The Bank Treasury Newsletter
The Chart Deck
May 2023

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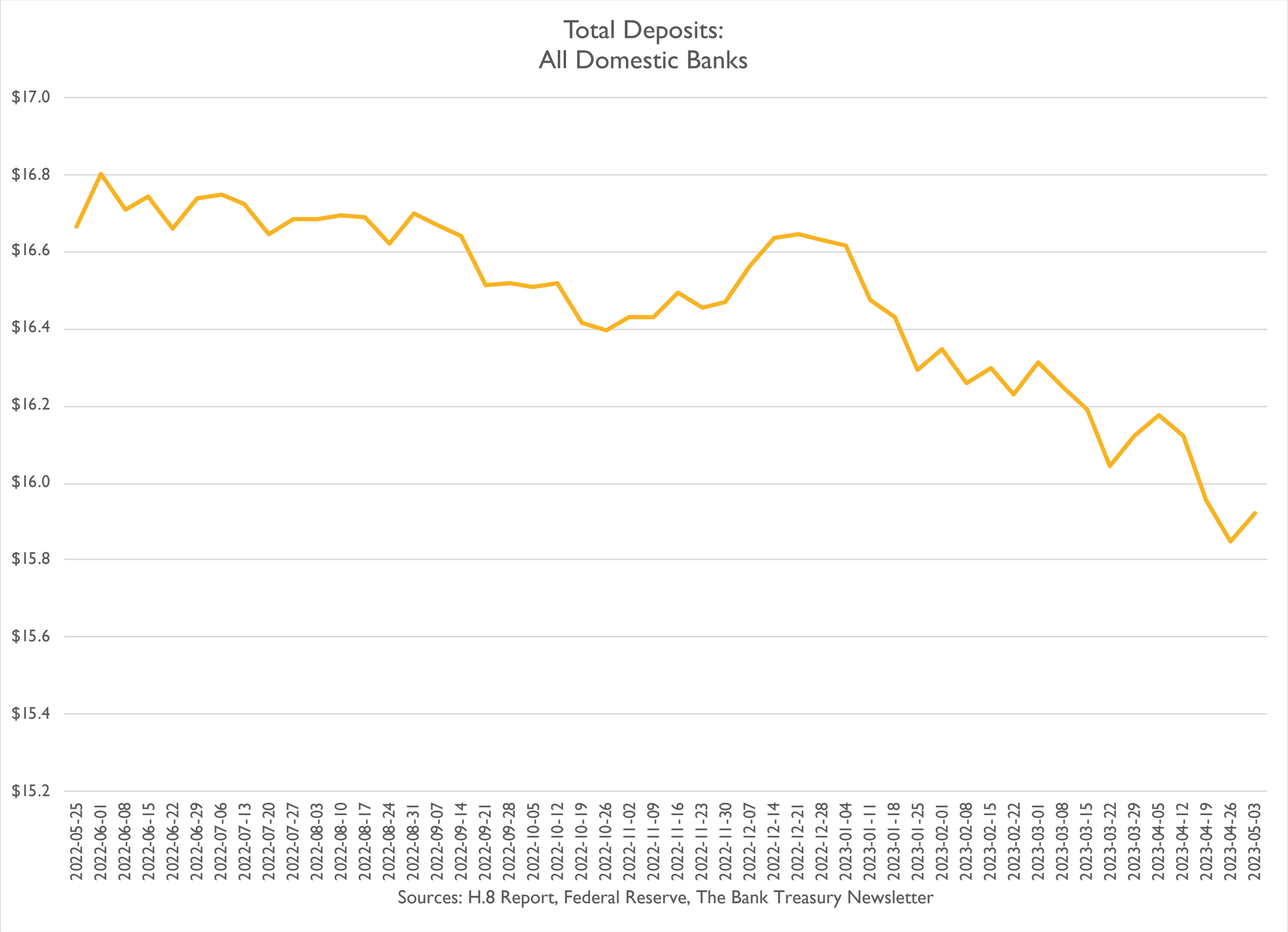
In This Month's Chart Deck

- The failure of Silicon Valley Bank (SVB) and Signature Bank, New York (SBNY) last March significantly increased the pace of bank deposit outflows which has been on-going since the Fed's initial interest rate hike in Q1 2022 (Slide 4). There are still $5 trillion more deposits than there are loans in the system, but an inflating nominal economy continues to increase economic leverage relative to deposits (Slide 5). Despite more risk, Americans keep a higher proportion of their wealth in a bank deposit account than at any point in the last decade (Slide 6), and more of the balance in a checking account (Slide 7).
- The bank failures will lead to an examination of the industry's reliance on uninsured deposits. Call report data shows that almost all banks with total assets over $1 billion included uninsured deposits in their funding mix (Slide 8). Core deposits as a liquidity metric proved unreliable in flagging liquidity risk in the case of SVB and SBNY according to the reviews published by the Fed and the FDIC at the end of last month. However, data for the last four quarters shows the core deposit mix across institutions steadily eroded as the Fed's rate hikes and banks increased non-core deposit funding as the year went along (Slide 9).
- The loan-to-deposit ratio (LDR) is another liquidity metric that measures an institution's long-term stable funding and is echoed in the Basel 3 Net Stable Funding Ratio (NSFR). The LDR, however, fails to capture the illiquidity in underwater bank bond portfolios and is adjusted in Slide 10 to include Mortgage-Backed Securities (MBS) which extended as the Fed raised rates. Notably, municipal deposits which are considered "hot money" was generally stable in the last quarter, judging by the fact that municipal transaction account balances were flat for the last four quarters and equaled $377 billion at the end of March 2023 (Slide 11).
- Money market funds became a destination last March for both uninsured and insured depositors looking for safety and higher rates (Slide 12). But with few alternatives to place these funds, with Treasury Bill issuance limited by the on-going Debt Ceiling negotiations, and with bank treasurers constrained from paying up for deposits given the inverted yield curve, money market funds have been left with little choice but to place them overnight at the Fed in its Reverse Repo Facility, which as of May 3rd is paying 5.05% overnight (Slide 13).

List of Slides

- Total Deposits: All Domestic Banks, *Sources: H.8 Report, Federal Reserve, The Bank Treasury Newsletter*
- Commercial Bank Deposits % Nominal GDP, *Sources: FRED, St. Louis Fed, The Bank Treasury Newsletter*
- Commercial Deposits % All US Wealth, *Sources: FRED, St. Louis Fed, The Bank Treasury Newsletter*
- Transaction Accounts % Total Domestic Deposits, *Sources: Call Reports, Fis FedFis. LLC, The Bank Treasury Newsletter*
- Uninsured Deposits (Over $250,000) % Insured and Uninsured Deposits, *Sources: Call Reports, Fis FedFis LLC, The Bank Treasury Newsletter*
- Core Deposits % Total Deposits, *Sources: Call Reports, Fis FedFis LLC, The Bank Treasury Newsletter*
- Loans + Agency MBS/Total Deposits, *Sources: H.8 Report, Federal Reserve, The Bank Treasury Newsletter*
- Municipal Transaction Deposits, *Sources: Call Reports, Fis FedFis, LLC, The Bank Treasury Newsletter*
- Money Market Funds, *Sources: Money Market Monitor, Office of Financial Research, The Bank Treasury Newsletter*
- Fed Reverse Repo: Others, *Sources: H.4 Report, Federal Reserve, The Bank Treasury Newsletter*

Deposit Outflows Picked Up After March



Total deposits fell by 4.2% since year-end, and half of the outflows have been since last March.

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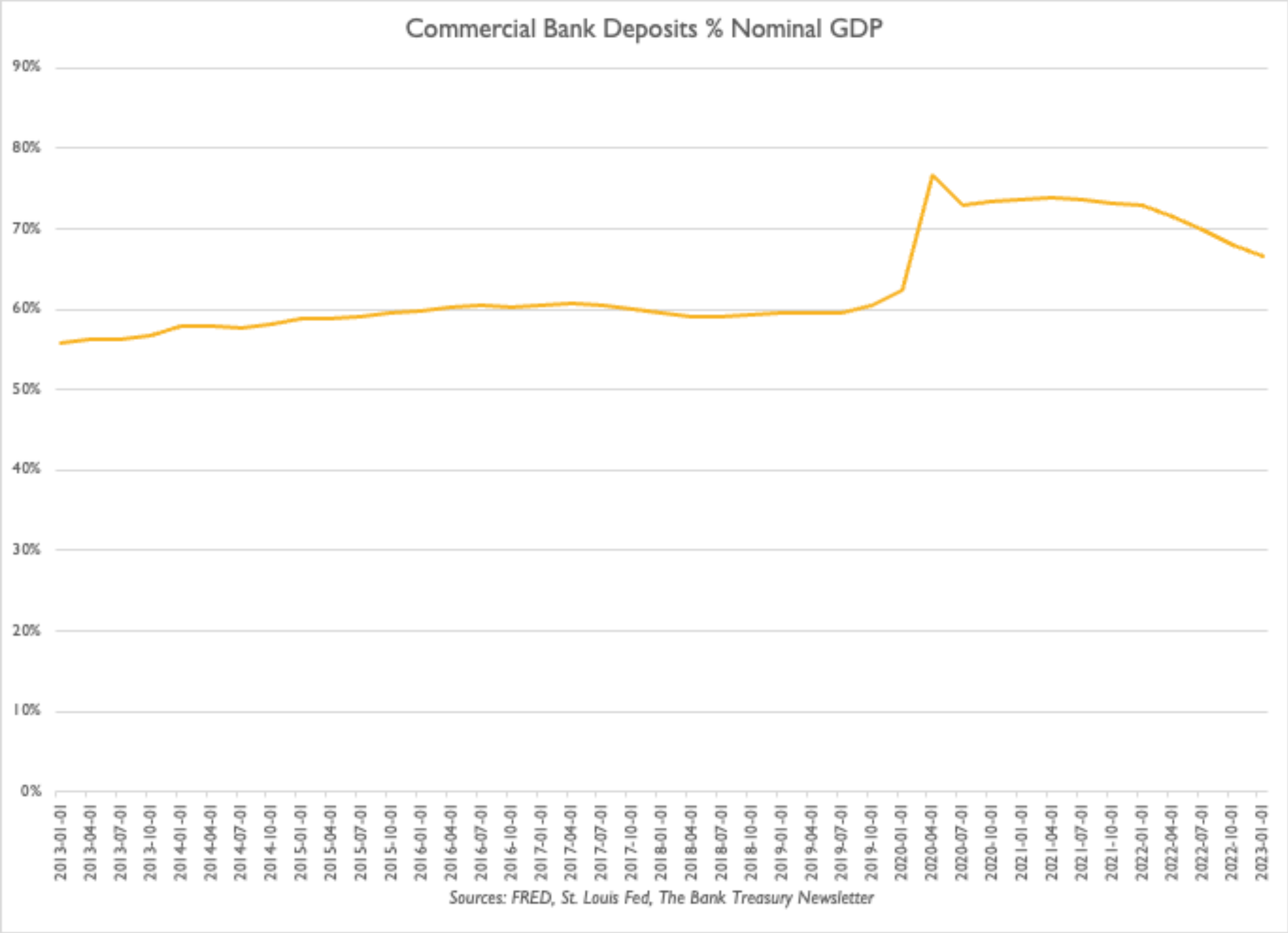
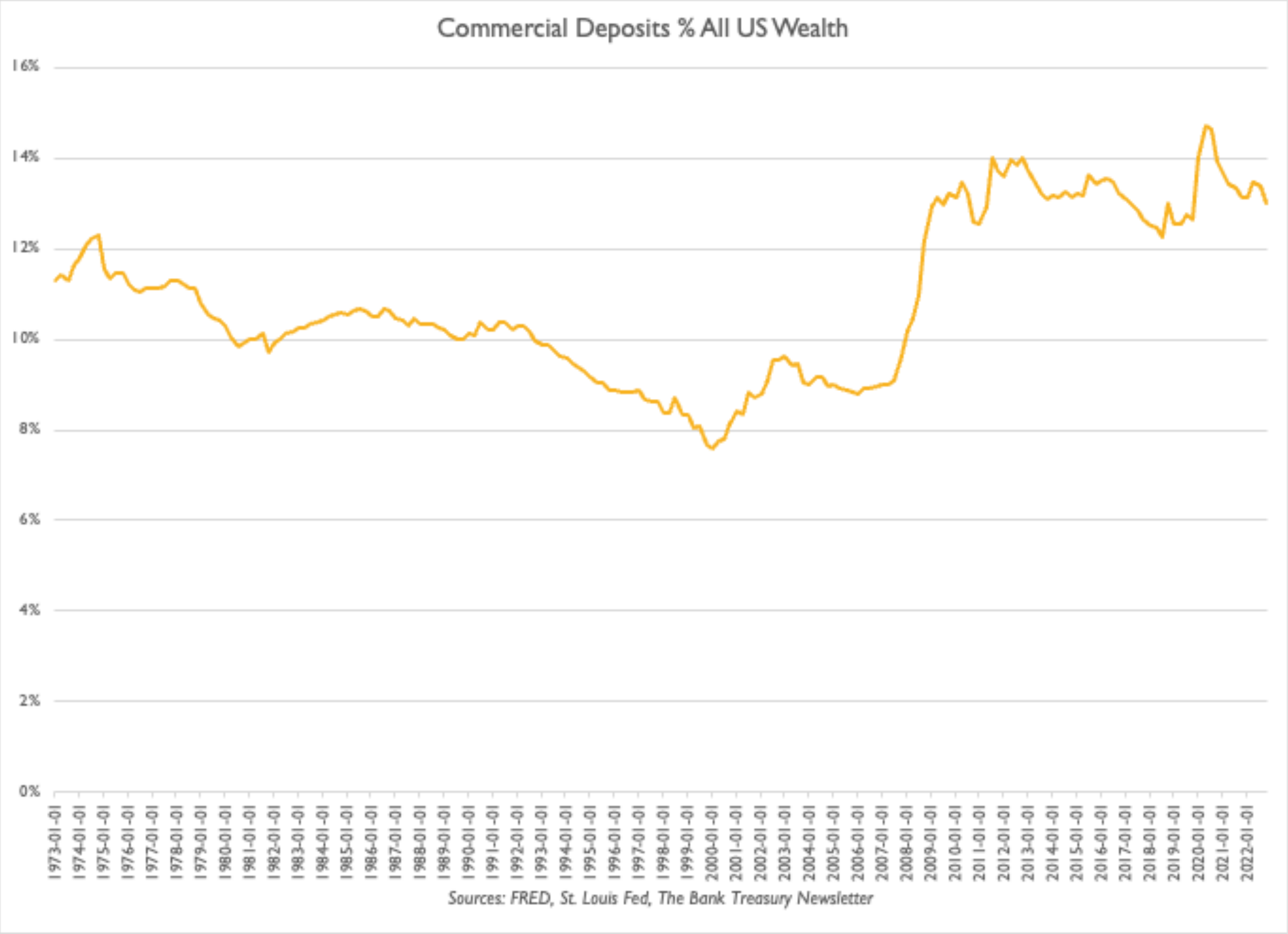
...And Deposits Are A Falling Percent of GDP



Inflation whittled away the value of savings left in the banks.

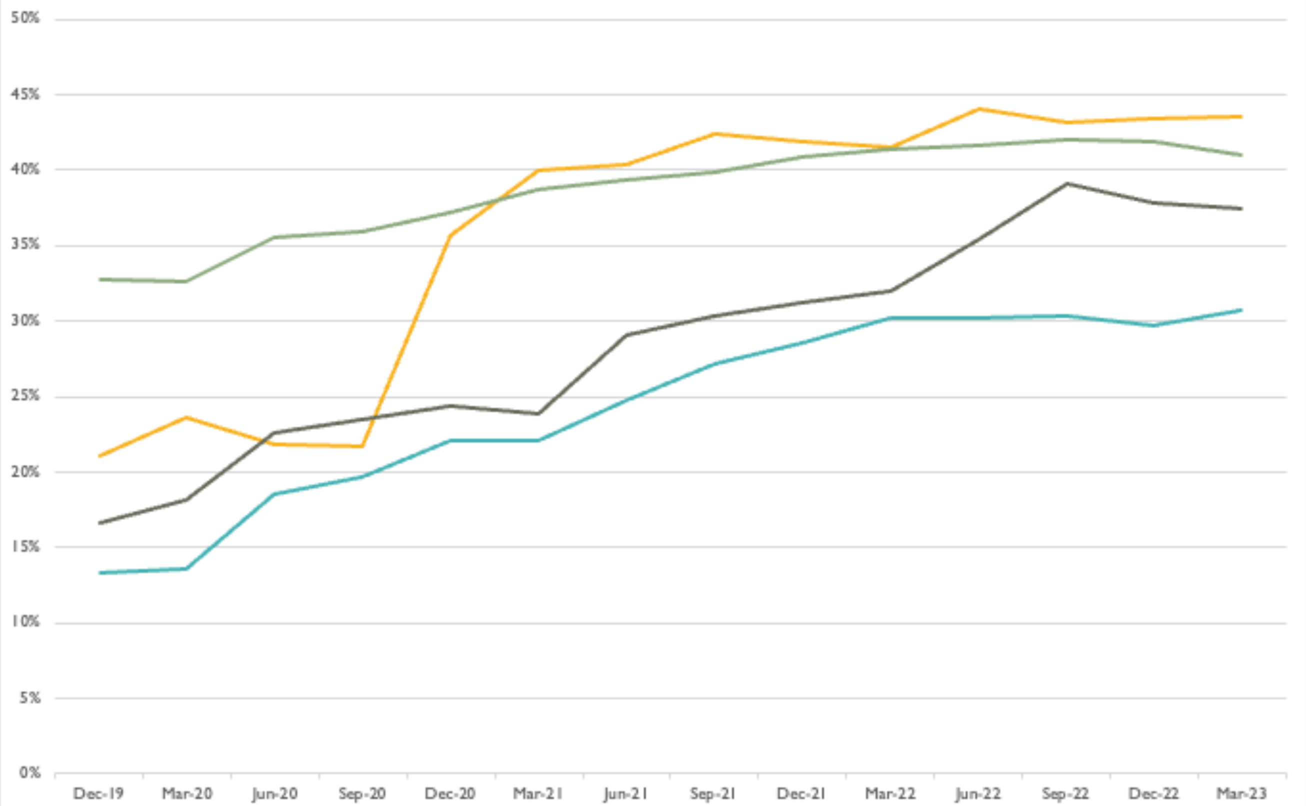
People Still Keep More Money In The Bank…



But compared to any time in the last decade, the share of wealth accumulation sitting in a bank account has never been higher.

...And Hold More Money In Checking

The four largest banks and all banks with total assets under $10 billion in Q1 2023 reported a higher mix of transaction account balances (which includes interest and noninterest checking) in total deposits, while the average for the second and third largest peers slipped as a percent of total deposits



Sources: Call Reports, Fis FedFis. LLC, The Bank Treasury Newsletter

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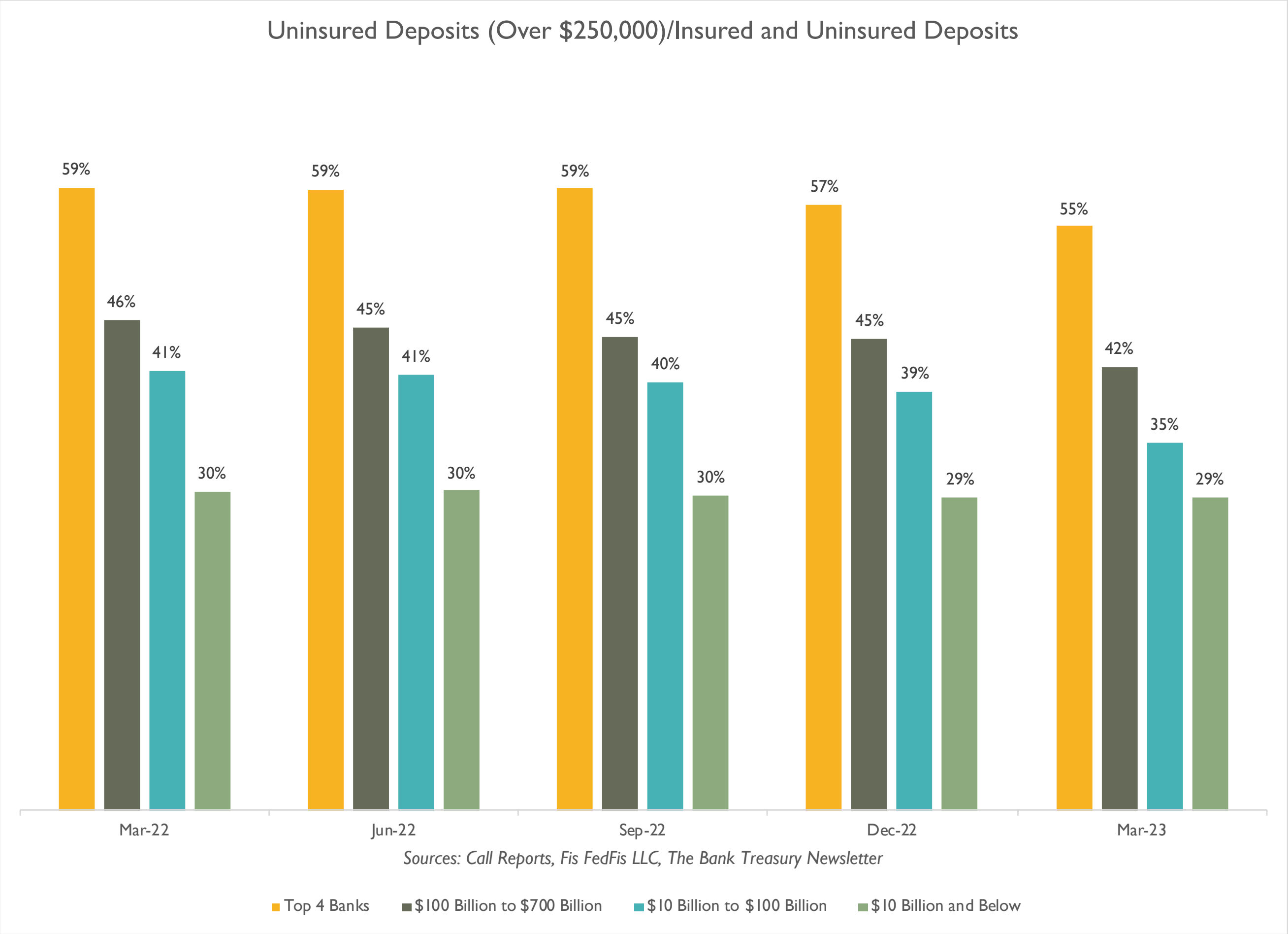
Uninsured Deposits Fell Across The Industry

Uninsured depositors generally flock to the largest banks for safety, but banks of all sizes fund a portion of their balance sheets with them. Call report data in Q1 2023, which incorporates the deposit outflows after SVB and SBNY failed, show that banks with total assets between $10 billion to $100 billion recorded the largest effect of these outflows in their deposit mix as their insured deposits increased relative to uninsured deposits.



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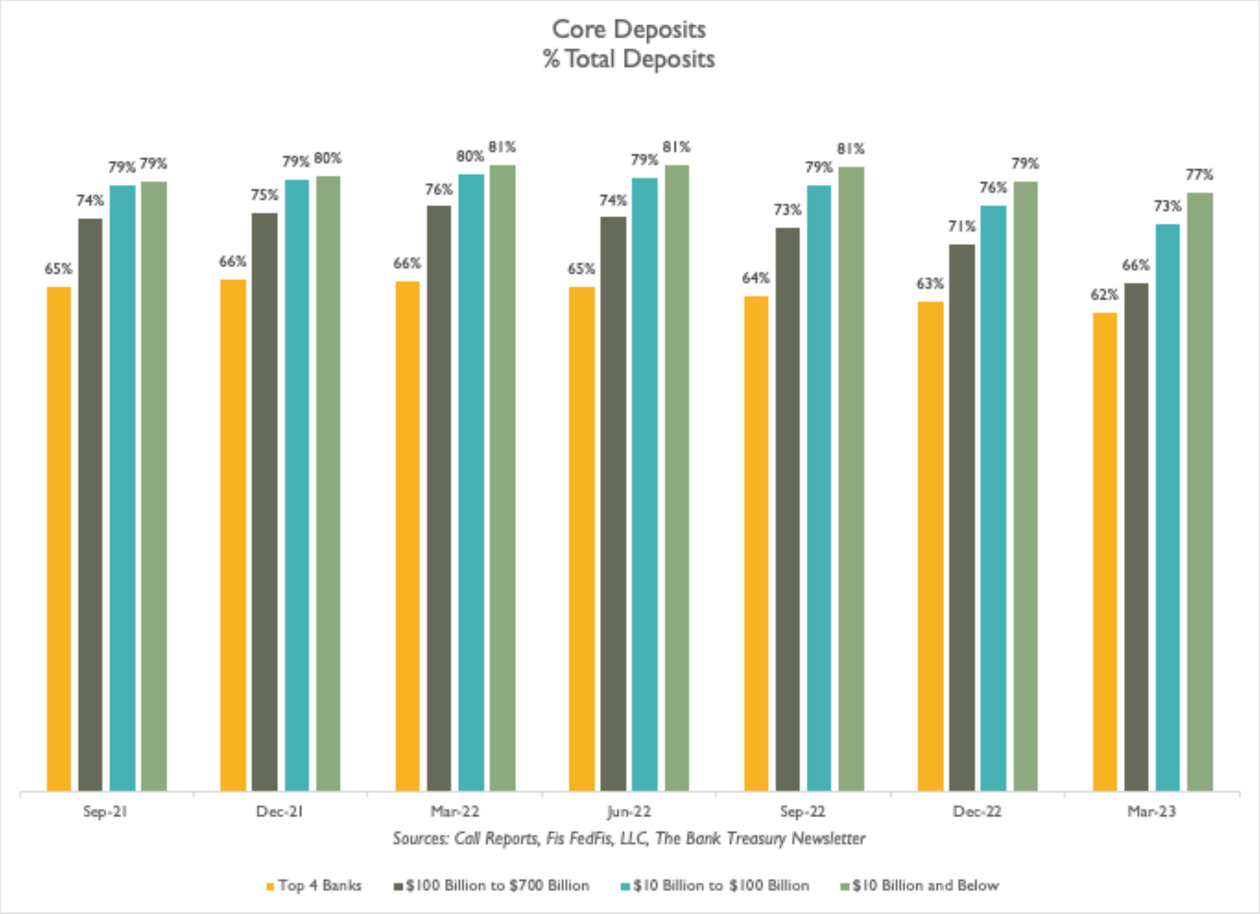
The Industry's Core Deposit Mix Is Falling

In its post-mortem on the failure of SVB, the Fed cited key traditional liquidity metrics, such as core deposits, as showing that SVB's liquidity was strong when it failed even when it was not. But the industry's increasing reliance on non-core deposit products, including brokered deposits, in the last four quarters, drove down core deposits in its total deposit mix across all institutions of all sizes.



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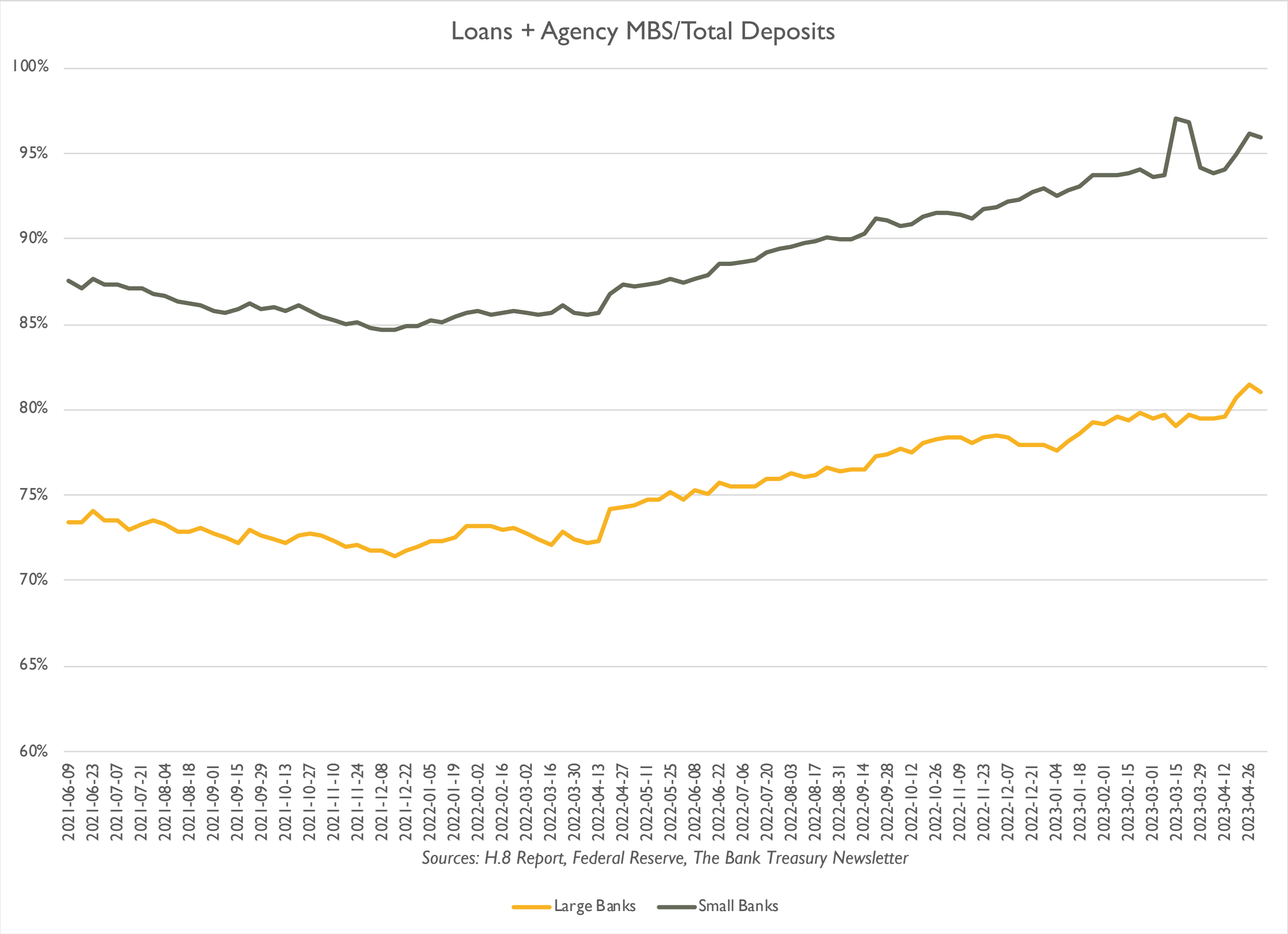
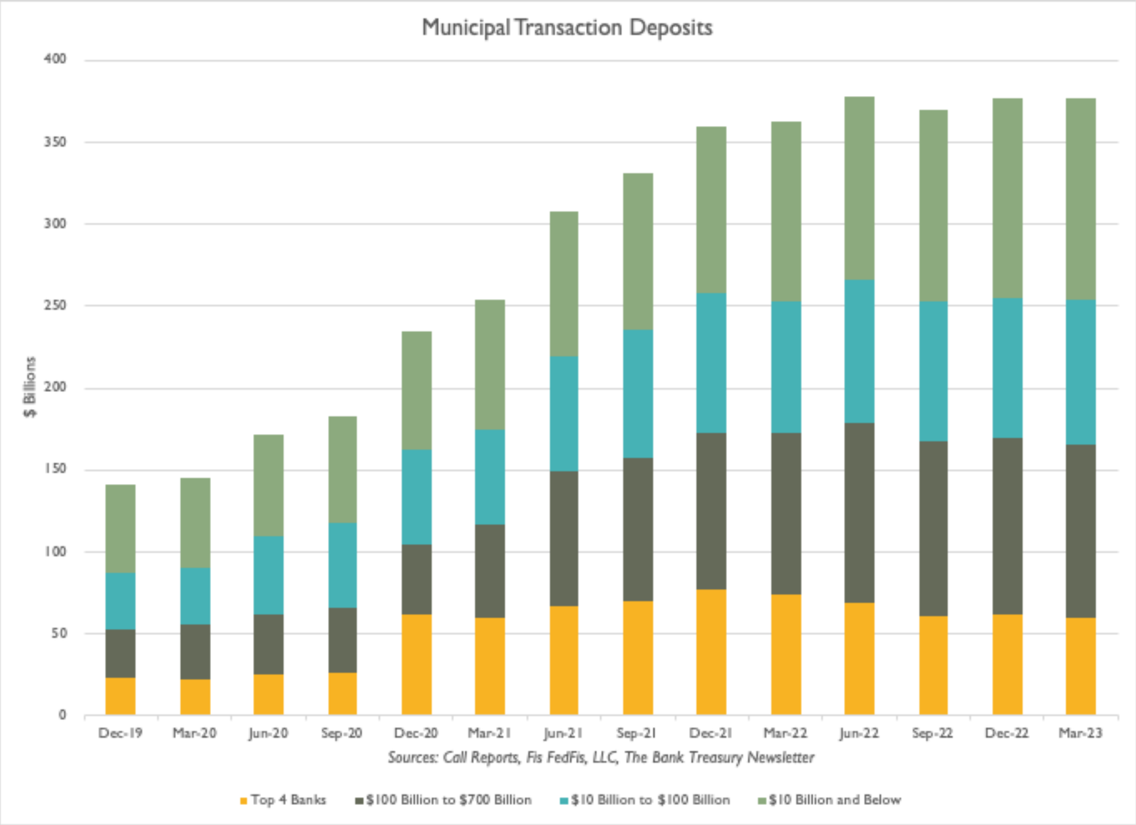
Balance Sheet Leverage Edging Higher

The loan-to-deposit ratio, another traditional liquidity metric for comparing long-term assets to long-term stable funding (and the basis for the Basel 3 NSFR) is adjusted to include MBS which has extended as the Fed raised rates.



Municipal Deposits Shift To Larger Banks

Municipal deposits drove some of the increase in uninsured deposits, but these deposits tend to be collateralized or have pledged securities behind them that generally makes them more stable, even though their repricing beta is very high.



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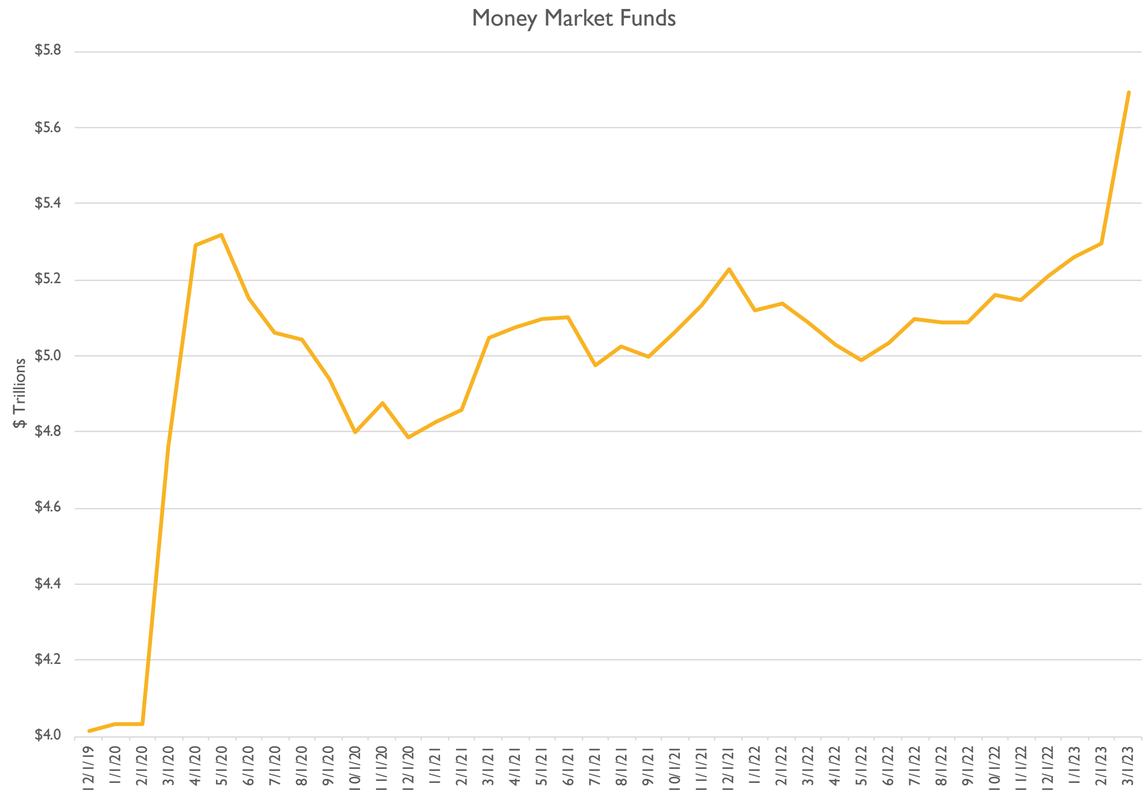
March Deposit Outflows Into Money Funds

Money market funds surged by $400 billion last March, to $5.7 trillion, the largest single monthly increase since March 2020.



Sources: Money Market Monitor, Office of Financial Research, The Bank Treasury Newsletter

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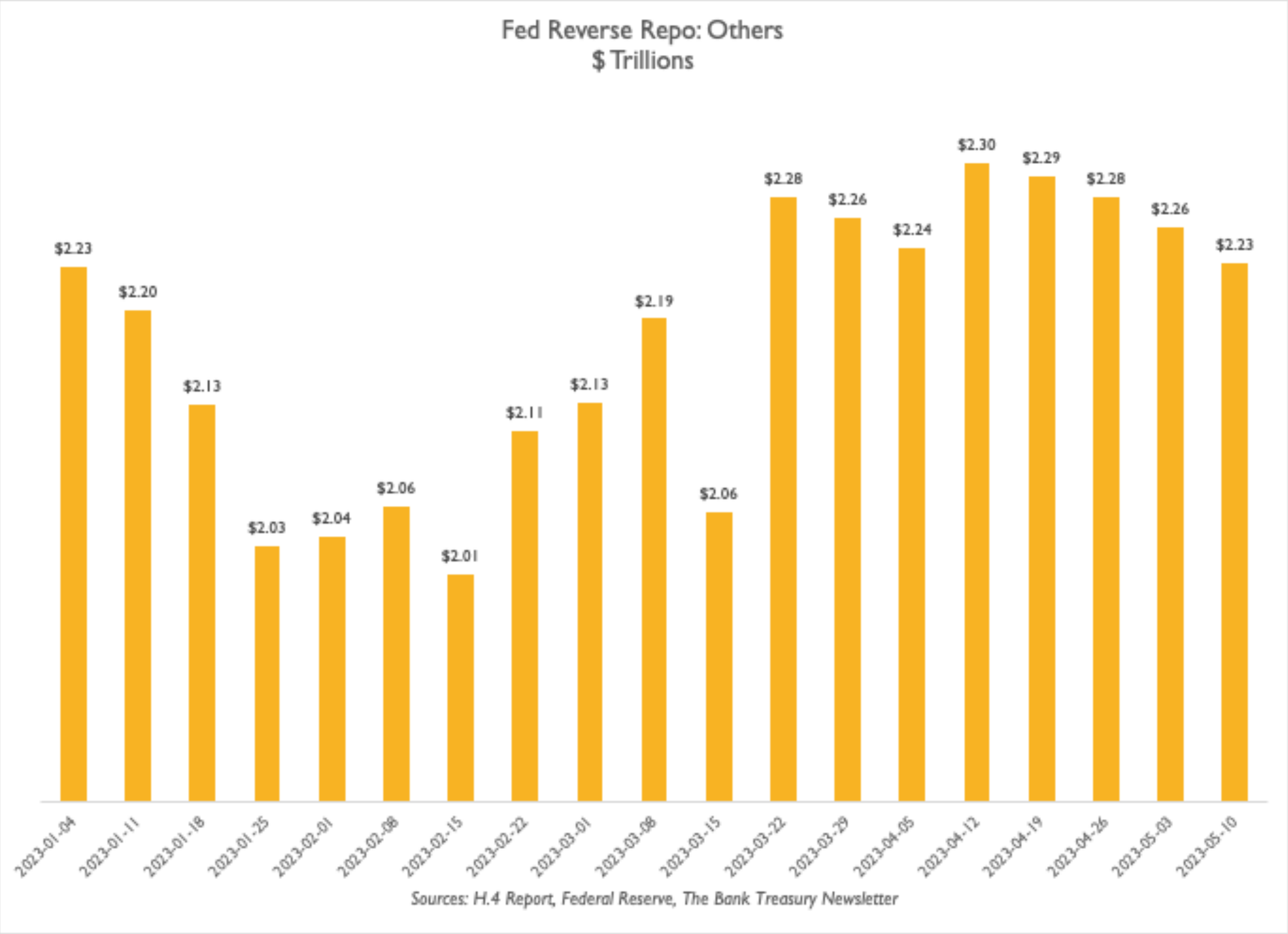
Bank Deposits → Money Funds → The Fed

With few alternatives available to them as the U.S. approaches default as early as next month, other than putting the deposit outflows they received back into bank deposits, money market funds were forced last March to leave most of the cash at the Fed in its reverse repo facility, which as of May 3rd and its most recent hike, pays 5.05% overnight. This is higher than what most bank treasurers can afford to pay for deposits.



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