



Weekend Links or: How I Learned to Stop Worrying and Love the (debt) Bomb



There is a natural tendency for many in the market to reflexively view government “stimulus” as bearish and any expansionary policy by the Fed at a time of market upset as “distorting asset prices.” I’ve consistently taken issue with the latter view ([Bubblephobia](#), 4/4/419), although I am a huge skeptic of the efficacy of government spending as “stimulus.”

But in this case, I can only say that I’m beyond pleasantly surprised – pleasantly shocked, I guess – at the the policy response. It has not been perfect. But it could have been A LOT worse.

First the fiscal package. Since the crisis has unfolded I’ve thought the overriding **policy objective must be to limit the permanent damage to the formed capital stock** – particularly that of “Main Street” business, which when damaged can take years, if ever, to repair. Only if the capital stock remains largely intact can we maintain hope for a V-shaped recovery. I’ve also emphasized that sending checks to people is largely useless in meeting this objective.

One out of two ain’t bad! It’s the U.S. Congress acting in an expedited fashion. I’m delighted they didn’t completely muck it up.

Of course, I wish they have dispensed with the check-sending and doubled or tripled the \$350bn program to extend 8-week bridge loans to small business (forgiveable if employees are retained).

But between that small business subsidy, access to credit on preferential terms via the Fed’s new “Main Street Lending Program,” and the ability for furloughed workers to receive full-pay



unemployment benefits, there should be enough support in place to get the majority of small businesses through a 4-6 week shutdown. (The hospitality industry may need further support as restaurants and bars will likely operate at low capacity for many months).

We could all have a chuckle running through the laundry list of pork that buffeted the bill's passage, but let's not dwell on that. Rather than stewing over Congressional dysfunction, let's celebrate that they were able to function at all.

Furthermore, let's dispense with the hand-wringing over moral hazard. We have been hit with a monstrously expensive societal black swan. Why shouldn't the losses be socialized? Again, the key to our economic survival is to keep the capital stock intact to the extent possible. I say socialize the costs, keep the base of established business intact as much as possible. We'll grow out of the debt (probably with the help of an uptick in inflation) over time.

Ditto for Fed policy: dispense with the moral hazard concerns. No one is getting "bailed out" and there is no "Fed put" being exercised. There was an historically abrupt shift in liquidity demand. And it's not a financially-driven phenomenon either. Every business on the planet suddenly realized "oh my god, I need cash." The liquidity demand curve went vertical.

The Fed MUST supply the requisite liquidity demanded in this situation. It is their raison d'être. To wheel out the old Bagehot saw to "lend freely to solvent institutions," if this is short-term disruption is handled properly by fiscal policymakers, no entity should be rendered insolvent by it.

It's a societal problem we face. Socialize the losses to maintain the integrity of the capital stock, and provide liquidity to anyone who needs it. Keep hopes for the 'V' intact.

Here is Mr. "whatever it takes" himself, making a similar argument in the FT this week:

[Mario Draghi: We face a war against coronavirus and must mobilise accordingly](#)

*Faced with unforeseen circumstances, a change of mindset is as necessary in this crisis as it would be in times of war. The shock we are facing is not cyclical. **The loss of income is not the fault of any of those who suffer from it.** The cost of hesitation may be irreversible. The memory of the sufferings of Europeans in the 1920s is enough of a cautionary tale.*

The speed of the deterioration of private balance sheets — caused by an economic shutdown that is both inevitable and desirable — must be met by equal speed in deploying government balance sheets, mobilising banks and, as Europeans, supporting each other in the pursuit of what is evidently a common cause.



All that said, I agree with the Minority Leader here that perhaps we should cool it on the talk of Stimulus package #4 already...

McCarthy Advises Against Rushing A Phase 4 Coronavirus Package As Democrats Suggest

House Minority Leader Kevin McCarthy on Thursday advised against rushing to a phase 4 coronavirus package, as the House hasn't even passed the \$2 trillion legislation and let it take effect on the economy

Minutes after the Senate passed the phase 3 bill on Wednesday night, Senate Minority Leader Chuck Schumer told reporters that "odds are high" for a fourth stimulus package, while hinting that \$2 trillion dollars will not be enough funding to fight the spread of the deadly virus.

Speaker of the House Nancy Pelosi then held a press conference Thursday morning to address the coronavirus pandemic. In the press conference, Pelosi began to speak about what she would like to see in the next coronavirus relief package, despite the fact that the House had not yet passed the third. Pelosi also added that the fourth package should be negotiated among the Big Four leaders of Congress

In Tuesday's Pelosi, the Package, and a Potential Melt-up I talked about the two necessary conditions for healthier asset markets:

- Limiting the duration of draconian containment measures
- Minimizing the permanent damage to the formed capital stock during the shutdown

The fiscal package looks sufficient to protect the capital stock through a short shutdown. My expectation is that President Trump's timeline for beginning to get things moving again by the second week of April is realistic.

China is exemplary here. Yes, the Chinese data are bogus (here's a piece from Derek Scissors at AIE pointing out some obvious inconsistencies in the story China is telling us). But the fact remains that China has not yet had another uncontained outbreak. You can't hide a Wuhan.

There must have been other cities in China "seeded" from the Wuhan New Year exodus far worse than Northern Italy. Why didn't they explode like Italy? Obviously, social distancing works. And while China's social distancing was draconian, it's actually been several weeks since it was loosened up outside of Wuhan. Still, no uncontrolled outbreaks.



The conclusion I tentatively draw here is that social distancing need not be an all-or-nothing proposition. If you cut the “r-nought” from 2.0 (the current guesstimate) to 1.0, the number of cases will stop growing. If everyone cut their social interactions so as to reduce the opportunity for potential spread by half, wouldn’t that do the trick?

I get the need nip things in the bud before we overwhelm hospital capacity with a more draconian shutdown. But once the caseloads have levelled off, we should be able to loosen the social distancing stricture somewhat without renewed outbreaks.

The other issue is that of herd immunity. Every time someone becomes infected and resolves, the transmissibility of the virus throughout society will fall by some tiny increment. Social media went haywire over the audacity of the spring-breakers partying on Daytona Beach. But are we sure this is a bad thing?

So long as seniors and the medically vulnerable are maintaining social distancing, maybe it’s just as well for these kids to be out there building immunity. Yes, a handful resolve tragically, but the proportion of twenty-something cases that end up in ICU is less than 1%, with a fatality rate well below that. If the elderly and vulnerable derive some safety benefit from the increased immunity of the herd, are we even sure that spring break partying might not save lives on balance?

Watch for these types of questions to get increased airtime as society moves away from the kneejerk for ‘social distancing virtue signaling’ and towards a more holistic approach to the issues of health, social distancing and economic activity.

NY Governor Andrew Cuomo’s press conference on Thursday may mark a watershed in this regard...

Cuomo: It was not the best strategy to shut down NY

Governor Andrew Cuomo said on Thursday that it was not the best strategy to quarantine all of New York at once to battle coronavirus because it not only shut down the economy but put young people in homes with older relatives and potentially exposed them to the virus.

He is working on producing a test that will identify coronavirus antibodies in a healthy person who has self-recovered so that they can not only be cleared for work, but so their plasma of antibodies can be used to treat a sick person and build an immunity to the virus in them.



'It's something we're working through. The smartest way forward is a modified public health strategy that dove tails and compliments a get back to work strategy.

'What we did was we closed everything down. Closed everything. If you re-thought that, or had time to analyze it, I don't know that you would say, "quarantine everyone."

'I don't even know that was the best public health strategy. Young people quarantining with old people was probably not the best public health strategy,' he said.

'How do you modify the health strategy to make it smarter but also starts to get you back to work? People who have resolved can go back to work. That's how I think you do it,' he said, adding it was not acceptable to focus either on the economy or on public health.

'You have to do both,' he said.

Antibody tests – which determine immunity – should be available in a few weeks, allowing anyone who has had the virus and developed immunity freedom to roam...

CNBC: Henry Schein Antibody Test

the company says it has developed a test that would identify if you have the COVID-19 antibodies in your system. Moreover, Henry Schein says the test would deliver results within fifteen minutes (!) from a pinprick, with no bigger instrumentation needed. And it thinks it will have "at least several hundred thousand" tests available by the end of the month--that's in four days!

If this all proves to be true, it's a game changer. For one, it's a way for people to show they've had COVID, recovered, and can go back to work. That would include tons of people--myself included--who wonder if they've had it without realizing at the time. Moreover, the blood of people who have had COVID and now have the antibodies in their system can potentially be used as an antidote for the disease.

The mainstream media coverage of some of these issues has really been bad. Whether it's for ratings or politics, the sensationalizing is terribly unhelpful. This misleading headline is sadly representative of much of the coverage.

"Can warm weather stop the Coronavirus? Don't Count On it" blares the headline. The piece then proceeds to details four studies that suggest that, yeah, warm weather probably will



help. Ugh.

Can Warmer Weather Stop Coronavirus? Don't Count On It

According to a report from Massachusetts Institute of Technology released this week, areas with average temperatures between around 37°F and 55° F had the most confirmed coronavirus cases, while countries with average temperatures above about 64 F made up less than 5% of total reported cases.

European researchers said this week they found 95% of worldwide cases have been counted in places that fall in between about 28° F and 40° F, which mirrors the MIT report.

The early days of the pandemic before intervention by the Chinese government were studied by Beihang University in Beijing, who said that China's hot, humid cities experienced slower transmission rates than colder ones.

Similarly, a team made up of researchers from the University of Maryland and at the University of Medical Sciences in Tehran found the virus spread more forcefully in areas between 41° F and 52° F degrees, along with an average humidity rate between 50% and 80%.

However, none of these papers have been peer-reviewed...

The lack of uncontrolled outbreak in China could also be due to the widespread use of chloroquine. This is from Xinhua on February 17, but worth a renewed look. Even if chloroquine only works some of the time and only to shorten hospital stays by a few days, isn't that a big deal right now given the concerns about hospital capacity?

Antimalarial drug confirmed effective on COVID-19 - Xinhua | English.news.cn

BEIJING, Feb. 17 (Xinhua) -- Chinese experts, based on the result of clinical trials, have confirmed that Chloroquine Phosphate, an antimalarial drug, has a certain curative effect on the novel coronavirus disease (COVID-19), a Chinese official said here Monday.

The experts have "unanimously" suggested the drug be included in the next version of the treatment guidelines and applied in wider clinical trials as soon as possible, Sun Yanrong, deputy head of the China National Center for Biotechnology Development under the Ministry of Science and Technology (MOST), said at a press conference.



Chloroquine Phosphate, which has been used for more than 70 years, was selected from tens of thousands of existing drugs after multiple rounds of screening, Sun said.

According to her, the drug has been under clinical trials in over 10 hospitals in Beijing, as well as in south China's Guangdong Province and central China's Hunan Province, and has shown fairly good efficacy.

In the trials, the groups of patients who had taken the drug have shown better indicators than their parallel groups, in abatement of fever, improvement of CT images of lungs, the percentage of patients who became negative in viral nucleic acid tests and the time they need to do so, she said.

Patients taking the drug also take a shorter time to recover, she added.

For those who want to dig deeper, here's a good resource for scientific and medical research on the subject...

[PRIME PubMed | Chloroquine AND Coronavirus 2019 OR COVID-19 OR SARS-CoV-2 journal articles from PubMed](#)

The media coverage of chloroquine has been borderline criminal in my opinion. This is just the worst example of many from Axios: [Man dies after self-medicating with chloroquine phosphate.](#)

The piece neglects to mention that the gentleman "self-medicated" by consuming a tablespoon of aquarium cleaner made with chloroquine phosphate...

Meanwhile, doctors, should have some insight here, right? I know two different MD's who stocked up on chloroquine for their families over a month ago. Do we know beyond doubt that it works? I guess not. But given that the risks are known and low, the risk-reward in using the drug seems very clear. I'd take it without a second thought if afflicted.

[Doctors Are Hoarding Unproven Coronavirus Medicine by Writing Prescriptions for Themselves and Their Families](#)

A nationwide shortage of two drugs touted as possible treatments for the coronavirus is being driven in part by doctors inappropriately prescribing the medicines for family, friends and themselves, according to pharmacists and state regulators.



"It's disgraceful, is what it is," said Garth Reynolds, executive director of the Illinois Pharmacists Association, which started getting calls and emails Saturday from members saying they were receiving questionable prescriptions. "And completely selfish."

Demand for chloroquine and hydroxychloroquine surged over the past several days as President Donald Trump promoted them as possible treatments for the coronavirus and online forums buzzed with excitement over a small study suggesting the combination of hydroxychloroquine and a commonly used antibiotic could be effective in treating COVID-19.

U.S.-China Relations

What a strange turn of events, as China's Ambassador to the U.S. contradicted his own Foreign Ministry spokesperson on the "U.S. Army" conspiracy theory...

Top Chinese official disowns U.S. military lab coronavirus conspiracy

China's ambassador to the United States, Cui Tiankai, told "Axios on HBO" that he stands by his belief that it's "crazy" to spread rumors about the coronavirus originating from a military laboratory in the United States.

Why it matters: Cui called this exact conspiracy theory "crazy" more than a month ago on CBS' "Face the Nation." But that was before the spokesperson for the Chinese Ministry of Foreign Affairs, Zhao Lijian, began publicly promoting the conspiracy.

The fact that Cui distanced himself from his colleague's statements sends an important signal from the top Chinese government official in the U.S.

That this marked a change in official tone rather than an internal rift seems confirmed by a Monday morning nicey-nice from Hu Xijin at the ultranationalist Global Times



Hu Xijin 胡锡进
@HuXijin_GT

Coronavirus is challenging all humanity. It is time when humankind needs solidarity the most. History will not forgive the US and China if they go to conflict at this time. Whoever stirs up conflict between China and the US will be condemned by history.

10:11 AM · Mar 23, 2020 · Twitter Web App



President Trump agreed to the temporary rhetorical cease-fire...

Trump Says He'll Stop Using the Term 'Chinese Virus'

President Donald Trump said he'll stop using the term "Chinese virus," a sign that the U.S. and China want to deescalate their blame game over the pandemic, though his top diplomat kept up accusations that Beijing is waging a misinformation campaign about its origin.

"I don't regret it, but they accused us of having done it through our soldiers, they said our soldiers did it on purpose, what kind of a thing is that?" Trump said in an interview Tuesday with Fox News. "Look, everyone knows it came out of China, but I decided we shouldn't make any more of a big deal out of it. I think I made a big deal. I think people understand it. But that all began when they said our soldiers started it. Our soldiers had nothing to do with it."

At the same time, the Administration holstered its new weapon against Huawei. No shots fired yet though....

Exclusive: U.S. nears rule-change to restrict Huawei's global chip supply - sources

Senior cabinet officials in the Trump administration agreed to new measures to restrict the global supply of chips to China's Huawei Technologies, sources familiar with the matter said, as the White House ramps up criticism of China over coronavirus.

Under the change, foreign companies that use U.S. chipmaking equipment would be required to obtain a U.S. license before supplying Huawei. The Chinese telecoms company was blacklisted last year, limiting the company's suppliers.

Because most chipmaking equipment used worldwide relies on American technology, the change would represent a major expansion of export control authority that some trade experts have said would anger U.S. allies.

It is unclear if President Donald Trump, who appeared to push back against the proposal last month, will sign off on the rule change.

The media nonsense about how China is winning over the rest of the world with its cooperative stance and helpful global approach should be completely ignored. Europe is not



going to abandon the U.S. and embrace China for a few N95 masks...

EU fires warning shot at China in coronavirus battle of the narratives

In an unusual choice of language, the bloc's foreign policy chief Josep Borrell called on EU countries to stand ready for a "struggle for influence" in a "global battle of narratives".

While Beijing has called its campaign to send millions of face masks to Europe – current epicentre of the pandemic – a show of solidarity and friendship, Borrell cast light on its geopolitical significance in a blog post released by EU External Action, the agency he leads.

"There is a global battle of narratives going on in which timing is a crucial factor," he said, noting that the focus had shifted from Europe helping China to the other way round. "China is aggressively pushing the message that, unlike the US, it is a responsible and reliable partner.

"In the battle of narratives we have also seen attempts to discredit the EU as such and some instances where Europeans have been stigmatised as if all were carriers of the virus.

"The point for Europe is this: we can be sure that perceptions will change again as the outbreak and our response to it evolves. But we must be aware there is a geopolitical component including a struggle for influence through spinning and the 'politics of generosity'," Borrell said.

China Economy & Finance

Trivium Activity Index: Activity is running at 80% of normal for large companies, 71% for small, 75% national average. **Not much change from last week.** I suspect we'll find the degree of **permanent damage to China's capital stock will be far greater** than that in developed markets, owing to a highly vulnerable state going in and a feckless policy response.

Coronavirus: Getting China back to work - Trivium China - Policy Monitoring, Government Engagement, Public Affairs

Here's a lesson that probably translates to developed markets: it will be many months before the hospitality and entertainment industries are back to anywhere near capacity...



Robin Brant 白洛宾
@robindbrant

Further evidence [#China](#) is cautiously - very cautiously - trying to resume business but nothing like the 'back to normal' state propaganda may be pushing. National Film Admin orders all cinema remain closed. This is still a country worried about a second [#coronavirus](#) wave

9:13 AM · Mar 27, 2020 · Twitter for iPhone

A sharp markdown to the official 2020 GDP target should be coming within a matter of weeks and will prove a great shock to the market, even though it's an obvious inevitability...

Top China bank unexpectedly slashes 2020 growth forecast amid virus fallout

Debate about the impact of the coronavirus pandemic on China's economy took on a new complexion on Monday after the country's most prominent investment bank turned pessimistic, slashing its 2020 growth forecast.

The government has recently strengthened its rhetoric about the resilience of China's economy, and a number of Chinese economists still believe gross domestic product (GDP) growth this year could be close to the 6% target range that was expected to be announced in March.

But on Monday, the China International Capital Corporation (CICC) – seen by many as the country's most highest-profile brokerage – stunned many in Chinese financial circles by sharply cutting its real GDP growth forecast for 2020 to a record low of 2.6%, from 6.1% in January.

CICC had previously been relentlessly positive about China's economic outlook, and the shift in tone highlights the gloomy prospects facing the world's second largest economy.

Chinese policymakers seem to be under the impression that once the virus dissipates, things will organically return to a pre-crisis state. They have little appreciation for the potential damage being done to the capital stock – particularly that in private hands - by three months of lost business. There is no 'V' in China.

China's Economy to Return Fast to Potential Growth, PBOC Says'

"Economic indicators will likely show significant improvement in the second quarter and the Chinese economy will return to potential output level rather swiftly," People's Bank



of China Deputy Governor Chen Yulu told reporters in Beijing.

Chen repeated earlier pledges to keep credit growth stable and make good use of the central bank's targeted easing approach, and did not announce any new stimulus measures.

I say this week after week in this space: **China has done NEXT TO NOTHING to stimulate**. Here they're touting "\$354bn," which includes PBoC liquidity additions. Compare that to the U.S., where if you add the fiscal package and Fed liquidity additions the stimulus totals eleventy squillion Dollars.

China implementing \$344 billion of mainly fiscal measures in coronavirus fight

China is implementing \$344 billion of mainly fiscal measures in its fight against the coronavirus outbreak, a Foreign Ministry official said on Thursday.

The money already spent includes 1 trillion yuan (\$141 billion) in tax reductions, as well as liquidity released through targeted tools,

They haven't even cut the key interest rate yet, which reveals that the exchange rate is, in fact, a constraint on monetary policy. I suspect they'll soon have no choice though. Banks have nothing to contribute to the recovery if they can't maintain net interest margins...

China's central bank in talks to cut rate banks pay to savers

***China's central bank is in discussions to cut the interest rate banks pay on deposits** for the first time since 2015, in a bid to help banks eke out higher profits as they are enlisted to help spur an economic recovery following the coronavirus outbreak.*

*The country's economy has been brought to a standstill since the global pandemic started in January. But the response by the People's Bank of China to the crisis has been **relatively muted** compared to efforts in the US and Europe, where billions of dollars are being deployed by central banks to fight a global recession.*

Chinese banks have been recruited, however, to help boost the economy. They have been told to extend loans to struggling companies, to reduce lending rates and increase their tolerance for bad debt created during the crisis.

While such measures could be effective in helping companies survive over the next few



months, they are also expected to hurt bank profitability in 2020.

A deposit rate cut could be announced in the coming days, according to two people familiar with the discussions at the central bank.

Lowering the deposit rate would provide more breathing room by widening the spread between how much they pay out to depositors and how much they charge for loans.

The latest bright idea: boost consumption by force-feeding credit to households. **This will fail because it's based on a fallacy**: that "rebalancing to consumption" can be centrally planned.

U.S. consumption is the lion's share of GDP because the U.S. is a market economy in which investment is directed by the wants, needs and behavior of consumers, as communicated through market prices. Investment in China, by contrast, is largely State-directed, funded by the expropriation of household savings via various means of financial repression. Until policymakers abandon the central planning of investment, **China's economy can never "rebalance" to consumption.** P.S.: China's vaunted household savings exist in the form of bridges to nowhere and empty apartments.

Chinese banks pump money into consumer loans

Beijing sees personal loans as a solution to economic woes. Ye Yanfei, an official at the China Banking and Insurance Regulatory Commission, said at a press conference on Sunday the government would "count on" consumer credit to help consumption recover.

The new stance marks a sharp contrast from a few months ago, when the regulator put consumer loans under tighter scrutiny to reduce credit risks.

Lenders have been quick to pick up the signalled change in policy. Industry leaders such as the Industrial and Commercial Bank of China have cut consumer loan rates to as low as 4.4% from more than 6% at the end of last year. The bank has also increased the amount that clients can borrow by up to a third.

"Credit demand has vanished following the outbreak of the coronavirus," said an official at SRCB. "The best way to bring it back is by offering better terms."

*The lending campaign, however, has raised concerns about credit risks because defaults have also taken off. Zhou Lifeng, chief risk officer at Hangzhou-based Sunyard Fintech, a consultancy that advises banks on risk management, said his clients had seen **an increase of between 20% and 50% in non-performing consumer loans** since the disease*



emerged.

"The virus has given a huge boost to overdue loans because many people have lost their jobs and are unable to repay debt," said Mr Zhou.

Tick, tick, tick, tick, tick, tick.....

Breakingviews - China plays chicken with property market

There's a slow leak from China's property bubble. A full-on crash would upend economic and political stability, but Beijing is maintaining curbs on speculation. That hard line could hobble recovery. Even then, a correction is inevitable.

China Evergrande Group, the country's second-largest developer, just warned that last year's profit could halve from 2018. It is cutting prices in some places by more than one-fifth, and juicing sales with exotic promotions like purchase options for a refundable 5,000 yuan (\$707) deposit. Such financial razzle-dazzle is unlikely to save \$18 billion Evergrande, its peers or their creditors from a brutal reckoning.

***Property is the collateral behind more than 40% of loans**, per a Moody's estimate.*

Municipal officials rely heavily on land sales to fund public services. The construction industry, a huge employer, needs projects to break ground. In 2013, when prices fell, most economic indicators followed.

*That presents a quandary. **About three-quarters of Chinese household wealth is held in real estate**; a downturn is a political problem. Prices, however, have risen so much that mortgages are absorbing an unhealthy share of middle-class incomes, and miring people in debt. Because housing outperforms all other asset classes in China, it distorts capital allocation too. While supporting property investment would boost growth, the government has maintained buying curbs in the name of rebalancing. "Houses are for living in, not speculation," has become President Xi Jinping's mantra.*

*Policymakers may assume demand can be revived with the flick of a policy switch. Perhaps, but neither short-term economics nor long-term demographics are supportive. China's family formation rate halved between 2011 and 2018, and the population will start shrinking outright in 2027. **The country has around 3 billion square meters of unsold residences**, per Rhodium Group estimates, which take over two years to clear without an epidemic.*

