

Market Overview



Update

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- [COVID-19 and market update](#)
- [EU leader's summit](#)
- [Oil market update](#)

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COVID-19 and market update:

The number of registered coronavirus infections now stands above 2.6m globally, with the number of fatalities having risen to 184k. In the UK, deaths recorded in hospitals have reached 18.1k and are now approaching those in continental European countries (Italy 25.1k, Spain 21.7k, France 21.3k), thanks to falling numbers there. However the British figures exclude casualties in places such as care homes, and the FT yesterday carried out an analysis suggesting that COVID-19 related deaths could be twice as high as official numbers. Yesterday, at the daily UK government briefing, Chief Medical Adviser Chris Whitty admitted that Britain would have to maintain some sort of social distancing measures for at least the remainder of the year. This comes against growing calls from Conservative MPs to unwind some restrictions in order to get the economy moving again. Indeed protests to end lockdowns have taken place in various other countries, including the US and France. In the US, even Donald Trump thought it was too soon to start re-opening the economy, criticising Republican governor of Georgia for claiming that some businesses in his state could reopen before the end of this week.

PMI data for France and Germany released this morning have disappointed against even the low expectations. In France Services PMI reading was 10.4, vs 24.5 expected, while manufacturing was 31 vs 37 expected. In Germany, services was 15.9 vs 28 expected, and manufacturing 34.4 vs 39 expected. It seems clear that Europe will not see the same speedy rebound which China enjoyed based on their PMI data which only dipped for one month before recovering back above 50.

The dollar however continues to strengthen, and EURUSD has broken key support at 1.0800, which could open up March lows if the euro doesn't find support.

EU leader's summit:

EU leaders meet today by video conference in an attempt to finalise the details of a Europe wide fiscal package. Joint debt issuance and risk mutualisation is the key sticking point. EU leaders have plenty of work to do to bridge the gap between the fiscally conservative countries such as the Netherlands and Germany on one hand, and Italy, Greece and Spain on the other after finance ministers failed to come up with a satisfactory solution two weeks ago. An agreement could give sentiment towards the EU project a huge boost and should give the euro a lift and also take pressure off the bond yields of peripheral nations. A press conference is expected at 2pm, and finance ministers meet tomorrow, which could see the details hammered out if leaders can draft a rough agreement.

Also in the EU, the ECB yesterday eased its collateral rules, announcing that it would accept some sub-investment grade bonds as collateral in an attempt to protect some of the more vulnerable economies from potential rating downgrades. They also tweaked the rules around non-performing loans for banks, to allow them to continue to lend. Essentially, any loan that was performing before the Covid-19 outbreak will continue to be deemed as performing until the crisis is over.

Oil market update:

After the May WTI contract traded at negative prices as low as -40 USD/barrel earlier this week, the June contracts in both WTI and Brent came under some selling pressure yesterday. WTI June contract traded just above 10 USD/barrel, from 25 USD/barrel at the start of this week, while the Brent contract traded at its lowest level since 1999, just above 16 USD/barrel. Both have recovered somewhat, despite US inventory numbers yesterday confirming to continuing rise in storage usage as demand for energy falls. WTI front contract is trading close to 15 USD/barrel while Brent just above 21 USD/barrel this morning.

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