COMMERCIAL BANKING

The UK International Trade Index

Insights into UK trade with the rest of the world

July 2019

By the side of business

LLOYDS BANK

Contents

Introduction

EDWARD THURMAN

Managing Director
Head of Global Transaction Banking, Lloyds Bank Commercial Banking

GWYNNE MASTER

Managing Director
Head of Trade, Global Transaction Banking, Lloyds Bank Commercial Banking

Welcome to the Q2 2019 Lloyds Bank UK International Trade Index. This quarterly series was launched last year to help British companies grow their businesses by better understanding international trade conditions.

In our last report we saw that global trade tensions in early 2019 had rippled through international supply chains. This created significant headwinds for UK exports. Historic levels of stockpiling by companies in the EU provided a short-term boost to manufacturing exports in the first quarter. In the current edition of the report, this stockpiling has ended and UK manufacturers have seen the first quarterly fall in exports for three years.

The global environment is increasingly challenging. In his speech on 2 July, Bank of England Governor Mark Carney said “the intensifying of trade tensions have increased the downside risks to global and UK growth”. Both US and EU central banks have discussed these concerns and adjusted interest rate expectations down for the coming years. These risks are clear in our latest report, as we see international trade volumes fall at the fastest pace since 2012, with two-thirds of the countries monitored by the IHS Markit PMI® series experiencing falling exports in Q2 2019.

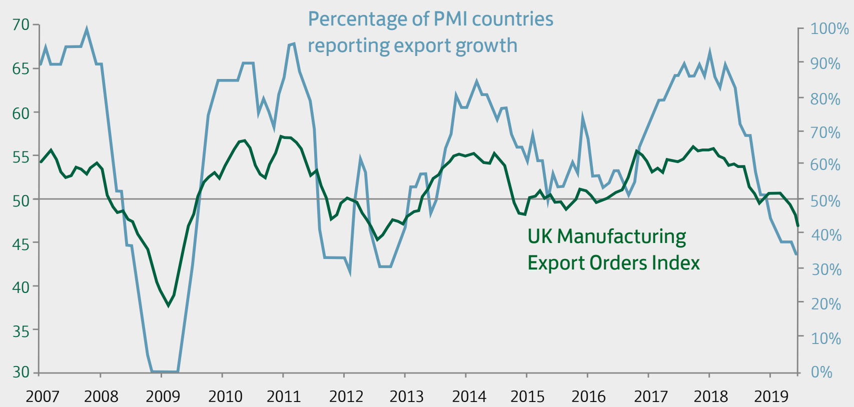
UK firms do however have a long heritage of exporting and trading internationally and, even in this environment, our report shows that the proportion of UK firms exporting remains at historically high levels. Larger firms are showing particular resilience at managing the uncertainty, with the highest number of exporters in nearly four years. It is the smaller companies that are starting to feel the pressure most, which once again highlights the importance of sharing best practice. This is something we are heavily invested in through our digital tools, the education of our sales colleagues and partnerships with industry-led organisations like ‘Be the Business’ (bethebusiness.com).

As the leading European bank for 'quality of trade finance'[1] we are committed to helping British businesses manage the risk and cash flow implications of international trade. Once again we hope that this report provides the insights you need to plan your trading strategy. If you have any questions please contact your Relationship Manager.

> Stockpiling has ended and UK manufacturers have seen the first quarterly fall in exports for three years

1. Greenwich quality leader 2018 European Large Corporate Trade Finance Overall Quality in the UK

Global manufacturing exports falling in Q2



Sources: Lloyds Bank, IHS Markit PMI®

Manufacturing Export Orders Index

UK manufacturing exports fall at the fastest pace since 2012 as global trade weakens and stockpiling fades

KEY FINDINGS

- A soft start in Q1 has now led to the first quarterly fall in UK manufacturing exports in three years
- The UK mirrors international trade conditions with two thirds of the 29 countries surveyed reporting a drop in exports in the last quarter
- Larger UK firms are clearly managing the uncertainty with 84.9% exporting - the highest rate since Q3 2015

Key PMI® movements

Export Indices[1]	As at Q2 2019	Δ since Q1 2019
Total Manufacturing	46.8	-3.2
Textiles and Clothing	53.5	-9.0
Other Manufacturing[2]	51.4	-1.7
Mechanical Engineering	49.4	-1.0
Chemicals and Plastics	47.1	-1.7
Timber and Paper	46.6	-7.3
Food and Drink	45.9	-4.3
Metals	43.2	-1.5
Transport	43.0	-6.3
Electrical and Optical	41.7	-6.3

[1] Quarterly averages. Any reading above 50.0 indicates an increase in new export sales
[2] Including sports and leisure equipment, jewellery, and furniture

In the second quarter of 2019 UK manufacturers saw exports fall for the first time in over three years. The latest Lloyds Bank UK International Trade Index came in at 46.8, down just over 3 points from a revised figure of 50.0 in Q1. This is the sharpest reduction in exports since the double dip recession across the euro area in Q3 2012. To put this in context, any reading above 50 signals an increase in exports. The survey record since 1996 was a high of 57.2 at the end of 2010, with a record low of 38.8 in Q1 2009.

While many firms continued to report that uncertainty over the future trade relationship with the EU was restricting suppliers from committing to larger projects, the root cause of this fall in exports reflects three major headwinds for UK exporters: a Q2 decline in US growth, subdued growth in China and emerging markets, and an end to the historic rate of stockpiling which peaked in Q1.

Clothing and luxury goods sustain growth but all sub-sectors see a reduction

Every manufacturing sub-sector saw a fall in the rate of export growth in the last quarter, with Mechanical Engineering and Food and Drink slipping into negative growth for the first time in over two years. Exports of Electrical and Optical goods fell at the fastest rate for the quarter, while Mechanical Engineering saw a relatively small reduction.

The Transport (automotive) sector experienced its sharpest fall in exports for six and a half years. This is a result of production stoppages, lower sales to China, and the continued shift away from diesel engines.

Textiles and Clothing exports continued to grow although the reduction in growth rate was the most stark of all sub-sectors in Q2, given the strong export growth of the previous quarter. Other Manufacturing (mainly sporting and luxury goods) continued to see export growth as well.

End of stockpiling in Europe hits export demand

The historic levels of stockpiling by both UK and EU firms reported in our Q1 Index appears to have peaked, as UK manufacturers noted a slowdown in sales to European clients in Q2. While this forward-purchasing of inventory provided a boost to exports in the last quarter, manufacturers have now seen a corresponding dip in exports in Q2 as EU firms look to run down higher levels of stock.

Manufacturers focused on new markets mostly commented on winning clients in North America and the Middle East.

The UK is not alone as global trade volumes fall

The downturn in UK manufacturing exports mirrored a continued fall in global trade during Q2 2019. At 48.9, down from 49.1 in Q1, the Global Manufacturing PMI® New Export Orders Index reported the steepest fall in international trade volumes since the end of 2012.

Two thirds of the 29 countries monitored by the IHS Markit PMI® series experienced a fall in manufacturing exports during the second quarter of 2019, including Germany (index at 42.0), the Czech Republic (43.4) and Austria (44.5). These nations all have an industrial structure that is highly sensitive to the automotive sector. Manufacturers in Singapore also reported particularly sharp reductions in exports, linked to weaker business conditions across the global electronics supply chain and softer demand from China.

Although slower growth in the US and China appears to have dampened the export climate, it may also be encouraging global firms to diversify their sourcing of goods. Manufacturing exports in Q2 grew from key locations including Vietnam (index at 53.3), India (53.2) and Thailand (51.5) as firms imported more from these countries.

The proportion of UK firms exporting remains high

Despite a challenging backdrop, our measure of the number of manufacturers exporting is still near record-highs seen at the start of 2019.

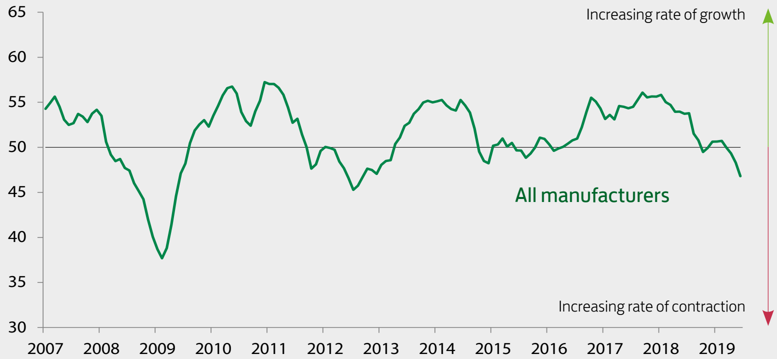
The proportion of exporters was 81.0% in Q2, down only 0.3% since the 14-year peak in Q1. While the proportion of smaller manufacturers exporting fell in Q2 from 76.7% to 74.8%, larger firms were clearly able to navigate the uncertain outlook with 84.9% exporting, the highest rate since Q3 2015.

> The number of manufacturers exporting is still near record-highs seen at the start of 2019

New Export Orders Index

Monthly UK manufacturing export sales growth

Seasonally adjusted, 50 = no-change

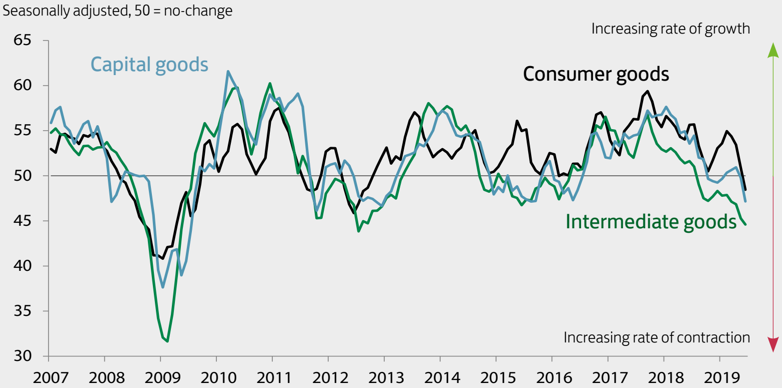


Sources: Lloyds Bank, IHS Markit PMI®

Export breakdown by broad industry sector

Monthly UK manufacturing export sales growth

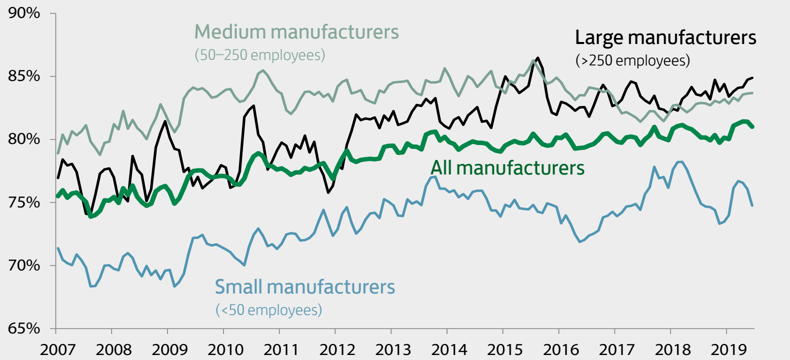
Seasonally adjusted, 50 = no-change



Sources: Lloyds Bank, IHS Markit PMI®

Proportion of companies exporting, by size

Percentage of companies reporting export orders in each month



Sources: Lloyds Bank, IHS Markit PMI®

Services Export Business Index

Service exports continue to fall but Q1 stockpiling boosts the Transport sub-sector

KEY FINDINGS

- UK service exports in Q2 2019 fall for the third quarter in a row, but the trend improves compared to Q1
- Global economic conditions and lingering concern about future trade relationships are cited by firms with falling exports
- The Transport and Communication sub-sector, which includes storage, sees a jump in exports as a result of stockpiling in Q1

The Service Export Business Index is a relatively new set of data, developed for the Lloyds Bank UK International Trade Index. Since 2015 we have asked firms from the UK service sector to report on whether new work received from abroad is higher, the same, or lower than the previous month, as an early indicator of export sales.

Falling export sales improve from Q1 2019

Although UK service providers continued to see lower exports in Q2, the fall in service exports has slowed from the start of the year with the UK Services Export Business Index rising from 46.8 in Q1 to 48.6 in Q2. After strong export growth over the last two years, peaking with an Index of 54.1 in Q1 2017, the Index has reported falling export growth since the final quarter of 2018.

Firms that experienced slower export sales cited causes including challenging global economic conditions, concerns about regulation, and the future trade relationship with the EU. One such firm noted that a number of non-UK clients had moved or delayed work with the UK in order to manage the risk of Brexit. On the other hand, firms that did see export growth, continued to cite the benefit of a lower sterling exchange rate and often reported new business from Asia, the Middle East and the US.

Q1 stockpiling supports transport and storage export growth while technology service exports fall

The Transport and Communication sub-sector, which includes storage, was the only service sub-sector to report growing exports in Q2. It rebounded from Q1 by over 5 points to an Index of 50.3. This follows three consecutive quarters of falling exports and is likely a result of the stockpiling from EU firms in the last quarter which require logistics and storage.

Key PMI® movements

New Export Sales[1]	As at Q2 2019	Δ since Q1 2019
Total Services	48.6	+1.8
Transport and Comms	50.3	+5.1
Financial Services	48.6	-0.9
Technology Services	47.8	-3.3
Business-to-business	47.2	+1.4

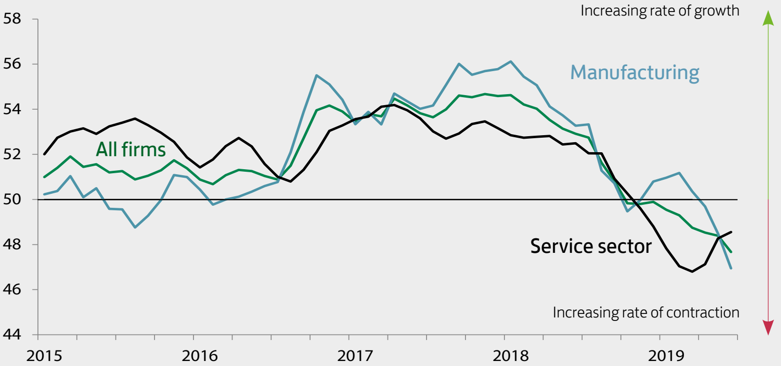
[1] Quarterly averages. Any reading above 50.0 indicates an increase in export sales.

No breakdown available for hotels, restaurants and catering and other personal/consumer services.

New Export Business Index

UK services export sales growth

Seasonally adjusted, 50 = no-change



Sources: Lloyds Bank, IHS Markit PMI®

Export sales for the Technology Service sub-sector fell for the first time since the end of 2018

Business-to-business service providers saw the quickest fall in exports of all four broad areas of the service economy, but the pace of decline slowed from the survey-record low seen in Q1.

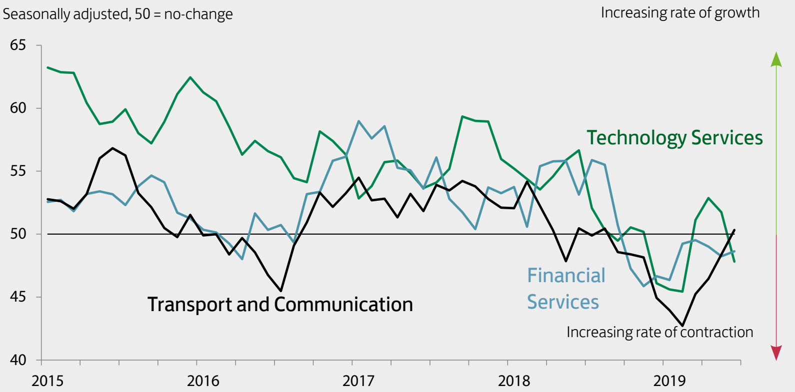
Export sales for the Technology Service sub-sector fell for the first time since the end of 2018 after a strong start to the year, with the Index for this sub-sector falling over 3 points from Q1. 67.5% of Technology firms export, making them the strongest category of UK service providers, although this number dipped to its lowest since the end of 2016.

Companies in the Financial Services sub-sector also reported falling export work in Q2, a trend since the last quarter of 2018, although the rate of decline intensified since the start of the year. This recent pattern contrasts with the strong export growth among financial services businesses at the same time in 2018.

Exports breakdown by key industry sub-sectors

UK services export sales

Seasonally adjusted, 50 = no-change



Sources: Lloyds Bank, IHS Markit PMI®

International Supply Chain Index

Global supply chain conditions improve for the first time in six years

KEY FINDINGS

- The International Supply Chain Index was 50.9 in Q2 2019, indicating the first improvement in delivery times and capacity constraints since 2013
- The end of stockpiling in the UK and EU reduces pressure on domestic suppliers and freight transport capacity
- Slower global trade improves availability of key materials and components, and sees input cost inflation ease to the lowest level in over three years

Global supply chain pressure and delivery delays improved for the first time in six years during Q2 2019 as the International Supply Chain Index rose to 50.9, up from 48.0 in Q1, and the highest since Q2 2012.

The Index can range from 0 to 100, with any reading above 50 signalling improving lead times, with fewer delivery delays and increased availability of key manufacturing inputs. The further above the 50 mark the lower the pressure on supply chains, which impacts prices, production capacity, and working capital for UK firms.

Easing supply chain pressure led by Central Europe

The global supply chain conditions reported in Q2 2019 contrast with the situation one year ago, when strong global manufacturing growth led to supply bottlenecks and the highest level of reported international delivery delays for eight years.

Global Manufacturing PMIs have shown a steady decline in worldwide goods production, which means softer demand for raw materials and components. This has slowly freed up transport capacity and allowed suppliers to catch up on backlogs of work.

The slowdown in global manufacturing has been led by Central Europe, and it is here where pressure on supply chains has eased most since the start of the year. Germany in particular saw a substantial shortening of delivery times in Q2, with Italy, the Czech Republic and Austria also seeing fewer delivery delays and supply bottlenecks.

France and the Netherlands bucked the broader European trend of quicker delivery times, however in both cases supply chain pressures have reduced from the high levels experienced in 2017 and 2018.

Capacity shortages also improved further in the US, South America and Asia, while lead times continued to improve across the Middle East and North Africa.

The end of stockpiling reduces pressure on UK supply chains

Mirroring the international trend, UK companies also reported improving lead times and fewer bottlenecks from domestic suppliers, which is likely a positive consequence of the end of the stockpiling over the last quarter.

The start of 2019 saw stocks of both purchases and finished goods grow at the fastest rate since the IHS Markit UK Manufacturing PMI® began in 1992, reflecting contingency planning in the UK and EU ahead of Brexit. However, Q2 saw the end of this stockpiling with UK firms reporting a slight reduction in inventory levels, led by the Timber and Paper and Transport sectors.

Falling inventory was also reported in the US and Europe as firms looked to run down excess stock and free up working capital. The main exception was Ireland, where manufacturers continued stockpiling during Q2.

Supply shortages and cost inflation improve
With the slowdown in global manufacturing leading to lower demand for commodities and components, UK firms saw supply shortages reduce further in the Q2. The number of manufacturers reporting shortages was the lowest in two and a half years, although shortages of some items such as aluminium and foodstuffs remained above the long-run average.

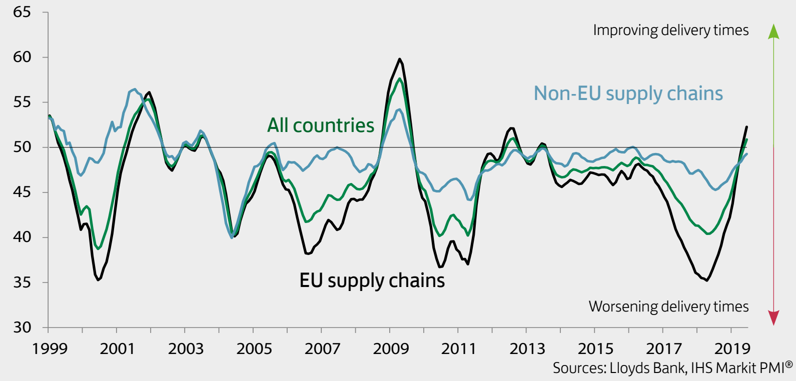
The improved availability of raw materials and components was also reflected in lower input costs across the UK Manufacturing sector. Reductions in the price of metals, timber and paper products saw the lowest cost inflation for over three years in Q2 2019.

> UK firms saw supply shortages reduce further in the Q2

UK International Supply Chain Index

Monthly comparison of supplier delivery times

Seasonally adjusted, below 50 = longer delivery times. Country weighted by UK import origin.

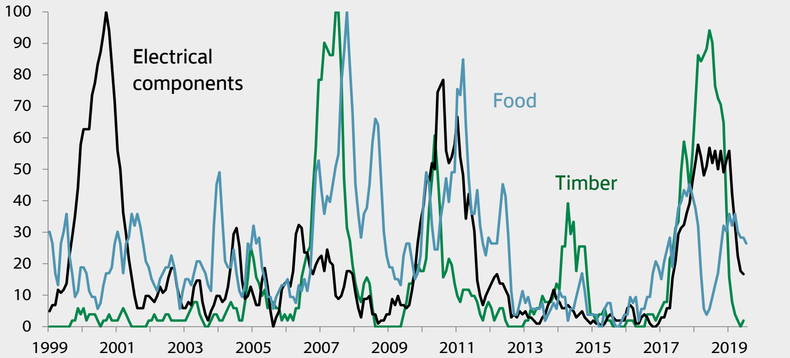


Sources: Lloyds Bank, IHS Markit PMI®

UK Manufacturing Sector: items reported in short supply

Monthly comparison of supply shortages

Relative index where 100 = highest monthly number of reported shortages since 1996.

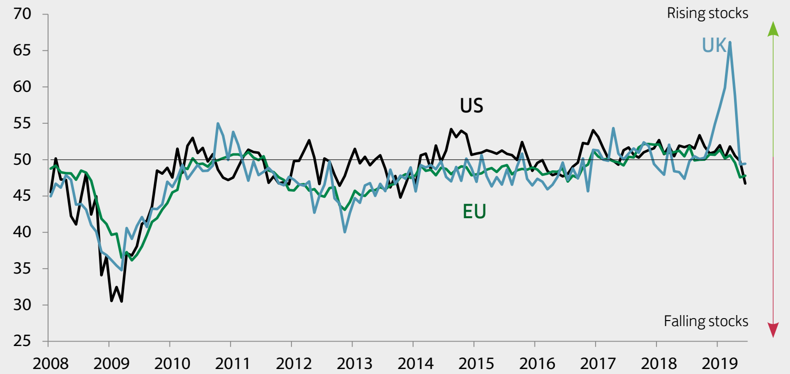


Sources: Lloyds Bank, IHS Markit PMI®

UK Manufacturing Sector: stocks of purchases

Monthly comparison of stocks of purchases

Seasonally adjusted, 50 = no change



Sources: Lloyds Bank, IHS Markit PMI®

UK Export Climate Index

Softer US economic conditions weigh on UK trade for the year ahead

KEY FINDINGS

- Output growth was reported in eight of the top ten UK export destinations, led by Ireland and the UAE
- The climate for UK exporters in Q2 is the lowest in six years
- Weaker US economic growth and subdued demand in emerging markets are the main drivers

The latest UK Export Climate Index shows softer economic growth in some of the UK's biggest trading partners, which provides a forward indicator of lower overseas demand for UK goods and service in the second half of 2019.

At 51.9 in Q2, the UK Export Climate Index – a trade weighted measure of global demand for British goods and services – was down from 52.3 in Q1 and at its lowest point since 2013. The index nonetheless remained above 50, showing that export growth opportunities remain positive.

Positive export growth was reflected in the sustained economic expansion in eight of the top ten destinations for UK exports, the exceptions being Italy and Hong Kong. The quarterly fall in the Index was mainly caused by softer growth in the US and parts of Europe.

US economic growth slips in Q2

After a strong start to the year US economic growth appears to have slipped in Q2, although it remained positive. The rate of economic growth, according to the IHS Markit PMIs®, eased to the lowest quarterly growth in three years. US firms surveyed reported concerns about the business outlook for the rest of the year as escalating trade tensions spilled over from the manufacturing sector to the service economy.

European service sector growth helps offset manufacturing weakness

Economic data showed some resilience in Europe, with stronger growth in the service sector partly offsetting manufacturing weakness in Germany and Ireland. France also experienced improving economic growth, led by services. However, growth in Spain and Italy reduced for the quarter leaving the overall EU Export Climate Index relatively flat on Q1.

Emerging markets remain subdued

Economic growth in China remained subdued in Q2 although once again the service sector helped drive a small improvement on Q1.

In contrast, growth in Brazil, Russia and India softened during Q2 2019, weighing down export opportunities for UK firms.

Key PMI® movements

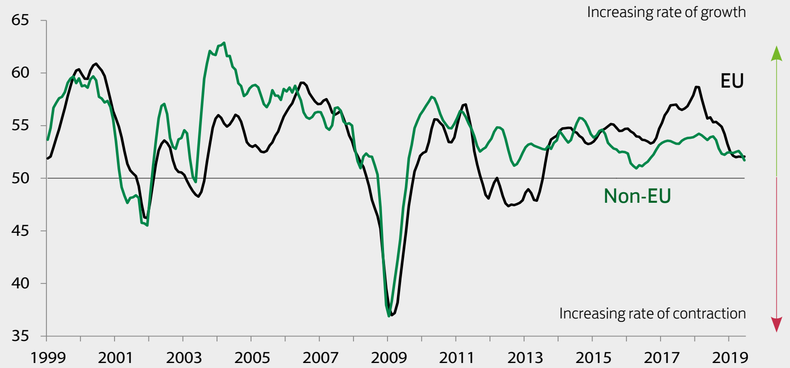
UK Export Climate Index[1]	As at Q2 2019	Δ since Q1 2019
Total	51.9	-0.4
EU	52.1	+0.1
Non-EU	51.7	-0.8
Composite Business Activity Index[1]		
Germany	52.5	+0.5
France	51.3	+2.2
USA	51.8	-3.1
China	51.6	+0.1

[1] Quarterly averages. Any readings above 50.0 indicates economic growth. IHS Markit PMI®

UK Export Climate Index, EU vs. Non-EU

Trade-weighted international economic growth

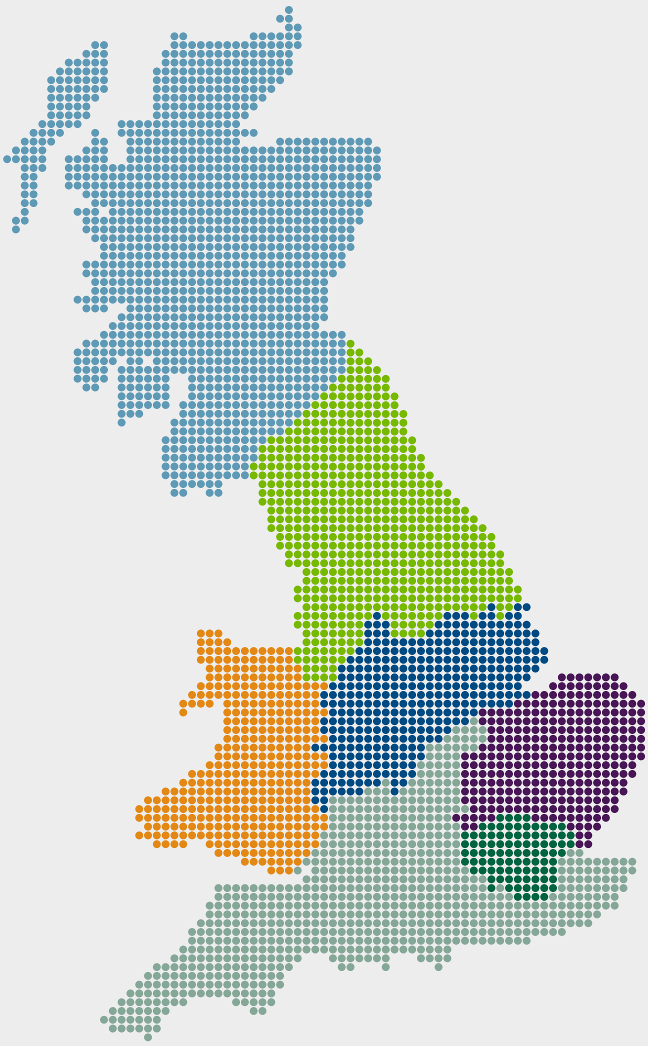
Seasonally adjusted, 50 = no-change. Country weighted by UK export destination



Sources: Lloyds Bank, IHS Markit PMI®

UK Goods Exports by Region

Annualised growth at Q1 2019 based on HMRC Regional Trade statistics



Region	Q	3yr	5yr
National	1.0% (£3.5bn)	24.9% (£68.3bn)	16.7% (£49.1bn)
Scotland	3.4% (£1.1bn)	40.4% (£9.4bn)	4.6% (£1.5bn)
North of England	0.7% (£0.4bn)	13.3% (£7.0bn)	6.5% (£3.6bn)
Midlands	-0.3% (-£0.2bn)	27.2% (£11.9bn)	24.6% (£10.9bn)
Wales	2.8% (£0.5bn)	32.0% (£4.3bn)	7.5% (£1.2bn)
East of England	1.7% (£0.5bn)	17.8% (£4.3bn)	16.6% (£4.1bn)
South of England	1.1%(£0.8bn)	24.3% (£13.5bn)	23.5% (£13.2bn)
London	3.7% (£1.4bn)	30.8% (£9.2bn)	18.7% (£6.1bn)

Legend

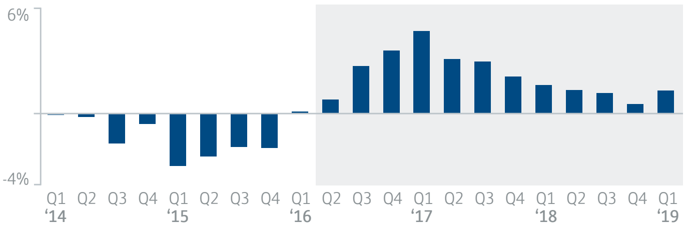
- Q – Quarterly growth
- 3yr – 3 year growth
- 5yr – 5 year growth

UK Goods Export Trends

Annualised quarterly export growth of the top four global regions with select country movements

European Union

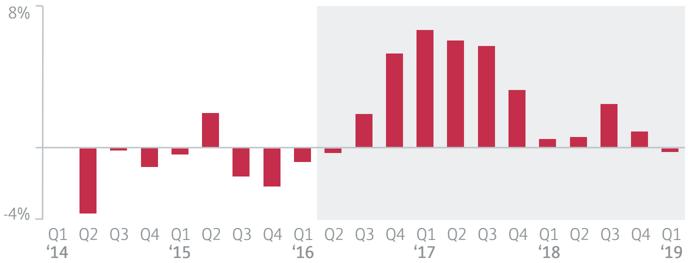
Annual total at Q1 2019: **£172.2bn**



	Annual total at Q1 2019	Quarterly growth	3 year growth	5 year growth
Malta	£1.2bn	81.1%	200.3%	163.1%
Poland	£5.5bn	4.5%	52.4%	48.3%
Hungary	£1.5bn	-0.5%	16.0%	15.8%
Czech Republic	£2.2bn	1.5%	12.7%	14.5%

Asia and Oceania

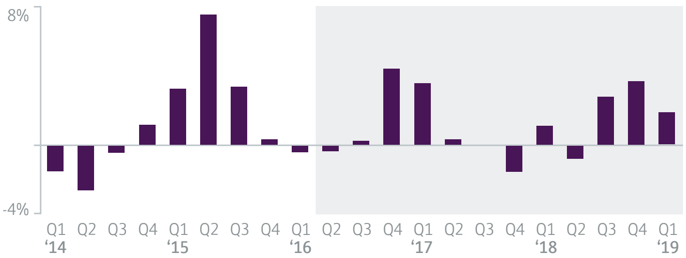
Annual total at Q1 2019: **£58.4bn**



	Annual total at Q1 2019	Quarterly growth	3 year growth	5 year growth
Hong Kong	£7.7bn	3.6%	53.2%	54.7%
Japan	£6.5bn	3.0	50.4%	44.8%
India	£4.4bn	-10.9%	19.6%	-6.2%
Malaysia	£1.3bn	-0.4%	1.9%	-14.5%

North America

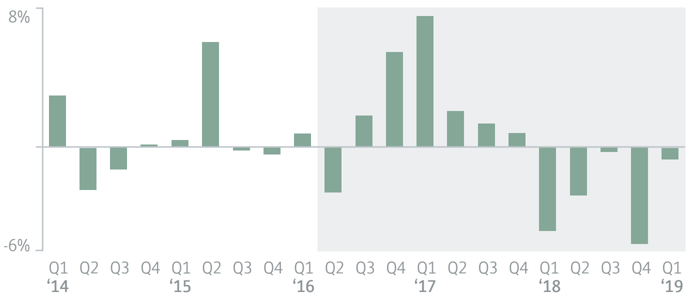
Annual total at Q1 2019: **£56.7bn**



	Annual total at Q1 2019	Quarterly growth	3 year growth	5 year growth
Canada	£5.4bn	3.6%	39.6%	28.4%
Mexico	£1.5bn	0.0%	17.9%	41.4%
United States	£49.8bn	2.0%	14.0%	30.5%

Middle East and Africa

Annual total at Q1 2019: **£18.7bn**



	Annual total at Q1 2019	Quarterly growth	3 year growth	5 year growth
Qatar	£2.3bn	-1.6%	23.8%	37.9%
Israel	£1.2bn	5.7%	18.9%	-7.2%
UAE	£6.1bn	1.0%	7.2%	4.5%
Saudia Arabia	£3.5bn	-3.6%	-35.4%	-16.4%

Analysis of HMRC's regional trade data, which lags our Index data by one quarter, shows the boost in UK exports since mid-2016, caused by the fall in the sterling exchange rate which has tapered off over the last year. In this analysis we have looked at the top four global export regions, the fastest and slowest growth countries in each and the broad product groupings.

Goods exports to the European Union and Asia and Oceania[1] areas have seen some of the strongest growth over the last three years, worth £38.6 billion and £15.6 billion respectively. Within Asia, Hong Kong and Japan have both seen growth over 50% in three years while India and Malaysia have underperformed and represent real opportunity.

[1] Australia, New Zealand, Micronesia, and Polynesia

The majority of product sectors benefited from this boost in exports although petroleum is a clear winner with a significant reversal of flows through the UK since the Q4 2016. The pharmaceutical sector and other transport such as aircraft, rail and boats bucked most of this growth trend with exports reducing since mid-2017.

While export growth to the EU has tapered off, exports to Asia have begun to fall for the first time since Q3 2016. Exports to North America had picked up between Q3 2018 and Q1 2019 offsetting the reduction in other regions, and Canada stands out with nearly 40% growth over three years. In the Middle East and North Africa area, the short term gains in 2016 that were led by Israel and Qatar, have quickly reversed due to a reduction in exports to Saudi Arabia.

Annualised quarterly growth of key export products

Further Insights and Methodology

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Methodology

The UK International Trade Index is compiled by IHS Markit and based on the results of surveys covering over 25,000 purchasing executives in over 40 countries. Together these countries account for an estimated 95% of global manufacturing output and more than 75% of global service sector gross value added. Questions are asked about real events and are not opinion based. An index reading above 50.0 indicates an increase in the variable since the previous month and below 50.0 a decrease. All charts and commentary relate to a quarterly rolling average of monthly index readings.

The UK Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a representative panel of around 600 manufacturers. The UK Services PMI® is compiled by IHS Markit based on original survey data collected from a representative panel of around 700 companies based in the UK service sector. The panels are stratified by detailed sector and company workforce size, based on contributions to GDP. Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. Data is presented in the form of diffusion indices, where the index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices are then seasonally adjusted.

Underlying survey data is not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate.

For further information on the PMI® survey methodology, please contact economics@ihsmarkit.com.

The trends in UK goods exports and regional goods exports on pages 11 to 13 are based on HMRC Regional Trade statistics (RTS) for the year ending in Q1 2019. This provides a breakdown of export flows between regions of the UK and other countries. Goods exports are categorised by a proprietary grouping of Standard International Trade Classification and standard geographic regions. The data is not available for all partner countries and not all trade can be assigned to one of the British regions. All values are annualised rolling quarters.

The editors

LLEWELYN MULLOOLY

Director, Working Capital,
Global Transaction Banking,
Lloyds Bank

T: +44 755 477 3787
E: llewelyn.mullooly@lloydsbanking.com

ANDREA MELVILLE

Managing Director,
Commercialisation & Propositions,
Global Transaction Banking, Lloyds Bank

T: +44 790 081 4610
E: andrea.melville@lloydsbanking.com

TIM MOORE

Associate Director,
Economic Indices,
IHS Markit

T: +44 149 146 1067
E: tim.moore@ihsmarkit.com

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