

Market Overview



Update

21 May 2020

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FOMC minutes:

The minutes to the 28/29 April US Fed's FOMC meeting were published last night. As expected they reiterated the message that the Fed is committed to use the "full range of tools" amidst the significant headwinds facing the economy. Unsurprisingly there were signs of concern amidst the possibility of a second wave of infections in the autumn whilst alongside short term worries, the risk of more permanent damage was also discussed. Amidst these threats, Fed officials debated ways to give clearer guidance on the future path for monetary policy which it considered could include a stronger pledge to keep rates close to zero until certain recovery milestones such as on unemployment and/or inflation had been achieved. A date based approach to forward guidance was also considered. Note also that on asset purchases, as part of the Fed's effectively open ended QE buying, it has been giving guidance each week on its planned purchases. One option discussed was to move to a long term purchase schedule. Although there were no firm conclusions, the extent of the focus here appears to imply the Fed would look to this route as one way to supplement its policy tools, with Fed Chair Powell having said recently that negative rates is not something the policy setting committee is looking at. The dollar has lost some of its safe haven lustre in recent days as global restriction easing appears to be operating successfully in the world's major economies. This morning the benchmark EUR/USD rate remains at elevated levels, currently sitting at close to the pivotal \$1.10 level, the highest it has been in nearly three weeks.

Coronavirus update:

Yesterday, the global tally of COVID-19 infections ticked another grim milestone, this time sadly over 5 million, with the fatality count just shy of 330,000. Russia and Brazil are now the second and third most infected nations respectively, with the latter confirming more than 21,000 new cases yesterday, a record daily increase outside of the US. The Spanish parliament approved a two-week extension to the so-called 'state of alert' legislation underpinning the lockdown, which takes the current restrictive measures to 7 June. Meanwhile in Scotland, Nicola Sturgeon, who has thus far taken a more cautious approach than British PM Boris Johnson, is due to announce Scotland's 'roadmap' out of lockdown today. US President Donald Trump is still confident of a swift return to normality. The President yesterday announced that he was considering hosting G7 leaders at Camp David on or around the current scheduled date, rather than a video call as widely expected. The summit is due to take place over the three days to 12 June. Lastly, PMI data from IHS Markit showed a muted response to the easing of restrictions. The Australian composite output index showed an increase of just 4.7 points to 26.4 in May, despite being one of the first major economies to begin reopening. UK, Euro area and US PMI data for May will be released throughout the course of the day.

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