

Opinion | 25 February 2020

## 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".

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