Credit Suisse unease sparks sell-off in world stocks; gold resumes rally

By Herbert Lash

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European currencies fell sharply on Wednesday,15 March, after Credit Suisse's tumble to a new low renewed worries about the European banking sector following Silicon Valley Bank (SVB)'s collapse.

Source: Reuters.

The euro, sterling and the Swiss franc saw sharp declines against the US dollar as Credit Suisse shares plummeted around 30% after its biggest investor said it could not provide any more backing.

Concerns around the Swiss lender led the wider European banking index to its lowest since early January and triggered a sharp sell-off in the currency market.

Earlier in the day, most major currencies had traded steadily against the dollar, as some of the investor concerns about contagion in the US banking system had subsided following the failure of SVB last week.

At 1305 GMT, the euro was down 1.75% to $1.0574 and set for its biggest daily drop since March 2020.

The Swiss franc, which had gained around 3% in one week thanks to safe-haven demand, slid 0.8% to 0.9218 per dollar.

> *JSE slips as investors mull over US inflation data after SVB collapse; Markets still believe the US Fed will hike rates 25 basis points next week despite the stress in the US banking system. https://t.co/NQ1vQOQwR1@TreasuryONE @BDliveSA— Andre Cilliers (@andre_treas1) March 15, 2023*

Sterling dropped 0.7% to $1.2077, with finance minister Jeremy Hunt's budget speech to parliament doing little to support the currency against the dollar. Against the euro, the pound was up 1.2%.

Britain's economy is forecast to contract by 0.2% in 2023, but it is no longer forecast to enter a recession this year, Hunt said, citing the latest projections from the Office for Budget Responsibility (OBR).

The new figure for 2023 compared with a forecast for a contraction of 1.4% in the OBR's previous outlook published in November.

European bank stocks take a beating

"This morning's Credit Suisse news is doing all of the damage in FX markets as European bank stocks take another beating today," said Simon Harvey, head of FX analysis at Monex.

"The sell-off in these stocks only raises concerns over financial stability again, which is having a knock-on effect in European government bond and swap markets as the prospect of an more restricted ECB (European Central Bank) comes back into view," he said.

Money markets have changed their bets on ECB rate hikes amid the banking turmoil.

Markets are now pricing in a 60% chance of a 25 basis point hike in euro zone rates on Thursday. Earlier in the day, they were pricing in a 90% chance of a 50 bps hike.

Markets are pricing in a 50% chance of no change and a 50% chance of a 25 bps increase from the US Federal Reserve next week.

The dollar index rose 0.8% to 104.59.