MENAT Liquidity: Green Shoots of Change, Opportunity

HSBC

MENAT Liquidity: Green Shoots of Change, Opportunity

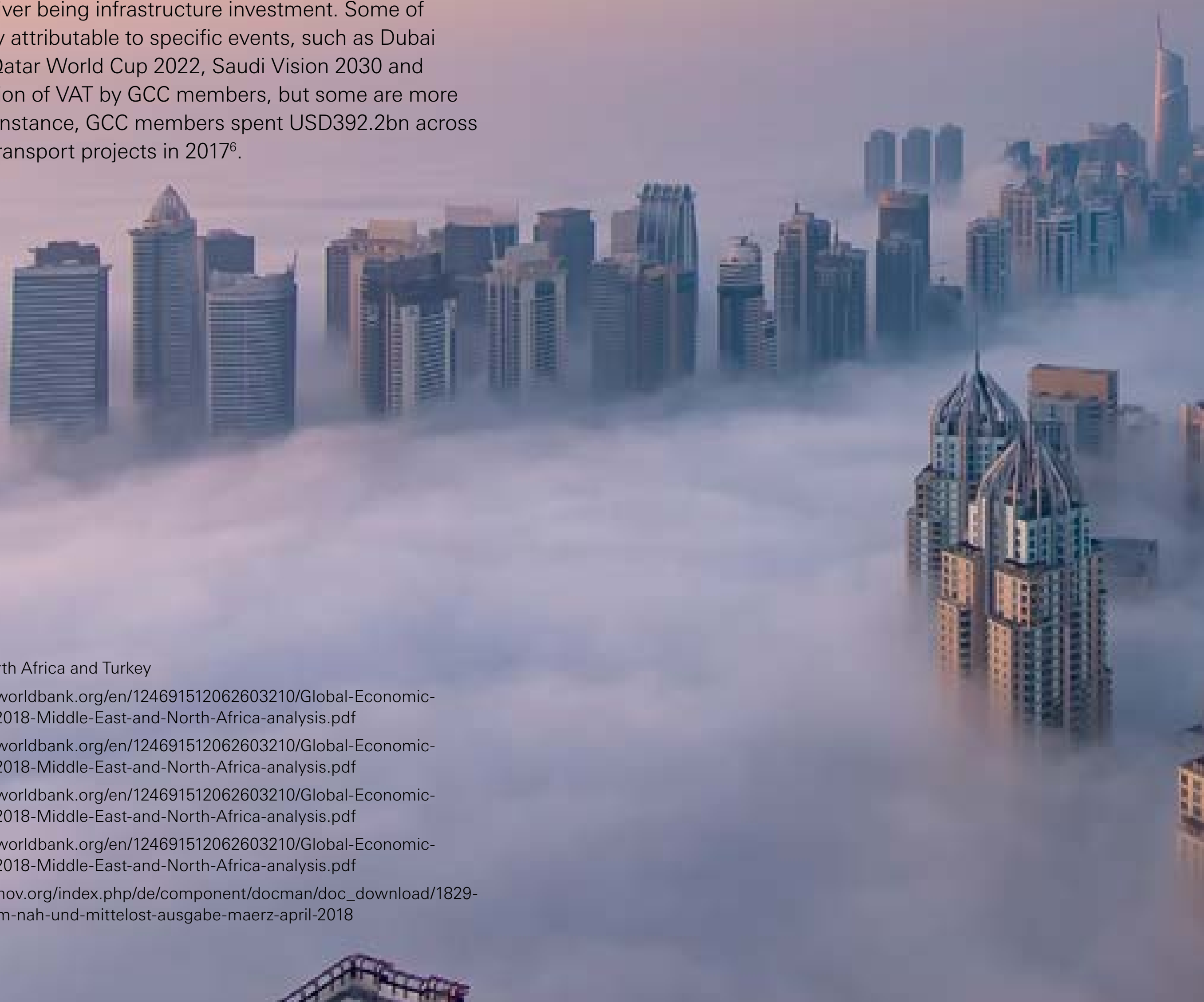
With gradual but directionally upward oil prices and green shoots of various reforms and initiatives undertaken by the governments in the region clearly visible over the last 12 months, MENAT[1] presents an interesting array of current opportunities and future possibilities. Siddharth Rungta, Head of Product Management, MENAT at HSBC outlines some interesting liquidity opportunities for corporate treasuries in the region and how they can be maximised.

The free fall of oil prices through 2014-15 led to economic and fiscal challenges in MENAT, forcing governments to take the initiative to reduce dependency on oil and businesses to focus on efficiency and optimisation. With the significant recovery in oil prices, some countries in the region, such as Egypt, have recently improved their fiscal positions[2]. Furthermore, these improvements have taken place alongside other reforms, including measures to ease business registration, strengthen investor protection and improve the functioning of labour markets[3].

These encouraging steps are among the reasons supporting regional growth projections of 3 per cent for 2018 and 3.2 per cent by 2020[4]. Growth in the Gulf Cooperation Council (GCC) member states is expected to reach 2.7 per cent by 2020[5], with a key driver being infrastructure investment. Some of this is directly attributable to specific events, such as Dubai Expo 2020, Qatar World Cup 2022, Saudi Vision 2030 and the introduction of VAT by GCC members, but some are more generic. For instance, GCC members spent USD392.2bn across 1424 active transport projects in 2017[6].

Coupling this with other initiatives, such as projects to develop free trade zones and e-government efficiency initiatives, many countries in the region look commercially attractive and policy reforms have helped boost domestic business confidence and foreign investment.

This transition from previously slow economic conditions to a promising growth trajectory is driving an interesting combination of treasury liquidity management strategies.



[1]Middle East North Africa and Turkey

[2]http://pubdocs.worldbank.org/en/124691512062603210/Global-Economic-Prospects-Jan-2018-Middle-East-and-North-Africa-analysis.pdf

[3]http://pubdocs.worldbank.org/en/124691512062603210/Global-Economic-Prospects-Jan-2018-Middle-East-and-North-Africa-analysis.pdf

[4]http://pubdocs.worldbank.org/en/124691512062603210/Global-Economic-Prospects-Jan-2018-Middle-East-and-North-Africa-analysis.pdf

[5]http://pubdocs.worldbank.org/en/124691512062603210/Global-Economic-Prospects-Jan-2018-Middle-East-and-North-Africa-analysis.pdf

[6]http://www.numov.org/index.php/de/component/docman/doc_download/1829-wirtschaftsforum-nah-und-mittelost-ausgabe-maerz-april-2018

Liquidity management implications now...
In the immediate term, there is a heavier emphasis on cost management and optimising yield. An important catalyst in the quest for higher returns on deposits has been the progressive rises in US interest rates, which have largely been reflected in policy rate increases in various countries in MENAT, such as UAE.

Some banks, possibly due to weaker balance sheets, have been prepared to offer quite attractive interest rates on deposits, both in UAE and Egypt. However, for a couple of reasons, this isn't necessarily a major inducement for some larger global corporations. Firstly, because of the counterparty credit limits in their treasury investment policy, they may only be able to place relatively modest amounts with some of the banks offering high rates. Having multiple small deposits with various banks can be administratively expensive, particularly since corporate treasuries are not typically heavily resourced. Therefore, being able to place fewer larger sums with banks that have robust credit ratings can be more attractive. Finally, global connectivity and visibility is something that is essential for global corporations and one that only the large international banks can offer.

Another reason why larger corporates may not simply place funds with the banks offering the highest rates is that the efficiency of their regional and/or global liquidity structures takes precedence. For these leading treasuries, a greater priority is partnering with a bank that has the physical network and solution capability in MENAT to enable the most effective visibility and mobility of their corporations' regional liquidity. From their perspective, a bank that is able to provide them with connectivity and visibility across multiple markets in the region, through a sophisticated liquidity product suite offering, is adding substantial value.

...and in the future
If the future prospects for MENAT economies outlined above come about, treasuries in the region will soon be facing a rather different set of challenges and opportunities. In this scenario they may well be dealing with far higher liquidity levels than before, which is likely to drive sophisticated corporate treasuries to look at their banks for innovation. Much of the expectation here will focus on automating, streamlining and centralising liquidity processes as treasuries will need to be increasingly responsive and agile in terms of liquidity management, while operating in ever shorter timeframes. Solutions that incorporate self-service and/or facilitate faster and less costly change management will therefore be welcome.

These anticipated needs have been one of the drivers behind HSBC's creation of Next Generation Virtual Accounts (ngVAs) which is now live in the United Kingdom and will be available in UAE in the near future, and a new liquidity management portal that is currently in development.

ngVAs enable clients to open multiple new virtual accounts beneath a single physical account enabling clients to create sophisticated account structures using ngVAs, while still benefiting from the visibility, control and reporting advantages of an equivalent physical account structure.

At the same time, ngVAs give treasuries the chance to increase the centralisation of their operations. Using ngVAs, they can build structures that represent (for example) sets of business units or subsidiaries that can be managed centrally by treasury, such as to conduct payments on behalf of (POBO) or receivables on behalf of (ROBO). This sort of structure can provide the transparency needed at the entity or subsidiary level, while also delivering a centralised process for central treasury, plus being potentially more cost-effective to operate.

The other development, i.e. HSBC's new liquidity management portal, is intended to enable granular control of a broad spectrum of potentially automated liquidity management related activities and eradicating the need to log onto multiple systems in order to accomplish individual liquidity related tasks. The portal will deliver much more than just information presentation in form of self-service capabilities. It will enable clients to interact directly with HSBC systems to make changes to their liquidity structures rather than having to ask HSBC to make changes for them.

Conclusion

Corporate treasuries in MENAT look likely to find themselves transitioning between two very different liquidity regimes in the near future. In anticipation of this, some leading treasuries in the region have already made substantive progress in improving the visibility of their liquidity, as well as its concentration and mobilisation. By maximising automation, they have also been able to increase the frequencies of sweeps to a central location, with UAE proving increasingly popular in this respect from a GCC perspective.

Achieving all this is considerably easier if working in partnership with a bank that can offer all the solutions and resources outlined above, and one that also takes a consultative approach in determining the best specific solution for the client concerned. This means that the client's liquidity management flexibility is maximised, which is clearly valuable in a dynamic liquidity environment such as MENAT.

Published: September 2018
For Professional clients and Eligible Counterparties only.
All information is subject to local regulations.
Issued by HSBC Bank plc.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
Registered in England No 14259
Registered Office: 8 Canada Square London E14 5HQ United Kingdom
Member HSBC Group