

Morning Market Tidbits

Bank stress remains contained and the end of the BTFP

In focus

A year ago, in response to the emerging stresses in the regional banking system and the failures of Silicon Valley Bank and Signature Bank, the Federal Reserve opened the Bank Term Funding Program (BTFP). The program was designed to make it easier for banks to meet the liquidity needs of their depositors by offering loans up to one year in length to eligible institutions that pledged Treasuries and agency mortgage-backed securities as collateral.

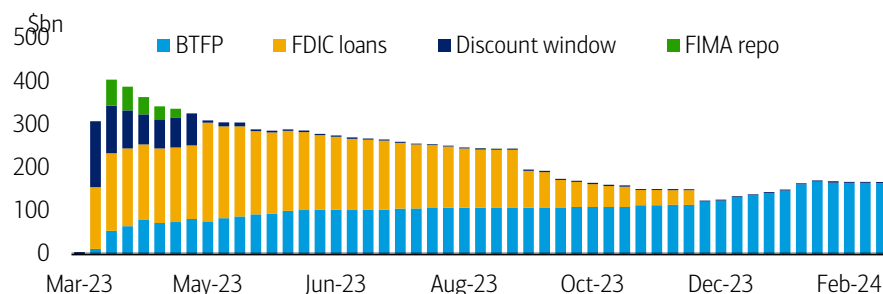
Banks that faced high liquidity needs from deposit withdrawals could use their securities holdings as collateral to obtain needed liquidity as opposed to selling those securities during times of stress, and likely at a loss. After all, one of the factors behind sizeable deposit outflows in some institutions was the belief that banks were holding large unrealized losses on holdings of low yielding government bonds in a rising interest rate environment.

Bank borrowing under the program accelerated to about \$100bn from March through June 2023 before stabilizing (Exhibit 1). Discount window lending, which rose initially in response to emerging stress, dissipated quickly, as did FIMA repo lending. FDIC-related lending also surged, but this lending captured credit extended to the bridge banks operated under boards appointed by the FDIC to deal with the resolution of Silicon Valley Bank, Signature Bank and First Republic Bank. This lending began to slow sharply last fall and borrowing dropped to zero in December.

BTFP lending began to move higher at the turn of the year, likely on account of expectations that the program would be allowed to expire, but it was also reported that some institutions were engaging in arbitrage by borrowing from the facility and parking proceeds as higher yielding reserve balances with the Fed. Since the Fed announced on January 24th of this year that it would close the BTFP as scheduled on March 11 and removed the incentive for banks to engage in arbitrage, balances in the BTFP have been steady to modestly lower. As of February 21, the facility has extended \$164.2bn in loans.

Exhibit 1: Federal Reserve Emergency Lending Facilities (\$bn)

Lending through the BTFP has declined recently



Source: Federal Reserve, Haver Analytics, BofA Global Research

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(Continued on next page)

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FIMA: Foreign and International
Monetary Authorities

FDIC: Federal Deposit Insurance
Corporation

Interestingly enough, lending in the BTFP – or any of the Fed’s emergency lending facilities for that matter – did not rise immediately after the sharp decline in New York Community Bancorp’s equity valuation after disclosing losses related to CRE loans, difficulties in absorbing Signature Bank, and substantially cutting its dividend.

In our view, the lack of any pickup in emergency lending likely signals that spillover risk to the rest of the regional banking system remains low and stress is likely well contained. That said, the episode is a reminder that the banking sector will be struggling with its commercial real estate exposure for some time. In addition, should the Fed not be able to ease its policy rate later this year as expected, an inverted yield curve could continue to put stress on bank earnings.

Notwithstanding these concerns, it appears the BTFP served its purpose well over the past year. Along with other emergency lending powers of the Fed, it helped reduce emergent stresses in the banking system, prevented a fire sale in assets, and reduced systemic risk, all of which helped keep the US economy in expansion. While the Fed will undoubtedly focus its attention on regulatory measures to avoid similar outcomes in the future, we think any post mortem on the BTFP will likely see it as a success.

Market Action

The Asian equity markets that we cover closed mostly negative overnight. Looking at individual markets, the Shanghai Composite, the Hang Seng, the Indian Sensex and the Nikkei were down 1.9%, 1.5%, 1.1% and 0.1% respectively, while the Korean Kospi added 1.0%.

As of 7:00 am ET, aggregate European stocks are down 0.2% and S&P500 futures are down 0.3%. In the bond markets, US Bond yields are down 2bp to 4.28%, and German Bund yields are down 2bp to 2.44%. The dollar index is up 0.24% to \$104.07. WTI crude oil prices are \$0.85 lower at \$78.02/bbl, and gold prices are at \$2027.35/oz.

US GDP Tracking

Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

1Q GDP tracking is up one-tenth to 1.0% q/q saar largely due to methodological assumptions made on account of the revenue in the services sector in the quarterly services survey (QSS) coming in stronger than expected

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
2/14/24	BofA official GDP forecast	1.0	1.5	1.5	-0.5	-1.0	1.0	2.0	1.0	1.0	1.5	-912.0	67.5
2/15/24	Retail Sales	0.8	1.1	1.2	-0.9	-1.0	1.0	2.0	1.0	1.0	1.5	-915.8	66.6
2/15/24	Industrial Production	0.9	1.2	1.3	-0.9	-1.2	0.9	2.0	1.0	1.0	1.5	-915.8	66.6
2/15/24	Retail Inventories, Import Export Prices	0.9	1.1	1.3	-1.4	-1.5	0.8	2.0	1.0	0.2	1.4	-924.6	73.8
2/16/24	Housing Starts and Permits	0.9	1.1	1.3	-1.5	-1.5	0.8	2.0	1.0	0.2	1.4	-924.6	73.8
2/16/24	PPI	0.9	1.0	1.3	-1.5	-1.6	0.8	2.0	1.0	0.2	1.4	-924.6	73.6
2/22/24	Existing Home Sales	0.9	1.1	1.3	-1.1	-1.6	0.8	2.0	1.0	0.2	1.4	-924.6	73.6
2/22/24	Methodological Assumptions (QSS)	1.0	1.2	1.5	-1.1	-1.6	0.8	2.0	1.0	0.2	1.4	-924.6	73.6
	GDP tracking	1.0	1.2	1.5	-1.1	-1.6	0.8	2.0	1.0	0.2	1.4	-924.6	73.6
	Contribution to GDP growth (pp)			1.0	0.0	-0.1	0.0	0.1	0.2			-0.2	0.0
	BofA official GDP forecast	1.0	1.5	1.5	-0.5	-1.0	1.0	2.0	1.0	1.0	1.5	-912.0	67.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA’s GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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Data Previews

February 28

GDP, Advance goods trade balance

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
2/28/24	8:30	Wholesale Inventories	Jan P	—	—	0.4%
2/28/24	8:30	GDP (qoq saar)	4Q S	3.2%	3.3%	3.3%
2/28/24	8:30	Personal consumption (qoq saar)	4Q S	2.6%	2.7%	2.8%
2/28/24	8:30	GDP Price Index (qoq saar)	4Q S	1.5%	1.5%	1.5%
2/28/24	8:30	Core PCE (qoq saar)	4Q S	2.0%	2.0%	2.0%
2/28/24	8:30	Advance Goods Trade Balance	Jan	-\$89.5bn	-\$88.5bn	-\$87.9b



February 28

GDP, Advance goods trade balance

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
Source: BofA Global Research						
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