Media Coverage

Managing risks beyond borders in South-east Asia

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(This article was first published on 11 May 2016 by The Business Times)

The annual ASEAN-US Dialogue is being held in Kuala Lumpur this week where discussions will undoubtedly be centred around ways the two economic blocs can circuit break the current period of moderating economic growth in South-east Asia.

Discussion will also highlight how global economic dislocations are forcing firms operating in the region to take a wider view of the risks facing their businesses.

While volatile currencies, technological disruption and supply chain tensions are impacting companies and occupying the minds of CEOs and CFOs across the world, the situation is particularly acute for firms in South-east Asia.

Having seen stellar growth, particularly in the manufacturing sector and trade driven by growth in consumer demand over the past 10 years, risks are emerging with the potential to materially impact profitability and liquidity.

At a macro level, HSBC's view is that export growth expected in Asia ex-Japan will fall 9.4% year-on-year in real terms in 2016. At the same time, economic growth in the region will be 5.9% in 2016, versus 6.1% for 2015.

Shoring up liquidity and balance sheet from the trade run-off

CFOs are focusing on ways to strengthen their cash and liquidity position by improving visibility of their cross-border holdings and where possible utilising cash trapped in countries.

Larger businesses in particular are also focusing on maximising their trade terms by pushing out their payables while seeking to collect cash from sales faster.

Supplier and receivable financing is also gaining traction as more customers move to open account trade and in order for Companies to efficiently and reliably manage cash-flow, strategic supplier relationships and to reduce risk.

Supporting the supply chain

While larger corporates in South-east Asia are typically quite sound from a financial perspective, they can be still vulnerable to the challenges of their supply chains, where smaller partners can find it difficult to obtain financing.

Supply chain risks have risen alongside the increase in inter-connected and intermediate trade in the region.

Over the past 10 years more and more manufacturing has been shifting from China, to Vietnam, Cambodia, Malaysia and Indonesia to take advantage of business-friendly environments and lower wages. The supporting supply chain has migrated as well.

Unfortunately, the development of financial markets and related infrastructure to support smaller companies in many of these countries' has not kept pace with commercial growth.

While this was not as much of an issue during periods of rising trade and fast growth, in the current environment, having access to a portfolio of financial and risk management instruments and to deep pools of liquidity has become a particular area of focus.

This has led to larger corporates partnering with their small corporates in establishing financing programmes in order to secure their supply chains.

Smaller companies have also turned to receivable financing as an alternative risk and liquidity management tool which provides earlier access to funds up to an agreed percentage of the invoice value, while also protecting against buyer default or insolvency.

Managing currency mood swings

Some corporates have been guilty in the past of not giving due consideration to currency risk until it comes and actually bites them, and many have been bitten in 2016 again.

Having being battered against the US dollar from the start of the year, many Asian currencies are beginning to rally and are now up as much as 11% year to date. Stability has not been a feature of this year so far and is unlikely to be a feature in the months ahead.

Adding complexity to the recent volatility is the lack of consensus among market participants as to the future direction of currency pairs and the global monetary policy backdrop against which they are traded – notably when the US Federal Reserve might next raise interest rates and how aggressively.

With slowing economic activity tightening profit margins, sharp currency swings could be a further and potentially devastating blow for many CFOs.

Hedging options are being increasingly and continuously explored, with many firms approaching the problem in a far more strategic way and some corporates for the first time beginning to hedge a percentage of their foreign currency receivables and payables – recognising that doing something is better than doing nothing.

Corporates are also working harder to create or exploit natural currency hedges – insisting to pay costs and receive revenue in the same currency and or borrowing in a certain currency to offset their investment or assets in that country.

The current environment is unquestionably challenging making it crucial for corporates to better understand the risks beyond the business cycle and ensure they have enduring strategies to mitigate them. Without that knowledge and a clear plan, the risks could have a material and long term impact.