

COVID-19 update



Update

01 April 2020

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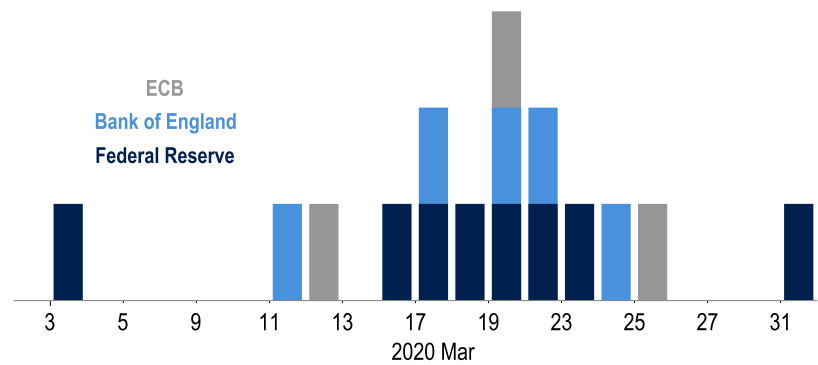
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The Federal Reserve announced yesterday the establishment of a new lending facility to further boost market liquidity. The scheme is a “temporary repurchase agreement facility for foreign and international monetary authorities”, coined the FIMA Repo Facility. ‘FIMA’ consists of other central banks and monetary authorities with accounts at the New York Fed. Account holders can temporarily exchange US Treasury securities for dollars, in an aim to support the smooth functioning of financial markets and thus help maintain the supply of credit. The facility will be available from 6 April, continuing for at least 6 months. Tuesday’s announcement from the Fed is the latest in a string of policy action from major central banks.

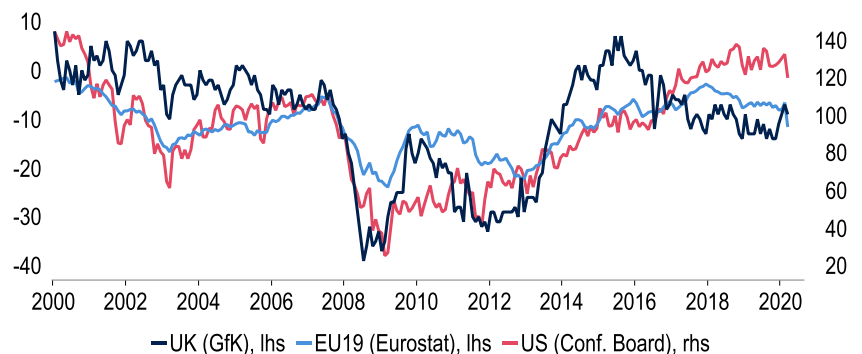
Chart 1: Central banks have been emptying their arsenals thick and fast this month



*Columns denote announcements on that day Sources: Federal Reserve, Bank of England, ECB

In addition, President Donald Trump signed the c. \$2.2trn bill into law late on Friday evening, whilst restrictive measures in the US were extended. Mr Trump yesterday warned of gravely difficult times ahead, with models estimating over 100,000 American COVID-19 induced deaths in a best case scenario. The US confirmed 24,742 new cases yesterday, another record increase in infections. However, despite widespread lockdowns, consumer confidence appears to have held up relatively well with surveys in the US, the UK and the Euro area posting only very modest declines in March. Although these have proven to be lagging indicators in the past by only deteriorating after the economy has turned and unemployment has begun to rise.

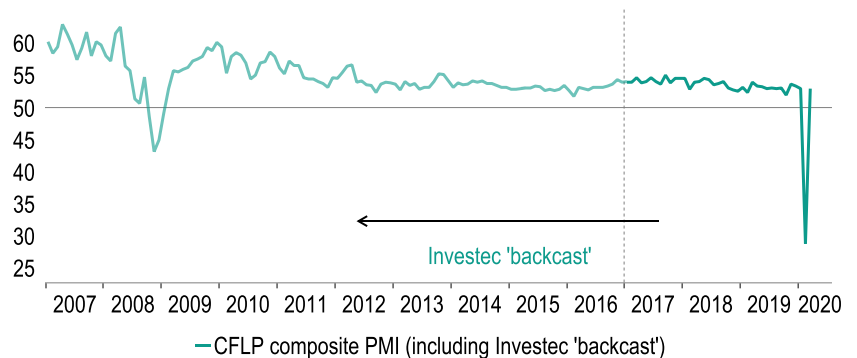
Chart 2: Consumer confidence has fallen, but remains way above crisis lows



Source: Macrobond

Firms have not been as sanguine, as shown by the wealth of survey evidence. PMI data from IHS Markit suggests that the services sector has taken the brunt of the containment measures in most geographies, in-turn dragging down composite readings to record lows. However, China now appears to be slowly getting back to business as usual. The ‘official’ PMIs from China’s National Bureau of Statistics showed record gains from last month’s abysmal readings, rebounding to previous levels. Note though that the PMIs are diffusion indices, with the 50 mark separating an expansion from a contraction in activity. As such, this does not signal that the economy is back to normal but that activity has improved marginally after February’s sharp fall.

Chart 3: Chinese surveys have rebounded in March, but it is not over yet



Sources: Macrobond, Investec

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