GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

GSIBS' RESULTS IN 3Q23 BEAT MARKET EXPECTATIONS

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AS IN PREVIOUS QUARTERS, GSIBS 3Q23 RESULTS BEAT EXPECTATIONS

GSIBs posted positive results driven by tailwinds from the current interest rate environment in the third quarter. On aggregate, capital positions remain above regulatory requirements, net interest margin continues to expand, and liquidity is ample. A notable exception is China, where provisions remain a drag and net interest income is deteriorating.

EQUITY PRICES REMAIN BELOW MARCH

GSIB equity prices deteriorated in 3Q23 and remain below the 2023 highs experienced before the turmoil in March but have rebounded strongly since the publication of results in November. The AT1 market shows signs of recovery in both pricing and issuance. The US KRE regional bank index underperformance with respect to the S&P is elevated (26pp ytd) despite having narrowed significantly in recent weeks.

IMPROVED PROFITABILITY, SUPPORTED BY HIGHER NET INTEREST MARGINS AND SEQUENTIAL IMPROVEMENT IN NON-INTEREST INCOME

GSIB profitability in the third quarter surprised to the upside, as net interest income benefited from net interest margin (NIM) expansion (Chart 2.1 to 2.3). Investment banking, FICC and Equity revenues saw sequential aggregate improvement in the quarter although this was not uniform across banks and remains low from a historical perspective (Chart 2.5 and Chart 2.6). Aggregate NIM was 1.58%, unchanged from last year. NIMs continued to improve in North America (+31 bps) and in Europe (+10 bps) while compressing in China (-37 bps) and Japan (-12 bps) compared to a year ago (Chart 2.4). Aggregate analyst consensus forecasts call for NIM compression in 4Q23 as funding costs remain high (Chart 2.8).

LOAN GROWTH DECELERATES AS DEMAND CONTRACTS IN SOME LOAN MARKETS

The pace of loan growth slowed across most GSIBs, driven by softer loan demand in various regions. This slowdown includes mortgages and corporate lending in Europe, individual and retail loans in Japan, and property sector and mortgages in China, specially amid the ongoing property crisis (Chart 4.4). According to aggregate analyst consensus estimates, this trend of decelerating loan growth is expected to persist through the fourth quarter of 2023 among most GSIBs.

CREDIT RISK APPEARS CONTAINED BUT SOME SIGNS OF STRESS ARE EMERGING

The average net nonperforming loan (NPL) ratio rose for GSIBs in Europe and Japan, although it remained low overall, staying below 1%. However, recent trends indicate signs of deteriorating asset quality for most GSIBs in China, driven by property loans and mortgages, and in the United States, driven by commercial real estate loans and some consumer loan sectors. Most GSIBs maintain an adequate coverage ratio above 100%, except for those in Europe and Japan (Chart 4.3). Credit costs, measured by annualized provision expenses to average loans, decreased for GSIBs in aggregate, dropping to 0.44% from 0.54% in the previous quarter, and 0.51% a year ago. This result reflects a few GSIBs releasing provisions since the expected less favorable economic outlook did not materialize in the quarter (Chart 4.1 and 4.2).

DEPOSITS CONTINUED TO MIGRATE TO HIGHER YIELD ALTERNATIVES AND TERM PRODUCTS

Total deposits declined across most GSIBs as customers used excess deposits to paydown debt, migrated to term deposits, and searched for higher yield alternatives. This is the sixth quarter in a row of decline in deposits for GSIBs in Japan and the United States. In aggregate, total deposits declined by $759 bn (down 2% qoq) to $39 trn (Chart 2.7). Aggregate analyst consensus estimates forecast deposit balances to increase, except in Japan and the United States, in the fourth quarter of 2023.

CAPITAL BUFFERS ARE NARROWING FOR GSIBS IN CHINA; LIQUIDITY REMAINS AMPLE ACROSS GSIBS

Aggregate CET1 capital ratios improved to 12.8% from to 12.5% a year ago, and individual CET1 ratios remained above minimum regulatory requirements (Chart 3.1 to Chart 3.4). However, CET1 capital buffers thinned for GSIBs in China as risk-weighted asset growth outpaced capital generation (Chart 3.4). The AT1 USD and EUR markets have shown signs of recovery with issuance resuming in the summer, however, the recovery trend still suggests investors prefer AT1s denominated in euros rather than dollars (Chart 3.5). Liquidity buffers remain ample, with liquidity coverage ratios (LCRs) remaining above regulatory requirements (Table 1). However, LCRs declined for a few GSIBs in the United States, and all GSIBs in Japan and China compared to a year ago.

GSIBS' Share price performance and valuations
As of 12/13/23

Chart 1. Stock Prices (1/1/2019 = 100)

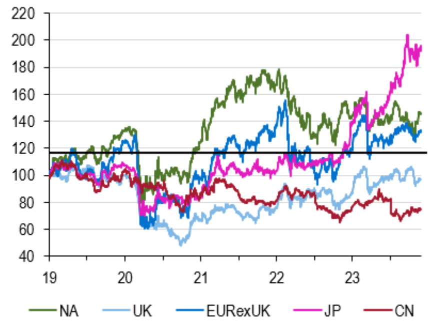


Chart 2. Price to Book Ratio

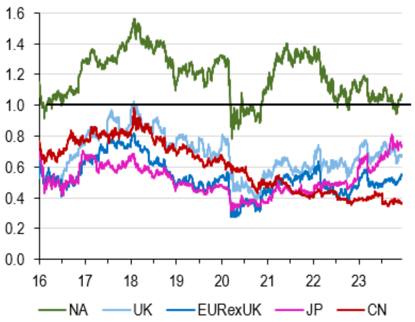


Chart 3. Price to Book vs ROE

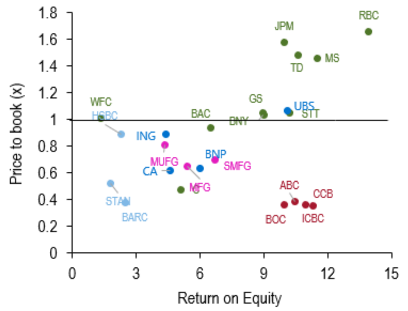


Table 1. Selected Financial Data

Ticker	Bank Name	GSIB Score Dec-2022 Data	Market Cap (USD Bn) 12/13/23	Price to Book 12/13/23	% Price Change (YTD) 12/13/23	CDS 12/13/23	2yr Default Prob (%)	Implied Cost of Debt (%)	Implied Cost of Equity (%)	Dividend Yield (%)	CET1 Ratio (%)	Liquidity Coverage Ratio (%)	Net Income (USD Bn)	Total Asset (USD Bn)	S&P Rating
BAC	Bank of America	331	265	1.0	1.2	71	0.3	5.1	11.7	2.9	11.90	116	7.8	3,153	A-
BNY	Bank of New York Mellon	156	40	1.1	13.3	45	0.5	4.3	10.7	3.3	11.90	121	1.0	405	A
C	Citigroup	367	97	0.5	12.5	66	0.2	4.3	11.1	4.2	13.59	117	3.5	2,368	BBB+
GS	Goldman Sachs	266	128	1.1	10.2	71	0.2	4.5	11.8	2.9	14.80	125	2.1	1,577	BBB+
JPM	JPMorgan Chase	447	471	1.6	21.5	45	0.1	4.4	11.2	2.6	14.30	112	13.2	3,898	A-
MS	Morgan Stanley	206	146	1.6	4.9	58	0.2	4.3	11.3	3.8	15.60	127	2.4	1,169	A-
STT	State Street	146	24	1.1	1.3		0.8	4.1	12.4	3.5	11.00	109	0.4	284	A
WFC	Wells Fargo	172	179	1.1	19.7	64	0.3	4.9	11.1	2.8	11.01	123	5.8	1,909	BBB+
TD	Toronto Dominion	137	113	1.5	-4.1	61	0.1	4.1	10.6	4.9	14.40	130	2.2	1,433	AA-
RBC	Royal Bank of Canada	172	136	1.7	2.3	59	0.1	4.1	10.3	4.2	14.50	131	2.9	1,487	AA-
North America		240	1,601	1.2	8.3	60	0.3	4.4	11.2	3.5	13.30	121	41	17685	
BARC	Barclays	281	29	0.4	-5.7	94	0.3	5.3	14.2	5.1	14.00	159	1.9	1,943	BBB+
HSBC	HSBC Group	371	151	0.9	19.1	67	0.2	5.1	12.5	7.0	14.90	134	6.1	3,021	A-
STAN	Standard Chartered	142	22	0.5	5.1	79	0.3	3.1	12.7	2.5	13.90	156	0.1	826	BBB+
United Kingdom		265	202	0.6	6.2	80	0.2	4.5	13.1	4.9	14.3	150	8	5789	
BNP	BNP Paribas	345	79	0.6	18.0	49	0.2	2.5	11.2	6.2	13.44	138	2.9	2,858	A+
CA	Credit Agricole	223	43	0.6	31.1	45	0.2	2.8	10.7	8.1	11.80	145	1.9	2,295	A+
DB	Deutsche Bank	258	27	0.4	12.9	88	0.2	3.3	14.8	2.5	13.90	132	1.3	1,437	A
	GROUP BPCE	138						2.6	9.6	0.0	15.42	140	1.0	1,626	
ING	ING Group	149	54	0.9	20.3	59	0.2	2.5	13.3	5.4	15.20	140	2.2	1,081	A-
SAN	Banco Santander	174	69	0.7	38.3	54	0.2	2.5	16.2	3.6	12.30	161	3.2	1,922	A+
SG	Societe Generale	201	22	0.3	4.0	58	0.6	2.5	12.4	7.0	13.30	155	0.3	1,692	A
UBS	UBS Group	198	103	1.1	52.2	76	0.9	1.1	11.0	1.9	14.38	197	-0.8	1,645	A-
UCG	Unicredit Group	115	47	0.8	80.1	78	0.3	3.2	16.4	4.1	17.50	140	2.5	873	BBB
Europe		200	444	0.7	32.1	63	0.4	2.6	12.8	4.3	14.14	150	14	15,428	
MUFG	Mitsubishi UFJ Financial Group	269	107	0.8	38.0		0.2	0.5	9.1	3.3	10.61	160	0.8	2,987	A-
MFG	Mizuho Financial Group	181	43	0.7	30.4	52	0.2	0.4	8.8	4.1	11.52	133	1.5	1,922	A-
SMFG	Sumitomo Mitsui Financial Group	180	66	0.7	31.9	42	0.2	0.5	8.9	3.9	13.94	134	1.7	2,020	A-
Japan		210	216	0.7	33.4	47	0.2	0.5	8.9	3.8	12.02	142	4	6,929	
ABC	Agricultural Bank of China	203	174	0.4	7.1	75	0.1	2.1	8.4	8.4	10.44	127	10.2	5,303	A
BOC	Bank of China	293	149	0.4	1.1	74	0.1	1.8	8.2	8.7	11.29	131	7.6	4,353	A
CCB	China Construction Bank	224	147	0.4	-8.4	75	0.2	2.0	8.2	9.4	12.92	129	12.2	5,186	A
ICBC	Industrial & Comm Bank of China	293	222	0.4	-8.5	75	0.1	2.0	7.7	8.9	13.39	123	13.1	6,095	A
China		253	691	0.4	-2.2	75	0.1	2.0	8.1	8.8	12.01	127	43	20,936	
Total		234	3,155	0.7	15.6	65	0.2	2.8	10.8	5.1	13.15	138	111	66,768	
Red Highlights				*< 1.0*	*< 0.0*	*Highest*	*Highest*	*Highest*	*Highest*	*Lowest*	*Lowest*	*Lowest*	*Lowest*		
Green Highlights				*Highest*	*> 0.0*	*Lowest*	*Lowest*	*Lowest*	*Lowest*	*Highest*	*Highest*	*Highest*	*Highest*		

Note: Regional averages are asset-weighted average of each bank in the region

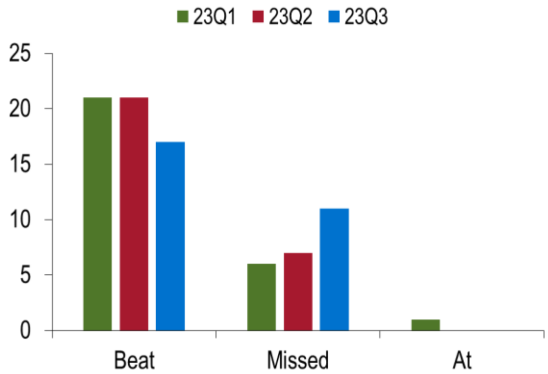
Note: As of 3Q23, unless otherwise noted. Market pricing is as of December 5, 2023. Regional averages are asset-weighted. Throughout this note, "EUR" includes all European banks. "NA" includes US and Canadian banks, "JP" = Japanese and "CN" = Chinese banks. "TOT" is the total across all G-SIBs. Credit Suisse excluded due to acquisition by UBS.
Source: Bloomberg and IMF Staff Analysis.

Earnings Overview

GSIB profitability surprised to the upside

Chart 2.1. Adjusted Earnings per Share vs. Consensus Estimates

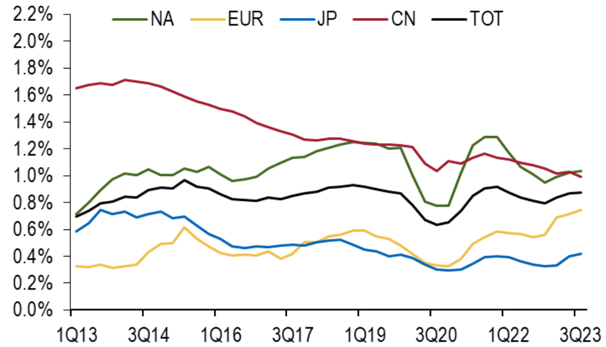
(Number of institutions)



… and ROA improved compared to 2022…

Chart 2.2.Operating ROA

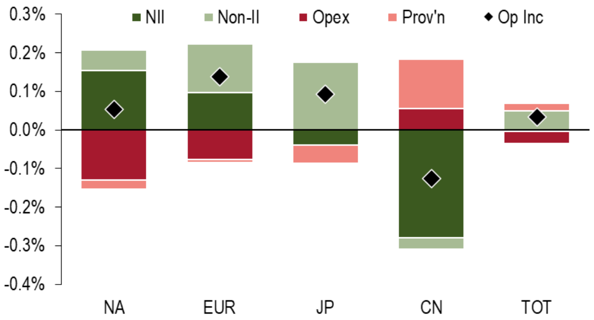
(Percentage points, ex conduct charges)



as most GSIBs benefited from higher interest rates

Chart 2.3. Decomposition of Quarterly Change in Operating ROA, 2023:Q3 vs. 2022:Q3

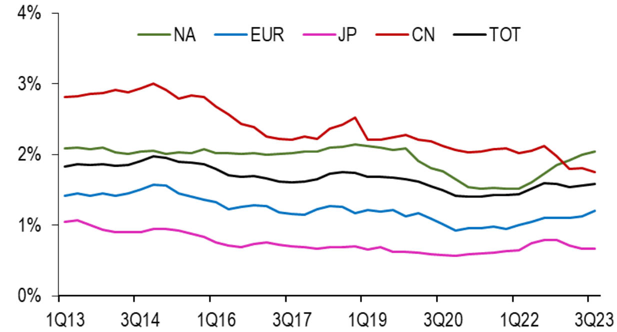
(Percentage points)



NIM improved in North America and Europe

Chart 2.4. Annualized Net Interest Margin

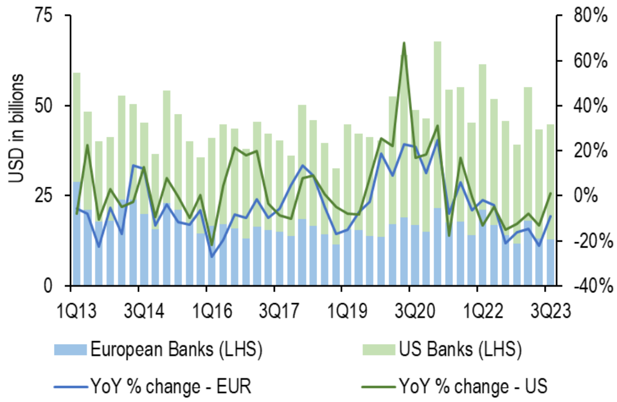
(Percent)



Investment banking revenue improved sequentially

Chart 2.5. Investment Banking and Trading Revenues

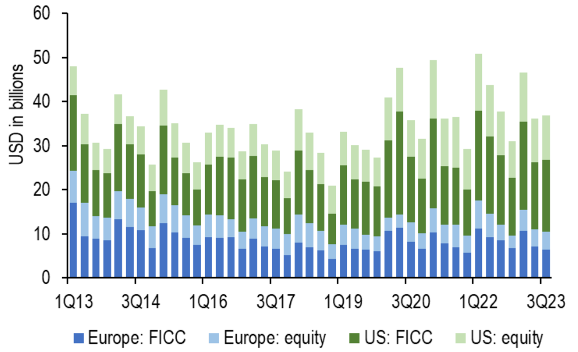
(USD in billions; Percent yoy)



...while trading revenue edged up driven by FICC

Chart 2.6. Trading Revenues, by FICC and Equities

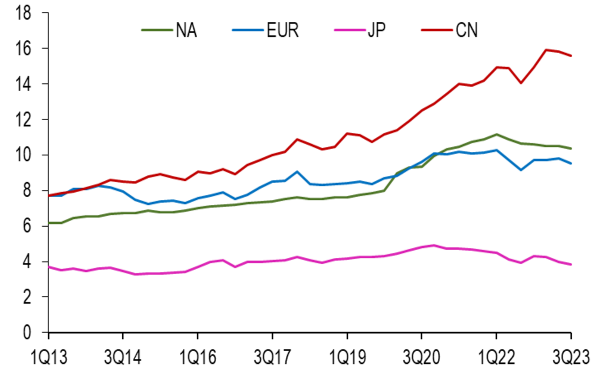
(USD in billions)



Funding Outlook

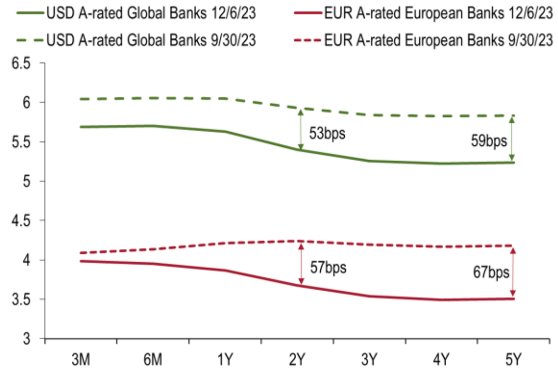
Most GSIBs reported declines in deposit balances

Chart 2.7. Deposit Balances
(In trillions of U.S. dollars)



Debt funding costs declined but remain elevated

Chart 2.8. Bank Yield Curves for A-rated Debt
(Percent)



Capital

Capital levels remain adequate but capital buffers in China and Japan in the quarter

Chart 3.1. CET1 Progression: US
(Percent of risk-weighted assets)

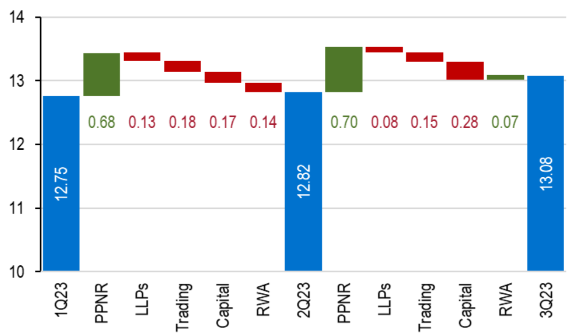


Chart 3.2. CET1 Progression: Europe and UK
(Percent of risk-weighted assets)

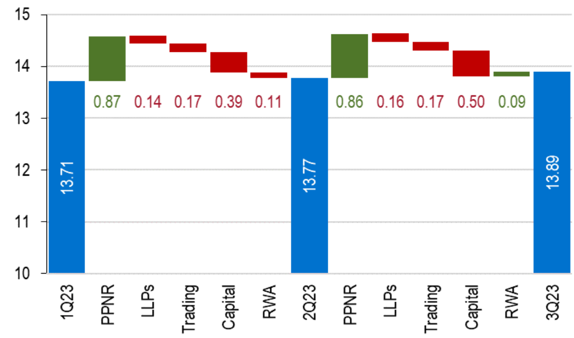


Chart 3.3. CET1 Progression: Japan
(Percent of risk-weighted assets)

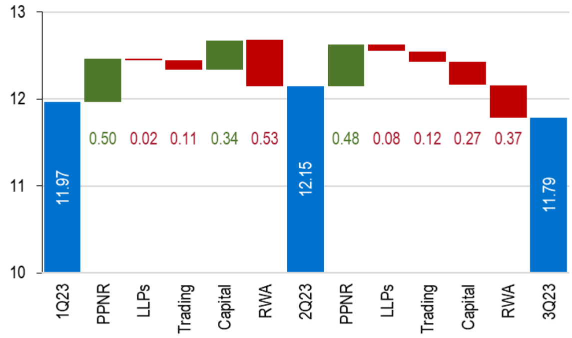
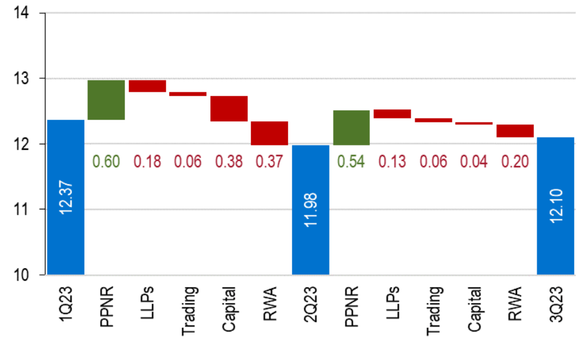


Chart 3.4. CET1 Progression: China
(Percent of risk-weighted assets)



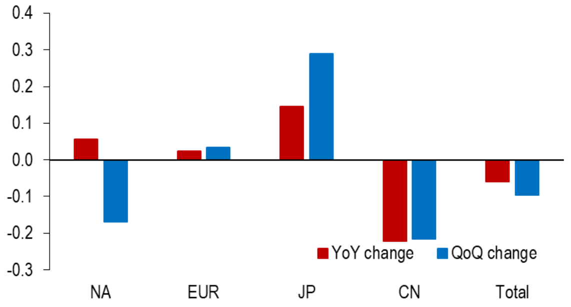
AT1 EUR and USD markets show signs of recovery

Chart 3.5. Markit iBoxx USD and EUR AT1 Indexes

Asset Quality and Loan Growth

NPLs remain low and loan loss coverage

Chart 4.1. Change in Provision Expense / Loans
(Percent)



…remains adequate for most GSIBs

Chart 4.2. Provision Expense / Average Loans (Annualized)
(Percent)

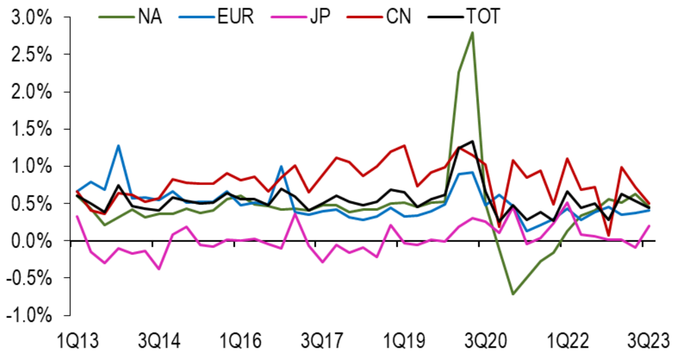


Chart 4.3. Loan-Loss Reserves / NPLs
(Percent)

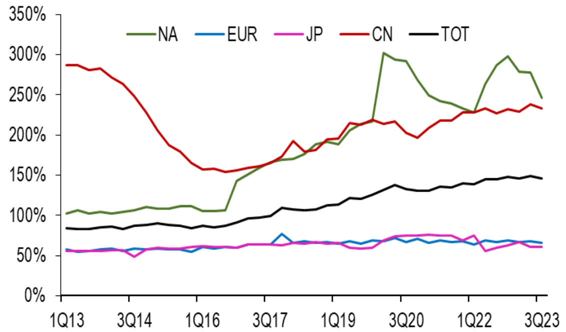
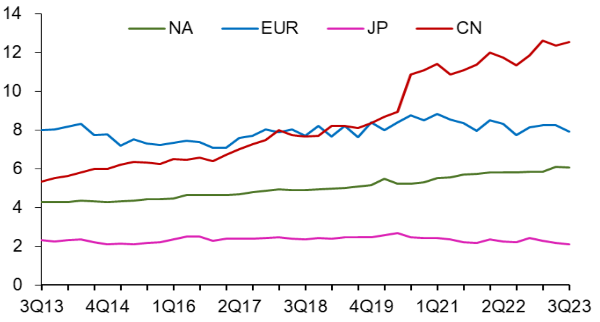


Chart 4.4. Quarterly Loan Balances
(In trillions of U.S. dollars)



Sources: Bank financial statements, SNL, Bloomberg LP, and IMF Staff.
Note: Chart 2.1 is based on consensus expectations for 3Q23. Chart 2.2, shows 'underlying' operating performance which excludes tax, non-operating items and misconduct charges. Chart 2.3, Operating ROA based on adjusted assets to common IFRS standard to normalize for balance sheet size; NII = Net interest income; Non-II = Non-interest income; Opex = Operating expense; Prov'n = Provision for loan losses; Op Inc = Operating income before taxes and extraordinary items. Chart 3.1 to Chart 3.4, CET1= common equity tier 1 ratio; RWA = risk-weighted assets PPNR = pre-provision net revenue; LLPs = loan-loss provisions; Trading = gains on trading and investment; Capital = capital management (dividends, buybacks, other comprehensive income).