

Global Money Dispatch

Reserves in the U.S. banking system could increase by at least \$720 billion and at most by \$2.3 trillion by summer. The assumption behind these figures are the Fed's monthly asset purchase target of \$120 billion, and the same plus Treasury's cash balances falling to zero if the debt ceiling binds, respectively.

In today's edition, we look at large U.S. bank's ability to absorb these flows at the bank operating subsidiary level, where reserves are not exempt from the calculation of the SLR. The first three sets of charts show that the Fed's QE and Treasury's fiscal largesse were absorbed in large part by only three banks: J.P. Morgan, Citibank and Bank of America. Their pre-pandemic SLR buffers and capital growth since the start of the pandemic – thanks to the Fed's ban on stock buybacks – helped absorb close to 75% percent of reserves injected by the Fed during 2020. If the U.S. banking system is like a Boeing 747...

...it's been flying with only three engines last year, as the fourth big depository – Wells Fargo – hasn't grown its balance sheet one penny. That's because Wells Fargo is still subject to an asset growth ban for past missteps (see [here](#)). Wells Fargo has plenty of excess capital at the bank operating company level, but the ban on asset growth means that the bank can't add more reserves without shrinking its dealer's book – to keep assets at the holding company flat.

The ban was imposed on Chair Yellen's watch, and Secretary Yellen may get involved in soon lifting that ban. War finance involves lots of central planning, and freeing up balance sheet to fight the pandemic is good central planning...

If Wells Fargo's asset growth ban is finally lifted during the first half of this year, and if the "four engines" are willing to run their bank-level SLRs down to 6.1% – or 10 bps above the regulatory minimum – the four big banks could absorb \$900 billion of reserves. If Wells Fargo is still constrained, only \$500 billion (for capacity estimates using other SLR targets see the first chart on page 6).

That's based on banks' Tier 1 capital levels as of the third quarter of 2020. Assuming that J.P. Morgan, Citibank and Bank of America added \$10 billion of capital during the fourth quarter, the \$500 billion becomes \$700 billion – the bank earnings season starts on Friday, so we'll know more about capital soon.

The resumption of stock buybacks this quarter will change the picture somewhat: all banks except J.P. Morgan have excess capital at the holding company level to return to shareholders. For J.P. Morgan, excess capital is at the bank opco, where a \$10 billion buyback would lower our \$700 billion estimate to \$500 billion.

Thus, unless Wells Fargo's constraints are lifted, the coming tsunami of reserves will go mostly to foreign banks and/or the Fed's RRP facility via money funds...

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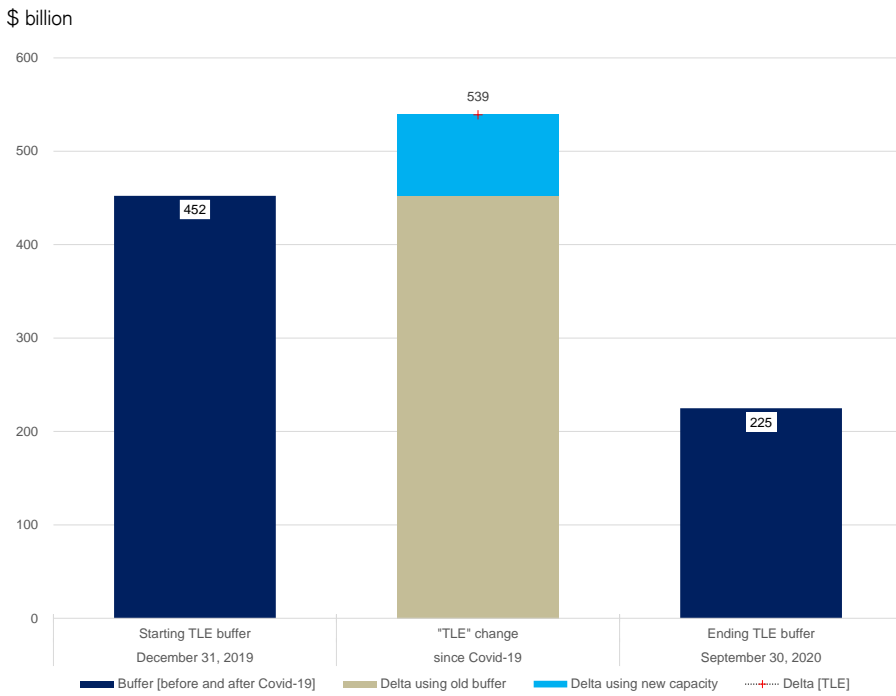
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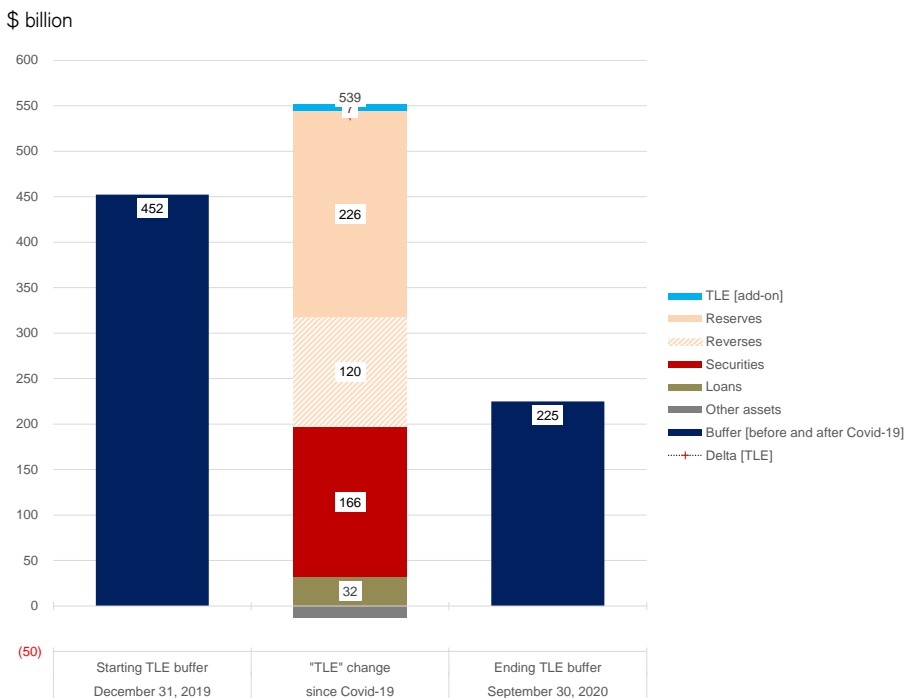
zoltan.pozsar@credit-suisse.com

[Quarterly]: J.P. Morgan Chase Bank, N.A. (1)



Source: FFIEC 031, Credit Suisse

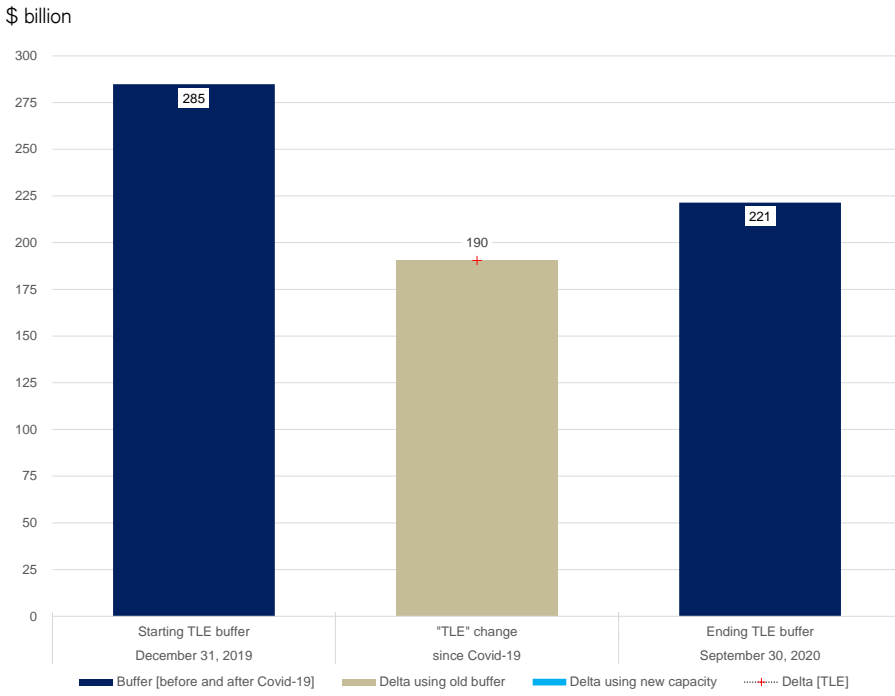
[Quarterly]: J.P. Morgan Chase Bank, N.A. (2)



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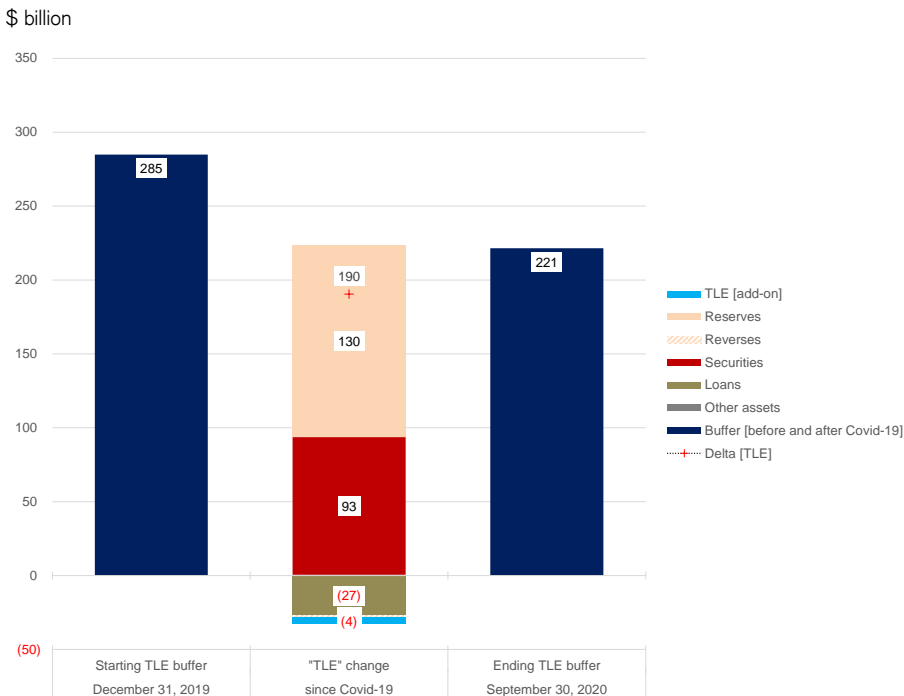
Source: FFIEC 031, Credit Suisse

[Quarterly]: Citibank, N.A. (1)



Source: FFIEC 031, Credit Suisse

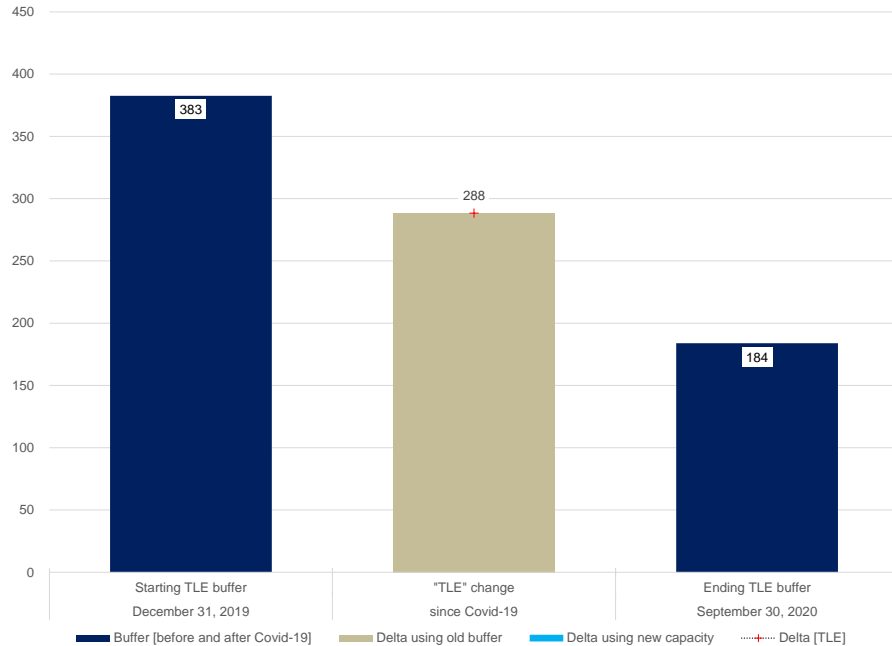
[Quarterly]: Citibank, N.A. (2)



Source: FFIEC 031, Credit Suisse

[Quarterly]: Bank of America, N.A. (1)

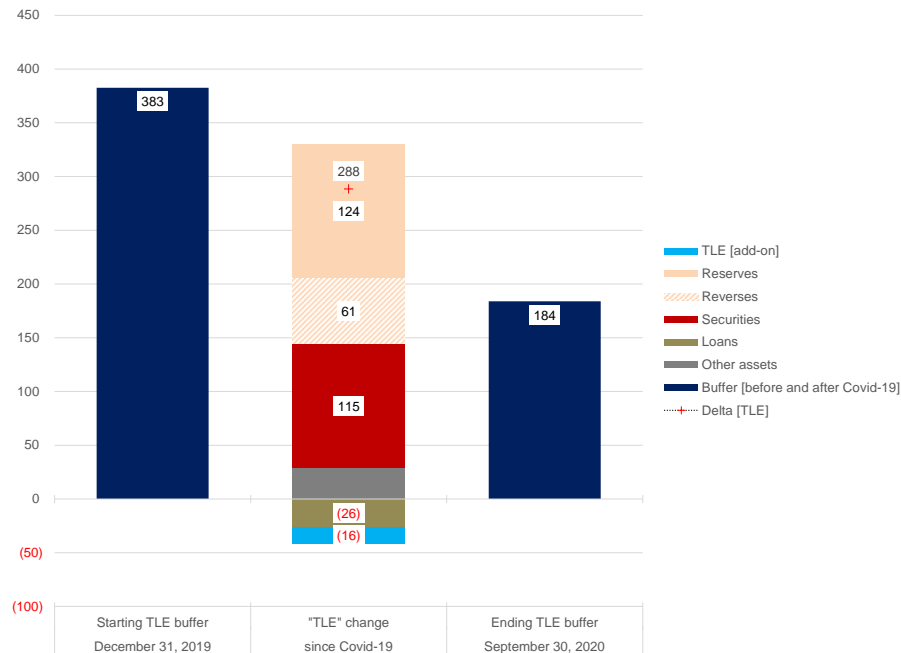
\$ billion



Source: FFIEC 031, Credit Suisse

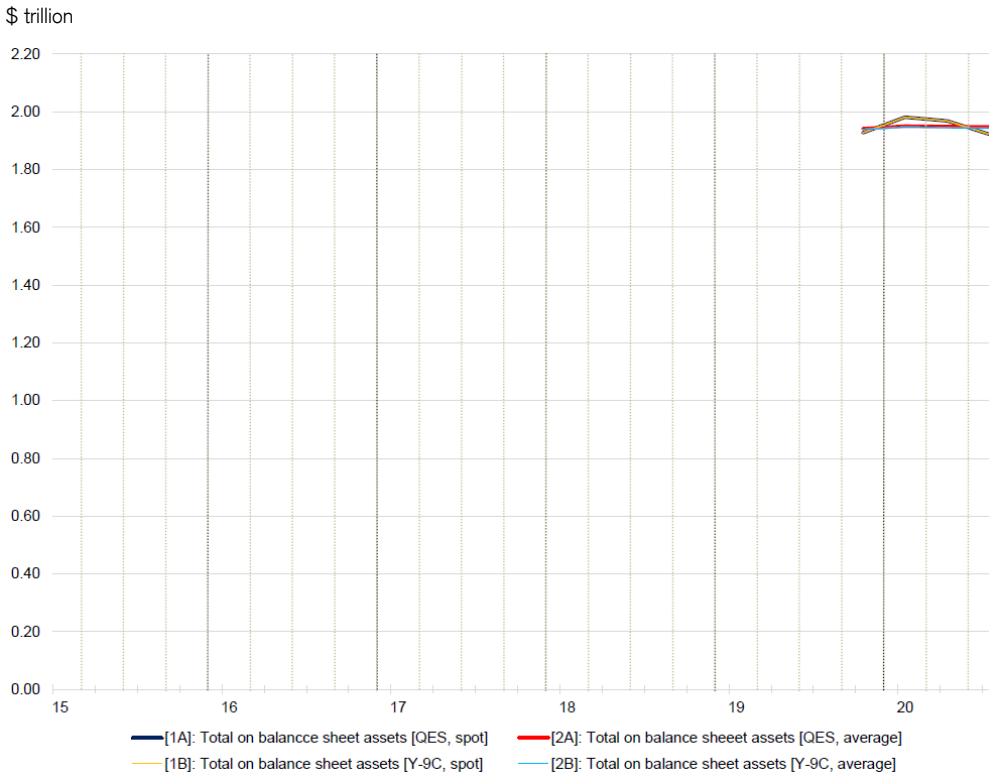
[Quarterly]: Bank of America, N.A. (2)

\$ billion



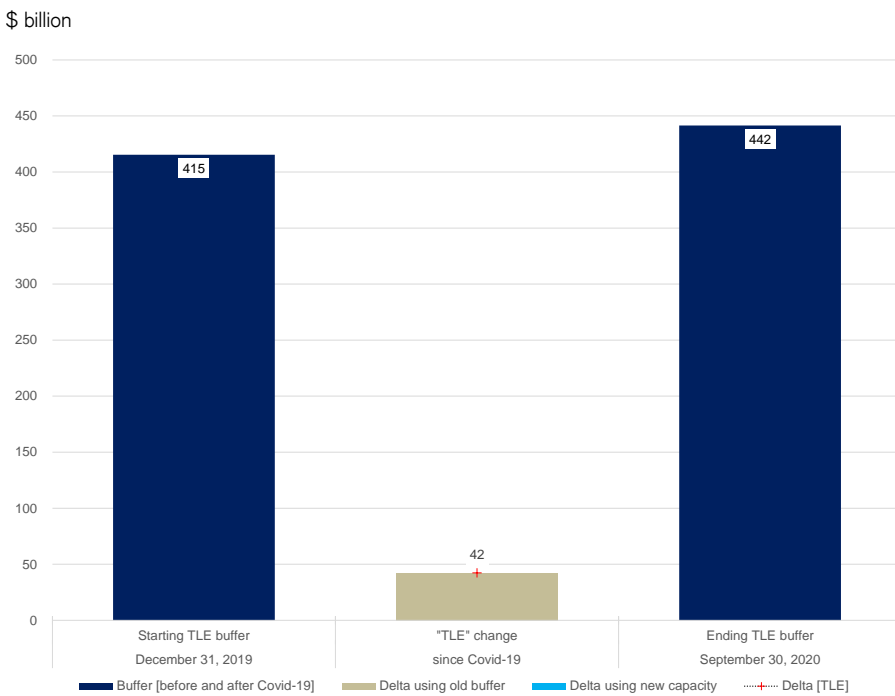
Source: FFIEC 031, Credit Suisse

[Quarterly]: Wells Fargo & Company's Asset Growth Ban Visualized



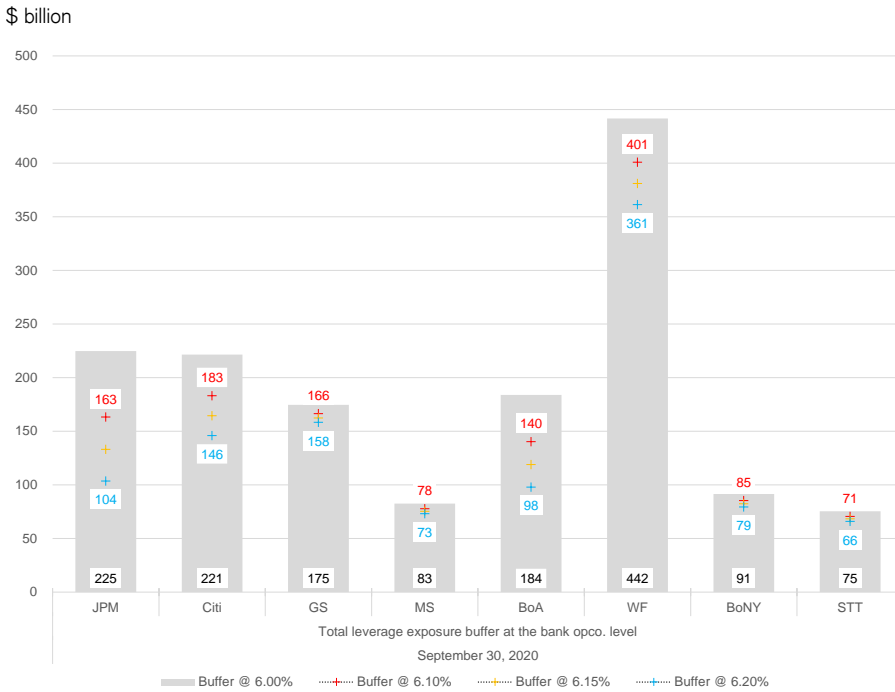
Source: Quarterly earnings supplements, Y-9C, Credit Suisse

[Quarterly]: Wells Fargo Bank, N.A.'s Untapped Balance Sheet Capacity



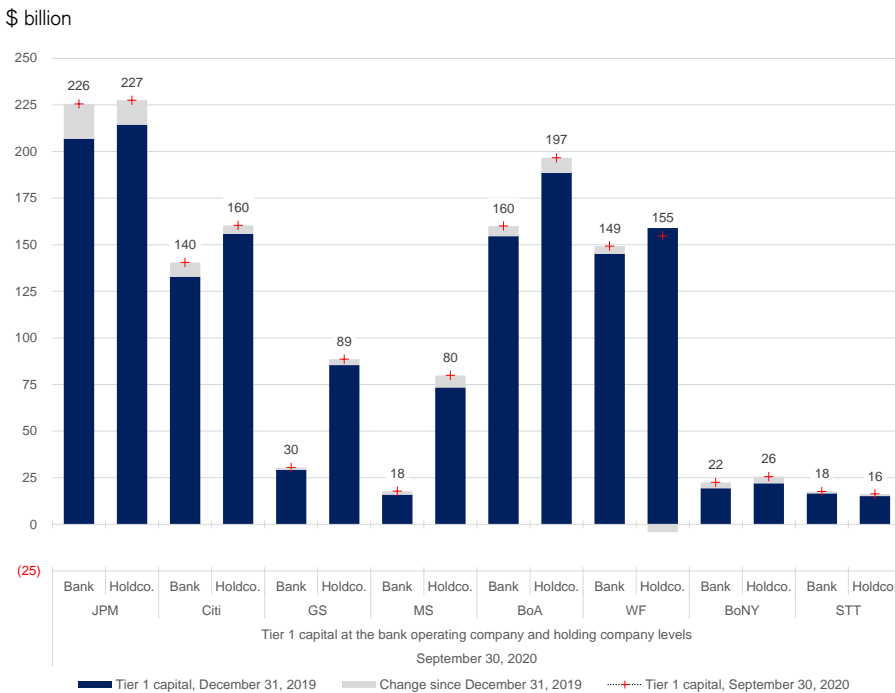
Source: FFIEC 031, Credit Suisse

[Quarterly]: U.S. Banks' Balance Sheet Capacity Before Stock Buybacks



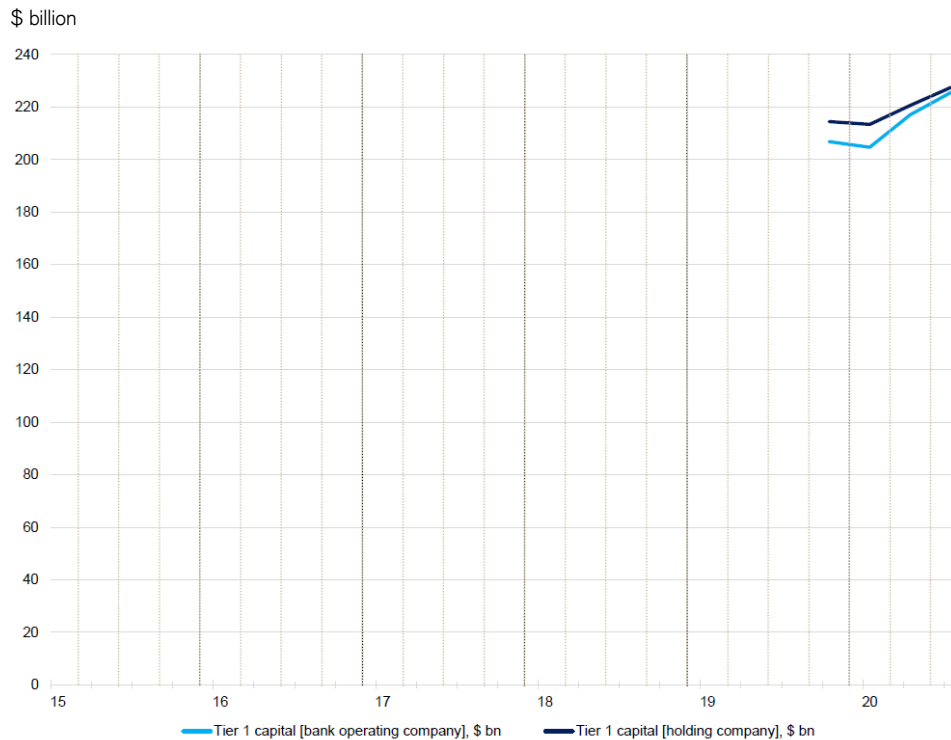
Source: FFIEC 031, Credit Suisse

[Quarterly]: J.P. Morgan's Excess Capital is in the Bank



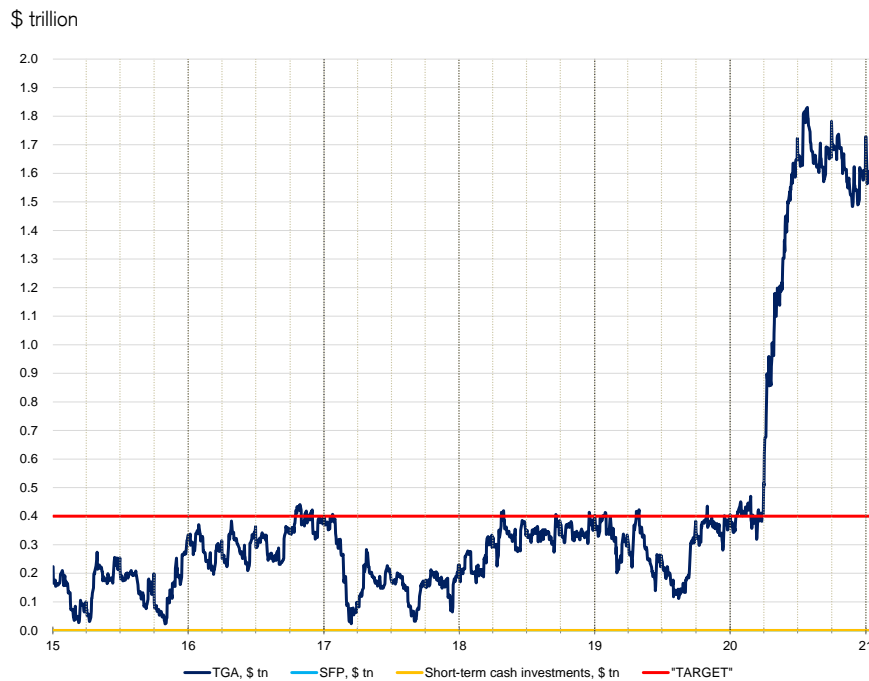
Source: FFIEC 031, Y-9C, Credit Suisse

[Quarterly]: J.P. Morgan’s Buybacks Will Reduce the Bank’s “TLE” Capacity



Source: FFIEC 031, Y-9C, Credit Suisse

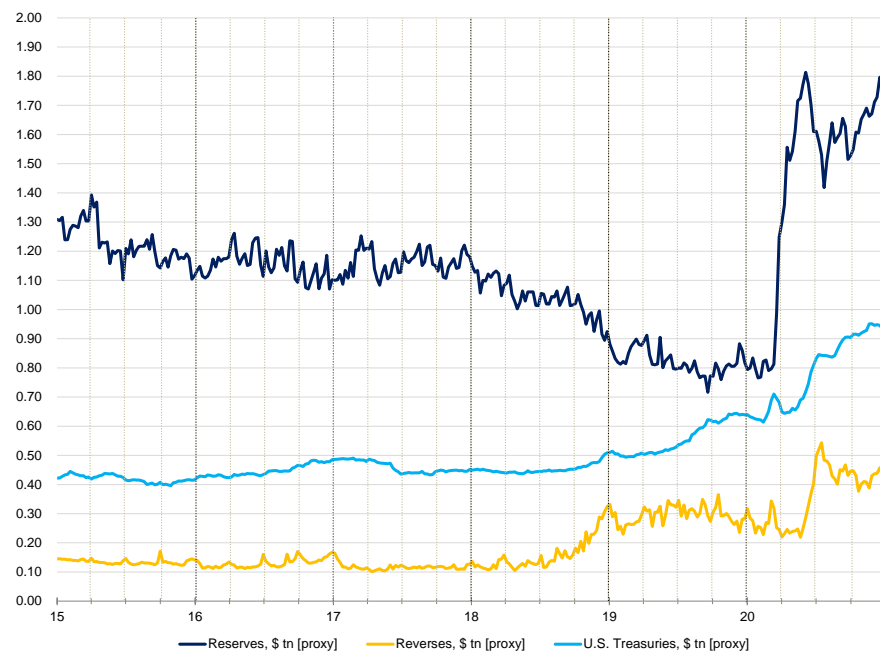
[Daily]: U.S. Treasury’s Cash Balances at FRBNY



Source: U.S. Treasury, Credit Suisse

[Weekly]: Large U.S. Banks' HQLA Portfolios

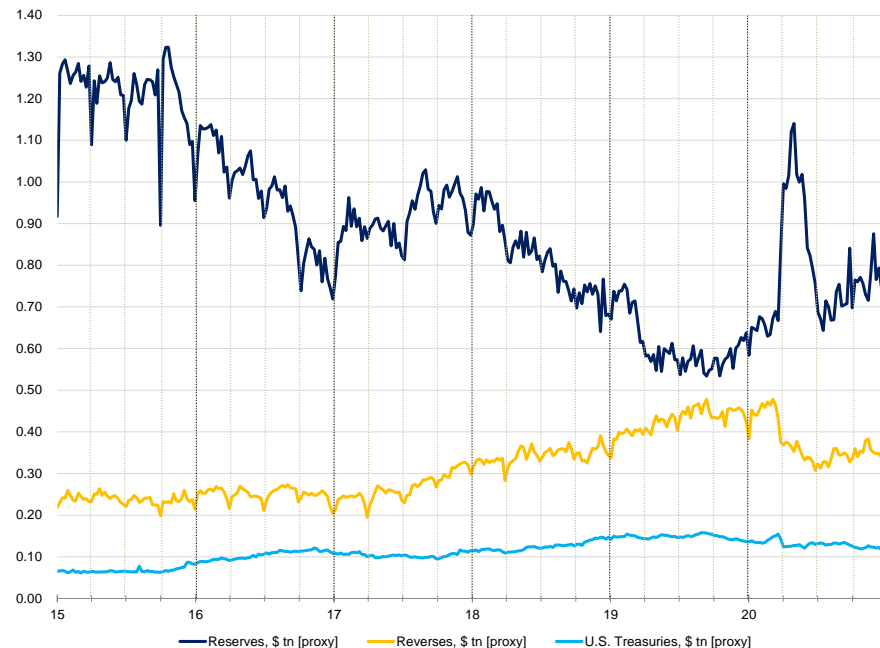
\$ trillion



Source: Federal Reserve, Credit Suisse

[Weekly]: Foreign Banks' HQLA Portfolios Held in New York Branches

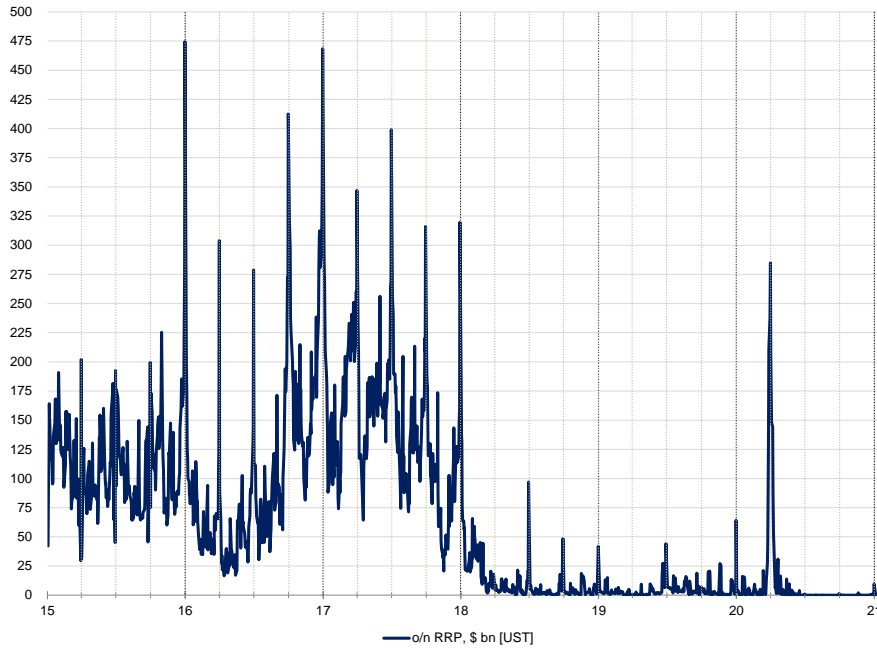
\$ trillion



Source: Federal Reserve, Credit Suisse

[Daily]: The U.S. Banking System Has No Balance Sheet Constraints at the Moment

\$ billion



Source: FRBNY, Credit Suisse

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