Callisto Bulletin

Your Weekly Round-Up of news, views, and insights into the ever-evolving world of receivables management

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Is it Friday already?! Welcome once again to The Callisto Grand Bulletin, where we serve up a dish of the week's most tantalising economic tales, all with a side of trade credit intrigue.

First up, Polymetal International bails on Russia faster than you can say "sanctions," flipping its operations for a cool $3.69 billion. Meanwhile, German firms are pouring cash into the US like it's the last round at a bar. Over in the CEE, wages are popping like champagne corks, stirring up the pot for businesses banking on stable costs. Then there's the EU's latest sanctions saga turning the heat up on Russia, pulling Chinese companies into the mix. And for the grand finale, we offer a deep dive into Germany's economy, providing credit professionals with intel they need to navigate the stormy seas ahead with confidence.
Buckle-up...

1️⃣ Gold Rush or Bust? Polymetal Ditches Russia 🏃💰

The divestiture of Polymetal International plc's Russian operations to JSC Mangazeya Plus for $3.69 billion is particularly interesting due to the nuanced interplay of geopolitical risk and its direct implications on credit management within the precious metals sector and beyond. The transaction, set against a backdrop of potential nationalisation/expropriation by the Russian government, offers insights for managing credit risks in volatile geopolitical environments.

The valuation of Polymetal Russia at 5.3 times its enterprise value/EBITDA under the terms of the deal serves as a valuable reference point when evaluating companies facing similar geopolitical challenges or operating in at-risk industries. Valuations are influenced not just by a company's financials but also by external geopolitical pressures - Polymetal gives us an indication of by how much this might be so. By integrating this valuation as a scenario-based metric in credit risk models, credit managers may be able to better understand the impact of geopolitical tensions on company valuations and their subsequent creditworthiness. Adjusting risk premiums to reflect this layer of uncertainty helps ensure these models are more aligned with the real risk environment.

The transaction's strategic rationale, aimed at removing or substantially mitigating critical political, legal, financial, and operational risks points towards the importance of continuously monitoring geopolitical developments and their potential impact on the creditworthiness of counterparties. Furthermore, Polymetal's board recommendation for shareholder approval of the deal highlights the role of corporate governance in managing credit risks. Trade credit should advocate for and participate in cross-functional teams that assess and respond to geopolitical risks, ensuring that credit perspectives are integral to corporate strategy and risk management frameworks. Here's your case study to get that buy-in.

Polymetal International's divestiture of its Russian operations to JSC Mangazeya Plus is not just a manoeuvre to evade the risks of nationalisation or expropriation; it is a case study in the imperative for credit professionals to integrate geopolitical risk assessment into credit management strategies and to be involved in corporate strategy. This transaction illustrates the need for dynamic, nuanced approaches to managing trade credit risks in industries and regions susceptible to geopolitical volatility - which is increasingly many.

2 American Dream or EU Nightmare? German Giants Bet Big

There's been quite the surge of German capital investment into the United States lately, highlighted by a record $15.7 billion in 2023. This influx, largely incentivised by the Inflation Reduction Act and Chips and Science Act, signals a strategic pivot not just for German corporations but for credit professionals too.

Its not merely in the volume of capital flowing from Germany to the US that's interesting, but the fact that as German companies ramp up their presence in the US, particularly within the manufacturing sector, trade credit is presented with a complex matrix of risks and opportunities to decode...

Firstly, the move reflects a broader trend of diversification away from traditional markets like China, in favour of the perceived stability and growth potential within the US. This shift, underscored by significant projects like Volkswagen's Scout Motors' $2 billion investment in South Carolina, necessitates a recalibration of risk assessment models. The geopolitical undertones of this shift—from Europe's stringent regulatory environment and China's market uncertainties to the US's welcoming investment climate—add layers of complexity to credit decision-making.

Understanding the strategic motivations behind these investments is crucial. German firms are not merely seeking safe harbour; they are strategically positioning themselves within a market that promises substantial growth, driven by a robust policy framework and incentives for manufacturing and tech innovation. For credit managers, this requires a deeper dive into the stability and long-term prospects of these investments, beyond conventional financial metrics and into geopolitical and policy-driven risks and opportunities.

Moreover, the sector-specific nature of these investments—largely centered on manufacturing and technology—presents a double-edged sword. On one hand, there's the potential for enhanced business with new entrants and expanded operations of existing players, offering a broader base for trade credit activities. On the other, there's increased competition and sectoral volatility, particularly as new technologies and manufacturing capabilities evolve under the banner of these investments.

The role of trade credit in this evolving shift extends beyond mere risk assessment to strategic partnership and advisory, guiding clients and customers through the complexities of engaging with or competing against these German investments. This entails not just adjusting credit policies and terms to reflect the new risk landscape but also identifying opportunities for collaboration and growth that these investments may herald.

The surge in German investment into the US, therefore, is not just a testament to shifting global capital flows but a call to trade credit managers. It demands a sophisticated, nuanced approach to credit management that accounts for the geopolitical, sectoral, and policy dimensions shaping the future of US-German trade relations. As this new chapter unfolds, the strategic insights and actions of credit professionals will be pivotal in navigating the opportunities and challenges ahead, ensuring that our firms can capitalise on this wave of investment whilst mitigating the inherent risks it brings.

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3 CEE's Wages: Tightrope Walk for Shared Service Centers 📈🌍

As Central and Eastern Europe (CEE) showcases a vibrant tableau of economic indicators, the spotlight turns sharply to the burgeoning wage growth across the region—a trend stirring both optimism and caution among credit professionals. With Poland leading the charge, boasting a remarkable 12.8% year-on-year wage growth in January, a wider view unfolds across the CEE, revealing a complex dance of economic vitality and inflationary pressures.

At the heart of matters for many credit functions is the burgeoning challenge for businesses leveraging shared service centres in the CEE. These hubs, central to the operational efficiency of multinational corporations, now face the headwinds of escalating labour costs, underscored by wage growth figures out of Poland, Croatia, and beyond. Croatia's real wage growth, hitting an impressive 8.6% year-on-year in December, mirrors a region-wide trend that, while signalling economic health, also poses nuanced challenges for maintaining competitive operational costs long-term.

This economic dynamism, however, isn't confined to wage metrics alone. The CEE's unemployment offers additional layers of insight, with Slovakia maintaining a modest 5.2% in January, juxtaposed against Croatia's uptick to 6.8%. These figures, when parsed alongside wage growth, paint a detailed picture of labour market tightness and the resultant wage pressures.

Moreover, the currency strength observed across the CEE adds another layer for consideration. The recent appreciation of CEE currencies against the euro not only impacts the cost-competitiveness of exports but also recalibrates the cost structure of shared service centres in the region. For multinational corporations, this currency movement could potentially inflate the local currency cost base.

Navigating this intricate economic environment necessitates engaging in a delicate balancing act, aligning operational and credit risk strategies with the new and nuanced economic realities of the CEE. This includes a proactive engagement with currency hedging mechanisms to mitigate the financial impact of currency fluctuations and even, perhaps, a strategic diversification of service centre locations to dilute the risk concentration in any single market long-term.

The evolving wage growth and economic conditions in the CEE region present a multifaceted challenge for trade credit managers. The path forward calls for a nuanced understanding of local economies, an agile approach to risk management, and a strategic recalibration that aligns operational efficiencies with the economic realities of wage inflation and currency movements. As we move deeper into 2024, the ability to navigate these complexities will increasingly define the resilience and competitiveness of businesses operating in the vibrant, yet challenging, economies of Central and Eastern Europe.

4️⃣ EU's Russia Sanctions Shake-Up: Credit Alert 🌍🔒

On the eve of the second anniversary of the conflict in Ukraine, the European Union has escalated its economic offensive against Russia, unfurling a new suite of sanctions that casts a wider net to include about 200 companies and individuals, notably bringing Chinese firms into the fold for their alleged support to Moscow's military efforts. This latest manoeuvre, hailed as one of the EU's broadest sanction packages, underscores an intensification of pressure.

For credit managers, particularly those navigating the complexities of international trade within and beyond the EU, this development could be a critical juncture. The inclusion of Chinese companies in the sanctions list is a clear signal of the EU's commitment, potentially reshaping the landscape of global trade relationships and credit risks. The measures cut deep into the energy sector, banking, and high-technology components, presenting a multifaceted challenge. This extension of trade restrictions necessitates a recalibration of risk management strategies, especially for those with exposure to or operations within the targeted sectors.

Trade credit must now scrutinise the indirect exposure of our portfolios to sanctioned entities, including the complex supply chains that may inadvertently link to the Russian military-industrial complex or sanctioned Chinese companies. This involves a granular review of counterparties and their affiliations to ensure compliance and mitigate the risk of entanglement in the sanctions web.

The introduction of sanctions against Chinese companies suspected of supporting Russia's military efforts also introduces a novel dimension of geopolitical risk. This could have ripple effects on the global supply chain and trade dynamics, necessitating a reassessment of credit risks associated with affected regions and industries. We'll need to closely monitor the unfolding economic repercussions and adjust credit policies to navigate fallout.

As the sanctions take effect, staying ahead of the curve will be paramount for maintaining stability and resilience.

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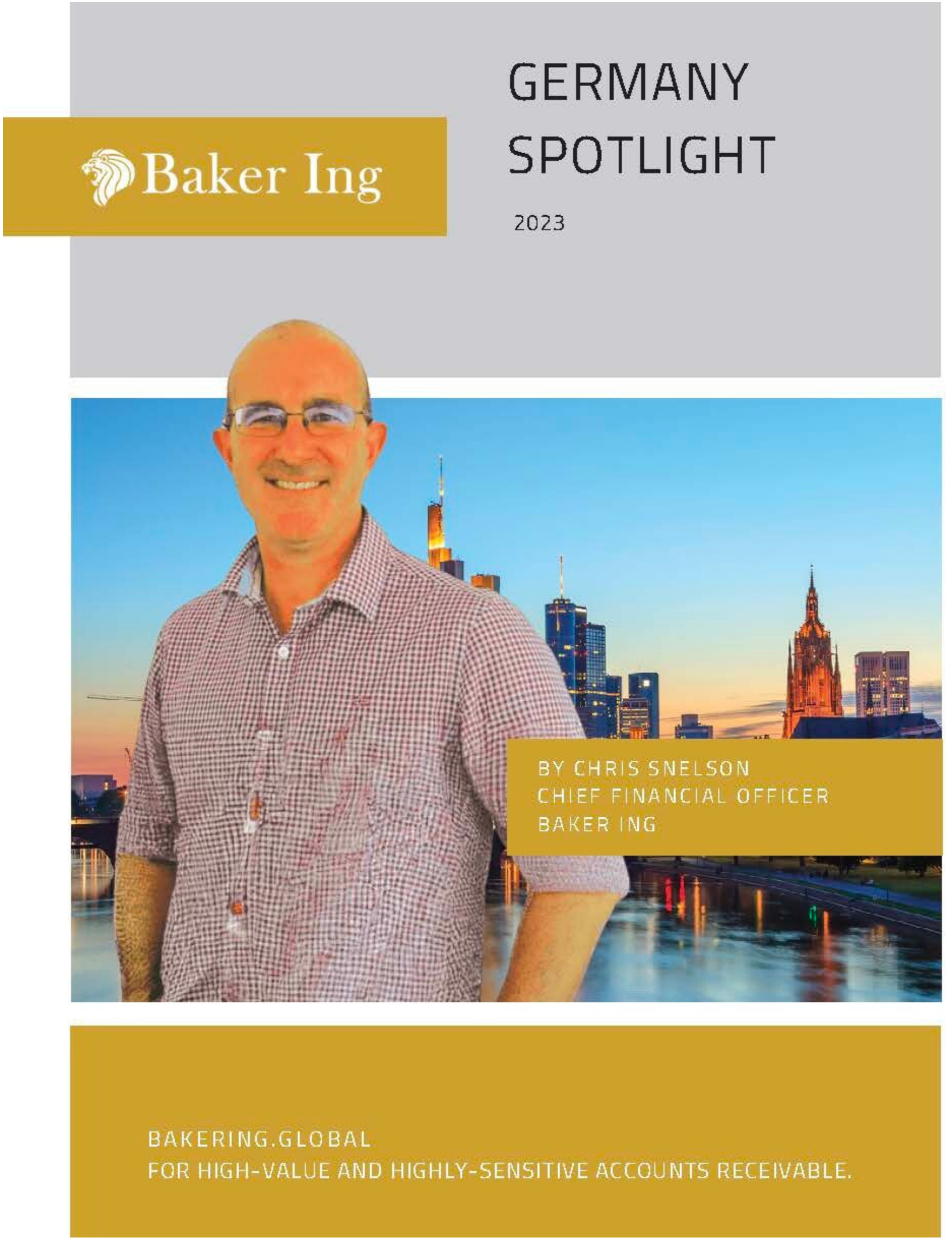
5 Navigating the Waters: Germany's Economic Landscape 🇩🇪🔍



In the rapidly evolving economic climate of 2024, the insights from Baker Ing's Germany Spotlight Report gain new significance, especially in light of recent developments that impact Germany's position on the global stage. With Germany at the forefront of the European Union's latest sanctions against Russia and the nation's strategic economic manoeuvres, such as substantial investments in the US, understanding the underlying dynamics of Germany's economy is more crucial than ever for trade credit.

This report dives into the drivers of Germany's economy, such as technological advancement and its role within the EU; instrumental in evaluating how recent economic policies and global events might influence Germany's economic resilience and, consequently, credit risks.

Don't miss the opportunity to gain a competitive edge in one of the world's most influential economies. You can download the Germany Spotlight Report now at https://bakering.global/product/germany-spotlight-2023/

And so, as we close the book on another illuminating chapter of The Baker Ing Bulletin, I hope we have helped you traverse the labyrinthine world of credit with the curiosity of a scholar and the insight of a sage.

To our distinguished connoisseurs of commerce, those sagacious scholars of the ledger and ledgerdemain, we must remember that being well-informed is not just a feather in one’s cap; it is, indeed, the secret sauce to triumph! For a deeper dive into the narratives that shape our economic day-to-day, we encourage you to visit https://bakering.global/global-outlook/.

Until next time, may your balance be bountiful and your risk merely a mirage...