EUR soars as ECB over delivers and Germany, France display their fiscal largess

• EUR: ECB meeting – EUR bulls unequivocally re-emerge, energized by ECB’s unanimous action overnight that includes adding a further EUR600bn (consensus was for between EUR250 – 500bn) to the envelope for the Pandemic Emergency Purchase Program (PEPP) and extending its net purchase horizon to at least the end of Jun-21. ECB will also reinvest the maturing principal payments of its bond portfolio until at least 2022 - end. This increase comes on top of ECB’s existing asset purchases (APP) that remain open-ended with the ECB buying EUR20bn of bonds per month, alongside the extra EUR120bn envelope to end in 2020. In ramping up its asset purchases to a higher than expected level, the ECB justifies its actions by downgrading both GDP and inflation forecasts substantially with the HIPC inflation profile now resting at the lowest mid-point since December 2014, preceding the launch of the ECB’s initial QE program.

• EUR: Bottom Line - The ECB action overnight is well above market’s recently lowered expectations, notably by increasing the PEPP purchase target by EUR600bn (consensus was for EUR 250 – 500bn) and with a minimum duration of at least June 2021 while at the same time, reinforcing that the ECB will ‘fight fragmentation’. This is positive and encouraging given recent media reports and excuses to wait, and in light of the uncertainty regarding the impact of the German Court decision. The outcome is likely positive for EUR and euro zone risk assets.

• EUR: Germany: New fiscal package with a surprise – The huge new €130bn (4% of GDP) German fiscal package for 2020 and 2021 (coming in higher than expected by EUR30bn) agreed to by Chancellor Angela Merkel’s Grand Coalition on 3 June is yet another welcome surprise to euro assets. The boost is meant to encourage households to bring forward some spending on discretionary items, which then sets off a virtuous cycle of rising demand feeding on itself.

• EUR: France: targeting a new 2020 general government budget deficit of 11.4% of GDP – Unprecedented deficit to be included in the third iteration of the 2020 budget to be adopted at next Wednesday’s cabinet meeting. Budget minister Darmanin sees a “rebound in VAT receipts” and confirms that France would put up a significant stimulus plan in the autumn, planning to obtain “a few tens of billions of euros” from the European Commission’s proposed Recovery and Resilience Facility.
Data releases: US Claims stabilize; Australian April retail trade confirms the worst while trade is set to decline for the remainder of this year

- **USD**: US jobless claims stabilizing indicates peak in unemployment has likely occurred - after declining from the peak of late April last week, continuing claims increase slightly from 20.8 million to 21.5 million on a seasonally adjusted basis and are fairly stable around 19 million on non-seasonally adjusted basis (NSA) during the week of May 23, implying unemployment probably peaked in early May. Meanwhile, initial jobless claims are lower at 1.8 million during the week of May 30. Continuing claims is the more important labor market indicator to watch as initial claims tend to overstate the number of people who are unemployed. Stabilization continues to suggest that unemployment likely peaked in May. Markets now await tonight’s US May employment report (please refer below to the data releases for tonight).

- **AUD**: April retail trade falloff shouldn’t be repeated in May - the final retail trade data for April confirms the worst - ABS makes a small revision to the preliminary -17.9% April retail trade result, pushing it up slightly to --17.7% in the final release. Nevertheless, the result still takes the monthly nominal value of retail spending back to what it was in October 2015. In yearly terms, retail spending is 9.2% lower, also a record with all industry sectors declining in April.

- **AUD**: A broad-based decline in Australian trade despite a positive trade balance - both exports (-11%) and imports (-10%) fall sharply in April, but the trade surplus narrows only slightly from AU$10.4bn to AU$8.8bn. The result is better than Citi’s (AU$5.9bn) and consensus estimates (AU$7.5bn) with an uptick in rural goods exports (+0.9%) more than offset by a sharper decline in non-rural exports (-8%). But despite the positive trade balance that’s expected to persist and contribute positively to GDP, overall two-way trade (exports & imports) is down by almost 15% compared to the end of 2019 and trade is expected to decline further throughout the year. Overall, Citi analysts expect exports to decline by 16.1% and imports by 20.1% in 2020.

Tonight’s and weekend’s data releases

- **USD**: US Nonfarm Payrolls - Citi: -4500k, median: -9000k, prior: -20537k; Average Hourly Earnings MoM - Citi: 1.7%, median: 0.5%, prior: 4.7%; Average Hourly Earnings YoY - Citi: 9.5%, median: 8.1%, prior: 7.9%; Unemployment Rate - Citi: 18.2%, median: 19.5%, prior: 14.7% - Citi analysts expect a decline of 4.5 million nonfarm payrolls in May, with a wide band of uncertainty (could be closer to ~8 million) or potentially even see a slight increase in payrolls as peak unemployment likely occurred around the May payrolls reference week (week of May 12).

- **CNY**: China trade and FX reserves data - Citi analysts expect China’s export growth to turn negative at -6.4%YoY, while the negative import growth may have eased modestly from -14.2%YoY in April to -5.8%YoY in May, leaving the trade balance at US$37.6bn.

- **CNY**: Chinese foreign Reserves (US$bn): Citi 3086.7, Prior 3091.5 - FX reserves may decline slightly by US$5bn as the deterioration in US-China relations has weighed on RMB sentiment and China’s capital markets.
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