

China Research

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China -- Coronavirus Update, Thoughts on Fallout

PM Li now put in charge. Understandably by Xi, delegated to PM. Municipal and provincial leaders to be punished first, at some point, to get the most out of it. If insufficient, Li will be the next scapegoat, albeit of low chance. And if crisis is handled well, top man always gets the most credit. This event can easily weigh on the legitimacy of Xi's third 5-year 'term' of office.

Heart of industrial China already heavily involved. Degree of damage (primarily supply-chain disruption due to production delay and transportation restrictions) still to be determined.

Seems Feb 3 back to work is preliminary, equally likely Feb 10. No rush to announce an extended period beyond Feb 3. Wait for more evidence of depth, speed of spread, extent of health danger.

Migrant workers usually return to work after 15th day into lunar new year, implying disruption manageable another week beyond Feb 3. Can see danger is huge number of migrant workers having to readjust travel plans – reticketing, etc. – beyond Feb 10. Also creating a dilemma between resuming economic activities and containing virus spreading.

If the virus runs its course, so will the economic damage. But can already count on significant damage in two months of the twelve in 2020. Seems to us like distinction in industrial China and high-tech China. Risk is tech sector gets hurt also.

Does not seem to us that monetary policy is a response tool. Other than to make sure companies that get hurt have sufficient access to financing at reasonable rates. Fiscal support, yes. Seems targeted is appropriate as victims are not of their own making, but this exterior event. Help their survival.

Hard to imagine much of anything is rising on m/m or q/q basis in 2Q20.

Macau, entire LNY celebration period lost. Not to be recouped by later travels to replace. Not see that closed entirely in the future with delayed trips. Seems likely safest bet.

And overseas travel. Japan, Korea, SE Asia, other.

HK -- a bad situation just made worse.

Entire situation already assures two terrible months. And longer, who knows, depending on epidemiology. Two months of uncertainty. Wait.

Jan and Feb numbers will be sharply lower, and it would be interesting to see they show in data. Our SGI components ought to be hurt. Seems like this is obvious time to blame this exogenous event for the shortfall. And gov't, Party to be addressing as appropriate

HK equities Wed Jan 29 first indication. The US and others, bad markets Monday, clear S/T damage.

The Chinese public is being educated on a fast track, already highly alerted to the risk of being infected, and have widely taken measures of self-protection, including reporting to authorities individuals from Wuhan, Hubei, refraining from group dining and new year visits, and avoiding public areas.

Now it all depends on efforts by doctors, nurses, epidemiologists, immunologists, scientists, and of course the Party and gov't.

US-China Phase 1 deal and the associated targets are not involved. These are separate matters, so is Huawei.

Let us hear from you.

Best. Don, Neo and the China Team

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