

U.S. Corporate Cash Holdings Increase

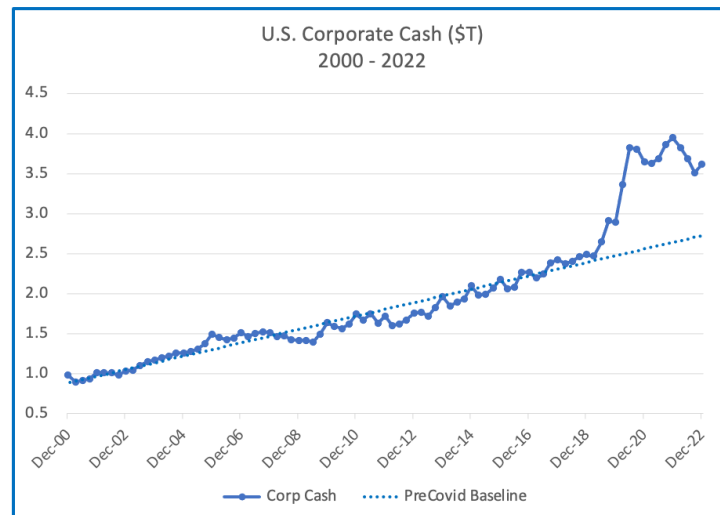
Now at \$3.62 Trillion

Up \$109 Billion in Q4

March 22, 2023. After three consecutive quarterly declines totaling \$438 billion, U.S. corporate cash climbed \$109 billion during the Q4 2022.

Corporations are rapidly reducing the huge cash reserves accumulated during the Covid pandemic according to The Carfang Group's analysis of the Federal Reserve's Quarterly Flow of Funds report just released. At \$3.62 trillion, U.S. corporate cash levels are \$329 billion below the pandemic related all-time high.

According to Anthony J. Carfang, Managing Director at The Carfang Group, "Now that interest rates are rising, the opportunity cost of holding cash are declining. As we said last quarter, companies still harbor concerns about the economy, interest rates and inflation. Treasurers are very worried about the hidden risks of quantitative tightening following the unprecedented decade-long monetary expansion that is now being reversed. This week's banking crisis shows that those concerns are warranted."

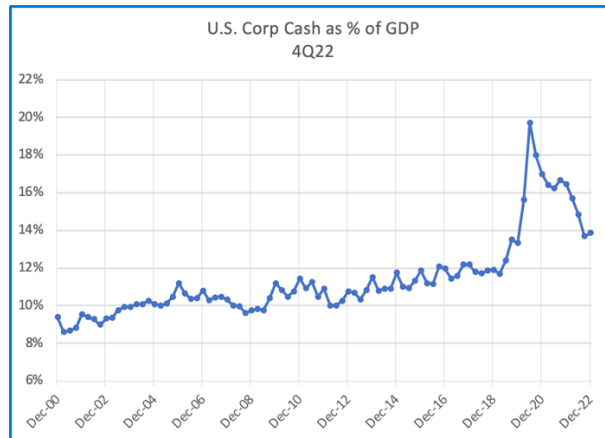


Source: Federal Reserve, The Carfang Group

After more than doubling its assets from \$4.1T to \$8.9T in 2020-21, the Fed is now reducing its massive balance sheet, currently at \$8.35T. The quantitative tightening phase has begun, leading to reduced money supply and bank deposits, threatening the economic status quo. *We believe corporate treasurers, after reducing some of their excess cash, are still holding on to an excess \$900B above average levels of cash as a precaution against this economic and policy uncertainty.*

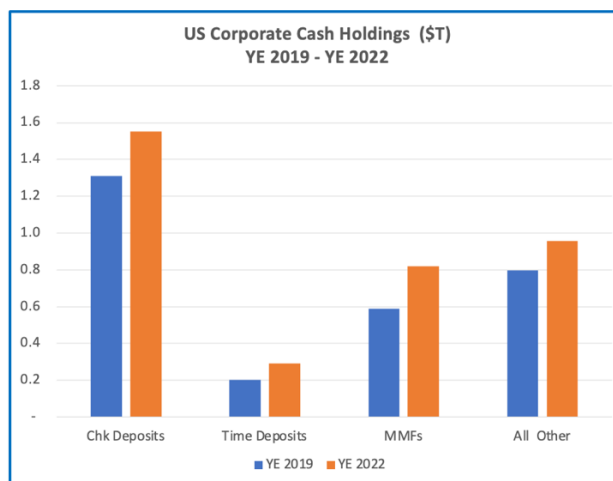
Corporate cash is 13.9% of US nominal GDP, still above the long-term trendline. During the pandemic, cash soared to 20% of GDP but that percentage has since declined by a third. In part, that is because real GDP rebounded, and inflation emerged.

There had been a decades long upward trend in cash as a share of GDP, so the current reversion back toward the trendline is welcome. However, these levels are still unprecedented, and the long-term effects remain to be seen. Since cash is a stranded asset, these levels could become an economic drag.



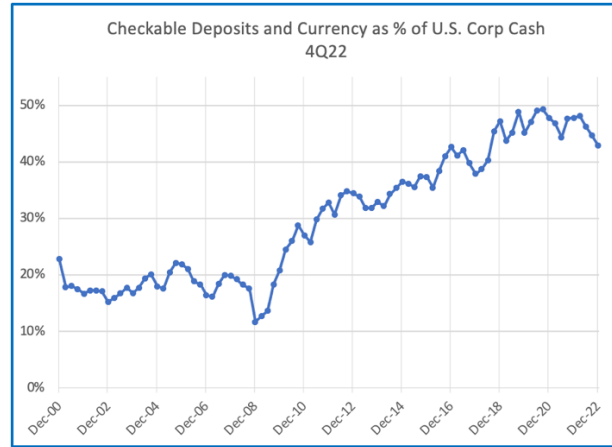
Source: Federal Reserve, The Carfang Group

Corporate cash allocations have shifted significantly since the pandemic began. While corporate investments into the “all other” category increased, the magnitude varied. For example, domestic checkable deposits and cash soared by \$244B through 2022. Corporate holdings of money market funds are a close second at \$229B and time deposits are up \$90B. Other direct short-term investments had increased \$139B. It will be useful to monitor this trend as rates rise.



Source: Federal Reserve, The Carfang Group

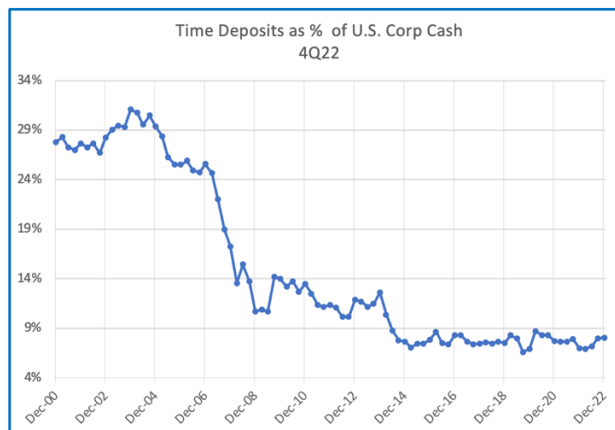
Checkable deposits and currency are 11% below their all-time highs, now at 43% of corporate cash. The percentage had been stable at 20% for more than ten years but began a long upward trend following the 2008 financial crisis as the Fed expanded the money supply and interest rates remained near zero. Now that rates are rising, we are seeing just how rate sensitive those deposits will be.



Source: Federal Reserve, The Carfang Group

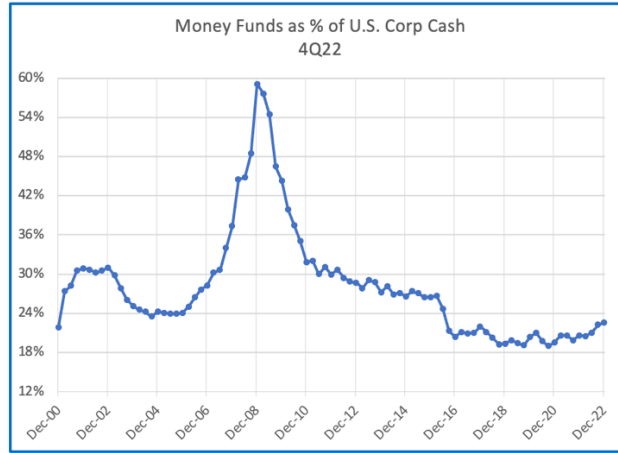
Time deposits now account for 8.1% of corporate cash, very near the all-time low set in 2019. However, they have increased for three consecutive quarters.

Between 1990 and 2010, these deposits ranged between 15% to 30% of corporate cash. During the quantitative easing of the past dozen years, its share fell to a low of 6.6% from which there has now been a small rebound. The inverse relationship between time and checkable deposits suggests that time deposits may be poised to increase now that rates are rising, and quantitative tightening has begun.



Source: Federal Reserve, The Carfang Group

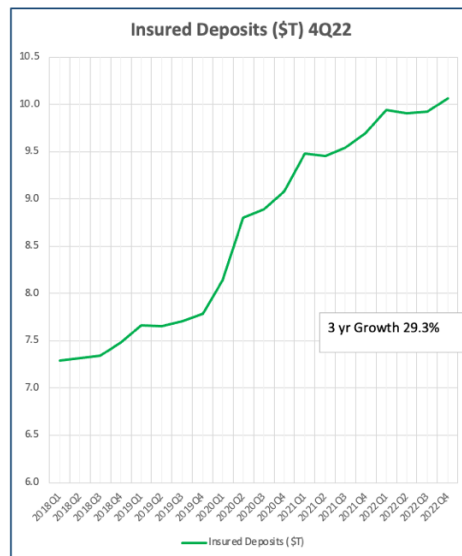
Money Market Funds may be regaining prominence. Assets are back to 22.6% of corporate cash, a level last seen in 2016. Assets, however, are still well below the peak 59% level of December 2008.



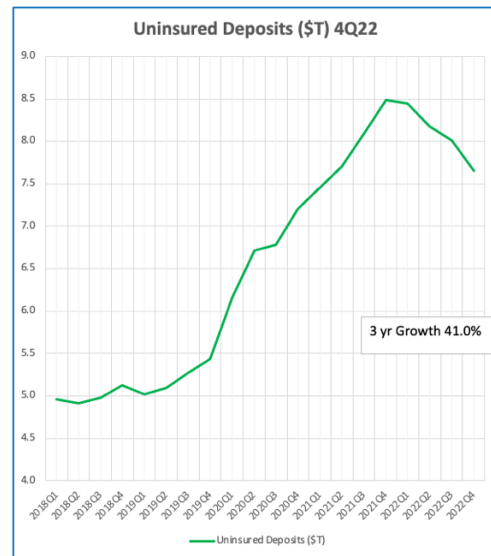
Source: Federal Reserve, The Carfang Group

A Note on Uninsured Deposits. Total domestic deposits in the U.S. banking system are \$17.8T. Uninsured deposits, generally corporate and institutional, total \$7.7T and have risen \$2.7T since the pandemic. This has put so much pressure on the banking system that regulators have guaranteed the uninsured deposits of two recent failed banks. As a result of recent bank turmoil, it's clear that the \$130B FDIC reserve fund will require additional funding, should corporate treasurers move those deposits into other investments.

The good news, as the charts below show, is that uninsured deposits have already declined sharply, probably seeking higher rates elsewhere.



Source: FDIC, The Carfang Group



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In conclusion, current liquidity markets represent a challenge for both treasurers and bankers. The Fed has become such a dominant player that traditionally reliable market signals are both distorted and muted. Inflation, rising short term rates and the beginning of the Fed's balance sheet reduction are just a few of the wild cards. The collapse of Silicon Valley Bank has raised concern about the health of banks, the credibility of banking industry supervisory bodies and the longer-term reliability of deposit insurance. Treasurers are remaining very cautious.

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