

Dismal data drops Dow

US March data is just the beginning, and we will see far worse ahead - are markets fully pricing that in?



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This data isn't quite blood-curdling enough

Let's start today with some US data:

- March retail sales: minus 8.7% month-on-month
- April Empire Manufacturing Survey: minus 78.2 (previous worst was -34.3 during the GFC)
- March Manufacturing production: minus 6.3% month-on-month

If I was reading these aloud, I'd probably do it in a mock Vincent Price voice (he of "Fright Night" and other horror fame...you know the one).

But even then they could have been worse. The control group of the retail sales release actually rose, and gasoline prices and auto sales were clearly a big factor on this nominal data.

James Knightley has written up both the [industrial production](#) and [retail sales](#) figures in these linked notes. His point (and the one I want to leave you with today) is that the April versions of these and other figures will be much, much worse. If this was Fright Night, what is coming next is the full box set of Friday 13th.

Markets down, some more than others

US equities, as measured by the Dow or S&P500 were down about 2% overnight and that will set

the tone for Asian markets today. There already seems to be some weakness in key Asian FX barometers such as USDCNH and USDKRW.

Bond markets responded even more strongly, with the 10Y US Treasury down about 12bp - which seems fitting against a manufacturing dip that was worse than anything seen since the end of World War II. More alarmingly, we note the 1 and 3-month Ted Spreads nudging higher again. This is just one measure of financial markets stress/distress but is probably reflected in others.

My guess, and this is only a guess as there is no, (in my view) good guide to what prices equities should trade at, is that Wall Street has not fully factored in:

1. How bad the data will get and
2. How long it is going to remain bad

Hope is being kept alive by talk of opening up the states, and later today in US time, we may here some "guidelines" from the US President, who seems to have backed off his earlier claim to have ultimate control over when this opening should occur. That's a positive sign. But we should be under no illusions that this marks a big step towards business as usual. It is merely a tiny step back from the brink, and one that may only be followed slowly by further small steps, and only if we are lucky and this doesn't set off a second wave.

Europes' pioneers in this deconfinement process, Austria, Denmark, and from next week, Germany, when they open up their small shops again, will be worth watching for clues as to how this is going to go for the rest of us still locked up in our apartments.

The Happy Moon-days

President Moon Jae-in's Democratic Party of Korea (DPK) looks set for a landslide win in the Legislative Assembly elections that took place yesterday. The DPK, which previously held power with a minority 120 seats out of the 300 Assembly, is, according to polls, on course for something closer to 180 seats and an outright majority. The vote looks like a referendum on President Moon's handling of the Covid-19 crisis, which has caused Korea far less economic damage than many of its neighbours. The lesson for others is easily learned. TEST, TEST, TEST.

Its a bit too early to predict a big policy shift now that he has a majority, but Korea's fiscal stimulus is quite small compared to some other countries in the region, so I wouldn't be at all surprised if this is loosened further in the months ahead. We may see more "on-budget" spending to boost some of the less impactful soft-loan type policies that dominate current stimulus packages and supplementary budgets. The deficit will widen, but I don't think anyone cares any more and Korea's fiscal position is a very good one, with a debt to GDP ratio only about 40%.

Today's data in APAC

We may see a small negative market reaction from bad **Australian** March employment data later this morning. But with the Reserve Bank of Australia (and government) all-in in terms of their policy responses, I doubt the reaction will be big or too prolonged. The real story for Australia is that they have very successfully managed to contain their Covid-19 problem and may soon be relaxing movement constraints. Having (correctly in my view) thrown money at the virus problem, they stand in very good stead to recover well at that point. Recent AUD strength has been appropriate, and any dip will likely be short-lived.

Prakash Sakpal writes today:

India reported a 35% YoY plunge in exports in March as it went into lockdown in the last week of that month. This contrasts with relatively firmer March exports from other Asian countries that have reported figures. This data adds further downside risk to our view that GDP will eke out about 1% growth in 1Q20. The extended lockdown through end-April spells a much worse outlook for the current quarter.

Singapore will release its non-oil domestic exports data on Friday morning (17 April). We are looking for a 21% YoY NODX fall, much weaker than consensus 8% decline. Meanwhile, property in Singapore appears to be bearing the brunt of the Covid-19 outbreak. Home sales were down 32% in March over February, led by a 90% fall in luxury home sales. With all these bad March figures, we imagine a steeper GDP fall in 1Q20 than the -2.2% advance estimate.

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