# Europe's banks sucked into global rout as high rates reality hits home

European bank shares tumbled on Friday in the wake of a dramatic sell-off in U.S. lenders as concern spread that the sector will be vulnerable to the rising cost of money.

Europe's STOXX banking index fell more than 4%, set for its biggest one-day slide since early June, with declines for most major lenders, including HSBC, down 4.5%, and Deutsche Bank, down 7.9%. Shares in Italy's UniCredit and Intesa Sanpaolo also fell sharply, Reuters reported.

The global rout in bank stocks was prompted by Silicon Valley Bank (SVB), a major banking partner for the U.S. tech sector, which was forced to raise fresh capital after selling a package of bonds at a loss to meet depositor demands for cash.

"The market is treating this as a potential contagion risk," said Antoine Bouvet, senior rates strategist at ING in London.

"It makes sense to me that a remote probability of a U.S. banking system-wide crisis should also come with a small probability of contagion to Europe," he said.

Already bruised, the sector could face another bout of turmoil later on Friday if U.S. employment data points to a further racheting up of interest rates.

Shares in major U.S. banks such as JPMorgan Chase & Co and Citigroup were set to fall again when Wall Street reopens.

John Cronin, an analyst at Goodbody, said investors were worried about the falling value of banks' investments and how that could hit the capital underpinning their business, as well as savers switching banks for a better deal.

Offering higher deposits to attract customers could also eat into bank profits.

## ECB seen taking rates to 3.75% peak

Global borrowing costs have risen at the fastest pace in decades over the last year as the Federal Reserve lifted U.S. rates by 450 basis points from near zero, while the European Central Bank hiked the eurozone's by 300 bps.

Other parts of Europe and many developing economies have done even more. There are concerns, however, that price inflation is staying high, something that would drive further rate hikes.

The ECB will step up its fight against stubborn inflation by raising interest rates four more times and unwinding its €5 trillion ($5.3 trillion) bond portfolio at a quicker pace, according to a Bloomberg survey of economists.

Three hikes of 25 basis points each will follow next week's all-but-certain half-point move – bringing the deposit rate to 3.75% in July, respondents said.

Goldman Sachs and Deutsche Bank both predict that level, though they expect it to be reached in June. On the upper side, Morgan Stanley and Barclays see a so-called terminal rate of 4% -- matching money-market expectations.

The more aggressive path for borrowing costs compared with Bloomberg's last survey will be accompanied by faster reductions in the stock of assets bought under previous stimulus drives. The initial trimming of €15 billion a month through June is seen gradually rising to double that by 2024.


*The German share price index DAX graph is pictured at the stock exchange in Frankfurt, Germany, on March 8, 2023.*
REUTERS

## Oil prices set for 5% weekly drop on U.S. rate hike jitters

*A container ship sails along Nakhodka Bay near the oil terminal in the port city of Nakhodka, Russia.*
TATIANA MEEL/REUTERS

Oil fell for a fourth session on Friday, heading for its biggest weekly loss in five weeks on worries about the prospect of steep interest rate hikes in the United States hitting fuel demand.

Brent dipped 63 cents, or 0.8%, to $80.96 a barrel by 1140 GMT. U.S. West Texas Intermediate crude (WTI) was down 69 cents, or 0.9%, at $75.03, Reuters reported.

Expectations of further rate hikes in the world's largest economy and in Europe have clouded the global growth outlook and driven both crude benchmarks down more than 5% so far this week, their worst drop since early February.

U.S. Federal Reserve Chair Jerome Powell has warned of higher and potentially faster rate hikes, saying the Fed was wrong in initially thinking inflation was "transitory". Its next decision meeting is planned for March 21-22.

Broader U.S. employment data due at 1330 GMT looms as a crucial barometer of the health of the U.S. labour market, considered tight, and as an indicator on the direction of interest rates.

Nonfarm payrolls likely increased by 205,000 jobs last month, according to a Reuters survey.

On the supply side, the United States was reported to have privately urged some commodity traders to shed concerns about shipping price-capped Russian oil in a bid to shore up supply.

Investors are closely monitoring export cuts from Russia, which decided to trim oil output by 500,000 barrels per day in March.

## Brazil inflation slows to 5.6%

Brazil's annual inflation rate slowed in February, the government said Friday, though a rise in the monthly rate and upward pressure on wages mean price increases remain problematic for President Luiz Inacio Lula da Silva.

The annual inflation rate in Latin America's biggest economy was 5.6%, down from 5.77% in January, said the national statistics institute, IBGE, AFP reported.

The drop, which was driven by a fall in food prices, inches the rate a bit closer to the target of 3.25% set by the central bank, which has aggressively raised interest rates in a bid to rein in surging prices.

But the monthly inflation rate came in at 0.84%, up from 0.53% in January.

"Core inflation pressures remain uncomfortably strong for the central bank, which, coming alongside elevated fiscal risks, mean that rate cuts are not on the cards anytime soon," analyst Kimberley Sperrfechter of consulting firm Capital Economics said in a note.

"Core inflation is likely to stay uncomfortably high, not least because of strong wage pressures."

Veteran leftist Lula, who defeated far-right ex-president Jair Bolsonaro in October promising a return to the economic growth of his first presidency (2003-2010), has publicly sparred with central bank chief Roberto Campos Neto, insisting the bank needs to lower the key interest rate to allow the economy to grow faster.

## French strikes disrupt fuel deliveries,power supply for fourth day

However, France was not importing power from neighbors, suggesting that domestic supply was meeting demand.

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Opinion polls show a majority of voters oppose President Emmanuel Macron's plan to delay the state pension age by two years to 64, but the government says the system change is essential to ensure the system does not go bust.

### Job action in Belgium

In neighboring Belgium, only one in three trains were running on Friday, rail operator SNCB/NMBS said, as public sector workers went on strike nationwide to protest over a lack of staff, reduced budgets and increased workloads.

The strike also affects regional public transport, and local media reported it could impact the opening hours of some public services such as town halls and recycling parks.

International train connections were also be hit, with SNCB/NMBS announcing that 12 trains between Amsterdam and Brussels were canceled and a spokesperson for Thalys saying only two out of three of their trains would be running.

Separately, Eurostar said operators there don't anticipate any impact on their timetable from Belgian strike action.

The strike on Friday is part of what the unions have coined "awareness and action week" over a perceived understaffing and underfunding of public services.

## NEWS IN BRIEF

### Meta exploring plans for Twitter rival


*REUTERS* – Meta Platforms Inc is exploring plans to launch a new social media app in its bid to displace Twitter as the world's "digital town square".

Meta's app will be based on a decentralized framework like Mastodon, a Twitter-like service that was launched in 2016 and now has about 2 million monthly active users. It was not immediately clear when Meta would roll out the new app.

Meta's monthly active users for its family of apps grew 4.2% in the December 2022 quarter, compared with 8.8% growth a year earlier.

### GoTo to cut 600 more jobs

*BLOOMBERG* – Indonesia's GoTo Group is reducing 600 more jobs, accelerating its cuts in Southeast Asia as growth in the region's internet markets slows.

The reductions are part of a shake-up that will include a merging of certain units and a winddown of parts of the Mitra Tokopedia business, which works with small vendors in Indonesia, GoTo said in a statement Friday.

GoTo and regional peers Grab Holdings Ltd. and Sea Ltd. are trying to convince investors of their long-term prospects in the face of a possible recession.

### Chip equipment maker ASMPT draws takeover interest

*BLOOMBERG* – ASMPT, a semiconductor and electronics equipment maker, is attracting takeover interest from private equity firms, people with knowledge of the matter said.

Alternative investment firm PAG is among those that have expressed interest in taking the Hong Kong-listed company private, said sources.