SUMMARY REPORT

GLOBAL TREASURY LEADERS SUMMIT EMEA

June 24th 2021

20 elite treasury thought leaders

Expert led interactive roundtables

Digitisation deep dive

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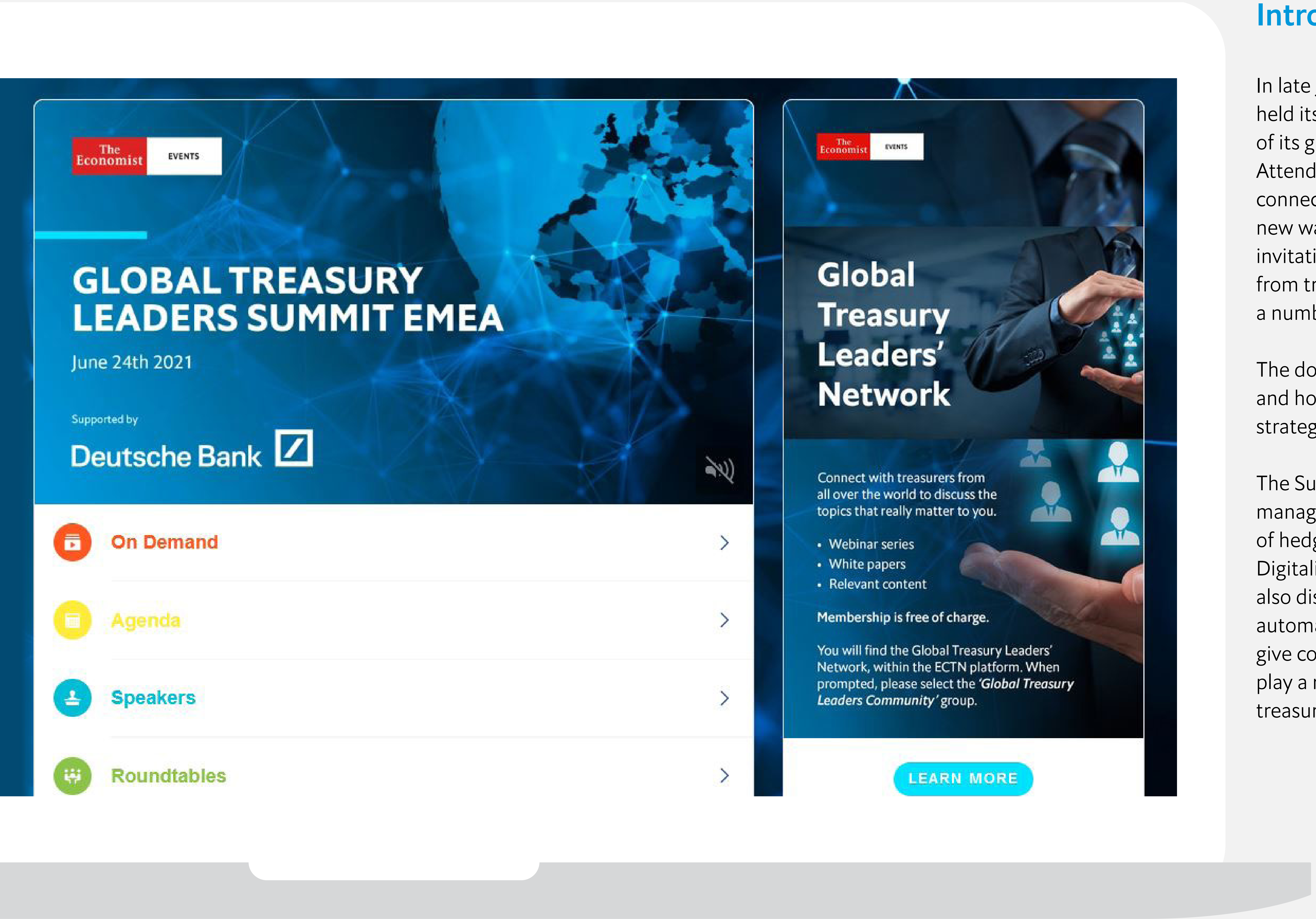


Introduction

In late June, The Economist, supported by Deutsche Bank, held its annual Global Treasury Leaders' Summit EMEA, part of its global series. The meeting took place in a virtual world. Attendees were able to experience a virtual event landscape, connect with their peers and immerse themselves fully in the new way to conference (until we are back to normal.) The invitation-only event brought together a wealth of expertise from treasurers, Deutsche Bank's transaction banking team and a number of other guest speakers.

The dominant theme was the continued economic uncertainty and how that is playing out on key treasury operations and strategies.

The Summit saw treasurers focusing on retooling FX risk management and the complicated trade-off between the cost of hedge accounting versus forecasting the risk incorrectly. Digitalisation, a primary focus of treasurers worldwide, was also discussed --- its acceleration and the importance of automation. Another prominent theme was ESG and how it can give companies a competitive boost and where treasury might play a role. And the payments landscape was reviewed and how treasury should be able and ready to innovate.

Key conclusions

- The economic effects of the pandemic will be uneven across markets
- Treasurers need to rethink their treasury portfolio in a world of rising inflation and potential stagflation
- COVID-19 has hugely accelerated the pace of treasury transformation
- Technology is driving real improvements in FX risk management but it all needs to be connected with core treasury and ERP systems
- It might be the time to revisit hedging strategies in a continued volatile world
- The payment landscape is complex but treasurers can help guide the business
- ESG should be a priority focus and treasury can play an important role

More doom and gloom

Economist Nouriel Roubini, once nicknamed "Dr Doom" and well-known for calling the 2008 global financial crisis (GFC) opened the event with a stark warning to treasurers and asset managers that they should be revisiting their portfolios. He warned that loose fiscal and monetary policies coupled with multiple negative supply shocks have put the global economy on "track for a slow-motion train wreck". He believes there is a distinct possibility of a 1970's-style stagflation (high inflation alongside recession).

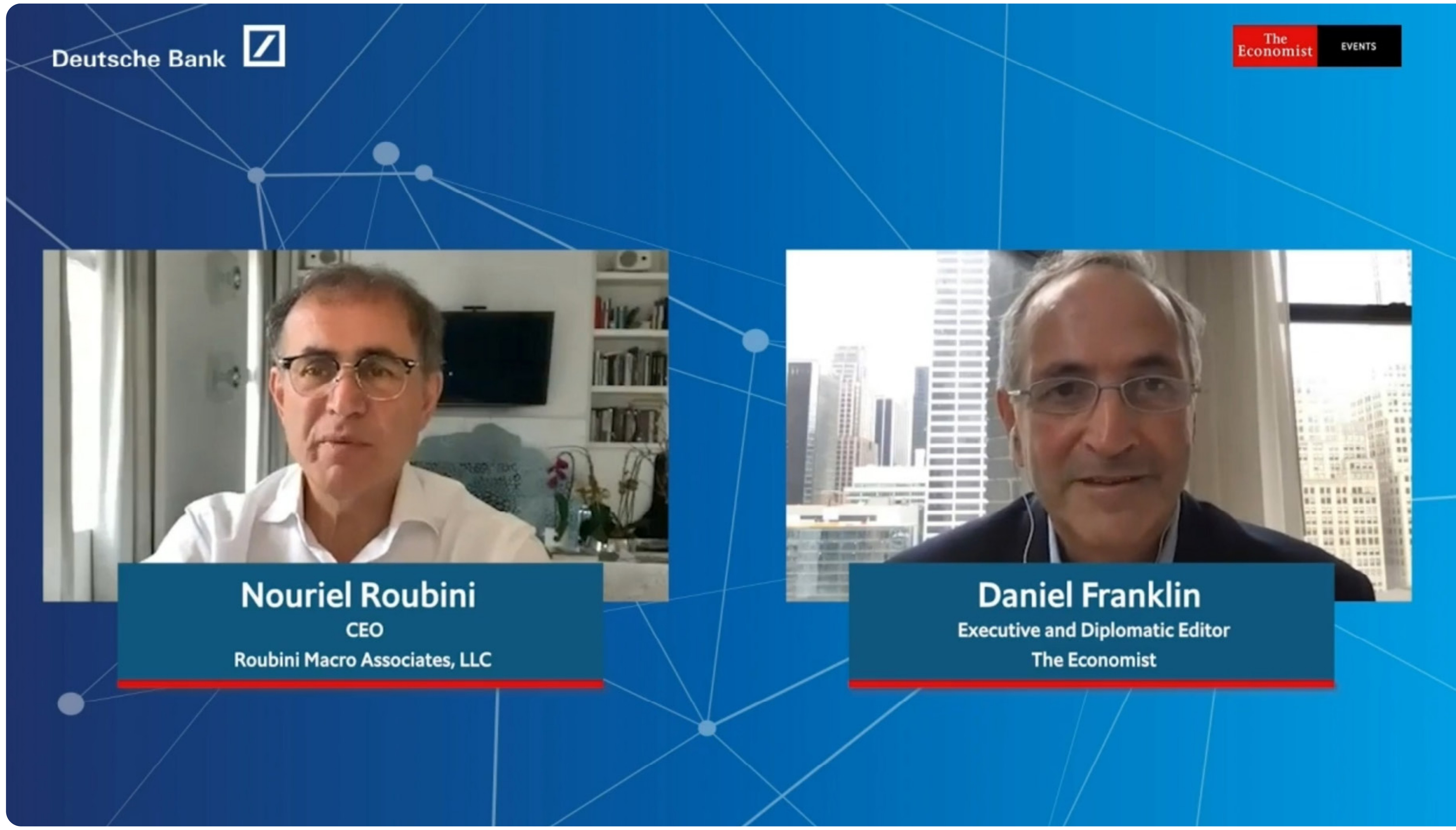
His reasons were compelling. He first gave a whirlwind tour of how economies would perform this year where recovery is predicated on a series of unknowns: the stop and go policies around Covid lockdowns; the slow distribution of the vaccine in many markets; whether there will be permanent scarring in terms of unemployment; the speed of deleveraging debt and whether policy stimulus is right or not. He believes that US growth looks like it will be in excess of 7% for the current year. China too looks robust and countries closely aligned to Chinese markets will benefit. Europe is on track for a much stronger recovery in the second half of 2021 assuming no new Covid strains emerge. But the good news stops there. For many emerging markets, low vaccination rates, loss of key tourist income and fragility in the economies mean that places like India, South Africa, Turkey and parts of Latin America and sub-Saharan Africa will fare less well.

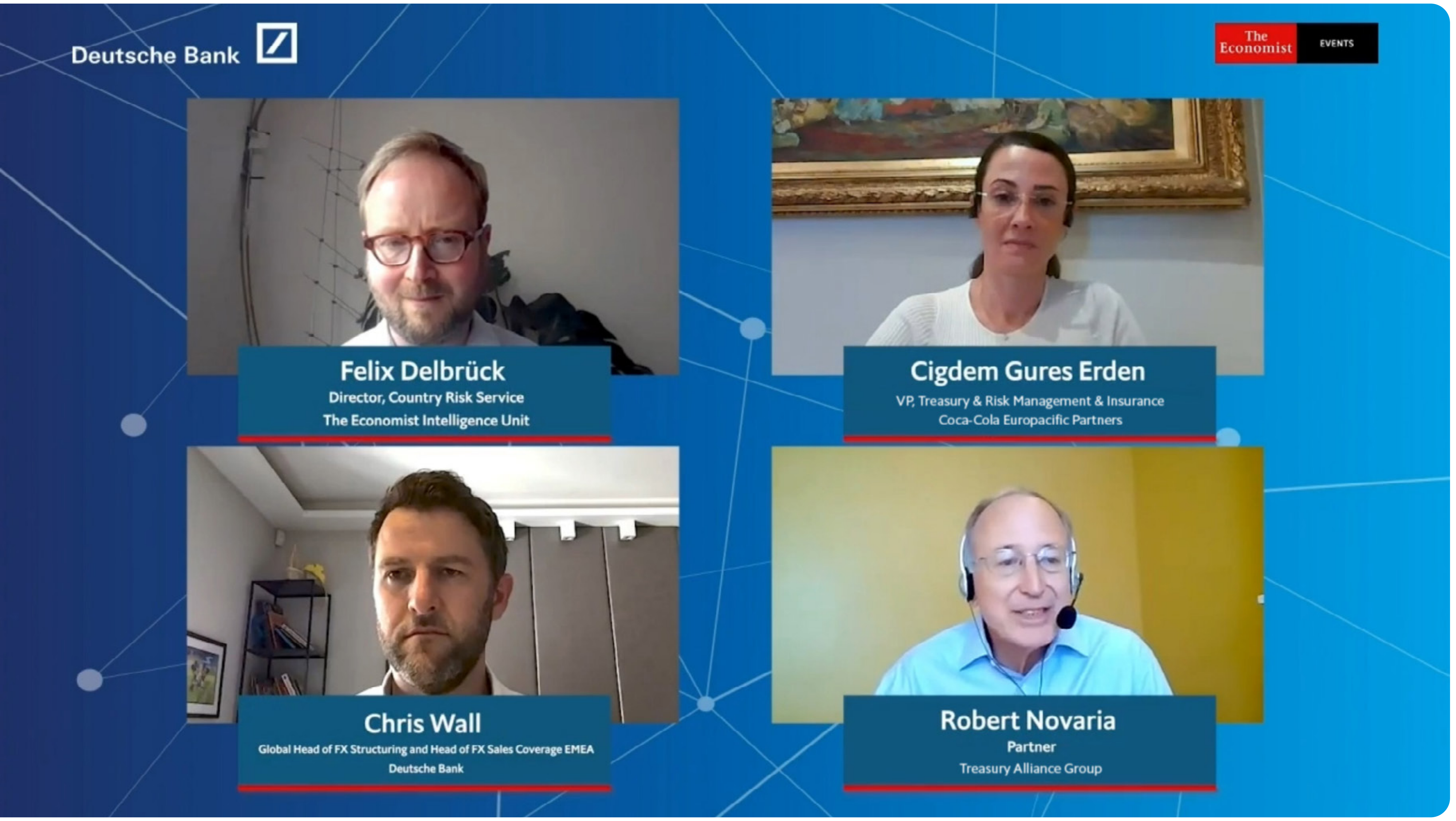
He detailed the key supply shocks that will cause inflation to rise including growing decoupling of Sino and US and an increasingly colder war between China and the US; an aging population in key markets and restrictions to migration that will put pressure on wages; the reshoring of manufacturing and supply chains; and global climate change leading to food price increases.

Already markets are seeing sharp rises in home prices, food and commodities with bottlenecks in supply chains causing inflation to rise. At the same time, central banks are in a debt trap where the path of least resistance is to inflate it away. And the world is still fighting Covid alongside increased catastrophic cyber and ransom ware attacks which will only worsen. The end result may be that inflation could run structurally much higher than people expect, leading to stagflation which no one has seen in 50 years in advanced economies. "We could see the worst of the 1970s and the worst of the GFC," he warned.

So what does this mean for corporate business and treasury? Expect defaults in emerging markets where many countries can't simply print money to get out of their debt crisis. Re-evaluate the tenor of your bonds. The age-old adage of 60/40 doesn't work because stagflation is a bloodbath for both equities and bonds so have a radical rethink about your asset management and your hedges against inflation. He says treasurers should remain vigilant and look for the early warning signs: commodity, house and energy price rises as well monitoring everything from Covid waves to cyber attacks. Companies need to have a plan B.

And just in case you thought crypto as an asset class might be an option? Stay away, Roubini advises: "Even the Flintstones had price transparency where you could compare the price of beef to bread." He says that calling bitcoin a currency is a total misnomer. "For something to be a currency it has to be a unit of account, it has to be scalable; it needs a stable price index. There is no fundamental value; it is not an asset, not a store of value. Bitcoin is an environmental disaster and if ever there was a carbon tax on it, its value will be negative."





FX: learning the lessons of 2020

Turning to core treasury topics, three experts looked at forecasts for the year ahead and against that background how treasury should revisit their hedging strategies. Felix Delbruck from the Economist Intelligence Unit prefaced his forecasts by saying that forecasts are almost always wrong, but that we know that volatility will always be with us. For the US dollar, he said, all eyes remain on the Fed strategies. His prediction: the dollar should stay weak for some time but the balance of risks has shifted upside. He gave a global currency tour to point out the huge variations in performance with further upside for commodity currencies and those tied into the global recovery. But offered a pessimistic view of other currencies, for example, the South African rand, where economic recovery will be slower.

Deutsche Bank's Chris Wall, global head of FX structuring and head of FX sales coverage EMEA, added further insight into the difficulties of managing FX risk during the Covid crisis which he said had much more impact on corporate business, unlike the GFC where the effects were mainly on markets. There were also significant variances in industries, for example, the airline sector where hedge coverage is structurally quite high.

"The nagging risk at the back of the corporate treasurer's mind is, if I am hedging around certain assumptions of exposure sizes and if the exposures don't materialise I am left with a naked hedge book." The lessons learned are several: re-examine hedge policies when you have a black swan event; focus on how to measure risk - not just how currencies evolve but around exposure uncertainty; if appropriate look to add flexibility with insurance style contracts to manage risk as opposed to committed hedging; and last but not least use more scrutiny on an exposure-by-exposure basis and whether it makes sense to hedge.

The corporate view was added by Cigdem Gures Erden, VP, treasury and risk management and insurance, Coca-Cola Europacific Partners, who said that a big part of managing the FX risk was trying to understand what might impact the markets and subsequently the business. Her advice is to start with the sensitivities on the balance sheet and P&L from FX risk with good short, medium and long-term forecasts and also evaluate where it is too expensive to hedge, like Iceland for example, and what the impact of not hedging might mean. Another challenge, which echoed Wall's opinion, is with black swan events – Covid, in this case – might mean you wind up being overhedged if your exposures were based on normal activity that subsequently failed to happen. The accounting aspect of hedging is also a challenge as is the type of hedging tools and the right technology and automation can make everything run much more efficiently. In response to a question on how to manage cross-border acquisition risk, Erden explained that the gap between sign and close of six to eight months on a recent cross-border acquisition presented a significant risk so that they did use options to hedge both the FX and interest rate risk to save them a lot of uncertainty.

Erden was also asked for her tips on how to automate foreign exchange flows. She said they had divided it into two: for regular payments that are not material they worked with their banks for an arranged price with an agreement in place for a year. For the hedges that are material, they wanted control and stressed the importance of ensuring the banks and FX platforms they work with are all linked into their treasury system and ERP.

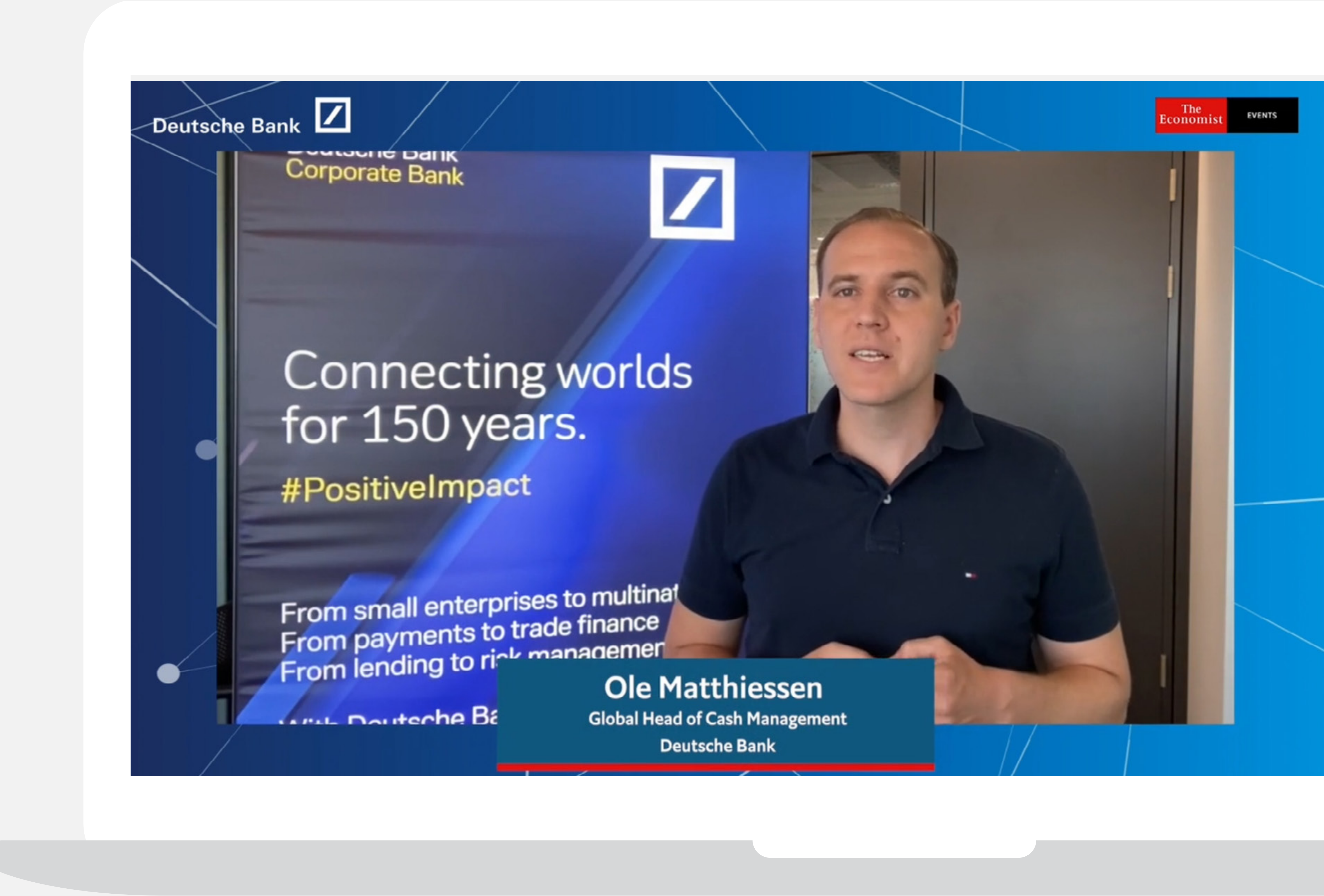
Making sense of payments

Another core topic on the treasury agenda is payments. Deutsche Bank's global head of cash management, Ole Matthiessen, gave an overview on the future of this complex ecosystem where there are many more players than ever before. Disintermediation of banks has definitely occurred but mainly in the consumer and small business sector. He believes that banks will remain at the heart of the treasury relationship. He said that as long as banks continue to implement cutting edge technology and be mindful of the customer interface, they will not see their role diminished. Banks are also in the position of being able to provide innovative solutions because they are deeply embedded with their corporate clients which gives them a better perspective of the business. For instance, with a corporate client in the telecom sector, the bank recently developed an automated treasury solution that combined API, real-time data reconciliation and instant payments to secure the client a competitive advantage in their market. Currently many payment platforms and providers are not regulated in the same way as banks but as regulators get to grips with this increasingly complex landscape, more and more FinTechs and other providers will fall under the regulators scrutiny that will add costs and challenges to these bank competitors.

Business model transformation will continue to be a key theme in the payments landscape and a real opportunity for treasury to become much more significant to the business. Access to the end customer brings a value opportunity to the businesses and treasury is well placed to advise and guide the business on new ecommerce models and industry specific platforms.

Roundtables with delegates followed to discuss privately what those trends mean for treasury and how to take advantage these developments might offer.

Digitalisation also figured in the roundtables agenda where corporates shared their journeys under Chatham House rules, exchanging their experience candidly.



ESG is everyone's problem and opportunity

Although ESG took a back seat for many companies during the pandemic, it is firmly back on the agenda and for two market leaders in ESG, Porsche and Unilever, the pandemic actually accelerated their efforts.

At Unilever, the company has the purpose of making sustainable living commonplace with significant commitments such as zero carbon emissions by 2030 in their own operations followed by net zero through their value chain by 2039. Treasury has an important role to play to support delivery of that objective. For example, during the market liquidity crunch in March 2020, instead of drawing down on their revolving credit facilities they issued a two billion Eurobond. A prudent approach to liquidity gave them surplus cash and "this has reinforced our push to increase availability and capacity of ESG investment instruments," said Philip Sasse, vice president, treasury operations at Unilever. He said they are pioneering green investment products with their relationship banks and that these were scaled up significantly during 2020.

The company has also started exploring their partner banks' ESG credentials. "Some banks are driving hard on that agenda and others less so and we need them to be active allies," said Sasse. For this agenda to make a difference he believes that collaboration needs to be on an appropriate scale. "We need multiple currencies and not just a few million. We need hundreds of millions. The banks can be a multiplier of good practices that they see across all sectors and not just environmentally but social too." He also hinted that bank ESG credentials will likely become an RFP criterion in the not-so-distant future.

Porsche also had an early start to its ESG commitment. Driven by regulatory issues, the German car company decided to introduce an electric car and in 2019 launched its vehicle model to market at the same time it went to the finance market to raise the largest ever green Schuldschein (similar to a bond) to date with a volume of one billion euros, the first transaction of its kind by a car manufacturer. The funds raised were to finance the electric car project. The huge demand resulted in the original order book volume having to be increased.

Wolfgang Ratheiser, group treasurer, Porsche, said the success of the car launch and bond, provided impetus for a much bigger ESG strategy, not just environmental, but in social and governance, from the employee, supplier and customer side. The company has also focused on proper reporting and rating processes to avoid greenwashing (conveying a false impression or providing misleading information about how a company's products are more environmentally sound).

Using ESG as a framework, a discussion followed around the future of work and WFH with general agreement that a hybrid set-up will evolve. WFH offers the opportunity to lessen commuting impacts but going into the office is key to collaboration, building trust and getting to know the corporate culture. The session concluded with a key takeaway for treasury: that it was possible to evaluate many areas to see where to improve ESG and to look at all your partners to encourage them to make it a key agenda item as well. For example, Unilever has a responsible sourcing policy and any supplier to Unilever has to sign up to that.

The day concluded with an entertaining guest speaker, Hannah Fry. A mathematician, a lecturer at University College London and a regular presenter of science and maths programmes on BBC TV and radio she studies patterns in human behaviour to answer questions from shopping habits to transport to riots. Fry took unusual examples of how data and models can be used in everything from locating serial killers, the fertility of cows, and in predicting malarial water sources. She used illustrations to examine how data is collected, used, how reliable it is and what its limitations are. And her main message: the power of having the right data is key and don't ignore the data that you can't see -- a fitting message for treasury and its increasing focus on data.