Economic Impact of the Covid-19 Corona-Virus – as of February 17th, 2020

In addition to the reports MFC published on February 4th and 10th, 2020, MFC continues to gather news and comments regarding its economic impact from both inside and outside of China.

Although our team is undertaking strong efforts to select only the most reliable materials and sources please derive your own analysis on which facts to follow and how to cast your decisions. Wishing everyone a strong team and successful paths ahead!

a) Current / Expected Economic Impact / Recovery in Germany

- On February 12th, 2020, German postal service (Deutsche Post) stopped its package / parcel services to China, Hongkong and Macao, reason being problems in logistics and customs.[1]
- In China, Volkswagen sold 343,000 cars in January 2020, 11 % less compared to 2019. Many car manufactures are also starting to face problems because of missing parts from China.[2]
- German federal ministry for economic affairs and energy states that the OEM car parts situation will not be as serious as expected by experts. Car parts could easily be produced by local companies. [2]

b) Current / Expected Economic Impact / Recovery in China

- Recently, Shenzhen Retail Business Association and Shenzhen Chain Business Association conducted a questionnaire survey on 100 companies with headquarters in five districts in Shenzhen. The results are showing that from January 20th to February 8th, 2020, the turnover of 46% of retail businesses in Shenzhen decreased over 50% year-on-year, and 93% of the revenues could not be recovered in the next three months. Under the current circumstances, the cash reserves and cash flow of the 100 interviewed companies can support their business for an average of 3.27 months.[3]

- In the worst case, the epidemic may lead to a 37.53% decline in real estate development investment in the 1st quarter of 2020. This calculation is based on the data from the same time in 2019.[4]
- The Beijing Auto Show, which was planned to be held in April 2020, will be postponed. A new date has not been announced yet.[5]
- Foshan, China's manufacturing city with a GDP exceeding RMB 1 trillion (≈ USD 143 billion) in 2019, has more than 3 million industrial workers and more than 5 million foreign population. As of now, more than 12,100 enterprises in the industrial and commercial circulation area are back to work, with total over 600,000 workers. Among them, 3,940 enterprises have an annual turner over above RMB 20 million (≈ USD 2.8 million).[6]
- From January 1st, 2020 to February 6th, 2020, the average operating rate of local oil refineries in Shandong was about 60.4%, which was nearly 4% lower year-on-year and nearly 7% lower than the 4th quarter of 2019. This reflected the downturn in demand from downstream oil products.[3]
- On February 7th, 2020, steel stocks in major cities all over China were 16.34 million tons, more than double compared to the stock end of December 2019. The iron ore inventory at ports continued to maintain high levels of nearly 130 million tons, reflecting the weak demand in the steel market.[3]

c) Comments from inside China

- Wu Jing, Assistant Professor, Department of Decision Science and Business Economics, The Chinese University of Hong Kong
  Guancha.cn, February 17th, 2020

  “In the last few days, the international crude oil price has rebounded after hitting rock bottom, which shows the global market’s consensus that the speculation on uncertainty of the epidemic in China is over, and China's economy is about to gradually recover in the next few weeks.”[7]

d) Comments from outside China

- Peter Ru, China Fixed Income Strategy Leader and Sean Jutahkiti, Head of Asian Credit Research
  Julian Lee, an oil strategist for Bloomberg First Word and previous senior analyst of the Centre for Global Energy Studies, February 16th, 2020

  "Even as the Covid-19 virus hits consumption, the number of very large crude carriers hauling cargoes to China has risen. That's because independent refiners are taking advantage of the drop in crude prices to fill their storage tanks with cheap cargoes, even as they cut run rates. That's to some extent cushioning producers now. But those stockpiles will hit future demand for crude from China's teapot refineries, even after the immediate effect of the virus dissipates."[8]

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