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The bank question THE DAY ON THE MARKETS

Performance

From the start of the year the sector in Italy is more than 30% in the red

Stocks

Strong sales for cooperative banks, luxury goods and automobiles

Banks under pressure in Piazza Affari

The sector index loses over 3% and share prices sink. Positive results for the other European stock markets

By Andrea Franceschi

Another intense day for Italian banks in the Milan stock exchange, Piazza Affari. On the day the Italian bourse said "no" to the listing of Banca Popolare di Vicenza, the entire sector felt the pressures exerted by the market. For the FTSE Italia Banks index the day ended 3.08% down. The banks suffering the worst losses were Banco Popolare (down 7.3%) and Banca Popolare di Milano (down 6.04%), which are getting ready for a merger. Other banks experiencing heavy losses were UBI (-4,92%), Montepaschi (-5.52%), BPER (-3.66%), as well as the two big players: Intesa Sanpaolo (-1.98%) and Unicredit (-3.68%). The performance of the banks, which have always been the most significant element of the capitalisation of the FTSE MIB list, was reflected in the main "basket", which fell by 0.97% yesterday. This was in clear contrast with the rest of Europe, where Madrid closed unchanged, Paris gained 0.31% and Frankfurt 0.86%. Only the relatively strong performance of the luxury and automobile sectors held up the bourse in Milan.

From the start of the year the Italian banking sector has moved more than 30% into the red. Banks in the rest of Europe are also having problems but their losses (-17.38%) are lower. That's because the profitability problems in the sector, linked to below-zero rates on deposits introduced by the ECB, come on top of the Achilles' heel of credit quality: the enormous amount of bad debt (341 [sic] gross at the end of 2015) that has built up as a result of the recession. The pressures exerted by the supervisory authorities to boost equity through capital hikes and the divestment of non-performing loans have thus far come up against a market that is reluctant to play its part. The outcome of the capital increase by Banca Popolare di Vicenza, which as a result of the halt to the listing will end up almost entirely (99.3%) in the hands of the Atlante fund, is the umpteenth example. The market's reaction – explains an operator – is the fruit of the scepticism over the true effectiveness of a system-level operation such as Atlante in resolving the problems of the banking sector.

The risk for the big players

According to the ratings agencies, the mutualisation of risk that the Atlante fund entails could weaken the stronger banks.

Especially if the script we've seen with the capital increase by Banca Popolare di Vicenza is repeated with Veneto Banca, leaving the amount intended for transferring non-performing loans at the auditors' minimum (30% of the fund's 4.25 billion euro total). "The market needs broad-ranging solutions", comments Domenico Rizzuto of Dr Finance Consulting, "and I fear the Atlante fund isn't providing them". Hence the devaluations in the stock exchange, which are the result of yet another fear: that the possible losses that the new vehicle could face might undermine the stability of stronger banks too. This risk has been set out in black and white by ratings agencies like Moody's and Standard & Poor's. While underscoring the positive signal that's emerged with the system's response to a system problem, they have also pointed out that, in view of the fund's meagre size, the biggest banks will end up paying a high price for the mutualisation of risk.

But not everyone sees black clouds on the horizon. Admittedly, the capital increase by Banca Popolare di Vicenza went the way it did. But what would have happened if the Atlante fund hadn't been in place? Unicredit would have had to provide a guarantee and at that point the entire market reaction could have been much worse. "What matters is that a system-level intervention took place", argues Francesco Castelli, a manager at Banor Capital who is convinced that in the end the Atlante operation will repay its supporters. Especially in the light of the change of pace it has imposed on the thorny question of non-performing loans. An issue that in Castelli's view becomes an Achilles' heel only if they "are sold off at too low a price under pressure from the regulatory authorities". With a player like Atlante in the market, the wager is that the price of impaired loans will rise. By how much? Banor Capital reckons 20%, taking into account the government's legislative action to facilitate loan recovery by banks.

Snapshot

THE STOCK EXCHANGES

% changes yesterday and from start of year

BANK STOCKS

% changes yesterday and from start of year

