

## Doubts beginning to creep in

US equity markets were weak yesterday, but I would be surprised if this lasts



A trader working on the floor of the New York Stock Exchange.

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### Yes, there was some bad news, but there usually is

This could be an interesting day for markets. US stocks closed down yesterday. There were a number of factors that could have helped risk sentiment diminish sufficiently to lead to this. These include:

- the higher initial claims figures (see the comment from James Knightley in our daily yesterday which flagged this likelihood and [also his write up of the claims data](#)),
- the delay of the much talked about next fiscal stimulus plan from the Republican Party to next week putting back the start of negotiations with the House of Representatives,
- the cancellation of the Jacksonville Convention (not intrinsically risk-off, but highlights the next issue),
- and deaths from Covid-19 continuing to creep higher, staying well above the 1000-a-day mark as the US racks up more than 14 million confirmed cases in total.

Despite all this, equity futures look more positive than negative, which suggests that it still only takes a small decline for the value-vultures to come swooping down and lift them up again. Likewise, the USD, which had been looking a bit stronger during the stock sell-off (and probably

also helped by heightened China-US tensions) is by no means a firm bet for today's trading.

## Not looking for a bigger correction

Against the backdrop of a weaker equities market, talk of NASDAQ bubbles, which is ever-present, seems louder than usual. You could probably widen this conversation out to stocks in general, and the dichotomy between Main Street and Wall Street. There is a good piece (they almost always are) by Cameron Crise today about the impact of "zero-forever" real rates on FANG stocks, which is worth a read for Bloomberg subscribers.

But a post-lunch chat with my colleague Fi, yesterday, prompted the following thought, that as central banks worldwide debase their Fiat currencies, and drive the real returns on financial assets like government bonds to zero (or negative), what you want to be holding is not financial assets, but real assets. And what is a stock, if not a claim on the productive value of real assets? So chuck away those CAP M models, the only justification you need for holding stocks is an aversion to purer financial assets. There is a slight problem with this though. If your main motivation for holding stocks is that you fear your Fiat currencies and bond markets are becoming intrinsically worthless, then I think I'd still rather be holding some agricultural land, and maybe some physical gold. Let's not call off the stock crash just yet.

## Today in Asia Pacific

We have already had some trade data out of New Zealand, which wasn't noteworthy, except for the fact that the consensus called both imports and exports exactly right to two decimal places, which looks a bit fishy. And Australian July PMI data, which showed strong gains for both manufacturing (53.4 up from 51.2) and even more so from services (58.5 from 53.1). Remember, these PMI indices are directional indicators not measures of absolute activity, but this is still an encouraging progression, even if the Australian economy is still underwater compared with 1 Jan 2020 (which it almost certainly is).

And Prakash Sakpal picks up the following other releases in the region.

**"Singapore:** Today's industrial production release will tell us which way the initial -12.6% YoY 2Q GDP growth figure is likely to be revised. The consensus is looking for a -2.6% IP growth, an improvement from -7.4 in May. The strong June NODX growth of +16% YoY means there is probably some upside risk to the consensus view on IP. However, this strong headline NODX growth masks underlying weakness reflected by month-on-month declines in the key drivers - pharmaceuticals and electronics.

**Thailand:** June trade figures are due today. The consensus median puts export and import growth rates at -15% YoY and -17% respectively. And the estimate for the trade surplus for the month is \$2.9 billion, which would bring the surplus in the first half to \$12 billion or \$7.5 billion wider than a year ago. The persistently wide trade surplus supports currency appreciation. The authorities have been turning up the volume of their rhetoric on the strong THB hurting the economic recovery. They should be relieved to see the THB has shifted to be Asia's weakest currency in July with 2.5% month-to-date depreciation after strong gains in May-June".

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