



CIO OFFICE MORNING MARKET WRAP – Monday June 1st, 2020. ALSO AVAILABLE ON ALEXA.

The month of June starts under tension. Protests following the killing of George Floyd by the police in Minneapolis are taking place in dozens of cities, from New York to Los Angeles. They are not peaceful, with an eruption of violence not seen in decades. We see scenes of rampage: police cars, official buildings and looted shops are burning, with violent fights between some demonstrators and the security forces.

As we write this morning, markets are not reacting to the situation – US equity futures are unchanged in Asia after a positive week. This might be correct, assuming that the chaos doesn't last: its marginal impact on an already distressed economy should be limited. The situation could be different if demonstrations last for weeks, affecting businesses and consumption, or even contribute to a resurgence of the pandemic.

The situation will also have an indirect impact on US Presidential elections, which is also difficult to gauge: the cause of racial tensions is typically Democrat, but restoring order is typically Republican.

With regards to market consequences, we think that the key factor to watch in the short-term is how long the riots last, and wouldn't be surprised to see some short-term volatility. For the longer-term, the situation illustrates the state of despair of a part of the population in America, especially with the current 20% unemployment rate. The worst case scenario of civil wars in the West is highly improbable but it is not impossible. It reinforces the idea that policymakers will do everything they can to restart the economy, with the additional objective of not amplifying inequalities further. This could mean different fiscal policies, which would have market consequences.

As we wrote yesterday, tensions are not only domestic but also geopolitical. In the current context, President Trump will not ease the pressure on China, should it be on Hong-Kong security law or on the origins of the coronavirus. Having said that, this could be more rhetoric than action as any setback in economic recovery could have a direct electoral cost.

The G7 meeting in June will be delayed and Mr Trump didn't include China in his indicative list of attending countries. By contrast, the June OPEC meeting should happen earlier than expected this week and will discuss extending output cuts.

The week ahead will see many major economic data being released, starting with Euro area PMIs today. As we wrote yesterday, China disappointed on its manufacturing gauge but services were good in May, highlighting the dichotomy between its domestic recovery and the global recession.

At the end of the week the monthly US job report will also be very important. We hope that in the meantime peace will come back in the streets of America.

Stay safe.

MAURICE GRAVIER
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