Buying some replacement trainers is not the same as a V-shaped recovery

The coming months will see further switches of global growth numbers from negative to positive like the recent US retail sales. This does not mean a V-shaped recovery is happening. But that won't stop markets from pricing it as if it was

Source: Shutterstock

Some pent up demand is inevitable

This Friday, I and about 5.5 million other inhabitants of Singapore will be free again to eat out, play sport, and shop. And I can tell you, for some things, there is certainly pent up demand. My wife has already booked herself solid for tennis all next week, my eldest son's toes are poking out of the end of his trainers and will need replacing, and the younger one has managed to break his Apple laptop charger, the only one like that we have in the house, which will make remote learning tricky. That will need replacing.

We'll also be able to celebrate the younger one's 12th birthday on Saturday by eating out. I may also lay in a bottle of gin to celebrate my re-found freedom. The drinks cabinet, which started the lockdown bulging with many, many bottles, is looking pretty bare, except for a couple of things I was reserving for a more apocalyptic scenario. So relative to my normal expenditure, this weekend is likely to see some significant bounce, and that is probably true for many families, not just here, but across the world.

And it is in that context that we should take yesterday's US retail sales figures, which showed an

18%MoM increase. It sounds great - and it is indeed encouraging. But growth rates in the "wrong hands" can tell you a very misleading story. In terms of dollars, the figure just released, was about $50bn lower than you would have expected if Covid-19 had never happened. It is still a long way below pre-Covid levels. And the bounce over the coming months may be much more muted, once all the replacement trainers have been purchased.

And as James Knightley (JK), our Chief International Economist covers in this note, this is also the message that Fed Chair, Jerome Powell, is still conveying. In my opinion, which is in line with, but defers to JKs house view on the US recovery, such caution is warranted, even if it is tinged with hope that recovery figures like these retail sales numbers and US housing-starts figures due later today will show some strength. We don't imagine markets will share this nuanced view. For them, it is all or nothing. And so they will likely make the most of any good news and continue to be dismissive of any bad news.

It isn't just households that the lockdowns have been stressing

Recent flare-ups in a number of countries, not just the US, are not just backlashes against institutional racism and repression, though that is the root cause. They also probably owe to the stresses of being cooped up for months.

But it looks as if governments are also showing signs of being stressed out. Who knows what is really going on in North Korea, but I wonder if blowing up the liaison office for N-S Korean relations yesterday and making various other threatening remarks about putting troops into the DMZ was more for domestic consumption than any genuine threat? It is possible we should put the latest row between the US and Germany and the US and S Korea into the same bucket relating to US troop withdrawal. I'm no military expert, but I can imagine that such moves will take a lot of planning to execute, so might be more of a story for 2021, if you follow my logic...

More serious, the clashes in the Himalayas between China and India, reportedly leaving 20 Indian casualties. This could become uglier still if cool heads do not prevail. Though as Prakash notes below, these flare-ups have a history of burning bright but quickly. Let's hope so in this case too.

Bottom line, it feels as if it won't take a lot for simmering tensions which exist on a vast number of fronts globally, to flare up and lead to real clashes. This may really be more about diverting attention away from bad domestic situations, but the outcomes can be very damaging - another reason to prepare for volatility despite the equity market's rose-tinted view of the world.

Today in Asia (and beyond)

As far as the G-7 is concerned, I already mentioned the likely bounce in US housing starts later today. but from **Japan**, we have already had some more sobering trade data, with May exports down 28.3%YoY, worse than expected and a deterioration from the 21.9% YoY decline in April. This is a helpful reminder that while some domestic figures may well bounce as some lockdowns ease, the global picture remains horrible. The US and Western Europe are not the only countries on the planet consuming goods made in Asia, Lockdowns are being reinstated in India, and in China. Latin America looks to be a new hotspot of Covid-19. And as we noted in Monday's note, this is not a second wave, but the first wave spreading out to other countries. And on a global scale, it is getting worse, not better. This does matter.

Prakash Sakpal adds to my India comments and picks up some other developments in the region today:

"**India:** The Indian rupee (INR) has seen increased depreciation in the last two trading sessions as a result of the escalation of border tensions, this time with China. 20 Indian soldiers have reportedly lost their lives in the worst clash with China in over 40 years. This comes at a bad time for India, which is reeling from the Covid-19 pandemic. History teaches us that such skirmishes usually abate in a matter of days or weeks. However, India's worst economic plight in decades suggests there won't be any lasting relief from the currency weakness in the near-term. That said, recent consolidation in line with EM was behind the recent revision of our 3-month USD/INR view to 77.4 from 78.9 (spot 76.2).

Singapore: Non-oil domestic exports have started to give in to weak global demand, finally. Just released, data for May showed a 4.5% YoY NODX fall, worse than the consensus of 1% growth. This followed a strong surge in the preceding two months (17.6% and 9.7% in March and April, respectively). Two consecutive months of month-on-month NODX falls confirms that the strength seen earlier in the year is wearing off. Indeed, it was lop-sided vigour, unsurprisingly led by a surge in pharmaceutical exports, while key exports electronics were missing in action. This state of affairs reversed in May with pharma posting a 7% fall and electronics surging by 12.5%. By destination, shipments to China remained a weak link (-7% YoY) but those to the US and Japan continued to be strong with over 50% growth. Weak NODX supports our view of a sharp GDP fall in the current quarter (INGf -9.2%), although most of this weakness stems from the service sector, disproportionately affected by the Covid-19 circuit-breaker.

Thailand: The Cabinet approved a THB 22.4 billion (0.1% of GDP) stimulus to boost domestic tourism as the global pandemic is likely to keep international tourists at bay for a long time to come. The package includes support for travel companies, subsidised hotel stays and discounted flights (up to 40% on both), and travel incentives for health workers and volunteers. Weak tourism and related dollar inflows will weigh on the THB. Even so, the THB has regained its status as a top-performing EM currency that will receive a further boost from renewed global risk-on sentiment this week".

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