

Lockdown is working

New cases: Italy down, Spain down (3 days), Germany down, France down, UK down (2 days)



Better news for Europe, US, not so much

I've been on the gloomy side of this pandemic since, well, not day one, but since mid-January when I first started to write about it (and was politely told to shut up by some back then).

But it does feel as if there is a ray of light appearing. Europe's lockdown procedures are beginning to deliver positive (in other words, negative) effects, and the numbers of new cases are in almost all cases down. That includes the UK whose lockdown is relatively recent.

It does not include the US, where lockdown is regional, not national, and while the rate of increase of new cases there is slowing, rather than the numbers themselves, the risk of another region becoming a new hotspot makes it harder to be so optimistic.

So is it time to become more optimistic in terms of markets?

If asked if it is now safe to dip your toes back in the water of risk assets, I think it might be. I still believe we have a long haul ahead, but if the numbers are right, and that remains a big if when testing has been so patchy, then we might be able to foresee an end to the lockdowns at the end of this month/beginning of May in Europe, later for the US on the assumption that they are lucky or that their lockdown is extended geographically.

An end to lockdown takes the pressure off businesses struggling to make earnings, on disrupted household incomes and on the financial architecture that has borne the strain of keeping all of this ticking along. So, if the pandemic news remains good, this might not be a bad time to explore risk again.

Scope for error remains large

And it's worth throwing in the possibility that some countries looking to beat their neighbours back onto the economic growth escalator may relax restrictions too early, or that some seasonality may be lulling us into thinking that things are getting better when in fact it is just getting warmer (scientists simply don't seem to be able to agree on this). So there is still a chance that the news reverses and restrictions on movement have to be re-imposed. But right now, it's looking more hopeful than it has for some time.

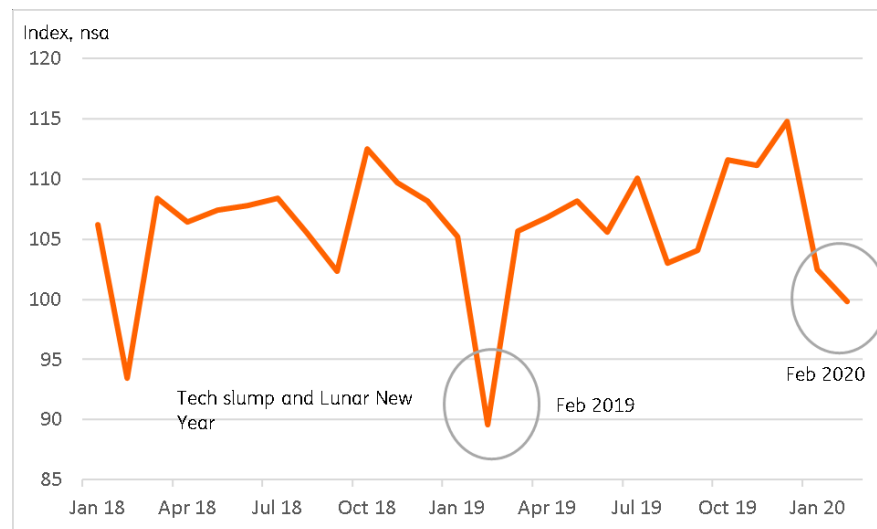
Surprisingly good Korean production data

South Korea released February Industrial production data this morning, and it actually looks quite good. Production was up 11.4% year on year, despite a 3.8% month on month decline. What you need to know about these numbers is that February 2019 coincided with the absolute bottom of the tech slump, and of course is also bang in the middle of the Lunar New Year, which in 2019, landed in early Feb. So you couldn't have a weaker base for comparison. March data will be a lot more telling. But it could have been worse, so there is some cause for optimism in Korea too.

Prakash Sakpal adds on Thailand: "Following a three-week partial lockdown in Bangkok (started last week), Phuket island is now shut for the entire month of April. The government is planning a third stimulus package worth THB 500 billion in April to soften the impact of the Covid-19 virus on the economy. This will be in addition to two packages totalling THB 517 billion announced earlier this month, bringing total stimulus to worth about 6% of GDP. However, with the virus likely to keep tourists at bay for much of the year, the economic contraction this year seems inevitable".

Watch out also for the Chinese Purchasing Manager Index (PMI) data today. The consensus is widely split, which is not surprising. It also means we will have to interpret the result with care. A big increase may simply mean things are better, not that they are good. That is the difficulty with diffusion indices like PMIs.

South Korean Industrial production. non-seasonally adjusted, index



Source: CEIC

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