Credit Suisse secures $54bn lifeline as authorities rush to avert global bank crisis

By John Revill

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Credit Suisse on Thursday, March 16, said it would borrow up to $54bn from the Swiss central bank to shore up liquidity and investor confidence after a slump in its shares intensified fears about a global banking crisis.

Source: Reuters.

The Zurich-based bank's announcement helped reverse some of the heavy share market losses and restored confidence in wider financial markets, which were battered on Wednesday and into Asia trade on Thursday as investors fretted about potential runs on global bank deposits.

In its statement, Credit Suisse said it would exercise an option to borrow from the central bank up to 50bn Swiss francs ($54bn). That followed assurances from Swiss authorities on Wednesday that Credit Suisse met "the capital and liquidity requirements imposed on systemically important banks" and that it could access central bank liquidity if needed.

Credit Suisse is the first major global bank to be given an emergency lifeline since the 2008 financial crisis and its problems have raised serious doubts over whether central banks will be able to sustain their fight against inflation with aggressive interest rate hikes.

The bank's shares surged 21% in pre-open trade in early European hours. Throughout most of the Asian day, stocks wallowed in the red as investors rushed to gold, bonds and the dollar. While Credit Suisse's announcement helped trim some early losses, trade was volatile and sentiment fragile.

Credit Suisse unease sparks sell-off in world stocks; gold resumes rally

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"It removes an immediate risk. But it confronts us with another choice. The more we do this, the more we blunt monetary policy, the more we have to live with higher inflation -- and what is it going to be?" said Damien Boey, chief equity strategist at Barrenjoey in Sydney.

"Do bailouts make things better? On the one hand, you are removing a source of risk to the markets which is a clear and present danger. On the other hand we are feeding into this paradigm of monetary policy bucking within itself."

Credit Suisse's borrowing will be made under the covered loan facility and a short-term liquidity facility, fully collateralised by high quality assets. It also announced offers for senior debt securities for cash of up to 3bn francs.

"This additional liquidity would support Credit Suisse’s core businesses and clients as Credit Suisse takes the necessary steps to create a simpler and more focused bank built around client needs," the bank said.

Credit Suisse chief executive Ulrich Koerner had earlier on Wednesday sought to reassure investors about the lender's strong liquidity.

"Our capital, our liquidity basis is very, very strong," Koerner told media. "We fulfil and overshoot basically all regulatory requirements."

Meanwhile, Credit Suisse bankers in Asia reached out to clients to reassure them after the latest inflow of funds.

"We've been telling them to read the statements and look at the fact that we are buying 3bn francs worth of bonds because they are so cheap," said a Hong Kong-based senior banker. "That's all we can say and try and plough on with work."

The banker declined to be named as they were not authorised to speak to the media.

European epicentre

The 167-year-old bank's problems have shifted the focus for investors and regulators from the United States to Europe, where Credit Suisse led a selloff in bank shares after its largest investor said it could not provide more financial assistance because of regulatory constraints.

The concerns about Credit Suisse added to broader banking sector fears sparked by last week's collapse of Silicon Valley Bank (SVB) and Signature Bank, two US mid-size firms.

Investor focus is also on any action by central banks and other regulators elsewhere to restore confidence in the banking system.

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Policymakers in Australia and South Korea sought to reassure markets on Thursday that banks in their jurisdictions were well-capitalised.

SVB's demise last week, followed by that of Signature Bank two days later, sent global bank stocks on a roller-coaster ride as investors feared another Lehman Brothers moment, the Wall Street giant whose failure had triggered the global financial crisis more than a decade ago.

On Wednesday, Credit Suisse shares led a 7% fall in the European banking index, while five-year credit default swaps for the flagship Swiss bank hit a new record high.

The investor exit for the doors raised fears of a broader threat to the financial system, and two supervisory sources said that the European Central Bank had contacted banks on its watch to quiz them about their exposures to Credit Suisse.

The US Treasury also said it is monitoring the situation around Credit Suisse and is in touch with global counterparts, a Treasury spokesperson said.

Next steps

Rapid rises in interest rates have made it harder for some businesses to pay back or service loans, increasing the chances of losses for lenders who are also worried about a recession.

Traders are now betting that the Federal Reserve, which just last week was expected to accelerate its interest-rate-hike campaign in the face of persistent inflation, may be forced to hit pause and even reverse course.

Bets on a large European Central Bank interest-rate hike at Thursday's meeting also evaporated quickly on growing fears about the health of Europe's banking sector. Money market pricing suggested traders now saw less than a 20% chance of a 50 basis point rate hike at the ECB meeting.

For now, investors are focused on what will happen at Credit Suisse next.

"The next important step needs to come out from their chief executive officer and display their new strategy to the public sooner than later to reassure the markets," said Tareck Horchani, head of prime brokerage dealing at Maybank Securities in Singapore.

"There is still the possibility they recover but the road will be very bumpy."