Market Overview

Update

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US leaps ahead:

Yesterday, the US leapfrogged both Italy and China to become the most infected country in the world. More than 85,000 Americans have now tested positive for COVID-19, a rise of 17,224 over the day. With strict social distancing measures relatively commonplace across the country, companies have made widespread layoffs. Figures yesterday showed that US unemployment claims surged to 3283k from 282k last week, nearly five times the previous peak of 695k in 1982. Congress has responded with a $2trn bipartisan stimulus package, which looks set to clear the House of Representatives today after passing through the Senate earlier in the week. Meanwhile, US President Donald Trump held a phone call last night with his Chinese counterpart, Xi Jinping. Readouts of the call point to a thawing in relations between the two leaders after weeks of bitter exchanges over the coronavirus. Mr Trump tweeted afterwards that he has “much respect” for Mr Xi and that the two countries were “working closely together”.

RBI hits the emergency button:

The Reserve Bank of India’s (RBI) MPC has joined other central banks in easing policy at an emergency meeting. It cut the benchmark repo rate by 75bps to a 16-year low of 4.4%, alongside more unconventional measures including a three-month moratorium on monthly loan repayments (incl. corporate, housing, and automotive). This follows the Tuesday announcement by Indian Prime Minister Narendra Modi that the country will undergo a 21-day lockdown to contain the spread of COVID-19. Despite this flood of negative news, the feel-good reverberations emanating from the huge US $2tn fiscal stimulus plan has dragged global equity markets higher for a third consecutive day. The benchmark S&P 500 index closed almost 20% higher than the lows recorded on Monday, with the other main US indices all posting similar gains. Things aren’t looking as rosy this morning, as European markets open, all of the main bourses are glowing red with the US futures market following suit with drops of anywhere between 2% and 2.5% and the FTSE 100 looking particularly vulnerable at just over -3.5% as we go to print.

Sterling mirroring risk sentiment:

In moves eerily similar to the 2008/2009 global financial crisis, sterling and the benchmark GBP/USD currency pair in particular seems yet again to have taken the mantle of market sentiment proxy within the G10 currency space. Maybe it’s the fact that the UK response to the COVID-19 crisis has been extremely slow and ill-advised or maybe global markets now perceive a standalone UK to be in an infinitely more precarious economic position since their exit from the EU. Whatever the main underlying reason is, there’s no getting away from the fact that at this moment in time the pound is moving almost in tandem with the swings in the US equity markets. As the US S&P 500 index closed out Monday’s (23rd March) session at multi year lows of just above 2,200, the GBP/USD pair sat languishing at similar multi-year lows of just below the pivotal $1.15 level. Since then we’ve had the news of more massive global fiscal and monetary stimulus with the US $2tn plan obviously being the most welcome. The S&P closed last night at 2,630, dragging the GBP/USD rate up to $1.23 in overnight Asian trading hours.

Irish Economy: ESRI outlines potential scale of economic damage

The scale of the challenge facing the economy was laid bare yesterday in the ESRI's Quarterly Economic Commentary. In place of its usual economic forecasts, it outlined the likely impact on the Irish economy of a continuation of the current restrictions and controls for a 12-week period via a scenario analysis. Its results indicate that the Irish economy is "almost certainly" heading for a significant contraction in 2020.

One of the most striking parts of the report is the potential impact of the outbreak on unemployment. In its scenario, the unemployment rate would soar to 18% in Q2 from 4.8% in February, with the scale of this rise (let alone the pace of it) comfortably outstripping the 8.7pp increase seen in the 18 months to September 2009. This would equate to approximately 300,000 job losses in the economy almost overnight. While the labour market would improve once social restrictions are eased, the ESRI still envisages an unemployment rate of 10.7% in Q4.

Under the ESRI's scenario, personal consumption could decline by 4% in 2020, even allowing for some "catch up" spending after restrictions are lifted. Combining the impact on consumption with impacts on trade and investment leads to a 7.1% decline in GDP in 2020 and a 4.3% general government deficit this year. In nominal terms, this equates to a deficit in the public finances of €12.7bn following a €1.4bn surplus last year.

It is worth noting that the assumptions underpinning the ESRI's analysis include the expectation that most major economies will have contained the virus by July, and that normal economic activity will resume in Q3 and Q4. Although uncertainties abound, and events will almost certainly play out differently in the coming weeks to those assumed, the scale of the unfolding shock to the domestic economy is stark.