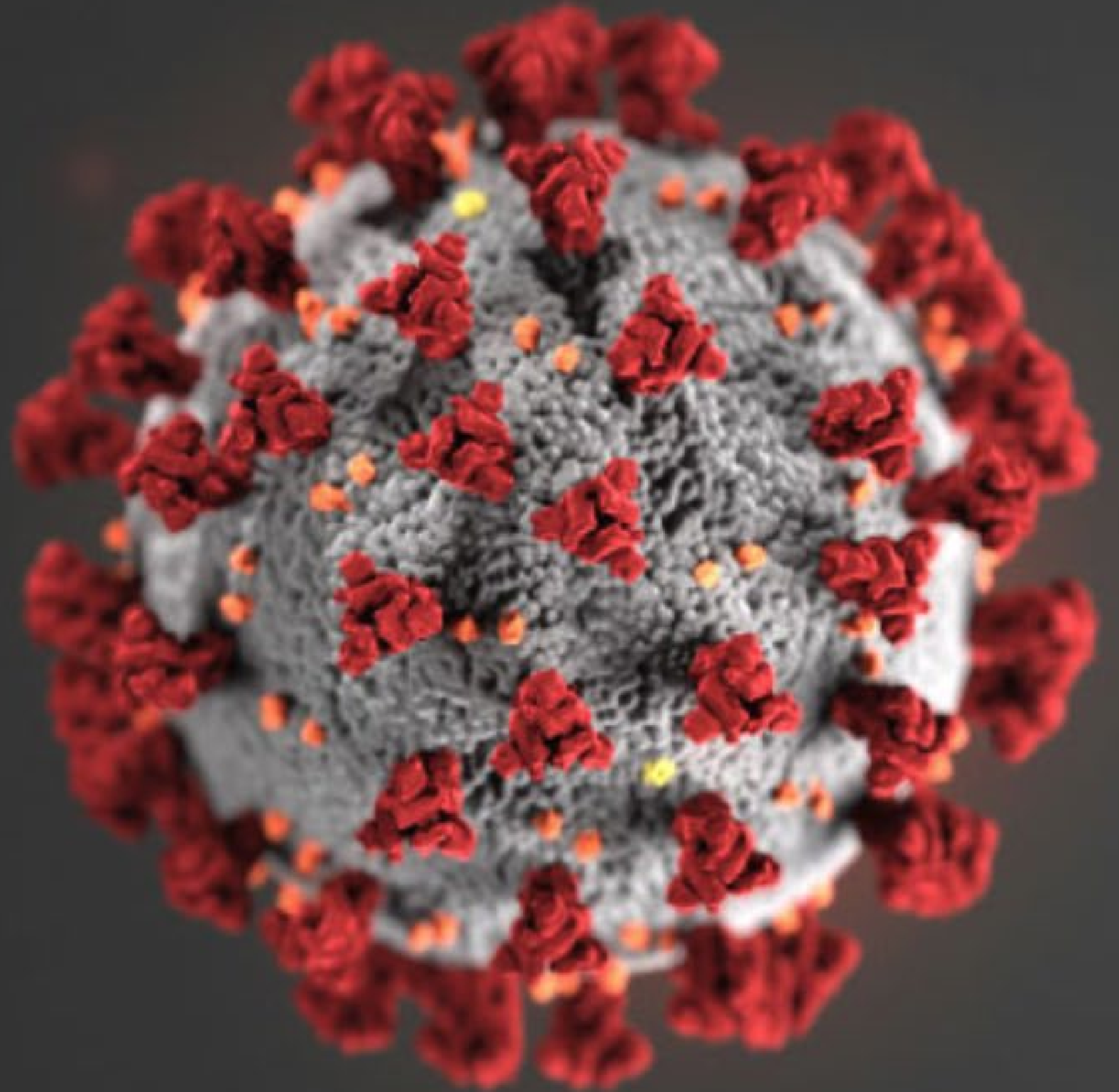




Corona virus – Impact Assessment – Macroeconomic

April 2020



Impact Assessment : Macroeconomics

Advisory Insights

- **GDP:** GDP growth is reported to have shrunk to 3.7% in Q1 2020 with effect from disruption of economic activities due to Coronavirus (COVID-19) epidemic. With higher liquidity from reverse repurchase rate reduction and fiscal stimulus, economic growth is expected to pick-up modestly with production rebound amid anticipated lower global aggregate demand. Given growth opportunities in telecom, semiconductor and health infrastructure, GDP is foreseen to range between 2.3%- 3.3% in 2020
- **Global economy:** Economic growth prospect has been majorly hit with high risk of recession and constrained business investments, mainly in the US, EU and Asian economies. High financial debt, suspension of production, demand for healthcare service & infrastructure will impact on economic growth negatively.
- **Production:** Manufacturing and services PMI rebounded in March 2020 and recorded an expansion from consecutive contractions in January and February 2020. State-operated industries like steel have begun operating at normal capacity while automakers and private manufacturers' recovery are dependent on global supply chain rebound. Moreover, production capacity is foreseen to be further hindered by new Coronavirus threat, lower global consumption demand amid high labor shortage
- **Inflation:** Prices are expected to remain above 4% in short term with supply shocks and food prices. Higher liquidity from monetary and fiscal policies is expected to be off-set by lower demand prospects, oil prices amid government measures to increase hog production and thereby keep inflation moderate.
- **Labor Market:** Firms continue to face huge shortage of workforce, mainly in labor-intensive sectors like property and infrastructure. From job-layoffs as a cost-cutting measure to voluntary leaving of employees, unemployment rate is expected to grow rapidly amid slower wage growth and job creation prospect
- **Trade/Transport:** Global consumption demand has been exacerbating the trade prospects in China. Exports are expected to be weak further contributing to the economic slowdown. Services and public transportation has been resumed in the economy with adequate measures.
- **Investments:** With anticipated rollout of government relief measures in terms of taxation and fees, both domestic and foreign investments are expected to pick up gradually along with a targeted reduction in bank Reserve Requirement Ratio (RRR).
- **Share Market:** Chinese A-shares have declined at a relatively slower pace than global counter parts in recent weeks with containment of coronavirus and resumption of economic activities. Shanghai market recorded 0.2% decline as of 2nd April 2020 besides recording the World's most popular venue for share market listings in Q1 2020



Indicators	Impact Assessment
China GDP/ Global Economy	
Industrial Production	
Inflation Rate	
Labor Market	
Transport/Trade	
Investments	
Share market	



Impact Assessment : Crude Oil

Advisory Insights

- Brent Crude oil prices declined significantly lower to close to 22 USD/bbl on oversupply risks worsening in 2020.
- **Short-Term Outlook (2 – 3 months):** Broad worsening of the outbreak of Coronavirus has resulted in major weakness in many asset classes reflecting slowdown in economic activity persisting for 2020 and hence demand levels for crude oil can decline significantly. Sector especially such as tourism and Airlines are expected to witness slowdown and hence will reduce fuel consumption.
- **Medium-Term Outlook (4 – 8 months):** Oil prices are expected to remain weak in 2020 as risk to global economic growth rate slowing persists. However, tactical buying in long-term contracts due to significant low price levels is expected to provide support to oil prices around 20 USD/bbl.

Commodity / Category	Impact Assessment (short term – 2-3 months)	Impact Assessment (Medium term – 4-8 months)
Crude Oil		



Impact Assessment : Exchange Rates

Advisory Insights

- **Yuan expected to depreciate:** The Chinese stock markets have witnessed negative correction reflecting weak economic expectations. Broad decline in yields is expected to reflect negatively on the interest rates with risk of capital outflows which will be negative for the Yuan.
- In the long-term, Yuan is expected to weaken as China is expected to move policies favoring increase in trading activity.
- USD-AED being a fixed currency has remained stable in the current economic crisis and is expected to hold the historical pegged value in upcoming months.
- Global currencies have witnessed significant depreciation on decline in interest rates in order to support slowdown in economic activity and support further for liquidity concerns. Commodity linked currencies have further witnessed significant depreciation against the US Dollar in Mar-20











Indicators	Impact Assessment
USD-CNY	
EUR-USD	
USD-THB	
USD-SGD	
USD-AED	
USD-IDR	
USD-BRL	
AUD-USD	
USD-RUB	



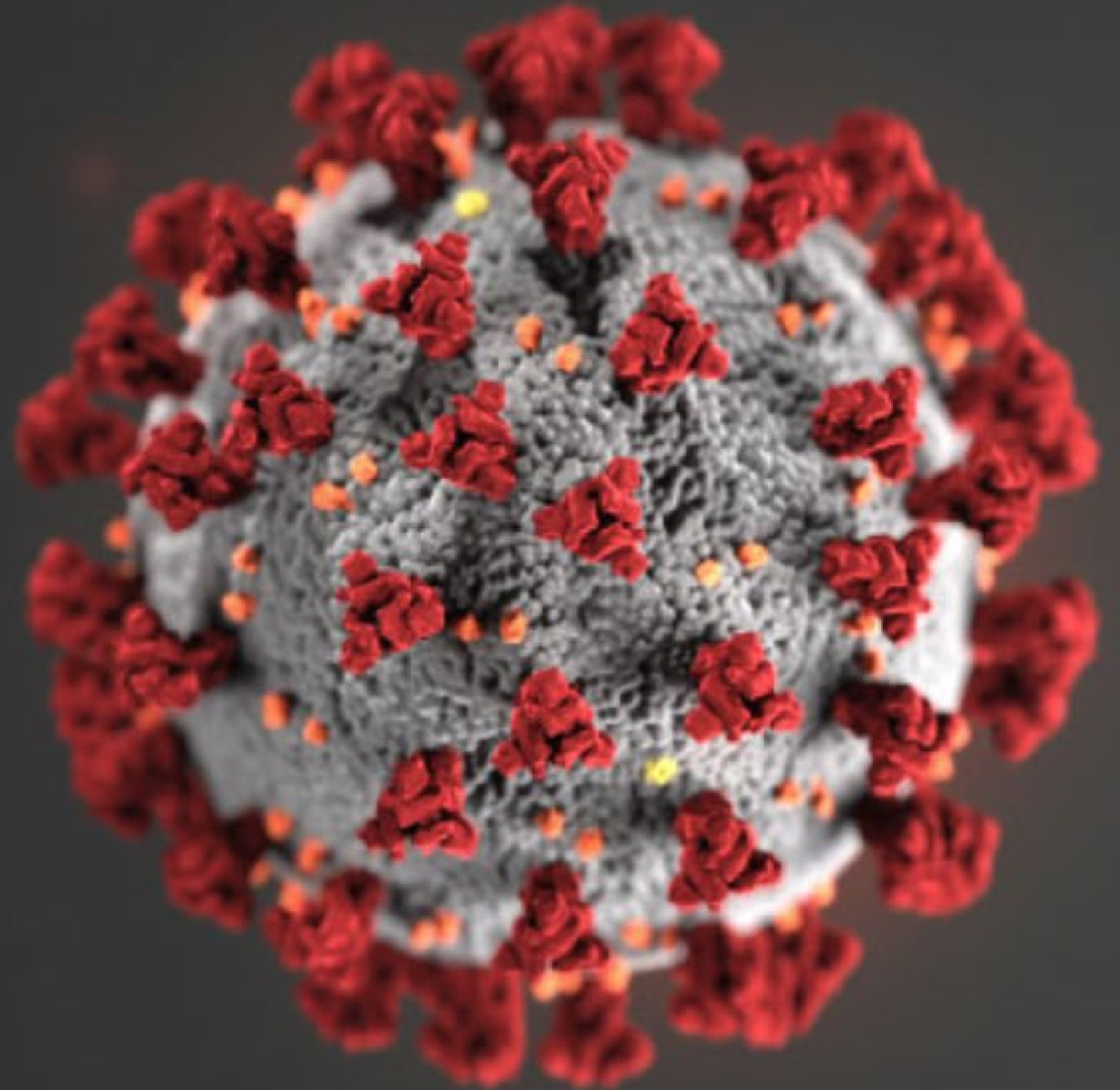
Impact Assessment : Base Metals

Advisory Insights

- Global commodity market has witnessed severe selling pressure, in line with the equities, amid fears that the rising coronavirus cases outside China will severely impact the global economy and demand for base metals.
- The work resumption rate for businesses in Wuhan, Hubei province, the epicentre of the COVID-19 in China, has increased with a resumption rate of 93.8%. About 4.7 million personnel have returned to their jobs, with a rate of resumption of 66.3%.
- Whereas the decline in end-user demand sparks concerns about China's exports, as European countries and the United States are key consumers of metal related end-products such as motor vehicles, tractors, washing machines and refrigerators.
- On the other hand, fears of supply disruption rose across copper smelters. As Chinese consumption recovers, miners in Chile and Peru are reducing operations due to the coronavirus outbreak, putting ore supply at risk.
- Moody's Investors Service said it has lowered its outlook for the global base metals industry to negative on slowing global growth, supply chain and logistical disruptions due to the spread of new coronavirus (Covid-19).
- Moreover, US manufacturing activity contracted in March and Eurozone's manufacturing sector also contracted last month, with factory output suffering its worst month since the bloc's economic crisis of 2012 indicating declining demand to base metals.

Commodity / Category	Impact Assessment(Short term 2-3 months)	Impact Assessment(Long term 6-12 months)
Aluminum	 Low Medium High	 Low Medium High
Copper	 Low Medium High	 Low Medium High
Lead	 Low Medium High	 Low Medium High
Zinc	 Low Medium High	 Low Medium High
Gold	 Low Medium High	 Low Medium High





Knowledge First

T: +971 50 7383984

Email: info@kcorp.net

Website: www.kcorp.net