



Alice in A-Shareland and Weekend Links

Over the years as a “China watcher,” I’ve learned that sometimes one must travel through the looking glass to get a sense for what’s going on. For instance, in an alternate universe, this piece from Bloomberg makes perfect sense...

[China Stock Traders Throw Away Script After Virus Jolts Markets](#)

China’s stock traders are navigating the vagaries of the country’s coronavirus data for clues on when euphoria fanned by Beijing’s emergency support measures may peak.

*Assessing the development of the outbreak has become critical, traders say, as **a significant turn for the better could reduce the urgency of further policy easing and call for a cut to bullish positions.***

Hmmm, virus bullish / cure bearish. I see. Tell me more...

“With all the revisions, the virus data might not be so accurate and it confuses me,” said a fund manager. “All I care is when schools will reopen to indicate the situation really getting under control, as nobody would risk the lives of young children.”

He plans to start trimming his holdings when local governments unveil more-definitive school-restart dates.

Ok, so even in this alternate universe they’re confused about the virus data. That I get. But I must say, the notion that controlling an epidemic that has derailed a wide swathe of the Chinese economy would be a sell-signal for stocks is a bit of a mind-bender. But hey, buy the ticket, take the ride...

Wei Tao, managing director of Shanxi Fengshang Investment Management Co., is keeping a tab on the number of cities where people go back to work. He said that will prompt some investors to pull out of stocks to reinvest in business operations.

“Once two-thirds of the economy is back in action, it’d be time to cut my position down to zero,” said Wei. “As much of the economy is still at a standstill, funds that would be otherwise investing in the real economy are flowing into stocks. When production and work resume, that money will rush out.”

Ok, I think I’m getting this now. When businesses collapse, all the money they’re no longer making gets pumped into the stock market. Wait, umm, ok let’s just move on...



Raymond Chen, a portfolio manager with Keywise Capital Management (HK) Ltd., said he'd be wary of any pickup in economic activity as measured by the monthly purchasing managers' index as well as industrial inflation figures. "The earlier the economic rebound is, the more caution we'd need to take," said Chen. "It's a market sustained on liquidity support, and we only see such strong policy support and high tolerance of loose liquidity in times of a weak economy."

Ah, now that makes sense. Bad is good. If things ever get good again, that'll be bad. So if you're long, you want things to remain perpetually bad. Because then there will be stimulus. And stimulus is good, as long as it never actually works. Got it?

Here's a U.S.-based analyst that's in tune with the bizarre-world:

Jefferies Initiates China Equipment, Positive on Demand Growth

(Bloomberg) -- Demand for machinery and trucks will accelerate as China spends on infrastructure, says Jefferies, naming Sany Heavy, Weichai Power and Hengli Hydraulic top picks as it begins coverage on the sector.

China will boost fixed asset investment to counter trade uncertainties and weaker consumption from the virus, while some project catching up could come in 2020, the final year of five year plan, write analysts including Alexious Lee in a note

OK, not to pick on Jefferies or anything, and I have no view per se on Chinese heavy equipment manufacturers, but I think there might be a flaw in the logic here. **China is not going to accelerate infrastructure with stimulus.**

China is facing the prospect of a widespread industrial and service sector bankruptcy. The only means of addressing that is through substantial tax cuts and subsidies. This will blow out the deficit at all levels of government, **leaving less funding for infrastructure** than would have otherwise been the case.

They're not going to use stimulus to try to offset accumulated losses from virus disruption AND throw a big infrastructure party on top of that. They could encourage yet another property orgy, in an effort to goose land sales and prop up local government finances, but this is not all that likely, and there is no guarantee it would work in the current environment. Not to mention the fact that the current collapse in housing sales is pushing many developers to the wall. Infrastructure boom? I don't think so....

The notion that stimulus is going to somehow offset the costs of the virus AND generate another building boom permeates market sentiment:



[China Keeps Churning Out Steel That No One Wants to Buy](#)

China's steelmakers face their biggest crisis in years, with demand frozen as factories and construction sites fall silent. But they're still churning out metal.

*The collapse in economic activity amid China's unprecedented measures to contain the coronavirus outbreak means there are few buyers of steel, which has sent prices tumbling and put margins under intense pressure. However it's difficult for most steelmakers in China to cut output drastically because blast furnaces are designed to run constantly, and reducing production to zero is usually a last resort. The result **is millions of tons of steel piling up** at mills.*

*[But] many market watchers expect China to roll out stimulus to help bolster economic growth, buoying **commodity demand**. **Fortescue highlighted past measures have included investment in steel-intensive projects**. BHP has said if the virus impacts are contained by the end of March, consumers of materials such as steel and copper should fully recover from the second quarter -- and potentially operate at higher than usual rates -- meaning that overall demand in 2020 will be unaffected.*

No disrespect to Fortescue, but past measures were not in response to a black swan crisis that could cause trillions of dollars of losses and mass bankruptcy!

Talk about being through the looking glass – the Global Times seems to be the only ones making sense this week...

[China should get ready for belt-tightening following virus outbreak](#)

*While it is generally expected that fiscal stimulus and monetary easing will undoubtedly be the two main tools of central authorities for alleviating downward pressure on the economy and for maintaining macroeconomic stability, given the past experience and the financial risks currently facing China, **a flood of spending programs seems no longer on the financial regulators' list** of choices for stimulating the economy.*

*"China will face decreased fiscal revenues and increased expenditures for some time to come, and the fiscal operation will maintain a state of 'tight balance.', Chinese Finance Minister Liu Kun wrote in an article published on Qiushi, a magazine affiliated with the Communist Party of China Central Committee. In this situation, **it won't be feasible to adopt a proactive fiscal policy** by expanding the fiscal expenditure scale. Instead, policies and capital must be used in a more effective, precise and targeted way," Liu said.*



Rather than fear a resumption of economic activity, market participants should be praying like hell for one, because the current state of affairs is wholly unsustainable...

[‘It’s not business as usual’ – China off to slow start in resuming economic activity](#)

...only between 23% and 37% of workers have returned to work in major cities, including Beijing, Shanghai, Guangzhou and Shenzhen so far, compared to 95% in previous years after the Chinese New Year holiday,

[Fewer Than a Third of China’s Nearly 300 Million Migrant Laborers Have Returned to Work](#)

Many manufacturers have found it difficult to fill their factory floors as millions of workers have had trouble returning to their jobs after going back to their hometowns for the Lunar New Year holiday due to travel restrictions. Among those who have made it back, many face mandatory quarantines to contain the spread of the virus.

*This means about one-third of the country’s migrant workers will still not have returned to work at the beginning of March. Last year, **the number of migrant workers rose 0.8% to nearly 291 million**....*

[Coronavirus slows return of China’s migrant workers](#)

*Only two thirds of China’s industrial capacity is estimated to be operational by the end of this month, Minsheng Securities said recently, showing the coronavirus outbreak could have a **much bigger impact on the economy than expected**.*

Overt time, this problem becomes increasingly difficult to fix with “stimulus.” Hence the urgency with which China wants to claim to have “defeated the virus.”

[China’s small firms may lay off over 30% staff due to coronavirus impact: industry insider](#)

*As business resumptions have been delayed amid the virus outbreak, small and medium-sized enterprises (SMEs) in China are mulling at least a **30% job cut**, a small enterprise association director said Thursday.*

*"Contrary to a temporary labor shortage, **mass layoffs may take place in a month or two**. Some companies that can't restart operations may have already laid off staff," Zhou Dewen, deputy director of the China Association of Small and Medium Enterprises, told*



the Global Times.

Among over 10 calls he received from managers of SMEs, Zhou said, a majority have admitted to cutting payrolls and some are even prepared to declare bankruptcy, if employees seek arbitrations.

Despite the urgency, getting China Inc. back up and running will be easier said than done. I would take the over in size on “normalizing by mid-March.”

[China's virus-hit industrial cities start to ease curbs, restore production](#)

Big manufacturing hubs on the Chinese coast are starting to loosen curbs on the movement of people and traffic while local governments prod factories to restart production, following weeks of stoppages due to the coronavirus outbreak.

The city of Foshan, a large manufacturer of electronics and household appliances in the southern province of Guangdong, said late on Tuesday that businesses no longer needed to seek approval before resuming operations and they need not require returning workers to show proof of their health. On Monday, the nearby city of Zhongshan similarly lowered such administrative barriers.

In the eastern province of Zhejiang, known for its bustling private sector, the cities of Hangzhou and Ningbo over the weekend also pared back the approval process for companies looking to restart.

“Macro and micro data suggest production activities are resuming at a slow pace in China, reaching 60-80% of normal levels by end-Feb and normalizing only by mid-to-late March,” Morgan Stanley wrote in a research noted.

*“If the spread of the virus is not contained within the next two weeks, **the disruption to production could extend into the second quarter.**”*

With local officials walking a tightrope between economic dislocation and outbreak, there is little consistency across China in the pace of factory re-opening...

[Closed Chinese firms face lengthy approval procedures](#)

In the manufacturing hubs of East China's Jiangsu Province and South China's Guangdong Province, the Global Times learned that local governments had rejected enterprises'



applications citing issues as varied as unqualified thermometers to a lack of signatures from employees.

Some industry insiders told the Global Times that their local government's approval rate is "extremely low," with some at around 10%. In Shenzhen's Yuehai Street Office, reportedly home to 40,000 companies including high-tech firms such as DJI and Tencent, only 100 companies can be allowed to reopen each day.

Duan Lianmin, the manager of a Shenzhen-based glass factory, is still preparing paperwork and protective supplies to apply for a second on-the-spot examination from local authorities.

To get started, she needs to fill in six documents including a letter of commitment. Detailed information on every worker must also be provided, including their recent activities and the places they have stayed in recent days.

Additionally, protective equipment and facilities such as isolation rooms, thermometers, masks and disinfectant sufficient for at least seven days must also be prepared.

Calls for a balance between normal economic activities and epidemic prevention measures are mounting on China's social media platforms.

***"This is a life-or-death moment** not only for millions of small and medium-sized enterprises (SMEs) but also for China's manufacturing industry as a whole," a manager of a Dongguan-based original electronics equipment manufacturer,*

SME's are damned if they do, damned if they don't. Outbreaks are "clustering" in ways that logic would suggest that factory floors and worker dormitories are particularly susceptible to....

[Worker Infections Highlight Corporate Balancing Act as Employees Return to Jobs](#)

Recent Covid-19 infections among workers at a Chongqing mineral producer and a Beijing e-commerce company reflect difficulties many Chinese firms are facing as they try to balance safety and productivity on resuming business after an extended Lunar New Year holiday.

*The more serious of the cases began last month at a plant making titanium oxide, a mineral often used as a coloring agent, in the southwestern metropolis of Chongqing. The unit of Pangang Group has since been **shut down completely, idling hundreds of workers,***



after a cluster of at least three infections occurred at its facility in the city's Ba'nan district.

There is a mini-Wuhan dynamic here. A small batch of cases go unreported for fear of political reprisal, the virus proliferates until it's too widespread to hide, then everyone gets fired anyway.

[447 new cases in prisons reveal blind zones in COVID-19 fight](#)

*Nearly **a dozen prison and justice department officials in three Chinese provinces have been removed from their posts** on Friday, after the prisons reported altogether **447 new cases** of COVID-19 infection during the previous day, which experts say revealed the blind zones in the national campaign against the epidemic.*

*On Thursday, Shandong reported 202 new cases including 200 in Rencheng Prison. Zhejiang reported 28 with 27 from Shilifeng Prison. New cases in these two provinces accounted for 89 percent of the total, which analysts said showed **the risks of virus transmission through clustering have been exposed** in China as prisons with closed spaces and large number of inmates could easily lead to multiple infections.*

[Cluster Cases at Beijing Hospitals Sparked Fear of Virus Spread](#)

Reports of a series of new infection cases in Beijing sparked fears over the capital's exposure to mounting risks of the deadly coronavirus, especially as millions of people are heading back to work after an extended holiday.

New confirmed cases have led to large-scale quarantines in at least two hospitals in downtown Beijing, with many potential contacts to be traced, according to a city government news briefing Thursday.

Beijing reported a total of 395 confirmed Covid-19 cases by the end of Wednesday.

[Whopping rise in infection at Beijing hospital puts capital on alert](#)

The infection cases at the two hospitals pushed the confirmed cases in the central Xicheng district to 53, ranking third among all districts.

According to a table which compares the "infection density" of cities or areas — the



number of confirmed cases per square kilometer — Xicheng district ranks second, with an infection density just lower than the epicenter Wuhan.

Xicheng district lies at the center of Beijing and had a permanent resident population of about 1.14 million by the end of 2019. Beijing has a permanent resident population of over 20 million.

To hold back the virus, Beijing enacted a law recently that said all people coming to the capital must be quarantined for 14 days. Violators will be punished by law. Authorities fear an influx of migrant workers returning to Beijing could pose potential dangers of wider infection for the city.

(FYI: Zhongnanhai, the central HQ of the Chinese Communist Party and State Council, is in Xicheng district).

A minor detail that's actually a MAJOR detail, considering that the declining infection rate outside of Hubei has been critical to improved market sentiment:

[Are China's Coronavirus Figures Reliable?](#)

Outside of Hubei, diagnostic test kits are in short supply, and other provinces haven't switched to using the symptomatic diagnosis now accepted in Hubei. The kits are only being used to test people who came from Hubei and not for cases of transmission, so it's unsurprising the numbers are dropping.

Political pressures are wreaking havoc with the virus data...

[WaPo Live updates: China again changes coronavirus reporting criteria](#)

Reporting of case statistics at the epidemic epicenter in China appeared to descend into disarray Friday as public health officials said they had been ordered to change how they count cases for the third time in eight days — and the second time in 24 hours.

In remarks to the state news agency Xinhua, a Hubei Health Commission official suggested that agencies were not being transparent and accurate with their reported case numbers at a time when statistics have fluctuated wildly and inconsistencies have emerged in Chinese official data.



“Next, we will further strengthen discipline and tighten management to ensure the openness and transparency, timeliness and accuracy of epidemic statistics,” Tu was quoted by Xinhua as saying.

*A senior-ranking official in the Communist Party’s political and legal apparatus also warned cadres on Friday in a widely disseminated speech that **“hiding” cases or manipulating numbers will no longer be tolerated.***

Does that imply that up to now hiding cases and manipulating numbers *has* been tolerated?

This shift in official pressure from “hide” to “report” is reflected in official messaging from the top of the chain. They seem to abandoning the “we’ve beaten it” narrative...

*China Hasn’t Seen Turning Point On Coronavirus Epidemic: CCTV
2020-02-21 11:39:12.211 GMT*

*(Bloomberg) -- The outbreak has been tentatively contained but **hasn’t reached a turning point yet**, according to China Central Television, which cited a politburo meeting on the novel coronavirus.*

** Virus control in Hubei is still rigorous and complicated*

** Politburo says that prudent monetary policy needs to be more flexible and fiscal policy needs to more proactive*

** China’s long-term economic outlook is still positive, even **though the virus has substantially impacted the economy***

This is a marked shift from the messaging of just a few days ago which consisted of premature declarations of victory and claims that economic targets remained achievable. Clearer signals of a **downgrading of economic targets** could come next week.

Why the cautious turn in approach? The more we learn about Covid-19, the worse it looks...

[Fecal Transmission May Be Behind Coronavirus’s Rapid Spread](#)

The novel coronavirus is shed in the feces of infected people, which may help explain why it’s spread so fast, according to Chinese researchers. The finding of live virus particles in



stool specimens indicates a fecal-oral route for coronavirus, which may be why it's caused outbreaks on cruise ships with an intensity often seen with gastro-causing norovirus

"This virus has many routes of transmission, which can partially explain" its rapid spread, the Chinese Center for Disease Control and Prevention said

[Novel coronavirus can transmit via aerosol: health authorities - Xinhua | English.news.cn](#)

The novel coronavirus (COVID-19) can be transmitted when someone was exposed to high concentrations of aerosol in a relatively closed environment for a long time, according to the country's health authorities.

The respiratory droplets and close contact transmission are the major routes of the coronavirus infection, according to the latest version of the diagnosis and treatment plan issued by the National Health Commission and National Administration of Traditional Chinese Medicine on Wednesday.

The aerosol transmission was newly added in the plan, which has been updated to its sixth edition. Aerosol transmission refers to the mixing of the virus with droplets in the air to form aerosols, which can float for long distances and cause infection after inhalation.

Think about what these multiple transmission routes mean for a Foxconn campus where 150-300k people work and live in close quarters...

[Coronavirus: Apple supplier Foxconn warns over revenue hit](#)

Foxconn said its "cautious" resumption of work was due to the need to put employee safety first and to follow local regulations.

In its factory compound in the central Chinese city of Zhengzhou, one of the largest iPhone manufacturing bases, the company delayed the return of workers earlier this week. That is because of the requirement to house them one person per room as opposed to the usual eight per room means it no longer has enough dormitory capacity to accommodate all its staff.

Last week, a person familiar with the situation told the Financial Times it would take the company "weeks" to ramp production back up to normal levels.

Acer, the Taiwanese electronics gadget vendor, said it estimated that nearly three-



quarters of workers at its contract manufacturers' assembly operations were back at work as of Wednesday — compared with fewer than a third a week earlier. However, the company cautioned that this did not mean their production output was back up to nearly three-quarters capacity.

“This just measures the ratio of workers’ return,” said Jason Chen, chief executive. “There may be other variables. Even if the production gets back up, you may hit transport and logistics bottlenecks, or shortages, for example of packaging materials.”

Firms with non-diversified supply-chain exposure to Hubei Province are going to have big problems...

[Virus Havoc Could Shut Down a Nissan Factory Half a World Away](#)

Nissan Motor Co. is bracing for potential disruptions in plants as far away as the U.S. because the coronavirus epidemic in China is leading to a parts shortage and wreaking havoc across the supply chain, people familiar with the matter said.

The Japanese carmaker procures more than 800 parts from factories in the outbreak epicenter of Hubei to make cars worldwide and is concerned that most of those components — ranging from brake hoses to air conditioning controllers — will run out if plants in the province stay idled beyond Feb. 21, when the government has signaled that production could resume for most companies, according to one of the people, who asked not to be identified discussing a private matter.

The shortage could lead to some Nissan car output in Japan to be suspended as soon as Feb. 23, followed by Malaysia soon after, the person said. Further delays could mean plants in the U.S., U.K., India, Mexico, Russia and Spain also have to stop production, the person said.

Even the supply chain has a supply chain problem...

[The under appreciated importance of non-woven markets | FT Alphaville](#)

Turns out face masks may be far more important for keeping supply chains functioning than anyone could have ever imagined.



Earlier this month it emerged Foxconn, the iPhone maker, would be switching parts of its factory floor from its core business to the manufacturing of face masks, which are in huge global shortage.

Why? Because the manufacturer needs them to protect their own workers and to keep operating.

But protection against the virus is not the only reason.

Another reason why disposable face masks are crucial on factory floors is because they are required by law to be worn by workers handling potentially toxic airborne particles or in production lines that need maximum sanitation, often the case in the high-tech sector.

Indeed, many health professionals say masks aren't even that effective at protecting individuals from catching viruses. They have some impact reducing the spread of germs by those bearing disease. But even then they have to be carefully handled and replaced frequently. They're disposable for a reason. Most people simply do not appreciate this.

China produces 50% of the world's face mask supply according to industry press. With production down to 25%, and demand still soaring, that leaves the world's other high-sanitisation sectors exposed to a major face mask shortage.

A city of 2.4m in South Korea goes into lockdown. The "clustering" phenomenon is in evidence in SK and Japan now. This seems particularly problematic for China, given the prevalence of worker dormitories and large factory floors...

[South Korea unveils emergency measures as coronavirus spreads](#)

South Korea has introduced emergency measures on two cities, telling residents to confine themselves to their homes in a bid to contain one of the worst outbreaks of the coronavirus outside China.

The decision to declare Daegu, the country's fourth-biggest city, and neighbouring Cheongdo as "special care zones" came as state media reported that a second person infected with coronavirus had died. Authorities reported on Friday 100 new cases of the Covid-19 virus, including 90 cases traced to the Shincheonji Church of Jesus religious sect in Daegu. The city is also the site of a large US army base.

The new cases brought the country's total number of infected people to 204, according to South Korea's Centers for Disease Control and Prevention.



Kwon Young-jin, the mayor of Daegu, asked its 2.4m residents to avoid travel, stay home and wear masks even indoors.

China Finance

Let's not forget, there was substantial credit stress emerging BEFORE the virus hit. Heavy-handed tactics by State-sponsored defaulters are likely to prove the norm...

Investors Oppose Province's SOE Bond Buyback

The Qinghai provincial government is facing opposition from enraged overseas investors for an attempt to use one of its companies to buy another's defaulted bonds back at sharp discounts.

Guozhen International proposed buying a batch of the bonds due this year at 41.2% of face value and the remainder of the bonds due in 2021 at just 36.8% of face value, but was met with staunch opposition from two bondholders on a Feb. 7 conference call, sources with knowledge of matter told Caixin. One week later, furious creditors published a letter to Chinese financial regulators and the Qinghai provincial government in the Hong Kong Economic Journal, calling them to step in and stop the acquisition proposal, on the grounds that Guozhen International is not a truly independent third party.

The pattern resembles that of Tianjin-based Tewood Group Co. Ltd., another SOE which has defaulted on dollar bonds. Tewood in November offered to buy back bond investors' holdings at a discount or to swap their bonds for new debt with lower or even zero yields, with the majority of investors opting to take the loss and sell back their bonds at discounts.

The two defaults by Tewood and QPIG will likely lower the credit rating of Chinese SOEs' overseas bonds across the board, and make investors more cautious about buying these bonds, said Ivan Chung, an associate managing director at Moody's Investors Service.

University Firm Risks Topping China Local Bond Default List (2)

2020-02-19 07:54:35.143 GMT

(Bloomberg) -- The troubled business arm of a top Chinese university faces the prospect of becoming the country's biggest onshore bond defaulter, after a key creditor sought a court-led



restructuring of its debt.

A bankruptcy by Founder Group would make all these bonds go bad, potentially turning the company into the biggest defaulter in China's \$4.5 trillion domestic corporate bond market.

The HNA takeover could kill two birds with one stone. The Group is of near-systemic significance and has been circling the bowl for a while, and the airline assets may be divvied up to the remaining competitors on favorable terms and to consolidate an industry that is in big trouble...

[HNA Bonds Soar on Talks of State Takeover of Debt-Laden Group](#)

HNA remains one of China's biggest conglomerates: It had total assets of about \$140 billion and liabilities of \$101 billion during its latest semi-annual financial report as of mid-2019 — meaning the group has the scale to roil Chinese markets. Intervention by the government to prevent a financial crisis at the firm would be the strongest signal yet of Beijing's desire to curb the economic fallout of the virus.

What do analysts say:

*"For bondholders, it is a double-edged sword. While government backing of a defaulting company provides some financial support, it also **could result in the rapid fire, forced recapitalizations at low valuations**," said Andrew Collier, managing director at Orient Capital Research. "We are in uncharted territory here."*

"There's huge uncertainty regarding whether creditors will see 100% repayment," said Li Yuze, a fixed-income analyst at China Merchants Securities Co. Given the virus has already dealt a huge blow to HNA's financial condition, the market will likely expect a better recovery ratio if the firm is taken over by the government, he added.

[Hong Kong](#)

The degree to which the Hang Seng and HKD is hanging in there is genuinely impressive, and a testament to Hong Kong's robust track record of financial stability. That said, I remain core short HSI...

[Coronavirus outbreak could sink Hong Kong retail sales by 50 per cent](#)



Retail sales in Hong Kong could plunge by as much as half, as most of the city's borders with China remain shut amid the Covid-19 outbreak and its impact could be more severe on the sector than the months-long social unrest, according to the CEO of Sunlight Real Estate Investment Trust.

"Our estimate is clearly double-digits," said Keith Wu Shiu-kee. "Whether it is 30%, 40%, or 50%, remains to be seen."

Wu said that the impact of the coronavirus outbreak on retail sales would be much more serious and widespread than during the protests, noting that in the second half of 2019 tourists from the mainland were still coming even though the flow had reduced considerably.

[Hong Kong retailers stage unprecedented strike to ask for rental cuts](#)

Fifty retailers shut their fashion outlets, restaurants and cafes in Hong Kong on Tuesday in an unprecedented strike to demand rental cuts, as plunging foot traffic caused by months of anti-government protests and a coronavirus outbreak threatens to decimate the industry.

Confectioner Lady M, the French sportswear brand Lacoste distributed by Crocodile and Singapore's fashion brand Club 21 are among nearly 200 shops that have declared a "no business" day across 14 shopping centres in Hong Kong. Some of the shops said they would be shut for 24 hours, while others announced temporary closures without stating a time limit.

"The last seven months of losses have become unbearable for many of us," said Ashley Micklewright, president and chief executive at Bluebell Group, a distributor of luxury brands including Moschino, Davidoff and Anya Hindmarch. "The impact on the business and traffic is far worse than anything we have ever experienced."

Protests are obviously largely on hold. The vehemence with which they return could rest on the degree to which the virus can be controlled. With her reluctance to close the border, Carrie Lam owns the risk...

[Hong Kong Activists See Virus Fueling More Support for Movement](#)

The current outbreak -- and reports that it was covered up by Communist Party officials -- has struck a deep chord with many in Hong Kong, where the protests were driven by a



deep distrust of China. The city also has vivid memories of Beijing's cover-up of 2003's outbreak of severe acute respiratory syndrome, or SARS, which killed almost 300 people in Hong Kong and crippled its economy.

Huawei

The story is volatile and obscured for now by other issues, but Huawei has become the defining issue in U.S.-China relations, with Europe in the damned-if-they-do damned-if-they-don't middle.

Huawei Is Winning the Argument in Europe, as the U.S. Fumbles to Develop Alternatives

*U.S. officials sense their continued drumbeat of warnings is losing its punch in Europe, so the administration is shifting its approach. The United States is **now aiming to cripple Huawei** by choking off its access to the American technology it needs and trying to cobble together a viable American-European alternative to compete with it.*

The United States is also trying to limit China's access to American technology more broadly and is considering restricting sales of microchips, artificial intelligence, robotics and some types of advanced software, along with preventing tech companies from teaming up — or even sharing research — with Chinese firms.

*The fight over Huawei has **put many European countries in a no-win position**, forcing them to either rebuff a key intelligence ally's warnings and risk their key alliance, or alienate China, a critical trading partner.*

Fear of Chinese retaliation has gripped Chancellor Angela Merkel of Germany and her government. While Germany's intelligence chiefs have largely joined the American assessment of Huawei's national security dangers, Ms. Merkel is focused on the effects on German exports to China, especially after Chinese officials have hinted that Volkswagen, BMW and Daimler, the maker of the Mercedes-Benz, would bear the brunt of retaliation.

European officials say Germany is likely to mirror Britain's decision to use Huawei and engage in strict monitoring.

*That decision will still be a **huge loss for the United States**. Germany and Britain are America's closest intelligence-sharing partners, and both nations sit atop critical points along fiber-optic cables that are key to intercepting communications from Russia to the Middle East. American officials, including the National Security Agency, have expressed concern about the Chinese government's ability to infiltrate those communications.*



Europe turns deaf ear to US warnings on Chinese 5G

While acknowledging those risks, many European countries view Huawei as a price-worthy alternative to competing offerings. They also worry about the long-term ramifications of blocking the Chinese company, given Europe's growing reliance on trade with China.

"I continue to stress to my friends in Europe ... that America's concerns about Beijing's commercial and military expansion should be their concerns as well," U.S. Defense Secretary Mark Esper told a packed room at the Munich Security Conference, an annual gathering of senior defense and foreign policy decision-makers.

The remarks follow the U.K.'s announcement last week that it would allow Huawei in, despite Washington's resistance. Germany is also debating whether to open its doors to Huawei, a step officials in Berlin say is now more likely following the U.K.'s move.

*Esper warned that if Europe ignored the American call, **it risked undermining the NATO alliance.***

U.S. mulls cutting Huawei off from global chip suppliers, with TSMC in crosshairs

The Trump administration is considering changing U.S. regulations to allow it to block shipments of chips to Huawei Technologies from companies such as Taiwan's TSMC, the world's largest contract chipmaker, two sources familiar with the matter said.

*New restrictions on commerce with China's Huawei are among several options to be considered at high-level U.S. meetings this week and next. The **chip proposal has been drafted but its approval is far from certain,** one of the sources said.*

The measure would be a blow to the world's no. 2 smartphone maker as well as to TSMC, a major producer of chips for Huawei's HiSilicon unit and mobile phone rivals Apple Inc (AAPL.O) and Qualcomm Inc.

"What they're trying to do is make sure that no chips go to Huawei that they can possibly control," the second source said.

Under the draft proposal, the U.S. government would force foreign companies that use U.S. chipmaking equipment to seek a U.S. license before supplying Huawei - a major



expansion of export control authority that could anger U.S. allies worldwide.

President Trump remains impossible to pin down on the issue. I suspect his pressing motivation is to keep a lid on relations through November. It also seems clear that a lot is happening on at the bureaucratic and cabinet levels before the President opines. How he might ultimately opine on any given issue once it reaches his desk may be a mystery even to close advisers....

[Trump Contradicts Advisers on China Technology Fears](#)

President Trump publicly objected to efforts within his own administration to restrict the sales of American technology to China over national security concerns, insisting on Tuesday that such fears were an “excuse” and that the United States was open for business.

*Mr. Trump’s comments appeared to represent a **striking reversal** of his administration’s aspirations to curb China’s ascent as a global leader in technology and came as cabinet officials were expected to discuss tougher restrictions on China later this month.*

That meeting, set for Feb. 28, was expected to include a discussion about whether to halt sales to China of an aircraft engine produced in part by General Electric by blocking its license to export the technology. Officials were also expected to consider new rules that would further curtail the ability of Huawei, the Chinese telecom giant, to have access to American technology, including semiconductors.

*But on Tuesday, Mr. Trump seemed to scuttle such moves. Two people familiar with the matter said that **the late February meeting was on hold** and that the United States would not block G.E.’s ability to sell jet engine parts to China.*

“The United States cannot, & will not, become such a difficult place to deal with in terms of foreign countries buying our product, including for the always used National Security excuse, that our companies will be forced to leave in order to remain competitive,” Mr. Trump wrote. “We want to sell product and goods to China and other countries.”

“As an example, I want China to buy our jet engines, the best in the World,” he said in another tweet. “I have seen some of the regulations being circulated, including those being contemplated by Congress, and they are ridiculous.”



But apparently there is still movement at the deputy level...

[U.S. meeting on Huawei, China policy still on for Thursday despite Trump tweets: sources](#)

A meeting of U.S. government officials to discuss further curbs on exports to Huawei and China is still on for Thursday, two sources said, despite pushback from President Donald Trump against the restrictions.

The deputy-level meeting was called to discuss proposals including possible new restrictions on sales of chips made abroad to China's blacklisted Huawei Technologies, a maker of telecommunications equipment, and on sales of airplane components to a Chinese aircraft maker.

Watch this space! In the meantime, enjoy the weekend...