Country Commentary

Second Quarter 2020

LONDON FORFAITING COMPANY LTD

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Financial Markets Rattled by The Multiple Effects Of COVID-19

1. COVID-19 effects on Global Economy

The COVID-19 outbreak is causing disruptions to the economy's demand and supply sides which are likely to put the global economy into recession in the first half of 2020.

The silver lining is that the coronavirus has triggered a strong coordinated monetary and fiscal response. The pace and magnitude at which these policies have been implemented are also unprecedented as 23 of the 30 central banks have eased monetary policy in 1Q20.

Looking ahead, with the help of extraordinary policy action, and assuming an April/May COVID-19 peak, we could expect the global economy to start recovering from third quarter of 2020 onward

2. Fall in the Oil Price

The past month has seen Brent oil price dropping over 55% from 52 $/bbl to the current 23 $/bbl. The reasons for such sharp and sudden drop relate to both supply and demand factors: There is a global demand curb amidst the shutdowns and fear of global recession caused by COVID-19 and a supply war between Saudi and Russia, both determined to pump oil at maximum capacity to gain market share.

This is putting pressure on many African oil producing countries, such as Angola, Nigeria and Ghana, who rely on oil export as primary source of USD revenue to manage fiscal deficits and repay international debt. With thousands of oil jobs hanging in the balance and the U.S. shale industry in upheaval, Trump is expected to intervene soon to put an end to this supply war between Saudi Arabia and Russia.

It is impossible to predict how the oil price will move going forward, but most of the analysts expect the price to go down further from the current levels before inverting the trend pushed by increase of demand in 3Q20 when the global economy is expected to restart growing.

3. Turkey

Turkey's central bank recently painted an optimistic picture about the ability of the country to react to the current challenging global environment. The monetary authority expects "high growth" in the first quarter thanks to the economy's performance in January and February, however, the infection's repercussions have started to impact foreign trade, tourism and transportation in March.

The central bank cut its benchmark rate by a percentage point to 9.75% and announced a series of measures aimed at easing lenders' access to liquidity.

Turkish banks are facing increased risks to their credit profiles but in general they remain well capitalized and financially solid enough charter through the current global crisis

Turkey is benefitting from depressed oil price.

4. Ecuador

On 27th March-20 Fitch downgraded Ecuador from B- to CC and S&P to CCC- citing large budgetary financing needs exacerbated by oil price drop and the impact of the COVID-19 pandemic.

A default, distressed exchange, or redemption appears inevitable within six months, absent unanticipated significantly favorable changes in business, financial, and economic conditions.

The government is renegotiating the terms of commercial debt liabilities and it is using the grace period on $197mln of Eurobond coupons due in March.

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