

# The Week Ahead

## Active is: Keeping an eye on capital markets



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### Caution is warranted, panic is not

The new coronavirus (Covid-19) is spreading around the world and starting to become a stress test not only for the healthcare systems of many countries, but also for the global economy.

Meanwhile, policymakers have already taken **countermeasures**. Several European countries have decided on stimulus packages and financial support to ensure corporate liquidity. The **Chinese, British, Japanese, Australian, South Korean and Thai governments** have taken action as well, and others are likely to follow.

Some **central banks**, for example the Bank of England and the European Central Bank (ECB), have taken targeted measures to provide credit to medium-sized companies in particular in order to prevent a liquidity crisis. This is necessary and justified. Key rates have been reduced further around the globe, not only by the Fed and the People's Bank of China, but also by a number of other central banks, mainly in Asia.

Nevertheless, **monetary policy** has only limited capacities to deal with the virus-related crisis. Lower interest rates alone will not be sufficient to kick-start growth and help companies to deal with supply shortages. Still, they provide important psychological support and ensure that risk premiums do not widen excessively (see our Chart of the Week). Liquidity is a crucial issue.

Beyond the virus-related uncertainty, there is the matter of the outcome – or better: failure – of the negotiations between **OPEC** and Russia. As global demand for oil declines, suppliers are heatedly competing for market shares. While this may make western consumers happy in the medium term, short-term risks are increasing, as US shale producers are highly leveraged and dependent on capital market funding.

### The Week Ahead

The focus will be on central banks and policy makers, who are striving to contain the health and economic impact of the new coronavirus.

### Publications



#### Coronavirus update: for investors, caution is warranted, not panic

As covid-19 spreads, fear of uncertainty has gripped the financial markets. We believe caution is warranted, but we also think investors should pause before reflexively hitting the panic button.



#### Green bonds: not a niche product anymore

A new Q&A on green bonds featuring Hervé Dejonghe.



#### Are we running out of policy options for the next crisis?

The global economy will eventually face another downturn, which raises critical questions. With rates so low, what tools do central banks have left to spark a turnaround?

This effort is increasingly leading into a classical dilemma: the stricter the constraints on public life, the more serious the economic damage and the larger the necessary stimulus. On Wednesday, the **Federal Reserve** will probably announce another rate cut after its regular meeting. We expect it to push the Fed funds rate quickly down towards zero, as the Bank of England and other central banks have done during the past week. The ECB has also increased the volume of its asset purchase programme by 120bn EUR until the end of the year.

Economic data will take a backseat. From our vantage point, the weekly (and thus, timely) initial claims figures in the US will be particularly important; they are due on Thursday. Leading indicators such as the US Empire Manufacturing Index (on Monday) or sentiment indicators such as the German ZEW index (on Tuesday) will give a first hint of the potential impact of the coronavirus on manufacturing and the capital markets.

#### Active is: be aware of the risks

Covid-19 is a "black swan" event and has alarmed the markets, which are unlikely to calm down any time soon. In view of the production and supply chain disruptions and weaker consumption due to the restrictions on public life, we now regard a global recession as the most probable scenario. China and, increasingly, South Korea are moving towards the light at the end of the tunnel after having enacted far-reaching constraints. Supply chains are being re-started, and people are going out again, for example to restaurants. What is positive is that all signs of market euphoria and complacency have vanished. As active managers, we are now trying to identify companies which are likely to weather the crisis well and to avoid highly indebted companies.

Caution is warranted, panic is not.

Please stay well!

Yours

*Stefan Rondorf*

#### Upcoming Political Events 2020

Mar 17: FOMC meeting

Mar 19: BoJ meeting

Mar 25: BoJ Policy Board member Yutaka Harada's term ends

[Overview political events 2020 \(click here\)](#)

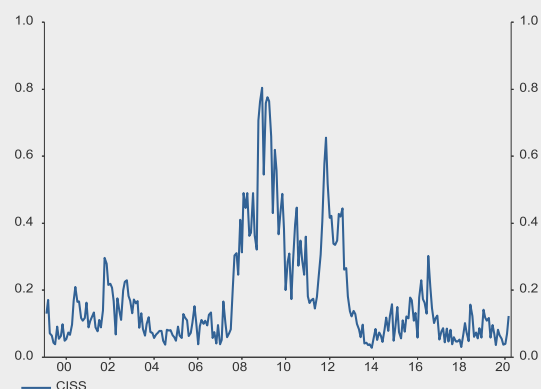
#### Global Capital Markets & Thematic Research goes Social Media:

[to our publications \(click here\)](#)

[to our twitter feed \(click here\)](#)

#### Chart of the Week

ECB Composite Indicator for systemic stress in the financial system: still far away from historic crisis levels yet



## Calendar Week 12:

Monday			Consensus	Previous
CH	Fixed Assets Ex Rural YTD YoY	Feb	-2.0%	5.4%
JN	Core Machine Orders YoY	Jan	--	-3.5%
UK	Rightmove House Prices YoY	Mar	--	2.9%
US	Empire Manufacturing	Mar	6.1	12.9
Tuesday				
EC	Construction Output YoY	Jan	--	-3.7%
EC	Labour Costs YoY	4Q	--	2.6%
EC	ZEW Survey Expectations	Mar	--	10.4
GE	ZEW Survey Expectations	Mar	--	8.7
GE	ZEW Survey Current Situation	Mar	--	-15.7
UK	Jobless Claims Change	Feb	--	5.5k
UK	Average Weekly Earnings 3M/YoY	Jan	--	2.9%
UK	ILO Unemployment Rate 3Mths	Jan	--	3.8%
US	Retail Sales MoM	Feb	0.2%	0.3%
US	Retail Sales Ex Auto and Gas YoY	Feb	--	0.4%
US	Industrial Production MoM	Feb	0.4%	-0.3%
US	Capacity Utilization	Feb	77.2%	76.8%
US	Business Inventories MoM	Jan	-0.1%	0.1%
US	NAHB Housing Market Index	Mar	75	74
Wednesday				
EC	EU27 New Car Registrations	Feb	--	-7.5%
EC	Trade Balance SA	Jan	--	22.2b
IT	Industrial Sales WDA YoY	Jan	--	-1.4%
IT	Industrial Orders NSA YoY	Jan	--	6.0%
IT	Trade Balance	Jan	--	5013m
JN	Trade Balance	Feb	--	-¥1312.6b
JN	Exports YoY	Feb	--	-2.6%
JN	Imports YoY	Feb	--	-3.6%
US	Housing Starts MoM	Feb	-4.9%	-3.6%
US	Building Permits MoM	Feb	-3.9%	9.2%
US	FOMC Rate Decision (Upper Bound)	Mar 18	0.75%	1.25%
Thursday				
JN	CPI YoY	Feb	--	0.7%
JN	CPI Core YoY	Feb	--	0.8%
JN	All Industry Activity Index MoM	Jan	--	0.0%
JN	BoJ Interest Rate	Mar 19	--	-0.10%
JN	BoJ 10-Yr Yield Target	Mar 19	--	0.00%
US	Current Account Balance	4Q	--	-\$124.1b
US	Philadelphia Fed Business Outlook	Mar	12.5	36.7
US	Initial Jobless Claims	Mar 14	--	--
US	Continuing Claims	Mar 7	--	--
US	Leading Index	Feb	0.1%	0.8%
Friday				
EC	ECB Current Account SA	Jan	--	32.6b
GE	PPI YoY	Feb	--	0.2%
IT	Current Account Balance	Jan	--	4833m
UK	PSNB ex Banking Groups	Feb	--	-9.8b
US	Existing Home Sales MoM	Feb	1.7%	-1.3%

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