US-China tensions escalate

President Trump has publically mulled cutting off relations with China - this doesn't feel like a very positive end to the week...

Reasons to be miserable

I don't need reasons to be miserable, its part of the deal of being an economist. But if you are of a less dismal persuasion, then here are a couple of things you might dwell upon before accepting with blind faith the assertion from today's newswires that markets will have a positive day.

1. The aggressive rhetoric from the US towards China is gaining in volume
2. This coronavirus is making some unwelcome comebacks indicating that it will be shaping our lives for longer

On the first part, we have been hearing rumbles against China from the US administration for some time now, including airing the possibility of stopping Chinese companies from listing in the

US, or for US government pension funds from investing in Chinese stocks. This anti-China narrative got a further boost from a Fox Business interview with the US President last night with him suggesting cutting the relationship with China altogether and saving $500bn into the bargain. It is not entirely clear what was being referred to here, but let us suppose we are headed into a rougher patch between the US and China, including on trade, then what?

Well firstly, this is a dollar positive development, and within the region, currencies should come under pressure. CNY of course, but also litmus currencies for regional sentiment such as the KRW, which was the worst-performing currency during Trade War 1.0. I'd also expect the current account deficit countries of the region to suffer in a more positive USD environment as it makes it much harder for them to support their economies with monetary easing and consigns them to a dimmer economic future. It is bad news for the small open economies too. This doesn't leave a lot. Its also generally a risk-off environment, so not just the S&P500, but stocks around the region are likely to come under pressure again if trade tensions escalate.

On part 2, the last few weeks have seen movement restrictions re-imposed in China on some cities close to the Russian border (Russia is not having a good pandemic) and North Korea (who knows?). Korea has seen a new cluster centred on a nightclub area, Hong Kong has a new superspreader after days of zero cases. And in the US, Texas, which was one of the states with a middling Covid-19 problem but decided to go ahead and open up anyway, is seeing both case numbers and deaths rise. Dr Fauci does seem to know what he is talking about...

It's not that you hear many advocates of V-shaped recovery these days. but there does seem to be a latent optimism about the prospects of re-opening which is at odds with the more sobering reality of what that re-opening may look like, or the obstacles it is likely to face. Let's face it, you can't mandate busy bars and restaurants if people don't feel comfortable dining out. And you can't mandate the owners of such establishments to open under stringent social distancing measures that would all but ensure that they could not break even.

As for the mood in Asia today, much of this is going to be determined by the newsflow from China, which Iris Pang writes about below:

China data releases today

(Iris Pang) Activity data will be released at 10 am today (HKT and SGT) . Overall, the data should show small and gradual improvements in economic activity. We expect a rebound of industrial production in April due to low base effects and the continued resumption of factory operations. The risk is that April is the month that factories began to face export order withdrawals from overseas buyers. Retail sales should shrink less they did in March but we don’t expect a big improvement as social distancing measures were still strict. It is a similar story for fixed asset investment, but we suspect that it is really only government projects re-starting their investment as early as April. Private investment will likely continue to be affected by deferred decisions resulting from Covid-19.

India - stimulus package not what it at first seemed

The latest news on India's latest economic support measures has also been dissected by analysts and found to lack substance. Prakash Sakpal writes "Over the last two days, Finance Minister, Nirmala Sitharaman, has been releasing details of the INR 20 trillion (10% of GDP) stimulus announced by Prime Minister Modi earlier in the week. It’s emerging that the package is loaded with easier credit facilities for small enterprises, farmers and migrant workers, rather than policies which would deliver much real fiscal thrust. And, about a third of the total package is already announced measures, including the RBI's liquidity boosting efforts worth 3.2% of GDP. We don't think that's going to be of much help to kick-start the recovery once the Covid-19 outbreak ends, whenever that will be".

This fits the pattern we have seen elsewhere in Asia, where huge sounding fiscal support measures have been announced, but have tended to be padded with "fluff" and double counting in the more fiscally constrained economies. India continues that tradition.

Prakash also writes on Indian trade data for April due today."We expect a continued deterioration of exports with a fall of more than 40% YoY (-35% in March), which will not be good news for the Indian rupee".

Summing up - you decide

If after all that, you still feel in a positive mood, then congratulations. You are clearly too optimistic to consider the dismal science as a career move. But it is enough for me to entrench my perennial gloom.

Happy Friday!

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