

March 2020

MARMORE FIRST TAKE

U.S. Fed goes all out, as coronavirus outbreak spreads

 www.marmoremena.com

 enquiry@e-marmore.com



HIGHLIGHTS

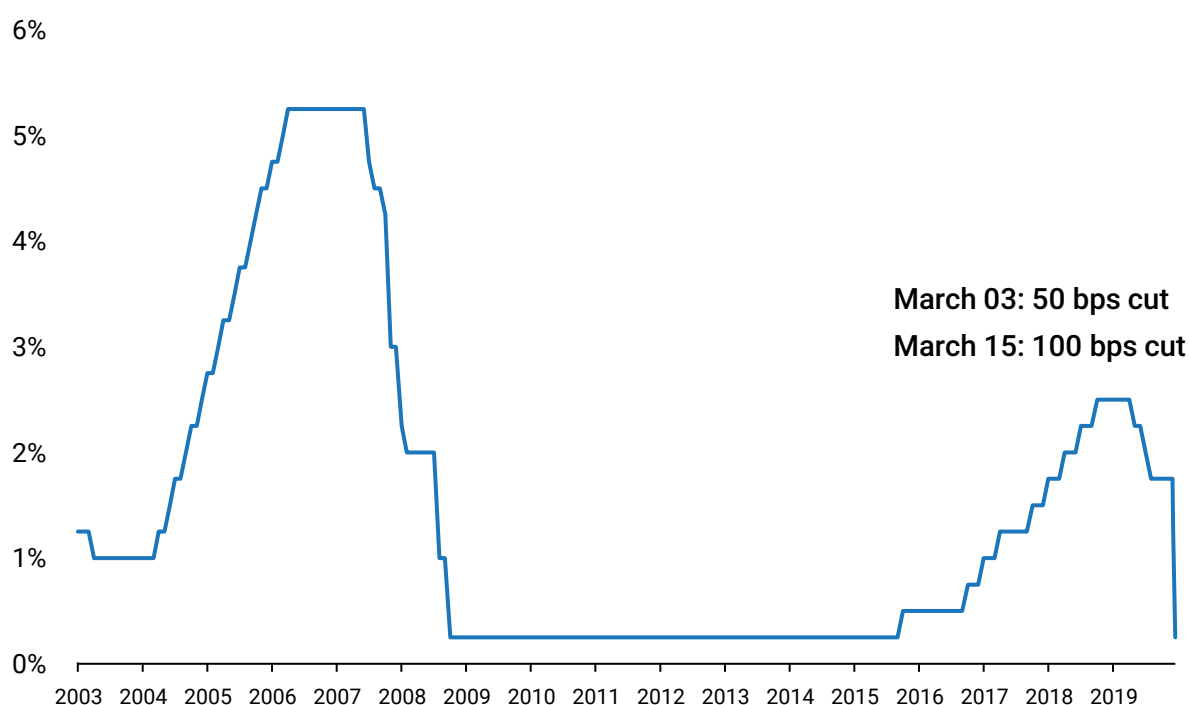
- U.S. Fed announced a slew of measures on March 15, 2020 to aid the economy as coronavirus outbreak spreads.
 - » An emergency rate cut of 100 bps: With the second rate cut in two weeks, Fed's benchmark funds rates are in the range of 0.0%-0.25%. The Fed has earlier cut rates by 50 bps on March 3rd, 2020 ([Read our earlier note, U.S Fed rate cut due to coronavirus threat](#)).
 - » USD 700 billion quantitative easing program: The Fed would buy back USD 500 billion of Treasury securities and USD 200 billion of agency mortgage-backed securities. Last week, the Fed had injected USD 1.5 trillion injection into the bond market to ensure sufficient liquidity.
 - » Other measures: Relaxation of borrowing norms for banks, reduction in their reserve requirements etc. have been announced to increase credit flows to businesses and households. Rates for foreign exchange swap to some countries like England and Canada has been reduced to ensure that they have adequate dollar reserves.
- In his speech, U.S. Fed Chairman Jerome Powell emphasized that the U.S economy was in a good shape before the coronavirus pandemic hit. While ascertaining the unlikelihood of negative interest rates, he assured the Fed has other measures such as further quantitative easing or increasing credit to banks, in its arsenal if situation worsens.
- There have been mixed reactions with most tending towards negative. Some opine that no amount of monetary policy measures would boost businesses when people are afraid to step out and that the Fed has exhausted its biggest and most effective tool, the interest rate tool. Fed's move did not help market sentiments either. The measures were seen as a signalling of the bad shape of the economy. Stock futures slumped after the Fed's announcement with the Dow Jones industrial average set to open down more than 1,000 points on Monday.
- The positive side seems to be that, there being other steps that the Fed could take, by increasing liquidity and credit flow, the current measures would help the businesses stay afloat longer, reduce job cuts and help in maintaining inflation in the target range. It is also a powerful signal that the U.S Fed is willing to

do what it takes to aid the economy in these trying times. U.S. Fed has also said that rates would be held at current levels until economy is back on track. This would also provide sufficient support for economic recovery after the contagion is contained.

- While the earlier rate cut raised questions if the Fed had reacted too soon, the current rate cut seems to raise questions of whether the Fed has been drastic in its measures and whether monetary policy is effective in such situations. There is also a wide call for fiscal policy measures to support the monetary policy easing.
- Central Bank of Kuwait followed the U.S. Fed reducing its discount rate by 100 bps from 2.50% to 1.50%. Qatar has also cut its policy rate by 100 bps. UAE, Saudi Arabia and Bahrain have cut their policy rates by 75 bps.
- Central Banks in GCC have also announced stimulus packages. United Arab Emirates' central bank has announced a USD 27.2 billion economic plan. Saudi Arabia's central bank unveiled a USD 13.3 billion package to support SME businesses.
- As the U.S. Fed Chair has acknowledged, given the uncertainty of the current times, economic outlook is evolving on daily and is heavily dependent on the spread of the virus. The extent to which the central banks' measures would be successful and if more such measures would be required remains to be seen.

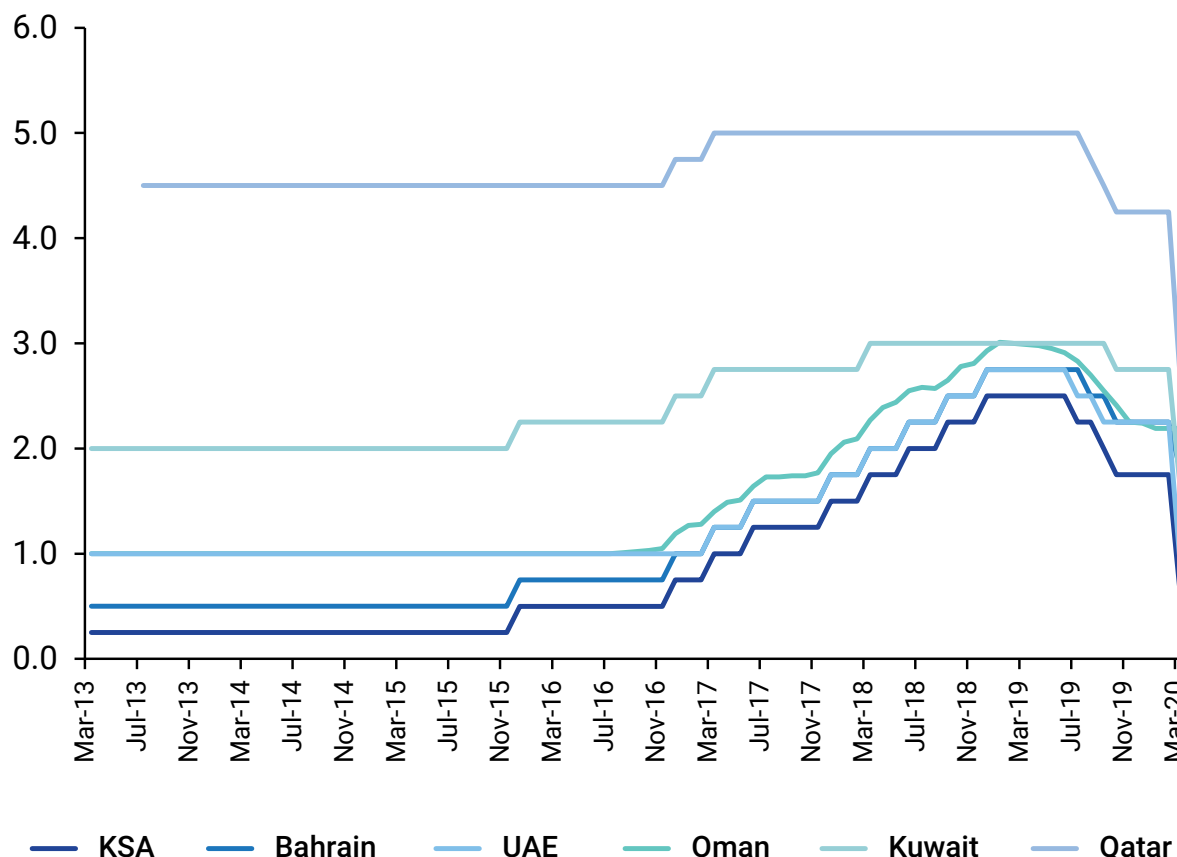
Appendix

Figure 1: U.S. Fed Rate movement over the years



Source: Refinitiv; Note: Rates refer to the upper limit of the policy rate range

Figure 2: GCC countries' Policy Rate movement over the years (in %)



Source: Refinitiv; Note: Each country has its own policy rate. For KSA it's the reverse repo rate, UAE it's the repo rate, Kuwait it's the discount rate, Bahrain 1 week deposit rate, Oman weighted average rate and for Qatar its QCB Lending Rate.

Disclaimer

This report has been prepared and issued by Marmore MENA Intelligence Pvt. Ltd. (Marmore) which is a subsidiary of Kuwait Financial Centre K.P.S.C (Markaz), which is regulated by the Capital Markets Authority and the Central Bank of Kuwait. The report is owned by Marmore and is privileged and proprietary and is subject to copyrights. Sale of any copies of this report is strictly prohibited. This report cannot be quoted without the prior written consent of Marmore. Any user after obtaining Marmore's permission to use this report must clearly mention the source as "Marmore". This Report is intended to be circulated for general information only and should not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The information and statistical data herein have been obtained from sources we believe to be reliable but in no way are warranted by us as to its accuracy or completeness. Marmore has no obligation to update, modify or amend this report. For further information, please contact 'Marmore' at P.O. Box 23444, Safat 13095, Kuwait. Tel: 00965 1804800 Fax: 00965 22450647. Email: research@markaz.com

About Marmore

Marmore MENA Intelligence is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please [click here](#))

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, [click here](#))

Marmore provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018"** award by Global Investor, a Euromoney Group company. To learn more, visit www.marmoremna.com

OUR JOURNEY SO FAR

- Over **700** reports/insights published
- Over **63** Client projects executed
- Frequent media citations and conference participation
- Active social media presence



 /marmoremna

 @marmoremna

 marmore-mena

 marmoreMENA