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## Case study: POSCO

# Tailoring a multi-layered trade finance solution for a Korean steelmaker to combat FX risk, supporting global expansion

South Korean steel leader POSCO's global expansion was being hampered by FX risk concerns. Through a unique composition of financing with an embedded hedge, Standard Chartered structured a bespoke solution tailored to POSCO's goals, resulting in:



Reduced cost of financing for foreign currency receivables.



FX stability and peace of mind for both foreign currency receivables and USD-denominated payables through outsourcing FX risk management to Standard Chartered.

## Background

POSCO is a South Korean steelmaker, and the sixth largest globally by production volume. Operations are structured into three divisions: Steel, Engineering & Construction, and Trading. The former is its largest division, generating more than 50% of the Group's revenue. POSCO's expanding global coverage includes a wide network of almost 200 entities (sister companies and subsidiaries) across the world.

## Challenges and objectives

As POSCO continues to expand its global operations, it decided to shift from USD to local currencies for inter-company transactions. While this removed FX risk from its subsidiaries' balance sheets, it led to increased FX-risk for the South Korean headquarters. Moreover, POSCO needed to continue paying overseas suppliers in USD, and was facing volatility and high funding costs for its payables due to rising USD interest rates.

As such, POSCO sought a competitively priced, combined trade solution to finance both its inter-group foreign currency receivables (in CNY, THB, and INR) and its USD payables.

## Solution

Standard Chartered structured a unique solution tailored to POSCO's multiple needs. The solution was formed of two main elements:

### 1. Export and import invoice financing:

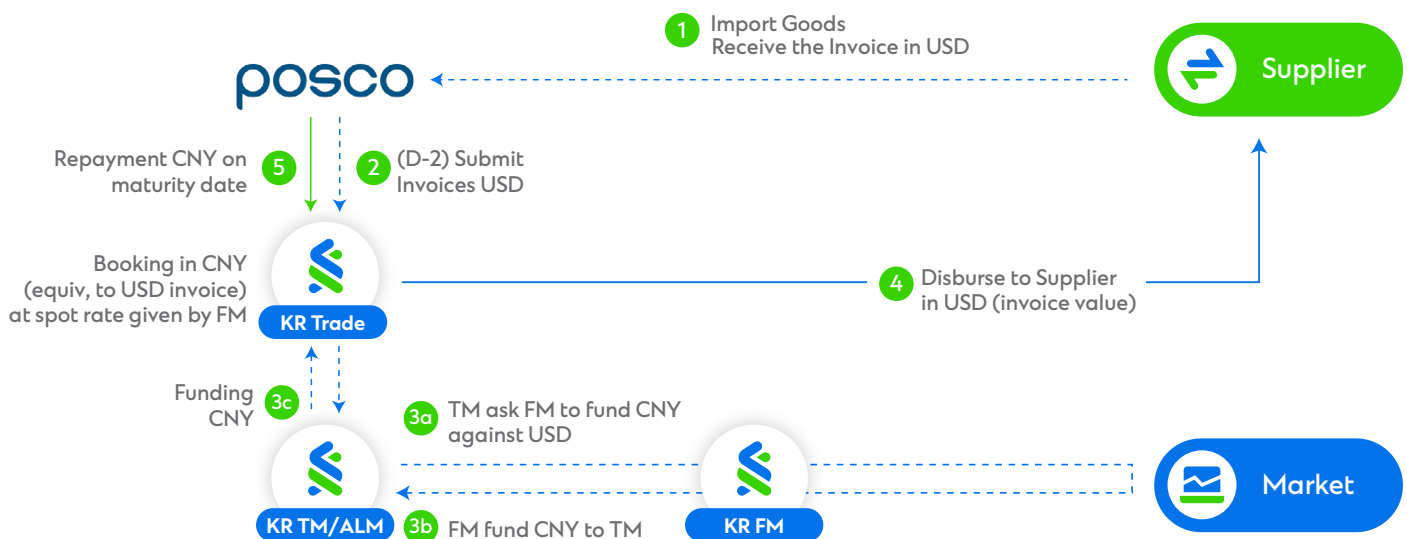
- The booking currency on invoices issued by POSCO are in either CNY, THB, or INR, with the disbursement currency in USD.
- This effectively provides an embedded hedge (by Standard Chartered) that leverages the onshore/offshore market to bring the cheapest possible funding rate to POSCO.

### 2. Receivables financing:

- POSCO receives USD invoices for its payables.
- The embedded FX hedge from the invoice financing enables cross-currency funding. In other words, by matching the CNY/THB/INR receivables from POSCO's clients against its USD payables.
- Once it receives USD invoices from suppliers, POSCO requests local currency financing from Standard Chartered.
- The Bank's FX team then makes a forward deal to fund the local currency against the USD amount.
- On the invoice due date, POSCO repays the relevant local currencies to Standard Chartered and the transaction is redeemed on maturity.

The net result is that POSCO maintains its FX position arising from receivables, not by hedging derivatives but by having liabilities from the receivables currencies.

## Flow example for CNY-USD invoice financing





I appreciate the support extended by Standard Chartered Bank Korea through export/import invoice financing. Standard Chartered demonstrated that it was the best customised trade financing solution provider in the market with this structured trade deal. The Standard Chartered Bank Korea team provided the right solution for our needs based on a clear understanding of our requirement. I believe that we and Standard Chartered Bank Korea have built a reliable and sustainable relationship, and we would like to deepen this relationship.



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