

Delta force

Rising Delta variant Covid-19 cases are not yet dampening market expectations. But they easily could. The return of Covid to China is our biggest concern. Aggressive measures should bring it under control - the question is, how fast, and at what economic cost.



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Covid up, again

The Worldometer index we use for our global Covid cases shows a rise in the number of cases in a growing number of important countries as the cumulative global total ticks over 200 million. About a month ago, US daily cases were down at about 5,000. They are back at 96,000 now and rising. And the death tally has also picked up, showing 480 as of writing. The US is not alone. European countries are also showing further signs of Covid increase, while in Asia, while the latest wave is hardly news following the recent waves in SE Asia, the small but significant rise in cases in China is grabbing attention.

China has shown before that it is willing to take tough action to control Covid, and we don't doubt that it will do so again this time. Tough restrictions on movement and travel already in place will likely bring the desired results. But the delta variant is a particularly slippery little critter, and the concern for us, and we imagine, many others, is how quickly this will occur, and at what economic cost in the meantime. There are plenty of stories on newswires talking about weakening pressure

on the CNY. And on top of Covid concerns, new talk of curbs on online gaming following a news agency report of games as "spiritual opium" is spooking investors, who may be wondering, what next, following the regulatory tightening up across a number of industries in recent weeks.

One this is for sure, and that is that talk of a synchronous global recovery is garbage. 2021 is still hurting due to Covid, and it may take some extra effort in terms of possibly a new targeted vaccine against the delta variant, boosters or some other remedial measures to ensure that 2022 lives up to what may now be looking like unrealistic expectations. People "in the know" are suggesting that for Delta, herd immunity may require 90% to have been vaccinated or have existing immunity after infection. That is still a reach for even the best-vaccinated countries.

Yet with all this Covid doom and gloom floating around, the equity markets seem, as ever, to be happy, making all-time highs in the US on the back of some stronger earnings numbers. It doesn't take a lot for US Treasury yields to decline, and they have done so again despite the equity move, though only by 0.5%. the 10Y UST now yielding 1.172%.

A decline in market sentiment, if it comes, will likely support the USD, though this will probably be tempered by thoughts that the Fed will be even more reluctant to do anything to policy in this environment, so that may help keep the currency anchored roughly in place. Recent history supports this view. In the last 24 hours, EURUSD tried to go higher and then lower, but returned to almost exactly where we were this time yesterday.

What to watch for today

There was little of interest in the economic calendar yesterday, with an unremarkable durable goods orders print from the US about all there was on offer from the G-7. Today, we get ADP and the service sector ISM ahead of Friday's payrolls, and we also get ISM services PMI's elsewhere, including in China, where the Caixin survey will provide one of the local highlights.

The Bank of Thailand also meets. Prakash Sakpal writes "Bank of Thailand meetings have been the least exciting central bank policy events in the region lately. Today's meeting will not alter this trend with the policy rate widely expected to remain at 0.50%, the lowest it has ever been since May 2020. Our only interest in today's meeting is whether the central bank cuts its 2021 growth forecast, currently 1.8%, as the Covid-19 spread further delays economic recovery. A senior BoT official recently warned about the current Covid-19 wave trimming 0.8 to 2.0 percentage points from GDP growth this year. We have revised our 2021 growth view from 2.1% to 1.4%. Inflation is back near the low end of the BoT's 1% to 3% policy target after a brief spike in April. Such an economic state warrants more policy support, but probably not from the BoT. We expect an on-hold BoT policy throughout 2022, which means the Thai baht depreciation trend has a long way to run. Our end-2021 USD/THB forecast is now 35.00 (spot 33.03)".

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com