Market turmoil and threat of Credit Suisse collapse, as fallout from SVB's demise spreads

Nick Beams
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The fallout from the collapse of the Silicon Valley Bank (SVB) is penetrating deeper into the US financial system and spreading internationally as the major Swiss global bank Credit Suisse is confronted with the prospect of failure.

US financial markets experienced major turbulence yesterday as across the Atlantic the Swiss central bank said it would provide liquidity to Credit Suisse after one of its chief investors, the Saudi National Bank, said it would not give any more financial assistance.

Summing up the situation, the lead article in the *Wall Street Journal* began: "The markets for the world's safest and most liquid assets, the government bonds issued by the US and other rich countries, came under immense pressure on Wednesday following a week of worries about the health of global banks."

The decision by US financial authorities and the Biden administration to bail out wealthy uninsured depositors at SVB and the failed Signature Bank, citing "systemic risk," and the Fed's decision to provide increased liquidity staunched one crisis, at least temporarily, only to create another.

The bailout measures of the past week have thrown the monetary policy of the Fed into chaos. The market expectation is that instead of continuing to raise rates, it will pause or even indicate a reduction in the future.

Such was the volatility that trading in a number of the interest contracts in the futures market was temporarily halted. The yield on the two-year Treasury note, the most sensitive to interest expectations, has dropped from 5 percent last week to under 4 percent. A move of this size has not been seen since the time of the October 1987 stock market crash.

One of the reasons for the violent move is that speculators who had shorted bonds in expectation that their price would fall as interest rates rose (the two move in opposite directions) now had to cover their positions as bond prices started to rise as interest rates came down.

The WSJ cited comments by Matt Smith, investment director at the London-based asset management firm Ruffer, who noted that while the government's moves had snuffed out uncertainty over uninsured depositors at SVB, they had created it elsewhere.

"There's an aphorism that says you can never suppress volatility, you can only move it somewhere else," he said.

The moves by financial speculators and traders are only the immediate expression of deeper processes—the fear that the US economy is moving into recession and the collapse of SVB is only the start of a meltdown in the financial system.

As one investment manager put it: "People don't want to be caught with the next Silicon Valley Bank or the next Credit Suisse."

The growing uncertainty has led to a tightening of liquidity in the US Treasury market, the bedrock of the global financial system. Liquidity refers to the ease with which trades can be made without causing major disturbances.

One index, cited by the WSJ, showed that bond market volatility had risen to its highest level in three years, greater than that recorded during the financial crisis of March 2020 at the start of the pandemic when the market froze and was only brought back to life by a $4 trillion injection of money by the Fed.

The interconnection between the financial markets and the broader economy was highlighted in a tweet by former Boston Fed President Eric Rosengren:

> "Financial crises create demand destruction. Banks reduce credit availability. Consumers hold off large purchases. Businesses defer spending," he wrote, calling for the Fed to pause interest rate rises "until the degree of demand destruction can be evaluated."

The problems of Credit Suisse, which have been mounting over the past several years, after losing tens of billions of dollars from its backing of the failed fund, Archegos Capital, and the collapsed financial services company, Greensill, have made it a very weak link in the European banking system and one of the first to be hit by the SVB turmoil.

At the same time, the news that Credit Suisse, a global bank with significant American operations, requires central bank backing is deepening the crisis in the US.

The joint statement of the Swiss financial regulatory agency FINMA and the Swiss National Bank said there were "no indications of a direct risk of contagion for Swiss institutions due to the current turmoil in the US banking market."

If that were really the case, then why has the offer of increased liquidity been made at all?

Significantly, according to a report in the *Financial Times*, the European Central Bank considered issuing a statement to try to calm the markets but decided against, fearing it would only add to panic.

A financial analyst cited by the FT remarked: "It is looking inevitable that the Swiss National Bank will have to intervene and provide a lifeline," noting that the central bank and the government were "fully aware that the failure of Credit Suisse or even any losses by deposit holders would destroy Switzerland's reputation as a financial centre."

Credit Suisse was primed for a hit by its previous losses running into the tens of billions of dollars and the report issued on Tuesday that there were "material weaknesses" in its financial reporting controls which led to a delay in the publication of its annual report last week.

Then came the statement by the Saudi National Bank chair in a Bloomberg TV interview that no more funds would be available, citing regulatory concerns if its holdings went over 10 percent.

The bank's share price dropped 30 percent at the start of trading yesterday before closing 24 percent down, bringing the total decline to 39 percent this year and 85 percent over the past two years.

If Credit Suisse were to fail or even experience further major problems, the effects would be greater than those resulting from the SVB failure.

It is the second largest Swiss bank after UBS, and it is a major player in international markets, including substantial operations in the US and holds assets of $580 billion, twice those of the failed SVB. It is classified as a "systemically important financial institution" under rules drawn up after the failure of Lehman Brothers which require it to hold higher amounts of capital than others.

There are predictions that the events of the past week, starting with the failure of the crypto-connected bank Silvergate, then extending to SVB and Signature, the second and third largest US bank failures in history, and now the prospect of a bailout for Credit Suisse, are only the first stages of a gathering crisis.

In a letter to investors, BlackRock Chief Executive Larry Fink forecast a "slow rolling crisis" in the US financial system following the failure of SVB and that there were "more seizures and shutdowns coming."

He said the collapse of SVB was an example of the "price we're paying for decades of easy money."

The real situation is that Fink together with the rest of the financial oligarchy and their hangers-on have benefited enormously from the "easy money" provided by the Fed which has sent their wealth into the stratosphere.

As the financial house of cards threatens to crash, the price will not be paid by Fink and his ilk. They will be bailed out just as they were in 2008 and as Biden's actions have made clear they will be again.

It is workers and their families who will be made to pay in the form of deeper attacks on wages, intensified conditions of exploitation, the destruction of jobs as well as through cuts in social spending, just as happened after 2008, only worse.

The response of the ruling class to the deepening global crisis of the profit system is to impose the burden of the crisis on the working class, and it will stop at nothing to achieve this objective.

Accordingly, the working class is confronted with the task of developing its own independent political movement in the fight for a socialist program, starting with the ending of the private ownership of the banks and financial system, bringing them into public ownership under democratic control as the first step in the construction of a new economic system to meet human needs, not private profit.