

Mr Chekov, set a course for planet optimism

Unreviewed medical trial results suggest not only a treatment for Covid-19, but for risk asset aversion. Meanwhile, Fed remarks and 1Q20 US GDP data paint a very different picture



Pills

Hands off Mr Spock

I was always more of a "Trekkie" than a Star Wars aficionado, which sets me at odds with the rest of my family on yet another score. So I'm a little uncomfortable with the appropriation of Star Trek terminology to describe the latest efforts to beat the coronavirus.

President Trump's "Operation Warp speed" goals are, however, admirable. He aims for the US to be in a position by next year not only to have found a vaccine but to be able to distribute large quantities of it to the population. That, and the coordinated nature of this programme, which will combine a great many trials under one umbrella, is helpful.

But once again, I think equity markets are getting ahead of themselves on a day when the run of news was actually pretty negative. Firstly, it is still worth bearing in mind that this virus may not lend itself to a vaccine. It is not a given. It's not simply a question of how much money is spent or just a question of time. It may not be possible, or it may offer only very limited protection. Above all, bear in mind that "warp-speed" is a concept of science fiction, and in direct conflict with Einstein's theory of General Relativity. Most physicists still agree that this is the best explanation of the universe we have, subject to the caveat that it delivers no Grand Unifying Theory of gravity

linking to the standard model of quantum mechanics.

The other rather odd event yesterday was Dr Anthony Fauci going live with the positive results of a trial of the antiviral drug, Remdesivir before the trial had been peer-reviewed. The previous trial in China published in the Lancet had shown no statistically significant benefit to the drug. So if the US trial provides a completely different outcome, it is interesting, but also possibly means that the benefits are somewhat marginal. Fauci talks of a 4-day improvement in recovery speeds. I'll wait for the peer review before concluding if this is good science or not. Equity markets aren't so picky.

The peer-reviewed GDP numbers were horrible

In contrast to the possibly absinthe-fueled optimism of the equity market, the gin-soaked reality of the US 1Q GDP decline of 4.8% might well have delivered a different market result on a day when the Federal Reserve also met. Fed Chairman Powell delivered the sobering assessment that we may be looking at some long term damage to the economy from this pandemic and the mitigating measures taken to reduce its impact on the population.

In time, I think we will be faced with a nasty hangover from the equity market's constant sipping at the well of optimism.

Reality has a way of biting you when you least expect it. But for now, it's hard to push back at this stock recovery.

Still, remember, this is a long game. We have a full quarter of horrific data to endure. 1Q20 GDP will have been far less awful than the 2Q20 GDP data to come. And the Fed has basically done everything it can do, whilst Congressional stimulus is getting rapidly consumed.

My colleague James Knightley has been busy writing all this up - [read this for his views on GDP](#) and this, [for his take on the Fed meeting.](#)

Asian news

In terms of today's data releases in Asia, we get official PMIs this morning from China. Iris Pang writes "We expect China's PMIs to deliver a reading slightly below 50 reflecting lower input prices and more inventories. Taiwan will also publish its first-quarter GDP growth. We expect a small positive figure of 0.6% following Taiwan's successful early measures on preventing the spread of Covid-19, but weak consumption due to social distancing measures".

Iris also notes "China's Two Sessions will start on 21 May. The market is looking to see if an economic growth target will be announced. We believe that the description of GDP growth for 2020 will be rather fluid without mentioning any particular number. Instead, we expect the economic report to announce a concrete fiscal stimulus amount. Our estimate of the fiscal stimulus is 6% to 8% of GDP".

Prakash Sakpal also adds this on Singapore and Thailand:

Singapore: A 2.4% unemployment rate in 1Q20 wasn't so bad (consensus 2.6%) but it was still an uptick from 2.3% in the previous quarter. More importantly, the 19.9k fall in jobs was the steepest since the SARS pandemic in 2003 and almost half of that was in services. The jobless rate hit a record of 4.8% during SARS. Hopes are pinned on the government's aggressive policy stimulus averting a retest of that level in the current crisis.

Thailand: Manufacturing output plunged by 11% YoY in March- more than expected. We now see as much as a 5% YoY GDP contraction in 1Q20, steeper than our earlier view of a 2.2% fall. Two months of a state of emergency means an even deeper GDP fall in 2Q, by over 8%. We also revise our full-year 2020 growth forecast to -5.4% from -4.3%. We see no reasons why the Bank of Thailand's policy rate shouldn't fall further, at least by another 50bp from 0.75% currently, as inflation has also moved into negative territory and is likely to stay there for a long time to come".

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