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Reasons to be cheerful (in trade, treasury and risk in 2021), part one

It's easy to be gloomy, but a new year is a good point to look to the bright side. Here are some thoughts about why staying in bed for the whole of 2021 will not be the best option for trade, treasury and risk

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TXF asked industry friends for their top three reasons to be cheerful in their sector of trade, treasury and risk in 2021, inspired by Ian Dury and the Blockheads' 1979 classic, "Reasons to be cheerful, part three." Dury's song (for which there were no parts one and two) is a joyful, silly and serious, list of things to get us out of bed. For sure, there are plenty of reasons for caution and even pessimism, but starting the year on the front foot helps. Our experts' answers make for uplifting reading.

"There are reasons to be confident and optimistic starting this new year," says Valerio Ranciaro, director general at Italy's SACE SRV. "The main one is ultra-low interest rates that will be maintained in 2021 despite the acceleration of the global economy expected after last year's recession due to the COVID-19 pandemic." He points to Bloomberg's quarterly (https://www.bloomberg.com/news/articles/2021-01-05/ultra-low-interest-rates-here-to-stay-2021-central-bank-guide) review of monetary policy in which no major western central bank is expected to hike interest rates this year and others may cut benchmarks further.

"The assumption is central bankers will want to guarantee that the recovery is safe before they even start to consider tightening policy," Ranciaro says. "Continued uncertainty over the path of the virus is, along with elevated unemployment and weak inflation, the main reason for waiting. And even if inflation makes a comeback this year, central banks will likely try to look through it. This means that both companies and governments worldwide will be able to refinance their debts, which is of paramount importance in order to really pave a way for a much needed recovery."

The second reason for optimism, Ranciaro says, is vaccines, "and a possible return to a new normal (which will be a new 'non-normal' for some time though)." He argues that the lack of demand which characterised 2020 will change as there will be demand spikes as confidence about spending more money returns. "Did you hear about so-called 'revenge shopping'? [this was an alleged phenomenon highlighted after the first China lockdown where consumers went on/were encouraged to spend after being cooped up.] Well, we will see a lot of that as soon as the vaccine is more widespread. The availability of more vaccines will actually make a V-shaped recovery possible."

Third, Ranciaro concludes, "Exports will play a crucial role (more than ever) in the recovery of countries that were penalised by the pandemic (Italy included), and ECAs are there to help, fulfilling their mission as expected!"

Building trade and supply chain resilience

"There are indeed several reasons to be cheerful," says Jean-Francois Lambert, founder and managing partner at Lambert Commodities. "Banks will be keener to support trade, even if they do not admit it. Trade has been resilient and international cooperation and diplomacy post-US President Trump will boost it further."

Lambert's second positive is also vaccine-related. "Herd immunity is on the way thanks to the vaccine(s). This will boost consumption and trade should be a prime benefactor." Third, Lambert says is "commodities prices will remain stable to strong (in agri) as economies will gradually pick up and amid climatic events sustaining agri prices. This is good for financing."

Looking specifically at global manufacturing supply chains, is there good news to be had in procurement and treasury? "Happy to oblige while Ian Dury plays through my head," says David Loseby, group chief procurement officer for Rolls Royce and co-founder of The Procurement Doctor (advising on procurement and supply chain to academics and professionals), who suggests four positives for 2021.

"Borrowing is at an all-time low, and likely to remain so for a few years to come," Loseby says, clarifying that while sovereign borrowing is high, borrowing is low at a business level relative to the past few decades. The second positive is, "risks in the supply chain are better understood and [there are] plans for mitigation and/or have been mitigated." Thirdly, "We are no longer trying to understand how we do remote working, we have by and large empirically worked this out!" Finally, "We should recognise that from disruption comes opportunity for those prepared to create and collaborate to develop new models."

Are there specific models coming down the road that Loseby is looking at? "New [ones] that we are actively reviewing are the approaches to risk management and how we can make our supply chains more resilient. In this context the use of a digital platform, past tier 1 [supply chain management divides the chain into tiers where the original equipment manufacturer buys parts and components from another supplier, which is referred to as tier 1 supplier, etc] – where most visibility and least risk exists – is to derive attributes that deliver insights on (supplier) company health that is drawn from insights that are dynamic and up to the hour (real time) and not static. Further, looking to derive trends and analysis that gives companies time to react against any latent bullwhip effect in the supply chain as a nascent example."

Digitisation gets the bump it needed

Marilyn Blattner-Hoyle, global head of trade finance at AIG also thinks there's a lot to be positive about for 2021. "Digitisation got the bump it needed – this is critical for scalability in trade finance for banks, alternative financiers, insurance companies and others to be able to help more corporates and clients – data transparency will continue to win and it seems many different players are starting to embrace this properly," she says. "Let's continue that in 2021."

The point is echoed by Alisa DiCaprio, head of trade and supply chain at R3, who says, "Barriers to digitalisation have big holes in them now." DiCaprio also notes, "Blockchain platforms used the lockdown to harden up the technology rather than building new bells and whistles."

Oswald Kuyler, managing director of the ICC Digital Standards Initiative (DSI), sees positives in digitisation and the alternative financing space. "The first item is the success that the alternative financing market is having. Modern solutions like Tradeflow Capital (and others) enable SMEs to do business – uninterrupted – by filling a gap that the current financial services environment doesn't cater for. These solutions use modern ways of financing together with machine learning and AI techniques to manage and mitigate risks. There are numerous success stories of SMEs whose companies can continue to operate due to these solutions existing."

The second item on Kuyler's reasons to be cheerful this year is Singapore's progress in adopting the model law for electronic transferable records. "I have been in numerous sessions engaging various stakeholders last year – and there were rather big questions around the model law for electronic transferable records from UNCITRAL. The work Singapore has done not only answers those questions but give other countries a fantastic example of how they can apply the model law. This is a large enabler for trade digitisation as it provides functional equiveillance of all electronic records to their physical counterparts."

The ICC's ambition to 'democratise' the need for digital rulebooks this year is Kuyler's third positive. "Buyers, seller, shippers have all asked for a 'digital' version of Incoterms that provide a view of what are the rules and terms associated with trade digitisation which companies can leverage to enable their transition to digital." The first focus is to enable all platforms, big and small, with and without rulebooks, to adopt a set of international terms and rules to become interoperable from a private law perspective. "The second is that the ICC will be announcing two standards packages – standards already available – that if adopted will transition us away from 0.1% digital adoption for trade to a far greater number."

Standardisation remains a goal that TXF has written about for years, so we continue to monitor this with interest, and always hope.

Inwha Huh, partner, banking and financial markets at IBM Global Business Services, predicts, "Efficiency and transparency in the trade finance process will be operationalised beyond just tests, mainly through AI and automation, leading to higher ROE business."

"Digital leaders in trade will start to integrate physical and financial supply chains enabling a simpler supply chain ecosystem," Huh adds.

Trade finance insurance

Second on AIG's Blattner-Hoyle's list of positives is the role of trade finance insurance. "Trade finance insurance is actively open for business and supporting financiers to do more for their clients," she says. "Governments have also recognised the importance of insurance and supplier support to enable trade and support liquidity crunches. Government schemes and engagement have been well received. This important insurance recognition should continue and expand with Basel capital relief reforms and other actions."

Third on her list, and echoing Loseby's comments, Blattner-Hoyle asserts the importance of robust supply chains to corporate management. "Supply chain resilience is now a key C-suite focus, and can be a great opportunity for corporates to show how they can thrive in an uncertain environment. Risk takers can and should make this part of their underwriting metrics."

Drawing positives from risk management

Also talking about Singapore, Kah Chye Tan, chair of digital secondary trade finance platform CCRManager says, "The last six months has been pretty ok over here. We can only hope that it will stay this way." Looking forward, he puts forward multiple positives. "Risk management will improve in the years ahead. I believe the recent fraud cases have presented the banks an opportunity to refine their business model."

Tan notes that commodity trades need to be priced at a level that is reflective of their economic risks. "Once again, trade banks do not normally lose big money due to credit risk. Banks will invest more in fraud risk management." It's important to note counterparty risk is not just that. The multiple parties in a transaction (or their identities) could be hiding fraud, or be manipulated by fraudsters. "The self-liquidating nature of trade does not mean that there is no counterparty risk (non-credit risk inclusive)," he says. "Counterparty risk may not be the obligor, it involves all key parties including importers and exporters." Tan cautions that banks do need to significantly step up in their collaboration to fight fraud.

"I echo Kah Chye's thoughts," adds George Lee, co-founder at CCRManager. "Never let a crisis go to waste as they say, so fintechs like CCRManager, non-bank players, and corporates themselves have certainly found more relevance as the traditional banks reposition."

In a final point of optimism, Huh at IBM points to a cultural shift in ways of working. "COVID-19 has forced banks to rethink how transactions are processed. The old ways will change culturally so employees will be focused on more value-add work beyond redundant manual processes. This should lead to a more attractive career path for the younger generation."

If you have more reasons to be cheerful for trade, treasury and risk in 2021, please do drop me a line. Good news is always welcome, and could prompt parts two and three. Perhaps that will be ESG and also the green commodities super cycle (https://www.theguardian.com/business/2021/jan/10/green-economy-plans-fuel-new-metals-and-energy-supercycle?utm_term=255aa6be0391856c1f3a79215644897a&utm_campaign=BusinessToday&utm_source=esp&utm_medium=Email&CMP= Now, to quote the opening lines of the song, "Reasons to be Cheerful (https://www.youtube.com/watch?v=CIMNXogXnvE), part 3 - 1, 2, 3,

Why don't you get back into bed?

Summer, Buddy Holly, the working folly
Good golly, Miss Molly and boats
Hammersmith Palais, the Bolshoi Ballet
Jump back in the alley and nanny goats…."

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VAPCO signs coal-fired plant financing (https://www.txfnews.com/Tracker/Details/707ed17e-49f4-4f43-9cb0-d84647763ad1/VAPCO-signs-coal-fired-plant-financing)
Sponsors of the 1.32GW $2.2 billion Vung Ang 2 ultra-supercritical coal-fired power project in Vietnam – Japanese trading house Mitsubishi Corporation, Korea Electric Power Company (KEPCO) and Chugoku Electric Power – have signed a $1.76 billion ECA-backed loan to fund the scheme.

Viterra closes $300m Asian RCF (https://www.txfnews.com/Tracker/Details/396ef2da-ab24-4b0e-9807-0c97ca61a34c/Viterra-closes-300m-Asian-RCF)
Viterra, previously known as Glencore Agri, reached financial close on its one-year $300 million revolver on 16 December 2020. The deal marks the company's debut borrowing in Asia, with the margin inclusive of a small 'Covid premium'...

Qatar invites rebids for upsized Facility E IWPP (https://www.txfnews.com/Tracker/Details/4db2c0ec-2a67-441a-811d-81b53755490e/Qatar-invites-rebids-for-upsized-Facility-E-IWPP)
Qatar General Electricity & Water Corporation (Kahramaa) has invited revised bids from prospective developers on its 3 billion Facility E IWPP after the state-owned company upped the size of the power facility from 2.3GW to 2.6GW

Meghnaghat 2 financing closed (https://www.txfnews.com/Tracker/Details/0b4cf7c9-626a-4d4a-afb8-d99bee4b9670/Meghnaghat-2-financing-closed)
The project financing for the Meghnaghat 2 power project in Bangladesh reached financial close on 23 December 2020.

IFC advises on Ethiopia's Scaling Solar phase two (https://www.txfnews.com/Tracker/Details/0b79cf7a-31de-4fd9-9f6b-c93c840271f2/IFC-advises-on-Ethiopias-Scaling-Solar-phase-two)
The IFC will take up an advisory role to Ethiopia's PPP Directorate General for the 750MW second phase of Scaling Solar in the East African country.

Positive notes for UKEF in BExA benchmarking (https://www.txfnews.com/Tracker/Details/250955dc-0bc7-4ac3-ad18-2e9abaaf38dd/Positive-notes-for-UKEF-in-BExA-benchmarking)
In the latest annual benchmarking report on UK Export Finance (UKEF), the British Exporters Association (BExA) notes that UKEF has developed into one of the world's leading export credit agencies (ECAs), while at the same time pointing out key areas for improvement.

Senior director Chang to leave Mizuho (https://www.txfnews.com/Tracker/Details/cd15b367-e96b-40df-9d56-2e882e06bfb7/Senior-director-Chang-to-leave-Mizuho)
Senior director at Mizuho's debt structuring and syndication group in Hong Kong, Monita Chang, is leaving her position at the Japanese bank. A replacement for Chang has not yet been confirmed.

Caroline Tran joins AXA XL global political risk in Paris (https://www.txfnews.com/Tracker/Details/7816a6a3-263d-4108-a840-e69afa86b43c/Caroline-Tran-joins-AXA-XL-global-political-risk-in-Paris)
AXA XL has hired Caroline Tran for their Global Political Risk, Credit & Bond team based in Paris. She has the title of regional product leader for Continental Europe.

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