

NO BREAKTHROUGH ON EU CRISIS FINANCING

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Guy ERTZ
Chief Investment Advisor

What was agreed

EU leaders met yesterday to find an agreement on an EU recovery fund. Expectations were low as the complexity of the alternative financing source is high.

Leaders endorsed the previous Eurogroup agreement on three important measures totalling €540 billion. These measures cover the ESM financing to support countries in the fight against the coronavirus, EIB credit guarantees and an EU unemployment insurance fund. These tools should be operational by June 1st.

Regarding the recovery fund to finance the recovery programs, they agreed “in principle” but with little details on key issues such as time size, structure of the fund and time horizon. The negotiation moved away from eurobonds or coronabonds to whether financial support will come in the form of grants or loans. The European commission is supposed to come back with a precise proposal within the next 3-4 weeks. A key issue will be the link between this Recovery Fund and the EU budget. The EU budget for 2021-2027 still needs to be agreed. Possible short-term solutions for 2020 will also be needed.

What's next?

As mentioned, the tools linked to previous Eurogroup agreement on the ESM, EIB and EU insurance fund should be operational by June 1st. On the recovery fund and the link

to the EU budget, the European commission is supposed to come back with a precise proposal within the next 3-4 weeks. The lack of breakthrough is adding to the uncertainty about the speed and amplitude of the recovery and the damage done to income and confidence. We assume that a solution will be found. We also have the S&P rating agency announcing the conclusion of their rating review on Italy later today. That is worth keeping an eye on.

Market reactions

Yesterday, after the disappointment on the EU leader meeting and very weak PMI business survey data, US equity markets fell back closing broadly flat while Asian markets were down around -1% in most markets this morning. Europe started the session today around -1%. The euro fell further moving close to 1,07. Peripheral spreads moved higher again after the recent fall. The 10-year government bond yield hoovers around -0,43% in German and 0,61% in the US.



THE INVESTMENT STRATEGY TEAM

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Chief Investment Officer

Asia

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Advisor, Asia

Belgium

Philippe GIJSELS
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