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COVID-19 is first and foremost a humanitarian disaster. This Treasurer’s Guide only considers the narrower implications and considerations for Corporate Treasurers who are tasked with navigating the associated business impact.

The initial economic and operational challenges to manufacturing, logistics, and inventory appear to be overshadowed by the possible threat of a global recession. The recession could be triggered by a sharp fall in consumer spending stemming from counter COVID-19 measures such as large scale quarantines, travel restrictions, and social distancing.

While Central Bank actions are aiming to provide relief to the markets through the reduction of interest rates to historic lows, there is increasing skepticism as to the impact of further loosening of monetary policy. The VIX ‘fear’ index has exceeded that of the 2008/9 credit crisis and key market indices have been hit by daily drops of a magnitude not seen since 1987.

Coupled with this, 50% of all investment grade corporates are going into COVID-19 preparations with a ‘fringe’ BBB/BBB- rating due to debt outstripping earnings growth and cash balances in recent years. As with previous crises, corporates falling into non-investment grade territory will be hit disproportionately hard with widening margins and scarce liquidity. When the market stabilizes, pricing is likely to be higher than pre-crisis levels.

Asia appears to have been the unfortunate forerunner and provides some insights as to the challenges Treasurers in other regions may face:

- The most immediate impact for Treasurers appeared to be cash forecasting accuracy deteriorating significantly, with information relating to supply chain disruptions and rapid changes in customer demand not channeling effectively from procurement and sales to treasury. Remote working also triggered challenges around execution and security.

- The next area of acute focus of Corporate Treasurers in Asia appeared to be the re-assessment of counterparty risk, including the revision of credit limits and the consideration of leveraging documentary based tools for sales.

- At the time of writing, prioritization seems to be given to securing incremental liquidity buffers such as trade loans.

- In terms of future expectations, there will be client requests related to supporting their ecosystem, whether that be networks of distributors, or strategic SME suppliers – and this trend is expected to grow.

In this document we look at five prevailing themes, the questions we believe Treasurers should be asking, and highlight Citi solutions that can be leveraged to help mitigate or at least help minimize the business risks and impacts.

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1 Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options
2 FT 'Coronavirus raises the risk of real trouble in corporate bonds', Market Insight, 4th March, 2020
COVID-19: Prevailing Corporate Themes

- Oil Price Downturn
- Remote Office Working
- Macro-Economic Uncertainty
- Supply Chain Disruption
- Customer Impact
Theme 1: Remote Office Working

**Client Impact**

Corporate Trade processes have been impacted through items such as:

- Remote Working policies
- Accessibilities challenges e.g. accessing ERPs
- Lockdown and Logistical Disablement
- Documentation Gaps e.g. physical transfers and submissions being restricted, making physical documentary based presentation challenging
- Reconciliation Breaks and Controls: Limited documentation and information flow, leading to reconciliation lags
- School closures further impacting workforce capacity

Corporate Treasurers should assess whether the existing Trade processes and controls are:

- **Fit for purpose** e.g. problematic if office location is required due to tools such as SWIFT
- **Sufficiently Efficient** to operate in scenarios of depleted workforce capacity
- **Still Secure**: Security protocols may not longer be effective or even relevant in a remote office environment

**Treasurer’s Checklist**

- Are the relevant users and authorizers able to access banking services remotely?
- Does remote working impact the security/cyber security effectiveness of established trade controls?
- Should web-based digital tools that drive process efficiencies be considered?

**How Citi can Support**

If you already have CitiDirect for Cash, adding the Trade module is simple from both legal and technical perspectives, and can offer valuable benefits.

- **CitiDirect Trade module** is a secure web-based tool to electronically manage instructions for trade instruments including Guarantees, LCs, Enhanced Open Account, Trade Loans, and Receivables Finance
- It provides you with the ability to remotely manage transactions from initiation through to execution
- It becomes possible to view trade transactions, send them to repair, or approve them right from your mobile device
- Manual signatory approval processes and couriers may be replaced by
  - Electronic Signatures/DocuSign
  - PDF/Scanned copies
  - Leveraging of Communication Indemnities

**Reporting and Notifications**

- Multi-factor Authentication
- Reporting and Notifications
- Data Encryption
- Tiered Login Capabilities

**User Entitlement**

- Session Control (e.g. Timeouts)
- Transaction Authorization Flows

**User Entitlement**

- Security protocols may not longer be effective or even relevant in a remote office environment
Theme 2: Oil Price Downturn

**Short-term**
- Price war between Saudi Arabia/Russia over production volumes; Oil prices are expected to remain extremely low until the OPEC+ consortium agree on production cuts
- Lower demand expectations given COVID-19 effect with prolonged quarantine effect unknown and contraction in economic activity

**Long-term**
- OPEC could push prices down to eliminate high cost US shale producers
- Long term green agenda
- Electrification of the road fleet

**Corporate Treasurers Face Challenges that Include:**
- Transacting with Producers that are coming under funding pressure
- Enhanced risk of contractual dispute if off-takers have contracted at the higher commodity price levels

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**Treasurer’s Checklist**

- Is your energy supplier at risk of tightening liquidity?
- Could you lock in lower commodity input prices?
- Will certain production shut down as operations become uneconomic?

**How Citi Can Support**

- AR/LC discounting to help accelerate cash flows during time of stress while also helping to protect against buyer defaults

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**Brent Crude Oil Under USD 30 / BBL**

![Brent Crude Oil Chart](chart.png)
Theme 3: Customer Impact

Theme and Impact

The sectors most immediately impacted by COVID-19 thus far appear to have been Tourism, Aviation, Automotive, Oil and Gas, Shipping and Logistics, and Consumer Goods sectors. However, suppliers to all sectors should consider re-assessing their customers from a credit standpoint given extreme volatility, the potential threat of a global recession, tightening capital markets, and continued supply chain disruptions. The VIX ‘fear’ index\(^1\), which tracks expectations of future volatility, has exceeded that of the 2008/9 credit crisis.

The CBOE Volatility Index (VIX)

Corporate Treasurers face challenges that can include:
- Potentially reducing credit limits at a time customers may be aggressively looking for extensions
- Maintaining reliable cash receivable forecasts
- Maintaining effective distribution networks

Treasurer’s Checklist

- Are you re-assessing customer counter party risk?
- How can you support key distributors at a time when they may face a squeeze in liquidity and widening borrowing margins?
- Are existing open account terms still appropriate?
- What actions are you taking to improve cash-flow forecasts?
- Have you assessed how ECA lines can be leveraged for sales?

How Citi Can Support

Risk Management
Citi can support with a suite of applications which can be electronically leveraged for open account and documentary based sales:
- Receivables Finance (including ECA covered)
- Digital Direct Presentation and Direct Collections
- Export Letters of Credit, Confirmation and Discounting
- Buyer’s Credit LCs

Trade Finance
Liquidity can take on an outsized importance in customers’ procurement decisions in a stress environment. Citi can help differentiate your sales proposition through credit solutions such as:
- Bill of Exchange, including Discounting
- ECA backed loans to use as an effective sales tool for exporters
- ECA backed credit line solutions to help provide a buffer for import financing in the long-term

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1 Chicago Board Options Exchange’s CBOE Volatility Index, a popular measure of the stock market’s expectation of volatility based on S&P 500 index options
Theme 4: Supply Chain Disruption

Theme and Impact

Around 75%¹ of companies have reported supply chain disruptions, with key areas of impact being:

- **Manufacturing**
  While manufacturing activity in China is recovering (currently operating around 50%¹), some other major economies are just starting to show signs of shutdown periods.

- **Logistics**
  Baltic Dry Index (BDI) shipping benchmark has hit three-year lows since the outbreak.

- **Inventory**
  Inventories are diminishing, parts shortages are affecting production and creating competition for supply.

As illustrated in the 2008/9 crisis, and again with COVID-19, Black Swan events of this nature can disproportionately impact credit access and spreads for non-investment grade suppliers².

Treasurer’s Checklist

- How are you supporting critical suppliers?
- Where there is scarcity of supply, how are you making yourself the customer of choice?
- Are there requirements to hold higher stock levels?
- Are you ready for working capital 'whiplash' occurring once manufacturing recovers and stocks need to be replenished?

How Citi Can Support

Suppliers can face rapidly widening credit spreads, and liquidity sources such as Commercial Paper (CP) may be drying up in some markets. Buyers can face the prospect of interest derived price inflation, and critically, the potential risk of supplier failure.

Citi can help enable you to inject liquidity into your supply chain and offer suppliers credit arbitrage opportunities:

**Working Capital Solutions**

- **Implementation/Expansion of Supplier Finance Program**: Leverage Citi’s global platform and legal structure to support your suppliers across various geographies, categories of spend, or the long tail of SME’s.
- **Non-Recourse Receivables Finance**: A timely solution for the most strategic or vulnerable suppliers.
- **B2B Card Solutions**: Purchasing card, Virtual Cards and Billhop.
- **Import LC** with optional early payment solution.
- **ECA backed financing** for pre and post delivery financing to ensure smooth functioning of the supply chain.

Corporate Treasurers face challenges that include:

- Supporting liquidity requirements of critical suppliers
- Mitigating risks of suppliers suffering from inflated interest costs

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¹ Institute for Supply Management (ISM) Survey was completed between Feb. 22 and March 5 and had 628 respondents
² Non-Investment Grade proxy: XOVER CDSI GENERIC 5Y Corp, Investment Grade proxy ITRX EUR CDSI GENERIC 5Y Corp (up to 13th March 2020)
Theme 5: Macro-Economic Uncertainty

**Theme and Impact**

Corporates can face the three pronged challenge of threat of a potential global recession, disruptions to supply chains, and a flight to safety in the capital markets.

In addition, due to debt outstripping earnings growth and cash balances in recent years, 50% of all investment grade corporates are going into this trying time with a ‘fringe’ rating.

**Treasurer’s Checklist**

Do you have the right maturity match for your longer term CapEx needs and funding of those?

Have you assessed alternative sources of funding?

Is your SCF program funding sustainable in a downgrade?

**ECA Case Study**

**Jaguar Land Rover £625 Million 5 year UKEF Supported Facility**

▲ Citi arranged the loan financing in 2019 with a syndicate of international banks, where the UKEF guarantee covered 80% of total financing amount

▲ This is the 1st ever transaction under UKEF General Export Facility Program allowing a UK exporter to directly benefit from UKEF support for overall working capital requirements.

▲ Citi ensured attractive terms on both the UKEF covered and commercial tranche.

**How Citi Can Support**

**Diversification of Direct Funding Sources (ECA)**

ECA backed loans as a stable source of funding and a counter-cyclical liquidity tool may help to:

- Support long-term CapEx needs of importers in developed and emerging markets
- Provide working capital solutions and support for investment needs of exporters
- Attractive borrowing costs in times of high market volatility
- Stable and long-term credit appetite compared to more volatile capital market investors
- No cost of carry for longer tenor investment needs
- Flexible credit line solutions to support importers tapping regular capital/semi-finished goods markets
- Strong asset class for investors looking for long-term and higher yield sovereign exposures, helping to enable abundant liquidity

With Commercial Paper markets becoming less liquid almost overnight, Citi Trade Loans can be a simple, quick, and competitive source of short-term working capital.

**Diversification of Supply Chain Finance (SCF) Program Funding**

Supply Chain Finance programs can be a critical source of finance to suppliers in a credit challenged environment. Should the program be disrupted (e.g. due to buyer credit downgrade), buyers may come under pressure to directly step in to ensure suppliers have sufficient liquidity.

Citi has the largest Trade Distribution capabilities globally, and leverages market capacity to ensure continuity of SCF programs all without new contracts for buyers or suppliers.
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