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Market Overview

Update

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- **Markets green**
- **Covid-19 update**
- **UK CPI inflation (Feb)**
- **Government introduces wage subsidy scheme**

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Markets green:

American blue chip stocks had their best day in over a decade yesterday; the S&P 500 closed up 9.4%. Additionally, the Dow Jones Industrial Average surged 11.4% in its biggest percentage gain since 1933. This was on the back of hopes that the US Senate would agree and pass through the reported near-$2trn bill. Negotiations between Republican and Democrat Senators went on through the early hours of this morning, with a deal finally being struck just a couple of hours ago. As such, Asian indices are also firmly in the black this morning, with the Nikkei gaining around 8%. The dollar has also sold off on news of the deal and trading back above 1.08. However the pattern of the past few days has seen dollar selling on positive sentiment in the morning erased by a dollar bid when US markets open.

Covid-19 update:

In terms of developments concerning case numbers and containing the virus, yesterday there were 43,679 cases added globally, whilst a further 2,381 died, both being the largest increases to date. For the second consecutive day the US confirmed more infections than any other nation, now with a total of 54,916. Cases in the US have quadrupled in just the last 5 days; there were 13,779 on 19 March. At this rate of infection, by the end of the week the US would have more confirmed cases than not just Italy, but China too. The aforementioned stimulus package from Congress should help to conceal some of the economic fallout, exemplified by the shocking PMI numbers across the western hemisphere yesterday. But containment measures are dampening the global outlook further each day. Yesterday a 21-day lockdown was enforced across India, keeping over 1.3 billion people indoors. Meanwhile New Zealand became the latest nation to declare a national emergency. Today will be another noisy day in markets, with European and British futures pointing to moderate gains at the open.

UK CPI inflation (Feb):

Figures released this morning show that the annual rate of UK CPI inflation had eased from 1.8% to 1.7% in February. While this was in line with consensus expectations, we had looked for a lower outturn of 1.6%. Detail of the release shows that fuel and lubricant prices put significant downward pressure on the year-on-year rate of CPI, with petrol prices sharply unwinding in February after spiking in January amid concerns over a potential US-Iran conflict. Conversely, the most sizeable upward contribution came from the restaurants and hotels categories, with accommodation prices rising more sharply than in February 2019. Meanwhile, the ‘core’ measure (which strips out food, energy, alcohol and tobacco prices) firmed from 1.6% to 1.7%. Note that the early release of CPI today follows the decision by the ONS to bring forward the release time of “market sensitive data” to 7:00am from 9:30am. Due to COVID-19 social distancing measures, this will be done “without briefing accredited newswires ahead of publication. This will also affect GDP, labour market, retail sales and public finances releases for the foreseeable future.

Irish Economy: Government introduces wage subsidy scheme

As widely expected the Irish government has introduced a COVID-19 Wage Subsidy Scheme.

Under the terms of the scheme employers will be refunded up to 70% of an employee's wages provided that those employees are kept on payroll, capped at €410 per week (broadly equates to gross annual earnings of €38k). The scheme will operate for 12 weeks initially and employers must show that they have lost 25% of their trade due to the outbreak and be experiencing cash flow difficulties to qualify for the scheme. Employers are encouraged to make their “best efforts” to maintain as close to 100% of normal income as possible for workers. The scheme is similar in nature to those introduced elsewhere recently, but a little less generous than the schemes in the UK and Denmark which had been touted as examples for Ireland to follow and which pay higher proportions of employees’ wages (80% and 75% respectively).

The introduction of the scheme was a necessity in order to attempt to limit the second-round effects across the economy and leave the country better placed to bounce back once the public health crisis subsides. The total cost of the measures announced yesterday amounts to €3.7bn but, particularly with the progress that has been made in strengthening the public finances in recent years, the country is well placed the fund the additional costs.