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Auto makers drive treasury growth

Chinese car manufacturers are placing heavy demands on their treasury teams as they seek to capitalise on the country's status as a global leader in electric vehicle development.

The Corporate View

Alexander Seelmann-Eggebert

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Calm in the storm

In this installation of Treasury Today Asia we offer calm in the storm with corporate financial insights you can rely on.

Our insight and analysis feature looks at the global automobile industry as it pins hopes for growth steadily on China's shoulders. We address the issue from the perspective of treasury teams working at the largest manufacturers supporting Chinese strategy. New digital buying strategies, ride hailing apps and the electric car market are all discussed.

Elsewhere the ever important issue of sustainability is under the spotlight as we address this from the perspective of KPIs. The perennial pest of the treasurer can be a tool for progress as we assess how treasury can accelerate corporate sustainability by choosing the right KPIs and look at what investors are keeping an eye out for within this space.

Banking's hot spot payments is subject to some complex and comprehensive regulations across the Asia-Pacific region. We navigate the choppy waters to bring you clear information and insight on the matter.

Elsewhere our regional focus for this issue is Australia as we look at the impact of the pandemic and the severe and long-lasting lockdowns imposed by its authorities. It's chances of bouncing back are addressed alongside an exploration of Australia's relationship with China and foreign direct investment. And finally, our back to basics feature takes a peek at hedging, addressing FX hedging, interest rates and commodity risk as we bring you tales from the frontline.

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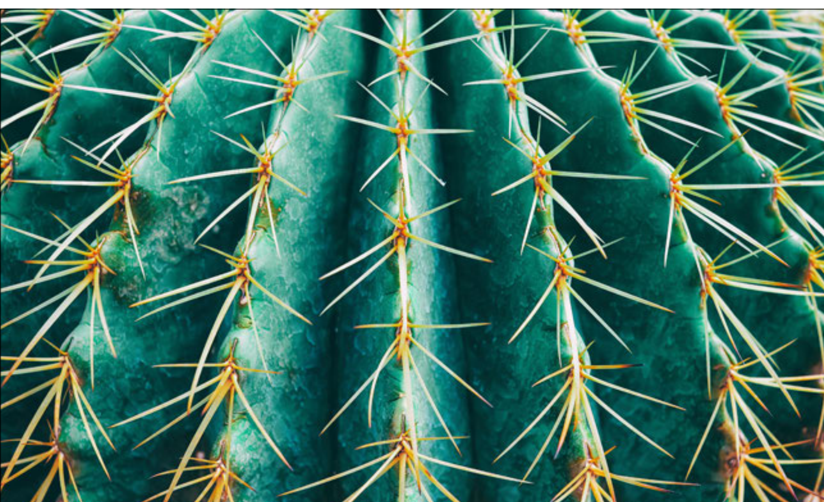

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Alexander Seelmann-Eggebert, Deputy Regional Treasurer, Asia Pacific at Nestlé, has adapted to living in various countries throughout his career. He explains how patience and sacrifice can go a long way in building a successful career.

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Australia's economy faces unique challenges

With a tight labour market and rising inflation, Australia faces similar economic challenges to the rest of the world. In other respects, however, the country is unique – particularly with its relationship to China.

Auto makers turn to treasury to drive growth

Car manufacturers' strategies for maintaining their position in the Chinese market are forcing treasury teams to explore new options as well as refine established approaches.

With car sales in 2021 almost equal to the total for the US, Japan and India combined, the Chinese market is fundamental to the success of the automotive industry.

In this context the most recent data from the China Association of Automobile Manufacturers is encouraging, with more than 2.4 million vehicles sold in July as production returned to normal as government incentives – including a reduction in purchase taxes – began to take effect.

So-called 'new energy' (electric and plug-in hybrid) vehicles accounted for just under a quarter of total sales. BYD overtook Tesla as the world's best-selling electric vehicle manufacturer in the first half of this year and a number of other Chinese companies are now among the largest producers of electric and plug-in hybrid vehicles globally.

In July, a briefing held by the State Council Information Office underscored the importance of promoting sales of new energy vehicles and ensuring the supply of auto chips and related raw materials at a relatively stable price. Guo Shougang, an official with the industry ministry, was quoted as saying that efforts were underway to expedite a study into extending purchase tax exemptions for electric cars.

These comments echo an earlier observation by foreign direct investment consultancy Dezan Shira & Associates that a number of ministries including the Ministry of Information and Industrial Technology were negotiating with manufacturers about extending electric vehicle subsidies that were originally set to expire at the end of this year.

The Ministry of Commerce has committed to other measures to encourage consumption, including incentives for using

> As car manufacturers are increasingly involved in critical parts production and sourcing, they need to allocate additional capital for such investments – either in the form of capital expenditure, joint venture investments, or equity investments in upstream suppliers.

Jing Yang, Director of China Corporate Research, Fitch Ratings

electric vehicles, improving the availability of charging facilities, and encouraging the replacement of older vehicles.

However, Dezan Shira & Associates observes that China's long-term strategy of reducing subsidies, coupled with supply chain issues and Covid lockdowns, is likely to drive up the price of electric vehicles over the coming months.

Manufacturers such as XPeng and NIO have responded by either absorbing the subsidy loss or cancelling preferential lending programmes for potential purchasers.

The surging cost of a number of automotive components has required Chinese car manufacturers to rapidly adjust their procurement strategies and increase budgets for procurement explains Jing Yang, Director of China Corporate Research at capital markets credit rating, commentary and research provider Fitch Ratings. "Larger inventories of parts and unfinished cars, and larger prepayments all have an impact on their working capital cycle," she says. "Meanwhile, as car manufacturers are increasingly involved in critical parts production and sourcing, they need to allocate additional capital for such investments – in the form of capital expenditure, joint venture investments, or equity investments in upstream suppliers."

For example, suppliers of electric vehicle batteries may demand joint investment in production lines from car manufacturers to secure battery supplies.

"These strategies require the finance and treasury team to provide professional assessments of the project returns and also to facilitate internal or external financing," adds Jing.

Richard Hilgert, Senior Equity Analyst – Automotive at financial services firm Morningstar says finance and treasury teams play a vital role in supporting the procurement and supply chain strategies of the major car manufacturers in China by maintaining availability of funds in a volatile commodities market and by working with senior executives to understand future funding needs as the bill of materials changes in the shift to vehicle electrification.

Gao Tao, Associate Director Light Vehicle Production Forecasting at automotive solution provider S&P Global Mobility refers to BYD as a success story in this respect, noting that its sales are up by 77% year-on-year despite the difficulties faced by all manufacturers since the start of 2022.

"The major driver of this growth is a stable in-house supply chain in the face of restrictions in semiconductor availability and increased material prices," he says. "For other OEMs [original equipment manufacturers] relying on external supply chains, most new energy vehicle producers have increased their vehicle prices since the start of the year and some features have been cut off to save chips for major functions."

The new automotive business model in China is customer service-centric and in this new world, mobility becomes both shared and autonomous explains Purshottam Purswani, APAC Chief Technology Officer for information technology service and consulting company Atos.

"The industry is evolving with many banks either providing the billing platform or integrating with car manufacturers' procurement or supplier management systems to provide supply chain finance," he says.

Purswani observes that car manufacturers' own financial service companies are offering digital buying platforms or integrating with well-known e-commerce platforms. "This reinforces manufacturers' investment in digital services for their consumers or sales channels," he adds.

The China Association of Automobile Manufacturers has acknowledged that car production has been severely affected by the shortage of chips and the increase in the price of raw materials for batteries this year. Manufacturers have adopted a variety of strategies to address these issues.

Earlier this year, Matteo Fini, Vice President Automotive Supply Chain Technology and Aftermarket at S&P Global Mobility noted that LFP or lithium iron phosphate-cathode batteries would stand to gain further competitiveness in the market should nickel and cobalt prices continue to stay elevated.

LFP chemistry was initially favoured by Chinese manufacturers BYD and CATL as a low cost alternative to nickel and cobalt-rich chemistries. Chinese manufacturers hold a virtual monopoly on this technology thanks to key patents registered by a consortium of Chinese academic research institutions which agreed with local battery manufacturers to forego licensing fees provided these batteries were only produced in China, although these patents will start expiring from this year.

In 2014, Tesla reportedly tried and failed to acquire Californian lithium extraction start-up Simbol Materials, which later ceased operations.

At Tesla's Battery Day event in 2020, the car manufacturer seemed to indicate that it was seriously considering establishing its own mining operations through the purchase of a 10,000 acre site in Nevada, although nothing appears to have come of this to date.

Industry experts reckon Tesla is more interested in securing long-term supply agreements with existing and potential new mines. But with lithium prices having increased by around 400% over the last two years it appears that the prospect of

> It may be easier to secure supplies for Chinese manufacturers than those in other countries, but eventually they will face similar challenges in the supply chain given the rapid increase in battery demand.
>
> Rico Luman, Senior Sector Economist, ING

the car manufacturer acquiring and running a mining company cannot be discounted.

According to the United States Geological Survey (USGS), five mineral operations in Australia, two brine operations each in Argentina and Chile, and two brine and one mineral operation in China account for the majority of world lithium production with a number of additional Chinese operations under development.

But demand from Chinese car manufacturers far outstrips supply. A paper published in Frontiers in Environmental Science in June noted that the country accounts for just 6.8% of global lithium reserves and that 86.5% of its requirements are imported.

Hilgert notes that Chinese electric car manufacturers seeking to ensure sufficient supplies of commodities such as nickel, graphite and lithium are increasingly going directly to the raw material mine operators to secure supplies.

Most Chinese electric car manufacturers still rely on the battery suppliers and a cost pass-through mechanism was established this year which typically links battery procurement costs with the cost of the key battery metals.

Electric vehicle makers are paying larger amounts upfront, making joint investments in battery production lines and even establishing joint ventures with battery cell producers to ensure battery supplies, observes Jing.

"A small number have also started to make equity investments in upstream battery materials," he says. "Yet with the exception of BYD, few Chinese electric vehicle manufacturers have taken further steps to acquire battery metal mines themselves."

One exception is BYD, which earlier this summer announced that it would invest more than US$4bn in a battery factory and mining project in China's Jiangxi province that could produce up to 100,000 tonnes of lithium annually in addition to a recently commissioned plant in Shaoxing. At current consumption levels the new facility would produce about 125% of the battery cell volume produced by BYD in the first six months of this year.

"Some OEMs are cooperating with battery producers who have either already established subsidiary companies or acquired lithium enterprises," adds Gao. "Vehicle manufacturers with in-house supplies are expanding their lithium mining businesses in South America and Africa."

Supply of battery metals is about to lag demand as manufacturers ramp up production and demand soars. This means a new supply chain crunch could emerge around these metals in the next few years – especially for lithium.

That is the view of Rico Luman, Senior Sector Economist at Dutch multinational banking and financial services corporation ING, who notes that concentration of supply in a small number of countries makes it more vulnerable to disruption.

"Large international car manufacturers such as Ford, GM and Tesla have moved to secure supplies via direct agreements with mining companies," he says. "Chinese manufacturers are competing in the same global markets for raw materials and with China now taking the lead in the electric vehicle transition – not only in terms of absolute numbers, but also relatively in terms of share of new sales – sufficient supply of batteries is even more important to accommodate rising short term demand."

The fact that most battery production capacity is still based in Asia offers an advantage to Chinese manufacturers.

"It also helps that Chinese market leader BYD is a battery manufacturer itself and thus it will also negotiate to secure supplies of raw materials," explains Luman. "China produces lithium and nickel, but when it comes to ramping up production to keep up with demand it may also need to rely on supply from elsewhere. It may be easier to secure supplies for Chinese manufacturers than those in other countries, but eventually they will face similar challenges in the supply chain given the rapid increase in battery demand."

In contrast, the introduction of new digital buying platforms and the 'car as a service model' has made relatively little impact on the finances of car manufacturers in China, although Gao acknowledges that greater use of digital buying platforms has reduced the number of dealerships and made it cheaper for manufacturers to expand their distribution networks.

According to Hilgert these trends have required manufacturers to increase their investment in IT infrastructure, software engineers, and digitisation of their vehicles.

Jing notes that although the direct sales model has been adopted by many electric vehicle start-up companies as a means of directly accessing customers without having to provide funding to dealers – the approach taken by traditional car makers – it comes with downsides.

For example, manufacturers have to bear the inventory risks themselves and invest intensively in distribution networks, which are typically a combination of an online platform and a large number of offline showrooms.

"Under the car as a service model, car manufacturers (or their service subsidiaries) typically hold the vehicle fleet on their own balance sheet, so it is an asset heavy business model," he explains. "Car makers can opt to move such vehicle assets off the balance sheet through asset-backed securities or other structured finance products, or they may introduce strategic/financial investors to the car as a service companies to dilute their own stakes. However, e-commerce penetration is yet to improve in China's retail car market." ■

APPLE LOOKS TO TAKE A BITE OUT OF BNPL

Apple's entry into the buy-now-pay-later market has already proved controversial – but the challenging economic environment could work to its advantage.

In June, Apple announced that it was adding a buy-now-pay-later (BNPL) component to its Apple Pay offering, enabling customers to split a purchase into four equal payments over six weeks with no interest or fees to pay. It will perform a 'soft' credit check on users along with a review of their transaction history with the company.

At first glance this appeared to be bad news for the likes of Affirm and Klarna, who have been experiencing difficulties this year. Klarna's valuation fell by 85% in its latest fundraising round despite the company describing itself as being bigger than American Express and it reduced its headcount by 10% earlier this year, while Affirm's share price has fallen dramatically in 2022.

But many analysts believe the tech giant's entry into the BNPL space will grow the overall market by appealing to people who don't currently use it rather than poaching Klarna or Affirm users.

Instead of partnering with retailers, the service has been developed as a component of Apple's digital wallet targeting the millions of people who use its mobile devices – and are incredibly loyal to the brand. These users also tend to have higher disposable income than the typical BNPL customer and for most, Apple Pay Later will be just another payment option that appears in their Apple Wallet.

One of the factors working in Apple's favour is its deep pockets, which should cushion it from the worst effects of any slump in revenues resulting from recession and the end of the post-Covid recovery in consumer spending.

Regulation is an elephant in the room. In an interview last month, Rohit Chopra – Director of the US Consumer Financial Protection Bureau (CFPB) – said it would be looking carefully at the implications of so-called 'big technology' firms such as Apple entering the BNPL market.

The CFPB is particularly concerned about how these companies might use customer data given the amount of information they would have on consumer spending patterns, location and even health. Chopra also intimated that there were concerns over whether merchants might be forced to accept payment by instalment.

Under the UK government's plans for the sector announced in June, lenders will be required to carry out affordability checks (ensuring loans are affordable for consumers) and financial promotion rules will be amended to ensure BNPL advertisements are fair, clear and not misleading. Lenders offering the product will need to be approved by the Financial Conduct Authority and borrowers will also be able to take a complaint to the Financial Ombudsman Service.

Providers and users of BNPL services will also be keeping a close eye on the extent to which the market is affected by rising interest rates. In the B2B space the impact is already being felt as the cost of capital continues to increase.

However, Aiga Senftleben, Co-Founder and Managing Director of BNPL platform Billie reckons higher rates will translate into higher demand on the buyer side.

"Increased interest rates mean that refinancing and working capital funding will become more expensive," she observes. "Hence, access to external funding will be more difficult. Since the costs for the service are borne by the merchant and not by the buyer, a BNPL solution offers the buyer additional liquidity for the duration of the payment period granted by the service provider." ■

APAC pushes to simplify cross-border payments

Asia Pacific's payments landscape is complex, with numerous rules, regulations and systems to navigate. The region is taking the lead, however, in tackling the issues head on and bringing simplicity – especially when it comes to cross-border payments.

Cross-border payments are one of the biggest pain points for treasurers and in Asia Pacific, in particular, there are many complexities to contend with. The region is diverse – with a mix of developed, developing and frontier economies – and getting international payments to and from the region often relies on correspondent banking and financial institutions maintaining a series of bilateral relationships. As well as the regulations for each market, each institution can have its own way of doing things – further adding to the complexity. The problems with this set-up are well known, but now there are changes afoot in Asia Pacific to bring standardisation, simplicity – and innovation – to cross-border payments.

Reet Chaudhuri, Co-Lead, Asia Payments for McKinsey, comments, "Traditional cross-border payments globally are a challenge. They are expensive, time consuming and inefficient," he says.

Corporates are still reliant on financial institutions and the correspondent banking network to get payments from one side of the world to another. In recent years, there has been increased regulatory scrutiny (and fines) related to know your customer, sanctions screening and anti-money laundering regulations, for example, and many large institutions have dramatically reduced the number of correspondent banks they have. This 'de-risking', says Chaudhuri, means that it is now even more convoluted to make cross-border payments.

Chaudhuri illustrates with a hypothetical example. A payment originating from Asia Pacific could go through six or seven steps before it is settled in a frontier market in Africa. The importer may not bank with the international bank with the correspondent network, so they go to their local branch, who goes to their correspondent, who sends the payment to their regional hub, which forwards it to their counterparty in the other country, who sends it to a local clearing bank, who sends it to the local branch of the beneficiary. "Each of these entities is shaving off their fees," says Chaudhuri.

Chavi Jafa, Vice President, Head of Business Solutions, Asia Pacific at Visa describes the problems with cross-border payments as the three 'Cs': cost, clarity and consistency.

The cost comes with the number of intermediaries that are involved in the process – with each taking their cut, making the payments expensive.

Also, "There is a lack of clarity around the process and timing of when the payment will be received," says Jafa. "If a business sends a payment internationally there is a lack of clarity about when that payment will be received."

And then the third C is consistency. "There is a lack of consistency from a user perspective. Every financial institution has their own processes that they follow so even if the sender and the receiver are in the same country, they could have a different user experience because they are using a different financial institution," explains Jafa.

The pitfalls of this way of doing things are well known, both by transaction bankers and corporate treasurers alike. Swarup Gupta, Financial Services Lead and Head, ESG at the Economist Intelligence Unit (EIU), comments, "The correspondent banking network has been in decline for a while." He adds that most of the large correspondent banks are institutions from developed markets, and they are ill-equipped (and unable to justify their fees) when it comes to catering to the market for low-value transactions and low volumes.

Gupta notes there are issues with settling in currencies that are illiquid, and less well-known, and also the mix of batch and real-time processing can mean that faster payments can still be slowed down when they hit a batch-processing system in a particular country. And on the issue of visibility, Gupta says succinctly: "If you have paid me, I have no clue."

All is not lost, however. Many parties in this complex landscape are working on improving the situation and bringing speed, simplicity and transparency to cross-border payments. "There is so much focus [on cross-border payments] because the opportunity is so large in Asia Pacific," says Jafa. She points to research that estimates the size of the potential market as a US$4trn opportunity for cross-border payments in Asia Pacific.

The challenges are huge, however, because of the diversity within the region. Miguel Warren, VP of Southeast Asia at payments company Payoneer comments, "APAC is an incredibly diverse region with a myriad of jurisdictional regulations that need to be considered." For businesses managing cross-border payments, there is no 'one size fits all' and in many cases they need to rely on third-party providers. Warren notes that Hong Kong and Singapore have emerged as prime locations to do this as there are many options for entities to access cross-border payment solutions.

There are myriad options for overcoming the complexities with cross-border payments. There are various solutions in the market that address gaps in the correspondent banking network, notes McKinsey's Chaudhuri.

With the lack of visibility, for example, SWIFT gpi makes it possible to see where the payment is. And Visa B2B Connect overcomes the problem of a financial institution not having a correspondent bank in a particular country. And there have been challengers to SWIFT, such as Ripple.

Visa's Jafa explains that one of the advantages of using Visa B2B Connect – instead of the traditional correspondent banking system – is that it is a multilateral network. Or in other words, participants sign up to the same rules so there is standardisation among all the participating institutions. "All the participants are governed by the same rules; with this standardisation in processes the user experience becomes consistent," explains Jafa. This contrasts with the correspondent banking network where Bank A has to partner with Bank B, then Bank C and so on. Also, with Visa's solution, there is transparency with the transactions. Jafa explains that the fees are confirmed up front and it is clear how much the sender is paying and how much the beneficiary will receive.

Despite this, and other solutions, that address the inefficiencies in the correspondent banking market, most corporates still rely on their banks to do things the old way. For now, correspondent banking and SWIFT are still the dominant players for cross-border payments, says McKinsey's Chaudhuri.

One recent development that is promising, Chaudhuri says, is the mCBDC Bridge project with a proof of concept that indicates that cross-border payments could be done in almost real-time at a fraction of the cost. This multiple Central Bank Digital Currency Bridge is a project that is building a multi-CBDC platform for international payments and has been tested by the BIS Innovation Hub, the Hong Kong Monetary Authority, the Bank of Thailand, the Digital Currency Institute of the People's Bank of China and the Central Bank of the United Arab Emirates.

Central bank digital currencies (CBDCs) are a hot topic in the industry and many are looking to them to solve the well-known problems with cross-border payments. EIU's Gupta observes how this work is progressing: "With CBDCs, everyone wants them but no one has them at scale." Also, in addressing the issues with cross-border payments, and using CBDCs, "Interoperability has to be built into the inception process," says Gupta.

Gupta points to an interesting CBDC project – known as Project Aber – with Saudi Central Bank and the Central Bank of United Arab Emirates for wholesale cross-border payments. With this project, explains Gupta, the commercial banks in the two countries will issue the same digital token – ie in the same digital currency – so there is instantaneous settlement. The initiative explored the viability of using distributed ledger technology for this single dual-issued digital currency. The project explored whether this could be used for cross-border settlement between the two central banks; between domestic commercial banks in each countries; and cross-border transactions between the commercial banks in the two countries. The project team reported that distributed ledger technology could be used in this way to reimagine cross-border payments and was "pleased by the promising results". Gupta, however, does not expect to see similar initiatives develop in other countries.

> With CBDCs, everyone wants them, but no one has them at scale.
>
> Swarup Gupta, Financial services lead and Head, ESG, Economist Intelligence Unit (EIU)

Gupta believes that the greatest changes in the Asia Pacific landscape are coming from elsewhere. "The near future is the linking up of various real-time payment systems rather than the CBDCs," he says.

There is already plenty happening in this space – with domestic real-time systems in Asia being linked up to make real-time cross-border payments a reality. Also, there has been the linking up of QR code systems between countries, such as the recently-announced scheme between the central banks of Singapore and Indonesia. A report by the EIU, entitled Beyond borders: a new era for digital payments, also notes this trend of Asia taking the lead in the adopting cross-border payment linkages and notes the various countries that are linking up, such as Malaysia, Philippines, Singapore and Thailand.

With schemes such as these, the patchwork of different systems will be simplified and a more seamless, consistent payment experience will be possible – with there being, in theory, no difference between the ease of a domestic payment, and a cross-border one.

One development that will also help with the simplification and standardisation of international payments in the region is the migration to the ISO 20022 format. Payment messaging will be standardised with ISO 20022, the migration to which is still ongoing. Chaudhuri explains this standard – which banks will need to comply with – is an improved messaging protocol that allows much more information to accompany a payment, which will lead to easier reconciliation, he notes. Chaudhuri says many corporates still need to make the change as there is a three-year window of coexistence until full adoption of ISO 20022 by banks.

This standardisation, however, does not solve the lack of speed with cross-border payments, notes Chaudhuri. And while there are a number of projects underway to connect various real-time payment systems in Asia, these are still bilateral arrangements between national systems. Could there one day be an equivalent to the Single Euro Payments Area (SEPA) in Asia Pacific, where the standards, rules and regulations are the same? Chaudhuri does not think so. He argues that it would be challenging for a variety of reasons. Asia Pacific, for example is politically diverse and not a united economic bloc in the same way the European Economic Area is.

While it may seem like change to the payments landscape in Asia Pacific is coming slowly, Gupta has advice to treasurers: "Prepare for disruption," he says. He notes that the wave of innovation that began with Steve Jobs and the iPhone is now raising business-to-business expectations and customers will be expecting much more than the status quo. ■

The UN's IOM reveals the sharp end of investing for the short term

Preservation of capital, risk reduction, diversification and ESG integration are just some of the considerations corporate investment teams consider. For the International Organization for Migration, the biggest challenge is squeezing billions into short-term investments.

The International Organization for Migration (IOM), the UN-institution striving for orderly and humane migration, is sitting on around US$1.7bn in cash in an allocation that has trebled over the last seven years mostly due to expansion and an increased lead time on its investments.

Malcolm Grant, Chief of Treasury at the Geneva-based organisation, estimates the IOM only ever needs around a third of that cash on-hand, but long-standing rules around governance of the surplus dictate a duration limit of 12-months on all investment. Although IOM's finance and management teams are involved in an ongoing process urging member states that the size of the cash pile merits restructuring the balance sheet, for now IOM must squeeze its billions into a 12-month window.

A play-it-safe strategy used to focus on bank deposits until the GFC proved that level of exposure to the financial sector risky. Today, around 80% of the portfolio lies in short-term placements, between 5-10% is in MMFs and the remainder (around 5%) is in a dual currency allocation.

Apart from an outsourced ESG mandate, one member of the six-person treasury team runs the bulk of the portfolio, overseeing a diversified strategy across sovereign and supranational issuance and a more complex allocation to a dual currency strategy. Investment is shaped around capital preservation and liquidity, benchmarking three-month rates and avoiding all allocations to equities or illiquid markets.

Navigating the impact of negative interest rates in dollars and euros has proved one of the biggest headaches. Positively, the giant cash buffer means that unlike most corporates, IOM doesn't have to craft an investment strategy shaped around cash flow forecasts. "Cash flow is not critical given our cash buffer," says Grant.

The basics

It's a different story for most other treasury teams where investment strategy begins with a clear understanding of investable cash. Cue dividing cash between what is needed for operational versus long-term purposes; scrutinising the likelihood of operational cash levels coming under pressure in different markets, taking into account a post-pandemic environment requiring a reduced cash balance and strategic growth opportunities. "Before a company starts making investment decisions, treasury needs to know the cash balance in every geography especially in restricted markets and currencies far away from head office," advises Suraj Kalati, HSBC Global Head of Liquidity & Investments Products.

Next, treasury taps the tools available spanning on-balance sheet, deposit-like products, off-balance sheet MMFs or segregated account structures available from asset managers. "Available cash, working out which tenors and pricing suits best and finding the tools available are some of the important elements in an investment strategy," surmises Kalati who says the risk of a short-term or technical recession is unlikely to impact longer-term investment strategy. "Corporates are not likely to disrupt their investment policy because they've identified short-term stress. What is the right level of cash is the question companies ask."

Macro environment

The macro environment also goes into the mix. As rates increase and economies enter a cycle of tightening, corporates are increasingly looking for opportunities. Treasury Today interviewees say rising rates mean corporate investors are adjusting the duration and maturities of their investments to optimise overall returns and exploring new products as rates start to climb and the yields on savings edge higher.

In recent years, IOMs treasury team has worked hard to insulate returns from the impact of plummeting yields. Now their focus is on investing with an eye on rising inflation and interest rates. "Our financial statements already reveal healthier yields," says Grant who warns that the significant impact of inflation on procurement costs, especially transport and medical supplies, although more difficult to see, will offset the benefits. "Inflation is an invisible killer," he says. "It is a primary treasury risk."

In one trend, higher interest rates are encouraging some corporates to put money into current accounts in a deliberately short-term approach; not committing on tenor but expecting maximum yield and banks to pass on the benefits of higher interest rates on deposits. Indeed, some commentators note it's triggering RFP activity as corporates consolidate and pare back on their global and local bank relationships in an approach designed to both shore up liquidity and leverage the most favourable deposit rates.

Still, it's not the right approach for everyone. The IOM stopped placing large deposits in its current accounts years ago when banks stopped paying current account interest. "For euros the amount we were allowed to deposit without incurring negative interest with our main partner bank got pushed down to ever smaller allowances from US$150m to US$100m, and then to US$50m," recalls Grant.

MMF/SMA

Those capacity constraints on banks' balance sheets have helped fuel another trend: treasury demand for MMFs, sought-after for 24-hour liquidity and yield; a way to put excess balances to work and invest a specific amount of cash for a known period. The IOM runs the money market platform ICD, allocating up to US$120m as a buffer to MMF for short-term liquidity emergencies.

More recently, ballooning treasury demand for MMFs has spilt over into increased allocations to next-step separately managed accounts (SMAs). During the pandemic, many treasury teams divested from SMA's into short-term deposits and MMF's to shore up liquidity. Now, companies carrying large surpluses but achieving poor returns, are heading back to these off-balance sheet solutions to generate yield and bespoke exposure and expertise, especially around ESG.

Like Booking.com, where SMAs have become a useful tool in the global travel platform's investment armoury. "Alongside programmes managed in house and vanilla bank deposits, we have found SMA's are a helpful option," explains Will Nossier, Director of Group Treasury. "I have sometimes heard treasurers mention that they fear an associated lock up of cash in SMAs, but the portfolio management team can construct maturity ladders to ensure there is a constant flow of cash available for withdrawal or reinvestment. Should portfolio sales ever be required to fund unexpected requirements, liquidation is also possible relatively quickly with money available in just a few days."

Diversification

Diversification and multiple counterparties are other essential seams to any investment strategy. The extent to which treasury can concentrate an allocation in one fund class or with one institution will depend on counterparty limits drawn up at board level and embedded into investment policy. A board's appetite for risk will also translate to specific portfolio settings – however this is also an iterative process, evolving as boards become more comfortable with certain strategies.

The IOM ensures diversity via different counterparties and brokers and the size of its cash surplus means it has no shortage of banks knocking on the door or quality counterparties. "We work hard on diversification and ensuring the diversification of counterparties. You can't just talk to the same banks," says Grant. "We work with US, French, British, Norwegian and Asian banks."

Additional diversity comes via interesting in-house strategies, like dual currency deposits. The approach helps navigate negative euro returns whereby placement in one currency is hooked up to a currency option, explains Grant. "If the spot price moves out of the strike rate we move out to another currency. We can manage that risk because we approach it very conservatively – we are not looking for yield enhancement. It is a little bit exotic, but we are a multi-currency agency so have margins."

Managing currency risk is another headache that falls within IOMs investment remit. Unlike a typical corporate domiciled in one country, the organisation doesn't have a reference currency and reports back to its different donors on a project-by-project basis spanning 3,000 operations. "We have a currency basket going across projects in all directions. It's complex and getting data and trying to mitigate FX exposure is very difficult," says Grant. Positively, liquidity in so many currencies allows the organisation to naturally hedge its exposure and supports rebalancing.

Asset managers

But despite every effort to boost diversification, the IOM can't escape its limited investment universe. Moreover, the organisation's ability to invest in non-financial sector investments is stymied by its own risk management capabilities. Looking to the future, mandating to more external managers looks increasingly likely, predicts Grant. "I think we will have to move more money to external managers to manage the risk and diversification we are looking for."

At Booking.Com, an asset manager is on hand in the SMA allocation to ensure specific investment objectives are met, providing the full suite of products and connecting the group to offer important support. The strategy also allows Nossier to call on expertise during market turmoil – like March 2020 when spreads significantly widened. "Back then it would have been challenging competing with institutional trading desks when attempting to sell positions," he says. Today, that relationship is just as important as the company seeks to align its SMA exposure with its conservative risk profile, drawing on hypothetical portfolio models and macro analysis provided by its asset manager.

ESG

Asset managers are growing providers of ESG investment solutions, says Kalati. "ESG-themed funds are available in the market. Because they are linked to clients' operational accounts, it's possible to sweep into these funds. Sustainability deposits for on-balance sheet options where clients deposit cash into ESG themed products is also on the rise." Asset managers are already providing important support to the IOM around ESG integration following the organisation mandating UBS to invest in a tailor-made bond portfolio with strict ESG exclusions. That said, Grant says treasury still has a firm grip of ESG internally. Treasury stopped working with one major US bank following significant governance issues. "We are bringing an ESG flavour to the whole portfolio; it's not exclusive to the portfolio we've outsourced," he concludes. ■

Australia's economy faces unique challenges ahead

With a tight labour market and rising inflation, Australia faces similar economic challenges to the rest of the world. In other respects, however, the country is unique – particularly with its relationship to China.

Australia, like the rest of the world, has bounced back from the pandemic and is now facing rising inflation and a need to rein it in – and also avoid a recession. The issues are similar to many other markets around the world, and Australia faces higher inflation, rising interest rates and a harder time for households. This also comes as uncertainty looms over the country's relationship with China, and how this will impact companies and households.

There are reasons to be optimistic, however, as Australia's inflation figures have so far not been near the level of other countries. Sarah Hunter, Senior Economist and Partner, Deals Tax and Legal at KPMG, expects the coming months to be difficult for the Australian economy, but not as bad as other markets where recession has been predicted. "I do not expect there to be a recession," she says of the outlook for Australia. "Slower growth, definitely – but not a recession."

Hunter comments the challenges that Australia is currently facing are the same as many other developed countries, such as rising fuel prices and supply chain disruptions. "There is a lot of commonality with other countries," she says.

Also, Australia has experienced – like many other countries around the world – a strong economic recovery after the pandemic. The Australian government supported households and businesses through the lockdowns with social assistance programmes such as JobKeeper and Boosting Cash Flow. Data from the Australian Bureau of Statistics notes that three major strains of COVID-19 had a significant impact on the economy, with discretionary spending being the most impacted. Discretionary services declined as people were unable to go out but spending on discretionary goods increased as people stayed home and shopped online.

Hunter comments that the public health response to the pandemic in Australia was effective. And, despite the severity of the lockdowns, the country has been able to emerge without significant outbreaks of COVID-19. "That public health response appears to be paying dividends" and this includes employment returning to pre-COVID-19 levels.

Now, however, Australia – like many other countries – is experiencing a tight labour market and the unemployment rate is at its lowest level since the 1970s, says Hunter. This tightness is in part due to low levels of immigration as a consequence of the pandemic. Workers were unable to travel to Australia and many of those already in Australia returned home during the pandemic. "That added tension to the labour market," says Hunter.

Saul Eslake, Economist and Founder of Corinna Economic Advisory, comments that Australia's inflation rate is lower than other Anglo-Saxon countries. At the time of writing, it was hovering just above 6%, while for other countries – such as the UK – it was around 10%. One difference with Australia, Eslake notes, "Wages have not made any material contribution to the acceleration in inflation." In the US and UK, for example, wages have been rising at their fastest rate since the 1980s. And in New Zealand, they have been rising at their fastest rate since the 1990s. Anecdotally, however, Eslake is hearing that the wage growth will move up in Australia. One reason, explains Eslake, that the wages haven't moved up so far is because there is a delay in the bargaining system for wage increases.

Also, the lack of migration has had an impact. "Employers who have come to rely on migrants have been holding out for a resumption of migration when borders reopened," says Eslake. Australia had some of the tightest borders in the world during COVID-19, and many companies have been waiting for migration to return to pre-pandemic levels as an alternative to paying higher wages. This has been putting pressure on the economy, and also a squeeze on the tight labour market.

Australia's immigration at net levels is not noteworthy compared to other countries, but as a proportion of its overall population it is. According to the Australian Bureau of Statistics, to the year ending June 2020, there were over 7.6 million migrants living in Australia. In the same period, the country's population increased by 194,400 people due to net overseas migration. Perhaps what makes Australia unique, though, is that 29.8% of its population was born overseas.

This, notes Eslake, means that Australia has the highest proportion of foreign-born people in the world, after Israel.

One issue, with this type of population growth, says Eslake, is that Australia has avoided focusing on training and education as much as it would have done if it was not relying on immigration. That discrepancy has been exposed, however, in the post-COVID-19 world.

Australia is unique in other respects. Eslake explains: "Unusually, for an advanced economy, it is an exporter of commodities and an importer of manufactured goods," he explains. And this makes it unique in terms of the trading relations it has with other countries.

Australia's relationship with China is a major contributor to its economy and has been troubled in recent years. Unlike other countries which may have been threatened by the rapid industrialisation of China – because their manufacturing industries lost out to China's competition – Australia derived an enormous economic benefit because of its commodities exports. This has meant that Australia has become heavily dependent on China, Eslake says, and has not been dependent on another country in this way since the 1950s when Australia referred to Britain as the 'mother country'.

According to figures from the Reserve Bank of Australia, 36.5% of Australia's exports go to China, which far outweighs the relationship it has with other countries. Japan comes in second, accounting for 10.4% of Australia's exports, then the United States with 6.2%, South Korea with 5.6%, India at 3.9% and the EU at 3.8%. The bulk of these exports are resources (68.7%), followed by agriculture (11.3%), services (9.8%) and manufacturing (7.6%).

The dependence of Australia's economy on China has come to the fore since 2020 when diplomatic relations began to unravel. Geoff Raby, a former Australian ambassador to China, writing for a GLG, puts the relationship between the two sides in a broader context. He points to wider structural forces at play and how Australia shifted its view of China. He describes this as a shift from a position of strategic cooperation to one of competition. And more broadly, Australia chose to strongly align its geopolitical and strategic policies with the United States.

Australia-China relations began to deteriorate when Australia banned the Chinese technology company Huawei from being a provider on its 5G network, citing national security concerns. Australia further enraged China by demanding an investigation into the origins of the pandemic and China's responsibility. China responded with trade penalties, including tariffs on wine and a ban on importing coal from Australia.

In recent months, there have been signs the relationship between the two countries is improving, but there are still many issues that need to be resolved.

"There are still uncertainties," with the Australia-China relations, says Weihuan Zhou, Associate Professor in Law and Justice at the University of New South Wales. He explains there was a window of opportunity with Australia's new prime minister and government. And there were signs of improvement when the two foreign ministers met, for example, which was a significant development as there had not been any diplomatic connection for more than two years, explains Zhou. But the situation in Taiwan has cast uncertainties over the current state of the relationship.

Australia is in the unique position of relying on the United States for its security but being economically dependent on China. With Taiwan, Australia could find itself stuck in the middle between two superpowers, but this situation is no different from its role in other political issues between US and China in the Asia Pacific region, notes Zhou.

Australia needs to ally itself with the United States for its security, but as yet, it has not been able to decouple its political and security interests from its economic interests. "As yet, there are no concrete policies that actually do this," says Zhou.

He notes that at the beginning of the trade tensions in 2020, there were calls for Australia to take a more diplomatic approach that would balance its security interests (with the US) and its economic interest (with China). "We have not seen an immediate and clear policy that could achieve that balance," says Zhou.

The disagreements centre on a few fundamental issues, says Zhou. The areas of sensitivity, he notes, are typically with high level issues that are of concern for China, such as Taiwan, Hong Kong and human rights.

There have been signs, however, that the frosty relations have been thawing. Dr Jennifer Hsu, Research Fellow, Public Opinion and Foreign Policy Program, Lowy Institute, comments that the change of Australia's government in May 2022 marked a new point. Li Keqiang, the Premier of the Chinese State Council, for example, sent a note of congratulations when Anthony Alabanese became the Australian prime minister. She notes that the language used by Australia has become less confrontational and there have been a few high-level diplomatic meetings. After meeting with her counterpart in June, Australian Foreign Minister Penny Wong commented that it was a 'first step' in stabilising the relationship between the two sides.

Hsu notes that the caveat to expecting a better relationship is the current situation in Taiwan. The tensions in the Taiwan Strait – between the US and China – may be a 'sticking point' to whether Australia can get its relations with China back on track. Regarding the outlook for the next year or so, Hsu expects things to improve and there has been 'chatter' that the ban on Australian coal may be lifted.

Such easing of trade restrictions will likely have a positive impact on corporates that do business in Australia. As those companies keep an eye on the developing relations at an international level, they will also be paying close attention to matters at home. Interest rates, for example, have started to rise and they are expected to continue this trajectory. Eslake notes the central bank's raising of interest rates represents Australia's "most rapidly tightening of monetary policy since 1994." This, however, he notes is still very low by historical standards. Eslake expects that the cash rate will rise further and will be 2.5% by the end of 2022. Meanwhile the financial markets have been pricing the rate to peak at around 3% or 3.5% in 2023. "That would still be relatively low by historical standards, but households are carrying record debt," says Eslake. This could in turn impact spending power and have a knock-on effect for companies that primarily sell to consumers, he notes.

Also, Australian companies and the multinational corporations that do business in Australia are likely to be affected by global market conditions. While Australia may not be heading for a recession itself, many other countries will be, which may also have a knock-on effect for Australia. ■

Adapting to the local market

Alexander Seelmann-Eggebert
Deputy Regional Treasurer, Asia Pacific

Alexander Seelmann-Eggebert, Deputy Regional Treasurer, Asia Pacific at Nestlé, has adapted to living in various countries throughout his career. As he discusses the lessons he has learned so far, he explains how patience and sacrifice can go a long way in building a successful career.

Nestlé is the world's largest food and beverage company and has a purpose of unlocking the power of food to enhance quality of life for everyone, today and for generations to come. The company focuses its energy and resources where unlocking the power of food can make the greatest difference to the lives of people and pets, protect and enhance the environment, and generate significant value for its shareholders and stakeholders alike. The company has more than 2,000 brands ranging from global icons to local favourites and are present in 186 countries worldwide.

Nestlé is the producer of major brands you have probably heard of but didn't realise came from the same company. To name just a few, the company creates KitKat chocolate bars, Carnation evaporated milk, Felix cat food, Maggi instant noodles, Nescafe coffee and Perrier water. The list goes on, and it is surprising – and impressive – to think that one company can do so much.

When looking at the profile of Alexander Seelmann-Eggebert, Deputy Regional Treasurer, Asia Pacific at Nestlé, it is also surprising to see how one person can do so much. His LinkedIn profile lists his experience and almost every entry is in a different country. Before he had even embarked on a career in treasury he had studied in Germany, Spain and Mexico, with work experience in Thailand. And then his professional working life has taken him to Spain, Panama, Switzerland and Singapore – where he is now based.

Seelmann-Eggebert studied Business Administration at RheinMain University in Germany – his home country. From there he went to Spain to attain a Master's in Finance from EADA Business School in Barcelona. There he developed an interest in Latin America, which led to him studying an additional trimester at Tecnológico de Monterrey Business School in Mexico.

Like many treasury professionals, Seelmann-Eggebert started his career with an interest in finance and markets. Initially, he wanted to work in a bank in markets, but he started looking for an entry level job at the peak of the financial crisis. "It was a terrible time to look for a job in finance!" He secured a place on the graduate scheme of the Spanish automaker SEAT, which was recruiting graduates who spoke English, German and Spanish – a perfect fit for Seelmann-Eggebert's profile – and there he landed a role first in the treasury team and later became a financial controller.

From there he took a role at a smaller company, also in Spain, where he was exposed to working in all areas of finance, including tax, accounting and treasury. And then, one of his former colleagues who was working for Nestlé in Panama, contacted him about an opportunity that had come up. "They knew I was interested in markets and treasury and there was an open position – they encouraged me to apply," he says. He did apply, and he was successful. And so, he relocated to Panama. "I was always keen to have an experience in Latin America," he explains.

He stayed in Panama for three years, during which time he was a Treasury Advisor for Latin America and was then promoted to the position of Foreign Exchange (FX) and Risk Manager for the region. During that tenor he also had a placement in Singapore for six months, which was part of a job rotation scheme at Nestlé. Then a job came up at Nestlé in Europe and he moved to Switzerland to be the FX Manager for Europe.

During this time, Seelmann-Eggebert has become adaptable and learned how to relocate effortlessly from country to country. Are there certain skills that are needed to be able to move countries? "You need to be open minded, and after a while of having similar experiences of moving you get better at it," he explains. The first time he moved from Spain to Panama, the decision was easier – he was quite young and didn't have too many possessions or personal attachments in Spain.

In giving advice to others who are likely to lead a life of frequent locations, he comments, "You need to take your time to settle in. It will take a while – you won't get to sleep in your favourite bed, and it'll take a while to work out what gym to go to or which supermarket is best. In Panama, I think I tried to settle in too quickly," he says. One mistake he made, was to try and implement the same habits he had in Spain and transplant them to the new country. One habit he tried to adopt was to go without a car in Panama, and despite the advice of his new local friends, he insisted that he could manage without one – just like he had in Spain. "It took me one month to realise that my new life would be impossible without a car," he says.

In giving advice to others who may be settling into a new country, he says, "You have to step back and realise you will not have the same habits and routine that you were used to. After a while you will get to know how things work and then you can adapt your personal style of living to the new location."

This is somewhat similar to the approach that Nestlé has in adapting to the local markets where it has a presence. The products are not exactly the same – they are familiar but are adapted. On its website, the company explains, "Nestlé encourages its markets to adapt products locally, in order to respect the local, regional and national habits and the tastes, cultural and religious backgrounds of consumers as well as their purchasing power. While all products must correspond to our quality requirements, they vary extensively in composition, recipe, packaging and branding." In Japan, for example, it is possible to buy green tea KitKats, as well as dozens of other local flavours such as wasabi and sake KitKat.

Adapting to the local market has become second nature to Seelmann-Eggebert, and he is now based in Singapore. "I started my career with the most challenging move – to Latin America – and each move since has got easier. I'm still very grateful for my experience in Panama – it shaped my character, particularly in knowing how to get along by myself," he says.

When asked if the decision to move becomes harder as he gets older and more experienced ie is there more at stake and more to lose professionally if it doesn't work out? "Definitely. I am more hesitant now than I would have been earlier in my career. I'm happy with the stability I have with my life in Singapore – but I'm not saying I'm not open to change. I'm just not as open as I would have been ten years ago. At the moment, I don't see the necessity to jump and change from my current role as I feel there is a lot I can still do," he says.

> I think patience is important, especially when you are younger. It's not good to jump too fast into the next role or job.

Seelmann-Eggebert comments on the lessons he has learned so far in his career: "I think patience is important, especially when you are younger. It's not good to jump too fast into the next role or job," he says. Also, he has had the benefit of working for supportive bosses. "In my case, all my previous managers were very good – I was lucky – and it's important that you have a supportive manager. They need to give you opportunities, and if you are given them you need to take them. Even if it's not related 100% to your interests, once you have shown you are capable of doing things then you will be given more responsibilities."

Seelmann-Eggebert believes it's necessary to make sacrifices during the earlier stages of one's career. "You have to suffer a bit when you are younger. You have to make sacrifices by moving out of your comfort zone. If you do it when you are younger, it is easier and will benefit you when you are older and in a later stage of your career." And in another piece of advice, he says, "Look out for good managers."

In his current role, Seelmann-Eggebert explains that he is mostly focused on risk management and compliance, and part of those responsibilities includes managing FX risk, counterparty risk, as well as the country risks associated with the markets that Nestlé has a presence in Asia Pacific.

As the deputy treasurer in the region, part of his role is also overseeing the other aspects of the corporation's treasury centre. Another team handles cash management and corporate finance, so he is not too involved in those areas, unless someone is on leave. "I have more of an advisory and consulting role – I try to support the team and deliver what the treasurer needs," he says. This involves having the bigger picture of the operations and reporting to the central treasury in Switzerland, as well as supporting the business in Asia Pacific.

The size of Nestlé is a defining feature that influences how its treasury is run, especially when compared to other companies in the region that have a regional treasury centre in Singapore. "Nestlé is one of the largest fast-moving consumer goods companies in the world – simply the size of the operations puts us in a different situation to some of our peers," says Seelmann-Eggebert. This might make managing – and negotiating – banking relationships easier, for example, than smaller companies. Also, he notes, the business is not cyclical. "People always need food so our business is not like commodity houses or air carriers – which may have peaks and troughs in their demand – our business is quite stable," he says.

In commenting on his work style, he says, "We are a bit conservative – not in a negative way – but we focus a lot on risk management and compliance. We are always keeping an eye on that and ensuring we are not running any unnecessary risks – the reputation of our business is very important for a company like ours," he says. "Everything is managed by guidelines, and everything is very process oriented and defined in how we work. From a treasury perspective, the standard operating procedures are clearly defined. Other companies of a different size might not be so organised," he comments.

Seelmann-Eggebert comments that what he likes most about his current role is the breadth of experience that is possible in working in Asia Pacific. "This region is by far one of the most interesting I have worked in; it is a mix of developed and emerging countries – such as Japan, Korea, Sri Lanka and Myanmar – and there are major differences between them," he says. Also, he notes, "The region itself has high GDP growth expectations – it is very dynamic, even with a slowdown in China."

Also, in his current role, he is fortunate to be working with good people. "I have a great boss – she's always looking for opportunities to improve the status quo, and she is constantly encouraging us the rest of the time to evolve and improve, to be better than yesterday," he says. Also, he says, "The people I work with in Singapore are very highly educated – the team is very professional and there are young people who can take on responsibilities. It is a pleasure to work with these people."

"The collaboration with the teams and stakeholders is solid – there is respect on both sides. It is a nice work environment," he comments. The treasury team at Nestlé has about 150 members worldwide, and he has a good working relationship with them. "It is like a family – we know each other well and are in constant touch; we are talking with each other frequently, even across the regions. It is like a company within a company," he says.

During his career so far, Seelmann-Eggebert has witnessed the mega trends that are affecting treasury. "Automation and digitalisation are quite clearly major trends and the operational work in treasury is declining. Artificial intelligence can help us with that – a lot of work that is currently being done is not creating much additional value and that can be reduced by these new tools. We are seeing a lot of development in this area – with lots of companies with various solutions – it is obviously not new, but it is an ongoing trend," he says.

There are also other developments affecting the world of treasury, such as the proliferation of fintech companies and cryptocurrencies. For larger companies, he comments, the issue is how to incorporate the latest thinking in a way that does not put the company at risk. "I think bigger corporations need to decide how to work with these companies, and how to incorporate them in a way that is compliant and does not introduce any unnecessary risk. We cannot ignore crypto forever – we need to keep an eye on it – but we need to be careful," he says.

In general, he notes treasury has become much more important for organisations, and in particular for the chief financial officer. This was demonstrated clearly during the pandemic, when many companies – such as airlines, for example – experienced a liquidity crunch and the role of the treasurer came to the fore, he comments. Another hot topic, Seelmann-Eggebert notes is environmental, social and governance (ESG) issues. Like many of the other trends it still remains to be seen how it will be embedded into the life of the treasury, and how guidelines will be developed so that ESG can be incorporated into their operations. ■

KING CHARLES III

TAKES MONEY IN NEW DIRECTION

Following the death of HM Queen Elizabeth II, many changes will occur in the new era of HM King Charles III. This includes the issuing of new banknotes and coins around the world, which – as tradition dictates – will have the King's portrait facing in the opposite direction to the previous monarch.

The death of HM Queen Elizabeth II was a historic moment, bringing one era to an end and immediately ushering in a new monarch, with HM King Charles III officially proclaimed King on Saturday 10th September.

As Britain's longest-reigning monarch, the Queen was ever present, not only in the length of her reign, but also because of the numerous symbols that represented it. Insignias, emblems, flags and stamps all carry her image and will need to be updated. Under the Carolean era (taken from the Latin for Charles, Carolus), banknotes and coins will also change, a logistical task that points to the ever presence of cash, and the complexities of physically managing its circulation.

In the United Kingdom alone, the Queen's image appears on approximately 4.5bn notes that have been issued by the Bank of England and are worth approximately £8bn. And that's just the sterling notes. Her image has also been a constant presence on the money in numerous other countries, including Australia, New Zealand, Canada, Belize and the Eastern Caribbean Central Bank, the monetary authority for Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia, and St Vincent and the Grenadines.

In the UK, the Elizabethan coins and banknotes are expected to be phased out over many years. And it may also take a while to see the first coins or notes with King Charles III on them. The first coin bearing the Queen's image was issued in 1953, a year after her coronation, and the first note was not issued until 1960.

Anne Jessopp, Chief Executive Officer at The Royal Mint noted that during her reign, the Queen had five coin portraits, each of which she personally gave her approval to. "The remarkable legacy of Britain's longest serving monarch will live on for many years to come," Jessopp said. The Royal Mint announced in a statement that it will continue to strike coins as usual.

Bank of England Governor Andrew Bailey said, "As the first monarch to feature on Bank of England banknotes, the Queen's iconic portraits are synonymous with some of the most important work we do. Current banknotes featuring the image of Her Majesty The Queen will continue to be legal tender. A further announcement regarding existing Bank of England banknotes will be made once the period of mourning has been observed."

Queen Elizabeth's portrait on the coins was always looking right, and King Charles will face the other way. This is part of a tradition that dates back to 1660 where the monarchs alternate the direction they face on the coins. Only Edward VIII broke this tradition, but he abdicated before his coins were issued.

Around the world, other countries are considering what the new monarch means for their physical currency. In Australia, the monarch has traditionally featured on the lowest denomination note – the AU$55 bill – and the central bank has stated that these notes will also remain in circulation and not be withdrawn. It is expected that Australia will release a new AU$55 note and coins in 2023. In New Zealand, the Elizabethan money will also continue to circulate and a new NZ$20 is expected to be released in the coming years.

And in Canada, where the Queen features on the CA$20 note and coins, a spokesperson for the central bank said the country has no plans to change its money. "The current polymer CA$20 banknote is intended to circulate for years to come," the spokesperson was quoted as saying, adding, "There is no legislative requirement to change the design within a prescribed period when the monarch changes." ■

Treasury gets to grips with sustainability KPIs

COP26 and GFANZ pledges mean embedding sustainability KPIs within borrowing facilities will become commonplace. Treasury is increasingly involved in the process, but fear of failure is crimping corporate ambition.

They could be emission reduction or energy-efficiency targets, goals around waste, sustainable sourcing, biodiversity or human rights and employee engagement objectives. Sustainability KPIs that link the cost of corporate borrowing to sustainable achievement shot to fame in 2017 after Dutch conglomerate Philips signed a Revolving Credit Facility with 16 banks that linked the interest rate to improvements in the company's sustainability performance tagged to KPIs.

More recently, COP26 and GFANZ [Glasgow Financial Alliance for Net Zero] pledges to clean up and decarbonise bank loan books is accelerating the adoption of KPIs, increasingly supported by important new policy frameworks. EU taxonomy rules are being rolled out, classifying what is and isn't sustainable and ending subjective sustainability claims. Elsewhere, the ISSB [International Sustainability Standards Board] is preparing new sustainability standards to guide international accounting while in the US, SEC rules on climate disclosures will introduce mandatory non-financial disclosure from corporates.

Treasury, along with the sustainability team, is actively involved when it comes to discussing which sustainability KPIs and targets to embed in debt instruments that can be used (unlike green or social bonds or loans) for any type of corporate purpose. "Treasury is convinced this is something they want to be involved in," says Agnes Gourc, Head of Sustainable Capital Markets at BNP Paribas who advises treasury teams on integrating KPIs into their borrowing in a bespoke and iterative new process.

Getting started

What is material to one business may be less relevant to another: fuel efficiency is significant in the airline industry while clothing groups have most work to do around labour rights. Good starting points to ensure KPIs are relevant and material to the overall business and its future operations include frameworks like the LMA Principles, ICMA's Sustainability-Linked Bond principles and SASB materiality metrics, which highlight the material issues for 77 industries.

Companies will typically develop internal KPIs which they benchmark to external methodologies, explains Gourc, who highlights a step-by-step procedure that doesn't happen overnight. It takes time determining if a KPI is material, especially when it's attached to other companies' (for example, suppliers and customers) sustainability efforts like Scope 3 emission targets.

Elsewhere, embedding KPIs in a deal with a tight turnaround like acquisition finance risks weak, rushed targets. In deals where time, not sustainability, is the primary driver, syndicates might not have time to undertake proper due diligence to ensure that KPIs are sufficiently robust and material says Gemma Lawrence-Pardew, Head of Sustainability, Director – Legal at the Loan Market Association (LMA).

As for a single, most important KPI? Perhaps one of the most important, and increasingly prevalent, KPIs is one that links director performance to achieving sustainability targets, says Caroline May, Partner and Head of Sustainability, Europe, Middle East and Asia at Norton Rose Fulbright. "We expect that reaching ESG targets and objectives will increasingly become part of a board or director's KPIs," she predicts.

Banks

Treasury Today interviewees observe that banks, not corporates, are driving most KPI uptake. "Banks have been given targets internally and are engaging with corporates through relationship teams," says Nick Merritt, a Partner at Norton Rose Fulbright. When companies go into new rounds of funding, they are increasingly asked to introduce sustainability KPIs, while relationship teams are targeting new industries for the first time. For example, last year Norwegian tanker operator Oddfjell SE became the first shipping group to issue a sustainability linked bond tied to reducing carbon emissions.

Merritt believes that banks increasingly linking access to finance to climate KPIs heralds a future whereby lenders will exit the companies in their loan book that have not outlined their targets to net zero. In the medium term, he predicts KPIs may harden into genuine covenants that aren't just price-linked. Instead, corporates which fail to meet them may be subject to mandatory pre-pays or defaults, and banks will likely exit the relationship. "The non-sustainable company of tomorrow risks being shunned by investors, employees and customers and need to shift their focus from stockholders to stakeholders," he says. "Non-sustainable companies will see capital constrained."

Loans v debt

In a loan, the interest rate will go up or down according to whether the company reaches its KPIs. In contrast, bond issuance tends not to have a step up, or premium facility: companies only get penalised if they miss their target but if they improve, there is no reward. In another distinction, KPIs embedded into loans tend to be tested annually while KPIs pegged to bond pricing are set for the life of the bond, with every detail published at inception and rarely revisited.

Treasury teams should also bear in mind the different levels of engagement on KPIs attached to either bank finance or bonds. Corporates issuing debt will communicate with their investors about the KPIs primarily during roadshows, and for some via annual engagement thereafter. Banks, on the other hand, regularly discuss companies' ability to meet targets with conversations focused on "next steps" or target materiality and progress, says Gourc. "We look at KPIs as an engagement tool with the company. Ambitious KPIs require significant corporate transformation, requiring detailed planning and support."

Challenges

A number of challenges strew the path ahead. Fear of failure is increasingly crimping robust and ambitious KPIs as corporates, wary of the attention sustainable finance attracts from the broader syndicated and investor market, set deliberately weak goals they can comfortably achieve. "We are trying to educate people not to fear failure," says Lawrence-Pardew.

It's a message echoed by others who distinguish between the importance of market scrutiny of KPIs to prevent greenwashing on one hand, and the damaging outing of companies that haven't met targets on the other. Many corporates may feel trapped in a transparency paradox, explains Merritt. "The more they disclose, the more stones are potentially thrown, yet peers that don't disclose or set ambitious KPIs may not be subject to the same scrutiny."

The solution? Market education that identifying and hitting KPIs is an iterative process. Sustainable KPIs set today will be different from those set in the future and old transactions will be refinanced with new KPIs reflective of the energy transition gathering pace. Shared benchmarks and market standards allow for comparison and transparency, but sustainable finance is flexible and depends on understanding companies' own individual journey because there isn't a one size fits all when it comes to transition. "Ongoing and significant corporate improvement is the right track," says Gourc who says few companies are reached where they need to be. New products are also supporting corporate progress. The commercial paper and repo markets are exploring KPIs, and the derivative market is also expanding, driven by the fact KPIs don't have to be linked to specific projects like social or green bonds.

More robust KPIs will also emerge as efforts to stop greenwashing step up. The LMA is stamping down on declassification, whereby corporates remove the sustainability label of their loan if they don't reach the KPIs in what Lawrence-Pardew describes as one of the biggest threats to the credibility of the sustainable loan market. "There are examples of ground-breaking transactions that have received lots of publicity but never hit their KPIs. The corporate will then declassify the loan without any public announcement."

The LMA is also flagging risks in new products. Like so-called sleeping sustainability loans whereby corporate borrowers originate traditional loans that contain dormant sustainability KPIs that can be switched on at a later stage, imply sustainability is not at the heart of the transaction. "This is a growing trend; particularly in the US, and one that needs to be treated with caution," says Lawrence-Pardew.

In another trend, litigation is also on the rise. The non-profit monitoring group CDP recently reported "a steady increase" in the number of companies at risk of litigation because their green promises don't match reality on the ground. The trend is most visible in the US, but now European corporates have come under fire, being sued by environmental groups for greenwashing and deceptive marketing. "The risk of scrutiny from NGOs is leading to client demand to better understand governance and reporting structures for ESG issues to ensure that they are not at risk of allegations of greenwashing and challenge from stakeholders, NGOs, investors and their own employees," says May, signposting a stronger and more robust market ahead as companies come under increased scrutiny from stakeholders.

Measurement

The biggest and most enduring challenge attached to identifying and meeting robust KPIs and preventing greenwashing is access to data. Banks are encouraging corporates to set KPIs and put sustainability targets into traditional corporate loans in a top down approach, but their existing corporate loan books lack the meaningful sustainability data needed to help set and police targets. "Information needs to be digitised and accessible on an

industrial scale to enable banks to measure things like waste, water consumption and GHG emissions to create meaningful targets," says Merritt. It gets even more complex measuring KPIs around social and governance criteria, and impact.

Despite the challenges, Treasury Today interviewees note that drawing up KPIs is a big step. Interest, homework, and discussions are vital and meaningful precursors in a long process. "As a company, you should decide when you are ready to do this type of transaction," concludes Gourc. "Sometimes we recommend to clients to further develop their sustainable plans ahead of launching a sustainable finance transaction – and not to worry if it is for the next funding exercise." ■

Nick Kidd
Head of Treasury and Interim Head of Investor Relations
Coats Group plc

ESG is very much at the heart of what we do and core to our strategy at Coats, so the question is more; how could our refinancing last year not be linked to ESG?

Since signing our RCF, we have added local facilities with an ESG element: our local banking facility in Turkey mirrors the ESG linkage at a Group level while in Vietnam, we place deposits that have a direct contribution to the UN Sustainable Development Goals. Furthermore, our global trade facility, catering for Bank Guarantees and Letters of Credit, is also linked to our ESG metrics. We would highly recommend speaking to your banks and enquiring about ESG, they will increasingly have a variety of solutions that can be embedded into various parts of your banking needs.

At Coats, we are committed to pioneering a sustainable future. We set out our sustainability goals in 2019, focusing on water, energy, effluent, social and materials impacts.

As we report on our progress against our targets in our Annual Sustainability Report, it was an obvious decision to align the RCF with these. We worked closely with our Head of Sustainability to select those metrics which were challenging and, importantly, most measurable to fit with our banks' requirements. We have since further advanced our ambitions to align with Science Based Targets for 2030.

We are working hard at automating our ESG reporting to the same level as we do financial reporting. At Coats, we see these as equally important and an area that potentially finance can offer a great amount of support to the business. By leveraging our finance teams' experience, knowledge, and rigour in reporting, we aim to mirror our ESG reporting as it is our believe that ESG reporting will be on a par.

Measuring and reporting on ESG is required as part of our facility, but it is also important to focus the business on our performance and provide insights as to where improvements can be made. Coats uses a web-based tool to track performance across all areas of all our metrics. Being transparent on our operations shows that units really are 'walking the walk'.

The discount (for meeting all three targets) or premium (if we miss them all) is not huge, but there is far more value in having them embedded in as many places around the organisation as possible. It focuses everyone's minds on the importance of achieving our sustainability objectives. However, we would encourage treasurers to play a part in advancing the ESG agenda as much as they can or risk being left behind.

Only those businesses that take sustainability seriously and are, in themselves, sustainable, will ultimately survive in the long run so from a lending perspective it would seem a significant step forward for this to be recognised by reducing, or allowances given to, the risk weighting against those companies that are genuinely, or quickly becoming, sustainable, so that it can be reflected in the pricing they are able to offer.

There has been unmitigated support. The banks were equally as keen to add ESG to their facilities as Coats was to incorporate them, and equity investors also see it as another indication of the commitment to our strategy. In addition, it is also fundamental to our customers and suppliers to know that Coats is a leader in sustainability and seen to be delivering on our commitments.

Internally, our board was very supportive of this, and treasury received many positive questions and comments on the facility when we announced the new RCF, which was a great opportunity to raise our profile and to engage with the wider business.

Coats was very focussed on ensuring that this was not a greenwashed facility, as it simply would not have reflected what we are about when it comes to ESG. We deliberately went for three of the more challenging targets, as we do not want to hide from our responsibilities as a corporate. We were also keen to have a diverse selection of metrics that, given our global footprint, touched upon social as well as environmental.

We firmly believe that all individuals and corporates need to take responsibility for, and have a role in, delivering a more sustainable future. We would hope that by now most companies will have sustainability targets, which can help frame an ESG linked facility and can be leveraged for reporting purposes. It seems to us that unless you have existing group KPI's then it would be difficult for treasury to establish and measure them in isolation.

Navigating the new risk landscape

From soaring inflation to FX volatility, today's risk management environment is challenging companies in a variety of ways. So how can companies address these pressures, and what are treasurers doing to adjust their hedging strategies to the current landscape?

More than two years since the pandemic began, the risk management landscape remains challenging. From record levels of inflation to the Russia-Ukraine conflict, a whole new set of issues is looming large for companies around the world. So what risks – and opportunities – should treasurers be aware of, and how are treasury teams adjusting their hedging strategies to meet the demands of today's environment?

Overturning expectations

There's no disputing the fact that the current risk management environment continues to challenge companies in a number of different ways. Rahul Badhwar, Global Head of Corporate Sales, Markets & Securities Services, HSBC, notes that the current risk management environment is generally challenging for corporates, given increased volatility across FX, rates, commodities and credit. "As the world emerges from the pandemic, with a focus on economic growth, companies have to monitor the markets for signs of slowdown and chances of recession," he says.

"Inflation may be cooling in some markets but nevertheless continues to be of concern, whilst geopolitics has hindered global supply chains and led to reshoring in some cases, which can be an expensive proposition. Taken together, this has led to profit margin pressures for corporates, raising the stakes for their risk managers to mitigate those financial risks within a company's control."

These pressures represent a significant shift from historical norms, meaning that treasurers are having to adjust their

> Criminals are taking advantage of disturbances caused by the ongoing worldwide pandemic, and recent events such as the invasion of Ukraine.
>
> George Dessing, EVP, Treasury & Risk, Wolters Kluwer

expectations. "Who would have thought two years ago that euro-dollar would be at parity, which we are seeing right now?" says Thomas Jerolitsch, Vice President, Enterprise Treasury at FIS. "Who would have thought the Fed would hike rates to 1.75% in 2022? Who would have thought we would find ourselves at 8%+ inflation? Who would have thought tech stocks would plummet by 30% or more?"

As Jerolitsch notes, the combination of these developments is challenging corporate treasuries in many areas that they have not seen in recent history. "In a low-risk environment, whether you have money in a cash account or in some other forms of investment doesn't make too much of a difference," he says. "In a stable FX environment, whether you hedge 60% or 75% of your foreign currency cash flows doesn't make too much of a difference."

As such, the workload for corporate treasuries has dramatically increased as companies scramble to achieve the level of P&L and balance sheet predictability they have been used to.

Getting to grips with risk

Wolters Kluwer is a global provider of professional information, software solutions and services for sectors including healthcare, tax and accounting, and legal and regulation. The company is headquartered in Alphen aan den Rijn in the Netherlands, and reported annual revenues of €4.8bn in 2021. Wolters Kluwer manages business risks, which include changes in customer demand for products and the rapidly changing technological environment, alongside financial risks, such as currency movements, interest rate fluctuations, liquidity, insurance and credit risks.

"Identification and management of financial risks are carried out by the central treasury department, whereby the treasury operations are conducted within a framework of policies and guidelines (Treasury Policy), which have been approved by the Executive Board and the Supervisory Board," says George Dessing, EVP, Treasury & Risk. "The Treasury Policy is reviewed at least annually, considering market circumstances and market volatility, and is based on assumptions concerning future events, subject to uncertainties and risks that are outside of the group's control."

A further risk that treasurers need to consider is fraud prevention, comments Dessing. "Criminals are taking advantage of disturbances caused by the ongoing worldwide pandemic, and recent events such as the invasion of Ukraine," he says. "Their fraud schemes are becoming increasingly sophisticated." As such, he argues that finance employees should remain "extra vigilant" regarding communications about financial transactions that they receive via app, text, instant message, phone or email – and treasurers need to make sure that the entire organisation is on an alert.

Navigating the challenges

In today's environment, it's difficult for treasurers to have a firm view of the market, "as a lot of factors impacting markets currently are outside of typical macroeconomic models," says Badhwar. He notes that CFOs and treasurers are having to grapple with managing high inflation costs and the impact on operating margins, and that many "will not be able to pass on the full price pressure felt from their input factors into higher consumer prices."

At the same time, Badhwar says that market volatility, and the speed with which some market moves have happened, is making it difficult for treasurers to make medium- and long-term decisions. Likewise, planning for hedge notionals is made more difficult by the uncertainty of the underlying exposures. Additionally, says Badhwar, "treasurers must manage interest

Hedging trends

Rahul Badhwar, Global Head of Corporate Sales, Markets & Securities Services, HSBC, says the bank is observing the following trends in light of the current economic outlook:

- An increased use of optionality by corporates to protect budget and profitability targets.
- An increase in hedge duration for USD net sellers as companies take advantage of historic spot levels in markets.
- Hedging short-term emerging market risk, especially where local rates have lagged USD rates, thereby reducing their cost of hedging.
- Significant uptick in interest rate hedging linked to current and planned financing/refinancing activities both in swaps and interest rate options.
- Demand for yield enhancement structures from companies with sufficient cash buffers, to manage returns on excess liquidity which otherwise would lie idle.
- Leasing and buying of precious metals to meet current demand.
- Alignment of ESG financing with an ESG-linked risk management framework.

rate risks when it comes to funding, as benchmark rates have been rising globally as central banks tighten policy to counter inflationary pressures in their economies."

In light of these challenges, Badhwar says companies are currently reviewing their market exposures and risk capacity. "While some will not change their respective strategies (they are not going to react every time there is undue volatility), others are adjusting their hedging programmes across hedging instruments, hedge ratios, hedge duration and so forth, while those who have not previously had a hedging policy are now looking to implement one," he says.

In particular, Badhwar comments that risks such as translation risk for overseas business investments (especially for US companies looking to protect dividend streams), interest rate risk from funding and FX risk on future expected cash flows (beyond the current accounting year) "are more relevant now than before for many companies."

Adding value and harnessing opportunities

But while today's environment is undeniably challenging, risk can also bring opportunity. As Badhwar explains, the inversion of US and other global yield curves is enabling companies to extend the duration of their interest rate hedges at cheaper levels, relative to current short-term interest rates.

"Given the outperformance of USD and stronger US rate hikes, the impact on FX hedging programmes will differ across geographies and sectors," he adds. "Broadly speaking, for USD net sellers (eg exporters to US, and European/Asian groups with substantial net assets in the US), current hedge rates might appear favourable based on a relative value basis and longer historical perspective."

On another note, with corporate valuations trending lower, he says some companies might look for opportunities to grow their operations via M&A. "In those instances, treasurers should increasingly be asked to safeguard the underlying transaction financials via rates and purchase price hedging (including deal-contingent solutions)."

Dessing, likewise, points out that not all of these developments are negative from a treasurer's point of view. "In the wake of inflation, more volatility by recession risk, energy supply imbalance, geopolitical tensions, and the rising rate environment, treasurers need to conclude that money is not for free anymore," says Dessing. "To me, this market shift is not a bad thing, as negative rates were pressuring economic sound practices, like the time value of money which was conflicting with daily routines for an effective and efficient cash management structure."

With rising rates, says Dessing, treasurers need to take advantage of all opportunities to generate income and lower the cost of doing business. "This does require good forecasting, as it will allow you to optimise your investments in deposits or money markets, for example."

On another note, he says it will be interesting to see how the company's recent hires – "especially our talented youngsters" – cope with today's more volatile economic environment. "It makes the treasurer's job challenging, but also more interesting, and gives opportunity to provide added-value to the company," he concludes. "In a period of volatility and economic uncertainty, it is even more important to incorporate a number of nationalities and cultures, while also including a rich mix of different education, experience and seniority levels within our treasury teams." ■

Technology and data

What role can technology play in helping treasurers manage risks effectively in today's environment? Thomas Jerolitsch, Vice President, Enterprise Treasury at FIS, argues that hedging strategies "are first and foremost a data challenge, meaning can I obtain adequate data on which to base my decisions?" In the past, companies may have been able to manage using estimates rather than actual data, but in today's environment Jerolitsch says this is no longer feasible.

"As you look at your future cash flows, you may want to factor in some macroeconomic scenarios," he explains. "What if you're a large industrial company and your top customer reduces their order book? How does that impact your cash flows? And how much of that cash flow should you be hedging?"

Gaining access to the right data is one thing, but Jerolitsch also says companies need to be able to analyse their data effectively in order to make the right decisions about which hedging instruments to use. "From our perspective, there's no way treasuries can get to the right data without having technology to help them mine, prepare and organise the data," he says. "You also need to have the right people and the right capabilities, whether in-house or externally, to make the right decisions based on the data available."

Today, says Jerolitsch, treasuries are looking to make better use of the data within the company's ERP system, as well as other external data that may be relevant to their risk management and hedging strategies. Rather than having access to a 'solution island', he says treasurers are increasingly looking for integrated systems that enable them to capitalise on data within their organisations.

Gaining access to data is the first step. The second step is to interpret the data, which emerging technologies like artificial intelligence (AI) can help with. "If you look at forecasting, AI can help you overlay it with macroeconomic variables," says Jerolitsch. "For example, you might have a projection of US$100m in 2023 – but based on AI you could say there's a possibility this US$100m may only be US$80m next year. So I really see this advanced technology as a way to increase the value organisations can get out of their data."

Preparing for recession

As the threat of recession becomes increasingly real, what should treasury prioritise?

Ben Walters
Deputy Group Treasurer
Compass Group

Recession is now pretty much a certainty in many economies. In Europe, the cost of living is hitting home, and this winter will be a stark and serious problem for many people. In the UK, inflation is running at close to 10% and GDP is between 1-2% which implies a very real negative growth – even if GDP is growing it is only because prices are going up given demand is weak. We are at a time where there is very low unemployment; it's an awful indictment that we are at almost full employment yet so many people are going to struggle to pay their bills.

It is essential that treasury teams are totally on top of their forecasting and planning process at times of such uncertainty, and when it is difficult to plan what might happen over the next 12-18 months. The forecasting process needs to be regular and monthly, covering a rolling 12-month period so that treasury forecasts 12 months from today, then in a month's time, 12 months from that point. Keep it very concise, focus on getting information in front of management rather than trying to produce a set of accounts. It should be possible to see the forecast on a single sheet of paper, and it also needs to be integrated.

A common failure with forecasting is to only forecast profit and loss, or just forecast cash. Integrated means a forecast of P&L and cash in an integrated fashion. The forecast needs to come off the same base – profit generates cash and the two are linked. There is no need to populate anything like the numbers you'd collect for management accounts.

I would advise against using spreadsheets. Multiple spreadsheets are very time consuming to aggregate up. It's all about getting the figures in front of management as quickly as possible and it could be out of date within a week or two. It is meaningless if it takes too long to put together.

The process will tell you how your cash is looking, your liquidity levels and headroom. It will flag if things are deteriorating and if treasury is getting close to its committed facilities. By integrating the reporting, treasury will also be able to see where the business model might be coming under strain, where sales are suffering most or costs going up sharpest. Treasury will be able to see if there is a need to adjust their business model or if they can ride it out.

If a corner of the business is struggling, it may need more investment or a change to the pricing strategy. For example, we are seeing many retailers begin to discount as demand drops.

Treasury teams should analyse their accounts receivable function, look down their list of customers to see who is at risk of not paying. If forecasts highlight some customers are taking longer to pay, treasury can set account receivables targets and offer discounts to those customers that settle earlier. Getting some cash is better than getting no cash. Insolvency is also an issue for key suppliers, as well as customers.

This type of forecasting doesn't require a tech heavy, AI process. The information comes from the business, it is not about extrapolating numbers from the financial department. It involves talking to sales, account receivables and payroll and finding out what is coming in, and what is going out.

Steve Scott
Head of Asia Pacific
Taulia

While the effects of a challenging global economic environment are being felt differently in Asia compared with western markets, treasurers in Asia will nonetheless need to remain laser-focused on tools that can provide transparency, access to liquidity and real-time forecasting in order to ensure their supply chains are robust enough to ride out economic undulations that seem likely to be felt everywhere this year.

As parts of the world enter recession, the greater concern for Asia remains inflation, which is yet to hit Asia with the same force as the west. Most obviously, western demand is the engine powering many businesses in Asia and as inflation booms, demand in Europe and the US will continue to fall, causing a very real cash flow headache. While demand itself is hard to control, real-time forecasting is one area that treasurers can and should be exerting their efforts. Forecasts will no longer behave in the next six months as they did in the last.

Perhaps less obvious but no less important than customer demand is the rising cost of borrowing in a number of Asian markets. Many businesses in the region with multi-market supply chains deal in various currencies most of which are pegged to the US dollar. As the Federal Reserve Bank continues to fight inflation through interest rate rises, these monetary decisions are reflected in dollar-pegged currencies in Asia. As the cost of borrowed capital and goods increases, understanding your working capital and cash currency

arrangements will be critical to having some level of control of the costs of working capital in the coming months.

Linked to this is access to liquidity. Increased cost of capital often causes delays in supplier payment. Early payment financing is a trend that is likely to increase over the coming years and treasurers should not be without this facility heading into an uncertain economy.

Finally, and perhaps most importantly, is access to supply chain data that provides a picture of the total market. Many of today's economic issues are caused by geopolitical strife, such as war and inflation, that has not been a global trend for decades. In that time, simple linear supply chain arrangements have flourished. That has all changed for the foreseeable future and while the considerations around supply chain arrangements grow more complex, transparent data with as many market touchpoints as possible will be critical to allow agile decision making that may now span many markets and currencies. Supply chains are more like interconnected supply webs, as buyers and suppliers chop and change arrangements as they need. Understanding the fullest picture of this new market dynamic will be the difference between stagnating or shrinking, rather than growing and thriving during market tumult.

Without doubt, Asian businesses are yet to feel the full effects of the global economic upheaval of the past few months. Financial decisions will become increasingly difficult and doors may close on supply corridors at short notice. Asian treasurers must therefore ensure they have the tools in place to control what they can – market data, liquidity facilities and up to date forecasting must be the priority for everyone looking to make this new, uncertain environment work for them.

Yann Umbricht

Partner

PwC

In many ways, you can apply the same principles to sovereign and corporate health. The regions and economies that will be most impacted by recession are those with the weakest balance sheet and a high dependency on consumer spending. Commodity and energy producing countries – like organisations – are also benefitting from high prices. Sovereign and corporate winners and losers will also depend on the political response.

During the pandemic many organisations were strengthening their balance sheet, creating reserves and improving their capital structure; today these recession-proofing strategies are still in place and many organisations have reduced debt and are holding more cash. The organisations most at risk now are those that are highly geared. They may not be able to access the funding they need and with costs increasing and revenue dropping, they could quickly find themselves unable to service debt.

Access to cash is the most important pillar to treasury strategy. Treasury should ensure they can collect cash quickly by accelerating cash collection processes and nurturing a strong cash culture. In a liquidity squeeze, this is critical. The more cash a company can upstream, the better it can service debt and strengthen the balance sheet. Treasury should also be proactive in approving payments, pre-empting any challenges that might arise in releasing payments. The earlier treasury puts the cash mentality into the business, the stronger the balance sheet becomes.

Treasury will also have a close eye on the credit rating. Non-investment grade organisations will find their access to borrow closes before other corporates.

Board risk appetite also becomes critical. Prioritising the balance sheet means less capacity to invest and boards will decide their risk appetite in terms of the capital structure of the company. Organisations prioritising growth and acquisition will stretch their balance sheet. In a recession, it is a bold decision to settle on this kind of capital structure because this is where a company can run into problems. Treasurers with a high profile within the company can address the board; treasury will have access to what is going on in the rest of the business, and the board support to invest in technology and skills through a recession. Modelling and scenario analysis is also essential. Treasury can leverage AI and data to help predict the future although accessing instant information is challenging.

Treasurers are risk professionals. If a business starts to struggle, it is a chance for treasury to bring value to a company. For example, when cash is cheap, treasury's credibility in the market is invisible; no-one sees how valuable they are. But during a crisis when banks introduce more credit and acceptance committees around new funding, those bank relationships come to the fore and are more likely to lead to positive outcomes. Treasurers tend to be more forward-looking compared to other financial professionals. Despite the challenges, a fast-changing world also creates opportunities for strong treasury teams. ■

Next question:

"How can treasury support businesses to navigate the energy crisis?"

Please send your comments and responses to **qa@treasurytoday.com**

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