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Chinese data weighs on sentiment as Fed cuts rates to zero

◆ Federal Reserve cuts its benchmark rates by 100 basis points to zero and pledges US\$700 billion for quantitative easing.

◆ Dollar swap lines with nine central banks established to ensure liquidity across the world.

◆ Reserve Bank of India and of New Zealand join in with quantitative easing and rate cut announcements.

◆ Retail sales and industrial production in China in February saw their biggest drop on record.

◆ Investors extrapolating the economic fallout of lockdowns are looking at the Chinese data and fueling a sell-off.

The Federal Reserve did not wait until Wednesday, when its monetary policy meeting is happening, to cut rates. The US central bank today cut rates by 100 basis points to zero and announced a new US\$700 billion program to buy long-term bonds, officially restarting quantitative easing. Besides taking Treasuries and mortgage-backed securities and giving banks cash, the Fed also offered banks the possibility of borrowing money from it at the 0.25% benchmark rate for up to 90 days. Completing the measures to ensure there is a lot of liquidity in markets, the Fed reopened dollar swap lines with nine central banks across the world.

The measures are similar to the ones the central bank enacted in the aftermath of the Lehman Brothers bankruptcy filing in 2008 and which eventually helped normalize financial markets and start the 10-year bull market that collapsed in the past two weeks.



Other central banks in the world followed. The Bank of Japan expanded its asset-buying program, saying it would purchase more stocks, exchange-traded funds and corporate bonds as well as offering zero interest rate loans to companies. The Reserve Bank of New Zealand cut rates by 75 basis points to 0.25% and the Reserve Banks of India and Australia pledged to boost liquidity, offering banks cheap long-term loans to boost lending.

Despite the coordinated efforts, markets were selling off and S&P 500 futures were down by the limit at the time of writing. Much of the pressure on equity markets seemed to be a result of investors inferring the economic damage of widespread lockdowns in advanced economies, which are trying to contain the spread of the new coronavirus.

While it is hard to predict the true impact on demand and consumer sentiment, China offered the first indications of what it will look like today. The National Bureau of

China's economic numbers for February have raised fears of a slowdown in the west

Statistics released its numbers for industrial production and retail sales growth in February and both were the worst in the history of the gauges. Manufacturing output fell by 13.5%, the first negative number since China started publishing the measure. Retail sales shrank by 20.5% (see chart above).

Investors seemed to infer that countries such as Italy, Spain or the US, which are starting to implement the same measures that China had in place last month, could see a similar economic slowdown. That may require a thorough review of earnings expectations and this could add pressure to markets for now. Add to that margin calls and the sell-off could continue. Eventually, though, the wall of money will boost the economy again.

Investment Strategy Update

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