

# Global Economy

## Virus spread beyond China dents global risk appetite

The rapid rise of COVID-19 cases outside of China is a new development. Increasing global spread and uncertainty about its potential economic effect will continue to weigh negatively on investor sentiment and the risk of COVID-19 becoming a pandemic remains. Its global economic damage will largely depend on the spillover effect from China to other economies, the containment measures taken by global governments and the hit on global supply chains.

■ **Risk-off sentiment retakes center stage.** Since Feb 2020, we had witnessed record-high prices in risky assets, especially US equity and corporate bonds which has been supported by optimistic belief that the virus spread outside of China has been limited. Meanwhile, prices of risk havens, including gold, US dollar and long-term Treasury bonds, also climbed. However, the situation changed in the past few days due to the surge of new COVID-19 cases outside of China. With South Korea, Italy, Japan, Iran and several other countries hit hard, the new virus is starting to look more and more like a pandemic. Risk-off sentiment retakes the center stage of risky asset markets, indicating that investors are revising their assumptions about the scope and impact of COVID-19. We see that the evolution of the virus outside China remains uncertain and the number of new cases around the world will dominate the global market sentiment and increase market volatility.

■ **Virus outbreak rattles the global economy: three main channels.** Global economy started 2020 on a stronger footing with composite PMI accelerated to 10-month high of 52.2 in Jan. However, Jan data was collected before the COVID-19 outbreak. Besides sentiment, we see three main channels via which COVID-19 may cause potential damage to global economy:

**1) Spillover effect from China to other places:** Economies with higher exposure to China, namely Hong Kong, Thailand, Singapore, South Korea, Taiwan, Australia, etc., are more vulnerable to China's virus-fueled slowdown with tourism, trade and financial markets expected to face severe hit. Disproportionate economic hit to Asian countries is inevitable.

**2) Extraordinary containment measures implemented:** For instance, South Korea has raised virus threat level to maximum. Containment measures such as travel and work restrictions are essential to control virus spread, but will also increase the hit to global economy.

**3) Virus disrupts supply chains.** Risks to multinational companies are profound as global supply chains are facing delays or inventory shortages. Disrupted Chinese supply chains and weaker global demand have started to take tolls. Moreover, the virus is further reshaping the existing supply chains. For example, French government would urge companies to review their "over-dependence" on China for raw materials and parts.

### 2020 real GDP forecast (YoY%)

	Previous forecast	Base case	Bull case	Bear case
Global	3.0	2.7	2.8	2.3
United States	1.8	1.6	1.7	1.3
Euro Area	1.1	0.8	0.9	0.4
Japan	0.4	-0.1	0.2	-0.8
United Kingdom	1.1	0.7	0.8	0.5
Emerging Markets	4.4	4.2	4.3	3.8

Source: CMBIS estimates

**Angela Cheng, PhD**  
 (852) 3900 0868  
 angela Cheng@cmbi.com.hk

### Related Reports

1. The COVID-19 battle: A public economics perspective – 24 Feb 2020
2. Hong Kong Economy – Virus poses new threat to the already fragile economy – 7 Feb 2020
3. Global Capital Flows – Recovering risk appetite drives capital flows to EMs – 22 Jan 2020
4. Theme and Variations of Chinese Economic Policy – 2 Jan 2020
5. Central Bank Watch - US Fed in dovish pause while rate cut still likely – 13 Dec 2019
6. 2020 macro & strategy annual outlook – 11 Dec 2019

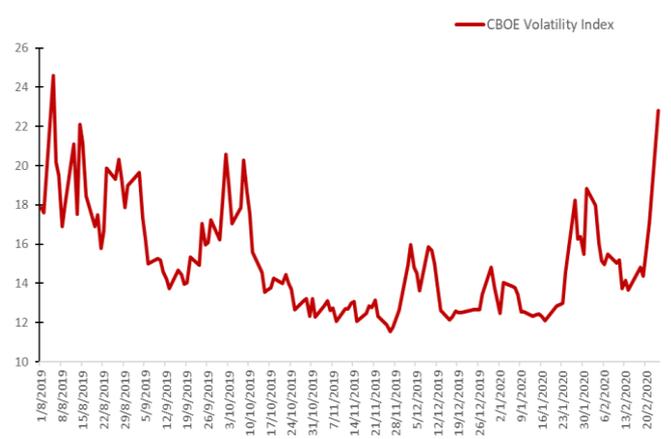
- **We have revised down our growth forecast.** Our base case assumes the spread of virus to peak around Mar to Apr 2020 and infections largely remain limited in China and a number of other countries outside of China. Global economy is expected to grow by 2.7%, lower than our previous forecast 3.0%. The bull case is that China’s lockdown measures would gradually come to an end around late-Feb and spread outside of China remains limited and under control. In the worst scenario, virus could not be controlled quickly and effectively, China maintains restriction measures throughout 1H19 and cases accelerate in more regions around the global. In this case, global GDP growth rate may drop to 2.3% this year. To respond to the fallout, more central banks tend to further ease monetary policies.
- **Currencies: Asian currencies weaken and US dollar gets another safe-haven rush.** Relatively, US economy will have much smaller impact from COVID-19 with fewer domestic cases and lower dependency on Chinese economy, making US dollar asset more attractive. US dollar index was surging toward 3-year peak last week. We need to keep looking to the performance of US fundamentals and the broader risk appetite trends for direction. The outlook on the dollar remains constructive which breaks 100, the psychological barrier soon.

**Figure 1: Daily new cases outside of China have jumped since 21 Feb**



Source: WHO, Worldometers, CMBIS

**Figure 2: Virus spread triggered a surge in volatility measured by the CBOE Market Volatility Index (VIX)**



Source: Bloomberg, CMBIS

**Figure 3: US dollar index surged toward 3-year peak**



Source: Bloomberg, CMBIS

**Figure 4: US 10-year Treasury yield dropped to 3-year low on virus fears**



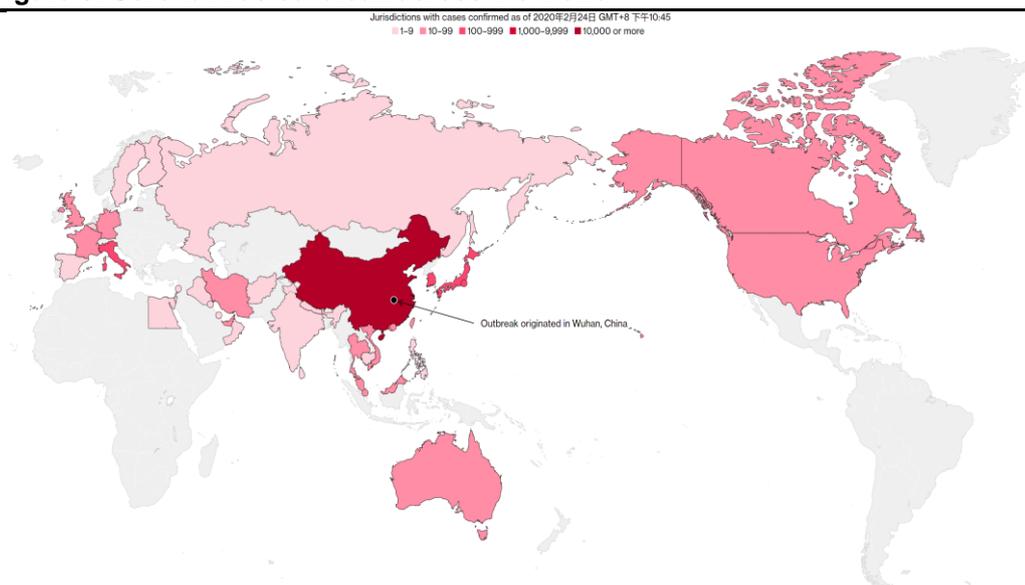
Source: Bloomberg, CMBIS

**Figure 5: COVID-19 is affecting 37 countries and territories around the world and one international conveyance (the "Diamond Princess")**

	Total cases	Total deaths	Total recovered
China	77,345	2,593	25,033
S. Korea	833	8	22
<i>Diamond Princess</i>	691	3	2
Italy	229	6	1
Japan	154	1	23
Singapore	90		49
Hong Kong	81	2	12
Iran	61	12	3
Thailand	35		15
USA	35		5
Taiwan	30	1	2
Australia	22		11
Malaysia	22		17
Germany	16		14
Vietnam	16		15
U.K.	13		8
U.A.E.	13		3
France	12	1	10
Canada	10		3
Macao	10		5
Philippines	3	1	2
India	3		3
Kuwait	3		
Israel	2		
Oman	2		
Russia	2		
Spain	2		

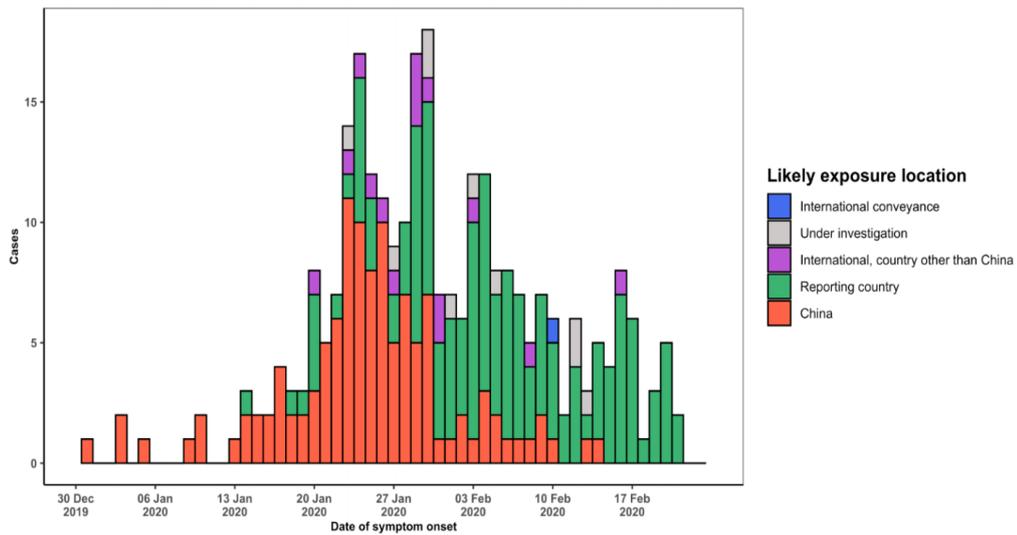
Source: WHO, Worldometers, CMBIS (total cases above 1 are shown in the above table)

**Figure 6: Coronavirus outbreak across the world**



Source: Bloomberg, CMBIS

**Figure 7: The likely exposure location of COVID-19 cases identified outside of China has changed from China to reporting country (as of 23 Feb 2020)**



Source: WHO, CMBIS

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## *CMB International Securities Limited*

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

### For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.