The Bank Treasury Newsletter
The Chart Deck
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In This Month's Chart Deck

- The Federal Open Market Committee (FOMC) decided to hold off on cutting rates at its meeting this month. However, its dot plot projections continue to promise three cuts before the end of the year, which is still less than 3-month Secured Overnight Financing Rate (SOFR) futures contracts predicted earlier this year (Slide 4). Market expectations for rate cuts in 2024 have kept the yield curve (Slide 5) inverted for a record 17 months, with the 3-month-5-year Treasury spread persistently inverted by more than 100 basis points.

- While the proposed Basel 3 Endgame would increase the capital requirements for large banks, the next set of slides highlights how the industry already has a solid capital base. Even including negative accumulated other comprehensive income (AOCI), the industry's average tangible common equity (TCE) ratio (Slide 6) is still above the historical average, especially at smaller community banks where the average TCE ratio is over 10% (Slide 7). No bank with total assets over $100 billion had a TCE ratio at year-end 2023 under 5%. Still, for the remaining 4,553 banks with total assets below that threshold, 209 commercial banks had TCE ratios under 5%, 181 of which were under $1 billion (Slide 8).

- Bank supervisors are planning on ways to incorporate uninsured deposits in bank liquidity metrics, which totaled $7 trillion at year-end 2023, of which $5 trillion sits with banks with total assets over $100 billion (Slide 9). One of the measures they are considering will require banks to hold pre-positioned collateral at the Fed's discount window, allowing for a shorter stress period than required under the Basel 3 Liquidity Coverage Ratio (LCR). Banks already cover a significant portion of their uninsured deposits with pledged securities, which would likely mitigate additional liquidity requirements that may be imposed on them (Slide 10).

- The industry average loan-to-deposit ratio (LDR) weighted by the deposit-rich balance sheets of the largest banks equaled 66% last quarter, which is higher than it was two years ago when the Fed began to raise rates and the average LDR hit 57%, but still way below the 40-year average for the FDIC series which equaled 81%. This suggests that the industry on a macro basis continues to be awash in excess deposits (Slide 11), albeit less than it had two years ago. However, on a simple average basis at the community bank level, LDRs are generally much higher and point to the reality that most excess deposits, just like most insured deposits, are concentrated at the largest banks. LDRS increased the most at community banks in New England and the Pacific Northwest (Slide 12).

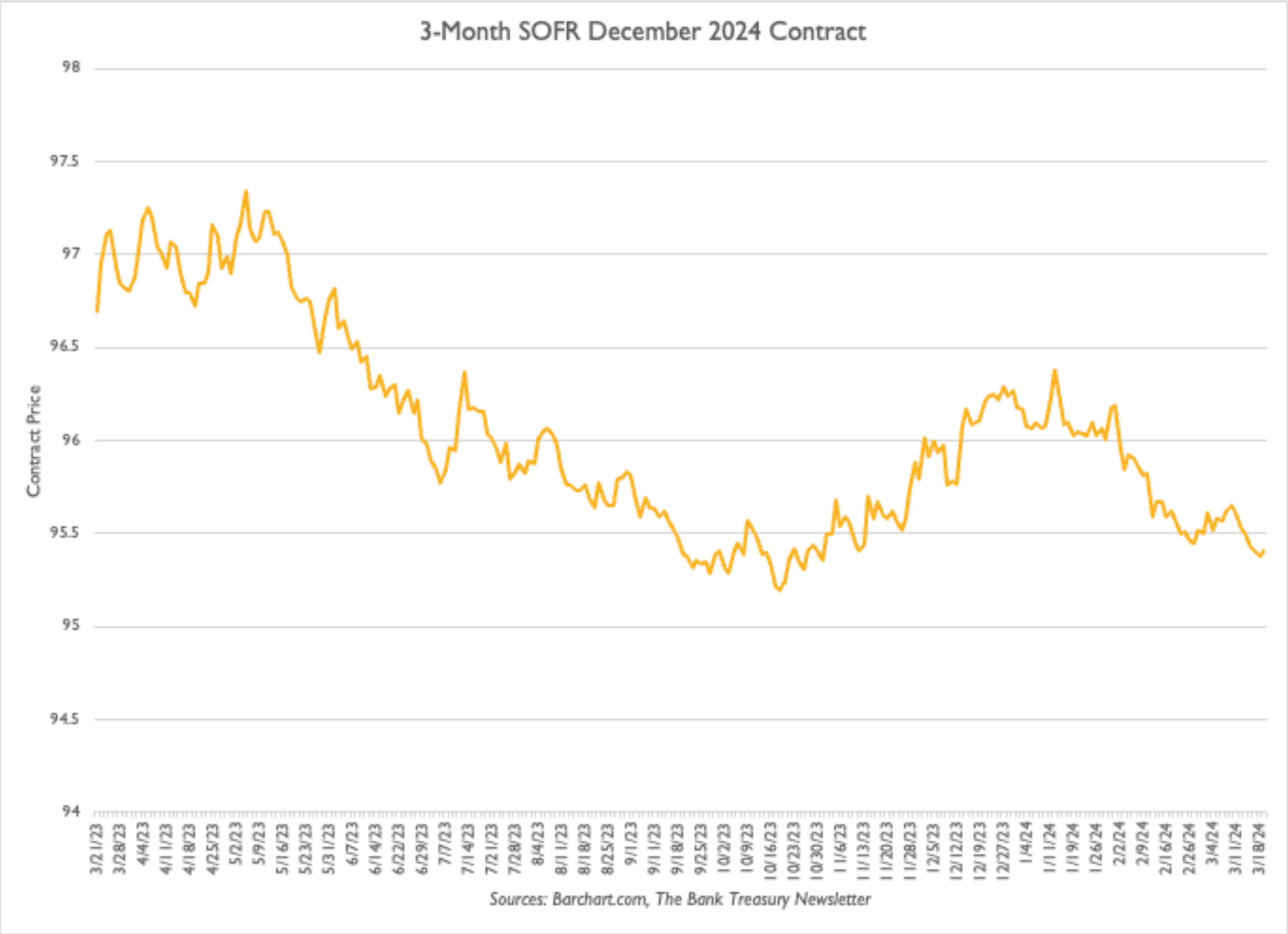
- Banks led global spending on artificial intelligence in 2023, and the industry will likely continue spending on technological upgrades through the rest of the decade (Slide 13).

List of Slides

- 3-Month SOFR December 2024 Contract, *Sources: Barchart.com, The Bank Treasury Newsletter*
- 3-Month-5-Year Constant Maturity Spread, *Sources: FRED, St. Louis Fed, The Bank Treasury Newsletter*
- TCE Ratio, *Sources: FDIC, The Bank Treasury Newsletter*
- TCE Ratio, Distribution by Peer Group Asset Size, December 2023, *Sources: Call Reports, Fis FedFis LLC, The Bank Treasury Newsletter*
- Banks with a TCE Ratio Under 5%, December 2023, *Sources: Call Reports, Fis FedFis LLC, The Bank Treasury Newsletter*
- Uninsured Deposits, % of Total Domestic Deposits, *Sources: Calls Reports, FIS FedFis LLC, The Bank Treasury Newsletter*
- Pledged Securities % of Total Uninsured Deposits, December 2023, *Sources: Calls Reports, FIS FedFis LLC, The Bank Treasury Newsletter*
- Loan-Deposit Ratio (LDR), *Sources: FDIC, The Bank Treasury Newsletter*
- LDR: Simple Average By State, *Sources: Call Reports, FIS FedFis LLC, The Bank Treasury Newsletter*
- Global Spending on AI By Industry in 2023, *Sources: Statista.com, The Bank Treasury Newsletter*

Forwards Are Down To Three Cuts In 2024

Market expectations for rate relief in 2024 dimmed after a string of disappointing inflation prints since the beginning of the year. The Fed’s March 2024 dot plot predicts three cuts totaling 75 basis points by year-end.



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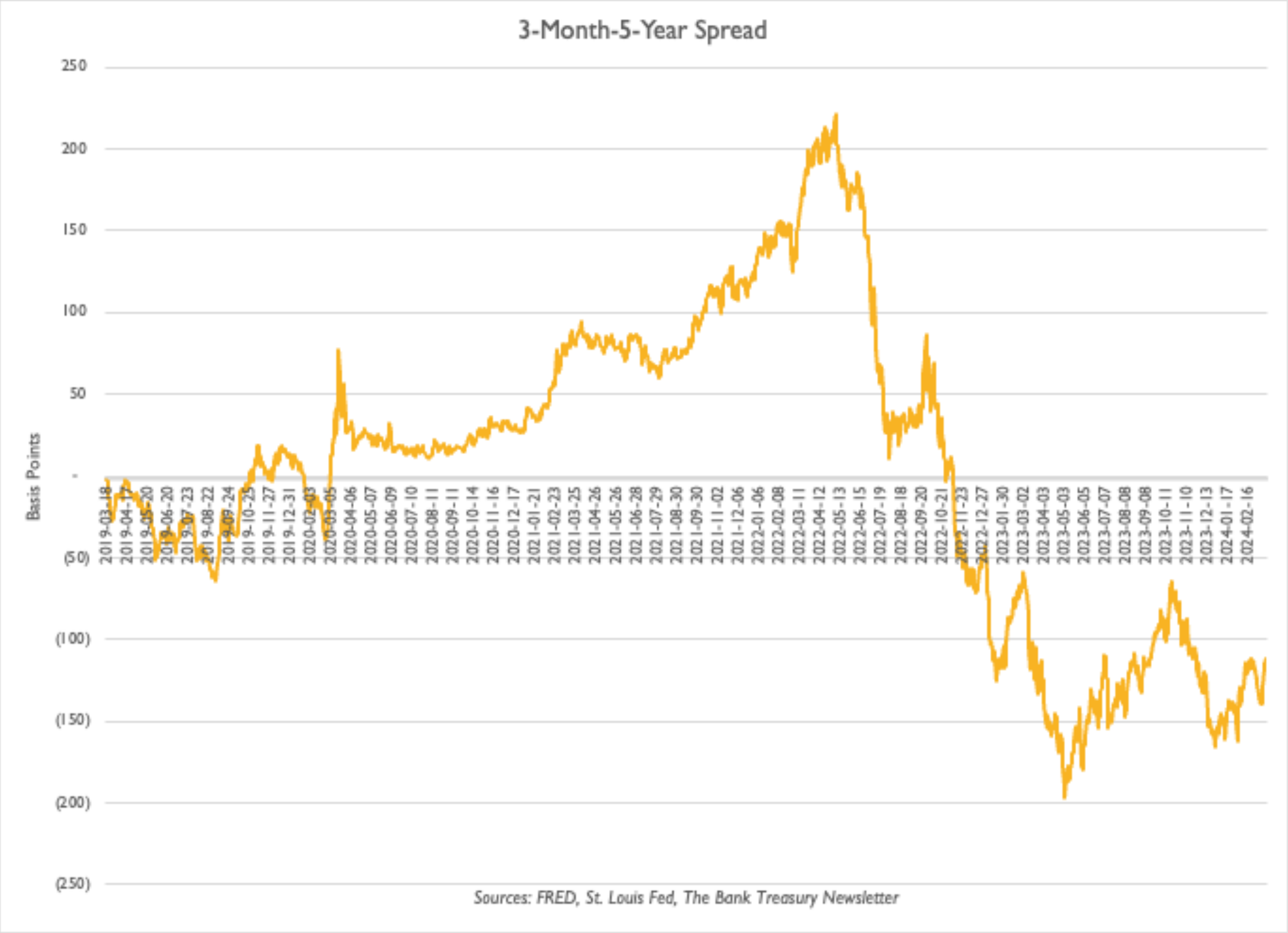
Banking Is Tough With An Inverted Yield Curve

The 3-month, 5-year part of the yield curve since October 2022, a record going back since the FDIC series on insured banks began 40 years ago.



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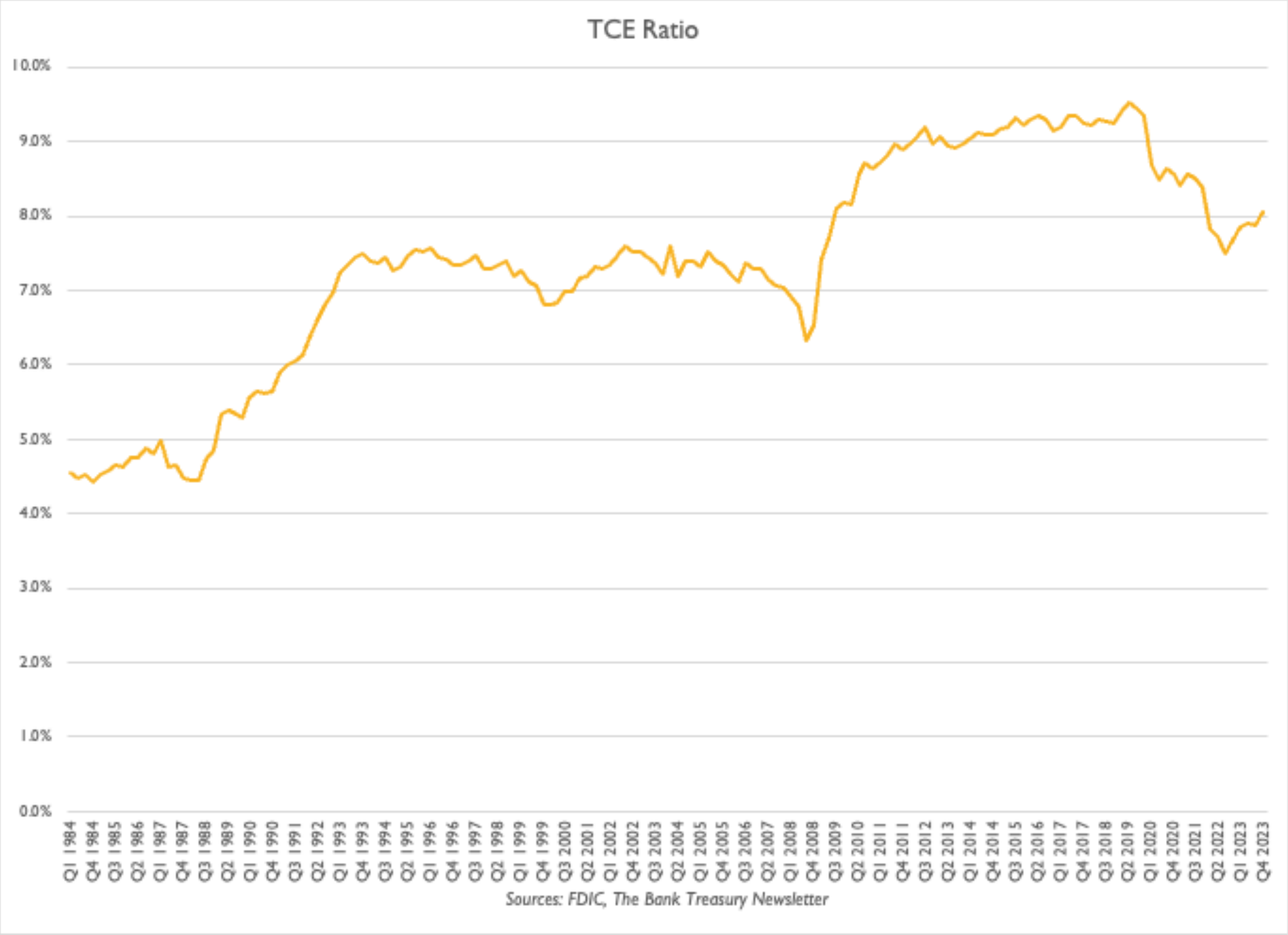
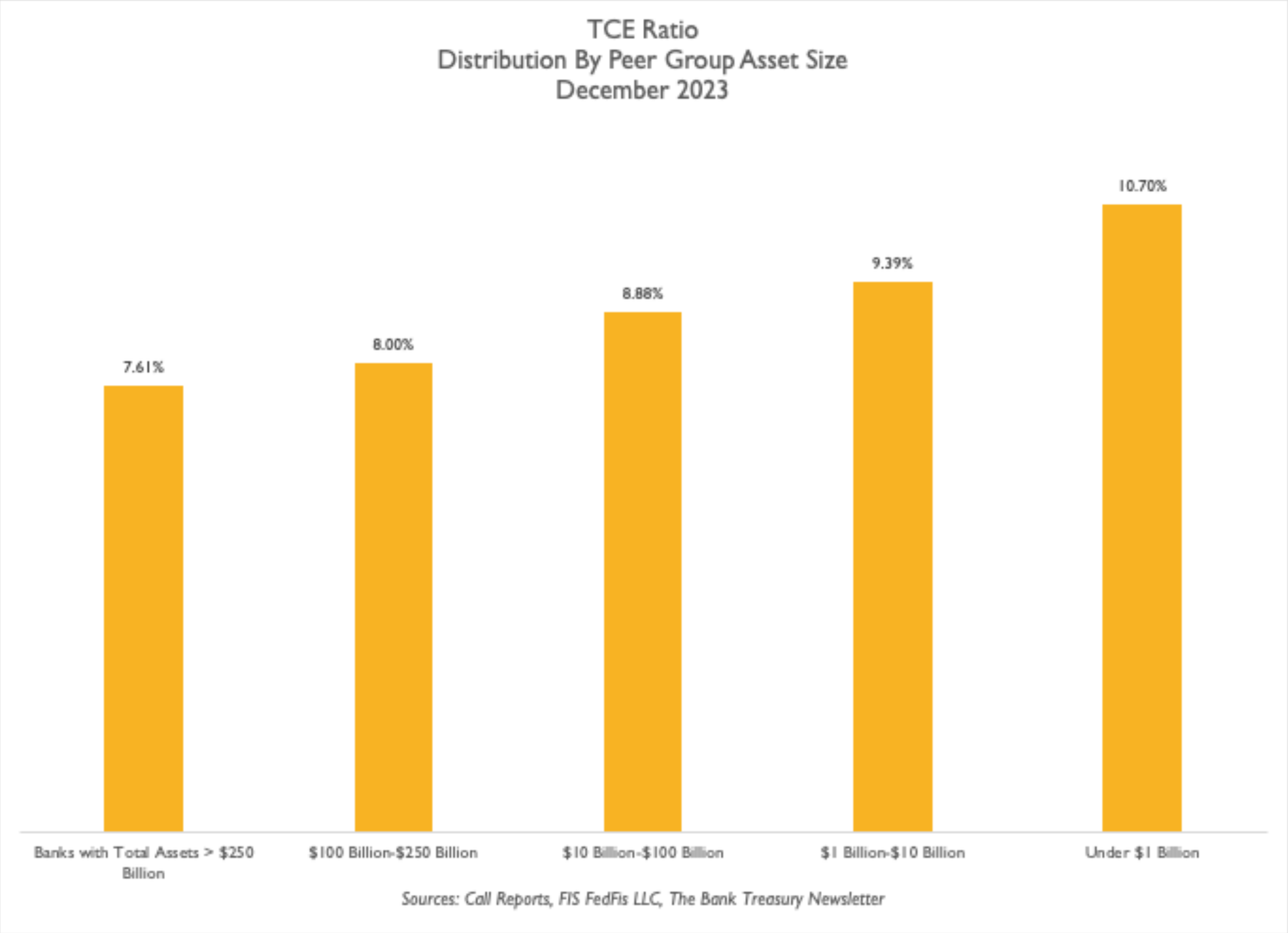
Bank Capital Position Remains Strong

Negative AOCI reduced the industry’s book capital, but the TCE ratio remains above the historical average.



Regional-Community Banks Are Capital Strong

At year-end 2023, NYCB's TCE ratio was 7.6%, which included its credit reserve build but excludes a $1 billion capital infusion this month.



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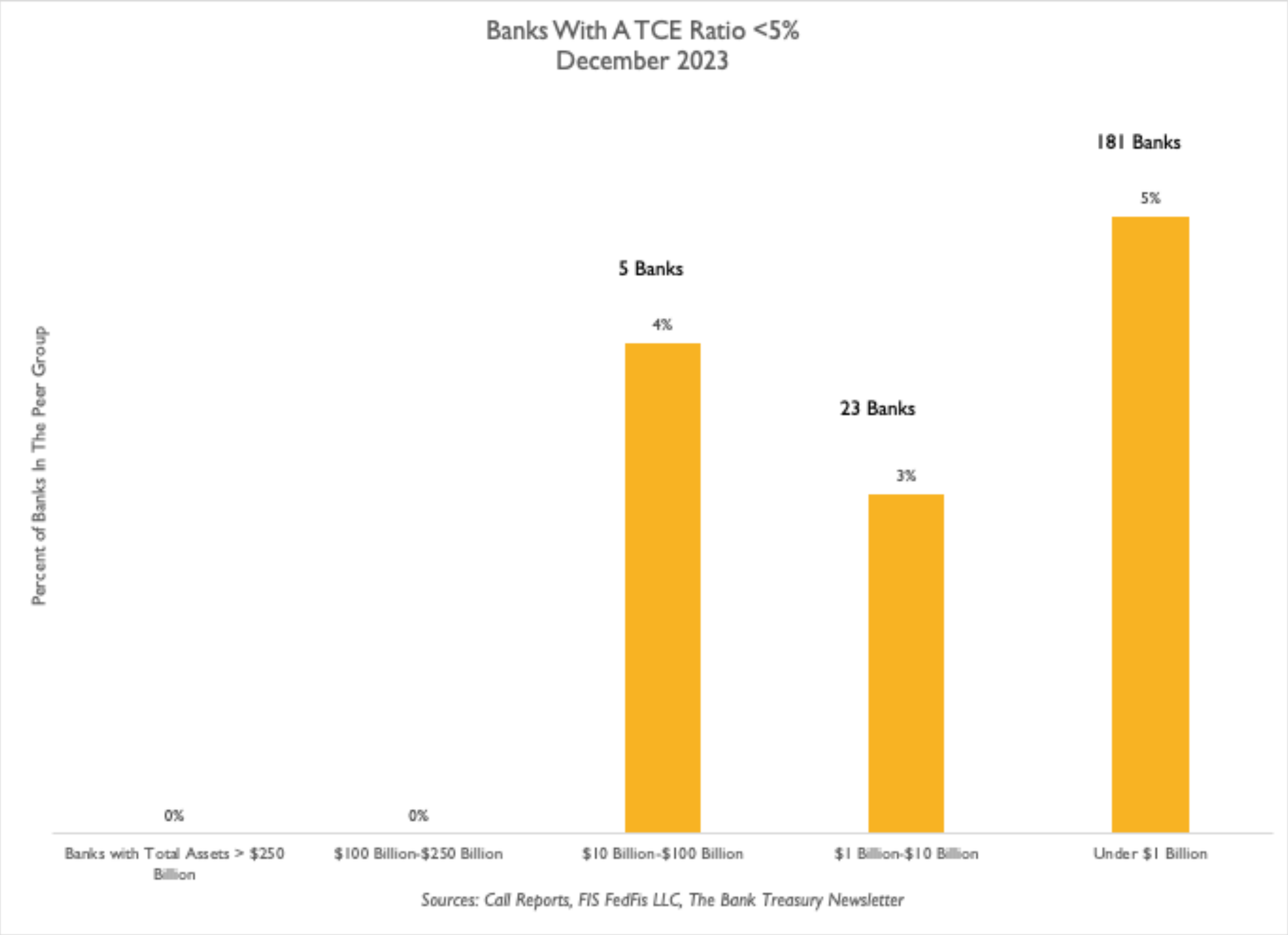
FHLBs Require A Positive TCE Ratio To Lend

4%-5% of the industry with total assets under $100 billion have TCE ratios under 5%.



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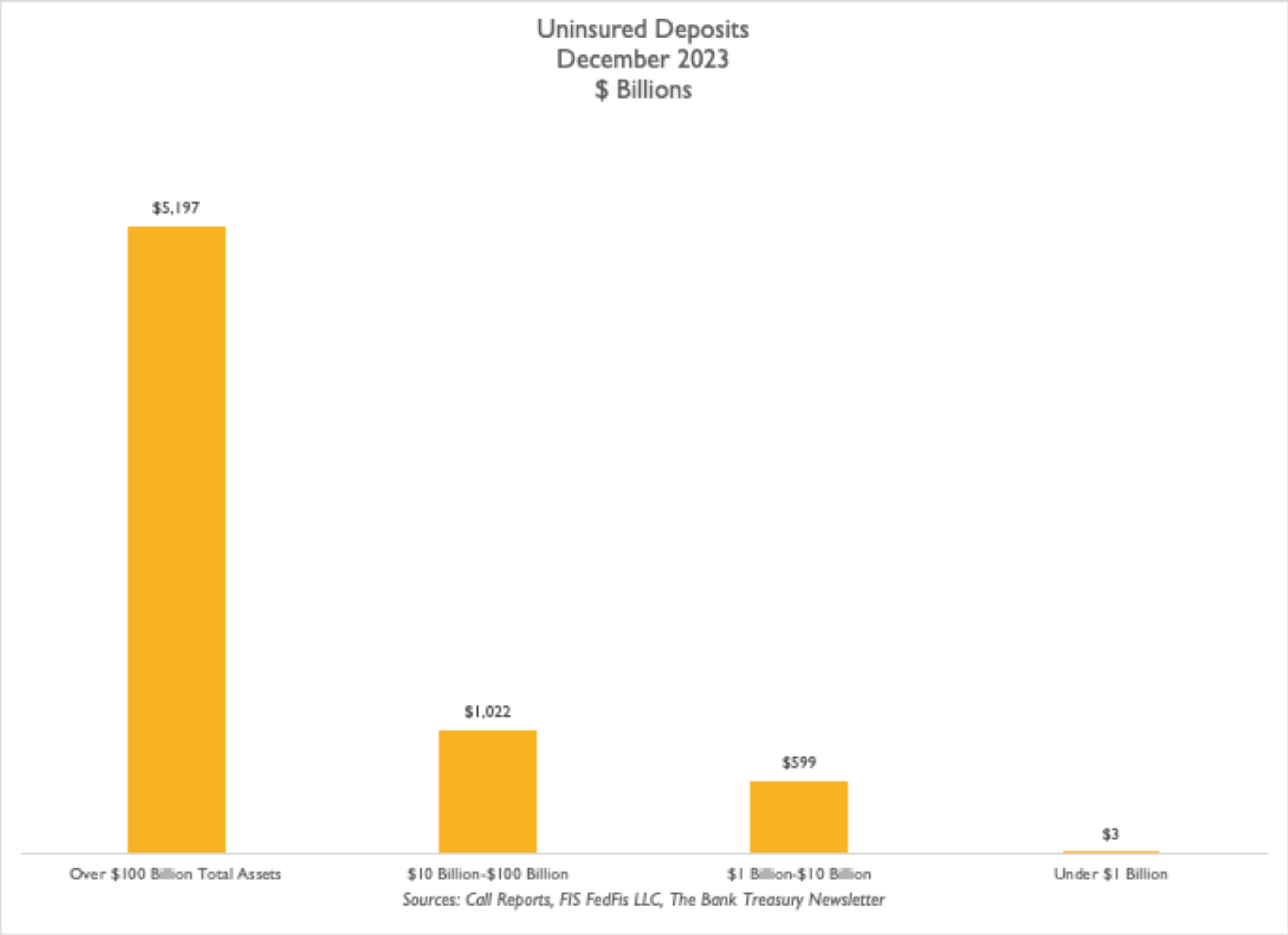
Uninsured Deposits Mostly A Big Bank Issue



Bank supervisors are considering measures to incorporate dependence on uninsured deposits in a supplemental Basel 3 LCR.

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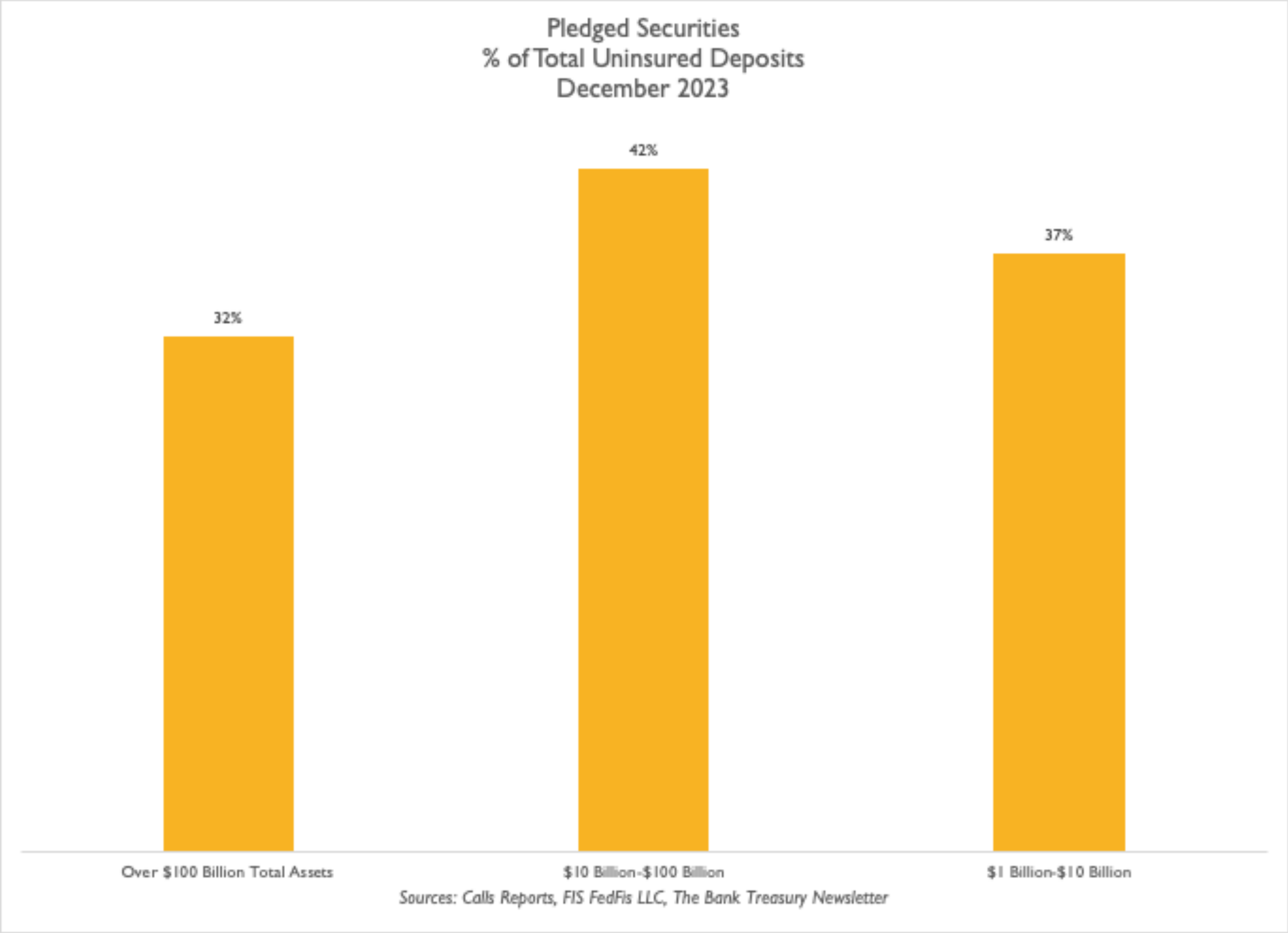
Collateral Helps Stabilize Uninsured Balances

If bank supervisors incorporate uninsured deposits in future liquidity measures, they would likely adjust for the portion of uninsured deposits collateralized with securities.



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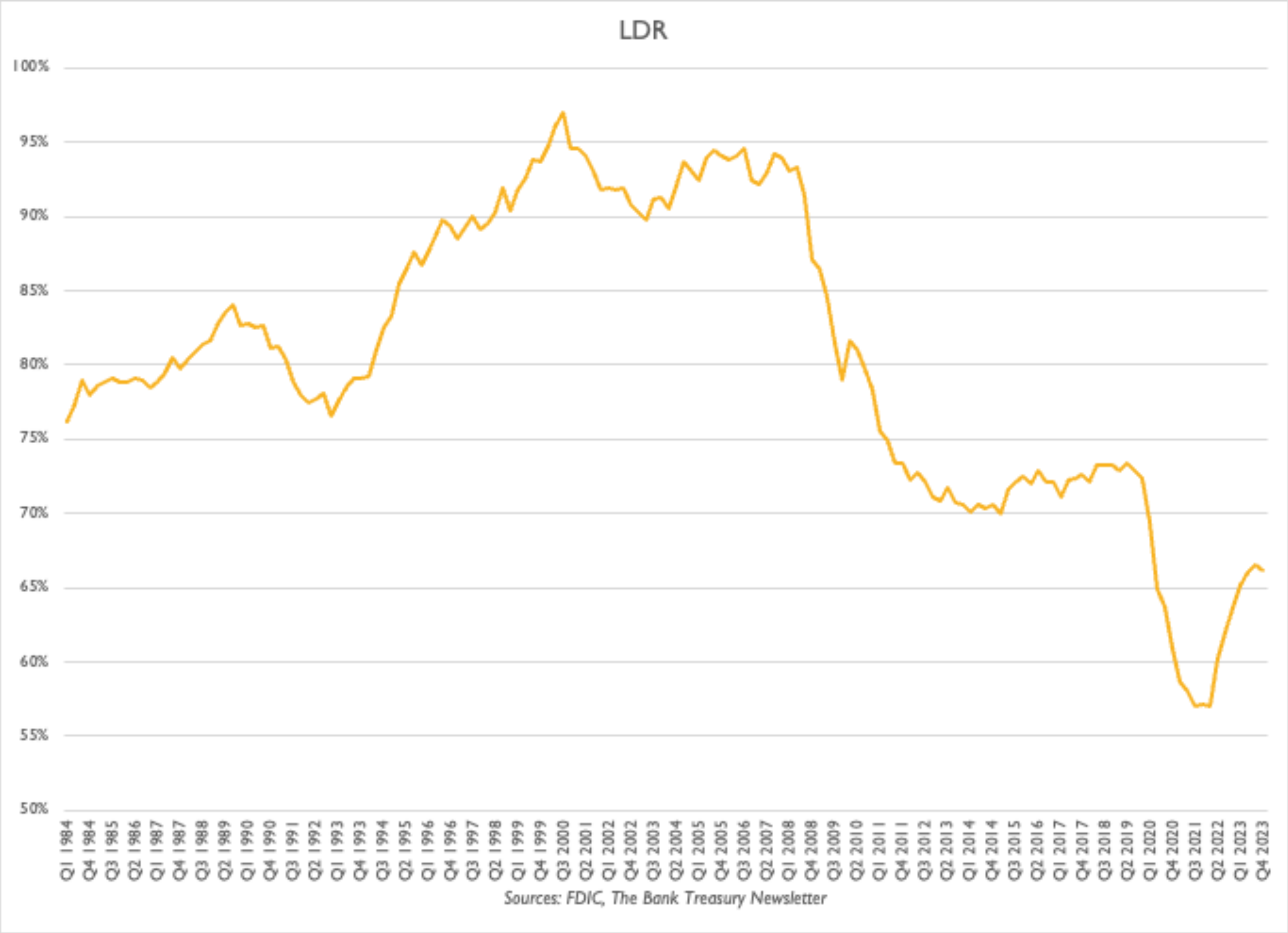
Balance Sheets Still Have Excess Deposits

On an average weighted basis, the industry's LDR peaked at 67% in Q3 2023, compared to 57% in Q3 2021, which is still below 81%, the 40-year average for the FDIC series.



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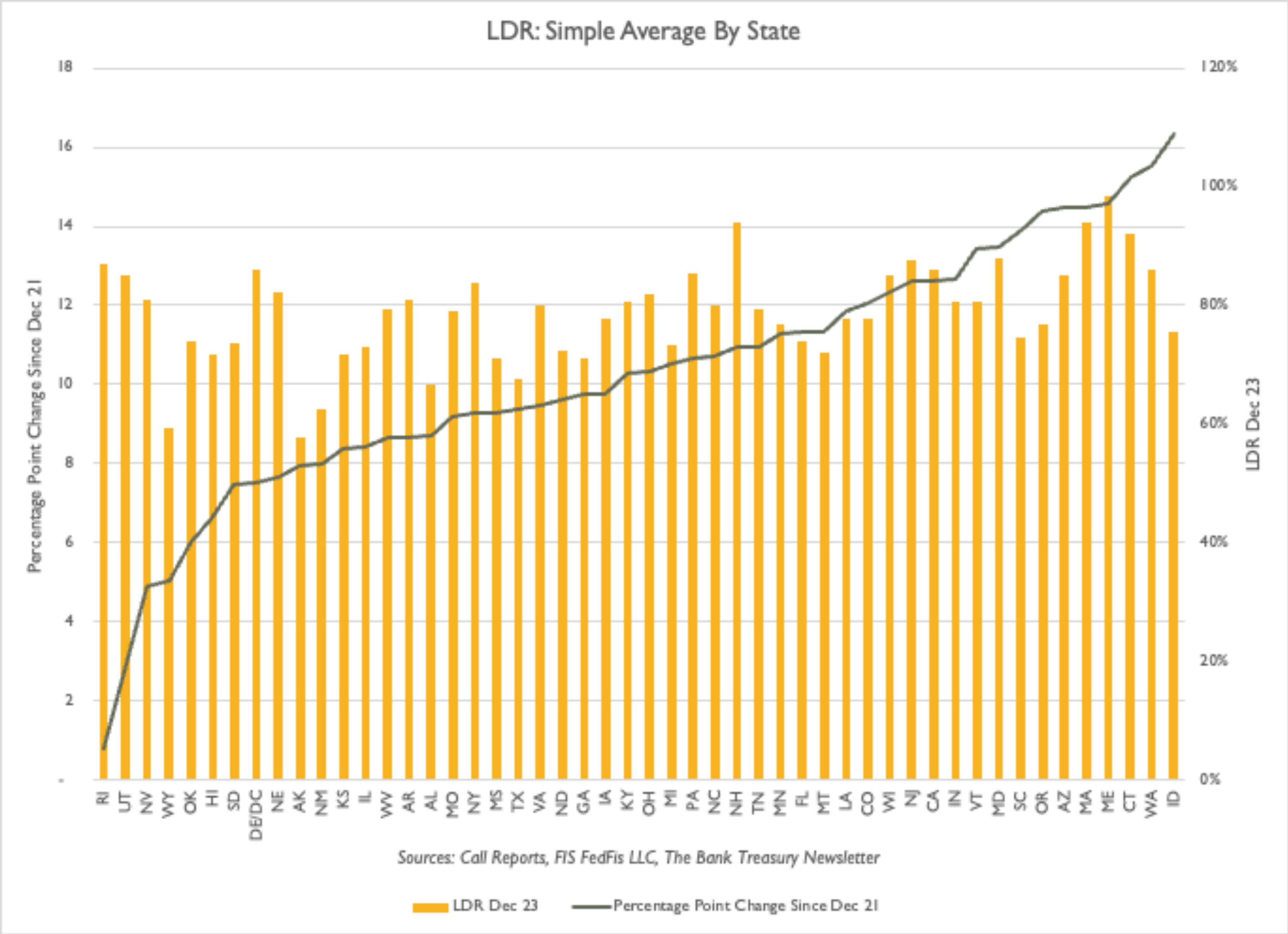
LDRs More Elevated At Smaller Banks

The average LDR increased by more than the 10-point national average in 22 states, led by banks in New England and the Pacific Northwest, where the ratio increased by 14-16 points between December 2021 and December 2023 and where the average LDR now stands between 77% in Oregon to 98% in Massachusetts.



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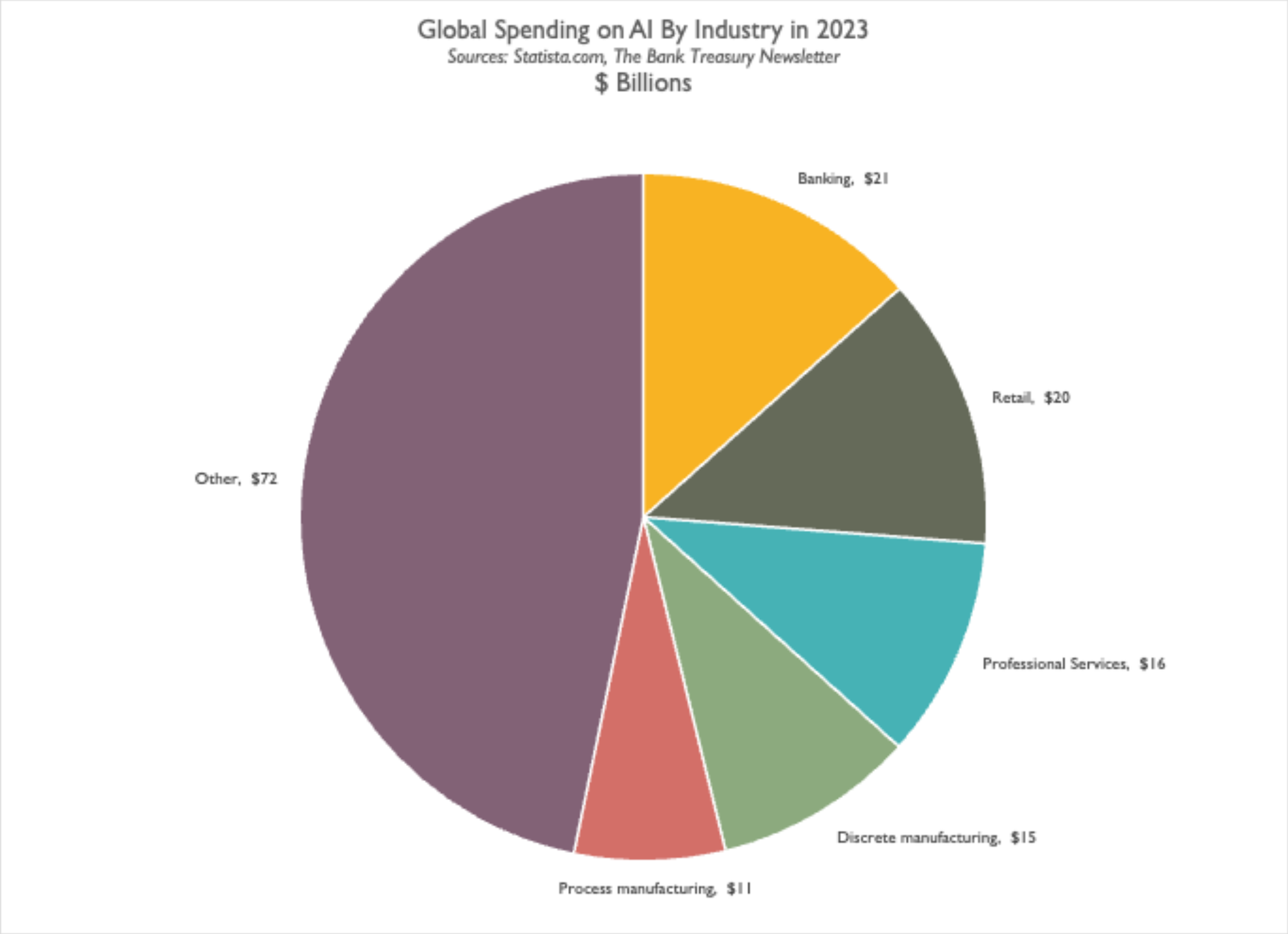
Banks Led Global Spending On AI

Worldwide spending across all industries on AI-centric systems was estimated at $154 billion in 2023, led by the banking industry. Bank investment in AI will likely grow as AI's applications in retail, risk management, trading, and many other areas promise to deliver significant speed and efficiency in banking operations.



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