

## Markets overdo rally

There is evidence that some of the harder-hit parts of the world may be seeing a slowdown in new Covid-19 cases, but a long tail of accelerating countries and states means that globally, there is little reason to cheer



### "Tens" rapidly becomes thousands

I spent part of yesterday crunching through some global coronavirus numbers as part of the background to a note I'm trying to write on how Asia is doing. The short story is - there is no "Asia", only lots of different countries. Some doing better than others. Don't let that put you off reading it when its out. I will be giving it a plug within these daily notes.

But what stands out from looking at all the country data on Coronavirus cases (and there are a lot of countries, enough to seriously test your geography trivia), is that the time it takes for a country to move from the mid-tens of cases to thousands or tens of thousands is extremely rapid. In essence, once you let go of the rope, it runs wild.

And there are an awful lot of countries and states that have these sort of "early-days" numbers of infections, including many US states.

So I agree that the news from some of the worst parts of Europe is looking more positive. I still reserve judgement on the US, though New York seems to be getting on top of its problems. But

Japan has announced a state of emergency today, an admission that things are getting worse, not better, and there is a huge swathe of the world in that early-infection state that suggests that globally at least, this crisis has not peaked, and that is why I find today's market strength overdone. Stabilisation would seem a more appropriate reaction.

## More on Japan

The economic stimulus from Japan just gets larger and larger. Having spent weeks telling the world that he would not hesitate to act if it became necessary, PM Abe has finally declared a state of emergency in seven prefectures including Tokyo and Osaka but softened the blow with a massive JPY108bn stimulus plan.

The size of that bill, which is more than 20% of GDP, tells you immediately what you need to know - only a fraction of this will be "real" (on-budget) spending. Part of today's task will be to work out exactly how little. But there is a precedent here.

It is also unclear exactly what the state of emergency will entail, as public transport will continue to run and people will not be confined to their homes as in some European countries. This sounds destined to underperform.

Japan does not appear to have learned from the growing body of evidence from other countries, that half-hearted confinement measures do not work. And so I can only conclude that their numbers of cases will continue to accelerate and that they will increasingly move towards the sort of lockdown other countries have had to endure. They will probably do their best to avoid calling it lockdown. "Social distance circuit-breaker" has been used elsewhere. Several weeks ago I slashed my Japan GDP forecasts to reflect the likelihood of more restrictions in movement. These changes seem to be on the right track.

## Asia today

It is relatively quiet today in terms of data. Australia's central bank the Reserve Bank (RBA) meets later this morning, but having adopted a very comprehensive yield targeting and unfettered QE programme at their last meeting, I don't expect we will get anything more from them. Together with a very sizeable and importantly (Japan, take note) "on-budget" stimulus package, together with credible social distancing restrictions on movement, Australia is fast becoming a role-model for what countries that are serious about tackling their Coronavirus outbreak but protecting their economies should do.

In the G-7, it is quite quiet. The small business NFIB survey from the US may be worth a look. It is March data, so we could be looking at quite a plunge in sentiment there..

For SE Asia, Prakash Sakpal writes:

**Singapore:** The third stimulus package, the Solidarity package, amounting to SGD 5.1 billion (1% of GDP) provides for increased cash payouts to individuals and the self-employed, enhanced wage and rental support for businesses, as well as easier low-cost credit availability for SMEs. To be part-funded by a SGD 4 billion drawdown of past reserves, the package aims to help businesses to turn the tide during a month-long circuit breaker starting today. It pushes the projected fiscal deficit in 2020 to 8.9% of GDP.

Meanwhile, news of Changi Airport Terminal 2 suspending operations for 18 months informs of the

gravity of the current crisis that warrants this additional policy support. However, as with everything in economics, the marginal gains from the additional stimulus measures will diminish, and a large GDP contraction in the current quarter remains inevitable. That said, the stimulus provides a sense of unity, resilience and solidarity (hence the name of the package), which could be important for supporting morale at this time, and facilitating a more rapid bounce-back than would otherwise have been the case.

**Malaysia:** Following its neighbour, the Malaysian government has boosted its stimulus by an additional MYR 10 billion of support measures for SMEs, including wage subsidies, grants and rental rebates. This takes the aggregate stimulus to MYR 260 billion or over 17% of GDP, though the real thrust of this amounts to only 4% of GDP while the rest comes in the form of loan moratoriums, debt guarantees, SME credits, early access to pensions etc. (all of these were part of the second package worth MYR 230 billion). An extended lockdown will mean a bigger dent to GDP in the current quarter than our -6.6% YoY forecast. We continue to expect an additional 50 basis points of central bank (BNM) easing in 2Q20.

**Thailand:** March consumer price data is due today. Reports of increasing job losses due to Covid-19 support the consensus view of a shift to negative inflation last month. The Bangkok Post reported 145k sign-ups for unemployment benefits in March and also cited a projection by the industry body (Employers' Confederation of Thai Trade and Industry) of at least 6.5 million job losses over the course of this pandemic. All this strengthens our call for 50bp of Bank of Thailand (BoT) rate cuts in this quarter.

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