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| **Europe Bank Recovery Hit By Market Tumult** |
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| **Europe Bank Recovery Hit By Market Tumult** |
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|  (FROM THE WALL STREET JOURNAL 1/22/16)  By Margot Patrick, Max Colchester and Jenny Strasburg LONDON -- Europe's banks had been on a long, slow march to recovery. But this month's market turmoil is likely to hinder that journey and, in turn, could threaten the Continent's economic prospects.Worries over China's slowing economy, plunging oil prices and a deepening crisis at Italian banks have sent shares of European banks into a tailspin just as many of those banks were making progress at stabilizing their businesses after years of financial and economic crises. In the first three weeks of 2016, the European bank sector has fallen 16%, compared with a 10% slide in the broader Stoxx Europe 600 index.The downturn threatens more than bank shareholders. Analysts said the conditions mean Deutsche Bank AG, Barclays PLC and Standard Chartered PLC could take longer to carry out yearslong restructurings and improve returns under new chief executives installed last year. If conditions continue to deteriorate, banks could ratchet back lending and central banks may again have to step in to encourage banks to pump credit into the wider economy."It is a key risk at the moment," said Filippo Alloatti, a senior analyst at Hermes Credit.Shares in Deutsche Bank fell 3.4% on Thursday after the bank said challenging market conditions helped push it to a full-year loss for 2015. The German bank's shares are nearing levels last seen in 2009 in the heat of the global financial crisis.Other lenders starting the day in the red got a boost after European Central Bank President Mario Draghi signaled that the bank may decide to provide more stimulus at its governing council's next meeting in March.Mr. Draghi expressed confidence in the health of the financial system. "I'm confident that all the actions that have been undertaken have produced a much stronger banking sector than it was before the crisis," he said. "The gyrations . . . in other times would have severely tested the resilience of the banking systems. So far we have seen that they stand pretty resilient."Standard Chartered's shares have tumbled 15% this year on worries that falling currencies and rising bad loans will delay its attempted return to health under new Chief Executive Bill Winters. Larger rival HSBC Holdings PLC, which is retreating from some countries to double down on Asia, also is exposed to currency and market falls throughout Asia.Barclays, whose shares also are off 15% this year, this week is starting to cut about 1,000 investment-banking jobs, mainly in Asia, in its latest attempt to lower costs and divert resources to more profitable parts of the bank. Thousands of jobs already have gone from the bank over the past few years, but new CEO Jes Staley is trying to accelerate the restructuring.The sector's woes are a reminder of how the Continent continues to suffer from its slow progress at cleaning up its banks. Many large European lenders for years delayed efforts to fortify their capital cushions. Even now, eight years after the financial crisis, Deutsche Bank, Barclays and other giant lenders are scrambling to convince regulators and investors that they have enough capital to weather another financial storm."The European banks are in such a state of delayed recovery," said Stephen Schwarzman, chief executive of private-equity firm Blackstone Group, at a World Economic Forum panel discussion. "I don't know what they were doing for years. It's a mystery to me."Analysts say most of Europe's large banks are resilient enough to ride out a global slowdown. But persistently low interest rates and waning client activity in markets could hurt earnings and limit dividends.If the outlook continues to darken, there is also the prospect of a negative feedback loop, in which banks pulling back on lending and exiting from markets weaken the global economy."It creates a more difficult environment for restructuring. If you have a big noncore business that is still in wind-down mode, tighter liquidity makes it very tough to exit certain noncore assets," said Joe Dickerson, a banking analyst at Jefferies. |