

Europe offers some hope

Marginally worse second-tier weekly jobs data in the US ahead of payrolls is a far weaker excuse for a downturn in market sentiment than almost any of the events of the last two weeks, and Europe is looking more encouraging



It's not all bad

I'm conscious that most of these notes of mine are an angry rant about how bad everything is and why markets are "wrong" (in the sense that any time they don't move the direction I think appropriate, they must be wrong, right?).

Today, my reading of the economic tea-leaves leaves me less concerned about the state of the world. Europe at least does not seem to be wasting this crisis and is using the time to make some fundamental changes. Small steps towards fiscal federalism in the form of the rescue package the EU is trying to put together is an important step towards ensuring the success of the euro-project, and a big dollop (EUR130bn) of fiscal stimulus from Germany earlier this week helps to address a perennial criticism of Europe's biggest economy for not doing enough to help its poorer European neighbours. The ECB joined the party yesterday ([here's a note from Carsten Brzeski](#)) with a EUR600bn addition to their bond purchase scheme, a little in excess of expectations. In short, It all seems to be coming together for Europe in a very positive way, and markets are beginning to notice.

The EUR has been benefitting from a combination of USD weakness as overall market sentiment has strengthened, and an improvement in the Eurozone's prospects. But a number of analysts ([including our own Petr Krpata](#)), are suggesting that this rally may be running out of steam. This view may spread further if market sentiment generally started to sour, spurring a return to USD assets, and maybe the latest move in US stock markets is a taste of that, as there doesn't seem to be much other justification for it?.

US payrolls data, later today, will give us a better sense of how market sentiment is poised. Yesterday's second-tier weekly jobless claims were a very feeble excuse for a sell-off if indeed, that is what prompted the selling - I have my doubts. Given that the consensus view is for a 7.5M increase in joblessness and a rise in the unemployment rate to 19.1%, any improvement on these numbers ought to be positive for sentiment, though that doesn't; always follow if market bullishness is simply a function of expectations of future stimulus. The earlier ADP numbers this week raise the possibility that the payrolls numbers may not be as negative as the consensus - so this could be an interesting test.

Today in Asia

Rounding off today's note, Prakash Sakpal takes a look at some of today's key events in the region.

"Singapore: April retail sales data today will reveal the impact of the Covid-19 circuit-breaker (started on 7 April) on consumer spending. We are looking for a 36.6% YoY fall, steeper than the 13.3% fall in March. Supermarket sales should continue to outperform non-essential consumer spending of all sorts. Motor vehicles sales remained the weakest spot judging from the 84% plunge in new registrations in April.

Malaysia: Prime Minister Muhyiddin Yassin is going to announce today a post-Covid-19 Economic Recovery Plan (ERP) aimed at empowering the people, propelling businesses and stimulating the economy. Yesterday's April trade report was much weaker than expected; 23.8% YoY slump in exports sent the trade balance to the highest-ever deficit of MYR 3.5 billion ([read more here](#)). This bodes ill for the MYR, supporting our view that the USD/MYR will trade above 4.40 over the next three months.

Thailand: As expected, the streak of negative inflation in Thailand gained further traction in May, while confidence indicators continued to signal a record GDP contraction in this quarter ([read more here](#)). But the Bank of Thailand's rate policy has almost reached its limits, which together with the divide among BoT policymakers over the last 25 basis point rate cut in May, signals the end of the easing cycle. We don't think unconventional easing is on the table, not in the near-term".

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