

## Market nerves return

Optimism over a vaccine didn't last long...nor over the Eurozone's historic foray into federalism, and Brexit is looking messy. Welcome to pragmatism Wednesday



### Isn't Tuesday supposed to be the most depressing day of the week?

With the warm fuzzy flow of the weekend keeping spirits lifted during Monday, but dawning realization on Tuesday that most of the working week still lies ahead, Tuesday is supposed to be the most depressing day of the week, at least, according to something I may have read on the internet years ago. Google it...

But maybe weekends are so drab now that this isn't working how it used to. Yesterday (Tuesday) was boosted by talk of positive developments from a US pharma company which was developing a vaccine for Covid-19. It was also in the process of listing, so not perhaps too surprising that it sprinkled a little magic fairy-dust over this by talking up its vaccine prospects. By this morning, doubts appear to be growing, though it is worth bearing in mind that this US firm is just one of many developing a vaccine worldwide, and there are some promising signs elsewhere.

In Europe, promising talk of baby steps towards some fiscal federalism ([see also Bert Colijn and Carsten Brzeski's more optimistic take on this from yesterday](#)) with a EUR500bn recovery fund built

into the EU budget - the brainchild of Macron and Merkel - is already running into trouble. Austria, Sweden, Denmark and the Netherlands are sounding negative about the prospects of potentially underwriting some of the debt of others. I won't use this note to explore the alternatives to this idea, others with fewer political constraints on what they write can do that. Let me just say, break-up?

And the Brexit talks also appear to be going nowhere, raising the prospect that the UK walks out of talks at the end of next month. Unusually, I find myself sympathising with the UK negotiators' complaint that the EU is essentially offering them something which looks worse than similar deals with others, such as Canada, by overlaying demands on competition, state aid and market access on top of any free trade deal. I believe our house view is still that an extension to the transition period will be sought, but I'll need to check with James Smith on this, so don't hold me to that.

These areas of competition and state aid are exactly what the UK left the EU to escape, so there seems little point in continuing to talk unless there is a change in heart from the EU. From the EU side, the principle motivation appears to be that the UK should not end up with a deal that in some way doesn't result in the UK suffering for exiting. But comments along the lines of "You can't expect to have the benefits of club membership without belonging to the club", don't make sense now that the UK is already out. That was a position to take when there was still a chance of "remain". So in my view (and this may differ from the house view) it looks as if this is heading towards an "Australian deal", in other words, "no deal" and WTO rules by the year-end. Well, the economy is already in tatters so maybe no one will notice?

And in the US, there was nothing very interesting out of Powell and Mnuchin in their testimony to the Senate yesterday, despite some generally positive words about the need for more fiscal stimulus by Powell, and suggestions from Mnuchin that the US Treasury was prepared to write off all of the support it had extended to small businesses.

Roll on Thursday!

## Asia today

There's plenty of action in SE Asia today which Prakash Sakpal writes about:

**Singapore:** The Covid-19 circuit breaker is set to end as planned on 1 June but it will still be a long wait for the economy to be fully back on its feet. A gradual three-phase reboot won't be completed for several more months at least. The government is also planning a fourth stimulus package to be announced next Monday, 26 May. GDP growth may bottom in the current quarter (ING forecast -6.8% YoY), but we don't see it returning to positive territory during the rest of the year.

**Malaysia:** April CPI is due today. Mildly negative inflation in March (-0.2% YoY) is expected to get worse, with a consensus looking for -1.6% (ING forecast -1.8%). Transport prices have been the main drag on headline inflation, but food prices may add to downward pressure with unusually weak demand during the Ramadan month. Accelerated CPI declines should pave way for more central bank (BNM) rate cuts ahead. We have an additional 50bp rate cut in our forecast for the next meeting in early July.

**Thailand:** It's decision day for the Bank of Thailand. A 25bp cut in the policy rate to a record low of 0.50% looks to be a done deal. However, with growth already in negative territory, at -1.8% YoY in

1Q20, and inflation even more negative at -3% in April, don't be surprised if we see a bigger, 50bp rate cut today".

And there is also some potential PBoC interest in **China**. Iris Pang Writes:

The PBoC will announce its decision on the Loan Prime Rate (LPR) today. Market expects a pause. But we believe that there should be a cut because of the imminent business risks for SMEs and layoffs of factory workers. We could be wrong though, because the "Two Sessions" start this week, and the PBoC may need to wait for the announcement of the monetary stance in the National People's Congress (NPC) meeting. There could be innovative policies from the PBoC to help SMEs and therefore employment. Even if there is no rate cut this month, it does not mean that rate cuts have stopped completely. Further rate cuts are highly likely, together with RRR cuts as the economy is only at the beginning of the recovery stage. We forecast a full year -1.5% GDP growth".

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