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Financials



# Bank on it

## And Credit Suisse takes centre stage

**The substantial market moves in the credit curves of Credit Suisse<sup>[de]</sup> have today spooked financial markets. There is, however, no wide-spread contagion especially in senior debt as the banking sector spreads have proved to remain rather resilient for most names. In our view Credit Suisse is under a lot of pressure to deliver a convincing strategy for its investment bank. Execution risks for the plan remain high. We consider markets may push the bank to take action sooner than the currently scheduled late October. In our view a lot of weakness is already priced in the senior paper due to the substantial pick-up over comps, but before there is more transparency in the new strategy, spreads are likely to remain wide.**

Credit Suisse increased its efforts to convince its stakeholders about its health over the weekend, a likely driver for the poor performance. The CEO has sent a memo to its employees and selected investors and clients were called to discuss the bank's situation, according to the WSJ citing people familiar with the matter. In the memo on Friday CEO Körner is said to have outlined that its stock price performance should not be confused with its capital strength and liquidity. Furthermore, the talking points referred to by the WSJ indicate that the bank had US\$238bn in high quality liquid assets at end-June and that the position has not materially changed since then according to the sources. The bank expects to have a 13-14% CET1 ratio for the rest of the year.

Credit Suisse reported a net loss of US\$1.6bn in 2Q22 as the bank exhibited a 29% decline in its revenues and a 10% increase in its operating costs. The group CET1 ratio was 13.5% (-30bp QoQ, vs a CET1 requirement at 9.6% excluding 70bp for P2 add-on) and the CET1 leverage ratio at 4.3%. The LCR was a strong 191% and NSFR 132%. At the time the group had completed US\$21bn of its full year funding plan as compared with the planned US\$23bn-27bn. The profitability (and reputation) of the bank has been tested by several incidents, which has led Credit Suisse to indicate it will present a strategy update to outline its plans for the investment bank on 27 October, in connection with its earnings.

Credit Suisse's OpCo senior paper has moved out by some 115bp and HoldCo senior curve some 100bp on average today. Shorter maturities have clearly underperformed with bonds in the 25/27 area widening 130bp and bonds in the 28/32 area +50bp. The bail-in senior curve of Credit Suisse has inverted, a sign of substantial market worries. Credit Suisse does not have euro-denominated subordinated debt outstanding, but its USD AT1 CS9.75 Perp-27 was down by 10 points. So far, the contagion looks relatively limited. While the sector has in general widened today, larger spread moves have concentrated mainly on certain specific (lower rated) banks. Among others Deutsche Bank and Barclays have seen their bail-in senior spreads widen on average 5bp today. On a country level bail-in spreads in Ireland and Germany have underperformed, while French, Spanish and Dutch have remained more stable. Belgian, British and Italian spreads have moved somewhere in the middle.

The bail-in senior paper of Credit Suisse is currently quoted with a c.110bp spread over a similarly rated German comp in the interpolated 5yr point. The HoldCo curve is seen with c.100bp over the Italian UniCredit, whose NPS paper is rated a notch lower than that of Credit Suisse. The spread differentials were already substantially wider than these during the day.

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