

## Destination - unclear

Better news on vaccines, worse news on infections, and pre-payrolls nerves suggest few will be taking big bets today



Vaccine

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### A decent trial yes, but a practical vaccine remains way off

The cue for Asian markets from overnight US trading is a mixed to slightly positive one today.

On the plus side, yet another drugmaker has released promising details of the antibody response to its trialled vaccine, which is always a shot in the arm for the stock market (sorry, couldn't resist that one). But markets do seem predisposed to positive news these days, and for balance, it is worth noting that trial numbers in this study were fairly low, and one of the other promising vaccines has shown some undesirable side-effects in its larger doses which may prove troubling. In any case, the US Food and Drug Administration doesn't seem to be lowering its safety requirements for any potential vaccine, no matter how promising it looks, which suggests that the "realistic-optimistic" timeline for any vaccine will be next year at the earliest.

But if the news on a potential vaccine is looking a bit brighter, that is not the case for the current run rate of the virus, especially in the US, where the 7-day moving average of new daily cases continues to move higher. I am monitoring the daily death tally closely against anecdotes of ICU bed availability becoming exhausted in some of the most affected states, as it seems likely that this will start to pick up over the coming week. That may cause a rethink by markets (you'd think, though these days I'm not so sure).

And its also payrolls day in the US today, which is always a bit of a lottery ahead of the

Independence Day holiday. With the distortions clearly present in the data, it is just not clear how one should respond to whatever data gets spat to by the statisticians today, and some market players may think it more prudent to sit this one out ahead of the long weekend. For what its worth (and right now, the answer to that is probably nothing) the ADP survey yesterday came in at 2369 thousand jobs created, a bit weaker than the consensus and lower than the 3 million-plus that is pencilled in for non-farm payrolls. Moreover, [as this note by James Knightley on yesterday's manufacturing ISM data highlight, there are still signs of significant strain in the US labour market.](#)

## Fed taking its time to decide

Overnight minutes from the last **US FOMC** meeting suggest that the Fed is still some way off adopting yield curve control and has mixed feelings about the policy that has been adopted by several other central banks worldwide.

But it does seem to be mulling some more positive forward guidance, and in a way that will not cause me to go off on one of my usual rants. The version that seems to be favoured is predicated on rates not rising until (for example) the inflation rate not only reaches but overshoots its target rate for some time. By making policy state-contingent, rather than time-contingent (for example, we will not raise rates for the next two years at least), it avoids painting itself into a corner if the economy were suddenly to look much stronger, though it still has its pitfalls. Not the least of which is wondering if the US will ever manage to consistently hit (or exceed) its 2% inflation target again? It's not that ridiculous a question, look at Japan or the Eurozone.

## House bill on China sanctions passed

In news that is a little closer to home, the US House of Representatives yesterday passed a bill sanctioning officials deemed to be exercising Hong Kong's new controversial National Security bill. The bill, which is not identical to one put forward by the Senate, now has to go back to the US Senate for approval before it passes to the President to be signed into law (or just left unsigned on his desk).

President Trump has remained very outspoken about China in recent weeks, but signing a bill and tweeting are very different things, and a bill is almost certain to lead to retaliation, as China will certainly view this as interference in its sovereign affairs. That is another potential hotspot for markets in the coming days.

## The day today

**South Korea** has already released consumer price data for June which have come in a bit stronger than the consensus for no change, rising 0.2% on the previous month. That leaves the consumer price inflation rate at zero, which isn't great but is better than the May reading of -0.3%YoY. The Bank of Korea has been sounding cautious about the prospects of further rate cuts, now that the 7-day repo rate is only 0.5%. This helps them to leave economic stimulus to fiscal policy.

And we also get **Australian** trade data out this morning, China's slow recovery and some supportive commodity price data provide some optimism that the year-on-year decline in exports in May will show some improvement from the -11%YoY April reading, which should mark the low for Australian exports. Import data will also be worth a look as they will shed some light on how Australia's domestic recovery is going. Again, the news here may be mildly encouraging.

**China's** central bank (PBoC) has finally cut rates after the government signalled some weeks ago that further monetary stimulus was on its way. The targeted rate cuts will help many SMEs and firms in the agricultural sector, and won't have much impact on broader rates of the USDCNY. [Iris Pang writes about the latest PBoC move in more detail here.](#)

And Prakash Sakpal also notes some **ASEAN** developments from yesterday ahead of other data today:

**Thailand:** The manufacturing PMI rose to 43.5 in June from 41.6 in May but remained in contractionary territory. The Business Sentiment Index followed on with a rise to 38.5 from 34.4 over the same months. The Consumer Confidence Index due today is unlikely to be left behind either (48.2 in May). Despite improvements, these indices remain consistent with our forecast of a greater than 8% YoY GDP fall in 2Q20.

**Malaysia:** The manufacturing PMI rose to 51.0 in June from 45.6 in May as easing of Covid-19 movement controls released some pent-up demand and factories moved back into action. This is the second Asian economy with a PMI back above the 50 threshold for expansion (the other is Vietnam). However, it only underscores some recovery over dramatic manufacturing declines in the preceding months. A 32% YoY plunge in manufacturing output in April was the worst ever. May wasn't any better given the accelerated export fall by over 25%. Indeed, overseas orders remained a weak spot in the PMI in June".

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