

Treading water

THE AUDIENCE AT THE YEAR'S FIRST ACTME TALKING TREASURY EVENT SAW THROUGH THE GLOOM OF A SOBERING PROGNOSIS OF A WESTERN ECONOMIC MALAISE COMPARABLE TO JAPAN'S LOST DECADE. **PETER MATZA** REPORTS.

Following a very successful year for the ACT Middle East in 2011, our ability to attract a top-level treasury audience continued at the first *talkingtreasury* event of 2012. Held in February in Dubai and sponsored by Emirates NBD, it brought together over 75 delegates for a series of presentations and panel debates.



INTEREST RATES IN AN ERA OF FREE MONEY In a tour of the global economic scene Nick Stadtmiller, head of fixed income research at Emirates NBD, suggested that in the US and the EU/euro zone, the picture at best was one of "treading water". More central bank intervention, very low rates and a flattened yield curve are designed to stimulate credit (and help banks manage their battered balance sheets). Stadtmiller's prognosis is that the issue might not be resolved for seven to 10 years – somewhat like Japan's "lost decade".

Domestically in the UAE, however, banks have substantial liquidity, which is the driver for the dirham/US dollar interest rate differential. Stadtmiller thinks that local rates might be on an upward trend, especially in the medium-term area of the yield curve.

A question put to the panel in the discussion that followed asked whether current central bank policy in the Western economies was working. The panel said it should but that interest rate volatility was restricting investment decisions despite cheap funding and even consumer confidence had stayed low. On the other hand, the currencies of the Gulf Co-operation Council (GCC) states are pegged to the dollar. That means that elements of Western monetary policy are being "imported" to the UAE/GCC from the US.

The consensus was that corporates have to appreciate their financing requirements to ensure the calculation of cost versus need is understood. Regional treasurers might benefit from looking down the curve and considering, say, forward-starting interest rates as a no-loss option to lock in rates but there must be a sensible business case for structured interest rate hedging. Interest rate swaptions on a no-cost basis were also suggested as a hedging technique.

STRATEGIC TREASURY The second panel focused on stepping back from an operational focus and looking at the strategic goals. The panellists introduced their own treasury experience and discussed what they felt were key elements for treasurers to work on.

On funding, they agreed that, despite the traditional banking relationships prevalent in the GCC, treasurers would be well advised

to search out diversified sources across all types of funding markets. Governance and a corporate's reputation for having a clear business and financial direction remain important. Considerable stress was placed on thoroughly understanding the drivers of the business as a "scatter-gun" approach for corporate finance was unsustainable.

The panel stressed that improving the quality of staff is a prerequisite to creating a contemporary treasury department. Treasurers in emerging economies have an opportunity with technology to leave behind legacy systems but there may well be cultural resistance to new functions and needs from teams. Technology is not a substitute for solid treasury practice.

The importance of fully integrating treasury with corporate financial management is more difficult in terms of changing the long-held perception that treasury is just a cash management/operational function. Treasurers need to engage with colleagues to stress the importance of integrating corporate financial management.

THE 2012 AGENDA The last panel session was an open forum where participants shared what would be on their 2012 agenda. Two or three issues were especially important to the delegates.

First was managing corporate to bank relationships so that both sides have a fuller appreciation of what each can bring to the table as well as the value each will derive from the relationship. Having a structured evaluation system can help here.

Second, a deep understanding of counterparty risk is critical as business operations expand into new markets (knowing who is paying the business is highly relevant). As existing financial service providers move towards providing advisory rather than solely credit, companies may look to other third parties for financial services and so take on exposure. This is important as the regional versus international bank marketplace is becoming more competitive.

Third, treasurers need more skills and education, and to remain aware of new technologies for all aspects of treasury management.

As always, the networking sessions were lively and spirited, with treasurers sharing their experiences and knowledge. The growth and presence of the ACTME is facilitating this exchange, which continues on the ACTME LinkedIn page at <http://tinyurl.com/87vj2g9>

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