The month ahead – March 2020

The volatile start to 2020 has continued in February as the ongoing uncertainty around the coronavirus outbreak continues to dominate the news. Despite the uncertainty, equity markets moved higher in mid-February, with indices in the US, New Zealand and Australia making new record highs. However, as concerns around the virus grew, equity prices retreated from their record highs. Meanwhile, a pickup in volatility saw 'safe-haven' assets, in particular government bonds, rise.

With news the coronavirus is spreading outside of mainland China, we expect its impact – both social and economic – to dominate the headlines in March, and with this in mind, here's what ANZ is watching this coming month.

ECONOMIC DATA TO SHED LIGHT ON CORONAVIRUS IMPACT

As the fallout from coronavirus continues, March will see the release of economic data that will begin to shed light on the extent of the economic impact of the virus.

In China, the Caixin manufacturing and services PMI – a closely-observed gauge of manufacturing activity – will shed light on how small businesses are holding up during the period of uncertainty. Elsewhere in China, retail sales data for January and February is likely to show a slowdown in spending as the virus halted the movement of millions of people forcing closures of restaurants, retail stores and other entertainment outlets.

Closer to home, both New Zealand and Australia are heavily reliant on the Chinese economy, meaning economic data will be scrutinised over the coming months as fallout from the coronavirus continues.

In New Zealand, visitor arrivals data for January will be of note, especially given significant cancellations from tourists who had planned to travel down under for the Chinese New Year. The tourism drop has already begun to weigh on local businesses; Millennium & Copthorne Hotels said that cancellations have already put a dent in sales to the tune of NZ$2 million to NZ$3 million. In addition, Air New Zealand has said it expects a hit to profits after temporarily suspending flights to mainland China and Seoul.

Then on 31 March, statistics around business sentiment will come with the release of the ANZ Business Confidence Index.

In Australia, 12 March will see the release of both consumer and business confidence numbers, and then a week later, the employment report for February is set for release. Employment numbers have been relatively upbeat, with jobs created in each of the prior three months.

RBNZ AND RBA TO MEET; LIKELY TO ADDRESS CORONAVIRUS

March will also see central banks in New Zealand and Australia meet where the ongoing coronavirus concerns and the economic fallout will be front and centre of thinking.

At its February meeting, the Reserve Bank of New Zealand said it is unlikely there will be sufficient evidence to gauge the impact of the coronavirus.

However, since then, there has been a significant change in sentiment and we can expect an update on the banks thinking behind policy response to the effect the virus is having on New Zealand's trade with China, as well as the social impact. As at 25 February, interest rate markets are pricing in a 20% chance of a cut.

Across the Tasman, the Reserve Bank of Australia will also meet, facing a similar conundrum to New Zealand. China is the main buyer of Australia's natural resources, and with the movement of goods slowing, mining companies have been hit. However, even as the economy faces uncertainty, the RBA is expected to leave interest rates unchanged. Two weeks later on 17 March, the minutes from the meeting will be released, which will provide further information around whatever decision the central bank makes.

DEMOCRATIC NOMINEE RACE HEATS UP WITH SUPER TUESDAY

On 3 March, the Democratic primary race will become clearer with Super Tuesday, a day where voters in 14 states and one US territory, comprising of more than one-third of the delegates cast their votes. Moreover, it will mark the first ballot where former New York mayor, Michael Bloomberg will appear.

However, Bloomberg has some catch-up to play with Senator Bernie Sanders holding a sizeable lead after strong showings in the first three states. As at 25 February, most national polls give Sanders around a 40% chance to win a majority of delegates in the primary race.

WE REDUCED OUR OVERWEIGHT INTERNATIONAL EQUITIES POSITION

We recently reduced our overweight position in international equities on the back of growing economic concerns stemming from the coronavirus. It appears Chinese activity and supply chains have slowed since the outbreak in late January.

However, we still have a small overweight position in international equities. Our long-term base case remains that economic growth will bottom in 2020 and return towards trend level thanks in part to accommodative monetary policy and fiscal stimulus.

Furthermore, key leading indicators are showing signs of improvement including improving PMI data in Europe, US retail sales and labour markets continuing to add more workers back into the workforce (falling underemployment).

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