

Markets still want to go up

On another day when the newsflow was decidedly mixed, markets jammed on their rose-tinted spectacles once more



Vaccine

Source: Shutterstock

If in doubt, a vaccine story should do the trick

We were probably due a vaccine story about now. After all, stocks had been weak for a day or two. And the one we got, though containing some encouraging news of progress in terms of antibody production, also came with a hefty dose of adverse reactions, some of them severe. So from a safety trial, I'm not so sure this was the glaring "buy" signal markets seemed to read into it. Perhaps this just shows how desperate we are for any sort of cure, that we are prepared to put up with a raging fever and severe muscle pain for a few days if it provides us with a means to return to a more normal life afterwards.

The earnings season news wasn't without some notes of concern either. US Banks have been reporting, and yes, they did well in the fixed income earnings, as is usual in a downturn, but they also had to make huge provisions. Again, markets seemed to focus more on the former than the latter...

The backdrop of all this "good" news, is the ongoing reversal of re-openings in a number of states, as new case numbers rise, and now, more worryingly, daily death tolls rise. The Worldometer tally I use doesn't quite sync with national figures as it resets at a single global time, which is based around GMT. But that caveat aside, today's US death tally is already up to 924 at the time of writing and looks set to top 1000 for a single day today - the first time it has done that since early June. So that optimism about a vaccine better not be misplaced...

And the US figures aren't isolated, with a number of flare-ups around the globe in countries that had been looking relatively "Covid-controlled" until recently. Japan, for example, is now seeing close to 400 cases a day, up from low double digits in June.

And the prospects for a further round of US-China "sniping" has increased as well as President Trump finally signed the Hong Kong Autonomy bill - the bill passed by Congress last week, which will enable the US to impose sanctions on those implementing the Hong Kong Security Bill. We anticipate a list of names to be forthcoming in fairly short order. We don't expect the list to be particularly long, and we don't think it will include entities, and if so, not financial institutions. The individuals concerned, will, in all likelihood, already have moved their deposits to safety, so the direct market impact of this should be minimal. Hong Kong's special trading status was also formally removed - though this had already been announced some time previously, so it is just confirming what we already knew was in the works.

Now I've finished writing this text block, I'm still struggling to see why the market mood is so buoyant - though this is not exactly a new phenomenon. We clearly need unmitigatedly awful news with no hope of redemption for reversals, and there always seems to be at least a small nugget of hope floating in the daily swill-bucket of information through which we must all sift each day. I wonder what tomorrow's optimism will be pinned on?

Asia Day Ahead

South Korea: We've already had Korean unemployment data for June out this morning, and it confirmed that the labour market quickly followed the rest of the economy in a positive direction once Covid-19 was brought under control, and social distancing measures relaxed. The unemployment rate edged down to 4.3% from 4.5%. In terms of the monthly change, manufacturing experienced the biggest decline in unemployment, showing a fall of 26 thousand, and accounting for more than half of the 50,000 decline. I don't expect this to have any bearing on central bank policy, though it is clear that rising Seoul house prices are once again becoming a political hot topic.

India: June trade data is due today. We see continued steep declines in both exports and imports, by 23% YoY and 36% respectively, and a wider trade deficit of \$4.5 billion, up from \$3.2 billion in May. This doesn't provide any support for the INR. Government bonds have also been under pressure from the latest reports of rising inflation; CPI inflation in June rose above the RBI's 2-6% policy goal. The economic contraction might have bottomed in 2Q20. But pro-cyclical policies like recent hikes in excise duty and retail fuel prices aren't helping the economy turn the corner in the midst of the roaring Covid-19 pandemic. A sliver-lining for the INR in all of this is rising foreign fund inflows into the country's telecom sector. We expect the USD/INR at 77.40 by end-3Q20 (spot 75.43).

Thailand: The Bank of Thailand's Assistant Governor, Titanun Mallikamas, said the central bank would preserve available policy space for a worst-case scenario. And, Deputy Governor, Mathee Supapongse, said they were studying yield curve control as an option, though he ruled out the key policy rate falling to zero from 0.5% currently. We no longer expect a further policy rate cut, nor a shift to quantitative easing in this cycle.

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