

Economic Impact of COVID-19 – Snap-Shot - March 10th, 2020

While many news outlets around the world by now are strongly focusing on the impacts on the global and respective national economies triggered by Covid-19, MFC has decided to publish its summary reports ad-hoc rather than weekly.

While hoping for the economic rebound to emerge in the near future, putting smart plans into place, based on reliable facts, is the key task for many of us. Wishing everyone a strong team and successful paths ahead!

a) Global stock markets after closing in Asia on March 10th

- On March 10th, Wall Street main markets wasted little time in recouping at least 2 % of the 7 % they had slumped on Monday, one of their worst days on record. The market also fought back in Asia and begun to gain traction.¹
- Japan's Nikkei had ended the day up 0.85%, after earlier touching its lowest level since April 2017.¹
- China's benchmark Shanghai Composite Index traded 2.1% higher as the number of new domestic coronavirus cases tumbled and President Xi Jinping's visit to the epicentre of the epidemic lifted the spirit.¹
- The Hong Kong Hang Seng Index closed up 1.41% to 25,392.51 points.²
- European stock markets rebounded across the board. The British FTSE 100 index rose 3.43%, the French CAC40 index rose 3.19%, the German DAX index rose 2.53%, and the Italian FTSE MIB index rose 1.33%.²
- US stock index futures also rebounded across the board. The S&P 500 futures rose 3.22%, the Dow futures rose 3.24%.¹

b) Current / Expected Economic Impact / Recovery in China

- In February, Caixin's China General Service Industry Business Activity Index (Services PMI) recorded at 26.5, which is a sharp decline of 25.3 % compared to January. This is the lowest rating point of this index since November, 2005.³
- In the first two months of 2020, China's total value of imports and exports was USD 591.99 billion, 11 % reduction year-on-year. Value of exports dropped by 17.2% year-on-year to USD 292.45 billion. Value of imports dropped 4 % year-on-year to USD 299.54 billion.⁴

- In February, the sale of construction areas in 40 cities nationwide was 20.769 million sqm, a significant drop of 44.5 % month-on-month.⁵
- As of March 3rd, 2020, with the exception of Hubei Province, all coal-producing provinces and regions have resumed work and production. The production level has more than doubled since February 1st, and basically reached the production level of the same period in 2019.⁶

c) Current / Expected Economic Impact outside China

- The worries of a price war in the oil market and worsening coronavirus outbreak continue to hang over market.⁷
- The Trump administration is drafting measures to blunt the economic fallout from coronavirus and help slow its spread in the U.S., including a temporary expansion of paid sick leave and possible help for companies facing disruption from the outbreak, according to three people familiar with the matter. The economic package is still being debated and hasn't yet been presented to President Donald Trump. Some of its components could change, while others, such as a sick leave plan, may require congressional action.⁸
- Germany has taken its first steps to help companies and workers affected by the fallout from the coronavirus outbreak and will invest an additional €12.4 billion (\$14.1 billion) between 2021 and 2024.⁸ They also made it easier for companies to employ short-term workers or put existing workers under short-term contracts to relieve some pressure of companies who struggle to pay their employees after being hit by the economic impact of the virus. These measures were implemented on the 9th of March.⁹
- Italy's government will provide a € 7.5 billion stimulus (about \$8.5 billion) — “shock therapy” — to deal with the fallout from the virus, but uncertainty prevails. The hardest hit areas in the north, including Lombardy, with Milan as its capital, and Veneto, home to Venice, together account for about a third of Italy's GDP.¹⁰ Analysts believe this will throw Europe into a recession. Many German car manufacturers are also depended on parts from the companies located there.¹⁰
- After only putting the northern Regions of Italy under quarantine two days ago on the 8th March, Italian Prime Minister Giuseppe Conte now declared that those measures are not enough and he urged all Italians to stay at home as the quarantine that only allows people to go to work or leave their home for medical reasons, needs to be extended to the whole country.¹¹

d) Comments from inside China

- Xi Jiarui, Senior Crude Oil Analyst, 3151.com (China's leading commodity integrated transaction service provider)

March 9th, 2020

“The purpose of Saudi Arabia's production increase is not to hope that oil prices will fall, but to force Russia to continue to cooperate with OPEC. Therefore, once the oil price falls to a level that Russia feels it can't afford, the country is likely to restart the production reduction agreement. The next production reduction meeting will be on June 9th, Saudi Arabia and Russia are likely to jointly reduce production again in the near future, when oil prices may have a retaliatory rebound.”¹²

- Wei Yiyang, journalist of Caixin.com

March 8th, 2020

“After several rounds of quantitative easing (QE) in the past ten years or so, central banks of various countries have become accustomed to relying on the most basic currency instruments when facing crisis. Whether large interest rate cuts can stimulate the economy remains to be tested.”¹³

e) Announcements and Comments from outside China

- Stephen Innes, chief Asia market strategist with Axicorp Ltd.

Bloomberg, March 9th, 2020

“Lower oil prices will still not get people back in trains, planes, and automobiles, and stimulating the economic sectors most heavily hit,” said “But now we have a financial disaster brewing in the form of the shale industry meltdown.”¹⁴

- Kaley Crossthwaite, BDO LLP

the Guardian, March 9th, 2020

“We have just witnessed the most significant uplift in business optimism in 10 years, and the impact of greater political and economic certainty brought by a new majority government should not be underestimated. However, businesses will now be spending the coming weeks focused on mitigating the uncertainty caused by coronavirus. The next month will be crucial in determining whether this optimism can remain, or if the ‘Boris bounce’ will be brought back down to earth by the impact of the coronavirus outbreak.”¹⁵

- Scott Morrison, Prime Minister of Australia

March 10th, 2020

The economic impact of coronavirus on Australia could be greater than that of the global financial crisis, the Prime Minister has warned, as he prepares to unveil a stimulus package designed to stop Australia from sliding into recession.

"The epicentre of the crisis is much closer to home," he said, "the [global financial crisis] impacts were centred on the North Atlantic and back then China was in a position to cushion the blow."¹⁶

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