# The Bank Treasury Newsletter
# The Chart Deck
# November 2023

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# In This Month's Chart Deck

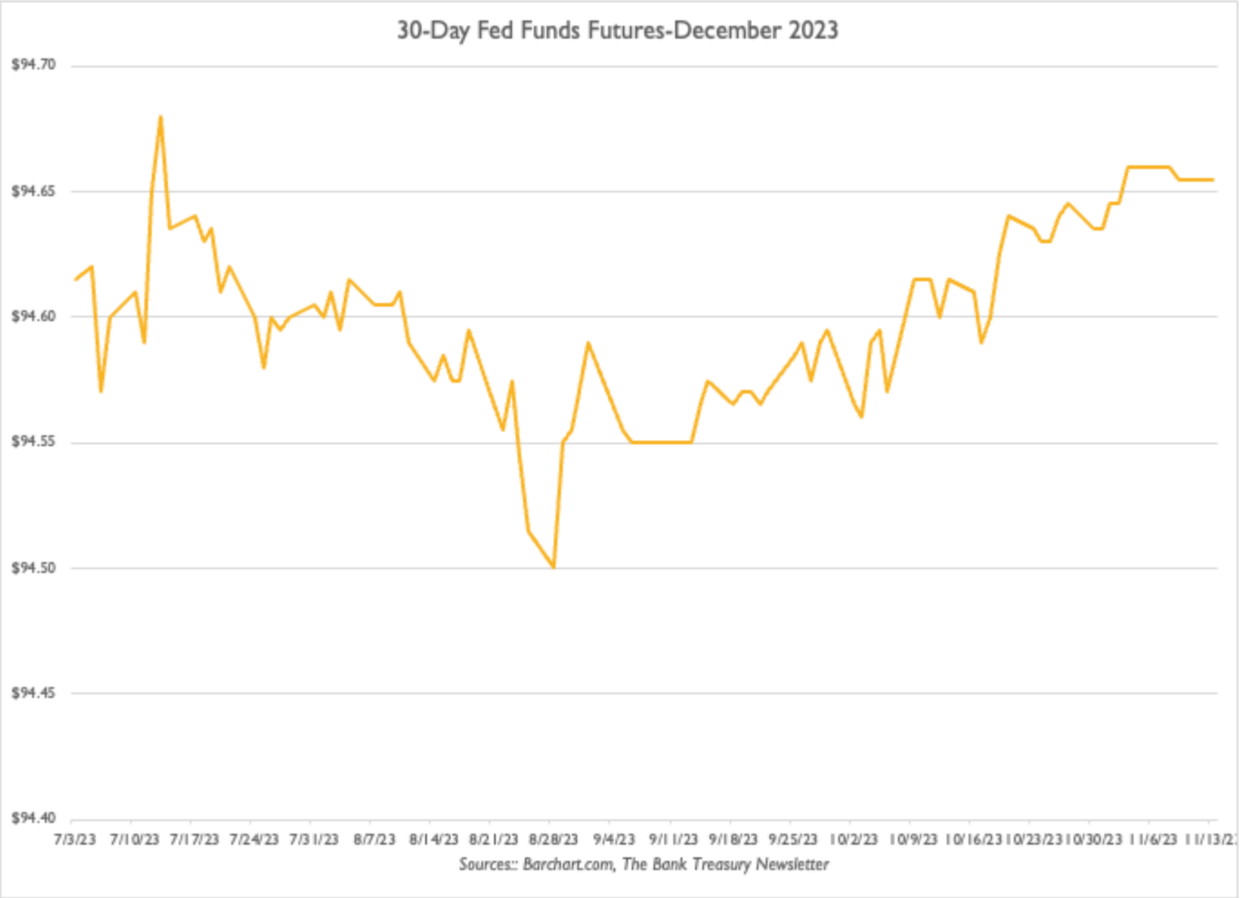
- Economic consensus continues to build since the summer that the Fed's rate hiking cycle is done, as Fed Funds futures (Slide 4) point to a cut by next year. Yet economic and financial indicators present a mixed picture on inflation and the state of the economy. Banks report that they have been tightening terms on commercial and industrial (C&I) loans (Slide 5), even while requests for C&I lines of credit are just beginning to recover after falling for most of the past year (Slide 6). Commercial real estate concentrated in office presents a darkening picture, with vacancies now breaking records previously held during the Global Financial Crisis (GFC) (Slide 7). Inflation also continues to ease, although in the consumer sector, excluding food and energy, it is still elevated compared to pre-Covid levels (Slide 8). The employment numbers are cooling but there is no sign that the unemployment rate will reach anything close to a level normally associated with recession given that it is still anchored below 4%.
- Meanwhile, the banking industry is more cautious today about the quality of its high-quality liquid assets, shedding Agency MBS and building more cash. The change in appetite for MBS was especially pronounced with the small bank peer group in the Fed's H.8 series which shrank its portfolio by 23% through the first nine months of 2023 (Slide 9). On the other hand, the group recovered about two-thirds of the deposits that ran off in the wake of the failure of Silicon Valley Bank (SVB) and Signature Bank, New York (SBNY) last March (Slide 10). Led by the largest banks, insured time deposits, which had fallen out of favor with consumers since the GFC, rebounded sharply in the last year, increasing by $1.5 trillion, to over $2.5 trillion (Slide 11). But households have not abandoned stocks, as the value of their stock holdings inched higher in H1 2023 relative to their cash held in bank deposits and money market funds (Slide 12).
- Leaving aside Quantitative Tightening and the Fed's rate hikes, the Treasury's refinancing activity since the debt ceiling suspension last June has been a topic for discussion among bank treasurers. Since last June, the Treasury increased net issuance of Bills by $1 trillion, all of which went into money market funds looking for a home for their cash that has been running off the Fed's shrinking Reverse Repo facility (RRP) (Slide 13). Individuals have also been buying Treasurys and held a record sum by the end of Q2 2023. But treasurers and other fixed income participants are worried what happens next year to the front end of the yield curve, when the Treasury said in its latest refinancing statement it would moderate Bill issuance in favor of issuance in 2,3,and 5-year notes, which could put pressure on the belly of the yield curve.

# List of Slides

- 30-Day Fed Funds Futures-December 2023, *Sources: Barchart.com, The Bank Treasury Newsletter*
- Reasons Why Banks Tightened Loan Terms, Number of Respondents Who Said Factor Was Somewhat or Very Important, *Sources: Senior Loan Officer Opinion Survey, Federal Reserve, The Bank Treasury Newsletter*
- Net Percentage of Domestic Banks Reporting Increased Number of Inquiries for C&I Loans, *Sources: Senior Loan Officer Opinion Survey, Federal Reserve, The Bank Treasury Newsletter*
- Sticky Price Consumer Price Index less Food and Energy, % Change From A Year Ago, *Sources: FRED, St. Louis Fed, The Bank Treasury Newsletter*
- Quarterly Office Vacancy Rate in the U.S., *Sources: Colliers International , The Bank Treasury Newsletter*
- Ratio of Agency MBS to Cash Assets, *Sources: H.8 Report, Federal Reserve, The Bank Treasury Newsletter*
- Total Deposits, *Sources: H.8 Report, Federal Reserve, The Bank Treasury Newsletter*
- Total CDs in Domestic Offices, *Sources: Call Reports, FIS FedFis, LLC., The Bank Treasury Newsletter*
- Ratio of U.S. Household Equity Holdings to Deposits and Money Market Funds, *Sources: Q2 2023 Flow of Funds Report, Federal Reserve, 2023 Capital Markets Fact Book, SIFMA, The Bank Treasury Newsletter*
- Net Treasury Issuance, *Sources: SIFMA Statistics, The Bank Treasury Newsletter*

# Fed Funds Futures Point To A Cut Next Year

Economic consensus is building that the Fed is done hiking rates and that the first cut will be in 2024.

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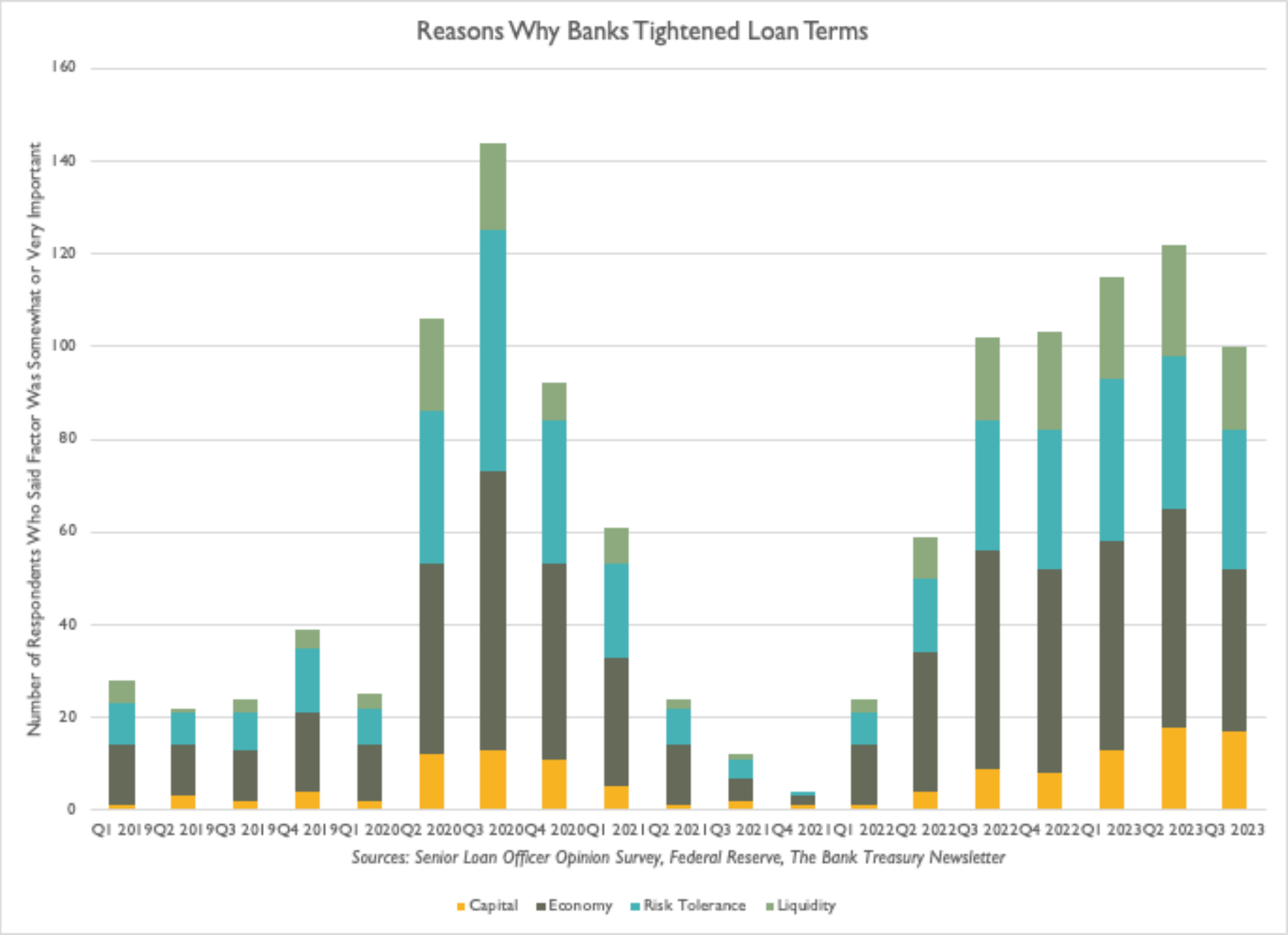
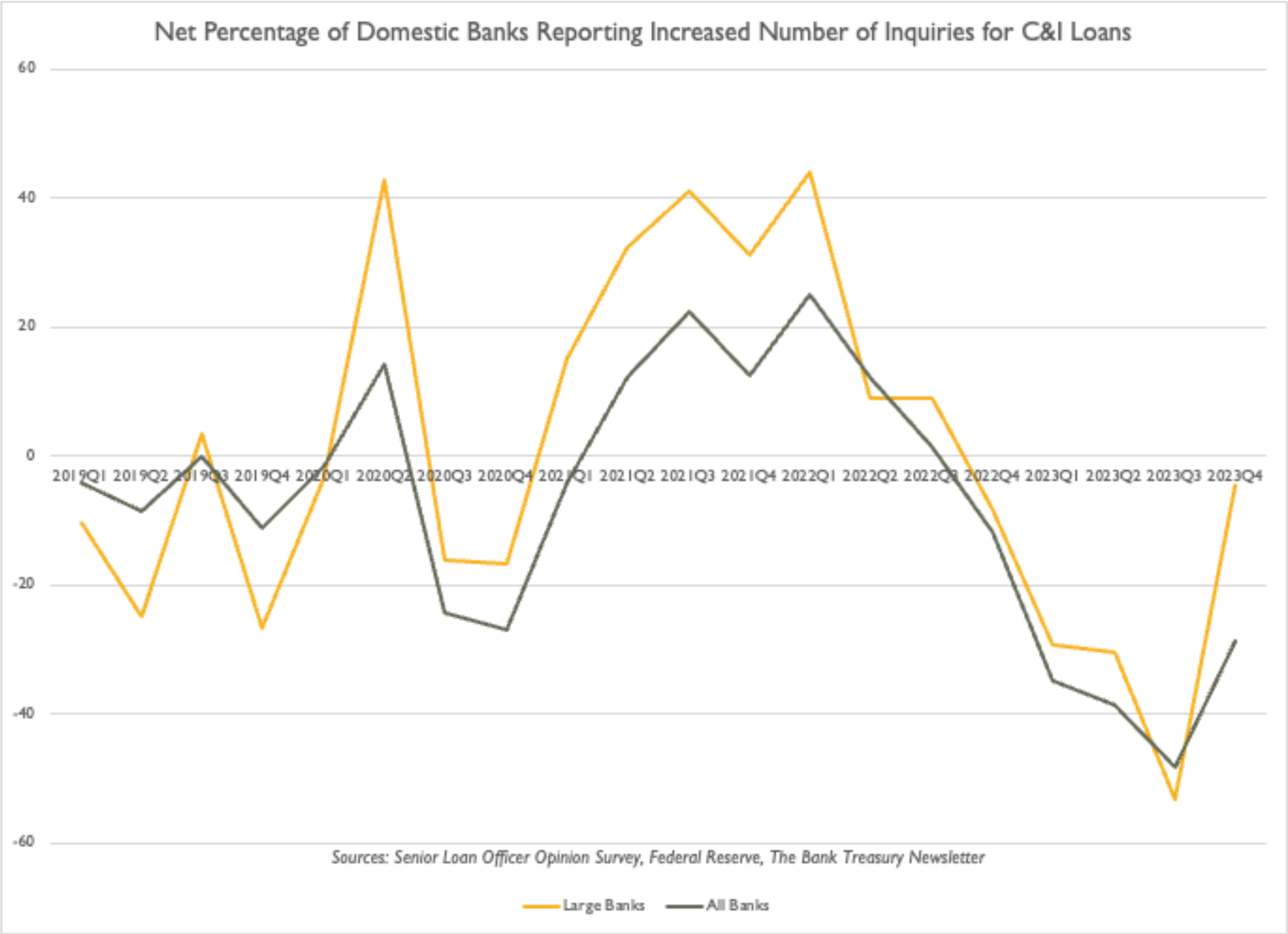
# Banks Tighten Credit Terms

The economy and tolerance for risk were the leading reasons senior loan officers cited for tightening terms on C&I loans, but regulatory proposals connected to the Basel III Endgame and overall market liquidity were also among key reasons they blamed for their weaker credit risk appetite.



# Loan Demand Remains Weak

The number of inquiries for C&I loans has been recovering but remains depressed.

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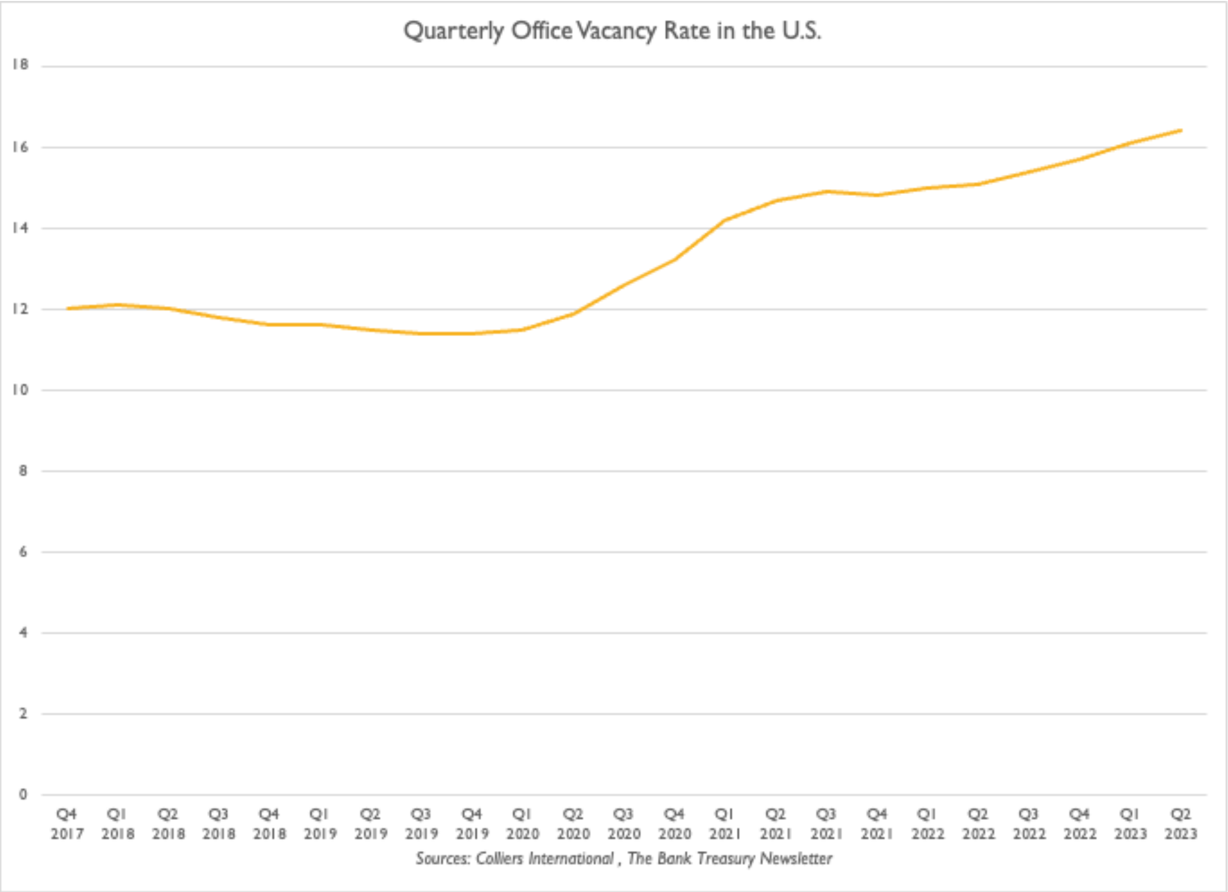
# Office Vacancy Rates Continue To Climb

According to Colliers International, the U.S. office vacancy rate stands at 16.4% in Q2 2023, an increase of 30 basis points from Q1 2023. Vacancy is above the prior peak of 16.3%, seen at the height of the Global Financial Crisis, with further upward pressure expected to follow.

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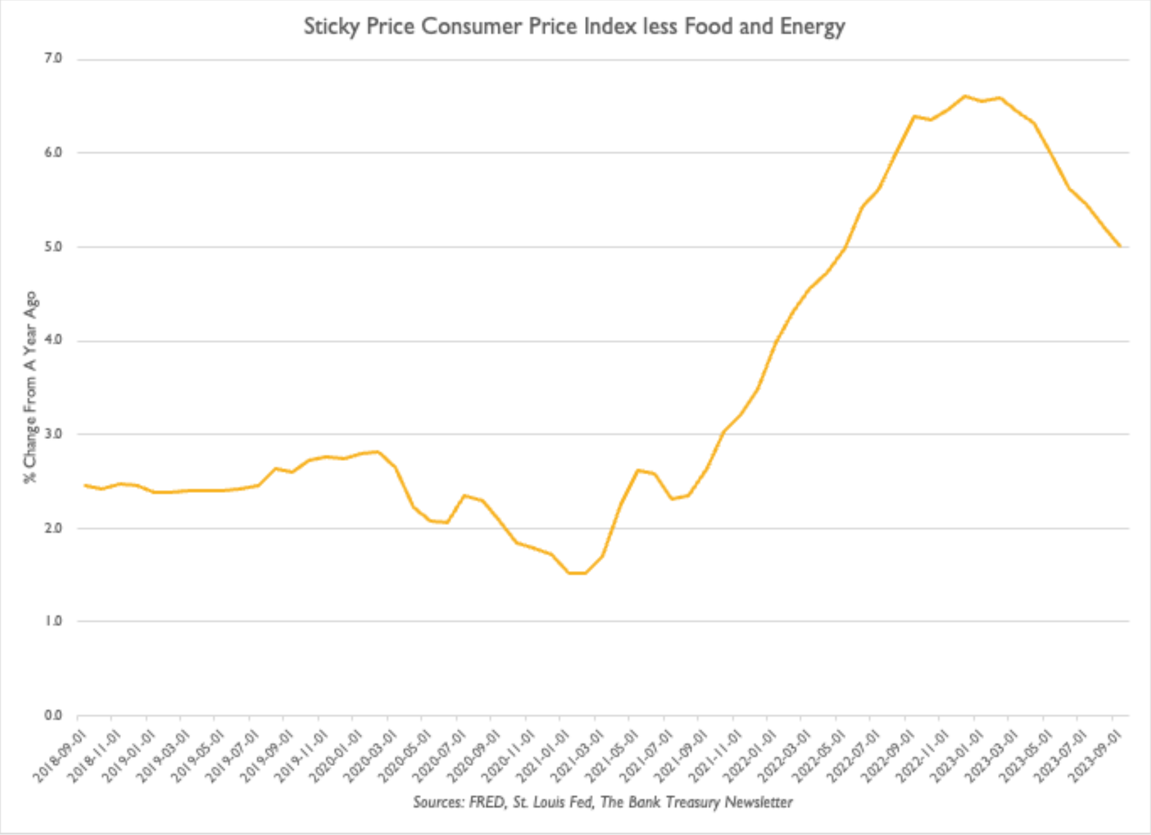
# Inflation Eases, But Remains Elevated

Shelter and transportation costs continue to put pressure on household budgets, but as a notable exception, average airline ticket prices are falling since the summer and in some cases are lower than they were before Covid.

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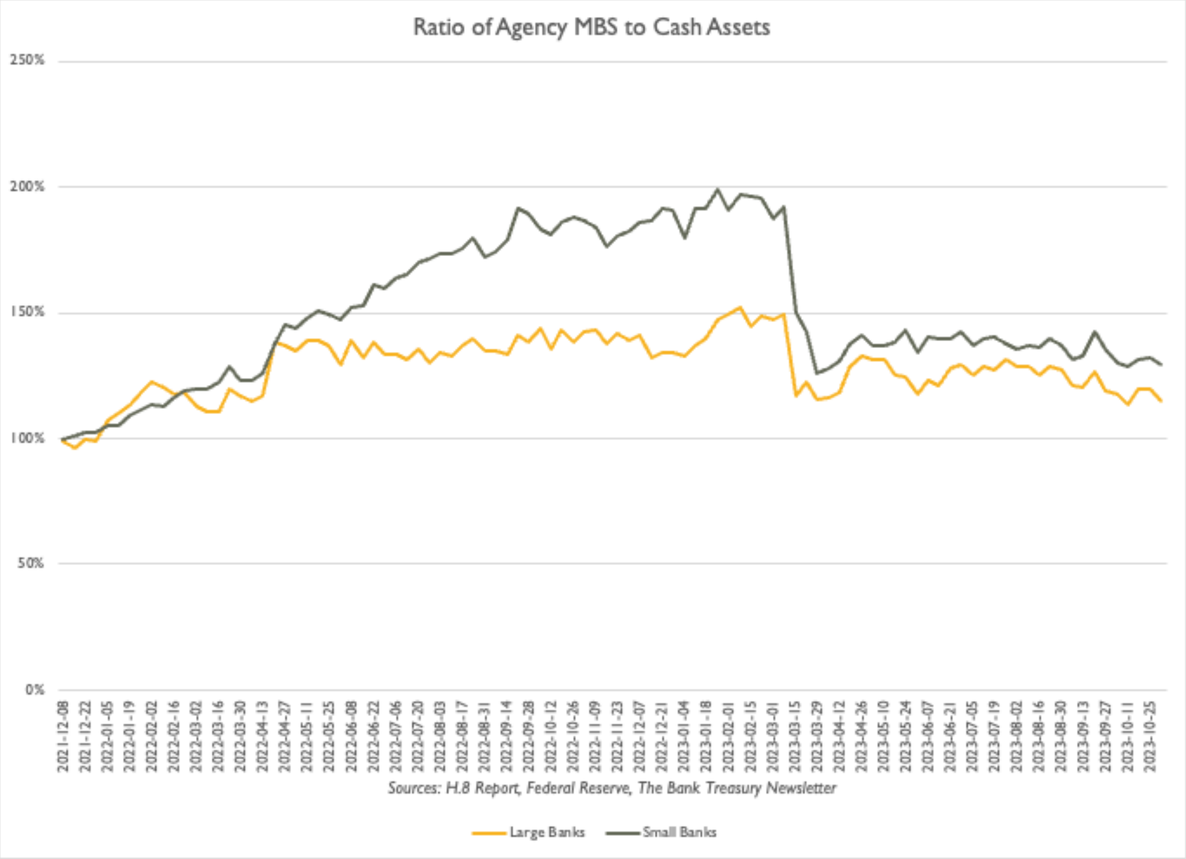
# Bank Treasury Appetite For MBS Sours

Since last March, large and small banks increased their cash assets by 24 and 12%, respectively, while at the same time they reduced their MBS holdings by 3% and 23%, respectively. Consequently, domestic banks now hold \$2.1 trillion in cash and \$2.5 trillion in MBS.

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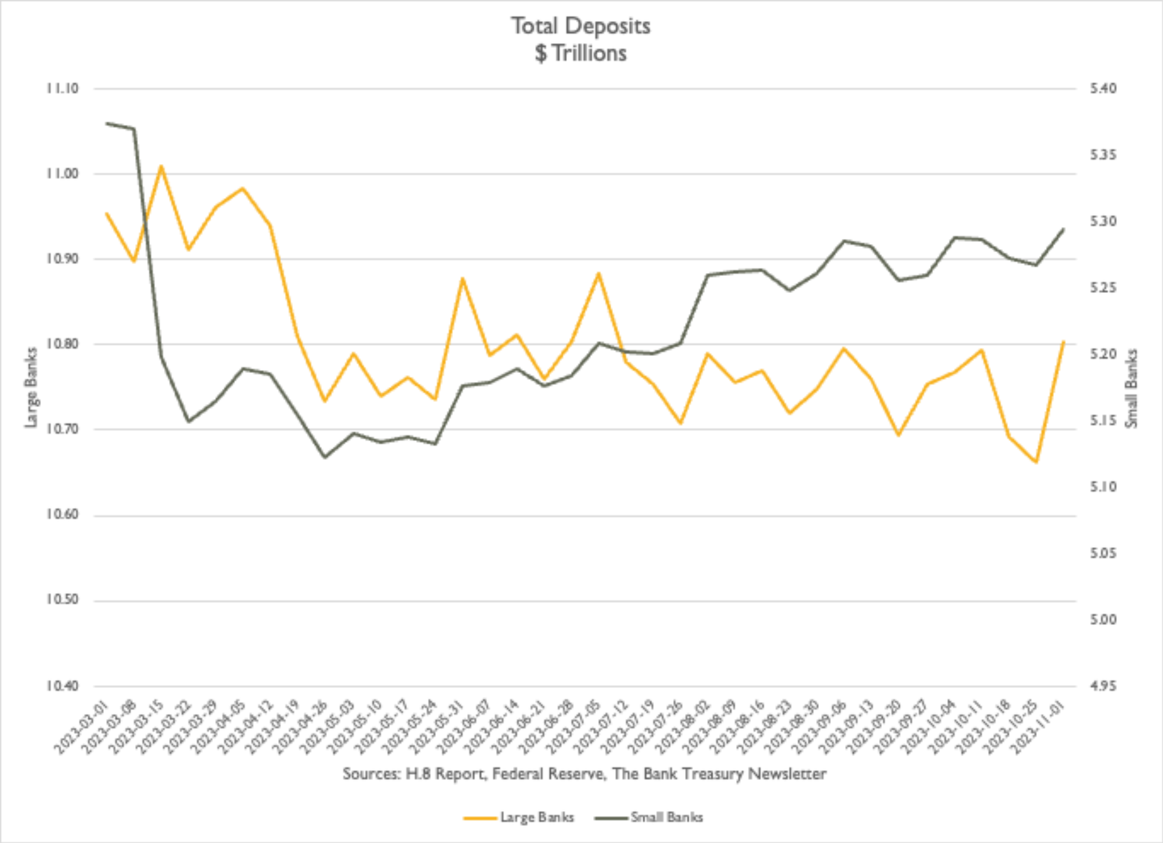
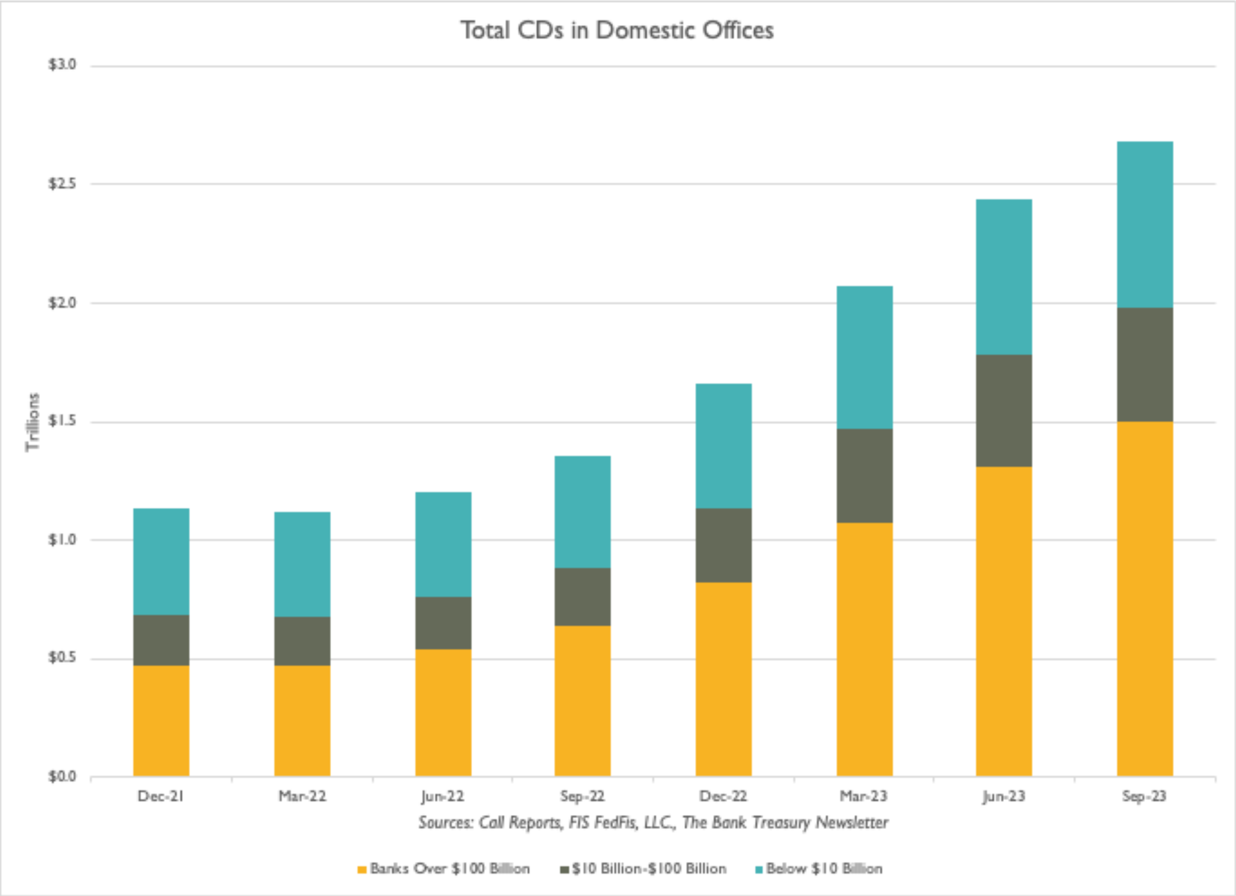
# Community Banks Recover Deposits Lost In March




Small banks lost $0.3 trillion in deposit right after the failure of SVB and SBNY in March 2023, but since then their deposits rebounded by roughly two-thirds of that initial outflow.

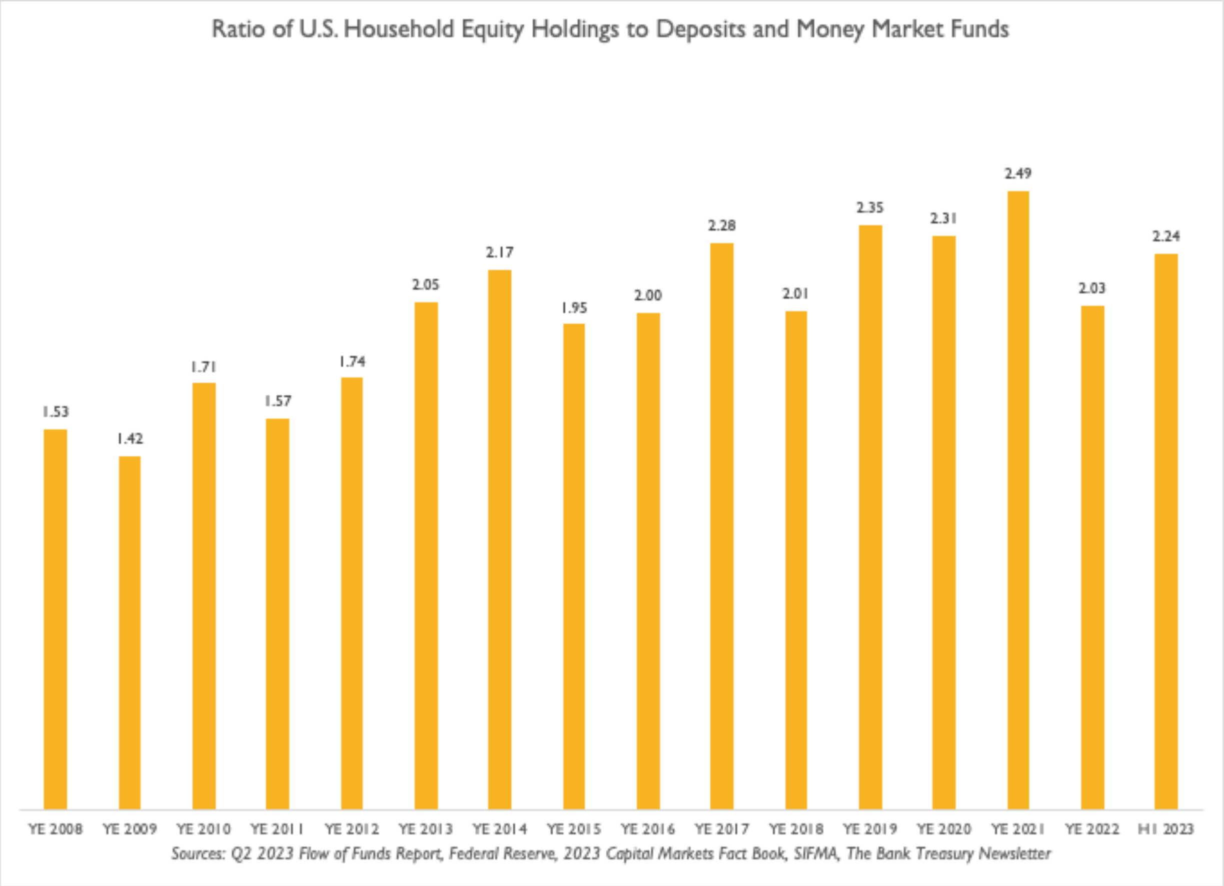
# CDs Make A Comeback With Consumers

Since the Fed began to raise rates in Q1 2022 through Q3 2023, CDs grew at the largest banks with total assets over $100 billion by $1 trillion, to $1.5 trillion.



# Households Not Shy About Equity Risk

Household equity investments are more than double the cash held in bank deposits and money market funds. Positive equity trends helped propel this ratio higher in H1 2023 which remains near a decade-long high.

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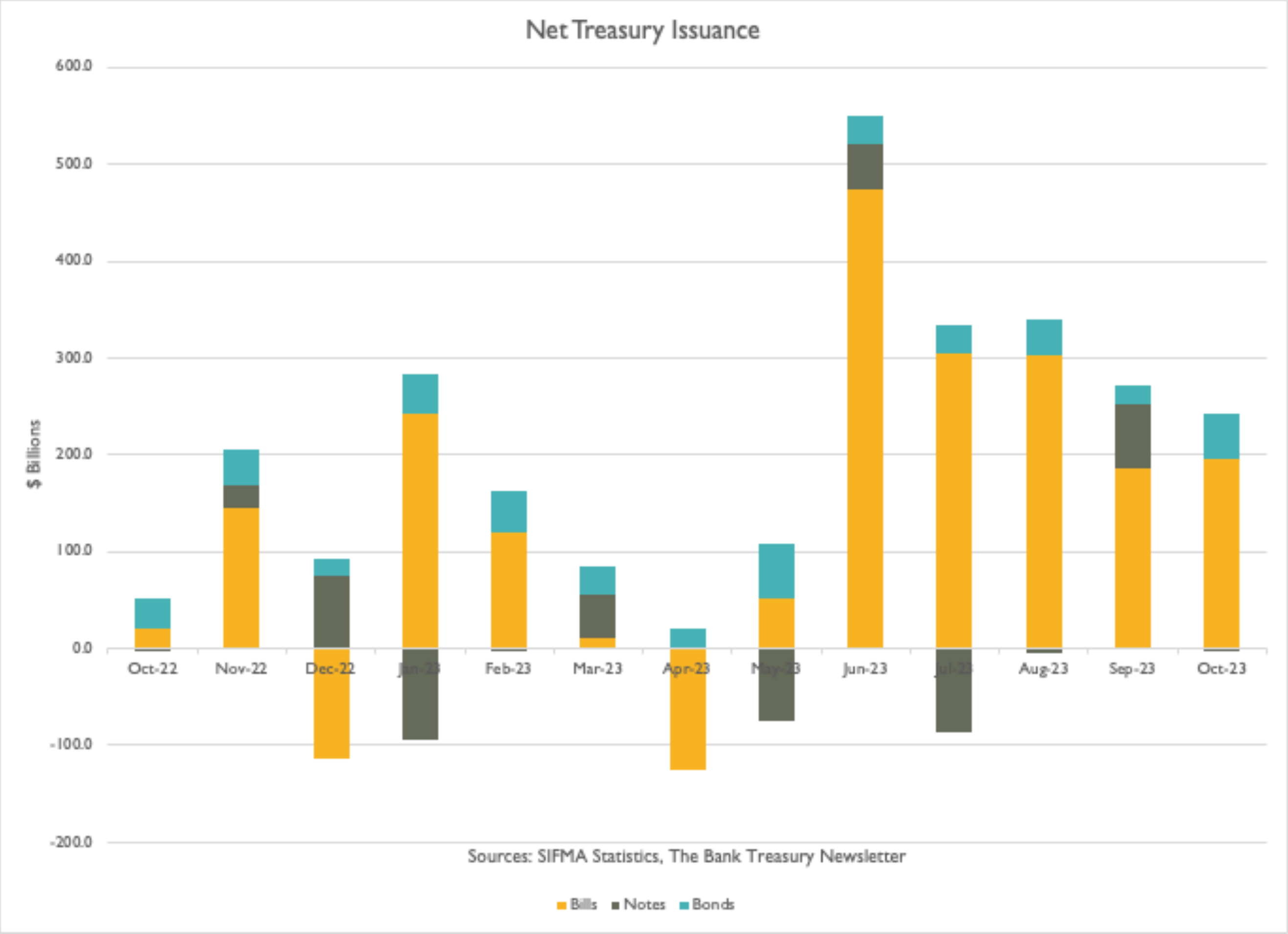
# Treasury Ramps Up Bill Issuance

Since the debt ceiling extension in June, the Treasury increased Bills outstanding by $1.5 trillion, to $5.5 trillion, which money market funds exiting the Fed's RRP purchased. But the refinancing statement it issued on November 1st signaled that in the next month it may moderate some of its Bill issuance and shift to coupon issuance with 2,3,and 5-year maturities.



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