FORECASTING AND REGULATION

Brexit continues to be debated and we have issued a Briefing Note (www.treasurers.org/brexit-briefing). Commentators are divided between warning about the uncertainty of an exit, and the risk that apathy makes the outcome a random event. Otherwise, China holds our interest, the US wobbles towards its election, while EU regulation pauses with several of the old topics in limbo. If you have views you'd like us to take into account, email us at technical@treasurers.org

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{ IN DEPTH }

CHINA, THE US AND THE UK REFERENDUM: SO MANY VARIABLES

We have been receiving requests from members and the financial press to opine changes afoot, but the mix and scope of major changes developing across the world economies makes it difficult to forecast exchange rates and interest rates. Treasurers need to consider the potential for less technical- and more political-driven change to impact on their businesses as 2016 unfolds.

China

Chinese growth, the slowing or the calming down of (remains officially forecast at an enviable 6.5-7% for 2016), is still a hot topic. Meanwhile, the Chinese authorities manage concerns over domestic bad debt, develop their financial markets and are using their impressive accumulated FX reserves to invest externally.

On the regulatory side, Chinese money market funds regulation has been brought closer into line with that of the West, although Chinese funds are permitted leverage. A 5% liquidity buffer has been brought into effect, funds are now permitted to invest in tradeable securities of deposit, which could aid liquidity, and the weighted average maturity has been shortened by 60 days to 120.

On the domestic economy, the Chinese slowdown has seen some commercial businesses close, although there is an element of rebalancing as the domestic demand develops.

We should not lose sight of China's prodigious FX reserves and low external debt relative to major Western economies, which enables China to manage its domestic economy, but at risk to other economies as reserves are converted into cash. It is true that China's FX reserves are falling, dropping from $3.4 trillion to $3.2 trillion over January and February, according to Bloomberg. The causes extend beyond supporting the domestic economy and are made up of infrastructure investment, including overseas, and the commencement of loans through the Asian Infrastructure Investment Bank.

Now, consider that the UK's FX reserves at the end January were $159bn and, while China's external debt was $1.5 trillion at end of Q3, the UK's external debt was $8.4 trillion.

Schadenfreude persists in Western minds, but the Chinese can weather a lot more change than the UK before their problems become international.

US

The US election risk for non-US businesses could be increased protectionism regardless as to which party wins as the blue-collar vote becomes the decider. Treasurers may wish to consider what strategic risks of reduced access to US markets may have in a world where commodity and major capital goods prices remain dollar denominated.

UK

The outcome of the UK Brexit referendum remains uncertain. Voter apathy could be as much the decider, with expert commentators now stimulated to take note of the UK's underlying structural problems (see Kristin Forbes' insightful speech on managing the UK external deficit at www.bankofengland.co.uk/publications/Pages/speeches/2016/890.aspx made in March). Meantime, the financial press has started to look through an exit vote to ponder on the effect of the UK losing its status as an access point to EU markets.

Although stable at the time of writing, sterling has dropped 3.4% against the US dollar and 6.5% against the euro since 31 December 2015, which recommends a cautious approach to hedging.

So many variables, so little time before they start to crystalise. Perhaps time to fix those rates where the consequences of adverse change is not affordable.

View the technical updates and policy submissions at www.treasurers.org/technical and www.treasurers.org/events/webinar. Elsewhere on the web:

Brexit: further resources: www.treasurers.org/node/318447 and a reminder of *The Treasurer*'s Brexit checklist: www.treasurers.org/brexit-briefing

The ACT policy and technical team has written various blogs this month: blogs.treasurers.org

Financial counterparties support single-sided reporting: www.treasurers.org/node/318782

{ TECHNICAL ROUND-UP }

EU MiFID II: DEFERRED, BUT NO CHANGE

MiFID II implementation has been deferred until 2018, but no change is intended. The ACT and others have advocated a change to the Own Account exemption (discussed right) and it is expected other parties will seek change.

UK PAYMENT SYSTEMS REGULATOR AND THE PAYMENT FORUM

The UK Payment Strategy Forum has started to meet to ensure that payment strategy forms reach user requirements. Visit www.paymentsforum.uk to understand the scope of its work and consider if you want to join.

{ INTERNATIONAL }

EU regulation – some changes

The European Banking Authority progresses to issue its guidelines, which will require banks to impose the capital valuation adjustment on corporate derivatives. This is where the margin is not collateralised in contravention of the EU Parliament's expectation that it had removed this cost from non-financial corporates under European Market Infrastructure Regulation. This conflict will require resolution within the Parliament.

MiFID II implementation has been deferred until 3 January 2018, but we continue to work with HM Treasury and through the European Association of Corporate Treasurers to try and restore the Own Account exemption, which enables corporates to use trading platforms such as 360T without being deemed traders by the Financial Conduct Authority and its national equivalents throughout the EU.

We have asked the Treasurers Forum, but we would appreciate any corporate letting us know the impact of the loss of this exemption. Please contact sbaseby@treasurers.org if you want your voice heard on this topic.

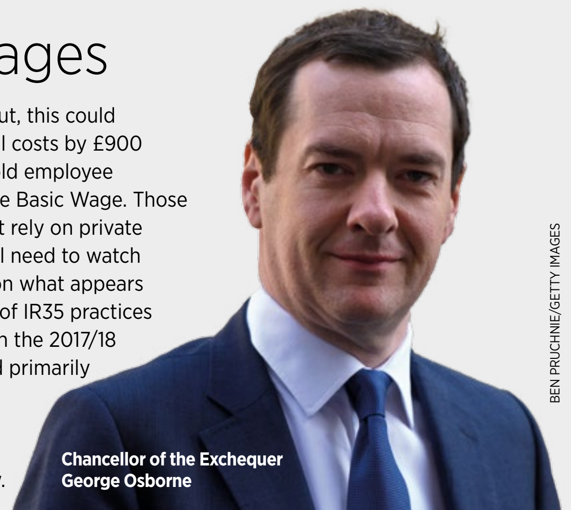
EU money market funds and financial transaction tax initiatives remain in limbo.

{ WATCH THIS SPACE }

UK Budget: corporation tax and wages

George Osborne made his 2016/17 Budget speech on 16 March. The main impact for UK corporates is affirmation of the intent to cap interest deductions at 30% of tax EBITDA with exceptions to be discussed and agreed, which are expected to be for private finance initiative and public–private partnerships projects. This brings the UK into line with Organisation for Economic Co-operation and Development (OECD) standards intended to promote the base erosion and profit shifting initiative, and brings the UK into line with other OECD members, including Germany in the EU. Treasurers will need to work with their tax colleagues to understand the impact on cash tax flows going forward and consider if structural changes to financing the balance sheet are required.

A secondary impact will be on labour costs. The already announced National Living Wage came into effect from 1 April 2016. Simply put, this could increase annual costs by £900 per 25+-year-old employee currently on the Basic Wage. Those businesses that rely on private contractors will need to watch development on what appears to be a review of IR35 practices to take effect in the 2017/18 tax year, aimed primarily at government employers, but worded as a broader review.


BEN PRUCHNIE/GETTY IMAGES

Chancellor of the Exchequer George Osborne