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2019-nCoV Acute Respiratory Disease Response

Video commentary for February 11th 2020

Eoin Treacy's view

A link to today's video commentart is posted in the Subscriber's Area.

Some of the topics covered include: reporting of Coronavirus cases, Wall Street susceptible to consolidation, oil and copper steady, gold steady, renewable energy stocks outperforming significantly.

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3 Trillion Can't Buy China Out of Virus Trouble

This article by Sanjit Das for Bloomberg may be of interest to subscribers. Here is a section:

Finally, the economic model underlying the reserves creates a complex financial interdependence between Asian central banks and advanced economies, termed the "fatal embrace" by the late Paul Volcker, former chairman of the Federal Reserve. Foreign-exchange reserves represent advances allowing the importing country to buy the exporter's goods and services on credit. Withdrawing support would risk destroying the value of existing investments and damaging the borrowers' real economy and export demand.

The interdependence runs deeper. Since 2009, the growth of developing-country reserves is highly correlated to the growth of the balance sheets of advanced-economy central banks, which has been driven by quantitative easing. Attracted by higher returns than available at home, investors moved capital into emerging markets, which in turn supported demand and economic activity in developed economies. This is evident in the increased reliance of many North American, European and Japanese businesses on emerging economies for growth and earnings.

Unfortunately, this cheap capital encouraged rapid rises in debt and increased the risk of future financial instability in many emerging countries. The solution lies in international co-operation to create a new international monetary system and for surplus countries to boost domestic demand.

In a world of rising political tensions, trade wars and adherence to debt and export driven economic models, the prospects for that may appear bleak. Still, this is unfinished business the world will have to return to — once it has got past the economic shock of the coronavirus epidemic.

Eoin Treacy's view

The strength of the US Dollar over the last ten sessions is at odds with the efforts by the US government and Federal reserve to increase the supply of the currency relative to just about all others. That suggests both repatriation of funds

invested overseas as well as the proceeds of carry trades being invested in the USA are supporting the currency. This trend coupled with continued fears about the knock-on effects of the virus scare on economies dependent on China is weighing on Asian markets.

Saxo Q1 Outlook: The Great Climate Shift

This press release may be of interest to subscribers. Here is a section:

Eoin Treacy's view

A link to the full report is posted in the Subscriber's Area.

The long running argument against green energy investing has been that the cost and intermittency of supply do not come close to compensating for the ease of relying on fossil fuels. That meant the sector has long been confined to a high beta position relative to oil prices because it relied on high energy prices to justify investment. The question that now needs to be addressed is whether this valuation model is still relevant?

2019-nCoV Acute Respiratory Disease Response

This report from McKinsey & Company may be of interest to subscribers. Here is a section:

Leading indicators to monitor

Situation: Confirmation of sustained transmission outside of China

Implication: Most cases outside China have been linked to recent travelers. If evidence emerges of ongoing acquisition of disease in patients who did not travel or have contact with someone returning from China, the potential public health impact of the disease will rise significantly.

Situation: Rapid increase in case numbers in affected countries

Implication: Many unknowns remain. Rates of transmission in asymptomatic individuals, viral mutations, and decreased efficacy of protective measures, for example, could lead to increases in infection rates. Weaker health systems, in particular, could be at higher risk. This would increase uncertainty on potential recovery.

Situation: Signals of supply chain restart

Implication: Signals of supply chain restart in China would be an early sign of recovering markets. Early markers could include government reports, social media chatter, firms conversations and / or communications with their customers.

Situation: Changes in consumer spending indicators

Implication: In epidemic settings with containment measures, consumer spend decreases. Changes in consumer spending indicators, especially in China, India, and broadly globally, may point to potential recovery and / or protracted nature of the situation.

Situation: US treasury yield curve

Implication: Overall market fluctuations and associated treasury yield curve, especially in the US, will point to overall

confidence in market and expected trajectory. Increasingly negative curves may hint to longer economical impacts.

Eoin Treacy's view

The number of reported "official" cases continues to trend lower which is seen as positive by investors. The question of how much the official figures can be trusted amid a reclassification of how China defines a confirmed case does not appear to be priced into markets.

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