Country Commentary

Third Quarter 2020

LONDON FORFAITING COMPANY LTD

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Financial Markets showing signs of recovery; but COVID-19 impacts remain

1. Global Market

The IMF, Fitch and several analysts have highlighted how the global GDP dropped in the first part of 2020 and how this is almost certainly the deepest recession the world has seen since at least World War 2.
Having said that, there is evidence that global GDP is now rising so we probably (and hopefully) had the shortest recession since at least World War 2.
The most striking evidence that global recovery has begun was the 2.5 million US payroll gain in May and the drop in the unemployment rate from 14.7% to 13.3%.
Besides, global growth is being supported in the near term by fiscal policymakers across the major advanced economies and central banks that have reversed the earlier tightening in financial conditions and are now providing almost unlimited supply of USD and EUR to the global economy.
Nevertheless, the risk of a resurgence of the virus and renewed nationwide lockdowns - which could severely interrupt the expected economic recovery path - remains high

2. Emerging Market

The sharp recovery of the oil price, the debt suspensions initiatives by the G-20 nations, the IMF and China and the vast liquidity available to investors looking for high returns have driven the global credit EM market to a strong rally in 2Q20. The most striking evidence of this rally is Angola.
The Eurobond maturing in Nov-25 is now trading at 90% cash price (equal to L+11%) having been trading at 40% cash price (equal to L+35%p.a.) at the end of March.
A continued rally depends on whether EM countries can continue to reopen without triggering renewed virus incidences, although the picture at this stage looks uneven, with China largely recovered from the virus hit but others—especially in Latin America—only just starting to improve.

3. Emerging Market Loan & Capital Market

During 2Q20 several governments, financial institutions and corporates managed to source loan financing not only from the IMF/World Bank (including Nigeria, Ghana, Angola and Pakistan) but also from international commercial banks (Turkish banks are the most evident example).
Perhaps even more important and encouraging is the ability that countries like Egypt and Belarus have proven in issuing Eurobonds, with order books that were several times oversubscribed, reflecting the confidence of the international markets in these economies.
More EM countries are now expected to issue new Eurobonds in 3Q20.

4. G-20 Debt Service Suspension Initiative

As part of the G-20 Debt Service Suspension Initiative, the IMF and World Bank have provided debt relief of around $5.3 billion (from a total $11.54 billion) to 30 sub-Sahara Africa countries.
For most African countries, the bulk of interest payments due this year are to private creditors or domestic debt markets, so for those countries lucky enough to have benefited, the money is still too small to offset the full impact of the virus shock Angola is the biggest beneficiary.
Further limitations to the benefit of this initiative are the negative credit perceptions associated with debt-relief. Several countries that could have received assistance, especially those with Eurobonds, opted out of the program for fear of a ratings downgrade or loss of market access.

5. Oil Price

Brent oil price is now stable as broader markets rallied on stimulus from central banks, physical supplies continues to look tight and demand is improving.

Contact Us
www.forfaiting.com
lfc@forfaiting.com

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