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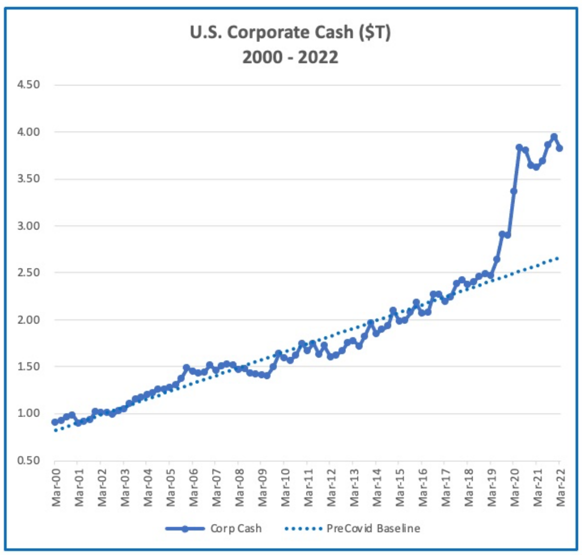
U.S. Corporate Cash Falls 3%
$3.83 Trillion in First Quarter 2022

June 15, 2022. Corporations continue to maintain the huge cash reserves accumulated during the Covid pandemic according to The Carfang Group's analysis of the revised Federal Reserve's Quarterly Flow of Funds report just released. At $3.83 T, U.S. corporate cash levels hover 3% below their all-time high. They are still $1.2T above the pre-pandemic trendline.

According to Anthony J. Carfang, Managing Director at The Carfang Group, "Corporate cash fell by $120 billion during the first quarter from its post-pandemic high set the previous quarter. Companies still harbor concerns about the economy, interest rates and inflation. Corporate treasurers are very worried about the hidden risks that quantitative tightening following the unprecedented decade-long monetary expansion could portend."



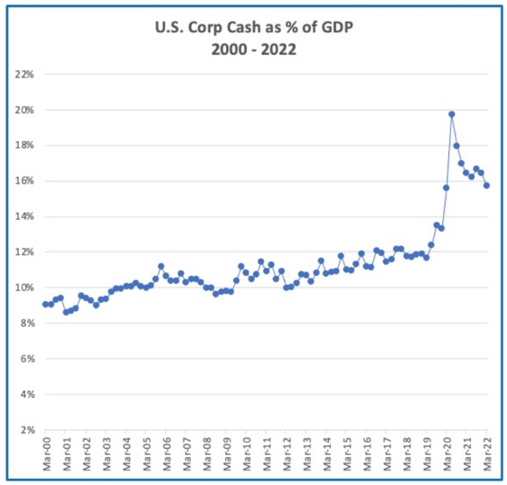
Source: Federal Reserve, The Carfang Group

The Fed's balance sheet assets more than doubled from $4.1T to $8.9T since Jan 2020, a spectacular 117% jump. During the first quarter, those total assets were flat as the Fed ended its quantitative easing. Now, the tightening phase is beginning.

During 1Q2021, the Fed reinstituted its reverse repo program. Within a year, RRP has grown from virtually zero to $2.2T. Concern among treasurers and bankers is that such massive Fed positions mute important market signals and obscure potential risks. RRP now seems to be rising as the same pace as the Fed's bond buying program, sending sharply inconsistent signals.

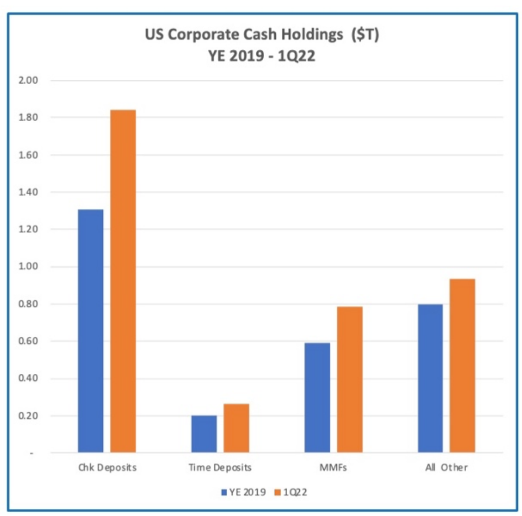
Also, during the quarter, total bank reserves at the Fed fell by $800B as lending to the private sector increased by $500B.

Corporate cash holdings declined to 15.7% of US GDP, still well above the long-term trendline. During 2Q2020, cash soared to 20% of GDP but the percentage declined as GDP rebounded. Since many consider cash to be a stranded asset, these levels could become an economic drag. There had been a decades long upward trend in this ratio, so the current reversion back toward the trendline is welcome. However, as these levels are unprecedented, the long-term effects remain to be seen.



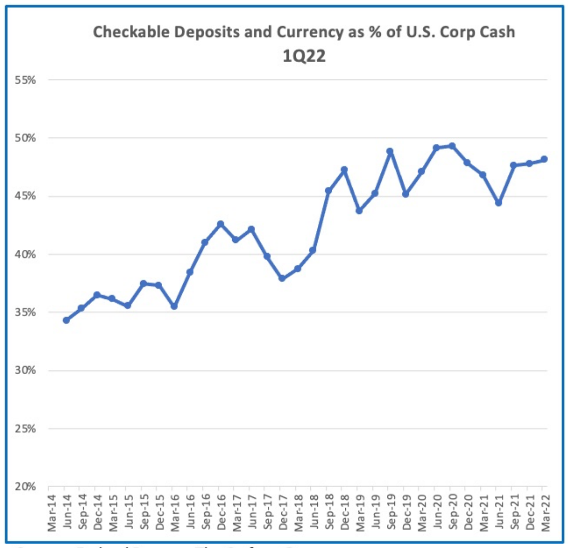
Source: Federal Reserve, The Carfang Group

Corporate cash allocations have shifted significantly during the pandemic. While corporate treasury investments into all instruments increased, the percentages varied. For example, domestic checkable deposits and cash grew by $500B or 41%. Investments in time deposits and money market funds grew by 32% and 33% respectively. The "all other" category which includes a variety of direct instruments lagged at 17%. It will be useful to monitor this trend as rates begin to rise.



Source: Federal Reserve, The Carfang Group

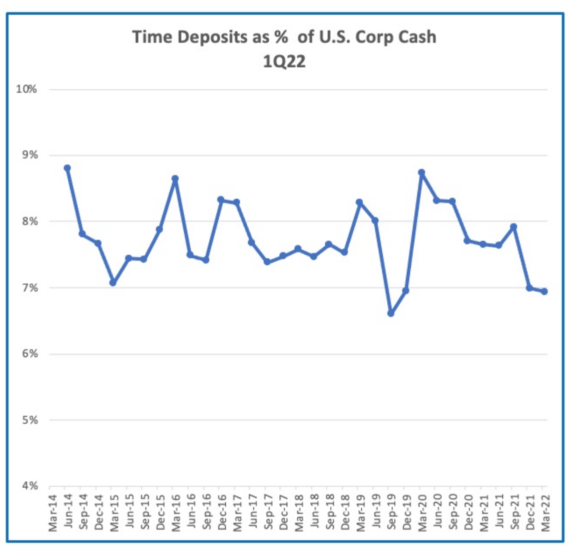
Checkable deposits and currency remained near the all-time high at 48% of corporate cash. The percentage had been stable at 20% for more than ten years but began a long upward trend following the 2008 financial crisis as the Fed expanded the money supply and interest rates remained near zero. Now that rates are rising, it will be interesting to see how rate sensitive those deposits will be.



Source: Federal Reserve, The Carfang Group

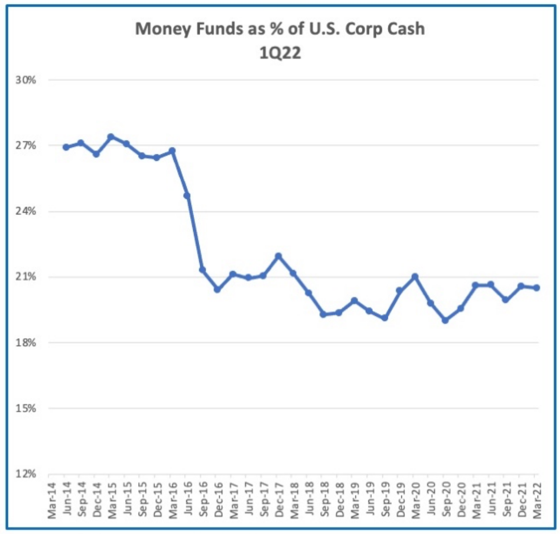
Time deposits now account for 6.9% of corporate cash, very near the all-time low set in 3Q2019. This is likely due to the low rates resulting from ten years of quantitative easing. Between 1990 and 2010, these deposits ranged between 15% to 30% of corporate cash.

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 is set to begin.



Source: Federal Reserve, The Carfang Group

Money Market Funds may have established a bottom. During the first quarter, MMF assets remained in its recent tight range, at 20.5% of corporate cash. That level was last seen in March 1997. Assets are now barely one third of the peak 59% level of December 2008.



Source: Federal Reserve, The Carfang Group

Commercial & Industrial Loans are an important source of corporate liquidity. Many companies actively drew down credit lines to further build their liquidity buffers during 2020. Then, they seemed to be trimming a bit in early 2021. However, C&I loans are now trending back up at $2.5T.

In conclusion, current liquidity markets represent a challenge for both treasurers and bankers. Although the market is awash in liquidity, 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.