CENTRAL BANKING AWARDS

Global markets award

HSBC

Central bank operations in global markets are not always as complicated or exotic as some private trades, but they often involve large sums that need sensitive handling. Added to this, the past year has not been a quiet one, with changing monetary policy in major economies, geopolitical turbulence and high levels of volatility in some emerging markets.

Changing markets and market dynamics are forcing central banks to weigh up new strategies, particularly related to holdings in hard versus local currencies. To achieve them, they need a trusted counterparty with which to do business.

HSBC has proved to be a constant, trusted presence that has helped central banks and other official-sector bodies spearhead new initiatives in troubled times. The bank's global reach, its intimate knowledge of emerging markets, its large balance sheet and AA credit rating leave it well positioned as counterparty to important central bank operations.

Geopolitical tensions and emerging market turbulence have created plenty of work for HSBC's specialists over the past year. Some central banks have looked to adjust their asset allocations, while others have turned to HSBC when executing foreign exchange interventions.

"I think we've been well-positioned to help people with that – HSBC is active in over 60 countries and has a business that is balanced across both developed and emerging markets," says Bernard Altschuler, director for central banks at HSBC.

"HSBC is a trusted source of information and a good trading partner in general, which we appreciate very much," says one central banker from Europe.

HSBC's official-sector clients emphasise their long relationships with the bank, often running to 25 years or more. HSBC's central banking team works hard to maintain these ties. One mid-sized central bank gave HSBC a mandate for a euro corporates portfolio in the past 12 months. It chose HSBC on the grounds of the bank's historic performance and the high quality of its team.

China expertise

One of HSBC's strengths is its historic ties to China. Central banks are increasingly turning from offshore investments in renminbi to onshore – and HSBC has supported central banks "every step of the way", says Ralph Riachi, a managing director for institutional sales at HSBC.

Several clients emphasise that HSBC's experience in China, and emerging markets more broadly, is a key strength. The movement towards China has intensified since renminbi joined the Special Drawing Rights basket in 2016. But HSBC has also helped clients penetrate other Asian markets, particularly South Korea.

One major central bank with more than $250 billion in reserves turned to HSBC for help in moving into renminbi. A reserve manager at the central bank says: "They have provided us with high-quality research, helped us with new instruments implementation, provided us with advisory services, and at the end, they are now providing us with competitive quotations."

Clients also speak approvingly of HSBC's research and market intelligence more generally, essential during moves into new markets. One senior official at a large institution said he valued HSBC's willingness to depart from the consensus view in its macroeconomic research.

New trades

HSBC's involvement in every major market and asset class gives the bank an important platform from which to offer global services to central banks.

Amid the post-crisis hunt for yield, the bank is helping reserve managers implement strategies around basis swaps, allowing them to gain additional returns by investing in a product in one currency and then swapping it into the reserve currency of choice. One popular trade saw investors buy Japanese government bills and then swap back into US dollars, earning a spread over US Treasury bills.

Again, HSBC's research and the trust the bank commands help ensure it is a first port of call for central banks. One reserve manager from a mid-sized central bank said he would occasionally receive questions from members of the monetary policy committee, and often turned to HSBC for reliable advice, particularly where the questions concerned conditions in emerging markets.

"In the last 12 months, there have been a number of significant geopolitical events for sovereign investors to grapple with – the strength of our relationships coupled with invaluable insights from our local presence was demonstrated by certain conversations: 'This is happening, what do you think we should do? How would you look at this?'" says HSBC's Riachi.

"We've been very close to important clients in periods of stress," adds Christian Déséglise, global head of central banks at HSBC. "We have been able, at critical moments, to bring in innovative financing solutions that have helped central banks manage and weather periods of external stress."

For example, HSBC has provided funding to Argentina, first to the central bank and then to the government. The bank also won a *Central Banking* award in 2018 for its work organising financing to bolster the foreign exchange reserves of the Central Bank of Egypt.

Images: Håkan Dahlström/Flickr; HSBC

Christian Déséglise, HSBC

A large balance sheet, at around $2.5 trillion in 2017, also helps HSBC offer the sort of discreet trading that central banks make a priority. "Given HSBC's large balance sheet and diversified client base, reserve managers feel comfortable coming to us for large bond programmes because they know we are able to warehouse the risk and recycle with a limited market impact," says Riachi.

The breadth and depth of HSBC's offering looks likely to stand it – and its central bank clients – in good stead in the months and years ahead. ❑