

# MARKET UPDATE: MARKETS CONTINUE TO RISE DESPITE US-CHINA TENSIONS

Monday 1<sup>st</sup> June

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## LAST WEEK – KEY TAKEAWAYS

### Markets- Tensions between US and China linger

- Global shares rose as the easing of lockdown restrictions continued around the world and details of further economic support measures emerged in the EU and Japan (see below);
- Tensions between the US and China hovered over the markets, as the Chinese government approved a national security law which infringes on Hong Kong's independence;
- US President Donald Trump responded by revoking a special trade arrangement between the US and Hong Kong, but the markets ended the week strongly as he was expected to take a more aggressive stance.
- **Omnis view: A further deterioration in relations between the US and China could lead to a return of trade tensions which caused so much uncertainty over the last two years. With a presidential election looming and President Trump struggling with domestic issues, this issue is unlikely to fade. Meanwhile, the risk remains of a second wave of coronavirus infections as economies restart. However, the unprecedented measures put in place by governments and central banks should continue to support the markets.**

### Europe: EC proposes substantial recovery package

- The euro strengthened against the US dollar as the European Commission (EC) proposed a package of measures worth €750 billion to help the economies of EU members recover from the coronavirus crisis;
- The European Central Bank emphasised the urgency of a coordinated response when it announced that the EU economy could shrink by as much as 12% this year<sup>1</sup>.
- **Omnis view: The EC's proposal includes €500 billion of grants which France and Germany support, but several countries in northern Europe oppose, so securing an agreement from all 27 member states could prove challenging. If successful, the package represents a significant step towards a more unified approach to EU policy.**

### Japan: Government lifts state of emergency

- Japanese shares rose as Prime Minister Shinzo Abe lifted the state of emergency put in place seven weeks ago to contain the spread of the coronavirus;
- There was further good news for the Japanese markets when the country's government announced another round of economic support measures worth 117 trillion yen (roughly £860 billion) to offset the impact of lockdown.
- **Omnis view: The markets welcomed the easing of lockdown restrictions which will accelerate the recovery of the Japanese economy, while the scale of the latest support package should also provide a major boost.**

## LOOKING AHEAD - TALKING POINTS

### Economic data

- Wednesday- EU unemployment rate in April;
- Friday- US non-farm payroll report (job creation) in May.

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<sup>1</sup> <https://www.ecb.europa.eu/ecb/educational/youth-initiatives/ecb-youth-dialogue/html/index.en.html>

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## **Monetary policy**

- Thursday- European Central Bank interest rate decision.

## **Brexit**

- Talks between the UK and EU resume as the deadline to agree an extension to the transition period fast approaches.

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