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FINANCIAL CONSULTANCY

# MARKET COMMENTARY

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## IN THE NEWS

Last week, the Bank of England (BoE) released the minutes of the latest Monetary Policy Committee (MPC) meeting which concluded on 4 August, during which members unanimously voted to maintain the base rate at a historic low of 0.1%. The MPC feel the current rate and monetary policy remain suitable, adding, *'The Committee will continue to monitor the situation closely and stands ready to adjust monetary policy accordingly to meet its remit.'*

The BoE expects the economy to shrink 9.5% in 2020, less severe than initial estimates of a 14% contraction this year. On Thursday, Andrew Bailey, Governor of the BoE, warned the pandemic is likely to cause structural, unavoidable changes in the economy and job market. Although some business groups are calling for more support, Bailey backed the government's move to end the furlough scheme in October, agreeing that Rishi Sunak had forged a definitive course, *"I think the Chancellor has set out a very clear path... It's been a very successful scheme, but he's right to say we have to look forwards now and move forward."*

The BoE estimates that at its peak, 7.5 million workers benefited from the furlough scheme. With four million now returned to the workplace, 3.5 million people remain on the scheme. Unemployment is expected to reach 7.5% by the end of the year.

### Planning reforms *"long overdue"*

Government proposals outlined last week, include far-reaching changes to the planning system in England. The Prime Minister said the plans, which aim to automatically grant planning permission for new homes constructed within designated growth zones, are *"long overdue"*. Housing Secretary, Robert Jenrick, said the proposals will modernise the current outdated planning system, which sees many proposed developments become embroiled in planning disputes that can result in long delays.

### UK news

Boris Johnson said there is a *"moral duty"* to get all children back to school in September. If any future lockdowns occur, the Prime Minister has made it clear that schools should be the last sector to close.

As rules on gatherings in Greater Manchester, East Lancashire and parts of West Yorkshire remain in place, restrictions in Bradford, Leicester and Blackburn also continue. At the tail end of last week, lockdown measures were reintroduced in Preston following a spike in cases.

Lockdown restrictions were being re-imposed in Aberdeen last week including the closure of restaurants and pubs in the city. Nicola Sturgeon said the case statistics "*underline why it was so important that we took strong and decisive action... to try to keep this outbreak under control.*"

In Northern Ireland, wearing face coverings in shops and other enclosed public spaces will be mandatory from Monday. First Minister Arlene Foster also announced that indoor pubs not serving food will not be allowed to reopen on Monday, as previously intended. The health department confirmed infections have risen three-fold since early July.

### Gold rush

The price of gold reached \$2,000 an ounce last week, a major milestone for the precious metal, capping a record-breaking rally. Growing US-China tension weighed on market sentiment by the end of the week, as President Trump issued executive orders targeting WeChat and TikTok, and the White House struggled to finalise a new coronavirus fiscal stimulus package.

At the end of last week, Michael Gove, who has been overseeing Brexit talks, said he was confident a free trade deal would be agreed with the EU, following a recent change of tone from the bloc. Last week, BP announced intentions to halve its shareholder dividend and posted a record \$6.7bn quarterly loss after the pandemic hit global oil demand.

### Quarantine list – new additions

Last week, the UK government announced a 14-day quarantine for passengers arriving into Britain from the Bahamas, Belgium and Andorra. These countries are the most recent to face the rule change, after quarantine rules were re-imposed for Luxembourg and Spain. Rishi Sunak said on Friday that Britain will "*not hesitate*" to add other countries to its quarantine list, as fears grow over an increase in cases across Europe, including France, which recently recorded its highest number of daily infections in over two months.

## THE MARKETS LAST WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yrs	UK 10 Yrs	Brent Crude	Gold	Wheat	GBP USD
+2.15%	+3.17%	+2.86%	+2.05%	-0.26%	0.00%	+0.02%	+1.94%	+4.46%	-5.41%	-0.03%

### US: UNEMPLOYMENT REMAINS HIGH AS CORONAVIRUS RECOVERY STALLS

The coronavirus recovery is progressing slower than expected in the US, with weekly new unemployment claims above 1 million for the 20th successive week. Last week the figure for new jobless claims was 1.2 million, a drop from 1.4 million the previous week. This is a continuation of the downward trend seen since April, but it remains stubbornly high as the ongoing spread of coronavirus hinders business reopening. The number of continuing claims, people out of work for more than one week, has fallen from its peak of 24.9 million at the end of May but still represents around 11 per cent of the workforce or 16.1 million.

Persistently high job losses are being matched by slower new job creation. The monthly US non-farms payrolls report shows 1.8 million new jobs were created in July but this is a big drop from 4.8 million in June. Concern about unemployment and the relative strength of the US economic recovery has seen the yield on US 10-year Treasuries hit a new all-time low last week, even as the S&P 500 has continued its rise.

## **UK: STERLING HITS FIVE MONTH HIGH AS BOE PRESENTS POSITIVE VIEW**

A relatively positive view on the UK recovery and weak US dollar has seen sterling rise to its highest value since early March. Last Thursday sterling hit \$1.31, and it also rose against the euro, after the Bank of England concluded its Monetary Policy Meeting. The bank kept interest rates unchanged at 0.1 per cent and maintained the current size of its bond buying programme. It said it does not expect GDP to reach pre-coronavirus levels until the end of 2021. Robust consumer spending is expected to drive a faster recovery than it predicted back in May but the central forecast is for GDP in 2020 to be 5 per cent below 2019 levels. The bank confirmed negative interest rates are an option in its policy toolbox but said this is not something it is actively considering.

Stronger sterling has weighed on UK equity markets recently, with oil companies and miners seeing their share values fall as their overseas revenues are reduced in value by a stronger pound.

## **CHINA: TECH SELL-OFF AFTER US MOVES TO BAN TIKTOK AND WECHAT**

Donald Trump sparked a sell-off in Chinese technology companies when he announced a US-wide ban on Chinese social media platforms TikTok and WeChat. The US president signed an executive order which will force US companies to end all transactions with WeChat and TikTok within 45 days. TikTok has been under attack from Trump for weeks and Microsoft is currently in talks to buy it from owner ByteDance. WeChat is a social media and payments platform owned by Chinese tech giant Tencent Holdings. It currently generates very little revenue in the US but a wider ban on dealing with Tencent could be damaging.

Tencent has been one of the strongest performers in the Hang Seng index this year but its shares closed down 5 per cent last Friday. ByteDance is a privately held company but Trump's attack caused a wider sell-off in Chinese technology companies, with Alibaba and JD.com also seeing their share values plunge in the last trading session of last week.

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