Banking by John Hoefle

Derivatives toll keeps rising

The Bank for International Settlements says that the derivatives market is bigger than ever.

The world's major banks and securities firms held more than $103.5 trillion in derivatives contracts at the end of 1997, a $21 trillion (25%) increase over the $82.6 trillion they held at the end of 1996, according to the annual derivatives survey released on Nov. 30 by the Bank for International Settlements (BIS). Since the end of 1994, the 78 banks and securities firms included in the survey have increased their derivatives holdings by $40.9 trillion, or 65%.

The BIS survey, conducted jointly by the Basel Committee on Banking Supervision and the Technical Committee of the International Organization of Securities Commissions, limits itself to 67 banks and 11 securities firms headquartered in 11 nations (Belgium, Canada, England, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United States). While it includes the bulk of the world's derivatives activity, it provides neither national nor world totals; how much is left out is unknown, but *EIR* estimates that the world derivatives total is in excess of $140 trillion, perhaps by a significant amount.

The most comprehensive derivatives statistics these days, come from the U.S. commercial banks, thanks to the work of former House Banking Committee Chairman Henry B. Gonzalez (D-Tex.), whose hearings on derivatives in 1993 forced the Comptroller of the Currency and the Federal Deposit Insurance Corp. (FDIC) to begin reporting the banks' holdings. According to the FDIC, the "off-balance-sheet derivatives" holdings of U.S. banks have risen from $6.8 trillion as of March 31, 1990, to $25.4 trillion at the end of 1997, and $28.8 trillion as of June 30, 1998.

The BIS study reported that 10 U.S. commercial banks held $23.9 trillion in derivatives at the end of 1997, with an additional $13.2 trillion held by nine investment banks, for a total of $37.1 trillion, a 34% increase over the $27.7 trillion reported in 1996, and an 83% increase over the $20.3 trillion reported in 1994.

In second place in this deadly derivatives sweepstakes was France, with $13.9 trillion in derivatives in eight banks, a 32% increase over 1996. The French banks' holdings of derivatives had dropped 20% during 1995, due to the bankruptcy of Crédit Lyonnais and other widespread financial problems, but then rose 12% in 1996.

Japan was third, with $12.9 trillion in derivatives, of which $12.1 trillion came from seven commercial banks and $860 billion came from two securities firms. Japan's derivatives holdings rose just 5% in 1996 and 7% in 1997.

While London is the center of the world derivatives trade, with many international banks basing their derivatives operations there, the eight English banks in the survey had just $10.8 trillion in derivatives at the end of 1997, up 17% over 1996 and 62% over 1994.

The sharpest rise over the last four years, in terms of percentage, is in Germany, where seven banks had $9.4 trillion in derivatives at the end of 1997, up 41% over 1996 and up 200% over 1994, as German banks increasingly abandon their traditional role as handmaidens to industry, and convert themselves into parasites along the Anglo-Saxon speculative model.

The three Swiss banks on the list had $8.8 trillion in derivatives, up 17% over 1996 and 65% over 1994. Not reflected in the study is the merger of Swiss Bank Corp. and Union Bank of Switzerland into UBS AG—largely because of derivatives losses—which further increases the concentration.

Bringing up the rear (a healthier place to be when it comes to derivatives) are Canada, with $4.0 trillion; the Netherlands, with $2.6 trillion; Sweden, with $1.7 trillion; Belgium, with $1.4 trillion, and Italy, with $968 billion.

Among individual institutions, Chase Manhattan led the world, with $7.7 trillion (and $8.5 trillion as of June 30); followed by J.P. Morgan with $6.1 trillion ($7.5 trillion at June 30); Germany's Deutsche Bank with $4.0 trillion; England's NatWest Group with $3.6 trillion; Swiss Bank Corp. with $3.3 trillion; Travelers' Salomon Smith Barney with $3.3 trillion; France's Société Générale with $3.2 trillion; Crédit Suisse First Boston with $3.2 trillion; the Bank of Tokyo-Mitsubishi with $3.0 trillion; and Citicorp, with $3.0 trillion. Other institutions with exposures in the $2-3 trillion range were, in descending order of exposure, Barclays, Merrill Lynch, Fuji Bank, Morgan Stanley Dean Witter, Paribas, Banque Nationale de Paris, Union Bank of Switzerland, Goldman Sachs, and Bankers Trust.

Counting the mergers announced or completed during 1998, the new Citigroup would have had $6.2 trillion in combined derivatives at the end of 1997, while Deutsche Bank would have had $6.1 trillion, UBS $5.6 trillion, and the new BankAmerica $3.3 trillion.