

Corporate Cash Surpasses \$3 Trillion For First Time in Flight to Liquidity

Up 32% in Past Year

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June 15, 2020 Corporations in the U.S. added \$778 billion or 32% to their cash holdings over the past year according to data released by The Carfang Group. For the most recent quarter, cash is up \$383B or 14% and now stands at \$3.19T.

The Covid pandemic has led to a global flight to liquidity culminating in the market turmoil during March. Corporations drew down their bank credit lines. Those who could, issued commercial paper. CP rates in mid/late March spiked, even as the Fed reduced its target on overnight funds to zero.

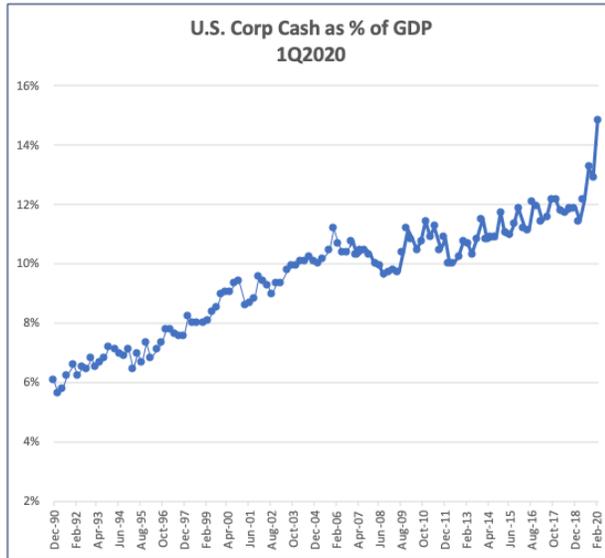
Ultimately, the Fed instituted programs to support the CP market and injected liquidity into the markets broadly. Reserves on the Fed's balance sheet grew from \$1.7T to \$2.6T during the quarter. Today, they exceed \$3.2T. We'll see whether that shows up as another record for corporate cash next quarter.

All cash categories increased significantly. Cash, checkable deposits grew by \$220B, time deposits by \$75B and money funds grew by \$108B.



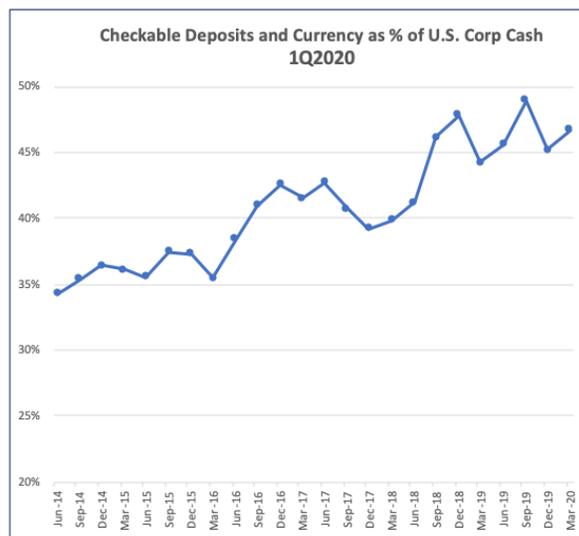
Source: Federal Reserve, The Carfang Group

Corporate cash holdings were equivalent to an historic 14.8% of U.S. GDP and 2.5X the level of the early 1990s. As this is unprecedented, the macroeconomic effects remain to be seen. While there seems to be a three-decade long trend in this ratio, the current leap is well above that trendline.



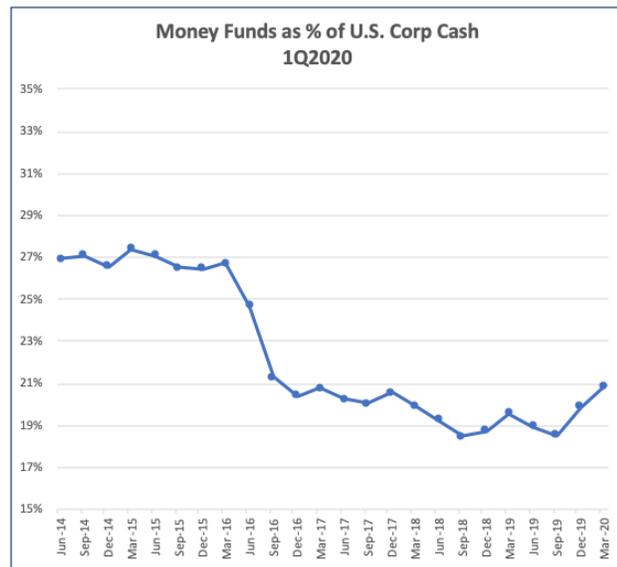
Source: Federal Reserve, The Carfang Group

There are material changes in the composition of that cash total. Checkable deposits and currency now account for 46% of corporate cash, sitting at the same plateau where they have been for two years.



Source: Federal Reserve, The Carfang Group

Money funds continued their rebound and are now 21% of corporate cash, their highest level since mid-2016 when the SEC instituted new regulations. That's still less than half the 59% level of December 2008.



Source: Federal Reserve, The Carfang Group

Check out “Megatrends in Treasury, Money and Banking” at www.thecarfanggroup.com. In that pre-pandemic article, we raised concerns about the growing impact of central bank policies. The current surge of corporate cash balances and growing Federal Reserve balance sheet amplifies our concerns.

The Carfang Group advises our clients on the strategic issues surrounding Treasury Management, Payments, Liquidity and Transaction Banking. We oversee the deepest and broadest LinkedIn groups on key Treasury, Banking, Liquidity, Payments and Regulatory topics via our Idea Exchange and Career Network.