

Market Overview



Update

13 May 2020

- [UK data](#)
- [Cost of measures coming into focus](#)
- [Gulf in opinions on negative rates](#)

Contact us:

T: +353 (0) 1 421 0091

E: treasury@investec.ie

UK data:

Markets were treated to a raft of long awaited UK data which was released at 7am this morning. The main data point was the GDP print after advanced Q1 data for Europe and the US were released 2 weeks ago. UK GDP fell by a record 5.8% month on month in March, leading UK Q1 GDP to a contraction of 2%. This was despite the UK only beginning their lockdown towards the end of the month. Industrial Production and Manufacturing Production also fell 4.2% and 4.6% in the month, leading to an 8.2% and 9.7% contraction over the past 12 months. There was also (unsurprising) evidence of a collapse in consumer activity in April. The BRC monitor showed total sales values declining by 19.1% on the year, although non-food online sales soared by 57.9% while food stores saw 4.5% increase. Figures from Barclaycard reinforce the overall malaise, pointing to a 36.5% fall in spending in April compared with a year ago.

Cost of measures coming into focus:

Also in the UK yesterday, Chancellor Rishi Sunak extended the Coronavirus Jobs Retention Scheme (CJRS) by four months to end-October, although he stated that he would ask businesses to contribute from August. Firms will also be able to put workers onto part-time furlough. An internal Treasury paper obtained by the Telegraph suggested that the overall cost of the pandemic, not least CJRS, could lead to a deficit of £337bn this year, some 17% of GDP, and proposes ways of addressing the UK's fiscal metrics to ward off a possible sovereign debt crisis via tax increases and spending cuts.

While the pound weakened yesterday evening against the euro, trading from 0.8760 up almost 100 points overnight, the pound actually recovered slightly after the release of the 7am data. GBPUSD continues to trade close to the support level at 1.2250.

Gulf in opinions on negative rates:

While US rate futures have been suggesting that markets believe that a negative Federal Reserve policy rate could be a possibility by the end of 2020, members of the bank's policy setting committee have been keen to rule out negative rates in the past two weeks. Fed President Jerome Powell is speaking later today, and is likely to pour further cold water on the prospects of the Fed cutting rates into negative territory. As usual, he faces pressure from his biggest critic, US president Donald Trump, who tweeted yesterday that "as long as other countries are receiving the benefits of Negative Rates, the USA should also accept the "GIFT"." While he exerts no direct control, the presidential pressure surely had a strong role in convincing the Fed to halt rate hikes and begin to cut rates in the last year. The president's stance could feed speculation on negative rates no matter how vociferous Jerome Powell is later today.

In the UK the prospect of negative rates seems less abhorrent, at least according to deputy governor of the Bank of England Ben Broadbent. Speaking yesterday, he said the BoE was keeping all tools on the table, including cutting rates into negative territory, although he did warn that lower rates risk doing more harm than good.

Disclaimer

Investec Europe Limited (Investec Europe) has issued and is responsible for production of this publication. Investec Europe Limited trading as Investec Europe is regulated by the Central Bank of Ireland. Registered in Ireland Number 222173. Registered office The Harcourt Building, Harcourt Street, Dublin 2, D02 F721.

This publication should be regarded as being for information only and should not be considered as an offer or solicitation to sell, buy or subscribe to any financial instruments, securities or any derivative instrument, or any other rights pertaining thereto (together, "investments"). Investec Europe does not express any opinion as to the present or future value or price of any investments referred to in this publication. This publication may not be reproduced without the consent of Investec Europe.

The information contained in this publication has been compiled from sources believed to be reliable, but, neither Investec Europe, nor any of its directors, officers, or employees accepts liability for any loss arising from the use hereof or makes any representations as to its accuracy and completeness. The information contained in this publication is valid as at the date of this publication. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the matters discussed herein.

This publication does not constitute investment advice and has been prepared without regard to individual financial circumstances, objectives or particular needs of recipients. Readers should seek their own financial, tax, legal, regulatory and other advice regarding the appropriateness or otherwise of investing in any investments or pursuing any investment strategies. Investec Europe operates exclusively on an execution only basis.

An investment in any of the investments discussed in this publication may result in some or all of the money invested being lost. Past performance is not a reliable guide to future performance. To the extent that this publication is deemed to contain any forecasts as to the performance of any investments, the reader is warned that forecasts are not a reliable indicator of future performance. The value of any investments can fall as well as rise. Foreign currency denominated investments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such investments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors.

Investec Europe (or its directors, officers or employees) may to the extent permitted by law, own or have a position in the investments (including derivative instruments or any other rights pertaining thereto) of any issuer or related company referred to herein, and may add to or dispose of any such position or may make a market or act as a principal in any transaction in such investments or financial transactions.

Investec Europe's conflicts of interest policy is available at https://www.investec.com/en_ie/legal/IE/terms-and-policies.html