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French banks fall victim to 'unfortunate chain of events'

By [Emma Newlands](#)

The issues facing French banks have been an "unfortunate chain of events," which under normal circumstances, and individually, should not have "snowballed out of proportion" as they have done over the past few days, banking analyst Christophe Nijdam of Alpha Value told SNL Financial on Aug. 19.

Investors have again begun to doubt the solidity of French banks, despite statements painting a more optimistic picture, according to a [report](#) Aug. 18.

Shares of [Société Générale SA](#) fell 12.34% on Aug. 18; a week earlier the institution had been a "lightning rod" for concerns over France and its banks. It was reported that SocGen was "the most susceptible to rumors," and an analyst who did not wish to be named told SNL Financial on Aug. 19 that the bank has been the "perfect target" for rumors.

The analyst said that in his view, [BNP Paribas SA](#) is perceived as "more solid" and its earnings generation is "clearly more stable" than at SocGen.

BNP Paribas now reportedly has what has been described as a "colossal" capital base of €540 billion, the largest in Europe.

However, the unnamed analyst flagged one advantage that SocGen has: Its sovereign exposure to "gypsy" countries is [lower](#) as a percentage of core Tier 1 capital compared to BNP Paribas. "[SocGen] has not got any credit for this," he noted.

The analyst said investor interest in the bank is low because it is "in the center of the rumor mill," and because what people want to see is results.

"You should not expect spectacular results, that is clear from the market environment ... but I do not think SocGen is going to disappoint more than the rest," the analyst said. He added that its investment banking performance over the [past](#) few quarters, for example, was "middling" in terms of European banking, so "I do not expect an earnings catastrophe at Société Générale."

He also said SocGen is somewhat "overdone" but noted that there is a lack of positive short-term triggers; as such, he does not see how the bank can outperform other European lenders in the near term. There are many uncertainties, he added, but their future results may prompt increased confidence.

Meanwhile, Nijdam said he hopes that French banks' issues do not continue, noting that in any liquidity crisis, things can get out of hand, "so let's hope for the best because nobody needs this forced liquidity crisis." Nijdam attributed the latter to short-term dollar funding of French banks, which rely more on U.S. money market funds than banks in any other European country.

He said French banks were thought to represent a better credit risk than other European banks but added that the Greek [bailout](#) laid out July 21 "changed that paradigm." Upon this turn of events, the markets then thought that Italy could be next and began to ponder over which of the banks had the largest exposure to Italian debt, the analyst said, adding that outside of Italy, the most exposed were the French banks, mostly BNP Paribas and [Crédit Agricole SA](#).

It has been reported that there are lingering concerns over Italian sovereign debt. French banks reportedly are exposed to the Italian public sector to a tune of \$97.6 billion.

Nijdam said the downgrade of the U.S. added to concerns over French banks as U.S. money market funds stopped renewing certain short-term dated paper issued by French banks.

Meanwhile, the Aug. 18 report cited analysts as saying the state of SocGen's capital reserves may not sufficient, which has prompted worries over its solidity.

However, the analyst speaking on condition of anonymity said he does not see a big funding issue with French banks, with their central bank borrowing "very low" at the end of July.

Yet the ECB will offer support. Nijdam highlighted that the ECB has said it would provide liquidity to the European banking system should the problem persist. "There is a back-stop facility with the ECB so the buck should stop there, hopefully," he said. Nevertheless, he cautioned over the central bank taking the slack for liquidity every time there is some kind of strain. "Banks have to make sure in the future that they have sufficient liquidity ratios, which is not the case right now for French banks," he said.