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GLOBAL ECONOMIC HIGHLIGHTS

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CENTRAL BANKS AND GOVERNMENTS RUSH FORTH EMERGENCY PLANS TO CUSHION COVID-19'S BLOW

UNITED STATES: The first economic data for the period since emergency measures were enacted to contain COVID-19 point to a severe drop in activity. The Federal Reserve Bank of New York's Empire State Manufacturing Survey dropped to the worst since the 2008-2009 crisis in March, and state-by-state tallies of unemployment insurance claims for the week of March 15 to 20 point to a jump in job losses that week to multiples of the levels prevailing earlier this year; the Department of Labor will issue the national total of initial jobless insurance claims on Thursday March 26, which the Bloomberg consensus expects to jump 1.2 million. That would be the highest since comparable data began in the 1960s.

After cutting interest rates to near zero and announcing the restart of quantitative easing on March 15, the Federal Reserve took a series of actions in the following week to prevent financial conditions from worsening further. The Fed broadened the terms under which it lends to "primary dealers," the 24 financial institutions that transact directly with the Federal Reserve Bank of New York; they created a new "facility" or tool to directly purchase commercial paper; they created a facility to make loans to financial institutions secured by the assets owned by money market funds; and they broadened swap facilities with foreign central banks to relieve stress in foreign capital markets. The Fed is throwing the kitchen sink at the US financial system to prevent financial market stress from worsening the pain in the real economy.

The second coronavirus spending bill became law March 18. It increases funding for nutrition assistance programs and Medicaid, mandates and funds paid sick leave, and makes provisions for free coronavirus tests. As of Sunday March 22, negotiations were ongoing for a stimulus plan to provide direct payments to households and financial support to companies to minimize the damage to the economy.

EUROZONE: Eurozone growth expectations in the ZEW survey of German financial sector experts fell to the lowest since December 2011 in the March survey. Spain's prime minister announced plans for a €200 billion euro package of loans, credit guarantees, and direct spending on March 17. France pledged €45 billion euros in aid to businesses and workers the same day. The European Central Bank massively increased their quantitative easing program in an unscheduled March 18 decision: Their Pandemic Emergency Purchase Programme will buy €750 billion euros in assets through year-end or beyond; the ECB also signaled flexibility in their "capital key" rule for asset purchases, which requires asset purchases from each country be made in proportion to their share in Eurozone GDP. Instead, the ECB can direct purchases to economies experiencing rising interest rates amid recent financial volatility. The ECB further signaled willingness to contain rising sovereign bond yields, stating that "the ECB will ensure that all sectors of the economy can benefit from supportive financing conditions that enable them to absorb this shock. This applies equally to families, firms, banks and governments." After spiking to 2.96 percent before the ECB announcement March 18, the Italian 10-year government bond yield pulled back to 1.63 percent on March 20, a sign that financial markets are convinced that the ECB will contain financial volatility.

JAPAN: The Bank of Japan doubled its targets for purchases of private risk assets at an unscheduled emergency monetary policy decision March 16, raising the target for annual ETF purchases to ¥12 trillion yen from ¥6 trillion yen and of J-REIT purchases to ¥180 billion yen from ¥90 billion yen; the BoJ also announced ¥1 trillion yen each in net new purchases of commercial paper and corporate bonds, as well as a program to make one-year loans to financial institutions secured by corporate bonds and commercial paper. These measures parallel those taken by the Federal Reserve and ECB in the same week. The BoJ held its targets for short-term and long-term interest rates unchanged, at -0.1 percent and “around zero” respectively.

UNITED KINGDOM: The UK government on March 17 announced plans for £330 billion pounds sterling in business loan guarantees, cash grants to small businesses, and a three-month mortgage payment moratorium to address the near-term economic fallout of COVID-19.

CHINA: Chinese banks unexpectedly reported that benchmark interest rates held unchanged in March at 4.05 percent for the 1-year loan prime rate and 4.75 percent for the 5-year rate; PNC as well as the consensus of economists had expected a 0.05 percentage point rate cut. Aggregate financing to the real economy grew 10.7 percent from a year earlier in January and February, unchanged from December and November. Growth of the M2 money supply picked up slightly in February to 8.8 percent, which by a narrow margin was the fastest since February 2018, from 8.4 percent in January and 8.7 percent in December 2019. Credit growth will pick up sharply in coming months as Chinese policymakers support businesses’ and workers return to work.

CANADA: The Bank of Canada is increasing the frequency of its Term Repo operations to at least twice a week starting Tuesday March 24. The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank announced a coordinated action to further enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements by increasing the frequency of 7-day maturity operations from weekly to daily; these daily operations commence on Monday, March 23. The Bank of Canada announced the launch of its new liquidity facility, the Standing Term Liquidity Facility (STLF), effective March 30. Under the STLF, the Bank can provide loans to eligible financial institutions in need of temporary liquidity support. The Canadian economy will likely experience a recession in 2020 unless the COVID-19 crisis rapidly resolves and oil prices sharply rebound.

BRAZIL: The Central Bank of Brazil’s Monetary Policy Committee (Copom) unanimously voted to lower the benchmark Selic policy rate at its March 18 meeting from 4.25 percent to a new record low of 3.75. The accompanying commentary stated, “The pandemic caused by the new coronavirus is causing a significant slowdown in global growth, a drop in commodity prices and an increase in volatility in the prices of financial assets.” The Governor of Brazil’s largest state Sao Paulo ordered a two week quarantine beginning Tuesday March 24 to help stop the COIVD-19 outbreak. PNC expects Brazil’s economy to contract in the second quarter of 2020.

INDIA: Prime Minister Narendra Modi announced the formation of the COVID-19 Economic Response Task Force led by the Finance Minister Nirmala Sitharaman during a live address to the nation on March 19. The task force is developing policies to manage the crisis, including ensuring food and medical supplies, helping businesses survive the downturn, and managing its financial fallout. Like other emerging powers (with the exception of China), India has much less firepower to contain the damage done by the outbreak than developed countries do.

MEXICO: The Bank of Mexico reduced its benchmark interbank rate target 0.50 percentage point to 6.50 percent at an unscheduled emergency rate decision on March 20.

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