BANKING SECTOR REPORT – March 2020

EXECUTIVE SUMMARY

Collapse of US banking quotes continued in March after very weak performance in January and February amid further spreading COVID-19 around the world. The broad market was underperformed substantially for the third consecutive month after 4 months in a row of leading dynamics. Thus, BKX index tumbled by 28.6% MoM in March vs -12.5% MoM of SPX index. Absolute performance on MoM basis was -4.2 std from the mean and it is in the bottom 1% of absolute MoM performance of BKX index. Relative March performance was -18.3% MoM, it is -3.8 std from the mean and it is also in the bottom 1% of relative MoM performance vs SPX index since 1992. It was the worst month on both absolute and relative performance since January 2009 and the second worst month for BKX index since the index inception. Also, it was the worst quarter for BKX index in the history.

All members of BKX index demonstrated negative dynamics in March, the second consecutive month of quotes decline for all members of the index. The best performing companies lost 13-21% in March while the worst performing ones tumbled by more than 40% MoM.

The earnings season of US banks will start on April 14th, when 1Q20 results are provided by JP Morgan and Wells Fargo. After that, within two weeks, all members of BKX index will provide quarterly results. So far, US banks have reported reasonable headline numbers but estimates have been revised down recently, given significant decline of key benchmark rates and challenging economic environment. According to Bloomberg consensus, median decline of 1Q20 EPS of BKX index members is -5.2% qtd (as end of March). Full-year estimates for the current and next years were also revised down by -6.9% and -6.1% ytd, respectively. Given recent turmoil on financial markets and as a result further contraction of US economy, we think that FY20/21 EPS estimates will continue to go down further, after 1Q20 earnings season, even despite we expect that 1Q20 figures will be more resilient than it is feared, but better reported figures are of least interest to investors now. To understand the current situation and future prospects, banks' comments on recent trends are much more important now, than ever before in this cycle. Moreover, estimates still remain optimistic and median change of 1Q20 revenue estimates of BKX index members is +0.1% ytd as the end of March.

It was expected that the Fed would announce additional measures of monetary easing at its March meeting, but reality has made its own adjustments and the rate was cut to zero, target range 0-0.25%, without waiting for the scheduled meeting (the level where it was from Dec 2008 to Dec 2015). Also, many other stimuli were announced to provide funding/liquidity to the market to mitigate the impact of the coronavirus on the economy. Announced measures have already impacted positively on US economy, reducing the level of stress considerably but even these unprecedented measures won't prevent significant contraction of US economy in the nearest quarters, even taking into account fiscal stimulus of $2 trln. Some estimates imply that US economy will contract by more than 30% annualized in 2Q20 while unemployment rate will exceed 10%, high of the Great Recession. So, we do not exclude that new measures to support the economy will be announced in the near future. But the efficiency of these measures will be low if economy is still somewhat paused because of even partial lockdown caused by coronavirus spreading.

But the situation with COVID-19 is still worsening. Number of confirmed COVID-19 cases increased tenfold during March and even the growth rate in percentage terms continues to grow, implying that we are far from even peak number of daily cases. So, strict

quarantine measures will remain in place for weeks, if not months. It seems that peak daily cases in Italy and Spain (the most affected European countries by coronavirus) are behind us but current number of daily cases remains relatively stable at elevated levels despite it. So, hopes for a sharp improvement of the situation after reaching the peak of morbidity are not justified. It just means that probability of V-shaped recovery tends to zero. So, banking fundamentals will deteriorate meaningfully in the near term. Unsurprisingly, banks are trading with significant discount to historical averages as risks continue mounting. Also, EPS forecasts lag behind reality, understating real multipliers. Thus, banks are trading with -3.8/-3.5 std on P/E CY and -3.7/-3.2 std on P/E NY (on the basis of samples from 2000 and 2010 yrs to current moment) relative to historical averages (as of March 27). As for relative to S&P 500, banks are currently trading at -2.9 and -2.8 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively.

Despite stocks are still trading at a significant discount to both S&P 500 index and historical averages, we maintain our cautious view on US banks given upcoming recession and deterioration of credit quality. So, we remain neutral on US banks until we see the first signs of fundamentals improvement. Also, bear market rally in the last week of March after significant sell-off before markedly diminished attractiveness of US banking shares given no catalysts ahead, at least in the nearest months.

European banks continued its rapid decline in March after a small breathing period in the first half of February. In result, it again significantly underperformed the broad market index in March, the third consecutive month of lagged dynamics after 4 months in a row of outperformance at the end of last year. On absolute basis, SX7P index tumbled by 29.5% MoM in March or -4.6 std from the mean and this result is the worst monthly performance of SX7P index since the inception. Relative monthly performance was -17.3% MoM or -4.7 std and it is also the worst month in the history of SX7P index.

Corporate news did not play a significant role and everything was determined by news of the spread of COVID-19 around the world. So, dynamics within the sector was uniform with decline of all members of SX7P index in March. The best performing banks decreased by 13-19% MoM while the worst performing companies lost 40-60% MoM in March. In result, many of SX7P index members are not far from their all-time lows.

European macro data published in March was clearly negative in the first place because of significant drop of PMI indices. Composite PMI (preliminary figure), which is well correlated with GDP growth, markedly missed expectations in March even despite expectations were very pessimistic, pointing to decline of GDP as early as in 1Q20. It tumbled by 20.2 pts to 31.4 pts vs consensus of 38.8 pts, all-time low. It was driven by services PMI which moved below 30 pts. Unsurprisingly, ECB announced many new measures to support economy, but not everything depends on the actions of the monetary authorities. The longer strict quarantine the more problems for EU economy and more losses for EU banks which are forced to exist in very challenging revenue environment, accompanied by long period of negative rates and upcoming growth of NPLs while the capabilities to mitigate revenue decline through cost cutting are limited. ECB's liquidity and capital relief measures are helpful for banking quotes as risk of dilution is reduced significantly but fundamentals remain weak. So, we expect that estimates will continue to go down. As the end of March, median decline of FY20 EPS of SX7P index members is 18.1% ytd, FY20 revenue -2.3% ytd, FY20 NII -1.6% ytd, FY20 provision +27.5% ytd. EU banks continue to trade with significant discount to historical averages (-37%/ -2.2 std from mean P/E CY of SX7P index members, sample from 2010 to the present) but discount to US peers (on median P/E CY of BKX index vs SX7P index) is just 7.8% at the moment vs average of 15.4% since 2010 or +1 std, out of synch with reality, from our point of view, given higher risks associated with EU banks which have not fully recovered from the previous crisis. Moreover, despite SX7P index is not very far from all-time low, we could

see further decline of European banks if restrictions remains for more than a month.

MARKET PERFORMANCE

US

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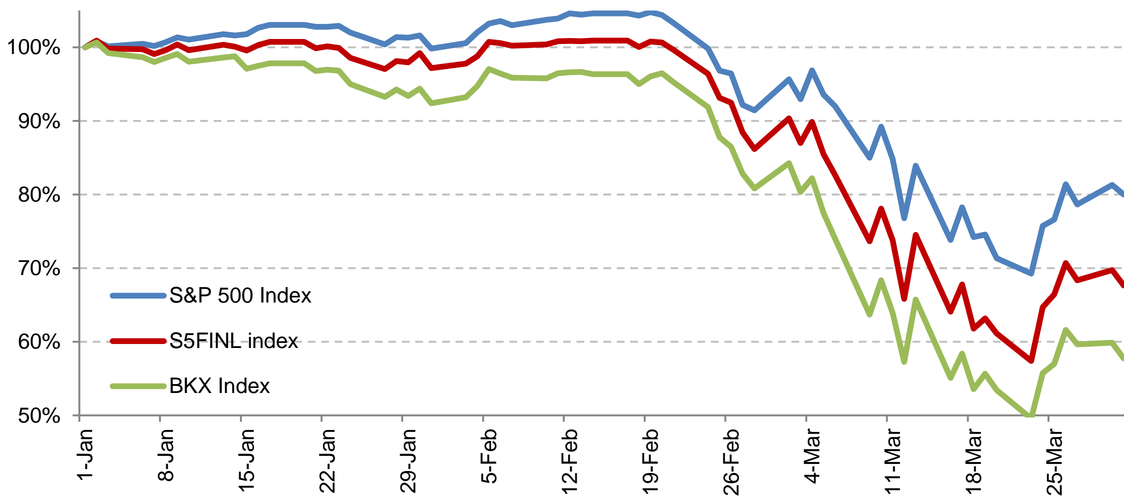
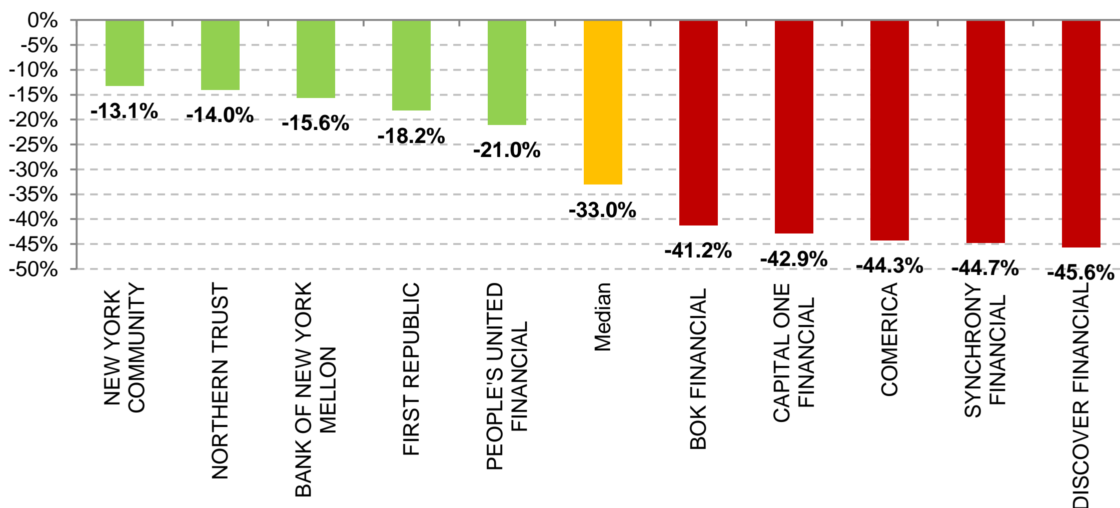
Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

Chart 2. March US Banks Performance*. Leaders and Laggards, 1Month Price Change,%



Source: Bloomberg

Europe

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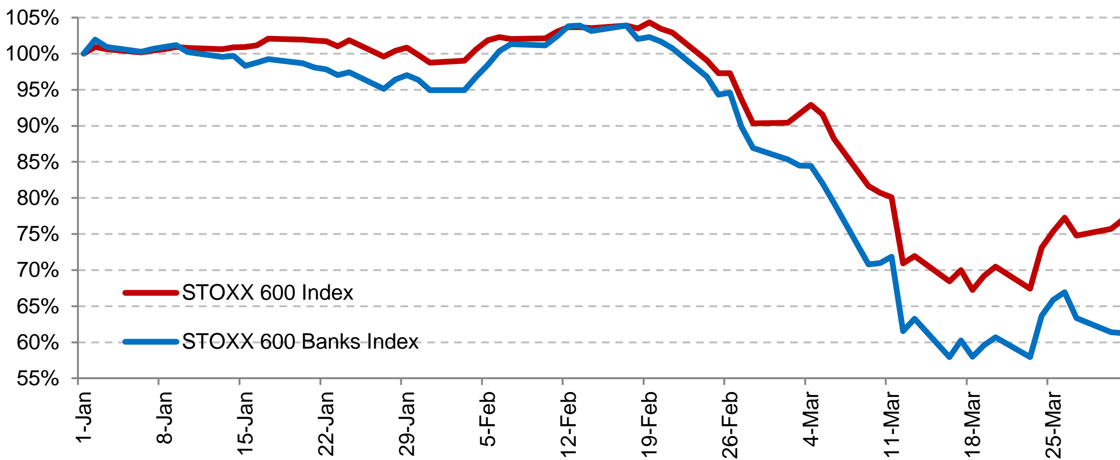
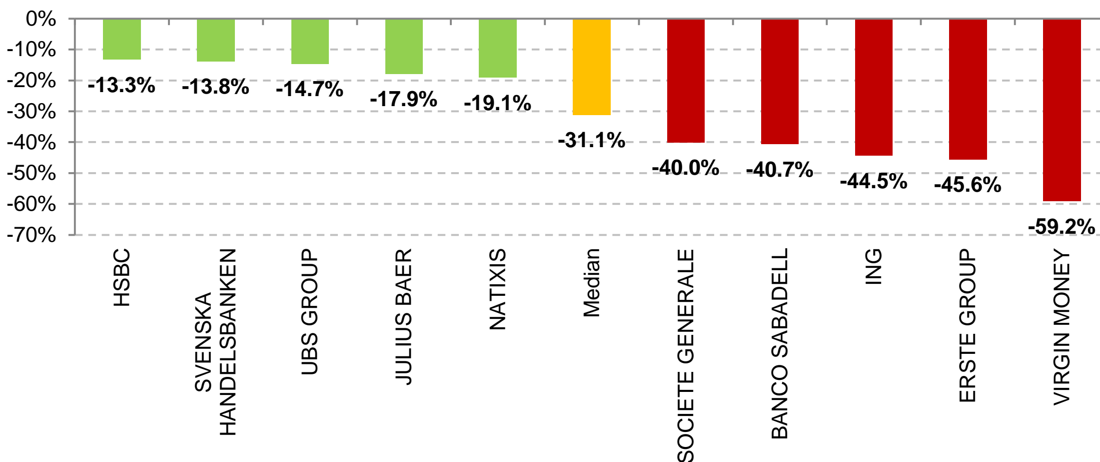
Chart 3. EU Banks Performance. SX7P Index vs STOXX 600 Index



Source: Bloomberg

Chart 4. March EU Banks Performance*. Leaders and Laggards, 1Month Price Change,%



Source: Bloomberg

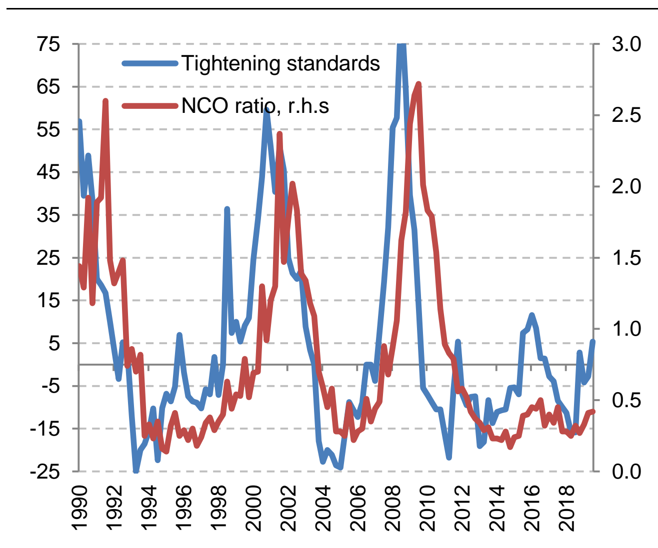
MACROECONOMIC NEWS

US

C&I loans

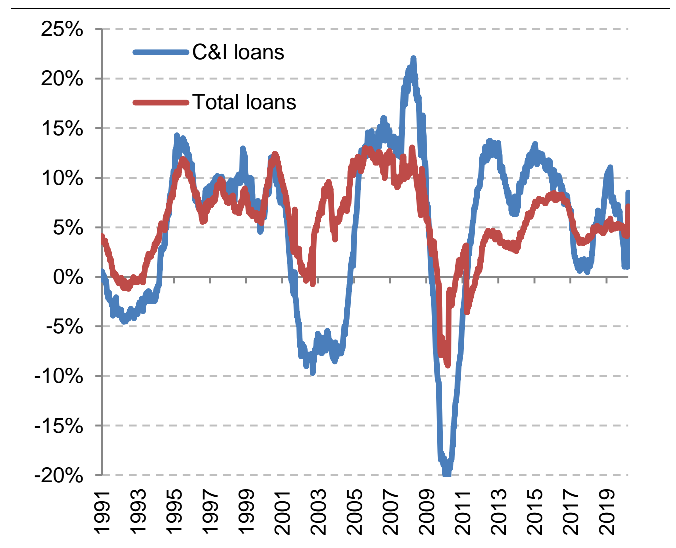
C&I loans growth was relatively weak in the first two months of the year, fluctuating around 1% on yoy basis, but it significantly accelerated in mid-March because of stress on the bond market and liquidity problems. So, corporates started to actively use undrawn credit lines and revolvers. In result, C&I loans increased by $176 Bn only for the week 11-18 March, but we think that it is temporary phenomenon and C&I loans will begin to decrease in coming months given inevitable recession, accompanied by significantly higher number of bankruptcies and tighter lending standards. According to the Fed H.8 survey, C&I loans increased by 8.5% yoy (as of March 18) vs 10% yoy 1 year ago and +1% yoy as the start of 2020. On ytd basis, C&I loans added 8.8% vs +4.0% ytd of total loans.

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



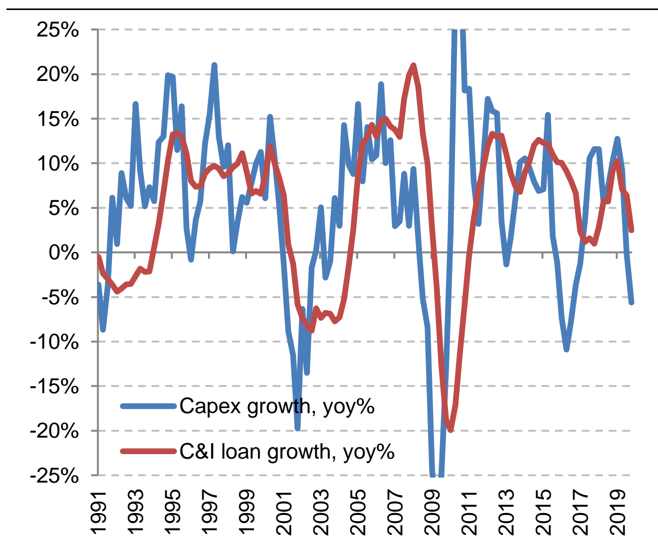
Source: Bloomberg

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



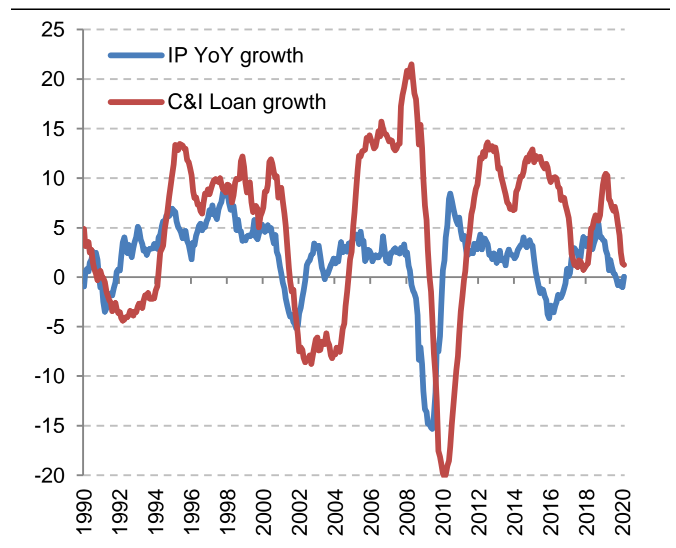
Source: Bloomberg

Chart 7. C&I. Loan Growth vs CAPEX



Source: Bloomberg

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



Source: Bloomberg

Despite unprecedented support measures from both the Fed and the government, it will be difficult to avoid decline of C&I loans in coming quarters even taking into account banking forbearance and willingness to provide liquidity and restructure loans. We have already

seen bankruptcies in the Energy sector because of significant decline of oil price while tourism, restaurants and nonfood retailers are still almost closed, meaning that bankruptcies in these industries are not far off even despite support measures. At least, just earnings recession, which was our base case for 2020 even before spreading coronavirus around the world, looks the best, from possible options now, but currently the base case is full-fledged recession with the open question how long it will last. But it shouldn't be a big threat for banks given significantly higher capital levels, lower leverage and more cautious approach to borrowers during the cycle while non-bank lenders may be hit hard.

Despite concerns about deterioration of C&I credit quality over the recent years (and total loan portfolio at all), it remains benign so far, but it will undoubtedly worsen in the coming quarters. According to FDIC data, 30-89 delinquency rate increased by 5 bps yoy but -1 bps qoq to 0.32% in 4Q19. Being a leading indicator of asset quality, it confirms that it remains in a good shape so far despite recent slowdown of US economy. Noncurrent rate also increased by 11 bps yoy to 0.79%, -2 bps qoq. Slightly lower than Fed figures, where delinquency ratio increased by 18 bps yoy or -1 bps qoq to 1.14% in 4Q19. FDIC's NCO ratio increased by 1 bps qoq or +10 bps yoy to 0.42%, still markedly lower than average figures of the last two cycles. According to the Fed data, NCO ratio increased by 8 bps qoq or -7 bps yoy to 0.35% in 4Q19. It wasn't a reason to panic given relatively good financial health of US corporations at that moment with strong ROA, solid quick ratios and relatively low net debt to EBIT. But the situation has changed quickly in March because of perfect storm on the bond market caused by lockdown of many developed economies due to spreading of COVID-19 around the world. Given high leverage of US corporate sector and coming decline of revenues because of imminent recession in US (and significant deceleration of Global growth), we will see significant drop of interest coverage ratios as early as in 2Q20 even despite the fed funds rate was cut to zero since spreads skyrocketed at the same time. Moreover, interest coverage ratios have already been declining for eight months in a row despite relatively low benchmark rates and declining corporate spreads (to record lows). Even, total US corporate profit in 2019 was almost flat on yoy basis. Nevertheless, the Fed acted quickly and it implemented an unprecedented set of measures to ease the negative impact of the perfect storm in financial markets on the economy. But it will just slow down somewhat growth of NPLs and NCOs but don't prevent it. The magnitude of the problem will depend on how long the recession will last. From our point of view, it will be U-shaped recovery at the best. And the key risk for corporate credit quality during recession comes from leveraged loans and its spillover effects on the economy as it grew rapidly during the cycle. Currently, corporate debt as a percent of GDP is higher than it was before the Great Recession while the share of covenant-lite leveraged loans issuance remained very high in recent years.

The January 2019 Senior Loan Officer Opinion Survey indicated that C&I lending standards remained basically unchanged on C&I loans of all segments but banks eased some C&I key terms. At least, banks narrowed spreads of loan rates over the cost of funds as well as lower cost of credit lines and easing loan covenants. The key reason of tightening standards was a less favorable or more uncertain outlook as well as reduced tolerance for risk. From the other hand, increased competition from other banks and nonbank lenders continues to be the main reason of easing standards. Banks noted weaker demand for C&I loans from firms of all sizes. Also, the number of inquiries from potential borrowers decreased in 4Q19. The key reasons were decreases in investment plans and lower needs to finance accounts receivables. Also, banks noted that they expect "tighter standards and a deterioration in loan performance for most loan categories over 2020".

Manufacturing macro data published in March were negative but the real situation is worse given that majority of the data related to February or January when the COVID-19 wasn't such a big problem for the Global economy as it is now. Thus, positive surprises were

shown by construction spending (related to January) and employment report was also better than expected (related to February) but initial jobless claims in the last weeks of March skyrocketed to all-time highs. From the other hand, ISM manufacturing, Empire manufacturing and other sentiment indices showed negative surprises, pointing to further weakness in the sector. Thus, ISM manufacturing index decreased by 0.8 pts to 50.1 pts vs expectations of 50.5 pts, still remaining at the expansion territory but key components pointed to further decline of the index in the future after early signs of stabilization in 2020. Moreover, there are more and more other signs that we will see sharper decline of manufacturing sector in the coming months. At least, Citi economic surprise index tumbled from +56.2 pts as the end of February to -2.9 pts as the end of March. Bloomberg surprise index was slightly higher in March but it should go down significantly as early as in April given the rate of deterioration of US economic indicators. So, risks undoubtedly remain to be tilted to the downside. Consensus GDP growth rates for the nearest 3 years were revised down in March but it should continue to be revised down in coming months. Thus, GDP growth was revised down from 1.8%/2.0%/1.9% for 2020/2021/2022, respectively, in February to 1.4%/1.9%/2.1% in March. Manufacturing payrolls increased by 15K in February vs expectations of -3K, while January initial estimate was revised down from -12K to -22K. Industrial production increased by 0.6% MoM in February vs expectation of growth of 0.4% MoM but January decline was slightly revised down by 20 bps to -0.5% MoM. Empire manufacturing index tumbled by 34.4 pts to -21.5 pts vs expectations of +3 pts. Markit manufacturing PMI decreased just by 0.9 pts MoM to 49.2 pts vs expectations of 43.5 pts. Unsurprisingly, consensus IP growth forecast was revised down in March vs February to -0.1/1.7%/1.7% for 2020/2021/2022, respectively, from 0.5%/1.8%/1.7%.

CRE

Growth rate of commercial real estate loans on yoy basis continues to accelerate in the recent months after being relatively flat in 2018-2019 hovering around 4.5-5%. Thus, according to the last Fed H8 weekly report, CRE loan growth was +6.4% yoy (as of March 18) vs +4.5% yoy 1 year ago. But recent uptick is temporary, from our point of view, given upcoming recession and imminent deterioration of fundamental characteristics of the sector which were relatively healthy so far. We have already seen deceleration of NOI growth in some subsegments, but this is nothing compared to what the sector expects in the near future taking into account recent efforts to counter the spread of the virus. Properties in many CRE segments still remained closed, meaning not only that tenants can’t pay rent now but also that many of them will be on the verge of bankruptcy in the future even despite support measures from the government. Unsurprisingly, REITs quotes collapse in the second half of March. Thus, BBREIT index decreased by 19.7% MoM or -24.6% ytd. Even significant decline of key benchmark rates didn’t support REITs as risk of substantial deterioration of fundamentals is markedly higher at the moment.

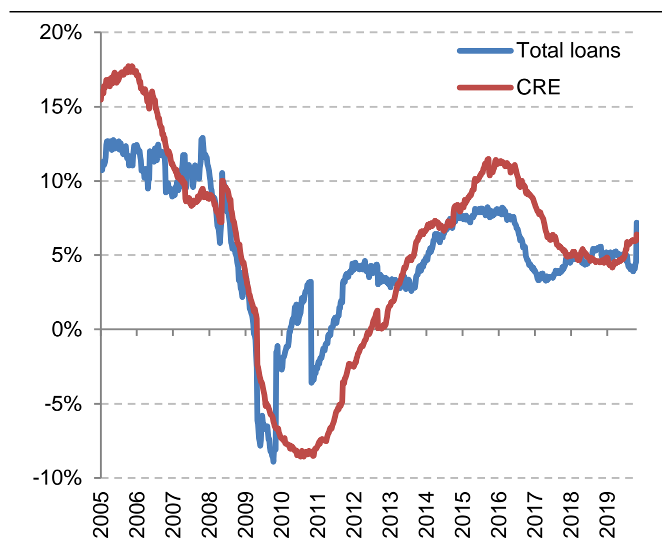
Despite ongoing tightening credit standards in CRE, deceleration of NOI growth and higher probability of recession, credit quality of the segment remains very strong so far. Thus, according to the Fed data, CRE NCO ratio was almost flat on yoy basis at just 0.02% in 4Q19 while delinquency ratio decreased by 3 bps yoy to 0.67%, all-time low. According to FDIC data, NCO ratio for all CRE subsegments (construction, multifamily, commercial mortgage) remains stable, almost 0% during the last year. Non-current ratio is also lower on yoy basis in 4Q19 – commercial mortgage noncurrent ratio is 0.51%, -7 bps yoy; construction one is 0.44%, flat bps yoy; multifamily noncurrent ratio is 0.11%, -4 bps yoy. Leading indicator of future credit quality, 30-89 days delinquency ratio, is also stable in 4Q19, near multi-year lows. The figure in commercial mortgage was -1 bps yoy to 0.24%; in construction it was +3 bps yoy to 0.38%; in multifamily it was +3 bps yoy at 0.14%.

Price growth remains solid so far and it even accelerated in the recent months but yoy

growth rate still remains lower than it was 1 year ago. Obviously, prices will start to go down in the nearest future, especially in the most affected segments, such as retail and hotels. The key drivers of recent price acceleration were apartments and offices while industrial and retail were almost flat. Thus, CRE price index has renewed its all-time high again (more than 30% higher than peak of the previous cycle), adding +6.7% yoy as the end of February 2020 vs +6.9% 1 year ago but not far from the lowest growth rate since the end of 2011.

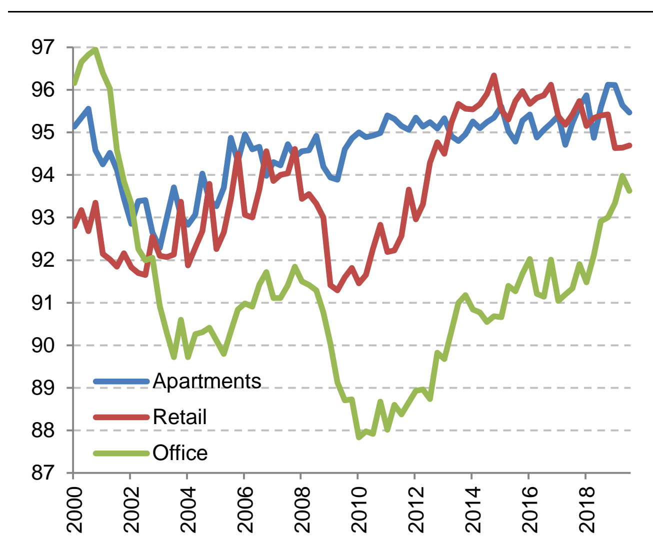
Transaction volumes remained relatively solid in the first two months of the year across majority CRE segments, even comparing with strong previous years, but it undoubtedly will decrease significantly in the near term after so much turmoil in the financial markets. It will not be surprising if activity in some segments pause for somewhat as some DM economies did in March (and probably in April). Apartment price index added +10.4% yoy as of end of February, slight acceleration from growth rate in the middle of 2019. In turn, price index of retail CRE increased only by +2.4% yoy vs +2.7% 1 year ago. Growth of prices of industrial CRE decelerated to +9.9% yoy from +12.8% yoy in July 2019 and slightly down from 10.4% yoy in February 2019. Growth rate of office prices accelerated to 5.8% yoy from 4.9% yoy 1 year ago.

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



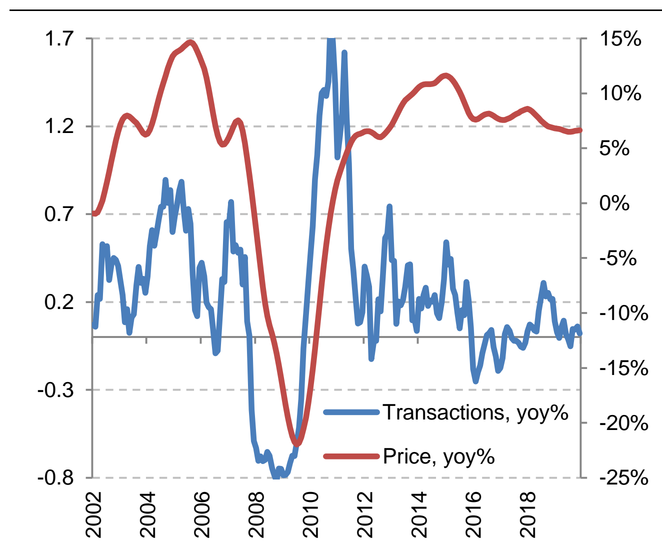
Source: Bloomberg

Chart 10. CRE. Occupancy Rates, %



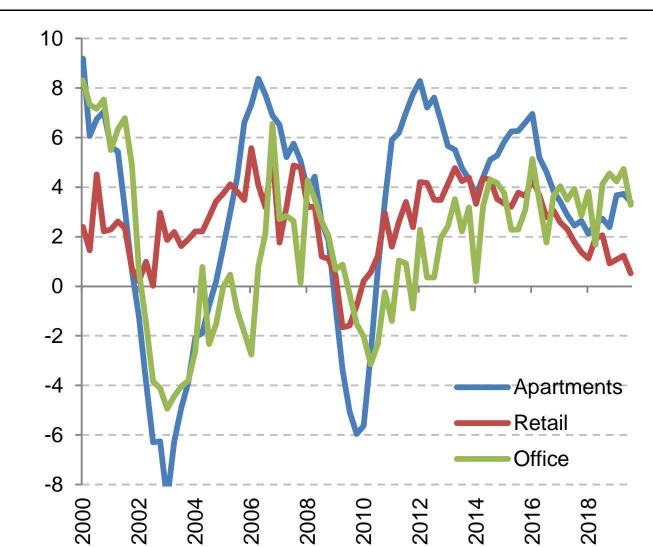
Source: Bloomberg

Chart 11. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

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



Source: Bloomberg

Solid but decelerating growth of US economy and rising employment supported CRE fundamentals so far, especially in office segment where we have seen growth of both same-store NOI and occupancy rates recently. But the situation has changed dramatically in recent weeks with skyrocketed growth of unemployment, closed malls and stores, social distancing and home working. All of these suggest difficult times for the sector in the near future, accompanied by lower occupancy rates, lower rents and so on. Moreover, some REITs (with high leverage) have already announced suspension of dividends because of liquidity concerns. Of course, it currently applies to the most levered companies but it may spread to the other companies in the industry over time if we don't see normalization of the situation in the coming months, accompanied by significant deterioration of credit quality and negative loan growth.

In 4Q19, banks continue to tighten standards for CRE loans, for construction loans (the 19th quarter in a row) while for multifamily loans it was no tightening as well as loosening after 17 quarters in a row of tighter standards. On net, it was slight improvement on the absolute level of tightening vs 3Q19 for majority of loan categories. Credit standards for nonfarm nonresidential loans were also tightened. Banks also mentioned weaker demand for construction and land development loans while demand for multifamily and nonfarm nonresidential properties remained basically unchanged. Answering on the special set of questions, banks reported that they expected tighter standards for all major CRE categories in 2020. Also, banks expect performance deterioration of all CRE categories except for multifamily where it is expected to remain unchanged.

Mortgage

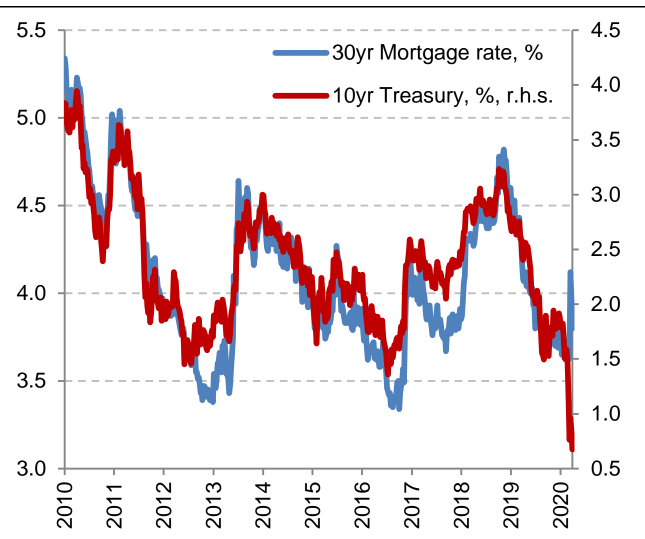
The growth rate of mortgage loans decelerated in March even despite decline of 10yr treasury yield to the record low as mortgage spreads widened significantly. Thus, mortgage loans increased by 4.4% yoy (as of March 18) vs +3.5% yoy 1 year ago and +5.3% yoy as the end of 2019. Affordability ratios have already declined meaningfully from the cycle high but they should increase in the near future because of substantial decline of key benchmark rates. Notwithstanding, even current level of affordability ratios isn't low from the historical averages point of view, as well as household debt burden isn't either. But banks prefer to remain on the sidelines (at least, for new mortgage borrowers) given significant growth of unemployment ratio in the near future and as a consequence forthcoming growth of problem loans. We don't expect that NPL and NCO ratios will even approach the values that we saw in the last crisis due to more cautious approach of US banks to the mortgage lending during all recent cycle and more strong financial health of US Consumer now vs 2007-2008 yrs. Housing market also looks significantly healthier with no obvious imbalances as it was just before the last recession when it was a key engine of economic contraction.

US economy created 273K jobs in February, markedly beating consensus estimate of 175K. But, initial January estimate of 225K was revised down to 214K. Notwithstanding, these figures should not be misleading given skyrocketing growth of initial jobless claims in the last weeks of March. It is unsurprising given temporary closure of many labour consuming businesses in March but the key question remains how long these businesses will be closed. So, median forecast of average monthly payrolls for 2020-2022 years were already revised down in March, to 146K/131K/100K for 2020/2021/2022 years, respectively (from 150K/120K/109K) but we expect that it will decrease more significantly in the near future. Unemployment rate decreased by 10 bps MoM in March to 3.5%, slightly better than consensus estimate of 3.6%. But unemployment projections were revised up in March, to 3.7%/3.8%/4.0% for 2020/2021/2022 years, respectively, from February estimates of 3.5%/3.6%/3.8%.

According to the Fed data, NCO ratio in the segment increased by 1 bps yoy to 0% in 4Q19

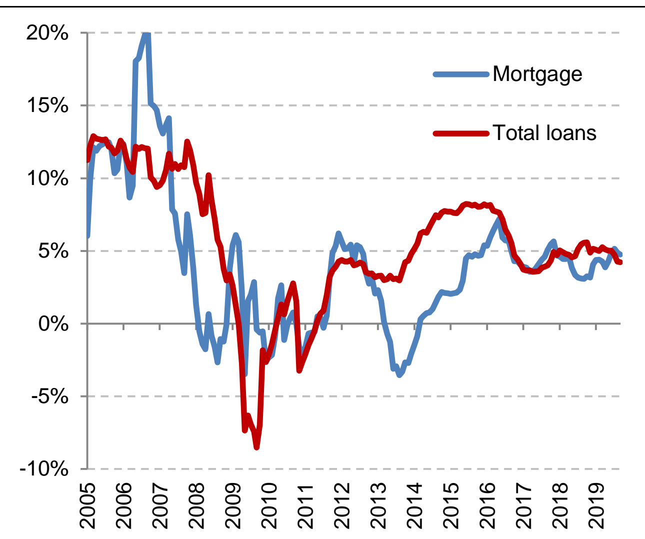
while delinquency ratio tumbled by 48 bps to 2.35%, the lowest figure over 12 years. According to FDIC, the quality of mortgage portfolio remains very strong with NCO ratio at +0.01% in 4Q19, +1 bps yoy. 30-89 days delinquency ratio decreased by 7 bps yoy to 0.88%. Noncurrent ratio declined significantly again, -33 bps yoy to 1.76% in 4Q19. MBA's mortgage delinquencies decreased by 20 bps qoq or -29 bps yoy to 3.77% in 4Q19, the lowest figure in the dataset history. Foreclosures declined by 6 bps qoq or -17 bps yoy to 0.78%, the lowest figure over more than 30 years. The key drivers of very good quality of mortgage portfolio so far were strong job market, rising home prices and tight underwriting standards which remain markedly tighter than historical averages even despite some easing in recent quarters. In coming quarters, asset quality will undoubtedly worsen as situation has changed dramatically. We expect that credit quality deterioration will be seen as early as in 1Q20 earnings season but it will be related to leading indicators such early delinquency ratio and criticized loans while NCO ratio should still remain strong.

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



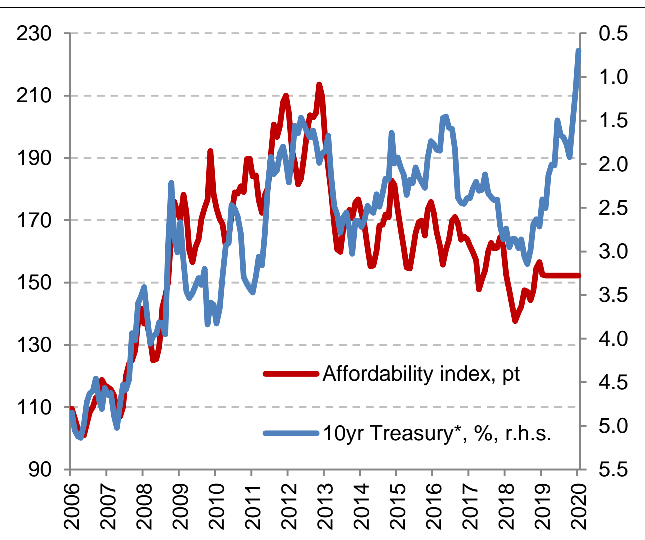
Source: Bloomberg

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



Source: Bloomberg

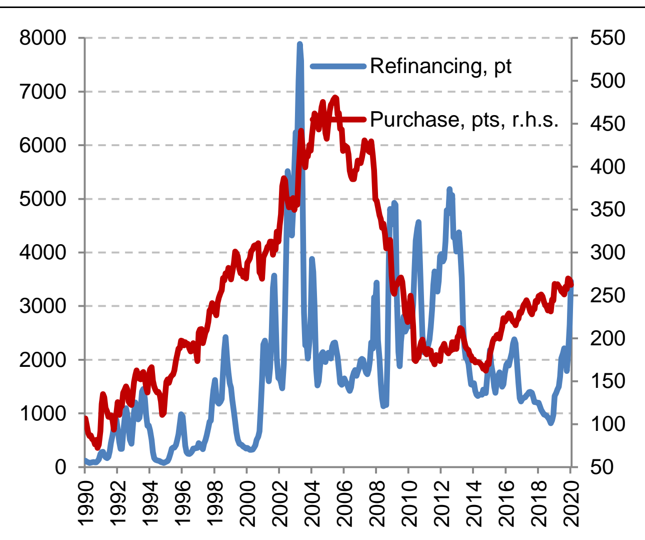
Chart 15. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 16. Mortgage. MBA Applications Indexes



Source: Bloomberg

Lending standards for majority mortgage segments were basically unchanged in 4Q19 as it was in four previous quarters following a slight easing in 3Q18. Answering on special set of questions in 4Q19, banks reported that they weren't going to tighten standards unlike to

most other segments. Also, banks don't expect deterioration of quality of mortgage loans in 2020 as it did for majority other loan segments. Also, banks reported "stronger demand for most mortgage loan categories but weaker demand for HELOCs". According to NY Fed 4Q19 report on HH debt and credit, "credit standards tightened slightly, again, in the fourth quarter. The median credit score of newly originating borrowers increased in the fourth quarter for mortgages, to 770, a 5 point increase from the third quarter, reflecting higher share of refinances".

Demand for mortgage loans strengthened in three recent quarters after several consecutive quarters of weaker demand. But, from our point of view, demand remains relatively weak given still solid financial health of US Consumer and ample affordability of US homes which increased recently because of significant decline of mortgage rates. Also, it should be mentioned that more and more consumers noted in various surveys that it wasn't the best time for buying home currently. Previously, banks indicated that they would tighten lending standards if the yield curve will be inverted.

Mortgage rates markedly increased in March after being flat in February even despite significant decline of 10yr treasury yield which tumbled by 48 bps MoM to 0.67%, not far from multi-year low, -125 bps ytd. In turn, 30yr fixed rate mortgage (national average, Bankrate.com) went up by 24 bps MoM to 3.86% (as end of March), flat ytd. 30-yr mortgage rate (effective rate, MBA) increased by 28 bps MoM to 3.93% (as of March 27), -11 bps ytd.

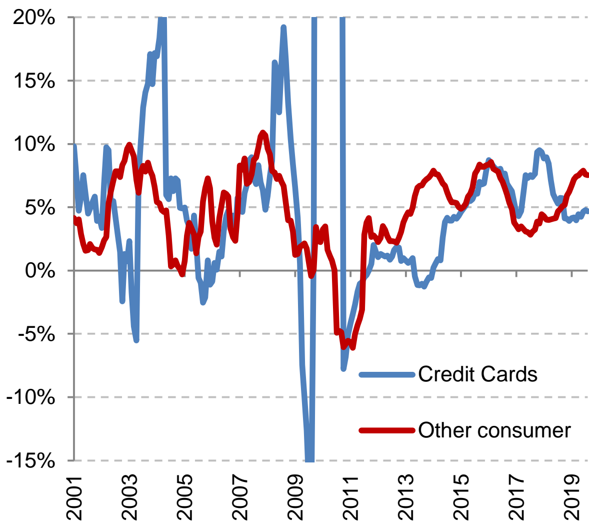
Housing market indicators published in March were markedly better than expected as well as all the beginning of the current year for this segment. Notwithstanding, NAHB index decreased by 2 pts MoM to 72 pts, slightly missing consensus of 73 pts. In turn, construction spending increased by 1.8% MoM in January after growth of 0.4% MoM in December (marked upward revision from initial estimate of -0.2% MoM). Forecasts for mortgage originations were raised again in March. Thus, according to Fannie Mae's housing forecast, total 2020 mortgage originations increased by 13.1% MoM for 2020 year and by 13.8% MoM for 2021 year. Currently, it is expected that total originations will increase by 11.3% yoy in 2020 but it will decrease by 11.6% yoy in 2021. The key driver of growth will be purchase originations which should increase by 7.7% and 3.1% in 2020/2021 years, respectively. According to MBA's forecast published in March, total mortgage originations will increase by 20% yoy in 2020 (vs -3.8% yoy) driven by refinancing which estimate increased by 85% in March but total originations will decrease by 26% yoy in 2021 (+7.5% MoM). It seems that the key driver of positive revision of originations was significant decline of 10yr treasury yields but we expect that forecasts will be markedly revised down in coming months given significant deterioration of economic situation in US economy as well as skyrocketing growth of unemployment.

Housing starts were 1599K in February, markedly better than expectations of 1500K. January figure was revised up from 1567K to 1624K. In turn, building permits missed estimates slightly, 1464K vs consensus of 1500K. However, existing home sales substantially beat expectations in February – 5.77 mln vs estimate of 5.51 mln, +0.35 mln MoM. New home sales also beat expectations, at 765K in February vs consensus of 750K, -35K MoM from revised up January estimate (from 764K initially to 800K). Housing prices continue to grow while the growth rate remained relatively weak and it slightly decelerated in January. Thus, FHFA house price index added +0.3% MoM in January vs consensus of +0.4% MoM and December growth of +0.7% MoM. Also, S&P CoreLogic home price index for 20 cities went up by 0.3% MoM vs consensus of +0.4% after growth of +0.41% MoM in December (revised up from initial estimate of +0.43% MoM). On yoy basis, it was just +3.1% and it is not far from the lowest level since the end of 2012, significant deceleration from price growth of early 2018 of 6.7% yoy.

Consumer

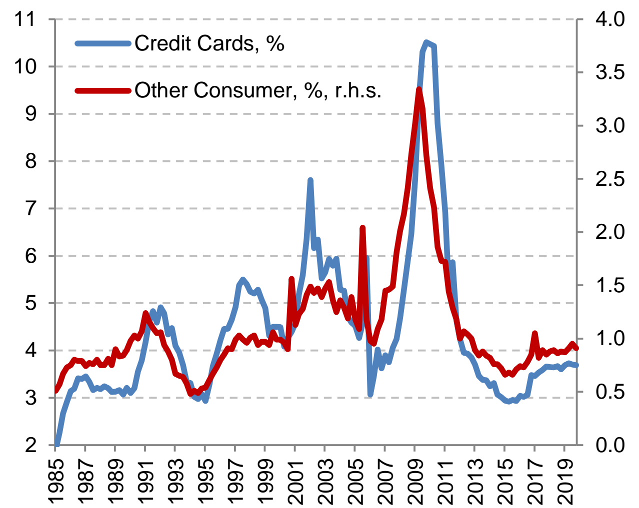
According to Fed H8 data, growth rate of consumer loans is currently +6.1% yoy (through March 18th) vs +5.6% 1 year ago. Credit cards segment still negatively impact on overall growth. Thus, growth rate of the segment is 5% yoy at the moment vs +6% yoy 1 year ago. Net change of consumer credit in January was +$12 Bn, markedly missing consensus of $16.5 Bn and it was significantly lower vs December figure of $20.3 Bn (vs initial estimate of $22.1 Bn). In turn, other consumer credits continued to accelerate, adding 7.3% yoy (as of March 18) vs 5.1% yoy 1 year ago (but it slightly decelerated from +8% yoy as the end of 2019). According to 4Q19 HH debt and credit survey by NY Fed, "total household debt increased by $193 billion, or 1.4 percent, to reach $14.15 trillion in the fourth quarter of 2019. This marks the twenty-second consecutive quarterly increase, with total household debt now $1.5 trillion higher, in nominal terms, than the pre-recession peak of $12.68 trillion, set in the third quarter of 2008. Mortgage originations rose by $224 billion, or 42 percent, in the fourth quarter of 2019 to reach $752 billion, the highest volume seen since the fourth quarter of 2005".

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



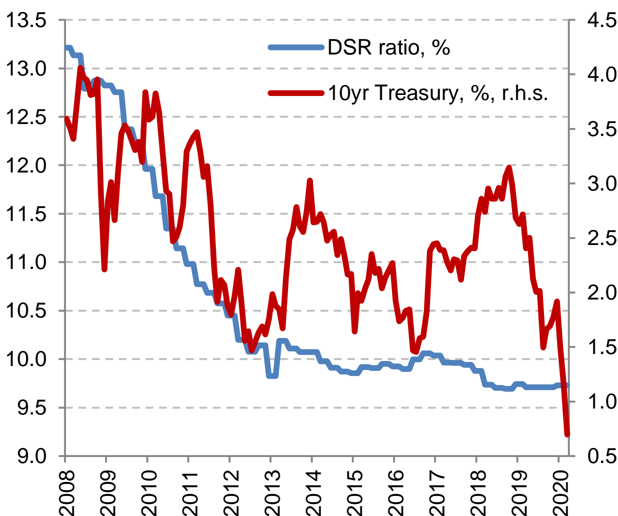
Source: Bloomberg

Chart 18. Consumer. NCOs Ratios, %



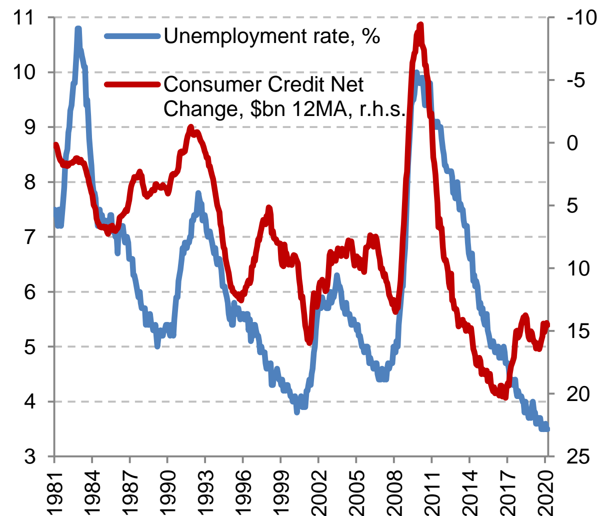
Source: Bloomberg

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



Source: Bloomberg

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



Source: Bloomberg

We didn't expect marked deterioration of the quality of consumer loans (only return to historic averages) until the recent times but the situation has changed dramatically since our last monthly report. Thus, GDP forecasts for the coming quarters were revised almost every week (of course, in the downward direction). According to Bloomberg compiled estimates, the most pessimistic GDP growth forecast is -35% qoq in 2Q20 and -3% yoy for FY20. As of unemployment, it could be as high as 10% in 3Q20. So, it is undoubtedly that quality characteristics of consumer portfolio will worsen significantly in the coming quarters even despite DSR and FOR of median HH is still markedly lower than historical averages. But the figures of low-income consumer, which is usually suffer the most during recession, is already at or higher than pre-financial crisis levels. We don't expect that highs of the previous crisis will be reached in the coming downturn as financial health of US Consumer is much stronger today than it was those times but, of course, it will depend on how long the restrictions related to controlling the virus spread will last. The longer the higher losses will be. And the dependence of losses on the time of restrictions will also be somewhat exponential.

According to the Fed data, total consumer NCO ratio decreased by 4 bps qoq but +4 bps yoy to 2.27% in 4Q19, driven by other credit loans where NCO ratio decreased by 4 bps qoq but +3 bps yoy to 0.91%. Delinquency ratio also increased, +1 bps yoy to 2.34%, driven by credit cards segment where delinquency ratio increased by 7 bps yoy to 2.61%. According to FDIC, credit cards NCO ratio increased by 4 bps yoy to 3.75% 4Q19; in other consumer loans NCO ratio increased by 4 bps to 1.01%; Auto NCO ratio was flat at 0.93%. 30-89 delinquency ratios (leading indicator of credit quality deterioration) were flat at 4Q19: 1.38% (-1 bps yoy) in credit cards, 1.68% (-2 bps yoy) in other consumer loans and 2.36% (+3 bps yoy) in Auto. Number of bankruptcy filings decreased again in 4Q19, 180.7K vs 182.5K in 4Q18, the lowest figure since the end of 2006.

October 2019 SLOOS survey indicated that "moderate net shares of banks reportedly tightened their standards on credit cards, and modest net shares of banks reportedly tightened their standards on consumer loans other than credit cards and auto loans". From the other hand, lending standards for auto loans and banks willingness to make consumer installment loans were about unchanged in 3Q19. As of demand, banks saw stronger demand in auto and credit cards. Answering special set of questions, banks mentioned less willingness to approve consumer credit application with low FICO scores vs the beginning of the year. The key reason is expected deterioration in the quality of their existing portfolio, reflecting more uncertain economic outlook and late cycle concerns. According to 3Q19 HH debt and credit survey by NY Fed, "auto loans also saw tightening in underwriting standards, with an 8 point increase in the median originating credit score". Also, "the number of credit inquiries within the past six months – an indicator of consumer credit demand – was at 142 million, a small increase from the previous quarter" while "account closings declined but remained in line with the past year's trend, with 211 million accounts closed within the past 12 months".

Consumer activity data published in March was better than expected for majority prints but the key leading indicator in the current environment was much worse than it was expected, pointing to significant stress of US Consumer in the coming months. Thus, consumer sentiment indicator published by Michigan University decreased by 6.8 pts MoM to 89.1 pts vs expectations of 90 pts, but we expect significant deterioration of it in the near future, primarily due to expectations component. It was already at 3yr low in March and it should go even lower in the coming months. In turn, conference board consumer confidence index declined by 12.6 pts MoM to 120 pts in March from revised up February estimate, beating consensus estimate of 110 pts.

February employment report was significantly better than expected for the second month in a row after weak figures in December. Thus, it was added 273K payrolls in February vs

consensus of 175K but January figure was revised slightly down from 225K to 214K. Unemployment ratio decreased by 10 bps MoM to 3.5%, slightly better than consensus of 3.6%, still the lowest level since the end of 1960s. Underemployment rate increased by 10 bps MoM to 7%. In turn, average hourly earnings were in line with estimates, +0.3% MoM vs +0.2% MoM in January. On a year-over-year basis, it was 3%, -10 bps MoM but in line with consensus. Average weekly hours were +0.1 MoM at 34.4, slightly beating consensus. February ADP employment was 183K vs expectations of 170K but January figure was significantly revised down – from 291K initially to 205K. Initial jobless claims (4-week moving average) markedly increased in the first two weeks of March but it skyrocketed then to the levels markedly higher than highs of GFC. Thus, initial jobless claims increased to 3283K as of March 21 from just 282K as of March, pointing that unemployment rate will also skyrocketed in the coming months.

Interest Rates

It was expected that the Fed would announce additional measures of monetary easing at its March meeting, but reality has made its own adjustments and the rate was cut to zero, target range 0-0.25%, without waiting for the scheduled meeting (the level where it was from Dec 2008 to Dec 2015). “The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals”. Also, many other stimulus measures were also announced to provide funding/liquidity to mitigate the impact of the coronavirus on the economy. Thus, the Fed announced resuming quantitative easing program and a wish to “increase its holdings of Treasury securities by at least $500 billion and its holdings of agency mortgage-backed securities by at least $200 billion”. The Fed will reinvest all principal payments from agency debt and agency MBS in agency MBS. Overnight and term repurchase agreement operations were also expanded. Discount rate was cut to 0.25% and the Fed would actively provide liquidity to banking system through discount window. Reserve requirements were reduced to 0%. Regulatory requirements for capital and liquidity were also eased to preserve lending “to households and businesses who are affected by the coronavirus”. The Fed will provide liquidity to the system through Commercial Paper Funding Facility, Primary Dealer Credit Facility and Money Market Mutual Fund Liquidity Facility. Also, “The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank are today announcing a coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements”.

Announced measures have already impacted positively on US economy, reducing the level of stress in the economy, but even these unprecedented measures won’t prevent significant contraction of US economy in the nearest quarters, even taking into account fiscal stimulus of $2 trln. Some estimates imply that US economy will contract by more than 35% annualized in 2Q20 while unemployment rate will exceed 10%, high of the Great Recession. So, we do not exclude that new measures to support the economy will be announced in the near future. But the efficiency of these measures will be low if economy is somewhat paused because of even partial lockdown caused by coronavirus spreading. Given high leverage of US corporate sector, we would definitely have seen a wave of bankruptcies if funding and liquidity had not been urgently provided. It doesn’t mean that all problems are behind us, rather the opposite, just beginning. And, unfortunately, everything depends on how long the epidemic will last. At the moment, we see only the first signs that the maximum for new cases in some European countries has already passed, but total number of active cases continue to go up, implying that strict lockdown in these countries could last till the end of April. The longer the lockdown will last the lower probability that there will be V-shaped recovery is.

Despite unprecedented monetary easing measures and rate cut of 1.5 p.p. in the first half of March, new staff projections were only slightly changed vs December ones (projected FF rate is 2.6%/2.6%/2.8% for 2020/2021/Longer run, respectively). It is understandable, given that these forecasts are somewhat delayed in nature, while in recent weeks the world has turned upside down. Even at the second unscheduled meeting in March, Jerome Powell noted that “overall economic activity has been expanding at a moderate rate, even though weak growth abroad and trade developments have been weighing on some sectors”, but he also cautioned that the economy come into challenging period. We expect that the wording will significantly change as early as at the next meeting at the end of April. Notwithstanding, current staff projections imply that GDP will increase by 1.9%/1.8%/1.9% yoy in 2020/2021/Longer run, respectively, vs 2.0%/1.8%/1.9% in December. Unemployment forecasts increased from 3.6%/3.8%/4.4% in December to 3.8%/3.9%/4.3% currently. Inflation projections were almost unchanged either.

The situation has changed dramatically in the recent weeks and the level of the stress in the economy is still very high, despite significant stimuli announced by both the Fed and the Government. Moreover, there is high level of uncertainty when the economy will start to work without any restrictions imposed by the spread of the virus. We expect that things have to get worse before they get better and it seems that real signs of recovery we will not see until Autumn. It means that rates will remain at these levels at least till the end of 2021, implying weak NII/NIM dynamics in the next 3-4 quarters. But the growth of distressed assets is now coming to the fore for banks. Extraordinary funding and liquidity measures will help near term but it just means that peak of NPLs/NCOs will be reached later.

The hope for the beginning of NIM stabilization turned out to be false in February but forecasts have worsened significantly since then. Given current rate expectations and ongoing uncertainty around further spreading of coronavirus around the world, NIM will continue to go down in the coming quarters. Thus, according to the Bloomberg forecasts, the funds rate will remain at the current level for at least two nearest years, implying further contraction of NIM figures. According to Bloomberg consensus estimates, median decline of NIM of BKX index members in 1Q20 is 3.2 bps qoq and it is expected to decrease by 20.2 bps yoy, the most significant decline over last ten years at least. Unsurprisingly, median decline of NII is implied at -0.6% qoq or -2% yoy, the fifth consecutive quarter of negative qoq NII dynamics and the second one of negative yoy dynamics even despite very strong dynamics of both assets and loans. So, estimates continue to go down. Thus, median decline of 1Q20 NII estimates of BKX index members is 0.2% qtd. NIM estimates have declined just by 0.8 bps qtd, despite 150 bps fed funds rate cut and significant decline of the benchmark rate.

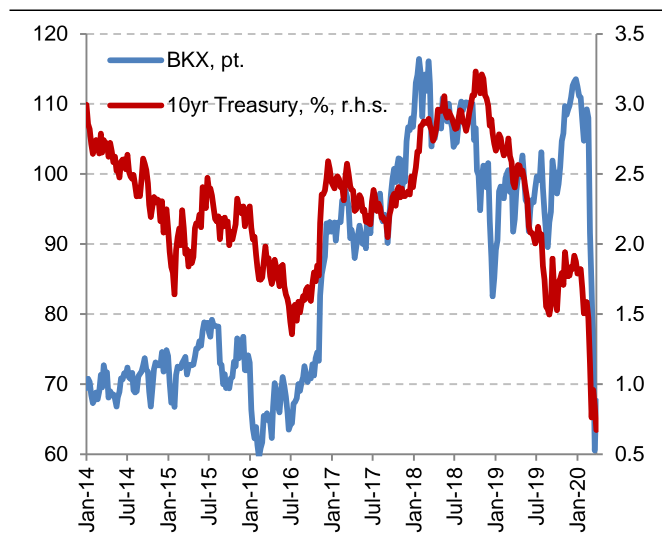
The good news is the yield curve became finally steeper in March after several consecutive months of flattening. The bad news is that spreads are still markedly lower than they were few years ago while 10yr treasury yield remains to be not far from all-time low. Thus, the curve is no more inverted but the recession is coming and the Fed has almost no monetary measures to further stimulating of the economy. And there is not much chance that the situation will improve much in the near future. So, we expect that significant pressure on NIM will remain few more quarters at least.

Unsurprisingly, treasury yields tumbled across the whole yield curve in March but the short end declined more. Thus, 1M yield decreased by 143 bps MoM to 0.0% while 3M yield declined by 124 bps MoM to 0.02%, 2yr yield went down by 67.7 bps MoM to 0.24% and 5yr yield tumbled by 55 bps MoM (currently at 0.39%). 10yr yield went down by 45.2 bps MoM to 0.7% (-122 bps ytd), while 30yr yield tumbled by 35 bps to 1.33%.

So, spreads significantly increased in March, to the more than 1yr highs, after very weak dynamics in recent months. 5yr/3M spread increased by 69.5 bps to +0.36% (it even

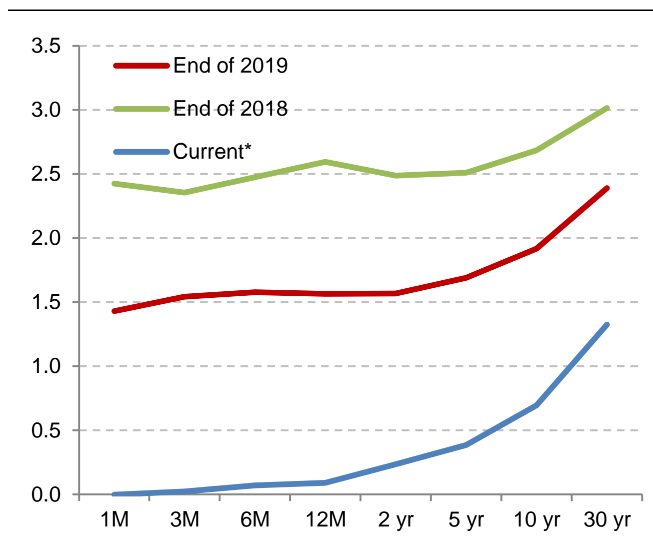
reached 80 bps during March) but it is still 61 bps lower than average level of 2017 yr while 10yr-2yr spread is 47 bps lower (as the end of March). Spread (10yr-2yr) increased by 22.5 bps MoM to +0.46%.

Chart 21. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

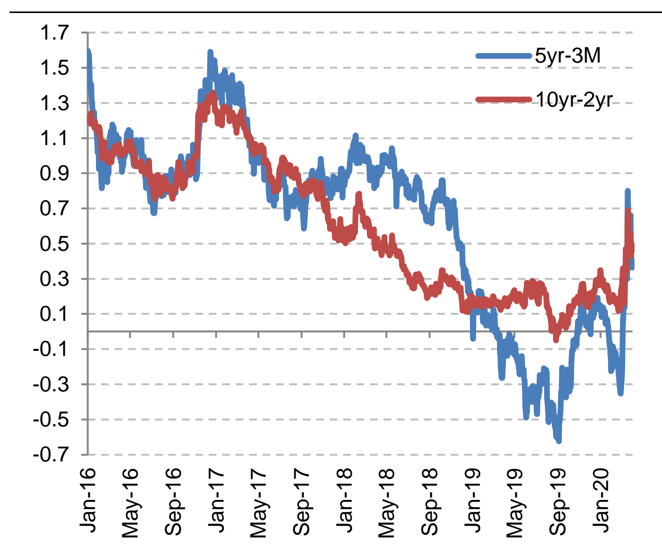
Chart 22. US Yield Curves, %



*As the end of March, 2020

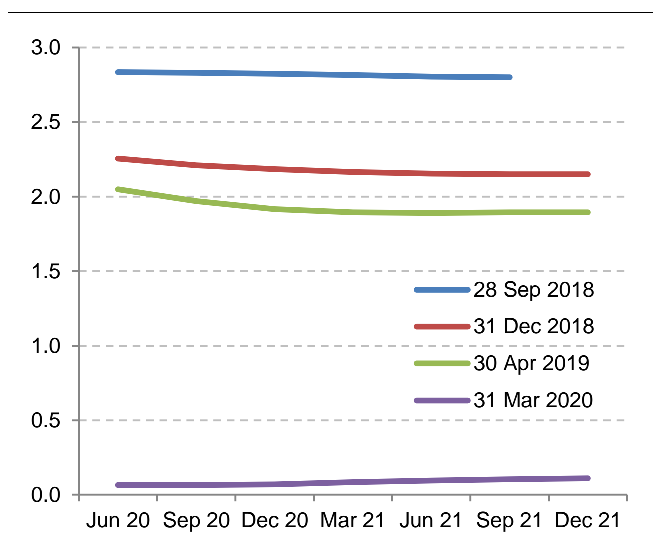
Source: Bloomberg

Chart 23. Treasury Spreads, %



Source: Bloomberg

Chart 24. Futures Implied FF Rate, %



Source: Bloomberg

According to Bankrate.com data, loan yields (except for mortgage rates) finally declined in March after positive dynamics in three previous months. The key reason is significant decline of key benchmark rates. In turn, 10yr treasury yield (benchmark for mortgage loans) also declined substantially but widening mortgage spreads led to higher rates. Thus, average 30yr mortgage rate increased by 24 bps MoM to 3.86% in March, after being relatively flat rate over 7 months (during March it reached 4.05%, a 9-months high). Also, average 15yr mortgage rate also increased by 24 bps MoM to 3.31%. Auto loans rate (new loans, 60 mnth) went down by 10 bps MoM to 4.57%, after two consecutive months of growth. Deposit rates continued to decline in March, the sixth month in a row of decline. The rate of decline even accelerated due to rate cuts in March. So, it will partially mitigate the negative impact of significant decline of key benchmark rates but NIM will continue to decline in coming quarters.

Thus, national average cost of 6 month deposits decreased by 26 bps MoM to 0.49%; average 3yr CDs cost declined by 40 bps to 0.81%; average 5yr CDs cost decreased by 46 bps MoM to 0.91% while cost of interest checking accounts increased by 3 bps MoM to 0.25%. Average cost of money market accounts fell by 16 bps MoM to 0.34%.

Europe

Corporate

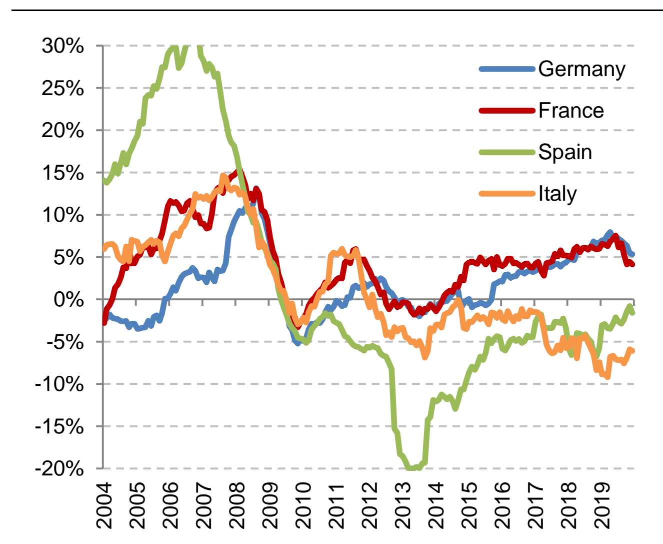
Corporate loan growth in EU on yoy basis markedly decelerated in the recent months as a result of EU economy slowdown, but the latest available data didn't include negative impact of COVID-19 yet. February loans and rates are the latest available data when the strict lockdowns in majority of EU countries weren't imposed yet. So, EU corporate loans growth was positive on MoM basis in February, the second consecutive month of growth after significant decline in December. But yoy corporate loan growth continues to decelerate, showing the slowest rate over the last 20 months. Thus, loans up to 1 year declined by 2.6% yoy or -0.4% MoM in February. Loans 1-5 yrs decelerated to 3.2% yoy from +5.1% yoy in August vs +3.4% yoy 1 year ago. Loans over 5yrs were +2.3% yoy in February, flat vs 1 year ago, +0.3% MoM. Total corporate loans increased by +1.4% yoy vs +1.7% yoy 1 year ago, +0.1% MoM. Credit growth in the EU still varies significantly across countries. We see very healthy corporate loan growth in Germany and France (and other Northern countries) while Italian and Spanish corporate loan growth remains poor as it is in majority of other Southern countries. Italian corporate loans decreased by 0.6% MoM, the sixth month over last 7 ones of monthly decline, after significant growth in January. But it is still -6.1% yoy and it seems that the rate of decline will accelerate in the coming months given strict quarantine in the country which will probably last till the end of April.

European corporations benefited from low interest rate environment so far but this will be little consolation in a recession time given imminent decline of revenues. At the end of last year, there was a hope for stabilization of the macroeconomic situation, but the coronavirus spreading disrupted such expectations. In November 2019 ECB's Financial Stability Review it was noted that underlying vulnerabilities remain as "slower economic growth has led to a continued deceleration in corporate profits". Financial health of EU corporate sector still remains strong as corporate debt burdens declined to new historical lows because of ongoing decline of both front book and back book yields, but the situation could change quickly taking into account recent macroeconomic data. Due to significant decline of key benchmark rates and lowered rate expectations, higher than historical averages corporate debt-to-GDP ratios haven't been a problem for European companies yet. Thus, there was no deterioration of borrower creditworthiness despite slowdown/recession in EU economy, the probability of which has increased materially in the recent months. But we will see it as early as in 1Q20 as majority of EU countries imposed strict lockdown in March. As we wrote earlier, the further slowdown in economic activity cannot but affect the dynamics of asset quality even despite ECB insisted whole last year that a risk of recession is low. At least, PMI figures tumbled to deep recession levels in March and there are less and less hopes that the recovery will be V-shaped given the need to maintain a strict quarantine. Industrial production significantly increased in January, adding 2.3% MoM vs expectations of 1.5%, after four consecutive months of decline. Moreover, it decreased on MoM basis in 8 out of 12 months of 2019. EU manufacturing PMI decreased to 44.5 pts in March, -4.7 pts MoM but markedly higher than expected, 39 pts. From the other hand, composite PMI which is well correlated with GDP growth tumbled to 29.7 pts in March, the all-time low, vs expectations of 38.8 pts, implying negative GDP growth as early as in 1Q20. So, the risk that asset quality could worsen in the near term even despite negative rate environment has skyrocketed, having a double negative effect on banking profits.

According to January 2020 Euro Area bank lending survey, "net demand for loans to enterprises declined in the fourth quarter of 2019 (the first time this had been seen since the fourth quarter of 2013), despite banks expecting it to remain stable overall". The decline of demand was broad based across European countries. Currently, banks expect that demand will continue to decline in the first quarter of 2020. The key drivers of demand remain low general level of interest rates and other financing needs while positive

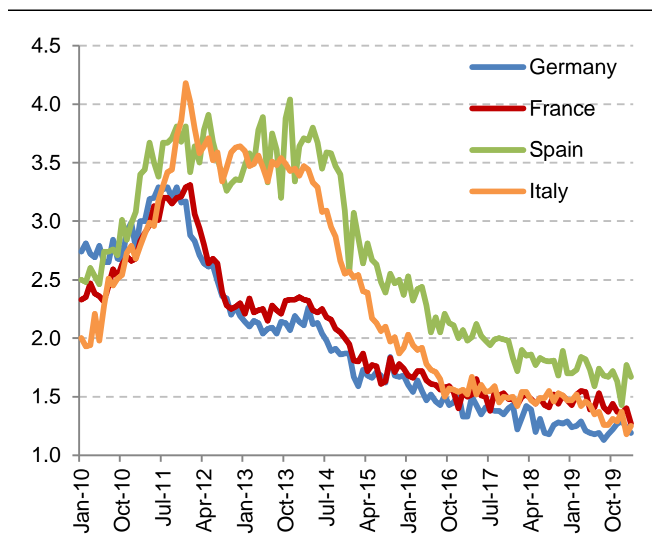
contribution of fixed investments and M&A activity declined. Credit standards for corporate loans remained broadly unchanged in 4Q19, +1% vs -2% in 3Q19, in line with expectations of October 2019 BLS. For 1Q20, banks expect that standards will remain unchanged. The key driver of easing standards is still competitive pressure from other banks while risk perceptions influenced in the opposite direction. It was also noted that impact of risk tolerance, cost of funding and BS constraints had a neutral impact overall. Rejection rate for corporate loan applications increased again in 4Q19, reaching the highest rate since the series began in 2015.

Chart 25. EU Corporate Loan Growth, YoY



Source: Bloomberg

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



Source: Bloomberg

Unadjusted EoP corporate loans increased by 1.4% yoy at the end of February, the 29st consecutive month of positive growth on yoy basis. In turn, adjusted for sales and securitizations loans increased by 2.3% yoy, the 56th consecutive month of positive yearly growth (marked deceleration from August 2019 figure of 3.5% yoy). Deceleration of corporate loan growth is negative for further NII dynamics of EU banks as it was one of main drivers which slightly mitigated negative impact of declining yields, especially taking into account more accommodative monetary policy in coming years and imminent recession which implies significant extension of period of negative rates environment.

German outstanding corporate loans (unadjusted figures) increased by 5.4% yoy as the end of February or +0.7% MoM vs +8.0% yoy as June 2019. French corporate loans outstanding (unadj) added 4.1% yoy or +0.1% MoM as the end of February vs +6% yoy one year ago. As for Spain and Italy, their outstanding corporate loans continue to decrease, -1.6% yoy and -6.1% yoy, respectively, and growth rates on MoM basis in the countries were also negative, -1% MoM and -0.6% MoM, respectively. Adjusted figures look slightly better, but growth rates in both countries remain weak, -0.1% yoy in Spain and -4.6% yoy in Italy. European corporate rates continues their negative dynamics, following the key benchmark yields, after marked growth in October and being flat 2 consecutive months. So, rates (new business) is just 1 bps higher than all-time lows showed in August/September and it could go even lower, given the current rate environment in Europe, if spreads don't increase because of higher risks caused by recession. Average EU corporate loan rates (all maturities, new business lending, adjusted for loan sales) decreased by 2 bps MoM to 1.36% in February, or -10 bps yoy. Back book yields of EU banks continuously decreased on yoy basis since April 2014 and rate of decline went up in February after being relatively flat over the last year. It declined by 1 bps MoM to 1.85%. On yoy basis, it is -14 bps vs the lowest yoy decline since mid-2014 of 10 bps.

Dynamics of rates within European countries wasn't uniform in February with decline of

front book yields in all major European countries except for Italy and Netherlands. Thus, German corporate rate on new loans decreased by 5 bps MoM to 1.19%, -10 bps ytd after four consecutive months of growth with overall move of +16 bps. French yield on new corporate loans tumbled by 13 bps MoM to 1.27%, new all-time low. Spanish yield decreased by 10 bps MoM to 1.67%, after skyrocketing growth in January, -6 bps vs 1 year ago. Italian one came up by 7 bps MoM to 1.25%, from all-time low, but it is -27 bps yoy. Dutch yield also increased in February, +6 bps MoM after significant drop in January, still +4 bps yoy. Back book yields of major European countries declined in all European countries except for France and Spain. Thus, German yield decreased by 1 bps MoM to 1.87% in February, -14 bps yoy. In turn, French yield increased by 1 bps MoM to 1.65%, -13 bps yoy. Italian yield declined by 2 bps to 1.99%, -13 bps yoy. Spanish rate was flat MoM at 1.78%, -7 bps yoy. Dutch yield decreased by 2 bps MoM to 1.97%, -17 bps yoy. Thus, spread between new and outstanding rates remains relatively flat over the last 4 months, near the lowest level over the last 8 years.

Consumer

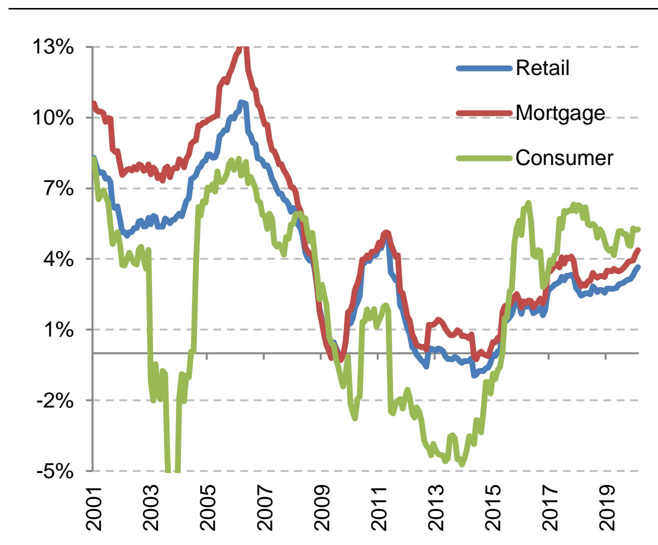
EU consumer still remains the key driver of total loan growth in the EU due to ongoing positive dynamics of disposable income (above historical averages) and it even accelerated in recent months despite deceleration of EU GDP growth in 2H19. But difficult times are coming even for consumer lending, implying lower growth rates of loans and higher NPLs. Strong financial health of EU consumer was driven by solid wage growth because of relatively tight labour market and strong job creation in service industries even despite manufacturing was weak, especially in Germany. Ongoing growth of property markets also impact positively on wealth of households but it undoubtedly be the first to suffer in the coming quarters. Recent weakness of macro data hasn't influenced heavily on financial health of EU consumer yet. But it will happen in the near future even taking into account measures aimed at curbing unemployment. According to ECB, the indebtedness of euro area households remains relatively low, stabilized near 58% of GDP. Given very low rate environment, households debt burden is also near multi-year lows and it will remain at these levels or even lower in coming years because of still negative rate environment. Currently, households debt interest burden is 40-50% lower for majority of European countries than it was just before the US mortgage crisis. But in the event of a significant increase in unemployment, this will be of little help for credit quality of EU banks.

EU loans to households increased by 3.7% yoy or +0.2% MoM in February (noticeable acceleration from 2.6% yoy as the end of 2018). Consumer loans growth remains relatively strong. However the rate of growth of the loan portfolio continues to differ widely across countries (as well as for corporate loans). Thus, German household loans increased by 4.7% yoy in February or +0.4 % MoM, French retail lending added 6.4% yoy or +0.4% MoM (slight deceleration vs December 2019 figures), while household loans in Spain declined by 0.4% on yoy basis, the 8th month in a row, after non-negative loan growth rate for 13 months in a row following more than 7 years of negative yoy growth. Italian consumer loans added +0.7% yoy in February, the 9th consecutive month of positive yoy growth after 6 months in a row of negative yoy growth.

Consumer lending (ex. Mortgage) still remains the key driver of EU household loan portfolio, adding 5.3% yoy in February, -0.1% MoM after flat MoM dynamics in January. EU mortgage loans increased by 4.4% yoy as the end of February or +0.3% MoM. According to January 2020 bank lending survey from ECB, loan demand continued to go up for both mortgage loans and consumer credit in 4Q19. For more than 3 years, Spain demonstrated double-digit growth of consumer credit, significantly outperforming other major European countries. But the growth substantially decelerated in recent months. Thus, Spanish consumer credit increased only by 6.6% yoy in February vs 11.7% yoy 1 year ago. In turn,

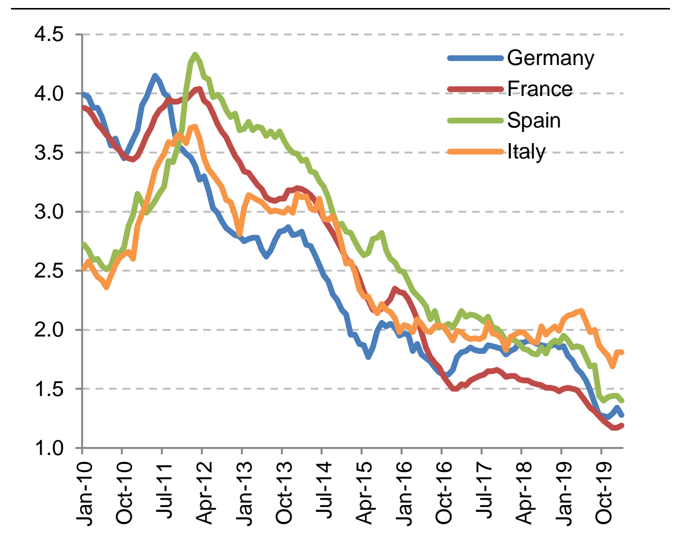
Spanish mortgage portfolio continues to stagnate, -0.7% yoy as the end of February vs -1.1% yoy 1 year ago.

Chart 27. EU Consumer Loan Growth, YoY



Source: Bloomberg

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



Source: Bloomberg

As of mortgage lending standards, they were broadly unchanged in 4Q19 after the slight easing in 3Q19, in line with expectations. But standards remain below historical average since 2003. Notwithstanding, competition pressure and risk perceptions continue to be the main easing factor. In turn, "banks' risk tolerance, funding costs and balance sheet constraints had a broadly neutral impact". Standards were tightened in Spain and France, broadly unchanged in Germany and eased in Italy. But banks expect that mortgage standards will tightened in 1Q20. As of consumer loans, the lending standards were tightened in 4Q19, despite expectations that they would be broadly unchanged. But banks expect that standards will be eased in 1Q20. "The net share of rejected applications for consumer credit and other lending to households continued to increase slightly in the fourth quarter of 2019 according to reporting banks". As of demand, it increased for both consumer loans and mortgage loans in 4Q19. The key driver of demand remains to be the general level of interest rates. So, banks continue to expect further strengthening of demand in both consumer credit segments.

Average EU rate on new mortgage loans decreased by 3 bps MoM to 1.39% in February after being flat in January, new all-time low, -41 bps yoy. It was hovering around 1.82-1.83% over 8 months from July'18 to February'19 but it declined by more than 40 bps since then. It happened because of the key benchmark yields for mortgage rates declined markedly ytd, except for the short end which is slightly higher than it was 3 months ago. In March, 10yr generic yield increased by 13.6 bps to -0.47% after significant decline in February. In fact, it just returned to the end of January level, but still -0.29% ytd. 30yr yield added 18 bps MoM but it is just +0.03% as the end of March. So, almost the entire current yield curve still remains to be below 0%. In February, German mortgage rates on new loans decreased by 6 bps MoM to 1.28%, -50 bps yoy. Italian mortgage rate went down by 4 bps MoM to 1.44 and it is 51 bps lower than it was 1 year ago. French yields increased by 2 bps MoM to 1.19%, -32 bps yoy. Spanish mortgage rate was flat MoM at 1.81% and it is 31 bps lower than it was 1 year ago. Because of lower front book yields, we continue to see declining back book rates on year-over-year basis, -18 bps yoy. On month-over-month basis, it increased by 1 bps to 1.94, after three consecutive months of decline. The rate of decline increased from 4.5 years low of -12 bps yoy which was shown in May-July of 2019 due to significant decline of benchmark rates.

As for other consumer loans, EU new business rates decreased by 12 bps MoM to 5.56%

in February after significant growth of 38 bps MoM in January. Consumer yields remain too volatile. On year-over-year basis it decreased by 10 bps. Consumer yields decreased in all major European countries except for France. German yield tumbled by 23 bps MoM to 5.8% in February, -3 bps yoy. French rate increased by 11 bps MoM to 3.8%, -11 bps yoy. Spanish rate decreased by 45 bps MoM to 6.84% -38 bps yoy. Italian consumer yield went down by 2 bps MoM to 6.52% after growth of 36 bps MoM in January, -13 bps yoy.

Average European new consumer deposits rate (with agreed maturity) unexpectedly increased by 4 bps MoM to 0.36 bps in February, the second consecutive month of growth despite significant decline across the whole yield curve. Cost of outstanding deposits (with agreed maturity) also increased by 2 bps MoM to 1.19% but it remains relatively flat over last year hovering around 1.2%. Total cost of deposits declined by 1 bps MoM to 0.24% in February, second consecutive month of decline. On yoy basis, it is just 5 bps lower than it was 1 year ago. But spread between total loans yield and cost of total deposits remains relatively flat over the last 5 months, hovering around 2%, -9 bps lower than it was 1 year ago. Consumer deposits growth remains healthy, adding 5.2% yoy as the end of February, slight deceleration vs +5.9% as the end of November 2019. The growth rates of deposits are around 5-6% yoy for all major European countries despite increasingly clear threats by banks to start shuffling off the burden of negative rates on to consumers.

Overall Macro

European economy began to demonstrate early signs of stabilization at the end of 2019 after deceleration of GDP growth earlier but the situation has changed dramatically in the recent months because of coronavirus spreading around the world. Taking into account weak GDP growth in the EU, especially in France and Italy, which economies contracted in 4Q19, we have no doubts that EU economy will go into recession in 1H20. The situation changed very quickly. Back in February, a survey of economists conducted by Bloomberg suggested that chance of a recession happening over the next 12 months was just 17.5%. How long GDP will contract and how fast it will start to recover depends on how long the strict lockdown in majority of EU countries will last. Given current dynamics of new and active cases, it seems that it will last at least for another 1 month but some restrictions as well as social distancing recommendation will last longer, implying that probability of V-shaped recovery tends to zero given a significant part of the world economy is on pause, not just some European countries (even taking into account that recession is caused not by imbalances in the economy). The second important point is how quickly regulators and governments will respond to the current situation. So far, the response was timely but it is not certain that further fiscal stimulus will be introduced as quickly as they needed given significant difference of capacity for fiscal stimulus among European countries. Moreover, the most affected by the coronavirus are Italy and Spain, which have not yet fully recovered from the past debt crisis, so their sovereign debt sustainability is under question again while spreads have reached multi-year highs.

GDP growth remains relatively weak. And it will be markedly weaker at least in 2020. Thus, European real GDP increased by 0.1% qoq or 0.9% yoy in 4Q19 vs +0.3% qoq and 1.2% yoy in 3Q19, the lowest qoq growth over more than 6 years. The key drivers of negative surprise were French and Italian GDP which in turn were the main drivers of positive surprise in 3Q19. Thus, French GDP decreased by 0.1% qoq or +0.8% yoy vs expectations of +0.2% qoq or +1.2 yoy (+0.3% qoq or +1.5% yoy in 3Q19) but it was driven by unexpected inventory decline while other components of GDP growth were in-line. In turn, Italian GDP decreased by 0.3% qoq or flat yoy vs expectations of +0.1% qoq or +0.1% yoy (+0.1% qoq or +0.5% yoy in 3Q19). Spanish GDP growth of +0.5% qoq or +1.8% yoy exceeded consensus of +0.4% qoq or +1.7% yoy (+0.4% qoq or +1.9% yoy in 3Q19). German GDP was flat qoq or +0.4% yoy in 4Q19 vs +0.2% qoq or +0.6% yoy in 3Q19. In

March, Bloomberg consensus estimates for GDP yoy growth were slightly lowered to 1.0%/1.3%/1.4% yoy for 2020/2021/2022 years, respectively (vs 1.3%/1.2%/1.4% yoy in February). But these estimates relate to the middle of the month when the mood was not so pessimistic. The estimates were much lower at the end of March with forecasts of EU GDP decline in 2020 up to 8-9% yoy.

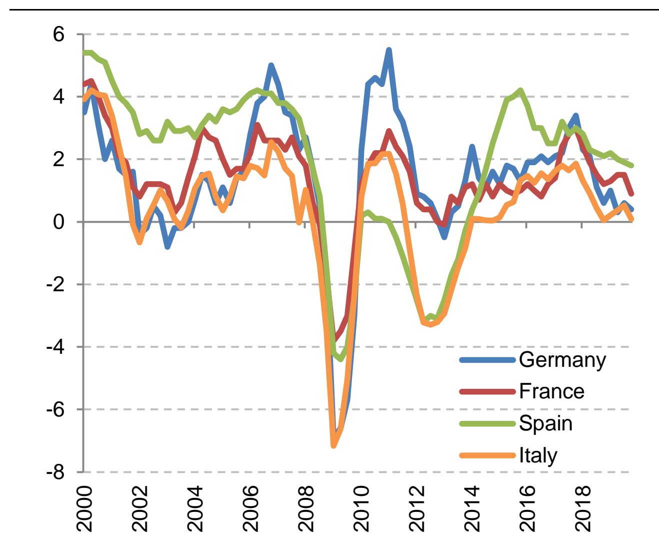
European macro data published in March was clearly negative in the first place because of significant drop of PMI indices. Macro data related to January and February, such as retail sales and industrial production, were better than expected but it doesn't matter in current environment. Economic surprise indices moved in different directions in March after noticeable decline in February. Citi's economic surprise index decreased by 50.6 pts MoM to -50.2 pts, -70 pts over two months after it attained 1.5 year high. In turn, Bloomberg surprise index increased by 0.24 pts MoM to -0.11 pts. As we expected in February, the wording has changed meaningfully. Thus, according to ECB's March introductory statement, "since our last Governing Council meeting in late January, the spread of the coronavirus (COVID-19) has been a major shock to the growth prospects of the global and euro area economies and has heightened market volatility. Even if ultimately temporary in nature, it will have a significant impact on economic activity. In particular, it will slow down production as a result of disrupted supply chains and reduce domestic and foreign demand, especially through the adverse impact of the necessary containment measures. In addition, the heightened uncertainty negatively affects expenditure plans and their financing". So, risks are tilted to downside. And, we will see further deceleration of loan growth and growth of NPLs that is very negative for EU banks given prolonged negative rate environment. We expect that EPS/NI 20/21 estimates will continue to be revised down in the coming months and it is quite possible that profit of some European banks will be again negative.

Composite PMI (preliminary figure), which is well correlated with GDP growth, markedly missed expectations in March even despite expectations were very pessimistic. It tumbled by 20.2 pts to 31.4 pts vs consensus of 38.8 pts, all-time low. It was driven by services PMI which moved below 30 pts. Thus, it collapsed by 23.8 pts MoM to 28.8 pts vs consensus of 39.5 pts. In turn, manufacturing PMI was relatively resilient, declining by 4.4 pts to 44.8 pts, markedly beating consensus of 39 pts. Partially, it explained by the fact that longer supply time impact positively on manufacturing PMI as it associated with high manufacturing activity but it's time is different and longer supply time is caused by disrupted supply chains. It seems that even so scaring PMI figures may not reflect the depth of EU economy decline in 1H20 given that majority of population is forced to stay at home. The most pessimistic forecasts imply that EU FY2020 GDP decline could be almost double-digit. Unbelievable figures even taking into account long lasting lockdown in EU countries. A small reason for optimism is the fact that January-February data was better than expected. Thus, January industrial production was better than expected, +2.3% MoM vs estimate of +1.5% MoM but it is still -1.9% on yoy basis and it is obviously to be markedly lower in the nearest quarters, at least the nearest months. But consensus estimate of IP was flat in March, implying no yoy growth in 2020 and +1.3% yoy in 2021.

EU consumer remains the key driver of European economy, demonstrating strong growth of consumer spending due to ongoing and broad-based wage growth. Household consumption increased by just +1.2% yoy in 4Q19, being almost flat during the last year, a noticeable decline from two-year ago level. But it also began to suffer from the lost momentum and the situation will worsen in coming quarters with growth of unemployment and decline of consumer incomes. Given government efforts to support employment and wages, deceleration of household consumption could be relatively small but only under the condition that the current situation will not last for long. As usual, ECB expects that easier borrowing costs will support consumer spending but we think that labour market and wage growth are more important for it. Moreover, ECB noted that the outlook for private

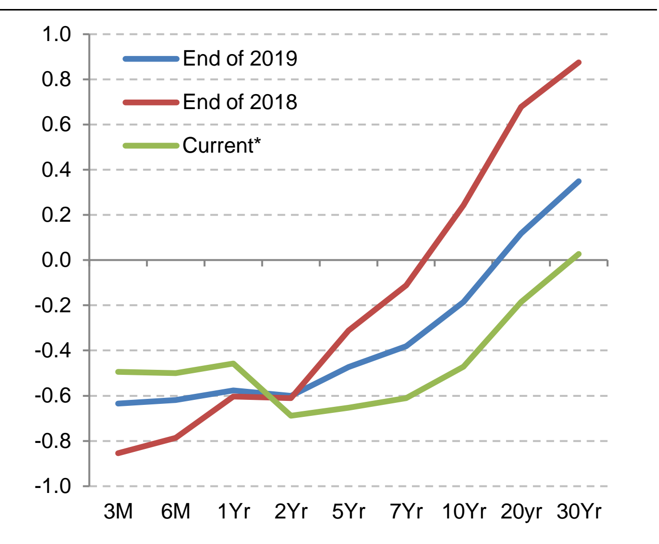
consumption has worsened recently because of prolonged presence of uncertainty. And it will continue to go down because of restrictions imposed by coronavirus. Thus, unemployment rate was in line with expectations at 7.4%, flat MoM, just 10 bps higher than low of the last cycle. So, Bloomberg consensus of unemployment rates for 2020, 2021 and 2022 years were almost unchanged MoM in March at 7.5%/7.4%/7.4%. March consumer confidence was slightly better than expected, but it decreased significantly to the levels last seen five years ago: -1.6 pts vs expectations of -13 pts, -5 pts MoM. And we expect that it will continue to go down further given ongoing quarantine and imminent economic consequences of it.

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



Source: Bloomberg

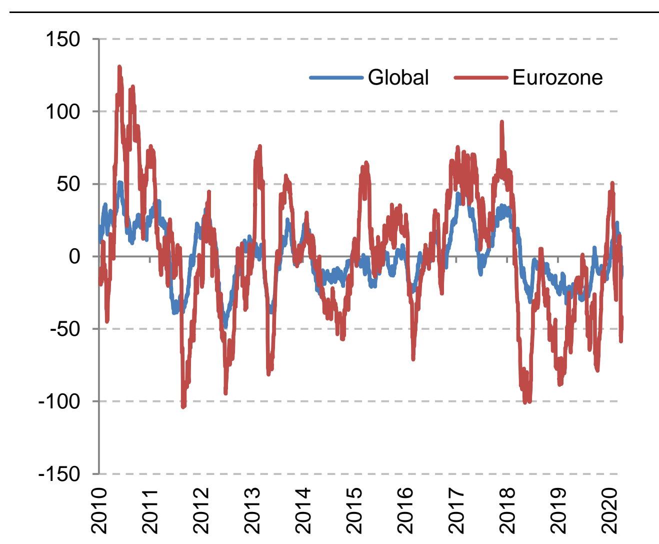
Chart 30. EU Yield Curves, %



*as the end of March, 2020

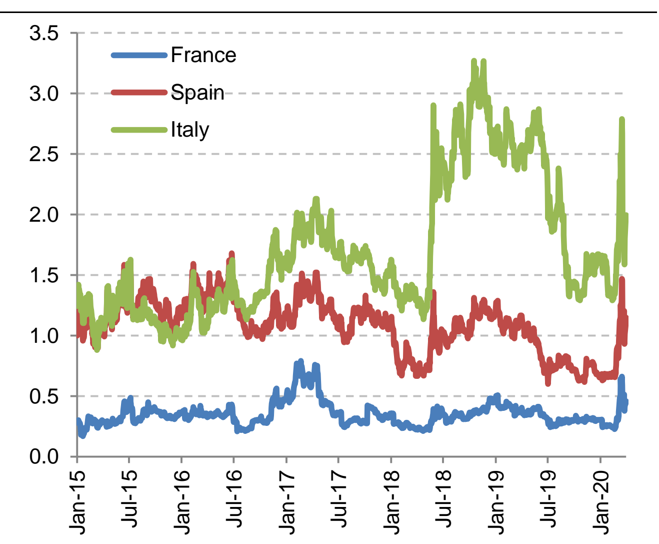
Source: Bloomberg

Chart 31. Citi Economic Surprise Indexes, pt



Source: Bloomberg

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



Source: Bloomberg

Rates

At scheduled March meeting, ECB announced many new measures to support economy during coronavirus crisis. The key aim was to support markets liquidity and availability of credit for economic agents. Despite expectations, the rate remained unchanged. According to Bloomberg WIRP, it was expected at the end of February that ECB would cut rates at least twice till the end of 2020 and the first cut was supposed to happen at the March

meeting. It was quite reasonable decision, from our point of view, as efficiency of rate cuts in negative rate environment is questionable with obvious drag for banking profits but no significant stimulation of loan growth. Also, it was announced additional longer-term refinancing operations as well as considerably more favourable terms of TLTRO III during the period from June 2020 to June 2021. ECB “decided to add a temporary envelope of additional net asset purchases of €120 billion until the end of the year, ensuring a strong contribution from the private sector purchase programmes”. Unsurprisingly, “reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full, for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates”. Taking into account market reaction, package of measures weren’t as comprehensive as ECB had thought. So, spreads continued widening while prices of risky assets continued collapsing, accompanied by growth of confirmed COVID-19 cases. Unsurprisingly, when ECB admits that “even if ultimately temporary in nature, it will have a significant impact on economic activity”, while staff projections don’t keep up with the rapidly deteriorating economic situation. It clearly didn’t add to the optimism of the markets in the absence of a significant injection of money into the economy.

So, at emergency March meeting that took its place just 6 days later than scheduled one, ECB announced €750 Bn Pandemic Emergency Purchase Programme (PEPP) which would last till the end of 2020. “The Governing Council will terminate net asset purchases under PEPP once it judges that the Covid-19 crisis phase is over, but in any case not before the end of the year”. Thus, ECB will purchase more than €100 Bn of assets per month – it seems more than sufficient given significant spreads narrowing after the meeting. The ECB did what it should have done. Now, the governments come into play. Many of them have already announced substantial fiscal stimulus but the key problem is that those who need these measures most (Italy, Spain) have a fairly limited room for fiscal maneuver because of already high budget deficit and high debt-to-GDP ratio. So, new fiscal measures will inevitably move spreads higher, accompanied by the question whether sovereign debts are sustainable. We don’t believe that EU can solve the issue quickly and it will be a big problem if strict lockdowns will last more than for another month.

According to introductory statement, incoming information from the last meeting was significantly worse than expected. “The spread of the coronavirus (COVID-19) has been a major shock to the growth prospects of the global and euro area economies and has heightened market volatility. Even if ultimately temporary in nature, it will have a significant impact on economic activity”. Because of quick deterioration of economic situation, staff projections only partly reflect negative impact of the coronavirus spreading. Thus, GDP growth forecast were only slightly revised down from 1.1%/1.4%/1.4% yoy for 2020/2021/2022, respectively, to 0.8%/1.3%1.4%. Current staff projections are almost in-line with March Bloomberg consensus, which was compiled also in mid-March – 1.0%/1.3%/1.4% for 2020/2021/2021, respectively. Inflation forecasts were also unchanged vs December estimates at 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022.

The ECB’s emergency measures and fiscal stimulus should ease somewhat market concerns near term but further dynamics of financial markets will inevitably depend on development of the coronavirus situation. The longer strict quarantine will last, the more problems for EU economy will occur as well as more losses for EU banks which are forced to exist in very challenging revenue environment, accompanied by long period of negative rates and upcoming growth of NPLs while the capabilities to mitigate revenue decline through cost cutting are limited. ECB’s liquidity and capital relief measures are helpful for banking quotes as risk of dilution is reduced significantly but fundamentals remain weak. So, we expect that estimates will continue to go down. As the end of March, median decline of FY20 EPS of SX7P index members is 18.1% ytd, FY20 revenue -2.3% ytd, FY20 NII -

1.6% ytd, FY20 provision +27.5% ytd.

After two consecutive months of significant decline of key benchmark yields, there was relief rally in the second half of March. Thus, 3M Euribor (Dec 2021) increased by 13 bps MoM to -0.38% (as the end of March) or -10.5 bps ytd while 3M Euribor (Dec 2022) went up by 13.5 bps MoM to -0.32% and it is -18.5 bps yoy.

The direction of dynamics of generic yields was uniform in March with growth of the entire yield curve after significant decline in the previous month. 3M yield increased by 11.3 bps MoM to -0.49%. 6M yield went up by 10.8 bps to -0.5%. 1yr generic yield rose by 15.1 bps MoM to -0.46% while 2yr yield increased by 8 bps MoM to -0.69%. 5yr yield went up by 11.1 bps to -0.65% while 10yr yield rose by 13.6 bps to -0.47%. Overall, the yield curve remains being flat and inverted in the middle part of the curve, pointing to high probability of recession near term. But spreads were almost unchanged on MoM basis. Thus, spread between 10yr yield and 1yr yield decreased by 1.5 bps MoM to -0.01% while spread between 5yr and 3M yields went down by 0.2 bps MoM to -0.16%.

THEME OF THE MONTH

US Banks. 1Q20 Preview

The earnings season of US banks will start on April 14th, when 1Q20 results will be provided by JP Morgan and Wells Fargo. After that, within two weeks, all members of BKX index will provide quarterly results. So far, US banks have reported reasonable headline numbers, but estimates have been revised down recently given significant decline of key benchmark rates and challenging economic environment. According to Bloomberg consensus, median decline of 1Q20 EPS of BKX index members is -5.2% qtd (as end of March). Full-year estimates for the current and next years were also revised down by -6.9% and -6.1% ytd, respectively. Given recent turmoil on financial markets and as a result further contraction of US economy, we think that FY20/21 EPS estimates will continue to go down further, after 1Q20 earnings season, even despite we expect that 1Q20 figures will be more resilient than it is feared. But better reported figures are of least interest to investors now. To understand the current situation and future prospects, banks' comments on recent trends are much more important now, than ever before in this cycle. Moreover, estimates still remains optimistic and median change of 1Q20 revenue estimates of BKX index members is +0.1% ytd as the end of March.

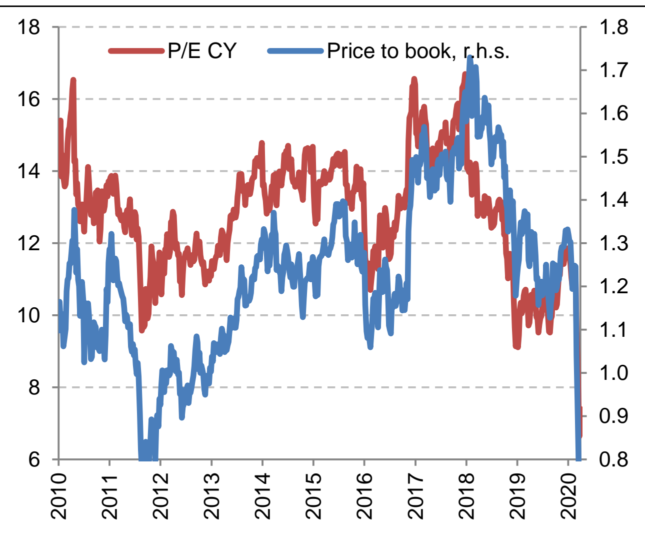
The Fed cut key rate by 150 bps to 0-0.25% range in March and other benchmark also decreased meaningfully ytd, which cannot help but take a toll on both NIM and NII. According to Bloomberg consensus estimates, median decline of NIM of BKX index members in 1Q20 is 3.2 bps qoq and it is expected to decrease by 20.2 bps yoy, the most significant decline over last ten years at least. Unsurprisingly, median decline of NII is -0.6% qoq or -2.0% yoy, the 5th consecutive quarter of negative qoq NII dynamics and the second one of negative yoy dynamics even despite very strong dynamics of both assets and loans in 1Q20. So, estimates continue to go down. Thus, median decline of 1Q20 NII estimates of BKX index members is 0.2% qtd. NIM estimates have declined just by 0.8 bps qtd, despite 150 bps fed funds rate cut and significant decline of the benchmark rate.

Majority of key benchmark yields collapsed in 1Q20, continuing negatively impact on NII/NIM. As the end of March, average 1M Libor decreased by 38.1 bps qoq in 1Q20 to 1.41% and average 3M Libor lost 40.1 bps qoq to 1.53% while average prime rate went down by 42.1 bps qoq to 4.41%. Despite decline of average key benchmark rates, loan rates remained resilient due to widening spreads. Thus, average rates of auto loans decreased by 2-4 bps qoq on new autos and 2-3 bps qoq on used auto loans. Mortgage rates decreased by 1 bps to 3.74% for 30-yr mtg, but increased by 1 bps qoq to 3.19% for 15-yr mtg. Also, all benchmarks for securities yields went down in 1Q20 but not as significant as it fell in 3Q19. Thus, according to BVAL, average 10yr AA/Aa, A/A and BBB/Baa yields decreased by 14.2 bps qoq, -15.4 bps qoq and -15 bps qoq to 2.29%/2.5%/3.03%, respectively. Yield curve became normal again after 150 bps rate cut but spreads still remain very tight. Thus, average 10yr-2yr spread increased by 8.1 bps qoq to 0.28% in 1Q20, higher than average level of 2019 (0.17%) but lower than average level of 2018 (0.39%). Average 5yr-3Mo spread skyrocketed in the last weeks of March, so average quarter was +0.07%, +4.3 bps qoq, markedly higher than average level of 2019 (-0.13%) but significantly lower than average level of 2018 (0.79%). Fed futures (Dec 20/Dec 21) also markedly decreased in 1Q20. Thus, implied rates collapsed by 133/127 bps qoq to 0.07%/0.11%, respectively, implying zero rate regime at least in the next two years. So, median NIM estimate of BKX index members for 2020 and 2021 years continued to go down. On ytd basis, they decreased by 4.9 bps and -5.1 bps for 2020 and 2021 years, respectively.

Negative impact of decreasing yields will be only partly diminished by decline of funding costs and balance sheet optimization in 1Q20. Usually, deposits are repriced more slowly

than majority of loans but decline of deposit cost significantly accelerated in recent quarters given significant decline of rates around the curve and FF rate cut to 0-0.25% range. Thus, according to bankrate.com, average cost of 6Mo CDs decreased by 14 bps qoq to 0.7% in 1Q20 (vs -6.5 bps in 4Q19 and +4 bps qoq in 3Q19), average cost of 1yr CDs declined by 18 bps qoq to 1.01% (vs -22 bps in 4Q19 and -5 bps qoq in 3Q19), average cost of 5yr CDs went down by 17 bps qoq to 1.29% (vs -33 bps in 4Q19 and -19 bps qoq in 3Q19) while cost of interest checking accounts lost 54 bps qoq to 0.26% (vs -2 bps in 4Q19 and +11 bps qoq in 3Q19), while cost of MMAs declined by 17 bps qoq to 0.47% (vs -7 bps in 4Q19 and +4 bps qoq in 3Q19). Recall that median cost of interest bearing deposits of BKX index members decreased by 5.5 bps qoq in 4Q19 to 0.87%, still 5.5 bps higher than it was 1 year ago.

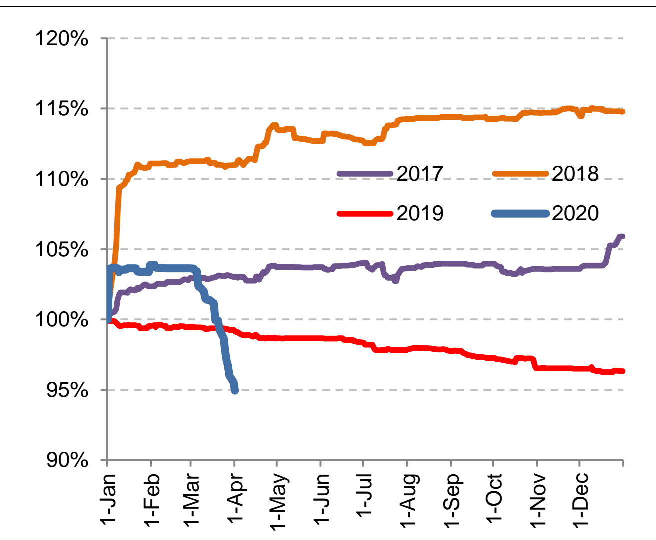
Chart 33. US Banks. Multipliers, Median*



*a sample of 34 banks which we are monitoring

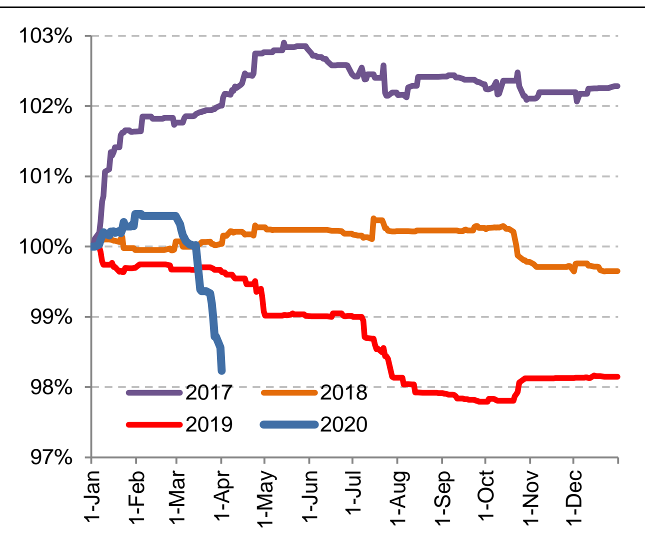
Source: Bloomberg

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



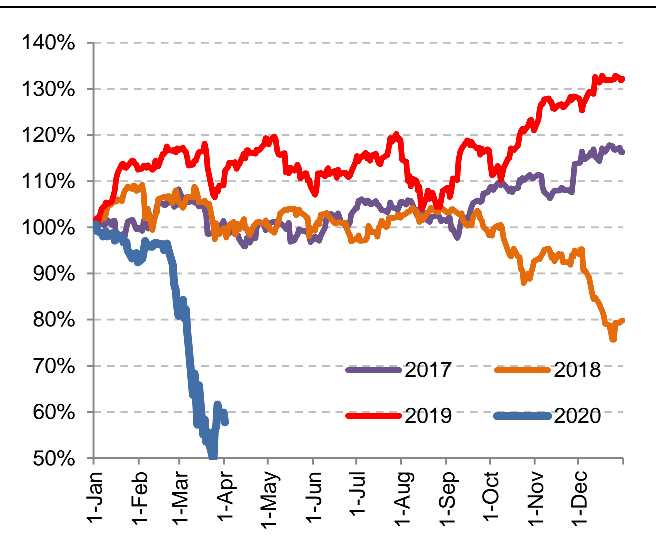
Source: Bloomberg

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



Source: Bloomberg

Chart 36. BKX Index. Price dynamics



Source: Bloomberg

Loan growth was relatively flat on yoy basis in recent two years, hovering around 5%. But it accelerated meaningfully in mid-March due to significant acceleration of C&I loans growth because of active using of revolvers caused by liquidity shortage amid spreading of COVID-19 around the world. According to the Fed H8 data, total loans increased by 7.1% yoy (as of March 18) vs 4.2% as end of 2019 and +4.9% as the end of 3Q19. It has already added

+1.5% qtd (as of March 18, not annualized) vs +1.1% qoq in 4Q19 and +0.9% qoq in 3Q19. C&I added +8.5% yoy vs +1% yoy at the end of December 2019, +8.8% qtd. CRE added +6.5% vs +5.9% as the end of 4Q19. Due to significant decline of the long end recently and improving housing data, mortgage loans growth slightly accelerated to 4.4% yoy (as of March 18) vs 3.5% 1 year ago, +0.9% qtd. Consumer loans dynamics was also pretty resilient so far, +6.1% yoy (as of March 18) vs 5.6% yoy 1 year ago, driven by other consumer loans, which added +7.3% yoy vs +5.1% 1 year ago. On the contrary, credit cards decelerated from 6% yoy 1 year ago to 5% yoy at the moment. As of lending standards, left standards unchanged for majority loan categories except for construction, credit cards and auto, where standards were tightened. It seems that standards will be markedly tightened as early as in 2Q20 given rapid deterioration of economic situation. We also expect substantial deceleration of loan growth in the coming quarters because of imminent recession but whether it turn to be negative depends on what type of recovery will face – V-shaped or U-shaped. Total assets of US banks increased by 6.1% qtd in 1Q20 (as of March 18) vs 0.9% qoq in 4Q19 and +1.2% qoq in 3Q19. Total liabilities increased by 6.7% qtd in 1Q20 (as of March 18) vs 0.6% qoq in 4Q19 and +1.3% qoq in 3Q19.

Non-interest income of BKX index members will decrease by 3.8% qoq but it will increase by 5.6% yoy, according to Bloomberg consensus. Estimates went up ytd, median figure of BKX index members is +0.4%. On qoq basis, it could be the worst quarter over the 3 years. On yoy basis, it also doesn’t look strong (+11.8% in 4Q19 and +7% in 3Q19). The key drivers of fee revenue remains mortgage (but slightly weaker than in very strong 4Q19) and trading incomes (due to significant growth of volatility in March) while other non-interest income lines remain sluggish. And the rest of the year should remain weak for fee income except for mortgage, where activity still remains very high due to significant rates decline in recent months. Forecasts for mortgage originations were raised again in March. Thus, according to Fannie Mae’s housing forecast, total 2020 mortgage originations increased by 13.1% MoM for 2020 year and by 13.8% MoM for 2021 year. Currently, it is expected that total originations will increase by 11.3% yoy in 2020 but it will decrease by 11.6% yoy in 2021. The key driver of growth will be purchase originations which should increase by 7.7% and 3.1% in 2020/2021 years, respectively. According to MBA’s forecast published in March, total mortgage originations will increase by 20%yoy in 2020 (vs -3.8% yoy) driven by refinancing which estimate increased by 85% in March but total originations will decrease by 26% yoy in 2021 (+7.5% MoM).

Expenses still remain under control but estimates markedly increased qtd. According to Bloomberg consensus, median decline of opex of BKX index members will be 3.4% qoq but it increased by 2.4% yoy vs +3.8% yoy in 4Q19 and +1.5% in 1Q19. In result, median efficiency ratio will remain flat qoq at 59.9% but +1% yoy. Unsurprisingly, operating leverage will be negative in the face of a significant drop in revenue, for the third consecutive quarter after nine month in a row of positive operating leverage.

Credit quality of US banks remained very strong so far but it will be a cornerstone for banks in the nearest quarters as economic troubles are mounting. US economy (as well as majority of other countries) is paused, initial jobless claims skyrocketed in the last weeks of March, malls are closed while relatively strict lockdowns were imposed in many regions. It cannot but affect the quality of the loan portfolio. Comprehensive fiscal stimulus and banking forbearance will only slightly smooth out the dynamics of problem debt and delay it over time, but a significant deterioration in credit quality is inevitable due to the upcoming recession. Easing regulatory requirements (particularly, delaying of CECL implementation) is undoubtedly positive moment for banks but it is not a game changer in the current environment. The key risk, from our point of view, is that recession caused by COVID-19 spreading could be a trigger for a credit bubble burst given very high leverage of corporate sector and significant growth of leveraged loans during the last decade. Monetary easing

and massive liquidity injections keep the situation under control for now but US economy is walking on a very thin ice at the moment, from our point of view. The longer the economy is running at idle, the higher probability of bursting the credit bubble is, which will be accompanied by skyrocketing growth of NPLs and NCOs. According to Bloomberg consensus, total provision of BKX index members will increase by 21.3% yoy or +17.7% qoq. Median growth of estimates is 7.7% ytd. According to FDIC, leading indicators of credit quality remains strong across the majority loan categories with 30-89 delinquency ratio of total portfolio being at 0.65% in 4Q19, +4 bps qoq but +1 bps yoy (average since 1990 year is 1.2%). NCO ratio was +0.54% in 4Q19, +4 bps yoy or +3 bps qoq (historical average 0.86%, historical median 0.6%). From our point of view, key attention will be paid not to the figures themselves, but to the managements' comments, trends, dynamics of early indicators, details of forbearance programs and so on.

Capital ratios continue to go down but still remain solid, significantly higher than they were just before the start of the last crisis (median TCE ratio of BKX index members of 7.9% in 4Q19 vs 5.7% in 4Q07). As expected by Bloomberg consensus, median Basel III CET1 ratio of members of BKX index will remain flat at 10.2% in 1Q20 but -60 bps yoy. We expect that US banks will suspend buybacks at least till the end of 2020, but we don't think that dividends will be halted given very high loss absorption capacity of US financial institutions, markedly higher than total losses during Great Recession.

Economic situation has dramatically worsened in recent weeks and there is high level of uncertainty when the situation with COVID-19 will start to improve. Number of confirmed World's COVID-19 cases increased tenfold during March and even the growth rate in percentage terms continues to grow, implying that we are far from even peak number of new daily cases. So, strict quarantine measures will remain in place for weeks, if not months. It seems that peak daily cases in Italy and Spain (the most affected European countries by coronavirus) are behind us but current number of daily cases remains elevated despite it. So, hopes for a sharp improvement in the situation after reaching the peak of morbidity are not justified. It just means that probability of V-shaped recovery tends to zero. So, banking fundamentals will deteriorate meaningfully in the near term. Unsurprisingly, banks are trading with significant discount to historical averages as risks continue mounting. Also, EPS forecasts lag behind reality, understating real multipliers. Thus, banks are trading with -3.8/-3.5 std on P/E CY and -3.7/-3.2 std on P/E NY (on the basis of samples from 2000 and 2010 yrs to current moment) relative to historical averages (as of March 27). As for relative to S&P 500, banks are currently trading at -2.9 and -2.8 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively.

Despite stocks are still trading at a significant discount to both S&P 500 index and historical averages, we maintain our cautious view on US banks given upcoming recession and deterioration of credit quality. So, we remain neutral on US banks until we see the first signs of fundamentals improvement. In any case, bear market rally in the last week of March after significant sell-off before markedly diminished attractiveness of US banking shares given no catalysts ahead, at least in the nearest weeks.

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price as of 31/03/20, $	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			2019E	2020E	2021E	2019E	2020E	2021E			2019E	2020E	2021E		
American Express	AXP	85.6	114.6	33.8%	138.1	67.0	42.5	69.0	2.1%	2.2%	2.3%	10.8	9.5	8.6	3.0	3.6	26.0	28.3	30.7	10.0	10.7
JP Morgan Chase	JPM	90.0	124.8	38.6%	141.1	77.0	42.0	276.8	4.2%	4.5%	4.7%	9.0	8.3	8.0	1.2	1.5	13.4	14.1	13.8	7.0	12.4
PNC Financial	PNC	95.7	143.4	49.8%	161.7	79.5	41.8	41.0	5.0%	5.4%	5.3%	8.7	8.1	8.0	0.8	1.0	10.5	10.7	11.2	9.9	9.5
Bank of America	BAC	21.2	32.2	51.6%	35.7	18.0	41.2	185.2	3.7%	4.2%	4.5%	7.9	7.2	7.0	0.8	1.1	10.4	10.5	9.9	7.2	11.2
Citigroup	C	42.1	76.3	81.2%	83.1	32.0	38.8	88.4	5.1%	5.7%	6.5%	5.6	4.9	4.5	0.5	0.6	9.2	9.9	9.3	7.7	11.8
Trust Financial Corp	TFC	30.8	50.8	64.6%	56.9	24.0	39.3	41.5	6.0%	6.5%	6.1%	7.4	6.8	6.7	0.7	1.3	9.0	9.4	9.8	7.3	9.5
Goldman Sachs	GS	154.6	230.1	48.9%	250.1	130.9	41.2	55.4	3.3%	3.6%	3.5%	7.0	5.9	5.8	0.7	0.7	10.0	10.4	10.4	7.5	13.3
Bank of NY Mellon	BK	33.7	43.9	30.3%	53.6	26.4	46.6	29.8	3.8%	4.1%	4.2%	8.7	8.3	8.1	0.8	1.7	8.7	9.1	9.5	4.8	12.5
Comerica	CMA	29.3	54.6	86.2%	80.6	24.3	33.8	4.1	9.5%	9.8%	9.3%	5.1	4.9	5.4	0.6	0.6	11.7	11.3	10.5	9.2	10.1
Citizens Financial	CFG	18.8	38.9	106.6 %	41.3	14.1	37.5	8.0	8.2%	8.6%	8.7%	5.2	4.8	4.8	0.4	0.6	7.3	7.4	7.5	8.5	10.0
Regions Financial	RF	9.0	15.7	74.9%	17.5	7.0	38.8	8.6	7.2%	7.7%	7.9%	5.9	5.5	5.3	0.6	0.9	9.6	9.8	9.5	8.1	9.6
Discover Financial	DFS	35.7	71.2	99.7%	93.0	23.3	37.2	10.9	5.0%	5.3%	5.4%	4.6	3.9	3.9	1.0	1.0	21.6	22.9	21.8	9.6	11.2
M&T Bank	MTB	103.4	157.9	52.6%	174.9	87.7	39.7	13.4	4.3%	4.6%	4.7%	7.9	7.4	7.1	0.9	1.4	11.7	11.8	11.9	8.5	9.7
Fifth Third Bancorp	FITB	14.9	28.3	90.4%	31.6	11.1	38.2	10.6	7.4%	7.9%	8.1%	5.4	5.0	4.8	0.5	0.7	10.2	10.3	11.2	9.0	9.8
Huntington Bancorp	HBAN	8.2	13.0	58.3%	15.6	6.9	36.8	8.4	7.5%	8.0%	7.8%	6.7	6.4	6.2	0.8	1.0	12.2	12.2	11.4	7.8	9.9
Northern Trust	NTRS	75.5	89.0	17.9%	110.5	60.7	47.9	15.8	3.8%	4.0%	3.9%	12.2	11.4	11.7	1.4	1.5	13.8	14.6	14.4	7.6	13.2
People's United	PBCT	11.1	15.4	38.9%	17.7	10.4	39.2	4.8	6.5%	6.5%	6.7%	8.4	8.2	8.5	0.6	1.1	7.4	7.5	7.0	8.0	10.2
Synchrony Financial	SYF	16.1	31.4	95.3%	38.2	12.2	35.7	9.9	5.6%	6.6%	6.5%	4.2	3.6	3.7	0.7	0.8	16.4	20.0	19.1	11.7	14.1
KeyCorp	KEY	10.4	18.1	74.8%	20.5	7.5	39.6	10.1	7.5%	8.2%	8.2%	5.8	5.4	5.1	0.6	0.8	11.3	11.4	12.1	9.0	9.4
State Street Corp	STT	53.3	70.6	32.6%	85.9	42.1	45.9	18.9	4.0%	4.3%	4.4%	8.7	7.9	7.4	0.9	1.7	10.3	10.9	10.9	4.7	11.9
US Bancorp	USB	34.5	52.1	51.2%	61.0	28.6	40.7	52.4	5.0%	5.4%	5.2%	8.4	7.9	7.6	1.2	1.5	13.5	13.5	14.5	7.3	9.1
Zions Bancorp	ZION	26.8	43.0	60.5%	52.5	23.6	33.2	4.4	5.3%	5.6%	6.0%	6.6	6.2	5.9	0.7	0.8	10.4	10.4	10.1	8.5	10.2
Morgan Stanley	MS	34.0	51.7	52.1%	57.6	27.2	42.3	52.1	4.4%	5.0%	5.3%	6.7	5.9	5.4	0.7	0.8	10.6	11.1	11.6	7.2	16.4
Capital One Financial	COF	50.4	101.8	102.0 %	107.6	38.0	35.0	23.1	3.3%	3.4%	3.4%	5.0	4.1	3.8	0.4	0.6	7.1	9.1	9.6	10.2	12.2
Wells Fargo	WFC	28.7	41.7	45.2%	54.8	25.1	38.6	117.4	7.2%	7.5%	7.7%	7.9	7.0	6.5	0.7	0.9	9.3	10.1	10.5	7.3	11.1
First Republic Banks	FRC	82.3	102.6	24.6%	122.3	70.1	42.0	14.1	1.0%	1.0%	1.1%	16.1	14.5	13.3	1.6	1.6	9.9	9.8	9.5	7.3	9.9
NY Commercial Bancshares	NYCB	9.4	11.8	25.7%	13.8	8.8	39.6	4.4	7.2%	7.2%	7.2%	11.0	9.8	9.0	0.7	1.2	6.2	6.9	7.5	7.4	9.9
SVB Financial	SIVB	151.1	218.2	44.5%	271.0	127.4	40.7	7.8	0.0%	0.0%	0.0%	8.8	8.4	7.5	1.3	1.3	13.8	12.9	12.1	8.4	12.6
Signature Bank	SBNY	80.4	137.9	71.6%	148.6	69.5	37.3	4.3	2.8%	2.8%	3.1%	7.4	6.7	6.6	0.9	0.9	11.7	12.0	10.9	9.4	11.6
East West Bancorp	EWBC	25.7	41.9	62.8%	52.9	25.3	34.8	3.7	4.4%	4.5%	4.5%	6.3	5.6	5.7	0.7	0.8	12.2	12.2	11.1	10.4	12.9
Synovus Financial	SNV	17.6	29.2	66.5%	40.3	10.9	39.0	2.6	7.5%	7.8%	7.6%	6.0	5.4	4.9	0.6	0.7	9.6	10.4	10.7	8.1	8.9
First Horizon National	FHN	8.1	14.3	76.8%	17.4	6.3	37.5	2.5	7.4%	8.2%	8.9%	5.1	4.7	4.1	0.5	0.8	7.6	11.2	11.7	7.5	9.2
BOK Financial	BOKF	42.6	64.4	51.4%	88.6	34.6	36.5	3.0	4.9%	5.1%	4.6%	6.7	6.4	6.1	0.7	0.9	9.6	9.2	8.6	9.0	11.4
Median				**52.6%**			**39.2**		**5.0%**	**5.4%**	**5.3%**	**7.0**	**6.4**	**6.2**	**0.7**	**0.9**	**10.4**	**10.7**	**10.9**	**8.1**	**10.7**

Source: Bloomberg

APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (31/03/20)	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			2019E	2020E	2021E	2019E	2020E	2021E			2019E	2020E	2021E		
Erste Group	EBS AV	EUR	16.9	33.1	96.2%	35.8	15.9	26.6	7.3	8.1%	8.7%	9.8%	5.6	5.4	5.1	0.5	0.5	9.0	8.7	8.5	5.2	13.8
Raiffeisen Bank	RBI AV	EUR	13.4	22.6	69.0%	24.4	10.7	35.7	4.4	8.5%	9.8%	11.2%	4.6	4.4	4.6	0.4	0.4	8.5	8.3	8.9	7.3	13.9
KBC Groep	KBC BB	EUR	42.0	67.3	60.1%	73.6	33.4	35.9	17.5	7.8%	8.3%	8.8%	8.2	7.9	7.6	0.9	1.0	11.5	11.3	11.4	6.0	16.1
Komercni Banka	KOMB CK	CZK	472.2	848.4	79.7%	958.0	465.0	22.7	3.3	9.6%	10.1%	10.5%	7.3	6.7	6.7	0.8	0.9	11.9	12.1	10.6	9.0	19.1
Jyske Bank	JYSK DC	DKK	169.4	237.9	40.4%	285.4	150.8	30.5	1.8	3.8%	4.6%	4.9%	8.1	6.4	6.2	0.4	0.4	4.6	5.3	5.3	5.0	17.4
SydBank	SYDB DC	DKK	96.1	121.3	26.2%	162.3	83.0	36.0	0.8	4.8%	6.0%	6.6%	9.3	7.5	7.0	0.5	0.5	5.5	6.3	6.3	7.3	17.8
Danske Bank	DANSKE DC	DKK	76.9	112.6	46.4%	130.8	68.0	36.6	8.9	5.1%	7.7%	9.1%	9.0	6.5	5.6	0.4	0.4	4.7	6.3	7.3	3.9	17.3
BNP Paribas	BNP FP	EUR	27.5	51.0	85.4%	54.2	25.1	32.6	34.4	9.4%	9.8%	10.4%	4.6	4.5	4.4	0.3	0.4	7.3	7.2	7.0	4.0	12.1
Natixis	KN FP	EUR	3.0	3.7	26.2%	4.8	1.5	49.4	9.4	9.0%	9.9%	10.2%	8.7	8.0	7.1	0.5	0.7	6.0	6.9	7.2	2.5	11.3
Societe Generale	GLE FP	EUR	15.3	28.4	84.8%	32.2	13.0	35.6	13.1	10.9%	11.0%	11.0%	4.3	4.2	3.8	0.2	0.2	5.6	5.5	4.8	4.2	12.7
Credit Agricole	ACA FO	EUR	6.7	13.0	95.1%	13.8	5.7	32.0	19.3	9.3%	10.1%	10.6%	5.3	5.2	4.7	0.3	0.5	6.8	6.8	7.1	2.2	12.1
Virgin Money	VMUK LN	GBp	62.0	170.4	174.8 %	222.1	46.1	31.6	1.0	0.1%	0.1%	0.2%	3.3	2.8	2.3	0.2	0.2	6.4	6.9	8.1	5.0	13.3
HSBC	HSBA LN	GBp	454.3	553.9	21.9%	687.7	415.3	35.3	104.4	0.1%	0.1%	0.1%	7.3	7.3	6.5	0.7	0.8	5.9	6.0	7.5	5.3	14.7
Royal Bank of Scotland	RBS LN	GBp	112.9	201.7	78.6%	255.1	98.6	30.7	15.4	0.1%	0.1%	0.1%	6.5	5.3	4.8	0.3	0.4	4.5	6.2	7.2	4.5	16.2
Barclays	BARC LN	GBp	94.1	171.0	81.7%	193.0	73.0	34.5	18.4	0.1%	0.1%	0.1%	5.4	4.4	3.9	0.3	0.4	6.4	7.0	6.6	4.0	13.8
Standard Charted	STAN LN	GBp	445.8	597.3	34.0%	742.6	400.8	36.9	15.9	0.1%	0.1%	0.1%	6.3	5.2	4.5	0.4	0.4	5.1	5.9	6.8	5.5	13.8
Lloyds	LLOY LN	GBp	32.0	54.5	70.4%	70.0	29.2	29.7	25.4	0.1%	0.1%	0.1%	5.0	5.5	5.3	0.5	0.6	10.9	10.7	8.9	4.3	13.6
Commerzbank	CBK GY	EUR	3.3	5.3	59.4%	8.3	2.8	36.0	4.1	3.7%	4.7%	5.8%	7.9	6.3	4.7	0.1	0.2	1.5	2.2	3.1	5.5	13.4
Deutsche Bank	DBK GY	EUR	6.0	6.3	5.8%	10.4	4.4	42.3	12.3	0.0%	1.2%	3.1%	-284.2	14.3	7.9	0.2	0.3	-3.6	-0.6	2.1	3.8	13.6
UniCredit	UCG IM	EUR	7.1	14.4	101.7 %	14.4	6.4	32.3	16.0	7.9%	8.9%	10.2%	4.5	4.2	3.7	0.3	0.3	5.3	5.4	6.6	6.2	13.2
Mediobanka	MB IM	EUR	5.0	9.6	90.0%	11.0	4.1	35.1	4.5	10.0%	10.5%	11.4%	5.4	5.5	5.1	0.4	0.5	8.7	8.5	8.6	11.5	14.1
Intesa Sanpaolo	ISP IM	EUR	1.5	2.4	61.2%	2.6	1.3	34.3	26.1	11.8%	11.2%	11.5%	6.8	6.4	6.2	0.5	0.6	7.8	7.0	6.9	5.2	13.9
Emilia Romagna	BPE IM	EUR	2.8	4.0	43.2%	4.7	2.1	44.1	1.5	4.3%	4.9%	6.4%	8.4	5.1	4.5	0.3	0.3	5.0	4.9	6.3	5.5	13.9
UBI Banca	UBI IM	EUR	2.4	3.5	44.7%	4.5	2.0	40.2	2.8	5.2%	6.4%	8.2%	8.8	6.6	5.4	0.3	0.4	3.1	4.4	5.2	6.2	12.3
ING Groep	INGA NA	EUR	4.8	10.2	113.7 %	12.1	4.2	29.6	18.6	13.5%	14.0%	14.4%	4.3	4.2	4.1	0.3	0.4	8.3	8.2	8.5	5.8	14.6
ABN Amro	ABN NA	EUR	7.5	15.5	107.2 %	22.0	6.4	29.5	7.0	14.7%	14.8%	15.8%	4.8	4.9	4.4	0.3	0.3	7.2	7.6	7.7	5.7	18.1
DNB	DNB NO	NOK	116.8	157.5	34.9%	178.1	94.3	42.7	16.1	7.5%	7.9%	8.3%	8.3	7.7	7.1	0.9	0.9	10.1	10.3	10.5	7.5	18.6
BBVA	BBVA SQ	EUR	2.9	4.9	66.7%	5.7	2.6	34.0	19.4	7.2%	8.2%	8.7%	5.2	5.0	4.5	0.4	0.5	7.2	7.6	6.8	6.0	12.0
Santander	SAN SQ	EUR	2.2	3.9	78.1%	4.7	1.9	33.9	36.9	8.8%	9.4%	9.4%	5.5	5.2	4.8	0.4	0.5	7.2	7.3	7.2	4.8	11.7
Bankia	BKIA SQ	EUR	1.0	1.6	57.6%	2.5	0.9	38.7	3.1	10.6%	10.2%	10.4%	7.4	7.0	6.6	0.2	0.2	3.3	3.5	3.1	6.2	14.3
Bankinter	BKT SQ	EUR	3.3	6.0	79.9%	7.4	3.0	30.1	3.0	6.9%	7.6%	7.1%	6.9	6.6	6.9	0.6	0.7	10.6	8.6	7.5	5.3	11.6
Sabadell	SAB SQ	EUR	0.5	0.9	89.7%	1.1	0.4	35.2	2.6	7.5%	10.0%	10.7%	7.3	5.3	5.0	0.2	0.3	4.5	3.5	2.9	4.7	12.4
CaixaBank	CABK SQ	EUR	1.7	2.8	66.2%	3.0	1.6	37.3	10.2	8.2%	9.2%	8.9%	5.8	5.8	5.8	0.4	0.5	6.1	6.6	6.1	5.5	12.0
SEB	SEBA SS	SEK	67.2	92.3	37.4%	104.9	59.8	35.6	13.5	9.0%	9.2%	9.7%	8.1	7.6	7.2	0.9	1.0	11.7	11.9	11.9	5.2	17.6
Handelsbanken	SHBA SS	SEK	83.1	97.1	16.7%	113.8	71.8	44.7	15.1	6.4%	6.8%	7.3%	10.2	10.0	9.5	1.0	1.1	10.1	9.8	9.9	4.9	18.5
Swedbank	SWEDA SS	SEK	110.9	158.1	42.6%	162.7	106.1	34.5	11.5	6.4%	7.4%	8.3%	7.4	6.7	6.4	0.9	1.0	12.0	12.3	12.1	5.1	17.0
Nordea	NDA SS	SEK	56.1	75.6	34.9%	86.7	48.0	37.4	20.8	0.7%	0.8%	0.9%	9.4	11.2	11.3	0.7	0.8	7.9	8.0	8.3	4.9	16.3
Julious Baer	BAER SW	CHF	33.0	43.5	31.8%	51.8	24.3	43.9	7.0	4.8%	5.2%	5.8%	9.1	8.4	7.5	1.2	2.2	12.6	14.3	13.0	3.3	14.0
Credit Suisse	CSGN SW	CHF	8.0	12.5	56.1%	13.9	6.2	40.6	19.3	3.7%	3.9%	4.1%	6.3	5.6	4.9	0.4	0.5	7.3	7.4	7.5	4.9	12.7
UBS	UBSG SW	CHF	9.0	12.0	32.4%	13.3	7.0	44.9	32.9	8.2%	8.5%	8.6%	7.6	7.1	6.3	0.6	0.7	8.0	7.9	8.5	5.0	13.7
Median					**60.7%**			**35.5**		**7.3%**	**8.0%**	**8.6%**	**6.8**	**6.1**	**5.4**	**0.4**	**0.5**	**7.2**	**7.1**	**7.2**	**5.2**	**13.9**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
1-Apr	EU	Macro	Unemployment Rate	Feb
1-Apr	US	Macro	ADP Employment Change	Mar
1-Apr	US	Macro	Construction Spending	Feb
1-Apr	US	Macro	ISM Manufacturing	Mar
2-Apr	EU	Macro	PPI	Feb
2-Apr	US	Macro	Trade Balance	Feb
2-Apr	US	Macro	Factory Orders	Feb
3-Apr	EU	Macro	Retail Sales	Feb
3-Apr	**US**	**Macro**	**Employment Report**	**Mar**
9-Apr	US	Macro	PPI	Mar
9-Apr	US	Macro	U. of Mich. Sentiment	Apr
10-Apr	US	Macro	CPI	Mar
13-Apr	US	Macro	Monthly Budget Statement	Mar
14-Apr	**US**	**Corporate**	**JPMorgan Chase. Earnings Announcement**	**1Q20**
14-Apr	**US**	**Corporate**	**Wells Fargo. Earnings Announcement**	**1Q20**
15-Apr	**US**	**Corporate**	**Citigroup. Earnings Announcement**	**1Q20**
15-Apr	**US**	**Corporate**	**Bank of America. Earnings Announcement**	**1Q20**
15-Apr	US	Macro	Retail Sales	Mar
15-Apr	US	Macro	Industrial Production and Capacity Utilization	Mar
16-Apr	EU	Macro	Industrial Production	Feb
16-Apr	US	Macro	Housing Starts and Building Permits	Mar
17-Apr	US	Macro	Leading Index	Mar
20-Apr	EU	Macro	Trade Balance	Feb
21-Apr	EU	Macro	ZEW Survey Expectations	Apr
21-Apr	US	Macro	Existing Home Sales	Mar
22-Apr	EU	Macro	Consumer Confidence	Apr
23-Apr	EU	Corporate	Credit Suisse. Earnings Announcement	1Q20
23-Apr	EU	Macro	Markit Eurozone Manufacturing, Services and Composite PMI	Apr
23-Apr	US	Macro	Markit US Manufacturing, Services and Composite PMI	Apr
23-Apr	US	Macro	New Home Sales	Mar
28-Apr	EU	Corporate	Banco Santander. Earnings Announcement	1Q20
28-Apr	EU	Corporate	HSBC Holdings. Earnings Announcement	1Q20
28-Apr	US	Macro	Conf. Board Consumer Confidence	Apr
29-Apr	EU	Corporate	Deutsche Bank. Earnings Announcement	1Q20
29-Apr	EU	Macro	Economic and Business Confidence	Apr
29-Apr	**US**	**Macro**	**GDP**	**1Q**
29-Apr	US	Macro	Pending Home Sales	Mar
29-Apr	**US**	**Macro**	**FOMC Rate Decision**	**Apr 29**
30-Apr	EU	Macro	Unemployment Rate	Mar
30-Apr	**EU**	**Macro**	**GDP**	**1Q**
30-Apr	EU	Macro	CPI	Apr
30-Apr	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Apr 30**
30-Apr	US	Macro	Personal Income and Spending	Mar