US Fed delivers small rate hike amid global banking turmoil

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The Federal Reserve on Wednesday, 22 March, raised interest rates by a quarter of a percentage point, but indicated it was on the verge of pausing further increases in borrowing costs after the recent collapse of two US banks.

US Federal Reserve board chair Jerome Powell holds a news conference after the Fed raised interest rates by a quarter of a percentage point following a two-day meeting of the Federal Open Market Committee (FOMC) on interest rate policy in Washington. Source: Reuters/Leah Millis

Fed chair Jerome Powell sought to reassure investors about the soundness of the banking system, saying that the management of Silicon Valley Bank "failed badly", but that the bank's collapse did not indicate wider weaknesses in the banking system.

"These are not weaknesses that are running broadly through the banking system," he said, adding that the takeover of Credit Suisse seemed to have been a positive outcome.

The Federal Open Market Committee policy statement also said the US banking system is "sound and resilient".

Even so, Wall Street ended sharply lower after Powell told a news conference that officials were still intent on fighting inflation while also eyeing the extent to which recent bank failures had cooled demand and slowed lending.

The much-anticipated rate hike by the Fed, which had delivered eight previous rate hikes in the past year, sought to balance the risk of rampant inflation with the threat of instability in the banking system.

But in a key shift driven by the sudden failures this month of Silicon Valley Bank (SVB) and Signature Bank, the Fed's latest policy statement no longer says that "ongoing increases" in rates will likely be appropriate.

Relief over Credit Suisse deal crumbles as focus shifts to bond risks
Stefania Spezzati 20 Mar 2023

Turmoil following SVB closure

The banking sector has been in turmoil after California regulators on 10 March closed Silicon Valley Bank in the largest US bank failure since the 2008 financial crisis.

The collapse of the Santa Clara, California-based bank and Signature Bank, another US mid-sized lender, prompted a rout in banking stocks as investors worried about other ticking bombs in the banking system and led to UBS Group AG's takeover of 167-year-old Credit Suisse Group AG to avert a wider crisis.

The Fed's relentless rate hikes to rein in inflation are among factors blamed for the biggest banking sector meltdown since the 2008 financial crisis.

"The Fed is now living on a hope and a prayer that they haven't done irreparable harm to the banking system," said Brian Jacobsen, senior investment strategist at Allspring Global Investments in Menomonee Falls, Wisconsin. "The Fed is probably thinking financial stresses are substituting for future rate increases."

Not a credit crisis, says Citigroup Inc CEO

Citigroup Inc CEO Jane Fraser on Thursday expressed confidence in US banks and said the recent turmoil did not represent a credit crisis.

"This is a situation where it's a few banks that have some problems, and it's better to make sure that we nip that in the bud," she said in Washington on Wednesday.

Meanwhile, as beleaguered First Republic Bank considers its options, treasury secretary Janet Yellen said on Wednesday there is no discussion on insurance for all deposits.

She told a congressional hearing that the government "is not considering insuring all uninsured bank deposits". She also said the Treasury Department has not considered anything to do with guarantees for assets. First Republic shares closed down more than 15%.

As officials grapple with restoring confidence in the banking system, JPMorgan Chase & Co CEO Jamie Dimon is scheduled to meet with Lael Brainard, the director of the White House's National Economic Council, during the executive's planned trip to Washington, according to a person familiar with the situation.

Bank supervision

The latest move to restore calm to restive regional bank stocks came as Pacific Western Bank, one of the regional lenders caught up in the market volatility, said it had raised $1.4bn from investment firm Atlas SP Partners.

Shares of the bank closed down 17% even as it tried to assuage investor worries by saying it had more than $11.4bn in cash as of 20 March.

But less than two weeks after Silicon Valley Bank sank under the weight of bond-related losses due to surging interest rates, the CEO of hedge fund Man Group, Luke Ellis, said the turmoil was not over and predicted further bank failures.

Policymakers from Washington to Tokyo have stressed the turmoil is different from the crisis 15 years ago, saying banks are better capitalised and funds more easily available.

SVB's collapse kicked off a tumultuous 10 days for banks which led to the 3 billion Swiss franc ($3.2bn) weekend takeover of Credit Suisse by rival UBS.

Moves to replace Fed's internal watchdog

In further fallout, a conservative republican and a progressive democrat in the US senate are introducing legislation to replace the Fed's internal watchdog with one appointed by the president, aiming to tighten bank supervision following the failures of SVB and Signature Bank.

Republican Rick Scott and democrat Elizabeth Warren blamed the collapse of the two banks on regulatory failures at the US central bank which has operated up to now with an internal inspector general who reports to the Fed board.

The Fed was not immediately available for comment.

The Federal Deposit Insurance Corporation (FDIC) has moved the bid deadline for Silicon Valley Private Bank to Friday from Wednesday, a source familiar with the matter said on Wednesday. Earlier this week, the FDIC decided to break up Silicon Valley Bank and hold two separate auctions for its traditional deposits unit and its private bank after failing to find a buyer for the failed lender last week.