CAUTIOUS APPROACH | Page 4

ECB watchdog sees no Europe contagion after US, Swiss bank rescues

Saturday, March 18, 2023
Sha’ban 26, 1444 AH

GULF TIMES
BUSINESS

‘SUPERVISORY FAILURE’: Page 2

Powell’s legacy risks being tarnished more by SVB collapse

Philippines DTI seeks partnerships with Qatari investors in various sectors: Official

By Peter Alagos
Business Reporter

Glenn Penaranda, assistant secretary and officer-in-charge of DTI Trade Promotions Group.

Philippine ambassador Lillibeth V Pono.

The Department of Trade and Industry (DTI) in the Philippines is seeking to forge partnerships with Qatari investors to grow and expand the footprint of Filipino industries in the international market in sectors like IT, healthcare, and food production, an official has said.

Glenn Penaranda, assistant secretary and officer-in-charge of DTI Trade Promotions Group, said Information Technology (IT) services is one of the areas that the Philippines could tap into to forge partnerships with investors and companies in Qatar.

“We have an excellent track record when it comes to this industry. We started off in the area of Business Process Outsourcing (BPO) and expanded to software development. Utilising IT as a tool would play a key role in future collaborations with foreign investors,” Penaranda told *Gulf Times*.

Penaranda also said the Covid-19 pandemic was instrumental in pushing further growth in the Philippines’ health information sector. Filipinos are already known in the healthcare industry for being excellent nurses, he said, adding that there is also a service behind healthcare that supports hospitals and insurance companies, as well as aftercare and monitoring services.

“We already have Filipino companies working with their international counterparts that are providing continuous healthcare and related services. For a country like Qatar which has a high income, taking care of its people is important. And that may be the reason why we also have nurses here,” he said.

But beyond healthcare and IT, Penaranda pointed out that there are also other opportunities for partnerships in creative industries, citing Republic Act 11904 or the Philippine Creative Industries Development Act, which was recently passed into law.

“The future of trade is digital. Everyone has to be online. The DTI always encourages companies in the Philippines to be sustainable, green, and omnipresent in the digital world. Nowadays, most people go to the Internet before they make any type of purchase, so we need to be there, as well,” Penaranda explained.

He also noted that the DTI is pushing for inclusivity to encourage and support different enterprises outside of the Metro Manila area and in other parts of the Philippines to include them in different investment opportunities not only in major cities across the country but also in other markets abroad.

Penaranda also lauded the recent appointment of Lillibeth V Pono as the Republic of the Philippines ambassador to the State of Qatar. Pono is the first female Philippine ambassador to Qatar. Prior to her arrival in Qatar, Pono served as charge d’affaires ad interim at the Philippines embassy in Germany, from February 2018 to April 2019, and from July 2021 until January this year.

Only recently, some 500 Filipino leaders from 48 organisations of the Filipino expatriate community in Doha attended the ‘Philippine Gala Night’, organised by Kulinarya Qatar, to pay tribute to Pono, who was the event’s guest of honour and keynote speaker.

GCC banks expected to manage contagion risk from US lenders: S&P

By Santhosh V Perumal
Business Reporter

The Gulf Co-operation Council (GCC) lenders are expected to manage the contagion risk from the US banks’ imbroglio on the back of strong funding and liquidity profiles as well as the expected sovereign support, according to Standard and Poor’s (S&P), a global credit rating agency.

“On average, banks we rate in GCC had exposure of 4.6% of assets and 2.3% of liabilities at year-end 2022, reflecting exposure ranging from zero to 22% and 11.4%, respectively. None of the rated banks have publicly reported any exposure to the two banks that failed,” the report said.

Substantial volatility of bank equity prices across the globe, including in the GCC, has followed the failure of US-based Silicon Valley Bank (SVB) and Signature Bank (SB).

S&P said Generally, GCC banks would have limited lending activity in the US and most of their assets there would be in high-credit quality instruments or with the US Federal Reserve.

Highlighting that revaluation reserves for rated GCC banks averaged negative 2.6% of total equity at year-end 2022; it said for banks with the highest unrealised losses, this ratio was still only -10.9%.

“The slightly positive outcome of up to 1.9% for a handful of banks stemmed mainly from hedging exposure against interest rate volatility. We understand most of these hedges are cleared through central counterparties and hence see limited risk regarding their effectiveness,” it said.

Not all unrealised losses relate to exposures in the US, it said, adding rather, they are associated with banks’ overall investments, including instruments in the GCC whose fair value declined as the region’s central banks increased their rates.

Although the GCC banks’ US portfolios have contributed to unrealised losses, S&P said “the overall amount appears manageable, in our view.” “In light of the banks’ good funding and liquidity profiles and expected government support in case of need, the chance of GCC banks having to sell meaningful volumes of investment securities appears limited,” it said.

Nevertheless, if they did, and all unrealised losses crystallised, the impact would be on profitability rather than on capitalisation for the majority of rated banks, according to it.

“The GCC banks would need to use only about 24.9% of their 2022 net income, on average, to absorb the estimated revaluation losses,” it said.

S&P said the average risk-adjusted capital or RAC ratio for rated banks stood at 11.1% - based on ratios at year-end 2022, where available, and 2021 otherwise - and would decline by only 30 basis points on average to 10.8% if unrealised losses were to crystallise.

“In light of the banks’ good funding and liquidity profiles and expected government support in case of need, the chance of GCC banks having to sell meaningful volumes of investment securities appears limited,” said S&P Global Ratings credit analyst Dr Mohamed Damak.

Observing that funding as a “relative strength” for most GCC banking systems, the report said core customer deposits are GCC banks’ main funding source and “we do not foresee this changing in the next few years.”

The use of wholesale funding sources remains relatively limited and is unlikely to change any time soon with the only exception being Qatar’s banking system, which still carries a “significant” amount of net external debt.

Qatar’s banking system is unlikely to expand much in 2023, implying a lower need for external funding. Moreover, Qatar’s central bank has tightened regulations to curb the use of external funding, and it has seen a $14.2bn decline (down 7.3%) in external funding for the 12 months to January 31, 2023.

Qatar bourse key index plunges 827 points; M-cap erodes QR47bn

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

Foreign funds were seen hurriedly squaring off their position as the 20-stock Qatar Index plummeted 7.7% this week which saw Industries Qatar outline QR11.1bn capital expenditure for 2023-27

The US banks’ contagion had its dampening effect on the Qatar Stock Exchange (QSE), whose key index plunged 827 points and capitalisation eroded QR47bn this week.

The foreign funds were seen hurriedly squaring off their position as the 20-stock Qatar Index plummeted 7.7% this week which saw Industries Qatar outline QR11.1bn capital expenditure (capex) for 2023-27.

An across the board selling – notably in the real estate, insurance, banking and industrials – was instrumental in dampening the overall sentiments this week which saw Mesaieed Petrochemical Holding outline QR1.8bn capex for 2023-27.

The Arab retail investors were seen increasingly bearish this week, which saw Qamco outline QR1.1bn capex for 2023-27.

More than 92% of the traded constituents were in the red in the main market this week, which saw Gulf International Services intend to strategically build new revenue streams through the projects linked to Qatar’s North Field expansion.

The Gulf retail investors were seen net profit takers this week which saw Nakilat view that its greater fleet capacity and increased operational efficiency provided a “competitive” edge as it expands the international shipping portfolio.

The foreign individual investors’ weakened net buying had its influence in the main market this week, which saw Milaha shipyard’s marine and quayside infrastructure upgrade slated for completion by the end of this year.

The local retail investors continued to be net sellers but with lesser intensity this week which saw the Institute of Chartered Accountants in England and Wales view higher investments in non-hydrocarbons will help Qatar’s economy remain “resilient” this year.

The Islamic index was seen declining slower than the main barometer in the main market this week which saw a total of 0.72mn Masraf Al Rayan-sponsored exchange traded fund QATR worth QR1.65mn trade across 36 deals.

Trade turnover and volumes were on the increase in the main market this week, which saw as many as 0.12mn Doha Bank-sponsored exchange traded fund QETF valued at QR1.25mn change hands across 65 transactions.

Market capitalisation was seen eroding QR47.17bn or 7.63% to QR571.12bn on the back of large and midcap segments this week which saw the industrials and banking sectors together constitute about 62% of the total trade volume in the main market.

The Total Return Index shrank 4.96%, All Share Index by 4.89% and All Islamic Index by 7.23% this week, which saw no trading of sovereign bonds and treasury bills.

The real estate sector index tanked 7.62%, insurance (6.57%), banks and financial services (5.5%), industrials (5.23%), telecom (3.56%), consumer goods and services (2.84%) and transport (0.1%) this week which saw Doha Bank’s capital adequacy slated to remain strong in the short term to medium term given the credit growth projections, without further capital raising.

Major losers in the main market included Estithmar Holding, Qatari German Medical Devices, GIS, IQ, Qatar General Insurance and Reinsurance, Ezdan, QNB, Qatar Islamic Bank, Doha Bank, Commercial Bank, QIIB, Masraf Al Rayan, MPHC, Qamco and Mazaya Qatar. In the venture market, Al Faleh Educational Holding saw its shares depreciate in value this week which saw the QSE amend the list of securities eligible for the margin trading, market making and liquidity provision.

Nevertheless, Milaha, Vodafone Qatar and Ahlibank Qatar were the gainers this week which saw Qatar’s inflation, based on consumer price index), ease 0.06% month-on-month in February 2023.

The foreign funds turned net sellers to the tune of QR125.2mn compared to net buyers of QR84.79mn the week ended March 9.

The Arab individual investors’ net selling expanded significantly to QR18.24mn against QR1.51mn a week ago.

The Gulf individuals were net sellers to the extent of QR1.57mn compared with net buyers of QR1.42mn the previous week.

The foreign retail investors’ net buying eased marginally to QR8.29mn against QR9.53mn the week ended March 9.

However, the domestic institutions turned net buyers to the tune of QR103.06mn compared with net sellers of QR107.85mn a week ago.

The Gulf institutions’ net buying expanded noticeably to QR37.31mn against QR25.69mn the previous week.

The Arab funds’ net buying strengthened marginally to QR0.06mn compared to QR0.03mn the week ended March 9.

The local retail investors’ net profit booking declined perceptibly to QR3.71mn against QR12.13mn a week ago.

Total trade volume in the main market soared 24% to 713.33mn shares, value by 44% to QR2.41bn and deals by 34% to 73,357.

Fed chief's legacy risks being tarnished by SVB collapse

Bloomberg
Washington


Jerome Powell, chairman of the US Federal Reserve.

The collapse of Silicon Valley Bank threatens to further besmirch the reputation of Federal Reserve Chair Jerome Powell, on top of the blemish he's suffered for being slow to recognise the risk of rampant inflation.

Friends and foes of the Fed alike have faulted the central bank for not heading off the troubles at the nation's 16th-largest lender before they blew up into a crisis that shook the financial system and prompted extraordinary steps by policymakers over the weekend to contain it.

"There was a supervisory failure," said former Fed Governor Daniel Tarullo, who oversaw the central bank's regulatory portfolio in the wake of the 2007-09 financial crisis and is now a Harvard Law School professor.

A number of lawmakers and central bank watchers are criticising the Powell-led Fed board for wholeheartedly signing on to a Republican-driven agenda in 2018 to loosen regulation on banks smaller than behemoths such as JPMorgan Chase & Co and Bank of America Corp. They argue that Powell and his team at the time — some of whom have since left the Fed — are at least partly responsible for the problems at SVB.

Experts are divided, though, over how much, if any, blame to directly assign to Powell. Some – including frequent Fed critic Aaron Klein of the Brookings Institution – say Powell couldn't have been expected to know the nitty gritty details of one of the hundreds of banks the central bank supervises.

If Powell succeeds in navigating the current financial ructions and brings inflation down without a painful recession, he'll be lionised for managing a particularly tricky transition.

But it's a transition made all the more difficult by the delay in which the Fed reacted to inflation and the speed at which it subsequently moved to jack up interest rates.

In Washington, Democratic Senator Elizabeth Warren of Massachusetts, a long-time Powell foil, has been out front in slamming the Fed chief over the SVB affair.

"Powell's actions to allow big banks like Silicon Valley Bank to boost their profits by loading up on risk directly contributed to these bank failures," she said in a statement Tuesday.

Other lawmakers have been more reticent in pinning blame on the Fed chair, with several Republicans pointing the finger at supervisors at the Federal Reserve Bank of San Francisco – which directly oversaw the operations of SVB.

Powell on Monday launched an internal review of the Fed's supervision and regulation of SVB after its failure last week. The appraisal, which will be led by Vice Chair for Supervision Michael Barr, will be publicly released by May 1. Senate Banking Committee Chair Sherrod Brown told Bloomberg Television on Tuesday that he believes Powell will investigate the circumstances behind SVB's collapse properly. That's in contrast to the stance taken by his Banking Committee colleague Warren, who called on Powell to recuse himself from the Fed's review.

The Fed is considering changes to its oversight of mid-sized banks, including rules that could bring capital and liquidity thresholds closer to strictures that the largest Wall Street firms face, according to a person familiar with the matter.

As recently as early 2021, Powell was being hailed for the critical role that he and the Fed played in helping to pilot the economy through the thick of the pandemic the year before.

But his reputation was tarnished by his repeated insistence in 2021 that the surge in inflation then taking hold was "transitory." He then pivoted in the following year to overseeing the most aggressive monetary tightening campaign since the 1980s to try to rein prices back in.

Those rapid-fire rate increases contributed to the problems at SVB, as its holdings of otherwise ultra-safe Treasury and agency bonds lost value. It also experienced an exodus of deposits, with technology companies yanking money out of the bank as their businesses slowed under the impact of tighter credit.

There's widespread agreement among banking experts that state supervisors in California, those at the San Francisco Fed and to a lesser extent at the Fed board in Washington, either missed or failed to act quickly enough to correct some glaring problems at SVB. The issues included a massive bond position not hedged against the vagaries of interest rates and over-reliance on deposits above the $250,000 level insured by the Federal Deposit Insurance Corp.

"Each one of these alone is a classic red flag," said Klein, who worked on the banking reforms that grew out of the 2007-09 financial crisis as an official at the Treasury and is also a former chief economist at the Senate Banking Committee. "Combined, it's a red laser beam."

But what's less clear is whether that was solely the result of a mistake made by supervisors on the ground, or whether it also partly reflected a more relaxed attitude toward oversight of smaller banks conveyed by the Powell-led Fed board in Washington — particularly, former Vice Chair for Supervision Randal Quarles.

In a January 2020 speech in Washington, Quarles — an appointee of former President Donald Trump — outlined a variety of changes to the supervisory process.

He said supervisors should "focus on violations of law and material safety and soundness issues" and shouldn't "mistakenly give the impression that supervisory guidance is binding." Quarles left the Fed in October 2021.

What's also unclear is how much of the SVB debacle can be tied to 2018 legislation that loosened regulatory scrutiny for many regional banks and to the actions that the Powell-led Fed took in carrying the law out.

That legislation was spearheaded by Republicans and the Trump administration, but was passed with significant Democratic support. It was also backed by since-deposed SVB Chief Executive Officer Greg Becker.

Dennis Kelleher, CEO at Better Markets, an organisation advocating stricter financial regulation, said Powell can't duck responsibility for the SVB collapse.

"He supported Quarles in implementing rules that went far beyond the law in deregulating the banks," Kelleher said.

Tarullo sees only a modest connection between the regulatory changes made by Congress in 2018 – and the Fed's implementation of them – and the specific failure of SVB.

Fed alarms at SVB began more than year ago as examiners changed

Bloomberg
Washington

Just over a year before Silicon Valley Bank's collapse threatened a generation of technology startups and their backers, the Federal Reserve Bank of San Francisco appointed a more senior team of examiners to assess the firm. They started calling out problem after problem.

As the upgraded crew took over, it fired off a series of formal warnings to the bank's leaders, pressing them to fix serious weaknesses in operations and technology, according to people with knowledge of the matter.

Then late last year they flagged a critical problem: The bank needed to improve how it tracked interest-rate risks, one of the people said, an issue at the heart of its abrupt downfall this month.

The Federal Reserve has promised to investigate how it supervised SVB Financial Group's Silicon Valley Bank, now the second-biggest failure of a US lender in history. The relatively late discovery of so many flaws raises questions about whether the Fed was diligent in stepping up oversight as the firm was ballooning in size. Yesterday, Santa Clara, California-based SVB Financial filed for Chapter 11 bankruptcy protection.

In a twist, the San Francisco Fed's deputy point person in charge of monitoring the bank until late 2021 received a new assignment afterward, becoming the regulator's point person on Silvergate Capital Corp., according to people with knowledge of the situation. Silvergate also shut this month because of similar flaws in its deposit base and the positioning of its balance sheet.

A representative for the Fed declined to comment.

SVB was a fraction of its recent size when the Trump administration and congressional Republicans rolled back banking regulations in 2018, ending automatic annual stress testing for banks smaller than $250bn in assets. The lender's chief executive officer, Greg Becker, had lobbied for the bill, and as the measure took effect his company's growth took off. By early last year, it held $220bn in assets, up from $51bn at the end of 2017.

That trajectory made SVB the fastest-growing major bank in the nation over the past five years. By this year, it was the country's 16th largest by assets.

Its collapse late last week left legions of startups facing the prospect that they wouldn't be able to pay employees or keep the lights on, prompting the Fed and Federal Deposit Insurance Corp to take extraordinary steps, including rescuing uninsured depositors and offering the industry a borrowing facility to avoid similar strains.

The central bank vowed to publish the results of its internal review by May 1. "The events surrounding Silicon Valley Bank demand a thorough, transparent and swift review by the Federal Reserve," Fed Chair Jerome Powell said in a statement this week.

Already, the bank's lack of a chief risk officer for much of last year has emerged as a focal point, Bloomberg News reported on Tuesday.

The San Francisco Fed has a program for overseeing community and regional institutions, as well as a group trained to monitor big banks. As that one prepared to formally watch Silicon Valley Bank at the start of last year, examiners began sending the firm two types of warnings: matters requiring attention, or MRAs, and matters requiring immediate attention, or MRIAs.

While not disclosed to the public, MRAs and MRIAs are supposed to seize executives' attention, requiring they fix problems to avoid more severe sanctions, known as consent orders. Those more stringent directives, once public, can send stocks tumbling by forcing banks to make costly improvements, pull back from certain activities or, in the extreme, stop growing.

The Biden administration found out about the full extent of SVB's stack of MRAs and MRIAs on March 10, the day the firm was seized by regulators, according to people familiar with the matter.

SVB and Silvergate succumbed to the same basic pressures. Silicon Valley Bank's clientele of tech startups drew down their balances as the industry struggled to raise fresh funding, while Silvergate's crypto-friendly customers withdrew to weather last year's plunge in digital-asset prices.

Banks are supposed to structure their balance sheets conservatively to handle unexpected economic shocks and deposit flight. But Silicon Valley Bank and Silvergate both invested heavily in bonds with low interest rates, which slumped in value as the Fed raised rates over the past year. When withdrawals forced the lenders to sell those assets, they incurred severe losses.

The Justice Department and the Securities and Exchange Commission are investigating SVB's downfall. Those probes, which are in early stages, include whether stock sales by executives violated trading rules.

Deloitte hit by record China fine, suspension over Huarong

Bloomberg
New York

China suspended the operations of Deloitte Touche Tohmatsu's Beijing office for three months and imposed an unprecedented fine over lapses in its auditing work of bad-debt manager China Huarong Asset Management Co.

After several on-site inspections, personnel interviews, a review of paperwork and a hearing, the Ministry of Finance found that Deloitte had "serious audit deficiencies" in its work with Huarong between 2014 and 2019, according to a statement. The firm was fined 212mn yuan ($30.8mn), or more than 25 times the combined fines the ministry meted to accounting firms during inspections last year.

The accounting firm failed to properly look into the status of Huarong's underlying assets, ignored compliance approvals on major investments and failed to apply a sense of scepticism in its audit work on Huarong, the ministry said. Huarong had several internal and risk control failures and distorted its accounting which Deloitte missed, according to the statement.

The local unit, Deloitte Hua Yong, said in a statement yesterday that there's no suggestion by the ministry that its Beijing branch or any of its people have done anything unethical. "We have cooperated fully with the MOF throughout its inspection," it added. "We respect and accept the MOF's penalty decision. We regret that, in this matter, the MOF considers certain aspects of our work fell below the required auditing standards."

Huarong roiled Asian credit markets in 2021 as it failed to release its annual report on time, eventually revealing a massive loss for 2020. It later received a $6.6bn government-orchestrated bailout.

The suspension and fine come as Chinese authorities, including the Ministry of Finance, have urged state-owned firms to stop using the four biggest international accounting firms as recently as January, people familiar with the matter told Bloomberg last month. China is seeking to rein in the influence of the US-linked global audit firms and ensure the nation's data security, as well as to bolster the local accounting industry, the people said.

In its statement, Deloitte Hua Yong also said it has received no information from Huarong that there is any intention to make any prior period restatement to the company's historic consolidated financial statements. "No changes to the relevant audit reports have been found to be necessary," it said. This is the second large fine Deloitte's China operations has received in the past year. In September, the affiliate agreed to pay the $20mn over US Securities and Exchange Commission (SEC) allegations it broke auditing rules. The SEC said that in audits for 2016 to 2018, employees at the affiliate asked clients to select their own samples of financial statements for review and create documents showing the auditor had tested the statements when there wasn't evidence it had.

Deloitte China didn't admit or deny the SEC's allegations and said in a statement that it self-reported "deficient procedures" and that the SEC acknowledged the firm's cooperation and remedial efforts.

Wall Street giants move to rescue First Republic Bank

AFP
New York

America's largest banks moved on Thursday to shore up First Republic, easing fears that the regional lender could be the next domino to fall after collapses including Silicon Valley Bank.

A consortium of 11 US private banks, including Bank of America, Citigroup and JPMorgan Chase, announced they would deposit $30bn into First Republic.

The move marks a dramatic initiative by the lenders to bolster the system following failures of three mid-sized lenders in the last week.

"This action by America's largest banks reflects their confidence in First Republic and in banks of all sizes," the group said in a joint statement.

"Together, we are deploying our financial strength and liquidity into the larger system, where it is needed the most," the banks said.

Shares of First Republic reversed earlier losses to close 10% higher on Wall Street on Thursday.

"This show of support by a group of large banks is most welcome, and demonstrates the resilience of the banking system," said leaders of the Treasury Department, US Federal Reserve, Federal Deposit Insurance Corp and Office of the Comptroller of the Currency in a joint statement.

Bank of America, Citigroup, JPMorgan Chase and Wells Fargo each are making a $5bn uninsured deposit in First Republic, while Goldman and Morgan Stanley will put in $2.5bn each.

A group of five other lenders, including PNC Bank and US Bank, are each allotting $1bn.

In a statement, First Republic founder Jim Herbert and CEO Mike Roffler said the "collective support strengthens our liquidity position...and is a vote of confidence for First Republic and the entire US banking system."

The action comes on the heels of emergency measures taken late Sunday by the Federal Reserve and other US regulators to assure all depositors of two failed banks, Silicon Valley Bank and Signature Bank.

On Thursday, the Fed said it has lent US banks close to $12bn under a new one-year lending program unveiled Sunday as authorities moved to ease stress on the financial system.

A First Republic Bank branch in Santa Monica, California. America's largest banks moved to shore up First Republic, easing fears that the regional lender could be the next domino to fall after collapses including Silicon Valley Bank.

The total outstanding amount of all advances under the Bank Term Funding Program reached $11.9bn by Wednesday, the central bank said.

In its earlier statement, the Fed said it was making additional funding available "to help assure banks have the ability to meet the needs of all their depositors." Data made available Thursday showed the vastness of the emergency assistance, with the Fed drawing an additional $152bn in short-term borrowing for banks from its standing loan window, a dramatic increase against the roughly $5bn from the previous week.

With the seizure of SVB and Signature, an additional $142.8bn was poured into the bridge banks created by regulators for the two collapsed banks, pushing the Fed's balance sheet up by about $300bn in the past week.

Last Friday's SVB failure has sparked concerns about a contagion effect, with especially keen worries that more banks could suffer a run by depositors.

The crisis has also spread to Europe, with the Swiss central bank intervening to support Credit Suisse after it came under pressure.

Founded in 1985, First Republic is the 14th largest US bank by assets, with $212bn at the end of 2022.

The lender headquartered in San Francisco is also present on the East Coast including in New York and Florida, as well as in western states such as Washington.

But the majority of the bank's "affluent" client base is concentrated in coastal urban areas, Morningstar analyst Eric Compton wrote in a recent note to clients.

The bank is known for private banking and wealth management.

As a result of its clientele, it has a large percentage of uninsured deposits that has kept it under scrutiny after the failures of SVB and Signature.

Last week also saw the closure of crypto banking titan Silvergate, in the face of market turmoil and regulatory pressure.

Although First Republic's customers come from a wide range of sectors, there have been concerns that many of them might look to flee to the relative safety of big, well-capitalised Wall Street banks in light of the ongoing turbulence in financial markets.

According to S&P Global Ratings, 68% of the bank's accounts hold deposits of more than $250,000, the level automatically guaranteed by US regulators.

Wall Street stocks finished solidly higher following the 11 banks' announcement.

China cuts banks' reserve ratio for first time in 2023

Reuters
Reuters

China's central bank said yesterday it would cut the amount of cash that banks must hold as reserves for the first time this year to help keep liquidity ample and support a nascent economic recovery.

Chinese leaders have pledged to step up support for the world's second-largest economy, which is gradually rebounding from a pandemic-induced slump after coronavirus-related curbs were abruptly lifted in December.

The People's Bank of China (PBoC) said it would cut the reserve requirement ratio (RRR) for all banks, except those that have implemented a 5% reserve ratio, by 25 basis points from March 27.

The move, which came earlier than financial markets had anticipated, follows data showing a gradual but uneven recovery in the economy in the first two months of the year and a stronger-than-expected credit expansion.

"At present, risks in the overseas banking sector are increasing and global liquidity is under pressure, and the external environment is becoming increasingly complex," said Wen Bin, chief economist at China Minsheng Bank.

"In the first two months of this year, China's main economic indicators showed a positive trend, but the overall recovery foundation is not yet solid."

The headquarters of the People's Bank of China in Beijing. The PBoC said yesterday it would cut the amount of cash that banks must hold as reserves for the first time this year to help keep liquidity ample and support a nascent economic recovery.

The central bank has yet to give an estimate of how much long-term liquidity will be released following the cut, which will allow banks to lend out more funds.

Analysts estimated that the move freed up over 500bn yuan ($72.6bn).

The central bank has promised to make its policy "precise and forceful" this year to support the economy, keeping liquidity reasonably ample and lowering funding costs for businesses.

It said the cut reflected its intention to "make a good combination of macro policies, improve the level of services for the real economy, and keep liquidity reasonably sufficient in the banking system."

China's new premier Li Qiang has pledged to push the overall economy to improve while fending off any major risks, state media reported yesterday.

The reduction follows a 25-bps cut for all banks in December. Central bank chief Yi Gang told a news conference on March 3 that China's real interest rates are at an appropriate level and cutting banks' reserve requirements will still be an effective tool to support the economy.

The PBoC has cut the RRR 15 times since 2018, from nearly 15%, and some analysts have speculated over how much room it has for further reductions.

"This will provide a bit of financial relief for China's large and medium-sized banks," Julian Evans-Pritchard at Capital Economics said in a note.

"It may also help nudge down lending rates slightly.

But given the wider signs of policy restraint, we doubt it will have a significant and lasting impact on monetary conditions or credit growth."

The weighted average RRR for financial institutions stood at around 7.6% after the cut, the central bank said.

China's economic activity picked up in the first two months of 2023 as consumption and infrastructure investment drove a recovery from Covid-19 disruptions.

But its other traditional growth engines are a big question mark: Exports are expected to remain weak amid a global downturn and the crisis-hit property sector is only slowly beginning to turn the corner.

China has set a modest target for economic growth this year of around 5% after it cooled to only 3% last year, one of the weakest showings in nearly half a century.

Asian markets extend global rally as banking sector fears ease

AFP
Hong Kong

Asian and European markets rose yesterday, extending a global rally, as traders welcomed multi-billion-dollar shows of support for troubled banks aimed at soothing concerns about contagion in the sector.

A rollercoaster week was on course to end on a positive note after several Wall Street titans including JP Morgan, Bank of America and Citigroup stumped up $30bn to deposit into troubled First Republic.

The move came as investors feared the lender could suffer a run of withdrawals by customers worried it would follow Silicon Valley bank and Signature Bank, which went under last week and fuelled fears of another financial crisis.

"The actions of America's largest banks reflect their confidence in the country's banking system," the group of 11 banks said of a plan that was coordinated by US regulators.

Earlier, European giant Credit Suisse said it would borrow nearly $54bn made available by the Swiss central bank to "support" the group.

Markets welcomed the measures, helping the Dow and S&P 500 rally more than 1% and the Nasdaq more than 2%.

"Worries over the banking sector are easing after the big banks offer support to First Republic and as the SNB gave Credit Suisse a lifeline," said OANDA's Edward Moya.

"Banking jitters are fading quickly for now and that has everyone scrambling back into risky assets."

Hong Kong, Tokyo, Taipei, Manila and Jakarta all rose more than 1%, while Shanghai, Sydney, Mumbai, Wellington, Seoul and Bangkok were also in the green.

London, Paris and Frankfurt rose at the open, having enjoyed solid gains on Thursday, as the head of France's central bank said European lenders were "extremely solid". However, Meera Pandit, of JPMorgan Asset Management, warned that while there was plenty of relief, traders must remain wary.

"That the market is reacting relatively positively to the fact that we are applying some guardrails here shouldn't necessarily be a catalyst for markets to move much higher," she told Bloomberg TV.

"There is still some vulnerability here to a correction because we don't know how this continues to evolve."

Commentators said the calmer waters in the banking sector would allow investors to refocus on the long-running subject of inflation and interest rate hikes.

Before the SVB crisis unfolded, there had been a widespread expectation the US Federal Reserve would ramp up its tightening campaign next week and push on for as long as needed until it had quelled inflation.

But with SVB's demise largely blamed on the sharp rise in borrowing costs — fuelling fears of a repeat at other banks — speculation has swirled that the Fed would stop hiking and maybe even cut rates to provide some stability.

A below-forecast reading on US wholesale prices added to that. However, data showing a bigger-than-expected drop in first-time unemployment claims and a surge in housing starts and building permits showed the economy remained resilient and put fresh pressure on the Fed to stick to its guns.

Observers said the European Central Bank's decision to lift rates by 50 basis points, as it had been tipped to do before last weekend, suggested the Fed would also do so.

However, it did drop a reference to the need to raise rates "significantly" going forward, which was seen as a dovish step.

Analysts at BlackRock Investment Institute said they did not think officials would crack as they were determined to defeat inflation.

They expected the ECB and the Fed to "go as far as possible to distinguish their inflation-fighting campaigns from measures to deal with bank troubles and safeguard the financial system".

In Tokyo, the Nikkei 225 closed up 1.2% to 27,333.79 points; Hong Kong Hang Seng Index ended up 1.6% to 19,518.59 points and Shanghai Composite closed up 0.7% to 3,250.55 points yesterday.

EM stocks, currencies rise on hopes of smaller Fed hikes

Reuters
Singapore

Emerging market assets rose yesterday as concerns triggered by US mid-size lenders prompted investors to tone down their expectations of a big interest rate hike by the Federal Reserve next week.

The MSCI's index for EM currencies rose 0.3%, while its gauge for stocks jumped 1.4%. Currencies were set to rise at the end of a roller coaster week, while stocks remained flat.

Rigorous monetary tightening cycles by developed world central banks, such as the US Fed and the European Central Bank, have hurt riskier emerging market plays.

Their currencies which are weighed against the dollar or the euro, have not fared well in a high-rate environment supportive of gains in these developed market units.

But that stands to be tested as investors now start to price in a smaller 25 basis point rate hike by the Fed next week, in the aftermath of the collapse of two big US regional banks and recent stress signals from First Republic Bank.

A $30bn lifeline for First Republic did ease fears of its imminent collapse and helped buoy risk sentiment.

South Africa's rand strengthened 0.5% against the dollar, while Hungary's forint and the Czech crown, both rose about 0.2% each against the euro.

Shares in China, the largest emerging market, closed up 0.5%. China's central bank said it would cut the amount of cash that banks must hold as reserves for the first time this year to help keep liquidity ample and support a nascent economic recovery.

Shaun Murison, senior market analyst at IG Markets in Gauteng, South Africa says the short-term negative sentiment for emerging markets have ease, "and with that we're seeing a bit of risk on trade and at least near-term haemorrhaging has seemed to stop."

"I think there's quite a high probability of a 25 basis point move now…and markets are still processing some further gains in emerging market currencies if we were to get maybe even a pause."

South African stocks added 1.5%, while Turkish stocks gained 1%.

The rouble traded lower against the dollar, with analysts polled by Reuters week expecting a rate hold and are focused on whether the Bank of Russia maintains or softens its hawkish rhetoric.

US community lenders see deposit boost amid banking turmoil

Bloomberg
New York

America's smallest lenders are seeing an increase in deposits after the failure of three US banks dented confidence in the stability of the sector.

The inflows at community banks — typically tight-knit lenders that serve local businesses and hold $10bn or less in deposits — came in recent days as consumers witnessed the biggest US bank failure since the financial crisis with Silicon Valley Bank followed by turmoil for regional lenders.

Jill Castilla, president of Citizens Bank of Edmond in Oklahoma, said her firm saw about a 2% bump in consumer deposits and business loans in the past three days. The 120-year-old lender has about $320mn in deposits and more than 85% of that is insured.

"We are very disciplined in our lending and currently have zero non-performing loans," she said.

Leaders at community lenders said in interviews they're not tightening their lending standards — which suggests that, for now, it's business as usual for local lending. Economists are closely monitoring small and medium-sized financial institutions for potential domino effects on confidence, borrowing and the broader economy.

The roughly 4,750 community banks in the US make up about 60% of all small business loans and hold nearly $5tn in deposits. A deposit flight and tighter loan controls would cut off a vital funding source for small businesses, which employ about half of Americans, and choke off investment.

The largest lenders — which hold the majority of US customer deposits — also saw a boost to cash inflows this week, including JPMorgan Chase & Co and Bank of America Corp.

Flagship Bank in Minnesota was bracing for chaos after SVB collapsed. Chief Executive Officer Andy Schornack spent the weekend briefing his managers, then he hunkered down Monday morning by the phone, ready to soothe anxious customers. He got a total of two calls — and one of them was from his wife, to discuss their kids' upcoming hockey games.

"None of the activity that's going on is impacting Main Street or community banks," Schornack said by phone from his office. Schornack, who saw an increase in deposits, isn't tightening lending standards as a result of the bank fallout, saying that he's "fully open to get additional business. I hope that we earn more clients that banked with SVB and others."

Sentiment, however, could shift quickly. Swiss bank Credit Suisse Group AG sparked a global market rout Wednesday after its largest shareholder said he wasn't open to further cash injections. And on Thursday First Republic Bank, a San Francisco firm specialising in private banking and wealth management, saw its shares plunge and then recover following talks of a rescue orchestrated by the country's biggest banks.

Anticipating that small and medium-sized banks may become more conservative about lending to preserve liquidity, Goldman Sachs Group Inc. estimated that a pullback in lending at banks with $250bn or less in assets would shave 1/4 percentage point off 2023 gross domestic product growth. JPMorgan economists said a slowdown in credit growth could take up to 1% off GDP in coming quarters.

The US banking system is well capitalised in aggregate, but the question is whether "that means every single bank is well capitalised or whether there's some banks with particular vulnerabilities or risky levels of capital, lurking in the shadows," said Neil Shearing, group chief economist at Capital Economics. Community lenders immediately sought to distance themselves from SVB, which specialised in tech startups and had the vast majority of its US deposits uninsured.

The percentage of insured deposits is well above 60% for small lenders, according to Federal Reserve data compiled by Apollo Global Management. And community banks aren't as reliant on high net worth individuals and venture capital.

"I'm hearing from a lot of folks who are actually seeing new deposits roll into their community banks — it's sort of that local, trusted resource," said Rebeca Rainey, president of Independent Community Bankers of America. "I'm not hearing folks saying that they're pulling back on anything."

Brad Bolton, CEO of Community Spirit Bank in Alabama, talked with colleagues at the annual gathering of independent lenders this week. They reported either inflows or stable deposits, he said.

"We haven't seen an inflow but also no outflow — and that's what's important," said Bolton, whose bank has $165mn in deposits. "It truly has been just a normal week on Main Street."

Meanwhile, Moody's Investors Service cut its outlook for the US banking system to negative from stable this week. "This is a confidence issue. This is not based on fundamentals," said Nathan Stovall, principal bank analyst for S&P Global Market Intelligence. "I don't think you're going to have people stop banking because of this."

The boost at both local and the largest lenders could be a sign that customers are diversifying their holdings—depositing funds across several banks and taking out future loans from different institutions to spread risk, Stovall said.

ECB watchdog sees no Europe contagion after US, Swiss bank rescues

Reuters
Frankfurt

European Central Bank (ECB) supervisors see no contagion for eurozone banks from recent sector turmoil, a source said yesterday, after US lenders threw First Republic Bank a $30bn lifeline and tapped record amounts from the Federal Reserve.

Large US banks on Thursday swooped in to rescue the San Francisco-based lender, which was caught up in market volatility triggered by the collapse of two other mid-size US banks.

The rescue package came shortly after embattled Credit Suisse tapped an emergency central bank loan of up to $54bn to shore up its liquidity.

Shares in Switzerland's second-largest bank fell again yesterday despite the move, with First Republic's shares indicated 12% lower in US pre-market trading.

The ECB held an ad hoc supervisory board meeting, its second this week, to discuss the stresses and volatility in the banking sector in an unusual move ahead of a scheduled one next week.

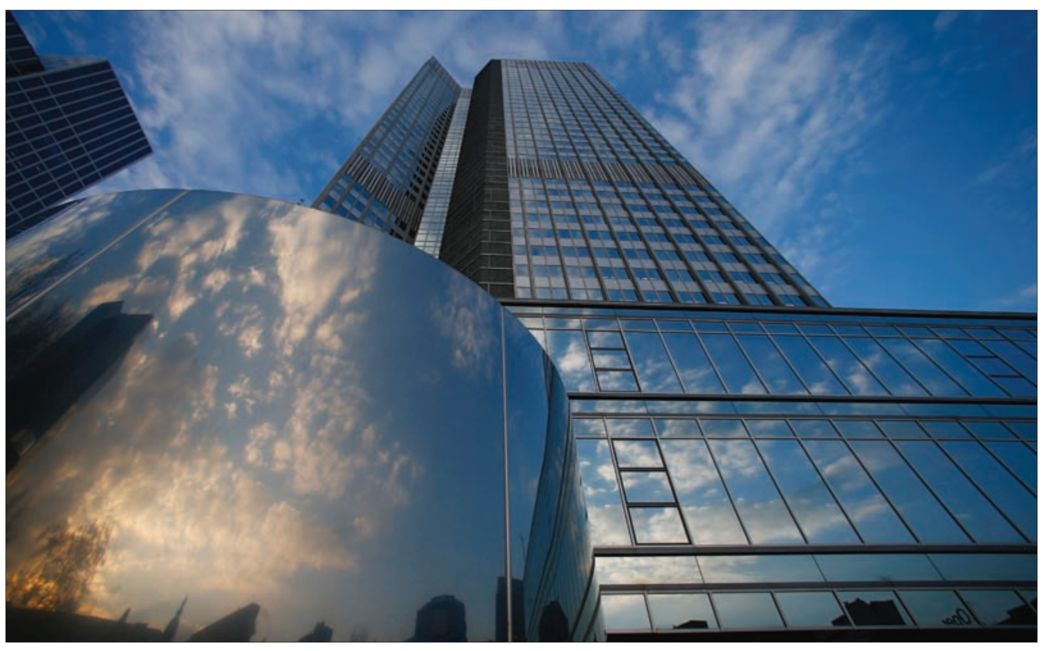
But the supervisors saw no contagion to eurozone banks from the market turmoil, a source familiar with the meeting's content told Reuters, adding they were told deposits were stable across the sector and Credit Suisse exposure was immaterial.

An ECB spokesperson declined to comment.

Eurozone banks are still sitting on some 4tn euros ($4.25tn) worth of excess liquidity, which they are even keen to hand back to the ECB now that borrowing from it has become more expensive, as central bank data showed yesterday.

A German government spokesperson said the current situation with European banks is not comparable to the 2008 financial crisis, adding during a regular news briefing that there is no cause for concern about the country's banking sector.

Banking stocks globally have been battered since Silicon Valley Bank collapsed last week due to bond-related losses that piled up when interest rates surged last year, raising questions about what else might be lurking in the wider financial system.



The headquarters of the European Central Bank in Frankfurt. ECB supervisors see no contagion for eurozone banks from recent sector turmoil after US lenders threw First Republic Bank a $30bn lifeline and tapped record amounts from the Federal Reserve.

While the two deals and action by policymakers have helped restore some calm, analysts and investors are still concerned about the potential for a full-blown banking crisis.

The scale of stress was underscored by data on Thursday showing banks in the US sought record amounts of emergency liquidity from the Fed in recent days, driving up the size of the central bank's balance sheet after months of contraction.

The First Republic deal was put together by power brokers including US Treasury Secretary Janet Yellen, Fed Chairman Jerome Powell and JP Morgan CEO Jamie Dimon, a source familiar with the situation said. "They will keep the money in First Republic to keep it alive for self interest…to stop the run on banks.

Then they will take it away gradually and the bank will play out a slow death," Mathan Somasundaram, founder at research firm Deep Data Analytics in Sydney, said yesterday. Some of the biggest US banking names including JP Morgan Chase & Co, Citigroup Inc, Bank of America Corp, Wells Fargo & Co, Goldman Sachs and Morgan Stanley were involved in the rescue, according to a statement from the banks.

While the support has prevented an imminent collapse, investors were startled by First Republic's late disclosures on its cash position and just how much emergency liquidity it needed.

"People are concerned that the contagion risk is real, and that rattles confidence," said Karen Jorritsma, head of Australian equities, RBC Capital Markets.

"I don't think we are in the crux of a global financial crisis.

Balance sheets are much better than they were in 2008, banks are better regulated," she added.

Credit Suisse became the first major global bank to take up an emergency lifeline since the 2008 financial crisis amid doubts over whether central banks will be able to sustain aggressive rate hikes to rein in inflation.

For now, authorities are confident the banking system is resilient and have tried to emphasise that the current turmoil is different to the global financial crisis 15 years ago as banks are better capitalised and funds more easily available.

The ECB pressed forward with its 50 basis point rate hike, arguing that eurozone banks were in good shape and that if anything, higher rates should bolster their margins.

Focus now swings to the Fed's policy decision next week and whether it will stick with its aggressive interest rate hikes as it seeks to get inflation under control. Japan's Prime Minister Fumio Kishida said after a three-way meeting between the country's government, banking regulator and central bank that the talks were held as part of efforts to closely watch any impact on financial system stability.

"Japan's financial system remains stable as a whole," Kishida told a news briefing.

OECD raises global growth forecast but recovery 'fragile'

AFP
Paris

The OECD raised its global economic growth forecast yesterday as inflation eases and China emerges from Covid restrictions, but warned of vulnerabilities as seen in the US bank sector turmoil.

The Organisation for Economic Co-operation and Development (OECD) said it now expects the global economy to grow by 2.6% this year compared to 2.2% in its previous forecast in November.

But it remains under the 3.2% expansion seen in 2022, the Paris-based OECD said in its updated economic outlook titled "A Fragile Recovery".

"More positive signs have now started to appear, with business and consumer sentiment starting to improve, food and energy prices falling back, and the full reopening of China," the OECD said in its Interim Economic Outlook report.

But it warned that "the improvement in the outlook is still fragile.

Risks have become somewhat better balanced, but remain tilted to the downside".

It cited uncertainty over the course of the war in Ukraine, the risk of renewed pressure on energy markets and the impact of rising interest rates.

Central banks worldwide have hiked rates in efforts to tame decades-high inflation, but markets fear that the rising borrowing costs could tip economies into recession.

"Signs of the impact of tighter monetary policy have started to appear in parts of the banking sector, including regional banks in the United States," the OECD said.

"Higher interest rates could also have stronger effects on economic growth than expected, particularly if they expose underlying financial vulnerabilities." The monetary tightening has been linked to the collapse of Silicon Valley Bank last week after it booked a $1.8bn loss on bonds whose prices were brought down by the higher rates.

A second US lender, Signature Bank, also imploded over the weekend while a third, First Republic Bank, was rescued Thursday by a coalition of its peers through $30bn in deposits.

Fears of contagion spread to Europe, with Credit Suisse securing a $54bn lifeline from the Swiss central bank after its shares tanked.

The OECD said the sharp changes in market rates and value of bond portfolios could "further expose duration risks in the business models of financial institutions, as highlighted by the failure of the US Silicon Valley Bank in March".

But it said that "prompt actions" by US authorities to protect client deposits and regulation that was imposed after the 2008 financial crisis "reduce the risk of broad financial contagion from such events".

The OECD also upgraded its economic outlook for 2024, with growth of 2.9% compared to 2.7% in the previous forecast.

Inflation is expected to "moderate gradually" this year and in 2024 after central banks raised their rates to tame consumer prices that have soared in the wake of Russia's invasion of Ukraine.

The OECD trimmed its outlook for headline inflation by 0.1 percentage points to 5.9% in 2023, although it hiked its forecast for core inflation, which excludes volatile food and energy prices, to 4.0%.

The OECD said monetary policy needs to remain restrictive until clear inflationary pressures have been brought down durably as pressures in energy markets could reappear.

US year-ahead inflation expectations drop to lowest since 2021

Bloomberg
Washington

US short-term inflation expectations fell in early March to the lowest level in nearly two years and long-run views also eased, but consumer sentiment still fell due to persistently high prices.

Respondents said they expect inflation to rise 3.8% over the next year, the lowest reading since April 2021, according to the University of Michigan's preliminary reading. They expect prices to advance 2.8% over the next five to ten years, the lowest in six months.

The group's sentiment index declined to 63.4 in early March from 67 in February, the biggest drop since June, data released yesterday showed. The median estimate in a Bloomberg survey of economists called for the index to hold steady.

The survey was conducted from February 22 to March 15, and the report said about 85% of interviews had been completed prior to the failure of Silicon Valley Bank. However, it's unclear to what extent confidence will be hit when the university's final reading for the month is released on March 31.

"Our data indicate little impact of these developments on consumer attitudes," given the average consumer typically doesn't pay close attention to financial developments that don't directly impact them, Joanne Hsu, director of the survey, said in a statement.

Of the interviews completed after March 9 — when many companies were advised to pull money from SVB — only "a handful" of consumers spontaneously mentioned bank failures, according to the report.

"That said, today's environment for news and information dissemination is very different than other periods of severe market turbulence prior to the pandemic, so it remains to be seen if the salience of financial developments to consumers will increase going forward," Hsu said.

"Consumer sentiment pulled back in early March even before the failure of Silicon Valley Bank, and we expect a sharper deterioration ahead on fears of destabilisation in the banking sector… Expected tightening of lending standards by larger banks will further dampen confidence," says Eliza Winger, economist at Bloomberg.

A separate report out yesterday corroborated that prospects for the economy were dimming even before the banking crisis. The Conference Board's index of leading economic indicators dropped another 0.3% in February, marking the 11th straight month that the gauge has fallen.

"The most recent financial turmoil in the US banking sector is not reflected in the LEI data but could have a negative impact on the outlook if it persists," Justyna Zabinska-La Monica, senior manager of business cycle indicators at The Conference Board, said in a statement.

The group "forecasts rising interest rates paired with declining consumer spending will most likely push the US economy into recession in the near term," Zabinska-La Monica said. Data out earlier this week showed US inflation remains elevated and broad based.

A gauge of current personal finances declined to the lowest in three months, while the corresponding measure of expectations fell to a six-month low, according to the University of Michigan report.

Buying conditions for large household purchases also decreased. Across the economy, measures of current and expected conditions both fell to three-month lows.

Meanwhile, output at US factories increased unexpectedly in February for a second month, representing a respite for a manufacturing sector that has been sluggish amid rising economic uncertainty.

The 0.1% gain in factory production last month followed an upwardly revised 1.3% advance in January, according to Federal Reserve data released yesterday. Including mining and utilities, total industrial output was unchanged in February.

The median forecast in a Bloomberg survey of economists called for manufacturing production to decline 0.3% and for total output to rise 0.2%.

Consecutive gains in goods production suggest firmer economic growth in the first quarter, helped by improving supply chains and a rebound in orders. Nonetheless, the outlook for factory activity will be tested by rising borrowing costs, sluggish overseas economies and elevated inventories.

The figures follow a separate Institute for Supply Management report earlier this month that showed a gauge of factory activity improved for the first time in six months despite remaining largely depressed.

The Fed data showed capacity utilisation at factories, a measure of potential output being used that can correlate with inflation pressures, eased to 77.6%.

The gain in manufacturing output last month reflected increases in computers and electronics, chemicals and wood products. Motor vehicle output fell for the third time in the last four months.

By market group, output of consumer goods increased, reflecting a gain in energy. However, production of consumer durable goods, such as autos, fell and business equipment output slipped. Utility output rose 0.5%, while mining fell 0.6%. Oil and gas well drilling slid 3.1%.