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# A SHOCK TO THE GLOBAL ECONOMY

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March 2023 Newsletter

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## Collapse Of Silicon Valley Bank (SVB)

*FDIC took over SVB. It was the biggest banking collapse in America since Washington Mutual in 2008.*

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## Signature Bank Was Shut Down By Federal Regulators

*Because depositors panicked about SVB's collapse, the FDIC closed Signature Bank. Both banks funded their companies with a significant percentage of uninsured deposits.*

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**MARCH** Parent company SVB Financial Group **8** sold 2.25 billion dollars' worth of SVB shares and dumped 21 billion dollars' worth of portfolio securities, resulting in an after-tax loss of US\$1.8 billion.

The bank was on the verge of a run as withdrawals soar. Customers jumped ship, including prominent VCs like Peter Thiel's Founders Fund, Coatue Management and Union Square Ventures.

**MARCH** Investors and depositors **9** pulled up to US\$42 billion in one day, causing the shares of SVB to drop by over 60%, with its bonds posting record declines.

With the bank on the brink of a run, CEO Greg Becker urges clients to "stay calm".



## MARCH 10

Shares of SVB Financial Group are down another 47%. Trading halted. The bank reportedly explored a sale after failure in its attempt to sell its stock.

The collapse has triggered a banking sector rout in the United States; S&P 500 banking index declined by 4.2% following a Thursday decline of 6.6%. European banks were affected too.

A bank is placed under receivership by the Federal Deposit Insurance Corp. (FDIC), which also oversees the bank's assets to guarantee that all depositors and creditors are paid.

In the UK, regulators declare SVB no longer viable after default on central bank loan. Its branch there stopped accepting deposits and payments.



## MARCH 12

New York officials liquidated Signature Bank, but guaranteed depositors that their funds will be returned. It stated that neither bank's losses will be covered by any taxpayers. These are not bailouts as equity and bondholders would still lose out.

Coinbase disclosed on Twitter that it has US\$240 million in deposits with Signature Bank, but is now facilitating client cash transactions with other banks.

Circle attempts to set up a new transaction banking partner after being affected by Signature Bank. In China, six Hong Kong-listed Chinese companies declared deposits with SVB, noting they are "immaterial" in terms of exposure to the bank's failure. According to SVB's China JV with Shanghai Pudong Development Bank, it has an independent balance sheet and a stable corporate structure.



The bank now believes that the American economy has a

**35%**

Chance of going into a recession within a year

**10%**

Increase in likelihood before the banking sector meltdown.

*Thompson, M. 2023, March 17. Global banking crisis: What just happened? | CNN Business*

According to **Goldman Sachs**, the probability of a US recession within the next 12 months has increased as a consequence of the mounting stress in the banking industry.



**As Beijing tightens its belt, China sets its lowest GDP growth target in decades.**

China's outgoing Premier Li Keqiang set a target of about 5% **growth for 2023** during the National People's Congress, while acknowledging the "many difficulties" the economy is facing.

**"Insufficient demand is still a prominent issue,"** Premier Li said on Sunday. "Stabilizing employment is tough. And some local governments face big fiscal difficulties."

***China is in the midst of a historic downturn for the all-important housing market. Consumer spending is sluggish. Unemployment remains high among the youth.***

**China's central bank** has made a surprise cut to the amount of money that banks must keep in reserve, in an effort to keep money flowing through the financial system and prop up the economy.

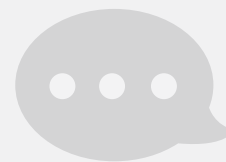
The **People's Bank of China (PBOC)** said it would cut the **reserve requirement ratio (RRR)** for almost all banks by **0.25 percentage points**, effective **March 27**.





*What are your thoughts on this?*





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