

Some genuine reasons for optimism

If yesterday I was quite scathing about the reasons for market optimism, today, I think they should be a bit more encouraged



Some genuine good news

Yesterday's vaccine-hope-based rally in risk assets had very feeble underpinnings. A very small-scale Covid-19 vaccine safety trial had managed to elicit an immune response, though with some fairly mixed side effects, and was clearly still some way off a vaccine that was proven, safe and could be produced on an industrial scale. The front runner all along in this vaccine race, The Oxford University trial, is looking much more promising, and you will be able to read all about it in your newswires and newspapers today. But suffice it to say that optimism is rising about the possibility of mass production of a vaccine, even as soon as this year. While that doesn't help us right now, it does offer grounds for optimism, and as such, I would think markets ought to be a bit more buoyant than they are, which suggests that recent gains were really running on fumes, rather than on solid fuel.

It is also positive from a risk asset perspective (leaving politics aside), that President Trump seems to be leaning against imposing sanctions on Chinese officials following his signature yesterday of the Hong Kong Autonomy Act. It may be that he is saving this up to use at a time that is more politically helpful as the Presidential Election nears. Whatever the reason, the absence of any imminent sanctions also bodes well for risk assets in the near term.

The spotlight seems to have shifted away from China to Russia in terms of geopolitical illumination, with Secretary of State, Mike Pompeo, making threats of sanctions over Nord Stream 2, and Turk Stream - two Russian gas pipelines that will supply gas to Europe and Turkey. Europe's counter to this, "Where are we supposed to get our gas from?", is not an unreasonable one. Though getting these gas pipelines up and running will clearly only address one aspect of Europe's energy security problem, and politically, will draw Turkey closer to Russia, and away from the West. That's probably what this is all about.

Busy day ahead

It's a busy day ahead with the China GDP and other activity data dump later this morning. We are struggling with the notion that China can virtually return to pre-Covid levels within one quarter, which is what the consensus figures are suggesting. Clearly, all is not back at 100% in China right now, and no one would reasonably expect it to be. So is this all an artefact of an implausible inventory build or something else? And if it is, shouldn't we be a bit concerned about the recovery's durability. Far too often, and especially in command economies, the focus is on GDP as an ultimate goal, when it is, in fact, quite a stupid goal. You can make GDP rise by some very counter-productive means and do plenty of damage to your economy and population in the attempt. There really are better targets. Still, we'll worry about the figure when it comes out. For what it is worth, we favour a much weaker number than the consensus growth numbers.

The Bank of Korea meets today, though they made it fairly clear at their last meeting that they were done easing. And with government stimulus money now flowing, and concern mounting again over Metropolitan Seoul house prices, the odds of a further easing from the BoK have lengthened considerably.

Australian labour market data due later this morning is centred on a 100K increase in jobs. I'd be tempted to suggest a stronger figure. Some of the most recently lost jobs will have been of the easy-come, easy-go variety and concentrated in the part-time sector. With the economy (outside Victoria) opening again, it is entirely conceivable that a lot of part-time jobs in retail and hospitality sectors will come back quite quickly. The harder work will be repairing damage to full-time employment, stemming from business failures during the Covid-19 crisis.

Outside of Asia, today's ECB meeting will probably be the main focus, though with little expected in terms of concrete policy measures. [Our economists and FX strategists write about what to expect in this note.](#)

And in the US, retail sales will continue to show strong gains but will remain well down on pre-Covid-19 levels, so the market can read these whichever way it wants depending on its prevailing mood.

Have a productive and safe day.

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