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MARKETS

Sluggish European Markets Dent French Banks' Results

U.S. revenue was hit by the weakening of the dollar against the euro

A BNP Paribas logo at a bank in Paris. BNP Paribas said its results reflected the "lackluster market context." PHOTO: BENOIT TESSIER/REUTERS

By Pietro Lombardi and William Horobin

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Shares of BNP Paribas SA and Société Générale SA fell Friday as the French lenders' investment-banking operations struggled at the start of the year, lagging U.S. peers that largely prospered in volatile markets.

France's first- and third-largest banks by assets faced sluggish European markets at the start of 2018 and U.S. revenues were dented by the depreciation of the dollar against the euro. Equity markets have fallen slightly after a bumper year in 2017, while yields on government debt have edged higher.

"Results recorded an unfavorable exchange rate effect, as well as the impact of a lackluster market context compared to the first quarter of last year," BNP Paribas said in a statement.

BNP Paribas' Corporate and Institutional Banking division reported a 9.8% decline in revenue on the year in the first three months of 2018. Société Générale's revenue from its global banking and investor-solution business, which includes investment banking and asset management, fell 13%.

In afternoon trade, BNP Paribas shares were down 3% on the day at €61.48 and Société Générale shares were 7.2% lower at €41.67.

The French banks' malaise contrasted with U.S. peers who made first quarter trading gains on markets stirred by the prospect of rising rates in America, tax cuts and the effervescence of large tech stocks.

In Europe, trading revenue compared unfavorably with a strong first quarter in 2017. Société Générale Chief Executive Frédéric Oudea said the European Central Bank's slower exit from easy monetary policy also weighed on

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activity compared with the U.S.

"It's a strange quarter," Mr. Oudea said. "Clearly, the distribution of businesses has been particularly important."

BNP Paribas said its overall net profit in the first quarter fell 17% to €1.57 billion ($1.88 billion). That was above analyst expectations, but revenue at €10.8 billion was below expectations of €11.04 billion.

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Société Générale reported a 14% increase in net profit to €850 million. Net banking income, the top-line revenue figure, fell to €6.29 billion compared with €6.47 billion a year earlier.

The low-interest-rate environment also hit Société Générale's French retail revenue, which fell 0.7% on the year.

Further rattling investor nerves, Société Générale announced a management reshuffle late Thursday, appointing several deputy chief executives. And it is still to announce a final agreement on two disputes with U.S. authorities related to benchmark interest rates and transactions involving Libyan counterparties. The bank said it expects the agreement in the "coming days or weeks" to be in line with a provision of around €1 billion allocated to the cases.

"The stock is under pressure due to a lower performance in CIB, the unexpected change of management is not helpful at this stage and no finalization of the litigation," said analysts at Jefferies.

Mr. Oudea said Société Générale will see stronger growth by continuing to focus on its markets business in Europe, derivatives globally and corporate financing.

"We will continue our strategy and consider it is a good strategy beyond the result of one quarter," Mr. Oudea said.

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