

Oil prices plummet as coronavirus epidemic drastically curtails Chinese demand

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By the close of Monday, on the first day of trading after the Lunar New year holiday, the Shenzhen Composite Index posted an 8.4 percent loss trading at about 9,780, while the Shanghai Composite fell 7.72 percent to close at about 2,747. Yet, in most of the major financial markets, stocks regained some of their losses from earlier in the week, likely due to news that the Chinese would pump \$173 billion into the financial system.

Concerning, however, is that oil prices have fallen by more than 2 percent over concerns that the coronavirus epidemic will dampen China's demands. Brent crude was down \$2.17, trading at \$54.43 per barrel, its lowest level since last January. The drop in Chinese markets on Monday meant investors' losses totaled \$393 billion from China's benchmark equities index.

China is the world's top oil importer and uses over 10 million barrels per day according to data released by the General Administration of Customs in October 2019. This was a 10.8 percent increase over the previous year. Presently, because of the lockdown in several provinces encompassing 16 cities and over 50 million people—which has steeply affected vital production in the industrial base—estimates place Chinese demands for oil at 2.5 million barrels a day, or only about 20 percent of last year's high.

According to the *New York Times*, officials from the Organization of the Petroleum Exporting Countries (OPEC), including Russia, have agreed to meet this week to discuss their concerns over the oil markets. On the agenda is the plan for an emergency ministerial-level meeting ahead of schedule to consider production cuts of up to 1 million barrels a day. This accounts for about 1 percent of world supplies.

According to Amrita Sen, chief oil analyst at Energy Aspects, "They are absolutely trying to put a floor

under prices ... people are fearing the worst." Gary Ross, chief executive of Black Gold Investors, told the *Times* that the cuts in Chinese oil purchases would lead to massive gluts in Europe and the United States, leading to "a vicious circle of selling pressure with no hope in sight."

President Xi Jinping met with senior party leaders on Monday, calling the epidemic "a major test of China's system and capacity for governance." He stated that control of the infection is China's main priority. Meanwhile, the globe has rapidly moved to isolate China, as news of the epidemic suggests an additional 2,000 infections or more per day reported.

There are calls by leading infectious disease experts to call the outbreak a pandemic. Public health officials from Hong Kong who are tracking the outbreak are concerned that they do not see a pattern of decline. China has reported 425 fatalities, with cases now at 20,622.

Vice-Premier Lie He will be meeting with European leaders in Brussels for an economic discussion as planned, though concerns on the progress in containing the outbreak may lead to postponement or cancellation. The forum also includes briefing European Union leaders on Beijing's trade deal with Washington.

According to Reuters, "Chinese officials are hoping that the United States will agree to flexibility on some promises in the phase 1 trade deal as China deals with the outbreak of coronavirus." The deal signed last month stipulates "that the two countries consult in the event of a natural disaster or other unforeseeable events."

James Zimmerman, a former chairman of the American Chamber of Commerce in China, said, "The outbreak is the biggest distraction of the week, and until the situation stabilizes and the lockdown is

reversed, the global economy will face economic deceleration at an unprecedented level as travel continues to be canceled and large swathes of the Chinese economy remain offline.”

Beijing officials have attempted to reassure the country that shortages in medical supplies were being addressed expeditiously. Medical workers and construction workers have been sent to Wuhan and adjacent cities to provide local services much needed assistance.

Construction of two hospitals—Huoshenshan and Leishenshan—should help alleviate some of the needs for medical treatment, but experts believe much more will be needed, as some expect more than 100,000 cases to be confirmed. Estimates are that at least 25 percent of these cases will need higher-level medical attention, such as intensive care units. One factor that can increase the fatality rate is the lack of medical supplies.

The health of medical staff has been little mentioned and remains a critical factor. A hospital in Xinyu, Jiangxi, had to shut down after 14 of its staff fell ill with the infection. Forty staff at Number Four hospital in the city had been isolated. The health commissioner told reporters that 15 of the 17 new cases that had been confirmed involved hospital staff.

New cases in Hubei province, the epicenter of the outbreak, have reached 2,345, with 414 deaths.

The present political brinksmanship undermines the urgent need for planned response to the epidemic. Instead, nationalist and isolationist tendencies only hamper the essential tasks at hand. According to Tedros Adhanom Ghebreyesus, director-general of the World Health Organization, “The world may be dangerously unprepared for the next pandemic.” He urged the United Nations to invest in preparedness and not panic.



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