

**LEE HARDMAN**  
*Currency Analyst*

Global Markets Research  
 Global Markets Division for EMEA  
 T: +44 (0)20 7577 1968  
 E: [lee.hardman@uk.mufg.jp](mailto:lee.hardman@uk.mufg.jp)

**DEREK HALPENNY**  
*Head of research,  
 Global Markets EMEA and  
 International Securities*

Global Markets Research  
 Global Markets Division for EMEA  
 T: +44 (0)20 7577 1887  
 E: [derek.halpenny@uk.mufg.jp](mailto:derek.halpenny@uk.mufg.jp)

**MUFG Bank, Ltd.**  
 A member of MUFG, a global financial group

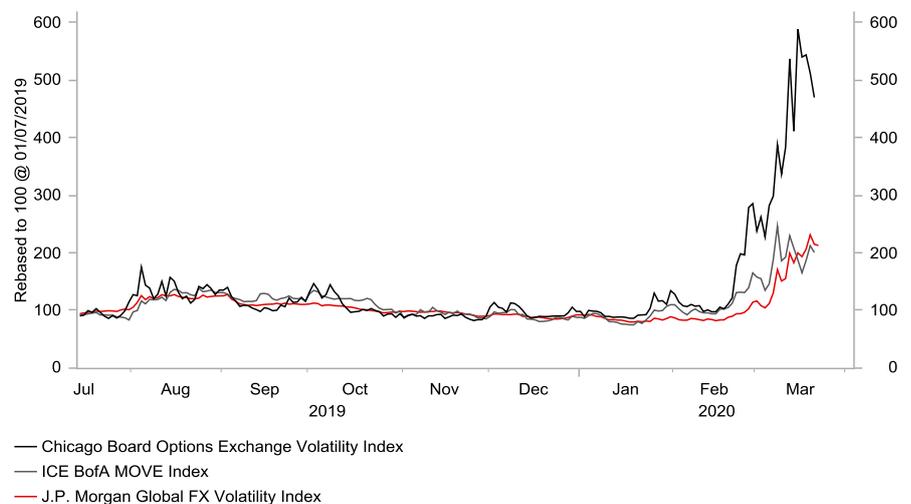
# Significant US fiscal stimulus required to complement aggressive Fed action

23<sup>rd</sup> March 2020

## USD: Waiting for US fiscal stimulus to back up Fed policy action

The US dollar has softened during the Asian trading session after attempting and failing to break above the 103.00-level for the third consecutive day. It follows further steps from the Fed on Friday to help ease US dollar liquidity fears. The Fed announced alongside the BoC, the BoE, the BoJ, the ECB, and the SNB that they were further enhancing the provision of liquidity via the standing US dollar liquidity swap line arrangements. To improve the swap lines' effectiveness in providing US dollar funding, these central banks have agreed to increase the frequency of 7-day maturity operations from weekly to daily. The new daily operations will begin today and continue at least through the end of April. They will also continue to hold weekly 84-day maturity operations. It was the latest improvement to the US dollar swap lines after they has already been extended to nine other central banks including the RBA, Banco Central do Brazil, the Danish National Bank, the BoK, the Bank of Mexico, the Norges Bank, The RBNZ, the MAS, and the Riksbank. The pricing on the US dollar

## HIGHER VOLATILITY ACROSS THE BOARD



Source: Bloomberg, Macrobond & MUFG GMR

swap lines had also been lowered by 25 bps so the new rate will be the US dollar overnight index swap (OIS) rate plus 25bps.

The Fed has been very active in recent weeks in their attempts to dampen the hit to the US economy and tightening of financial conditions from the COVID-19 crisis. They also announced further support on Friday for the municipal bond market. The Federal Reserve Bank of Boston will now be able to make loans available to eligible financial institutions secured by certain high-quality assets purchases from single state and other tax exempt municipal money market mutual funds through the Money Market Mutual Fund Liquidity Facility (MMLF).

In contrast, there has been some disappointment on the US fiscal policy front over the weekend. The Senate Democrats have blocked Majority leader Mitch McConnell's attempt to advance a COVID-19 rescue package after the leaders in both chambers disagreed on how to spend nearly USD2 trillion. The package of measures failed to secure 60 votes needed to pass the Senate which puts into question the bill's passage today. A redo of the procedural vote has been set for today for 15 minutes after the markets open. US equity futures are set to open sharply lower by around 5%. According to the reports, Congress could hand the US Treasury at least USD425 billion to backstop potentially much larger support by the Fed for business and municipal borrowers including to make loans, loans guarantees, and other investments. Treasury Secretary Mnuchin stated that the Fed could provide up to USD4 trillion of support through broad-based lending programmes by leveraging up government funds. The need for such aggressive action was highlighted by St Louis Fed President Bullard who warned that the US unemployment rate may hit 30% in Q2 because of the shutdowns with an unprecedented 50% drop in GDP. He called for a powerful fiscal response to replace the USD2.5 trillion of lost income in Q2 to ensure a strong eventual US recovery.

#### **G10 FX: COVID-19 update**

As policymakers continue to try and tackle the macro-economic and financial market fallouts to the COVID-19 breakout, the incoming daily data remain a crucial component of any easing of investor concerns. The data over the weekend from Italy offered a glimmer of hope that the worsening situation is certainly beginning to slow with daily rates decelerating. The outright increase in new daily cases has settled in the 5-6k range and that at least indicates the daily percentage change is decelerating. The percentage increase yesterday from Saturday was 10.4%, the slowest increase since the breakout and below the 5-day average of 13.9%. The death rate also slowed – the daily increase yesterday was 13.5%, down from a 5-day average of 17.5%. The rate of change in new cases is slowing in other European countries as well. In terms of death rates, the UK rate of increase is on a similar trajectory to Italy having reached the Saturday level of 233 deaths 16 days following the report of the first death – only one day slower than Italy took to get to that level. Most worrying in Europe is Spain, which reached that Saturday UK level in just 12 days.

But as we and many suspected, the real news over the weekend is the continued acceleration in cases and deaths in the US. The rate of change in daily new cases was nearly 34% on Saturday with the daily increase in deaths at 37.1%. The epicentre of the COVID-19 breakout passed from China to Europe initially but now very much is spreading to include the US. The US now has the 3<sup>rd</sup> largest total of new cases at over 32k although the death rate remains relatively low at 1.3% of confirmed cases – the same rate in Italy stands at 9.3%; the UK's percentage is 4.9%. The global ex-China 10-day average daily percentage change picked up to 19.6% on Saturday – a rate if sustained continues to point to 1mn cases being confirmed globally before the end of March. That looks plausible even with the rate

slowing in Europe given the potential faster pace in the US.

While new cases data can reflect different levels of testing, from a government policy perspective, there is no potential for a change in lockdown policies that have frozen the global economy any time on the near horizon.

### GBP: UK policy response continues to impress

The pound has staged a modest rebound since last week after cable fell sharply to and an intra-day low of 1.1412 and EUR/GBP rose to an intra-day high of 0.9501 during last week. The recent underperformance of the pound during the COVID-19 crisis ([click here](#)) is a not a reflection of the powerful UK policy response to date which has been impressive. The co-ordinated policy action between the BoE and UK government is well targeted and large in scale to help dampen the risk of an even deeper and more prolonged economic recession in the UK. Late on Friday, UK Chancellor Rishi Sunak announced further measures costing up to GBP70 billion to mainly support the UK labour market.

The main part of the new package of measures was the government's unprecedented commitment to pay 80% of wages up to GBP2.5k per month through the COVID-19 outbreak of workers who would have been furloughed. It has been estimated that it could cost around GBP60 billion based on the assumption of the scheme lasting three months and supporting about a third of the UK workforce. In addition, the government announced VAT and SA deferral, and GBP7 billion of additional welfare support which brings the cumulative cost of the package to around GBP70 billion. It follows previous fiscal announcements for the UK government that brings the cumulative fiscal cost to around GBP100 billion. As a result, the budget deficit is expected to widen sharply towards 10% of GDP. The UK's large twin budget and current account deficits leave the pound vulnerable to further weakness during the COVID-19 crisis period. However, the UK's powerful policy response especially the measures to support the labour market could help the UK economy and the pound to outperform once the crisis is over.

---

## KEY RELEASES AND EVENTS

Country	GMT	Indicator/Event	Period	Consensus	Previous	Mkt Moving
SZ	09:00	Total Sight Deposits CHF	Mar-20	--	603.0b	!!
US	12:30	Chicago Fed Nat Activity Index	Feb	-0.29	-0.25	!!
EC	15:00	Consumer Confidence	Mar A	-13.0	-6.6	!!
US	Tbc	Congress voting on Stimulus bill				!!!

Source: Bloomberg

## CERTIFICATION

The author(s) mentioned on the cover of this report hereby certify(ies) (or, where multiple authors are responsible, individually certify with respect to each security that the author covers in this report) that the views expressed in this report accurately reflect their personal views about the subject company(ies) and its (their) securities, and also certify(ies) that they have not been, are not, and will not be receiving direct or indirect compensation in exchange for expressing any specific recommendation(s) or view(s) in this report.

## DISCLAIMERS

### DISCLAIMERS

This report has been prepared by the Global Markets Research, US Rates and Credit Strategy desks within MUFG Bank, Ltd. ("MUBK") and MUFG Securities EMEA plc ("MUS(EMEA)") and may be distributed to you either by MUBK, MUS(EMEA) or by another subsidiary of the Mitsubishi UFJ Financial Group ("MUFG").

### Legal entities and branches

The securities related businesses within MUFG (together referred to in this presentation as "MUFG Securities") are: (1) MUFG SECURITIES EMEA PLC ("MUS(EMEA)") which is authorised in the United Kingdom by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA (FS Registration Number 124512). MUS(EMEA) has a branch office that is registered at Level 3, East Wing, The Gate, Dubai International Financial Centre, PO Box 506894, Dubai, UAE ("Dubai Branch"). The Dubai Branch is authorised to operate in the Dubai International Financial Centre ("DIFC") as a Non-DIFC Entity (Commercial License Number CL1656) and is regulated by the Dubai Financial Services Authority (Reference Number F002623); (2) MUFG Securities (Europe) N.V. ("MUS (EU)") which is authorized and regulated in the Netherlands by the Dutch Authority for the Financial Markets (AFM) and also regulated by De Nederlandsche Bank (DNB). MUS (EU) Paris Branch is regulated in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and the Autorité des marchés financiers (AMF); (3) MUFG SECURITIES AMERICAS INC. ("MUSA") which is registered in the United States with the Securities and Exchange Commission ("SEC") and regulated by the Financial Industry Regulatory Authority ("FINRA") (SEC# 8-43026; CRD# 19685); (4) MUFG SECURITIES (CANADA), LTD. ("MUS(CAN)") is an investment dealers registered in Canada with the Ontario Securities Commission ("OSC") and in each province and territory of Canada, a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), and a member of the Canadian Investor Protection Fund ("CIPF"). Customers' accounts are protected by CIPF within the specified limits; (5) MUFG SECURITIES ASIA LIMITED ("MUS(ASIA)") which is incorporated in Hong Kong, licensed under the Hong Kong Securities and Futures Ordinance and regulated by the Hong Kong Securities and Futures Commission (Central Entity Number AAA889). MUS(ASIA) is registered as a foreign company under the Corporations Act 2001 of Australia ARBN No. 169 329 453; and (6) MUFG Securities Asia (Singapore) Limited ("MUS(ASIA)") which is licensed as an approved merchant bank by the Monetary Authority of Singapore. In respect of the financial services provided to wholesale clients in Australia, MUS(ASIA), MUS(EMEA), MUS(USA) and MUS(ASIA) are each exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 of Australia under the Australian Securities and Investments Commission Class Order Exemption CO 03/1099, CO 03/1103, CO 03/1100, and CO 03/1102, respectively. Each of MUS(ASIA), MUS(EMEA), MUSA, MUS(CAN), and MUS(ASIA) are regulated under the laws of Hong Kong, the United Kingdom, the United States, Canada and Singapore respectively, which differ from Australian laws.

MUFG Bank Ltd ("MUBK"), is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). MUBK's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. MUBK's London branch is at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AN, and is registered as a UK establishment in the UK register of companies (registered no. BR002013). The principal office of MUBK's Canada branch (MUFG Bank, Ltd., Canada Branch) is located at 200 Bay Street, Suite 1800, Toronto, Ontario, M5J 2J1, Canada. MUFG Bank's Canada branch is an authorized foreign bank branch permitted to carry on business in Canada pursuant to the Bank Act (Canada); Deposits with MUFG Bank Canada are not insured by the Canada Deposit Insurance Corporation. MUBK is authorised and regulated by the Japanese Financial Services Agency. MUBK's London branch is authorised by the UK Prudential Regulation Authority ("PRA") and regulated by the UK Financial Conduct Authority ("FCA") with limited regulation by the PRA.

### General disclosures

This report is for information purposes only and should not be construed as investment research as defined by MIFID 2 or a solicitation of any offer to buy or sell any security, commodity, futures contract or related derivative (hereafter "instrument") or to participate in any trading strategy. This report does not constitute a personal recommendation and does not take into account the individual financial circumstances, needs or objectives of the recipients. Recipients should therefore seek their own financial, legal, tax or other advice before deciding to invest in any of the instruments mentioned in this report.

Certain information contained in this report has been obtained or derived from third party sources and such information is believed to be correct and reliable but has not been independently verified. MUFG does not make any guarantee, representation, warranty or undertaking, express or implied, as to the fairness, accuracy, reliability, completeness, adequacy or appropriateness of any information or comments contained in this report. Furthermore the information may not be current due to, among other things, changes in the financial markets or economic environment. MUFG has no obligation to update any such information contained in this report.

The information contained in this report may contain forward-looking information ("FLI"). FLI is information regarding possible events, conditions, or results of operations that is based on assumptions about future economic conditions and courses of action and may be presented as either a forecast or a projection. This report is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results. Upon receipt of this report, each recipient acknowledges and agrees that any FLI included herein should not be considered material. Recipients should consult their own legal and financial advisers for additional information. Any prices provided herein (other than those identified as being historical) are indicative only and do not represent firm quotes as to either price or size.

This report is proprietary to MUFG and may not be quoted, circulated or otherwise referred to without our prior written consent. Notwithstanding this, MUFG shall not be liable in any manner whatsoever for any consequences or loss (including but not limited to any direct, indirect or consequential loss, loss of profits and damages) arising from any reliance on or usage of this report and accepts no legal responsibility to any investor who directly or indirectly receives this material.

### Country and region specific disclosures

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation or rule. Each entity and branch within MUFG is subject to distinct regulatory requirements and certain products and services discussed in this document may not be available in all jurisdictions or to all client types.

In this regard, please note the following in relation to the jurisdictions in which MUFG has a local presence:

- United Kingdom / European Economic Area (EEA): This report is intended for distribution to a “professional client” or “eligible counterparty” as those terms are defined in the rules of the FCA and PRA. In other EEA countries, this report is intended only for persons regarded as professional investors (or equivalent) in their home jurisdiction.

- United States of America: This report, when distributed by MUSA, is intended for Institutional Investors (“Institutional Accounts” as defined by FINRA Rule 4512(c)). When distributed by a non-US affiliate of MUSA, this report is intended for distribution solely to “major U.S. institutional investors” or “U.S. institutional investors” pursuant to Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended. Securities referenced in this report may have been underwritten by MUSA and/or its affiliates. Nothing in this report should be considered an offer or solicitation of an offer to buy or sell securities or any other financial product or a commitment of any kind with respect to any transaction.

IRS Circular 230 Disclosure: MUFG Securities does not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with MUSA of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

- Hong Kong: This report is only intended for distribution to a “professional investor” as that term is defined in the Securities and Futures Ordinance and should not be passed onto any other person.

- Singapore: This report is only intended for distribution to an “institutional investor”, “accredited investor” or “expert investor” as those terms are defined under regulation 2 of the Financial Advisers Regulation. It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. Investors should note that, as a result of exemptions that apply when this report is distributed to “accredited investors” and “expert investors”, MUSS is exempt from complying with certain requirements under the Financial Advisers Act, including section 25 of the Financial Advisers Act (which requires a financial adviser to disclose all material information on certain investment products), section 27 (which requires a financial adviser to have a reasonable basis for making recommendations on investments) and section 36 (which requires a financial adviser to disclose any interests that it holds in securities that it recommends).

- Canada: When distributed in Canada by MUS(EMEA) or MUSA. MUS(EMEA) operates under an International Dealer Exemption from registration with the securities regulators in Alberta, British Columbia, Manitoba, Ontario and Québec. MUSA operates under an International Dealer Exemption from registration with the securities regulators in all Canadian Provinces and Territories. When distributed by MUS(EMEA) or MUSA, this report is only intended for a “permitted client” as that term is defined under the National Instrument 31-103 in Canada and is not intended for re-distribution to any other person. When distributed by MUS(CAN), this report is only intended for an “institutional client” as that term is defined under the IIROC dealer member rules and is not intended for re-distribution to any other person. The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Under no circumstance is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. • Japan: This Note, when distributed by MUFG Securities affiliates located outside of Japan, is intended for distribution in accordance with Article 58-2 of the Financial Instruments Exchange Act 1948 (“FIEA”) i) to a “Financial Instruments Business Operator” engaged in “Securities-Related Business” as defined in the FIEA or ii) to the government, the Bank of Japan, a qualified financial institution defined in Article 209 of the Cabinet Office Ordinance Concerning Financial Instruments Business, Etc., or an Investment Manager.

When distributed by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“MUMSS”), this Note is intended for distribution to a “Professional Investor (tokutei-toushika)” as defined in the FIEA.

- United Arab Emirates: This report is only intended for distribution to a “Professional Client” or “Market Counterparty” as those terms are defined under the rules of the Dubai Financial Services Authority and only a person meeting the criteria for these terms should act upon this report.

- Australia: This Note is only intended for distribution to persons in Australia who are sophisticated or professional investors for the purposes of section 708 of the Corporations Act of Australia, and are wholesale clients for the purposes of section 761G of the Corporations Act of Australia. This Note is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

Other jurisdictions:

MUFG Securities also relies on local registrations or regulatory exemptions in order to undertake certain securities business in other countries. In Thailand, MUS(EMEA) has a derivatives dealer registration with the Securities and Exchange Commission, Thailand. In Canada, MUS(EMEA) and MUSA each operate under an international dealer exemption registered with the securities regulators. MUS(EMEA) operates under the exemption in Alberta, Quebec, Ontario, British Columbia and Manitoba. MUSA operates under the exemption in all Canadian Provinces and Territories..