

Stock markets brace for economic impact of coronavirus outbreak



An investor looks at a screen showing stock market movements at a securities company in Fuyang, China, on Jan. 23. Chinese stock markets stumbled that day after authorities took the extraordinary step of locking down the central metropolis of Wuhan in a bid to contain a deadly viral outbreak. (AFP/Getty Images)

By

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Wall Street headed for its third consecutive losing session Thursday amid fears that efforts to curtail a lethal virus in China could further disrupt the slowing global economy.

The Dow Jones industrial average was off nearly 200 points or more than 0.6 percent in late-morning trading, and the price of oil fell to its lowest level since October following China's decision to expand its quarantine beyond Wuhan, where the virus first appeared.

The unprecedented lockdown of a provincial capital of 11 million people and several other cities showed Chinese authorities are belatedly ramping up efforts to head off a potential pandemic. So far, the virus has killed 17 and sickened more than 600 in China.

And reported cases in Singapore and Vietnam show that the virus, which causes flulike symptoms, has jumped national borders.

Overnight, China's CSI 300 index lost more than 3 percent, while Hong Kong's Hang Seng surrendered more than 1.5 percent, and Seoul's KOSPI gave up 0.9 percent. Trading screens Thursday glowed red as losses spread to European markets and the United States.

“This disruption comes at a time when Chinese economic growth already looks fragile, and it will unfortunately undo some of the boost in consumer and business sentiment from the China-U.S. trade deal,” said economist Eswar Prasad, former head of the International Monetary Fund's China unit. “A broader spread of this disease has the potential to disrupt travel, trade and supply chains throughout Asia, with knock-on effects on the world economy, since Asia is now a key driver of global growth.”

The Wuhan coronavirus appeared on the eve of the Chinese Lunar New Year, an annual festival that sees hundreds of millions of people travel to their hometowns for family celebrations.

The quarantines already announced — and those that may follow — are certain to dent spending on airlines, railways, hotels, restaurants and other parts of the consumer sector that Chinese officials have been seeking to develop.

“This couldn't have come at a worse time,” said Jorge Guajardo, former Mexican ambassador to China.

Previous health scares offer reasons for investor concern, at least in the short run. In 2014, an Ebola outbreak in West Africa knocked U.S. markets off course as investors worried about a chilling effect on consumer spending. The Dow fell nearly 7 percent between mid-September and mid-October that year.

Likewise, in 2003 as Chinese authorities struggled to curb the fatal severe acute respiratory syndrome (SARS) virus, the MSCI China Index plunged by more than 10 percent. SARS ultimately was responsible for the deaths of 774 individuals worldwide, according to the U.S. Centers for Disease Control and Prevention.

But markets rebounded swiftly as SARS was brought under control, indicating that in most such cases any financial damage is short-lived, Oliver Jones, senior markets economist with Capital Economics in London, wrote in a note to clients Wednesday.

Still, China today accounts for twice as great a share of the global economy as it did in 2003, “meaning there is greater scope for events there to set the tone in global markets,” Jones added.

Official measures to blunt the disease also are likely to be heavy-handed and disruptive, according to Guajardo, who was Mexico's ambassador to China during a 2009 outbreak of swine flu.

In that case, Chinese authorities concluded that the virus had originated in Mexico and responded with a draconian crackdown on all Mexican citizens whether or not they had recently visited their homeland, Guajardo said. Individuals, including a Mexican consular official visiting from Cambodia, were arbitrarily quarantined for a week.

“It was awful. None of it was done scientifically,” Guajardo said.

At midday, investors awaited the outcome of a meeting of the World Health Organization (WHO)’s emergency committee that is grappling with the new virus. The panel is considering whether to declare the Wuhan episode a public health emergency of international concern.

On Twitter, Patrick Chovanec, a China specialist and chief strategist at Silvercrest Asset Management, offered a chilling reminder of the worst-case risks. “Behind everything WHO does is the specter of the 1918 global influenza epidemic, which killed an estimated 50-100 million people,” he wrote. “That’s the nightmare they’re always thinking about.”