

April 2020

# Helping to Navigate COVID-19: A Treasurer's Reference

Citi Commercial Bank

*These materials are provided for informational purposes only and not as a solicitation by Citi for any particular product or service. Furthermore, although the information contained herein is believed to be reliable, the following does not constitute legal advice and Citi makes no representation or warranty as to the accuracy or completeness of any information contained herein or otherwise provided by it.*

# Treasury Considerations for COVID-19

---

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](#)<sup>1</sup> 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<sup>2</sup> 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.

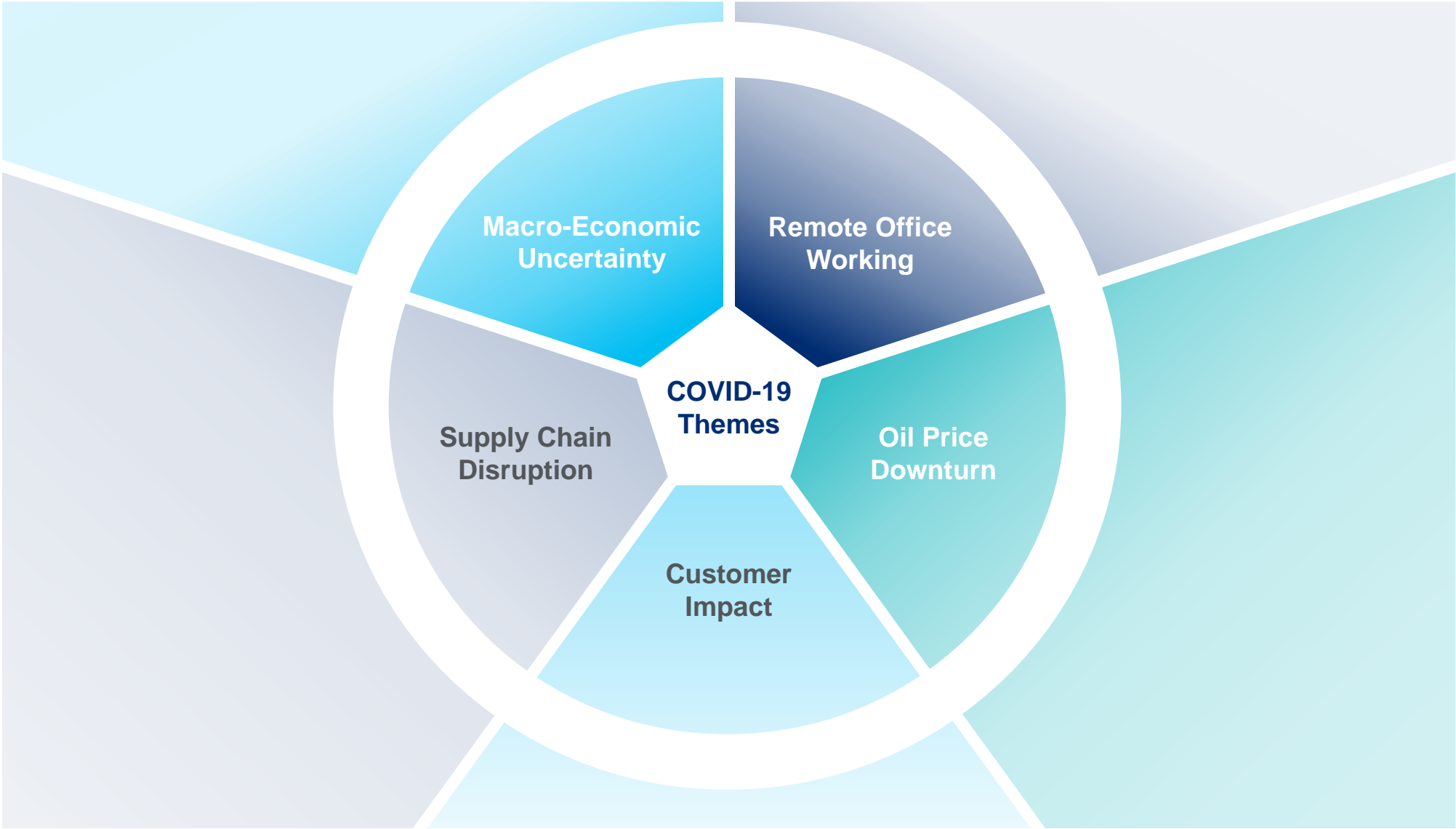
[In this document we look at five prevailing themes, the questions we believe Treasurers should be asking, and highlight Citi solutions that can be leveraged to help mitigate or at least help minimize the business risks and impacts.](#)

---

<sup>1</sup> 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

<sup>2</sup> FT 'Coronavirus raises the risk of real trouble in corporate bonds', Market Insight, 4<sup>th</sup> March, 2020

# COVID-19: Prevailing Corporate Themes



# 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.



Multi-factor Authentication



Reporting and Notifications



Data Encryption



Tiered Login Capabilities



User Entitlement



Session Control (e.g. Timeouts)



Transaction Authorization Flows

- 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

# Theme 2: Oil Price Downturn

## Theme and Impact

### 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

Brent Crude Oil Under USD 30 / BBL



## 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

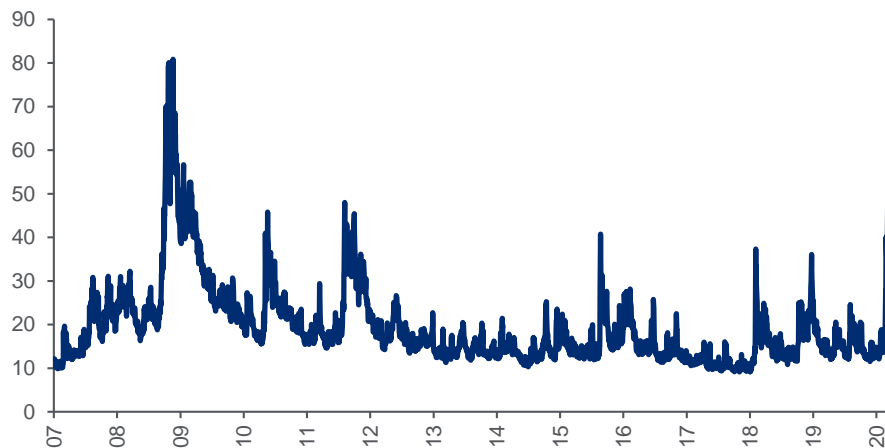
# Theme 3: Customer Impact

## 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<sup>1</sup>, 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

<sup>1</sup> 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%<sup>1</sup> 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%<sup>1</sup>), 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 suppliers<sup>2</sup>



Corporate Treasurers face challenges that include

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

## 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

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 13<sup>th</sup> 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 1<sup>st</sup> 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.



***IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of any transaction contemplated hereby ("Transaction"). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.***

This communication is provided for informational purposes only and may not represent the views or opinions of Citigroup Inc. or its affiliates (collectively, "Citi"), employees or officers. The information contained herein does not constitute and shall not be construed to constitute legal, tax and/or accounting advice by Citi. Citi makes no representation as to the accuracy, completeness or timeliness of such information. This communication and any documents provided pursuant hereto should not be used or relied upon by any person/entity (i) for the purpose of making regulatory decisions or (ii) to provide regulatory advice to another person/entity based on matter(s) discussed herein. Recipients of this communication should obtain guidance and/or advice, based on their own particular circumstances, from their own legal, tax or accounting advisor.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment or firm offer and does not obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the information contained herein and the existence of and proposed terms for any Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Certain services and/or products mentioned in this communication may contain provisions that refer to a reference or benchmark rate which may change, cease to be published or be in customary market usage, become unavailable, have its use restricted and/or be calculated in a different way. As a result, those reference or benchmark rates that are the subject of such changes may cease to be appropriate for the services and/or products mentioned in this communication. We encourage you to keep up to date with the latest industry developments in relation to benchmark transitioning and to consider its impact on your business. You should consider, and continue to keep under review, the potential impact of benchmark transitioning on any existing services and/or product you have with Citi, or any new services (you avail) and/or product you enter into with Citi. Citi does not provide advice, or recommendations on the suitability of your service and/or product choice including with respect to any benchmark transitioning on any existing service and/or product you have with Citi. You should obtain professional independent advice (tax, accounting, regulatory, legal, financial or otherwise) in respect of the suitability of your service and/or products in light of benchmark transitioning as you consider necessary.

© 2020 Citibank, N.A. London. Authorised and regulated by the Office of the Comptroller of the Currency (USA) and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

