Gasp, Gulp, Glug!

This morning had the feeling of someone who has been drowning, breaking the surface, and gasping and gulping for as much air as possible before going back under. These are also probably the sounds I typically would make on the morning of March 18th, but this year it has nothing to do with St. Patrick's Day.

It has been a long 10 days or so for markets and has to have been excruciating for those companies caught in the crosshairs.

I fully expect more news this weekend, but thought that now might be a good time to collect my thoughts while I'm above water and preparing for the next wave (or rescue ship)!

Two Distinct Banking Issues

While they are somewhat related, I think that we can distinguish between what is going on in Switzerland and what is going on in the U.S.

- **In Switzerland, a global money center bank is at the heart of the current concern**. A huge global counterparty, and until recently, an influential player in global markets. They have been making changes, addressing issues, and carving off businesses, but markets (debt and equity) have not responded positively.
    - The risk here is that no solution would mean that we would see people reassessing counterparty risk across the spectrum, which is unlikely to be a good thing.
    - Depending on what happens to bondholders (i.e., if they are treated "arbitrarily"), this could impact the bonds of other financial issuers in Europe.
    - **Stories are crossing the tape that are reporting a potential deal could be reached as early as tonight.** We should have some clarity soon.
- **In the U.S., the issue is generally at smaller banks.** The banking system as a whole has been losing deposits (largely to money market funds based on recent flow data). However, within the banking industry, there has been a trend towards the biggest banks receiving deposits (likely at the expense of smaller institutions).
    - **Last weekend we saw actions designed to help the banks bide time** (outside of Silicon Valley Bank and Signature Bank). It is unclear how well that is working.
    - **The new BTFP** is expensive compared to the deposits that it is replacing and does nothing for the capital base of banks. I'm told that this facility is going to be "trillions" in size and I just cannot get my head around the math here.
    - **The guarantee of depositors this past weekend wasn't extended to the entire market.** It is almost implicit that if the depositors at the banks affected last weekend received their full amount, it seems likely that this would extend to other banks in the future. But who wants to deal with "seems likely" in this environment? **Can we get a declaration that bank deposits are fully guaranteed everywhere this weekend?** That sort of a declaration may be needed, because despite the actions of last week, we saw more evidence of deposits being pulled, rather than people taking comfort.
    - **What rate is the $30 billion that is being deposited at FRC going to pay?** So far, I've only seen reporting that it is a "market rate". But is that "market rate" the rate for "senior

unsecured risk" or is it the "bank deposit rate" which is a very different number? Knowing what the rate is will allow the market to determine how much time it buys and what it does to the capital outlook. Also, it will demonstrate how relevant it could be as a template for other institutions outside of the Fed program.

  - **Equity raises and mergers.** By Sunday, it would seem shocking if we don't see at least some progress towards some mergers or significant equity raises.
  - **What does this "crisis in faith on deposits" mean for the broader system?** I have no idea how this shift in mentality is going to impact the economy. I personally have taken for granted how the banking system functions. I remain convinced that last Sunday was just the first shot fired (a big shot, but just the first one) by the Fed/FDIC/Treasury. Hopefully we don't have to experience any ripple effects from what has already occurred. But, by Monday, if nothing has been announced to help the situation, we probably have to start thinking about **what unintended consequences might be in the works because those "unknowns" that become "knowns" often hurt us the most.** I don't think that we need to worry too much about this today, but as the clock ticks down to Monday morning, it might just require more thought.

- **Markets are saying more about the positioning coming into this then they are about the future.** The rate market, to me, is just a sloppy mess. Liquidity is abysmal. We have created a system that makes it extremely efficient to trade (small sizes) in stable markets, rather than one that has a more fulsome liquidity profile in times of volatility. I'm trying to make sense of where rates are (as well as credit spreads/equities), but I'm hoping to have more time to do that tomorrow morning. **I plan to fight my way to the surface again then, hopefully with more clarity on one or more situations.**

This Weekend Needs a "Firebreak" Announcement!

Some steps were taken last weekend, but they weren't enough, especially as the situation in Europe seemed to get worse.

I think that we need a clear firebreak installed this weekend!

- **European resolution and clarity.**
- **Deposits are safe and protected.**
- **Plans for capital injections.**

We could get any or all of those and have a great start to the week. We could also get nothing and start the week on treacherous footing.

We will think more about the Fed (FOMC decision), rates, credit spreads, and equities tomorrow, but for now, this sums up where we are. You can see our series of pieces that started last Wednesday at Academy Macro.

I'm leery to mention this, but on the geopolitical front, this seems like a time when some of our enemies will be "opportunistic" as we deal with pressing matters of our own.

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