

When should we worry about Covid-19 again?

With global case numbers rising sharply, surges in the US and Brazil, rapid increases in India, and sporadic outbreaks in previously quiescent countries is the focus on a second wave misplaced?



In search of direction

Asian markets were in need of some direction this morning, and finding this hard to gauge, with US markets finishing up the day before, but fading into the close. Asian equity futures were a mix of green and red before markets opened.

The US economy may have played a minor role in this market picture, with services and manufacturing sector PMI's undershooting expectations, and both remaining below 50. This indicates that marginally more firms see conditions getting worse than getting better. So converted into a diagram of activity, the line is levelling out, but is still falling.

Let's just be clear - following very big falls in previous months, this is not consistent with a V-shaped recovery. So far, it more resembles an L. If we are lucky, we will get an extended U or even Nike swoosh. This stuff seems to matter to some people Personally, I don't like this letter fetish, and it is subject to a lot of ambiguity and especially with respect to PMIs, to misreporting.

Covid-19 cases not helping sentiment

There was more bad news also from US new daily Covid-19 counts, with Texas, in particular, seeing new daily cases running above 5000.

The US Covid-19 experience is a microcosm of what is happening globally. In the chart below, we can see that in late March to early May, the number of new daily cases levelled out and ran flat at about 80,000 for over a month. Globally, this was when countries like China and Korea, and some of the early European countries, were tackling their outbreaks, but new countries were coming in and their numbers were picking up. The net result was a steady number of daily new cases, but made up of some rising trends and some falling ones.

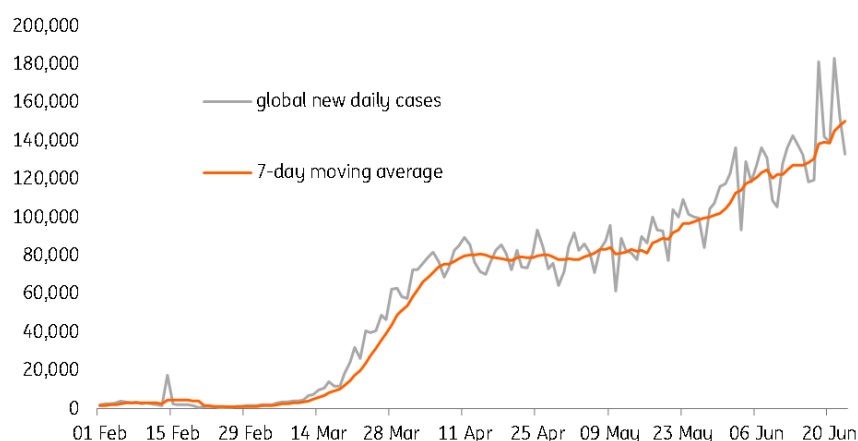
This is approximately the US experience now, as New York, New Jersey and Illinois hand the baton of daily new cases over to Texas, Florida, Arizona and others. Only California has been on an unbroken upward trend. What this is, is not a second wave, but the first wave taking off properly in states that lagged behind the front runners. Just like in the global picture. That's not to rule such a wave out, as new outbreaks in China seem to be related to a European strain of the virus re-entering Asia.

Globally, new cases are running at a 7-day moving average of about 150,000. The US and Brazil now make up nearly half of that. India lags a fair way behind at about 15,000 new cases daily, but I doubt they are capturing the full extent of their outbreak. Two weeks ago, the global new case 7-day moving average was only about 125,000, and two weeks before that, only about 100,000. Similarly, the US 7-day moving average is now a little below 30,000. The US peak 7-day trend, back around April 10, was about 32,000. On current trends, we will see that met or exceeded within a week.

While this is probably troubling markets, it seems unable to cause a substantial repricing, as they slowly get used to the worse news and accommodate it. The phrase "boiling a frog" is not a pleasant one, but it captures a little of what is going on right now.

I'm gradually leaning to the conclusion that it will take more than a slow grind higher in Daily new Covid-19 cases to deliver a meaningful market adjustment. And there are plenty of options open to countries like the US short of re-imposing lockdowns - enforced mask-wearing in all states would be one way to go that could make a big difference while leaving the economy largely intact.

Global Daily New Cases and 7-day moving average



Source: World Health Organization
Global Covid

Asia-Pacific day ahead

New Zealand: The RBNZ delivers their verdict on monetary policy at 10am SGT today. [I wrote a bit about this with my FX colleague Francesco Pesole yesterday.](#) Our conclusion was that the RBNZ may wish to dampen enthusiasm for the NZD before too long, as it is otherwise poised to appreciate further. That may simply involve some clever talking, such as mentioning the possibility of negative rates - this never actually has to be implemented. More likely would be an expansion of QE, should they feel the need to do something concrete. But today, we expect very little.

Prakash Sakpal picks up some events elsewhere in the region

Singapore: Prime Minister Lee Hsien Loong yesterday called a snap election to be held on 10 July, 10 months ahead of schedule. He expects the polls to clear the decks and provide the government with a fresh five-year mandate to focus on the national agenda and the difficult decisions it will have to take and implement. The government achieved 69.9% of the popular vote in the 2015 election.

Malaysia: May CPI inflation data is due. Behind the consensus view of a slight improvement in inflation to -2.8% YoY from -2.9% in April lies the Ramadan-related pick-up in demand, while easing of Covid-19 movement restrictions from early May should have released some pent-up spending. But housing and transport prices continued to be a big drag on headline inflation. Negative inflation has opened the door for more Bank Negara Malaysia policy rate cuts. We continue to expect an additional 100bp of rate cuts over the coming quarter.

Thailand: It's decision day for the Bank of Thailand. It's most likely to pass as a non-event though, with a solid consensus of no change to the policy rate, currently at an all-time low of 0.50%. Also due today are trade figures for May, which should underscore a weak state of the economy. The case for further monetary easing remains strong but there is not much easing space left for the Bank of Thailand, which is why I consider the BoT's current easing cycle to be over ([read more here](#)).

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