

The unwinding continues

The tech (and other) stock sell-off continues. There is more talk of "risk-off", but this still feels more like an unwinding of overbought positions, rather than a generalised flight to safety.

Don't panic



Source: Shutterstock

If this is flight to safety, what are we fleeing from?

If this is a flight to safety, then what exactly are we fleeing from? Except perhaps our own greed and excesses? A third consecutive day of stock sales may appear alarming, but the rise that preceded it caused an equal amount of alarm (over a longer period) to those of us who struggled to mentally buy into the stock rally. As far as retracements go, this one hasn't even reached the first Fibonacci level from the March low, so there is still room for more selling.

But as I mentioned last week, the price action is not indicative of a rout. This is an orderly if substantial decline. There are still clearly buyers on the way down. And there is not a lot of collateral damage either. Such damage would be likely if investors were struggling to meet margins and having to sell profitable assets to cover losses. US 10Y Treasury yields, for example, fell less than 4bp yesterday in response to a more than 4% decline in the NASDAQ. That's almost a daily noise event. Gold is pretty steady. Bitcoin not doing all that much. Oil is also under

pressure, though there are also some unrelated market-specific reasons for that too, even if USD strength may be exacerbating those.

In currency space, the USD is finding some more support. The EUR is weak, but then we have the ECB on Thursday, and this weakness may be front-running that outcome. Sterling also looks soft, but then apparently the international community is outraged by suggestions that PM Johnson may overturn the EU withdrawal agreement with only just over a month to go before opportunities for a BREXIT deal run out.

The JPY is seeing a little bit of support, but let's not get carried away. And with the AUD and NZD weakening (more chat about negative interest rates from the RBNZ Governor on the newswires today), AUDJPY is seeing a bit more action than most pairs. Most of the Asian FX units are looking soft against the USD currently, including the CNH.

There's certainly some more room for all of this to run, and the sense that markets were previously priced for perfection may now be changing for re-pricing for "imperfect optimism".

For example, we have had a couple of negative vaccine stories overnight. The first is a pause in Astra-Zeneca's phase three trial following a reported illness. This is apparently perfectly normal procedure and isn't necessarily too concerning for the vaccine's progress, but it does suggest that talk of an October vaccine may be misplaced. We also hear that there is some scepticism about the Russian vaccine following a report in the Lancet. Some are apparently alleging that the figures look a little too "smooth" to be plausible. Denials, of course, have followed.

On top of that, optimism of a swift return to normality are being challenged by rising Covid-19 case numbers in France (more than 6500) and the UK (pushing against 3000 for some days now) with England re-introducing restrictions on gathering size.

So to put all this into context: the losses so far are small, and only take us back to August levels on the NASDAQ and S&P500. There is room for this to go further, if stocks are to more plausibly reflect the macro and pandemic reality. But at this stage, there is still no panic in evidence, and that is encouraging. That also means it is unlikely that we will see any knee-jerk policy reaction from central banks or governments. When you juice markets this hard, you have to imagine the occasional pip will stick in your throat.

Day ahead

There really is very little on the macro calendar to get excited about today, either in the G-7 or Asia Pacific. So rather than milk some non-stories, we will skip this part today.

[Check out our latest Korea update piece if you are interested.](#)

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