

Markets tumble on coronavirus fears

The spread of Covid-19 outside China, and now outside Asia, is a game-changer for markets, which has seen US Treasury yields and stocks tumble.



Source: Shutterstock

The numbers speak for themselves

The 10Y US Treasury yield is now 1.37%, the S&P500 tumbled 3.3% overnight, the Eurostoxx index was down 4%, Asian stock futures are all red this morning, gold got close to \$1700 yesterday, the Korean won hit our 1Q20 target of 1220, so we now need to think whether we need to push that higher. The IDR and PHP are beginning to lose the resilience they had shown early on in this episode, and the INR has risen above 72.0. About the only currency that is looking a bit less soft today is the CNH, which has actually outperformed a bit as the story shifts from China to the rest of the world.

In terms of that story, the new South Korean total of confirmed cases stands at 833 as of writing, though Italy is catching up fast, with 229. Iran is on 61, adding a further 18 cases in the last 24 hours. Most of the 53 US cases are Diamond Princess passengers, and so will have been in isolation posing little additional risk, which is at least one spot of brighter news.

At some stage, the market will decide it is oversold and there will be a correction. A better day out of Italy would help to deliver this. Each day that there are no further outbreaks in Europe will also add weight to the notion that Italy moved fast enough to contain the virus.

On the other hand, the World Health Organization could at some stage designate this as a

Pandemic, which would likely spur a further down leg.

Confirmed cases outside China as of 8:25 am SIN

ASEAN developments

Prakash Sakpal has written on recent developments in the ASEAN region today, like most days. He writes:

Malaysia: [Political uncertainty spiked](#) yesterday with the sudden resignation of Prime Minister Mahathir Mohamad, a big blow to hopes for a smooth leadership transition to his rival-turned-successor, Anwar Ibrahim, later this year. Mahathir still remains as interim prime minister until a new government is formed. This political crisis comes at the worst time for the economy - bracing for a significant beating from the Covid-19 outbreak. It dashes hopes for any fiscal stimulus for the economy and sends the Malaysian ringgit on a steady depreciation path. The USD/MYR traded above our end-1Q20 forecast of 4.20 yesterday. Prolonged political uncertainty could see the MYR depreciating towards 4.50 over the course of the year - a level last seen three years ago.

Thailand: [Surprisingly firmer January export growth](#) appears more of a transitory blip and we expect weakness to return as the impact of Covid-19 becomes more pronounced. Besides depressing trade growth ahead, Covid-19 will seriously dent the Thai tourism sector. The finance ministry is considering soft loans worth THB 100 billion for affected tour operators. We forecast a near-halving of the current surplus this year to about 3.5% of GDP from 6.9% in 2019. We continue to forecast the USD/THB rate at 32.80 by the end of the first quarter, close to the top end of our anticipated 31-33 trading range for 2020 (spot 31.66).

Singapore: A sharp slowdown in core inflation was a standout in yesterday's inflation release for January. The annual hike in school fees at the start of the year typically pushes core inflation higher. This year there was a cut in school fees, dragging the core measure down to 0.3% from 0.7% in December, the lowest reading in over four years. Headline inflation was steady at 0.8%. Subdued inflation provides more reasons for the central bank (MAS) to ease in April".

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.