UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com.au

21:32 07 Feb 2020

Quantifying the coronavirus: global investment community begins to take stock

According to new forecasts from UBS which take account of the effects of the coronavirus, the Chinese economy is now likely to grow at a rate of around 5.4% this year, down from the previously modelled 6%.

One of UBS's assumptions is that the virus will be contained by the end of the quarter, and that the effects will therefore tail off as the year progresses. It's a big assumption to make, but one which is part justified by a comparison to the effects of the SARS virus, which briefly unsettled markets back in 2003. That virus too began in Asia, and its effects in generating headlines and unsettling the investment community have indeed been comparable, albeit that it now seems clear that coronavirus is surpassing SARS in scale.

Nonetheless, markets as a whole appear for now to be following UBS's line. A host of companies have released updates about the financial effects the virus will likely have on their bottom line, and there's even some data out from South Korea which gives some indication of the potential impact at a national level.

So far, it's fair to say that it's serious, but not yet at crisis proportions.

The severity of the financial impact is also varied, depending on proximity to China, amount of business done in China, or the amount of business done with China. And although there are new reports of cases outside of China on a daily basis, including more than 60 new ones on a cruise ship docked at Yokohama, China remains the central locus and ground zero for both the physical effects of the virus and its financial impact.

At the worst end of the scale, Hong Kong's economy is likely to suffer a contraction of 8% this quarter, with Taiwan not far behind, and the Chinese economy as a whole contracting for the first time quarter-on-quarter since 1976. These numbers are at the root of UBS's decision to shave 0.1% off its global growth forecast for this year, a number which it now pegs at 2.9%.

Among the companies operating inside China, Disney has announced that it will take a US$280mln hit after it was forced to close down two theme parks in China that are usually busy over the New Year period. Other companies that have yet to release financial updates, but which have publicly stated they have slowed or stopped operations inside China include Airbus, Toyota, General Motors, Volkswagen, Nike, Adidas, H&M, Gap and Ikea. Royal Caribbean has said it will take a US$50mln hit as a result of the travel restrictions around Hong Kong and China.

The impact on the US economy remains to be seen. President Trump's top economic advisor Larry Kudlow has said the coronavirus could shave around 0.2% off US growth, but markets responded positively to a well-flagged Chinese move to cut 1,700 tariffs on imported US goods.

Price: 80.14

Market Cap: $124.81 billion

1 Year Share Price Graph

Share Information

Code:		NKE
Listing:		NYSE
52 week	**High**	**Low**
	105.61	**60**
Sector:		**Manufacturing & engineering**
Website:		**www.nike.com**

Company Synopsis:
NIKE, Inc. (NIKE) is engaged in design, development and marketing of footwear, apparel, equipment and accessory products. It is a seller of athletic footwear and athletic apparel in the world. It sells its products to retail accounts, through NIKE-owned retail, including stores and Internet sales, and through a mix of independent distributors and licensees, in over 170 countries around the world.

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The tariff reductions ought to have come anyway as a part of President Trump's phase one US-China trade deal, but the alacrity and vigour with which they were flagged, coupled with the Chinese decision to pump more than US$242bn of new liquidity into the market, was well received internationally.

After initial nervousness at the end of January, when both the VIX and the gold price spiked, relative calm has returned, the VIX and the gold price have dropped back, and instead base metals prices and Treasury yields rose.

The big loser, to date, has been oil, with Brent down at US$55 and West Texas Intermediary at US$50 per barrel. An OPEC meeting in the first few days of February put coronavirus at the top of its agenda, but precisely what action the cartel intends remained unclear at the end of the meeting. As a bellwether for the global economy oil is worth keeping a close eye on. West Texas has dropped by nearly US$10 over the past month, and has just bounced off a 12-month low.

Another bellwether, copper, has also dropped off a cliff in the past month, but has also bounced slightly in recent days. If the coronavirus starts to fade, then that recovery is likely to gather strength fairly rapidly. On the other hand, if UBS is wrong, and the effects of coronavirus start to be felt into the second quarter and beyond, then all bets are off.