Brooks Macdonald – Daily Investment Bulletin 03.04.2020

What has happened

Oil prices surged by more than 20% yesterday as Donald Trump tweeted that he hoped and expected Saudi Arabia and Russia to cut supply by 10 million barrels per day. Bloomberg also reported that China would be increasing the size of its oil stockpiles up to 90 days of net imports. As the lockdown picks up in the US and continues in Europe there will also be a drop in supply from those regions. These three factors all contributed to the largest one day gain in WTI since data starts in 1983.

It is worth noting that oil prices have still declined by over 50% since the start of the year but this rally does take some pressure off oil producers in, for example, the US high yield debt market. From the consumer perspective the year to date falls reduce fuel costs freeing up discretionary spending though this takes some time to enter the real economy.

US Employment report disappoints low expectations

Initial jobless claims did however test the optimism set by the oil price rally. 6.6 million US employees filed for unemployment benefit in the last week, this is around double the consensus estimate for the figure and last week's number, This means that 10 million people have filed in the last two weeks alone and this week's figure is 10x the level of the worst week during the financial crisis. Other nations have also seen a pick up in unemployment, most notably Norway which has also been impacted by the fall in the oil price that occurred in March. Spain saw jobless claims rise by over 300,000 in March as well which is another record. These releases underscore how important it is that new case growth slows to allow markets to look through the current very poor data.

What Brooks Macdonald thinks

After the data we saw yesterday we expect little from the services and composite PMI surveys for March that are due from around the world today. The US non-farm payrolls job report is out later today but given the fact that much of the decline in employment has occurred after the period which is captured by the non-farm employment number, this may be relatively unimportant. With the current void in corporate releases and fiscal announcements, the market will continue to set its tone based on these economic announcements and new case growth.