Market Overview

Update

31 March 2020

- **Coronavirus news**
- **UK GDP and BoP**

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Coronavirus news:

The major development overnight was the release of China's 'official' manufacturing PMI which showed a clear rebound in March as the country started to get back to business with the stats bureau stating that the report reflected that "more than half of the surveyed enterprises have resumed work". It did however caution that it did not mean a return to normal. The official PMI climbed to 52.0 from a record low of 35.7 in February. It is now back above the 50 level which should signal the difference between contraction and expansion. The recovery has helped Asian equities find a modest foothold this morning, with the Shanghai Composite up modestly. Equities yesterday received a helping hand from reports that Johnson & Johnson would begin human testing of its coronavirus vaccine as soon as September, for use in early 2021. In gloomier news, we also received South Korean industrial production figures giving a taste of the economic chaos the virus is causing elsewhere. Here output fell 3.8% mom in February which was the biggest monthly drop since December 2008. In other coronavirus news, the number of cases continued to rise sharply globally, now to 785,846 with the States home to 164k of these whilst the WHO said there are some signs of stabilisation in Europe; Italy reported the smallest number of new cases in nearly two weeks. The responses across US states continues to be adjusted with Washington DC now entering a form of lockdown. Meanwhile between the US and UK, trade talks have been postponed whilst in the UK consumer confidence slipped only very modestly, by 2 points, to -9 as households took on only a small amount of the coronavirus news initially.

UK GDP and BoP:

National Accounts data from the ONS confirmed that UK GDP growth was flat over Q4. Expenditure detail shows that household consumption is now estimated to have been similarly unchanged over the quarter (prev. +0.1%), marking the weakest outturn for the series since it contracted by 0.4% four years earlier. Additionally, business investment is now thought to have registered a contraction of 0.5%, an improvement on the 1.0% fall initially calculated by the ONS. Meanwhile, growth for 2019 as a whole was unrevised at 1.4%, albeit with two 0.1 percentage point revisions to the quarterly profile. Figures now show that Q1 expanded by a firmer 0.7% sequentially, followed by a sharper contraction of 0.2% in Q2. Accompanying the GDP figures was the balance of payments (BoP) release, which showed the UK current account deficit had narrowed from £19.9bn to £5.6bn (or just 1.0% of GDP). This is the lowest outturn since Q2 2011, when the deficit stood at £2.3bn (or 0.6% of GDP). However, this was mainly on account of higher exports of non-monetary gold and other precious metals (which can be highly volatile). Excluding these, the ONS estimates that the current account deficit narrowed only slightly to £17.1bn (or 3.1% of GDP). Overall, today's figures do not drastically alter our rear mirror view of the UK economy at the end of 2019. A more pertinent question is how much of an impact COVID-19 containment measures are having. Data evidence on this front is so far sparse, with the exception of the composite PMI which fell to a record low of 37.1 in a series that began in 1998. While the outlook is highly uncertain, our assumption at this stage is that a sharp hit to activity in H1 will be followed by a rebound in H2 as lockdown restrictions are eased. On this basis, we look for a 4.4% contraction in GDP in 2020 to be followed by a recovery of 3.3% in 2021.

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