Investec

Market Overview

Update

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Contact us:

T: +353 (0) 1 421 0091

E: treasury@investec.ie

Negative US oil price raise jitters:

US and Asian equity markets fell overnight, the S&P 500 falling 1.8%, the Nikkei -2.1% and the Shanghai -1.3%. This came amidst the startling fall in US oil prices, with WTI (West Texas Intermediate) prices turning negative yesterday for the first time ever, in fact the May contract saw the price fall to as low as -$40/ barrel. Note that negative pricing was only seen in WTI contracts for delivery in the month of May given particular concerns over a shortage of storage at the contracted delivery point, Cushing, Oklahoma. Most speculative players and investors taking a long position in the front contract (May) would have sold their position and moved to/bought the next contract (June) days or weeks ago, but a few desperate punters were left fighting for the exit and buyers willing to take delivery of the May contract are in short supply. Prices for delivery in June are down, but remain just above + $20/barrel. Brent crude was also softer on the day but also remains well above zero at $23.45. Brent contracts don't have the same delivery pressures as WTI. The dollar is also stronger, with EURUSD trading as low as 1.0826 so far today.

COVID-19 update:

Meanwhile, other COVID-19 related news has seen the US Congress move closer to agreeing a $250bn extension to a $350bn loan scheme to help small business, this comes amidst the original scheme running out of capacity last week following huge demand. President Trump also announced that he would use an executive order to ban immigration into the United States in order to protect it against imported coronavirus cases. This comes amidst the total number of US infections rising to 793k and the number of fatalities reaching 42k. This compares with global figures now standing at 2.482m infections and 170k deaths. Just to note in unrelated news it has been reported that North Korean leader Kim Jung Un is critically ill, although this has been denied by North Korea and Seoul has similarly cast doubts on these reports.

UK Labour market data:

Figures out at 7am this morning show that the UK unemployment rate edged up to 4.0% in the three months to February. This disappointed against consensus and Investec expectations for it to hold steady at 3.9%. Over the period, the level of employment increased by a robust 172k and the number of those unemployed rose by 58k. Pay growth also moderated, with the headline and ex-bonus earnings measures easing from 3.0% (3m yoy) to 2.8% and 2.9% respectively. Also, the number of advertised positions slipped 6k to 795k over the first three months of the year. Note though that the March vacancy figures were sampled on 6 March, prior to the implementation of social distancing measures in the UK. Figures today reported a 12.1k monthly increase in the number of unemployment benefit claims for March, but the claims data captures the situation before 12 March, also before the shutdown. As such, it will be the April figures which will give us more information on the extent of the jobs market squeeze. Looking ahead, a sharp rise in joblessness is inevitable, but when it will peak and at what level, is less clear. One key factor will be how many employees are furloughed through the Coronavirus Jobs Retention Scheme, with the Treasury announcing that more than 1 million workers were enrolled yesterday on the first day of its operation.

Irish Economy - Latest reminder of employment collapse:

The latest update from the Department of Employment Affairs and Social Protection added more than 50,000 to the numbers unemployed as a result of the current outbreak and suggests that pre-crisis employment has fallen by one-third.

The Department yesterday issued payments to 584,000 people through the COVID-19 Pandemic Unemployment Payment scheme, a net increase of 51,000 from the update last week. Figures for those benefiting from the Wage Subsidy Scheme were not updated yesterday but last week's release showed that 255,000 people had received a payment under this scheme. Aggregating these sums is not ideal given the different reference time periods and given that there is transfers between the schemes over time as business circumstances changes, nevertheless they suggest that around 840,000 people have suffered COVID-19 related unemployment or are being supported by the State through the wage subsidy scheme. This equates to almost 35% of the workforce and suggests that regular employment has fallen from 2.4m pre-crisis to 1.5m now.

It is a sign of the scale of the current crisis that additional unemployment of 50,000 people in a week doesn't change the arithmetic significantly. It also illustrates the fine line that the government will need to tread between keeping the virus in check and gradually reopening the economy to mitigate the unprecedented economic damage, although it will be far from alone in that regard.