

## Find new insights and tools in Workspace

Available as part of your FT Professional Subscription

[Visit Workspace](#)

---

FT Alphaville Credit Suisse Group AG

### The inside story of Credit Suisse's collapse, by Credit Suisse

Dispatches from the room where nothing was happening



**George Steer** APRIL 24 2023

---

Who better to walk you through the banking sector's March madness and offer their thoughts on systemic financial stress than... Credit Suisse?

Notes from the bank analysis team at CS have come admirably thick and fast, even after their employer collapsed and was subsequently folded into rival UBS last month.

But there's a rather large Swiss elephant in the room: the bank's otherwise thorough analysis of the panic that began at Silicon Valley Bank and prompted its own demise awkwardly omits any mention of one major player: itself.

*Addendum:* Yes we know they'd be restricted about writing about their own bank, but it shows the difficulty of covering a crisis your own employer is in or near the centre of. Lehman vets will sympathise. Anyway, below is a timeline of the analysts' notes — best read to the tune of [\*Nearer, My God, to Thee\*](#).

## March 10:

Two days after SVB launched a \$2.25bn share sale to cover a large loss on its bond portfolio, all was seemingly well with the world. “Eurozone deposit beta remains low at the start of the year”, Credit Suisse [cheerily noted](#):

*European [net interest income] momentum continues to be strong, with customer spreads +10bp in January from +8bp in December.*

*January deposit margins are 18bp higher in the Eurozone (led by Ireland, Portugal, and Spain), and 14bp in the UK despite recent peak NIM debates. Given higher deposit rates, margins were slightly lower in Norway and Sweden. In the Eurozone, deposit rates went up most (margins increased least) in Austria and Belgium.*

## March 13:

Life moves pretty fast, especially on weekends, something Credit Suisse would find out the hard way later in the month. SVB had by Monday been shut down by regulators, with contagion fears wiping billions of dollars off the market value of even the biggest US banks. Analysts at CS did not appear overly concerned:

*European banks closed 4% lower on Friday after US banks were 8% lower on Thursday and 4% lower on Friday following events around SVB. We see direct read across as limited to our listed European universe. [High quality liquid asset] is near EUR 5tn with median [liquidity cover ratio] and [net stable funding ratio] of 145% and 120%. More broadly on the deposit debate, European deposits are still growing adjusted for seasonality....*

*Unrealised bond loss concern is overdone: While higher rates can create unrealised losses in AC debt portfolios, this is only an issue if there is a catalyst to realise those losses through funding outflows. European banks have debt securities at amortised cost slightly above their [common equity tier 1] capital at a median 4% of assets, with the rest already marked to market in equity.*

## March 15:

Trouble a-brewing. A day earlier, Credit Suisse (the company itself) said it had identified “material weaknesses” in its internal controls over financial reporting, sending its shares down 4 per cent and the spread on its five-year credit default swaps up to a record 522 basis points.

SVB's collapse had meanwhile sparked a full-blown panic — the kind that can bring down even healthy-looking banks, let alone those softened up by years of crisis.

The, uh, Credit Suisse research verdict? Meh, it'll probably be fine — its analysts either ignoring or precluded from mentioning (maybe by a conflict of interest, or because Swiss banks aren't on the Euro Stoxx banks index) their employer's own worrying CDS spike:

*We do not see SVB itself being a systemic risk especially now that there appears to be a de facto guarantee on all deposits of troubled banks and President Biden's commitment to do 'whatever is needed' to protect deposits. While the [three-month forward rate agreement/overnight index swap rate] spread (a signal of stress) has widened sharply (but is a long way away from GFC levels), senior banks' CDS spreads in Europe and the US do not signal major stress. We view these as a better reflection of systemic risk.*

## March 16:

Asked whether the Saudi National Bank would consider extending extra capital to Credit Suisse if needed, ([now ex-](#))SNB chair Ammar Alkhudairy delivered what now looks to have been the killer blow. “The answer is absolutely not,” he told Bloomberg. Cue pandemonium everywhere...

...except the Credit Suisse banks strategy desk:

*Post SVB, we expect investor risk appetite and fundraising momentum to remain subdued for longer...*

*SVB, Signature Bank and Silvergate have had a significant impact on securities market levels and volatility, and market interest rate expectations. Whilst longer-term impacts are not yet clear, we highlight three potential outcomes: i) More volatility and derivatives trading and clearing volumes – benefiting DB1 and LSEG, ii) Reduced investor risk appetite – with a greater focus on liquidity and risk, and iii) Reaching peak NIM sooner.*

## March 17:

Shares in CS rallied after the Swiss National Bank agreed to do what the Saudis had hours earlier ruled out, extending a \$54bn liquidity lifeline to shore up confidence.

As Bryce pointed out at the time, CS's liquidity coverage ratio “even before taking account of the backstop... was 150 per cent – which is [not great, but not justification to panic either](#).” Not that CS analysts were ever worried:

*This time market concerns are interest rate risk and liquidity, rather than credit risk. Our Monday report highlighted the low level of duration risk in European banks' bond portfolio. We also see the banks in our coverage tending to be larger players in their own markets, and likely to move with system trends where European deposits are still growing. We see the most tangible impact on banks' earnings from the week's events being changes in policy rate expectations.*

With central bank funding secured, its shares recovering and a crisis surely averted, Credit Suisse's analysts seemingly took a well-earned week off.

## March 24:

Apart from UBS agreeing a \$3.25bn deal to buy Credit Suisse on March 19, potentially averting a global economic meltdown, nothing much happened while the analysts were away. Back at their desks, they got back to work on the big questions of the day:

*The weakness in US office REITs due to refi challenges has led to a renewed focus on Commercial Real Estate (CRE) exposures of banks...*

## March 29:

Fresh from being wiped out in the shotgun marriage with UBS, Credit Suisse [additional tier 1 bondholders](#) were by now in uproar. Take a few deep breaths and remember it could easily be worse, CS's analysts soothed:

*We reduced European banks to a marginal overweight in our 2023 outlook but critically prefer banks to non-financial cyclicals (where we are underweight). Banks in the US have underperformed by 28% (the normal bear market sees underperformance of 42%) – in Europe, we think for good reasons, banks have underperformed by only 10% (cf a historical bear market norm of 35% underperformance).*

## March 31:

A note on fast-approaching first-quarter earnings seemed a nice way to round off a month marked by a mysterious bout of “renewed volatility”.

*Most banks have suggested at conferences during Q1 that while activity is likely to be down on prior year, volatility has been good for business.*

[Copyright](#) The Financial Times Limited 2023. All rights reserved.

---