

European Banks Strategy

We built cash not bonds

Industry Overview

European banks built cash, not bonds

We note large declines in some US bank stocks overnight on concerns that deposit outflows may lead to bond sales at losses. For certain specialist California banks, core deposits have left at scale. We highlight in this brief report that in contrast, deposits are stable in Europe, although migrating to higher rate deposits - Exhibit 2 and Exhibit 3. As importantly, we show that bond holdings did not grow at pace, or indeed at all - Exhibit 1. Rather, cash deposits did. European banks did not assume rapid deposits inflows to remain stable permanently, and therefore did not invest them out the curve.

Deposit betas set to be high on interest-bearing deposits

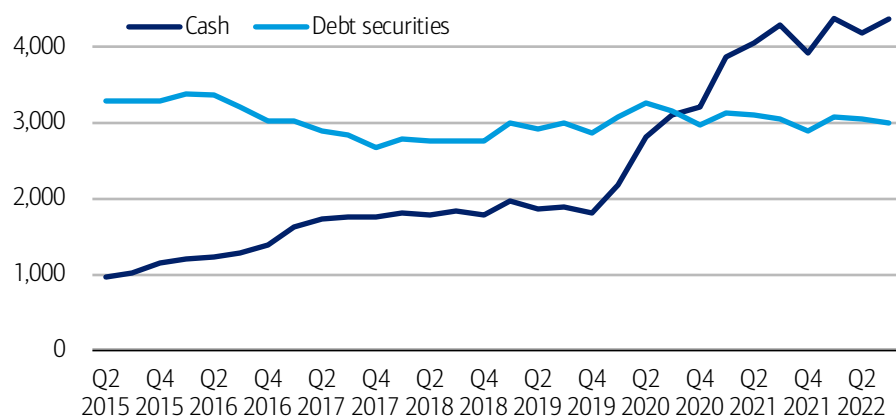
In a higher rate environment, we expect marginal deposit betas to now be high on interest-bearing savings. However, very few deposits have moved from non-interest-bearing accounts and we expect that stability to continue as economic growth recovers while inflation remains high: 7% salary growth supports current account balances.

Bond drawdowns experienced

There is nothing new in banking. We note that HSBC for example saw meaningful drawdowns in capital during 1H 22 from bond marks. It is now enjoying strong, net interest income growth and the pull to par of those bonds. If one's bank remains stable, higher rates remain very much a good thing, we think.

Exhibit 1: euro area banks: cash and debt securities, 2015-22 (€ mn)

Cash grew by €3 trillion, securities fell



Source: ECB

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Equity

Europe

Banks-Multinational/Universal

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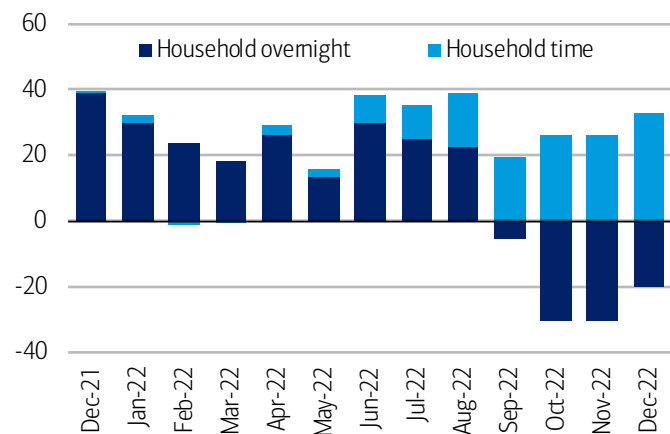
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Key charts

Exhibit 2: euro area household deposits, overnight and time: monthly flow 2021-21 (€ bn)

Migration not outflows

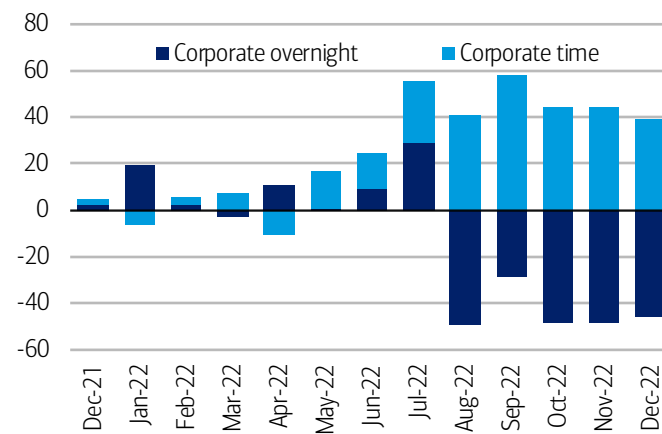


Source: ECB

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Exhibit 3: euro area corporate deposits, overnight and time: monthly flow 2021-21 (€ bn)

Net deposit outflows 0.4% of balances

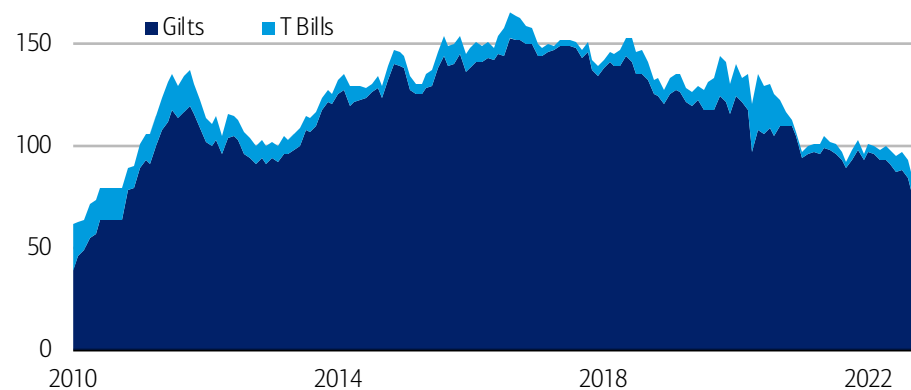


Source: ECB

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Exhibit 4: UK bank holdings of Gilts and bills (£ bn) 2010-22

A round trip

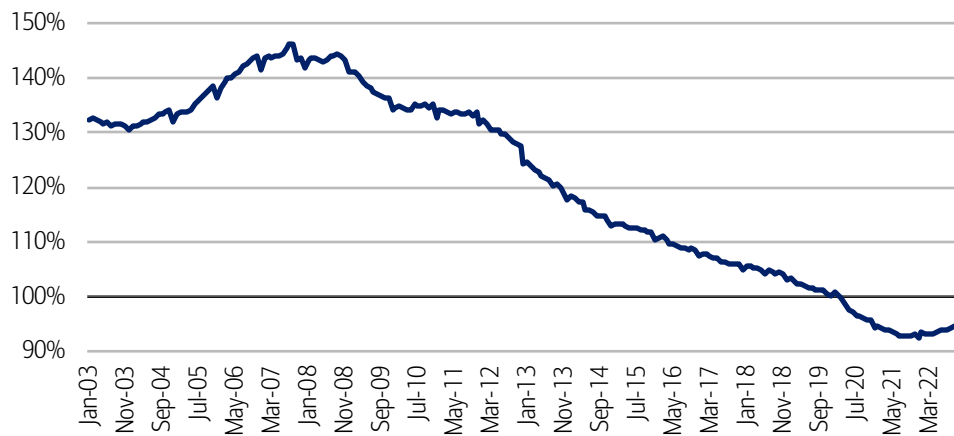


Source: BofA Global Research estimates, DMO

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Exhibit 5: Euro area banks: household and corporate loans / deposits (%) 2003-22

From a large deficit to a surplus



Source: BofA Global Research estimates, ECB

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^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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