

Market Overview



Update

26 May 2020

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Pound boosted as lockdown eased:

The pound is on the front foot following the UK bank holiday, despite the cloud hanging over the UK government caused by the ongoing Cummings/lockdown saga. Following an hour long press conference yesterday, it is no clearer whether Mr Cummings will be forced to resign. Perhaps to try to deflect attention away from the matter, the PM announced ahead of the formal review on Thursday, that the government would allow car showrooms and outdoor markets to re-open on 1 June, while pupils in specific years will be allowed to return to primary school. However the bigger change is that 'non-essential' retailers will be permitted to start trading again on 15 June. The changes in England come as the number of daily fatalities has clearly continued to fall (the total now stands a touch below 37k), as has the rate of reported cases (total 261k), despite a big increase in testing. The pound is roughly 0.50% stronger against both the euro and the dollar this morning.

...but a difficult month ahead:

While the pound has enjoyed a boost this morning, there are a number of issues on the horizon which could make for a choppy month in June. Negotiations with the EU are going badly to put it mildly. The next round of negotiations kick off at the start of June following an exchange of terse letters between Frost and Barnier, the heads of both negotiating teams, the prospect of either side sufficiently changing their stance to come to an agreement seems remote. The UK government are also showing no signs of backing down from their stance that they will not request an extension by the 30 June deadline. On top of that, we have a Bank of England meeting on 18 June. Speculation has grown that the Bank of England could cut rates and bring the base rate into negative territory following comments from BoE members over the past month. A rate cut is not the central scenario. Chief economist Andy Haldane speaks at 10am this morning, one of the last BoE members to speak before their pre-meeting quiet period.

Sentiment boost as Japan exits lockdown:

Positive sentiment isn't restricted to the UK. Asian markets are on the front foot following the announcement that the Japanese government would end its state of emergency in place since 7 April. AUD and NZD have been among the biggest gainers from the news as Japanese PM Shinzo Abe announced a second special budget this week which could bring total support to aid economic recovery to over 200mm yen.

Irish Economy:

Passing the unemployment peak

Yesterday's weekly update from the Department of Employment Affairs and Social Protection showed that 579,400 people are in receipt of the Pandemic Unemployment Payment (PUP) – a decrease of 5,200 (0.9%) from last week's total.

While this is a small decline in the numbers receiving the PUP, it is paid in arrears with this week's payments referencing last week's employment status. The Department added that 35,600 individuals have notified it that they are returning to work and therefore the number of recipients should drop below 550,000 next week. Of those returning to work, 36% are in the Construction industry, 15% in the Retail trade, 10% in the Manufacturing sector and 6% in the Accommodation/Food Service industry, although these are also the sectors that (along with Administration/Support Service) have the highest representation on the list of PUP recipients. Allowing for this impending reduction, the COVID-19 unemployment rate is now at 22%. Additional data in yesterday's release however indicated that the numbers claiming the Temporary Wage Subsidy Scheme have climbed by 9,300 to 482,800 (20% of the total Q1 labour market).

Perhaps it is too early to make any judgements after the first week of gradual re-openings in some sectors, but the relatively modest numbers returning to work so far highlight that the pace of decline in unemployment will not match the pace of decline in employment through March and April. For example, while 12,700 construction workers have returned to work with the recommencement of operations in the sector, 62,200 are still claiming the PUP.

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