Crisis at Germany’s Deutsche Bank intensifies

Ulrich Rippert
30 September 2016

Following a 7.5 percent plunge in its shares at the beginning of the week, the fragility of Deutsche Bank was again demonstrated yesterday when its shares fell a further 7 percent in afternoon trading on Wall Street, following a *Bloomberg* report that about 10 hedge funds were cutting their exposure to Germany’s largest bank.

While the funds involved constitute only a small fraction of the more than 200 clients engaged in derivatives trading with the bank, it was enough to send its shares plummeting. Deutsche was forced to reissue a statement asserting that the “vast majority” of its clients have a full understanding of “our stable financial position” and the litigation process involving a $14 billion fine imposed on it by the US Department of Justice (DoJ) over its sub-prime mortgage dealings.

As *Bloomberg* noted, while the vast majority of clients had taken no action, the “hedge funds’ move highlights concerns among some counterparties about doing business with Europe’s largest investment bank.”

Such has been the fall in the value of the bank’s shares that the DoJ fine is almost equivalent to its current market capitalisation.

As Deutsche’s financial woes deepened, Germany’s second largest bank announced a drastic restructuring program on Thursday. Commerzbank will cut one in five jobs, a total of 9,600 positions.

Commerzbank chief Martin Zielke sought to portray the cuts as part of a technical restructuring plan. The bank would become a “digital technology company,” a press release stated. The firm would “concentrate strictly on its core businesses, digitalise 80 percent of their related processes and achieve significant improvements in efficiency,” the Commerzbank declared.

As at Deutsche Bank, however, the problems at Commerzbank are deeper. Commerzbank shares reached an all-time low in early August. Operating profit declined by 40 percent in the first six months of the year. An interim report by the bank’s board pointed out that “the operating result and the company result will be below last year.”

At the time, *Der Spiegel* commented: “What sounds sober in the interim report is actually explosive, because it shows how bad things really are at Germany’s second-largest bank.”

Commerzbank was hit hard by the 2008 economic crisis. Immediately prior to that, it intensified its cooperation with the now largely dismantled Eurohypo, which provided financing for property and governments, and subsequently organised the risky takeover of the Dresdner Bank. The impact of the financial crash on Commerzbank was so severe that it had to be rescued with €18.2 billion in taxpayers’ money. Since then, the federal state has been the largest shareholder in Commerzbank with around 15 percent of its stock.

It remains unknown whether a joint strategy is being worked on within the finance ministry to deal with the crises at Deutsche Bank and Commerzbank However, it is clear that an emergency plan is being discussed for Deutsche Bank. *Die Zeit* reported on Wednesday that regardless of denials from government spokesman Seibert and Deutsche Bank head John Cryan, “the federal government and the responsible financial supervisory authorities” are working on a rescue plan. In the worst-case scenario, the state will directly participate in financing the bank. An investment of 25 percent was being discussed, *Die Zeit* reported.

The fact that a rescue plan is even being discussed shows how explosive the situation is. The collapse of Deutsche Bank would have consequences going far beyond the bankruptcy of Lehman Brothers and the crash of 2008.

The immediate cause of the current crisis is the fine imposed by the US Justice Department of $14 billion (roughly €12.5 billion) due to illegal business dealings in property loans, which played a central role in the financial meltdown eight years ago. But this has come on top of an ongoing share market decline.

Compared to 2006, Deutsche Bank’s share price had lost almost 90 percent of its value by September 2016. The bank is only worth €16 billion today. This is less than the building materials manufacturer HeidelbergCement, according to

© World Socialist Web Site

Focus-Online. Among Europe's "system relevant" banks, Deutsche Bank has one of the weakest capital positions, and the most derivatives.

According to the International Monetary Fund (IMF), Deutsche Bank is the most dangerous financial institution in the world with regard to "systemic risks in the financial sector."

DB not only stands for Deutsche Bank, but also "derivative bomb," wrote *Focus-Online*. It described the situation in the following terms: "Deutsche Bank's derivative exposure of almost €46 trillion is an explosive risk—almost 17 times greater than Germany's annual economic output—and this with capital of €61 billion! These loans run off the books and completely lack transparency. If just 5 percent of the derivatives blow up in their face, it will soon be lights out in Frankfurt."

Derivatives are financial instruments that serve to transfer risk. They are highly speculative and operate on the verge of legality.

Since 2012, Deutsche Bank has had to cough up €12.7 billion for legal disputes. The issues included money laundering, tax fraud and interest rate manipulation. $2.5 billion and €725 million had to be paid for the illegal fixing of the Libor and Euribor inter-bank interest rates, and €1.9 billion for disputes over mortgage loans.

Deutsche Bank's situation sheds light on the deepening crisis of Europe's financial system. This is clearly on display in Italy. Despite the privatisation measures of three successive governments (Mario Monti, Enrico Letta, Matteo Renzi), Italian state debt has risen from €1.8 trillion in 2011 to €2.2 trillion today, or 133 percent of gross domestic product (GDP). Since the beginning of 2008, GDP has contracted by 8 percent. The total sum of toxic loans held by the banks has doubled and currently amounts to €360 billion, or one fifth of all loans. Of these, loans worth €200 billion are considered irretrievably lost.

Although the German economy has to date been described as the eurozone's engine, it is now clear how unstable and precarious the situation is. In parallel with the crisis at Deutsche Bank, financial daily *Handelsblatt* published an article on Thursday on declining projections for economic growth. Under the title "Year of uncertainties," the newspaper reported that for the coming year, economic researchers expect "nothing close to robust growth." The reason given was political uncertainties "which could impact an export-dependent economy like Germany—beginning with the US elections, the Brexit and the developments in China."

The British *Daily Telegraph* is already speculating about the end of Chancellor Angela Merkel's government and the euro, warning: "If the German government does not stand behind the bank, then inevitably all its counter-parties—the other banks and institutions it deals with—are going to start feeling very nervous about trading with it … If Deutsche does go down, it is looking increasingly likely that it will take Merkel with it—and quite possibly the euro as well."

Under conditions of deepening turmoil, trans-Atlantic relations are growing increasingly tense. Significantly, the fine for Deutsche Bank was imposed not, as usually would be the case, by the US financial regulator, but the US Department of Justice. The earlier decision by the EU to impose a €13 billion tax bill on Apple provoked outrage among US firms and at the US Treasury.

Declarations from Berlin and Paris that negotiations over the Transatlantic Trade and Investment Partnership (TTIP), which the US was striving to conclude, were being abandoned were also greeted with frustration in Washington.

Last summer, the first accusations were raised that Deutsche Bank had laundered rubles worth a total of $6 billion. Several employees in the bank's Moscow office were fired as a result. Now the US Department of Justice and New York's financial supervisory authority are going a step further and reviewing whether the bank was in breach of sanctions.

In contrast to the financial breakdown of 2008, when a limited degree of international cooperation and joint crisis management was practiced, all the major powers are responding today to the prospect of a renewed economic crisis with national recriminations and harsh measures against each other. The global economic and financial system is increasingly becoming a battlefield torn by national antagonisms. This is not only intensifying the economic predicament, but also encouraging the arms race and the global preparations for war.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site