The Weekly Snapshot

20 March 2023

ANZ Investments brings you a brief snapshot of the week in markets

It was a volatile week across financial markets as the fallout from bank failures in the US, and concerns in Europe kept volatility elevated. Despite the volatility and raft of negative headlines, most share markets in the US closed higher.

With all eyes on bank stocks, tech-heavy NASDAQ 100 outperformed, finishing the week up more than 5%, while the S&P 500 gained about 1.5%.

It wasn't such a good week in Europe, with concerns around Credit Suisse weighing on indices. The Euro Stoxx 50 fell about 4%, while the weakness spilled over into the UK, with the FTSE 100 falling more than 5%.

The heightened volatility saw bonds in demand as investors sought out safe haven assets. In the US, the 10-year government bond yield fell nearly 30 basis points, closing just above 3.4%, while the more interest rate-sensitive two-year yield fell more than 50 basis points as investors pared back central bank rate hike expectations.

What's happening in markets?

Investors remained on edge last week as the fallout from Silicon Valley Bank (SVB) continued, while in Europe, Credit Suisse came under the microscope after its annual report revealed it had been experiencing "significantly higher outflows". This was followed by news that Saudi National Bank – its largest investor – would not provide further financial support.

Shares in Credit Suisse fell as much as 30% on Wednesday, amid fears it could be susceptible to a bank run. However, the Swiss National Bank and the Swiss Financial Market Supervisory Authority were quick to react, offering assistance and reinforcing the strict regulations and capital requirements placed upon banks.

> ***"The strict capital and liquidity requirements applicable to Swiss financial institutions ensure their stability. Credit Suisse meets the capital and liquidity requirements imposed on systemically important banks. If necessary, the SNB will provide CS with liquidity",*** the statement read.

Later in the week, First Republic Bank became the next bank under the microscope because it serves many wealthy clients from venture capital backgrounds around the San Francisco area. As its share price started to fall, 11 major US banks stepped in and provided it with US$30 billion of funds. However, reports late Friday that it required further funding sent its stock price lower, finishing the week down about 70%.

Then on Sunday, as concerns around Credit Suisse remained, fellow Swiss bank, UBS, agreed to buy Credit Suisse for around US$3 billion in a bid to calm financial markets. "With the takeover of Credit Suisse by UBS, a solution has been found to secure financial stability and protect the Swiss economy in this exceptional situation", the Swiss central bank said in a statement.

Amongst all the volatility, the US inflation report showed year-on-year inflation dipped to 6%, helped by a fall in energy prices, while shelter (housing-related) costs, which make up about one-third of the index's weighting, rose 8% on an annual basis.

Down under, economic data confirmed the New Zealand economy shrank in the fourth quarter of 2022, declining 0.6%, a bigger contraction than most had expected. In addition, the prior quarter's rise of 2% was revised lower to 1.7%. At the start of the week, interest rate markets were pricing in about a 60% chance of a 50 basis point hike by the Reserve Bank of New Zealand (RBNZ) in April, by the end of the week it was down to a 50/50 chance of a 25 basis point hike. Despite the weaker GDP data, most of this was driven by overseas events.

What's on the calendar

With fears of contagion in the financial sector growing, banking-related events will remain front and centre this coming week.

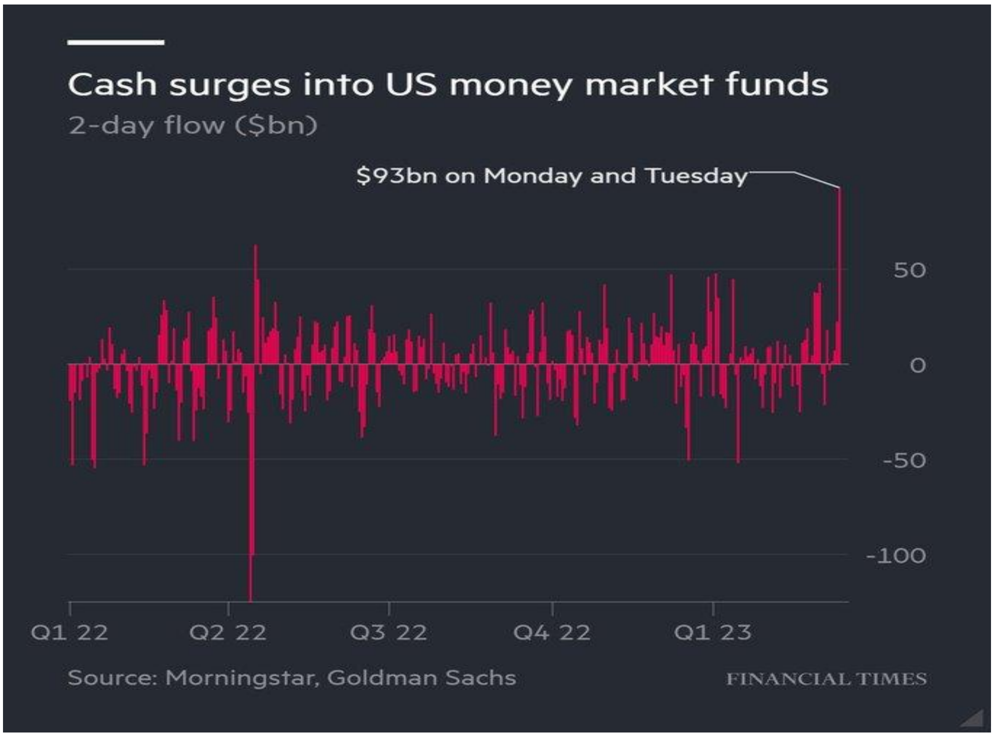
Nevertheless, the all-important Federal Reserve meeting on Wednesday will garner plenty of attention. On one hand, further interest rate hikes could exacerbate the stress on the financial system, while on the other hand, inflation remains persistent. According to the CME FedWatch Tool, which tracks fed fund futures, as of 18 March, there is a 60% chance of a 25 basis point hike.

It's also worth noting that the Fed will release its summary of economic projections that will indicate whether or not the Fed believes it can achieve the so-called soft landing.

Finally, in the UK, the Bank of England (BoE) could slow, or even pause its policy tightening, when it meets this week, while on the economic data front, inflation data is likely to confirm that prices are still running near double-digit levels on an annual basis.

Chart of the week

More than US$100 billion of cash has flowed into US money market funds over the past week amid worries about the safety of bank deposits. It's the highest weekly inflow since 2020.



Here's what we're reading

Bann Runs, Now & Then: "The free flow of information today is one of the biggest differences between now and the Panic of 1907" - https://awealthofcommonsense.com/2023/03/bank-runs-now-then/

The Demise of Silicon Valley Bank: "Between the end of 2019 and the first quarter of 2022, deposits at US banks rose by $5.40 trillion" - https://www.netinterest.co/p/the-demise-of-silicon-valley-bank