KEY POINTS:

- Risk-on fed by more reopening expectations
- The Fed acted on states/locals where Congress was failing
- Ontario’s and Quebec’s re-opening ‘plans’ err on the side of caution…
- …likely due to less progress than other provinces toward flattening COVID-19 curves
- Texas grabbed the bull by the Covid-19 horn
- Sweden’s Riksbank: status quo, or more experimentation?
- US trade, inventories to firm up Q1 GDP estimates
- US consumer confidence: now the real plunge begins
- Richmond Fed gauge the last to inform ISM expectations

TODAY’S NORTH AMERICAN MARKETS

The general bias that started the week off in Asian markets and this morning’s North American markets carried throughout the rest of the day.

The dominant driver remains COVID-19 reopening bets. Those expectations were informed a little further across multiple jurisdictions. Joining the list were three of the largest jurisdictions in North America including two in Canada with a combined population of about 23 million people (Ontario with about 15 million and Quebec with about 8.5 million) and one in the US (Texas, population 29 million). It may be that this market focal point will remain dominant across multiple jurisdictions against the backdrop of little else by way of calendar-based risks overnight through tomorrow.

The late day announcement from the Fed that it is gearing up support for US states and municipalities stepped in where Congress was failing, but it still means incomplete tools are being applied to challenges facing state and local governments by facilitating their borrowing conditions absent any transfer assistance from Washington.

- Stocks rallied. US indices were up by between 1.1% (Nasdaq) and 1 ½% (S&P, DJIA). The TSX was up 1 ½%. European cash markets rallied in the 1–3% zone.

- North American sovereign debt curves bear steepened in 2s10s which is consistent with a risk-on bias as the bond market prices in a less dire future scenario. Still, however, let’s not get too carried away as even the 6bps rise in the US 10 year yield leaves us at 0.66%! Canada is outperforming (+4bps to 0.61%) which is generally our expectation for the way forward.

- Oil markets didn’t cooperate. Tisk tisk. WTI futures contracts traded down by between $4 for the June deliver (US$13) to about a buck lower for year-end contracts trading around the US$26/barrel range. Gold fell US$14 to US$1715.

- The USD continued to depreciate over the day against a wide variety of crosses. CAD climbed to 1.4045 and the Mexican peso beat that by appreciating to 24.75. The only cross facing specific calendar-based risk overnight is the Swedish krona (see below).
I’m somewhat surprised by the Fed’s late day announcement (here) that targets more assistance to state and local governments. The Fed said it will expand its Municipal Liquidity Facility will now purchase up to US$500 billion (unchanged) of short-term notes issued by states and now US counties with populations as small as 500k (previously 2 million+) and cities with as few as 250,000 residents (previously 1 million). Furthermore, the Fed is also ‘considering’ whether to expand the MLF to allow some government entities that issue bonds backed by their own revenue to participate and noted they will “closely monitor conditions in primary and secondary markets for municipal securities” to evaluate whether more needs to be done.

While this was among the policy options for Wednesday, I’m surprised because a) the Fed was previously hesitant to take the facility smaller cities versus the prior stance that policy could only really focus on larger cities and leave states to address the smaller ones, and b) because we’re just two days away from the FOMC so why the rush. Clearly policy announcements don’t have to wait until formal meetings but on the eve of the FOMC meeting why just not wait.

One possible rationale for why the Fed acted today is that Congress has fumbled the ball on political aid to states and locals due to partisan politics. Recall McConnell’s comment last week that indicated Republican support for states to go bust without Federal backing. Trump followed that up with a shot at how states needed aid were run by Democrats, apparently forgetting that a Republican Governor ran California due the period in which its debt skyrocketed (think ‘stiiick awround…”). Washington’s nearly 5% deficit-to-gdp ratio prior to the COVID-19 shock that was almost double the 2016 level before Trump won the election limits Washington’s flexibility.

**Two of the Canadian provinces that are furthest behind in flattening their COVID-19 curves laid out partial steps to re-open their economies but in very incomplete terms.** Chart 1 provides an updated backdrop against which to evaluate why Ontario and Quebec are proceeding more cautiously than some other provinces and other jurisdictions elsewhere. While Ontario’s and Quebec’s case count growth rates have softened somewhat over time, neither Ontario nor Quebec have seen their COVID-19 curves flatten—let alone reverse.

**Ontario followed provinces like Saskatchewan in laying out its own very loose framework for reopening the province (see here).** Triggering the ‘plan’ requires witnessing the number of COVID-19 cases decrease for 2–4 weeks. That's stronger than the criteria used in other jurisdictions that have emphasized the need to either see curve flattening or flat curves. The state of emergency until May 12th or later remains in place. While no timelines or specific details were offered, a vague three-step set of targets was noted with each of these three steps monitored for 2–4 weeks at a time. Phase 1 will reopen ‘select’ workplaces with small gatherings allowed, such as parks and the net will be casted wider thereafter.

**Quebec took a first step toward establishing re-opening plans.** Elementary and daycare centres will open the week of May 11th at the discretion of parents, but higher levels (ie: more directly vulnerable populations judging by incidence rates) will remain shut until Fall. An obvious point is that the indirect impact of child carriers upon adult populations will be closely monitored and in this sense alone Quebec’s approach is somewhat more aggressive than Ontario’s but closer to Germany’s where the kids go back next week.

**Texas, however, is grabbing the bull by the Covid-19 horn and charging full steam ahead.** The lone star state will begin to end its stay-at-home orders and allow retailers, restaurants, movie theaters and malls to reopen at 25% capacity starting this Friday. This will increase to 50% on May 18th if the COVID-19 virus counts don’t escalate. That seems like a pretty short evaluation period given the incubation period can be up to two weeks and hence only the earliest experiences after this Friday may result in cases. Second, these are high contact forms of businesses that one might have thought to be reopened later. Third, how exactly does one enforce 25% capacity limitations? Will an army of mall cops be hired to count people? Will municipal inspectors be visiting each restaurant for spot checks, no doubt sampling the offerings along the way? Then again, maybe….just a slim maybe.….Texans will apply some common sense, although probably not the Einsteins in pictures when one googles ‘texas restrictions protest’ here. The positive may be that we’re getting variation in experimentation across global jurisdictions that may inform which approach works best, subject to regional differences in conditions. Every experiment needs variability in the dataset...

**OVERNIGHT MARKETS**

Overnight markets face calendar-based risk only at a regional-market level as global market conditions will be informed by off-calendar developments.
A large majority expect Sweden’s Riksbank to leave its policy rate unchanged at 0% (3:30amET) ahead of Governor Ingves’ press conference (5amET). Risks include whether to reverse the decision in December and go negative again, whether to adjust purchase programs it recently reintroduced, or whether to cross the line entirely and start buying in the primary market which would further the central bank’s reputation for being willing to experiment.

TOMORROW’S NORTH AMERICAN MARKETS

Four US macro reports will be released tomorrow but none of them will carry much market significance. Canada’s calendar remains empty.

The release most likely to get some attention will be the Conference Board’s consumer confidence reading for April (10amET). Recall that the March report fell only modestly to 120 (132.6 prior) but that was due to survey design. The measure was based upon the response cut-off date of March 19th. Most of the shut-in effect occurred subsequent to that date. Therefore, a deeper plunge is expected in tomorrow’s reading.

For the most part, the other reports will tick the box of interest to economists. They will further inform Q1 GDP tracking given we’ll find out how merchandise trade performed in March (8:30amET) and how inventory investment changed that month (8:30amET). The Richmond Fed’s manufacturing gauge (10amET) will be the final input to a firmed-up ISM-manufacturing estimate.
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