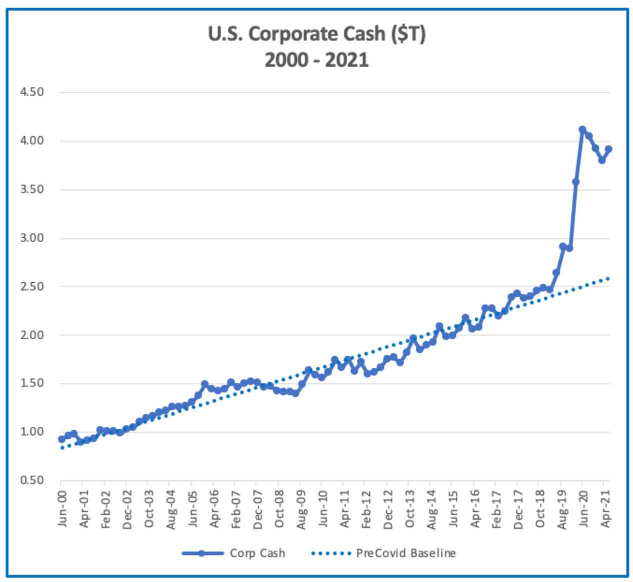
The Carfang Group

Corporate Cash Nearly $4 Trillion

$1.3 Trillion Post Pandemic Liquidity Buffer

October 2021. Corporations continue to maintain the huge cash reserves accumulated during the Covid pandemic. At $3.9T, U.S. corporate cash levels hover near their all-time high. They remain within $200B from the 2Q20 pandemic peak level but still $1.3T above the pre-pandemic trendline.

According to Anthony J. Carfang, Managing Director at The Carfang Group, "Corporate cash remains at elevated levels, as companies still harbor concerns about the economy, interest rates and inflation. Compounding the uncertainty, U.S. money supply, bank deposits and the Fed balance sheet continue to surge. The Federal Reserve now totally dominates short-term markets and corporate treasurers are wary of hidden risks that could portend." To learn more about these findings, join our Quarterly Liquidity Briefing webinar on October 21 click HERE.

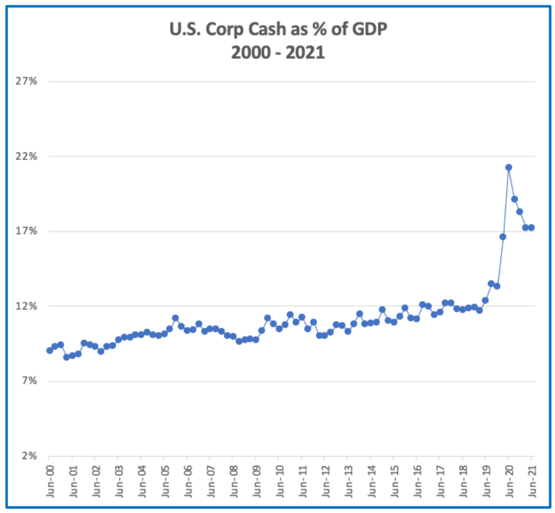


Source: Federal Reserve, The Carfang Group

The Fed's balance sheet assets grew from $4.1T to $8.0T since Jan 2020, a spectacular 95% jump. It continues to expand by $120B per month. Bank reserves, which nearly doubled from $1.6T to $3.1T during 2020 added another 25% YTD to end the second quarter at $3.85T.

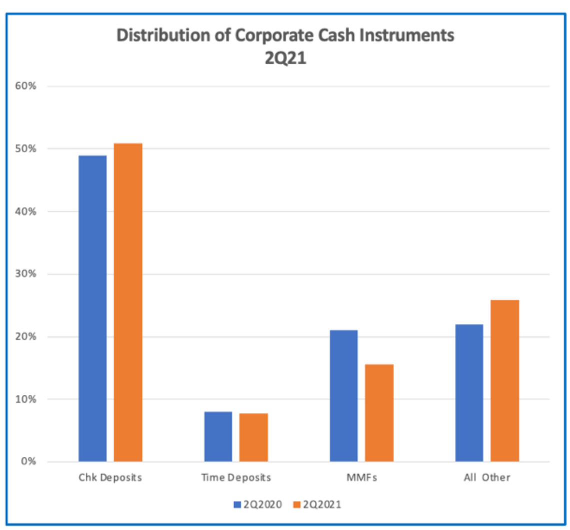
During the first quarter, the Fed reinstituted its reverse repo program. Within nine months, RRP has grown from virtually zero to $1.4T. Concern among treasurers and bankers is that such massive Fed positions mute important market signals and obscure potential risks. RRP now seems to be rising as the same pace as the Fed's bond buying program, sending sharply inconsistent signals.

Corporate cash holdings were flat at 17.2% of US GDP, well above the long term range of trendline. During the second quarter last year, cash soared to 21% 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.



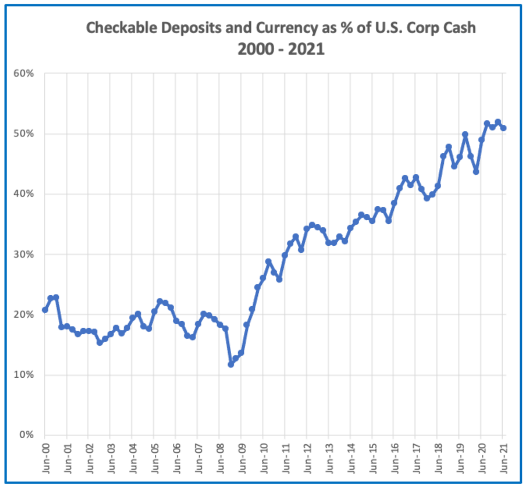
Source: Federal Reserve, The Carfang Group

Corporate treasurers reallocated their cash holdings during the past four quarters. Cash + checkable deposits continue to grow as a percentage of overall corporate cash. They are now above 50%. Time deposits were flat, but money market funds fell from 21% to 16% of corporate cash.



Source: Federal Reserve, The Carfang Group

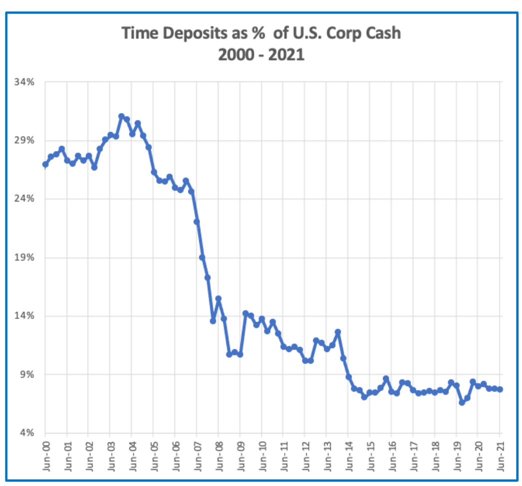
Checkable deposits and currency remained near the all-time high at 51% of corporate cash. The percentage had been stable at 20% for more than ten years but began a long upward trend following the 2008 financial crisis.



Source: Federal Reserve, The Carfang Group

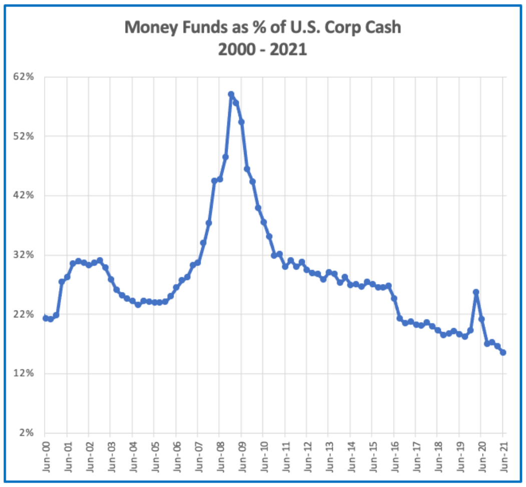
Time deposits now account for 7.7% of corporate cash, near the lower end of its recent historical range. This is likely due to the low rates resulting from ten years of quantitative easing.

The inverse relationship between time deposits and checkable deposits suggests that time deposits may be poised to increase once QE tapers or ends.



Source: Federal Reserve, The Carfang Group

Money Market Funds continued to decline. During the quarter MMF assets fell to a 25 year low, at 15.6% of corporate cash. That level was last seen in March 1997. Assets are now barely one quarter 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. Now they seem to be trimming a bit. C&I loans are down 3.3% to $2.4T year to date.

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. Yield spreads among assets classes are compressed. What is the "true" cost of capital, the "true" yield curve slope and the "true" credit risk premia? Tapering, tightening, inflation, debt / budget brinkmanship and taxation issues are just a few of the wild cards.

To learn more about these findings, register here for our October 21 Quarterly Liquidity Briefing webinar, which we are co-sponsoring with Safened, US. Topics include corporate and bank liquidity, Fed policy implications and a deep dive into recent FDIC guidance on brokered deposits.

About The Carfang Group.
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