

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 thing 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)".

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