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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

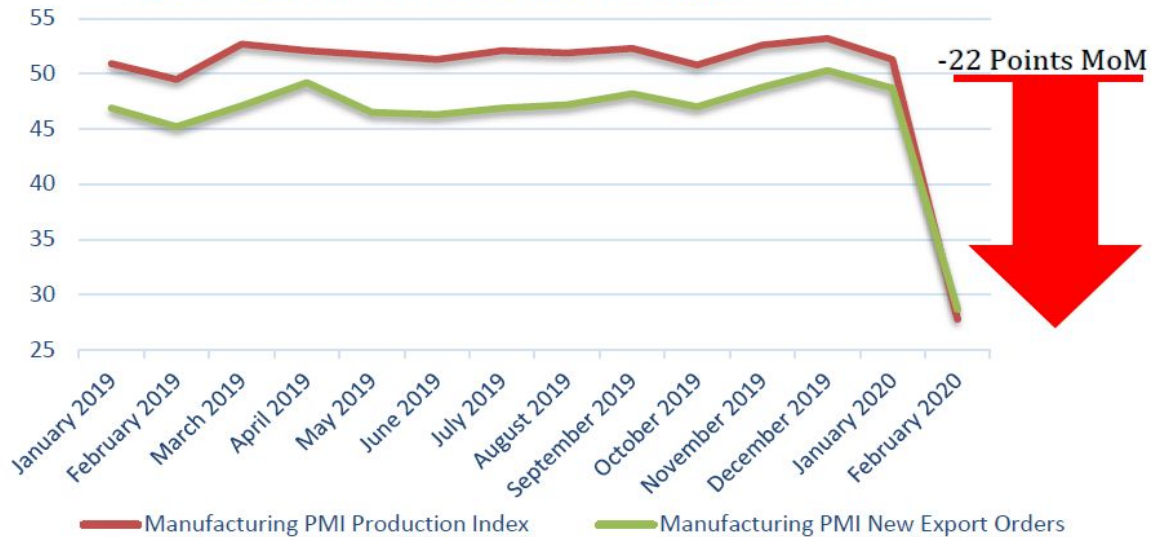
| | |
|-----------------------------|--|
| 31 st Dec 2019 | <ul style="list-style-type: none">• WHO is alerted by the Chinese authorities of the occurrence of a new virus in Wuhan, China |
| 11 th Jan 2020 | <ul style="list-style-type: none">• China reports its first death due to the virus |
| 23 rd 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

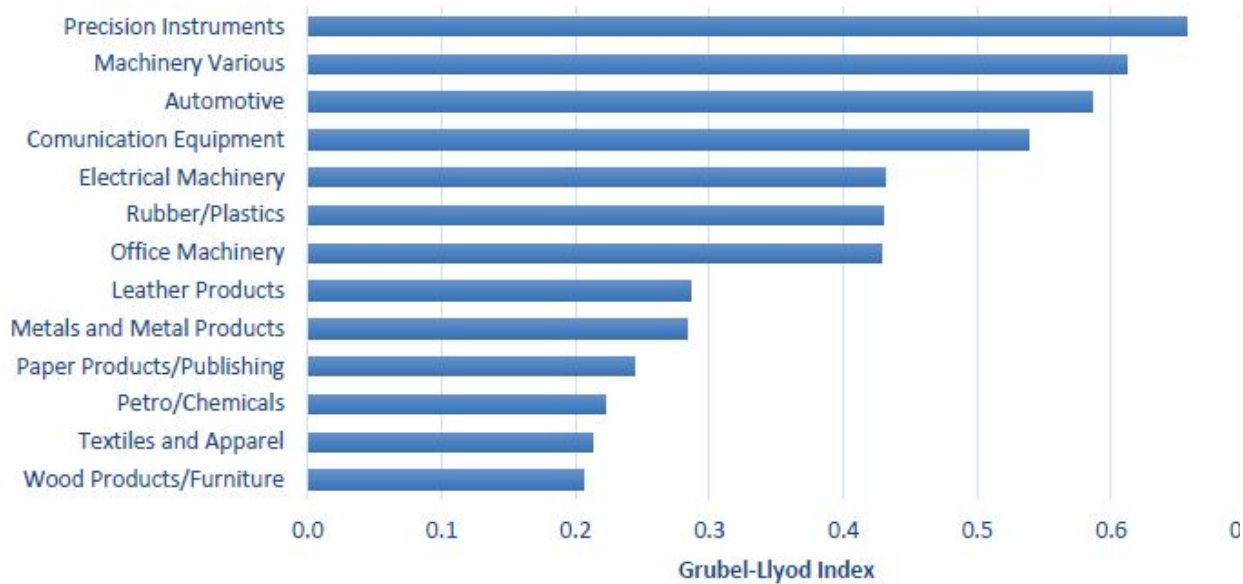
- Any slowdown in China will impact global economy;
- China's PMI dropped significantly in February implying at least a 2% decline in exports;

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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.