IMPLICATIONS OF THE VIRAL OUTBREAK IN CHINA

Aneeka Gupta – Director, Macroeconomic Research
28 Jan 2020

The outbreak of a new strain of coronavirus in Wuhan, China and its spread to other countries is raising concerns among financial markets. According to the World Health Organisation (WHO) coronaviruses (CoV) are a large family of viruses that cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). As of January 22, 2020, China National Health Commission has reported 571 confirmed cases of CoV strain in China (including 444 in Hubei), and 393 suspected cases. Investors are concerned about the infections spreading due to the heavy travel season ahead of the Chinese Lunar New Year.

Reflecting on previous outbreaks

Financial markets are already starting to price in the negative effects of the outbreak, with Chiese Yuan (CNY) depreciating and the Hang Seng Index posting the largest daily decline of -2.8% year to date on Jan 21. According to searches on Baidu, a Chinese search engine, public concerns are on the rise. Several viral outbreaks in recent years have raised concerns over a broader pandemic namely – SARS (2003), H1N1(2009), and H7N9 (2013). Of these, SARS has been the most frequently cited in recent days because it was also a previously unknown strain of CoV, reportedly originating in mainland China, that ultimately spread worldwide causing 800 deaths. The economic impact of SARS was significant but short-lived. In Hong Kong, there were sharp declines in travel, tourism and retail activity during the outbreak over March to June in 2003. While the severity of the economic impact is unknown, it is likely to be short lived should it follow the pattern of historical cases. We believe this time around, public awareness seems to be higher, partly because of the more rapid official response, abundant usage of the internet and social media, and the familiarity of SARS.

The sectors most at risk

The CoV is likely to impact the transportation industry. Airlines such as China Southern is most likely to be exposed, as it represents the top market share (38%) by seat capacity. As consumers will be inclined to stay at home to avoid being exposed to the CoV, it is likely to negatively impact retailing, parks, restaurants and movie theatres which would normally benefit from the Chinese New Year due to seasonality could see more downside. On the contrary, online dining, packaged food and food retailers should benefit from a shift in consumer preferences to avoid crowded public venues. The CoV outbreak is also likely to cause disruption to offline after-school tutoring (AST) institutions located in Wuhan. The education bureau in Wuhan has announced the suspension of after-school tutoring (AST) classes from January 21, 2020. During the 2003 SARS outbreak when the school and AST institutions in certain regions were closed, distant and online education witnessed notable growth. Alongside Beijing, Zhengzhou, Xi'an and Nanjing, Wuhan is one of the key cities for online teacher and tutor recruitment and training for most of China's online education companies.

While the extent of CoV is still too early to gauge, we believe it is likely to be short lived should it follow the pattern of historical cases. Looking ahead into 2020, while China is gauge to face short term risks, we expect China's long-term prospects to remain dependent on its vital pivot away from the old industrial growth led formula towards the "new economy" growth drivers such as consumption and information technology. We expect the current Chinese equity market rally to extend into 2020 amidst ongoing volatility.

Related blogs:

+ Gearing up for the next leg of the Chinese Rally

View the online version of this article here.

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.