Curb your enthusiasm

Sucker rally - a sharp abbreviated upturn in stock prices that occurs during a major bear market - The Financial Dictionary

Fireworks

Source: Shutterstock

Early morning game

I described some days ago how one of the little rituals I go through each day on reading the news headlines is to then second-guess how markets have reacted - it can be quite surprising. Today, I reversed that procedure, and looked at the market pages first, and then tried to figure out the headlines.

Equities up large, bond yields in sympathy increase.

Clearly, either good news on the economy - Congress has finally passed its stimulus bill?

Or some good news on the pandemic - daily new cases beginning to decline? A workable treatment while we wait for a vaccine?

Grim reality

The second part of my daily routine these days is to check out the latest on the coronavirus pandemic by updating the website on my tablet from the previous day and looking to see how the number of the total cases has risen. Today, it was eyewatering.

On checking the breakdown, many of the big epicentres in Europe, France, Germany, Spain, have shown steep increases overnight, though Italy continues to come down. It looks like just setting up a lockdown does not bring immediate relief, and there will be some further tough days ahead in these countries until these measures start to bring some relief.

And no, there is no agreement by Congress yet on the stimulus package. Sure it is coming, and the headline will be large. Though what form the spending takes is uncertain. And the market will probably rally again on that day.

Much more worrying, I think, is the direction the US is taking, trying to strike a compromise between the economic damage from the shutdown, and the economic damage from the pandemic.

I suspect that in reality, there is no trade-off at all. You can either let the pandemic rip through the population, hope for some herd immunity to protect against any second wave, and keep ploughing on (not easy if infection rates are very high, and the population reasonably chooses to self-isolate), or you can adopt what most economies are now doing, which is a sizeable shutdown, and wait for localised transmission to subside. That has been proven to work in China and South Korea. There is a more certain economic cost here, whereas the costs of an untrammelled pandemic are harder to quantify in advance (surely much higher though?). And there is also a death-toll question too, and one that I think the trade-off approach does little to address. It cannot reasonably be ignored.

In the end, though, I can find no justification for the markets current enthusiasm. What I can do is hear a lot of very intelligent people when it comes to talking about markets, balance sheets and P&L accounts, talking absolute rubbish when it comes to something outside their sphere of experience...a global pandemic.

Lockdown worked in Wuhan

One place where a lockdown has worked, and is now being relaxed, is Wuhan, China. Iris Pang writes: "Wuhan is going to be released from lockdown on 8th April. Residents from Wuhan who want to leave the city need a doctor's certificate as well as a free light on their Alibaba apps to show that they have not interacted with infectious places and people within the last 14 days". This is a great use of technology that while on the one hand, is monitoring your activity, but on the other, allowing you to potentially return to work. Some trade-offs do work.

On a different note, Iris also notes: "China's government has proposed that there should be a holding company above the asset management companies (AMCs) to separate the risks of AMCs from the government. This indicates there could be more bad assists from banks and the bond markets resulting from Covid-19".

We also have this from Prakash Sakpal on some of the other big events in the region" In India, Prime Minister Modi last night announced the complete lockdown of the country for three weeks to break the Covid-19 transmission cycle as infections crossed the 500 mark. The government also has allocated $2 billion for the healthcare sector in this emergency. The lockdown will certainly knock a couple of percentage points off GDP growth in the current and next quarters. Finance Minister, Nirmala Sitharaman, has announced a series of support measures, though these only include waivers and relaxations of tax and bankruptcy codes, no material stimulus which still seems to be in the making. The talk on the street is of about $20 billion (1% of GDP) stimulus. But given the enormity of the crisis, it could be more than that. This also raises the chance of the RBI cutting rates by more than our 50bp forecast at the meeting next week (3 April). All this means we could as well see the INR weakening past 80 against the USD within days.

It's also decision day for the Bank of Thailand. An emergency 25bp rate cut on Friday reduces the odds of another cut today. However, with the worsening Covid-19 situation both locally and globally and fiscal stimulus slow to arrive, pressure is on for the BoT to do more. The consensus (including us) is tipped towards a 25bp cut today to 0.50%. Just ahead of the BoT policy announcement comes manufacturing data for February, which should provide some sense of GDP growth in the current quarter. We see GDP growth slipping into the negative territory and staying there for much of the year, likely forcing the BoT to deliver more policy rate cuts ahead while inflation continues to be subdued.

In Malaysia, February CPI data is due with consensus forecasting a slowdown in inflation to 1.4% YoY from 1.6% in January. Bank Negara Malaysia, the central bank, has announced a moratorium on loan repayments for small and medium enterprises (SMEs) and individuals affected by the virus. While this concession will last for six months there will be no waiver of loan and interest repayments accrued during this period. We continue to see at least a 50bp BNM rate cut to 2.00% in this cycle and expect it well before the next scheduled meeting in May".

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