Investec

Market Overview

Update

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- **Euro gains on Merkel/Macron package**
- **COVID-19 update**
- **UK plans to cut tariffs**

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Euro gains on Merkel/Macron package:

German Chancellor Angela Merkel and French President Emmanuel Macron agreed to support a 500 billion-euro aid package to help the European Union recover from the coronavirus pandemic in a major step toward tighter integration. Crucially, she said the bonds issued by the European Commission would be repaid from the EU budget, the lion's share of which is covered by Germany. The proposal marks a significant step in efforts to shore up the European project and a potential win for Macron, who's been calling for Germany and the richer northern states to do more to help those in the South who've suffered most. EURUSD has traded above 1.09 for the first time in 2 weeks on the announcement.

COVID-19 update:

President Trump has added to concerns over the scope for continued international coordination in response to the virus after he threatened to withdraw from the WHO, unless it demonstrates independence from China. Mr Trump is looking for it to demonstrate a firm commitment for independence from China within 30 days. China and Australia have also been drawn into a trade war with China placing an 80% tariff on Australian barley imports after Australia joined US calls for an investigation into the cause of the outbreak.

UK plans to cut tariffs:

The UK government this morning announced major reductions in tariffs which will take force after Britain leaves the post-Brexit transition period at the start of next year. These will apply to imports into the UK from countries with which it has no free trade deal and will replace the EU's Common External Tariff, which still applies during the transition period. Under the new Most Favoured Nation system, tariffs will be removed on £30bn of imports including 'white goods'. Meanwhile tariffs will be kept in areas such as cars, agriculture and fish.

UK labour market data:

UK unemployment data was the latest major data for release, coming at 7am this morning. The figures surprisingly showed the unemployment rate falling to 3.9% in the three months to March from 4.0% in February. This was a major surprise given the COVID-19 affected economic environment - consensus and Investec forecasts were for a rise to 4.3%. Employment rose by 210k over the same period. On the pay side, headline earnings growth slipped to 2.4% from 2.8%, and to 2.7% from 2.9% excluding bonuses. Note that these reports apply to March and are reported as a three month average, so the post-lockdown period (23 March onwards) only accounts for a relatively short part of the period covered by the data. In our view a more realistic picture is provided by the claimant count (those seeking jobless benefits via Universal Credit), which is for April. This showed a rise of 856k, taking the rate to 5.8% from 3.5% in March. Also vacancies fell by 170k to 637k in the Feb-Apr period.

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