

Heartwood – Quiet financial markets, but a noisy oil price 27.04.2020



Weekly Bulletin

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US oil markets stole the headlines away from COVID-19 (or coronavirus) last week, as low demand and a lack of storage saw sharp falls in price. Elsewhere, euro area leaders failed to resolve their differences to create a compelling rescue package for the region, and the Japanese central bank promised further economic support.

- Over the past week, financial market news has been dominated by the US oil price. Early in the week, the price of West Texas Intermediate (WTI – the benchmark for US oil) fell below zero for the first time ever. In a strikingly poor 2020 for oil so far, the price of WTI has dropped by close to 70% since the start of the year, highlighting low demand for oil amid economic shutdowns across the world. In recent days, the pricing picture worsened due to issues around a lack of storage for US oil.
- Elsewhere, the inability of European leaders to reach an agreement on a recovery fund for the EU led to an increase in the cost of borrowing for the Italian government, as debt markets punished the struggling nation. Since Italy is critical to the success of the European project, we expect to see support emerge in the near future. A number of options are available if Italy's European colleagues are willing, including the European Stability Mechanism (a fund designed to provide financial assistance to euro area countries) or jointly issued 'Eurobonds'.
- On the cusp of the new week, the Bank of Japan announced its plans to buy an unlimited amount of government bonds and quadruple its corporate debt purchases. This pledge follows the pattern of other central bank and government policymakers around the world, who have made extraordinary efforts to shore up the global economy amid the ongoing COVID-19 crisis. Taken altogether, the responses of the G7 nations (the UK, US, Japan, Canada, France, Germany and Italy) now amount to around \$10trn.

Chart of the week

- Despite a quieter week in financial markets for the most part, investor nerves are still in evidence through an elevated gold price. Gold has risen by around 21.5% since the start of the year.

The heightened gold price points to ongoing investor nerves

Gold price (US\$ per troy ounce)



Source: Bloomberg, Macrobond

What to look out for this week

- Various governments are expected to announcing exit strategy plans in the days and weeks ahead. Boris Johnson, recently returned from his own encounter with COVID-19, has urged patience from the British public. The French prime minister will speak on Tuesday.
- Data covering the first quarter of 2020 will be released by a range of nations. While this can feel like old news in the current fast-moving economic picture, it will be interesting to observe any overspill from slowing economic activity in China in Q1.
- The week will also play host to results from a range of global business confidence surveys, more corporate earnings news, and updates from a number of central banks, including the US Federal Reserve and the European Central Bank.

	Index Levels	Last Week	Month-to-date	Year-to-date
Equity				
MSCI United Kingdom	1,634.2	-0.6%	0.8%	-23.3%
MSCI United Kingdom Mid Cap	942.4	-0.7%	3.4%	-28.4%
MSCI United Kingdom Small Cap	323.9	0.2%	5.5%	-28.4%
MSCI World (GBP)	1,536.1	-0.1%	7.9%	-8.8%
S&P 500 (GBP)	2,836.7	0.0%	10.4%	-5.1%
MSCI Japan (GBP)	858.2	-0.5%	2.3%	-8.9%
MSCI Europe ex-UK (GBP)	1,162.4	-0.4%	2.3%	-15.5%
MSCI Pacific ex-Japan (GBP)	1,331.8	-2.6%	6.0%	-18.0%
MSCI Emerging Markets (GBP)	51,758.7	-1.1%	4.3%	-14.8%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,435.7	0.8%	2.7%	9.7%
BoA Merrill Lynch Index-Linked Gilts	600.7	0.3%	4.4%	6.2%
BoA Merrill Lynch £ Corporate	443.2	0.2%	4.8%	-0.1%
Commodities				
Oil (West Texas Intermediate, GBP)	\$17.2	-4.9%	-15.8%	-69.8%
Gold (GBP)	\$1715.9	2.7%	7.2%	21.6%
S&P / GSCI (GBP)	1,321.5	-9.6%	-11.1%	-45.3%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.