

Market Overview



Update

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FOMC minutes:

The dollar remained unchanged against a basket of currencies after the minutes to the 9/10 June FOMC meeting were published last night. Of particular note is the record of the committee's discussion of policy tools where overall members appeared to view more explicit forward guidance in a favourable light but had "many questions" on the costs and benefits of Yield Curve Control. Indeed, most participants commented that the committee should communicate a more explicit form of forward guidance for the path of the Federal funds rate and provide more clarity regarding purchases of treasury securities and agency MBS, as more information about the economic trajectory became available. The balance of opinion appears to be set more towards doing this through a promise set in the context of the 2% inflation objective, whilst just a "few others" focused on guidance which would be based on a promise to maintain policy positions until a particular date in time. Importantly there appears to be limited appetite for a Yield Curve Control policy, at this time. The FOMC stated that "many participants remarked that, as long as the committee's forward guidance remained credible on its own, it was not clear that there would be a need for the committee to reinforce its forward guidance with the adoption of a YCT policy." More broadly the minutes repeated the regular commitments to deploy all tools as necessary whilst members noted they expected to maintain the target rate range until they were confident the economy had weathered recent events.

Focus on US employment data:

Due to US Independence Day holiday falling on Saturday the 4th, the release of the always important US non-farm payroll data is being brought forward by one day to later this afternoon. Non-farm payrolls rose by 2.509m in May. The reopening of many states looks to have supported a surge of re-hiring. However, job gains were also likely boosted by hiring following delayed Paycheck Protection Program loan approvals (and due to scheme design). Across the economy the largest gains were seen in sectors which had been particularly restricted, not least in the leisure and hospitality industry where there was a 1.2m increase. Construction also saw a 0.5m rise whilst education and health saw a 0.4m rise as did trade and transportation. Turning to the upcoming June report, we expect to see a further rise in non-farm payrolls. We are guided by a report by Homebase Inc. which looks at the number of main street workers employed, including their hours worked and the number of businesses open. We will also see the latest hourly earnings figures published too. However, these will need to be read with caution too, particularly if using them as an interpretation of inflationary pressures, due to distortions related to the composition of the workforce.

Irish Economy:

NAMA's annual report for 2019

NAMA released its annual report for 2019 yesterday alongside the completion of a timely payment of €2bn to the Exchequer.

The agency recorded a profit of €265m last year, significantly lower than a comparable €795m in 2018 but this reflects the nature of its much smaller asset portfolio. The carrying value of debtor loans reduced from €1.9bn to €1.2bn during the year, with the majority of these assets in the land and development sectors and three-quarters of the portfolio by value is in Dublin. €1.3bn of cash was generated in 2019, 90% of which was from asset disposals. These cash proceeds were used to redeem all of NAMA's remaining debt, including €1.06bn of subordinated debt in March this year, buy out the group of private investors that held 51% of the SPV that owned the NAMA group entities in May, and now make a payment of €2bn to the Exchequer at a time when it is badly needed by the State.

The agency still expects to make a lifetime surplus of €4bn, with the next payment to the Exchequer due at end-2021, although this is somewhat dependent on market conditions given that the impact of the pandemic on the value of NAMA's remaining assets is unclear at this stage. Cash, cash equivalents and liquid asset balances stood at almost €3.9bn at year-end which underpins this projection.

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