

Weekly Update

Can OPEC+ get a rise?

MEETING WITH THE BANK MANAGER

UK Government extends Ways and Means

MORE MORE MORE

The Fed creates more lending facilities

EU LOOKS TO THE FUTURE

Stimulus package agreed

WOO-HOO IN WUHAN

China eases travel controls further

A GOOD WEEK FOR

- Equities, which staged a strong rebound, as investors began to look to social distancing measures being relaxed. The US led markets higher, gaining over 10% in GBP terms.
- Gold, which gained over 4% in USD terms, despite the favourable mood towards risk assets

A BAD WEEK FOR

- Oil, which unwound last week's gains in USD terms, falling c. 8%.
- The US dollar, which weakened c. 1% on a trade weighted basis.

OIL

The OPEC+ group agreed to collectively cut oil production in May and June by 9.7million barrels a day, aiming to stabilise the oil price. The group also agreed to a series of cuts up until April 2022, in a bid to make attempts to manage the current inventory overhang credible. While the commitment to cut nearly 10m barrels a day is significant, it is estimated that the coronavirus has reduced demand by around 20m barrels a day, meaning oil producing countries may have to cut supply further in order to sure up the oil price. Furthermore, in reality, we would expect the size of the cut to be somewhat lower than the headline figure, offering less support to prices. The agreement comes as the oil price is over 50% lower year to date in US dollar terms, due to both weak demand and a disagreement between Russia and Saudi Arabia on production volumes.

UK ECONOMY

UK government announced it would extend the size of the government's bank account at the central bank, known as the "Ways and Mean Facility". This will provide a short-term source of additional liquidity to the government if needed to help finance fiscal stimulus measures while supporting the orderly functioning of markets. The government will continue to use the Gilt market as its primary source of financing but, given that the government has an extraordinarily large funding need in a short space of time, there is an increased risk that this could not be met by the gilt market near term. With a sharp rise in unemployment expected and the treasury looking to extend further assistance to mid-sized businesses, borrowing is expected to rise even more steeply.

US ECONOMY

The Fed announced further support to the economy last week, providing up to USD2.3trn in credit to businesses as well as state and local governments. This funding will be accessed via three new lending facilities, for small and mid-sized businesses, states, large cities and counties. Two corporate credit facilities were also expanded, along with and the asset-backed securities facility. Federal Reserve Chair Powell stressed that, if the virus disruption lasts long enough, solvency will become an issue for some companies, a problem beyond the Fed's remit. These comments coincide with early discussions on the East coast about how to reopen the economy without endangering public health.

EUROPEAN ECONOMY

EU finance ministers at last agreed a EUR540bn package to support member states, companies and workers. The package had been delayed by disagreements, including the Netherlands demanding macroeconomic reforms as a condition for help, and objecting to loosening conditions on countries accessing cheap loans provided by the European Stability Mechanism - the Eurozone's bailout fund. The question of coronabonds remains unresolved - mutualised debt instruments that could be used to reduce the cost of borrowing for EU member countries currently suffering higher costs. With countries such as Spain and France making plans to reopen the economy soon, the efficacy of stimulus measures will be put to the test.

CHINESE ECONOMY

Last week Chinese officials ended the lockdown in China's Wuhan province for those with a "green" health-code. On a national level, almost 97% of large firms have resume work, with over 80% of workers back at their jobs. However, passenger traffic remains depressed, suggesting life is not yet back to normal. Money and credit data suggests Chinese policy makers have increased credit supply significantly, in order to support the recovery, with total social financing over five times higher in March than in February. March trade data was also more positive than analysts expected, with both imports and exports declining much less than expected. While China is emerging from social distancing measures, which should boost the services sector, we anticipate that a weak global outlook may weigh on demand for Chinese exports.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	7.6%			2.3%			-22.2%			-18.9%		
US	10.1%	12.4%	-2.3%	7.4%	8.1%	-0.7%	-7.9%	-13.3%	5.4%	2.8%	-2.2%	5.0%
Europe	6.1%	6.7%	-0.6%	2.7%	3.6%	-0.9%	-15.2%	-18.2%	3.0%	-7.5%	-9.4%	1.8%
Japan	5.5%	7.7%	-2.2%	1.0%	2.2%	-1.2%	-10.1%	-15.5%	5.4%	-1.3%	-8.1%	6.8%
Asia ex Japan	4.4%	5.5%	-1.1%	3.8%	4.0%	-0.2%	-11.9%	-14.2%	2.2%	-9.4%	-10.7%	1.3%
EM	4.7%	5.8%	-1.1%	4.1%	4.3%	-0.3%	-15.0%	-15.5%	0.6%	-12.6%	-11.9%	-0.7%

FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Corporate and Government Bonds								
UK Gov	1.3%		1.9%		8.9%		13.6%	
US Gov	-0.7%		-0.1%		8.7%		14.2%	
Europe Gov	1.3%		-0.3%		-1.9%		2.1%	
UK Index-Linked	1.6%		4.3%		6.0%		6.1%	
UK Corporate	2.5%		4.0%		-1.3%		4.9%	
UK High Yield	2.3%		2.5%		-11.4%		-4.8%	
Currencies – Spot								
GBP – USD	-1.5%		-0.3%		6.5%		5.1%	
GBP – EUR	-0.2%		-1.1%		3.8%		2.0%	
GBP – JPY	-1.4%		-1.2%		6.7%		7.6%	

	YIELD	
	Local	
Sovereign and Supranational Bonds		
10 Year Gilts	0.31%	
10 Year Treasuries	0.68%	
10 Year Bunds	-0.45%	

COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Energy								
Brent	-7.7%		38.4%		-52.3%		-56.1%	
Precious Metals								
Gold	4.7%		7.6%		11.8%		29.7%	

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