The Week Ahead

Active is: Keeping an eye on capital markets

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International action

We are witnessing truly historic events: as the US equity market suffered its largest daily losses in more than 30 years, the "measure of fear" (usually known as the US volatility index VIX) jumped above 80 points and exceeded the level seen during the financial market crisis. The US dollar recently appreciated considerably, but **commodity markets** were dragged down by a slump in demand and the oil price war between Russia and Saudi Arabia, which caused credit spreads to widen significantly.

Leading and sentiment indicators as well as economic data from China released during the past week showed clearly that the impact on growth and the capital markets is much more serious and not comparable to the V-shaped recovery seen after the SARS outbreak in 2002/03. The coronavirus (COVID-19) has disrupted supply chains and led to increasing restrictions on public life, which will change corporate and consumer behaviour, perhaps even in the long run. Uncertainty will continue to be with us in the coming weeks and lead to major turmoil in many economies. That means that economists and analysts will revise their growth and earnings forecasts downwards during the coming weeks, in some cases considerably. Recent economic developments have increased the **probability of a recession**, which has by now become part of our baseline scenario.

Meanwhile, measures are being taken at international level, and some of them are even more sweeping than at the time of the financial market crisis in 2008/09. Once the **G4 central banks**, in particular the Fed, had decided to cut their key rates further and expand bond purchasing programmes, many other international central banks followed suit in a co-ordinated move. So far, more than 30 central banks have reduced their key rates. This is particularly important for the **emerging markets**, which hope to prevent further sudden capital outflows. The emerging markets are currently pursuing a similarly expansionary monetary policy as during the financial market crisis. While monetary policy

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, co-PM of Allianz Green Bond.

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?

cannot do much to buffer supply and demand shocks, it nevertheless plays an important role in terms of providing sufficient liquidity to companies and reducing financial risks (see our *Chart of the Week*).

In addition, many governments around the globe have announced (sometimes huge) fiscal packages in order to restore stability and confidence among investors and companies and mitigate the negative impact on companies and growth. The US alone are mulling over a package worth more than USD 1 trillion and thinking about sending a cheque to every household. Europe is discussing joint "coronavirus bonds". The focus is on tax deferrals and corporate loan guarantees, which amount to c. 12% of GDP in France or even 15% in the UK.

The Week Ahead

At the beginning of the coming week, numerous **US** leading indicators due on Monday and Tuesday will paint a similar picture as the Empire State Index at the beginning of the past week; the index dropped to its lowest level since April 2009. The focus will probably be on the manufacturing PMI for March, which will be released on Tuesday. The data will probably reflect the virus outbreak better, whereas consumer durables order intake is likely to give a more robust picture of the US economy on Wednesday.

Preliminary manufacturing PMIs will be released in the euro area, the UK and Japan, too (Tuesday). The surveys will probably show first signs of a recession. In Germany, attention will focus on the **ifo business sentiment index** on Monday; in particular, the expectations component is likely to decline. The Bank of England will meet on Thursday, but after the unscheduled rate cut we will probably only get more details on this step at the press conference.

Active is:

The recent global capital market turmoil has affected investor behaviour. According to the American Association of Individual Investors (AAII), more than 50% of US investors are now bearish – the highest proportion since April 2013. Worldwide, money market funds registered inflows of more than USD 200 billion, the biggest figure since 2007. As risk aversion increased, the put-call ratios reached levels similar to those seen during the financial market crisis in 2008/09 or the euro crisis in 2015/2016. However, there are some indications to a countermovement as well. The relative strength indicators (RSIs) are (in some cases clearly) pointing to oversold equity markets, and according to the latest Bank of America survey among fund managers, professional investors are the most pessimistic since 2008/09.

Measures against the economic impact of the virus have been taken. Remember: caution is warranted, panic is not.

Please stay well!

Stefan Scheurer

Upcoming Political Events 2020

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

Mar 26: BoE meeting

Apr 27: BoJ meeting

Overview political events 2020 (click here)

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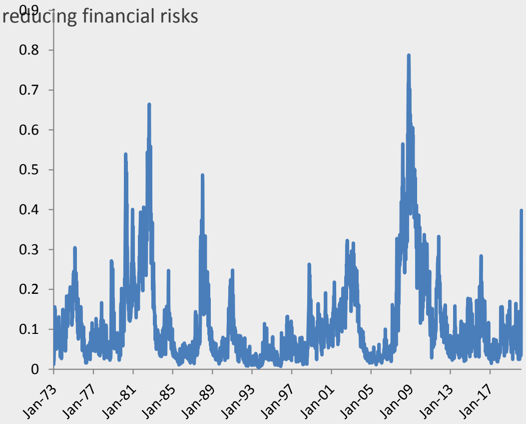
Chart of the Week

US Composite Indicator of Systemtic Stress (CISS) - While monetary policy cannot do much to buffer supply and demand shocks, it nevertheless plays an important role in terms of providing sufficient liquidity to companies and reducing financial risks



Source: Allianz Global Investors Global Economics & Strategy, Refinitiv, ECB

As at 6 March 2020

Calendar Week 13:

Monday			Consensus	Previous
EC	Consumer Confidence	Mar A	--	-6.6
US	Chicago National Activity Index	Feb	--	-0.25
Tuesday				
EC	Markit Manufacturing PMI	Mar P	--	49.2
EC	Markit Services PMI	Mar P	--	52.6
EC	Markit Composite PMI	Mar P	--	51.6
FR	Markit Manufacturing PMI	Mar P	--	49.8
FR	Markit Services PMI	Mar P	--	52.5
FR	Markit Composite PMI	Mar P	--	52
GE	Markit Manufacturing PMI	Mar P	--	48
GE	Markit Services PMI	Mar P	--	52.5
GE	Markit Composite PMI	Mar P	--	50.7
JN	Markit Manufacturing PMI	Mar P	--	47.8
JN	Markit Services PMI	Mar P	--	46.8
JN	Markit Composite PMI	Mar P	--	47
UK	Markit Manufacturing PMI	Mar P	--	51.7
UK	Markit Services PMI	Mar P	--	53.2
UK	Markit Composite PMI	Mar P	--	53
US	Markit Manufacturing PMI	Mar P	50	50.7
US	Markit Services PMI	Mar P	48.8	49.4
US	Markit Composite PMI	Mar P	--	49.6
US	New Home Sales MoM	Feb	-1.8%	7.9%
US	Richmond Fed Index	Mar	--	-2
Wednesday				
UK	CPI YoY	Feb	--	1.8%
UK	CPI Core YoY	Feb	--	1.6%
UK	PPI Input NSA YoY	Feb	--	2.1%
UK	PPI Output NSA YoY	Feb	--	1.1%
US	Durable Goods Orders MoM	Feb P	-0.2%	-0.2%
US	Durables Ex Transportation MoM	Feb P	--	0.8%
US	FHFA House Price Index MoM	Jan	--	0.6%
Thursday				
GE	Ifo Business Climate	Mar	--	96.1
GE	ifo Expectations	Mar	--	93.4
GE	ifo Current Assessment	Mar	--	98.9
EC	M3 Money Supply YoY	Feb	--	5.2%
FR	Business Confidence	Mar	--	105
GE	GfK Consumer Confidence	Apr	--	9.8
UK	Retail Sales Ex Auto Fuel YoY	Feb	--	1.2%
UK	Bank of England Bank Rate	Mar 26	--	0.25%
US	Wholesale Inventories MoM	Feb P	--	-0.4%
US	GDP Annualized QoQ	4Q T	2.1%	2.1%
US	Initial Jobless Claims	Mar 21	--	--
US	Continuing Claims	Mar 14	--	--
US	Kansas City Fed Manf. Activity	Mar	--	5
Friday				
FR	Consumer Confidence	Mar	--	104
IT	Consumer Confidence	Mar	--	111.4
IT	Economic Sentiment	Mar	--	99.8
JN	Tokyo CPI YoY	Mar	--	0.4%
JN	Tokyo CPI Core YoY	Mar	--	0.5%
US	Personal Income MoM	Feb	--	0.6%
US	Personal Spending MoM	Feb	0.3%	0.2%
US	PCE Deflator YoY	Feb	--	1.7%
US	PCE Core Deflator YoY	Feb	--	1.6%