While there continues to be high uncertainty about the rate of spread and timing of the peak of the 2019 new coronavirus (Covid-19), modeling by academics with expertise in epidemiology indicates a likely range for the peak between late February and June. However, for the purpose of assessing the economic and credit implications of the outbreak, we assume the outbreak will be contained in March, consistent with our recent report “Coronavirus To Inflict A Large, Temporary Blow To China’s Economy,” published Feb. 7, 2020. As the situation evolves, we will update our assumptions and estimates accordingly.

Key Takeaways

- **Overall:** We see the new coronavirus as a "high" risk to global credit conditions in Asia-Pacific and more particularly China, and as an "elevated" risk for the rest of the world given the lower infection and fatality rates outside China.

- **What's changed:** The speed and spread of the coronavirus in the past two months poses an emergent risk to the global economy and credit. There will be a short-term impact to China's and global GDP growth, as well as some economic cost for industries most exposed to Chinese household spending and the increasing containment measures more broadly.

- **Risks and imbalances:** If the virus is not contained in our assumed time period (in March), this could imply a faster and more widespread outbreak, with larger human costs involving many countries that are less prepared for a potential future pandemic and the associated economic and credit costs, reflecting the network complexities of the global economy.

- **Financing conditions:** Currently, it appears the financial markets are adopting a "wait-and-see" attitude as they assess the scale of the outbreak. An exception is China, where authorities have injected billions of dollars to shore up system liquidity.

- **Macroeconomic conditions:** We estimate that the virus could lower China's GDP growth by 70 basis points (bps), to 5.0%, this year, with a peak effect in the first quarter before a rebound begins in the third quarter, and lost output largely recovered by end-2021. In turn, it would trim 30 bps from global GDP growth this year. However, if the disease is not brought under control in March, the economic impact could be much larger.

- **Sector themes:** The economic hit from the crisis (including travel restrictions) will be felt most keenly in those sectors exposed to Chinese household-related spending, such as gaming and leisure, retail, transportation, and infrastructure. Temporary plant closures in China may cause supply-chain disruptions in certain industries, including autos, tech, and the industrial commodity sectors. In China, relief measures including tax cuts and subsidies are likely, as is support for banks providing forbearance to impacted consumers and businesses. If the disease is not brought under control in March, slower economic growth would exacerbate already weaker government fiscal performance in many parts of Asia-Pacific.
Emergent Risk

The Threat To Credit Health

The new coronavirus has leapt into the global spotlight, with the focus primarily on the human costs. But the growing economic implications are casting a cloud over a global growth picture that had just recently begun to stabilize. The travel and human-movement restrictions imposed by China and other governments, and the response by consumers and businesses, are beginning to have a credit impact.

Chart 1 shows the number of confirmed cases and fatalities globally and chart 2 the growth rate in total confirmed cases from Jan. 4 to Feb. 10. Chart 3 show that 99% of the confirmed cases are in China, with seven out of 10 in Hubei province (which contains Wuhan city).

Chart 1
Global Covid-19 Confirmed Cases And Fatalities

- Global confirmed cases
- Global fatalities (rhs)


Chart 2
Daily Growth Rate of Covid-19 Confirmed Cases Globally


Chart 3
Distribution Of Covid-19 Cases As Of Feb. 9, 2020

Number of confirmed cases:
- 1 - 2
- 3 - 10
- 11 - 100
- 101 - 500
- 501 - 5000
- > 5000

Key assumptions

Our assessment of the risk level of the emergent coronavirus risk to credit conditions, from an Asia-Pacific and a global perspective, is in table 1.

Table 1

Top Asia-Pacific Risk

**Coronavirus restrictions set back China’s growth**

<table>
<thead>
<tr>
<th>Risk level*</th>
<th>Moderate</th>
<th>Elevated</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>China and other countries have restricted the movement of people within Hubei province, and to and from China, respectively, to contain the outbreak of the new coronavirus (Covid-19). These efforts are affecting China's domestic discretionary spending and GDP growth; and, with a lag, trade between China and the rest of the world. Our updated base case is for a 0.7 percentage point decrease of China’s GDP growth in 2020 before a full recovery in 2021. However, given the degree of uncertainty there is a meaningful chance of confirmed cases not stabilizing before April. The impact of this would likely be a greater decline in growth and a longer recovery period.</td>
<td></td>
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</table>

Top Global Risk

**Coronavirus restrictions less systemic globally, with sector variations**

<table>
<thead>
<tr>
<th>Risk level*</th>
<th>Moderate</th>
<th>Elevated</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>While the incidence of infection from the Covid-19 outside China is currently low, the situation continues to evolve. Containment measures have been implemented by China and other countries including restricting the movement of people to and from China. However, the economic costs are increasing for companies operating in China as well as those dependent on Chinese consumers and students, and cross border supply chains. We expect these economic costs to weigh on financial performance into the second quarter. The downside risk is that some economic dislocation could persist into the third quarter if concerns over the virus outbreak do not dissipate by the end of the first quarter.</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: S&P Global Ratings.

* Risk levels may be classified as very low, moderate, elevated, high, or very high, and are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically these risks are not factored into our base case rating assumptions unless the risk level is very high.

We base our assessment on public information, including that of health professionals, and our interpretation of what this may mean for government policies, especially those that affect the movement of people and the behavior of consumers and firms. We expect that there will be a lag in lifting travel restrictions and the return of more normal behavior by Chinese consumers and firms and, to a lesser extent, Asia-Pacific, as well as for other international firms with material links to China. We presume this lag extends into the second quarter. The possibility of significant spillovers into the third quarter is a material risk, however, given that uncertainty remains high. This will necessitate that we continually update our assumptions as more information becomes available.
Macroeconomic Outlook

Coronavirus Will Lower Global Growth In 2020, Led By China And East Asia

(Editor’s Note: The views expressed in this section are those of S&P Global Ratings’ economics team. While these views can help to inform the rating process, sovereign and other ratings are based on the decisions of ratings committees, exercising their analytical judgment in accordance with publicly available ratings criteria.)

S&P Global Ratings estimates that the virus will lower China’s GDP growth by 0.7 of a percentage point, to 5.0%, this year with a peak effect in the first quarter. Thereafter, we expect a rebound to begin in the third quarter, with all lost output recovered by end-2021.1

Given China’s lead role in generating global GDP growth (contributing one-third to the total), how does the coronavirus shock transmit to the rest of the world? We attempt to answer this question by running our Oxford global macroeconomic model calibrated to our revised China baseline scenario. In this exercise, we focus on the changes to growth stemming from a 0.7 percentage-point reduction in Chinese GDP growth rather than the growth rates themselves. We report only on lost output in 2020 since, as we assumed in China, lost output due to the coronavirus this year would be recovered by end-2021 (the recovery for the trade channel will be more complete than for the tourism channel). On policy, we assume that automatic fiscal stabilizers are allowed to operate and the central banks act to keep monetary and financial conditions broadly unchanged from pre-coronavirus levels.2

As in our China scenario, we underscore that we are not medical experts. In our global forecasting exercise, we take the views of the epidemiological community as given, and translate them into our macro framework. Specifically, our baseline assumption is that the coronavirus stabilizes globally in March with no new cases reported in April. The negative effects of the crisis persist through the second quarter, mainly due to a measured unrolling of travel restrictions. This scenario is loosely modeled on the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003.3

We estimate the coronavirus will trim a 0.3 percentage point from global GDP growth in 2020 (see chart 4). The largest country movers are highlighted in chart 5. The U.S. and Europe may experience minimal reductions in growth, while the impact is largest in East Asia. These results are consistent with a “gravity” model, where the transmission from slower Chinese growth is more pronounced in countries that are geographically and economically closest to China. On the financial side, prices, interest, and exchange movements are muted in the larger, more developed economies, but play a more prominent role in smaller and emerging market economies.

1 This reflects the assumption that the supply side of the economy – labor force, productive capital, and productivity – is unchanged, meaning that output after the coronavirus shock returns to its original path.
2 Central banks in the Philippines and Thailand have recently cut policy rates by 25 basis points.
3 We see SARS as a useful but limited benchmark. Compared with SARS, the coronavirus is less severe (the fatality rate is lower) but more infectious (making it more difficult to contain).
As in our China forecast, we note that we are translating epidemiological assumptions into macroeconomic forecasts, which implies large bands of uncertainty around these forecasts. The narrative around our baseline coronavirus forecast is as follows:

- **Rest of East Asia.** Not surprisingly, the impact of the coronavirus is highest in the economies closest and most tightly linked to China. Hong Kong and Singapore will likely see reductions in the GDP larger than that of China given their small size and high degree of openness. Northeast Asian economies plus Thailand would also see a large impact given the supply-chain linkages in the auto and tech sectors, as well as tourism. Australia, despite its physical distance, is also hit relatively hard given its exposure in commodities, tourism and education flows.

- **U.S.** The impact of the coronavirus on the U.S. is limited in our baseline, with GDP falling by a 0.1 percentage point this year given limited overall exposure to China. While recognizing that supply chains tied to China may be affected, U.S. economic activity is largely domestically driven, at around 85% of total economic activity. Moreover, exports to China are just 6.5% of total exports. Even though we believe the overall U.S. economic impact is likely to be small, the aviation, airlines, and travel and leisure sectors are worth watching for any measurable impact.

- **Europe.** The impact on Europe is also limited at 0.1-0.2 percentage point this year. The virus poses a risk of disruption to European value chains, particularly in computers and electronics, and especially in Germany. Other channels include exports to China and spending in Europe by Chinese tourists, which spans the continent. Both exports and tourist spending are more than three times higher than during the SARS outbreak in 2003. For the projected rebound, it is unclear whether tourism spending would recover as quickly as manufacturing and exports.

- **Elsewhere.** For most other emerging markets and frontier economies, the impact is limited. Two countries are noteworthy: India and Chile. While India is relatively close geographically to China, its supply chain, overall trade, and tourism linkages are weaker, meaning the transmission of slower Chinese growth is muted. In contrast, Chile has the largest growth response to the coronavirus outside of Asia, reflecting its high and narrow (copper) trade exposure to China.

### Key risks

The risks around our baseline coronavirus scenario are large, and skewed to the downside. While the fatality rate relative to SARS is low, the reproduction or transmission rate is higher. This suggests that if the virus is not contained in the assumed time period it could spread faster and wider. This would have larger human costs, as this scenario could involve regions that are less prepared for a potential future pandemic since they were not affected during SARS. And it could potentially have more widespread economic costs, reflecting the network complexities in the global economy.
Financing Conditions

Credit Markets Appear Cautiously Optimistic

The negative impact of Covid-19 on capital markets will likely be more significant in China and Asia than elsewhere, given our base-case assumptions. Most of the effect on global financing conditions so far has been sporadic but contained. Currently, equity and fixed-income markets appear to be taking a cautiously optimistic view. The S&P 500 is up 3% year to date, even after a drop of 0.2% by the end of January. Similar patterns are also occurring for most major European and Asian equity indices (see chart 6). Of note, however, the Chinese Shenzhen Stock Exchange had its typical New Year closing extended past Jan. 31 due to numerous virus-containment measures.

Corporate bond spreads have followed a similar trajectory, with the expected flight to safety evident in falling government bond yields pushing spreads wider—with a greater relative jump seen in the speculative-grade segment (see chart 7). But like equity markets, spreads have since tightened in February, thus far.
Given our base case, we expect financing conditions to remain generally loose, barring other external stressors. Occasional and temporary swerves in either a positive or negative direction are part of normal dynamics, and this volatility is to be expected, even if conditions continue to loosen directionally.

**Key risks**

First and foremost, if the disease spreads faster, farther, and for longer—we expect the negative effects on financing conditions to deepen as the disease becomes harder to contain globally, with investors becoming more risk-averse. Some of this would reflect a fear of the unknown, with a real impact on economic growth.

A potential slowdown in global growth will invariably dampen demand for capital through lower industrial production and output. On the other hand, expectations for monetary policy responses are largely biased toward accommodation, which would mute borrowing costs in an already "lower for longer" environment, containing capital costs for new debt issuance.

China alone accounted for about 25% of financial and nonfinancial bond issuance last year, and a slowdown in growth, even temporarily, would impact global bond markets. Nevertheless, most regions globally saw issuance so far this year (through Feb. 7) outpace levels at this point in 2019—namely, Asia-Pacific with $144 billion (12% higher) and the U.S. with $156 billion (15% higher). Europe remains comparably flat at $160 billion (see chart 8).

Chart 8

Financial And Non-financial Bond Issuance Trends

Sector Trends

Chinese Household Spending And Supply Chains

The risks to a global or APAC regional industry or sector depend on the level of exposure of S&P-rated entities to the coronavirus outbreak and how sensitive these sectors are in terms of revenues and EBITDA to its effects (see chart 9). The chart indicates our qualitative view of this risk, and does not directly translate to risk of rating actions, which depend on a number of factors including initial headroom under a rating coupled with the expected length and severity of the outbreak.

The economic hit from the coronavirus will be felt initially in sectors most closely related to Chinese consumer spending, such as gaming and leisure, retail, transportation, and infrastructure (e.g., airports, toll roads). It will increasingly be felt in business-related sectors because of disruption in sales, labor input, production, and supply chains (such as autos, technology, and industrial commodities). We note that commodity prices (e.g., metals, oil) are suffering a downdraft because a slowdown in purchases by Chinese companies and market expectation of slower global GDP growth.

Chart 9

Corporate Sector Risk To Coronavirus Outbreak

An elaboration on some of the impacted sectors is given below (also see https://www.spglobal.com/ratings/en/research-insights/topics/coronavirus-impact for regular updates):

<table>
<thead>
<tr>
<th>Sector</th>
<th>Risk Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviation</td>
<td>Low</td>
</tr>
<tr>
<td>Consumer products</td>
<td>Medium</td>
</tr>
<tr>
<td>Gaming, leisure &amp; lodging</td>
<td>Medium</td>
</tr>
<tr>
<td>Retail &amp; restaurants</td>
<td>High</td>
</tr>
<tr>
<td>Auto</td>
<td>High</td>
</tr>
<tr>
<td>Developers / homebuilders</td>
<td>Medium</td>
</tr>
<tr>
<td>Healthcare &amp; pharmaceuticals</td>
<td>Medium</td>
</tr>
<tr>
<td>Infrastructure - transport</td>
<td>Low</td>
</tr>
<tr>
<td>Media &amp; telecoms</td>
<td>Medium</td>
</tr>
<tr>
<td>Real estate operators</td>
<td>Medium</td>
</tr>
<tr>
<td>Transport - cyclical</td>
<td>Medium</td>
</tr>
<tr>
<td>Business services</td>
<td>Low</td>
</tr>
<tr>
<td>Capital goods</td>
<td>Medium</td>
</tr>
<tr>
<td>Chemicals</td>
<td>Medium</td>
</tr>
<tr>
<td>Materials, building &amp; construction</td>
<td>High</td>
</tr>
<tr>
<td>Metals &amp; mining</td>
<td>High</td>
</tr>
<tr>
<td>Oil &amp; gas</td>
<td>Medium</td>
</tr>
<tr>
<td>Packaging</td>
<td>Medium</td>
</tr>
<tr>
<td>Technology</td>
<td>Medium</td>
</tr>
<tr>
<td>Utilities</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Note: These relative risk classifications are based on our analytical team’s qualitative opinions and do not indicate any potential rating trend or actions. Source: S&P Global Ratings.

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Autos

Coronavirus In China: Domestic Auto Industry, Car Rental Companies Likely To Feel Impact In First Quarter, Jan. 31, 2020

Claire Yuan, Hong Kong, (852) 2533-3542, Claire.Yuan@spglobal.com

- China’s auto production could decline significantly year on year in the first quarter due to the impact from the coronavirus outbreak.
- Rated Chinese auto suppliers generally have small or minimal exposure to Hubei. Downward ratings pressure will heighten if the country’s auto production is weakened for a prolonged period.
- For car rental companies, demand may fall amid reduced traffic countrywide.

The Coronavirus Dashes Recovery Hopes For Global Autos, Feb. 5, 2020

Vittoria Ferraris, Milan, (39) 02-72111-207, vittoria.ferraris@spglobal.com

- The new coronavirus will likely depress Chinese auto sales below our previous base case for 1%-2% growth in 2020, although it is currently too early to quantify the full impact.
- We believe China may further extend shutdowns beyond Hubei to limit contagion risk, possibly affecting up to one-half of China’s auto and auto-parts production.
- Volkswagen is the automaker with the highest exposure to China, with just under 40% of its global production and units sold there. Among suppliers, we think Bosch will be hard hit.

Aviation

SARS 2.0? Aviation Faces Risks From Coronavirus, Jan. 29, 2020

Philip A Baggaley, CFA, New York, (1) 212-438-7683, philip.baggaley@spglobal.com

- Air traffic, revenue, and earnings dropped steeply in selected regions and with certain airlines during the Severe Acute Respiratory Syndrome (SARS) outbreak. We see the potential for a similar effect from the new coronavirus outbreak.
- Airlines with significant routes in China and the greater Asia-Pacific region will be most affected, but most airlines we rate have only have a moderate exposure to traffic to, from, and within China.
- Aircraft leasing companies play a greater role globally now than in the early 2000s, and many have significant exposure to China. We think they are relatively well prepared.

Commodities

China Commodities Watch: 2020 Outlook And Health Check, Feb. 5, 2020

Danny Huang, Hong Kong, (852) 2532-8078, danny.huang@spglobal.com

- We expect generally weaker demand growth for commodities in China in 2020, given softer economic growth and rising global supply.
- Chemical companies have less rating buffer in general since chemical spreads have been falling since 2019. We also see downside pressure for coal prices.
- Steel and cement companies should be more resilient to lower iron ore prices and industry rationalization; the credit metrics of oil, gold, and aluminum companies are stable.

Consumer Goods

The Health Of Branded European Consumer Goods Companies Isn’t Immune To The New Coronavirus, Feb. 3, 2020

Rocco A Semerano, London, (44) 20-7176-3650, rocco.semerano@spglobal.com

- Chinese customers, both in their home country and during their overseas travels, are the largest customer segment for the personal luxury industry, accounting for about 35% of global industry.
- We estimate that European rated luxury goods companies have some headroom under existing ratings to withstand a moderate hit to their earnings that will depend on how quickly the virus can be contained.
We note that China and travel retail also represents a profitable growth driver for the other product categories, such as alcoholic beverages and beauty care.

**Financial Institutions – China**

*Coronavirus In China: Domestic Banks To Face Stress Test*, Feb. 3, 2020

Ming Tan, CFA, Hong Kong, (852) 2532-8074, ming.tan@spglobal.com

- The resilience of China's banking system may be tested if the outbreak dragged on for the rest of the year.
- China's gross NPL ratio could jump above 6% if this public health emergency is prolonged.
- Short-term measures taken by the Chinese government and the banks to help combat the negative economic impact from this outbreak could slow down the ongoing banking sector reform.

**Financial Institutions – Hong Kong**

*Coronavirus Spells More Trouble For Hong Kong Banks*, Feb. 3, 2020

Shinoy Varghese, Hong Kong (852) 2533-3573; shinoy.varghese1@spglobal.com

- The new coronavirus outbreak will add to the challenges that Hong Kong banks already face amid social unrest, U.S.-China trade tensions, and China's economic slowdown.
- Consumer-related credit is most vulnerable. Loans related to travel and tourism, hospitality, and entertainment accounted last year for about 5% of systemwide loans, wholesale and retail trade comprised about 4%, credit cards and other personal loans about 8%, and property-related loans including mortgages about 30%.
- Some bank ratings could come under pressure if credit costs rise sharply or loan quality deteriorates more severely than the industry average, or capitalization significantly weakens.

**Financial Institutions – Korea**

*Korean Banks Will Likely Weather Headwinds Arising From Coronavirus*, Feb. 5, 2020

Daehyun Kim, CFA, Hong Kong, (852) 2533-3508, daehyun.kim@spglobal.com

- An economic downturn stemming from the coronavirus outbreak will likely weigh on Korean banks' asset quality and profitability in the coming few quarters.
- Nevertheless, S&P Global Ratings believes the Korean banks have adequate capital buffers and prudent risk management to weather the outbreak without any downgrades.
- We expect industries such as shipbuilding, shipping, and steel could be particularly pressured, as the sectors continue to face stiff competition amid global overcapacity.

**Financial Institutions – Singapore**

*Singapore Banks Can Draw On Buffers As Coronavirus Spreads*, Feb. 2, 2020

Ivan Tan, Singapore, (65) 6239-6335, ivan.tan@spglobal.com

- Given that Chinese visitors account for about one-fifth of total visitors to Singapore, the virus outbreak will likely hurt visitor numbers and drag on the hospitality, tourism, and airline sectors in Singapore.
- We estimate that the transport and general commercial sectors respectively account for about 4% and 10% of Singapore’s domestic loans. This is a meaningful exposure.
- In our view, the impact to banks in the short term will be manageable given their healthy profit levels and financial strength. Extraordinary government support is likely in the case of major banking system stress.
Financial Institutions – Taiwan

Coronavirus Impact: Taiwan’s Financial Sectors Can Stave Off The Threat For Now, Feb. 7, 2020

YuHan Lan, Taipei, (8862) 8722-5810, yuhan.lan@spglobal.com

- Taiwan’s economic growth will undoubtedly feel the knock-on effect of the new coronavirus outbreak, given the economy's close ties with and reliance on China's economy.
- Taiwan banks have good capital buffers to cushion against the potential longer term economic impact of the current outbreak. This should help protect against deteriorating asset quality or a downturn in average property price.
- However, life insurers' capitalization is vulnerable to market shocks, given insurers' high investment leverage.

Financial Institutions – Thailand

Coronavirus Will Test The Resilience Of Thai Banks, Feb. 5, 2020

Deepali V Seth Chhabria, Mumbai, (91) 22-3342-4186, deepali.seth@spglobal.com

- The coronavirus outbreak will have a greater impact on Thai banks than on any other banking system in Southeast Asia, given the country’s high credit risk and high linkages with China for tourism and trade.
- The outbreak would exacerbate an economic slowdown already underway which could impact banks, given high household leverage, aggressive underwriting standards, and weakness in the small and midsize enterprise sector.
- The drag on the tourism sector could be acute since the contribution of tourism exports to GDP is high at about 11% and China accounted for about 28% of total visitors in 2018.

Gaming and Leisure

The Wuhan Coronavirus Outbreak Will Negatively Affect The Cash Flow Of Gaming And Lodging Companies Exposed To The Asia-Pacific Region, Jan. 29, 2020

Emile J Courtney, CFA, New York, (1) 212-438-7824; emile.courtney@spglobal.com

- Out-of-home consumption will be hit primarily in China, though the ripple effects will be felt across the broader Asia-Pacific region.
- Travel-related industries in this region will likely see reduced cash flow for some time in 2020. This includes lodging companies and airlines.
- Particularly vulnerable are gaming companies that derive a large percentage of their cash flow from casinos located in Macau and other Asia-Pacific gaming markets reliant on Chinese visitors.

Higher Education

Coronavirus Will Dent Australia’s Higher Education Revenues, Feb. 5, 2020

Martin J Foo, Melbourne, (61) 3-9631-2016, Martin.Foo@spglobal.com

- Travel restrictions enacted in response to the coronavirus outbreak will depress the revenues and margins of Australia’s universities.
- International students make up nearly a third of all university enrolments and are a lucrative income stream.
- The universities we rate can absorb the impact but finances will be strained if travel restrictions are extended for many months.
Infrastructure

**Australian And New Zealand Airports Brace For More Pain With Coronavirus Outbreak,** Feb. 4, 2020

*Parvathy Iyer, Melbourne, (61) 3-9631-2034; parvathy.iyer@spglobal.com*

- The fallout from the coronavirus outbreak will weigh on the earnings of Australian and New Zealand airports, amid softer economic conditions in Asia-Pacific and the Australian bushfires.
- With China accounting for 16% of international arrivals to the region, the recent ban on group travel by China, restrictions on passenger arrivals from China, and dampened travel sentiment for tourism and business across the Asia-Pacific will affect passenger numbers and hurt the earnings and cash flows of rated airports.
- Nevertheless, all rated ANZ airports have a good track record of managing such short-term external shocks. We expect the airports to control operating costs, as well as adjust the timing of their uncommitted capital investments and amount of planned dividends over the next 12 months as the situation evolves.

**Coronavirus Will Take A Big Toll On China's Transport Operators,** Feb. 4, 2020

*Gloria Lu, CFA, FRM, Hong Kong, (852) 2533-3596; gloria.lu@spglobal.com*

- The new coronavirus outbreak will undermine the credit strength of many Chinese transport operators—airports being the most vulnerable to demand disruption.
- Government or parent support could limit the impact on ratings, but local and regional governments are likely to face fiscal challenges if the outbreak is prolonged.
- Over the 10-day lunar New Year holiday that began this year on Jan. 24, China passenger volumes on major means of transport dropped more than 70% compared with the holiday period of 2019. This includes air, rail, road, and water transport.

**U.K. Hospital PFI Projects Expected To Be Resilient Against Spread Of Coronavirus,** Jan. 30, 2020

*Joest F Bunse, CFA, London, (44) 20-7176-3430, joest.bunse@spglobal.com*

- Footfall in accident and emergency (A&E) departments could increase over the coming weeks, depending on the extent to which the coronavirus spreads in the U.K. The infection would require hospitals to isolate affected patients.
- We publicly rate the debt issued by 19 projects that are party to long-term arrangements with the NHS to construct, maintain, and finance various hospitals across the U.K. Almost all of these private finance initiative (PFI) funded hospitals have A&E departments.
- Despite the potential increase in footfall and the number of patients in isolation, we do not currently expect the consequences for these projects to include an impact on creditworthiness.

Insurance

**Chinese Insurers’ Earnings Will Erode Amid Coronavirus Outbreak,** Feb. 4, 2020

*WenWen Chen, Hong Kong (852) 2533-3559; wenwen.chen@spglobal.com*

- Life insurers’ efforts to enhance tied agency distribution may come to a standstill and new business activity will contract in the first half of 2020.
- We anticipate an accelerated revolution of traditional insurance distribution, fueled by technology advancements as insurers seek to distribute policies remotely.
- The coronavirus outbreak will strain China’s property and casualty sector with thinning profitability, and possibly limit auto sales in early 2020, affecting the already dim growth prospects for motor insurance.
International Public Finance
Coronavirus Could Pressure China's Local And Regional Governments, Feb. 5, 2020
Susan Chu, Hong Kong (852) 2912-3055; susan.chu@spglobal.com

– The new coronavirus outbreak in China is likely to weaken revenue generation or even accelerate ongoing fiscal expansion for China’s local and regional governments (LRGs).
– We expect a modest weakening of Chinese LRG creditworthiness, in line with increasing on-budget investments.
– Authorities have announced Chinese renminbi (RMB) 47 billion in medical-related expenditures to cover the cost of treatment for victims of the virus--less than 0.1% of China's GDP and less than 0.2% of LRGs' annual revenues.

Metals and Mining
Donald Marleau, Toronto, (416) 507-2526; donald.marleau@spglobal.com

– Metals producers will feel the pinch of lower volumes from reduced industrial activity in China, compounding prices that were scraping multiyear lows months before the outbreak.
– Oversupply that triggered the metals' price slide in 2019 will worsen without production cutbacks in 2020 from the highest-cost producers, which are often the lowest-rated.
– On the other hand, some companies, such as steel and aluminum makers in the U.S. and Western Europe, could generate better volumes in the near term, with lower Chinese output to supply local markets, along with lower raw materials input costs, but this is unlikely to last beyond the downturn in Chinese industrial production.

Oil
Thomas Watters, New York, (1) 212-438-7818; thomas.watters@spglobal.com

– Our base case assumes that any setback in oil demand due to direct travel reduction or slowdown in economic activities should be relatively short-lived.
– Peak outbreaks should run their course by the end of March. The general expectation is that this will be over before we go into the summer season in June or July, when higher temperatures will deter the spread.

Real Estate
China's Illiquid Developers Ask, How Long Will The Coronavirus Crisis Last?, Feb. 2, 2020
Christopher Yip, Hong Kong, (852) 2533-3593; christopher.yip@spglobal.com

– Chinese authorities have ordered or recommended the closure of property sales centers in at least 20 large cities as part of measures to address the coronavirus outbreak.
– We do not immediately expect the health emergency to materially affect Chinese developers' credit standing, but believe weaker property firms may encounter liquidity crunches if the crisis lasts beyond several months.
– The outbreak will hit the Chinese economy, albeit by a level not quantifiable at this point. It will also knock back home buying demand, at least while the outbreak stays at crisis levels.

Retail – China
E-Commerce Provides Some Support As Coronavirus Knocks China Retail Sales, Feb. 10, 2020
Ava Chang, Hong Kong, (852) 2533-3530; ava.chang@spglobal.com

– Retail sales at China's traditional "offline" stores will likely decline in the first quarter, due to the impact of coronavirus.
– Travel-associated retailers will suffer the most, and we envision potential liquidity stress for offline retailers and smaller, low-margin players.
– Online retailers will continue to gain discretionary-spending market share, in our view, as traditional stores lose footfall amid contagion fears and travel restrictions.
Sovereigns

**Asia-Pacific Sovereign Rating Trends 2020, Jan. 29, 2020**

KimEng Tan, Singapore, (65) 6239-6350, kimeng.tan@spglobal.com

- A virus outbreak takes over as the key risk to Asia-Pacific sovereign credit support.
- If the disease is not swiftly brought under control, slower economic growth would exacerbate already weaker fiscal performance in many parts of the Asia-Pacific.

Structured Finance

**China Auto ABS And RMBS Must Brace For Coronavirus Impact, Feb. 3, 2020**

Andrea Lin, Hong Kong, (852) 2532-8072; andrea.lin@spglobal.com

- The coronavirus outbreak and the extended Chinese lunar new year holidays could increase and lengthen the usual seasonal spike in early delinquencies (that is, loans are 1-60 days past due).
- Auto loan ABS and residential mortgage-backed securities (RMBS) transactions that have more borrowers residing in Hubei are likely to be more vulnerable, given Hubei is the most severely affected province.
- Our rated RMBS’ exposure to Hubei province is manageable. Only two transactions, Jianyuan 2018-21 and Jianyuan 2019-7 RMBS, have limited exposure of 4.9% and 1.9%, respectively, to Hubei.

Utilities

**Coronavirus Outbreak Will Test Resilience Of China's Utilities And Environmental Service Operators, Feb. 10, 2020**

Apple Li, CPA, Hong Kong, (852) 2533-3512, apple.li@spglobal.com

- The new coronavirus outbreak has a limited impact on the financial strength of the rated companies in the power utilities and environmental sectors in China, owing to their relative resilience to an economic downturn.
- A temporary slowdown on construction work for pipeline projects might rein in capital expenditure for 2020, but the work will likely pick up after the outbreak eases.
- Overall demand for electricity and gas will largely be in line with China's economic growth, while profitability will continue to recover given softening fuel costs.

Contributors: William Buck, Michelle Hsiung, Yucheng Zheng.

Related Economic Research

- Coronavirus To Inflict A Large, Temporary Blow To China's Economy, Feb. 7, 2020

This report does not constitute a rating action.