



CAN THE WORLD EVER BE THE SAME AFTER CORONA?

INTRODUCTION

Only a few people are on record of forecasting how humankind will endure a future pandemic and explain the very negative impact this would have on the world. Bill Gates was one of them in his TED talk in 2015. When people envision such a scenario, the thought is normally along the lines of a disease like the black death – a viral infection with only small chances of surviving if you caught it. It's quite an irony to be in the middle of a global pandemic that is causing so much chaos and know this is not much worse, in terms of fatality than regular, humble flu.

A FEW THOUGHTS

We believe the events taking place now will make some permanent changes to the way we live. It does make you wonder if things will ever return to the way we know them.

POLLUTION

Many places in the world can now experience more blue sky, cleaner water and air that is not laden with pollution. This is because the factories that are continuously belching out pollution are no longer running. They have been closed down due to the demand slump caused by corona.

In these extraordinary circumstances, people recognize positive pollution change is indeed possible, I wonder how many people would happily pay an extra 5% for electricity if they could have blue skies and clean air. Governments need to instigate an urgent shift to higher standards in terms of preventing the globe from becoming even more polluted. We feel China and India will be under some pressure to clean up NOW. The western world also has a lot of room for improvement on this score.

It is likely that people pressure will push for change on the pollution front. We already have Greta, which has laid out the basic arguments. We hope people around the world add to the pressure to find many available solutions to seriously reduce pollution and not run the finite resources of the world like a corporate balance sheet!

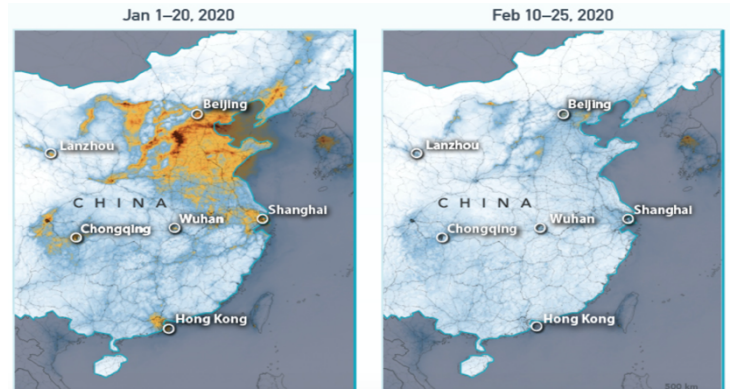


Figure 1: NO₂ levels plummeted in the rest of China as large parts of the country were shut down in an effort to contain the spread of COVID-19. Source: NASA Earth Observatory

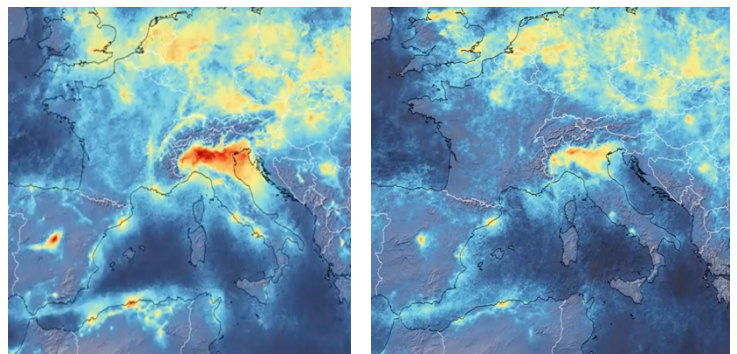


Figure 2: (L) Italy January 2020, (R) Italy March 2020. Source: European Space Agency

EARLY FALLOUT

The fallout, of the early phases are plain for everyone to see. Restaurants, hotels, bars, airlines, travel companies and all events where crowds gather (cinema, sports, concerts, shopping malls, conferences, etc) have all stopped in a few short weeks. This is having a profound impact on large and small companies in these fields because revenues have hit rock bottom!



It is some anomaly that the pandemic that is upon us, that is causing so much negative fallout across the entire world, is not the most fatal disease that mankind has ever known. In fact, it is really just a slightly stronger version of the flu. It is clear, at these early stages, that the world is not prepared to deal with the fallout from a humble flu virus.

COLD WAR

Irrespective of the party that wins the US election, US and China are locked into a cold war (not a hot war) for greater influence over world affairs. America is waking up to the fact that direct pursuit of bottomline goals has left the US very dependent upon China, with a wide range of supply chains dependent upon China. Whether changes are politically motivated or commercial interests limit single sources of supply, we suspect that US will curtail the high dependence of many supply chains on China. This development is good news for the rest of Asia, the factory of the world.



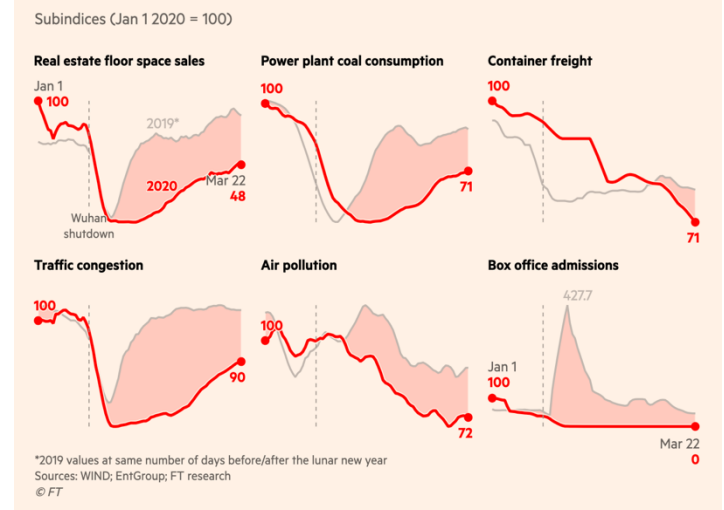
ONLINE SHOPPING

The growth of online shopping everywhere has already changed the world we live in. It offers an almost perfect potential solution to solve the 'social separation' issue. Using more of this style of infrastructure and technology is certainly a solution that many online companies will be trying to encourage. The epidemic is a strong plus for existing online companies or e-companies, particularly those with established positions.

ONLINE EDUCATION

There is no doubt that social interaction is a fundamental part of our education. However, one business that might seize the opportunity to develop in these circumstances is online education. There are already numerous online teaching platforms and methods that could be more integrated into mainline education efforts in the next few years.

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Source: FT

ASIA'S LEADING CITIES

The two most western-like Asian cities, Singapore and Hong Kong have been so far, very successful at containing the spread of the virus - with large parts of their population working normally. This is a stark contrast to the containment achieved (or lack of) in Europe and the US. The West has a few things to learn from these Asian cities. Experience in dealing with SARS in Asia has almost certainly made an indelible mark in everyone's mind and this experience has 'taught' the populations of these cities how to maintain social distance. For the last month, one does not enter public transport without a mask in Singapore and Hong Kong!



Even though we are in the early days of this corona pandemic, the world now appreciates how vulnerable today's society is to a pandemic. If another virus spread around the world in 2021, would the fallout be any less than we are experiencing today - probably not. This is because the solutions to prevent disease spread run totally against the way our society runs. Developing society changes to prevent pandemics will not be an easy process.

We spend the final few thoughts on views about aspects of the financial markets.

CORP REVENUES DISAPPEAR IN A FEW SHORT WEEKS

Many large and small companies will experience huge revenue falls in Q2 and probably Q3, that will jeopardise their entire business. The pain will be felt in, say, B2B companies. In more extreme cases, like airlines and retail, the companies face an existential threat. The equity markets have already taken fright at this prospect. The market falls are probably not overdone.

Governments have recognized this issue and are now drawing up any number of plans to try and mitigate the worst outcomes (for companies and consumers alike). Unemployment and bankruptcies loom. It remains to be seen how they will actually ride to the rescue and what companies and sectors they will actually help.

I do not believe anyone knows how this is going to pan out at this stage, but this will unfold in the coming weeks. We believe a focus on physical assets, real estate, commodities and equities will most certainly outperform cash and bonds of heavily indebted governments in the years to come.

VOLATILE MARKETS

The wild swings in markets are not helping, but this does indicate many people have been caught flat footed by this pandemic. I feel markets were terribly naïve when news of the outbreak started to emerge. More worrying are the huge swings in government bond markets - the deepest and most liquid security markets. This is an indication that there are many highly leveraged companies out there.

After the financial crisis on 2008, the authorities took action to limit the high leverage within banks. It appears that today some hedge funds have stepped into this space where the banks were forced to withdraw. The Fed have been pouring liquidity into the market to calm the fears of market disruption (unwinding leveraged basis trade exposures). So the Fed have once again ridden to the markets rescue ... with taxpayers money.

GOVERNMENT LARGESSE

A few leading governments have quickly come to recognize some extremely large sums are required to support their economies (to avoid unemployment and a deep recession). As we write, governments are arguing about the intended targets of their 'helicopter money'.

There will certainly be controversy over any of this money ending up with big corporations that have not saved for a rainy day, during this decade long equity rally. On the contrary, many companies have borrowed and increased their leverage and spent the proceeds on share buybacks. It will be interesting to see how the authorities respond to these situations - there are many!

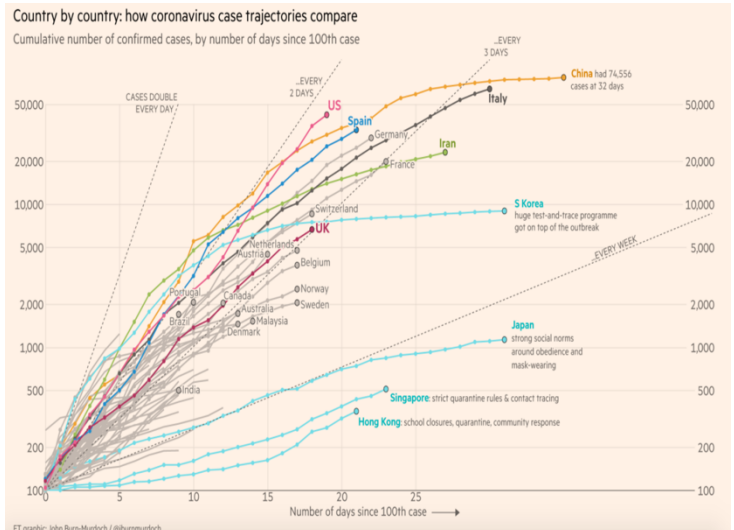


Figure 3: Country by country, how coronavirus cases trajectories compare. Source: FT

Small companies are the largest employers but do not have the powerful lobbying movements that many big companies have built. We have yet to see how they fair in this situation?

DEMAND SLUMP AND ENERGY

One of the early effects of the corona pandemic was a demand slump in many products, which included oil. Saudi Arabia was waiting for such a moment and decided to drive energy prices down by increasing their production. This move was specifically designed to undermine the recent surge in 'Shale' production.

As we know, the shale boom has reshaped the world energy markets over the past few years and has weakened OPEC. Saudi will try and wrestle back the control of world oil prices. This, along with the pandemic itself, is likely to be deflationary for commodity prices for some time.

The drop in the demand for oil as a result of the pandemic has given Saudi Arabia the opportunity it was waiting for - to drive energy prices down in order to undermine the recent surge in 'shale' production. The US shale boom has reshaped the world's energy sector which has weakened OPEC.

We are in a very uncertain world today and there is very little surety about how things will work out. We recommend caution and do not feel the time has come to put a toe back into the water. But it is the time to plan on what to do next.

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RESPONSIBLE OFFICERS

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