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CHINA INDIA

Wave 1 never really ended

Markets are getting jittery about a second Covid-19 wave. But actually, on a global basis, wave 1 never ended



wipeout

Source: Shutterstock

Second wave is a very parochial outlook

Since about 20 Jan, I have gone to bed reading the Covid-19 reports and I have also woken up with them. I think I have a fairly strong grasp on what is going on. And right now, with Beijing going into lockdown to squeeze out a new cluster, and parts of the US looking like maybe they should do (Florida for one, but there are other at-risk states), talk of a second wave is rampant.

Risk asset markets had a wobble at the end of last week, and seem poised to fall again today. I won't argue against that, though the algo-driven bots that account for the bulk of the volume in these markets will no doubt come back in if it drops a lot, so I won't assume this is the start of a trend.

But at a global level, this talk of second waves is misplaced, as daily new cases have been rising steadily since early May. If there was a first-wave, it was January to mid-March, after which there was a slight pause as the early infected countries went into lockdown and capped their increases, and other countries were slow to show an acceleration from the handful of cases they had back then. Globally, we now average about 125,000 new cases a day, and the

total of confirmed cases is just under 8 million. A month ago, that daily count was more like 100,000. The daily death toll has levelled off at a little under 5,000 per day but seems to be holding steady. And there are significant concerns that both daily new cases and deaths to Covid-19 are being seriously under-reported in the countries now with the largest problems.

Now, although most of the early-infected (China, apart from their new cluster, Korea, Japan) are well on top of their outbreaks, or like the US and UK, are only seeing slight increases, most of the global increase is coming from other places, many of them are in Central and South America, but there are some Asian names too. The top ten of daily new cases reads as follows in reverse order starting with number 10

Saudi Arabia, South Africa, Peru, Mexico, Pakistan, Chile, Russia, India, Brazil, and of course, the USA.

The list reads like the chapter headings in an emerging market investment handbook, except for the US. In other words, it is hitting the countries least able to afford the fiscal and monetary remedies to thwart it economically, and which may lack the healthcare systems needed to tackle it (though for balance, I'd have to admit that that didn't help the UK much).

What I'm getting at is that the notion of global re-opening that was previously supporting markets only worked if you ignored emerging markets, and as they account for something like 60% of global GDP these days, that was never very bright. Also, if globally, we are still in wave 1, then it is possible that without a vaccine, the big-wave is still lying out there somewhere waiting to hit.

Have a happy Monday.

Prakash Sakpal has some words on Thai and Indian releases due today.

He writes, "**India:** As we suspected, the economic releases scheduled last Friday – April industrial production (IP) and May CPI inflation, didn't come through. The statistics agency cited distortion of data caused by the Covid-19 lockdown. The same could be true about today's release of May trade figures; we are looking for a 73% YoY plunge in exports (-60% in April). Meanwhile, the official quick estimate of IP in April indicates as much as a 55% YoY fall. And, there was also an indication of resurgent food inflation, resulting from supply disruption and panic buying. Adding to the inflationary pressures are hikes in excise duty and retail prices of petrol and diesel. Does all this allude to imminent stagflation risk? It could be with GDP growth about to be slipping into negative territory and the jobless rate at a record high (24% according to one local think-tank estimate).

Thailand: The authorities have announced the end of the remaining Covid-19 lockdown today even as a state of emergency continues until the end of June and national borders will remain closed for some more months. While this may reactivate the domestic economy somewhat,

the main economic drivers of trade and tourism are unlikely to be back in play anytime soon".

China delivers its big data dump at 10am our time this morning, with data for May likely to show some improvements on April, though there is some scope for disappointment, especially in retail sales. Any upside surprises may be subsumed by mounting concern about the impact of renewed lockdowns on the economy in June and July.

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