Update on 2019-nCoV on 21/02/20 – a new phase?

Mark Huxter

Anxiety has crept back into global financial markets as the outbreak spreads outside of China and investors weigh the impact on corporate earnings. The head of the World Health Organisation said that if countries do not respond strongly now, the spread beyond China may become a wider threat. The epidemic that emerged in early December has yet to become a pandemic which is defined as a situation where the virus is spreading across multiple continents.

The death toll, at the time of writing, is 2,236 in China – mainland cases stand at 75,465, with 115 new fatalities in Hubei Province. However, China has been continually adjusting the number of coronavirus cases, leading to doubts about the validity of the data. In addition, South Korea has reported 52 more cases, bringing their total number to 156. Those for Singapore and Japan have topped 85. And then there are the 600-plus from a quarantined cruise ship in Japan. So far, the numbers outside of China remain small: out of 2,247 deaths, only 11 have occurred in other countries. Iran has logged its first report of deaths from coronavirus.

“The sudden jump in infections in other parts of Asia, notably in Japan and South Korea, has sparked renewed concerns,” said Khoon Goh, Singapore-based head of Asia research at Australia & New Zealand Banking Group Ltd. Some believe that the Diamond Princess cruise ship could be a potential powder keg as more than 1,000 quarantined passengers leave by the end of Friday. With people aboard coming from more than 40 nations, not only returning home from their travels, could they spawn a fresh wave of global infections?

A negative outcome for Chinese citizens is that the fear of exposing medical staff to the highly infectious pathogen is causing some hospitals to turn away all new patients in major cities like Beijing and Shanghai, even if those patients need urgent care. One is seeing reports on social media in China of other patients who could not get medical care sparking further criticism of the state – where anger is already simmering over the government’s slow initial response to the outbreak. National health officials have also publicly urged local hospitals throughout the country not to neglect patients unrelated to the outbreak.

However, there is no plan B if the factories do not reopen soon – a plight shared by investors and thousands of businesses in China and around the world. Even for those who can do business by internet and phone, the virus means there probably will not be much business to do. Chinese factories, shops, hotels and restaurants are warning of plunging foot traffic. Japan sees economic activity contracting sharply as the virus hits. Unlike others including the US, Australia and Singapore, Abe’s government has avoided a blanket ban on visitors from its neighbour, instead restricting entry from just two provinces which has resulted in Japanese citizens expressing misgivings as to this policy.

Meanwhile, in China, thousands of businesses are trying to figure out how to stay operational in a virtual world, by trying to organise client meetings and group discussions via video chat apps or discussing plans on productivity software platforms like WeChat Work. Working from home will see positive benefits to e-commerce online in general, but with fast food and grocery deliveries being the immediate beneficiaries – as well as entertainment, with games and content providers benefiting.

Expect bites into global supply chains, to the degree that business must reconfigure existing supply chains. The global commodity-shipping industry also now faces an extremely challenging quarter as the

The virus spreads!

David Anderson, Editor

“Like other viruses, including terrorism, COVID-19 knows no borders and does not distinguish between ethnicities or faiths. To combat it, neither should we.”

(Iranian Foreign Minister Javad Zarif)

In his excellent article, written on 21 February, Mark Huxter gave figures for that date. Four days later the number of cases reported had risen by 5,000 with just under 500 additional deaths.

Apart from the health factor, countries are becoming increasingly concerned regarding stock market uncertainties and the future of global trade. Monday 24 February saw the greatest one-day fall on the JSE since 2016. What stunned the markets were the figures emanating from Italy – 320 cases, making it the country with the third highest number of Coronavirus cases after China and South Korea.

China is a pivotal player in the global economy – from plastics to poultry to pharmaceuticals. China’s ‘shutdown’ will affect world trade and, importantly for South Africa, our import and export dealings with that country. Yet this may be a blessing in disguise – perhaps this is an opportunity for us to increase our domestic productivity and to lessen our dependence on Far Eastern imports.

Will the Government play ball?
impact of the coronavirus outbreak in China adds to other headwinds, including seasonally low demand and the impact of recent fuel-rule changes – according to IHS Markit. Flight cancellations have been seen, leaving thousands of people stranded across the globe and dealing a major blow to the international aviation industry.

Other obvious disruptions are to the gaming industry, tourism, semiconductors, motor, oil and long dollar positions against the Chinese yuan. Commodity-exporters will also face headwinds, even if the epicentre of the virus is not in heavy construction and other primary users of industrial metals and energy.

In conclusion, the coronavirus outbreak has impacted economic activity in China, Asia and beyond. As a result, analysts believe that global manufacturing and trade are set for a renewed downturn in coming months. They now forecast global GDP to grow 2.4% this year, down from their prior forecast of 2.6%. Yet growth is likely to pick up more sharply than expected in the second half of the year as supply comes back online and catches up with demand. Investors should brace for a slew of profit warnings over the coming weeks from companies with significant operations in China.

China said it is considering further measures to shield its economy from the outbreak including cash infusions and bailouts for the struggling airline industry. The International Monetary Fund reiterated that it sees a rebound in global growth this year, despite risks of a further spread of the coronavirus.

So, till 2019-nCoV shows definitive signs of peaking expect to see increased volatility in the markets, another sell-off in base metals, declining Emerging Market local government bond yields and renewed weakness in EM currencies vs the USD. Our base case remains one of a mild global recovery and mid-single digit equity upside in 2020. We would use further weakness as a buying opportunity.