Nordea

Press release

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Nordea Hedging Survey reveals 57% of Nordic corporates risk accepting low returns on cash reserves

80% of corporates expect their cash reserves to remain steady or grow over the next three years — yet the vast majority of liquidity is kept in bank accounts where yield is close to zero, a new survey from Nordea shows. But despite having the authority to do so, very few corporates are taking full advantage of longer duration or higher risk investments to get better yield. In fact, 57% are happy to accept low returns in current market conditions –something that can easily turn into a cost for the business.

Most corporates surveyed keep the vast majority of their liquidity in simple overnight deposits. In fact, nearly six in ten of our respondents said they kept more than 75% of their liquidity in the bank.

“Corporates hold a lot of liquidity. Every company clearly needs cash reserves in order to fund operations, and to invest in acquisitions, capital purchases, and growth. Yet many corporates accept that they’re probably holding more cash than they need to – cash might be scattered around the group or lack of accurate and up-to-date reporting may make it difficult to forecast cash flows and future cash needs. As a result, they cautiously maintain a larger liquidity buffer,” says Johan Trocmé, Head of Corporate Research Sweden, Corporate and Institutional Banking at Nordea.

“We see low returns increasingly becoming an issue. Negative short-term interest rates are becoming even more widespread and are expected to stay negative for a couple of years. Consequently, many corporates are starting to face bank charges for their overnight deposits in most key currencies. These charges will erode the cash pile and many CFOs and company Boards are going to find that unacceptable,” concludes Trocmé.

In a first of its kind report, Nordea surveyed more than 170 Nordic corporates, representing all four countries and a range of industries. The report is published in response to the changing risk landscape, most importantly the significant increase in FX volatility, and the sharp fall in interest rates, which is affecting both corporates’ debt costs and their liquidity yield.

As well as reflecting the current landscape, the report looks at the techniques that corporates are using to manage different areas of financial risk, primarily their use of hedging, which is essentially an insurance policy that turns uncertainty about the future (for example, fluctuations in commodity prices, interest rates or FX rates) into a manageable and predictable cost.

The full survey and report is available here:
https://insights.nordea.com/go/hedging-strategies-2016/

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