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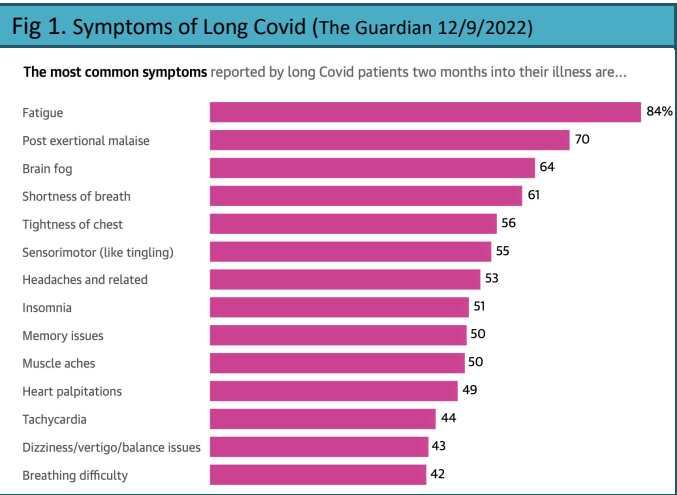
**ECONOTE No. 113 China and Hong Kong : Long Covid and the dawn of “Malaise Economics” 11/7/2023**

Summary	Investment Conclusions
<p>When China lifted Covid controls in Dec. 2022 the world welcomed the move. However Covid infections continued right across the world .Covid, is here to stay, but the worse news is the after- effects of Covid, Long Covid (LC ), are only now being addressed as countries have stopped gathering infection statistics.LC must impact economic performance as it affects millions of people of all ages, not by fatal infections, but by a series of debilitating symptoms with no cures for now. These momentous developments have been ignored by the investors who pretend that all is back to normal bar high interest rates. The halting recoveries of China and of Hong Kong offer the possibility of witnessing in action the link between LC and economic performance. Or just a “LC type of economic performance”, a series of weak symptoms not going away and difficult to treat! Welcome to Malaise Economics !</p>	<p>The core element of this report is that the well-defined and medically understood symptoms of LC and its impact on economic performance have been widely ignored by the investment community. The investment suggestions are, for now, confined to looking out for pharmas that are seeking palliative as well as curative treatments for the LC symptoms, for developing the potential services for populations plagued by non-lethal ailments ( work from home services, Zoom-type applications taken to a further stage etc ) as well as developments in the public service sectors dedicated to advice and support of this large, ailing population. Further investment analysis of the impact of LC on population, may also involve its impact on tourism (domestic vs international) something which already seems to be happening in China.</p>

## Long Covid and Long Economics

**Long Covid and medicine** Long Covid is now a fully medically recognized after-effect of Covid infection consisting a large number of symptoms, not all necessarily life threatening, but potentially extremely debilitating, and worse, likely to last for years if not for a lifetime. ( Fig. 1) WHO has been warning of the long terms effects of LC. Hundreds of millions of people are now suffering from it. ( See Factbox) The fact that officially Covid is not any more a pandemic requiring strict measures and ,hence, not necessitating the collection of infection statistics, means that Covid has fallen off the radar screen. WHO states that to June 2023 nearly 100 ml had been infected in China or about 7.0% of the population,. The equivalent numbers for HK stood at 2.9 ml or 40.0% of the population. Although this is an approximation, if 10.% of the infected population suffers from LC that puts the number in China to 10 ml ,and increasing, as Covid infections in China continue to occur but are not measured .**Long Covid and Economics** In the same way that LC has a large number of symptoms, not all of them necessarily serious or fatal, economies can develop similar economic weakness symptoms equally debilitating, difficult to deal with and long lasting but not all of them necessarily connected to LC. Combine the two, economies experiencing the impact of LC and various economic problems, and one has a potentially measurable impact of what the long term

future of humanity, in terms of economic performance, is likely to be.As Fig. 1 shows, LC symptoms cover a very wide variety of ailments, all ideally suited to trigger absenteeism, unnecessary burdens on medical, let alone hospital, facilities and sapping productivity increases. They may indeed trigger yet another movement, “to work from home”, despite the growing resistance from corporates. “Malaise Economics” triggered by LC ?



## The LC- like faltering recovery of China and Hon Kong.

In Fig. 2 we show the PMI indices for the two economies including the 14 months long shrinkage of prices of new homes in key Chinese cities, and the extremely low rates of CPI in HK and WPI in China reflecting poor domestic demand. For **Hong Kong** we can add the growing realization that the tourist flows from China may never recover .Latest data point to H1.23 arrivals at 13.0 ml which annualized yield 26.0 ml, nearly half the pre-Covid top rates of 55-60.0 ml visitors. As 75.0% of all past tourist flows to HK were from China, clearly HK may be witnessing a pivotal point in its tourist trade. There are added symptoms of weakness in both countries. **China** is faced with the steep unemployment rate of young workers and graduates, a politically sensitive development coming at the time that the quick and unexpected lifting of the Covid restrictions was expected to lead to an equally sharp economic recovery which clearly did not. **Hong Kong** is faced with labor shortages some stemming from the ageing population but not helped by a surge of emigration by middle class and educated workers.

### Factbox: Estimates of numbers of LC “patients”

“IHME’s (Institute of Health Metrics and Evaluation, U of Washington US) research shows that nearly **145 million people** around the world in the first two years of the pandemic suffered from any of the three symptom clusters of long COVID: fatigue with bodily pain and mood swings, cognitive problems, and shortness of breath). New modelling conducted for WHO/ shows that in the first two years of the pandemic, at least **17 million** individuals across the 53 Member States of the WHO European Region may have experienced long COVID.(WHO Sept. 2022). An estimated **2.0 million people** living in private households in the UK (3.1% of the population) were experiencing self-reported long COVID symptoms.(Office of National Statistics, 2/2/2023

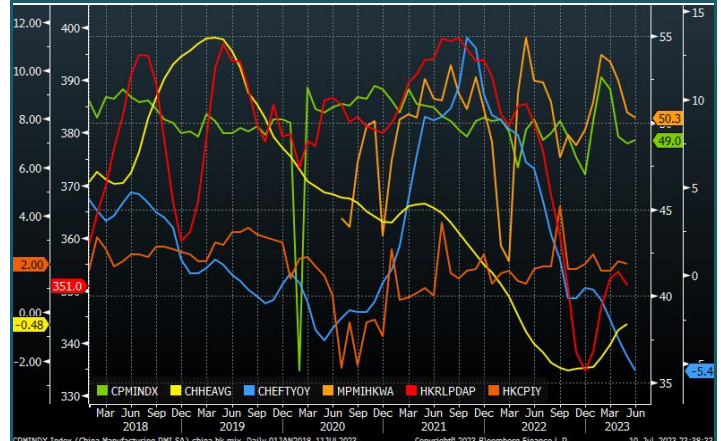
As of January 16, 2023, 15% of all adults in the US reported having had long COVID symptoms at some point and 6% reported current symptoms. Among people with Long Covid 79.0% report having limitations to their day-to-day activities and 27.0% characterize the limitations as significant.(KFF 1/26/23)

To date, more than 100ml Americans have been infected with Covid. As of April, the federal government’s estimates that about 10% of adults infected continue to experience and suffer from the many symptoms termed as long COVID (NCHS, 7/5/2023)

Both Hong Kong and China have extremely low inflation rates in comparison to the G3 or indeed G20.This is not necessarily a blessing as it may reflect weak underlying demand. It also makes the use of monetary policy difficult as increases in liquidity and money stock are unlikely to boost demand and, hence prices. Indeed with near zero inflation rates in some months for both economies cutting interest rates to even negative real rates could be futile. In the case of **Hong Kong** with its USD linked HKD these options are not even open, with HKD rates rising in lock step with the Fed at the time that inflation is falling. In **China** the PBOC could also be constrained in not letting the CNY weaken more, again at a time that the Chinese stock market is one of the worst performers. Coupled with all these are the weak performance of exports in both countries. In the case of Hong Kong the obsessive attention paid to exports growth is never coupled with the observation that nearly 95.0% of all Hong Kong exports are re-exports mostly, but not all, from China. Bluntly, Hong Kong does not exports anything other than goods produced in other countries. There are ways of measuring the valued added to Hong Kong’s GDP of re-exports but this complicates further the true contribution of exports to Hong Kong’s GDP growth. Same holds for China where the net value of exports ( Exports minus Imports ) has always made a small contribution to GDP growth, yet another fact constantly ignored by investment analysts.

In sum, both China and Hong Kong are peppered by small negatives in economic performance adding up to bearish macro and market outlook. Sounds like a case of “Economic Covid”, but still difficult to prove a link between an ailing community with an ailing economy.

Fig.2: China:PMI ( gr), New houses (yel),Prod Prices (bl), HK: PMI (or),House prices (red),CPI(br),



Source: Bloomberg

### The possible links between LC and economic performance

We repeat that the economies of China and HK are experiencing poorly performing sectors, “Ailing economies”, but not economies in recession. However it is tempting to assume that with economies where a high proportion of the population was already infected and susceptible to LC symptoms ,and with current rates of infection still high but mostly not measured , the eventual impact of LC on economic performance will be measurable. Even if new Covid infections were to be completely controlled, the existing number of people already infected will present hundreds of millions of cases of which a high percent will suffer from LC in the years to come. We stress that, as yet, there is no quantitative links between LC and economic performance but the mounting evidence merits attention and caution and, be noted, not just in China and HK but across the world and especially in developed economies. The box chart below is simply a whimsical parody of “comparative” analysis of LC symptoms and the symptoms of the Chinese and HK economies. It is not in any way scientific or quantitative but purely intuitive. **We may coin the term “Malaise Economics” for a lot of negative trends but nothing signifying a recession, exactly in the same manner that LC is debilitating but not lethal.** We need to stress that we do not imply that China and HK, because of their past strict Covid policies are particularly susceptible to “Malaise Economics”, far from it. There is still no definitive quantitative evidence to link the two.

Long Covid	China	Hong Kong
Fatigue	Industrial Output	Tourist arrivals
Post exertional malaise	Consumer spending	Retail sales
Brain Fog	PMI indices	PMI index
Headaches	70 Cities property index	Property prices
Shortness of breath	Producer prices	CPI

This simple table could be further elaborated by pointing out that in the same way that LC symptoms, for now, are treated by palliatives and not by cures, the “cures” available for these “Malaise Economics” are also limited and not very effective, as we have already indicated .