

**Special Report: Covid-19**

14 February 2020

## Impact Zone

### Unmasking the implications of Covid-19 on Asia

- It may have a formal name now – Covid-19 – but not much else is known about the virus at this point. A preventative vaccine is still far in sight, and it remains an open question as to whether enough has been done to stop the spread.
- The final economic impacts would, frankly, remain anyone's guess. It would depend very much on how bad the viral contagion is and how long it lasts. Yet, some educated guesses must be done.
- Here, we present a quick snapshot of our team's take on how the virus would affect various Asian economies and policy outlooks, as well as, the effects on a number of key asset classes.

*Singapore's growth may be hit by 0.5-1.0ppt...*

**Singapore:** The recent coronavirus outbreak has cast a dark cloud over 2020 GDP growth prospects which could potentially be shaved off by up to 0.5-1% point from the baseline, depending if the current epidemic is mild or severe. Hence, we had widened our 2020 growth forecast to 0-2% from 1-2% on 30 January to factor in the downside risks from the coronavirus.

*...but upcoming budget would help to buffer downside risks...*

However, the upcoming Budget 2020 on 18 February comes at an opportune time for a more expansionary fiscal stance to provide a much-needed lift to buffer the downside growth risks. We have pencilled in an \$8 billion overall budget deficit, equivalent to 1.5% of GDP for Budget 2020, which will be a record per se. In addition to a potential sizeable GST offset package (that is likely to outweigh the \$4b package over 5 years announced in 2007), there will also be a targeted coronavirus relief package for affected firms, especially SMEs, and workers (that is also likely to exceed the \$230m provided in the SARS relief package back in 2003) in the tourism and hospitality sectors.

*...even though manufacturing sector may still be challenged.*

There may be also spill-over impact on the manufacturing sector if there is a manpower shortage due to travel restrictions and quarantine orders and shortage, and even the construction sector if raw materials supply from China are disrupted. Given the substantial accumulated fiscal surplus position, policymakers are still in a good position to continue to invest in infrastructure investments, sustain R&D, build local capabilities, reskill and upskill the workforce, as well as combat climate change.

*China's economy is likely to contract sequentially in Q1.*

**China:** Being the epicentre of the outbreak, the near-term shock to the Chinese economy is going to be significant. We expect the Q1 2020 growth to contract by 0.5% qoq, which will translate to about 4.1% yoy. The hit to the economy will also be larger as compared to the SARS outbreak, because of some key differences between now and then.

*Impact will be greater than during SARS period, because...*

First, the magnitude of the shock to service sector is much larger now due to China's decision to restrict people movement nationwide via city lockdown and self-quarantine. Second, we also witnessed the breakdown of

## Special Report: Covid-19

14 February 2020

*...of restrictions of movement, breakdown of trust, and a direct hit on industrial production...*

trust as a result of the city lockdown. The fear factor was amplified by the social media, whereby it is easier for people to draw the link between the extreme tragedy they see online to themselves, further reinforcing the panic. Given the loss of trust – the foundation of modern-day business – the efficiency of the economy will be deeply affected as well.

*...with unprecedented ripple effects on global supply chain.*

Compared to SARS, there is also going to be a bigger impact on China's industrial production and exports, due to the city lockdown. The key challenge faced by Chinese manufactures in the near-term is whether they can get all their workers back in time. We expect China's industry capacity only returns to about 30% of their normal level. The shock to Chinese industry output and global value chain is unprecedented in our view. Whether we are bracing for a V-shape or W-shape recovery will depend on when the peak of outbreak will come.

*Hong Kong would experience negative growth in 2020.*

**Hong Kong:** We revised our GDP forecast down to -0.2% for 2020 from 1.1% as a result of the outbreak. The visitor arrivals dropped by 59% yoy during Chinese New Year Holiday and we expect the downtrend of visitor arrival might persist in the coming months due to the concerns over the epidemic. The unemployment rate in retail, accommodation and food services have already touched a three-year high of 5.2% in 4Q 2019 due to social unrest and is expected to trend higher further as a result of virus outbreak.

*Malaysia's momentum had already weakened before this...*

**Malaysia:** the impact of the coronavirus is likely going to be around 0.4 percentage points of GDP in Q1, assuming the viral infection itself does not become a more major issue within the country. Given the slow momentum from the GDP data from Q4 2019 that was just released, this would compound the slowdown even more and compelled us to downgrade the forecast for Q1 GDP to 3.5%. For the full year of 2020, we now expect growth of 4.0%, compared to our already fairly conservative 4.2%.

*...compelling BNM to continue easing further in March.*

Now, in terms of policy action, we see a good chance of another rate cut by Bank Negara in the upcoming meeting on March 3rd, bringing the OPR to 2.5%. This follows the 25 basis points cut that it had enacted just last month, but BNM may be more inclined to act now because of the virus threat, and also given that any fiscal stimulus package by the government will likely be very limited because of the debt constraints.

*Indonesia has largely escaped the outbreak thus far...*

**Indonesia:** There has been a lot of questions asked about why the country of 250mn has escaped having any single case of the virus thus far. Taking things as they are at face value, and we hope it stays that way, there should be relatively minimal impact on growth. And, indeed, we still see growth averaging around 5% this year.

This is not to say there will not be any impact if things get worse. Obviously, the role played "Fear Factor" of people not wanting to go out to mingle or socialize can take place – and take place very quickly. This would have impact on private consumption, which is 55% of GDP. Thus far, we do not see that happening just yet, but it will definitely be a space to watch closely.

*...but BI is still accommodative, even if rate cut is not on the immediate horizon.*

In terms of policy actions, Bank Indonesia appears to remain keen on loosening further. However, given the periodic bouts of risk off, they might

## Special Report: Covid-19

14 February 2020

*Thailand's dependence on tourism leaves it vulnerable...*

*...so BOT would have to ease more to help growth.*

*Credit profile of companies with high China exposure will be hit...*

*...with potential downgrades for nine issuers under our SGD coverage ...*

*...although vast majority of credit names will remain stable for now.*

*FX risk sentiment remains supported, despite virus concerns...*

*...but we prefer to stay defensive in view of economic impact.*

not be able to cut rate in the immediate months ahead. Instead, they may opt to loosen macroprudential policies.

**Thailand:** Outside of China, one of the worst hit economies by the Covid-19 is likely to be Thailand. Given its reliance on Chinese tourism receipts, the Thai economy had already been reeling from the US-China trade war last year when the coronavirus threatens to further derail growth via the tourism sector.

The Bank of Thailand has responded by cutting its key benchmark rate by 25bp to 0.75%, but we think they could likely ease monetary policy further if the impact on tourism and manufactured goods is larger than initially feared. The drought in Northeast Thailand – the worst in forty years – is not helping matters. We initially forecasted 2020 GDP growth at 2.6%, but we think that might be eventually watered down to 2.0%.

**Credit:** Credits with a high exposure to Mainland China will likely feel the most impact however we also consider those credits where the impact will be indirect through business links and exposure to China imports and exports. Industries that will be most affected in our coverage include those related to tourism such as airlines and hospitality related credits. Financial Institutions will also feel the impact however their existing business profiles and scale as well as their systemic importance should shield them from adverse impacts for the time being.

We also see higher credit risk among high yield names given heightened risk in Chinese funding markets which may affect their refinancing plans. We are monitoring nine issuers under our SGD coverage for a potential downgrade. This group mostly consists of issuers whose credit profile had weakened in the last 12 months, with the outbreak of COVID-19 potentially tipping them into a downgrade faster rather than the outbreak primarily causing a downgrade per se.

Credit profiles for the vast majority of the companies under our coverage should remain stable for now with key credit drivers remaining unchanged. This is, however, premised on a global recovery within 3-6 months. If the situation exists for a prolonged period (e.g.: unresolved in 12 months), the indirect impact (e.g. damage to economic growth) could be of higher concern, which may in turn impact more credits under our coverage. Further [details are encapsulated in a special interest commentary](#) piece.

**FX:** In the near term, overall risk sentiment has been relatively supported despite the ongoing headlines. Therefore, even as we retain a risk-off bias – expecting the broad USD to strengthen against the AUD and EUR – we need to look for opportunities that may benefit during a risk-supportive environment. Prefer to stay long CAD for this purpose.

Further out, it is clear that there will be a negative hit on the economy. Growth downgrades have already begun. Thus, we prefer to stay defensive in a 4-6 weeks horizon, especially if the initial growth downgrades underestimate the damage on the economy. On a structural horizon, the

## Special Report: Covid-19

14 February 2020

*Commodity prices will be depressed across the board.*

macro stabilization theme is likely compromised. This theme was the premise for a USD weakness view for this year. With this virus episode, the USD weakness may be delayed into the later part of the year.

**Commodities:** Overall in the commodity space, we expect depressed prices to continue, whether that be energy, agricultural, industrial metals or rubber. There is a case for deferred consumption for most markets, but any catch up is unlikely to fully compensate the demand drawdown in this period. The longer the coronavirus situation lasts, the starker this demand slowdown would be.

# Treasury Research & Strategy

## Macro Research

**Selena Ling**

*Head of Research & Strategy*

[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

**Tommy Xie Dongming**

*Head of Greater China Research*

[XieD@ocbc.com](mailto:XieD@ocbc.com)

**Wellian Wiranto**

*Malaysia & Indonesia*

[WellianWiranto@ocbc.com](mailto:WellianWiranto@ocbc.com)

**Terence Wu**

*FX Strategist*

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

**Howie Lee**

*Thailand, Korea & Commodities*

[HowieLee@ocbc.com](mailto:HowieLee@ocbc.com)

**Carie Li**

*Hong Kong & Macau*

[carierli@ocbcwh.com](mailto:carierli@ocbcwh.com)

**Dick Yu**

*Hong Kong & Macau*

[dicksnyu@ocbcwh.com](mailto:dicksnyu@ocbcwh.com)

## Credit Research

**Andrew Wong**

*Credit Research Analyst*

[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

**Ezien Hoo**

*Credit Research Analyst*

[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

*Credit Research Analyst*

[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

**Seow Zhi Qi**

*Credit Research Analyst*

[ZhiQiSeow@ocbc.com](mailto:ZhiQiSeow@ocbc.com)

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).