

# HOW TAIWAN CONTAINED THE CORONAVIRUS

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04/07/2020

The number one issue for financial markets right now is how well we can contain the spread of COVID-19. Taiwan has done a remarkably great job in managing this pandemic, having had only five deaths and under 400 confirmed cases from the disease. On last week's *Behind the Markets* podcast, we spoke to Dr. Ruby Huang from Taiwan about which policies have been the most effective at home.

The pandemic started the market downfall but plummeting oil prices accelerated it. We spoke to geologist and oil expert Art Berman for his views on oil in the second half of our podcast.

## Policies that Controlled the Virus

Informed by its experience with the SARS outbreak, Taiwan was the first country to ask the World Health Organization, in late December, whether the coronavirus was transmitting from person to person. Mindsets determine strategy, and pandemic preparedness was top of Taiwan's agenda.

Dr. Huang emphasized that Taiwan's capacity to manage the outbreak was not built overnight, however. Policies were in place for testing, contact tracing and isolation measures. Digital technology from mobile phones is helping with prevention capabilities as well.

Taiwan has not shut down its economy, in contrast to what we're seeing in most of the rest of the world. Schools are temporarily closed for two weeks if there is a confirmed case among students or staff. But restaurants are still open and people can go out, albeit with many social distancing policies in place.

Dr. Huang credited Taiwan's heavy use of masks as critical in limiting spread. Surgical mask production was ramped up to 13 million per day, with no exports allowed. Local pharmacies sell masks at a controlled price of 60 cents a piece, and buyers are limited to nine masks every two weeks. Masks are now required in public, and on public transport especially.

Elsewhere in Asia, Singapore saw its caseload ramp up from 100 at the end of February to 1,000 at the end of March. This wave of new cases stemmed largely from people returning from travel to either the U.S. or Europe. Dormitories for foreign workers and a nursing home saw a big outbreak, so Singapore ramped up work-from-home and virtual education for schools.

## Oil Prices May Have Bottomed

There is incredible uncertainty about the near-term supply and demand balance for oil. President Trump is trying to get Saudi Arabia and Russia to cut 10 to 15 million barrels of production per day, but Art Berman is already seeing estimates of oil demand that are around 25 to 30 million barrels per day lower than normal. Trump's negotiation with Russia and Saudi Arabia, therefore, may not be enough to move prices much higher. Oil demand is strongly correlated to [gross domestic product \(GDP\)](#) and oil is serving as a leading indicator for the global slowdown.

Berman believes oil prices were bottoming even prior to Trump's efforts to motivate production cuts. One indicator was his evaluation of retail prices increasing, while [futures](#) markets were decreasing. The other was his evaluation of [spreads](#) between spot and futures prices, which also suggested oil prices were nearing a trough.

Numbers are often quoted suggesting that Saudi Arabia can produce oil for as little as \$2 to \$3 per barrel. Berman clarified this is Saudi's cost to operate a well, long after it has been drilled and paid for. He estimates the break-even rate is closer to \$40 per barrel. The all-in cost for U.S. shale producers is between \$55 and \$60 per barrel, so at the current oil rate everyone is 'losing their shirts.' No one in [OPEC](#) is making any money either, and he sees global producers needing oil prices between \$50 and \$60 per barrel to stay in business.

Berman does not believe the narrative that Saudi Arabia and Russia are just trying to put U.S. shale producers out of business.

This was a great conversation on the two of most important issues today—please listen to the full conversation below.

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## **DEFINITIONS**

**Gross domestic product (GDP)** : The sum total of all goods and services produced across an economy.

**Futures price** : the price of a futures contract.

**Spread** : Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

**Organization of the Petroleum Exporting Countries (OPEC)** : whose mandate is to coordinate and unify the petroleum policies of its members and to ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry.