Opinion | 23 February 2020

Covid-19 goes global

Markets likely to show extreme caution in the face of global spread of the Coronavirus - this is no longer solely an Asia issue



Source: Shutterstock

Italy joins South Korea at the top of non-China infections

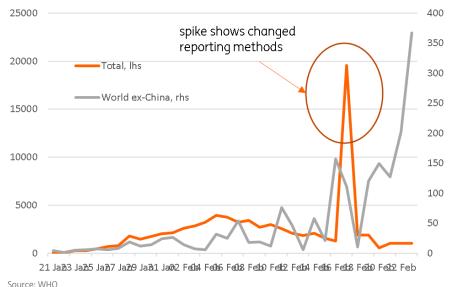
We use 2 different sources for following the spread of Covid-19 - the first, the <u>Worldometer</u> <u>website</u> is helpful in giving the latest updates and most up-to-date tally of total infections and infections by country.

But as a rolling total, it is difficult to use the Worldometer data to highlight new cases unless you look at it at exactly the same time each day, so for that, we use the <u>World Health Organization</u> <u>situation reports.</u>

Either way, the glaring message coming from the data is that Covid-19 is going global. China has a total of 6942 cases, but S Korea on 602 is really beginning to pick up pace, and alarmingly, this is also gathering pace in Italy, with 157 cases, and Iran on 43.

Reassuringly, Italy is implementing similar lockdown processes to those used with some positive effect in China, mobilizing the army to prevent movement in or out of the affected towns and stopping sporting and cultural events. The next few days will hopefully show whether Italian actions were quick enough to nip this in the bud, or whether this virus has now gained a toe-hold in Europe. Already, this is beginning to have impacts on intra-EU travel, with a train stoped at the Italian / Austrian border due to suspected infected passengers.

New cases China and Ex-China



New cases china and ex china

Markets reverting to risk-off, but this move can go further

The equity market seems to be slowly waking up to the fact that something is wrong, though last Friday's move in the S&P500 looks small relative to the scale of the potential shock that is coming. But maybe Italy seems closer to home for US investors than China or South Korea, so that might help change the mood in the market.

The G-20 meeting at the weekend gave rise to various woolly comments that central bankers "stand ready to blah-blah blah etc". Sure, I think we can all now imagine that rate cuts that looked like a downside risk in the event of something going wrong are now beginning to look more like base cases. The Bank of Korea meeting later this week is a good case in point. We didn't think there would be any more easing from them this cycle. Now, well, why not? And it is quicker to mobilize a rate cut than to come up with fiscal support. But even the most optimistic equity investor might be hard pressed to accept that rate cuts will do much to improve the economic situation caused by the spread of this virus. In other words, if we are approaching the point where the optimists throw in the towel, then we can expect to see further sizeable down moves in US Treasury yields, and further local currency weakness in the Asia Pacific region.

A working hypothesis, which admittedly requires some more testing, is that Asia-Pacific currencies where there is greater room for a policy respose will fare better than others. Though the reality is that room for action is narrowing in all economies in the region.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.