

The Asian vaccine trade

Self-proclaimed vaccine success is not the same as peer-reviewed approval, and these vaccines still have to be made and distributed, but markets show the way forward



Vaccine

Source: Shutterstock

Pfizer BioNtech vaccine jolts markets

I'm in the process of writing a year ahead Asian FX note for our FX team, and one of the concepts I am dabbling with is the vaccine trade - the market move that would follow the successful development and distribution of a safe and effective Covid-19 vaccine.

The announcement by Pfizer/BioNtech yesterday, coupled with an impressive "90% effectiveness" rating (we don't know the full details so it is hard to pinpoint exactly what this means), has given markets a very hefty jolt. As well as boosting growth stocks (admittedly at the expense of some of the tech giants), we have seen a substantial surge in US Treasury yields, and also strong gains by the USD, reversing what had looked to be a resurgent EUR after the Biden election victory result over the weekend.

In Asia, the FX result has gone largely as expected. If we face a reduced Covid-19 world, then the currencies that should rally, are the ones of the countries that have suffered the most under the pandemic. Not surprisingly the last 24 hours has seen the IDR and PHP among the better performing currencies. Malaysia's ringgit has also done well. Malaysia is having a tough time with the virus currently and has also been hit by soft oil prices, so probably gets a double boost from expectations of rising global oil demand if the virus can be purged ([see also our related](#)

[commodities note on Think.ing.com](#))

The Korean won is also in the strongly performing pack - not because it has had a bad time with the virus. Far from it. Globally, Korea must rank as one of the most successful economies in dealing with the virus. But the KRW is the region's high-beta currency. When it does well, it does better than other currencies in the region. When it does poorly, it is absolutely rubbish. Right now, it is doing well.

It is perhaps a bit surprising to see the USD also doing well on the day, as one would have thought that this vaccine development would spell a generalised risk-on environment and USD funds pushing outwards in search of faster growth in the EM world. Maybe this is a knee-jerk reaction and the outflows will come later. Certainly, the JPY has sold heavily over the last 24 hours. Why hold a risk haven currency when risk is evaporating?

Likewise, although I can understand rising bond yields in the context of better growth and inflation expectations, and a shift out of Treasuries into stocks, a vaccine-healed world will also have to spend far less on fiscal support than one reeling under a protracted pandemic, so I wouldn't wish to chase this Treasury move too far either.

Asia day ahead

China's CPI is due out today, and the market is looking for a big dip to 0.8%YoY from 1.7% in September. Don't be too alarmed though. This is almost entirely due to the dropping out of a huge surge in food prices last year, which was driven by the effects of African Swine Fever on pork prices. Adjusting for that, the recent long holidays supporting domestic spending will likely have provided some additional support to local prices. China's inflation figures should recover over the coming months.

And we also have Philippine 3Q GDP data today. Nicky Mapa writes "The Philippines will report 3Q GDP later this morning with market analysts expecting a 9.2%YoY contraction, an improvement from 2Q GDP which fell by 16.9%YoY. ING is expecting a contraction of 11.4% as consumption, capital formation and government spending all drop from year-ago levels due to lockdowns and cratering consumer confidence. We expect Philippine GDP to remain in the red for the rest of the year but we do not expect any further changes to monetary policy after the central bank Governor continued to telegraph a pause for the balance of the year".

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