FALCON'S
NEW FINANCIAL LANDSCAPE

By: Falcon Group

About Faclon Group
Falcon Group is recognized as a key alternative source of corporate finance – acting as a partner to clients with respect to their global, regional and local requirements. Falcon Group operates throughout the Middle East, Asia-Pacific, North and Latin America

Falcon Group's annual trade and corporate finance forum – held at the Madinat Jumeirah, Dubai – examined **"THE NEW FINANCIAL LANDSCAPE"** by inviting economists, financiers and corporates to offer their insights

In a lively forum – Falcon's fourth such event – one conclusion became clear: the power of global banks is waning. The financial crisis, liquidity constraints and regulatory proposals that will force banks to keep more capital on their balance sheets have all impacted their capacity to lend to corporates.

Yet this is far from bad news – concluded the participants. Corporates in both the developed and developing markets have not been abandoned. Indeed, the theme of this year's forum was "The New Financial Landscape", which explored the surge of new players and diversified funding options that have emerged from the 2008 crisis. Indeed, far from being left with no or fewer funding options, corporates actually have a wider variety of funding sources available, as well as access to an expanding range of sophisticated funding solutions.

FROM FEAST TO FAMINE

But first the bad news – banks have, indeed, restricted their lending.
"We have moved from feast to famine in terms of credit availability from global banks," stated David Smith, Economics Editor of The Sunday Times, kicking-off the forum. "It will be some time before western banks fund the growth in the emerging markets again."
Smith, a leading economist and author of the bestselling Free Lunch: Easily Digestible Economics discussed how the financial and banking hangovers from the 2008 crisis are impacting the extent to which particularly-European banks are able to fund corporates for trade and expansion.

Smith also described the shift in economic power from the developed to the emerging markets, highlighting that in 2010 one third of global economic growth came from the emerging markets – a theme carried on by Mike Moore, former Director General of the World Trade Organisation and the event's keynote speaker. Moore discussed the optimism in the emerging markets in a speech offering a global view of trade and development.

"By 2025 four out of the top five global economies will be in Asia, and Dubai is ideally situated to profit from this growth," he said. "This ought to be a time for optimism," said Moore, with a nod to many local corporates in the audience.

Yet his point was that, despite the talk of gloom and austerity in the west, the economies of the east are likely to stay buoyant – as long as they can find the funding they need.

THE RISE OF ALTERNATIVE FINANCIERS

Other speakers agreed with the last point. "A machine doesn't run without oil," said Philip Jan Kok, Portfolio Manager at Galena Asset Management – a specialist trade finance fund and wholly owned subsidiary of Trafigura Group. "And this need [for liquidity] is being met by the rise of alternative financiers."

"Corporates do not want to have to depend only on banks," Jan Kok continued, stressing that the shift in the financial landscape away from global banks and increasingly towards alternative financiers has arisen as much from corporate desire as from necessity.

Indeed, a key message of the event was that corporates do not just need an alternative to global banks. They want one.

Certainly, alternative financing has many benefits, as Jan Kok highlighted. Crucially, they are able to act with speed. And their smaller size allows them greater flexibility – enabling them to structure sophisticated and bespoke financing solutions for corporates of all sizes.

FLEXIBLE FUNDING

These advantages were highlighted by the key corporate speaker at the Falcon event – Microsol International: a global solar cell manufacturer based in the UAE, as well as a client of Falcon Group.

The company's Director of Marketing and Business Development – Suri Penubolu – described the positive impact of this new and more flexible financial landscape for corporates such as his.

"Alternative power – such as solar cells – is growing at a faster rate than fossil fuels," he said. "Yet the banking sector doesn't understand us. So their off-the-shelf solutions do not work as they cannot keep pace with our ever-developing business and fast-changing requirements."

"So not only is global bank funding becoming increasingly hard for corporates to access, it is also fairly generic," said Penubolu. Companies such as Microsol International want solutions that are structured around their exact needs, and that can adapt – quickly – to change. Significantly, here Penubolu indicated that many companies would continue to use alternative financiers even if global banks were to return to their former liquidity – clearly suggesting that the shift in the financial landscape is permanent.

THE NEED FOR REGULATION

Regulation was another concern of the forum. Interestingly, Mike Moore commented that "a world with no walls, rules and regulation can't function".

Of course, this was a call for strongly regulating the banking sector, although many of the restrictions global banks face stem from stringent regulatory proposals – such as the recently implemented Basel III regulation. Yet alternative financiers can deal with this paradox because they are, for the most part, free of such restrictions. However, can the new financial landscape function for long when most of its new players are unregulated?

Moderator Shiulie Ghosh from Al Jazeera, English asked Falcon Group chairman Kamel Alzarka about the regulation of alternative financiers during the lively panel debate at the end of the forum.

"Regulation for alternative financiers will come," responded Alzarka. "And so it should. Regulation of our sector will only bring benefit to those working professionally – and with transparency – and will expose those who are not."

Alzarka pointed out that the shift in the financial landscape is a positive change, and that corporates should embrace the increased diversification of their funding options. Indeed, the success of Falcon Group in recent years – the company now has a turnover of US$1.7 billion – is indicative of the ever-increasing popularity of alternative funding solutions, and therefore the potential this new financial landscape will bring.

GULF BANKS WILL MAINTAIN HIGH DEBT ISSUANCE LEVELS THIS YEAR

By: S&P

About Standard & Poor
Standard & Poor's Ratings Services, part of The McGraw-Hill Companies (NYSE:MHP), is the world's leading provider of independent credit risk research and benchmarks. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 23 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

Last year, banks in the Gulf Cooperation Council (GCC) were able to capitalize on investors' global search for higher yields, and their issuance volumes were substantially higher than in 2011.

In an article published today, titled "Low Interest Rates Should Keep Gulf Banks' Debt Issuance Levels Strong In 2013," Standard & Poor's Ratings Services gives reasons why it expects Gulf banks' issuance levels to remain high this year.

"We noted a sharp rebound in Gulf banks' activity in debt capital markets in 2012 as they took the opportunity to issue long-term debt at healthy prices under the favorable market conditions," said Standard & Poor's credit analyst Timucin Engin. "Given the interest from institutional investors, the banks' rapid growth, and the supportive environment for issuing long-term debt instruments at low cost, we think Gulf banks will have another busy issuance year."

We expect most of the impetus to come from banks in the United Arab Emirates, the largest issuers in 2012, and Qatar, where issuance has been steadily increasing.

As Gulf banks look to diversify their funding base, sukuk is becoming more important in the GCC's fixed-income market, representing almost half of Gulf banks' issuance in 2011 and 2012.

"Sukuk is becoming a key component of Gulf banks' funding bases," said Mr. Engin. "About 50% of banks' debt issued in 2011 and 45% in 2012 was in the form of sukuk. Last year, banks issued $6.7 billion of sukuk, representing year-over-year growth of 136%. More important, conventional banks are now increasingly participating in the sukuk market as a means of diversifying their funding bases with longer-term instruments. The demand for sharia-compliant products is rising, both regionally and internationally."