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Latest From the Markets

22 May 2020

Overview

Yesterday was a bad day for international stock markets, mainly due to renewed tensions between the US and China, with President Trump threatening retaliation if China were to impose national security laws on Hong Kong in response to last year's pro-democracy protests.

Economy and Markets Update

The US Government has signed an agreement with a major pharmaceutical company, securing 300 million doses of the coronavirus vaccine that the company is developing in return for \$1.2 billion, which will be used to fund research into the vaccine. The money will be used, amongst other things, to conduct a "third phase" test, the one that precedes the possible approval of the FDA (Food and Drug Administration), on 30,000 patients in the US, if successful, this could lead to the production and marketing of the vaccine "AZD1222" as early as next September. The company has reported that it has already secured manufacturing capacity to produce one billion doses, although there is currently no guarantee that the vaccine will work. At present there are circa 100 ongoing research programmes being run by a number of multinational pharmaceutical companies working to find an effective vaccine.

On the macroeconomic front, the PMI flash indices in the Eurozone, UK and US were published for the month of May. The Composite PMI index for the Eurozone was 30.5, better than expected at 25. The manufacturing component was 39.5 compared with 38 expected, while the services component was 28.7 compared with 25 expected.

In the UK, the composite PMI index was also better than expected at 28.9 compared to the expected 25, with the manufacturing component at 40.6 compared to the expected 36 and the services component at 27.8 compared to the expected 25. In the US, the manufacturing PMI index was 39.8 compared to 38 expected and the services index 36.9 compared to 30 expected, both better than expected.

In the US, weekly applications for unemployment benefits amounted to 2,438 million compared with 2,400 million expected. Continuing claims (claims ongoing for at least two weeks) amounted to 25,073 million compared to 24,765 million expected. The Federal Reserve of Philadelphia - Philly Fed Business Index - on economic activity survey recorded -43,1 million compared to an expected -41,5 million; while still negative, this represents an improvement on the -56,6 million in the previous month. Existing homes sales figures were also published for April, down by -17.8%, slightly better than the -18.9% expected.

Overnight the Chinese Prime Minister announced at the annual Chinese People's Consultative Political Conference that no explicit GDP growth target will be set for this year - for the first time since 1990. The government also reiterated its readiness to increase fiscal policy stimuli to counter the economic crisis resulting from the pandemic.

Yesterday's Market Roundup

Slightly negative closures in Asia yesterday with the exception of South Korea and India which managed to close marginally up by +0.39% and +0.37% respectively. The Japanese Nikkei 225 fell by -0.2% and Australia by -0.4%. China also closed in negative territory at -0.54%, as did Hong Kong at -0.49%.

European markets started off negative and, despite a slight recovery during the day, remained in negative territory, closing in sharp decline. The Eurostoxx50 index closed down by -1.27%. The German DAX left -1.4% and the French CAC 40 -1.15%. The Italian FTSE MIB lost -0.73% and only the Spanish Ibex managed to record a slight positive at +0.04%. London lagged behind by -0.86%.

Wall Street also closed negative with the S&P 500 index down by -0.78% and the technology sector in correction with the Nasdaq 100 at -1.13%. The technology sector came under pressure, but so did the oil industry, while the large retailers' stocks posted positive performances, following the good profits published by one of the major discount retailers.

Yields on the ten-year US Treasury remained almost unchanged at 0.68% and those on the ten-year Bund at -0.48% (-1bp). Slight drop in the Italian spread with Germany to 209 basis points.

In commodities, the price of oil rose by +1% with Brent at 36.1 dollars per barrel and WTI by +1.5% at 34 dollars per barrel. Gold fell -1.3% to \$1,725 an ounce. The US dollar recovered in the final of the day against the Euro at 1.095, after hitting 1.10 in the early afternoon.

Today's Opening Bell

Asian markets declined sharply due to renewed tensions between China and Hong Kong over the introduction of new security laws following last year's protests. The Hong Kong market was the main victim, with a fall in the Hang Seng index of -4.9%. The Chinese CSI 300 index was also down -1.9%, as was Korea. India down -1.3%. The Japanese Nikkei 225 index fell by -0.8% and Australia by -1% half an hour to closing.

Oil also corrected, with Brent crude down by -5.8% to 34 dollars per barrel and WTI down by -7% to 31.5 dollars per barrel. Gold remained unchanged at 1,726 dollars an ounce. Further recovery of the US dollar against Euro at 1.0925. European futures fell to -0.86% and those on the United States to -0.8%.

IMPORTANT INFORMATION

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