

Weekly Market Summary

April 17th, 2020

What to Expect When You're Least Expecting?!

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Latest Update on Coronavirus: Confirmed cases last at 2.197 million (versus 1.619 million last Friday), 147,500 deaths (versus 97,000). The COVID-19 is now affecting 210 countries and territories around the world (same as last week). China has pledged strong stimulus after the pandemic pushed the country's economy into its first contraction in decades (- 6.8% Y/Y). It has also revised its official death count from the coronavirus, adding some 1,290 fatalities from the city of Wuhan, but Chinese officials have rejected accusations that it had covered up the true scale of the epidemic. The United Nations Economic Commission in Africa now believes the pandemic could kill up to 300,000 people in Africa this year, even with assertive government measures to limit social interactions. Last, Moderna jumped 17% in pre-market trading after the company was offered \$ 483MM in US government funding for the development of its vaccine for Covid-19 (keep a close eye on that one, while the rest of the world focuses on Gilead's drug "Remdesivir"!).

There are times when one wishes things could be different and world leaders behave more maturely. This week was no exception!

Take for example Donald Trump's recent decision to halt critical funding to the World Health Organization (WHO) in the midst of the worst pandemic in decades (apparently Trump called his senior adviser and told him: Quick! I need someone I could blame for mishandling this coronavirus thing! The advisor enquired: Who? Donald Trump replied: Perfect! Thanks!! 😊). Whilst there are understandable reasons for the US president's anger with the WHO, as the Geneva-based UN body gave too much credence to China's initial reassurances (prompting Japan's deputy prime minister to call it the "China Health Organization") and struggled all along to declare adequate combative measures to deal with the virus' spreading, the dramatic declaration was ill-timed and out amid a global health crisis that requires full-capacity of the WHO in providing support to poor countries battling the same Covid-19 threat (after all, if the virus spread is slowed in the US - but rages in African countries for instance - the risk of a new outbreak remains!) Trump's decision was swiftly condemned, with the editor of the prestigious British medical journal "the Lancet" calling the funding freeze a "*crime against humanity*", whilst Congressional Democrats labelled the move as "*unconstitutional*"!

And then there is the usual US Congressional procrastinating (time wasting & deferring)! To its credit, and to President Trump's as well, Congress did rush initially through three different and large coronavirus rescue bills, with the third signed into law on March 27th (the historic \$2 trillion coronavirus spending bill). Since then, however, work on the next bill has stalled despite prolonged lockdowns and an economy in full retreat [one has to take a closer look at the terrible March data released this week - Retail Sales down 8.7% m/m, Empire Manufacturing down to -78.2 from -21.5 the previous month (the 2008/09 low print was at -34.3), Industrial Production down 5.4% m/m, Housing Starts down 22.3% m/m, Initial Jobless Claims at 5.245 million - to comprehend the severity of the economic situation!]. The fourth bill needed to be big, fast and simple, but three weeks after phase 3 bill was passed, it's not happening! Simply put, without presidential leadership (the President should demand that Congressional members return and agree on further stimulus, rather than whining about how the pandemic is everyone else's fault), Congress isn't feeling the pressure to act quickly either!

In other major news, the Trump administration is considering to pay US oil producers to leave crude in the ground and help alleviate a glut that continues to cause prices to plummet and push some drillers into bankruptcy. The Energy Department has drafted a plan to compensate companies for sitting on as much as 365 million barrels worth of oil reserves and counting it as part of the U.S. government's emergency stockpile, said senior administration officials, who asked not to be identified describing deliberations prior to a decision and announcement. The keep-it-in-the-ground plan, which would require billions of dollars in appropriations from Congress, could be unprecedented and reflects the Trump administration's push to help domestic drillers battered by a surge of oil production and a collapse of demand tied to the coronavirus. The effort comes after a recent deal to cut global crude production and help rescue oil markets from a pandemic-fuelled collapse failed to lift prices as demand for oil sinks even further due to lockdowns all over the world paralyzing air and ground travel (May WTI and June Brent last at \$18.75 and \$28.45 respectively, down roughly 11% - 15% from last Friday's closing levels).

Last, a quick rundown featuring the main news/developments that have "and/or" will shape financial markets going forward:

- **IMF Says Great Lockdown Recession Likely the Worst Since Depression:** The International Monetary Fund (IMF) recently predicted that the "Great Lockdown" recession would be the steepest in almost a century and warned the world economy's contraction and recovery would be worse than anticipated if the coronavirus lingers or returns. In its first World Economic Outlook report since the spread of the coronavirus and subsequent freezing of major economies, the IMF estimated on Tuesday that global gross domestic product will shrink 3% this year. That compares to a January projection of 3.3% expansion and would likely mark the deepest dive since the Great Depression. It would also dwarf the 0.1% contraction of 2009 amid the financial crisis. The Fund is also anticipating growth of 5.8% next year, which would be the strongest in records dating back to 1980, though it cautioned risks lay to the downside depending on the longevity of the pandemic, its effect on activity and related stresses in financial and commodity markets.
- **Sanders Endorses Joe Biden:** Bernie Sanders endorsed Joe Biden during a joint livestream Monday, saying that Americans of all political affiliations should back the former Vice President. "Today I'm asking all Americans, I'm asking every Democrat, I'm asking every independent, I'm asking a lot of Republicans to come together in this campaign to support your candidacy," Sanders said as Biden bowed his head on a split screen. "We need you in the White House." The surprise announcement came less than a week after Sanders dropped out of the presidential race but did not quite endorse the Democratic front-runner. At the time, he said he would continue to collect delegates toward the nomination so that he could influence policy at the convention later this summer. Similarly, former US president Barack Obama and star Senator Elizabeth Warren have endorsed the Democratic nominee in past days (when MSNBC anchor Rachel Maddow asked Warren on Wednesday night if she would accept an offer to be Biden's running mate, the latter replied with a brief "Yes").
- **No Business As Usual with China:** UK Foreign Secretary Dominic Raab said the UK could no longer be "business as usual" with China when the coronavirus pandemic is over, the latest sign of hardening attitudes toward Beijing as the crisis drags on. "There absolutely needs to be a very, very deep dive after the event and review of the lessons, including of the outbreak of the virus," Raab said at a press conference yesterday. Just as in the U.S. Republican Party, a growing number of senior members of Johnson's ruling Conservatives have called for a reset of relations with China because of its handling of the pandemic. But whereas the U.S. had already banned Huawei from its 5G networks, the U.K. planned to push ahead with a company that is already present in all four of the country's next-generation networks rolled out to date (Ouch! Another conspiracy theory linking 5G to Coronavirus 😞)

- **Stocks Surge Overnight:** Tentative steps toward reopening the US and global economy (President Trump unveiling overnight various guidelines that could allow states and employers to slowly abandon most social distancing practices) and improvements in the fight against the coronavirus have helped push global stocks higher in past 24 hours. Contracts on the Dow Jones and S&P 500 mini futures have climbed 3.5% this morning; Shares of Boeing Co. surged 8.8% in afterhours trading after saying it will resume commercial plane production at a plant near Seattle next week. Gilead Sciences Inc. jumped 16% on a report describing anecdotal evidence of shortened hospitalizations in Covid-19 patients being treated in Chicago with the company's experimental drug Remdesivir. Should those early advances hold till end-of-day, they would extend the U.S. stock market's remarkable rally from its March lows, an advance that has pushed the Nasdaq 100 into positive territory for the year earlier Thursday.
- **Dalio Says Investors Crazy to Hold Government Bonds Now!** Bridgewater Associates' Ray Dalio, founder of the world's largest hedge fund, said investors would be "crazy" to hold government bonds now and possibly for years because of money-printing by central banks to rescue the global economy. *"This period, like the 1930-45 period, is a period in which I think you'd be pretty crazy to hold bonds,"* Dalio said Wednesday on the Bloomberg Invest Talks webcast. *"If you're holding a bond that gives you no interest rate, or a negative interest rate, and they're producing a lot of currency and you're going to receive that, why would you hold that bond?"* While Dalio may not like bonds, he thinks governments have to employ every bit of monetary ammunition they can muster to compensate for the collapse in income and spending resulting from the pandemic.

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