Market Alert

June 5, 2020

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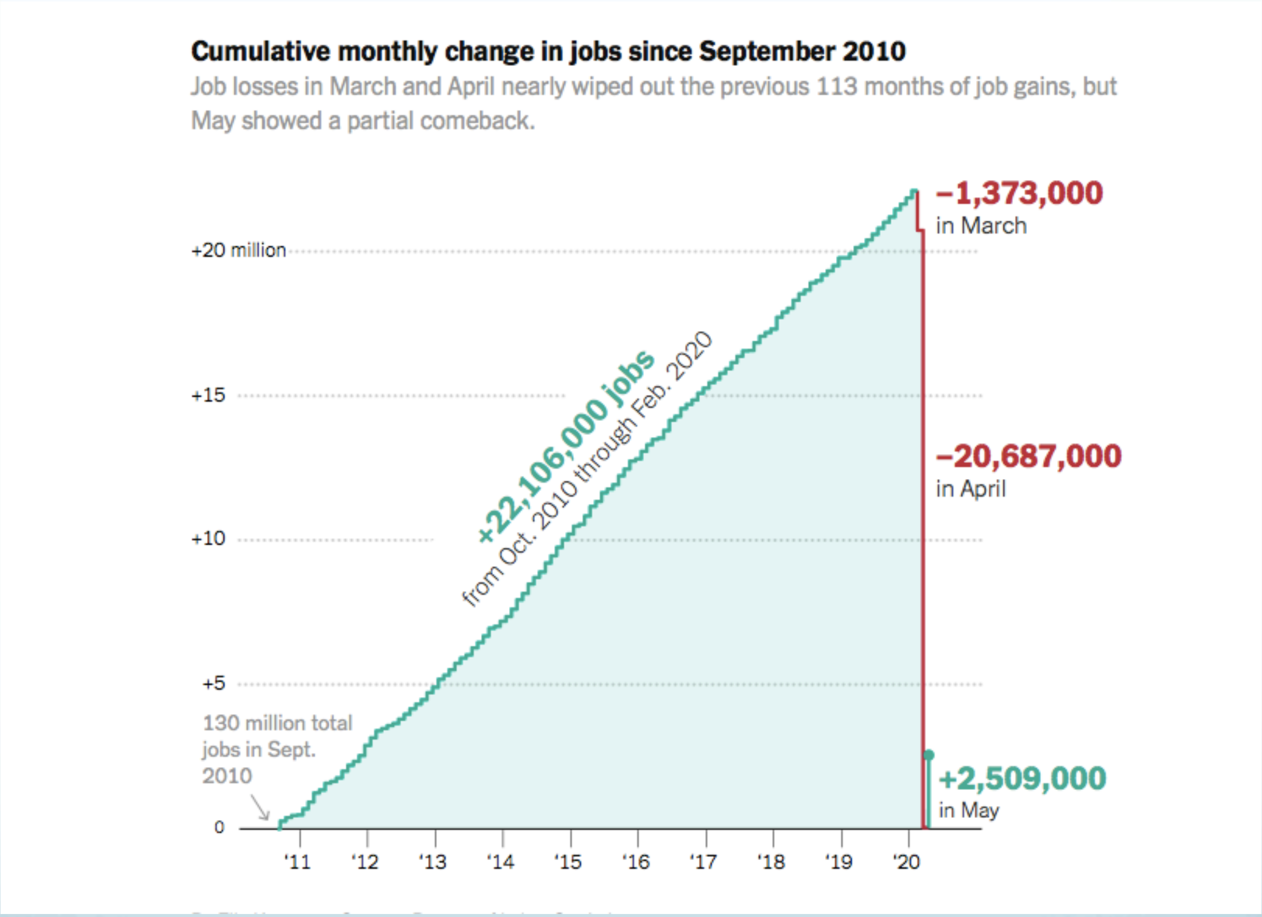
FINANCIAL SERVICES

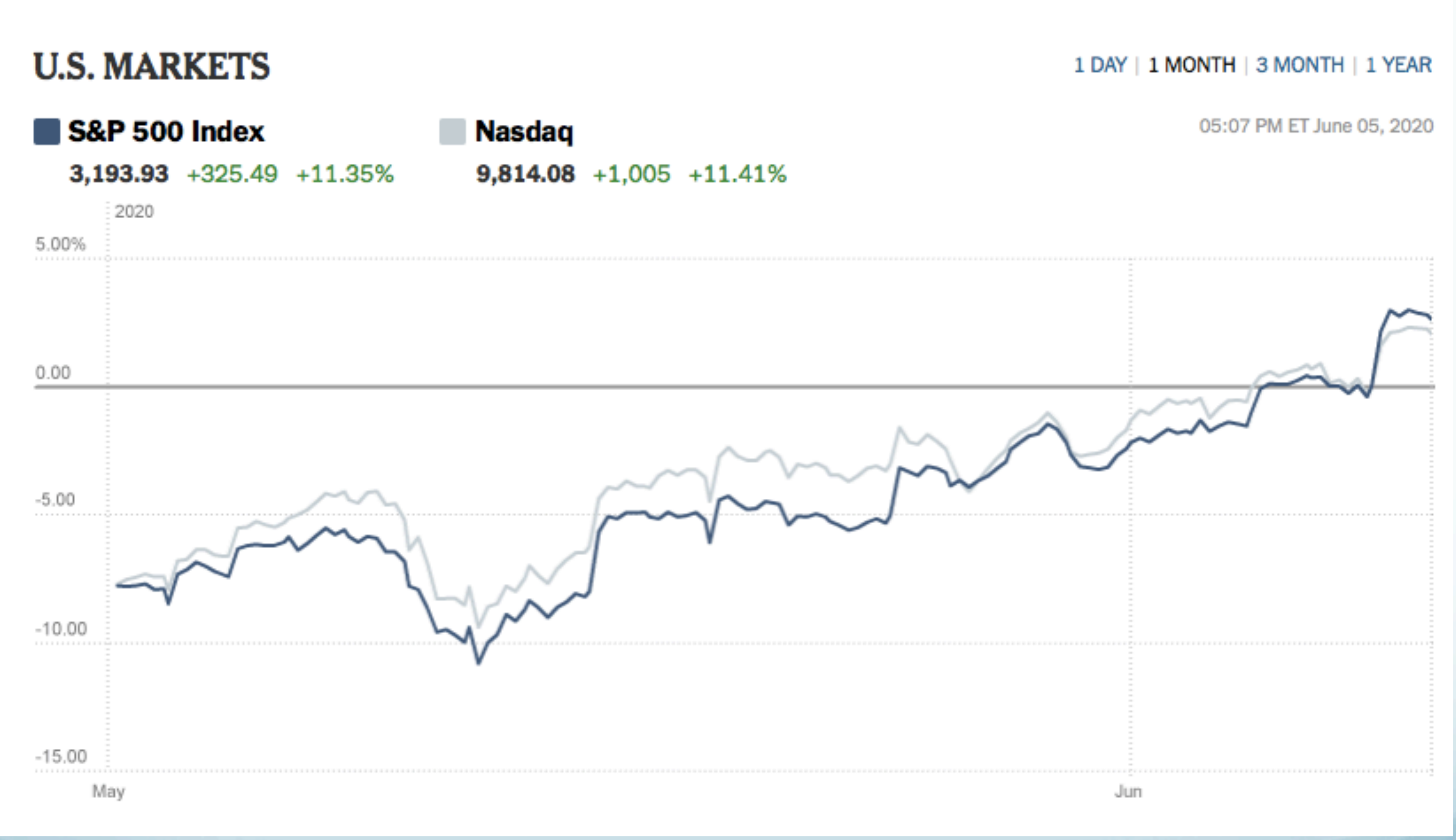
US Employment Surprise



Adding 2.5M Jobs

- The May jobs report was a breath of fresh air after weeks of stifling pessimism, including from some Fed officials. While the report doesn't mean the economy is completely out of the woods, it does suggest that the devastation for workers is less than feared. Before the release, nonfarm payrolls were expected to contract by 30 million since February; now it looks like the loss will be limited to (a still-awful) 22 million in March and April. The report showed a broad-based 2.5 million upturn in employment and a 1.4-ppt drop in the jobless rate to 13.3%. The biggest surprise was a partial reversal of job losses in two of the hardest hit sectors—leisure and hospitality, and food services—though they still only retraced a fraction of earlier losses.

Markets Total Recovery



OIL

There is plenty of **chatter** that **OPEC+ have already sealed a deal to extend its current production cut target until the end of July** at this weekend's meeting, which has been moved up from June 9-10. In our view, the 23-nation oil alliance has a pretty easy decision, which is to maintain May and June's 9.7 mb/d cut for the entire summer before it reassesses its strategy once again. Note that OPEC+ had previously announced that it would adjust the target down to 7.7 mb/d from July to December 2020 and subsequently to 5.8 mb/d until end-April 2022.

The rationale for maintaining the current target is pretty straightforward. **Firstly**, the size of the current cut is working well. WTI crude is presently closing in on US$40/bbl, compared to US$25 in early May, admittedly exceeding our prior expectations. **Secondly**, prematurely easing at this juncture could lead to renewed downward pressure in prices as the global supply/demand balance remains in a high state of flux given uncertainty revolving around the pace of recovery in global demand. **Thirdly**, loosening curbs could inadvertently hurt OPEC+ compliance as there are still members producing above their quotas (e.g., Iraq, Kazakhstan and Nigeria).

Key Takeaway: Having badly misread the tea leaves in early March, when OPEC+ failed to renew production cuts and entered into a price war, we doubt it will make a similar mistake this time round. Furthermore, erring on the side of caution would fortify the rebalancing in the oil market and also help guard against the side-effects of a potential resurgence in the pandemic (i.e., second wave). We are accordingly bumping our call on WTI to an average of $37.5 this year and to $45 in 2021 (from $30 and $42.5 previously).

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