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Credit Risk is Complex

The impact of COVID-19 on today's markets

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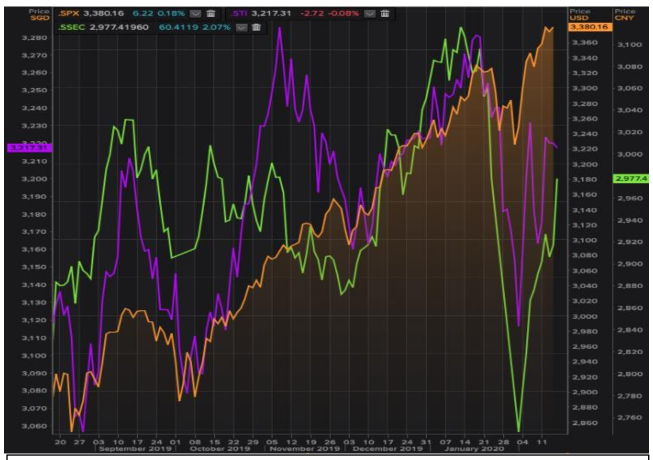
Just when you don't need more confusion in the global financial markets, particularly in Asia, along comes nature to throw its spanner in the works. At least this was not self-induced turmoil, unlike Trump or Brexit. As we struggle with the impact on global growth caused by trade wars and real conflicts that are everywhere, the corona virus has added complexity to the understanding of the health of economies and the direction of markets in Asia. Whilst the S&P goes from strength to strength Asian indexes fluctuate wildly on news that effects sentiment. However, despite the fluctuations, stocks have continued to generally march forward whilst rates are low. Credit is a different story.



US, SG and CH stock indices – last 6 months (Eikon)

Moving away from stocks' generally rosy picture, what about actual businesses? And where are the risks? China Inc has already been put under huge strain as companies strive to manage the effects on their business and strategy caused by US political actions. Behind the visible drama of quarantine measures and rapid rises in cases and deaths, pressure and concern is building on China Incs borrowers; there are China debt maturities of over $1T this year (91% onshore). Workers are stranded and factories remain largely shut which will only reduce the ability of companies to pay back their debts. China's Bad Loans Ratio's are expected to jump from 5.4% to 8.1%. Corp China was already struggling before the virus. Recent figures show that 1/3 of SME's in China can only survive for a month on cash holdings and another third for only 2 months. Bleak indeed.

Moving to the rest of Asia and globally, disruption to the supply chain by trade wars and now the effects of the virus, especially for

companies that depend on or contribute to the global supply chain, will be impacted by a domino like effect as international companies adjust in order to replace lost supply and allow for the inevitable rising effect on costs. Many companies will suffer serious business and financial disruption and may even face failure. This also could have ripple effects on international business and trade. Moody's have just forecast that Asian High yield default rates will rise in 2020, this was before taking into account any effects from the virus on international business.

Credit risk is growing and knowing where your risks lie has always been key to successful and sustainable growth, whether you are a corporate or financial institution, understanding Credit Risk, how to measure it and how to manage it is critical. The world is a changing place, but one thing is sure, all business' and any insurance measures taken on your business are irrelevant if the parties you are dealing with have credit issues. It doesn't matter how good the deal is if it can't be settled, and rosy futures suddenly become barren wastelands if risk measures can't be realised.

As always it starts with knowing the fundamentals – check out our related tutorials to increase your understanding with Intuition Know How.

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