

Option Finance – Monday, May 18th 2009
(Translated by Calyon)

Interview – Nathalie Buisseret, Head of Calyon Corporate Sales

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What is the current trend with regard to money market investments?

For about the past two months, our clients have again been searching for performance. At the end of last year, clients were no longer looking to optimize returns on investments by using more or less structured products. Instead, their absolute priorities were the capital guarantee and cash availability, even if it meant extremely low yields. Very high quality certificates of deposit were therefore almost exclusively the investment vehicle of choice. This trend is much less pronounced today, as the markets have regained a sense of calm and interest rates are very low. Our client base, which consists mainly of large corporations (CAC 40, SBF 250), continues to favor liquid products to maintain the availability of their cash. Thus certificates of deposit and short-term treasury bills remain popular, but clients are also investing a small portion of their cash in higher-yielding products. This search for yield is evidenced by structured foreign exchange or interest rate investments for periods of six months to three years, always with a capital guarantee at maturity.

Which investment products do companies favor today?

Corporates have been seeking “BRIC” products for about two months. These products are generally offered for an investment horizon of six months to one year, and they enable investors to benefit from the appreciation of a basket of currencies comprising the Brazilian real, the ruble, the rupee and the Chinese yuan. If the currency appreciation materializes, investors receive 50% of the gain, but if it does not, they get no return on their investment. This product is highly sought after, since it makes real economic sense without any capital risk at maturity. The currencies of these emerging market countries, which were sensitive to the wave of commodity price corrections, plummeted to levels as low as those of 2001-2002. Many investors felt that this currency depreciation was overblown. More generally, products that make it possible to sell volatility are always very popular. Corporates with more latitude can turn to products offering longer maturities, such as those indexed on interest rates or linked to inflation. In particular, we offer an investment product with a three-year time horizon and a coupon every six months tied to the French inflation rate: 4% if inflation is positive, 2% if it is negative. The success of this product is based on the simplicity of its yield and, of course, its economic justification.

Has product simplicity become a more decisive criterion for treasurers?

Yes, it is a key factor, but it always has been. While corporate clients are turning to more sophisticated products, the risks are still very clearly identified and the decision-making processes — typically the responsibility of executive management — are often lengthy on a topic as sensitive as how to invest excess cash. In addition to simplicity, acceptable cash management risks have also evolved. While it’s true that some corporates were prepared to risk up to 5% of their capital in exchange for a possible bump in yield, that is no longer the case today.

Interview by Angèle Pellicier