Investec

Market Overview

Update

09 April 2020

- **COVID-19 and market update**
- **Lagarde targets finance ministers**
- **UK GDP**

Contact us:

T: +353 (0) 1 421 0091

E: treasury@investec.ie

Best Foreign Exchange Provider in Ireland 2020
Global Finance

COVID-19 and market update:

There are now more than 1½ million cases of COVID-19 in the world, and nearly 90,000 fatalities. A more positive milestone however is that US stocks have now returned to a bull market, completing two full cycles in just 6 weeks. The S&P 500 closed 3.4% higher yesterday evening, taking gains since the 23 March low to 22.9%; 20% is typically considered to be the threshold for entering a bull market. However, note that stocks still remain some 20% cheaper than the record highs reached on 19 February. The tone in Asia is slightly more mixed, in equities that is; the TOPIX is down 0.8% while the Shanghai Composite has gained 0.5%. European futures point to gains of >1% at the open. Minutes from the Federal Reserve's two emergency meetings showed the FOMC to be fearful of the recession that lies before the US, noting that interest rates were to remain at 0% until the Committee is confident that the economy had "weathered recent events". President Trump however was more confident, stating that once re-opened the "Economy will BOOM, perhaps like never before!!!". In the UK, Prime Minister Boris Johnson remains in intensive care, but his condition is improving, according to Chancellor Rishi Sunak. Lastly, Bernie Sanders formally suspended his Presidential campaign yesterday evening after Tuesday's Democratic primary in Wisconsin, leaving ex-VP Joe Biden all but confirmed as the Democratic nomination for this year's Presidential race.

Lagarde targets finance ministers:

ECB Chief Christine Lagarde has an op-ed published in major European papers today. The piece is part charm offensive, outlining the extent of the measures introduced by the ECB so far, and how they can help small firms, and small traders weather the shut down. She places the value of these measures at over €4 trillion, with up to €3trillion available to banks through TLTRO's and other liquidity measures to aid lending to corporates, and over €1trillion of asset purchases, including the Pandemic Emergency Purchase scheme aimed at avoiding a "procyclical tightening in financing conditions". However the real thrust of the article comes towards the end, when Lagarde highlights that these measures will be less effective without a joined up fiscal response across the areas. Less than a day after euro area finance ministers failed to come to an agreement of a shared fiscal solution, Lagarde urges governments "to support each other, so that they can together deploy the optimal policy response against a common shock for which none is responsible". Her words echo Italy's argument for coronabonds, that this isn't the product of wreckless spending, and that there is no moral hazard attached with European nations joining together in this case. She finishes by reassuring readers that the ECB will do its part, but that "full alignment of fiscal and monetary policies is the best way to protect our productive capacity and employment". Eurozone finance ministers are set to meet again today.

UK GDP:

Figures for the month of February showed GDP contracting 0.1% m/m, disappointing against market expectations of a 0.1% rise (Investec 0.0%). Weighing on output this month was weakness in the construction sector, which saw a 1.7% fall on the month. However the dominant service sector also saw no growth on the month. As for industrial output, that rose by 0.1%, with manufacturing activity rising 0.5%, a better than expected performance (Investec -0.3%). Meanwhile on a 3m/3m basis GDP growth in February was recorded at +0.1%, a firming on the 0.0% seen in January. It should be noted that today's figures represent the period before the coronavirus outbreak really took hold in the UK and therefore March's numbers will be the more critical release. Nonetheless the data does show the UK heading into the virus period on a subdued path of growth. In addition to the GDP figures, the RICS Housing Survey was released overnight, that was weaker than expected in March with the house price balance falling to +11% from +29% (Investec +25%). However it is the forward looking components of the survey which point to a sharp slowdown in the housing market. Price expectations fell to -82% from +21% in February, new instructions to sell fell to -72% from +11% and new buyer enquiries falling to -74% from +17%. Broadly this points to the housing market going into hibernation amidst the coronavirus lockdown, with house prices expected to fall in the months ahead.