Market Overview

Update

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German court ruling on QE:

Yesterday the German Constitutional Court (GCC) ruled that the Bundesbank must not participate in QE operations unless the ECB can prove that they are required. The central bank has three months to make its case. This is part of an ongoing dispute over the constitutionality of QE in Germany and conflicts with a prior ruling by the European Court of Justice in December 2018, which stated that QE was necessary to meet the ECB's inflation target i.e. achieve price stability. Yesterday evening the ECB responded by saying that it remains fully committed to doing everything necessary to meet its mandate and must now prove that the Bundesbank's bond buying is 'proportionate'. Meanwhile a European Commission spokesman argued that rulings of the ECJ are binding on national courts within the EU. On a technical level, the Constitutional Court decision applies just to their 'normal' Public Sector Purchase Programme (PSPP) QE operations and not the ECB's purchases to counter the effects of the pandemic (PEPP). The euro fell by a cent yesterday against the US dollar to $1.0820, while 10y Italian bond yields rose by 10bps to 1.85%, given the emergence of general nerves over the ECB's QE programme.

COVID-19 update:

Globally, the number of coronavirus cases now sadly stands close to 3.75 million and the death toll above 250,000. In the UK, the number of fatalities has surpassed Italy to become the highest in Europe. Figures from the ONS, which includes all deaths instead of just those of individuals who tested positive for the virus, fell 354 to 21,997 in the week ending 24 April. Professor Neil Ferguson resigned from SAGE, the government's top science advisory group, after the Daily Telegraph revealed he had broken lockdown rules at least twice. He had been an influential figure behind the decision to impose the lockdown, having warned that the NHS might otherwise be overwhelmed and lead to 500,000 deaths. Meanwhile, Sky News reports that the Treasury and the Bank of England are working on an emergency programme targeted at assisting SMEs. Under the plans being discussed, the Bank's Covid Corporate Financing Facility (CCFF) would be tweaked to include SMEs, to promote faster payments of their invoices. Additionally, India's services PMI plummeted from 49.3 to a record low of 5.4 in April as the lockdown brought the country to a halt.

Irish Economy:
Unemployment claimants stabilise

In what has quickly become one of the most instructive indicators of the economic damage caused by the pandemic, this week's update from the Department of Employment Affairs and Social Protection showed that 598,000 people are in receipt of the COVID-19 Pandemic Unemployment Payment, a modest net weekly increase of 7,000 that matches the increase seen last week.

The relative stabilisation in claimants is welcome, but it's worth again reminding that this equates to 25% of total employment in the economy at the last count (2.36m in Q4 2019). Considered alongside the 427,000 workers that are being supported by the State through the Wage Subsidy Scheme (a total that is still rising steadily based on the last week's figures), employment for more than a million people has either stopped or has required the State to take over as primary paymaster, while the numbers in regular "unsupported" employment look to have dropped to around 1.3 million currently.

The storm has only begun for the public finances

Exchequer Returns for April illustrate some of the damage being wrought on the public finances by the pandemic, although the full impact has yet to be reflected in tax receipts given the timings of payments under various tax heads. Total tax revenues of €2.55bn in April were -8.0% (-€0.22bn) y/y but the cumulative performance YTD is only marginally lower y/y given a strong early-year outturn. This will change significantly from May and, in its recent Stability Programme Update, the Department of Finance estimated lost revenue would amount to €13.9bn (22% of total) this year.

Income Tax receipts of €1.88bn last month were -5.8% on April 2019, although these receipts primarily reflect March payroll and the full impact of the pandemic on employment (see above) and on government income is yet to be seen. The strong performance in the early part of the year means that the YTD running total for Income Tax is still in positive territory at +8.0% in the first four months of the year. Excise Duties were -48% y/y in April at €0.31bn with the significant drop attributable to lower fuel excise duties (from less driving) and vehicle registration taxes. April's tax revenues were otherwise well insulated from the pandemic with April being a non-VAT due month and Corporation Tax receipts typically very low in the month anyway and this year's comparison benefitting from net repayments (i.e. negative income) in April 2019.

The impact of COVID-19 was more apparent on government expenditure in April. Total net voted expenditure to end-April, at €20.0bn, was ahead of target by €2.4bn, or 13.5%. This represented a €3.8bn y/y increase. Higher expenditure primarily reflects increased departmental spending in response to the pandemic with higher spending in the Departments of Employment Affairs and Social Protection (+49.8%/€1.72bn y/y) and Health (+15.3%/+€0.83bn y/y) most prominent.