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The ITFA Muse

Thursday, 2 February 2017

CHAIRMAN'S MESSAGE - Sean Edwards, ITFA Chairman / Head of Legal at SMBC

Dear Members and Friends,

Welcome to 2017!

The global economy ended 2016 on a strong note, and started this year in the same vein. Economic data such as PMIs and leading economic indicators from the world's major economies continue to indicate strong and robust growth, at least in the short to medium term. This positive string of economic data releases can well be explained by a concoction of looser economic policy and expectations of an improving global economic scenario. This mix of policies in the leading emerging and developed economies is propelling an increase in consumer's propensity to consume and policies are expected to remain growth-friendly over the next couple of years.

However, some emerging markets will be left with no choice but to tighten their current accommodative stance and adjust their imbalances. 2017 is expected to be a year where political risk takes centre stage and the economic policies of certain countries face a great deal of risks which could impact the trajectory of inflation, both domestically and worldwide. The US economy and US dollar are pivotal for emerging market economies as the Trump administration and its new policies begin to infiltrate into the world economy. President Trump's swift decision to cancel the US's involvement in the TPP was not surprising given his previous rhetoric but does the current void signal the start of protectionism or something more benign? Global trade may well shrug off these developments unless the apparent movement to protectionism become more generalised.

In this edition of the 2017 ITFA Newsletter you will find an ITFA release titled ''Payables Finance: a Threat Averted''. One also finds an interesting article contributed by GTR - ''Trump's 'Aggressive' First Days in Office Worry Trade Experts''. Our regular feature - Chart of the Month, contributed by Dr. Rebecca Harding of Equant Analytics provides an interesting read titled ''Trade's Tectonic Plates''.

As we informed you all in the past couple of days, ITFA is pleased to announce that the 44th Annual International Trade and Forfaiting Conference will be held in Edinburgh, Scotland between the 6th and 8th of September 2017. This year we will be greeting you at the Caledonian Hotel, an iconic five-star venue in the heart of historic Edinburgh. A networking afternoon with dedicated rooms and a reservation portal to book meetings with all conference delegates will take place on the second day of the conference. At this point we just ask you to Save the Date and to keep following our regular updates.

We look forward to hearing from you with any feedback you may want to share with us by sending an email to myself, any of the Board Members or to our general email, info@itfa.org.

Best wishes,

Sean Edwards

Posted by Alexia Vella at 23:30 No comments:

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The Newsletter of the International Trade & Forfaiting Association

February 2017

Contact us

For information about ITFA please visit www.itfa.org or send an email to info@itfa.org www.itfa.org

ITFA Upcoming Events

- MAR 09 - VEFI Bowling and Jass Championship, Zurich – organised by ITFA and VEFI
- APR 03 - SERC Educational Seminar, Madrid – organised by SERC
- MAY TBA - ITFA Annual Traditional Spring Event, Vienna – organised by CEERC
- MAY TBA - VEFI Annual General Meeting, Zurch – organised by VEFI
- MAY TBA - ITFA NERC Annual Spring Event, Amsterdam – organised by NERC
- AUG TBA - VEFI Summer Cocktail – organised by VEFI
- SEPT 06 - ITFA Annual Conference, Edinburgh – organised by the ITFA Board
- DEC TBA - ITFA Christmas Party and Educational Event, London – organised by the ITFA Board
- DEC 07 - VEFI and ITFA Annual Christmas Cocktail, Zürich – organised jointly by VEFI and ITFA

Issue Contents

Wednesday, 1 February 2017

PAYABLES FINANCE - A THREAT AVERTED by representatives of the ITFA Board

Those active in payables finance (often called reverse factoring or just simply supply chain finance but we prefer to the term payables finance as defined in the "Standard Definitions for Techniques of Supply Chain Finance" published last year by the ICC and ITFA amongst others) will have been concerned by the paper published by Moody's relating to the use of payables finance by Abengoa, a Spanish solar energy company that is currently going through a local insolvency protection process.

The Moody's paper expressed their belief that Abengoa's payables finance arrangements had "debt-like" features which could lead to reclassifying what had been trade debt for Abengoa, as the obligor of the receivables, into bank debt following the commencement of the programme. This would, of course defeat the purpose of these kinds of arrangements for many corporate users. The Abengoa programme had specific and unusual characteristics but it was unclear to what extent Moody's views would become generalised and apply to payables financing in general. Clarity was urgently needed especially given that Moody's had announced a review of its methodology for making adjustments to financial statements when rating companies.

Representatives of ITFA held a meeting in early December with Moody's to express this industry concern and to argue that the use of payables finance was a legitimate and acceptable form of finance which should not automatically result in trade debt being re-categorised as bank or financial debt.

Moody's have accepted our concerns and in their reviewed methodology have stated that use of such programmes must be examined case by case using careful analysis and judgement and will not result in an automatic reclassification of programme receivables. The methodology does not state what criteria will be used in this analysis and ITFA will therefore be publishing a paper on this subject in the near future with guidance on the issue utilising the insights gained during the meeting.

Posted by Alexia Vella at 23:35 No comments:

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TRUMP'S "AGGRESSIVE" FIRST DAYS IN OFFICE WORRY TRADE EXPERTS by Melodie Michele, GTR

This article has been issued by GTR - click here to view the GTR website.

In his first five days in office, President Donald Trump has followed through on many controversial campaign promises, prompting concerns in the trade world.

The reassuring stance adopted by most analysts after the election is starting to waver. ''We thought that this was all electioneering. We felt that there was going to be a bit of protectionism – he would have to follow through on some of the pledges – but we weren't really sure he was going to do an awful lot. Our anxiety began to rise as we saw the various people he was appointing to the trade posts. He is starting to look a lot tougher on trade than we thought he would be in practice,'' says Rob Carnell, chief international economist at ING.

The US' withdrawal from the Trans-Pacific Partnership (TPP), implemented through an executive order on Trump's first day as president, will have limited economic consequences, as the agreement hadn't yet been ratified. It may give room for China to expand its commercial influence in the region, but this doesn't seem to concern Trump.

On the other hand, the announced renegotiation of the North American Free Trade Agreement (NAFTA) could have much larger implications.

"The question is on how far he goes and what he's prepared to accept. But it does look pretty aggressive," adds Carnell.

Trump is in a good position to have his demands met, as Canada and, to a much larger extent, Mexico are far more dependent on the US than vice-versa – 20 times more for Mexico, according to ING.

''Whether or not US manufacturing jobs keep declining as a proportion of the total is perhaps neither here nor there: that falls into the category of economic facts and it sounds like he doesn't really care about those. What he cares about is soundbites and perceptions and if he seems to be delivering he will be voted in again and I think that's what he's after.

I think all sides would be prepared to concede a little bit and admit that the US has gained far less than them from the agreement,'' Carnell tells GTR.

At the Peterson Institute on International Economics (PIIE), Gary Hufbauer believes Trump will most likely focus on the agreement's rule of origin clause in the auto sector, asking to lift it from its current 65%. ''That will make it inconvenient for some companies such as Toyota, but other companies might like it. Mexicans might go along with that, probably not willingly,'' he says.

In exchange, Hufbauer believes Mexico could ask for infrastructure improvements to ease congestion along the border – but Trump's expected executive order today (25 January) to start using funds to build ''the wall'', his signature campaign promise, is likely to do more harm than good when it comes to Mexico-US traffic.

Dismantling NAFTA still looks unlikely, less because it would harm all economies involved than because Canada and Mexico appear willing to agree to some US demands.

''The threat to rip up NAFTA would not be a logical step economically – everybody would suffer from that, but we've had countries prepared to do things for political rather than economic reasons, and it's a real threat that we need to take seriously,'' Carnell adds.

However, Hufbauer thinks the agreement's name could be changed to satisfy voters. ''I want to emphasise the symbolism point. I think NAFTA's name will be changed. For many of his supporters that will be quite a triumph. And [Trump may] replace the substance of NAFTA with bilateral agreements, one with Canada and one with Mexico,'' he says.

It is worth noting that Canada already has a pre-NAFTA bilateral trade agreement with the US, and trade regulation would revert to that if NAFTA is repealed.

When it comes to China, President Trump seems to be treading a much more cautious path. Despite his promise to label the country a currency manipulator in his first days in office, and his threat to impose an up to 45% tariff on Chinese goods entering the US, no action has yet been taken.

This is partly because his nominee for treasury secretary (who would be responsible for labelling China a currency manipulator), Steve Mnuchin, hasn't yet been confirmed by Senate. In his confirmation hearing, he did not give a clear answer on his position about such label.

Traditionally, there is also a list of criteria that needs to be met by a country before it is labelled a currency manipulator: spending at least 2% of its GDP selling currency to buy foreign exchange (which, according to Cornell, China doesn't); having a more than US$20bn trade surplus with the US (it does); and running a 3% or more current account surplus (it did in 2015, but not consistently).

Carnell believes Trump is more likely to negotiate without drastic action, at least at the beginning. "Trump would perhaps like to trade a blind eye to some of China's geographic ambitions in the South China Sea in exchange for a more reasonable attitude to trade. China could somehow limit the amount of certain key industries which are dumping – steel in particular. I think this is the nature of the debate that could happen. My guess is that tariffs will be used only as an extreme if he sees no move at all on the Chinese front," he says.

Another one of his campaign promises, which he reiterated at a breakfast meeting with executives this week, is to impose a border tax on US companies relocating production outside of the country and sending the finished goods back to the US. He has described this as ''selective'' 35% tax. But according to experts, this is easier said than done.

Hufbauer says: ''I think if he imposes tariffs on individual companies, naming them, he will run into court problems pretty quickly. He could name the product that the company imports on a very finely designated level and put a tariff on those. But naming companies sounds like a breach of the 14th amendment, which requires equal protection of the laws.''

Posted by Alexia Vella at 23:30 No comments:

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4 NEW ITFA MEMBERS

The following four new members have joined ITFA this month:

Finanz AG Zurich is a Swiss finance company active in structured trade and commodity finance as well as trade related debt arranging. It also offers traditional trade products (including forfaiting) and provides advisory services to corporates and financial institutions.

With offices in Zürich, London, Moscow, Buenos Aires, São Paulo, Santiago de Chile, Mexico City and Singapore, Finanz AG has the local experience and expertise in handling complex financial transactions and providing tailor-made solutions.

Specializing in risk distribution, Finanz AG also advises regional and local Financial Institutions as well as large corporations in establishing Risk Distribution desks, including best practice in risk mitigation and syndication of assets.

Hanspetter Rellstab will be the main delegate for all ITFA related matters.

Eurler Hermes is the world's leading provider of Trade-related Credit Insurance solutions with more than 100 years of client support and responsiveness to changing business environments and operations in 50 other countries. They are backed by Allianz, one of the leading financial service providers worldwide.

As a Global leader in trade credit insurance and a recognised specialist in the areas of bonding, guarantees and collections, they help customers world wide to trade wisely and develop their business safely. Its financial solidity, risk analysis and integrated global structure enable the Group to provide companies of all sizes with all domestic and export market knowledge and support they need to successfully manage their business in changing economic environments.

Karan Jain will be the main delegate for all ITFA related matters.

As part of the Arab Bank Group, which has one of the largest banking networks in the Arab world, Europe Arab Bank is uniquely positioned to offer clients seamless access to markets across MENA, Europe and North America.

Headquartered in London, with offices in France, Germany and Italy, they offer a comprehensive range of private banking, corporate, institutional and treasury services. On the ground support, including cash management across many of the MENA countries, enables their clients to do business with confidence and efficiency.

Haitham Ashour will be the main delegate for all ITFA related matters.

Gulf International Bank UK Limited (GIBUK) is the London based asset management division of Gulf International Bank B.S.C. GIBUK, which has been managing investment portfolios on behalf of institutional clients for over 40 years. Trade Finance is a new asset class being offered to institutional investor clients.

The Bank facilitates banking between Saudi Arabia and UK, mostly at government level and have a balance sheet of USD 7.5 billion (capital USD 300 million), as well as specialises in Asset Management, where they manage circa USD 12.5 billion for institutions (mostly Government, Central Bank, SWF and Pensions).

Ian Henderson will be the main delegate for all ITFA related matters.

Posted by Alexia Vella at 22:07 No comments:

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UPCOMING EVENTS - SAVE THE DATE

We wish to remind our readers about the ITFA and VEFI Bowling and Jass championship. This is going to be held on the 09 March and will commence at 17:30hrs. The chosen venue is Restaurant Schutzenruh, Uetlibergstrasse 300, 8045 Zurich. For more details about the event, please visit the ITFA events calendar.

TFR's Cross-Border Trade Forum 2017 is also being held on the 09 March, however in London. For those interested in attending, this Forum will prepare you for market changes and growth in 2017. Also, our very own ITFA Chairman, Sean Edwards, will be a speaker at this event. For more information, please visit the event website.

Another upcoming event is that organised by GTR, which will be taking place on the 21 March in Istanbul, Turkey. The GTR Turkey Trade and Export Finance Conference 2017, provides attendees with a perfect opportunity to meet with representatives from domestic and international trade, export and financial institutions, all in one place, on one day. Moreover, Damian Austin, ITFA Deputy Chairman and Head of Regions, will be moderating one of the afternoon panels covering the topic ''Structured Trade and Export Finance: Managing Risks and Maximising Sales''. For more information, visit the event website.

Posted by Alexia Vella at 22:01 No comments:

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ITFA AT THE BCR FRANKFURT CONFERENCE

ITFA has hit the 2017 conference trail moderating two panels at the recent BCR Supply Chain Finance Summit in Frankfurt. Both panels drew great interest from the audience and overran their allotted time through the sheer number of questions from a very engaged audience. Feedback has been consistent in viewing these panels as amongst the most thought-provoking and valuable of the conference.

Silja Calac firstly led an ITFA insurance committee team talking about the function and current challenges facing Credit Risk Insurance. ITFA is grateful to Manuel Lopez from Marsh, Simon Bessant from Texel and Huw Owen from Liberty for taking part. This was firstly a run-through the recently published ITFA Insurance Guidelines which aims to help users and providers of insurance achieve Basel and Insurance Act complaint policies. The full guide is, of course, only available to members but Silja set out the main issues for those not fortunate to enjoy membership. Whilst some of the issues are very technical, mastering them is critical if users wish to obtain the best possible capital relief and, at a more basic level, ensure that policies are enforceable and valid claims can be made. The recent English Insurance Act 2015 (many policies are subject to English law even if used by non-English insureds so the Act has relevance way beyond the United Kingdom) gives new rights to users of insurance but a number of subtle points can arise. Discussion of the Act was a springboard to enter into a wider survey of the credit risk insurance market which sparked much interest as the audience realised how powerful use of this product could be commercially. It has the ability to act as a ''force multiplier'' allowing bigger tickets and more business to be underwritten whilst simultaneously being capital efficient. The common belief that claims are never paid and insurers do all they can to avoid payment was dispelled by both brokers and underwriters. Calls at the end of the conference for more credit insurance to be made available showed how well this panel had hit its mark.

Sean Edwards's panel on Moody's recent paper on Abengoa was both a reprise, and a development of, the panel he moderated at the 2016 annual conference in Warsaw. Again, Matthias Heck of Moody's and author of the

Abengoa paper took the stand partnered, this time, by Eugenio Cavenaghi of Santander. As recipients of our regular emails will be aware, ITFA met with Moody's in December to discuss the implications of their paper which suggested that, in certain circumstances, trade debt offered up to banks as part of a payables financing programme could become bank debt. Moody's have since accepted in their revised adjustment methodology that a standard i.e. automatically applicable, adjustment for users of such programmes was not appropriate and that each situation would need separate and careful analysis. For many members of the audience, even the possibility that such a reclassification of trade debt existed was something of a shock and drew some passionate responses. The discussion around the various factors which would or could be taken into account in making this analysis was therefore both highly instructive and, once cooler thought prevailed, something of a relief. These factors include whether or not payment terms are changed beyond the industry norm, changes to rights of creditors (still an issue because of the widespread use of irrevocable payment undertakings in such structures), the size of the programme as a proportion of a corporate's financing needs, collateralisation or security being granted by the buyer and above all, the transparency of the programme. This was one of the most popular panels of the whole conference as attested by the conversations that continued into the break and beyond. ITFA will be producing a paper on this important subject with guidance and as much clarification from Moody's as we are able to get.

Posted by Alexia Vella at 22:00 No comments:

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TRADE'S TECTONIC PLATES - CHART OF THE MONTH by Dr Rebecca Harding, Equant Analytics

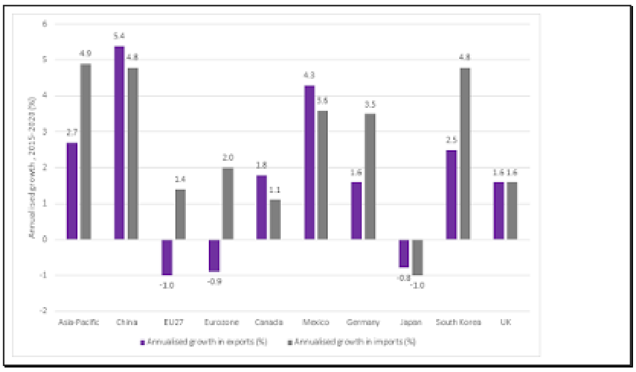
Where will the biggest impact of President Trump's Executive Actions be? The Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TPP) look to be things of the past. The North America Free Trade Area (NATFA) will be undermined by the ongoing diplomatic and trade disputes with Mexico. Trade, not US trade, but the flows and patterns of trade around the world will be transformed if the decisions translate into real action.

The US will not necessarily be the main beneficiary of the "bi-lateralisation" of its trade policy. Longer term growth to 2020 presents US trade policy with several issues (Figure 1) irrespective of recent changes:

- Imports from Asia Pacific will grow at over 1.5 times the rate of exports to Asia Pacific. China is the exception, where exports will grow more quickly than imports. But as the US imports from China at nearly five times the rate that it exports to China, the faster rate of export growth is unlikely to have much long term impact on US net trade.
- Exports to NAFTA look likely to increase more rapidly than imports. NAFTA works well for the US and any trade war with Mexico or disintegration of the regional trade area could damage US exports as much as it hurts Mexico.
- Germany argues that the ECB keeps interest rates low which keeps the Euro low; President Trump argues that Germany benefits from the low value of the Euro and certainly the US will be importing from Germany at nearly twice the rate of growth that it exports to Germany. We expect faster growth in US imports from both the EU27 and the Eurozone as well.

Figure 1: Annualised growth in US trade with top ten partners and regions, 2015-2020 (%)

Source: Equant Analytics



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