

Don't Panic!

Good advice from the "Hitch-hikers Guide to the Galaxy" - but it is looking quite scary out there

Don't panic



Source: Shutterstock

Why not?

I suppose I should follow up a title of "Don't Panic" with some withering insight into why financial market conditions are not as bad as they appear to be. I'm not going to do that. But not panicking is usually good advice, so let's just leave that there and have a look at some market indicators. You can make your own mind up.

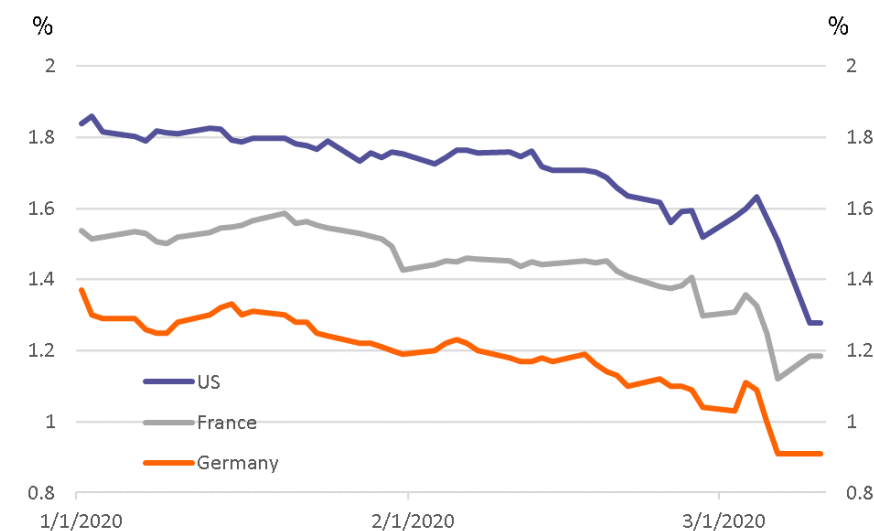
I'm going to focus on the inflation expectations series for Germany, France and the US. And I'm going to do this because "well-anchored inflation expectations" are the bastion of any definition of stability as far as most central banks are concerned. So if they are still well-anchored, and close to the medium-term targets of the central banks, then we can probably put any other market volatility down to short-term swings, and retain a broadly optimistic outlook.

So the first chart below is a short-term look at the 5Y 5Y-forward breakeven inflation rate for these three economies, and this can roughly be equated to what inflation rate the market thinks it will get on average over the medium term.

The chart below is a daily chart since the beginning of the year, and it has clearly been on a downward gradient since Jan 1 for all three economies. Not only that, but except for the US, which started 2020 only 20bp below 2%, both France and Germany have inflation expectations well below the ECB's 2% mandate. The last few days of plunging inflation expectations have merely given an extra leg down to all three series, but the arguments for additional central bank action were already fairly clear

Christine Lagarde looks like she will embark on some new support measures at tomorrow's meeting, but as she and other central bankers well know, fighting the coronavirus is not a job for monetary policy. All she is really doing is showing solidarity until much more concerted fiscal policy is unleashed.

5Y 5Y forward break-even inflation rate



This isn't the first time

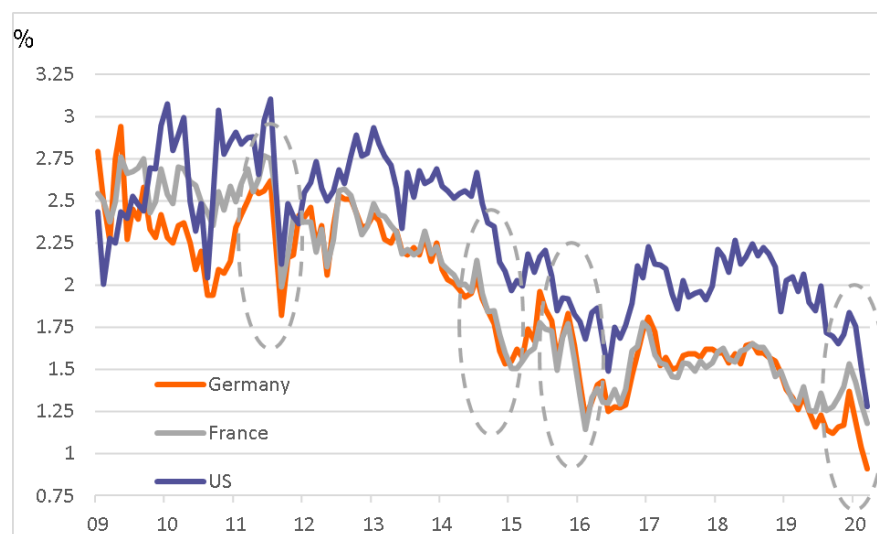
To put this drift away from stability into context, I've drawn the same chart, but this time, stretched out over the last decade or so. I've also drawn an ellipse around some of the comparable downward lurches in these break-even rates over that period.

Some of those episodes at the beginning of the series encompass elements of the global financial crisis, and between 2010 and 2012, the European sovereign debt crisis. The end of 2014 running into 2015 might reflect the collapse in oil prices back then, though this is probably the only other occasion where oil prices may have contributed to the downshift.

However, what is equally obvious from this longer-run chart, is that these inflation expectations measures have been on a downward trajectory for the entire period. Having started the post GFC period centred around a breakeven level of 2.5%, neither country now even manages 1.5%, and Germany is clearly sub-1%.

So not only are inflation expectations not well anchored, they are well below target. We cannot expect central banks, even those with apparently no clear ammunition left, to do nothing.

5Y 5Y-forward break-even inflation rate



Source: Bloomberg, ING

What's coming next may be new

I'm not going to go into detail of what the ECB and Fed might or should do next as that isn't my job. And I've been accused by some colleagues of unjustly describing the Bank of Japan as being "out of ammunition". I stand by that opinion and feel it is reinforced on each occasion that BoJ Governor Kuroda says that he stands ready to act without hesitation, without anything new being announced. It reminds me a little of the Monty Python sketch where new recruits are being trained to defend themselves in the event that they are attacked by someone wielding a price of fruit. Sure, there are "loads" of things the Bank of Japan could do. But having cut rates to negative, targeted zero yields on government bonds, bought government bonds outright, and then when none of that worked, bought ETF's, I think that merely coming up with some new form of providing liquidity to the banking system or industry directly might readily be dismissed as yet another attack on "deflation" with an over-ripe banana.

That said, and this is not the first time I've said this, measures which provide cash flow support during the ongoing Covid-19 crisis ought to be viewed as eminently sensible and worth substantial government backing. It is not clear whether this sort of bridging-finance and financial forbearance amount to fiscal or monetary policy. It doesn't really matter except that if governments are finally getting behind their central banks, it is an important step in the right direction. For too long, Central Banks have been fighting a rear-guard action with few if any useful tools, and little or no help from their governments.

Today, the Abe government has come up with some more support measures in the face of their own Covid-19 problems. It includes the following fiscal measures:

- JPY48.6bn to stop the further spread of the virus.
- JPY246.3bn to support fallout from school closures
- JPY119.2bn to support businesses and employment
- JPY16.8bn Emergency contingency

plus some financing measures

- JPY606bn safety net lending
- JPY 543bn special loans relating to the coronavirus
- JPY204bn financing support for large and medium firms from the Development Bank of Japan and others
- JPY250bn: Financing support for supply chains from the Japan Bank for International Cooperation.

All this sounds good news, but it turns out to be fine-tuning from the JPY500bn funds already earmarked in last year's budget plus some existing contingency funds. This is a start, and it is a lesson for other countries. But it is unlikely to be enough.

A final thought on Covid-19

I'll finish today with a chart of Covid-19 confirmed cases and average capital city temperatures. I sent this out as a Tweet a few days ago, and I've updated the numbers.

The countries chosen are those that had at least one case of Covid-19 confirmed as of February 1. There were 23 countries with at least one case back then. Iran was not one of them. Incidentally, Tehran at this time of year is quite cool, averaging a high of around 11.1 degrees Celcius in February. The temperature shown for each country is the average "high" temperature for the capital city in February. I've also left out the big hotspots, China, South Korea, Italy etc as they dominate the chart. None of those capital cities averages above 12 C in February. I know that for some big geographies, the capital city is not necessarily representative of the national climate, or where the outbreak is centred. But it is a fixed "rule" I've followed, and you can't accuse me of cherry-picking cities to match the data.

The countries are arranged on the X-axis in order of their average February temperature.

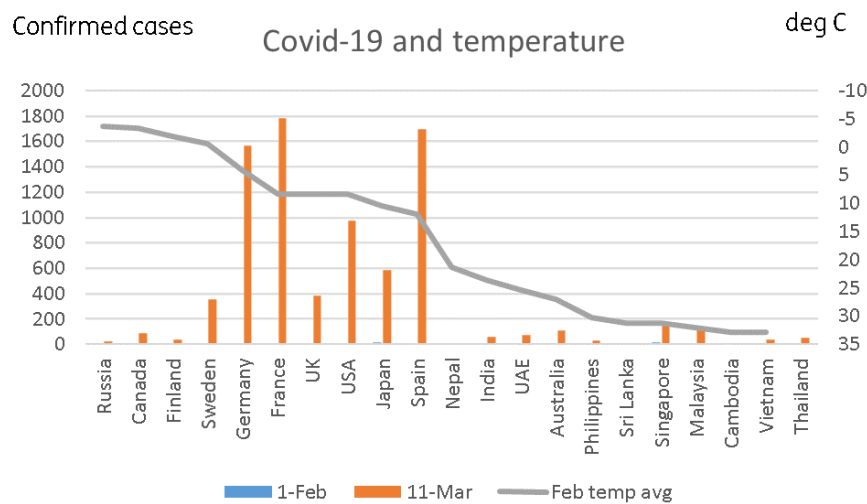
I won't attempt to suggest any theory here. Once again, I'll leave you to make your own minds up. The motivation, though, was the scepticism of some that temperature may be a factor in the spread of the disease. This is especially because early on in this virus crisis, Singapore was frequently mentioned as the example to disprove the warm-weather optimism expressed by some, including the US President.

I will, however, mention that Singapore, where I live, has slipped down the global table to about 16th place. It is always hot here. Though it is also always very humid and not always sunny (ultra-violet also suggested as anti-viral - another potential source of investigation). It was also a very popular destination for tourists from Wuhan, at least compared to most, if not all of the current "hot" zones. So it has been quite thoroughly "tested", compared to some other countries that now have more confirmed cases.

There are outliers. Russia, Canada and Finland, and I have had a number of twitter suggestions/criticisms on Twitter as to why this is so. But here is one other one: "Gloves". Think about it.

Keep watching the numbers for these countries, since if they start to accelerate, then this chart will look a lot more compelling. And if you want, you can also follow some of my twitter rants. @RobCarnell1

Covid-19 cases and average capital city temperature (February-high)



Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

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@ing.com

Michiel Tukker

Senior UK & Eurozone 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

Senior Economist, Healthcare & Technology

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@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
Deputy Global Head of Editorial 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

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 Corporate 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

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@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, 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