

## UK SQUEEZED BY ESCALATING US/CHINA TENSIONS

This week we saw positive signs that the ease in coronavirus lockdown rules in the UK were starting to reduce strains on the economy. Retail figures showed a jump in sales of 14%, far higher than the 8% analysts were expecting. While this is good news, it is far from a complete recovery. Retail sales only makes up around a third of consumer spending normally, so there may be a transfer from services while things like restaurants remained closed. This could explain the slowdown in GDP growth, which stalled over the period.

Elsewhere tensions between the US and China continued to escalate, with the UK stuck in the middle. Post Brexit, the UK will want stronger trade relations with both countries but is increasingly being asked to pick sides. Mike Pompeo, US Secretary of State, flew to Britain to recruit for team USA and gave a speech some observers claim amounted to a declaration of a new cold war. The UK has received large inflows of Chinese cash and China owns significant stakes in most sectors of the economy, including the railways, telecoms network, nuclear power plants and North Sea oil.

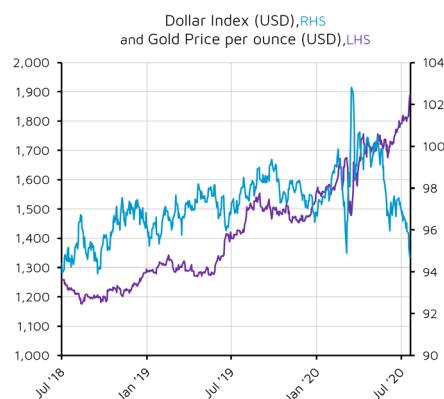
### THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-2.34%	+0.62%	-0.85%	-1.25%	-1.53%	-0.04%	-0.03%	-0.09%	+4.33%	+0.28%	+1.40%

#### US: DOLLAR FALLS AS RELATIONSHIP WITH CHINA DETERIORATES

The US dollar has continued the steady decline seen in recent weeks, as growing international tensions with China and the worsening coronavirus crisis at home have combined to raise doubts about the US economic recovery.

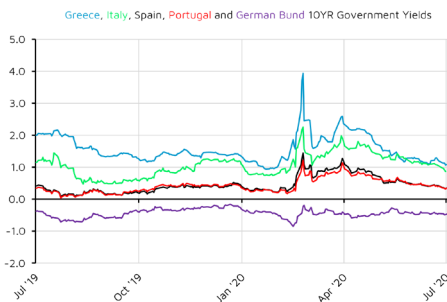
The US dollar index hit a high of \$102.99 during the sell-off in March, as investors sought safe havens. By mid-May it was sitting at \$1 and it has since fallen by more than 5 per cent to sit at \$94.72, its lowest value in 22 months. With government bond yields near record lows and the price of gold pushing up towards its all-time high, there appears to be plenty of caution in financial markets. But investors appear less confident in the US economy as the relationship between the US and China appears to get worse by the day, the rate of new job losses has increased for the first time since mid-April and new coronavirus cases are running at 70,000 a day.



#### EUROPE: CORONAVIRUS RESCUE DEAL BOOSTS PERIPHERAL GOVT BONDS

European markets received a boost as EU leaders agreed the terms of a €750bn coronavirus recovery fund and passed the €1.1tn budget for 2021-27. The deal will make €390bn available as grants for EU members states and a further €360bn available as low-cost loans. The rescue package is to be paid for by bonds issued by the EU and will make the EU one of the biggest issuers of debt in Europe.

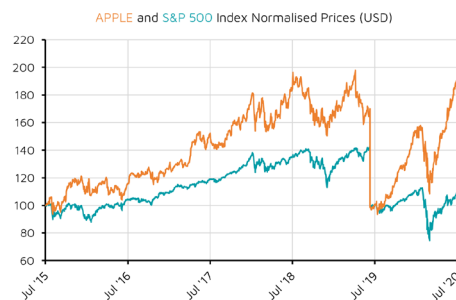
The rescue deal has proved positive for financial markets. The deal spurred a rally in European equities early in the week before concerns about international trade came back to the fore later in the week. The euro has continued to strengthen this week and the rescue plan has reassured investors in peripheral government bonds. Yields on 10-year bonds issued by Greece, Spain, Portugal and Italy have fallen, with the yield on Italian bonds back to the level seen in February.



#### APPLE: INVESTIGATIONS TAKE SHINE OFF US TECH STOCKS

Shares in Apple tumbled on Thursday following news that it is being investigated by several US states over allegations of deceiving customers. The investigation has been ongoing since March but only become public yesterday, ending a run which has seen Apple shares increase by 26 per cent in 2020. The reversal in Apple's share price contributed to a more general sell-off in tech stocks, with shares in Microsoft and Amazon also experiencing a sharp decline.

It has been a mixed month for Apple's dealings with regulators. Earlier this month it won a case against the EU which saved it from a potential €14.3bn tax bill in Ireland but it is also facing new anti-trust investigations in the EU over access to its app store for third-party developers. Separately, Microsoft reported strong quarterly earnings this week as it benefitted from an increase in demand for cloud storage. It is also facing an anti-trust complaint in the EU as communication platform Slack has claimed unfair treatment compared to Microsoft's Teams communication software.



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