

**ON DECK FOR THURSDAY, MARCH 19**

| Country | Date  | Time  | Indicator                     | Period | BNS | Consensus | Latest |
|---------|-------|-------|-------------------------------|--------|-----|-----------|--------|
| US      | 03/19 | 08:30 | Current Account (US\$ bn)     | 4Q     | --  | -108.6    | -109.8 |
| US      | 03/19 | 08:30 | Initial Jobless Claims (000s) | Mar 14 | --  | 220.0     | 281.0  |
| US      | 03/19 | 08:30 | Continuing Claims (000s)      | Mar 7  | --  | 1737.5    | 1701.0 |
| US      | 03/19 | 08:30 | Philadelphia Fed Index        | Mar    | --  | 8.0       | -12.7  |
| US      | 03/19 | 10:00 | Leading Indicators (m/m)      | Feb    | --  | 0.1       | 0.8    |

**KEY POINTS:**

- Silver linings becoming evident due to aggressive policy easing
- Transit figures confirm retrenching economies
- Fed sharply expands USD swap lines to more CBs
- Fed reintroduces a money market facility
- BoE cuts rates, expands QE
- ECB actions drive major rallies in Italian, peripheral debt...
- ...with Germans crying 'nein' as Greeks shout 'Opa!'
- RBA goes all-in with emergency stimulus...
- ...which may serve as a crisis template for others like the BoC
- BI, BSP both cut rates as expected
- SNB stays on hold but intervenes against the franc
- German business confidence falls to GFC levels
- US jobless claims soar and it's just the beginning
- US Philly Fed's new orders fall to seven year low
- Australia's pre-virus job market was in great shape
- Japanese CPI slipped

**INTERNATIONAL**

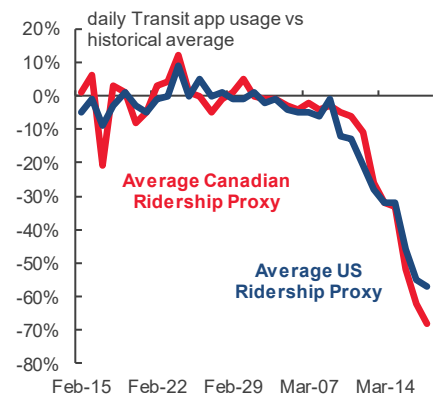
Every time I go to press send on this note, another major announcement comes out. These days – like during the GFC or the dot-com or Asian financial crisis etc – a note like this one stands a good chance of already being stale shortly after sending. Small frustrations aside, what matters to all of us is that a) policy measures are rapidly expanding to ensure that at least the financial system is as sound and functional as possible and able to clear new information in reasonable fashion, and b) at some point when you catch a breath be sure to step back and appreciate that amidst the fear, these are fascinating times. All of your past crisis skills are in demand as market participants with new learning coming fast.

**Several new policy measures have been introduced overnight and in real time this morning.** The Bank of England unexpectedly and unanimously decided to cut its policy rate another 15bps to 0.1% and ramped up QE bond purchases by £200B to £645 billion. The statement is [here](#).

The Fed extended dollar swap lines to more central bank counter parties after reintroducing a money market backstop facility late last evening which are hugely positive steps for the global financial

**CONTACTS**

Derek Holt, VP & Head of Capital Markets Economics  
 416.863.7707  
 Scotiabank Economics  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

**Public Transit Usage During COVID-19 Outbreak**


Sources: Scotiabank Economics, Transit app.

system. The RBA's full-on assault out of an emergency meeting adds another modestly sized central bank to the growing list of those pursuing QE and other unconventional policies and may serve as a template for BoC expectations beyond plain vanilla rate cuts. Two more central banks eased overnight and another kicked off FX intervention. And of course, as flagged in Closing Points last evening, the ECB did a total about face and rose to the occasion with major stimulus efforts that are crushing the Italian and peripheral debt curves that had been reintroducing break up premia. Leaders like Lagarde et al know when to change their minds and act on it.

Throughout it all, however, the realist must emphasize the growing evidence of how the economy is in shutdown mode. That cannot be sugar coated. That is, after all, what the risk trade is more focused upon by way of how it all translates into the earnings outlook, potential credit events and counter party risk. Real pain to the labour market and overall economic activity is just unfolding. Chart 1 offers one such high frequency gauge to use in evaluating fast moving developments in the economy and thanks to Evan Andrade's sleuth work. It proxies transit ridership across Canada and the US and shows how it is in freefall. This reflects a blend of alternative work arrangements and damage being done by the COVID-19 virus. I keep trying to emphasize silver linings where appropriate; in this case it may be that social distancing is showing up in hard data through decreased mobility as the best way of containing the spread of the virus. That offers hope that we'll get to the other side as in China where mobility has been gradually improving as the data shows diminishing spread of the virus. Keep calm and walk on? That's so 1990s. Keep calm and telecommute on, or keep calm and VPN on seem more appropriate if it's an option in your occupations. I have a lot of empathy for the folks who are less privileged in their workplace arrangements.

So here's the run down of present market developments.

- Stocks are mixed. US equities are showing signs of tentative optimism mostly in the tech-heavy Nasdaq that's up by about 2.8% so far at the cash market open. The TSX is up by over 1%. European equities are up by between ¼% and 2%. More silver linings!
- With central banks buying up or funding bonds, keyboards, pencils, erasers and everything else, sovereign yields are lower almost everywhere except for Germany and Switzerland. The US Treasury curve is down 8-12bps with less at the long end perhaps as the US hints at pandemic-funding at the 25 and 50 year points on the potential maturity spectrum. Carry out of EGBs and gilts on the back of the ECB and BoE measures is helping. Canadian yields are down 3-9bps also on carry. France's curve is twisting with a cheaper front end coinciding with a rally from 5s outward. Germany's curve is cheaper across the board (phooey on bailing out the periphery!). Italian and peripheral debt is rallying hard as the biggest beneficiaries of the ECB's actions. 10s are down almost 60bps in Italy, 30+bps in Spain and Portugal and Greece's entire curve is rallying by between 130-190bps. Opa!!
- **Australia's curve is worth a special mention in that the government bond curve dramatically steepened overnight in response to aggressive emergency measures pursued by the RBA overnight.** Australian yields fell by 29-35bps out to 5s but jumped by 20-25bps from 10s through 30s. The concentration of stimulus measures toward shorter term maturities drove such an outcome.
- Oil is up. No wait, checking. Yep, up! Not a typo, but hasn't been seen in quite some time. WTI is still low but approaching US\$23 with Brent nearing US\$26. Gold is flat.
- The USD is slightly appreciating again on balance. The A\$, CAD, sterling and NZ\$ are leading the slightly firmer crosses while the weakest remain the won, Mexican peso, yen, Euro and several Scandies.

**There are no chickens down under. Virus schmirus! We've got the tools. The Reserve Bank of Australia cut its cash rate target by 25bps to 0.25% following an emergency meeting and brought the rate to a new record low. It also introduced a series of other major easing measures that are summarized below.** Please go [here](#) for the statement and [here](#) for Governor Lowe's accompanying speech

for more.

- It implemented strong forward guidance that the policy rate will remain unchanged “for some years” that will be most likely be three years from now and at least until inflation and jobs stabilize after the shocks.
- It also introduced a three year yield target of around 0.25% in a shorter term version of the BoJ’s 10 year yield target.
- The RBA also introduced an open-ended government bond buying QE program across a range of maturities that will start buying tomorrow. Details are available [here](#).
- The RBA also set up a collateralized three year funding facility for deposit-taking institutions at 0.25%. Details are available [here](#).
- Further liquidity is being provided by additional repo operations.
- Governor Lowe guided that “nothing is off the table” including potentially broader purchases and FX intervention if needed.
- The RBA skipped forecasts, like the Fed.

**Bank Indonesia cuts its 7 day reverse repo rate by 25bps to 4.5% as expected this morning.**

Cumulative easing now amounts to 150bps since mid-2019. The accompanying statement ([here](#)) fingered the COVID-19 virus as the cause of downward revisions to growth forecasts.

**Bangko Sentral ng Pilipinas also cut its policy overnight borrowing rate by 50bps to 3.25%.** The policy rate has fallen by 150bps since March of last year. The accompanying statement ([here](#)) announced other macroprudential measures, revised inflation forecasts downward in part due to the COVID-19 shock but also broader forces influencing energy prices, and emphasized a data dependent willingness to do more “as needed.”

Not surprisingly, **the German IFO measure of business confidence fell in March but the bigger adjustments probably still lie ahead.** IFO fell to 87.7 from 96. Most of that was through an 11 point drop in the expectations component but the assessment of current conditions also softened. The expectations component fell back to its weakest since March 2009. Sentiment surveys in general are sharply weakening and the next batch will be Tuesday’s PMIs that will be helpful to gauge the magnitude of the contraction in the German economy.

**Australia gained about 27k jobs last month that were mostly part-time (20k).** While stale, like everything else that pre-dated the acceleration of the COVID-19 shock and reflecting hiring decisions that were underway in the weeks and months leading up to February, the gain nevertheless kept intact a four month string of healthy increases in overall employment despite the effects of global trade tensions and fires that have ravaged much of the country.

**Japanese inflation slipped by more than expected in the overnight release of February’s figures.**

Headline inflation fell to 0.4% y/y (0.7% prior, 0.5% consensus). Core inflation fell to 0.6% y/y (0.8% prior, 0.6% consensus). While backward readings matter very little in the current environment, the fact that inflation ebbed a touch and remains nowhere close to BoJ targets remains supportive of further easing.

**The Swiss National Bank kept its policy rate unchanged at -0.75% as expected.** It did, however, intervene against the franc that it described as “even more highly valued” due to virus-related safe haven flows.

## UNITED STATES

Never end a presentation or note on a bad note, so I’ll get the miserable data out of the way now before the more positive stuff. US weekly jobless claims soared to 281k last week from 211k the week before. That’s the highest since a brief spike in 2017. There is much more to come as total industries shut down such that in my view we’ll swamp the GFC-era record of 665k. Also, the Philly Fed’s business outlook metric fell to -12.7 (+36.7 prior) as the new order book completely collapsed to its weakest since June 2012 around the time of

the Eurozone crisis and it will go lower yet to at least test the GFC low of -39.2.

Kudos to the folks at the Fed for their continued efforts to roll out new initiatives even if impatient markets with 20-20 hindsight would have preferred it sooner. New tools continue to be rolled out including two new ones.

**First, the Fed expanded its USD swap lines with more central bank counter parties.** This is a very positive development by way of flooding a greater part of the world's markets with the world's most important reserve currency in an effort to provide greater liquidity to the benefit of multiple asset classes. The facilities now reach more directly into the EM space and will carry knock on positive effects across that complex. The announcement is [here](#) and there are two points worth noting. First, temporary USD swap lines of up to US\$60 billion have been expanded to the RBA, Brazil, South Korea, Mexico, MAS and the Riksbank while facilities up to US\$30 billion have been extended to the RBNZ, Norges and Denmark. This expands the list beyond the original five central banks (BoC, BoE, BoJ, ECB, SNB).

**Second, the Federal Reserve reintroduced a Money Market Mutual Fund Liquidity Facility late last night in an announcement that went out at 11:30pmET ([here](#)).** Ack, knew I should've stayed up with sleep being something that's highly overrated. It also issued [this](#) list of eligible securities and additional information. Treasury Secretary Mnuchin issued [this](#) statement flagging how Treasury will offer US\$10 billion of credit protection to the Fed for the program to be funded from the Exchange Stabilization Fund again. The aim is to protect money market mutual funds from liquidity events and forced selling sparked by investor redemptions like the one that buckled the Reserve Primary Fund in the famous "broke the buck" episode in 2008. The program will offer loans to eligible financial institutions secured by high quality assets purchased from money market mutual funds. The program is similar to the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility that was introduced in 2008, but will buy a broader range of assets including ABCP, unsecured CP, agencies and Treasuries.

Take care, sneeze in your elbows, have confidence that the often-underappreciated civil servants are diving on the grenades here, and the very best wishes in your work and personal lives.

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