

What did you miss last month?

Currencies
Global

COVID-19 pandemic, global easing, oil price collapse

- ◆ COVID-19 pandemic forces many countries into lockdown
- ◆ The Fed cuts a total of 150bp to 0%, announces unlimited QE program
- ◆ Oil prices plunge on price war and demand slump

March was a tumultuous month for financial markets. As the coronavirus (COVID-19) pandemic spread westward, bringing with it lockdowns for many countries, “risk-off” sentiment surged. Policy makers across the globe scrambled to mitigate the adverse economic impacts of the virus and the shutdowns, with some measures unprecedented in nature. “Safe-haven” currencies outperformed, whilst others sold off in drastic fashion. A collapse in oil prices added fuel to the fire.

Key Dates

- March 3** ◆ **The Federal Reserve (Fed) cuts policy rate 50bp to 1.00-1.25% intermeeting**
- March 4 ◆ China services PMI plunges to record low 26.5 in February, composite to 27.5
- March 4 ◆ The Bank of Canada (BOC) cuts policy rate 50bp to 1.25%
- March 8 ◆ Gold reaches seven-year high of 1703.4 amid surging “risk-off” sentiment
- March 9** ◆ **Brent oil prices plunge ~24% on Saudi Arabia and Russia price war**
- March 11 ◆ The Bank of England (BOE) cuts policy rate 50bp to 0.25%; the UK Chancellor Rishi Sunak announces GBP30bn fiscal stimulus
- March 12 ◆ The European Central Bank (ECB) disappoints, keeps rates on hold but bolsters quantitative easing (QE) program; ECB’s Lagarde said the Central Bank was “*not here to close spreads*”
- March 13 ◆ The BOC cuts policy rate for second time, by 50bp to 0.75%
- March 15** ◆ **The Fed cuts policy rate by another 100bp to 0.00-0.25%**
- March 15** ◆ **The Reserve Bank of New Zealand (RBNZ) cuts policy rate by 75bp to 0.25%**
- March 16 ◆ The Bank of Japan (BOJ) doubles annual exchange-traded fund (ETF) purchase target to JPY12trn
- March 19 ◆ The ECB announces QE program of EUR750bn until year-end
- March 19 ◆ The Reserve Bank of Australia (RBA) announces QE in form of yield curve control, 18-year low for AUD-USD
- March 19 ◆ The BOE cuts policy rate by another 15bp to 0.10%
- March 23 ◆ The RBNZ announces it will buy NZD30bn in government bonds; New Zealand government announces a fiscal spending package worth 1.3% of GDP
- March 24 ◆ Olympic Games postponed until 2021 due to COVID-19 concerns
- March 25** ◆ **US policymakers agree on USD2trn fiscal stimulus, ~10% GDP**

Summary – “Risk On - Risk Off” – Total domination

March was a tumultuous month for financial markets. As the coronavirus (COVID-19) pandemic spread westward, bringing with it lockdowns for many countries, “risk-off” sentiment intensified. Policymakers across the globe scrambled to mitigate the adverse economic impacts of the virus and the shutdowns, with some measures unprecedented in nature. These developments saw “safe-haven” currencies outperform, whilst others sold off in drastic fashion.

The US Dollar Index (DXY) climbed 0.9%¹ higher as the flight to USD safety overwhelmed the potentially negative impact of looser US monetary and fiscal policy. The Federal Reserve (Fed) was the most aggressive of the G10 central banks, cutting rates early and in size, as well as embarking on a new unlimited quantitative easing (QE) programme, providing additional repurchase agreement (repo) operations (collateralized loans from the Fed to commercial banks in the US), and extending USD liquidity to foreign central banks via temporary FX swap lines (the Fed swaps US dollars for local currencies of foreign central banks) and a temporary repo facility (loans from the Fed to foreign central banks using US Treasuries as collateral). As the month drew to a close the White House passed a USD2trn stimulus package, just as the market saw the devastating effects an economic lockdown was having on March data.

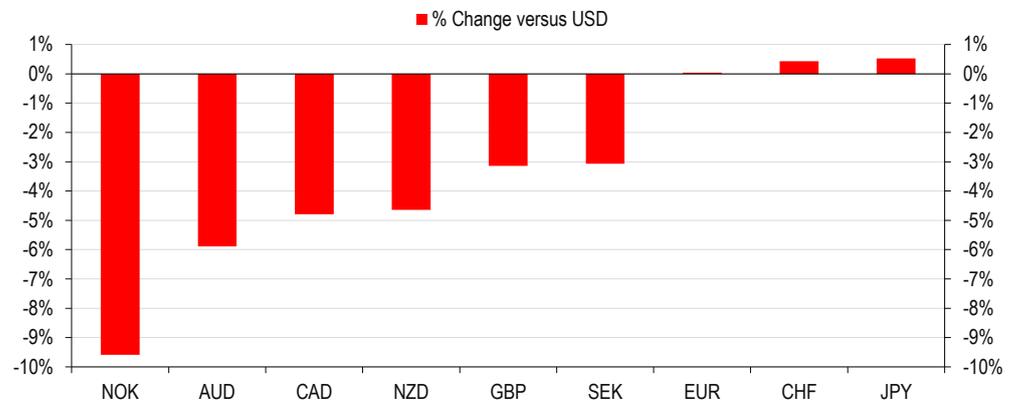
The GBP depreciated 3.2% against the USD in March. The GBP found itself in the bucket of “risk-on” currencies during a month of extreme “risk-off” sentiment, and had fallen as much as 10.4% by 19 March. During daily briefings, Prime Minister (PM) Boris Johnson asked all cafés, gyms, cinemas, and other non-essential shops to close indefinitely, before asking the public to stay at home.

The EUR ended March roughly flat against the USD. Eurozone member states took a splintered approach to fiscal action against the economic impacts of COVID-19. Meanwhile, the European Central Bank (ECB) kept rates on hold, but announced a significant boost to its QE program.

Elsewhere: The crude collapse continues

The double whammy of a supply side price war between Saudi Arabia and Russia, coupled with the COVID-19 demand side shock, led to a historic 55% collapse in Brent oil prices in March, to a 17-year low of 21.65 on 30 March. A notable decline came on 9 March, when prices plummeted 24.1%. Neither side of the price war showed any sign of capitulation. This in turn put selling pressure on currencies such as the NOK, and CAD.

March G10 performance



Source: HSBC, Bloomberg

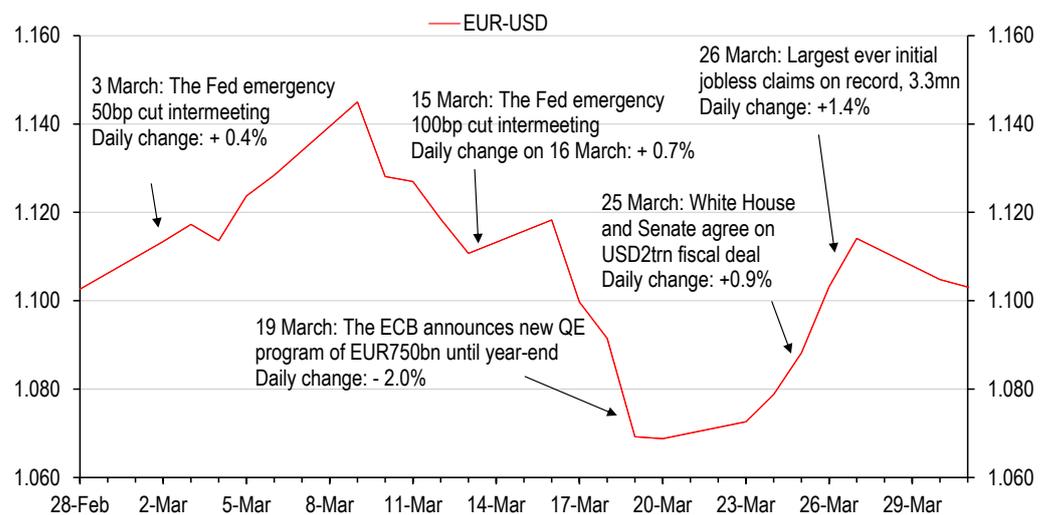
¹ This report uses Bloomberg prices

US: Safety first

The US Dollar Index (DXY) gained 0.9% in March, as the safe haven status of the USD overwhelmed the potentially negative impact of looser US monetary and fiscal policy. There was a global rush for the USD as risk-off sentiment intensified, which saw the sharp and broad rally in the USD. The Federal Reserve (Fed) was the most aggressive of the G10 central banks, cutting rates early and in size, as well as embarking on a new unlimited quantitative easing (QE) programme and increasing the amount of USD liquidity to other central banks through currency swaps and repo operations. As the month drew to a close the White House passed a USD2trn stimulus package, just as the market saw the devastating effects an economic lockdown was having on March data.

On 3 March, the Fed cut its policy rate by 50bp to a 1.00-1.25% band, its first intermeeting cut since the 2008, as policy makers became increasingly concerned about the economic consequences of the coronavirus (COVID-19). Policy rates were slashed by another 100bp on 15 March, bringing the lower band of the Federal Funds target range to 0%. The USD weakened broadly following the initial rate cut, although when policy makers across the globe quickly followed suit, and a pronounced global recession became increasingly likely, flight to USD safety saw the DXY appreciate 4.8% by 20 March. The Fed eased global USD funding conditions through expanding its FX swap lines with other central banks (i.e., the Fed temporarily swaps US dollars for local currencies of foreign central banks, which then lend the USD funds to commercial banks in their jurisdictions), which tapered the USD strength. On 25 March, the White House and Senate leaders reached a deal on a USD2trn stimulus package, 10% of GDP. This massive fiscal loosening brought “risk-on” sentiment back to battered equity markets as well as the FX market, and saw the DXY fall 1.0% on the day. This announcement came a day before the largest ever initial jobless claims number of 3.3m. The USD softened further from this point onwards.

EUR-USD



Source: HSBC, Bloomberg

Eurozone: Fractured response

The EUR ended March roughly flat against the USD. Eurozone member states took a splintered approach to fiscal action against the economic impact of COVID-19. Meanwhile the European Central Bank (ECB) kept rates on hold, but announced a significant boost to its QE program.

On 12 March, the ECB kept rates on hold at -0.5%, but stepped up QE purchases by EUR120bn until the end of the year, in addition to the EUR20bn monthly purchases. The market appeared somewhat disappointed with this response, but most importantly with the ECB President Lagarde's comments that it was not the central bank's job to lower borrowing costs for economies of the region. This saw a widening of periphery government bond spreads, and likely contributed to the 19 March announcement of a new QE programme worth EUR750bn until year-end. The EUR fell 0.6% and 2.0%, respectively, on the day of each announcement.

A Euro group meeting on 24 March to address a joint fiscal response to the outbreak underwhelmed those looking for coordinated action, as it ended with no real mutualisation of the fiscal costs. EUR-USD still managed to pare some of its losses from earlier in the month, as the USD weakened broadly.

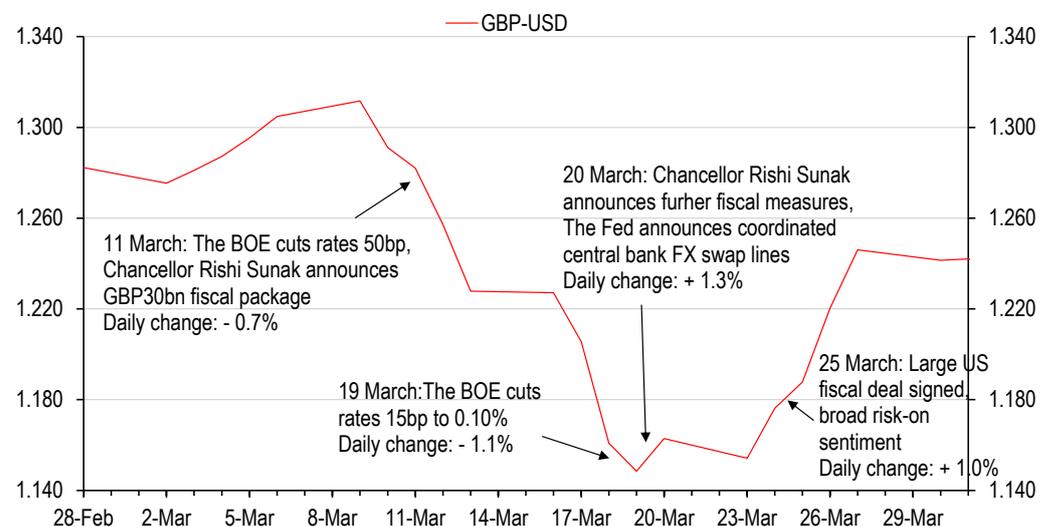
UK: A heavy pound

The GBP depreciated 3.2% against the USD in March. The GBP found itself in the bucket of "risk-on" currencies during a month of extreme "risk-off" sentiment, and had fallen as much as 11.7% by 19 March. During daily briefings, Prime Minister (PM) Boris Johnson asked all cafés, gyms, cinemas, and other nonessential shops to close indefinitely, before asking the public to stay at home.

The UK was one of the few countries to take quick, coordinated, policy action in response to the virus. On 11 March, the Bank of England (BOE) cut its policy rate by 50bp to 0.25%, the same day the UK Chancellor Rishi Sunak pledged a fiscal stimulus of GBP30bn. The BOE cut rates by another 15bp to 0.10% on 19 March, and announced a GBP200bn increase in corporate and government bond holdings. Chancellor Sunak announced further fiscal measures on 20 March, including 80% of wages to be covered (up to GBP2,500 a month) for businesses disrupted by the virus, as well as an extra GBP7bn in welfare support. Despite the proactive policy measures, it was not enough to prevent the GBP from plummeting amidst extreme "risk-off" sentiment.

A large fiscal stimulus from the US and increased USD funding from the Fed as well as a partial equity rebound helped the GBP to reverse much of its heavy losses, and it ultimately ended the month down 3.2% against the USD.

GBP-USD



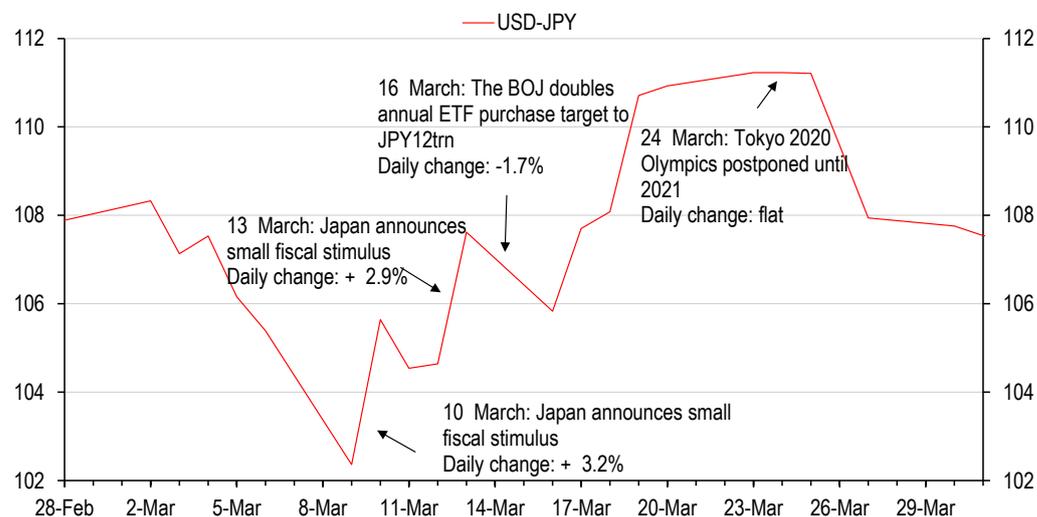
Source: HSBC, Bloomberg

Japan: False start for 2020 Olympics

The JPY strengthened 0.5% against the USD in March. With rates already negative, the Bank of Japan (BOJ) relied on bolstering unconventional policy measures during the month. On 16 March, the Central Bank announced it will double its annual purchases target for exchange-traded funds (ETF), to JPY12trn. The JPY ended the day up 1.8% against the USD. There was little on the fiscal side from Japan (0.1% of GDP to be exact) as two emergency announcements on 10 and 13 March amounted to JPY446bn, including aid to households and subsidies to affected firms. The JPY depreciated 3% against the USD on both days, although this also coincided with tighter USD funding pressures and broad demand for the greenback.

Prime Minister Abe Shinzo and the International Olympic Committee agreed on 24 March to postpone the Tokyo Olympics to a date “no later than 2021”. Since this was largely expected, USD-JPY did not respond significantly to the news.

USD-JPY



Source: HSBC, Bloomberg

China: Canary in the coalmine

The RMB weakened 1.3% against the USD in March. Being the first to encounter the outbreak and implement lockdown measures, China was one of the first to see a drastic deterioration in its economic data – in what would be a forewarning to the rest of the global economy. On 4 March, Caixin PMI services for February plunged to a record low of 26.5, from 51.8 in January. On 16 March, retail sales (YTD, YoY) contracted by 20.5% in the combined period of January and February, versus the expected 4% contraction. Industrial production for the same period came in at -13.5%, below the -3.0% consensus. On 31 March, the National Bureau of Statistics of China (NBS) PMIs for March did show an expansion from the previous month, but this was more of a sequential effect given the record lows in February.

Amidst the sobering data, China eased both monetary and fiscal policy during the month. On 13 March, the People’s Bank of China (PBOC) announced it will cut the reserve requirement ratio by 50-100bp for certain banks. Then on 16 March, the Ministry of Finance (MOF) announced it will allow both households and companies affected by COVID-19 to delay payment of taxes, or pay in instalments. USD-CNY remained relatively stable during the first half of the month due to the sequencing effect in Asian currencies; however, USD-CNY rose sharply on 18 and 19 March (by 0.6% and 0.9%, respectively), as demand for the USD dominated.

Canada: Loonie tunes

The CAD depreciated 4.8% versus the USD during the month. As a “risk-on” currency with an oil exporting economy, the CAD came under heavy selling pressure over the course of March. On 9 March, the CAD fell 2.1% against the USD, when crude oil prices plummeted 24%.

The Bank of Canada (BOE) cut rates by a total of 150bp, with 50bp cuts on 4, 13, and 27 March. The BOC also announced the start of the Commercial Paper Purchase Program (CPPP), although the scale of this QE was rather small, set at CAD5bn minimum per week. The CAD rallied 0.9% against the USD on 13 March, after the BOC cut rates for the second time, and Governor Poloz stated there are “other tools in the toolkit if needed”. In terms of fiscal responses, stimulus from the government amounted to ~9% of GDP, including a CAD95bn support package for small businesses announced on 27 March.

Australia: Down, down, down under

The AUD fell 5.9% against the USD in March. The Reserve Bank of Australia (RBA) cut its cash rate by 50bp to 0.25% over two meetings, and announced QE in the form of yield curve control (that targets bond yield levels instead of monthly purchase amount) on 19 March. Fiscal policy to combat the adverse impact of COVID-19 was also implemented; the Australian government announced multiple stimulus packages which totalled ~10% of GDP. After falling sharply for the majority of the month, AUD-USD reached an 18-year low of 0.5510 on 19 March. The currency pair managed to partially recover losses towards the end of the month when the passing of a US fiscal deal helped improve risk sentiment, but still ended the month down.

New Zealand: Global drivers

NZD-USD ended the month 4.6% lower, as global drivers dominated. The currency pair reached a 10-year low of 0.5470 on 19 March. On 15 March, the Reserve Bank of New Zealand (RBNZ) cut its policy rate by 75bp to 0.25%, and on 23 March announced it will buy NZD30bn of New Zealand government bonds (one-third of bonds in issue), across the whole curve. The government announced NZD12bn of fiscal aid, ~4% of GDP, on 17 March, and then extended it by an addition of NZD4bn (~1.3% of GDP) on 23 March. Since then, NZD-USD managed to move higher towards the end of the month when the passing of a US fiscal deal helped improve risk sentiment, but still ended the month down.

Oil: The collapse continues

The double whammy of a supply side price war, coupled with the COVID-19 demand side shock, led to a historic 55% collapse in Brent oil prices in March, to a 17-year low of 21.65 on 30 March.

A price war between Saudi Arabia and Russia broke out early in the month, which saw crude oil prices plummet a staggering 24.1% on 9 March, to below USD30 per barrel. There was no respite for oil prices as neither of the two countries showed any sign of capitulation.

Deteriorating demand for oil compounded these losses, as the world’s largest economies went into lockdown due to COVID-19, severely limiting demand for transport fuels such as gasoline and jet fuel, with many airliners grounding flights indefinitely.

Precious Metals: Can't get enough of it

Gold prices slipped 0.5% in March. "Risk-off" sentiment dominated in a tumultuous and volatile month for financial markets, which initially buoyed bullion prices. Physical gold was in high demand during March, as retail investors bought up the yellow metal for protection against the ongoing turmoil. Gold prices reached a seven-year high of USD1703.39 per ounce on 8 March. However, there were days when equity markets hit limit-down circuit breakers multiple times and gold also fell on the day. This was most notably on 12 March when gold fell 3.6% on the day despite "risk-off" sentiment dominating. This was perhaps a result of investors freeing up cash to meet margin calls by selling liquid assets such as gold. Gold ultimately ended the month slightly down.

Movers in March vs. USD

JPY	0.5%	AUD	- 5.9%
		CAD	- 4.8%

Upcoming key events

Date	Event
7 April	Reserve Bank of Australia rate announcement
15 April	Bank of Canada rate announcement
28 April	Bank of Japan rate announcement
29 April	Federal Open Market Committee rate announcement
29 April	Swiss National Bank rate announcement
30 April	European Central Bank rate announcement

Commodities

Gold	- 0.5%
Brent Crude Oil	- 55%

Source: Bloomberg

A table summarizing global policy measures with most recent listed first is on Page 8-9.

Global policy measures, most recent listed first

Date	Region	Policy measure	Policy type
31 March	Turkey	The Central Bank of the Republic of Turkey (CBRT) announces outright purchases under Open Market Operations portfolio	Monetary
		Primary Dealer banks will be able to sell government securities bought from Unemployment Insurance Fund to CBRT	Monetary
30 March	Japan	Japan announces boost of JGB issuance by JPY16trn to fund stimulus	Fiscal
	Australia	Australia announces a third fiscal package worth AUD130bn (6.5% GDP)	Fiscal
27 March	Canada	Canada announces enhanced support package for small businesses worth CAD95bn	Fiscal
	Colombia	Central Bank of Colombia cuts policy rate 50bp to 3.75% and signals may cut further	Monetary
	Canada	The Bank of Canada (BOC) cuts policy rate 50bp to 0.25%, announces QE (minimum CAD5bn in government securities per week)	Monetary
	India	The Reserve Bank of India (RBI) cuts policy rate 75bp from to 4.40%, cuts cash reserve ratio by 100bp to 3.00%	Monetary
	Malaysia	Malaysia announces MYR250bn stimulus package (17% GDP)	Fiscal
26 March	Czech Republic	The Czech National Bank (CNB) cuts policy rate by 75bp to 1.00%	Monetary
	Singapore	Singapore boosts virus package to SGD48bn (10% of GDP), drawing on national reserves for first time since 2007-08 Global Financial Crisis	Fiscal
25 March	Canada	Canada announces fiscal package, incl. CAD52bn for households, up from CAD27bn program announced in previous week	Fiscal
	South Africa	South African Reserve Bank (SARB) announces it will start QE program	Monetary
	US	White House and Senate leaders reach deal on USD2trn stimulus package (10% of GDP)	Fiscal
24 March	Hungary	Nemzeti Bank(NBH) keeps rates unchanged at 0.90% but announces unlimited long-term liquidity facility for up to five years	Monetary
	South Korea	South Korea announces KRW100trn package to help stabilize financial markets	Fiscal
	Philippines	Bangko Sentral ng Pilipinas (BSP) announces 200bp cut to the reserve requirement ratio to 12%, effective 30 March	Monetary
	Eurozone	Euro group meeting held to discuss joint fiscal response to COVID-19, now quantified at 2% of GDP rather than 1%	Fiscal
23 March	France	France announces EUR45bn (1.9% GDP) of spending, as 2020 draft budget is amended	Fiscal
	New Zealand	New Zealand announced a fiscal spending package worth 1.3% of GDP, adding to the 4% of GDP announced less than a week ago	Fiscal
		The Reserve Bank of New Zealand (RBNZ) announces it will purchase NZD30 billion of New Zealand government bonds (one-third of bonds on issue)	Monetary
22 March	Australia	Australia announces another fiscal package of AUD46bn (2.3% of GDP)	Fiscal
	US	The Trump administration and congress fail to reach agreement on USD2trn stimulus package	Fiscal
20 March	Thailand	The Bank of Thailand (BOT) cuts policy rate 25bp in surprise meeting to 0.75%	Monetary
	Mexico	Banxico cuts policy rate 50bp in surprise meeting to 6.50%	Monetary
	UK	UK announces no VAT until end-June, to be repaid by YE, almost GBP7bn in welfare support, grants up to 80% of salaries	Fiscal
	Romania	Romania cuts policy rate 50bp to 2.00%	Monetary
	US	The Fed announces coordinated central bank swap line enhancements	Monetary
	Switzerland	Switzerland announces CHF32bn economic support package	Fiscal
	Norway	Norges Bank cuts policy rate 75bp to record low 0.25%	Monetary
	Denmark	The Danish central bank raises key rate from -0.75% to -0.60% to help support the Krone	Monetary
19 March	Eurozone	The European Central Bank (ECB) announces new QE programme worth EUR750bn, until year-end	Monetary
	Australia	The Reserve Bank of Australia (RBA) cuts policy rate 25bp to 0.25%, announces QE in form of yield curve control	Monetary
	UK	The Bank of England (BOE) cuts policy rate 15bp to 0.10%, announces a GBP200bn increase in corporate and government bond holdings.	Monetary
	Chile	Chile announces fiscal package worth 4.7% of GDP (USD11.75bn)	Fiscal
	Brazil	Banco Central do Brasil (COPOM) cuts policy rate 50bp to 3.75%	Monetary
	Taiwan	The central bank cuts policy rate 25bp to record low 1.125%	Monetary
	Russia	The Central Bank of Russia (CBR) announces more FX sales when oil price below USD25 (Ural price)	Monetary
	Indonesia	The Bank Indonesia cuts policy rate by 25bp to 4.50%	Monetary
	Switzerland	The Swiss National Bank (SNB) keeps rates on hold but announces stronger FX intervention	Monetary
18 March	Poland	Poland announces fiscal package, 9% of GDP	Fiscal
	Canada	Canada announces fiscal package, 3% of GDP	Fiscal
	Czech Republic	The CNB cuts policy rate 50bp to 1.75%	Monetary
		CZK100bn direct help to business pledged by government, plus another CZK900bn indirect - amounts to 18% of GDP	Fiscal
	Norway	Norges Bank announces increase in purchases of NOK to USD152m per day to support government spending	Monetary
	Taiwan	Taiwan FSC reduces limit on volume of intraday securities lending to 10% of average daily trading volume	Regulatory
	Hungary	Moratorium on corporate and individual loans until year-end, supported by central bank expanding collateral for liquidity operations	Monetary
	Turkey	Increased limit on credit guarantee fund from TRY25bn to TRY50bn	Monetary
		Announces reduced VAT on domestic aviation from 18% to 1%, suspension of accommodation tax until November	Fiscal
	Israel	The Bank of Israel (BOI) provides USD to the market through FX swaps program with up to USD15bn available	Monetary
17 March	Philippines	The Philippines government shuts down all trading (equities, FX, FI)	Regulatory
	UK	The UK announces GBP330bn in guaranteed loans for affected businesses, tax holidays and cash grants for affected sectors	Fiscal
	New Zealand	New Zealand announces NZD12bn fiscal package (4% GDP)	Fiscal
	Turkey	The CBRT cuts policy rate 100bp to 9.75%, RRR cut by 500bp	Monetary
	Poland	The National Bank of Poland (NBP) cuts policy rate cut 50bp from to 1.00%, and announces new instruments such as bond purchases via repo operation and TLTRO	Monetary
	South Korea	Increase in cap on foreign currency forward positions for local and foreign banks	Regulatory

Source: HSBC, Bloomberg

Global policy measures, most recent listed first (cont'd)

Date	Region	Policy measure	Policy type
16 March	Japan	The Bank of Japan (BOJ) doubles annual purchasing target of exchange-traded funds (ETFs) to JPY12trn	Monetary
	South Korea	The Bank of Korea (BOK) cuts policy rate 50bp in emergency meeting to 0.75%	Monetary
	Philippines	The Philippines announces additional budget support worth 0.1% GDP	Fiscal
	Mainland China	Ministry of Finance announces households and companies affected by COVID can delay payment of taxes or pay in instalments	Fiscal
	Sweden	Riksbank announces it will buy additional SEK300bn of bonds	Monetary
	Hungary	The NBH conducts 1-week FX swaps on a daily basis	Monetary
15 March	US	The Fed cuts policy rate 100bp in emergency meeting to 0.00-0.25%	Monetary
	New Zealand	The RBNZ cuts policy rate 75bp to 0.25%	Monetary
	Israel	The BOI announces purchases of government bonds and offer repos to local banks	Monetary
13 March	Canada	The BOC cuts policy rate 50bp to 0.75%	Monetary
	Norway	Norges Bank cuts 50bp to 1.00%	Monetary
	Czech Republic	Czech Banking Association offers three-month postponement on mortgages and consumer loan payments	Monetary
12 March	Eurozone	The European Central Bank (ECB) keeps rates on hold at -0.50% but announces expansion of QE program by EUR120bn until year-end	Monetary
	Australia	Australia announces AUD17.6bn fiscal package (1% of GDP)	Fiscal
11 March	UK	The BOE cuts policy rate 50bp to 0.25%	Monetary
	Israel	UK Chancellor Sunak announces GBP30bn in fiscal stimulus Israel expands COVID aid package by ILS6bn to ILS10bn	Fiscal
10 March	Russia	The CBR starts pre-emptive FX selling, relaxes capital rules allowing some banks to deviate from capital requirements	Monetary
	Hungary	Prime Minister Orban says 2020/21 budget will need to be redrawn with measures to help sectors through COVID-19	Fiscal
9 March	Russia	The CBR suspends FX selling under the fiscal rule	Monetary
	Israel	Ministry of Finance opens ILS4bn government-guaranteed credit line to support banks loaning to small and medium enterprises (SMEs)	Fiscal
4 March	Canada	The BOC cuts policy rate by 50bps to 1.25%	Monetary
3 March	US	The Fed cuts policy rate 50bp in emergency meeting to 1.00-1.25%	Monetary
	Australia	The RBA cuts policy rate 25bp to record low 0.50%	Monetary
1 March	Eurozone	Italian government announces EUR3.6bn in fiscal stimulus including tax cuts and healthcare spending	Fiscal

Source: HSBC, Bloomberg

Disclosure appendix

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