

Something's wrong with my scales

The balance of newsflow has been consistently negative - how long can markets remain buoyant?



In a quick answer to the question posed in the summary above, the honest answer, and one that may save you five minutes is, "I don't know".

Still here?

OK, well, in that case, bear with me. Risk assets, and stocks, in particular, are worth whatever anyone is willing to pay for them, so I'm not going to overly concern myself with valuations, though that is a fun exercise for another occasion. But let's stop a minute and consider the backdrop of news, and it has been bad by almost any measure.

US-China trade tensions - worsened by the HK security bill introduced by Mainland China and autonomy decision by the US. None of this is news. But the absence of any detail on what practical measures the US will take in terms of Hong Kong's trading arrangement is not the same as good news, it just means the bad news hasn't happened yet. Overnight, it appears China has halted some farm imports from the US of soybeans. That's new. And that isn't good.

The US urban violence that has been going on for a few days now is also largely being ignored by markets. Not only does the violence and damage to property hinder the re-opening of the economy, but it surely also creates a hotbed for renewed infection as well as worry about pepper

spray and rubber bullets. The US new case numbers have been fairly steady recently in the 20K region. It wouldn't take a lot for them to start rising again. Commentary by President Trump that troops may be rolled out to quell violence if governors in large cities can not contain it also does not seem to have caused more than a minor pause in market exuberance. I wonder if that will persist once troops hit the streets?

Markets have also been grasping at any positive news in terms of vaccines and treatments for the Coronavirus. But the reverse does not seem to be true. Yesterday, a large trial of the drug Remdesivir, is reported as finding only a small benefit to treatment with this antiviral. This does not sound like a game-changer.

And markets have also seemingly made a positive assessment of yesterday's manufacturing ISM index. [James Knightley has a piece on this here](#), but the short version is that it rose a bit, though less than had been expected, and the headline and core sub-indices of employment and new orders all remained well in contraction territory. As JK notes, this has a long way to go. [Here is also a link to the Asia PMI note - where there is the same overall story as in the US.](#)

Whats up (down) in Asia?

Iris Pang notes the latest effort by China's central bank (PBoC). She writes "The PBoC's announced a "new" policy yesterday, which aims at providing smaller banks a re-lending credit line for 1 year totalling CNY400 billion between March and December 2020. The mechanism is that banks lend to SMEs and can "sell" 40% of the value of these loans to the PBoC for 1 year. The banks keep the interest income but they also take the credit risks. So if there are defaults of the loans, banks need to absorb the losses. Banks are required to "buy back" the loans sold to the PBoC after 1 year.

This is not a QE program as the 40% re-lending line comes from the fiscal budget, and there is no mention of the PBoC providing support by printing money.

The total credit that this policy could unleash is CNY1 trillion for a nine-month program, which is really not very much. By way of comparison, April's one-month new yuan loans were more than CNY1.6 trillion. Hopefully, SMEs will continue business when they see this re-lending program. But there is scope for some doubt about this, since if exporters and manufacturers cannot see a halt to decreases in export orders, this re-lending program is not enough to stop them considering shutting down, and certainly not enough to encourage them to think about hiring more factory workers. We believe that there will need to be a further increase in re-lending credit lines during the year to keep more SMEs afloat".

And Prakash Sakpal comments on the latest Moody's decision on India. "Moody's cut India's sovereign rating by one notch to Baa3 and kept it under negative watch. The agency cited persistent downside growth risk, challenges of effective policy implementation to stem the slowdown, deteriorating public finances, and stress in the financial system as reasons for their decision. 4.2% GDP growth in FY2019-20 (ended in March) was the slowest since the global financial crisis, and the 4.6% of GDP fiscal deficit was the highest in seven years. We see GDP headed for contraction in the current fiscal year and the fiscal deficit swelling to 6% of GDP.

Moody's action aligns with those by S&P and Fitch, though they both still having a stable outlook. We don't rule out more negative rating actions by them. That said, it's hard to justify rating actions at all at such an unfortunate time when economies are in dire need of strong policy support. However, India may not fit such a lenient view, given its perennial structural problems of weak

public finances and a banking system plagued by a high level of non-performing assets, which are poised to get a lot worse during the current crisis. This is why the INR has been an underperforming Asian currency in the last few years and is likely to remain so over the next few years. We continue to see the USD/INR trading up to 79 over the next three months (spot 75.54)".

And from Nicky Mapa: "Indonesia will report May inflation data today, which is forecast to dip to 2.2% from 2.7% in the previous month, providing the central bank with some scope to ease monetary policy in the near term. Bank Indonesia (BI) has refrained from cutting policy rates to help support the IDR but governor Warjiyo has reiterated that he would ease monetary policy to help bolster the economy as soon as the IDR had stabilized. We expect BI to eventually cut policy rates should IDR continue to appreciate over the coming weeks".

And finally, the RBA will meet later today for its regular chance to reconsider its monetary stance, and we suspect that it will not do anything new to either its yield target of 0.25% or the official cash rate (also 0.25%). 2Y Government yields in Australia are sitting comfortably at 0.25%, where they have been for the last two weeks and requiring only 2 days in which the RBA bought government securities in May. Although newswires are still trying to push a negative rates story, they should really give that one a rest, or look to the RBNZ, which might be a bit more open to the idea.

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