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LINCOLNSHIRE: In this file photo, vapor is pictured rising from British Steel's Scunthorpe plant at dawn in north Lincolnshire, north east England. UK manufacturing activity rebounded in February to a ten-month high on easing Brexit uncertainty, but supply chains were nevertheless pressured by coronavirus concerns, data showed yesterday. — AFP

Virus hits global factories as OECD warns

Outbreak plunges world economy into serious downturn, China's PMI suffers sharp contraction

LONDON/TOKYO: Global factories took a beating in February from the coronavirus outbreak with activity in China shrinking at a record pace, surveys showed yesterday, raising the prospect of a coordinated policy response by central banks to prevent a global recession.

Fears of a pandemic pushed markets off a precipice last week, wiping more than $5 trillion from global share values as stocks cratered, marking their steepest slump in more than a decade and stoking widespread expectations of monetary easing. The outbreak is plunging the world economy into its worst downturn since the global financial crisis, the Organization for Economic Cooperation and Development warned yesterday, urging governments and central banks to fight back to avoid an even steeper slump.

Governor Haruhiko Kuroda said yesterday the Bank of Japan would take necessary steps to stabilise financial markets. Futures now imply a full 50 basis point cut by the US Federal Reserve in March, while Australian markets are pricing in a quarter-point cut at the RBA's today's meeting.

Kuroda's comments, made in an emergency statement just days after a similar move by Fed Chair Jerome Powell, were welcomed by markets as a signal the world's biggest central banks were mustering a coordinated response to the crisis, and world stock markets regained a measure of calm yesterday. China, for its part, has injected large amounts of liquidity to shore up market confidence.

The coronavirus outbreak will have a major impact on economic growth worldwide this year, the OECD warned yesterday as it lowered its global GDP forecast by half a percentage point to 2.4 percent, the lowest rate since the 2008-09 financial crisis.

That forecast assumes the virus outbreak fades this year, but a more severe outbreak "would weaken prospects considerably", the group of free-market economies said.

Already the global economy risks an outright contraction in the first quarter, the OECD said, in its first comprehensive study of the impact on the world's major economies.

Stock markets plummeted worldwide last week as investors fled to bonds and other safe havens on fears that consumer and business spending will freeze up as the virus spreads, curtailing corporate profits. In China, where the virus COVID-19 emerged in December, annual GDP growth is expected to reach just 4.9 percent, a 0.8 point drop from the OECD's original growth forecasts announced last November.

The central People's Bank of China (PBOC) has also told banks to help firms struggling with repayments by extending loans and not penalize them if they are late with payments.

"Policymakers and the credit rating agencies have taken a 'wait-and-see' approach to the situation, although - as usual - the relative order of willingness to act re: events with policy action was confirmed this past week," said Erik Nielsen, group chief economist at UniCredit.

In Australia, financial regulators held an emergency meeting to discuss the economic impact of the outbreak, two sources told Reuters, as markets moved to price in a central bank rate cut as early as this week. "A rate cut only helps a little bit, by easing debt service costs. But it does little if anything to solve the bigger problems of cash flow interruption," said Rob Carnell, Asia- Pacific chief economist at ING in Singapore.

"This is where the BoJ's special loans ... and the PBOC's suggested easing of banks' response to late or delinquent loans is closer to what is needed."

China brakes

China's factory activity suffered the sharpest contraction on record in February, the Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) showed, underlining the crippling effects of tough travel curbs and public health measures taken to contain the outbreak. That followed the Chinese government's similarly dire PMI release at the weekend, which also showed a record pace of decline.

And while the manufacturing downturn in the euro zone eased last month the virus outbreak is starting to weigh on a post-election recovery in Britain's manufacturing sector, where factories reported a big jump in delays in their supply chains. "Should disruptions continue in China and even spread to other economies, as is looking increasingly likely given the recent news flow, then we could see supply- and demand-side constraints come into effect and the decline in production accelerate anew," said IHS Markit economist Phil Smith.

The slump in China, the world's second-largest economy, dealt a severe blow to factories across Asia, including those in Japan, South Korea and Taiwan, offering the clearest evidence yet of the epidemic's damaging effects on global growth and businesses.

"The slump in manufacturing activity looks to have had a significant impact on trade," Capital Economics wrote in a research note on the Caixin PMI. "The PMIs also point to a major hit to employment, the effects of which will take longer to reverse. And with the jump in virus cases overseas, there is a growing risk of a protracted downturn in foreign demand." — Agencies

Gulf shares make a comeback after massive losses

DUBAI: Stock markets in the energy-rich Gulf states rebounded yesterday, after huge losses in the previous session driven by fears over the impact of the coronavirus which has sent oil prices below $50 a barrel.

Kuwait Boursa, which suspended trading Sunday after shedding over 10 percent, led the rally with its premier shares index soaring some 7.0 percent and the All-Shares index surging around 5.0 percent.

Saudi Arabia's Tadawul market gained 2.3 percent at the start of trading with energy giant Saudi Aramco rising 1.0 percent from historic lows on Sunday. Dubai Financial Market Index climbed 2.2 percent and its sister UAE market in Abu Dhabi rose 1.4 percent. The tiny Muscat Securities Market in Oman inched up 0.2 percent while Bahrain bourse rose 2.2 percent. The recovery came as oil prices gained more than 3.0 percent to above $51 a barrel. Qatar Stock Exchange, which was closed on Sunday for a holiday, bucked the trend to slide 3.1 percent at the start of trading.

On Sunday, the first trading day of the week in the region, all the Gulf bourses except Qatar posted heavy losses. The Saudi market, the region's largest, had dropped 3.7 percent to an 18-month low with Saudi Aramco diving to its lowest price since listing about three months ago. The United Arab Emirates bourses of Dubai and Abu Dhabi fell 4.5 percent and 3.6 percent respectively. Bahrain shares shed 3.4 percent and the Muscat bourse dropped 1.2 percent. Asian stock markets also made a partial recovery yesterday as the Bank of Japan pledged support following heavy losses last week on concerns over the mounting economic impact of coronavirus. — AFP

KUWAIT: Boursa Kuwait, which suspended trading on Sunday after shedding over 10 percent, rallied yesterday with its premier shares index soaring some 7.0 percent and the All-Shares index surging around 5.0 percent.
— Photo by Yasser Al-Zayyat

G7, eurozone eye coordinated economic response

PARIS: G7 and eurozone finance ministers will hold conference calls tomorrow to "coordinate their responses" to the impact of the coronavirus on the global economy, French Finance Minister Bruno Le Maire said yesterday. "We will have that meeting by phone-because you need to avoid travelling too much-for the G7 to coordinate its response," Le Maire said on France 2 television.

He said a similar meeting of eurozone finance ministers would also be held tomorrow, adding "there will be coordinated action". Meanwhile, the head of France's central bank said that governments and not central banks should take action for the moment.

The outbreak of the coronavirus, which has now killed more than 3,000 people and infected almost 90,000, has so far mostly been causing disruptions for businesses, Banque de France chief Francois Villeroy de Galhau told BFM Business television. These are better treated with "targeted measures" from governments to support affected businesses rather than monetary policy from central banks, he said.

De Galhau said monetary policy was already very accommodative with ample low-rate funds for banks to support firms. "If we need to do more and we believe that it will be effective, we could do it, but we're not there yet," he said.

The Bank of England, for its part, said it was monitoring the situation and working closely with domestic "as well as our international partners to ensure all necessary steps are taken to protect financial and monetary stability." Le Maire pledged the French government would provide the necessary support for domestic companies.

"We will demonstrate total solidarity towards entrepreneurs who are on the front line," he said, noting that the government had already decided to let suppliers out of their contracts due to the coronavirus.

While the coronavirus has yet to shutter or slow many factories outside of China, it has already hit the travel and tourism sectors and seen companies scale back travel and cancel conventions.

France's famed Louvre museum, a key attraction in one of the world's top tourism destinations, closed Sunday and one of the country's major annual trade fairs, the Paris Book Fair, due to be held later this month was cancelled. Le Maire said that the economic impact of the coronavirus on France's economy will be greater than previous estimates. "Now that the epidemic has hit many more countries, in particular France, the impact of the coronavirus on French growth will be much more significant" than if it had been contained to France, he said. — AFP