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GLOBAL ECONOMIC HIGHLIGHTS

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FOREIGN CENTRAL BANKS SIGNAL READINESS TO FOLLOW THE FED IN EMERGENCY RATE CUT; OIL PRICES PLUNGE

UNITED STATES: The Federal Open Market Committee (FOMC) made an unscheduled (a.k.a. emergency) cut to the federal funds rate target of one-half of a percentage point March 3, to a range of 1.00 to 1.25 percent. Their statement said that "the fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity." The FOMC is scheduled to meet March 17 and 18, but they decided to act sooner in response to the big drop in U.S. equity markets the week of February 28, record-low yields on long-term US Treasuries, and the recent inversion in the yield curve. The March 3 cut was the first intermeeting cut to the fed funds rate since October 2008, and the first cut of more than 25 basis points since December 2008; both of those moves were during the financial crisis, when the FOMC eventually reduced the fed funds rate to a 0.00 to 0.25 percent range.

The US economy added a better-than-expected 273,000 jobs in February, though that was before the COVID-19 outbreak began weighing on the economic outlook. The details of the February jobs report were likewise solid: Job growth in December and January was revised up a large 85,000; the unemployment rate dipped back to a 50-year low of 3.5 percent from January's 3.6 percent; and average hourly earnings rose 0.3 percent on the month and 3.0 percent on the year, outpacing inflation.

The jobs numbers derive from surveys conducted the week of February 10, before COVID-19 fears intensified and the stock market dropped precipitously. The most timely labor market data, like the Department of Labor's report showing a very low 216,000 unemployment insurance claims were filed the week of February 28, still show no discernable impact from COVID-19. But there are hints of a COVID-19 impact in "soft" data, such as the ISM manufacturing survey, which notes increased disruptions of supply chains caused by COVID-19 in China.

PNC expects the FOMC to cut the funds rate again, by 0.25 percentage point, on March 18, lowering it to a range of 0.75 to 1.00 percent, and then wait to see how much COVID-19 is harming the economy.

EUROZONE: European Central Bank President Christine Lagarde issued a press release March 2 stating, "The coronavirus outbreak is a fast developing situation, which creates risks for the economic outlook and the functioning of financial markets. The ECB is closely monitoring developments and their implications for the economy, medium-term inflation and the transmission of our monetary policy. We stand ready to take appropriate and targeted measures, as necessary and commensurate with the underlying risks." The ECB is likely to increase its monthly asset purchases in on or before its next scheduled meeting March 12; financial markets price in roughly three-in-four odds of a 0.1 percentage point cut in the ECB's deposit rate from its current -0.50 percent to -0.60 percent by the March 12 meeting.

UNITED KINGDOM: The Bank of England is likewise signaling that stimulus measures are on the way in March. They announced on March 3 that "The FPC [Financial Policy Committee], MPC [Monetary Policy Committee] and PRC [Prudential Regulation Committee] met jointly [March 2] to review a range of macroeconomic and financial system scenarios and their implications, and they will continue to meet as needed and will act as appropriate." An insider, Andrew Bailey, will become BoE Governor March 17, and the first MPC meeting under his leadership will be March 26; financial markets price in over nine-in-ten odds of a 0.25 percentage point cut in the Bank of England's bank rate to 0.50 percent at that meeting. Current

Governor Mark Carney stated in his final speech as Governor March 5 that "The Bank will take all necessary steps to support the UK economy and financial system, consistent with our statutory responsibilities…While there will be differences in the exact timing and form, the collective impact of our efforts will be both powerful and timely."

JAPAN: Bank of Japan Governor Haruhiko Kuroda signaled willingness to ease in a statement to Japan's Parliament on March 4, saying, "We will carefully watch economic and market developments, and take appropriate action as needed." This followed his statement March 2 that "The BOJ will monitor developments carefully, and strive to stabilize markets and offer sufficient liquidity via market operations and asset purchases." The yen surged to the strongest since the fourth quarter of 2016 on March 9, pressuring the BoJ to intensify its quantitative and qualitative easing program. The BoJ will likely increase monthly purchases of private sector assets in March and could cut its short-term policy rate into more negative territory from its current -0.1 percent. Financial markets price in roughly 50-50 odds of a 0.10 percentage point cut in the BoJ's short-term policy rate to -0.20 percent on or before their next schedule rate decision March 19. The BoJ is unlikely to cut its target for the 10-year government bond. The target is currently "around zero percent" while the actual yield was -0.19 percent March 9.

CANADA: The Bank of Canada cut its overnight rate target 0.5 percent to 1.25 percent on March 4, a day after the Fed's equal-sized emergency rate cut. Global oil prices fell over 20 percent in Asian trading March 9 after OPEC and Russia failed to reach an agreement to cut oil supply at a March 7 meeting, with Brent and WTI crude prices touching their lowest since the first quarter of 2016.

In a very dated release, Canada's economy added 30,300 jobs in February, beating consensus expectations of an 11,000 increase. The unemployment rate rose to 5.6 percent, still close to the all-time low of 5.4 percent, from 5.5 percent in January; the labor force participation rate rose slightly to 65.5 percent from 65.4 percent in January, but was still below its 2019 peak of 65.9 percent reached last April. Hourly wage earnings increased 4.3 percent in February from a year earlier, close to the ten-year high of 4.5 percent reached in May 2019. The Markit Canada Manufacturing PMI rose to 51.8 in February from 50.6 in January; some of the increase was due to delays in supplier deliveries, which PMI surveys interpret as positive news since they are usually signs of strong capacity utilization. February's delays were caused by restrictions on movement in China.

CHINA: The Caixin services PMI fell to a record-low 26.5 in February from 51.8 in January, mirroring the drop of the CFLP manufacturing and nonmanufacturing PMIs and the Caixin manufacturing PMI to record lows in the month. Given how unprecedentedly awful the PMIs were, the drop in exports during February was less terrible than expected: Dollar-denominated exports fell 17.2 percent in year-over-year terms in the combined January-February reporting period after a 7.9 percent year-over-year increase in December and 0.5 percent growth for 2019 as a whole; imports fell 4.0 percent on the year in January and February. Foreign reserves edged down $8.8 billion dollars to $3.107 trillion in February. China could be turning a corner in controlling the COVID-19 outbreak and its economic collateral damage: The number of newly diagnosed cases of COVID-19 fell to 40 on March 9, the lowest since January 19, while big data analytics provider CargoMetrics reported that shipping volumes through Chinese ports bottomed in mid-February and that container shipments recovered to their "seasonally expected range by the end of" February.

BRAZIL: PNC expects the Central Bank of Brazil to reduce its Selic policy rate by 0.50 percentage point from its record low of 4.25 percent to 3.75 percent at its next meeting on March 17 if not earlier. In a dated release, real GDP grew 1.7 percent in the fourth quarter, year-over-year, following a 1.2 percent growth in the third quarter and beating consensus expectations of 1.6 percent growth. The details were mixed; household consumption increased 2.1 percent, government final consumption expenditure increased 0.3 percent, while exports and imports decreased 5.1 percent and 0.2 percent respectively. On the supply side, mining and quarrying output rose 3.4 percent, agriculture rose 0.4 percent, and services 1.6 percent. The plunge in oil prices and spillover of COVID-19 threaten to push Brazil back into recession in 2020.

INDIA: The Reserve Bank of India issued a statement March 3 reading that "The Reserve Bank of India is monitoring global and domestic developments closely and continuously and stands ready to take appropriate actions to ensure orderly functioning of financial markets, maintain market confidence and preserve financial stability." Financial markets currently price in a 0.65 percent interest rate cut at the next RBI meeting on April 3 if not before. PMI surveys remain incongruously strong in India, but signs of financial market stress are also abundant, pushing the RBI to follow other central banks in easing. The Markit India Composite PMI rose to 57.6, a record high, in February from 56.3 in January; the composite PMI has been above 50, indicating growth across manufacturing and services sectors in the last four months. The Markit India Services PMI rose to a 57.5, also a record high, in February from 55.5 in January. The Markit India Manufacturing PMI receded to 54.5 in February from 55.3, the highest reading on record, in January; the manufacturing PMI has been above 50, indicating growth in the manufacturing sector, since August 2017. The State Bank of India will buy 49 percent of Yes Bank Ltd. to rescue the struggling lender. PNC expects India's domestic demand challenges to continue in the short to mid-term as the economy struggles with a credit crunch from non-banking financial companies and drag from the COVID-19 outbreak.

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