Re-closure could become the new market theme

With global Covid-19 cases breaching the 10 million level over the weekend, and global deaths exceeding half a million, early re-openings are looking as misguided as they always did, and threaten to send some countries/states back to re-closure.

closed sign

Source: Shutterstock

10,000,000+

Global confirmed Covid-19 cases

500,000+ deaths

We don't seem to be very good at this

When the Coronavirus was first taking off, I was struck by how incredibly bad governments around the world were at learning from the experience of their neighbours. It was almost as if governments in country A believed the virus would behave differently than it had done in country B once it arrived, and would attempt to delay preventative measures as long as possible in an attempt to protect the economy. I think that what we have learned (and this is my opinion, not a hard fact, but I believe the data supports this) is that late, and ineffective/weak lockdowns do little to diminish the spread of the virus and still cause a lot of economic damage. (See also stylistic diagram below - the "lockdown frown").

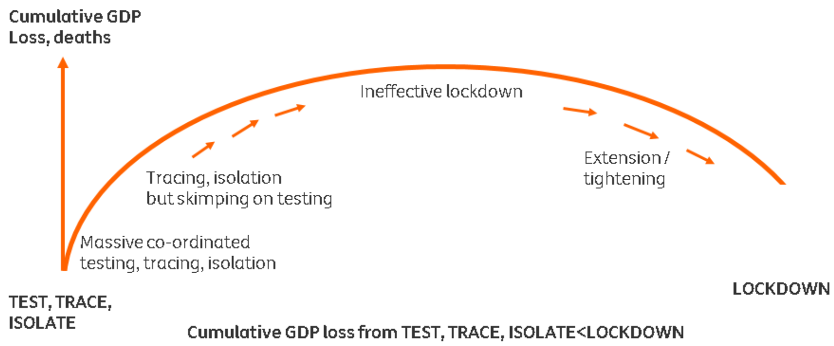
Now, governments around the world seem to be failing to learn that premature re-opening, while allowing the economy to start to recover, also allows the virus to continue to spread again, and in some cases, this will lead to a return to movement-restrictions and a further hit to the economy. The total cumulative economic damage caused by late closure coupled with premature re-opening will almost certainly be greater than that for a one-off early and hard lockdown taking the daily infection rate to manageable levels before a gradual and phased re-opening.

What we have also learned from economies like South Korea and China, even Victoria in Australia (or perhaps again this is wishful thinking), is that there will always be the occasional flare-ups of the coronavirus, but that these can be aggressively stamped on with localised lockdowns and massive test, trace and isolate procedures. This is easier to do when the numbers of new cases measure in their tens, or perhaps hundreds. It also does not cause too much economic dislocation.

All eyes are, for obvious reasons, back on the US right now. Their 7-day moving average of daily new cases has now clearly exceeded the previous April high and is still rising steeply. Texas is already beginning to backtrack on some of its distancing relaxations, as its daily figures exceeded 6,000 at the weekend. Florida, with more than 9,500 new daily cases yesterday, is following suit, and Arizona may have to do so too, with more cases per million population than any other state, even if the overall figures are only between 3-4,000 daily. While the US national daily death rate has not yet spiked (the 7-day trend is no longer clearly falling), this is a lagging indicator of new cases, and the concerning anecdote is that hospital facilities in the most troubled states are beginning to feel the strain as capacity limits loom.

At the same time, I have read articles today telling me that analysts are now beginning to revise up their earnings forecasts for US firms, based on the prospects of re-opening. Surely this is a case of poor timing. Analysts (economists are no different) are slow-moving beasts and don't like to change their minds quickly even when the data shows they are wrong (not so different from politicians then). But I don't think we will have to wait for too long before these same analysts are downgrading their earnings forecasts again on the expectations of re-closure. With the speculative community still quite long equities, according to Commitment of traders reports, and the S&P500 having just pushed below its 200-day moving average, this week could get quite interesting. And it is payrolls week too, with the ever-capricious labour report due this Thursday ahead of the US Independence Day holiday. In times past, we would be looking for the Fed to do or say something to provide a bit of support. But they feel like a spent force to me, and I'm not sure what more they could do at short notice. Time for a new vaccine rumour perhaps?

The "lockdown frown"



Source: ING

Lockdown smile

Better news from China

It's not all bad news though, and industrial profits data from China over the weekend were surprisingly strong at +6%YoY. Iris Pang writes about the profit data here. But the short story is that this is a mixed release, with profits concentrated in technology industries, and being delivered mainly by falling costs (which probably means weaker wages and spending power). For now, Iris is not changing her 2020 GDP forecast of -1.5%YoY.

Back to bad news now. Here are some downbeat comments from Prakash Sakpal on India and Thailand:

India: Covid-19 infections surpassed the half-million mark over the weekend as daily new infections continued to scale new highs (about 20k confirmed cases currently). The state of Maharashtra is leading with 159k total infections, followed by Delhi with over 80k. The five most affected states (Maharashtra, Delhi, Tamil Nadu, Gujarat and Uttar Pradesh) make up 43% of India’s GDP. The worsening outbreak, together with insufficient policy stimulus suggests a prolonged economic slump ahead. We are reviewing our GDP view for the current fiscal year for a further downgrade from the current -2.1%.

Thailand: May’s manufacturing index is due. We expect output to fall by 21% YoY, a steeper fall than the 17.2% decline in April (consensus -19.9%). This follows from a 22.5% YoY exports fall in May. As well as exports, domestic demand has also been depressing output. The combined April-May manufacturing growth will provide a sense of 2Q20 GDP growth. Our forecast of an 8.2% YoY GDP fall this quarter would be the steepest since the 1998 Asian crisis.

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