Investec

Market Overview

Update

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Oil still sliding:

Unsurprisingly, global markets were focussing on all things oil yesterday. The benchmark Brent Crude price index took an almost 25% hammering, slipping below the psychological/pivotal $20pb, the lowest price seen in eighteen years. During Asian trading hours things continued to dis-improve, as Europe opens this morning Brent is sitting just below $18pb after dipping below $16pb earlier this morning. After Monday evening and yesterday's insane moves where 'fear of delivery' pushed the May WTI contract close to -$40pb, it closed the session out at in/around $10pb.The jury is still out as to whether or not this negative pricing will move into the May contract. In defence of US oil, President Trump took to twitter stating that he will "formulate a plan which will make funds available so that these very important companies and jobs will be secured long into the future!" and the US government will "never let the great U.S. Oil & Gas industry down". It's also worth noting that during an unscheduled conference call last night, OPEC decided not to implement any oil output cuts immediately as had been rumoured earlier in the day.

COVID-19 update:

Infections globally have now surpassed 2½ million; however, the cases curve continues to show signs of flattening. The Netherlands is the latest European nation to announce a gradual easing of lockdown measures, which will begin with a partial reopening of some schools in May. Meanwhile, New York State will reopen the economy on a regional basis depending on the potency of the virus in each region. To mitigate the economic fallout, the US Senate yesterday reached a deal worth $484bn, two thirds of which will be for replenishing the Paycheck Protection Program. President Donald Trump tweeted, of course, that after signing this bill, "[The White House] will begin discussions on the next Legislative Initiative with fiscal relief to State/Local Governments", hinting that the funding will not stop there. Elsewhere, South Korea's President Moon has committed a further ₩85trn ($70bn) to small businesses and workers, on top of the c. ₩145trn already announced. Western markets saw a risk-off mood yesterday, to the tune of a 3.1% fall in the S&P 500, although futures point to modest gains at the respective European and American opens today.

UK inflation data:

CPI inflation figures for the UK for March were released at 7am this morning. They showed the Bank of England's targeted inflation measure easing from 1.7% in February to 1.5%. This was in line with consensus expectations but above our forecast of a bigger slide to 1.2%. On a core basis, stripping out food, alcohol and tobacco, inflation edged down from 1.7% to 1.6%. The main sources of downward pressure on the CPI inflation rate came from the clothing and footwear, transport and restaurant and hotel categories. Clothing prices in particular look to have been influenced by COVID-19, something the ONS notes, though prices were collected around 17 March which was before the lockdown on 23 March; the implication being that a bigger effect is likely to be visible next month. Fuel prices may also help to drive the CPI rate lower over the months ahead, alongside coronavirus disruptions and any squeeze to demand. Indeed, we judge that we are likely to see CPI inflation below 1% over the coming months. Our full note on this morning's figures is due later this morning.

Irish Economy

Deficit of 7.4% projected for this year

The timely publication of the Stability Programme Update (SPU) yesterday afternoon contained the Department of Finance's spring forecasts – economic and fiscal projections that incorporate the estimated impact of the current outbreak. Bleak certainly, but unsurprising given how we have seen the situation develop in recent weeks.

At a high-level, the Department projects that GDP will fall by 10.5% this year with increased government spending slightly offsetting much lower personal consumption, investment and net exports. A recovery in 2021 is expected to see GDP grow by 6%, but lost economic output will only be fully recovered by the end of 2022. The scenario underpinning the Department's forecasts is one in which containment measures are assumed to remain in place for three months with a "very gradual" recovery commencing thereafter, although we note that the projections are also contingent on the UK reaching a free trade agreement with the EU by the end of the year.

As we have seen in recent weeks, the impact on the labour market has been profound. Total employment will fall by 9.3% this year, a decrease of 220,000 jobs. Only half of these losses are expected to be regained next year with the Department expecting employment growth of 5.5% in 2021. Unemployment is expected to average 13.9% this year and, although lower, remain elevated at 9.7% in 2021. These numbers stand in stark contrast to annual employment growth of at least 3% for the past seven years.

The impact on the Exchequer will obviously be immense. A deficit of €23bn, equating to 7.4% of GDP, is envisaged. This will lead to a 10pp increase in the country's debt/GDP ratio to 69%. While a deficit of 4.1% is projected for next year, the debt ratio should not deteriorate further. In line with these projections, the NTMA has published a revised funding statement and has increased its bond funding range to €20-24bn for this year, a €10bn increase to both ends of the range. However it is already well on its way towards the revised target, and has raised €11bn of long-term funding in the year to date, including €6bn of seven-year debt at a cost of just 24bps.

One positive to take from all of the above is that the progress that the country has made in repairing the state of its public finances will now stand to its benefit. Significant borrowing will be required but, based on current conditions in sovereign bond markets, the cost of this borrowing will not be a significant burden.

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