Market Watch

Oil plunge broadens

Summary

- US and Euro area equities and US high yield bonds fell on Tuesday on the back of a further slump in oil prices, which will undermine energy sector earnings and threaten increasing defaults in the US shale oil industry.
- The US Senate passed its second relief package for the struggling SME sector, more than doubling the amount of funds available.
- **What to watch:** Response from OPEC+ (if any), speed of economies re-opening and evidence of oil demand recovering.

Background

- The weakness in US oil prices (WTI) intensified overnight. The WTI June 2020 contract dropped 43% to close at USD 11.6 per barrel. This follows the earlier plunge in the May 2020 contract (the 'near-term' contract usually referenced for current WTI oil price), which earlier fell to a negative level before closing at USD 10.0/bbl yesterday. Brent oil fell 24% to USD 17.5/bbl.
- The S&P 500 fell 3.1%, US high yield bonds fell (indicated by the HYG ETF) while Euro Stoxx 600 fell 3.4% as oil weakness and soft earnings from within the tech sector hurt sentiment.
- On the positive side, the US Senate passed another stimulus package worth almost USD 500bn to further support small- and medium-sized companies through their cashflow crunch. The House of Representatives is expected to vote on the bill on Thursday. This is critical to help avoid widespread defaults and long-term job losses. Congress is also working on a further stimulus package, reportedly similar in size to the USD 2.3 trillion stimulus approved on March 27.

Oil plunge broadens
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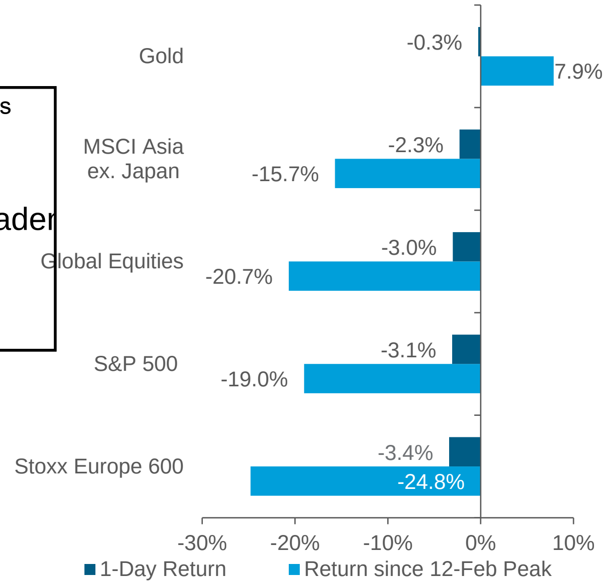
What does this mean for investors?

- The decline in WTI oil prices across both May, and now June, 2020 contracts is significant for two reasons. First, it illustrates continued demand weakness and storage availability concerns. Second, weakness beyond just the May 2020 contract hurts the performance of many popular investment vehicles used to express views on oil. This means investors may be forced to sell other assets, like equities, to raise cash.
- Longer-term, further stimulus measures are likely to be a major positive, not just in the US, but also in China which has eased monetary and fiscal policies significantly in the past week.
- **Technical watch:** There are cracks emerging in the S&P 500's rally as the index approaches tough resistance at the 200-day moving average (about 3010). Any break below immediate support at 2641 would confirm that the upward pressure had eased. Subsequent support is at 2447, followed by major support at the March low of 2192.
- As governors of select US states are putting together plans to re-open economies, we would watch out for any signs that this reverses the declining trend in new US COVID-19 cases.

Equities and oil dropped yesterday

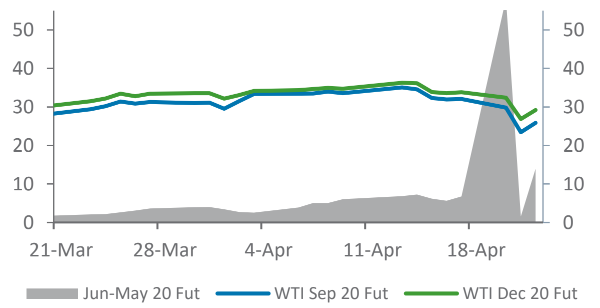
Selected market performance on 21 Apr and since 12 Feb



Source: Bloomberg, Standard Chartered

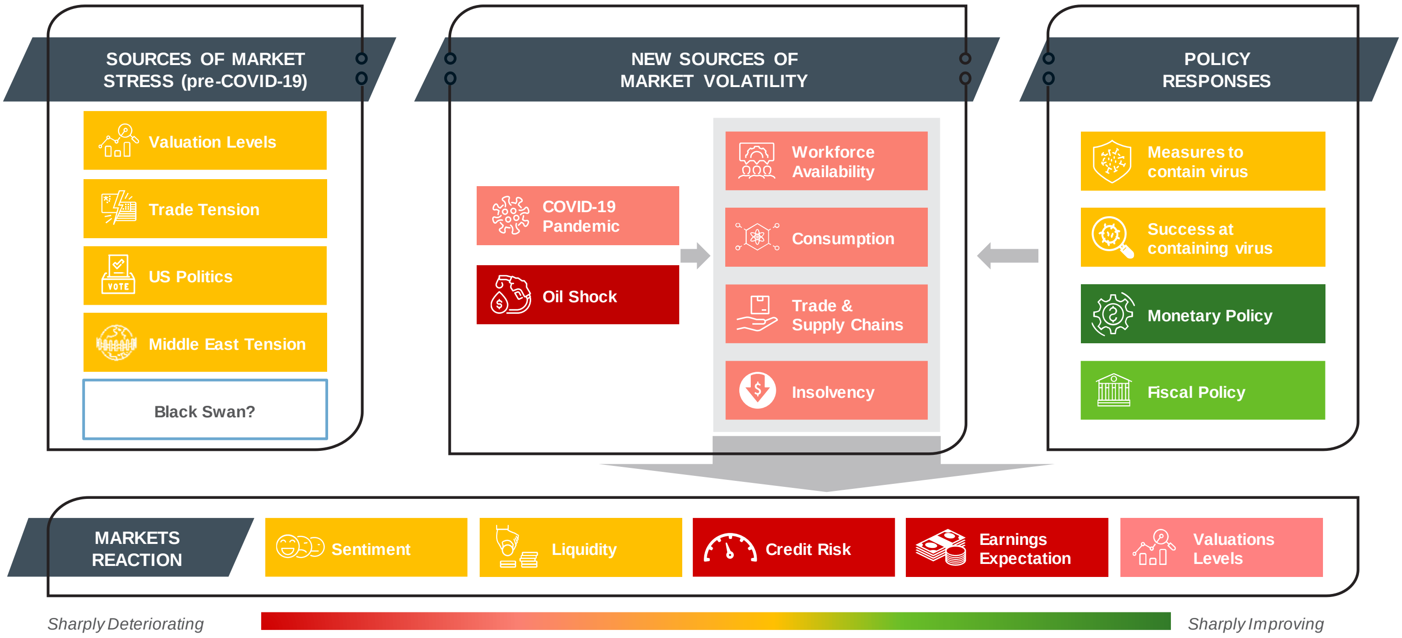
WTI oil price weakness broadens

WTI Crude oil Sep, Dec contract prices (USD), the shaded area represents the difference between the June and May contracts



Source: Refinitiv, Standard Chartered

Things we are watching and our assessment



Source: Standard Chartered

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