

Welcome to the second half

No intermission, no glass of bubbly, just straight into the second half of 2020. And the outlook...? Better than the first half, but not as good as it could be



Calendar

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Covid-19 not dominating, but maybe that will change

Looking at the news on Covid-19, it is hard to maintain a rosy disposition to the second half of 2020. Dr Facuci last night warned of the US daily new case numbers potentially hitting 100,000 a day before long if social distancing is not more rigorously adhered to. Mask wearing still seems pretty optional in many places, or a political statement in others. It isn't. It may save your life or the life of others. And the FT also had a story suggesting that 40% of the US by population were either experiencing backtracking on re-opening or pauses in plans to re-open. This puts an additional dampener on the outlook for the economy above the self-isolation that is probably increasingly being practised in some areas. With 2H 2020 supposed to see a big pick-up after abject 1H weakness, I suspect such thoughts could be pared back a bit in the coming weeks.

The rotten cherry on the top of this rancid dessert was a statement from the Federal Communications Commission, which is reported as declaring Huawei and ZTE as national security threats - another salvo in the US-China Trade/tech war, which shouldn't help to improve risk sentiment.

Not for the first time, some markets saw things differently. The S&P500 finished up yesterday, though futures showed expectations for gains to be trimmed today, which may soften any

optimism in Asia at the opening. Government bond markets and gold took a slightly more (in my opinion) realistic view, with gold moving above \$1800/oz, partly on the risk outlook.

Loads of data

We've already had quite a lot of data for the Asia region this morning, with the 2Q Tankan survey for **Japan** showing substantial declines, notwithstanding the fact that Japan has actually had a relatively good pandemic (so far). The headline index of large manufacturing firms dropped to -34 from -8. That's not as bad as the -58 Global financial crisis nadir, but is nonetheless, very bad. Large non-manufacturers dropped from +8 to -17 which compares to the GFC low of -31. The wealth of other material contained in the Tankan is too extensive to detail here, but [here is a link to the English versions of the BoJ's report](#). My summary of this is that it shows a far bigger dent to demand than to supply, with the outlook for prices deteriorating further as a result.

Perplexingly, the outlook for business investment didn't look too bad. Whether this is an artefact of the stimulus measures, or something else, is hard to say. These numbers tend to be "guessed" at the beginning of each year, and then gradually adjusted in the right direction as the year progresses. So we may simply be watching that revision process at work.

South Korean export data for June has also been released, which was a little softer than the consensus expectation, though only just. Exports were 10.7% lower than a year ago in June, and imports 11.4% weaker. The net result of this was still a massive USD\$3666m trade surplus, so nothing to get too upset about. And the direction of both exports and imports is improving, which is the main thing.

Even more data

The rest of the day offers even more data to get your teeth into:

From the **G-7**, the **US** offers us the June ADP result ahead of Thursday's (yes early this month) payrolls and labour report. We also have the Manufacturing ISM and Markit PMI figures released.

As far as the rest of the region goes: Prakash Sakpal notes the following somewhat downbeat backdrop for Thailand:

"Thailand: The government extended its state of emergency to end-July, the third extension since the decree came into force in late March. The Bank of Thailand's monthly report for May portrayed a continuing weak state of the economy. Weak domestic demand reflected from by steadily falling private consumption and investment indexes outweighed export and tourism weakness and the current account reversed to a surplus of \$64 million in May from \$654 million deficit in April. And, the THB ended June at the top of the EM performance table with 2.9% appreciation, sustaining worries of strong currency potentially hindering export and tourism recovery".

And in the **Philippines**, Nicky Mapa noted this morning that the general community quarantine in Metro Manila would remain in force for a further 15 days as daily new cases remained high and there was also further spreading in other regions. This will likely weigh further on the economic outlook. [See also our ASEAN Bytes this morning](#).

So the picture of Covid-19 not being fully under control and the economies struggling to re-open quickly or fully is far from being only a US story, and it seems to be gaining more traction as we move out of 1H20 and into the second half. It wasn't supposed to be like this, but the pressure to

re-open and re-invigorate economies seems to be too much for some to bear, and further mistakes are likely, which in the end will do economies far more harm than good. We aren't very good at learning from others in this pandemic. This has been a key feature right from the beginning.

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