Infections, nCoV, are still spreading, naturally. It is also true that more and faster testing (and kits) means more diagnoses. Watch for a peak.

82% of GDP comes from provinces where the ‘back-to-work’ date for ‘non-essential’ businesses has been delayed to Feb 10, vs. expected regular Jan 31. Economic days lost; how many more?

Likely China will try to recoup some of these days with shortened holidays later in 2020. The ‘lockdown’ started midnight, Jan 23, and LNY holiday was Jan 24-30 (coincidence). So first 20 days of Jan, not disrupted. Feb now. March – to be determined.

Disruption in consumption, production, labor, goods transport, LNY stay-at-home, regular household and business transactions. Financial risks will mount – as sales, payments and commitments can’t be met. Damage is still somewhat centered (Hubei 60% of cases), but spreading across all businesses. Isolation from overseas (largely people, not goods) wider.

There is a real hit to economic activity in China underway at present. We emphasize the uncertainty in any forward estimates (think more like sample calculations). And we also re-emphasize our view that this is a transitory episode, unlikely to yield a permanently new (presumably lower) growth path for the Chinese economy.

PLEASE do not forward
Assume Real GDP y/y in 1Q20 is zero growth, returning to around 6% thereafter would imply annual Real GDP 2020 = 4.5% y/y; our new base case. A lower case, if Real GDP in 1Q20 = -6% y/y in 1Q20, would yield annual = 3.0%. Can’t say ‘best’ or ‘worst’ case – all understand, unknown depth and duration of this event – which is inevitably transitory. These numbers mean a lower China contribution to the global economy in 2020 – particularly affecting biggest trading partners.

We expect ongoing ‘targeted’ steps (monetary, fiscal, regulatory) to help those hurt (companies, individuals, financial institutions). LNY spending was sharply curtailed (some, but not all) will occur in future months. And manufacturing activity is being widely disrupted. With an unknown share of that being recovered. It is a truism that output and income foregone (wages and profits from unemployment or idleness) can not be regained.

PBoC net liquidity, Reverse-repo net injection, 150 bln yuan Feb 3, and a today, and rate cut of 10 bps. This implies a similar 1-year MLF cut of 10 bps to 3.15% at the next issuance, which further implies a new LPR (Loan Prime Rate) cut of 10 bps as well on Feb 20, the next scheduled LPR setting, from 4.15% to a new 4.05%.

The yuan weakened to 7.01/USD with markets reopened after the LNY holiday. In equities, both Shanghai and Shenzhen were down 7-8% after also being closed, a catch-up after other markets (HSI and others) fell 5-6% last week.

There were various interventions in the A-shares markets to support equities, but not as extreme interventions as in July 2015 when a full-on market panic erupted. That was a reset; this is an episode.

There were big so-called northbound flows (from HK to Shanghai and Shenzhen) - bottom fishing. Commodities also plunged, reflecting a lower China economic reality for a time.

Hong Kong is another economic casualty, with reduced travel, nCoV related from the mainland and, developing, from the rest of the world – airlines cancelations. From pre nCoV, Visitor Arrivals were down 57% y/y in Dec, and 18% for the year 2019. We see no early recovery, and remain maximum bearish on HK.

Macau results for Jan, Gaming Revenues -11% y/y in Jan, and we expect a worse comparison in Feb because of the LNY timing. While the border is not officially closed, the results in the LNY versus last LNY were in the 90% down range. Evident, believable progress against nCoV is needed before Macau has a chance.

The Markit Mfg PMI, Jan = 51.1, a 5-month low, vs. Dec = 51.5. Note most of the PMI readings were before nCoV, suggesting sharply lower Feb data when available.
News Tracker – Feb 3, 2020

FISCAL, TAXATION & GOV’T FINANCE

MoF will help pay 50% of interest for PBoC’s lending scheme to key enterprises in coronavirus control for up to 1 year. Entrepreneurs who are infected by coronavirus will continue to be given interest subsidy if their loans are extended. --- BBG, Feb 3

FOREIGN RELATIONS

Trump: We can’t have thousands of people coming in who may have this problem – the coronavirus. US officials had offered China tremendous help in dealing with the epidemic. --- BBG, Jan 31

White House announced new border restrictions due to coronavirus, which will prohibit foreign nationals – aside from immediate family of US citizens and permanent residents – who have traveled to China in the prior 14 days from entering the US. --- FT, Jan 31

Foreign Ministry: US govt hasn’t provided any substantial assistance to us, but it was the first to evacuate personnel from its consulate in Wuhan, the first to suggest partial withdrawal of its embassy staff, and the first to impose a travel ban on Chinese travelers. --- BBG, Feb 3

US State Dept updates travel advisories on Hong Kong and Macau, urging travelers to exercise increased caution due to coronavirus. --- BBG, Jan 31

HEALTHCARE & ELDERLY CARE

MIL official: Authorities are prioritizing medical supplies for Wuhan. Areas other than Wuhan are also seeing a medical supply shortage. --- BBG, Feb 3

HONG KONG

HK Lam: HK will close more of its ports of entry effective midnight Tuesday, including Lo Wu, Lok Ma Chan, Hunggang, and the Hong Kong-Macau Ferry Pier. China had already stopped issuing visas to Hong Kong as part of the containment effort. The new measure would leave only three border checkpoints in operation: Shenzhen Bay port, the Hong Kong-Zhuhai-Macau bridge and the airport. --- BBG, Feb 3

Hong Kong medical professionals began a five-day strike after HK govt refused their demand to shut all entry points from China. --- BBG, Feb 3

MACRO-ECONOMY

Chinese officials are said to be evaluating whether the target for economic growth this year should be softened as part of a broader review of how the government’s plans will be affected by the deadly virus outbreak. --- BBG, Feb 3
NDRC Deputy: China is confident to minimize coronavirus hit on economy. Economic hit from novel coronavirus outbreak is temporary and it won’t change overall situation. Impact from novel coronavirus outbreak on China’s consumption is getting worse so far, especially on transport, tourism and box office. China will encourage big projects to resume if possible. China will ensure supply and stabilize prices; resolutely prevent shortage of necessities. --- BBG, Feb 3

MONETARY POLICY & INTEREST RATES

PBoC advisor: Rate of MLF scheduled in mid Feb is expected to fall, after China reduced rates as it injected cash into the financial system today. Expect bigger possibility of cut in LPR to be announced Feb 20. --- BBG, Feb 3

PBoC said it would conduct 1.2 tln yuan of reverse repo operations on Monday, aiming to ensure reasonably ample liquidity in the banking system and stable monetary market operations. --- BBG, Feb 2
NBS (Official) and Markit PMIs

NBS Mfg PMI: Jan 50.0, vs. Dec 50.2, Nov 50.2, a 8-month high then, Oct 49.3, and Feb 49.2, a 3-year low then, (Sep 2017 was 52.4, the highest since Apr 2012, May 2018 was 51.9, second highest.)
NBS’ sample biased toward state-owned and bigger companies.
Markit Mfg PMI: Jan 51.1, a 5-month low, and vs. Dec 51.5.

NBS Non-mfg PMI, two components; Construction Index and Service Index.
Approx. weights, Services 85%. Construction 15%.
NBS Non-mfg PMI: Jan 54.1, vs. Dec 53.5, Nov 54.4, a 8-month high then, Oct 52.8, the lowest since Feb 2016..
• NBS Services PMI: Jan 53.1, vs. Dec 53.0, Nov 53.5, Oct 51.4, a record low.
• NBS Construction PMI: Jan 59.7, vs. Dec 56.7, a 46-month, Nov 59.6, Oct 60.4.

Markit Services PMI: Jan reading scheduled for evening of Feb 4, Tuesday.
Service sector -- growing in importance. Beijing wants more jobs here with lingering trade war woe, capacity cuts, and economy restructuring.
Components here comprise 100% of the headline PMI index (see weights).
NBS and Markit Headline Mfg PMI, as reported and 50-50 combined, was 50.5 in Jan.
Other non-component series also are available. (Note. Ask us for details).

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2/3/2020
Macau Gaming Revenue

Jan was -11.3% y/y, vs. Dec -13.7%.
Jan 2019 was a weak base. LNY holiday was in Feb of 2019 vs. Jan of 2020.

4Q19 was -8.4% y/y, worst growth since 2Q16, and vs. 3Q19 -4.1%.

Data very seasonal.
SA’d m/m Jan -0.6%, vs. Dec -3.2%.

Annual, 2019 -3.4%
2018, +14.0%
Annual 2019 = 292
2018 = 303
Peak 2013 = 361


In US-China trade war. WE DO NOT EXPECT China to explicitly target US gaming interests (as some sort of state ‘punishment’). US gaming companies very popular with Chinese gamers.
Visitor Arrivals (multi-day stay) –
bigger spending than day-trippers.
More families arriving -- for
recreation vs. for gaming.

Hotel occupancy rate –
seasonal. Staying high
even with big capacity
increases.

Macau -- Gaming, tourism,
construction

Macau beats Vegas

VIP's Share in Macau Gaming Revenues

Macau Visitor Arrivals, Multi-day Stay
Seasonally Adjusted

Macau Hotel Occupancy

Macau Real GDP Growth, Quarterly

Macau Beats Las Vegas
Gaming Revenue

Source: 888 Gaming Research, Monaco Gaming Central Board
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This report is prepared solely for the use of Elizabeth Germack

Please do not forward
Dec Hong Kong Visitor Arrivals (Multi-day Stay)

Total Multi-day Stay Visitors, seasonally adjusted
Dec, -57.2% y/y, vs. -56.6% in Nov. 2019, -18.8% y/y.
Dec, -0.6% m/m, vs. -15.6% in Nov, -4.4% in Oct.

All businesses including travel, retail, real estate in Hong Kong have been damaged by unrest since Jun 2019. Disruption has swallowed the entire HK community. We see no near-term end. This is not equilibrium. Hong Kong’s economic future is bleak.
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