

MARKET UPDATE: GLOBAL ECONOMY'S GRADUAL RECOVERY SUPPORTS MARKETS

10th August 2020

LAST WEEK – KEY TAKEAWAYS

Markets: Shares rise but US-China tensions resurface

- Global shares ended the week higher as consumer spending continued to recover in Europe (see Europe section), oil prices rose and the US labour market beat expectations in July (see US section);
- However, tensions escalated between the US and China as President Trump ordered US companies to stop dealing with Chinese technology giants TikTok and WeChat.
- **Omnis view: Stock markets welcomed signs that the global economy is recovering from the worst of the damage caused by the coronavirus pandemic, even though there are some indications the pace of the recovery may already be slowing. Meanwhile, tensions between the US and China could destabilise the markets, especially if China retaliates against the effective ban on two of its most successful tech companies.**

UK: No change to interest rates

- The pound strengthened against the US dollar as the Bank of England (BoE) kept interest rates on hold and warned economic growth may not return to pre-pandemic levels before the end of 2021, although in the third quarter of 2020 it could be stronger than current forecasts imply.
- **Omnis view: Governor Andrew Bailey said the BoE will remain supportive until the economic recovery is well established and is prepared to take further steps if necessary. Mr Bailey also said the Bank had no immediate plans to shift interest rates into negative territory.**

US: 1.8 million jobs created in July

- [The US economy beat expectations to add 1.8 million new jobs in July, according to the non-farm payroll report, and the unemployment rate dropped to 10.2%.](#)
- As Republicans and Democrats struggled to agree on a further rescue package, President Trump took advantage of executive powers to announce temporary measures to support the country's economy.
- **Omnis view: The increase in jobs is an encouraging sign for the US recovery, but the pace slowed from the previous month as several states experienced a surge in new infections. Having side-stepped Congress, President Trump's announcement is unlikely to spell the end of the debate over the shape and scale of the next package of support measures.**

Europe: Shoppers spending again

- There was good news for the European economy after spending by shoppers returned to pre-crisis levels in June as lockdown restrictions eased across the region.
- **Omnis view: While this is a positive signal that the EU's economic recovery is underway, it remains to be seen whether this latest figure is sustainable or represents a one-off surge of pent up demand**

Asia: Chinese exports rise in July

- [Chinese exports \(goods produced in China but sold abroad\) rose by 7.2% in July compared with a year earlier, but imports \(goods purchased abroad\) fell by 1.4%.](#)
- **Omnis view: The increase in exports is positive because it suggests China's economy continues to recover from the impact of the pandemic, while it also indicates demand is picking up elsewhere in the world.**

LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- UK unemployment rate in June;
- Wednesday- UK economic growth in the second quarter; US inflation (rate at which prices rise) in July;
- Friday- US retail sales in July.

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