



Flash Japan

The outbreak of COVID-19 has been grabbing all the recent headlines. Outside of China, the epicenter of this novel coronavirus, Japan may have been put under high scrutiny following the imposed quarantine on the cruise ship “Diamond Princess” which travelled to Hong Kong, Vietnam and Taiwan before docking back in Yokohama - Japan. The number of confirmed infections on board the ship eventually climbed to 705 for 6 reported deaths, making it at one point the largest spot for COVID-19 outside of China. In comparison and as of March 2, mainland Japan has seen a total of 256 cases - among which 32 people have now recovered - and 6 casualties. Based on these figures, Japan ranks well behind China, South Korea, Italy, Iran and the “Diamond Princess” cruise ship itself, and sits just above France and Germany.

There has also been a lot of speculation about the Tokyo 2020 Olympics. The games are due to begin on July 24, still providing the organizers time to monitor the situation. But given the recent developments in Europe, one of the major sporting events actually looking under more immediate threat is the UEFA Euro 2020. It is scheduled to take place between June 12 and July 12 and to be hosted by 12 cities across the continent, which implies multiple travels between countries for competitors and spectators. In any case, Tokyo will be able to learn and benefit from the decisions made towards the Euro 2020.

In the face of the growing uncertainty, the markets’ reaction has been quite extraordinary. Over the last week of February alone, most developed equity markets entered correction territories. The S&P500 and Eurostoxx50 plummeted 11.5% and 12.4% respectively, whereas the Topix dropped 9.7%. The deterioration of equity sentiment registered a move of more than five standard deviation, equivalent to an occurrence of once in roughly 11,200 years in a normal distribution. At the same time, the Japan-US relative stock price has marked a new post-war low as illustrated below. As of February 27, the S&P500 was trading on a 12-month forward P/E of 17.3x versus 13.9x for the Topix.





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To help contain the spread of COVID-19, the Abe administration has recently announced several additional measures. It has asked for all schools to close through spring vacation in early April, while establishing a subsidy program to help workers who may have to take time off to care for their children. The number of hospital beds available will be increased from 2,000 to 5,000 at hospitals designated for treating infectious diseases, in case the number of infections surge. The government also pledged to roll out a second emergency spending package before March 10, using JPY 270bn (USD 2.5bn or 0.05% of GDP) from the fiscal 2019 reserve fund.

On March 2, the BoJ released a statement promising to provide ample liquidity and ensure stability in the financial markets through appropriate market operations and asset purchases. It already announced an unscheduled JPY 500bn purchases of JGBs with repurchase agreements to inject liquidity to the markets. These announcements echoed the ones made earlier by the Fed, raising the possibility of coordinated actions from the world's major central banks.