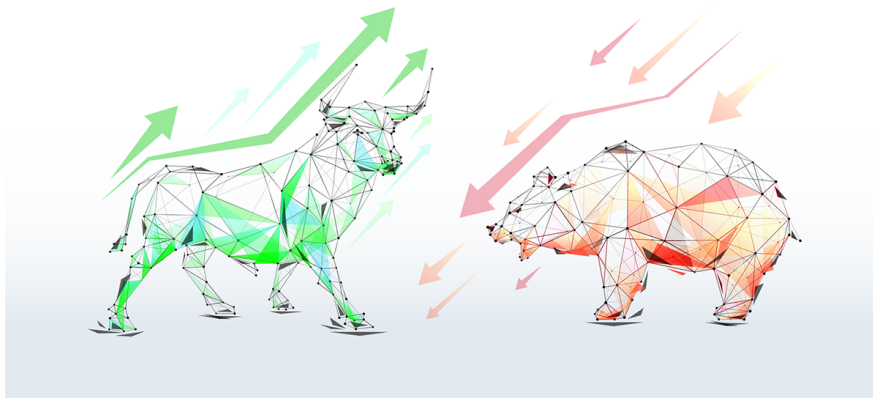


Mixed news on Covid-19

The release of a new approach to confirming Covid-19 cases in Hubei makes the numbers look a lot higher, but may not be as bad as it sounds. But some ex-China figures are nosing higher - market bullishness is not entirely supported by the data



Source: Shutterstock

Hubei records 14,840 new cases on new approach

It will take a while to figure out what the revised Hubei approach to confirming new cases will mean for the progression of this epidemic, though the details look a lot less scary than the initial headline. Of those 14840 "new" cases, 13,332 were, in fact, old cases that were reviewed and judged to have been Covid-19. If you make the deduction, this means a total of 1508 new cases (on the old methodology) for yesterday's tally, which is a bit less than the 2000 or so average of recent days and helps to keep the underlying headline new cases on a downward path.

This is, I think, the principal reason that people like Ray Dalio are taking an upbeat view and why markets are moving towards a more risk-on assessment. I can see the rationale. But still, I think a bit too much weight has been placed on these total new case figures. As I noted a few days ago, we need to consider this disease and its progression in terms of distinct cohorts, or populations, and with Hubei in total lockdown, what is happening there isn't really all that relevant for the rest of the world or for the S&P500, or US Treasury yields. Though it may still have relevance for Asian stocks and FX.

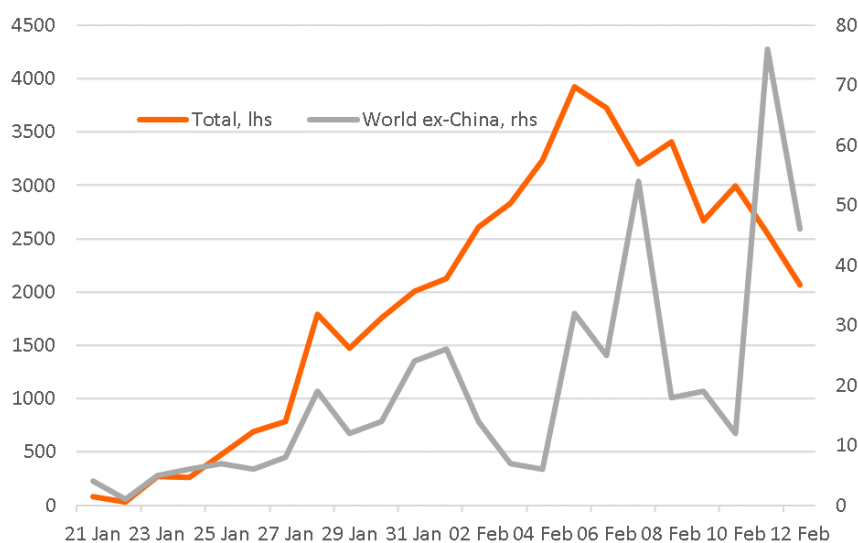
Even within China, and based on the old WHO approach, which is the only "reliable" time series we

have, the ex-Hubei cases aren't on such a clear downtrend. And ex-China, although the figures are choppy, and ought to be adjusted for the 49 cases in HK SAR, and 18 each in Taiwan and Macao SAR (which adds about 85 to the 441 ex-China total), it looks to me as if this choppy series is heading erratically higher, not lower.

The head of the World Health Organization is taking a much more sombre assessment over the direction of this epidemic. I'd have to say that my money is on him knowing what he is talking about, rather than Ray Dalio. But anything is possible I suppose. I attach some updated charts below using the old-style WHO numbers. Make of them what you will.

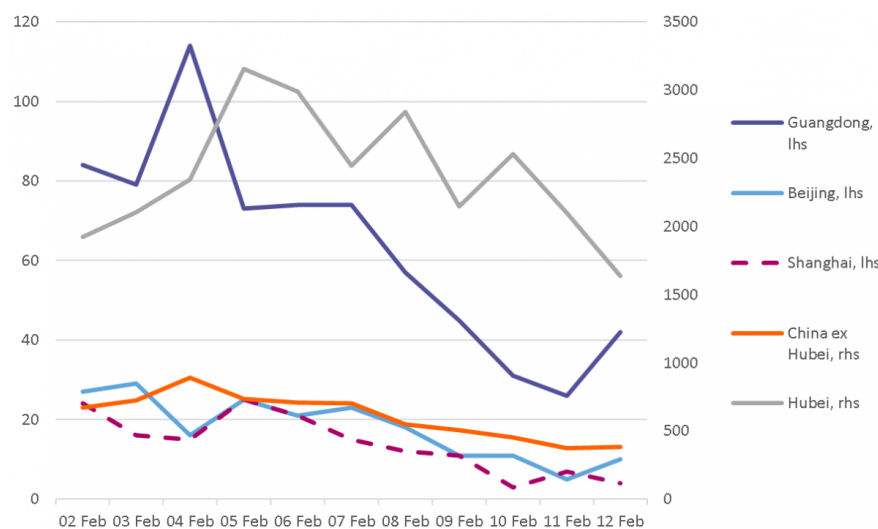
New Cases - Total, and Ex China*

Ex-China excludes HK SAR, Macao SAR and Taipei and its surrounds



Source: WHO
New Cases

New Cases Hubei and selected other areas



Source: WHO
New Cases China provinces

No need to worry about US inflation, unless the bulls are right

Another possible source of danger to the market's current bullishness is this afternoon's US inflation figures for January. With an expected 0.2%MoM increase (pre-dates most of the Covid-19 episode), the headline inflation rate should rise to 2.4%YoY. And if followed through in the later PCE figures, should show PCE inflation rising to 1.8%YoY. This is still less than the Fed's 2% target, but creeping ever closer to it. Could that eradicate thoughts of a "Powell put", and put rate hikes back into play? I think that is very unlikely, unless of course, Ray Dalio is right, and this is all a lot of fuss about nothing. If so, then crude prices are heading up to reverse their recent \$10/bbl decline, and the Fed may have some re-thinking to do, and so too will Ray Dalio and other risk asset bulls.

The day today

It's super quiet in Asia today - [I add a link here to Prakash Sakpal's write up of yesterday's Malaysian GDP numbers](#) - which were a big disappointment (the numbers, not his note). I was left wondering if Malaysia, which has been holding out far better than many of its regional peers, may be a harbinger for disappointing data across the region. I'm certainly beginning to lean that way.

In case you didn't see it, [here too is a link to Nicky Mapa's latest Indonesia write-up](#).

Iris Pang makes the following remarks about Aggregate finance data due shortly... "Aggregate finance data and new yuan loan data will be released soon (I don't want to say today, as it can change to tomorrow). We expect around a doubling in aggregate financing but even more than double new yuan loans in Jan compared to Dec's CNY2103 bn and CNY1140 bn, respectively. Banks in China usually book loans in the first two months to enjoy a full year of interest income. This year is no different. As shadow banking is shrinking we expect aggregate financing will not grow as fast as bank loans.

The market should focus more on Feb's loan and bond issuance data. We expect a further jump from Jan's data given the PBoC's special re-lending scheme and increase in local government bond issuance. Money added to the economy in Feb will be focused on fighting the coronavirus, which is different from Jan's money growth to deal with the technology war and the trade war.

And, as mentioned earlier, US CPI dominates the G-7 Calendar.

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