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Opinion **Unhedged**

Credit Suisse under siege

The fear bug jumps to Europe

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Robert Armstrong and Ethan Wu MARCH 16 2023

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Good morning. On Tuesday, [we asked if another bank would fall](#). We were thinking about America, not Europe. Yet it is Credit Suisse that is teetering. In the early hours of Thursday morning in Switzerland, the bank said it would “[pre-emptively](#)” take up to SFr50bn (\$54bn) from the Swiss central bank’s just-announced liquidity backstop. The global banking system, suddenly, is in play.

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Credit Suisse

When a bank announces at 2am local time that it is borrowing from the government, that is not a good sign. In both the US housing crisis and the European sovereign debt crisis that followed it, announcements such as this were as likely to stoke fear as to soothe it.

Yet the lesson of Mario Draghi and “whatever it takes” is that the government controls the printing press. A wall of money, deployed correctly, absolutely can avert disaster. So it is far too early to write an obituary for Credit Suisse. For all its scandals and mistakes, it had a strong and [liquid](#) balance sheet as of Wednesday, and a strong brand in wealth management to go with it.

As the FT [reported](#), Credit Suisse spent Wednesday afternoon reaching out to Swiss authorities to ask for a public statement of confidence. Around 8pm Zurich time, the [statement](#) came, reassuring markets that “if necessary, the [Swiss National Bank] will provide CS with liquidity”. That alone, it seems, was not enough. Six hours later, around 2am, Credit Suisse said it was

taking decisive action to pre-emptively strengthen its liquidity by intending to exercise its option to borrow from the Swiss National Bank (SNB) up to CHF 50 billion under a Covered Loan Facility as well as a short-term liquidity facility, which are fully collateralised by high quality assets

The bank also announced it would buy back SFr3bn (\$3.2bn) in “senior debt securities.” This looks to us like Credit Suisse signalling to markets that it has the financial wherewithal to buy back its distressed debt. The message is: taking liquidity from the SNB is not just a last-ditch effort to save the bank; we are planning for the future. This well might turn out to be true. We’ll learn more today.

Is the Credit Suisse panic related to the failure of Silicon Valley Bank last week? The two businesses are extremely different, and the losses on long-term securities that fatally wounded SVB do not appear to be a problem at Credit Suisse.

Yet the two crises are linked. At some point in every central bank rate-increase cycle, things break and people get scared. That fear seeks a host. SVB broke, fear was released and Credit Suisse was the softest target.

While the Swiss bank's balance sheet was sturdy, its reputation was not. A series of scandals, most of them emanating from its executive suite and its wobbly investment banking unit, has corroded the brand. Its strongest franchise, wealth management — a business grounded in reputation — suffered the consequences. Assets under management in that division fell by 27 per cent in 2022. Profitability crashed. Worse, the bank's deposits went the same direction, falling by 37 per cent in the fourth quarter alone.

This is how a bank profitability problem, in a climate of fear, can turn into an existential threat.

What might happen next? With the Swiss authorities standing behind Credit Suisse, it seems highly unlikely that a liquidity shortfall will sink it. This makes a classic bank run much less likely. But while a government can provide liquidity, it cannot provide a business model. Depositors and wealth management clients have to see a reason to stay with the bank. The FT reports that before news of the SNB's liquidity backstop, JPMorgan analysts thought that should the situation worsen,

the most likely scenario . . . is a sale of the lender to local rival UBS . . . An equity injection by the SNB is also a possibility as is allowing Credit Suisse to try to fix its own problems by selling a minority stake in its retail bank and using the proceeds to restructure the rest of the group.

However, the JPMorgan analysts said it was unlikely that Credit Suisse would be allowed to fail because of its importance to the Swiss economy and Zurich's status as a global financial centre.

We agree that the SNB has the tools to prevent an immediate failure, whether caused by a run or something else. We also agree that the bank's structure might look very different in a matter of days or weeks. We make no predictions. All we know for certain is that there is no returning to the status quo ante. (*Armstrong & Wu*)

One good read

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