

Market Monitor – United Kingdom

Brighter Economic Outlook Supports Market Sentiment



Vaccination on track with fewer new infections

With the vaccination programme on track, the UK government has started to cautiously ease social distancing restrictions, which boosted the economy. As of 2nd May, over 34 million UK citizens had received their first dose of vaccine, accounting for 51.8% of the total population. Over 15 million were fully vaccinated, or 23.2% of the population.

Thanks to the rapid inoculation drive, the UK saw a large drop in new infections. The 7-day rolling average of newly confirmed cases decreased to less than 2,400 in late-April, significantly down from the peak of near 60,000 in early January or over 15,000 when the vaccination programme first began.

Easing of lockdown supports economy

The rapid vaccination drive and drop in new cases has allowed the UK to reopen its economy as planned. Non-essential retailers, indoor leisure facilities, pubs, and restaurants are opening their doors again. Data from online booking website OpenTable shows that in the week of 27th April – 3rd May, the number of seated diners was back to 65.0% of the same week in 2019. Individuals were eager to spend as well. The amount of “delayable” (non-urgent) spending in the week ending 22th April, 2021 had returned to 110.4% of the February 2020 average, up from 52.4% in January 2021, while social spending was 70.7% of the February 2020 level, up from 45.8% in January 2021.

Buoyant demand for retail services and the reopening of restaurants and shops was positive for the jobs market. Data from online job search engine Adzuna showed the number of online job advertisements having returned to the level from the same week in 2019. Firms now have a more optimistic business outlook. Surveys by the

❖ **Rapid vaccination and fewer new infections allow for an easing of lockdown measures.**

❖ **Upbeat consumer and business sentiment builds a brighter economic outlook.**

❖ **Improving economic performance supports the financial markets, but concerns remain over Scotland’s election and post-Brexit issues.**

Economic Research

May 2021

Confederation of British Industry found that 38% of manufacturers saw their outlook improve over the past three months, the first positive reading since January 2020, while the financial services sector became more optimistic at the fastest rate since December 2013.

These factors are helping the UK economy to pick up after the easing of lockdown. Monthly GDP grew by 0.4% in February. In particular, the manufacturing and construction sectors performed better, thanks to strong automobile production and retailers' renovations ahead of their reopening in April. The labour market remained tight. Unemployment was below market expectation at 4.9% during December to February, down from 5.0% during November to January. The government's furlough scheme and the greater demand for labour amid the economic reopening have helped contain unemployment. Firms' increasing acclimatisation to the lockdown measures has also allowed them to keep staff on. Retail sales excluding auto fuel in March also beat the market expectation with a 7.9% yearly growth. Despite the country remained under lockdowns in March, consumption is supported by individuals preparing for the Easter holiday and activities after the easing of lockdown measures.

Brighter outlook ahead supports sentiment, but with risks in the labour market

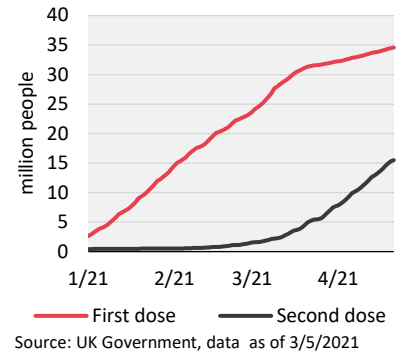
A faster recovery is expected going forward. With vaccinations going as scheduled, the government is expected to further withdraw restrictions. Prime minister Boris Johnson said the UK could resume international travel from 17th May, when step 3 of the 4-step plan is expected to kick in. Consumer and business sentiment are expected to further improve, supporting consumption and investment.

However, the situation in the labour market will greatly depend on the impact of the furlough scheme. Despite firms' hiring confidence being expected to pick up, the policy's withdrawal in September at the earliest may drag on demand for labour, causing unemployment to rise in the coming months.

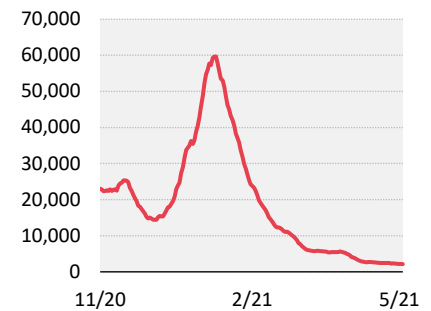
Brexit has lingering impact on the economy

The aftermath of Brexit continues to have an impact. There is a major ongoing dispute over the UK's changes to the trading arrangement regarding Northern Ireland. The EU has taken legal action on the issue and the UK has requested more time to respond. A survey from financial services group EY shows that 75% of British firms have encountered disruption from Brexit, while 49% expected the issue to be a long running problem. British exporters also saw their exports to the EU drop by 47.0% yearly in January and February, according to Eurostat. The actual impact of Brexit may be too early to quantify, but the issue will weigh on the economic outlook and market sentiment.

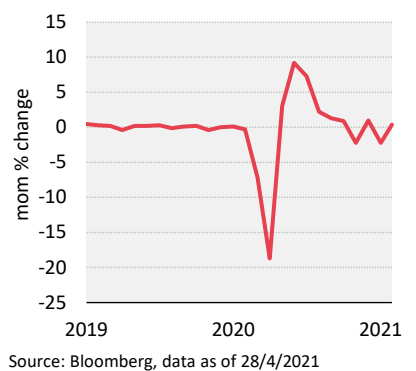
Number of people vaccinated



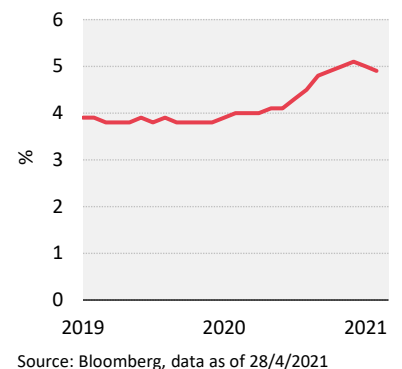
7-day rolling average of daily new cases



GDP



ILO Unemployment Rate



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Hope for a faster economic recovery is boosting the financial market, but profit-taking and political concerns are weighing on sentiment.

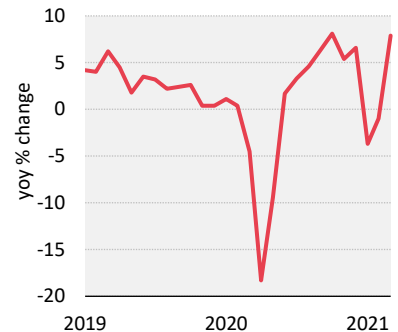
In the stock market, the FTSE 100 Index rose 3.8% in April. Market sentiment has been boosted by a brighter economic outlook and a lower-than-expected unemployment rate. As the pandemic situation improves and the vaccination programme remains on track, investor focus is shifting toward the Scottish parliamentary election in May. The result of the election is likely to determine whether another Scottish independence referendum will be held, which would likely be another blow to the UK economy.

In the bond market, the 10-year UK government bond yield slightly dropped 3 basis points in April. Andrew Haldane, the government’s Chief Economist and a hawkish member of the Monetary Policy Committee (MPC) of the Bank of England (BoE), resigned. This led to a lower market expectation of an earlier interest rate hike. Yet, recent economic data show the UK economy starts to rebound from the pandemic hit rapidly, fuelling the market expectation of a slower bond purchasing pace by the BoE.

In the foreign exchange market, the pound fell 2.2% against the in April. The resignation of Haldane and investors’ profit-taking after the pound’s strong first quarter performance weighed on the pound, despite the market betting on a brighter economic outlook for the UK. At the same time, the pound appreciated 0.3% against the US dollar. The dollar has weakened after a dip in US government bond yields.

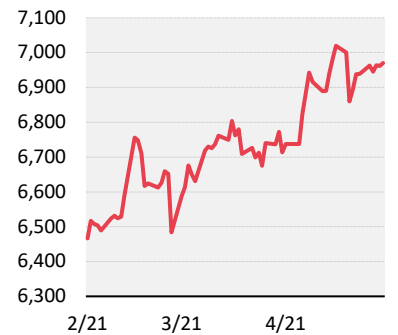
Looking ahead, the UK financial markets will continue to be supported by the country’s improving economic outlook. However, tensions with the EU and the Scottish parliamentary election could weigh on market sentiment going forward.

Retail Sales excluding auto fuel



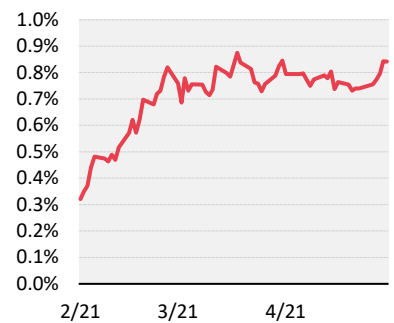
Source: Bloomberg, data as of 28/4/2021

FTSE 100 Index



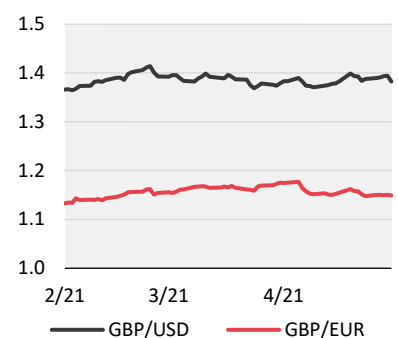
Source: Bloomberg, data as of 30/4/2021

UK 10-year Government Bond Yield



Source: Bloomberg, data as of 30/4/2021

British Pound Exchange Rate



Source: Bloomberg, data as of 30/4/2021

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