The Carfang Group

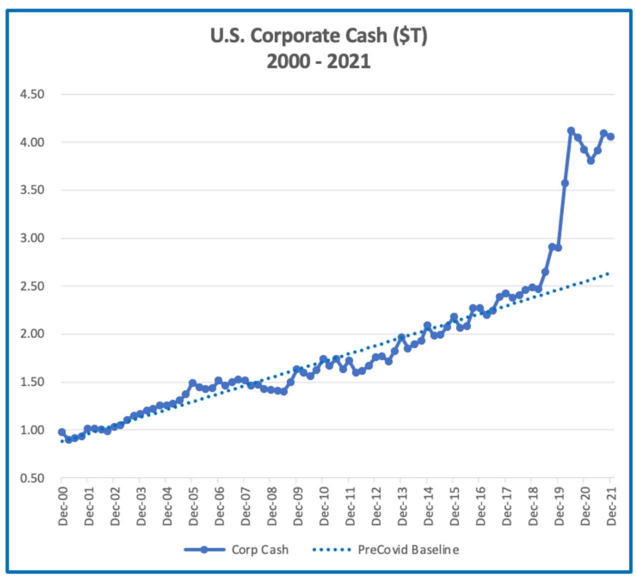
Corporate Cash Dips to $4.06 Trillion

$1.4 Trillion Post Pandemic Liquidity Buffer

March 17, 2022. Corporations continue to maintain 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 $4.06T, U.S. corporates are within 1% of their all-time high. Notably, it remains fully $1.4 trillion above its pre-covid trendline.

According to Anthony J. Carfang, Managing Director at The Carfang Group, "Corporate cash fell by $38 billion during the fourth quarter but up by $137 billion for all of 2021. Companies still harbor concerns about the economy, interest rates, inflation and geopolitical events. Corporate treasurers had been very worried about the hidden risks that unprecedented monetary expansion could portend. Now concern is shifting to Fed tapering and rate increases."

To learn more about these findings, join our Quarterly Liquidity Briefing webinar on April 21 click HERE.

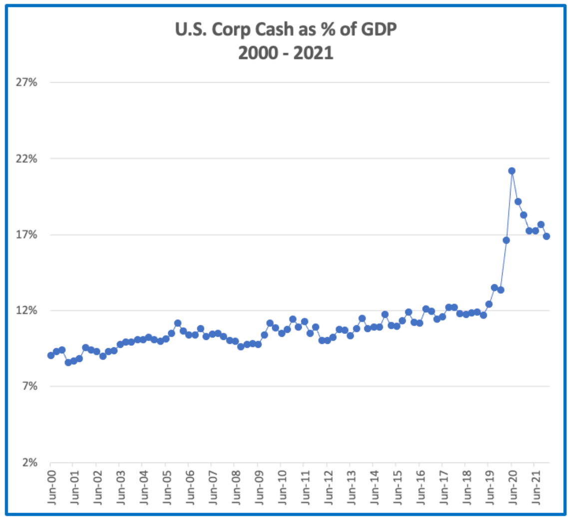


Source: Federal Reserve, The Carfang Group

The Fed's balance sheet assets more than doubled from $4.1T to $8.8T since Jan 2020, a spectacular 115% jump. It continued to expand by $120B per month through year-end although the Fed recently announced a tapering of the rate of expansion. We note a slowing of the growth in Feb. 2022.

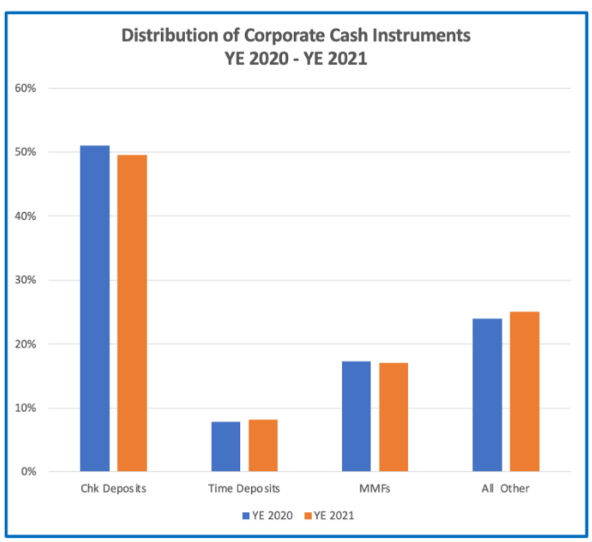
During 2021, the Fed reinstituted its reverse repo program. Within this past year RRP has grown from virtually zero to $1.6T. Concern among treasurers and bankers is that such massive Fed positions mute important market signals and obscure potential risks. RRP now seems to be rising as the same pace as the Fed's bond buying program, sending sharply inconsistent signals.

Corporate cash holdings were 16.9% of US GDP, well above the long-term trendline. During the second quarter of 2020, 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

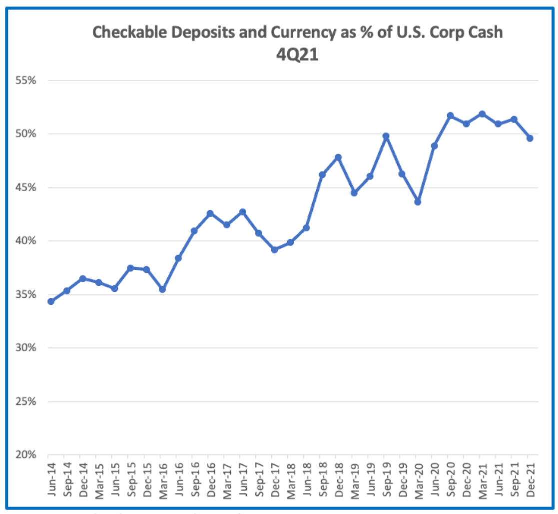
Corporate cash allocations were fairly steady over the past year, although cash + checkable deposits dipped from about 51% of corporate cash to 49.6%. Time deposits were up from 7.8% in 2020 to 8.2% at YE 2021. Money market funds fell slightly over the year from 17.3% of corporate cash to 17.1%.



Source: Federal Reserve, The Carfang Group

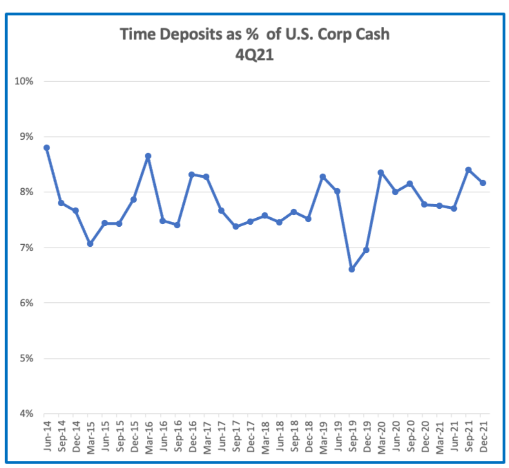
Checkable deposits and currency dipped slightly but remained near the all-time high at 50% of corporate cash. The percentage had been stable at 20% for more than ten years but began a long upward trend following the 2008 financial crisis as the Fed expanded the money supply and interest rates remained near zero.

These deposits had been range-bound at 51% - 52% of corporate cash for five consecutive quarters but now dropped below 50%. That range may have been a top and we could see declines as rates rise and corporations find alternative uses for their cash. As a result, the market for deposits could tighten and create competition for deposits among banks and their various platforms.



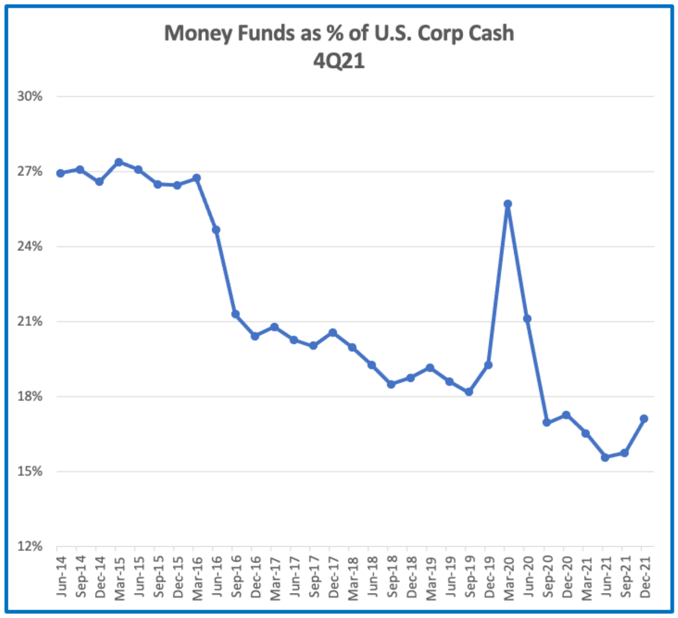
Source: Federal Reserve, The Carfang Group

Time deposits now account for 8.2% of corporate cash, down in the recent quarter but up from 7.8% over the year. 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 may have established a bottom and will benefit from higher short-term rates. During the quarter MMF assets rebounded to 17.1% of corporate cash. That's up from 15.7% in a single quarter although down from 17.3% over the year.



Source: Federal Reserve, The Carfang Group

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 asset 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 April 21 Quarterly Liquidity Briefing webinar, which we are co-sponsoring with Safened, US. Topics include corporate and bank liquidity, inflation, money market rates, the Fed and other central banks' policy implications.

About The Carfang Group.
The Carfang Group advises our clients on the strategic and regulatory issues surrounding Treasury, Payments, Liquidity and Transaction Banking. We oversee the deepest and broadest LinkedIn groups on key Treasury, Banking, Liquidity, Payments and Regulatory topics via our Idea Exchange and Career Network. Visit https://www.thecarfanggroup.com.