Opinion | 13 May 2020

Another buying opportunity?

Most dips in equity markets are met with rapid buying and a rally, so is there anything different this time?

Having sat through a number of recessions and crises in a professional capacity over the nearly 30 years I have done this sort of thing, I've taken on board a number of life lessons. One of them is the resilience of equity markets. The psychology of most equity investors is intrinsically optimistic. Each new bout of bad fundamental news can herald a further life-giving dollop of liquidity from the central bank. And it really takes the realization that one is standing on the edge of the abyss, with no remaining safety nets, for real and protracted selling to set in. Indeed, as each new crisis and recession is met with ever more willing and often able central banks to pick up the slack, that tendency to keep looking through any bad news has tended to grow over time.

Regular readers (if there are any of you?) will know that I have been quite disparaging about the recovery of (in particular) US equities since their March 23 trough. I have smacked my head in exasperation as it rallied in the face of more than 20 million payrolls losses this month, or on every ill-conceived and non-credible rumour of an effective treatment for the Covid-19 virus. Re-opening of economies was another factor to cause optimism-led buying. Second wave risks were just something to brush aside. V-shaped recovery is implied by the relatively small earnings declines suggested by equity pundits. You can't blame the dismal scientists for this as for once, we are virtually united in our view that this recovery will be any other shaped than V.

But like so much else in life, in the end, it doesn't matter what we (and especially I) think. Just as it doesn't really matter what the facts are in this post-truth world. What really matters is whether or not the equity investor community still has that inherent optimism, and is willing to look through every knock to their view as a temporary setback that will get nursed back to health by more policy band-aids.

So in this respect, it is worth asking, have the recent comments by Fed speakers downplaying the likelihood of negative rates in the US shut the last door for further discount rate cuts? Maybe. And is the prospect of any further fiscal stimulus also dimming? Probably. Are there also genuine concerns about the impact of premature reopening of the states? There should be. And further afield, similar concerns could be levied at the prospects for ongoing ECB stimulus given the recent unhelpful intervention by the German Constitutional Court. Though the recovery in European stocks has been far less striking.

The bigger question is, is all this enough to result in more than a one or two day dip in stocks...? And from what I've picked up along the way, I honestly wouldn't bet on it, no matter how supportable a proposition that would seem to be.

RBNZ - no need to do anything

WIth Covid-19 the single biggest driver for economic prospects in any economy these days, New Zealand finds itself in the enviable position of appearing to have their outbreak well under control, and re-opening measures for the economy proceeding. Like all small open economies, New Zealand will face headwinds in the months ahead. But as an exporter of primary produce at a time when food supply chains have been heavily disrupted, this might not turn out to be such a strong headwind after all for them.

So having sounded open-minded to a number of policy options in recent months, including negative rates, we don't think Governor Adrian Orr will feel the need to do anything radical at today's Reserve Bank (RBNZ) meeting. Most likely, he will downplay the optimistic recovery view and stress the options still available to the central bank if things take a turn for the worse. But perhaps like recent US Fed speakers, if he suggests that negative interest rates in New Zealand are looking a little less likely, the NZD could see some near-term support.

Asia today

This morning, we've already had South Korean Unemployment for April, which was surprisingly good, remaining unchanged at 3.8% of the labour force.

Prakash Sakpal writes about the other developments and scheduled releases in our region today:

"**India:** Prime Minister Narendra Modi has announced INR 20 trillion (10% of GDP) stimulus package to help the economy weather the Covid-19 storm. The details are yet to be out but the package aims to support businesses, workers, and financial system liquidity. It also contains previously announced measures, including the monetary stimulus by the central bank (RBI). The announcement is a big push to an otherwise anaemic initial move comprising only 1.3% of GDP fiscal support and 2.4% of GDP RBI liquidity boosting measures. However, with rapidly rising Covid-19 infections (current count 74,292) it's a long wait before the economy responds to the stimulus.

Malaysia: 1Q20 GDP is due today. The consensus is centred on a -1% YoY growth. We are more bearish with -4.2% forecast, the worst in over a decade. The political turmoil overthrowing the Mahathir government in late February, the Covid-19 lockdown since mid-March, and plunge in the global oil price – all came crashing down on the economy. Surprisingly exports and manufacturing eked out small yearly gains, but services including retail, transport, tourism, etc. likely took a strong beating. On the spending side, it should be an across-the-board dip in consumption, investment, and net trade. The first-quarter GDP doesn't capture the full impact of Covid-19, which is for the current quarter much which is gone in movement restrictions (now extended until 9 June). We doubt aggressive fiscal and monetary stimulus would be effective in arresting more steeper GDP fall in 2Q (ING forecast -6.6%).

Singapore: The authorities announced the suspension of operations of one more airport terminal, Changi Terminal 4, from 16 May. This follows the suspension of operations of Terminal 2 started on 1 May for 18 months. These moves provide a glimpse into a prolonged economic gloom ahead. With policy stimulus maxed out, hopes are pinned on the pandemic ending for the stimulus to kick-start the economy".

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