

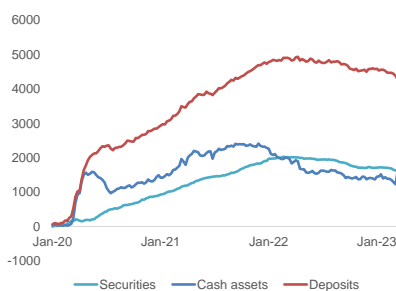
Week Ahead

Focus: US banking sector

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Aggregate balance sheet positions of U.S. commercial banks, change since 2020, in USD bn



Source: US Federal Reserve, Erste Group Research

Major Markets & Credit Research

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Note: Past performance is not necessarily indicative of future results

US - SVB was an outlier

The bankruptcy of Silicon Valley Bank (SVB) and, shortly thereafter, Signature Bank, shook up financial markets globally. The 2008 banking crisis and its aftermath were still vivid in the minds of most market participants. The reports created uncertainty and fueled fears of a rapid withdrawal of bank deposits and thus a domino effect in the entire banking sector. The US authorities also still remembered the events of 2008 and reacted quickly. The deposits of the affected banks were fully guaranteed and the Federal Reserve provided an additional liquidity channel. The situation then came to a head again when Credit Suisse also faced a rapid and massive withdrawal of deposits, albeit for different reasons than SVB, and was taken over by UBS.

Since then, the situation has calmed down, but reports about the shifting of deposits, especially in the US, are not abating and are still causing uncertainty. However, a look at the figures shows that the initial reactions in the markets came from the surprise caused by the events. Weekly asset and liability data is available for the US banking sector. The most recent data available is from March 15, so it is too early to make a final assessment, but the initial reaction to the turmoil may well have been the strongest. In any case, deposits at commercial banks have fallen by USD 161bn since the beginning of March. This is a decline of 0.9%. At the same time, however, US commercial banks have increased their cash funds by USD 334bn. This means that banks have more than compensated for the withdrawal of deposits, primarily through Fed funds, and now have higher cash balances than before the SVB failure.

Separately, US banks already had high levels of cash before the onset of the crisis. These were equivalent to more than 18 times the above-mentioned deposit withdrawal of USD 161bn. Even without Fed support, the US banking sector thus had a substantial buffer before a sale of government bonds would have been necessary. With the onset of the COVID crisis, there was a sharp increase in deposits, triggered by generous payments from the public sector to households. According to the latest data, the banks held just under 40% each of these additional funds as cash reserves or invested them in government bonds.

On one hand, these figures show that the SVB is an outlier and not indicative of the US banking sector. After all, SVB had to sell government bonds, but this was also due to the strong withdrawal of deposits already before the turmoil, which in turn was based on the bank's customer structure. On the other hand, aggregated data shows just what they are and says nothing about the distribution, and thus does not reveal the weakest links in the chain.

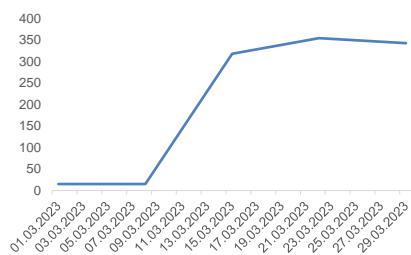
More recent data from the Fed's balance sheet also points to an easing of the situation. Lending from the central bank remained stable as of March

Erste Group Research

Week Ahead | Major Markets | Eurozone, USA

31. March 2023

Loans with the U.S. Fed, in USD bn



Source: US Federal Reserve, Erste Group Research

29. This is a clear indication that the shifting/withdrawing of deposits has calmed down and commercial banks do not need any additional liquidity supply from the central bank.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	3-Apr	10:00	PMI Index	Mar F	47.1 Index	47.1 Index
DE	3-Apr	9:55	PMI Index	Mar F	44.4 Index	44.4 Index
FR	3-Apr	9:50	PMI Index	Mar F		47.7 Index
IT	3-Apr	9:45	PMI Index	Mar		52.0 Index
USA						
	3-Apr	16:00	PMI Index	Mar	47.5 Index	47.7 Index
	5-Apr	14:15	ADP Employment	Mar	205.6 Tsd	242.0 Tsd
	7-Apr	14:30	Wages y/y	Mar	4.3%	4.6%
	7-Apr	14:30	Unempl. Rate	Mar	3.6%	3.6%
	7-Apr	14:30	Chg. Non-Farm Payrolls	Mar	235.1 Tsd	311.0 Tsd
China						
	3-Apr	3:45	PMI Index	Mar	51.4 Index	51.6 Index

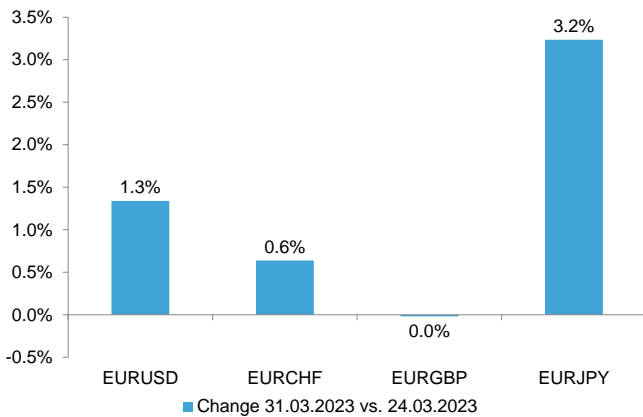
Central bank events

	Date	Time	Representative	Forum	Location
ECB	1-Apr	09:00	Luis de Guindos	Panel discussion	Ambrosetti
	5-Apr	16:00	Isabel Schnabel	Lecture	University of Cyprus
Fed	3-Apr	22:15	Lisa Cook	Discussion	University of Michigan

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

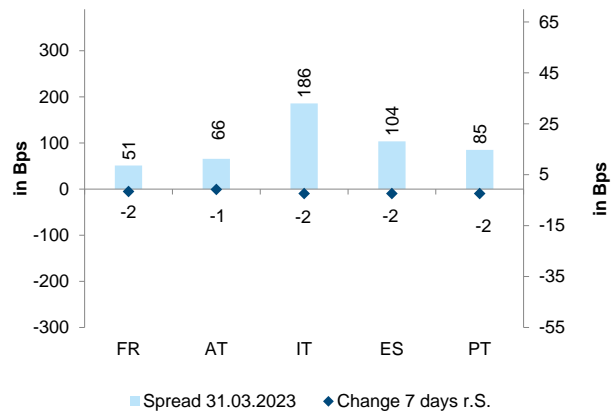
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY
 Changes compared to last week



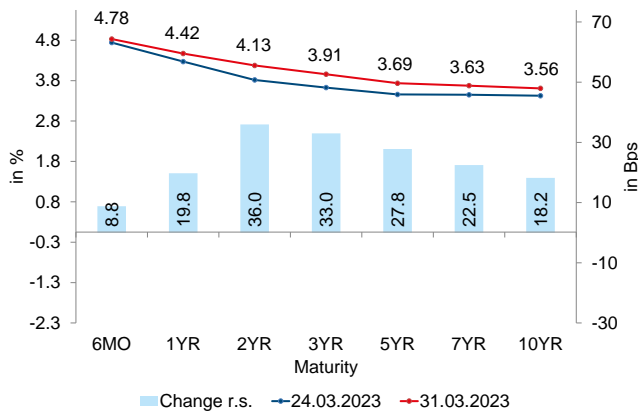
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



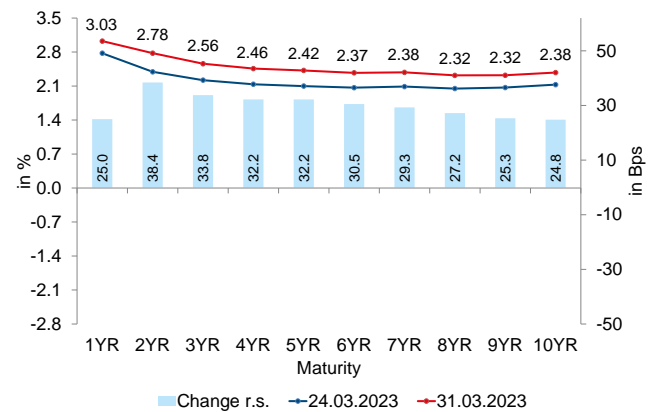
Source: Market Data Provider, Erste Group Research

US Treasuries yield curve
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

DE Bund yield curve
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

Forecasts¹

GDP	2021	2022	2023	2024
Eurozone	5.3	3.5	0.6	1.2
US	5.7	2.0	1.5	1.1

Inflation	2021	2022	2023	2024
Eurozone	2.6	8.4	5.7	2.7
US	4.7	8.0	3.5	1.9

Interest rates	current	Jun.23	Sep.23	Dec.23	Mar.24
ECB MRR	3.50	4.00	4.00	4.00	4.00
ECB Deposit Rate	3.00	3.50	3.50	3.50	3.50
3M Euribor	3.05	3.45	3.47	3.50	3.44
Germany Govt. 10Y	2.37	2.20	2.20 ↑	2.20 ↑	2.20 ↑
Swap 10Y	3.05	2.70	2.70 ↑	2.70 ↑	2.70 ↑

Interest rates	current	Jun.23	Sep.23	Dec.23	Mar.24
Fed Funds Target Rate*	4.83	5.13	5.13	4.88	4.63
3M Libor	5.16	5.21	5.21	4.96	4.71
US Govt. 10Y	3.56	3.30	3.10	2.90	2.90
EURUSD	1.09	1.08	1.10	1.12	1.15

*Mid of target range

In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.

Source: Market Data Provider, Erste Group Research

¹ Note: In accordance with regulations, we are obliged to issue the following statement:
 Forecasts are not a reliable indicator of future performance.

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