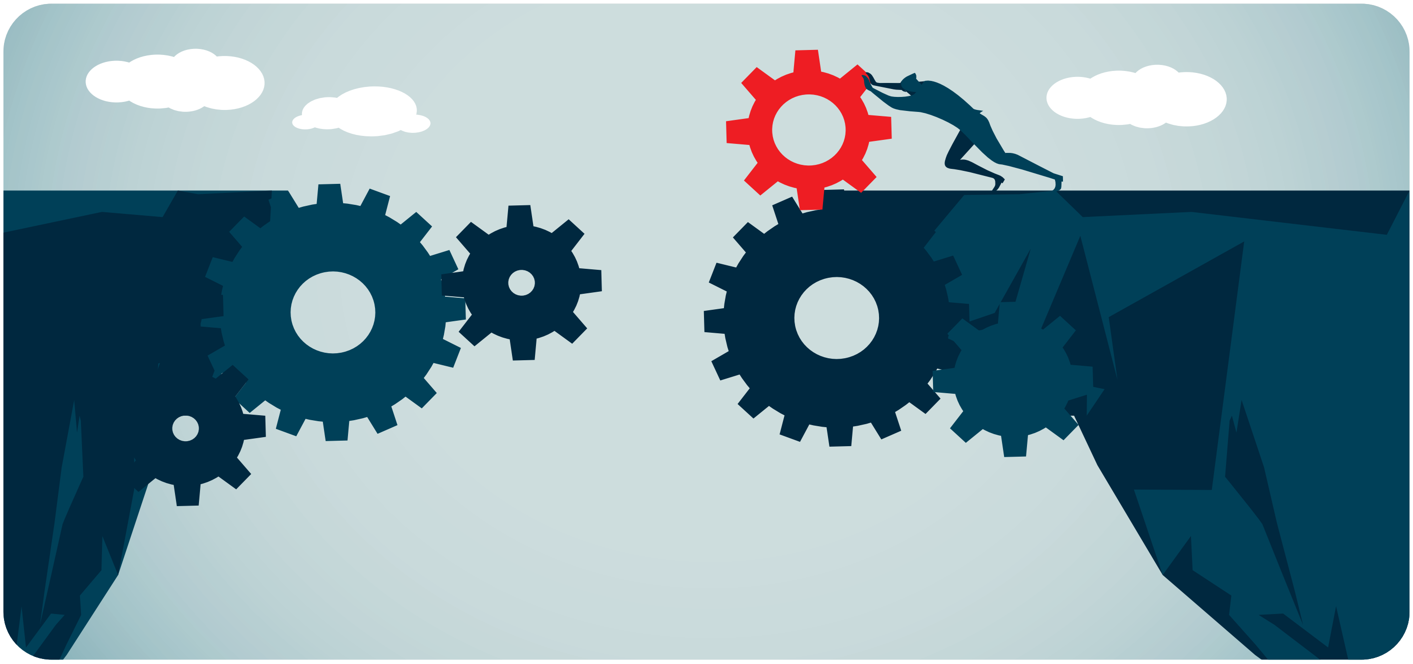

# Treasury Management in Times of Economic Uncertainty: *Considerations for the Energy and Chemical Sectors*

Treasury professionals in nearly every industry, including those in the energy and chemical industries, have experienced a veritable barrage of hurdles over the past few years. The pandemic and supply chain disruptions put a premium on managing resources and liquidity effectively. Volatility in the commodities markets has also received increased attention, encouraged in part by local events such as the Texas snowstorm in February 2021 as well as events with global implications such as Russia's invasion of Ukraine in February 2022. If that was not enough, central banks, particularly the US Federal Reserve, began raising interest rates in 2022 to tamp down inflationary pressures.

These factors have tested treasury organizations especially when it comes to managing liquidity and the cash conversion cycle to meet the needs of the business. Many are tackling these challenges with fewer treasury resources as attrition, cautious hiring practices, and even a lack of available talent have increased the imperative for an efficient and impactful treasury organization more than ever before.

## Doubling down on liquidity management and working capital

Conversations with clients across the energy and chemicals industries have underscored where they are focused to positively impact their business goals. We've heard a number of key themes frequently from treasurers thus far in 2023, including:

**Putting Accounts Receivables to Work** – With a potential recession on the minds of many in 2023, coupled with increasing interest rates making some traditional financing more expensive, treasury teams have been investigating the benefits of accounts receivable portfolio structures. Through these structures, clients hope to leverage the value of receivables to generate optional liquidity and possibly mitigate counterparty credit risk. Citi has found that clients appreciate flexible structuring that still meets "true sale" requirements along with a fully digitized approach which makes administration light touch.

**Managing Operational Balances** – Another key focus has been maximizing visibility and yield on operational balances. Many organizations still utilize legacy processes that rely on a combination of spreadsheets supplemented by enterprise resource planning (ERP) tools. As a result, clients have been reevaluating cash centralization and pooling structures to increase cash transparency. Citi offers automated intercompany lending and currency conversion in 144 currencies across more than 90 countries – critical to the energy and chemical sectors which operate as global businesses with in-country presence in multiple jurisdictions. Citi's cross-currency sweeps and target balancing automatically concentrate cash helping provide clients with a global view of balances.

**Increasing Efficiency with Virtual Cards** – Conversations around virtual cards have increased dramatically over the past several months as clients explore this option for B2B payments. Virtual cards can be a useful tool to help reduce errors in reconciliations, improve cash management, and allow for embedded controls to help ensure appropriate payment amounts and decrease the likelihood of fraud. Programs can be set according to internal compliance programs to allow for more transactions to flow with easier oversight.

**Digitizing as an Imperative** – Many treasury organizations have achieved greater efficiency through digitization, upgrading and consolidating ERP systems and implementing the latest technologies such as Application Program Interface (API) connectivity to take advantage of new digital treasury solutions. Digitization makes a full range of automation possible. For instance, increased digitization allows treasurers to have vital cashflow information sent to them on a proactive basis instead of relying on emails and spreadsheets collected from various legal entities.

As Treasurers need real-time visibility into their accounts to know where their cash located is throughout the organization, conveniently at their fingertips, Citi has deployed additional technologies such as biometrics, a digital authentication method that utilizes a user's unique physical traits via the user's mobile device; "widgets" as a quick and convenient way to access services needed for day-to-day treasury and trade activities such as to "Initiate, View, Authorize and Release" payments; and both instant payments and 24/7 are rising in importance in the B2B arena. Lastly, scale and resilience of infrastructure continues to be an imperative.

## Key Takeaway: A well-stocked toolbox provides essential optionality

Treasurers today need to aim for a full complement of liquidity and cash management tools to deploy as needed in order to genuinely partner with the business. For those who have been focused on ERP migrations or mergers/acquisitions, it is never too late to add to your arsenal. For many, this involves employing best practices around liquidity and working capital in ways that leverage recent ERP upgrades to the fullest extent possible, including digital capabilities as well as solutions that connect seamlessly to your ERP system.

## Virtual cards can be a useful tool to help reduce errors in reconciliations, improve cash management, and allow for embedded controls to help ensure appropriate payment amounts and decrease the likelihood of fraud.

The current macro environment as well as the drive to enter new markets and businesses underscore the need to ensure the right structures for liquidity are in place and that organizations are as efficient as possible. We expect working capital management and accelerating cash conversion cycles will continue to be ongoing themes throughout the remainder of 2023 and into 2024.

**Christine McWilliams**
Managing Director
Solution Sales Head, NAM NRCET
Citi

**Treasury and Trade Solutions**
**citi.com/treasuryandtradesolutions**



2213327 08/23