

BANKING ON KNOWLEDGE

Domino impact of coronavirus in financial markets

By Dr R Seetharaman

The Dow Jones Industrial Average shed 1.4% to settle at 25,409.36, while the S&P 500 index 0.8% to end at 2,954.22 by end of last week. The Nasdaq Composite Index gained less than a point to finish at 8,567.37 by end of last week. For the week, the Dow fell 12.4%, the S&P 500 lost 11.5% and the NASDAQ shed 10.5%.

On YTD basis, Dow down by close to 11%, S&P down by close to 9%, Nasdaq by close to 5%. Stocks closed mostly lower on Friday, but off session lows, while recording their worst weekly slide since October 2008 amid intensifying fears over the potential degree of damage the spread of coronavirus disease 2019 (Covid-19) will inflict on the global economy and supply chains.

Stocks pared back session losses after Federal Reserve chairman Jerome Powell, in a brief statement on Friday afternoon,



said the central bank was "closely monitoring" the coronavirus epidemic emanating from China and its potential to slow economic growth, sparking some optimism that the Fed will cut rates to help bolster the economy. The Brazilian Stock

Exchange has returned from the Carnival holiday in sharp decline amid confirmation of the first case of the coronavirus in the country and the spread of occurrences around the world. It has fallen by close to 10% YTD.

The Nikkei plunged 4% bringing the index down 10.8% from recent highs. While new data showed Japan's manufacturing output rose more than expected in January, economist Takeshi Minami warned output will likely decline until the outbreak is over — potentially not until summer. Nikkei was down by close to 11% YTD.

European stocks suffered through the largest weekly loss since the depths of the 2008 global financial crisis. The German DAX 30 index, French CAC 40 index and the FTSE 100 index each dropped more than 3%. The FTSE 100 is down by close to 13% YTD, German DAX30 index by more than 10% YTD and French CAC 40 index was down by more than 11% YTD. The Shanghai composite was down 3.71%



to end its trading day at 2,880.30 by end of last week. It has fallen by more than 5% YTD. The Indian Sensex has fallen by more than 7% YTD. It crashed by 3.64 % last Friday.

As the World Health Organisation on Friday upgraded its global risk assessment for the coronavirus to "very high", anxious oil markets are wondering when might be a good time to panic about the oil demand and its effect on inventories, investment dollars, and ultimately, oil prices. Already, Covid-19 is disrupting manufacturing and industrial output, specifically in China, and the FDA said this week that the world is experiencing its first drug shortage from these coronavirus-induced manufacturing disruptions.

Prices of the WTI was at \$44.76/barrel

and Brent was at \$49.67/barrel by end of last week on account of COVID-19 impact on global growth. Both the oil prices have fallen by close to 25% YTD. In addition, crude prices stayed quite sceptical after news cited that the Opec+ could announce deeper oil output cuts at its meeting in Vienna on March 5-6, all in response to revitalise prices amidst the coronavirus jitters. Natural gas was at \$1.684/ MMBTU by end of last week and had fallen by more than 20% YTD.

Gold was at \$1585/ounce and silver was at 16.67/ounce by end of last week. After nearing \$1,700/ounce at the beginning of the week, gold prices surprised with a major sell-off despite a plummeting stock market. When the risks get too high in the stock market and the situation too dire,

investors respond by selling gold to meet margins. As disappointed as investors feel about gold prices, it is nothing compared to the sentiment in silver as prices fall below \$17 an ounce heading into the weekend.

Dollar index was at 98.132 by end of last week and has surged by close to 2% YTD. The US dollar slid to a seven-week low against the Japanese yen on Friday after Federal Reserve chair Jerome Powell suggested the central bank could cut interest rates in the wake of the coronavirus.

The yen was at 107.89 against the US dollar by end of last week. The British pound was equal to \$1.2823 and euro was equal to \$1.1026 by end of last week. Both the currencies had weakened a bit against the dollar in recent times. On the whole there was a domino impact on the financial markets.

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