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EM Space: Focus remains on 2019-nCov

- **General Asia:** The US Fed concludes a two-day meeting and it's widely expected to keep the policy on hold as other important forward-looking data on the US economy over the rest of the week shapes the course of future policy. Meanwhile, 2019-nCov remains as the key driver for markets in Asia.
- **Thailand:** December manufacturing data due with consensus centred on a 7% YoY fall in output. The downtrend in both export and manufacturing deepened in 4Q19, dragging the GDP growth lower. We will refine our 2% YoY 4Q19 GDP growth forecast based on today's data (2.4% in 3Q). The THB remains under weakening pressure from worries of coronavirus denting the tourism industry, while clouded growth outlook for 2020 could tip the Bank of Thailand for another rate cut as early as next week.
- **Philippines:** The Bureau of Treasury (BTr) issued its first retail treasury bond (RTB) for the year, selling a 3-year bond at 4.375% and raising Php134bn compared to the Php30bn on offer. We expect the government to accept more bids and effectively siphon off a substantial amount of liquidity in the coming days, likely taking yields higher.
- **Indonesia:** Finance minister Indrawati expects 4Q GDP to grow by 5.1% with consumption activity stagnant and government spending curtailed by a widening fiscal deficit. Indrawati expects the full-year growth to settle at 5.1%, below the government's 5.3% aspiration. Given the growth miss, we expect Bank Indonesia (BI) to fire off another round of

easing although the central bank will likely need to time the rate cut during a period of the IDR stability.

What to look out for: US GDP, FOMC and Brexit

- Thailand manufacturing (29 January)
- US wholesale inventories and pending home sales (29 January)
- Fed decision (30 January)
- Hong kong trade (30 January)
- US 4Q GDP(30 January)
- China manufacturing and services PMI (31 January)
- Thailand balance of payments (31 January)
- US core PCE (31 January)
- UK's EU exit deadline

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China's coronavirus impact on the economy

As China fights a new strain of the coronavirus, retailers, restaurants, tourism and mass travel services are all severely affected in an effort to prevent its spread. We expect Chinese GDP growth to be reduced by 0.3 percentage points to 5.6% in 2020



Source: Shutterstock

Crisis management mode

The outbreak of a new strain of coronavirus in China has sent the country into crisis mode. People in public areas are expected to wear a mask and public transport across several cities including Wuhan, a city of 11 million people has been suspended in an effort to contain the virus from spreading across the country.

Schools are expected to remain closed for an extended period following the Chinese New Year holiday. Anyone to have visited Wuhan is required to remain in isolation for 14 days given the incubation period of the virus. As awareness of the virus grows, we expect increasing numbers will choose to stay at home, even work from home if they can.

As a result, retailers are expected to be the first to suffer, as well as restaurants and communal places like gyms and swimming pools. People will also avoid taking public transport, and both

inward and outbound tourism will be impacted as flights are suspended.

But it's not bad for all businesses

Some companies, such as supermarkets may be able to tap into the fact that people are staying at home. It is more likely that 'wet markets' (likely to be the source of the virus), will be avoided and that supermarket goods will be ordered online.

One particular sought-after item is surgical masks, which people are struggling to find even in cities that are not densely populated. Bleach is another product in short supply given its use to kill viruses at home. These examples show that people in China are now fighting the virus, and the supplies are in shortage.

What happens after the Chinese New Year holiday?

The Chinese government has already extended the Chinese New Year holiday by three days, until 2 February. But the virus could nonetheless spread more rapidly as workers return to work, particularly in Shanghai, Shenzhen, Beijing and Guangzhou, where supplies of masks are in shortage. Though the [mortality rate associated with the virus is currently around 4%](#), it is hard to be sure that the virus doesn't mutate to become more fatal.

The virus has already been detected in the US, France, Canada, Australia, Singapore, Malaysia, Thailand, Japan, Vietnam, South Korea and Nepal.

We expect retail sales in China to drop from 8%YoY to around 3% - 4%YoY. Meanwhile, global tourism, which relies heavily on Chinese tourists, could experience a negative growth of more than 30%.

As the virus spreads, and more casualties are reported, we expect the yuan per dollar to weaken to 7.20.

What about Hong Kong?

Hong Kong's government has just applied restrictions to visitors from mainland China, suspending high-speed rail service and cutting flights by half.

The spread of the virus in Hong Kong will also impact schools and workers, with many people likely to stay at home, as in many of the big cities in China. But, the impact of the coronavirus on the retail sector in Hong Kong should be moderate, as retailers and restaurants have already been severely impacted by violent protests, which are still ongoing.

Hong Kong retail sales are at -23.6%YoY, and over the coming months we expect them to plummet to -30%YoY, until April when the low base effect kicks in. At this point we might see some less negative numbers, but those will be technical base effects only. They are unlikely to reflect any improvement in the retail sector. We don't expect the virus to substantially impact GDP growth in Hong Kong. It should marginally change from -5.8% to -5.9%.

We expect the HKD to will be less affected compared to the yuan but it is also likely to weaken to 7.80.

In China, interbank, gold, bills, stock and futures market will resume trading on 3 February as reported on 28 January by the PBoC and SAFE. Operation of the FX market will be announced later.

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