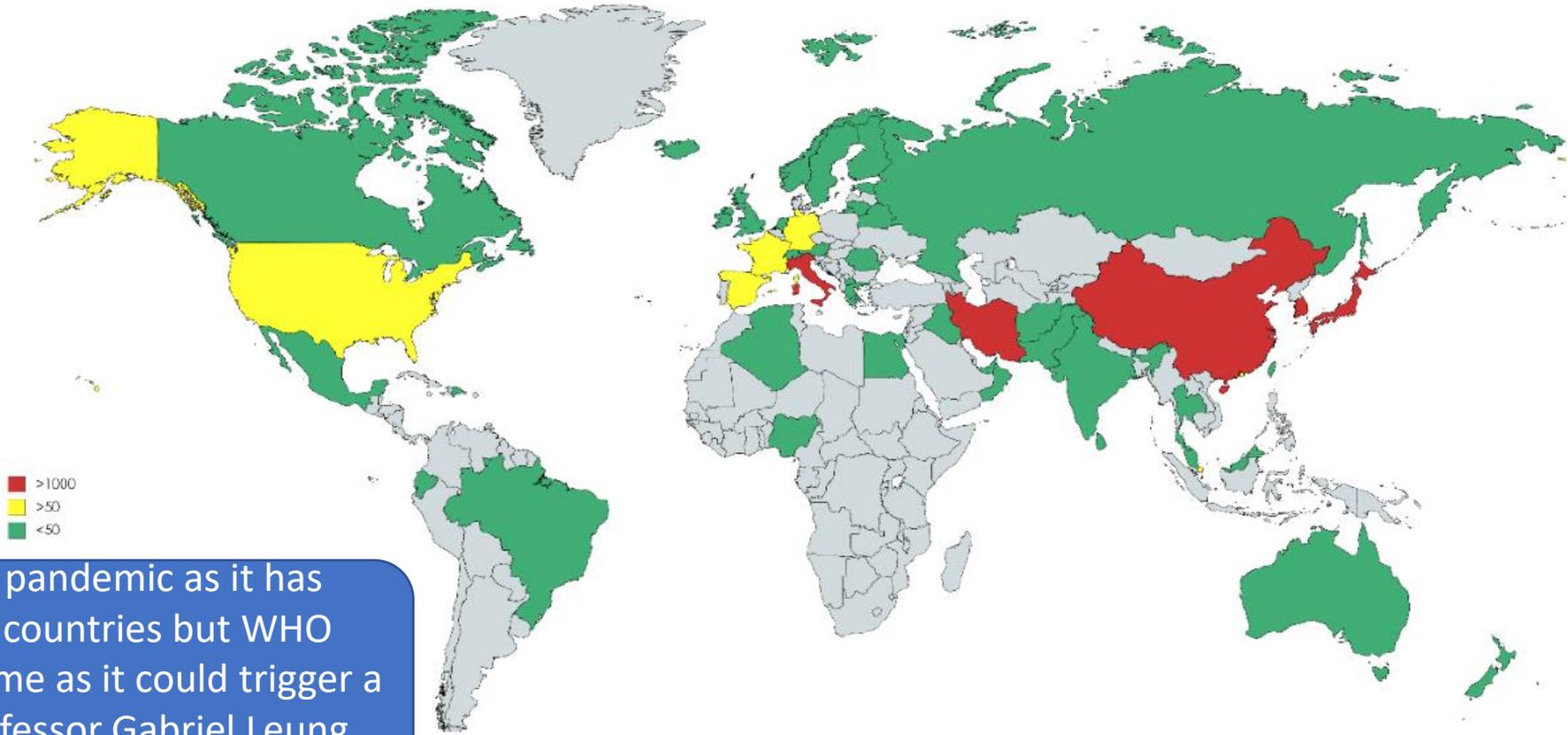


Covid knows no boundaries

Italy is the worst effected country outside of Asia

Global Map of Confirmed COVID-19 Cases



Technically it is a pandemic as it has spread to several countries but WHO avoids calling the same as it could trigger a PUBLIC FEAR ...Professor Gabriel Leung Dean HKU

COVID the Big picture

80 countries - Infected
95,626 - loss of life 3288 –
Recovered 53452

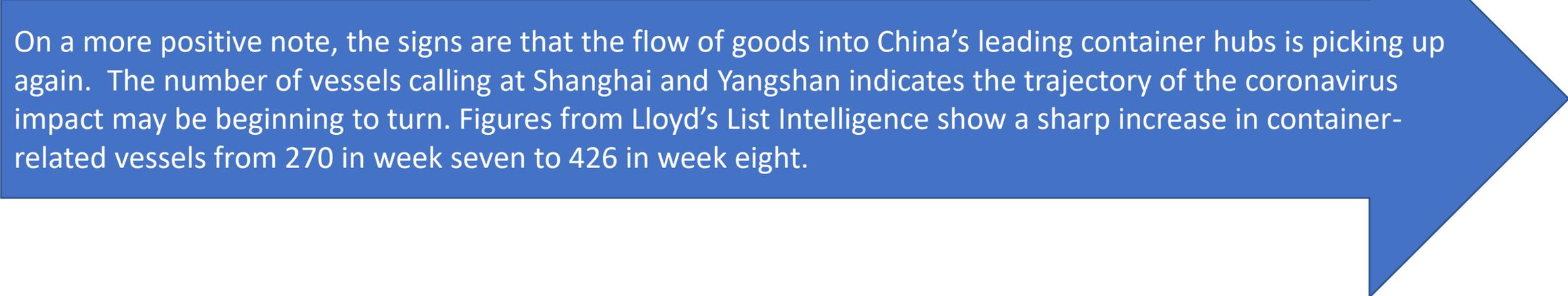
South Korea Italy Iran are of concern with infected and loss of life



COVID 19



Offices in China open so also manufacturing facilities but with constrains



On a more positive note, the signs are that the flow of goods into China's leading container hubs is picking up again. The number of vessels calling at Shanghai and Yangshan indicates the trajectory of the coronavirus impact may be beginning to turn. Figures from Lloyd's List Intelligence show a sharp increase in container-related vessels from 270 in week seven to 426 in week eight.



California declares a state of Emergency – 11 deaths reported in the US and Switzerland joins the list

Our analysis overleaf suggests that the US economy will bear the brunt from any impact of COVID-19 in 2Q20. The US should grow 2.4% in FY20. China is expected to take the biggest hit from the virus in 1Q20

Jefferies US economics team expects the US economy to continue growing despite the global economic distress that Covid-19 has caused. High frequency data releases to-date support this view. Nonetheless, the US is vulnerable to supply chain disruptions and damage done to some service activities related to travel and leisure. It is still too early to know how Covid-19 plays out, but Jefferies have tinkered moderately with their GDP projections. Assuming the virus runs the course of prior viruses, Q2 will get hit the most. The globe and US should improve in Q3 and Q4. Specifically, 2020 GDP growth is revised to 2.4% from 2.6%. Revised quarterly growth estimates are: Q1 = 2.1% (Unrevised) Q2 = 2.0%, revised from 2.6% Q3 = 2.6%, revised from 2.8% Q4 = 2.8%, revised from 2.6%

Assuming that Covid-19 does not become a major health issue in the US, Jefferies believe that there are three likely phases in response to the virus.

Short-term: Rising anxiety and supply chain issues hit manufacturing and also some service activities that are related to overseas travel and domestic tourism, especially from China. The spread of Covid-19 temporarily offsets the potential benefits of the Phase 1 trade deal with China. Weaker commodity prices get passed onto import prices, suppressing US inflation in the short-term.

Medium-term: Global and US growth bounce-back as activity suppressed in Q1 and early Q2 comes back to life. The effect of Covid-19 is effectively to redistribute growth from early in the year to later in the year. With global growth recovering, commodity markets also stage a comeback, with price increases being reflected in rising import prices which again boost US inflation.

Longer-term: US growth is a beneficiary as US firms hedge the obvious risk of overreliance on China for supply chains and rebuild domestic supply chains.

Unless the virus takes root within the US, Covid-19 is not a major threat to the US economy. The combination of the overwhelmingly domestically-oriented and service dominated structure of the US economy, the revival of home construction and the solid foundations of the household sector will help the US economy to weather the Covid-19 storm and extend the current cycle which is already the longest on record.

Viruses don't respect borders, nationality or government. The good news is that 'the common threat' is pulling global policy makers together. While China will take a 1Q20 GDP hit, other economies will experience their slowdowns in Q2

Estimating the economic impact from COVID-19 is difficult due to the rippling effects from supply chain disruption to the shrinking of the tourism sector. Jefferies expects a shock China 1Q20 GDP hit of between 2 to 2.5%, while Jefferies European economics team expects the maximum hit to be in Q2 followed by a rebound (FY20 EU-28 0.3%, Euro area 0%, UK 0.3%). US 2020 GDP is set for 2.4% with Q2 revised from 2.6% to 2%. Pre-emptive policy easing by EM in 2019-20 is likely to be accompanied by further Fed & ECB easing is necessary. The dilemma over hosting the Olympics means that Japan may face the ignominy of a technical recession through 2020. The BoJ will have to step up asset purchases

IMF earmarks \$50bn for countries hit by coronavirus as growth forecast cut :

Some \$10bn of the IMF funding would be available for low-income countries. A further \$40bn would be available to other members via a different financing instrument

The number of blank sailings has increased to 111 – on the China US route 48 due to Covid with 63 due to CNY and 75 on the China Europe 29 due to Covid and 46 due to CNY- the volume loss due to blank sailings shy of 2 million teus with revenue loss USD 2 billion

COVID spreads to more than 80 countries – some countries where death has taken place no travel history to CHINA

Prof. Marc Lipsitch, who believes that this coronavirus outbreak may not be containable, and in a worst-case scenario, a large proportion of the world's population will become infected with this virus. The good news for the vast majority of people is that symptoms will be mild. However, a small percentage of people will suffer acute pneumonia and may die. He believes an outbreak in the USA is very possible

It is reasonable to expect that 40-70% of adults in the world could become infected if SARS-CoV-2 is uncontained, which is almost certain at this point. Professor Lipsitch believes that containment can work in places like China, but ultimately thinks that you can't quarantine everyone.

Epidemiological studies and computer modelling provide plentiful evidence that reducing contact between infected and uninfected people can significantly reduce the severity of an epidemic. For instance, a study of 17 US cities during the 1918 flu pandemic found that swiftly banning public gatherings and closing schools, churches and theatres cut death rates by half. Eventually, if a pandemic spreads to a substantial proportion of the population, social distancing becomes irrelevant. For now, maximum rational containment efforts are the best way to try to avoid reaching that point.

COVID 19 The Impact

China PMI falls to an all time 33.7 below the all time low of 38.8 set in Nov 2008 GFC

The non manufacturing PMI a gauge of sentiment in the services and construction sector also dropped to 29.9 from 54.1 in January – mainly due migrant worker not being able to return to the places of work

China Japan and South Korea contribute approx. 24% of the Global economy with a combined trading value of USD 720 billion forming one of the most INTEGRATED INTERNATIONAL ECONOMIC BLOCS in the world -

Japan – China's 4th largest trading partner with bilateral import export at USD 315 Billion – South with China was 6th with USD 284 billion – they also both ranked in the top 5 for imports into China – electronic components – chemicals – semi conductors – industrial robotic components -66.4% of Japanese companies said they have been effected by COVID 19 – the manufacturing sector worst hit 30% of the companies reporting an impact while 50% expect LOSSES

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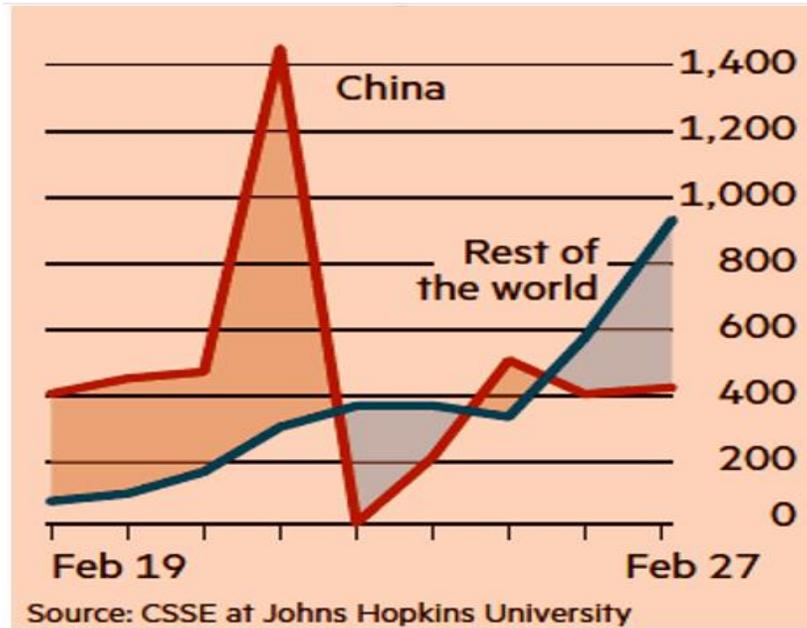


Life after Covid

V shaped recovery – DIVERSIFIED GLOBALISATION – so that no single country is completely dependent on another as a sole source of supply – there would be a second source for everything in the long run –China + 1 or China + 2

WHO raises risk assessment of global spread to 'very high'

COVID – CLEAR AND PRESENT DANGER



COVID spreading faster outside
China – South Korea Iran Japan

Food and drinks group Nestlé and cosmetics company L'Oréal both suspended international travel and payments company Mastercard lost nearly a tenth of its value.

Microsoft, the world's biggest software company, also said it will miss its revenue guidance for its Windows and Surface businesses as a result of supply-chain problems

The effect of the coronavirus outbreak on global companies was stark as stock markets plunged to their worst week since the 2008 global crisis.

As the virus has spread from its epicentre in Wuhan, China, to the Middle East and Europe, claiming more than 2,850 lives in nearly 50 countries, multinational companies have attempted to quantify the impact on their businesses. Airlines were hit the hardest but the technology, food and leisure industries were also affected as companies struggled to cope with disrupted supply chains and falling consumer demand

As coronavirus fears rattle global markets, the oil industry is facing up to an uncomfortable truth: things are likely to get worse before they get better.

FGE, an energy consultancy, has forecast that global demand growth for oil will be, essentially, zero in 2020, failing to rise for the first time since the financial crisis.

