

SOVEREIGN INSTITUTIONS ENHANCING GLOBAL LIQUIDITY - APAC

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Stephen Lackey: *Mastering Flows, Strengthening Markets: How sovereign institutions can enhance global liquidity* is the title of the latest white paper produced by OMFIF in association with BNY Mellon. Last year, OMFIF and BNY Mellon collaborated on the increasing value and opportunity associated with collateral called *Crossing the Collateral Rubicon*. Central banks, sovereign wealth funds, and pension funds are the biggest investors across Asia. This latest paper examines the impact of recent regulatory changes on High Quality Liquid Assets (HQLA), and the role for sovereign investors to enhance global liquidity as well as increase the yields on their portfolios.

David Marsh: Liquidity, in the financial system, has been under strain over the last eight years, ever since the financial crisis in 2008, 2009. And this is, if you like, both the building block and also the oil, the lubricant in the world economy. And it's been under strain for a whole host of reasons, partly regulation to patch up the effects of the crisis that we had eight years ago. Partly because of economic developments because world growth has been slowing down, and partly politics. We've had a lot of political and financial upsets all over the world. All that has conspired to slow down the flows of liquidity and also make them more sticky and you can see that on the markets. For example, the amount of trading going on in some instruments has slowed down considerably. Taking out insurance against volatility and risk has become much more expensive. You see that in the way these CDS spreads have been ballooning upwards. And then you see hesitancy about investors getting involved in certain markets. And you see 'stops' and 'starts', which can be not just irritating but also life threatening for financial markets and for economies.

Hani Kablawi: Sovereigns continue to invest conservatively, but they are also now grappling with two competing forces. On the one hand, their search for yield is against a back-drop of historically low or negative interest rates, and on the other – and this is especially true for



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commodity dependent sovereigns, they're also looking to make sure they have access to liquidity, as and when they need it. Meantime, the story that's playing out on the sell side is one of regulation-induced balance sheet compression, higher costs associated with repos, which are a traditional funding source, and, if that's not enough – a 'crowding-out' effect, caused by central banks, eager to pump liquidity, by hoarding HQLA's themselves.

Georgina Baker: Security lending provides IFC with a very useful tool, especially in low interest rate environments to earn a steady income based off reserve management and excess positions. High Quality Liquid Assets (HQLA) can be lent into the market and proceeds invested for additional returns. Holding liquid assets to maturity is a lost opportunity. Not only financially, because of the foregone profit potential, but transacting in the market brings liquidity to the market. Market depth and liquidity is a benefit to all market participants.

Brian Ruane: It's generally considered that the market for High Quality Liquid Assets (HQLA) is a liquid market and it's a deep market and it's functioned well post tri-party reform. It's important for sovereign wealth funds to trade high quality liquid assets, firstly, as part of their own portfolio management. It's a yield enhancement, even on a risk adjusted basis, it's a good return. Secondly, for the overall market, of which the sovereign wealth funds are important participants and important owners, it leads to increased efficiency of settlement and an increased depth in the market by more participants stepping into it.

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