

# Market Overview



## Update

18 May 2020

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## Up this week:

It is set to be bumper week for **UK** releases. The timeliest of these will be the 'flash' PMI surveys for May on Thursday, which we expect will show a modest rebound from the record lows seen in April. Prior to this, the ONS will release labour market figures on Tuesday. On a headline level, we expect a modest rise in the unemployment rate to 4.3% for the three months to March. This will then be followed by CPI inflation for April on Wednesday, for which we expect the annual rate to lurch sharply below 1%. Finally, for a Friday treat the ONS will publish both retail sales and public finances figures for April. The releases should show that the high street suffered further in the first full month of lockdown as well as a rise in public sector net borrowing as higher spending was accompanied by diminished tax revenue.

In the **US**, the Federal Reserve will release the minutes of last month's FOMC meeting on Wednesday. These may well show a discussion among participants about what additional policy measures could be tapped, as Fed Chair Jerome Powell suggested may be necessary in his remarks. Note also that Mr Powell will speak before the Senate Banking Committee on Tuesday alongside Treasury Secretary Steven Mnuchin, before subsequently delivering the opening remarks to a 'Fed Listens' event on Thursday. Key US data releases include the 'flash' PMIs and the Philadelphia Fed manufacturing survey.

In the **Eurozone**, the ECB will publish the account of last month's Governing Council meeting, which saw TLTRO-III pricing reduced by 25 basis points and the introduction of PELTROs. Note also that Ascension Day will be observed on Thursday in a number of countries. Resultantly, the 'flash' PMIs for the zone will come out on Friday, a day later than in other geographies. We look for this to improve in line with the UK, albeit to a greater extent given an easing of restrictions in a number of countries.

In **Asia**, investor focus will centre on the commencement of the delayed annual session of the National People's Congress on Friday. Reports suggest that a significant stimulus package is being devised in order to support the Chinese economic recovery, as the growth target is reported to be set as low as 3% or dispensed with altogether.

## Coronavirus update:

Over 316,000 have now lost their lives to COVID-19 worldwide, whilst the infections tally will surpass 5 million in the coming days. Globally, an average of 80,000 cases are being confirmed each day - this has been relatively unchanged over the last 6 weeks. Russia and Brazil continue to report substantial increases in infections whilst developed Western economies continue to report fewer, and continue to cautiously exit their respective lockdowns. Italian Prime Minister Giuseppe Conte stated that Italy had taken a calculated risk when relaxing restrictions, to avoid further detrimental damage to the economy. Irish Taoiseach Leo Varadkar announced the first easing in Ireland, taking similar steps to the UK in allowing some to get back to work and meeting others outdoors whilst maintaining social distancing rules. British Prime Minister Boris Johnson continues to face a backlash over a lack of clarity on England's lockdown easing. The PM acknowledged the people's frustration in a piece for the Mail on Sunday, he says, "this is a complex problem and we need to trust in the good sense of the British people."

Meanwhile in the United States, for the first time in history, the US House of Representatives has approved remote voting, as the Federal government continues to consider further fiscal stimulus to support the economy. Indeed, Federal Reserve Chair Jerome Powell warned on Sunday that the US economy may not fully recover until a vaccine is available, which is speculated to be over a year away. He did however say that providing there was no second wave, a steady recovery through H2 2020 was probable. Data on Friday showed the extent of the hit to the economy, with US retail sales falling by 16.4% in April. Similarly, US industrial output fell by 11.2%. Japanese data this morning showed GDP to have contracted by 3.4% (saar) in Q1 2020, putting the Japanese economy in technical recession, the reading was better than expectations, however. Market sentiment this morning has been moderately positive, with Asian stocks largely in the green and Wall Street expected to open higher this afternoon, despite Mr Powell's gloomy comments.

## **Irish Economy:**

### **Pandemic drives record goods exports in March**

Good exports from Ireland reached €16.2bn in March, the highest one-month total on record and a 39% on the total in March 2019. The very strong growth in March was solely due to a two-thirds increase in the value of pharmaceutical exports in the month to €11.4bn. While this category has long been the most significant contributor to the country's exports, pharmaceuticals accounted for 70% of total exports in March. The majority of the largest pharma companies have operations in Ireland, including many of those that are leading attempts to manufacture a vaccine for COVID-19, and Gilead Sciences, the manufacturer of Remdesivir, the drug being used as a treatment for the illness, has a manufacturing base in Cork. In contrast, March was a particularly low month for imports (the lowest seasonally-adjusted import total in 22 months) and the trade surplus ballooned to €9.3bn, the highest total on record and compared with €4.0bn in March 2019. The country's large multinational pharma industry may provide an ongoing boost to export growth, although it is worth remembering that the resulting growth in employment and tax revenues is far lower than the increase in the value of the drugs would suggest.

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