Weekly Market Summary

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When Financial Markets' Focus Shifts From Trade Frictions to Pandemic Diseases!!

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Vocabulary is critical to reading success for three reasons: Comprehension - the ultimate goal of reading - improves when you know what the words mean; Similarly, a robust vocabulary improves all areas of communication – including listening, speaking and writing. Last, an improved vocabulary is guaranteed to improve one's academic and social confidence and lead to advanced competence and future career successes. Research studies have shown that in most cases humans have to see, read and interact with new words 5-7 times before they are admitted to long-term memory. Words are more easily learned at a younger age, though experts believe younger brains may learn things more easily, but older brains do store information more efficiently.

This week in financial markets was all about getting familiar with new words and embedding those in traders' algorithmic models and trading strategies. Take for example the word "*Coronavirus*", which simply refers to types of viruses that typically affect the respiratory tract of mammals, including humans. Those are associated with the common cold, pneumonia and severe respiratory syndrome (SARS) and can also affect the gut (stomach); They result in high fever, cough and shortness of breath, and are particularly dangerous in older people or people with weakened immune systems or other illnesses. Then you have the word "*Pandemic*", not to be mixed with "*Epidemic*"! An epidemic occurs when a disease affects a greater number of people than is usual for the locality or one that spreads to areas not usually associated with the disease. A pandemic is an epidemic of world-wide proportions (multiple continents or even worldwide!) [*please read all three words 5-7 times before moving to the next paragraph* ☺]

The latest available economic indicators for China's economy were starting to signal improving conditions in January, though that recovery is now at risk from the fallout from the worsening Wuhan pneumonia outbreak; The signing of the phase-one trade deal with the U.S., combined with recovering global demand, had improved the outlook for Chinese factories and exporters in 2020. Indicators tracked by Bloomberg were also showing signs of improvement in trade, prices and companies, building on the stabilization in overall growth seen in the final quarter of 2019 (6% GDP increase). Additionally, retail sales, investment and industrial output were all stable or improving in December, providing a brighter end to a year when the economy struggled under the weight of a crackdown on debt, weak demand and the US - Sino trade war. Now, with transport to the central hub city of Wuhan locked down and consumer activity curtailed nationwide for fear of infection, the disease poses an as-yet-unquantifiable hazard to the broader positive trend. "*If the lockdown continues after the Lunar New Year holidays, it will affect industrial production, one of the key growth drivers,*" Raymond Yeung, chief Greater China economist at Australia & New Zealand Banking Group in Hong Kong, wrote in a recent note.

There is never a good time for the outbreak of a deadly virus, but this one was particularly bad! China's Lunar New Year is often dubbed the world's largest migration, a stretch of weeks when hundreds of millions of people visit their families. Before the pandemic started spreading, officials were expecting a massive number of airplane and train trips during the holiday rush between January 10th and February 18th. Little wonder, then, that the Asian travel industry is suffering! With the death toll up to 26 and more than 850 infected, tourists are staying home. Some have no choice: The government has put seven cities on lockdown and airports are stepping up screening measures. Shares of China Southern Airlines Co. – the carrier most exposed to the site of the outbreak - have slid 14% since the second death was confirmed, whilst Cathay Pacific Airways Ltd., which said Friday it would waive fees for tickets to and from the mainland, has slumped 7.6%. The country's largest online travel agency, Trip.com Group Ltd. has tumbled 12%. The CSI 300 gauge of stocks in Shanghai and Shenzhen finished down 3.10% yesterday (markets closed today) and is now back where it was just after China and the U.S. announced the initial trade deal in mid-December.

Whilst the worst of the damage on financial markets has so far been confined to Asian markets, with US and European stock-market indices only correcting slightly lower, the pandemic disease has had an instant and significant impact on the global safe-heaven trade, with US Treasury and German Bund yields sharply lower (10 bps) in past days as panicked investors seek shelter in "risk-free" government paper (as a reminder, the ticking US debt clock shows a national debt number of $ 23.21 trillion at the time of writing these lines ☹)

If the SARS outbreak of 2003 is any guide (claimed almost 800 lives), things could get even worse! In May of that year, Chinese air passenger traffic fell 71%, according to Goldman Sachs Group Inc. who now predicts the spreading virus may crimp oil demand by 260,000 barrels a day this year and result in a bearish oil outlook for 2020 (WTI March futures contract already down $3.0 or 5%+ in past few days). Yesterday, The World Health Organization stopped short of calling the new coronavirus a global health emergency, saying the outbreak that has killed more than a dozen people and sickened hundreds remains a local crisis. Public health experts gathered by the United Nations agency to review the situation were split over whether they should recommend declaring a public health crisis of international concern, but instead opted to continue monitoring the outbreak. Tedros Adhanom Ghebreyesus, the WHO's director-general, said he would reconvene the committee within 10 days, or at a moment's notice should the situation take a turn for the worse. "*Make no mistake, this is an emergency in China, but it has not yet become a global health emergency," Tedros said at a briefing in Geneva Thursday. "It may yet become one*." The number of new cases has continued to grow within China, and patients with the infection have been found in several additional countries, including the U.S., Singapore, Thailand and Japan. While most cases have remained mild, about one-fourth of those infected have developed severe disease, officials said. The hope is that, like SARS, the turbulence will eventually pass!

In other major news, both the European Central Bank (ECB) and Bank of Japan (BOJ) kept monetary policy unchanged at this week's meetings. However, Christine Lagarde – the new ECB President - noted in follow-up remarks that the year-long strategy review that will soon by initiated by the ECB does not mean that monetary policy will be on hold during that period. "*To those who say it's going to be completely static for 12 months, I say watch out, things can change*" (one can only hope that "dovish" Lagarde has no intentions of driving European rates further in negative territory, a messy experiment with an unknown final outcome ☹). Elsewhere in Davos, the Climate Change topic was put at the centre of the World Economic Forum annual gathering in Switzerland as rising temperatures and cutting emissions globally finally dominate the agenda. "*Something which was largely on the periphery of finance has come into the mainstream*," Mark Carney, a Davos regular and the governor of the Bank of England, said at the Bloomberg Climate Forum. "*These issues have moved very swiftly from being corporate social responsibility issues or more niche issues within finance to fundamental value drivers*."

And if the pandemic disease and climate change issues weren't enough to keep policymakers nervous, one better brace for next week's release - by President Donald Trump - of the Middle East peace plan that he has been promising since his 2016 campaign, potentially prior to a planned visit to the White House by Israeli leaders next Tuesday. The plan, long in the making and designed-to-perfection by genius Jared Kushner - the US President's son-in-law – is expected to provide a resolution on how much of the occupied West Bank would remain under Israeli control, whether Palestinian refugees across the region would have the right to return to their ancestral lands and whether East Jerusalem could serve as a Palestinian capital. Palestinian leaders have snubbed talks with the Trump administration, citing what they have called a series of moves showing favour toward Israel; Those include moving the U.S. embassy to Jerusalem, recognizing Israel sovereignty over the Golan Heights and proclaiming that Israeli settlements in the West Bank are not necessarily illegal. "*I'm sure they maybe will act negatively at first but it's actually very positive for them*," Trump said Thursday of the Palestinians. "*But they have a lot of incentive to do it*." Trump didn't divulge details of the proposal but added "*Honestly, it's a Great plan*," (I would have preferred the "*Beautiful*" association, Mr. President ☺).

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