

## Metals Strategy: Macro Update

Its been another nauseating week for financial markets, and certainly one for the history books, no matter how you slice it. The evolving Coronavirus stats, the mix of U-turns/missteps or lack of concrete plans from policymakers drove a lesson in liquidity & credit concerns which trumped any rationale or fundamentals, across all asset classes. This is soo much larger than the metals market, or where the next \$50 move in Gold is... So the below quickly explores some of the macroeconomic themes and thinking.

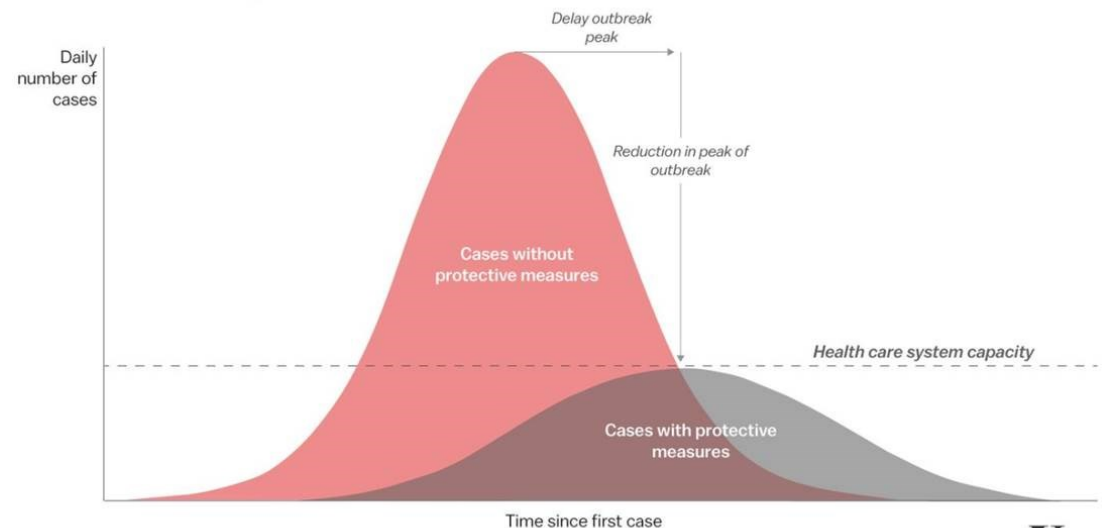
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- Extreme shifts in sentiment & volatility with public & market fear:** risk appetite and conviction is not low, its essentially non-existent with major dislocations, indiscriminate selling (Gold plummeted for its worst week since 2011, and 30yr yields rose) driving a dash for cash / the US\$. The escalating health epidemic, the high uncertainty around the true economic damage & in 'casualty sectors' (tourism, transportation, energy) AND the lack of any convincing plan from the White House on fiscal policy /support or testing predominantly drove uncertainty higher and capitulated risk markets, just before the whole nation basically shuts down starting next week. The White House / Trumps press conference\* provided some certainty as they look to "blunt the curve" (for weeks, there was some thinking that may not be the case)
- \*SPX soared up over 9% DoD, after Trump today at 3.30PM declared a National Emergency which unleashes \$50bn in aid for the Coronavirus, and outlined details for "drive-through" widespread COVID 19 testing as business leaders spoke and pledged support to the US government; he also said they'd buy oil ("going to fill it right up to the top of reserves"). There was no sign of bi-partisanship, but the pubic/private 'collaboration', some detailed plans and long Q&A provides a **believable game plan and injects some overdue (policy) certainty.**

**Chart 1:**  
**Flattening the curve**

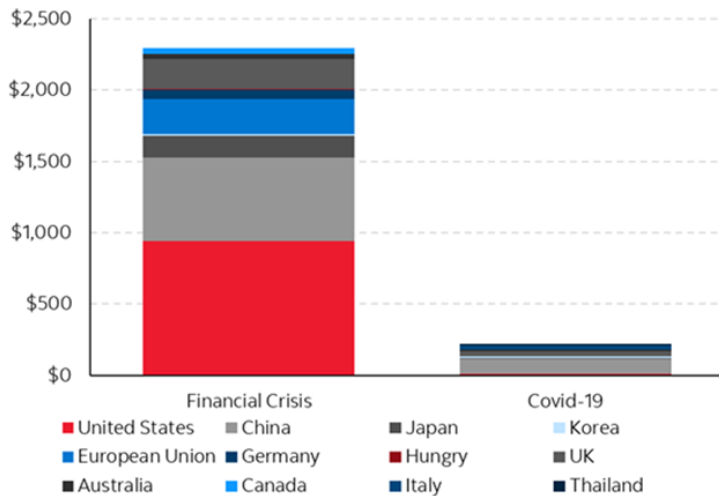


Source: CDC

- The death of the CB put; the bull market is over:** 2.5 years of gains has been wiped out in 3 weeks, officially ending the bull market run. With a new bear markets comes outsized intraday equity moves (back to back 9-10% daily SPX swings yesterday and today), but when they occur during periods of extreme CB accommodation and react perversely (US risk lower on Feds 50bp intermeeting cut), price action is telling. There's an acceptance of the limiting ability of the Fed/others to stem equity market volatility. Any *reprieve* in major financial losses was pinned on the Feds injection of a cumulative \$5tn in liquidity (via the scheduled shorter repo operations and new \$500bn 1-3m operations) to calm markets yesterday, which led everyone from the BOJ (buying \$1.9bn of bonds in unscheduled operation), RBA (added \$5.5bn through its daily operations), BOC (50bp emergency rate cut) and the PBOC (another RRR cut) to follow suit with similar measures. **The Fed (and other CBs) can counter liquidity issues, but certainly now have a harder time countering/controlling equity market risks & volatility and credit.** The baton has clearly been handed to fiscal measures, but as the graph below outlines (aggregating all fiscal stimulus efforts announced YTD by virus-affected countries), the size of fiscal stimulus in light of GDP and vs historical measures (roughly 1/10<sup>th</sup> of what was committed to during GFC) is simply too little to make a difference. **Statement fiscal stimulus is required to promote the velocity required to stem an expected deeper slowdown/recession.**
  - Please see our FI Strategist weekly addressing the considerable accommodation by global Central Banks this week, [here](#)
- Cycling through “V-U-L”, and now “↓” recoveries:** the pace in the shift of the markets narrative -- from safely expecting a V-shaped recovery when the virus was 'contained' to Asia, to now frequently talking about 'when' (not 'if') and how deep the upcoming recession will be -- is alarming.
- What and where is the escape?** The growing list of delays or cancelations of major events, conferences and gatherings, including major sporting events (the Masters, March Madness, F1, NBA, NHL, MLB, Olympics next?), large conferences (SWSX, E3, Ceraweek, Auto Shows), and large gatherings (Broadway/theatre in NY, global concerts, Disney - everywhere) is a worry. Not only do these sudden-stop economic measures impact growth, but as the public socially distance themselves & limits travel, don't underestimate the effect it has on consumer sentiment & confidence; Netflix can't suffice as the only 'escape' away from politics and the threat of the virus.

**Chart 2:**

Approximate Fiscal Response During Economic Crisis in Billions of USD



Scotiabank Commodity (Metals) Strategy

**Chart 3:**

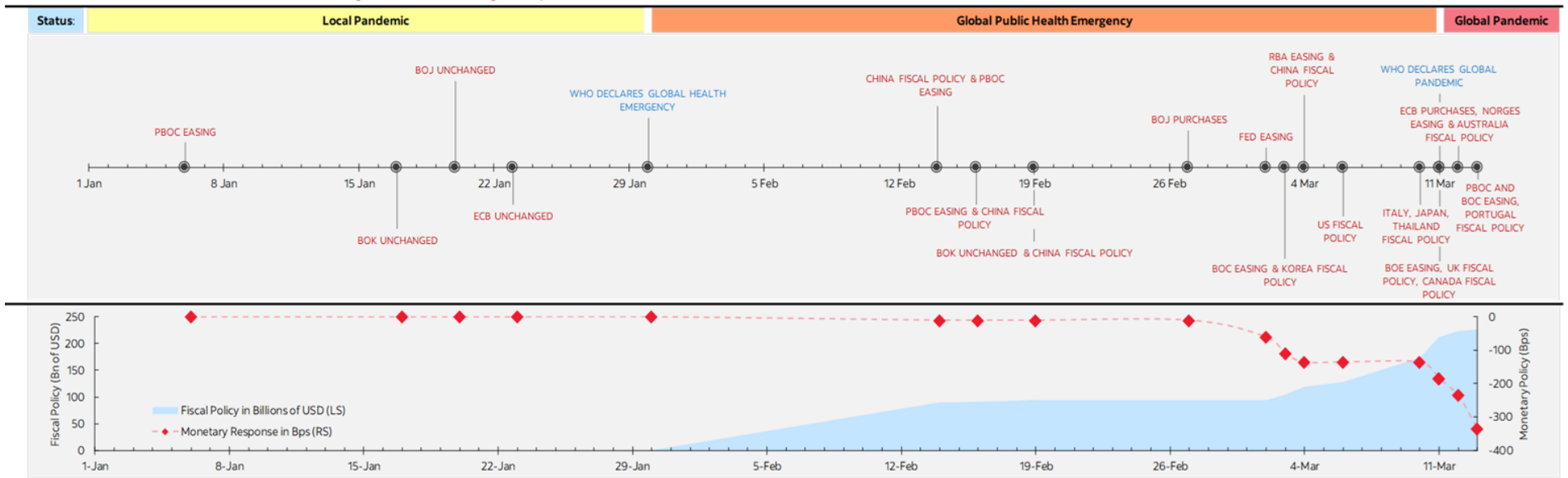
Approximate Fiscal Response During Economic Crisis



Note: Fiscal packages in the GFC were implemented over the duration of a few years. This chart aggregated these policies as a share of 2008 GDP.

Source: Scotiabank Commodity (Metals) Strategy

**Chart 4:**  
**Covid-19 Affected Countries Monetary & Fiscal Policy Response Timeline**



Note: Fiscal policy numbers are converted using exchange rates on the day of announced policy. Easing equates to traditional rate cuts and not repo operations.  
 Source: Scotiabank Commodity (Metals) Strategy

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