Nikolas Stylianou

16 March 2020

Oil Market Price War– Australian and Canadian Dollar

Oil price last week reached its slowest level since the Gulf war of 1991 at almost 27 dollar per barrel. Oil demand decreased dramatically in short term taking into consideration that, since the coronavirus outbreak, the oil lost around 30 dollars on its value. Russia resisted and refused to follow O.P.E.C instruction to cut oil production by 500,000 barrels less per day. Russia is trying to fight US shale producers and US fracking companies by increasing even more its oil production rather than cutting it, due to the competition they have with US in oil supply. By this way they will create a lot of debt to the fracking companies and will take a toll on US oil exports by increasing their oil production and at the same time lowering the oil price. Saudi Arabia also commenced increasing its oil production as Russia did, and both of them have a lot of billions of oil reserves that can be used later to cover all losing revenues from now. In the meantime, as per analysts, the oil price it's expected to reach 20 dollars per barrel the next couple of days and US shell companies will be forced to cut production which might generate threats for bankruptcy. Current oil price is at 26 per barrel. The Australian and Canadian dollar were impossible to remain unaffected from the Oil trade war. The pairs depreciated against dollar and closed the week by almost 3%. AUS200 stock index fell by 3% last week. Both countries Central Banks followed the Fed, proceeded in cutting their rates by 0.5%. On Thursday, the Bank of Canada said it would provide billions of dollars of more liquidity and Canadian government bond yields rose across a steeper yield curve. The Bank of Canada has made an unexpected rate cut, cutting the central bank's benchmark interest rate by 50 basis points to 0.75 per cent by the end of the week. It's expected to see Aussie dollar recovering amid expectations that the unemployment will decreases for the last two months.

Foreign Exchange Currencies – European Stocks – ECB decisions

Last three week's euro performance against dollar showed how America stocks market was affected from the coronavirus. Euro has recovered to approximately 6000 points in a timeframe of 2 weeks, however last week euro price plunged after the European Central Bank interest rate decision and measures taken to confront the coronavirus spread. On Thursday Christine Lagarde announced that the interest rate will remain unchanged to minus 0.5%, despite market expectation of further rate cut. The interest rate is already negative, and this was the reason that ECB did not lower even more the rate as they believe that more rate cut will not be strong solution. The negative rate is meant to spur banks to loan money rather than park it at the central bank. As per ECB, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. Another measure that has been taken is that ECB expanded its asset purchase program by 120 billion by buying corporate bonds to help businesses. All European stock market fall last week by almost 10%. European index STOXX600 last week declined by 7%, DAX30, Italy, France and Spain indexes declined to approximately 9%. According to City A.M. Media Group Italian and Spanish securities regulators have implemented a ban on the short selling of more than 100 stocks following record losses. According to FxEmpire, the losses were also driven in part by a new declaration by the World Health Organization that coronavirus had reached pandemic levels. The Reserve Bank of New Zealand cuts key interest rate to 0.25% from 1%. Government plans broad-based economic stimulus.

Negative economic implications of the coronavirus continue to rise, warranting further monetary stimulus.

US Stock Markets – Gold and Treasuries Yields

Measures called circuit breakers approved last week by the Securities and Exchange Commission (SEC) to curb panic-selling on U.S. stock exchanges. They apply both to broad market indices such as the S&P 500 and Dow Jones Industrial Index as well as to individual securities. Circuit breakers function by temporarily halting trading when prices hit predefined levels, such as a 13% intraday drop for the stock market. Dow jones dropped by 10% facing its worst week amid coronavirus threats, and from the fact that Donald Trump announced the suspension travelling from Europe to US by the following 30 days as a measure to confront the virus. The drop on Dow Jones derived also from the Boeing manufacturing company of airplanes, which lost almost 13 billion dollars and afterward Trump declared a national emergency. Another reason that led DJ30 to fall is that the Democrats do not support the payroll tax cut initially proposed by Donald Trump aiding to confront the virus. CME Group announced on Wednesday night that it will close its Chicago trading floor as precaution measure due to coronavirus. Predictions show that we expect further decline to US market stock, and that indicates that gold price might continue falling lower due to high risk aversion. This uncertainty lead investors to sell the precious metals in order to cover their losses from the stock market. Gold closed by almost 10% lower by the last week and is traded on 1520 dollar per ounce. It's expected to find lower levels at 1450 per ounce. Investors expecting further rate cut from the Federal Reserve Bank on Wednesday March 18 to stimulate the economy. Fed also pumped the market with 1.5 trillion in order to boost the economy and announce that will purchase around 37 billion dollars for treasuries in order to help business to borrow money. Meanwhile, the US Federal Reserve overnight injected US$500 billion into the US banking system and pledged to add another US$1 trillion. It's expected to see whether Fed cut even more the rate, and in that case, gold might go to higher levels as this indicates buy opportunities for gold investors amid US market short recovering. Another reason that gold prices went even lower is because bonds yield. which are the coupons or interest rates of bond rose as bonds prices falling as stock market falling and investors trying to sell bond and gold which are save heaven assets. The 10-year Treasury note yield TMUBMUSD10Y, 0.981% was up 10.4 basis points to 0.946%, adding to a weeklong rise of 23.7 basis points, the largest such increase since last September.

Bank of England Rate decision

Following the Fed, Bank of England proceeded to cut the base rate from 0.75% to 0.25% in an emergency response to the "economic shock" of the coronavirus outbreak. As per MSE news, BoE responses to help and support business and consumer confidence at a difficult time, to bolster the cash flows of businesses and households, to reduce the cost and to improve the availability of finance. Pound/dollar last week fall by almost 3% and pound against euro fell by 4%. In addition, pound fell after the announcement the UK infections reached almost 1400.

+357 25 752 420 +357 25 752 450 info@ausprime.eu
Room 102, 1st floor, Block B, Steratzias Court, No. 41, Spyrou Kyprianou Avenue,
4003, Mesa Geitonia, Limassol

Asian Markets

India, Singapore, Australia, Japan, Thailand, Indonesia and the Philippines are also in bear markets. Benchmarks in Japan, Thailand and India sank as much as 10% following Wall Street's biggest drop since the Black Monday crash of 1987. China cut the reserve requirement ratio for some banks by 0.5 to 1 percentage point, effective from 16 March unleashing US$78 billion of liquidity to support the world's second largest economy from a deeper slowdown. The Shanghai Composite Index closed with a weekly loss of 4.9%, Asia-Pacific markets, Tokyo's Nikkei 225 declined by 7% and Hong Kong Index declined by almost 4%. Safe heaven instrument JPY weakened last week against euro and dollar. It's expected to see further interest rate cut, but it may be deferred to April as there is already a deeper required rate of return targeted cut in March and predictions shows that this cut will make the yuan weaker against the dollar and is believed USD/CNY and USD/CNH could cross 7.0 soon. Although that Asian stocks falling, losses and infections narrowed in mainland China, where communities are recovering from the worst of the virus.

Expectations and Forecast in Asia, US and Europe according to Nomura:

1. A new economic-growth estimate from JPMorgan projects that a recession will hit the US and European economies by July.
2. JPMorgan economists now expect US GDP to shrink by 2% in the first quarter and 3% in the second and Eurozone GDP could contract by 1.8% and 3.3% over the same periods, the economists said.
3. It's expected the Bank of Japan to decide expansion of ETF purchase in the March Monetary Policy Meeting
4. The risk is renewed yen appreciation, caused by concerns over global recession and further rate cuts by overseas central banks
5. Lower oil prices are unlikely to benefit Asia's growth in the short-term, but they should add to disinflationary pressures.
6. Responding to rising risks and tighter financial conditions, we expect a 100bp cut from the FOMC in March, reaching the ELB