STSA – Discussion: Alternative Financing Possibilities for SME traders?

- 2020 – the year when banks turn their back on financing commodity trading houses?
    - The risk perception is the trigger
        - Capital vs risks
        - Profitability is not only assessed in absolute values
        - The relative value assessment is prevalent, and this is not good news
        - Ancillary business opportunities are limited in the CT sector (risk driven profitability vs cash management, M&A etc)
    - 2020 is a difficult year for banks
        - Pandemic
        - World economic crisis
        - Against the backdrop of continuing tensions with China
        - Trade Finance is challenged (supply chains overhaul).
    - Shock in Singapore, awe in Dubai and Miami
        - From aggressive trading to frauds
        - Banks feel helpless and vulnerable in front of frauds
        - Auditors have not provided any warning signs
    - In a more challenging risk environment commodity trading is therefore on top of the list
        - Withdrawals trigger questioning
        - European International Banks. The herd effects

        - The regulator does not help
        - Very few will withdraw. But many will shrink
        - SME's the likely scapegoat for International banks except in their domestic bases
    - Yet not every bank will behave in sync …
        - Japanese banks – a long term view, particularly in Asia
        - US Banks already very selective internationally
        - More importantly, local banks will keep following local business dynamics
            - In Singapore – little choice
            - In Switzerland – no major hit and a significant sector around Zurich, Lausanne and Geneva
        - Chinese Banks – will increasingly prioritize Chinese Inc vested interest
    - … but some adjustments are likely
        - Pricing
        - More scrutiny
        - More trade financing and more control
        - Less appetite on supply chain finance upstream (STF)
- Alternative funding strategies
    - How the trade finance funds are faring?
        - Between the rock and the hard place
        - Risk and liquidity issues
        - But still a genuine appetite for good trades
    - Good use of TF money
        - Not a direct alternative to working capital from banks
            - Too expensive vs commodity profitability – a poisoned gift?

            - Liquidity is not always a given vs banks
        - Yet a good complement
            - To support your supply chains
            - To access 'non-trade related' money
- There are no miracles
    - Funds will not replace banks but complement them. Not the reverse
    - Do not give up on banks
        - Up your game
            - Clear governance
            - Transparent risk management
            - Build reports beyond RMs
            - Try to meet the risk people in the banks
            - Structure your trades where feasible (e.g. insurance, bank guarantees at origin)
            - Think about co-investment and risk sharing on STF both with banks and investors
    - SME's are a strategic asset of the world economy
        - Lobby and join forces to build what you can't by yourselves
        - Sustainable supply chains and traceability and communicate accordingly
    - Build your differentiating factor and communicate on it
        - Large trading houses are another league. Competing here is futile
        - Unless one can develop a genuine niche approach
        - Go green when you can and talk green with lenders

- Do not forget: your main asset is your reputation, not the size of your balance sheet.