Managing Cash in Times of Turbulence

Summary of ACT/HSBC AM seminar

Opening Speaker: Frederic Neumann

HSBC Global Research has not seen tremendous financial stress in the global economy due to strong regulatory and governmental response to the pandemic crisis.

In terms of COVID-19 cases on per capita basis, Asia is less affected than the West (except for Singapore due to the second wave); although there are still concerns about India's growing number of cases, and secondary flares in Indonesia and Malaysia.

Lockdown easing at the margin, and that means the break in economic activity will endure for the next several months.

China's economy has been normalising, but remains at a 90% level; due to lingering effect of lockdown measures, HSBC Global Research expects economies will normalize at around 80-90% of previous levels.

Forecasting contraction of over 12% yoy in US/EU, this will have an impact on trade and on Asian exports, further exacerbated by US/China tensions.

We're likely to see an enduring dismantling of the supply chains.

Forecasting rebound in 2021 across the board and faster in Asia than in the west; but it will not catch up to 2019 levels.

Deflationary risks are higher than inflationary because it is a crisis of demand not supply.

HSBC Global Research expects interest rates to remain low: forecast 10 Y TSY yield at 0.5% end of 2021 increasing to 1.5% in the longer term. Low interest rate environment is supported by strong central bank support.

Q&A:

1) Industries that can benefit from crisis: digitization: software and hardware (electronics sector should do reasonably well); commercial real estate may struggle a bit, but possible positive impact on residential real estate from WFH
2) Singapore growth? Growth may be seriously impacted, contraction up to 7% this year, according to government's forecast as it's highly beholden to the global trade cycle
3) Possibility of negative interest rate in US? Not the preferred choice of the Fed, expect that Fed will deploy other methods e.g. yield curve control, QE, rather than negative interest rates as most central banks have concluded that it doesn't work well. Possibility that market forces bring rates into negative territory sporadically.

4) 2021 could be a good year for the car industry as people will want to avoid public transportation and oil prices are cheap

Panel discussion key points:

Main concern for corporate treasurers is the need for cash management, not just to satisfy the day-to-day requirement but also surplus for emergencies. This is core to all businesses, wherever they are.

The cash flow forecasting process is important for a liquidity management strategy. Corporate treasurers need to make available adequate cash "in the right place, in the right time, in the right currency and in the right amount". This must involve both board and business partners from across the business. And of course if you de-risk yourselves to a great extent, then you also have to look at idel cash which can be costly. For idle cash, companies need to consider short-term investments such as money market funds. 2 major criteria: high liquidity and safety. Corporates cannot afford to lose principal on investments.

It's important to manage the relationship with banks as they provide other sources of finance besides cash from operations. The crisis may be a challenge to corporate treasurers but, at the same time, it is an opportunity as the crisis has probably pushed treasury from a mainly functional and operational role to a more strategic role and keep plugged into a wider business.

The reality is that real rates are negative in many markets so treasurers don't have many options to generate yield.

Possible solutions include: increasing duration; increasing risk; increasing diversification.

Some possibilities to consider in addition to the traditional solutions of bank deposits, CDs and money market funds include short duration funds (around 1 year) and laddered time deposits portfolio constructed with your bank.

Investment guidelines can also be reviewed to see if it is possible to invest in ETFs, which can add diversity but are generally treated as equity and precluded by most corporate treasury guidelines.

Pooling is critical. Review your fixed/floating mix. Rationalise the number of providers. Regulators are also potentially protective of businesses during the crisis, so it is a good opportunity.

But don't count on COVID-19 to get rid of IBOR transition, which is still going ahead. Regulators are pushing forward. Banks must get prepared [However of course we know that with the ACT's support some of the interim deadlines have already been removed.]

[The BofE recently published an interesting report on the interplay of interest rates in different markets.]

So: It is time for corporate treasurers to discuss products using SOFR and SONIA. Asia is behind, as still not much happening with HONIA, and HKMA has confirmed HIBOR will remain for the near term.

Corporate treasurers need to consider the impact of IBOR transition and the use of new benchmarks on hedge accounting.