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ECONOTE No 91 Covid 19: A grotesque solution/resolution to global and local issues and problems? 5/4/2020

Summary	Investment Conclusions
With the greatest of caution I venture to suggest that the Covid-19 is turning to be a kind of grotesque solution to problems and issues besetting the world. Grotesque, because of its huge human and financial cost. Solution, because inadvertently it could be resolving financial and political issues and problems left over since 2008-9. We outline 10 issues and problems of the global economy and of individual countries and the impact of Covid 19 on their resolution or solution. We avoid estimating a net impact result, not only because of the issue of valuing human lives, but also because some of the issues depend on subjective rather than objective choice criteria.	The markets are full of scenarios and probabilities as well as extremely pessimistic outlooks for the global economy and the future of capitalism. The best balancing antidote is to look at the post 2008-9 global scene, different from that before, but totally recognizable, and that was after a huge systemic shock to the US economy and financial sector (NB US economy, not China, Japan, India etc which were basically systemically unaffected). The current crisis is not systemic; it is not about the way the institutions work but how they respond to pure physical disruption, which inevitably will go away. Enough said!

Solutions-resolutions Nos. 1 to 4

1. China is given a major propaganda boost as its political and economic system could be shown to be the best, at least compared to the US, in dealing with a huge catastrophe and ensuring China's economy stays the second biggest and has a leading role in the global recovery. As Fig. 1 shows, there are some signs of the economy bottoming out in terms of PMI indices, new export orders and the Li Keqiang index. It can be expected that China will be blamed for the spread of the infection and there will be renewed arguments against supply chain dependencies on China. All this is reminiscent of the anti-US sentiment after the WWII in the wake of the Marshall Plan and hostility to US FDI well into the 1960s, only to be replaced by anti-Japanese sentiment in the US. **2. Political demonstrations** may end in **Hong Kong**. They are likely to persist sporadically but the movement not only had lost its direction and impetus before Covid 19 but now recovery preoccupations will take total priority. **3. The US tariff war with China** is already unraveling, with Trump freezing tariffs for three months and unlikely to

reinstate them as the US struggles for recovery and with US industry needing all the cheap imports and all the export markets it can get. Tariffs will lose their election appeal. **4. The epidemic** reduces the chances of **Trump's re-election** as the all-important card of a strong US economy in 2020-21 disappears and the handling of the emergency is shown to be, for now, poor under the Trump's style of management, thus adding to the economic distress.

Fig. 1: China: Exp. orders (gr), Li K Index (red), PMI official (orgn), PMI private (bl) 2018-2020



Solutions -resolutions No. 5 to 8

5. The discussion over **zero interest rates** has now been moved down the line for several years as fiscal deficits balloon thus necessitating the cheapest funding, and even the monetization of state debt. Incidentally relief solutions such as **an interest rate moratorium** are irrelevant as they would yield a “zero sum game” result, my losses equalling your gains, leaving a zero net financial impact. And even this leaves aside issues of social and income inequalities making this relief measure politically far too risky. **6.** For those **disliking the EU**, the absence of a united humanitarian intra-EU aid front will add to the argument that the “soul” of the EU is dead. The massive fiscal initiatives by the EU members and the intervention of the ECB will argue that the “financial heart” of the EU is still beating and the sterile EU fiscal austerity has been put to rest for now.

FACTBOX: US Deaths and causes of deaths, 2017

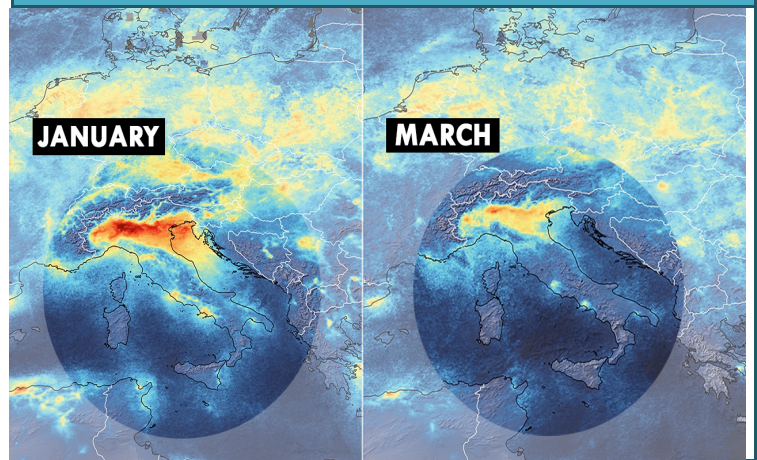
Total registered deaths 2,813,503 or 7,708 per day.

Cause of death	Total numbers	Percent of total
1.Heart decease	647,457	23.0
2.Cancer	599,108	21.3
3.Accidents	169,936	6.0
4.Bronchitis et.al	160,201	5.7
8.Flu &Pneumonia	55,672	2.0

The first 4 causes account for over 56.0% of all deaths, with influenza and pneumonia coming in 8th position with an average of 152 deaths per day. Comparisons of Covid19 deaths with those from flu are simplistic and misleading, as Covid 19 is not just “flu” but a new viral infection with very different characteristics and infectiousness, a topic best left to epidemiologists and not to economists or presidents of states. (Source: Latest figures, Nat. Centre for Health Stats)

7. For the **UK’s final stretch of Brexit** negotiations, the news are bad with a growing probability that they will just run out of time and UK will exit on 31/12/20 without a deal. **8.** Cruelly, the **illegal immigration to, and refugee problem of the EU** will also pause, as the last thing the EU would permit is immigration in the middle of an unprecedented health and economic crisis. Cruel, because Covid 19 will do nothing to treat the cause of this immigration but will be effective in treating the symptoms. The related issue of **human lives lost** is shown at in the FactBox. The headline numbers of Covid 19 daily deaths, in their hundreds in EU countries and US, has been counterposed to the thousands of “normal daily deaths” which never hit the headlines. This could be a grave error as a new deadly threat can not be allowed to grow to thousands of unnecessary deaths, preventable through simple, but now very costly measures.

Fig.2 Italy : Decline in nitrogen dioxide emissions 2020



Source: European Space Agency

Last but not least Nos. 9 and 10

9. A pandemic shows in the starkest possible manner that the most direct way of reducing emissions and stopping climate change is a massive slowdown in growth. (See Fig. 2 evidence for Italy). Hardly a lesson, which will be taken on, but something, which will give a little respite to the world and perhaps renew a degree of global cooperation notwithstanding the postponement of the Glasgow 2020 COP 26. **10.** And talking of global cooperation and globalization, (the latter, which had become a dirty word), Covid 19 showed that we are all in the same boat, and rowing in different directions guarantees that we all drown. Globalization has been shown to be more than free trade and “lost factories to China” but, in a metaphysical sense, the common destiny of mankind when it comes to dying. There have been concerns that the need “to protect one’s own” will lead to further nationalistic border tightening, and this remains a valid, and a big negative, for the impact of Covid 19.

As for the **investment implications** of all these issues it is by now clear that as long as the infection, globally and locally, has not peaked and, hence, the cause of the economic and financial disruption and dislocation has not been removed, the markets can only continue guessing, wildly and with no real factual basis, the value of financial assets. Sad but true. Caveat emptor.

Andrew Freris (writing completed 5/4/2020)