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TRADECAST: LOOKING BEYOND COVID-19

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Bank Perspective: Supply chain disruption and provision of working capital

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Key Developments

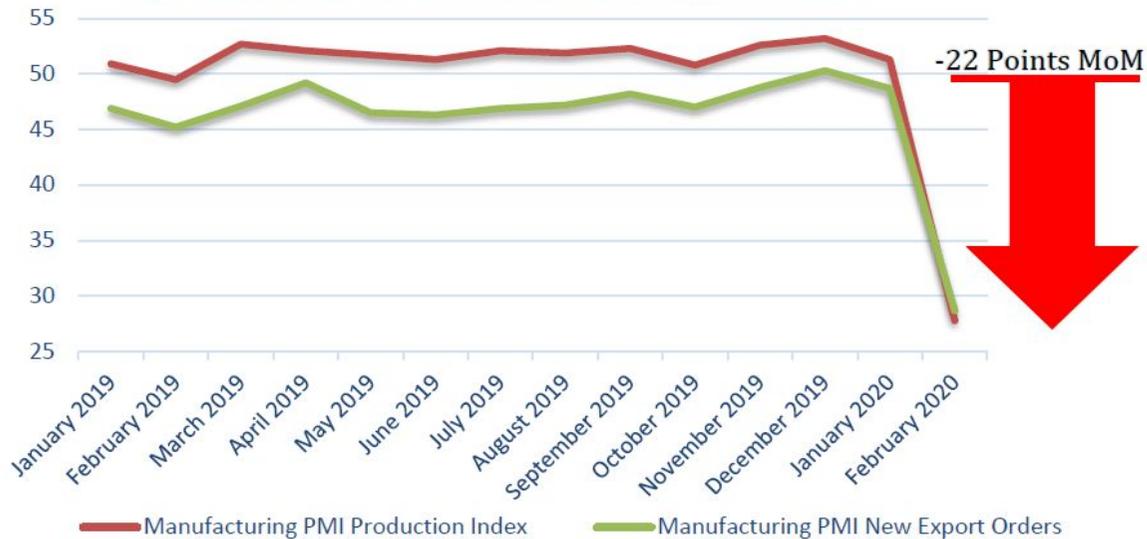
31 st Dec 2019	<ul style="list-style-type: none"> • WHO is alerted by the Chinese authorities of the occurrence of a new virus in Wuhan, China
11 th Jan 2020	<ul style="list-style-type: none"> • China reports its first death due to the virus
23 rd Jan 2020	<ul style="list-style-type: none"> • Wuhan is placed under lockdown after multiple confirmed cases of the Coronavirus reported outside of China, including Singapore, Japan and United States • Chinese government extend Chinese New Year holidays in an attempt to contain the virus
30 th Jan 2020	<ul style="list-style-type: none"> • WHO declares Covid-10 a Global Public-health emergency • Countries impose travel restrictions on any foreign nationals who have travelled into China in the past 14 days • FedEx and DHL reports service impacts on air and ocean courier shipments in and out of China
14 th Feb 2020	<ul style="list-style-type: none"> • France announces the first coronavirus death in Europe
21 st Feb 2020	<ul style="list-style-type: none"> • South Korea places hotspot cities in lockdown as outbreak of coronavirus cases rises above 200 in days
23 rd Feb 2020	<ul style="list-style-type: none"> • Italy sees major surge in coronavirus cases as officials lockdown the Lombardy region where a cluster of confirmed cases have been reported
28 th Feb 2020	<ul style="list-style-type: none"> • Number of infections across Europe begin to spike as US records its first coronavirus death • Trump administration issue highest level "do not travel" warning for areas in Italy and South Korea
11 th March 2020	<ul style="list-style-type: none"> • WHO declares the outbreak a pandemic • Trump administration bans all travel from 26 European countries and declares US national emergency 2 days later
Throughout March	<ul style="list-style-type: none"> • Risk sell-off in global stock markets begins, tightening USD liquidity, increasing demand for undrawn RCF lines • Increasing number of countries ban any non-essential travel, airlines globally ground their fleets with the exception of few aircraft

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Economic impacts on China exports & global industries

Figure 1a: China's Purchasing Managers Indices



Source: National Bureau of Statistics of China

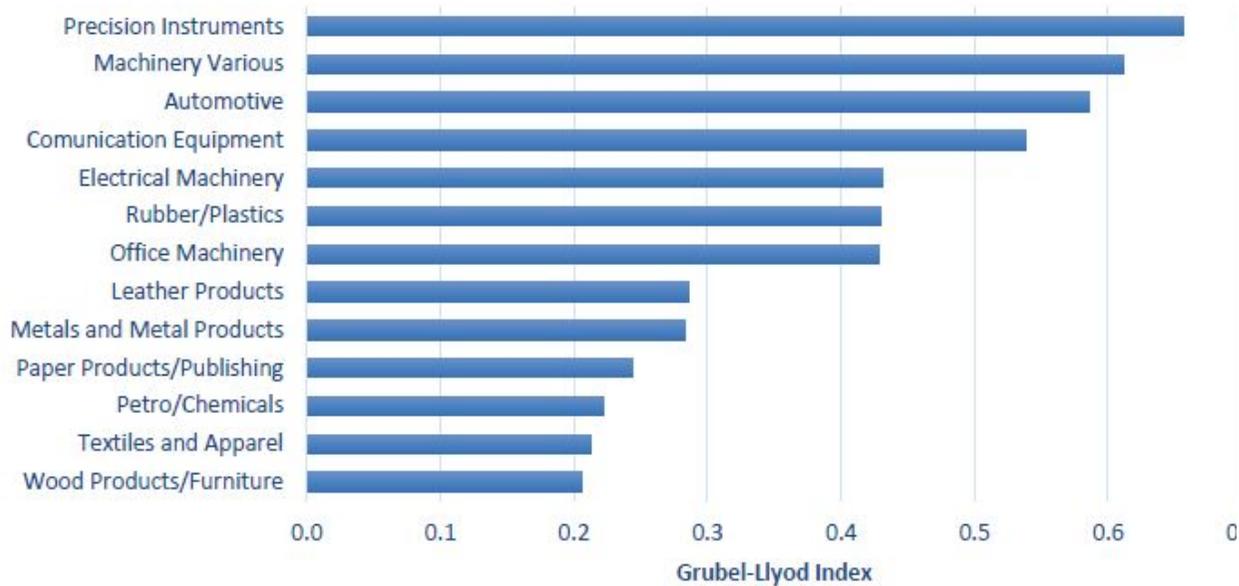
- Any slowdown in China will impact global economy;
- China's PMI dropped significantly in February implying at least a 2% decline in exports;

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China – manufacturing hub of the world

Figure 2 - China Integration in Global Value Chains, by sector



- Grubel-Lloyd Index – the closer to 1 the more dependent a particular sector is on components/parts manufactured in China
- In 2002 about 4% of intermediate products originated from China, in 2020 it's about 20%

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Consequences for World Demand & Global Supply Chains

- Significant impact on key industries, particularly automotive, travel, tourism and leisure;
- Major risk sell-off in financial markets;
- Fears of liquidity and credit crunch;
- Increased action by governments and central banks around the world to counter, but recession for many countries is looking highly likely;

Future of supply chains:

- Over-reliance on China? Will supply chains go local again?
- To an extent perhaps, but manufacturing capability is required, and costs would increase;
- On the other hand local supply chains likely to have smaller carbon footprint;
- Better control over governance when producing locally, positive for CSR.