



## The Dollar, Gold/Oil & Weekend Links

Well, what really is there to add at this point? Our heads are all spinning – is it a pandemic? An overhyped scam? Will it subside in the Spring? What is the proper policy response? What is the realistic policy response?

I laid out some thoughts yesterday in [CoronaCrash Roadmap](#), explaining why the Fed’s emergency action is heartening, why the V-shaped recovery story in China is utter fantasy, and why I’m ballparking S&P 2600 for this move.

Today I’ll just briefly re-iterate one point regarding the Fed, highlight a market dislocation that is starting to look attractive (among many that are likely to emerge in this environment).

As I described yesterday, the liquidity metrics I monitor look OK, suggesting we don’t (yet) have to worry about whatever supply disruption we’re facing morphing into a deflationary liquidity event. So long as that remains the case, the analytical task remains confined to assessing the magnitude and duration of the disruption (in the knowledge that we’ll come out of it with much easier Fed policy, semi-permanently).

There’s a lot of debate about whether the Fed can actually provide accommodation in this environment, and if the economy really goes off the rails and the Funds rate gets pinned to the zero lower bound again, that will become a valid question. But for now, the answer is actually pretty clearly positive: the rate cut (and expectations for more) has had a **discernible palliative effect on the U.S. Dollar**. Call it a “carry trade unwind” if you’d like, but whatever the case, it is a really good sign that the Dollar is going down vs other major currencies, not up.

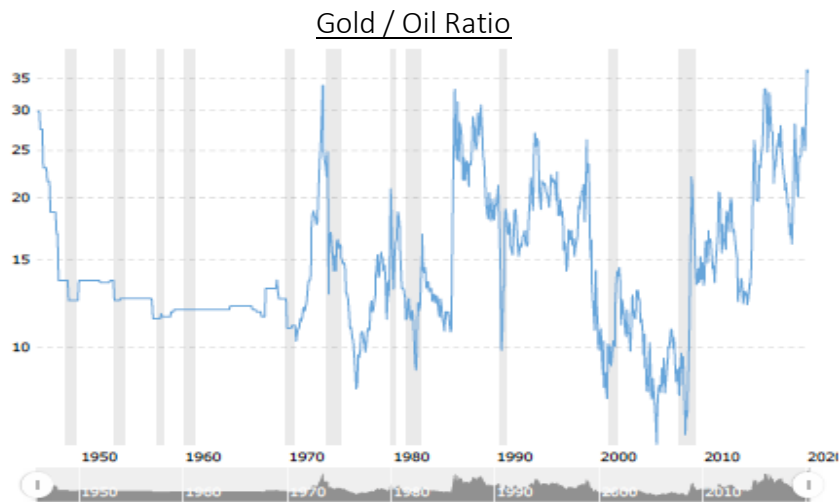




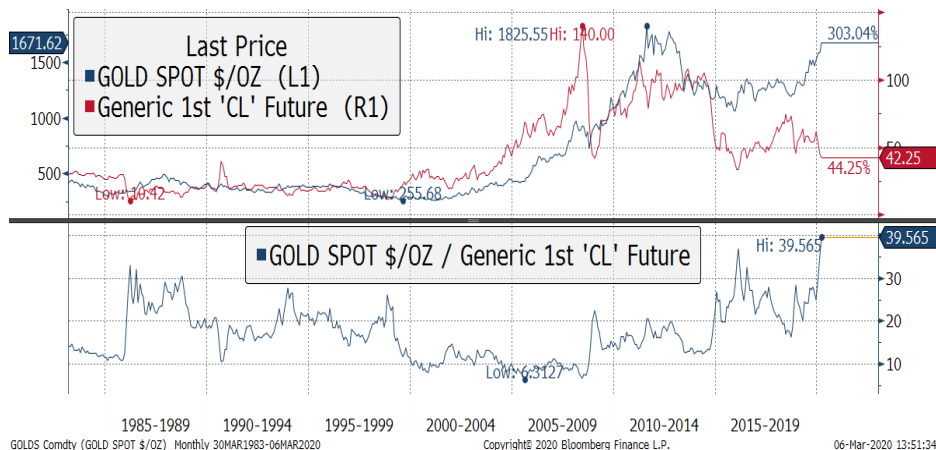
Again, as long as the Dollar remains “off the boil,” it’s likely the risk-asset downside will be limited to whatever temporary disruption the virus has in store for us. On the other hand, if the disruption appears likely to extend long and deep enough to start knocking over highly levered entities en masse – to an extent that overwhelms the Fed’s ability to respond – then the correlation between EURUSD and SPX will flip.

**Dollar strength on risk-off days is what will tell us the Fed is getting overwhelmed.** We’re not there yet, and at this point my guess is that situation can still be avoided with timely Fed action of the conventional variety. But I’m watching this relationship like a cyclops with a monocle.

Another relationship that caught my eye today is the gold/oil ratio, which mean-reverted for a loooooong time (I believe since the earliest days of oil’s industrial usefulness). The longest Chart I could find online (macro trends.net) goes back to 1950:



Here’s the modern version, showing the current 39.5 level as “off the charts.”





I make no claim as an oil expert, and would stress that we're in an environment in which long-standing relative value relationships can go haywire. So, don't take this as a tactical call, but oil sure is "cheap" in a fundamental way.

There's a reason they call oil "black gold," and it's the same reason this ratio has mean-reverted forever: oil shares many of the elemental qualities that render gold useful as money: its relatively ubiquitous but takes some effort to extract, its stock is enormous relative to the temporal flow (although obviously oil is consumed over time, unlike gold), its storable. In short, oil has some qualities of a "real asset."

I'm not personally inclined to bottom-fish in equities just yet. But if I were, the oil sector would be a place to look.

On to the links...

Whether or not the Coronavirus will subside with warm weather is a critical for which we don't have an answer. There was a headline from the W.H.O. today that was spun as suggesting the virus would not subside, but they really only seemed to be stating the obvious: there's no way to know for sure at this point.

[It's a 'false hope' coronavirus will disappear in the summer like the flu, WHO says](#)

*"We have to assume that the virus will continue to have the capacity to spread," Dr. Mike Ryan, executive director of WHO's health emergencies program, said at the agency's headquarters in Geneva. "It's a false hope to say, yes, that it will disappear like the flu."*

*"We hope it does. That would be a godsend," he added. "But we can't make that assumption. And there is no evidence."*

*Earlier in the outbreak, U.S. health officials said there was a hypothesis among mathematical modelers that the outbreak "could potentially be seasonal" and relent in warmer conditions.*

*"Other viral respiratory diseases are seasonal, including influenza and therefore in many viral respiratory diseases we do see a decrease in disease in spring and summer," Dr. Nancy Messonnier, director of the CDC's National Center for Immunization and Respiratory Diseases, said on a Feb. 25 conference call. "And so we can certainly be optimistic that this disease will follow suit."*



Korean testing data provides some hope the mortality rate might be less than feared...

## [What 'wonderful laboratory' South Korea can teach world about Covid-19](#)

*"If we can test more people – whether they have no symptoms, mild or severe disease – the results, including the case fatality rate, are more accurate and representative when the whole disease spectrum is taken into consideration," said David Hui Shu-cheong, an expert in respiratory medicine at the Chinese University of Hong Kong. "Most countries just focus on testing the hospitalised patients who obviously have more severe disease, and [thus] the fatality rate is high."*

*World Health Organisation Director-General Tedros Adhanom Ghebreyesus on Tuesday said the global mortality rate from Covid-19 recorded so far was about 3.4%, higher than previous estimates - though this figure was accompanied by caveats that the rate could be lower when more was known about the disease.*

*Yet in South Korea, where the country's Centres for Disease Control and Prevention on Thursday reported 6,088 cases and 40 deaths, the mortality rate appears to be hovering around 0.65%.*

*While this is still several times more lethal than seasonal influenza, which kills about 0.1% of the people it infects – 30,000-40,000 people in the US alone each year – South Korea's rate is far lower than that seen elsewhere.*

*In a study released last month, the Chinese Centre for Disease Control and Prevention said the mortality rate among people whose symptoms started between January 1 and January 10 was 15.6%, compared to just 0.8% among those who showed symptoms between February 1 and February 11 – a possible indication that increased screening as awareness of the virus grew had detected more mild cases of infection.*

Action On the ground in China remains wildly inconsistent with official data showing the virus has effectively been eradicated outside of Hubei Province...

## [As Virus Outbreak Grows in Beijing, City Turns Its Eye to the Roads](#)

*The Beijing government has banned all taxis and carpooling services from traveling in or out of the city in its latest measure to control the spread of the coronavirus.*



*The new restriction, which took effect Friday, comes as a number of new cases of Covid-19, the disease caused by the new coronavirus, have appeared in the nation's capital since work resumed at local companies and factories after an extended holiday.*



On the flipside, President Xi appears set to visit Wuhan, finally. The visit will be carefully staged...

### [Xi to head for Wuhan as infection numbers fall](#)

*Sources in Beijing have revealed that Xi and his aides feel the time and conditions are finally right for them to head for the virus-stricken city to demonstrate the top leader's bounden commitment to serve the people. It has been more than two months since the novel coronavirus, aka Covid-19, started to spread among people in the lead-up to the Chinese New Year.*

*The itinerary for Xi's trip to Wuhan, which is likely to take place within a week, will include visits to several hospitals admitting the infected, in particular the Leishenshan and Huoshenshan Hospitals. These hospitals have a total of 2,400 beds in prefabricated wards that were built from scratch within a week for centralized treatment and medical observation of patients with acute symptoms.*

*Xi will also visit Wuhan's local communities and meet residents still banned from going outside after the city was sealed off on January 23. It has been reported that all "candidates," mostly civil servants, who may meet Xi in their homes have been carefully vetted by local officials to ensure Xi's absolute safety and the zero-risk of infection.*

It doesn't seem like there was much of an uptick in activity this week...



As of Monday, 55% of Chinese SMEs have not resumed production, while some of the remaining 45% that reopened, find it difficult to return to their normal capacity: Xin Guobin, vice-minister of #China's Ministry of Industry and Information Technology #COVID19



2:17 AM · Mar 4, 2020 · Twitter Web App

### [A New Number to Watch for China's Economy: The Resumption Rate](#)

*Since last month, China International Capital Corporation's research team has been releasing a proxy of production resumption on a near-daily basis. With the latest reading at 70.7% on March 3, the so-called CICC Daily Production Activity Tracker aggregates a set of data including coal consumption, labor migration, freight logistics and urban civil transportation.*

*Bloomberg Economics has also been releasing a weekly estimate since Feb 18. The most recent report showed that **China's economy is running at 60%-70% of its normal level** in the last week of February, up from 50%-60% the previous week.*



*"We base our estimate on the best available numbers, a close reading of the news, and conversations with contacts across the country," according to Bloomberg economist David Qu. He collected data on passenger transport, daily average trading volumes in foreign exchange and construction materials, provincial releases on industrial enterprises restart rate and local media reports about staff availability.*

*Tech firm Baidu Inc., whose migration index of people flows has been widely used by media and researchers since the onset of the outbreak, announced its own resumption proxy last week. Using a big dataset from its mapping function, the firm compared active working population with a baseline of December. The latest reading for the national index stood at 57.4% on March 3. On a city level, Shanghai outperformed Guangzhou, Shenzhen and Beijing in the pace of getting back to work.*

"No business"...

### [Caixin services PMI plunges to record low of 26.5 in February](#)

*"We had **zero new orders for the past month**," Monica Bai, an employee of a financial consultancy in Shenzhen, South China's Guangdong Province, told the Global Times on Wednesday.*

*Meanwhile in Beijing, a high-end travel agency named Grenyou arranged refunds for customers who were scheduled to travel during the Spring Festival. Jia Jianqiang, the company's CEO, told the Global Times that there was generally **no business in February**, and the whole tourism sector was pummeled.*

Another mind-boggling statistic...

### [China's passenger car sales fall 80% in February on coronavirus epidemic](#)

*The China Passenger Car Association (CPCA) said in a statement that China's overall passenger car sales dropped 80%, without giving a full sales figure for the month.*

*"Dealers returned to work gradually in the first three weeks of February and their showroom traffic is very low," CPCA said, adding it expects February's sales drop will be the steepest of this year.*

Are we SURE the Chinese Real Estate market is just going to come roaring back?!?



## [Chinese Property Market Transaction Floorspace Plunges over 80% in February due to Coronavirus](#)

*The lat-est data from CRIC indicates that the total transaction floor-space for 27 key Chinese cities monitored was 2.4 million square metres, for an on-month decline of 83%, and a YoY drop of 77%.*

Although hell, even I'd buy property in China if they're giving away free options...

## [Developer China Evergrande's aggressive promotions expected to intensify competition](#)

*China Evergrande Group , the country's No.3 developer by sales, surprised the market on Sunday when it said it sold more than 99,000 units worth 102.7 billion yuan (\$14.7 billion) online in February, boosted by aggressive promotions, despite the coronavirus outbreak.*

*Initiatives including allowing a deposit of as little as 5,000 yuan - with the option to cancel and get a refund - helped Evergrande record bumper transactions in a nearly frozen property market.*

*Evergrande said in mid-February it would offer 25% discounts for all properties until the end of month, and introduced electronic contracts to boost online sales as the coronavirus keeps physical offices shut and potential buyers at home.*

*For March, although the discount has been reduced to 22%, the developer lowered the deposit amount to 2,000 yuan from 5,000 yuan and guaranteed a full refund until May 10.*

*While industry participants said Evergrande could risk a spike in cancellations later, analysts said the promotions give the developer an early advantage to grasp customers.*

These GDP forecasts are insanity. Any Q1 GDP number with a + sign in front of it is completely non-credible. They wiped out the New Year Holiday, auto and property sales fell 80% in February, and we're a week into March and the economy is still only running at 2/3 of capacity (at best). And the median estimate is that the economy is going to GROW at 3.5%?!? (The math is such that would be a sequential decline of ~1% seasonally adjusted, which is still stupidly low).

## [China first-quarter economic hit from coronavirus looking more severe](#)





*The March 3-5 poll of more than 40 economists forecast growth to fall to a median of 3.5% this quarter from 6.0% in the fourth quarter of 2019, a full percentage point lower than predicted in a Feb. 14 poll.*

Despite the sudden stop (and the prospects of a collapse in demand in key export markets), the Chinese policy response – all the talk in the A-shre market notwithstanding – has been **tepid at best**. Hamstrung by a quasi-peg to the Dollar, the PBoC is **reluctant to cut benchmark deposit rates** (stuck at 1.5% since 2015).

They will have to eventually: the banks simply can't make the contributions expected of them without a cut in this predominant funding expense.

### 'Window has opened' for China's central bank following Fed rate cut

*A front-page editorial in the China Securities Journal, a state newspaper, on Wednesday said the “window has opened” for the People's Bank of China (PBOC) to join the United States, Australia and Malaysia in cutting rates.*

*“It is a relatively good choice [for China] to adjust policy rates amid a wave of rate cuts by major central banks,” read the article, published by the official Xinhua news agency.*

*The very public pronouncement echoed an **increasingly loud chorus of analysts pushing for the PBOC to act more boldly**, after its US peers made the biggest cut since the global financial crisis more than a decade ago.*

*A PBOC statement said China would stick to its “prudent monetary policy stance” although the implementation will be “more flexible”. In particular, the central bank said it would fully maximise the Loan Prime Rate regime, but it did not mention benchmark interest rates.*

*The central bank also said China **will not “use the property market as a means to stimulate short-term growth”** and urged local authorities to keep consistent property funding policies, an apparent move to defy speculation that China would significantly relax mortgage rules.*

*Recent **“targeted” loosening measures are perceived to have been too weak** to stem an abrupt collapse in economic activity, with the coronavirus putting China's economy in danger of contracting in the first quarter for the first time since the Cultural Revolution.*



This is an underappreciated problem. Chinese stimulus policy is top-down- State banks lending to SOE's and local governments. They have no policy infrastructure in place to efficiently get funds to the SME's most effected...

### Chinese Businesses Are Running Out Of Time—And Cash

*More help from Beijing is definitely coming, but **the scale of the response may not be as large as investors hope** for the simple reason that China's banking system isn't well-equipped to help the small businesses most at risk.*

*ANZ Bank estimates that the quarantine measures will cost corporate China at least 2.6 trillion yuan (\$372 billion) in cash flow in the first quarter, while consulting firm Gavekal puts the hit at around 4 trillion yuan.*

*Large listed companies and state-owned firms can survive the drought by borrowing, squeezing suppliers or simply running down cash balances.*

*But small private companies that don't have large cash reserves and have trouble getting loans from the state-owned banking system may have no choice but to cut staff, salaries or investment.*

***Policy makers will probably try to offset some of this with higher investment in public works.** More government debt issuance seems likely in coming weeks. Banking regulators are also telling lenders to give small businesses a break on debt repayment in the first half. The central bank will need to ensure adequate banking sector liquidity to absorb new government debt issuance.*

So they're going to try to help SME's by wasting ungodly sums on more bridges and tunnels. But there's another problem...

### In Depth: China's Local Governments Find It Hard to Make Ends Meet

*Local governments are generally not optimistic about their fiscal situation in 2020. Of the 29 provincial-level regions which have released fiscal revenue targets, 22 of them set lower growth targets than last year.*

*Beijing and Shanghai, two of China's richest cities, expect to see **zero growth in government revenue**. Jilin and the Inner Mongolia autonomous region said their revenue*



*will likely fall this year. Multiple governments cited downward pressure on economic growth and tax and fee cuts as factors.*

*However, **these targets were mostly made before** the scale of the coronavirus outbreak became clear. Zhang Yu, chief macroeconomic analyst at Huachuang Securities Co. Ltd., said the epidemic would make even the lower fiscal revenue targets hard to meet, and some might need to be revised.*

***Despite this, regions will have to boost spending to both fight against the epidemic and aid businesses impacted by it.** Finance authorities across the country have allocated over 100 billion yuan to fund this fight, including offering subsidies to patients and medical staff, according to the finance ministry. The state is temporarily exempting or cutting firms' contributions to employees' pension, unemployment and work injury compensation insurance funds, which is expected to ease the burden ([link in Chinese](#)) on Chinese firms by some 600 billion yuan.*

I can't stress this enough: for all the talk, **the policy response thus far hasn't amounted to a hill of beans...**

### [China to Ease Burden on Business by USD73.1 Billion This Year, Finance Ministry Says](#)

*The tax and social insurance measures China unveiled in the wake of the novel coronavirus epidemic are expected to ease the burden on companies by more than CNY510 billion (USD73.1 billion) this year, according to a senior finance ministry official.*

*Local governments can cut businesses' contributions to employee medical insurance while ensuring the long-term sustainability of the medical healthcare insurance fund, Fu Jinling, head of the ministry's department for social security, told a press conference in Beijing today.*

*Finance departments at all levels had arranged CNY108.75 billion for epidemic control and prevention as of yesterday, he said, adding that medical expense-related issues will not delay the treatment of those infected thanks to relatively ample medical funds.*

*The central government has also unveiled policies to subsidize interest payments, with the subsidies based on 50% of the interest rate on loans to key firms to ensure that their real financing costs are no more than 1.6%.*



These announcements of grand infrastructure plans are mostly smoke and mirrors. The constraint is always funding...

## Chinese investment spree soothes virus worries

*As of Sunday, nine provinces in China including North China's Hebei Province and East China's Fujian Province have reportedly rolled out investment plans worth 33.83 trillion yuan (\$4.86 trillion) in total. Majority of the capital would be channeled to transportation, infrastructure and manufacturing.*

*Some of these projects are already on the way to implementation. Last week, China Three Gorges Corp announced it was kick-starting 25 new-energy projects with an input of 58 billion yuan (\$8.27 billion) in total. The construction of a high-speed railway linking Zhengzhou, capital of Central China's Henan Province and Jinan, capital of East China's Shandong Province, also started on February 27, according to media reports.*

*Although **actual spending on these projects will play out over a number of years**, signs are evident that infrastructure investment will surge this year to assist the country to cushion the blow from the coronavirus on the domestic economy, analysts said.*

*"Fixed-assets investment should grow between 6.5 to 7% this year, compared with 5.4% growth last year. It will help drive GDP growth by about 2 percentage points," Chen Run, an economist at the Institute of Economic System and Management under the National Development and Reform Commission, told the Global Times.*

***"Compared with monetary policies, expanding infrastructure investment is an effective way to cope with external shocks like financial crises and of course, the coronavirus. It can help economy revert back to a normal state,"** he said.*

WRONG. These economists are victims of the false narrative that the famous "4T stimulus program" of 2009 saved them from the global financial crisis. No, the FED launching QE 1-2-3 and reversing (at least partially) the global deflationary downdraft is what pulled China out of the downturn. The same cavalry rode to China's rescue in 2016. Are they coming again?

Because again, at a fixed exchange rate China's really got little to offer in terms of home-grown stimulus...

## China's central bank resists large-scale coronavirus stimulus

*Chinese stocks hit a two-year high on Thursday as investors anticipated a fresh stimulus*



*push from the People's Bank of China, and in a front-page commentary earlier this week the official China Securities Journal noted that the surprise decision to reduce US interest rates by half a percentage point had "opened a window" for the PBoC to adjust rates as well.*

*But there has been **no hint of any big-bang surprise from the PBoC, which subsequently said it would not issue any "short-term stimulus" measures** to boost the property sector, one the country's most important economic engines.*

*"Liquidity seems to be broadly ample and the financial plumbing continues to function. You don't want to go beyond that," said one adviser to China's central bank.*

President Xi continues to issue incompatible orders down the chain...

### Xi Focus: Xi chairs leadership meeting on controlling COVID-19, stabilizing economy

*Xi made an important speech at Wednesday's meeting of the Standing Committee of the Political Bureau of the CPC Central Committee.*

*He **called for speeding up the establishment of an economic and social order compatible with the epidemic prevention and control**, urging efforts to consolidate and expand the hard-won positive trend, bring the country's economic and social development back to the normal track at an early date, and create conditions for securing a decisive victory in building a moderately prosperous society in all respects and eradicating poverty.*

*Xi stressed a clear understanding of the complexity of the current situation for epidemic prevention and control, as well as the economic and social development.*

*While the task of containing the epidemic remains arduous and onerous in the outbreak epicenter Hubei Province and its capital city Wuhan, **the risk of an outbreak is rising in other regions** as more people move around and crowds gather, Xi said, demanding no relaxation in the epidemic response preparedness.*

*Xi demanded targeted and solid measures to push for work resumption to minimize the loss caused by the outbreak.*

When you order people to re-start the economy subject to the risk of getting thrown in a hole if they preside over an outbreak in their locality, this kind of thing results...



## [Lights Are On but No One's Working: How Local Governments Are Faking Coronavirus Recovery](#)

*As new coronavirus cases in China slowed in recent weeks, local governments in less-affected regions pushed companies and factories to return to work, typically by assigning concrete targets to district officials. Company insiders and local civil servants told Caixin that, **under pressure to fulfill quotas they could not otherwise meet, they deftly cooked the books.***

*Leaving lights and air conditioners on all day long in empty offices, turning on manufacturing equipment, faking staff rosters and even coaching factory workers to lie to inspectors are just some of the ways they helped manufacture flashy statistics on the resumption of business for local governments to report up the chain.*

## Supply-Chain Drama

### [Axios China](#)

*An Australian think tank has traced the supply chains of major U.S. companies back to Chinese companies that use Uighur forced labor.*

*Why it matters: **It's against U.S. law for companies to import products made through forced labor** — but proving those links is often difficult.*

*"Uyghurs for Sale," a report published on March 1 by the Canberra-based think tank Australian Strategic Policy Institute (ASPI), found **the supply chains of more than 80 international companies go back to Chinese companies that use Uighur workers who have been compelled to work there.***

*The companies mentioned in the ASPI report include Nike, Apple, Gap, Huawei, Samsung, Sony and Volkswagen.*

*That evidence may help U.S. officials in the Forced Labor Division of the Department of Homeland Security enforce a prohibition against importing products made through forced labor.*

Apple has a problem it just doesn't want to face...

### [Tim Cook and Apple Bet Everything on China. Then Coronavirus Hit.](#)



*Long before the coronavirus struck, Apple Inc.'s operations team began raising concerns about the technology giant's dependency on China.*

*Some operations executives suggested as early as 2015 that the company relocate assembly of at least one product to Vietnam. That would allow Apple to begin the multiyear process of training workers and creating a new cluster of component providers outside the world's most populous nation, people familiar with the discussions said.*

*Senior managers rebuffed the idea. For Apple, weaning itself off China, its second-largest consumer market and the place where most of its products are assembled, has been too challenging to undertake.*

*Apple's reliance on China has long frustrated staff—and more recently unnerved investors. The coronavirus represents Apple's third major setback there in as many years, including the fallout from tensions with the U.S. that included tariffs and slower-than-expected iPhone sales in the country.*

### [Apple Supplier Hon Hai Production Down By Half, Order Cancelations Plausible](#)

*Hon Hai Precision Industry, best known as Foxconn and as an Apple supplier, said in a conference call yesterday that their production is at about 50%, adding that they should be fully functioning by the end of the month in a best case scenario.*

Others, less entrenched than Apple, are quicker to bow to reality...

### [Virus spurs Google and Microsoft to hasten shift from China](#)

*Google and Microsoft are accelerating efforts to shift production of their new phones, personal computers and other devices from China to south-east Asia amid the worsening coronavirus outbreak, with factories in Vietnam and Thailand expected to be the beneficiaries, the Nikkei Asian Review has learnt.*

*"The unexpected coronavirus hit will definitely push electronics builders to further seek production capacity outside their most cost-effective production base of China," a supply chain executive said. "No one could ignore risks after this... It's more than just cost - it's about continuity of supply chain management."*



## [Clock ticking for China to stop foreign firms fleeing country, report says](#)

*Professor Wang Shouyang, chief forecast scientist at the Chinese Academy of Sciences, the country's largest scientific research body, used a mathematical model to predict the impact of the epidemic on the global value chain. The risk of China losing jobs not only existed but could become a "black swan event causing the industrial chain to shift outward" and turn China into a "hollow economy" if the disruption to normal production and business activities continued after the first quarter, the report said.*

## [Huawei](#)

This story was lost in the shuffle this week, but is downright smoking gun-ish...

## [Exclusive: Newly obtained documents show Huawei role in shipping prohibited U.S. gear to Iran](#)

*China's Huawei Technologies, which for years has denied violating American trade sanctions on Iran, produced internal company records in 2010 that show it was directly involved in sending prohibited U.S. computer equipment to Iran's largest mobile-phone operator.*

*Two Huawei packing lists, dated December 2010, included computer equipment made by Hewlett-Packard Co and destined for the Iranian carrier, internal Huawei documents reviewed by Reuters show.*

*Another Huawei document, dated two months later, stated: "Currently the equipment is delivered to Tehran, and waiting for the custom clearance."*

*The packing lists and other internal documents, reported here for the first time, provide the strongest documentary evidence to date of Huawei's involvement in alleged trade sanctions violations. They could bolster Washington's multifaceted campaign to check the power of Huawei, the world's leading telecommunications-equipment maker.*