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Signature Commentary: Coronavirus update

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The 2020 Chinese New Year holiday in Hong Kong is quieter than usual. Chinese restaurants are usually fully booked during the holiday season, but most of them are half empty nowadays. Even though there are only 15 identified cases of the coronavirus in Hong Kong, locals are being extra cautious – with memories of the SARS in 2003 still fresh. Everyone is wearing mask on the street; companies advise employees to work from home; expats send their families away; and the school holidays got extended by a month. The Hong Kong government effectively closed the Hong Kong/China border, not allowing Chinese tourists to come to Hong Kong.

Outside of Hong Kong, since the outbreak of the coronavirus in China, its neighbouring countries have intensified border restrictions. For example, Russia, Japan, Pakistan, Mongolia, Singapore, Australia close borders to all foreign travelers from China.

Coronavirus (2019-nCoV)

The novel coronavirus is highly contagious and there is no effective treatment to date, just like SARS in 2003.

A quick recap and update

- On Jan 20th, 2020 China's National Health Commission confirmed the virus in Wuhan is the highly contagious coronavirus. There were 290 confirmed cases in China as of Jan 20th. The outbreak spread quickly and as of Feb 3rd, 2020 there are already +17,000 confirmed cases in China.
- The Wuhan coronavirus is more contagious than SARS or MERS, but less deadly than SARS or MERS with (currently) a lower fatality rate.
- Wuhan city and multiple cities in Hubei Province have been quarantined, with a staggering +50 million people living inside the quarantined zones. Outside of Hubei province, the Chinese government ordered residents not to leave their cities and advised all their citizen to stay indoors.
- Even though this is still early in the outbreak, some experts are hopeful that the number of infected cases should peak by mid Feb. The incubation period of the coronavirus is 7 to 14 days. 14 days after the Wuhan's quarantine is coming up soon.
- Several data points still need close monitoring as the outbreak has not yet reach a more mature stage:
 - The increase in the number of confirmed cases (currently running around 2,500 to 3,000 per day)

- The fatality rate (just above 3% for Hubei province)
- Spread outside Hubei (11,117 confirmed cases) vs rest of China (6,129) vs rest of world (183)

Impact on China

- Economists revised down China's Q1 GDP growth from 5.8% to as low as 4%. The consensus growth outlook for 2020 of 5.9% (Bloomberg consensus) will most likely be revised down. By how much it gets revised down will also depend on the government's economic response (e.g. interest rate cuts and fiscal stimulus) to the outbreak.
- Domestic consumption will slump in Q1 2020. Shopping online will not be able to fully offset in-store consumption as online retail sales only accounted for 21% of the total retail sales of consumer goods at the end of 2019.
- The coronavirus will accelerate China's online consumption, from retail, education, to even buying a condo. Last week, several developers launched their VR programs that will allow potential home buyers to tour their potential new home without physically visiting the place.
- Chinese New Year (CNY) is the biggest blockbuster week in the world. The industry expects to generate USD1 billion in box office in 2020 CNY holiday, but sadly the box office came in merely above USD3 million because of the coronavirus.
- The tourism industry expected 450 million of travelers during the CNY golden week, but recorded only 150 million last week, down 64% year-over-year. The industry estimated the coronavirus will bring Rmb3 trillion loss of revenue to the industry.
- Domestic production will also be impacted since the Chinese government extended the national holiday by 7 days and some local governments even extended the holiday by weeks.
- Since 2020 is the final year of China's 13th 5-year plan, we expect the central government will stimulate the economy to make sure they hit all planned targets. China's central bank People's Bank of China injected Rmb1.2 trillion into the economy Feb 3rd and cut the 7-day and 14-day repo rate from 2.5% to 2.4% and from 2.65% to 2.55%, respectively.

All data sourced from Bloomberg Finance L.P. as at February 3, 2020.

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