

Emerging Markets: Recovery and Innovation

A conversation with

Ricardo Faillace, Managing Director, Emerging Markets

Jeff Angard, Head Trader, Emerging Markets

With host Kristina Markovic

Of Corpay Cross-Border North America



Defining a developing market: all different

Kristina Markovic

Often people look at developing markets or emerging markets as one group, but very few can agree on the definition of an emerging market or developing market. And this is one of the most dynamic sectors in the global economy. Whether you look at countries across Asia, across Africa and South America, you find pockets of exceptional resilience and innovation. Would you find that to be true, Ricardo?

Ricardo Faillace

Yes, definitely.

Are emerging markets recovering faster than some developed markets

Kristina Markovic

The worst is likely past with emerging markets, but some challenges might still be ahead when we're looking at recession. Could you speak a little on that? What is your opinion?

Ricardo Faillace

It's all relative. Is the worst is over? We can easily talk about the past, but we don't know what the future brings.

So currently, as we look back, the worst of what it has been happening the last four or five years, we think it's over. What's going to happen from tomorrow on, who knows.

So hopefully we'll be positive as opposed to what had been happening in the last two or three years?

Kristina Markovic

Hmm. Absolutely. Yeah. We've been hearing a lot of talk about the global recession in general and over much handwringing, but again, it's hasn't been uniform.

There have been increases in inflation and corresponding rises in interest rates to take some heat off.

So reports say that from many emerging market countries, the worst may be over. This is a recovery story, wouldn't you say?

And that that's where I would like to focus. There is a positive recovery story.

What did we learn from the pandemic?

Ricardo Faillace

We were able to survive the pandemic in different ways.

What have we learned? We learned how we live with trading from all over the world and moving back and forth. The difference is we lived in an isolated world. In each country there was not too much trade going on, except for the obvious trade routes between Asia and Latin America, between the North and South, or Latin America and Europe. Despite it all we were still able to survive economically.

So again, that's what we have learned.

We had parity in the sense that interest rates were very low and not negative, and governments were pushing a lot of money into the system and in part, because of that it caused inflation, because all the money that was being pumped into the system.

For many people that has changed. Now we're coming to terms with reality. Somebody has to pay for all that money that



was being pumped into the system. The reality is kind of coming crashing on us.

But I think most of the US has learned to live with slightly higher interest rates and with some degree of inflation. Each respective country around the world is taking different approaches to handling it. Some countries have been more successful than others.

China reopening

Kristina Markovic

Absolutely-- I'd have to agree with you. What are the implications of China reopening at last, on different sectors of the globe?

Ricardo Faillace

Well, the demand is going to start again from China. China had closed markets. It was importing much less than pre-pandemic. And whatever they were exporting was very little.

I think that's going to help a lot of the countries create or trade in commodities because China's going to start buying commodities again. Crude oil or rare minerals, different things:

[China] is going to start importing again.

The other thing is the travel. A lot of the Asian countries depend on the tourism spending by Chinese tourists. I think slowly they are reopening again to the Chinese tourists and to the market in Asia specially.

The latest I heard that's still a few countries that have requested special visas for the Chinese to come in, but all those restrictions are slowly dropping.

China is the second largest economy in the world, With the shutdown, there was a large chunk of trade that was not in full force.

Latin America exposures

Kristina Markovic

Yes, that had a major impact there.

And also for example, in Latin America, there's still very high inflation and growth forecast, and they've been more exposed to the US slowdown.

How did that impact the region?

Ricardo Faillace

Well, I think this is a misconception that a lot of flow from Latin America comes directly to the United States.

The commodity exporting countries like Brazil and Chile probably have more trade going to Asia than coming to the United States.

So there is trade to the United States, but a lot of it is still going to Asia, especially because of the demand in commodities.

Chile is one of the largest copper producers in the world and most of it goes to China. Many people think that Latin America still depends a lot on the United States for trade, but they are evenly divided between the European Union, the United States and Asia for export.



Kristina Markovic

Thank you for clarifying that.

So let's take a deep dive here into some of these economies. Can you comment on the developments in specific countries or areas that you find most interesting, like for example, the Ivory Coast, and Western Africa more generally?

Yeah. And maybe Jeff can also jump in here to after to say something about Venezuela, especially Colombia and Peru, the Latin.

Ricardo Faillace

Jeff, you want to start then?

Jeff Angard

Well, to comment about Venezuela, Colombia and Peru, I would say that probably one of the biggest shifts that we've seen---for those three countries specifically, and you can probably say for most of the region, is a political leaning more towards the left: ,mainly because of what we saw in the recent elections in Colombia, and a recent government change in Peru.

Venezuela really hasn't changed much. It's status quo from pre to post pandemic.. But as you said earlier, though some of these currencies in the region have been very volatile, they've been able to hold pretty steady. We haven't seen any massive [currency] devaluations in any country in the region, in spite of all the challenges.

And beyond Latin America

Ricardo Faillace

And again, these countries have commodities to export. I believe we're going to see a boom in the economies of this countries.

A lot of the Western African countries have oil, they have mining, and they're going to benefit from the reopening of China.

Like for example the Ivory Coast, a country that regularly sells goods to China.

You're going to see economies which don't depend on China flourishing a lot more than the countries that depend on China.

And you mentioned Peru. Peru has a lot of mining, but because of their internal issues, they have not been able to export all that they can.

Those are issues that sometimes hinder the outcome, because of the development of Chinese enterprises when exporting to China, their commodities, they were kind of status quo. As they reopen, you're going to see a lot better things happening in their economies, because they're going to restart the flows again, either directly to China or to other parts of Asia.

Kristina Markovic

And maybe you can both speak on this. How does that factor in---how does this impact our clients directly? Have you seen some patterns on with your day-to-day clients' business that you can highlight?

For example, in the developing countries, how have you directly seen your clients impacted by this?

Jeff Angard

Yeah, well, to help answer that question, I would say that we are seeing some increased flows from NGOs into the Latin American regions. But we're also seeing a lot of flows in the service sector. We see a lot of production companies, film



companies in South America that are being funded by companies in the US.

And that's interesting flow that we hadn't really seen much of prior to the pandemic.

Emerging Markets Financial Technology Innovation

Kristina Markovic

That IS interesting to hear.

There are also a lot of new technologies in use that like high income countries could learn from, for example, the M-pesa mobile payments network that launched in Kenya in 2007.

And with the rise of digital technologies and mobile phone adoption, for many people in many regions, this is a financial inclusion story.

Can you address this with some examples of what you've seen recently?

Jeff Angard

You know, as a matter of fact, Colombia is a good example of that. We are seeing more flows directed at tech companies and it seems like it's an outsourcing effort that's coming mostly from OECD countries.

So it seems like a lot of these countries are starting to realize that if they can leverage relatively cheaper labor in some of these other countries in the region, they would probably go for that.

Ricardo Faillace

I think Kristina is also talking about the different rails that that we're seeing. Am I correct?

And you know, like the M-pesa or the Kenyan shilling.

There's a lot of local rails that you're starting to see that we normally don't see directly, we don't deal directly in that because we pay into banks or that's the orders that we have to pay into banks.

Now what happens after these payments....once we pay into the local banks, that's how it's distributed, that's where a lot of the technologies being used.

So we might send pension money to a bank locally in Honduras, and how it gets distributed afterwards, we don't really know.

But more and more we're starting to see that where there is a lack of infrastructure, a banking infrastructure for distributing funds, and then you can start using the technology.

This morning, as a matter of fact, I was reading that Nigeria is one of the examples where there's a lot of money coming into the country to be distributed, but there's not enough ATM's for people to get their money. They have to stand in line for sometimes days to get the cash.

They there is something unique in Nigeria, which is called the POS—point of sale. Like for example it's somebody that has cash in their pockets and he gets the Nigerian version of a Venmo-payment from the account holder to him or to her, and then they take a fee and then distribute the money. They distribute the cash which people need.

So it's a kind of an old fashioned technology, that says that people cannot get to the cash and the ATM machines. But these people—the POS-- do have the cash. Who knows where it's coming from. But they do have the cash from the bank notes that's needed and they're able to help.



Then the common citizen doesn't have to stand in line --for sometimes days--to try to retrieve their cash.

India also has an unique system . Everybody that has a national ID basically has a virtual account, that money can be transferred to, and they can use the technology.

I'll go back to the comment that I made last time we spoke.

The technology advancements in the so-called 'third world' are sometimes a lot more advanced than the technologies that you see in the so-called 'developed world', and that is more because of necessity.

And that's why you see less developed countries developing technology that could be useful here.

We might have SWIFT. We might have ACH, but that doesn't help the common citizen in India who might have to travel for miles to get to a bank. Instead they can have direct deposit directly into the phones.

And they can use the money right away. Or, you know, they're able to transfer money between themselves as opposed to using cash.

I myself travel a lot and I hardly use cash nowadays, mostly I either pay with a credit card, or transfer money through accounts that have been developed in Europe and in Africa where you can actually transfer in different currencies. I don't know enough about it to say which one is good or which one is bad. You know, we're still in doing transactions the old-fashioned way using SWIFT, and using transfer technologies which are from the 1980s, 1990s. And here in the US we are in the largest economy, the most developed economy in the world.

Kristina Markovic

Mm-hmm. that's interesting. I like the way you draw comparisons with different countries all around the globe. It's interesting to see what others are using in comparison to where we're located.

And that makes me think of, new innovations and payments and other technologies, like the term leapfrogging, right. We discussed that that necessity allows for leapfrogging to happen now.

Ricardo Faillace

And you know, SWIFT technology, which is what we use: they don't even use that because they don't have the infrastructure, so there is that word 'leapfrogging'. They go directly into the latest technology.

And it's a lot faster. It's a lot quicker in India. You can transfer money fairly quickly, regardless of where it's coming from because it goes directly into the beneficiary's phone.

An example I use here in the United States. To transfer money from Citibank account to Citibank account--I am not pointing at Citibank, but that's the one that I'm familiar with. It can take several days for the transfer to go through. Because we're using the regular banking rails, it takes that long.

Transferring money into the accounts of people in Ghana or Kenya. once the funds get into the country, it's a lot quicker than what we can do here in the United States--again, because we are still using the old technology.

Digital currencies, currency unions, and US dollar dominance

Kristina Markovic

Absolutely. it's interesting to hear that and to see the comparison. Thank you for that one.

And switching gears a little bit here, we keep hearing reports about new digital currencies, new international or regional currency unions on the horizon and in some ways this can decrease friction in regional trade and can encourage diversification in other areas. It's potentially eroding somewhat the USD dominance.



In a changing world -- Jeff this one's for you. Can you address this through your trading lens? And what about increased volatility?

Can you address through your trading lens how the USD dominance is eroding in a changing world right now?

Jeff Angard

OK, I see what you mean. Do I think the US dollar being eroded in its dominance? So far such supposed erosion is more a myth than a reality.

I think a lot of people would like to believe that the US dollar is losing that status as a reserve currency, but the truth is—the fact is—that there really is no real valid replacement for the dollar just yet. If you had to think of a different currency, that may today have a similar impact, as the US dollar has in the global economy it may be that the euro is the only one that comes even close.

As far as digital currencies or any other currency taking over and dominating over the US dollar, I think it's going to take a while for something to even get close to happening.

Why? Because the US still has a legal system that the global economy trusts. The US government still has the credibility and still backs up the dollar, and to this day the US still hasn't defaulted on its debt (at least not since the end of Bretton Woods).

So these are all important factors if you want to make a comparison with another currency that might be starting to be traded more heavily and the global economy might be starting to look at as a reserve currency, I really couldn't think of another example, even including some of the strongest emerging markets.

And it's because of the restrictions that these currencies still have in place. The dollar is still freely traded. It settles very easily and the fact that it's regulated by a credible regulator makes the dollar still a very strong story and still a very compelling reason to maintain it as a reserve currency.

Ricardo Faillace

And to add to that, what Jeff is saying about the wishful thinking.

There might be bilateral trade between countries. A lot of the Infrastructure that they're building in Africa using money borrowed from China- and people can pay with the yuan - but it's more because they have workers there and they'll buy the yuan from the workers and sell it to them, but it's not more bilateral on a widespread basis.

And there are similar caveats, the more I read about it, about the idea of an Argentina / Brazil [currency union]. Nobody took it that seriously.

But it's good for leftist presidents to say that they're going to keep the United States out of it. But at the end of the day, they still would like to have dollars because that's the currencies that they can trade when they trade outside.

Nothing else is going on with that other currency—the sur—that's being talking about. I've been in South America recently and I've not heard about it.

But again, like Jeff said, wishful thinking. When the euro was created almost 25 years ago, everybody thought, well, that was going to be the next reserve currency.

Still hasn't happened. I want to know how many more years I'm going to be around too. In doing this, I don't think it's going to happen while I'm still doing this.

And again, and it has to do—as Jeff said—it as to do with the system, the legal system. The currency flows freely.



So there there's a lot of things that have to happen before the dollar loses its strength. And then you have countries that would rather take the dollars as their currency like happened in Ecuador a few years ago when they realized that their exchange rate was going really crazy. It was the inflation they couldn't hold down. And they decided, OK, let's change.

Instead of Sucre, which was their local currency, they changed to U.S. dollars. Panama did it back in the early 1900s. El Salvador did it, but 20 years ago, because inflation was eroding the buying power of the people and people were just buying dollars.

So they said, OK, we will lose control of our currency, but at least we'll have a stable currency.

In El Salvador they even tried to bring in one of the cryptocurrencies and while I have not been there since, I believe it's a complete disaster.

What the president wanted to do, was to show everybody was that El Salvador was going to be the first country to use the cryptocurrency as a national currency, but not many people ended up using it.

And the one thing that I wanted to mention about the cryptocurrencies—and this is a personal observation after 40 years in banking:

This thing. People have trust in other people. You know where the funds are coming from. You know that the money that's coming to you, it's clean. You know that the money that's coming to you comes from verifiable resources.

Then many people start doing cryptocurrencies. You have no idea who you're receiving money from. Or if you go a few steps back: How was the money put into the system?

So again, this is personal. I don't trust it at all because Compliance 101, money laundering 101: know who your client is and know where your where the funds are coming from.

How do we help our clients navigate these changes

Kristina Markovic

Hmm. OK wow. Very interesting point there and very true. Exactly. That is a fear with these, emerging digital currencies. They aren't as stable or transparent as the dollar [or other established fiat currencies].

It's good to hear that the traditional methods aren't really being threatened at all by these new emerging technologies yet it seems---and just wrapping it up here.

So the opportunities and bright spots on the horizon, we can maybe talk about that as well,. There are some bright spots that you mentioned, the India startup scene, new ideas coming from emerging markets, digital wallets again and on the horizon, new FinTechs, new technologies.

Can you expand on this and what recent trends are, are you seeing that are truly happening right now?

Ricardo Faillace

What we do is help our clients get funds safely into the country where the beneficiaries are, in however way or whatever context we have that has been developed through the years.

That's how we help our clients. So you know people ask how can a smaller company like Corpay make payments to—for example--banks that have trillions of dollars in assets?

It has to do more because of the focus that we have, we focus on making payments and derivatives.



So we put technology to work--into use--and we focus on what we do best, which is transferring funds and making the process smoother.

And we have the manpower, we have the people in London and in New York who know where and how to transfer money, and we have the people who send us funds and trust us to send the money to the listing country.

Kristina Markovic

Well said. One more question though, one more if we can. Maybe this is more for Jeff.

How does your team help corporate clients, technology clients and investment funds clients, NGOs understand the unique challenges and opportunities of doing business in frontier and emerging markets?

Jeff Angard

Yeah, I'll answer that. I think the best way to help clients is by explaining to them the challenges that we face when delivering a currency to a certain destination.

A lot of times I think clients fail to understand that certain things need to happen in country for funds to be claimed. And more so the clients that are used to living in [high-income- OECD countries. If they're expecting a dollar payment or a euro payment or a yen payment, they know all they really have to do is check their bank statement and check whether or not the funds are there.

Which is not the case in a lot of the emerging market and certainly in any of the restricted currencies.

Certain things need to happen and I think sharing the information of exactly what the beneficiary of a certain transaction needs to do always helps facilitate these payments. So I think education is a good element of our trying to assist our clients.

Ricardo Faillace

And then the other thing: clients rely on us because of our track record. They know that we will deliver, and if there's a problem, that we will investigate.

We have the know-how to do the transfers because we have been doing this for many, many years. So that's what they trust us on.

Also, remember: the clients that we have directly are banks, or NGOs or governments or supranational banks.

So it's more the question you might direct to the corporate sales people and how do they convince a corporate client to come and deal with us or by currencies from us, the banks, they, they have a pretty good idea and the governments that of what we can do.

So what we can teach them is not that much other than what Jeff said. Tell them what's needed in order to make the transfer go through and make sure that we get the correct information.

Kristina Markovic

Yeah, in that sense of trust in that relationship building is extremely important to further the relationship for many years to come.

So all the elements you just mentioned are extremely important. Thank you for your time here and this interview podcast. I really appreciate it.

This was a very fruitful conversation actually and really interesting for me and for our listeners. I know I learned a lot! You're really, truly the experts. Thank you.



About the speakers

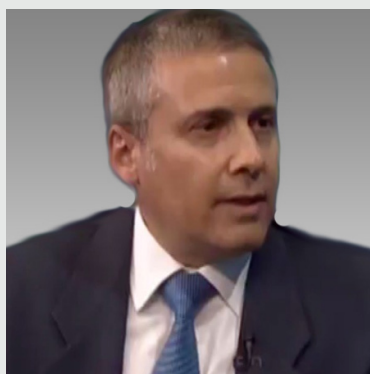
Ricardo Faillace,
Managing Director,
Emerging Markets,
Corpay Cross-Border

With 40+ years' experience in currency markets focused on emerging markets for both Fintechs and Global Banks, Ricardo is responsible for providing emerging markets liquidity to clients including international and regional banks, governments and their agencies and NGOs. He manages trading, sales, and middle office operations of emerging markets currencies for the company.



Jeff Angard,
Head Trader,
Emerging Markets,
Corpay Cross-Border

Jeff Angard is Head Trader for Emerging Markets for Corpay Cross-Border's New York FXEM team. Jeff has over 25 years of experience in foreign exchange trading and sales, with a focus on emerging markets and in all products, from Spot FX to Structured Solutions. Jeff's career in commercial banking spans corporate foreign exchange, treasury and risk management, and financial technologies. He has worked for corporate banks across the world, such as Chase, ING, Standard Chartered Bank, BNP Paribas, from Venezuela to New York City. He joined Corpay in 2015 as a Head Trader and has been leading the Emerging Markets team ever since.



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