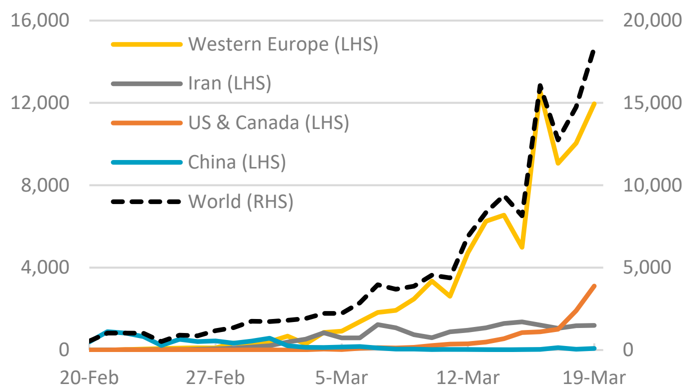
# ASFA Economic Snapshot: week ending 20 March 2020

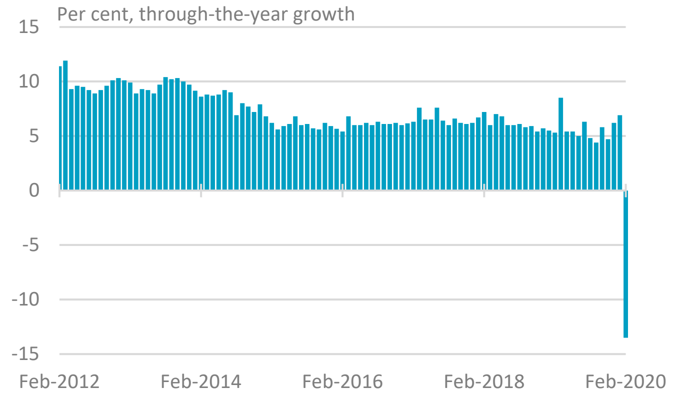
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

## Number of new cases is rising fast in Western Europe



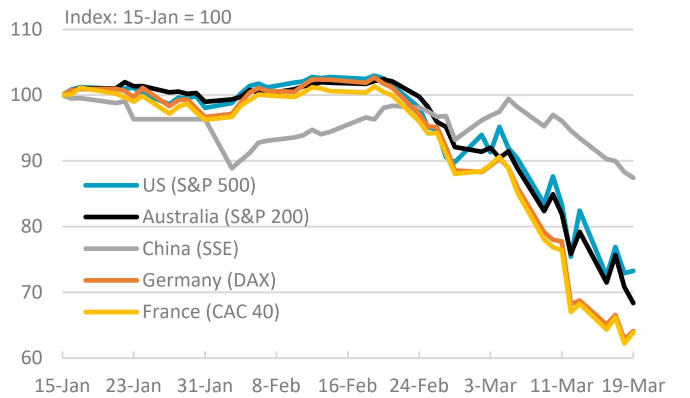

The spread of COVID-19 is most acute in Western Europe – particularly in Italy and Spain, and to a lesser extent in Germany and France. Together these countries accounted for about half of all new reported cases in the past week. In contrast, Chinese authorities appear to have contained the virus – the number of new cases has dropped markedly from around 3,000 per day in early February. These contrasting developments are reflected in movements in equity markets (below).

## Chinese manufacturing fell markedly in February



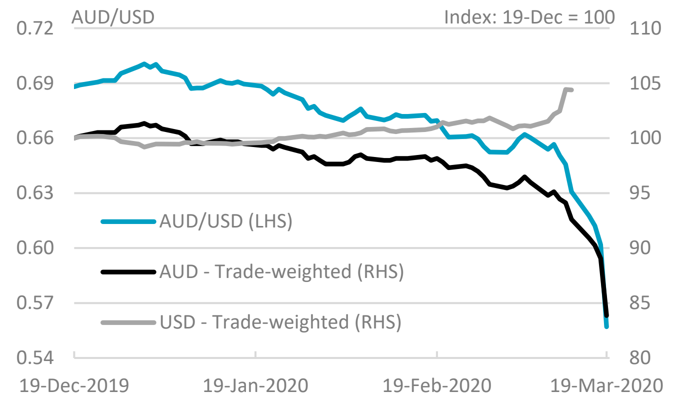

Chinese manufacturing contracted sharply in February – total output was 13.5% lower than a year ago. The broad-based factory closures will have global knock-on effects through supply chains. That said, manufacturing capacity has been slowly coming back on-line during March. With respect to advanced economies, it is expected that upcoming data releases will show significant broad-based declines in production for March.

## Global equity markets are down sharply, and volatile



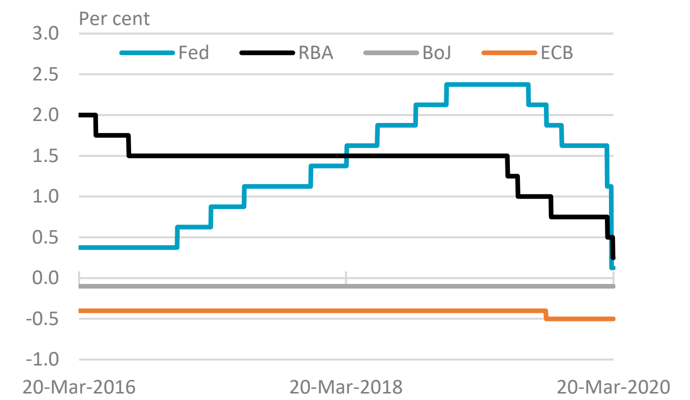

Declining investor sentiment has led to large falls in global equity markets. The US and Australian markets are around 30% lower than mid-February peaks, while major European markets are around 38% lower. Ongoing volatility is expected, due to uncertainty about the magnitude and duration of the real economic impacts of the virus.

## The Australian dollar is under pressure



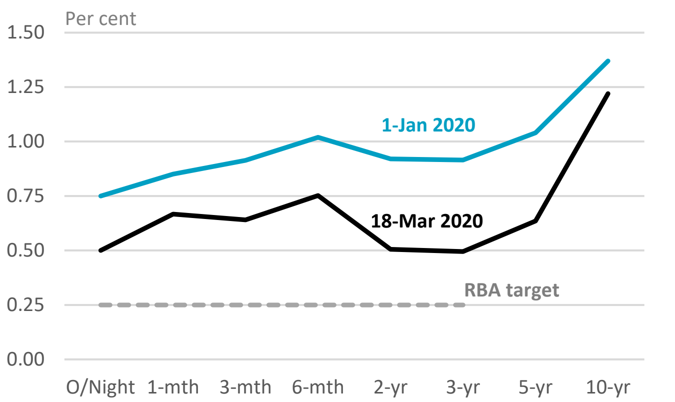

The AUD has depreciated markedly this year. Initially, this largely reflected Australia's exposure to the Chinese economy. However, the recent, sharper falls reflect the spike in (global) demand for US dollars and the RBA's aggressive monetary action (see below). In contrast, the USD has appreciated – as demand for US dollars has increased.

## Central banks have cut policy rates




Advanced-economy central banks are taking aggressive policy action. On 16 March, the US Fed cut its key policy rate by 100bp – to effectively zero. The RBA followed suit on 19 March, reducing the cash rate to 0.25%. For many other major central banks, policy rates were already at effective lower bounds prior to the current crisis.

## The RBA will buy bonds to drive down yields




Central banks have enacted measures to lower funding costs in the financial system and real economy, and to boost market liquidity. The RBA will buy government bonds across the yield curve – its target is a yield on 3-year bonds of 0.25%. Also, the Fed has re-activated its USD swap line with the RBA to increase the local availability of US dollars.