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# If it looks like a duck...pandemic fears grow

If it looks like a duck, walks like a duck and quacks like a duck, then it probably is a duck. The World Health Organization (WHO) is holding back from calling Covid-19 a pandemic. But does this even matter for economies and markets? At this stage, probably not

The Bank of Korea is caught between a weak currency and weak growth

Source: Shutterstock

## What is a pandemic?

Back on 30 January, the World Health Organisation (WHO) labelled the Covid-19 outbreak a "public health emergency". Markets, which had been remarkably dismissive about this up until then, briefly sold off, before resuming their rose-tinted view of the world.

More people are now questioning why the WHO does not now label Covid-19 a pandemic. And while a couple of days ago, I was asking the same question, today, I'm not sure that it matters.

The Merriam Webster dictionary definition of a pandemic is "an outbreak of a disease that takes place over a wide geographic area and affects an exceptionally high proportion of the population".

So far, the Covid-19 outbreak is present in 48 countries, with the following new countries added to the list overnight:

- Norway
- Romania
- North Macedonia
- Georgia
- Greece
- Pakistan

Part one of the definition looks to have been well and truly ticked. But for many of those, there are only one or two confirmed cases, or for others, the daily tally of new cases is still very small, with most of the others associated with the Diamond Princess cruise ship or evacuees from Wuhan. So the second part is still not close to being fulfilled.

I don't think this should concern us. For the purposes of markets, it is enough that this outbreak has the potential to turn into a pandemic and appears to be making good progress in that direction. So the next question is, how much further can markets fall?

## How long is a piece of string?

One answer to such questions that particularly infuriates TV presenters and limits my return invitations is, "How long is a piece of string?", but it really is about the only sensible answer you can give to what is actually a fairly silly question.

Today, markets seem to be taking a bit of a breather having sold off hard in the days before. That may reflect some investors looking for bargains. I suspect that it is far too early to do that yet, and that with this outbreak and its spread possibly only in its fairly early stages, a 2-day sell-off is not a realistic time to be piling back into risk assets.

So how much further? It certainly isn't possible to dismiss a very substantial correction. Some people are beginning to talk about global recession. I don't have a strong objection to that as a possible scenario.

## Bank of Korea holds rates at 1.25%

By the time the BoK made their decision to hold the 7-day repo rate at 1.25%, I'm not sure I can even remember what my call was. As far as the consensus goes, I think we were in a minority looking for no change, but that historic call had been subsumed by events, and verbally, I have to say that I was erring on the side of a cut.

Perhaps the plunge in the KRW was a factor holding them from moving? Or maybe the fact that this would have made real interest rates even more negative, or perhaps concern about the impact on residential house prices?

Perhaps a more realistic explanation would be to note that it would have done virtually nothing to help. The issue for firms in Korea, China and elsewhere that supply chains are being hit and workforces excluded from factories is cash flow. Wages still need to be paid, creditors paid, debt service to banks paid. And yet with no production and no goods leaving warehouses due to logistics issues, no income is being earned.

This really is a job for the government, and for banks. Financial forbearance is really what is needed. Rate cuts provide only a very marginal improvement on the debt service side of the problem and the issues run far deeper than that. The BoK did increase their bank intermediated loan facility to small and medium-sized firms by $5 billion. This is a more targeted approach than rate cuts. Though it may need to be expanded in the coming months. And there is still time for the BoK to react later on, depending on how this outbreak progresses. We'll keep an easing bias in place for them in with a 25bp cut in 2Q20 remaining our base forecast.

## Asia recap

(From Iris Pang) On HK, the total relief measures from Carrie Lam as well as from the Financial Secretary, Paul Chan, who announced the budget yesterday, amount to around 5% of nominal GDP. But I doubt the effectiveness of tax concessions and cash handouts to individuals. Consumers may not spend that money during Covid-19 and a likely return of protests. Low-interest rate loans to SMEs, however, should provide support for firms and can, therefore, stabilise the jobs market.

In Mainland China, the central government has issued notices day after day to make sure that local governments are getting the right balance between helping factories to resume work and preventing Covid-19 infections during this resumption of work. We expect that factory production can achieve normal capacity by May.

(And from Prakash Sakpal) In Malaysia, despite political upheaval earlier this week, the government is going ahead with a stimulus package to help the economy ride over the crisis brought on by the global Covid-19 outbreak. Interim Prime Minister Mahathir Mohamad met finance ministry officials yesterday in this regard and he will be making the announcement today around 4 pm local time. Already prepared before Mahathir's shocking resignation on Monday, the package is expected to include support measures for travel and tourism and also to spur domestic demand in face of persistent export weakness ahead.

Finally, yesterday's manufacturing releases were a mixed bag with Thailand posting a deeper than expected fall but Singapore's bouncing back in January. We don't pay much heed to this data as growth is poised for a bigger hit from the virus in February and the months to come.

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