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A financial tsunami that creates global panic

Sources: Rebellion

In the end, the bill is paid by "those below"

The unexpected bankruptcy of Silicon Valley Bank (SVB) in the United States produced a tsunami that spreads, rapidly, through the financial planet, causing panic in Europe. The biggest waves are already drowning the Swiss bank Credit Suisse.

This is the largest U.S. bankruptcy since the 2008 global financial crisis. On March 13, President Biden himself asked for tranquility from savers and investors and emphasized that the political world will do everything in its power to preserve the financial system. "Americans can rely on the soundness of the banking system ... Their deposits will be available when they need them."

Karine Jean-Pierre, the White House spokeswoman, came out at the crossroads of the bad omens, insisting that "this is not 2008," referring to the last major crisis that erupted that

year. It was the result of the explosion of the bubble created from speculation with the exorbitant price of housing and construction in general.

The current crisis was triggered last week. On Wednesday, March 8, Silicon Valley Bank announced the forced sale of securities worth 21,000 million dollars, which implied losses of 1,800 million and a plummeting of its shares on Wall Street. At the same time, it anticipated that it would sell $2.250 billion in new stock to repair its finances.

Those events motivated panic among the clientele, who withdrew deposits en masse. On Thursday 9, his Stocks plunged 60% and dragged other trades with them. banks, as investors saw signs similar to those of the world crash of 15 years ago.

On Friday 10, before the brutal collapse of its assets, SVB went bankrupt and was absorbed by the Corporation Federal Deposit Insurance, the U.S. federal agency – a Independent government body – ensuring customers recover your money – totally or partially. To refund your deposits to the Clientele, the federal agency liquidated the remaining assets of the bank. In The Signature Bank also intervened in parallel.

The Silicon Valley Bank website speaks for itself and shows both sides: the past and the current (*https://www.svb.com/*). You can still read the traditional presentation of the institution: "Proactive long-term orientation. We partner with the most innovative founders, executives and investors to help them adapt and navigate the ever-changing innovation economy." But at the top a stripe with a light blue background and black letters explains the new reality: "Silicon Valley Bridge Bank, N.A. is a newly created, full-serviced bridge bank operated by the Federal Deposit Insurance Corporation (FDIC). The bank is open to the public and new and existing depositors have full access to their money and protection for their deposits." For more details the message is sent to the website of the official control body (*https://www.fdic.gov/about/*).

Silicon

Valley, headquartered in Santa Clara, California, was founded in 1983 and had an amazing development in recent years, benefiting from the boom in the digital technology sector and the business it did with emerging companies in that sector. Paradoxically, the pandemic played a great ally in its rapid development.

With 29 branches At the national level, the SVB provided services to almost half of the companies American technology. It expanded to several European countries, such as Germany, Denmark, Ireland, Sweden and the United Kingdom. It was also installed in

Canada, China, India and Israel, occupying until last week a place among The 20 strongest U.S. banks.

According to information provided by the SVB itself, its assets – including loans – tripled during the pandemic, thanks to profits Exorbitant digital services of "recreation" and food delivery and other household goods to millions of people confined to their homes. Of 71,000 million dollars at the end of 2019 went to 220,000 million dollars in March 2022.

Deposits grew more than threefold during that same period due to the Sudden proliferation of thousands of *startup-type* technology companies. In parallel, the bank doubled the number of employees at the headquarters and in its branches.

The sudden drop in the SVB came after 48 hours of a classic bank stampede, when thousands of customers (companies and investors) withdrew their deposits. Like other institutions of its kind, during the pandemic *boom* Silicon Valley Bank invested billions of deposits in U.S. Treasuries. What seemed like a safe bet quickly fell when the Federal Reserve raised interest rates in order to control inflation: the value of those bonds plummeted overnight, and with them, the fabulous wealth accumulated by the SVB and other banks.

For their part, technology companies were seriously affected by two factors. First, a significant decrease in their earnings during the post-pandemic social adjustment, which forced them to take out more loans. Second, and fundamentally, the impact of the new interest rates, which dramatically increased the cost of these loans.

The conditions Structural were already set for a crisis of proportions: companies They began withdrawing their bank deposits to stay afloat, but as The banks had been left with very little cash because of their disastrous Investment in bonds of almost zero yield, panic spread. In less than two days, companies withdrew enough money to sink the SVB.

Friday, March 10 in the morning, the SVB share price was paralyzed and the bank He abandoned his efforts to raise capital or find a buyer. Fell then the guillotine.

Washington Reacts

The U.S. government opened the umbrella and took swift action. The Treasury Department, as well as the Federal Reserve System and the Federal Funds Corporation decided to ensure Silicon Valley Bank savers access to their deposits, regardless of their value.

The standard warranty of the Corporation, which is capped at $250,000, was replaced by made by a full guarantee. If this clause was not softened, hundreds of companies, all

clients of the bank of Santa Clara, would have run the risk of not being able to pay salaries and bills due to the bankruptcy of the bank. The French daily Le Figaro reported that, with this measure, the authorities U.S. efforts to prevent further weakening of this key sector for the U.S. economy

For their part, analysts at Kiplinger Finance pointed out that US authorities hope to prevent "tech companies from run out of liquidity and have problems." Especially if you have in says that both emerging companies and large transnationals Linked to digital technology have been experiencing a downward trend, which leads to massive layoffs of staff.

The second measure announced by Washington was to grant new facilities from the Reserve Federal so that all banks have better access to the liquidity of emergency.

The tsunami arrives in Europe

On this side of the Atlantic, personalities such as Bruno le Maire, Minister of Finance of France and Paolo Gentiloni, European Commissioner for Finance, appeared publicly for Reassure investors.

They asked for calm, They stressed that the European banking system is sound, that it has controls rigorous and that there is no risk of "contagion" as a result of this crisis unexpected that exploded in America. Gentiloni said: "All the European banks, not just the largest ones, are applying the prudential standard of Basel, so there is no contagion at all. The possibility of a Indirect impact is something we have to monitor, but at the moment it is not We consider a significant risk." The Basel rule, by name of the Swiss city, provides a common international regulatory framework for banks, in the countries of the European Union and the Group of 20.

However, the Public intervention by US and European authorities was not enough to reassure the markets. In a globalized world, negative waves are expanding rapidly: a wind of panic hits Europe since the week Last.

As indicated Several journalists specialized in the economic sector, at the beginning of the week the CAC 40 – the French stock market benchmark – lost 2.9%; that of Frankfurt, just over 3%, and London, 2.58%. The daily Le Figaro reported that both BNP Paribas, as well as Société Générale, saw their Quoted on the stock exchange more than 6%.

For its part, the Swiss stock market transmitted on Monday morning a growing concern. Credit Suisse shares hit new low historical, with a fall of 14.3%. Those of its counterpart Union of Swiss Banks (UBS), lost 5.8%, and those of Julius Bär, fell 4.6%. On the same

day, the main title of the free daily 20 Minutos said: "European banks fall dragged by the shock wave of Silicon Valley Bank." And he published the Retrospective detail (as of 10 March) of the worrying initial impact of the shock wave in Europe, both in Spain and in Germany, France, Switzerland and Italy, with significant falls in its shares.
At the beginning of the week, an editorial in the Swiss daily Le Temps, which has a prestigious economic rubric, wondered. "What if the Silicon Valley Bank (SVB) bankruptcy was the beginning of a new financial crisis?"
And in his response he noted the irritation of the markets from the bankruptcy of the Californian institution. "How did the alarm signals go unnoticed for shareholders and regulators?" asked the editorial, for whom it is "worrying to see how feverish the system is and how news of this nature can shake all banks, especially the most vulnerable, such as Credit Suisse, even if they are not linked." Although the editorial assumes that the shock wave of this bankruptcy may be limited, it anticipates that a real puzzle opens up for central banks (of different countries) and other US banks at risk.

The wreck of Credit Suisse

While the downward financial trend of the previous days already anticipated it, Wednesday, March 15 was a dramatic day for the second Swiss bank — 43rd worldwide according to the LexisNexis ranking of late January — which saw its shares fall 24%, reaching the lowest level in its history. Its price, trendingly, has lost 90% in the last five years.

The collapse of Credit Suisse (CS) sounded the alarm, again and with more force, throughout the European and global financial system and once again stirred the already muddy waters of US banking, still weakened by the Silicon Valley Bank "syndrome".

Following the dizzying weakening of Credit Suisse, there is a real lack of liquidity and the earlier announcement by National Saudi Bank that it will not increase its stake. This institution is one of the main investors in the Swiss bank and owns almost 10% of the shares.

On Wednesday night, spokesmen for the Swiss Central Bank and the Federal Financial Market Control Authority (FINMA) issued a statement to calm the waters (*https://www.finma.ch/fr/news/2023/03/20230315-mm-statement/*), with three main

messages. The first, that "there is no risk of direct contagion between the problems of some banks in the US and the Swiss financial market" since the strict capital and liquidity requirements of Swiss financial institutions guarantee their stability. In addition, that "Credit Suisse meets the (required) capital and liquidity requirements for systemically important banks." And, most importantly, that "if necessary, the Swiss National Bank will provide liquidity to Credit Suisse." Various sources immediately advanced figures and indicated that the State through the National Bank could inject up to 50 billion francs (around 54 billion dollars).

Headlines and editorials in major Swiss newspapers on Thursday pointed to Credit Suisse's historic decline. There was no shortage of critics stressing that, once again, Swiss taxpayers' money is being used to save a large private company. Repeated history: in October 2008, under similar circumstances, the Swiss state provided 60 billion francs to the Union of Swiss Banks (UBS), the main Swiss flag bank, which at that time was on the edge of the precipice. UBS then paid the price — finally assumed by the State from the public purse — for a high-risk strategy in the investments it had promoted in the North American market, which was sanctioned at the outbreak of the mortgage credit crisis of that year.

The next few days will be decisive to interpret the dimension of the waves of the financial tsunami that began in California the second week of March and that it rings with intensity in Switzerland and in Europe. They will make it possible to clarify whether the The ravages of the tsunami are limited to a few banks and stock exchanges or They produce powerful new waves that dot the whole of the interrelated system. globalized financial. And, as always, in every new crisis, be it the kind that In other words, the next few days should also clarify how this crisis affects The economies of the countries of the "South" and in the most vulnerable populations of the "global south". Expansive waves that always end up drowning "those of down."

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