

Wednesday, 28th June, 2016

Dear Mustafa,

Being at the Sind Club in Karachi had a dual benefit. Not only, with a favourable time zone, was I able to get up early to watch the 1st Presidential debate, but also the sub-continental surroundings brought to mind Kipling's 'Jungle Book'. On watching the candidates and their body language I specifically recalled King Louie and Kaa - I guess it is obvious which one is which - but here is a link in case it is not clear!

King Louie's emergence has a certain 'regime change' feel to it as he definitely desires "man's red fire." Historically as empires wane their last rulers are the most vain, self absorbed, yet entertaining, and willing to break with the status quo, hence the appeal of the Orange King. Kaa, on the other hand, just wishes to lull us into slumber and swallow us whole - business as usual - and a pretty boring character to watch. Now that the actors are set, the next debate becomes more bearable.

However, what is certainly worth watching are European banks, especially the King of derivatives, Deutsche Bank, whose market cap is the same size as the fine of \$14bn levied on them by the USA. Deutsche is a 'Global Systemically Important Financial Institution' (G-SIFI) and is

Mustafa Zaidi
Clarmond Wealth
1 Holbein Place
London, SW1W 8NS



counter-party to most other G-SIFI's. The market cap of Deutsche may only be \$14bn, however, its derivatives book is estimated at a notional \$46 trillion. But what is key and yet obscure is the spread between its liquid assets and its liabilities. If this spread widens does Deutsche have the liquidity to pay the margin man?...This is unknown.

Interestingly, the bulk of the derivatives book sits in London, which lobs another brick at the glassy Brexit negotiations. Poor Angela's position on Deutsche is easy to understand. If she supports Deutsche then all other European banks (and countries) will be getting in line for additional handouts - as if the €60bn from the ECB is not enough. If she does not support Deutsche it could be auf wiedersehen.

While we are laughing at King Louie or being hypnotised by Kaa, the true turmoil may be lurking much nearer to home.

Time to visit the club's Hammam - Chris.