



# What goes around...

This time last year we were all concerned with the possibility of the millennium bug wreaking havoc, and some of us looked rather enviously at the launch of the euro, regretting the UK's absence. In the event, the bug did not bite and the euro has flopped – at least for now.

The strength of sterling against the UK's main trading partners in Europe has caused significant difficulties for many companies and called into question the desirability of the UK as a manufacturing base for foreign, especially Japanese, companies. This issue will no doubt continue to play an important role in the coming year. Does anyone seriously question that the UK will eventually join the euro?

The new millennium seemed to bring new rules with it. We saw the rise and rise of dot.com companies with brave talk about the new economy and a rather contemptuous dismissal of the 'old economy'. New economy companies seemed not to require customers or profits, and cash flow seemed to be something which investors provided, until they woke up.

The old treasurer in Oceanus was pleased to find that cash flow does indeed matter and that cash remains king. Another point to keep firmly in mind in the coming year. There are already signs that cash will become scarcer in the New Year as credit ratings deteriorate, corporate bonds lose their attraction and telecoms soak up billions of dollars to pay for their extravagantly priced licenses.

Over the last few months, the world's stock markets have been bobbing up and down and it is very difficult to discern any firm trend. This might not matter in normal treasury terms except for the fact that a serious downturn in stock markets, especially in the US, would have serious consequences for the global economy. It is hard to see how the US

economy can continue to grow at its present rate indefinitely; the European economies seem to be slowing down; and the Japanese economy is just about treading water. By the time you read this we should have a US President-elect, but whoever he is, he is unlikely to be able to take firm action on the economic front if needed.

If there is an economic downturn next year, there will be inevitable pressure on company cash flows. Oceanus hopes that treasurers are nailing down sources of funding well in advance of requirement. Banks will be the first point of call for the required telecom funding at a time when the banking industry is going through greater re-organisation and re-structuring than in any time in its history.

If there is a downturn in the US economy, this is likely to result in substantial dollar outflows. The euro would be one currency to benefit, along with the Japanese yen. Already

this year there have been record purchases of Japanese government bonds by overseas investors, so far £49bn. Given the very low yield of 1.81% on 10-year bonds compared with 5.825% yield on US government bonds, this seems extraordinary. No doubt weighting of Japan in international bond indices is partly responsible, but it does show the weight of such capital flows.

Finally, Oceanus cannot resist the thought that perhaps the purists who believe that the new millennium really starts on the 1 January 2001 are right and the millennium bug is biding its time, not to attack boring old computers, but financial markets where disasters can be so much more interesting. So if it, happens you read it here first. If it doesn't, Oceanus was only kidding. ■

Treasurers must nail down funding well in advance of requirement

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