recover slightly on Tuesday, but they dropped again on Wednesday as concerns about the impact of the virus on the global economy returned;
- Those concerns also weighed on government bonds- usually considered a safe have asset in times of market turbulence as governments tend not to default- which fell on Wednesday.
- **Omnis view: The extensive measures announced by authorities appeared to have offered some support to the markets by the end of the week. However, US shares subsequently tumbled on Friday as New York and California brought in new social distancing rules. The markets are likely to continue fluctuating until governments manage to contain the virus and the impact on the global economy becomes clear.**

Central banks: Efforts ramped up to support global economy

- The Bank of England cut interest rates for a second time in a week to the lowest level ever and pledged to expand its bond buying programme- known as quantitative easing (QE)- to bonds issued by large companies;
- The Federal Reserve- the US central bank- also said it would buy corporate bonds and took other measures to ensure money continues to flow through the financial system;
- The European Central Bank announced it would significantly increase its programme of QE and do whatever it takes to support the euro;
- **Omnis view: With interest rates at historic lows, central banks are employing a wider range of tools to limit the impact of the coronavirus on the global economy in the short run. These measures should also accelerate the recovery over the longer term.**

UK: Chancellor launches further round of measures

- The Chancellor Rishi Sunak announced a package of emergency measures to support the British economy, including loan guarantees worth over £300 billion and a pledge to cover 80% of employee wages for three months;
- Meanwhile, the pound weakened to its lowest level against the US dollar since the 1980s, although the fall was partly explained by increasing demand for dollars which are another ‘safe haven’ in periods of market turmoil, especially for companies.
- **Omnis view: While the latest measures should ease immediate concerns, their ultimate success will depend on whether they manage to protect jobs and avoid bankruptcies.**

China: Evidence of the economic impact of coronavirus starts to emerge

- Figures published by China’s National Bureau of Statistics showed that industrial activity fell dramatically in January and February, and unemployment rose sharply in February.
- **Omnis view: These figures are the first indication of the effect of the coronavirus on the Chinese economy. Whether other countries experience a similar economic slowdown remains to be seen, although the steps taken by governments and central banks (outlined above) are designed to minimise the impact.**

Commodities: Oil prices continues to fall

- The coronavirus and the subsequent price war between the Organization of the Petroleum Exporting Countries (OPEC) and its partners continued to weigh on oil prices which hit their lowest point in 17 years.
- **Omnis view: Talks between OPEC and US producers about cutting output could help ease the pressure on the oil markets.**

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LOOKING AHEAD - TALKING POINTS

Economic data

- Wednesday- UK inflation rate in February.

Monetary policy

- Thursday- Bank of England's latest meeting.

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