

Market Overview



Update

20 April 2020

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COVID-19 update

Over the weekend, the number of confirmed coronavirus cases worldwide has continued to rise and is now approaching the 2.5 million mark. In the US, President Donald Trump said that the White House was “getting close to a deal” with Congress to provide a further \$300bn in loans to small American businesses. He has also announced that he is invoking the Defence Production Act to compel a Maine-based company to produce millions of medical swabs as the US seeks to ramp up its testing efforts. Meanwhile, in the UK, reports suggest that Prime Minister Boris Johnson told senior aides and ministers on Friday that his priority is to avoid a second coronavirus peak. He is said to be planning to only “modify” the terms of the lockdown rather than a sweeping relaxation once the virus is considered to be under control. However, reports also suggest that the Prime Minister is facing a Cabinet split; Cabinet Office Secretary Michael Gove and Chancellor Rishi Sunak are said to be pushing for an earlier re-opening of the economy, whereas Health Secretary Matt Hancock is reported to favour stamping out the virus before relaxing the lockdown. Any attempt to seek a consensus may well be tricky, with Mr Johnson facing allegations in the Sunday Times that he failed to take the virus seriously until the end of February.

China cuts again

Overnight China’s 1-year Loan Prime rate (LPR), which acts as the main reference rate for loan pricing was lowered by 20bps to 3.85%, whilst the 5-year rate which typically has more influence over mortgage pricing was reduced by a more moderate 10bps to 4.65%. This marks the second cut in the LPR this year and was widely expected given the LPR tends to follow movements in the Medium-Term Lending Facility rate, which itself was cut on the 15 April, just ahead of last Friday’s shocking GDP figures. The outlook for Chinese monetary policy is very much going to be driven by the evolution of the economy following the contraction seen in Q1, with a key risk to this being the possibility of a second wave of infections and reintroduced containment measures. Notably the city of Harbin was put under new lockdown measures this morning following a new cluster of infections, which is suspected to have originated from imported infections coming through the Russian-Chinese border. On the subject of large Asian economies, Japanese trade figures out earlier this morning revealed that exports had fallen 11.7% in the year to March, whereas imports fell by a more modest 5.0%.

Up this week

In the US, close to 100 S&P 500 companies are due to report Q1 results and provide guidance for the subsequent period. There are relatively few key US economic indicators due this week. The weekly jobless claims data on Thursdays have been a regular fixture recently in terms of market interest. We also have preliminary PMIs for April a little later that day. Official data for March published last week, such as retail sales, have given an indication of the scale of possible declines (sales were 8.7% down on the month) but April’s surveys, such as the Philly Fed and the Empire State numbers this week, clearly point to an even grimmer April. In the UK numerous indicators are due. In particular, the Thursday ‘flash’ PMIs will be closely watched, already coming on the back of record lows in March. Senior MPC members Broadbent and Haldane are due to deliver a briefing later this morning. We note as well that S&P is due to publish its latest credit rating for the UK, currently AA. Lastly, Brexit negotiations between the UK and the EU recommence today, the first of three sets of sessions between now and early June. So far, the British government has been reiterating that its policy is for no extension

to the transition period, which runs until the end of this year. We wonder how long this line can hold. In the Eurozone, the principal economic news comes in the shape of surveys. In common with other jurisdictions, flash PMIs are set for Thursday. Also, an informal Ecofin meeting is set to take place on Friday. This follows an EU Leaders videoconference the previous day. Note that Italy's S&P rating will also be published at the end of the week, which at present is BBB.

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