

March 25, 2008

Who will help Mr. Ackermann?

On the 18th March 2008 in Frankfurt, Josef Ackermann, CEO of Deutsche Bank AG, took everyone by surprise with a speech held before bankers. He asked both government and central bank for help: "We need concerted action from central banks, investors and governments to finally put an end to this melt-down of worth." The economy minded reader will wonder just what this cry for help from Mr. Ackermann means. He himself has always been a manager vehemently dedicated to blocking any intervention made by the state, considering this to cause great harm to the market economy. In the present turbulent times of the financial markets, and the troubled situation of financial institutions, such a cry would seem like quite a helpless gesture, would it not be for the history of Deutsche Bank, and its use of PR to achieve one or two goals, to put it diplomatically. In addition Mr. Ackermann and the author both studied at the same university, not that this necessarily speaks for either of them. However, it does show that Mr. Ackermann is neither a stupid nor inexperienced person who does not know what he is doing. It can be assumed, more likely, that Deutsche Bank AG is trying to gain something from the present crisis. So far, the bank does not seem as badly hit by the credit crisis as compared to some of its competitors. From this viewpoint it would make sense to add to the anxieties and insecurities of the markets. This could cause even more detriment to the reputations of the institutions involved in the present upheaval, while being beneficial to Mr. Ackermann's interests.

Instead of assiduously ignoring the statements of this banking director, the whole German political and central banking community has put the matter on the agenda and all are opposing the idea of state and central bank intervention. Even the big union of the service industry, Verdi, has jumped to the side of the "enemy" and is now singing the same tune. This is quite a change of role or shows how crazy the world can be. But then, just three days after this, do we learn that Deutsche Bank was amongst the bidders for the crippled investment bank Bear Stearns, and even had good chances to win after it seemed JP Morgan Chase had not been scrupulous enough in its price negotiations, giving rise to opposition in its ranks of influential shareholders. In the course of the transaction, the American Central Bank, the Fed, gave a risk protection guarantee of 30 billion USD. Even a good capitalist must be in favour of this type of state intervention. A seeker of morals should not look to the world of economists.

The enormity of the sub prime crisis on financial markets is still yet unclear. Some opinions, and perhaps not without reason, are that we are only just at the beginning of the development. In other words, the bubble has yet to burst. It is clear that especially the financial and banking sectors are severely hit. It seems the sector has been split into two; on one side those institutes not hit at all, or only slightly, and on the other side, those whose very existence is threatened, made worse by increased refinancing costs, and the fact that they are losing new business every day having lost their competitive edge. Added to this are increasing rumours about banks' liquidity problems, which could even become self-fulfilling prophecies. It will take time before the banks in the red can turn this around. This leaves the way open for those banks, which are not in trouble, to profit from new customers who are turning their backs on the endangered banks. As long as this redistribution of finances is happening, and employees are still able to find work with top-rated addresses, we should not really have a knock-on effect in the so-called "real" economy. It is hopeful to see, that many companies are still full of activity, and that the outlook in the non banking sector is higher than could have perhaps been expected. Apart from a slight worsening in financing of companies, it would be good if this crisis can be restricted to the financial world, and does not spread to other branches of the economy.

Unfortunately this view is not well supported; on the contrary, the market is very nervous and unsure. This is noticeable in the rise in volatility. Daily moves of high proportions, both up and down, have become order of the day. The metal markets, already showing this tendency, are experiencing it even more. Although nickel is a key component in the production of stainless steel, it has not been able to disentangle itself from this general development on the London Metal Exchange, even with the appearance of a flourishing stainless steel market, with prospects better than in the second half of 2007 and the beginning of 2008. In the first half of March, nickel prices recovered to around USD 34,000.00/mt, only then to make a correction to USD 28,000.00/mt. This move was caused by a combination of profit taking and the increasing lack of confidence in the financial markets, especially in view of the problems of the American investment bank, Bear Stearns, and the consequent intervention, almost in panic, of the Federal Reserve Bank. Nickel was not alone in this move. Heavy losses were seen in all base metals, and even oil and gold were affected. The dollar, in spite of a further drop in the prime rate (by 0.75%), was able to rally a little against the Euro.

Presumably many investors closed out positions before the Easter holiday, as this could have been an opportune time for bad news again to come out of the banking sector. Market participants would want to be spared the experience of Bear Stearns investors, who, on a Friday, went into the weekend with a share price of USD 30.00, only to be greeted on the following Monday with a price of USD 2.00 (!!!). On the last day before the Easter holiday, nickel had slightly recovered to around USD 29,000.00/mt.

The first steel futures were introduced on the LME on 25th February. In the initial stage, transactions are made only by telephone or electronically; floor trading will start on the 28th April. On the whole, steel producers had been against this move, worried about manipulations by hedge funds and the possibility of losing their pricing influence. The first worry is understandable, but the second must be seen in context of steel companies always calling for a functioning market, yet at the first threat immediately begin their anti dumping activities. An increased market transparency should be in their best interest. The consumers certainly have a vested interest to be able to hedge themselves against weighty price moves, and not just by making long term contracts with the producers. Hedging has taken on quite a priority in recent years as the components of steel nowadays play a huge part in pricing policy. A price adjustment clause, for example in alloy surcharges, is usually an instrument which protects the producers when commodity prices rise. This, however, does little to offer the consumer a decent calculation basis, especially if he does not have the possibility of passing any increases on to his customers. The actual success or acceptance of the steel future has yet to be seen.

The European Commission has announced that the growing global economy will influence the producing community in Europe more and more – including in questions of availability and cost of commodities. In the course of the second half of this year the Commission will submit a communication on this subject. The goal is an integrated attempt in commodity policy which will sustain commodity supply. This is all well and good, but also sad to see that the executives in the European Union are using up time in consultations, while the various market entities have already split up commodity supplies and resources amongst themselves. Even before the European Union begins its deliberating, a complete change in thinking with regard to raw materials is necessary, no matter what, which includes looking more into own resources, i.e. secondary raw materials. Europe will be forced into this simply by outside pressure.

LME (London Metal Exchange)



LME Official Close (3 month)

March 20, 2008			
	Nickel (Ni)	Copper (Cu)	Aluminium (Al)
Official Close 3 Mon. Ask	28.500,00 USD/mt	7.665,00 USD/mt	2.808,00 USD/mt

LME stocks in mt

	February 25, 2008	March 25, 2009	Delta in mt	Delta in %
Nickel (Ni)	47.976	47.622	- 354	- 0,74%
Copper (Cu)	149.225	120.175	- 29.050	- 19,48%
Aluminium (Al)	950.900	1.035.350	+ 84.450	+ 8,88%