

Fed cuts rates, S&P 500 falls

So much for a demand supporting sentiment boost, but maybe the counterfactual would have been worse. And it does put pressure on other central banks to follow suit in some fashion, even if rate cuts are not feasible for all



10Y US Treasury yields below 1%

An off-cycle cut from the Fed was not a total surprise, but the speed with which the Fed moved, following Jerome Powell's hint last Friday, was quite breathtaking [James Knightley has written more about the decision here.](#)

The market response has been interesting, and maybe not quite what had been hoped for. Equity markets (the S&P500) rose initially, but then sold quite heavily, and that is probably likely to be the reaction in Asia's markets today. Asian equity futures look rather mixed right now.

The US Treasury market rallied further, with the yield on the 10Y bond dropping below 1.0% (fractionally), and 2Y Treasury yields fell sharply to under 70bp which has had the knock-on effect of weakening the USD, which against the EUR, now stands at 1.1181, though this is only a small move relative to recent days.

A number of questions are worth asking now following this Fed action.

1. Will markets shrug off this Fed action and resume their sell-off?
2. Will the Fed do nothing further on March 18 (their next scheduled meeting) - James Knightley is indicating a further 50bp of easing in 2Q20, but markets are impatient, and that seems a long way away, though there is, of course, an argument for conserving firepower, bearing in mind that the US is likely to see the disease worsening over the coming weeks and months.
3. Will the Fed's move spark some additional easing from other central banks around the world - yesterday we had 25bp of cuts each from the Reserve Bank Of Australia and Bank Negara Malaysia.

G-7 statement - some words

Here is part of the G-7 statement of Finance Ministers and Central Bank heads released yesterday. "We reaffirm our commitment to use all appropriate policy tools to achieve strong, sustainable growth and safeguard against downside risks", adding that they are "closely monitoring" Covid-19. Perhaps it was in response to this underwhelming statement, which outlined no specific measures, that the Fed felt compelled to act.

Maybe it is the dawning realisation by markets that this disease and its impacts on the economy are not things that conventional policy tools have much defence against, that has led to the resumption of selling. Overnight, the new case count provides no comfort, with new cases in Europe still rising at a rapid pace, and more countries showing their first cases of Covid-19 (Ukraine, Argentina, Chile, Lichtenstein).

On the calendar today and other stuff

There isn't much of interest on the calendar today apart from the Bank of Canada. The Bank of Canada was already expected to deliver a 25bp cut at this meeting, and so that wouldn't be a surprise. But maybe there is some possibility that they might now follow the fed and deliver a 50bp cut.

Iris Pang has written too on what we may expect from the PBoC in the coming days and weeks "I expect 10 bps cuts in 7D reverse repo, 1Y Medium Lending Facility and 1Y Loan Prime Rate, plus 0.5 percentage points cut of targeted RRR to help Covid-19 affected companies. Repayment due dates are extended for tight cash flow companies, which should be the most effective measures so far."

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