



**Philequity Corner (February 24, 2020)**  
**By Wilson Sy**

### **Possible Pandemic?**

Last Friday, the US Center for Disease Control and Prevention (CDC) issued a warning to state and local health authorities to prepare for a possible pandemic. The CDC said they are collaborating with supply chain partners, hospitals, pharmacies, and manufacturers to understand what supplies are needed. The agency is also reviewing all its pandemic materials to be ready for COVID-19.

### **What is a pandemic?**

A pandemic is the worldwide spread of a new disease, according to the World Health Organization (WHO). As opposed to an epidemic, a pandemic happens when epidemics become rampant in multiple countries and continents simultaneously. In the case of COVID-19, it has now infected nearly 78,000 people in 32 countries worldwide as of February 22, resulting in almost 2,400 deaths. While the majority of cases are in China, more than 1,300 cases come from other countries.

### **New Asian hotspots**

Many experts say that the COVID-19 outbreak entered a new phase when confirmed cases outside China exploded last week. The surprise was South Korea, which now has the largest confirmed cases outside China. South Korea's cases jumped eleven-fold from 31 on Tuesday to 346 on Saturday. Japan is next with 105 confirmed cases, while Singapore which raised its Disaster Outbreak Response System Condition (DORSCON) to Orange Alert two weeks ago, has 85. Also, there are the 1000-plus passengers that were released last week from the cruise ship quarantined in Yokohama.

### **Virus spread outside Asia**

Outside Asia, COVID-19 cases emerged in Iran, Lebanon, UAE, and Italy. According to the WHO, Iran is a concern after a cluster of cases appeared last week (18 confirmed, four deaths) that have no direct link to China. In what medical authorities call a "sentinel event," a Canadian woman who has never traveled to China but recently came from Iran instead, was confirmed to have been infected with the virus.

The US now has 34 confirmed cases, which includes 21 repatriated individuals (18 from the Diamond Princess cruise ship). The other 13 cases picked up the virus through "local" transmission.

### **Window of opportunity is narrowing**

The window of opportunity to stop the virus from spreading out of China is "really narrowing," according to WHO Head Tedros Adhanom Ghebreyesus. "The cases that we see that are not linked to China are worrisome," he said. "This outbreak could go in any direction."

### **US stock market down, gold reaches 7-year highs**

The US stock market was down for the week as investors re-assessed this new information on the coronavirus spreading worldwide, which may be the start of a possible pandemic. The leading US index, the Nasdaq Composite, was down significantly on Thursday and Friday, losing 2.8% on those two days. Meanwhile, investors sought safe-havens such as gold, which surged to a new 7-year high and is up 3.83% for the week.

### **Commodity prices plummet**

The prices of key commodities such as crude oil, LNG, copper, iron ore, nickel, and aluminum have fallen since the outbreak of the coronavirus. Citywide shutdowns and factory closures have slowed the demand from China, the world's top commodities consumer.

Brent crude oil prices have dropped 12.9% YTD on dampened demand caused by the outbreak. Spot LNG prices in Asia fell by more than 30% to a record low of \$2.70/MMBtu in early February after Chinese importers turned back deliveries. Copper prices have declined 7% YTD after Chinese copper importers have asked suppliers from Chile and Somalia to cancel their shipments citing force majeure. Prices of other industrial metals such as nickel and aluminum are down 10.5% YTD and 4.3% YTD, respectively.

### **Supply chain disruptions**

The tumbling commodity prices are a significant cause of economic concern, but more so are the disruptions to the global manufacturing supply chain. China accounts for nearly a fifth of all the manufactured goods exported worldwide. More importantly, about 18% of Chinese exports are "intermediate" goods, which are inputs that other manufacturers need to produce their finished products. These include electronic components, auto parts, steel, and more. The disruption to the Chinese manufacturing supply chain is already showing signs of a domino-effect worldwide.

### **Apple warns of lower revenues & Hyundai suspends production**

Last week, Apple announced that it was lowering its quarterly revenue forecast due to reduced iPhone supply and weaker Chinese demand due to the epidemic. Apple outsources its manufacturing to Taiwan's Foxconn, which has most of its production facilities in China. Earlier this month, South Korean automaker Hyundai was forced to suspend its South Korean plants due to lack of parts that come mostly from China.

### **Global growth at risk**

The coronavirus has taken a devastating toll on commodity demand and prices. The flight restrictions in and out of China have already disrupted economic growth in China. Further spread of the virus outside China could cause additional economic disruptions, putting global growth at risk. We continue to monitor developments on the coronavirus and hope that the governments and medical authorities find success in containing the emerging pandemic.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://www.philequity.net) to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email [ask@philequity.net](mailto:ask@philequity.net).*