Will Financial Trouble for Deutsche Bank Lead To Another 2008 Type Financial Collapse?

September 29, 2016 - If you look at your IRA or investment accounts today, there is a very good chance that your account balance has fallen. But if you haven't been following the saga of Germany's Deutsche Bank, you may not know why. The bank is in trouble. It has about $16 Billion in equity and according to a report from CNBC, it has $163 Billion in debt. The United States Government has also announced that it is trying to fine the bank $14 Billion for past behavior. And because Deutsche bank is central to the global banking system, if it fails it could just be the first in a series of dominos. The bank could become the poster-child for the problems with globalism.

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According to the International Monetary Fund (IMF) Deutsche Bank "appears to be the most important net contributor to systemic risks in the global banking system." That's because it has operations around the world and is closely tied to most major banks in Asia, North America and throughout the rest of Europe.

Deutsche has been having trouble since last year. At that time, it had $50 Billion in assets. Its value has now dropped by nearly 70%, closing on today's market in the United States at an all-time low.

As bad as the troubles at this ailing institution are, they have been made far worse by announcements from both the German and United States governments. Frankly, the position that the bank is in right now is directly attributable to the announcement of the $14 Billion fine mentioned above. Considering that the United States has a track record of making settlements with banks which significantly reduce fines, and that most analysts think that the bank will wind up eventually paying anywhere from $2 Billion to $5 Billion, it might have been wiser for the Justice Department to forgo the grand stand announcement and just quietly reach an agreement before saying anything publicly. But they didn't.

The German government isn't helping the situation. It has publically stated that it won't bail the bank out if it fails. That position is likely to change if the situation gets any worse, but it could be too late by then. If you recall what happened in 2008, the banking crisis was precipitated by the failure of Lehman Brothers. After that, nearly every other major bank in the United States was in trouble.

If Deutsche is going to fail, the likely scenario will look like this. First, businesses and large depositors will start to reduce their risk by withdrawing deposits and reducing any securities they have in the bank. That actually started today with several hedge funds that reduced or eliminated their exposure to the bank failing. From there, depositors are likely to

start withdrawing their money. That could happen as early as tomorrow.

At some point the German government is likely to try to stop the depositors from pulling out their funds. They could simply order the bank to close for a few days or they could place limits on withdrawals. This would mimic what happened in Greece a couple of years ago. Either way, at that point the German government will have a choice to make. Let the bank fail or bail it out.

Unfortunately, if they wait too long to decide, the crisis is likely to spread to other banks. And once it begins, there is no telling where it will end.

To prevent a run on the bank, Germany could come out and state that it will insure all depositor accounts regardless of their size. This is really what the United States should have done in 2008 rather than bailing the banks out. But if past history is any indicator, Germany won't do that. They'll choose to use monetary policyâ€¦ creating money out of thin air and flooding the bank with itâ€¦ just like the United States did. That hasn't worked out so well for us and there is no reason to believe it will work any better in Europe.

Hold on folks. This next week could prove to be a very bumpy ride.
byJim Malmberg
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