

Offsetting currents balance sentiment

A pick up in oil prices and optimism over continued re-opening has netted out against growing concerns over US-China tension and raised forecasts for US Covid-19 deaths



Source: Shutterstock

More mixed than good

US equities managed to close slightly higher on Monday, setting the tone for Tuesday's Asia trading. But the backdrop remains far more mixed than good.

On the plus side of the equation, slower crude inventory builds at the key Cushing hub suggest that the slowdown in supply will curb concerns over an oil glut, helped also by ongoing moves to re-open parts of the US economy, which will help boost gasoline demand and therefore oil stocks.

Our Chief International Economist, James Knightley, suggests that the US economy is bottoming, though cautions that the recovery is likely to be exceedingly slow.

Against this, the details of an allegedly leaked 5-eyes dossier on China's early actions in the Covid-19 outbreak are at the centre of growing tension between the US and China.

The allegations, as far as we can understand them from the snippets reported so far, can be summarised as follows: :

1. That China initially covered up the outbreak
2. That the virus escaped from the Wuhan Institute of Virology.

As far as I can see, there isn't much doubt about the former claim, which harks right back to the original whistle-blower doctor. So that's not really market-relevant news. As for 2, the evidence for this, though apparently "conclusive" according to Secretary of State Pompeo, hasn't yet come to light. Other members of the 5-eyes group besides the US are not saying too much at the moment, which undermines the claims.

But while all this makes for good newspaper copy, the real question is "What is the US going to do about it, if anything?". If the answer is "not much", then besides some increased volatility in equity and FX markets, this isn't really worth spending time writing about.

If, however, it leads to a new round of tariffs, against which China would immediately retaliate, then a trade-war 2.0 would see equities sell hard and the dollar rally. We've been here before, only not during a pandemic.

The trade-spat news yesterday largely drowned out raised forecasts for the US death toll from this virus, now about 100,000. It is hard to see a new trade war being any less damaging if waged in the middle of a global pandemic.

RBA

Australia's central bank, the Reserve Bank of Australia (RBA), will meet to decide monetary policy later today. We don't expect them to change anything. The yield curve targeting they have put in place is being achieved with smaller outright purchases of bonds than initially, which along with a stronger AUD, hints that market conditions have moderated.

The Australian Covid-19 outbreak is also proceeding in an encouraging direction, with very low daily case numbers, and movement restrictions eased. Prospects of a slow recovery ahead are gaining ground thanks also to some very supportive fiscal policy.

But this is not the time to change policy, with the whole world economy on its knees and continued scope for possible second waves, so this meeting will be mainly about RBA growth projections. These will be very negative, but shouldn't come as a surprise to anyone.

Elsewhere in APAC

And finally, Prakash Sakpal has been busy writing about the economies he covers:

Malaysia: It's BNM decision day (announcement at 3.00 pm local time) with a solid consensus forecast for a 50bp cut in the policy rate to 2%, matching the low last seen during the global financial crisis. A greater hit to growth in the current quarter and the ensuing deflation trend both warrant more easing, which is why we have added another 50bp cut to our BNM policy forecast ([read more here](#)).

Singapore: Today's retail sales data for March will shed light on the impact of Covid-19 on consumer spending. And this impact is going to be big; consensus is for a 16.8% YoY fall, almost double the February 8.6% fall. Motor vehicle sales remained a weak spot judging from the 30% plunge in new registrations in March. The manufacturing PMI slide down to 44.7 in April from 45.4 in March is consistent with our forecast of a 6.8% YoY GDP fall in 2Q. With policy stimulus maxed out, hopes are pinned on the pandemic ending for the stimulus to kick-start the economy.

Thailand: April CPI data today should show a steeper fall in prices than the -0.5% fall in March. We

are more bearish with our -2.0% estimate than the -1.2% consensus median and are assuming an accelerated slowdown in the food and transport components. The Bank of Thailand has more reason to slash its policy rate further from the current 0.75% as growth is going to take the worst beating this year in more than two decades.

India: A newswire story citing an unidentified source suggests that the government budget in the FY2019-20 (ended in March) clocked up a deficit equivalent to 4.4% of GDP, far above the 3.8% revised estimate released in February (and 3.4% original budget target). A revenue shortfall due to weak growth was blamed. The 3.5% GDP deficit target for the current fiscal year is now out of reach as the deepening economic slump demands greater fiscal support this year. We expect weak public finances to sustain weakening pressure on government bonds and the rupee this year".

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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