

## Coronavirus fears dominate across the globe

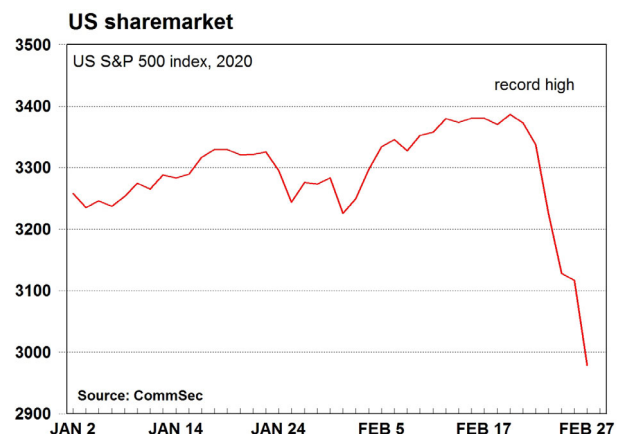
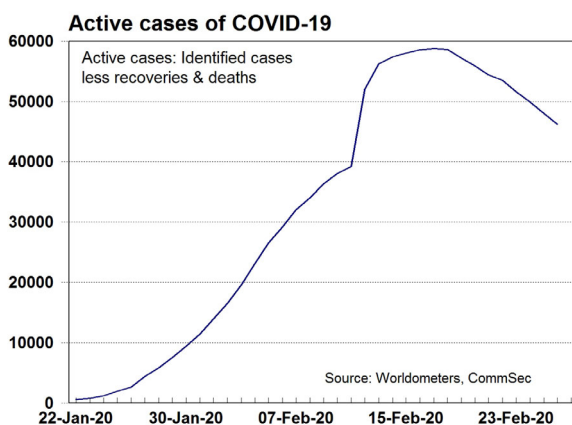
### Sharemarket sell-off; Private sector credit

- **Sharemarket sell-off:** Fears about the economic impact of the novel coronavirus outbreak (COVID-19) have dragged global sharemarkets lower.
- **Lending:** Private sector credit (effectively outstanding loans) rose by 0.3 per cent in January after rising 0.2 per cent in December. Annual credit growth rose from a 9½-year low of 2.4 per cent to 2.5 per cent.

*Private sector credit figures have implications for finance providers, retailers, and companies dependent on business spending.*

### What does it all mean?

- Global sharemarkets continue to fall on fears that COVID-19 may have a wider and more lasting impact on global economic growth. The fear-driven sell-off on equities markets needs to be kept in perspective. Last week, key Australian, US and European sharemarket indexes were at record highs. And indeed, with markets fully valued, a period of either consolidation or a correction was to be expected.
- On Thursday, the pan-European STOXX 600 index fell by 3.8 per cent to a 4-month low to be down more than 10 per cent from highs - signifying a market 'correction'. The German Dax lost 3.2 per cent. The UK FTSE fell by 3.5 per cent. In London trade, shares of Rio Tinto fell by 6.0 per cent and BHP lost 4.4 per cent. The US Dow Jones index fell by 1191 points or 4.4 per cent. The S&P500 index was lower by 4.4 per cent and the Nasdaq was lower by 414 points or 4.6 per cent.
- Amongst commodities, oil prices have been hardest hit, down 12.6 per cent over the past week and down 25.6 per cent on the highs set in early January. Investors believe that the coronavirus outbreak will lead to fewer people travelling locally or abroad, affecting oil demand. Energy, travel & leisure stocks have been hard hit on global sharemarkets by COVID-19. OPEC+ oil producers meet on March 5 & 6 to decide whether production needs to be cut to support prices.
- While the number of new cases of COVID-19 is now rising at a faster rate outside China than on the China mainland, countries like China show that the outbreak can be contained with strong measures to limit travel and enforce quarantine requirements. Bloomberg is now reporting that the Chinese economy is running at 60-70 per



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cent of its normal level, up from 50-60 per cent a week ago.

- Medical biotech companies across the globe are working on vaccines for COVID-19. US business, Gilead Sciences, announced *“the initiation of two Phase 3 clinical studies to evaluate the safety and efficacy of remdesivir in adults diagnosed with COVID-19 (novel coronavirus).”*
- Encouragingly, the largest global economy – the United States – was in strong economic shape when this virus outbreak hit. And in Australia, monetary and fiscal policy measures can be applied to limit the impact of the outbreak on the domestic economy. The Reserve Bank can cut rates further and the federal budget is balanced – giving the government ample scope to lift spending.

## What do the figures show?

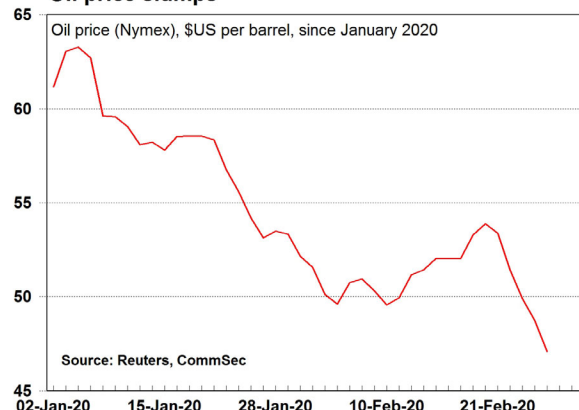
### Private sector credit - January

- **Private sector credit (effectively outstanding loans)** rose by 0.3 per cent in January after lifting 0.2 per cent in December. Annual credit growth rose from a 9½-year low of 2.4 per cent to 2.5 per cent.
- **Housing credit** grew by 0.3 per cent in January. And the annual growth rate held steady at 3.1 per cent.
- Owner occupier housing credit rose by 0.4 per cent to stand 5.1 per cent higher over the year – an 8-month high.
- Investor housing finance rose 0.1 per cent – the first increase in 13 months. The annual decline remained the biggest on record at -0.3 per cent.
- **Personal credit** fell by 0.6 per cent to stand 5.0 per cent lower over the year – the biggest annual decline in over a decade (September 2009).
- **Business credit** rose by 0.5 per cent – the biggest gain in ten months. Business credit was up 2.8 per cent over the year.
- The **M3 money aggregate** and **Broad Money** both lifted by 0.4 per cent in January. Annual growth of the M3 money aggregate fell from 4.1 per cent to 4.0 per cent with the Broad Money annual growth rate steady at 4.2 per cent.
- **Loans and advances by banks** grew by 3.4 per cent in the year to January, up from 3.2 per cent in the year to December. Loans by all financial institutions were up by 5.3 per cent – a 3-month high.
- **According to APRA**, loans by deposit taking institutions to households via credit cards eased from \$38.2 billion in December to \$37.2 billion in January. Credit card lending is down by 6.4 per cent over the year.

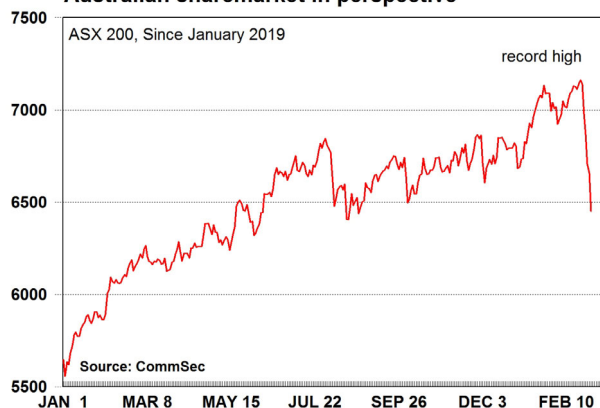
## What is the importance of the economic data?

- **Private sector credit** figures are released by the Reserve Bank on the last working day of the month. Credit is separated into three categories – housing, other personal and business. Private sector credit is effectively the amount of loans outstanding in the economy. If growth in lending is strong then it suggests that credit from financial institutions is freely available, underlying demand for assets such as cars and houses is firm and that the price of credit (interest rates) is attractive.

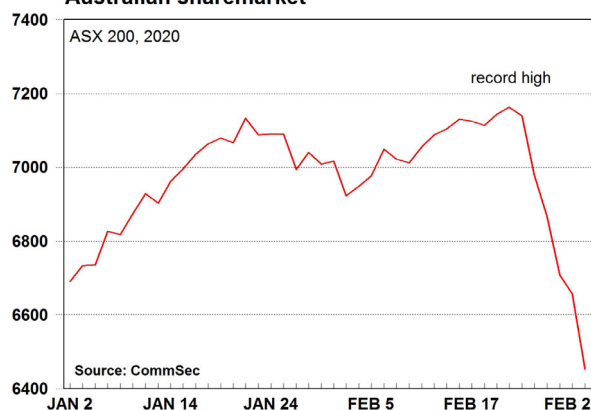
Oil price slumps



Australian sharemarket in perspective



Australian sharemarket

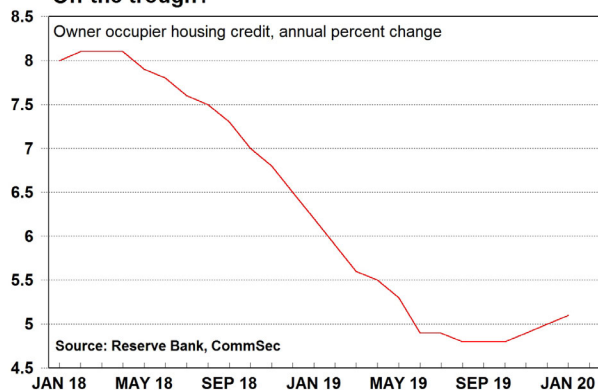


## What are the implications for interest rates and investors?

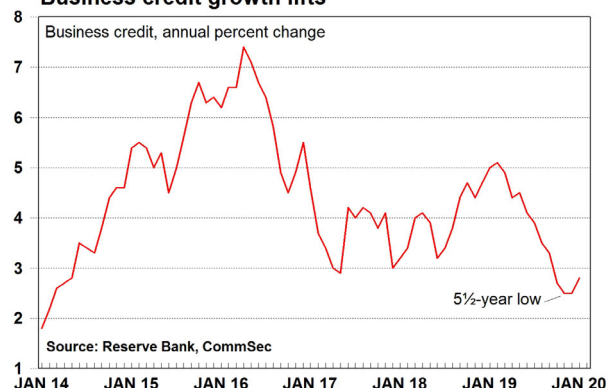
- No one can predict the course of the COVID-19 outbreak with utmost certainty. What we do know is that medical companies are working hard on finding a vaccine or treatment for the virus. Only today Australian company, Zoono Group, announced that lab tests had found “that Zoono’s Z-71 Microbe Shield (the same Zoono technology used in Zoono hand sanitiser) is > 99.99% effective against COVID-19.”
- We also know that Chinese efforts to contain the crisis appear to be working. Also governments and central banks stand by to assist in supporting businesses, consumers and the broader economy.
- Further, the number of active cases across the globe (identified cases less recoveries and deaths) has fallen for eight straight days.
- Nine countries that had identified COVID-19 cases have now indicated that those patients had recovered. In Australia there have been 23 cases and so far 15 people have recovered.
- The world is a far different place than 17 years ago when the world was affected by the SARS outbreak (Severe Acute Respiratory Syndrome). On the one hand, the world is more globalised – more people travelling overseas – making economies more vulnerable to the spread of viruses or disease. On the other hand, globalisation – use of internet – means that authorities can respond to health emergencies quicker, and potentially in a more co-ordinated fashion.
- The Reserve Bank meets on Tuesday. While economists had expected the Reserve Bank to wait until at least April before cutting interest rates again, the Bank may decide that there is little value in waiting and cut rates on Tuesday.
- Importantly the lower Aussie dollar (near 11-year lows) is working as it should in these times – as an automatic stabiliser to support the business sector. Further, companies like Rio Tinto remain hopeful that when the virus is ultimately contained, Chinese authorities will ramp up stimulus efforts, potentially boosting demand for Aussie raw materials like iron ore.

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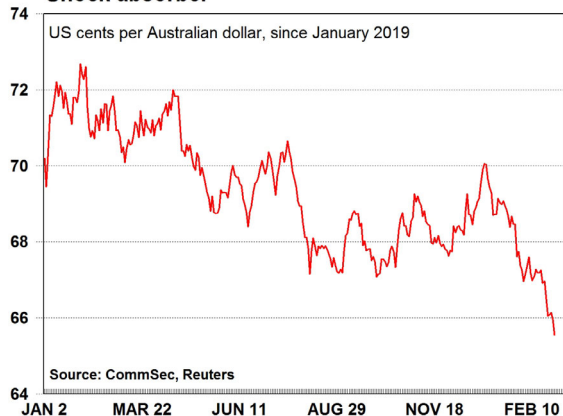
### Off the trough?



### Business credit growth lifts



### Shock absorber



### Iron ore price remains high

