9 July 2018

ARBAT CAPITAL

BANKING SECTOR REPORT – JUNE 2018

EXECUTIVE SUMMARY

US banks underperformed the broad market again, the second month in a row and the third month out of six this year. In June banks lost 1.9% MoM vs +0.5% MoM of SPX index, after -1.0% MoM decline in May. Absolute June performance on MoM basis was -0.4 StD from the mean and it is in the bottom 30% absolute monthly performance of BKX Index. Relative June performance is -0.5 StD from the mean, and this result is in the bottom 25% of relative monthly performance vs SPX. But it should be noted that June is a weak month for banks, from a historical performance point of view. Over the past 27 years, in June banks have demonstrated negative dynamics in 15 cases both in absolute and relative terms.

In June, the key drivers of negative performance were risks of escalating trade wars and flattening of the yield curve (spread between 10yr and 2 yr treasuries decreased to multi-years low). So, key laggards were banks with the most asset sensitive balances. The best performance was demonstrated by WFC which was the main winner of CCAR.

The Federal Reserve released CCAR results on June 28, after the markets were closed. Overall, results were better than expected with significant growth of both dividend payouts and buybacks. All banks passed except for Deutsche Bank (US division – DB USA) that, in fact, wasn't a big surprise given the news flow around the financial institution in 1H18. But it should also be noted that three banks passed only on a conditional basis – GS, MS and STT. Under severely adverse scenario, median CET1 ratio of stressed banks declined from 11.9% as of 4Q17 to projected minimum of 5.8% given the required minimum of 4.5%. In the same time, tier 1 leverage ratio declined from initial figure of 9.1% to projected minimum of 5.7% given required minimum of 4%. Median growth of dividends of BKX index members is 29% vs the last year stress test figures (the highest growth – RF, JPM, C) while median growth of buybacks is 12% (the highest growth HBAN, WFC, COF). Median total payouts increased by 16% (the highest growth WFC, HBAN, COF, STI). Median payout ratio slightly decreased from 106% last year to 104% currently (on Bloomberg consensus of Net Income CY basis). Median total yield of BKX index members increased from 7.4% last year to 9.0% currently.

US banks earnings season will start on July 13th, when 2Q18 quarterly reports will be provided by JP Morgan Chase, Citigroup and Wells Fargo. After that, within two weeks, all members of BKX index will provide the quarterly results. Despite the fact that US banks declined markedly after very strong start of the year, the street continues to revise up EPS estimates of the financial institutions. Median growth of 2Q18 EPS of BKX index members was +10.9% ytd or flat qoq, just the fifth non-negative qoq revision for 2Q EPS estimates in the last 12 years (median revision for this period is -0.9% qtd / average is -1.4% qtd). Full-year estimates for the current and next years were also revised up significantly. Median growth of CY EPS estimates of BKX index members is +12.8% ytd. The key drivers of revisions remain the same – more hawkish rate outlook, acceleration of loan growth, stronger growth of the economy and the positive effect of expected deregulation. But it also should be noted that risks have also increased recently because of flatter yield curve, rising deposit beta, more political uncertainty in Europe and threats of escalating trade wars.

NIM remains the key driver of both EPS and net income growth as deposit beta is still significantly lower than it was in the previous cycles and the Fed is remaining

more hawkish and predictable. But it should be noted that pressure on NIM from deposit costs will intensify further, especially for banks with relatively weak deposit franchise. According to Bloomberg consensus, median NIM of BKX index members will increase by 3 bps qoq or 17 bps yoy to 3.17% in 2Q18 following a growth of 6.5 bps qoq or 22 bps yoy in 1Q18. In 2Q18, FY NIM expectations (median, BKX members, Bloomberg consensus) increased by 5.3 bps and 6.2 bps for 2018 and 2019 years, respectively, due to positive surprises on NIM during the earnings season of 1Q18.

Loan growth still demonstrates relatively weak dynamics but it slightly accelerated in 2Q18, especially in C&I segment. According to the Fed H8 data, total loans increased by 5.1% yoy (as of June 20). Acceleration of loan growth should largely neutralize a negative impact of rising deposit beta on NII growth but it is too early to say that loan growth will be again a key driver for banks' EPS in the near future.

Overall, dynamics of operating results of US banks remains strong with high growth of revenues and profits, good cost control, high quality of loan portfolio and ample capital levels. Decelerating loan growth is no more a headwind for the industry, while tax reform will still have a significant positive impact on the industry. The direct impact of the reform is in price, from our point of view, while the second-order effects and more hawkish pace of rates dynamics aren't. We expect that banks will continue to show more positive surprises than negative ones during the upcoming earnings season, as they did in 37 consecutive quarters before, even despite the very strong growth of yearly EPS estimates ytd.

Despite relatively weak dynamics of banks in recent months, we continue to hold the view that US banks will outperform broad market this year and recommend buying on dips as positive effect of tax reform, rising rates, strong economic momentum, and possible deregulation will continue to positively impact both on banking operating results and quotes dynamics. Moreover, banks are no more expensive, from historic point of view, trading with -0.6-0.7 std on P/E CY and -0.1-0.3 std on P/E NY (on the basis of samples from 2000 and 2010 yrs to current year). As for relative to S&P 500, banks are currently trading at -0.8 and -0.9 std from the sample mean (2000-current moment) for P/E CY and NY, respectively.

In June, EU banks finally outperformed the broad market index after three consecutive months of underperformance but absolute dynamics was negative, the second month in a row. SX7P index decreased by 0.6% MoM vs -0.8% MoM of STOXX 600 index. Absolute June performance of SX7P was -0.1 std from the mean and this result is in the bottom 37% of absolute monthly performance of SX7P since the index inception. In turn, relative monthly performance was +0.1 std and this result is in the top 44% of relative monthly performance. In any case, SX7P significantly underperformed STOXX 600 so far, -10.3% ytd. Currently, EU banks are trading at levels of November-December 2016. Dynamics within the sector wasn't uniform and remained too volatile. The last month underperformer, BPE IM, became the best performer in June due to Unipol raised stake in BPE to 15% and reducing of Italian political uncertainty. The key laggards were Standard Chartered and Royal Bank of Scotland.

Weak macro figures in 1H18, trade war threats, political uncertainty and, as a result, a significant drop in European yields along the curve, all this continues to have a negative impact on the dynamics of European banks. But ECB continues to exude optimism and believe that solid and broad-based economic growth is intact. Nevertheless, 2018 GDP forecast was revised down from 2.4% yoy to 2.1% yoy at the last meeting.

Economic data published in June remains soft with misses on retail sales, industrial production, and consumer confidence. However, composite PMI figures beat expectations in June due to strong figures of services PMI, implying that we can count on the acceleration of the economy in 2H2018 after the relatively weak start of the year. Economic surprise indices bounced off the bottom but they remained not far from multi-years lows. However, loan growth in EU remains solid despite the recent softness of macro data. The latest Italian NPL deals are encouraging but they will not be a game changer for European banks without more hawkish ECB's monetary policy. While the last meeting was quite dovish, from our point of view. The sell-off of recent months created a good buying opportunity for some banks in Europe but we still prefer US banks to EU financial institutions.

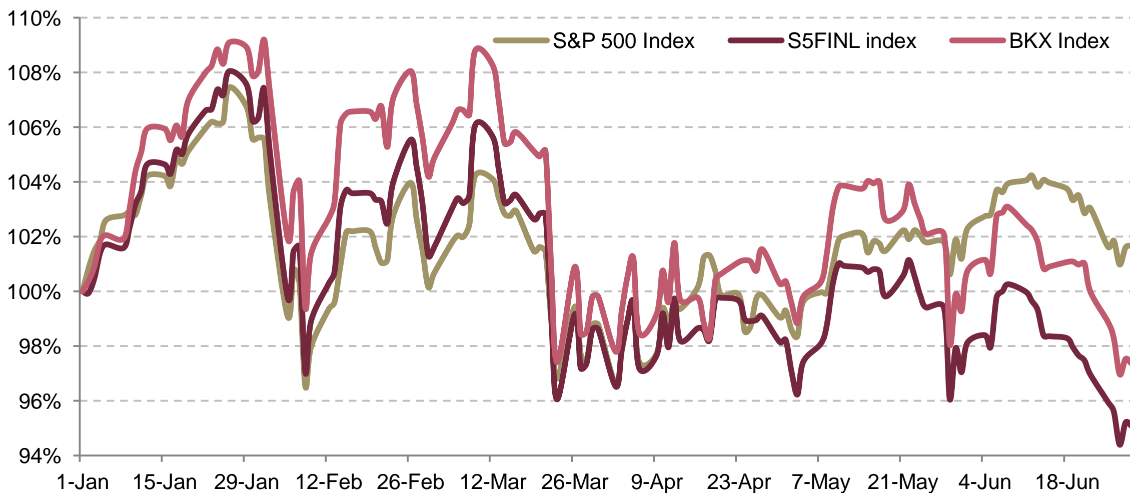
1. MARKET PERFORMANCE

US

US banks underperformed the broad market again, the second month in a row and the third month out of six this year. In June banks lost 1.9% MoM vs +0.5% MoM of SPX index, after -1.0% MoM decline in May. Absolute June performance on MoM basis was -0.4 StD from the mean and it is in the bottom 30% absolute monthly performance of BKX Index. Relative June performance is -0.5 StD from the mean, and this result is in the bottom 25% of relative performance vs SPX. But it should be noted that June is a weak month for banks, from a historical performance point of view. Over the past 27 years, In June banks have demonstrated negative dynamics in 15 cases both in absolute and relative terms.

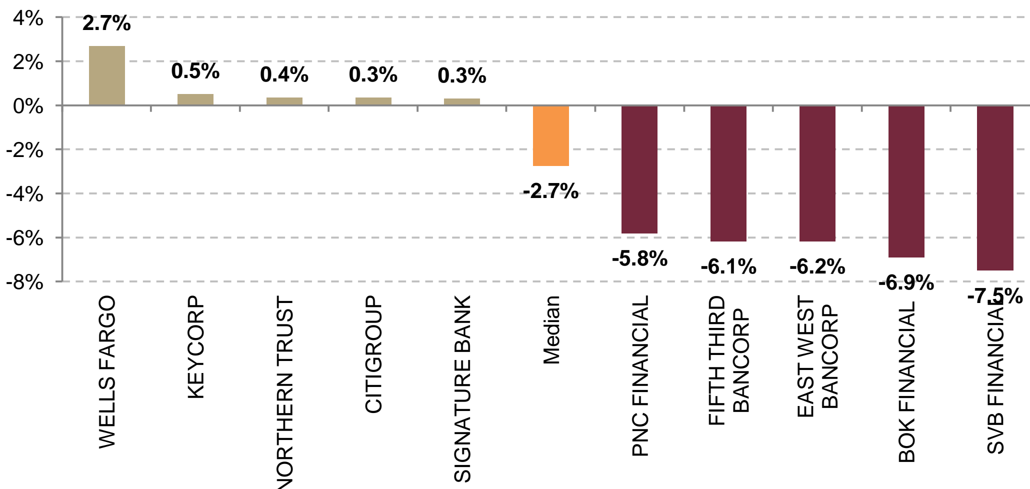
The key drivers of negative performance were risks of escalating of trade war and flattening of the yield curve (spread between 10yr and 2 yr treasuries decreased to multi-year lows). So, key laggards were banks with the most asset sensitive balances. The best performance was demonstrated by WFC which was the main winner of CCAR.

Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

Chart 2. June US Banks Performance. Leaders and Laggards, 1Month Performance,%



Source: Bloomberg

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Europe

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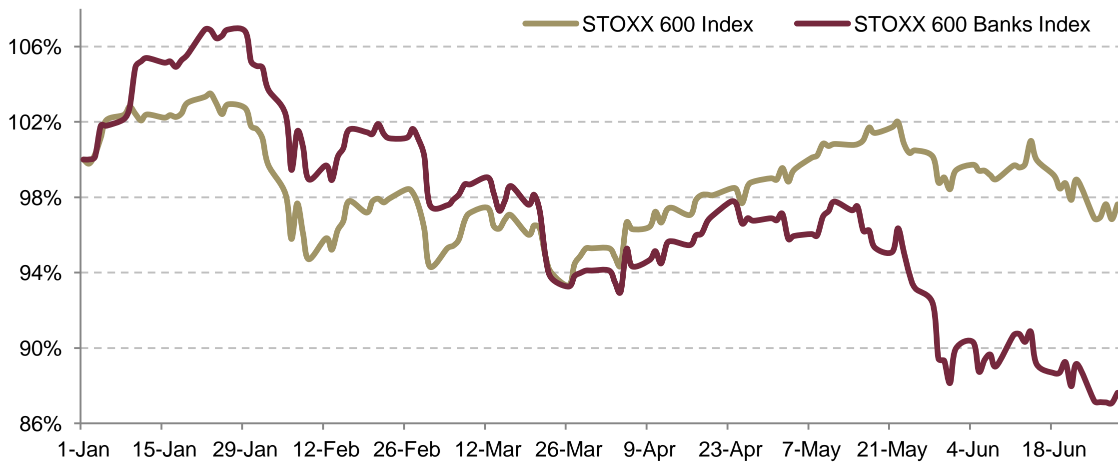
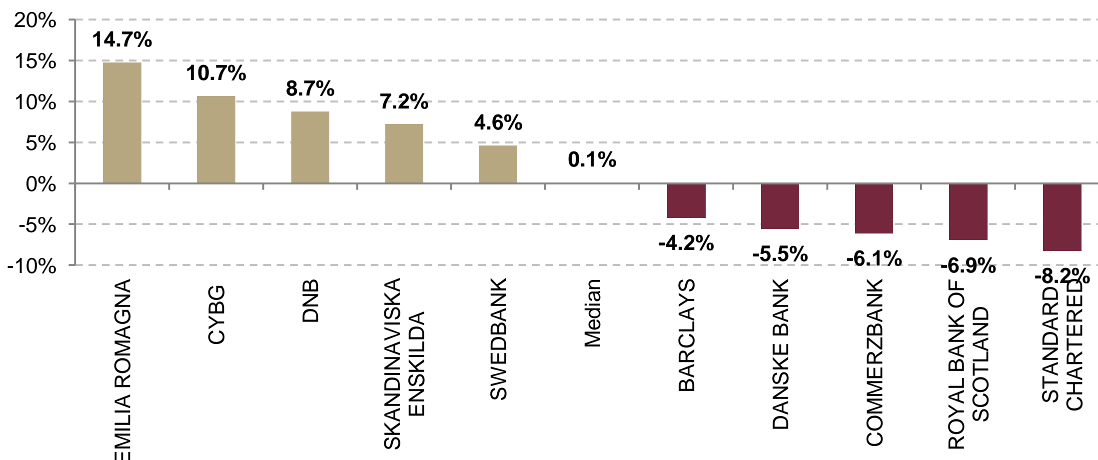
Dynamics within the sector wasn't uniform and remained too volatile. The last month underperformer, BPE IM, became the best performer in June due Unipol raised stake in BPE to 15% and reducing of Italian political uncertainty. The key laggards were Standard Chartered and Royal Bank of Scotland.

Chart 3. EU Banks Performance. SX7P Index vs STOXX 600 Index



Source: Bloomberg

Chart 4. June EU banks performance. Leaders and Laggards, 1Month Performance,%



Source: Bloomberg

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2. COMPANY NEWS

US

CCAR 2018 Results

The Federal Reserve released CCAR results on June 28, after the close of the markets. Overall, results were better than expected with significant growth of both dividend payouts and buybacks. All banks passed except for Deutsche Bank (US division – DB USA) that, in fact, was not a big surprise, from our point of view, given the news flow around the financial institution in 1H18. But it should also be noted that three banks passed only on a conditional basis – Goldman Sachs, Morgan Stanley, and State Street Corporation. But we interpret the overall results of the stress test as very optimistic given that after the publication of DFAST results, there were concerns that CCAR results (dividends and buyback amounts) could be lower than initial expectations as stressed capital and leverage levels were both below expectations and results of the last year stress test. But the situation with lower stressed capital / leverage levels was quite understandable taking into account tougher CCAR 2018 scenarios. In any case, the market reaction was negative on DFAST publication as BKX index decreased by 3.5% during the week after DFAST publication vs -1.2% of SPX index. So, currently, we expect the opposite reaction and outperformance of banks after the record period of continuous fall of SPX financials index (13 days of negative performance in a row). However, it should be noted that dynamics of US banking shares wasn't strong during the Friday session (29 June). BKX index grew significantly in the first hours of trading (+2.1%) but then it pared gains and eventually closed in the red zone.

Table 1a. CCAR Results of BKX Members

Name	BB 17*	BB 18*	2018 yld**
Bank of America	19.4	20.6	7.1%
BK UN Equity	2.6	2.4	4.4%
BB&T Corp	1.9	1.4	3.5%
Capital One Financial	0.6	1.2	2.7%
Citigroup	15.6	17.6	10.3%
Citizens Financial	0.9	1.0	5.3%
Fifth Third Bancorp	2.1	1.7	8.4%
Huntington Bancshares	0.3	1.1	6.5%
JP Morgan Chase	19.4	20.7	5.8%
KeyCorp	0.8	1.2	5.9%
M&T Bank	1.6	1.8	7.3%
Northern Trust	0.8	1.0	4.3%
PNC Financial	2.8	2.0	3.1%
Regions Financial	1.5	2.0	10.1%
SunTrust Banks	1.3	2.0	6.5%
State Street Corp	1.4	1.2	3.5%
US Bancorp	2.7	3.0	3.7%
Wells Fargo	11.5	24.5	9.4%

* Buybacks in $ Bn

** Buyback yield, on basis of MCap on 28 June

Source: Bloomberg

Table 1b. CCAR Results of BKX Members

Name	Divs 17	Divs 18	Div yld**
Bank of America	0.48	0.60	2.1%
BK UN Equity	0.96	1.12	2.1%
BB&T Corp	1.36	1.64	3.2%
Capital One Financial	1.60	1.60	1.7%
Citigroup	1.28	1.80	2.7%
Citizens Financial	0.80	1.20	3.0%
Fifth Third Bancorp	0.64	0.88	3.1%
Huntington Bancshares	0.40	0.56	3.8%
JP Morgan Chase	2.24	3.20	3.0%
KeyCorp	0.40	0.68	3.5%
M&T Bank	3.04	4.00	2.4%
Northern Trust	1.68	2.20	2.1%
PNC Financial	3.00	3.80	2.8%
Regions Financial	0.36	0.56	3.1%
SunTrust Banks	1.60	2.00	3.0%
State Street Corp	1.68	1.88	2.0%
US Bancorp	1.20	1.48	3.0%
Wells Fargo	1.56	1.72	3.2%

* Annual, per share

** Dividends yield, on basis of closed price on 28 June

Source: Bloomberg

Under severely adverse scenario, median CET1 ratio of stressed banks declined from 11.9% as of 4Q17 to projected minimum of 5.8% given the required minimum of 4.5%. In

the same time, tier 1 leverage ratio declined from initial figure of 9.1% to projected minimum of 5.7% given required minimum of 4%. In the Fed press release was noted “even with one-time challenges posed by changes to the tax law, the CCAR results demonstrate that the largest banks have strong capital levels, and after making their approved capital distributions, would retain their ability to lend even in a severe recession”. All banks passed the quantitative part of the stress test and it wasn’t a surprise as all banks did it each year since 2013. But it should be noted that six banks (American Express, Goldman Sachs, JP Morgan, KeyCorp, M&T bank, Morgan Stanley) had to change their original capital plans to avoid failing quantitative part of the test. In result, only DB USA failed CCAR, but only qualitative part of the test. Qualitative concerns related to DB include “material weaknesses in the firm’s data capabilities and controls supporting its capital planning process, as well as weaknesses in its approaches and assumptions used to forecast revenues and losses under stress”. Also, three banks (GS, MS and STT) passed the stress test with conditional non-objection. In result, GS and MS will have to maintain their capital distributions at the levels they paid in recent years while STT “will be required to take certain steps regarding the management and analysis of its counterparty exposures under stress”.

In result, median growth of dividends of BKX index members is 29% vs the last year stress test (the highest growth: RF, JPM, C) while median growth of buybacks is 12% (the highest growth: HBAN, WFC, COF). Median total payouts increased by 16% (the highest growth: WFC, HBAN, COF, STI). Median payout ratio slightly decreased from 106% last year to 104% currently (on the CY est. NI Bloomberg consensus basis). Median total yield of BKX index members increased from 7.4% last year to 9.0% currently. Although, dividend cap was left unchanged at 30% despite expectations that it could be removed or at least revised up, many banks eventually exceeded this limit. From our point of view, it indicates that it will finally be removed in the upcoming stress tests. Despite the fact that it had one of the highest amounts of excess capital in the industry, Wells Fargo could be considered as clear winner – it increased quarterly dividends per share from $0.39 to $0.43 while buybacks more than doubled – from $11.5 Bn as of CCAR 2017 to $24.5 Bn as of CCAR 2018 (total payout is around 12.5% of Market Cap as of 28 June or approximately 150% of consensus estimate of NI 2018), much higher than the consensus. Among other banks, significantly exceeded consensus estimate, should be noted Huntington Bancshares and SunTrust Banks.

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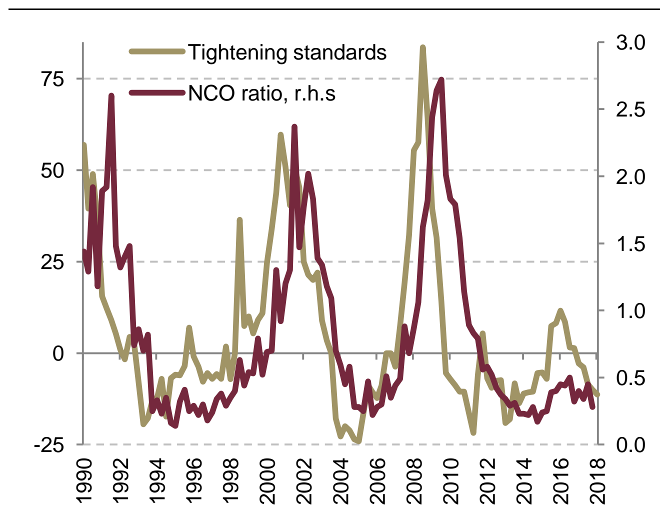
3. MACROECONOMIC NEWS

US

C&I loans

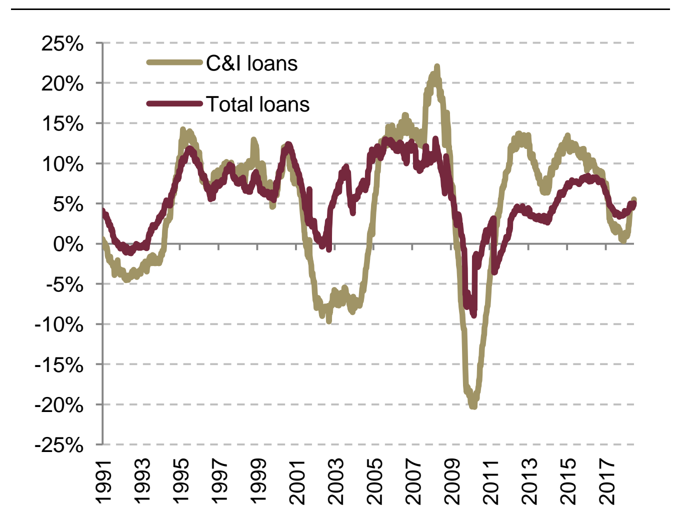
C&I loans markedly accelerated in 2Q18 and currently C&I loan growth significantly higher than it was at the end of 2017. Moreover, it has already exceeded the growth rate of total loans, the first time over the last 15 months. According to the Fed H.8 survey, C&I loans increased by 5.5% yoy (as of June 20) vs +2.4% yoy 1 year ago and +1.3% as the end of 2017. The local low of C&I loan growth was shown in the early December, +0.3% yoy. After that it started to accelerate. After that spike we do not characterize it as anemic, but we still think that there is a room for further acceleration of the growth rate due to strong growth of the economy, easing lending standards, positive impact of the adoption of tax reform and deregulation. Notwithstanding, we don't expect that it will grow to average growth rate of 2011-15 yrs as US economy is currently at the late stage of the cycle, from our point of view.

Chart 5. C&I. Loan Standards vs NCOs, %



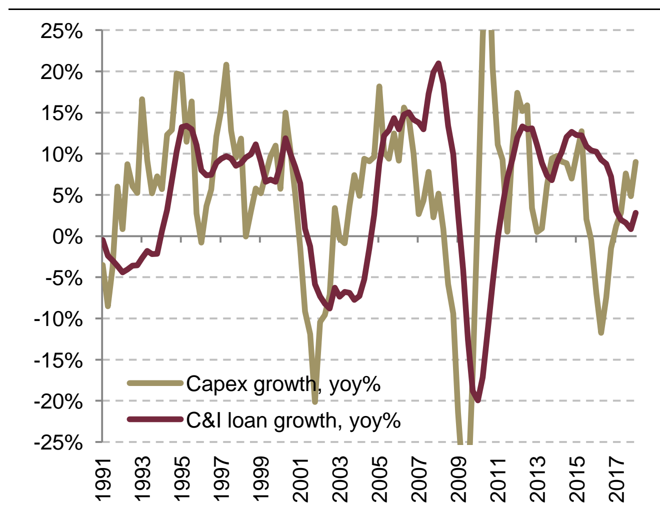
Source: Bloomberg

Chart 6. Loan Growth. C&I vs Total loans, YoY%



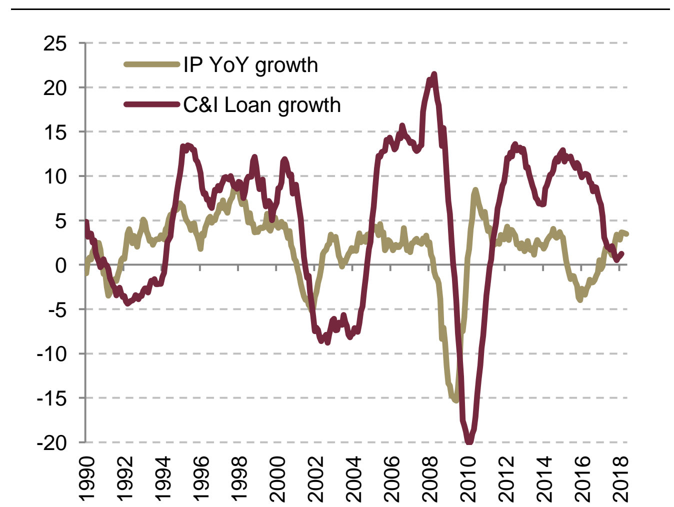
Source: Bloomberg

Chart 7. C&I. Loan Growth vs CapEx



Source: Bloomberg

Chart 8. C&I. Ind. Production vs Loan Growth YoY%



Source: Bloomberg

During the 1Q18 earnings season, banks continued to express optimism on future C&I loan growth due to less uncertainty for corporations and their more discussions about investments in CapEx. Among other things banks noted higher corporate activity and higher loan demand which we could also see in macro data. However, similar arguments were called by banks in early 2017 but C&I loan growth continued to decelerate. Nonetheless, we are more optimistic about C&I loans growth rate currently than a year ago as loan growth usually lags behind improving macro indicators. For example, the correlation of C&I loan growth and CapEx / Industrial production growth is significantly higher when CapEx/IP lagged by 3-4 quarters than for the indicators with no lags. So, it seems that we should see a positive effect of accelerated economic activity on C&I loan growth in the near future (and we have already seen some of it) as the acceleration of economic activity began about one year ago. As for the positive impact of tax reform on the economy, C&I loan growth acceleration could also take some time because of repatriation of foreign cash by corporations, so there is no need of additional loans for these companies at first. Some banks also noted that tax reform was too late last year, so the positive impact wasn't seen in the figures of 1Q18 yet. We have no issue with possible acceleration of C&I loan growth in the current year due to reduction of uncertainty because of an approval of the tax reform in US, acceleration of US economy and high optimism in manufacturing sector but we do not expect that it will be significantly higher than the growth rate of nominal GDP as US economy is in the late cycle.

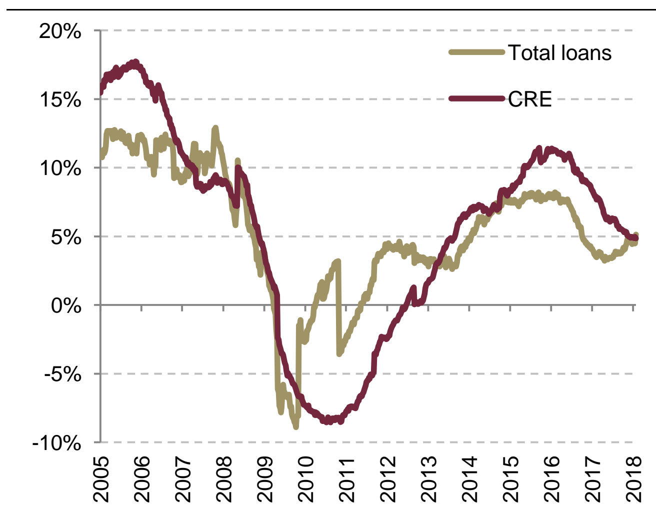
The April 2017 Senior Loan Officer Opinion Survey indicated that C&I lending standards were eased to large and middle-market firms over the past three months (the 5th consecutive quarter of easing), while standards for small firms were basically unchanged, the second quarter in a row after 3 consecutive quarters of easing. "A significant fraction of banks reportedly narrowed loan rate spreads on loans to large and middle-market firms and a moderate fraction narrowed spreads on loans to small firms". More aggressive competition from other banks or nonbank lenders remains the key reason of easing standards. As for demand, banks reported that demand for large and middle market firms was weaker, while demand for small firms was changed a little. The key reasons of lower demand are shifting to other sources of the credit and increases in customer's internally generated funds. The latter reason was also announced by some banks during the earnings season.

Macro data published in June wasn't strong with marked misses on industrial production and manufacturing PMI but overall situation remains encouraging. ISM manufacturing index increased by 1.4 pts MoM to 58.7 pts in May beating Bloomberg consensus of 58.2 pts, and it remains not far from the 13-year high. Manufacturing payrolls increased by 18K in May vs expectations of growth of +20K, after growth of +24K in April. Construction spending increased by 1.8% MoM in April, markedly beating consensus estimate of +0.5% MoM. Factory orders decreased by 0.7% MoM in April, missing expectations of -0.5% MoM decline (March figure was revised up from +1.6% MoM to +1.7% MoM). Industrial production decreased by 0.1% MoM in May, missing consensus estimate of +0.2%. But April figure was revised up by 0.2% to 0.9% MoM. Empire manufacturing index was strong in June, increasing by 4.9 pts to 25.0 pts, beating estimates of 18.8 pts. Economic surprise indices slightly decreased from numbers of the end of May but they still remained not far from positive territory confirming the idea that economic activity remains strong. Overall, macro data remains at decent levels and it continues to indicate healthy growth of manufacturing sector. Moreover, it has already started to transform into acceleration of C&I loan growth rate as we expected earlier.

CRE

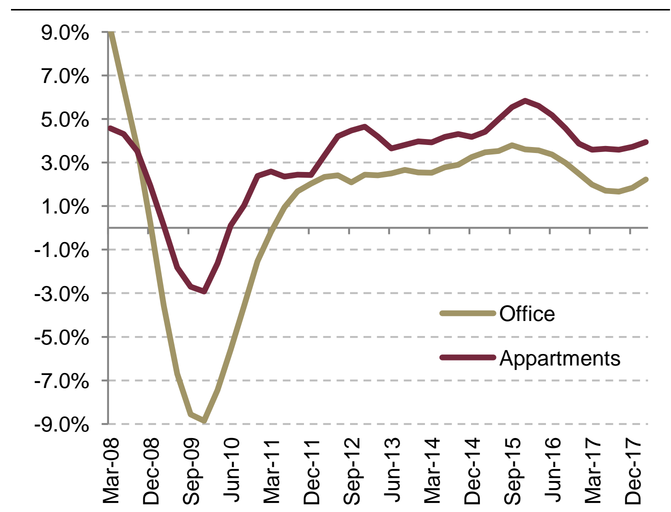
Growth rate of commercial real estate loans stopped to decelerate and was remaining flat over two last months. According to the last Fed H8 weekly report, CRE loan growth was +4.9% yoy (as of June 20) vs +5.8% yoy at the end of 2017 and +7.9% yoy 1 year ago. It hasn't already grown faster than C&I segment as it was during last 2.5 years and it is no more the main driver of the growth of total loan portfolio, demonstrating almost the same growth rate. But it already grew by 2.5% YTD because CRE fundamentals are still in good shape despite growth of LT rates. However, we see more and more signs of lack of improvements for most of them recently, for example same-store NOI growth and relatively weak dynamics of transaction volumes.

Chart 9. Loan Growth. CRE vs Total Loans, YoY, %



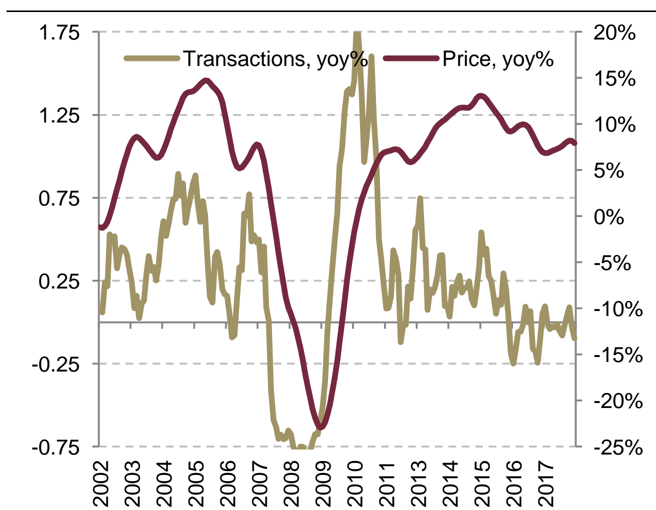
Source: Bloomberg

Chart 10. CRE. Growth of Effective Rent, %



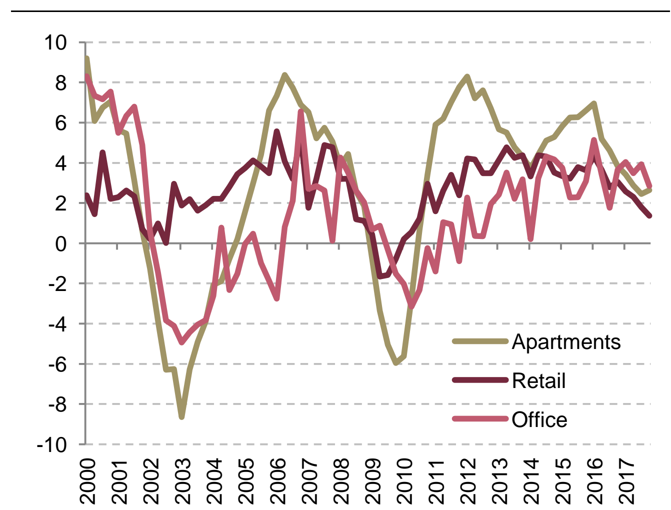
Source: Bloomberg

Chart 11. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

Chart 12. CRE. Same-Store NOI Growth, %



Source: Bloomberg

Price growth remains healthy and CRE price index continues to renew all-time highs, but growth rate was relatively flat over the last five months (decelerating vs growth rate 1 year ago) at 7.9% yoy as the end of May while transaction volumes remained weak recently (-9.7% yoy as the end of May), operating fundamentals are starting to lag behind prices and banks continue to tighten lending standards (for the 10th quarter in a row). Transaction

volumes in dollars are already negative on yoy basis even despite ongoing growth of CRE prices. From our point of view, it suggests that we are at a late stage of the cycle, but quality indicators continue to be near historical lows. Tax reform, strong employment and growing economy should improve situation with fundamentals (demand side) of the sector due to the second order effects, but it is not a near future event. However, it should be noted that quality will remain strong in the short term due to rising economy and instantaneous positive effect of lowered tax rate on financial health of borrowers. The key risk for the sector remains rising rates, which significantly increased at the beginning of the year but then LT rates were remaining relatively flat for the last 5 months despite more hawkish stance of the Fed. Pressure on CRE price growth from rising rates will intensify further, but we don't expect that it will lead to any serious problems with credit quality, at least in the near future due to still strong fundamentals of the sector at current moment and responsible credit policy during the last credit cycle (majority of credit conditions were tighter than they were in previous cycles). Also, it should be noted that rising rates which caused by the stronger economy aren't as serious risk for CRE as rising rates alone, without acceleration of the economy.

Banks continue to tighten standards for CRE loans. According to April 2018 SLOOS, "modest net percentage of banks reported tightening standards on multifamily loans", the 11th consecutive quarter of tightening. Credit standards for construction and development loans were unchanged. In turn, standards for nonfarm nonresidential loans were eased, the first time in 3 years in which banks, on net, eased standards on one of three main categories. Banks also reported that demand for CRE loans was weaker during the last quarter. Weaker demand was demonstrated by all major CRE segments. In January SLOOS, banks also noted that they would continue to tighten standards on CRE over 2018, especially on multifamily loans. However, they didn't expect that credit quality of the segment would deteriorate in 2018. Only quality of construction loans could markedly deteriorate in the near years. Responding to special CRE questions, banks noted that they eased policies on all three major categories of CRE during the last year, including narrowed spreads and increased the maximum of size of loans. The key reason is increased competition, as for most other segments.

Overall, business cycle remains supportive for commercial real estate segment even taking into account significant growth of yields from the lows of 2016 and acceleration of yields growth in the last months. Prices continue to go up, but the growth isn't uniform among sub-sectors. Thus, apartments price index added +11.5% yoy as of May and Industrial CRE prices increased by 10.8% yoy while office prices went up by 7.0% yoy (marked acceleration during the last 5 months) and retail CRE price index grew by 0.5% yoy. Current growth of CRE prices is markedly lower than it was few years ago but it is already the same as the growth of mortgage loans, although it was significantly higher from the summer 2013 until recently. The situation could change in the near future because of rising rates as opportunity to mitigate growth of cap rates by narrowing the mortgage spread isn't high, it is already near historic lows.

As for other fundamentals, they still demonstrate healthy state but it seems that majority of indicators have already shown their peaks of this cycle. NAREIT average same store NOI growth is already lower than historic averages (quarterly data since 2000) in Apartments and Retail segments. Moreover, new supply will continue to put pressure on NOI growth even if we see acceleration of US economy due to positive impact of the tax reform. Despite still strong fundamentals and relatively high loan growth, REIT index dynamics was relatively weak YTD because of strong growth of yields in the first months of the year but its

dynamics was better than finance industry one in recent months. Thus, BBREIT index decreased by 1.4% ytd (as of close price of June 29), outperforming S5FINL index by approximately 3.5% ytd.

Mortgage

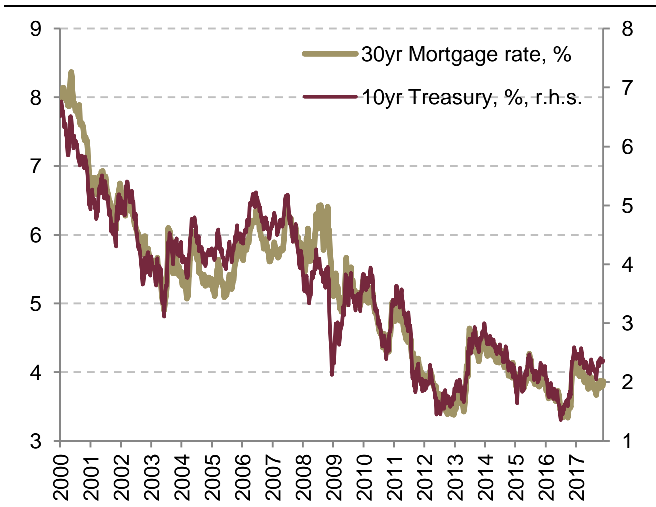
Mortgage loans growth rate decelerated to 4.7% yoy (as of June 20) from high of the year of 6.2% yoy demonstrated in mid-April. But it still remains higher than it was 1 year ago at 4.0% yoy. Correlation between mortgage loan growth and the long end of the curve is slightly gone recently as growth rate of mortgage loans was gradually accelerating from the local low shown in September 2017 despite significant growth of long-term rates since then but after that it decelerated in spite of flat rates. It seems that currently more important factors are positive effect of the tax reform and very strong employment. US economy created 223K jobs in May, beating estimates of 190K, after two months in a raw of miss. Also, unemployment rate continues to renew its 17-yr low in May, just 3.8% vs expectations of 3.9%. The quality of mortgage portfolio remains very strong with new low of NCO ratio in 1Q18 at just 0.02%. MBA's mortgage delinquencies declined by 54 bps qoq in absolute terms to 4.63% in 1Q18. The key drivers of very good quality are strong job market, rising home prices and tight underwriting standards which remain markedly tighter than historical averages even despite some easing in recent quarters.

We expect that quality will remain very strong until US economy falls into recession and unemployment starts to grow but it is not a foreseeable event. Direct impact of the tax reform on mortgage sector is slightly negative because of higher standard deductions (less mtg interest deductions) but, from our point of view, the main positive for the segment will come from the secondary effects of tax reform. The key risk for the sector is the growth of the long end (which wasn't as strong as growth of the short end in 2017 but markedly accelerated recently) even despite the affordability is still at high level and financial health of US consumer is very strong. However, it should be noted that affordability ratios aren't uniform across all the US states. In some areas it is too low because of skyrocketing growth of house prices. But it should not be a threat to the quality of the portfolio or cause of negative growth rate of loans due to strong growth of the economy, tight underwriting standards and possible deregulation of the mortgage market. Moreover, rates rise because the economy is getting stronger, so the negative effect of rising rates is offsetting by both wage growth and falling unemployment.

Lending standards for majority mortgage segments were basically unchanged in 1Q18, but standards for revolving home equity lines of credit (HELOCs) were eased. Demand for mortgage loans was weaker again for all categories of mortgage market, despite still solid financial health of US Consumer and relatively high affordability of US homes. Probably, it is the negative impact of rising long-term rates. In January 2018 SLOOS, banks noted that they would continue to ease standards on residential mortgage over 2018.

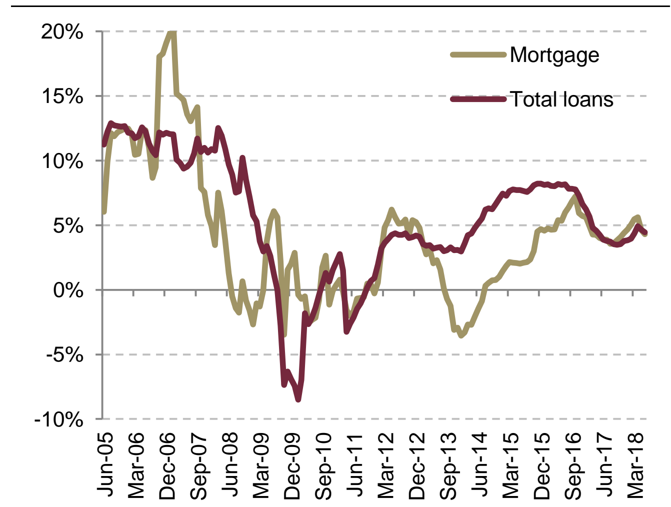
Mortgage rates were relatively stable in June and May after significant growth in April. 30yr fixed rate mortgage (national average, Bankrate.com) declined by 2 bps MoM to 4.4% but it grew to 4.56% in the mid-May, the highest level in almost 5 years. 30-yr mortgage rate (effective rate, MBA) decreased by 1 bps MoM to 4.96%, near the highest level since spring 2011. Both figures increased markedly YTD, by 55 bps and 60 bps, respectively. The key driver of growth was 10yr treasury yield which, from our point of view, will continue to go up despite flat dynamics recently.

Chart 13. Mortgage. 30yr Fixed Mrtg vs 10yr Tr yield, %



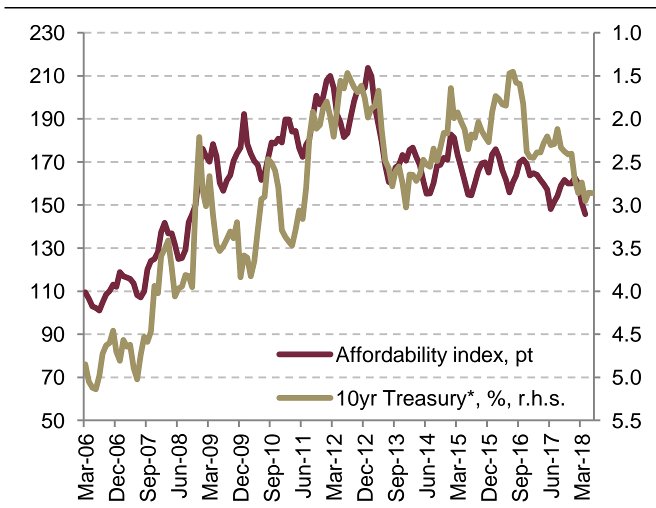
Source: Bloomberg

Chart 14. Loan Growth. Mrtg vs Total Loans, YoY, %



Source: Bloomberg

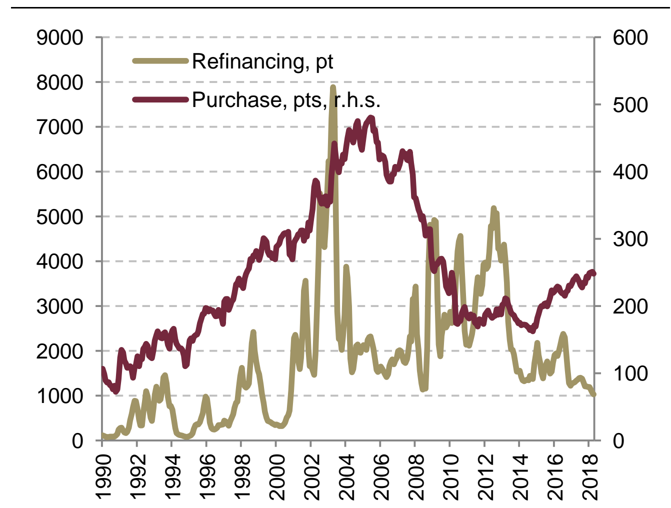
Chart 15. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 16. Mortgage. MBA Applications Indexes



Source: Bloomberg

Housing market indicators published in June were mixed with positive surprises on new home sales, housing permits and missing on home prices, existing home sales, NAHB housing market. But, taking into account skyrocketing growth of interest rates at the beginning of the year, lack of inventory and seasonality, housing recovery remains solid, from our point of view. However, relatively weak mortgage revenues remain to be a problem for US banks (not very big problem as banks earn significantly higher revenues due to rising short end than they lose because of lower mortgage revenues). The key reasons are tightening mortgage spreads and lower refinancing activity due to higher long end. Notwithstanding, despite stalled 10-yr treasury yields recently and positive seasonality, mortgage activity remains weak with further decline of both purchase and refinancing activity. According to MBA's June 2018 forecasts, total mortgage originations will decrease by 5.0% yoy in 2018 (after 16.6% yoy decline in 2017), driven by 24% yoy decrease of refinancing volumes while purchase originations should increase by 5.1% yoy. Fannie Mae's forecast is even more pessimistic with overall estimate of decline of mortgage originations of 6.4% yoy in 2018 (growth of estimates vs previous month).

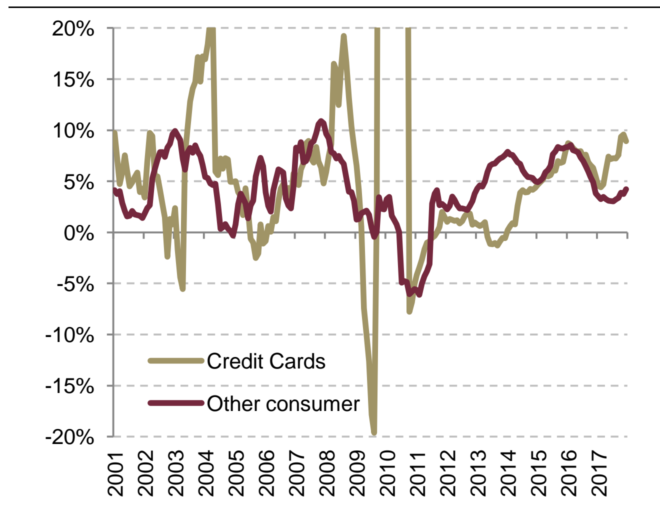
April construction spending increased by 1.8% MoM, beating consensus estimate of +0.5%

MoM. In turn, NAHB housing index decreased by 2 bps to 68 pts in June missing consensus of 70 bps, but it remained not far its 18-yr highs which were shown in December. It is not a surprise for us, taking into account very low inventory level of homes to sale and solid financial health of US Consumer. Housing starts were 1350K in May vs expectations of 1311K. April figure was almost flat at 1286K. Building permits was lower than expected in May – 1301K vs 1350K, but April figures were revised up from 1352K to 1364K. Existing home sales also missed expectations in May – 5.43 mln vs estimate of 5.52 mln, 5.45 mln in April. New home sales were 689K in May vs expectations of 667K but April figure was revised down from 664K to 646K. March figures were also revised down in the last month. Housing prices continue to grow but April growth rate missed both main indicators. FHFA house price index added +0.1% MoM in April vs estimates of +0.5% while March figure was revised up from +0.1% MoM to +0.2% MoM. S&P CoreLogic home price index for 20 cities added +0.2% MoM or 6.6% yoy in April vs expectations of +0.4% and 6.8%, respectively. May pending home sales were significantly lower than expectations – 0.5% MoM vs +0.5% MoM. The second month of declined.

Consumer

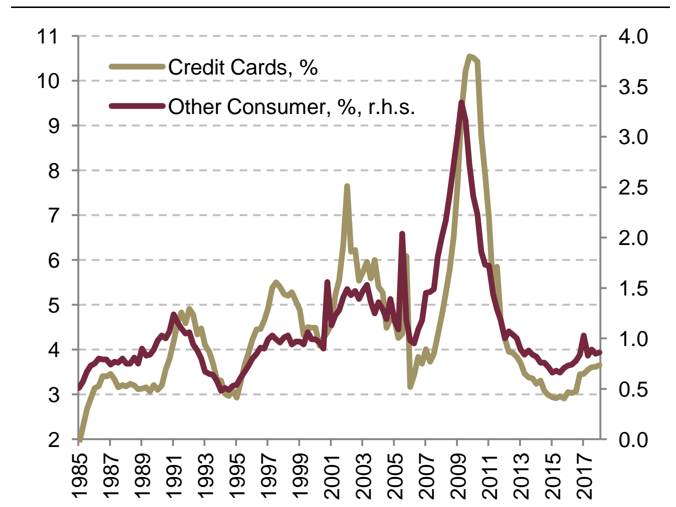
According to Fed H8 data, consumer loan growth yoy rate is currently +7.1% (through June 20th) vs 4.3% yoy 1 year ago. Consumer credit growth markedly accelerated during last several months due to speed up of credit card loan growth which is currently at 9.2% yoy vs +4.9% 1 year ago and +4.7% yoy in yearly October 2017. Net change of consumer credit in April was +$9.3 Bn vs consensus of +$14.0 Bn, the 5th consecutive month of decelerating. March figure was revised up from an initial estimate of $11.6 Bn to $12.3Bn. However, loan growth of other consumer (not credit cards) remains anemic at +4.7% yoy vs +4.3% yoy 1 yr ago (slight acceleration vs the end of 2017, +3.0% yoy). Anyway, from our point of view, consumer loan growth isn't as high as it could be taking into account strong job market, still low levels of debt-service ratios, leverage ratios and the positive effect of the tax reform and we expect that it will accelerate over the next 2-3 years. Moreover, the growth of rates should not have such a negative impact on US consumer as before, as currently, there is less share of variable rate loans among total consumer loan portfolio.

Chart 17. Consumer. Loan Growth Rates, YoY, %



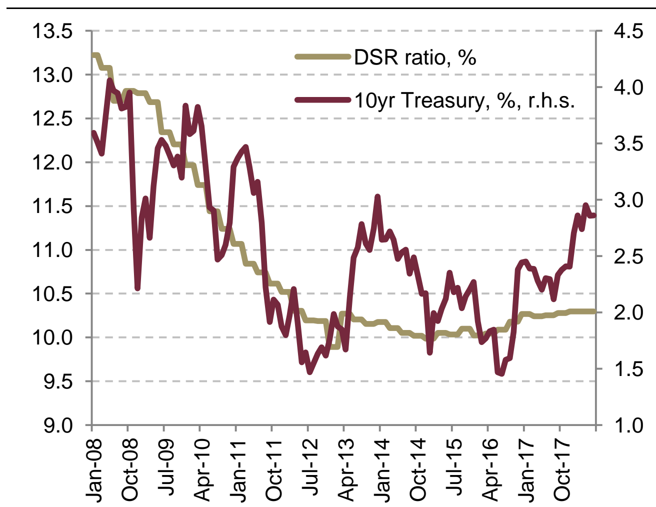
Source: Bloomberg

Chart 18. Consumer. NCOs Ratios, %



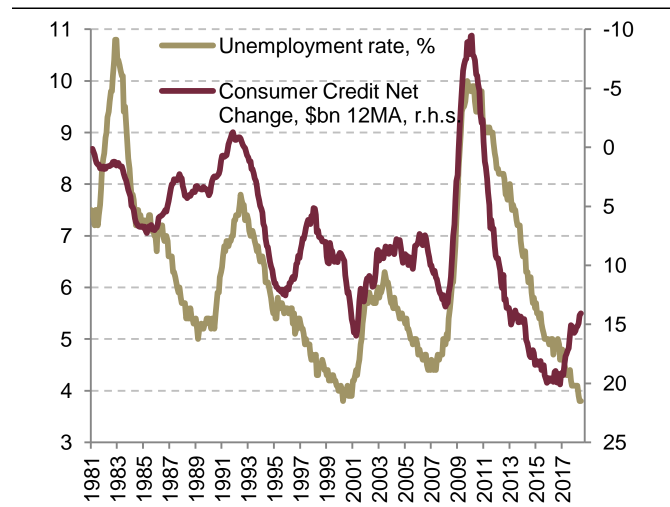
Source: Bloomberg

Chart 19. Debt Service Ratio vs 10yr Treasury Yield, %



Source: Bloomberg

Chart 20. Consumer. Loan Growth Rate, YoY, %



Source: Bloomberg

The key reasons of sluggish current loan growth are tightening loan standards in some consumer areas and growth of interest rates. But we don't expect marked deterioration of the quality of consumer loans (only return to historic averages) until we don't see substantial growth of unemployment rate. It is not near-term event. But it should be noted that debt burden isn't uniform across different income brackets. Despite DSR and FOR for median HH is markedly lower than historical averages, the figures of low-income consumer is already at or higher than pre-financial crisis levels.

April 2018 SLOOS indicated that standards for other consumer loans were basically unchanged, but standards for auto and credit cards were tightened again (the fourth consecutive quarter of tightening in credit cards and 7th quarter in a row for auto loans). "A modest net share of banks reported increasing minimum required credit scores for credit card loans". Also, banks reported that willingness to make consumer installment loans was slightly decreased in the first quarter vs the previous one. Demand decreased in all major consumer categories including credit cards and auto. In January SLOOS, banks noted that they would continue to tighten standards on credit cards over 2018. Banks also expected that quality of credit cards would deteriorate in 2018, while credit quality of overall consumer portfolio would remain the same.

Most measures of consumer activity continue to demonstrate strength and were better than expected in June, except for consumer confidence indicator published by Conference Board. It decreased by 2.4 pts in June from revised up May figure of 128.8 pts (from 128 pts) to 126.4 points (missing consensus of 128) but it is still not far from the highest level of the index since the end of 2000 (3.7 pts lower). Consumer sentiment index of Michigan University was better than expectations. It increased by 1.3 pts MoM vs expectations of 98.5 pts, staying at the highest level in more than 14 years, after falling in April. We expect that consumer sentiment will be further driven by good income prospects and strong labor market.

May employment data was strong with beats on nonfarm payrolls, unemployment rate and hourly earnings. It should also be noted that average monthly payrolls during the first four months of the year (more than 200K per month) are higher than it was in 2016 and 2017 years. Nonfarm payrolls increased by 223K in May vs expectations of 190K and revised down figure of April from 164K to 159K. Unemployment ratio declined by 10 bps at 3.8%,

beating expectations of 3.9%. Average hourly earnings beat expectations of +0.2% MoM by 10 bps vs +0.1% MoM in April. On a year-over-year basis, it was 2.7%, +10 bps vs both March and February figures. In turn, May ADP employment was 178K vs expectations of 190K and April figure of 163K (revised down by 41K from the initial estimate). Initial Jobless Claims were flat in June vs May and April levels of 222K. The indicator continues to be relatively stable and near more than 40-yr lows. Retail sales figure for May was significantly better than expected, +0.8% MoM vs expectations of +0.4% MoM and revised up April figures of +0.4 MoM, confirming the idea that financial health of US consumer remains strong. But it is not true for low-income consumers which have relatively high leverage and they are starting to suffer from growth of yields. Banks remain cautious and they continue to tighten credit standards, especially in risky areas such as auto lending which significantly outgrew majority of other consumer segments during the last credit cycle. Taking into account ongoing rate hike cycle, financial pressure on consumers (especially low-income segment) will increase and it suggests possible deterioration in the quality of the loan portfolio further. But we don't think that it could be a significant threat for credit quality of the total loan portfolio, at least, in the near future.

Interest Rates

As it was widely expected, the probability of the event was estimated at 100% since the early May, the FOMC raised the Fed funds target range by 25 bps to 1.75%-2.00% at June meeting. Wording of the statement again was slightly changed but the policy still remains accommodative. Dots were moved up and they currently imply four hikes in total in 2018, 3 more hikes in 2019 and 1 in 2020 but both median terminal and neutral rates remained unchanged. However, current dot plot implies that the Fed rate will be higher than the neutral rate in long term. Also, economic forecast were slightly improved. Chair Powell noted that there will be holding a press conference after every FOMC meeting since January 2019. Initial reaction of the market was positive and the yield of 10yr treasuries increased by almost 6 bps in absolute terms within half an hour after publication of the Fed statement and it rose even slightly above 3% for a while. But then it went down by almost 10 bps in two following days.

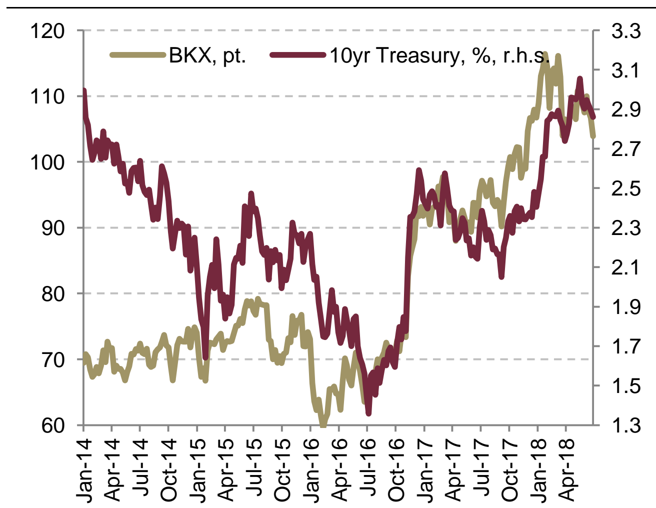
FOMC removed three last sentences from the statement – "The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data". Powell noted that removal of these sentences was driven by strengthening of the economy vs the period when this part of the statement was submitted. This explanation correlates with other changes of the wording and improved economic forecasts. In the statement was noted that economic activity has been rising at a solid rate (moderate in the previous version), unemployment rate has declined (vs stayed low) and households spending has picked up (vs moderated from its strong fourth quarter pace).

FOMC estimate of GDP growth in 2018 was increased by 10 bps to 2.8% yoy vs March projections. Estimates of 2019 and 2020 growth rates were unchanged at 2.4% yoy and 2.0% yoy, respectively. Projections of unemployment rate were decreased from 3.8% in March to 3.6% currently for 2018 year, from 3.6% to 3.5% for both 2019 and 2020 years. But long run forecast of unemployment rate was unchanged at 4.5%. PCE inflation forecasts were increased to 2.1% for both 2018 and 2019 years from 1.9% and 2%,

respectively.

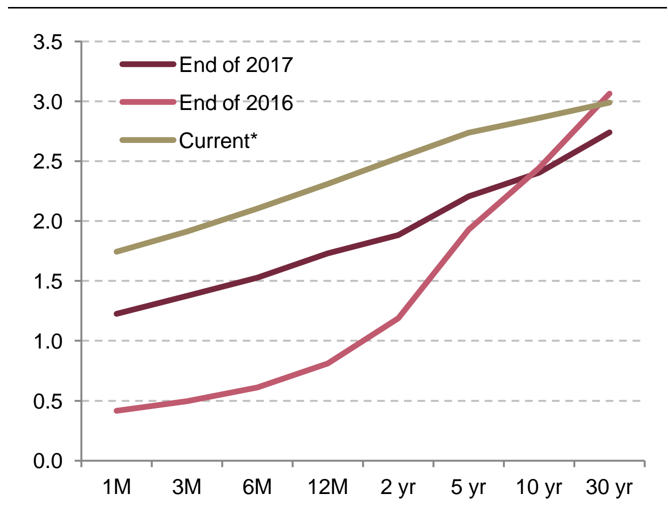
Improved economic projections, more hawkish language of FOMC members and the removal of most part of data dependent forward guidance, all this makes us to increase our expectations of number of rate hikes in the current year to 4 (from 3). Taking into account recent dynamics of banking shares and still relatively low deposit betas of US banks, it seems that the hawkish stance of the FOMC is not in the prices yet, as banks still remain very asset sensitive and they continue to significantly benefit from each hike. The yield curve was flatter again but it will not be a big problem for US banks right now (but risk for future NII) given current expectations of hikes path. Of course, it would be better for US banks if it was much steeper, but the short end is much more important for banking P&Ls.

Chart 21. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

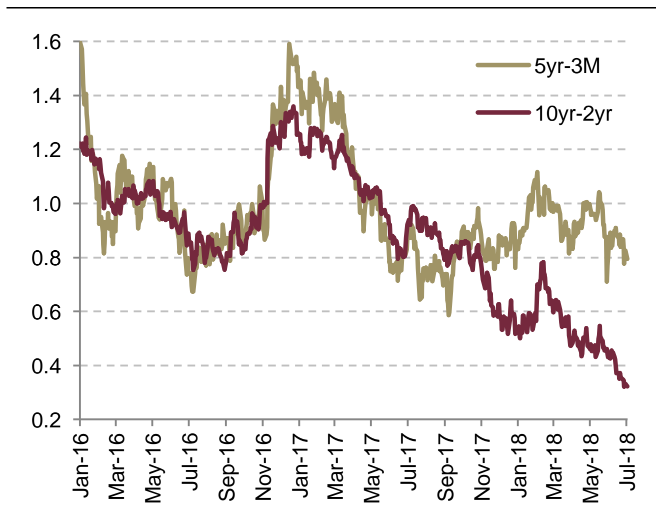
Chart 22. US Yield Curves, %



*As of the end of June 2018

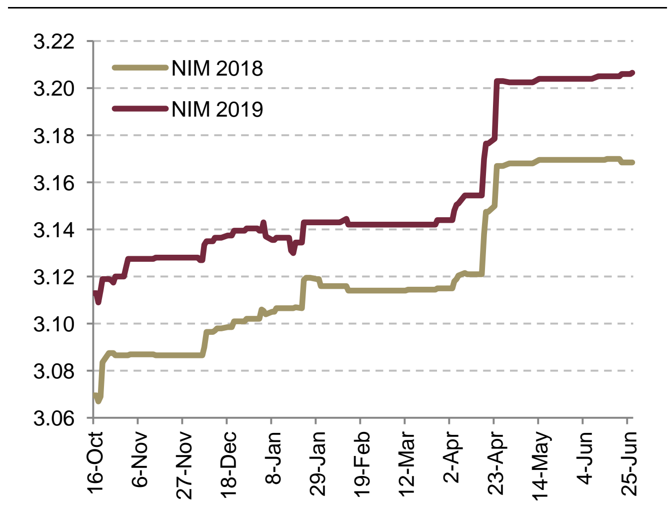
Source: Bloomberg

Chart 23. Treasury Spreads, %



Source: Bloomberg

Chart 24. Median NIM of BKX Index, %



Source: Bloomberg

Treasury yields were moving uniformly during June after mixed dynamics in May. Despite another rate hike, the short end of the curve increased only slightly after marked growth in May. It seems that key reason is that rate hike was absolutely expected event. The highest growth was demonstrated by the middle of the curve. 1M yield went up by 0.7 bps MoM to 1.74% while 3M yield came up by 1.8 bps MoM to 1.91%, 2yr yield increased by 10 bps

MoM to 2.52% and 5yr yield went down by 4.2 bps MoM (currently at 2.74%). 10yr yield increased by 1.5 bps MoM to 2.86% while 30yr yield went down by 3.6 bps MoM to 2.99%.

As long end of the curve underperformed the short end, spreads became narrower MoM. So spreads remains not very far from its multi-year lows. 5yr-3Mor spread is 14.6 bps lower than average level of 2017 yr while 10yr-2yr spread is 60 bps below than average level of the last year. Currently, treasury spread (5yr-3Mo) is 0.83% or +2.4 bps MoM (as end of June) vs 1.33% of 5yr-3Mo treasury spread in the end of February 2017. Spread (10yr-2yr) decreased by 9.9 bps MoM to just 0.33% in June. So, flatter yield curve is becoming a risk for future growth of interest incomes of US banks. Another problem for banking quotes is that inverted yield curve is associated with recession.

According to Bankrate data, loan yields moved following the corresponding treasury yields. So, 30yr mortgage rate went down by 1 bps MoM to 4.40% (through June 29st) because of decline of the long end. Auto loans rate (New loans, 60 mnth) decreased by 39 bps MoM to 3.9% after significant growth in May. In turn, deposit rates continue to go up but only gradually. Average cost of 6 month deposits is 1.28% qtd, +4 bps qoq and +10 bps vs 4Q18; 3yr CDs cost increased by 11 bps qoq and +16 bps vs 4Q18; 5yr CDs cost increased by 13 bps qoq and 22 bps vs 4Q18. But it should be noted that Median growth of cost of interest-bearing deposits of BKX index members was just 22 bps during the last 5 quarters, implying deposit beta around 30%, still far from 50% at the late stages of the last cycle.

Europe

Corporate

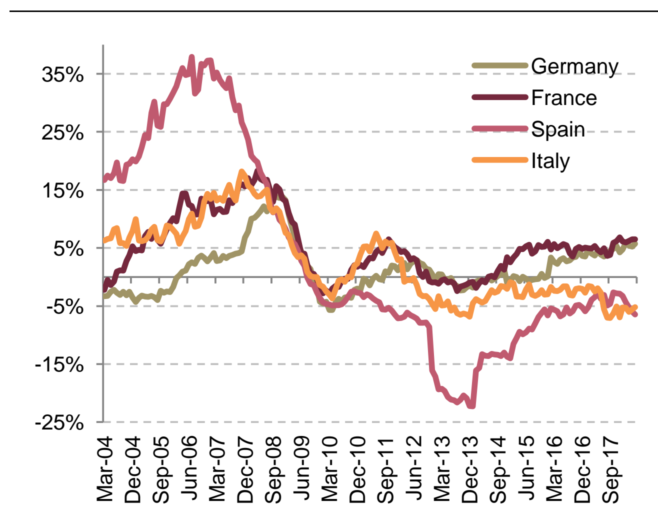
Corporate loans on YoY basis is still on positive territory in EU despite the recent softness of EU macro data. It even accelerated in recent months. But credit growth in the EU remains significantly different across countries. We see very healthy corporate loan growth in Germany and France (and other North countries) while Italian and Spanish corporate loan growth is still deeply negative as it is in majority of South countries. According to ECB's Financial Stability Review, "Recent readings for the euro area confirm a solid and broad based expansion of the euro area economy. Real GDP growth is expected to remain above potential until 2020. Downside risks to euro real GDP growth continue to relate primarily to global factors, including developments in foreign exchange and other financial markets". In turn, at the last monetary meetings ECB noted that EU economy lost momentum and the loss was broad based across the countries and industries.

According to April 2018 euro area bank lending survey, net demand for loans to enterprises "continued to be supported by increasing demand" in 1Q18, but the net percentage was declined from 21% in 4Q17 to 21% currently. However, unadjusted EOP corporate loans increased by only 0.57% yoy as of end of April, the 7th consecutive month of positive growth (slight acceleration in comparison with the end of last year). In turn, adjusted for sales and securitizations loans increased by 2.4% yoy, the 33th consecutive month of positive yearly growth (slight acceleration from 2017 figure of 1.9% yoy). Despite relatively good adjusted figures, we still think that corporate loan growth remains relatively weak given above potential growth of EU GDP. Loan growth dynamics was relatively uniform among major European countries in April with relatively flat MoM dynamics of growth rates among major European countries. But it should be noted that key driver of NII remains rate environment which isn't friendly for EU banks at the current moment, especially taking into account dovish comments during the last ECB meeting. At least, it will be very hard for EU banking

industry to increase NII without growth of key rates while expectations of the first rate hike moved from the mid-2019 to the end of 2019 after June ECB meeting and currently it is expected that negative deposit facility rate environment will persist a little longer than it was expected earlier.

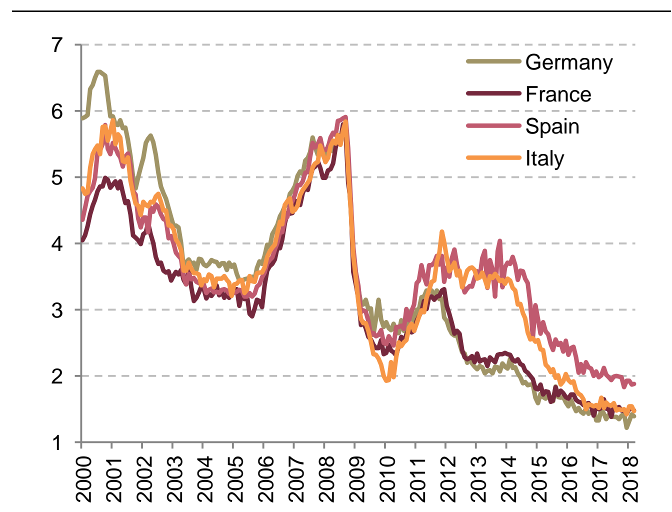
In line with April BLS, credit standards for corporate loans eased considerably in 1Q18 after being broadly unchanged in 4Q17. “The net percentage remained considerably below the historical average since 2003, and the net easing was stronger than expected in the previous round. Across firm size, credit standards eased for loans to both small and medium-sized enterprises (SMEs; -8%) and large enterprises (-5%)”. The key driver of easing standards remains competitive pressure from the other banks. Also, among factors of easing standards risk perceptions regarding the general economic and industry or firm-specific situation and outlook were noted. At the same time, impact of banks’ cost of funds and balance sheet constraints was broadly neutral for easing standards. “Across the large euro area countries, credit standards on loans to enterprises eased in Germany, France and Italy in the first quarter of 2018, while remaining unchanged in Spain and the Netherlands”. Banks also expect that they will continue to ease standards in 2Q18.

Chart 25. EU Corporate Loan Growth, YoY



Source: Bloomberg

Chart 26. EU Corporate Loan Rates, New Loans, %



Source: Bloomberg

Germany outstanding corporate loans (unadjusted figures) increased by 5.3% yoy as the end of April or +0.4% MoM vs +3.7% yoy as the end of April 2017. French corporate loans outstanding (unadjusted) added +6.5% YoY or +0.6% MoM as the end of April vs +5.3 yoy as the end of April 2017. As for Spain and Italy, its outstanding corporate loans continue to decrease, -5.6% yoy as the end of April for both countries (significant deceleration of loan growth in Spain from -3.4% in January). Adjusted figures looks slightly better, but growth rates of both countries remain negative.

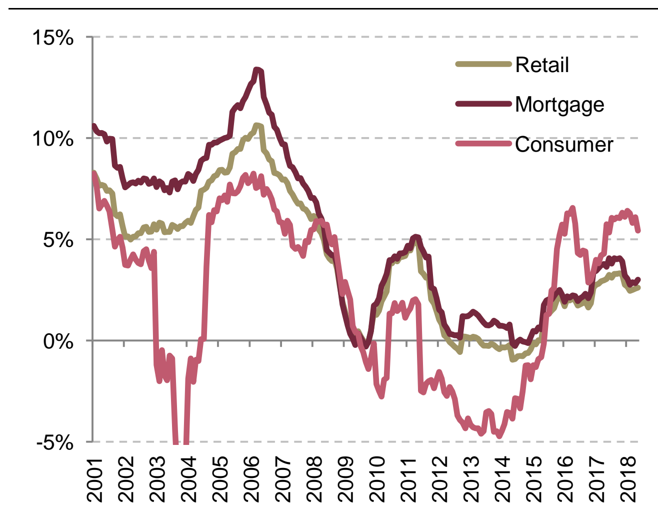
European corporate rates still demonstrate relatively weak dynamics. However, it appeared more and more encouraging signs in 2H17. In April corporate rates slightly increased in EU (the fourth consecutive month of growth) after significant decline in November-December of 2017. Average EU corporate loan rates (all maturities, new business lending) increased by 0.5 bps MoM to 2.09% as the end of April. But, it is still lower by 1.5 bps than it was 1 year ago. Back book yields of EU banks continuously decreased since April 2014 but it decreased in April only by 1.4 bps MoM. On a year-over-year basis, it declined by 13.4 bps to 2.43%. Despite growth of overall EU rates (new business), they decreased in major

European countries except for Spain. Currently, German corporate yield on new loans is 1.39%, -3 bps MoM or -4 bps yoy. French rate decreased by 4 bps MoM or 17 bps yoy in April to 1.48%. Italian rate decreased by 7 bps MoM or 5 bps yoy in April to 1.47%. In turn, Spanish rates on new corporate loans increased in April by 1 bps MoM to 1.88%. It should be noted that spreads between new and outstanding rates continue to shrink on a year-over-year basis but they still far from the positive territory for all major European countries except for Spain, where the spread is -3 bps currently.

Consumer

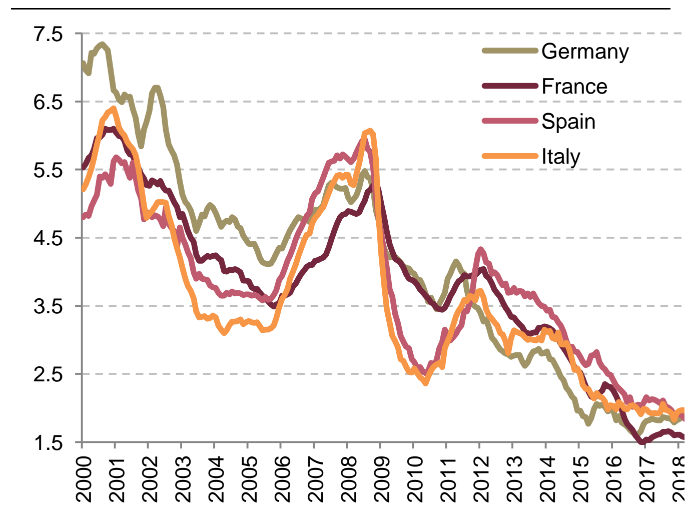
EU loans to households increased by 2.5% yoy in April (flat growth rate vs March), markedly decelerating from November 2017 figure of +3.3% yoy (+2.8% in February 2017) and the average level of the last year, +3.1% yoy. Consumer loan growth remains strong, however the rate of growth of the loan portfolio continues to differ widely across countries (as well as for corporate loans), German household loans increased by 4.1% yoy in April or +0.3% MoM, French retail lending added 5.8% yoy in April (significant acceleration vs early 2017 figures), while household loans in Spain decreased by 0.6% yoy in April. Italian consumer loans added +1.1% yoy in April, flat vs end of the year 2017 levels. All major European countries except for Italy and France markedly accelerated consumer loan growth since the beginning of 2017 that fully consistent with the improvement of consumer financial health in Europe lately. Consumer confidence in Eurozone unexpectedly decreased to -0.5 pts in June vs +0.2 pts in May, remaining significantly higher than average level of the last year of -2.5 pts. Unemployment was 8.4% in May, flat vs revised down April figure and 8.5% of consensus.

Chart 27. EU Consumer Loan Growth, YoY



Source: Bloomberg

Chart 28. EU Mortgage Loan Rates, New Loans, %



Source: Bloomberg

Consumer lending (ex mortgage) still remains the key driver of EU household loan portfolio, adding 6.0% yoy, +0.6% MoM as the end of April vs +4.3% yoy as the end of April 2017. EU mortgage loans increased by 2.8% yoy as the end of April (vs 3.8% yoy one year ago) significantly decelerating from the levels of Autumn of 2017. But according to April 2018 bank lending survey from ECB, “positive net percentage of banks continued to report an increase in demand for housing loans” above historical average levels but below expectations of the previous survey. The most impressive growth in consumer segment continues to be demonstrated by Spain, where these loans rose by 13.0% yoy as the end of April (vs +16.1% 1 year ago), while Spanish mortgage portfolio continues to stagnate, -

2.1% yoy as the end of April (vs -2.8% 1 year ago).

Average EU rates on new mortgage loans were relatively flat in April, -1 bps MoM to 1.85% after being flat for two consecutive months. But before that there was a fall within 4 consecutive months. So, the rate is currently lower than it was in August/September 2017 (1.92%), but it is higher by 1 bps than it was 1 year ago. The key driver of mortgage rates was the long end of the yield curve which wasn't strong in recent months. 10yr generic yield decreased by 3.9 bps MoM to 0.3% in June after significant decline in May. Currently, it is 46 bps lower than February highs. But mortgage rates on new loans demonstrated mixed dynamics across the major European countries. Thus, German rate was flat in April at 1.89%. French rate declined by 1 bps MoM to 1.57%. Spanish rate declined by 4 bps to 1.84% while Italian rate went down by 1 bps to 1.96%. Because of lower front book yields, we continue to see declining back book rates on year-over-basis, -19 bps yoy. On month-over-month basis, it decreased by 2 bps to 2.21%. It also should be noted that there is a deceleration of the rate of decline of back books recently due to steepening of the yield curve over the last year.

As for other consumer credits, EU new business rates substantially increased in April, +12 bps MoM to 5.59% after decline of 27 bps in two previous months. However, in January we saw skyrocketed growth, +48 bps MoM. The rate remains too volatile. On year-over-year basis it increased by 10 bps. Consumer yields increased in all major European countries except for Italy. German yield went up by 21 bps MoM to 5.64% or -1 bps yoy. French rate went down by 1 bps MoM to 3.77%, -12 bps yoy. Spanish rate increased by 23 bps MoM to 7.82% or +24 bps yoy. Italian consumer yield decreased by 1 bps MoM to 6.78% and it remains higher by 34 bps than it was 1 year ago.

Average European new consumer deposits rate (with agreed maturity) was flat in April at 0.37%, the third consecutive month at this level. But in fact, the rate was being at this level since August 2017. Currently, it is just 4 bps lower than it was 1 year ago. Cost of outstanding deposits (with agreed maturity) was flat MoM at 1.0% as the end of April after temporary MoM growth in February by 0.7 bps, it is still lower than 1 year ago, but just by 4.6 bps yoy and it is not good for EU banks, as cost of deposits significantly decelerated its decline rate while yield of consumer loans continued to go down faster than cost of deposits.

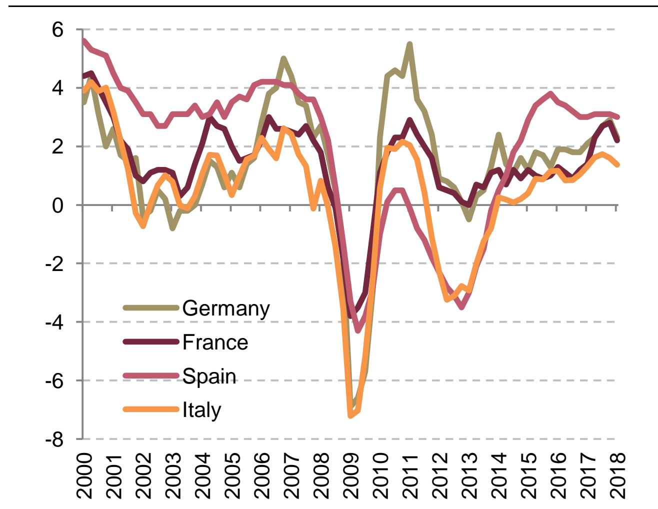
Overall Macro

Economic data published in June remains soft with misses on retail sales, industrial production and consumer confidence. However, composite PMI figures beat expectations in June due to strong figures of services PMI, implying that we can count on the acceleration of the economy in 2H2018 after relatively weak start of the year. The Citi economic surprise index remains deeply negative for Eurozone but it started to rebound in June after being at almost 7-year low for around 1.5 months. However, ECB reduced its 2018 GDP growth forecast to 2.1% yoy from 2.4% (March projections) at the last meeting (GDP growth forecasts for 2019 and 2020 years were unchanged). This is fully consistent with previous statements of the Governing Council which noted "recent incoming information had generally surprised to the downside and pointed to some moderation, following several quarters of higher than expected growth. Surveys had shown a broad-based decline in sentiment in the first quarter of 2018 across most sectors and countries. At the same time, sentiment indicators were still at high levels and well above their historical averages". Notwithstanding, ECB considers current weakness as temporary and it believes that economic growth remains solid and broad-based with broadly-balanced risks surrounding

the euro area growth outlook.

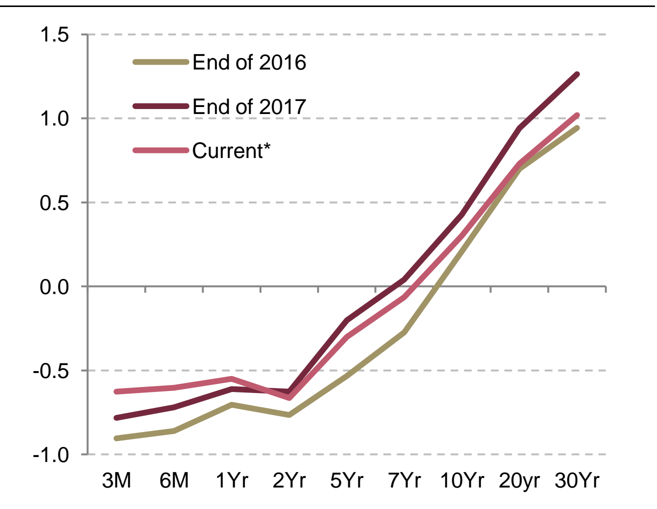
The start of the year was relatively weak for European economy and there is a clear risk that 1H18 GDP growth rate will be lower than it was previously. However, GDP growth rate was at 2.5% yoy in 1Q18, in line with estimate, not significantly lower than it was in 3Q17/4Q17 (+0.4% in absolute terms vs 1Q17 figure) despite economic surprise indexes are on deeply negative territory. So, ECB's optimism still seems justified – "overall, although incoming survey data suggested slower growth in the short term, the data remained consistent with a solid and broad-based expansion across sectors and countries".

Chart 29. EU Countries Real GDP Growth, YoY, %



Source: Bloomberg

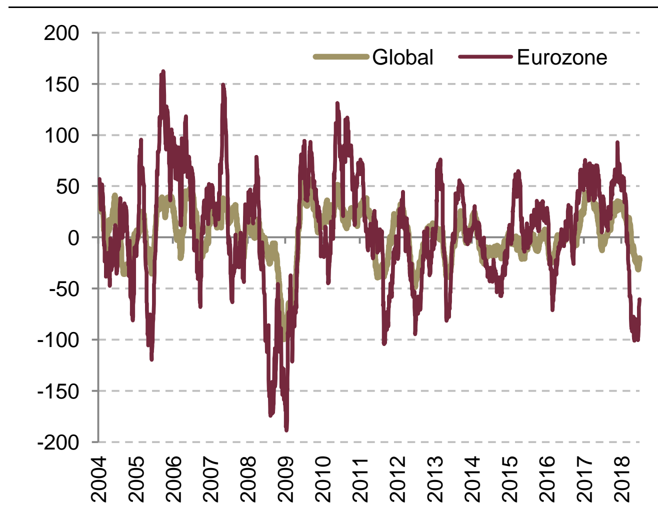
Chart 30. EU Yield Curves, %



*As of the end of June 2018

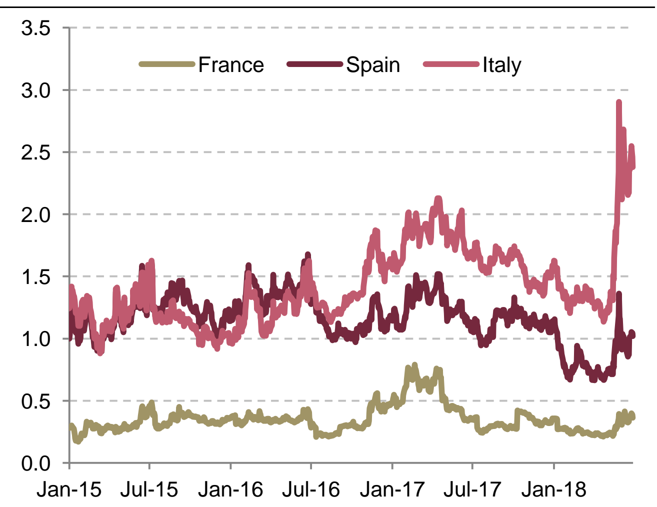
Source: Bloomberg

Chart 31. Citi Economic Surprise Indexes, pt



Source: Bloomberg

Chart 32. EU Countries Sov. Spreads vs Ger, 10Yr, %



Source: Bloomberg

But the market was slightly more pessimistic than the ECB in June and it lowered by 10 bps its GDP growth forecasts for each of the next three years (vs May forecasts). Current Bloomberg consensus estimates for 2018, 2019, 2020 years are 2.2%, 1.9% and 1.6%, respectively. Notwithstanding, the yields dynamics indicates that risks has increased markedly. It is understandable given incoming macro data, rising political risks in Spain and Italy as well as growing threat of escalating trade war.

At least currently, we don't think that European economy lost momentum even despite reduced GDP forecast recently and still deeply negative surprise indexes. Of course, recent macro data indicates that the activity slightly decelerated so far, but it should be noted that GDP growth remained high vs historic averages and it will not be a big problem if it reverses to the mean. ECB's staff projections also remain optimistic. Currently, they forecast that 2018 GDP growth will be 2.1% (-30 bps vs previous estimates), while in 2019 and 2020 European economy will increase by 1.9% and 1.7%, respectively (flat vs March projections).

Composite PMI, which is well correlated with GDP growth, slightly increased in June after four month in a row of decline. It was 54.8 pts, +0.7 pts MoM vs expectations of 53.9 pts. Despite it is markedly lower than the recent high, it is still notably higher than 50 pts level indicating that strong and broad-based growth of the economy continues. But the rate of decline is beginning to worry us especially given the growing political risks in a number of countries.

EU consumer remains one of the key drivers of European economy, demonstrating strong growth of consumer spending. Household consumption increased by +1.5% yoy in 1Q18 vs 1.4% in 4Q17 and +1.8% yoy in 3Q17. Labor market also remains strong and it is the key driver of the health of EU consumer. Unemployment was 8.4% in May, flat vs revised down April figure and 8.5% of consensus. It is new low of the cycle, but it is still markedly higher than the trough of the previous cycle. June consumer confidence was significantly lower expectations, at -0.5 pts vs May figure of +0.2. Despite it is the lowest mark over the last 8 months, it is still significantly higher than average level of last year.

Housing market in Europe also demonstrate solid growth. Euro Area residential property index increased by 4.2% yoy in 4Q17, slightly above +4.0% yoy both in 3Q17 and 4Q16, confirming broad based character of economic recovery. Among major European countries, negative dynamics of housing prices remains only in Italy, -0.3% yoy in 4Q17 after decline of -0.8% yoy in 3Q17. Despite growth of housing prices and LT interest rates, housing affordability is still relatively high vs historic averages due to improvement on labor markets and still favorable financing conditions.

Rates

The ECB managed to surprise the market and it announced that the asset purchase program will be ended by the year end of 2018. The ECB will continue its purchases of €30 Bn monthly until the end of September and then purchases will be reduced to €15 Bn monthly until the end of December. In turn, "the Governing Council intends to maintain its policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation". And the most important, from our point of view, is that ECB gave us more precise forward guidance on policy rates. "The Governing Council expects the key ECB interest rates to remain at their present levels at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path". Despite the announcement of the end of APP was earlier than expected (we even didn't exclude that the decision could be announced in Autumn because of weak macro data and rising political risks in Italy and Spain), the perception of the meeting was clearly dovish with a further decline of yields across the yield curve. 10yr generic yield decreased by 3.9 bps MoM to 0.3% in June after significant decline in May. Currently, it is 46 bps lower than

February highs.

The ECB also submitted updated staff macroeconomic projections. 2018 GDP forecast was reduced to 2.1% yoy from 2.4% in March projections. GDP growth forecasts for 2019 and 2020 years were unchanged. Despite downward revision of GDP forecasts because of relatively weak macro data in EU in the first half of the year, the ECB remains optimistic about economic growth – “The latest economic indicators and survey results are weaker, but remain consistent with ongoing solid and broad-based economic growth. The risks surrounding the euro area growth outlook remain broadly balanced”. However, it was noted “uncertainties related to global factors, including the threat of increased protectionism, have become more prominent. Moreover, the risk of persistent heightened financial market volatility warrants monitoring”. Also, the ECB improved its inflation outlook. Both 2018 and 2019 estimates of inflation were increased from March expectation of 1.4% to 1.7%. The key reasons are higher oil prices and weaker euro currency. And it is not very far from medium-term target of 2%. The ECB noted either that uncertainty around inflation outlook was receding.

Dovish perception of the meeting is quite understandable as the ECB made it clear that there will be no rate hikes “as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path”. This is fully consistent with our view that further pace of monetary policy will depend on the incoming macro data including inflation and volatility in the exchange rate and that the ECB will not take drastic steps anyway. Currently, the ECB has retained considerable flexibility in decision-making and the monetary policy still remains highly accommodative. It is not good news for European banks as rising rates could markedly improve tough revenue environment for them. However, hike expectations were markedly relaxed after the meeting and it seems that rate will be hiked firstly towards the end of 2019, not in mid-2019 as was expected earlier. So, rate will remain negative at least till the end of 2020, not mid-2020. So, EONIA forward curve also moved lower recently.

The dynamics of the other generic yields was relatively uniform in June, but decline for the long end was greater. 3M yield decreased by 0.8 bps MoM to -0.63%. 6M yield went down by 0.6 bps MoM to -0.6%. 1yr generic yield increased by 1.6 bps MoM to -0.55%, while 2yr yield lost -0.9 bps MoM to -0.67%. Overall, the yield curve became slightly flatter in June. Spread between 10yr yield and 1yr yield decreased by 5.5 bps MoM to 0.85%. Spread between 5yr and 3M yields went down by 2.3 bps MoM to 0.33%.

THEME OF THE MONTH

US Banks 2Q18 Preview

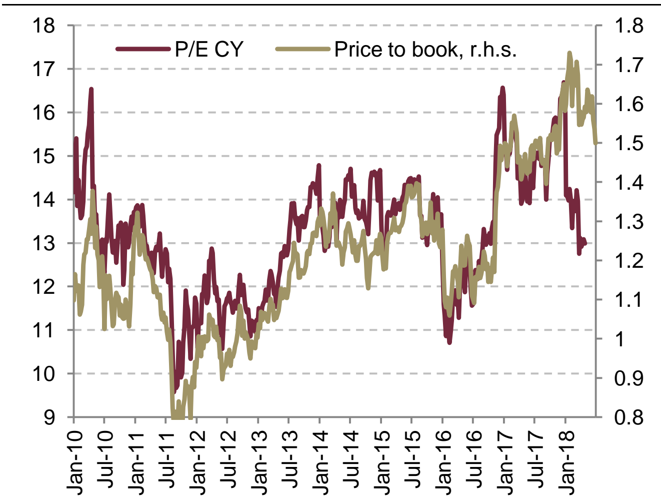
US banks earnings season will start on July 13th, when 2Q18 quarterly reports are provided by JP Morgan Chase, Citigroup and Wells Fargo. After that, within two weeks, all members of BKX index will provide the quarterly results. Despite the fact that US banks declined markedly after very strong start of the year, the street continues to revise up EPS estimates of the financial institutions. Median growth of 2Q18 EPS of BKX index members was +10.9% ytd or flat qoq, just the 5th non-negative qoq revision for 2Q EPS estimates in the last 12 years (median revision for this period is -0.9% qtd / average is -1.4% qtd). Full-year estimates for the current and next years were also revised up significantly. Median growth of CY EPS estimates of BKX index members is +12.8% ytd. The same picture is also observed for EPS estimates of the next year. The key driver of the strong positive revision of EPS estimates, from our point of view, was the tax reform which was signed by the President Trump just few days before the New Year, so the effect of the reform was not taken into account in all estimates before the end of last year. Also, interest rates remain very important driver for bank's revenues already with two rate hikes this year, the more hawkish Fed given still very low deposit beta vs the previous hike cycles. We expect that the street will continue to revise estimates up further due to more hawkish rate outlook, acceleration of loan growth, stronger growth of the economy and the positive effect of expected deregulation but it also should be noted that risks have also increased recently because of flatter yield curve, rising deposit beta, more political uncertainty in Europe and threats of escalating trade wars.

NIM remains the key driver of EPS and net income growth as deposit beta is still significantly lower than it was in the previous cycles and the Fed is remaining more hawkish and predictable. But it should be noted that pressure on NIM from deposit costs will intensify further, especially for banks with relatively weak franchise. According to Bloomberg consensus, median NIM of BKX index will increase by 3 bps qoq or 17 bps yoy to 3.17% in 2Q18 following a growth of 6.5 bps qoq or 22 bps yoy in 1Q18 and flat qoq or +21 bps yoy in 4Q17. One year ago, NIM growth was more impressive. Median growth of NII of BK members is forecasted at 2.6% qoq or 7.5% yoy vs 0.8% qoq and 6.7% yoy in 1Q18. Quarterly growth varies primarily due to lower day count in the first quarter while yearly growth accelerated due to speedup of loan growth. In 2Q18, FY NIM expectations (median, BKX members, Bloomberg consensus) increased by 5.3 bps and 6.2 bps for 2018 and 2019 years, respectively, due to positive surprises NIM during the earnings season of 1Q18.

Loan yields continue to be the key drivers of NIM. In last quarter, median total loan yield of BKX members increased by 14 bps qoq. It added 44 bps since the end of 2016, implying median loan beta of BKX members at 59% (we didn't take into account March hike for the beta calculation). We have already seen two hikes this year and it seems that the Fed becoming more hawkish. At least, dots were moved up again and they currently imply four hikes in total in 2018, 3 more hikes in 2019 and 1 in 2020 but both median terminal and neutral rates remained unchanged. So, Libor rates continue to rise. Average 1M Libor increased by 30 bps qtd in 2Q18 (vs +32 bps qoq in 1Q18) while average 3M Libor added 41 bps qtd in 2Q18 (vs +46 bps qoq in 1Q18). The short end of the curve continues to grow faster than the long one, following June rate hike. The yield curve goes on to flatten with 10yr-2yr treasury spread at new multi year low. Average 10yr-2yr spread declined by 15 bps qtd vs -12 bps qoq in 1Q18. But 5yr-3Mo spread remains relatively stable, avg. qtd

spread is 91 bps vs 96 bps in 1Q18 and 86 bps in 4Q18. Of course, flattening of the yield curve is negative driver for NII/NIM, all other thing being equal. But, given that the long end is a benchmark for only around 20% of total loan portfolio, we don't think that it is very big problem for US banks at the moment, especially for those who have a good deposit franchise. According to bankrate.com, the average mortgage rate (30yr FRM) is 4.42% qtd vs 4.2% in 1Q18 and 3.83% in 4Q17; average home equity rate is 6.11% qtd, +39 bps vs 1Q18 and +71 bps vs 4Q17; average auto loans rate (new, 60 mnth) is 4.14% qtd vs 3.66% in 1Q18 and 3.42% in 4Q18.

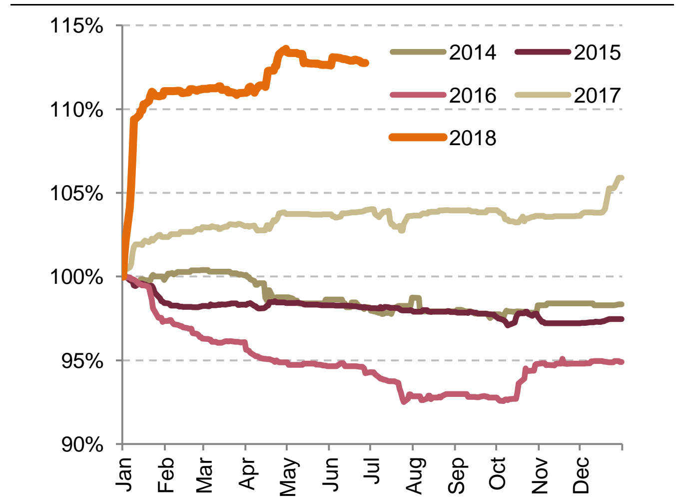
Chart 33. US Banks. Multipliers, Median*



*a sample of 34 banks which we are monitoring

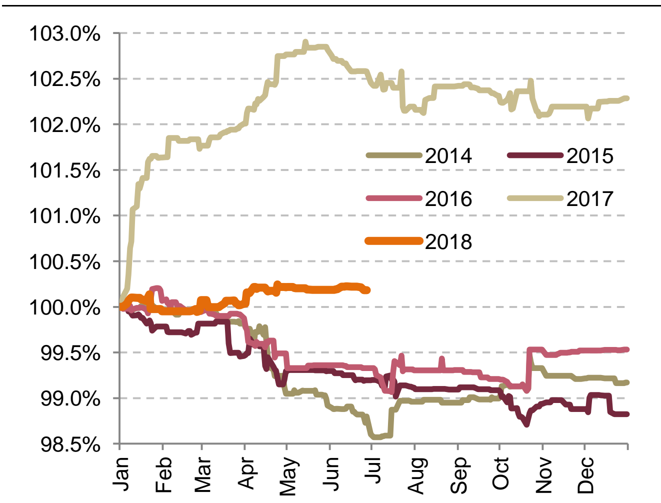
Source: Bloomberg

Chart 34. BKX Index. Median CY EPS Est. Dynamics



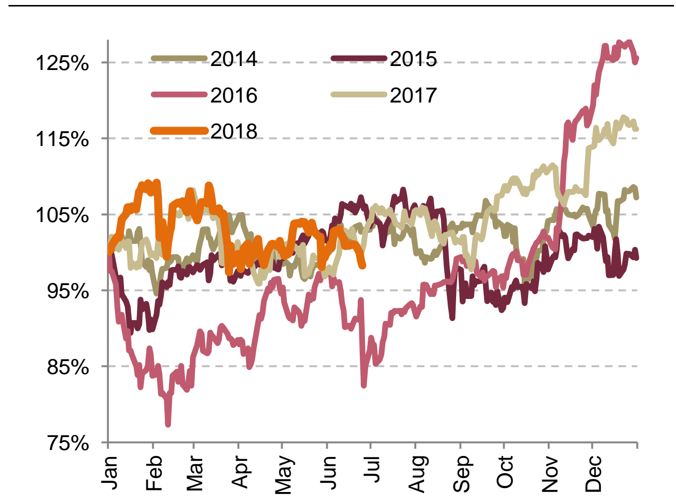
Source: Bloomberg

Chart 35. BKX Index. Median CY Rev Est. Dynamics



Source: Bloomberg

Chart 36. BKX Index. Price dynamics



Source: Bloomberg

The key risk for NIM growth is deposit beta which continues to go up but it is still significantly lower than it was in the previous cycles. Median growth of cost of interest-bearing deposits of BKX index members was 22 bps during the last 5 quarters, implying deposit beta around 30%, still far from 50% at the late stages of the last cycle. Of course, it will grow further with hikes of the fed funds rates, but we don't expect that we will see betas higher than 50% in the near future even despite mgmt of banks remains cautious as they see more and more competition in deposit pricing, especially on commercial deposits. At

least, banks still have room to maneuver as loan-to-deposit ratios are markedly below 100% for majority of US banks. Despite two more hikes over the past three months, growth of deposits costs wasn't strong. According to Bankrate.com, average cost of 6 month deposits is 1.28% qtd, +4 bps qoq and +10 bps vs 4Q18; 3yr CDs cost increased by 11 bps qoq and +16 bps vs 4Q18; 5yr CDs cost increased by 13 bps qoq and 22 bps vs 4Q18. There are 3 rate hikes during the last 3 quarters – in December 2017, March and June.

Loan growth still demonstrates relatively weak dynamics but it slightly accelerated in 2Q18, especially in C&I segment. According to the Fed H8 data, total loans increased by 5.1% yoy (as of June 20), slightly accelerating from +3.4% yoy growth demonstrated in the yearly October. It is already higher than it was 1 year ago (+3.9% yoy in mid-June 2017), and it seems that we could see further acceleration in 2H18. C&I loan growth, which was the main driver of decelerating growth of total loan portfolio in 2016/2017 years, accelerated markedly in 1H18 from its lows in early December 2017 of +0.3% yoy to 5.5% yoy as of June 20. Eventually, strong macro data positively impacted on corporate loan growth. Moreover, banks continue to ease lending standards in the segment. CRE loan growth also stopped decelerating but growth rate was flat in 2Q18. Currently, it is 5.1% yoy vs +8.2% yoy in mid-June 2017. Rising rates and tightening standards (the quarter in a row) are the key threats for further growth of CRE portfolio as business cycle remains supportive for CRE fundamentals. Banks also reported weaker demand for CRE portfolio in the last SLOOS report. Mortgage loans growth decelerated to 4.7% yoy vs +5.7% yoy at the end of March 2018. Consumer loan growth remains resilient (+7.1% yoy vs 4% yoy as the end of Summer 2017) due to strong growth of credit cards while growth in other consumer segments remains anemic. We expect that positive effect of the tax reform and strong job market will continue to support consumer credit further. Acceleration of loan growth should largely neutralize a negative impact of rising deposit beta on NII growth but it is too early to say that loan growth will be again a key driver for banks' EPS in the near future.

Other revenues, from our point of view, will not be strong. At least, Bloomberg consensus implies that median growth of non-interest revenues of BKX members will be just +1.2% qoq or +2.2% yoy. According to comments of mgmt of the largest US banks, trading revenues will be flat yoy with relatively strong equities/derivatives and decline in FICC. But it was noted that in general, expected results are in-line with seasonal trends. The start of the year was very strong in FICC division, but then decreased volatility negatively impacted on the segment. In turn, M&A activity was high due to reduced uncertainty. IB fees dynamics wasn't uniform with strong equities and weak debt underwriting. Mortgage revenue also remains relatively weak because of negative impact of rising rates. According to MBA's June 2018 forecasts, total mortgage originations will decrease by 5.0% yoy in 2018 (after 16.6% yoy decline in 2017), driven by 24% yoy decrease of refinancing volumes while purchase originations should increase by 5.1% yoy.

As expected by the consensus, non-interest expense will decrease by 0.6 qoq but it will increase by 1.8% yoy. Banks continue to actively optimize their costs structure but it is not so easy to decrease cost base when revenues rise rapidly. In any case, operating leverage remains positive with revenue growth (median growth of BKX members) of +4.0% yoy. In result, efficiency ratio is going down, -0.8% yoy in absolute terms. We expect that efficiency ratios continue to decline in future, but the key driver of this trend will remain revenues.

Credit quality of US banks remains strong, however situation could probably start to gradually worsen but it looks less probable in the nearest future as US economy remains strong. As expected by Bloomberg consensus, total provision expenses of BKX index members will increase by 24.9% qoq or +17.1% yoy. In 1Q18, median NCO ratio of

members of BKX index increased by 3 bps qoq in absolute term to 0.23%. It is still near cycle lows (the same is true for NPL ratio) but there were more and more signs of worsening credit quality in the consumer segment recently, especially in credit cards and auto. Financial health of US Consumer remains strong given positive effect of tax reform, high growth of employment and still low levels of debt-service ratios but it should be noted that debt burden isn't uniform across different income brackets. Financial health of low income consumers isn't strong. Of course, we don't expect significant deterioration of quality of consumer loans until we don't see substantial growth of unemployment rate. But, we expect gradual growth of NCO ratios and provision expenses from its current multi-year lows. Also, we expect to hear comments from banks regarding CECL and how it will impact on provisioning vs current rules.

Overall, the operating trends of US banks remain strong with high growth of revenues and profits, good cost control, high quality of loan portfolio and ample capital levels. Decelerating loan growth is no more a headwind for the industry, while tax reform will still have a significant positive impact on the industry. Direct impact of the reform is in price, from our point of view, while the second order effects and more hawkish pace of rates dynamics aren't. We expect that banks will continue to show more positive surprises than negative ones, as they did in 37 consecutive quarters before, even despite very strong growth of yearly EPS estimates ytd.

Despite relatively weak dynamics of banks in recent months, we continue to hold the view that US banks will outperform broad market and recommend buying on dips as positive effect of tax reform, rising rates, strong economic momentum and possible deregulation will continue to positively impact both on banking operating results and quotes dynamics. Moreover, banks are no more expensive, from historic point of view, trading with -0.6-0.7 std on P/E CY and -0.1-0.3 std on P/E NY (on the basis of samples from 2000 and 2010 yrs to current moment). As for relative to S&P 500, banks are currently trading at -0.8 and -0.9 std from the sample mean (2000-current moment) for P/E CY and P/E NY, respectively. **From our point of view, it good moment to buy US banks. Our top picks are Bank of America (BAC), JP Morgan Chase (JPM), Morgan Stanley (MS), Comerica (CMA) and Zions Bancorporation (ZION).**

ARBAT CAPITAL

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price, $ (29/06/18)	Target price, $	Upside	52-week price, $		RSI	MCap, $ bn.	Dividend yield			Price/Earnings			Price to book	Price to tang. book	ROE, %			TCE ratio, %	CET1 ratio, %
					High	Low			2018E	2019E	2020E	2018E	2019E	2020E			2018E	2019E	2020E		
American Express	AXP	98.0	109.2	11.4%	103.2	83.3	46.9	84.3	1.5%	1.6%	1.7%	13.5	12.2	11.1	4.3	N. A.	30.6	29.3	29.4	8.1	9.0
JP Morgan Chase	JPM	104.2	121.0	16.1%	119.3	88.1	35.4	354.8	2.4%	2.8%	3.2%	11.7	10.7	9.7	1.5	2.0	13.4	13.8	14.2	7.3	12.2
PNC Financial	PNC	135.1	161.0	19.1%	163.6	119.8	28.2	63.4	2.5%	3.0%	3.4%	12.8	11.7	10.6	1.5	1.9	11.3	11.8	12.9	9.2	10.4
Bank of America	BAC	28.2	34.5	22.3%	33.1	22.8	34.5	285.8	2.1%	2.8%	3.4%	11.1	9.7	8.5	1.2	1.7	10.4	11.1	11.9	7.9	11.9
Citigroup	C	66.9	82.8	23.7%	80.7	64.4	46.6	170.6	2.2%	2.8%	3.2%	10.4	9.0	7.8	0.9	1.1	8.6	9.5	10.2	8.5	13.0
BB&T Corp	BBT	50.4	58.0	14.9%	56.3	43.5	27.8	39.3	3.1%	3.5%	3.8%	12.5	11.6	10.7	1.5	2.4	11.3	11.6	12.0	7.7	10.2
Goldman Sachs	GS	220.6	271.5	23.1%	275.3	214.7	31.6	86.5	1.5%	1.6%	1.8%	9.6	9.1	8.3	1.2	1.2	12.1	11.9	12.2	7.3	10.9
SunTrust Banks	STI	66.0	74.9	13.5%	73.3	52.0	35.2	30.7	2.7%	3.1%	3.6%	12.5	11.7	10.9	1.4	2.2	10.7	11.6	11.2	7.3	9.8
Bank of NY Mellon	BK	53.9	61.3	13.6%	59.0	49.4	31.2	54.5	2.0%	2.3%	2.6%	12.7	11.8	10.9	1.4	3.2	11.0	11.3	12.0	4.8	11.9
Comerica	CMA	90.9	103.1	13.4%	102.6	64.1	33.0	15.6	1.6%	2.1%	2.5%	13.4	12.1	11.1	2.0	2.1	14.6	15.5	16.4	10.3	11.7
Citizens Financial	CFG	38.9	49.2	26.5%	48.2	31.5	29.3	18.9	2.5%	3.2%	3.7%	11.3	10.2	9.3	1.0	1.5	8.3	8.8	9.1	9.0	11.2
Regions Financial	RF	17.8	20.4	14.8%	20.2	13.0	34.0	20.0	2.5%	3.1%	3.6%	12.6	11.5	10.3	1.3	2.0	10.2	10.6	11.2	8.5	10.9
Discover Financial	DFS	70.4	86.4	22.7%	81.9	57.5	30.7	24.3	2.1%	2.3%	2.5%	9.1	8.3	7.5	2.4	2.5	24.7	25.0	25.6	9.9	11.6
M&T Bank	MTB	170.2	190.3	11.8%	197.4	141.2	35.7	24.7	2.0%	2.3%	2.7%	13.9	12.6	11.7	1.7	2.5	12.0	12.7	13.1	9.1	10.9
Fifth Third Bancorp	FITB	28.7	34.0	18.6%	34.7	24.7	24.8	19.7	2.6%	3.1%	3.6%	11.6	10.6	9.3	1.3	1.6	11.2	11.5	12.2	9.0	10.6
Huntington Bancorp	HBAN	14.8	17.2	16.8%	16.6	12.2	36.8	16.3	3.2%	3.6%	3.9%	12.1	11.0	9.9	1.6	2.1	12.9	13.4	13.4	7.2	9.9
Northern Trust	NTRS	102.9	114.6	11.4%	110.8	85.7	34.8	23.1	1.8%	2.1%	2.2%	15.9	14.8	13.5	2.4	2.6	15.3	15.4	14.4	6.5	13.5
People's United	PBCT	18.1	19.8	9.6%	20.3	16.0	35.1	6.3	3.8%	3.9%	4.0%	14.2	12.9	11.9	1.1	2.0	7.5	8.1	8.7	7.2	9.7
Synchrony Financial	SYF	33.4	44.1	32.2%	40.6	28.3	36.8	25.2	2.0%	2.4%	2.9%	9.8	7.8	7.3	1.8	2.0	17.9	20.2	20.7	13.3	16.0
KeyCorp	KEY	19.5	23.3	19.0%	22.4	16.3	37.6	20.7	2.7%	3.4%	4.0%	11.5	10.4	9.5	1.4	1.8	12.5	13.1	13.7	8.6	10.2
State Street Corp	STT	93.1	115.7	24.3%	114.3	89.3	30.0	34.0	1.9%	2.2%	2.4%	12.0	10.9	10.0	1.8	3.0	14.2	14.9	14.9	5.0	12.3
US Bancorp	USB	50.0	57.6	15.2%	58.5	48.5	41.6	82.2	2.6%	3.1%	3.6%	12.4	11.5	10.5	1.9	2.7	14.4	14.4	14.6	6.8	9.3
Zions Bancorp	ZION	52.7	59.8	13.4%	59.2	41.2	31.4	10.4	1.9%	2.2%	2.6%	13.4	12.7	11.1	1.5	1.7	11.3	11.4	13.1	9.3	12.1
Morgan Stanley	MS	47.4	60.4	27.3%	59.4	43.8	31.3	83.9	2.4%	2.8%	3.2%	10.1	9.3	8.7	1.2	1.4	11.7	11.9	12.4	7.1	17.5
Capital One Financial	COF	91.9	113.1	23.1%	106.5	77.0	34.6	44.7	1.8%	1.9%	2.3%	9.1	8.5	7.5	1.0	1.5	10.3	10.0	10.1	8.4	10.3
Wells Fargo	WFC	55.4	61.6	11.0%	66.3	49.3	58.3	270.2	2.9%	3.2%	3.5%	12.3	10.8	9.8	1.5	1.8	12.0	12.8	13.4	7.8	12.3
First Republic Banks	FRC	96.8	101.6	5.0%	105.4	84.6	39.7	15.7	0.7%	0.8%	0.9%	20.3	17.5	14.8	2.2	2.3	11.0	11.5	12.6	7.5	10.6
NY Commercial Bancshares	NYCB	11.0	12.7	15.1%	14.5	11.0	26.4	5.4	6.2%	6.2%	6.3%	13.6	13.1	12.4	0.9	1.4	6.3	6.3	6.9	8.3	11.4
SVB Financial	SIVB	288.8	322.2	11.6%	329.7	159.4	29.9	15.3	0.0%	N. A.	N. A.	18.0	15.0	12.1	3.5	3.5	18.4	18.2	17.9	8.2	12.8
Signature Bank	SBNY	127.9	160.6	25.6%	160.5	116.7	45.5	7.0	N. A.	0.2%	0.5%	11.7	10.8	9.9	1.8	1.8	12.3	13.7	13.1	9.4	12.0
East West Bancorp	EWBC	65.2	77.1	18.2%	74.0	52.9	26.4	9.4	1.3%	1.6%	1.8%	14.2	12.9	11.5	2.4	2.7	16.3	15.8	15.8	9.1	11.4
Synovus Financial	SNV	52.8	56.4	6.7%	57.4	40.3	35.5	6.3	1.9%	2.1%	2.1%	14.8	13.4	12.5	2.2	2.3	14.5	14.7	15.1	8.9	10.0
First Horizon National	FHN	17.8	22.2	24.4%	20.9	15.8	27.0	5.8	2.7%	3.0%	3.3%	12.2	10.5	9.5	1.4	2.2	10.9	12.0	12.3	6.6	9.8
BOK Financial	BOKF	94.0	106.8	13.6%	106.6	77.1	31.4	6.2	1.9%	2.1%	2.9%	14.1	12.9	12.4	2.0	2.3	11.6	11.8	11.6	9.5	12.0
Median				**15.7%**			**34.3**		**2.1%**	**2.8%**	**3.2%**	**12.4**	**11.5**	**10.4**	**1.5**	**2.0**	**11.9**	**11.9**	**13.0**	**8.2**	**11.3**

Source: Bloomberg

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APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (29/06/18)	Target price*	Upside	52-week price* High	52-week price* Low	RSI	MCap, € bn.	Dividend yield 2018E	Dividend yield 2019E	Dividend yield 2020E	Price/Earnings 2018E	Price/Earnings 2019E	Price/Earnings 2020E	Price to book	Price to tang. book	ROE, % 2018E	ROE, % 2019E	ROE, % 2020E	TCE ratio, %	CET1 ratio, %
Erste Group	EBS AV	EUR	35.8	43.1	20.5%	41.7	30.2	37.2	15.1	3.8%	4.4%	5.1%	12.8	12.1	11.3	1.2	1.3	10.4	10.7	11.0	5.2	13.4
Raiffeisen Bank	RBI AV	EUR	26.3	31.8	20.9%	35.4	21.0	40.4	8.2	3.5%	4.8%	5.8%	10.6	9.6	8.7	0.8	0.9	10.6	10.2	10.3	6.9	12.9
KBC Groep	KBC BB	EUR	66.1	79.2	19.8%	78.8	62.9	32.3	29.3	5.5%	6.0%	6.4%	12.1	12.8	12.5	1.6	1.7	14.3	13.3	13.3	5.6	16.5
Komercni Banka	KOMB CK	CZK	935.5	1057.9	13.1%	1013.0	879.0	49.5	6.9	4.9%	5.0%	5.4%	14.2	14.0	13.5	1.8	2.0	13.2	13.1	13.0	8.9	18.0
Jyske Bank	JYSK DC	DKK	350.0	400.3	14.4%	399.8	319.1	35.2	5.0	2.4%	3.1%	3.6%	11.7	11.8	10.6	0.9	0.9	8.4	8.6	8.8	5.4	16.4
SydBank	SYDB DC	DKK	219.4	245.4	11.8%	266.0	215.4	34.0	2.5	5.1%	5.0%	5.5%	12.1	12.1	11.0	1.3	1.3	12.2	11.7	12.3	8.4	17.3
Danske Bank	DANSKE DC	DKK	199.8	265.0	32.7%	259.5	204.0	26.9	32.1	5.3%	6.0%	6.4%	12.2	11.8	11.0	1.2	1.3	12.4	12.8	13.3	4.2	17.6
BNP Paribas	BNP FP	EUR	53.2	71.6	34.5%	69.2	52.7	17.8	81.9	5.7%	6.2%	7.2%	10.9	10.3	9.5	0.7	0.8	8.0	8.5	9.4	4.2	11.9
Natixis	KN FP	EUR	6.1	7.5	24.1%	7.5	5.7	30.7	19.3	6.3%	7.0%	7.9%	13.4	12.1	11.0	1.0	1.2	9.4	10.2	10.9	2.6	10.8
Societe Generale	GLE FP	EUR	36.1	48.7	34.9%	50.5	36.6	13.0	40.1	6.3%	6.9%	7.6%	11.1	10.0	9.3	0.5	0.6	7.1	7.7	8.3	4.1	11.4
Credit Agricole	ACA FO	EUR	11.4	16.5	43.9%	15.7	11.6	17.8	42.3	6.0%	6.5%	7.2%	12.6	11.4	10.3	0.5	0.8	6.6	7.1	7.8	2.3	11.7
CYBG	CYBG LN	GBp	317.6	309.2	-2.7%	341.6	260.0	41.9	2.6	0.0%	0.1%	0.1%	14.1	12.6	10.7	0.9	1.0	4.1	7.3	8.1	7.1	12.4
HSBC	HSBA LN	GBp	710.7	770.7	8.4%	798.6	650.6	51.7	170.3	0.1%	0.1%	0.1%	12.2	11.3	10.4	1.0	N. A.	8.0	8.3	8.7	5.8	14.5
Royal Bank of Scotland	RBS LN	GBp	256.1	309.8	21.0%	304.2	239.6	42.9	33.0	0.0%	0.0%	0.1%	11.7	10.4	9.1	0.6	0.7	7.7	8.1	9.1	5.7	15.9
Barclays	BARC LN	GBp	189.0	221.6	17.2%	220.1	177.3	34.4	38.6	0.0%	0.0%	0.1%	11.9	9.0	8.5	0.6	0.8	4.8	7.2	7.7	4.2	13.3
Standard Charted	STAN LN	GBp	692.6	764.2	10.3%	864.2	688.6	44.7	31.1	0.0%	0.0%	0.1%	16.2	11.4	9.3	0.6	0.7	5.1	5.9	6.7	7.1	13.6
Lloyds	LLOY LN	GBp	63.1	74.7	18.5%	72.7	62.2	36.3	52.6	0.1%	0.1%	0.1%	8.9	9.1	9.1	1.0	1.2	12.7	12.3	12.0	4.8	14.1
Commerzbank	CBK GY	EUR	8.2	11.6	40.9%	13.8	8.7	26.5	13.9	2.1%	3.9%	5.9%	27.0	15.2	10.5	0.4	0.4	3.2	3.9	5.2	5.7	14.9
Deutsche Bank	DBK GY	EUR	9.2	11.2	21.8%	17.1	9.1	23.4	31.2	1.9%	3.7%	5.5%	14.0	9.7	7.9	0.3	0.4	1.4	3.1	4.3	3.7	14.8
UniCredit	UCG IM	EUR	14.3	20.4	42.9%	18.4	13.8	23.3	37.1	2.5%	4.6%	6.7%	14.3	11.1	8.6	0.6	0.6	6.5	7.9	8.4	6.2	13.7
Mediobanka	MB IM	EUR	8.0	10.5	32.5%	10.5	7.5	31.4	7.8	5.6%	5.8%	6.1%	11.6	10.9	10.2	0.7	N. A.	9.2	8.9	8.8	12.2	13.3
Intesa Sanpaolo	ISP IM	EUR	2.5	3.4	35.0%	3.1	2.4	24.2	48.7	8.3%	8.6%	9.2%	13.7	12.1	10.8	0.8	0.9	8.0	8.8	9.8	6.1	13.3
Emilia Romagna	BPE IM	EUR	4.7	5.5	16.8%	5.2	3.8	29.1	2.2	3.1%	3.8%	5.0%	15.8	9.1	7.0	0.5	0.6	5.8	6.6	7.5	6.4	13.9
UBI Banca	UBI IM	EUR	3.3	4.3	30.5%	4.6	3.1	23.0	4.7	3.7%	5.5%	7.2%	19.9	12.6	7.9	0.4	0.5	3.7	5.9	6.7	6.5	11.6
ING Groep	INGA NA	EUR	12.3	16.3	32.5%	16.7	12.3	26.9	61.4	5.7%	6.0%	6.3%	12.4	11.9	11.1	1.0	1.0	10.3	10.4	10.7	5.8	14.7
ABN Amro	ABN NA	EUR	22.2	27.7	24.5%	28.5	22.1	32.3	22.5	5.6%	6.6%	7.4%	10.3	10.6	10.2	1.0	N. A.	10.9	10.9	10.8	5.4	17.7
DNB	DNB NO	NOK	159.3	167.7	5.3%	164.3	135.7	42.8	27.1	5.0%	5.5%	5.9%	12.9	11.7	10.7	1.3	1.3	10.8	11.1	11.5	7.2	16.4
BBVA	BBVA SQ	EUR	6.1	7.5	23.4%	7.9	5.8	26.2	51.0	4.5%	4.9%	5.4%	12.0	11.1	10.3	0.9	1.1	10.2	9.7	9.7	5.6	11.7
Santander	SAN SQ	EUR	4.6	6.0	31.5%	6.1	4.5	23.8	85.4	4.8%	5.2%	5.9%	12.6	11.4	10.2	0.8	1.1	7.9	8.5	9.0	4.6	12.3
Bankia	BKIA SQ	EUR	3.2	4.0	25.0%	4.6	3.2	30.0	12.3	4.0%	5.6%	7.4%	13.4	12.6	11.4	0.7	N. A.	6.1	6.9	7.9	6.2	14.2
Bankinter	BKT SQ	EUR	8.3	8.5	2.5%	9.4	7.6	35.1	7.4	3.6%	3.9%	4.2%	15.7	14.5	13.0	1.7	1.8	12.3	12.7	13.0	5.8	11.8
Sabadell	SAB SQ	EUR	1.4	1.8	25.8%	2.0	1.4	28.2	10.6	5.1%	6.0%	7.0%	13.7	11.8	10.0	0.6	0.8	6.1	7.1	8.3	5.0	13.4
CaixaBank	CABK SQ	EUR	3.7	4.6	23.8%	4.5	3.6	32.0	26.4	4.9%	5.6%	6.3%	15.3	12.5	11.2	0.9	1.1	9.2	9.5	10.0	5.4	12.7
SEB	SEBA SS	SEK	85.2	97.1	14.0%	109.0	79.4	34.6	23.5	7.1%	7.4%	7.8%	13.0	12.5	11.7	1.4	1.5	12.5	12.3	12.6	5.2	19.4
Handelsbanken	SHBA SS	SEK	99.6	104.9	5.4%	125.0	92.8	40.3	24.5	6.3%	6.5%	6.8%	14.7	14.2	13.5	1.5	1.6	11.7	11.8	12.0	4.8	22.7
Swedbank	SWEDA SS	SEK	191.8	212.8	11.0%	226.3	177.2	34.7	25.0	6.9%	7.0%	7.2%	12.7	12.2	11.7	1.7	2.0	15.0	14.8	14.6	5.3	24.6
Nordea	NDA SS	SEK	86.3	100.4	16.4%	114.4	84.0	37.9	43.3	0.8%	0.9%	0.9%	120.6	111.0	104.9	1.1	1.3	10.2	10.2	10.5	4.9	19.5
Julious Baer	BAER VX	CHF	58.3	66.4	13.9%	63.8	47.9	39.8	10.8	2.9%	3.3%	3.6%	15.4	13.7	12.4	2.2	4.3	15.2	15.0	16.4	3.1	16.7
Credit Suisse	CSGN VX	CHF	15.0	19.0	27.3%	18.5	12.7	32.4	33.4	2.9%	4.3%	5.3%	19.4	12.4	9.5	0.9	1.0	7.1	9.8	10.4	4.7	13.5
UBS	UBSG VX	CHF	15.3	19.1	24.7%	19.0	14.6	32.5	56.9	4.6%	4.9%	5.3%	12.4	11.6	10.4	1.1	1.3	9.5	10.6	11.2	4.9	14.9
Median					**21.4%**			**32.4**		**4.5%**	**5.0%**	**5.9%**	**12.8**	**11.8**	**10.5**	**0.9**	**1.0**	**9.2**	**9.6**	**9.9**	**5.4**	**14.0**

Source: Bloomberg

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Table 3. Calendar

Date	Region	Section	Event	Period
2-Jul	EU	Macro	PPI	May
2-Jul	EU	Macro	Unemployment Rate	May
2-Jul	US	Macro	ISM Manufacturing	Jun
3-Jul	EU	Macro	Retail Sales	May
3-Jul	US	Macro	Factory Orders and Durable Goods	May
5-Jul	US	Macro	ADP Employment Change	Jun
5-Jul	US	Macro	FOMC Meeting Minutes	Jun 13
6-Jul	US	Macro	Employment Report	Jun
10-Jul	EU	Macro	ZEW Survey Expectations	Jul
11-Jul	US	Macro	PPI	Jun
12-Jul	EU	Macro	Industrial Production	May
12-Jul	US	Macro	CPI	Jun
13-Jul	**US**	**Corporate**	**JPMorgan Earnings Announcement**	**2Q 18**
13-Jul	**US**	**Corporate**	**Wells Fargo Earnings Announcement**	**2Q 18**
13-Jul	**US**	**Corporate**	**Citigroup Earnings Announcement**	**2Q 18**
13-Jul	US	Macro	U. of Mich. Sentiment	Jul
16-Jul	US	Corporate	Bank of America Earnings Announcement	2Q 18
16-Jul	US	Macro	Retail Sales	Jun
16-Jul	US	Macro	Empire Manufacturing	Jul
17-Jul	US	Corporate	Goldman Sachs Earnings Announcement	2Q 18
17-Jul	US	Macro	Industrial Production and Capacity Utilization	Jun
18-Jul	US	Corporate	Morgan Stanley Earnings Announcement	2Q 18
18-Jul	US	Macro	Housing Starts and Building Permits	Jun
19-Jul	US	Macro	Leading Index	Jun
23-Jul	EU	Macro	Consumer Confidence	Jul
23-Jul	US	Macro	Existing Home Sales	Jun
24-Jul	EU	Corporate	UBS Earnings Announcement	S1 18
24-Jul	EU	Macro	Eurozone Manufacturing, Services and Composite PMI	Jul
24-Jul	US	Macro	Markit US Manufacturing, Services and Composite PMI	Jul
25-Jul	EU	Corporate	Santander Earnings Announcement	S1 18
25-Jul	EU	Corporate	Deutsche Bank Earnings Announcement	2Q 18
25-Jul	US	Macro	New Home Sales	Jun
26-Jul	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Jul 26**
26-Jul	US	Macro	Wholesale Inventories	Jun
26-Jul	US	Macro	Durable Goods Orders	Jun
27-Jul	**US**	**Macro**	**GDP**	**2Q**
30-Jul	EU	Macro	Economic Confidence and Business Climate Indicators	Jul
31-Jul	EU	Corporate	Standard Chartered Earnings Announcement	S1 18
31-Jul	EU	Corporate	Credit Suisse Earnings Announcement	S1 18
31-Jul	EU	Macro	Unemployment Rate	Jun
31-Jul	EU	Macro	CPI	Jul
31-Jul	**EU**	**Macro**	**GDP**	**2Q**
31-Jul	US	Macro	Personal Income and Spending	Jun
31-Jul	US	Macro	Conf. Board Consumer Confidence	Jul

Source: Bloomberg

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