Natural disasters

Relief rally for insurance stocks as worst Irma fears avoided

Investors reassess their expectations for the cost of storm damage

Flooding in the Brickell neighbourhood as storm Irma passes Miami, Florida © Reuters

YESTERDAY by: Robin Wigglesworth and Nicole Bullock in New York and Nicholas Megaw in London

Wall Street breathed a sigh of relief on Monday after Hurricane Irma's last-minute shift in direction eased fears about widespread devastation in Florida and helped propel the US stock market to a record close.

Irma made landfall in the Florida Keys on Sunday as a category four hurricane, but the eye of the storm missed Miami and steadily lost energy as it ploughed through the largely uninhabited Everglades. On Monday morning, it was downgraded to a tropical storm.

Irma had roared through the Caribbean as a massive category five hurricane, raising fears it could become the most damaging storm in US history. But its eleventh-hour weakening over Cuba spared big metropolitan areas from carnage, triggering a jump in insurance stocks in particular, which climbed 1.8 per cent higher on Monday.

Although nearly 6m Floridians had lost power and authorities were still calculating the damage, so far the death toll appeared limited and there was not the widespread disruption to energy or transport infrastructure seen in Houston after tropical storm Harvey struck last month.

"It is a relief rally — the old reality versus expectations. [Irma] was not as bad as feared," said David Donabedian, chief investment officer of Atlantic Trust, a wealth manager.

Coupled with a broader rally and ebbing fears over North Korea, that lifted the S&P 500 index by 1.1 per cent to end at a new clsoing record of 2,488.11 — just short of the intraday record touched in early August before geopolitical nerves began to weigh on the biggest US equity benchmark.

JJ Kinahan, chief market strategist at TD Ameritrade, said Wall Street's recovery was driven by receding fears over North Korea, where many analysts had predicted another missile test timed to Saturday's annual celebration of the country's founding.

While investors remained nervous about the stand-off between Washington and Pyongyang — which contributed to several flashes of volatility in August — "we didn't get any sabre-rattling this weekend", Mr Kinahan said.

Irma's move west of Miami "seems to be helping support a more positive tone in markets", said Craig Nicol, a macro strategist at Deutsche Bank. Analysts at UBS said stocks were pricing a $60bn-$70bn industry loss to Irma, but modelling firm AIR said insured losses were now likely to be in the $20bn to $40bn range.

Insurance stocks had been trending downwards for weeks as the start of the Atlantic hurricane season weighed on investors' minds, and rating agency Moody's warned that property and casualty insurers, as well as reinsurers and alternative capital providers such as the buyers of catastrophe bonds, were all likely to suffer "substantial losses" from the hurricanes.

The expectations of less damage particularly helped rally European reinsurers on Monday with Swiss Re and Munich Re, two of the largest reinsurers in the industry, rising more than 4 per cent.

European insurers enjoyed their best day of gains since the first round of the French presidential election in April. The Stoxx Europe 600 Insurance index, which tracks the continent's largest insurers and reinsurers, climbed 2.2 per cent.

The prices of safer assets such as gold and highly rated government bonds dipped as the relief washed over Wall Street, with the yellow metal falling more than 1.4 per cent to $1,327.3 a troy ounce by late afternoon in New York, and the 10-year Treasury yield jumping 8 basis points — the most since January— to trade at 2.13 per cent.

Analysts also said that the economic damage caused by Harvey and Irma would be transitory, and was likely to be more than compensated by the stimulus of rebuilding.

Goldman Sachs over the weekend lowered its third-quarter growth estimate by 0.8 per cent to 2 per cent but stressed that it expected the weakness would be reversed over the following three-quarters, “more than recouping the lost output”.

It will take time to recover from the twin shocks of Harvey and Irma. US gasoline futures fell for a sixth consecutive session on Monday, with Goldman Sachs warning that the loss of demand will be a “bearish shock for global oil balances”, by taking out about 600,000 barrels a day in the month of September.

The Gulf Coast refineries had “dodged” big disruption, with the bout of storms all set to miss direct hits on big energy infrastructure, he said.

Meanwhile, six coast refineries were in the process of restarting after shutting down as Harvey flooded the Gulf coast earlier this month, increasing fuel supplies. Irma was set to swing to the east of the refineries, sparing them a second blow.

After a strong rally triggered by fears that Irma would devastate Florida crops, orange juice futures also declined as traders weighed the extent of damage to citrus groves in the largest US orange-growing state. ICE November frozen orange juice concentrate was trading 1.7 per cent lower at $1.51 a pound.

Additional reporting by Gregory Meyer and Kate Allen