

Confidence
must be earned

Amundi
ASSET MANAGEMENT

Latest From the Markets

24 April 2020

Economy and Markets Update

Yesterday the European Council approved the Eurogroup's proposals, i.e. the package of around 540 billion: 240 billion for ESM, 100 billion for the "SURE" unemployment support scheme and 200 billion in guarantees from the EIB (European Investment Bank). In addition, the Council gave a mandate to the European Commission, the Council of Ministers of Europe, led by Ursula von der Leyen, to formulate a proposal for a recovery fund as part of the process of defining the European budget.

However, the devil is in the detail, and those are not clear yet:

1. the size of this fund - if it is to be within the limits of the European budget it cannot be the 1,500 billion prosed by Spanish;
2. how this fund will be financed;
3. how this fund will make the resources available to the Member States, whether through grants or loans.

Yesterday evening, the ECB extended the eligibility of the collateral it accepts for liquidity provided to the banking system to include those issues that had their rating downgraded below investment grade due to the crisis (so-called "fallen angels"). This is good news for many countries, it means that in the event of a rating downgrade to below investment grade, their government bonds would still be accepted as collateral by the European Central Bank. It still remains to be seen whether the ECB will follow the Federal Reserve during the next Board of Directors' meeting on 30 April and will extend its PEPP programme to these securities as well.

On the macroeconomic front, PMI indices for April in Japan and Australia fell sharply, particularly in the services component, to 22.8 and 19.6 respectively. The manufacturing component also fell below the threshold of 50 to 43.7 in Japan and 45.6 in Australia.

The GfK (Growth from Knowledge) consumer confidence index in Germany was significantly lower than expected at -23.4 compared to -1.8. Eurozone PMI indices for April were also published; the manufacturing component was 33.6 compared with expectations of 39.2. The services component was even more impacted at 11.7 compared with expectations of 23.8. The composite index fell to 13.5 compared with expectations of 25.7.

Finally, in the US, the Markit flash PMI indices for April recorded a contraction in the manufacturing sector to 36.9 compared to 38 expected and in the services sector to 27 compared to 31.5 expected. Furthermore, weekly applications for unemployment benefits amounted to 4,427,000 against expectations of 4,200,000. Although the figure is still very high, it records the third week of decline in the number of applications, fuelling market expectations that the worst may be behind us.

Yesterday's Market Roundup

Closures generally positive yesterday in Asia with the Japanese Nikkei 225 index up by +1.5%, India by +1.5%, South Korea by +0.74% and Hong Kong by +0.35%. Australia closed unchanged and only China fell slightly by -0.25%. European markets closed positively with the Eurostoxx50 index up +0.6%. The German DAX rose by +1%, the French CAC 40 by +0.9%, the Italian market by +1.5% and the Spanish Ibex by +0.4%. London rose by +1%. After a positive opening, the US indices fell back in the final session to close almost unchanged from yesterday. Only the small and mid-cap index, Russell 2000, closed in positive +1%.

Yields on the 10-year US Treasury fell slightly to 0.60% (-2 basis points) and those on the 10-year Bund rose slightly to -0.43% (+2 bp).

In Commodities, the rebound in oil prices continued, with Brent crude up 7% to 21.9 dollars a barrel and WTI up 23.6% to 17 dollars a barrel. Gold continued to rise with +1% at \$1,730 an ounce. The USD gained against the Euro at 1.0775.

Today's Opening Bell

Openings generally negative this morning in Asia with the exception of Australia, which rose by +0.7%. The Japanese Nikkei 225 index fell -1.1% half an hour before closing. China fell by -0.65% and Hong Kong by -0.6%, South Korea by -1.3% and India by -1.6%.

Oil was stable oil with Brent at 22 dollars a barrel and WTI at 17 dollars a barrel. Gold slightly down at 1,722 dollars an ounce. The USD is almost unchanged against the Euro at 1.0770. European futures are down by -2.50% and US futures by -0.6%.

Our View:

- Equity markets have maintained a slightly positive tone thanks to the recovery in oil prices. Nonetheless, macroeconomic data paints a rather difficult picture.
- The European Council's conclusions are heading in the right direction; but in our view, still leave a number of unanswered questions regarding the methods for pooling efforts to tackle a crisis that in fact knows no boundaries.

IMPORTANT INFORMATION

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Date of First Use: 24 April 2020

Doc ID: 1164684