Italian Banks

Sector trends – February 2024

Commercial Spread Hanging Tough

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Italian Equity Market

February 2024 data show that funding cost growth is not *skyrocketing* (+2bp M/M +47bp Y/Y); lending rates on Net New Money (NNM) to non-fin.corps (NFC) and households (HH) are actually falling a little faster; however, given weak new business flows, this NNM-*effect* on the "stock" side means that the spread is still hanging tough: gross yields on NFC are +1bp M/M, with HH flattish M/M; in other words the NET commercial spread seems not really under pressure for the so-called *Beta-Deposit effect*. The other key issue (more important in our view, going forward) is that *Volumes* remain weak, especially for NFC. Overall, Euribor rates are still close to 4%; all-in-all, banks are entering 2Q24 in a better-than expected shape, right after what we think may be a *solid* 1Q24E. It appears that banks are aware of the ongoing pricing issue and are therefore cutting lending rates to create "demand" for Net New Lending, anyway in a risk-adverse positioning: asset quality seems to be under control (first guidance from banks for 1Q24 also looks very positive). Banks are still not increasing their portfolios of Govies, which is counterintuitive to us given current coupons.

- **So what's up ?:** We believe February '24 numbers look promising from the standpoint of banks' top lines as we enter 2Q24. Remember that expectations on rates were sluggish and banks were seen as much less profitable on falling NII and higher LLPs, hence a few downgrades. As far as we have understood from talking to a few banks (so far), 1Q24 will be a nice entry quarter with banks still benefitting from high Euribor rates & the net fees from WM growth path already in the pipeline, OpEx under control and low CoR (consider that some systemic huge risk provisions are now over). Banks' projections are based on rates clearly dropping in the coming quarters; however, it seems that the effects may be smoother than expected, with rates high for longer.
- **Lending**: Volumes in February 23 remained weak, penalized by lack of demand for new loans on high Euribor rates and banks' risk-averse credit policies: once more, this was especially the case for corporates (-4% YoY) while households were -2% YoY. All in all, the net stock of loans on banks' balance sheets was €2.16tr (-6% YoY), o/w €1.29tr related to the Real Economy (NFC+HH, -2% YoY). The mortgage stock was fairly flattish MoM at €425bn, while consumer lending was +3% YoY to €120bn; NFC remained weak at €620bn -4% YoY.
- **Asset quality**: gross/net NPLs remained under control at €32/18bn, in line with what banks stated during the last reporting season. Incidentally, we do not expect asset quality issues entering 1Q24E given the positive guidance provided so far by some large cap banks. NPL coverage was flattish at 44%.
- **Lending rates** were down: Net New Money for NFC was -14bp MoM with the stock yield up 1bp; on the other hand, household mortgages (NNM APRC) were down to 431bp (-7bp MoM) with the stock flattish M/M at 313bp.
- **Securities portfolio**: banks' securities portfolios are worth some €916bn (flattish MoM, -3% YoY); of these, some €353bn are IT Govies (flattish MoM, -10% YoY); once again, we stress that this absolute figure is fairly low: we argue banks could go longer IT Govies to freeze the coupon but we have not been seeing this, so far.
- **Funding**: given high-for-longer rates and the ongoing switch from liquidity to Govies, also helped by different taxation, funding was weak in January '24 with current accounts plunging to €1.3tn (-3% MoM, and still -7% YoY). In point of fact, despite this increase, banks have kept funding costs under control.
- **Funding rates**: All in all, funding costs in February 2024 increased marginally, 2bp M/M and 47bp YoY, on the back of higher market rates and clients moving cash from sight to term deposits. As we stated recently, to put things into perspective, the Y/Y increase remains far lower that the surge in lending rates: as a reminder, the gross yield on the stock of loans went up 179bp YoY in NFC and 63bp YoY in HH mortgages.

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