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.

Author

Alissa Lefebre
Economist
alissa.lefebre@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.schroder@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