

Central banks stand ready

A hint from the Fed Chairman, Jerome Powell last Friday suggests that rate cuts from the Fed (at least) are on the way (ECB is being a little more hesitant). But it is acts of financial forbearance - debt relief and forgiveness - being practised in China, that is really needed in what is ultimately a cash flow problem



Monetary paracetamol

Following what was about an 11% sell-off in equity markets last week, Fed chairman, Jerome Powell, said on Friday that the Fed would "use our tools and act as appropriate to support the economy".

That has been taken as a fairly clear indication that the Fed will cut rates at their March 18 meeting. But that is still weeks away. So could it mean sooner? You can't rule it out. The BoJ already seems to be getting ready for action as soon as today, with stories circulating on the news wires suggesting that the BoJ will be more active in supporting the market and extending special loans to support bank loans to companies. Will the ECB, the Bank of England and others join? And, more importantly, will it do any good?

Well so far, there isn't much from the ECB to support the idea of a coordinated reaction. The last comments we got from Europe involved ECB President, Christine Lagarde trying to pressure

Germany to provide some fiscal support. In terms of the ECB though, it was more of a case of "we're monitoring the situation closely, but it is too early to move yet" (our summary). Fairly standard Euro-sluggishness, though more worrying given that Europe now seems to be the new hot zone in terms of the Covid-19 virus spread.

Its all about cashflow

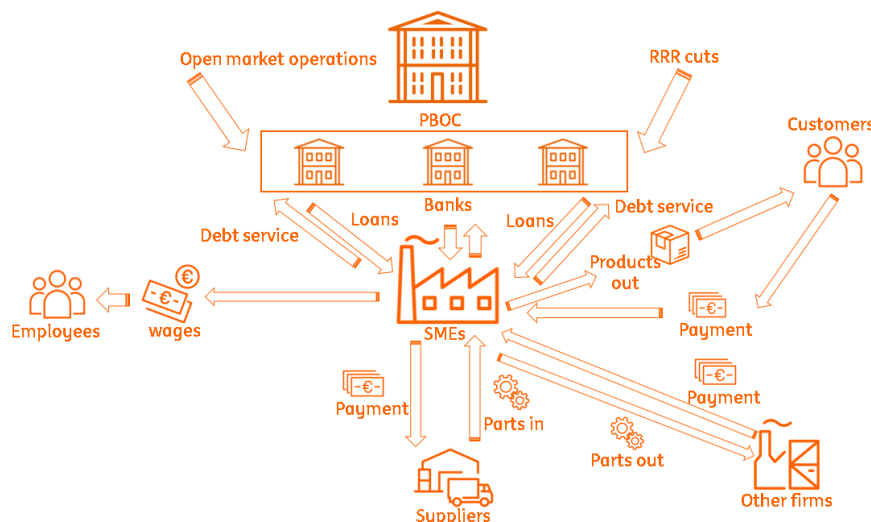
The infographic below was drawn by me, which is why it is rather messy. I will be asking my more talented colleagues for some help shortly. But it still helps to describe the problem facing economies in the throes of a Covid-19 infection. It's drawn with China in mind, hence the labelling of PBoC at the top, but you could insert any central bank here.

At the heart of the diagram are SME's. They need to keep paying wages to their employees (left-hand side) and to suppliers (bottom) and debt service to banks (top). Out to the right, products are sent, or rather, are no longer being sent to end-customers and to other producers. And in consequence, there are no earnings coming back.

What this shows is that a rate cut only helps a little bit, by easing debt service costs. But it does little if anything to solve the bigger problems of cash flow interruption. This is where the BoJ's special loans (if accurate) and the PBoC's suggested easing of banks' response to late or delinquent loans is closer to what is needed.

So rate cuts from the US may come and they may even be off-cycle - who knows. The market will rally. But the virus won't care. And most corporations squeezed by the epidemic won't get much relief. And the rally won't last. We've moved from buy on dips to sell on rallies.

Cash flow infographic



Source: ING
Cash flow infographic

Quite a weekend

We've already had a raft of PMI data out across the region this morning, and not all of it terrible, unlike the Chinese PMI data out over the weekend. [Iris Pang wrote up that data in the attached](#)

[note](#) and is now hard at work looking at how much to slash from her GDP forecasts. Industrial production and Fixed Asset investment figures will be instructive in that process

And it has been an exciting weekend for Malaysian politics too, which has led to Mahathir Mohamed losing his job as PM. [Prakash Sakpal has this covered here, ahead of tomorrow's expected BNM rate cut.](#)

In the G-7, the weekend gave us a big win in South Carolina for Joe Biden in the Democrat nomination race. Pete Buttigieg has dropped out, providing Biden with more room in the centre to take on Bernie Sanders. It's Super Tuesday tomorrow, remember.

And today, we are likely also to hear some less than constructive comments from the EU and UK as they meet to actually discuss what sort of trade deal is possible. It won't sound pretty. But that is to be expected at this stage of a negotiation. It might not provide much support to the GBP, or EUR though.

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