Deutsche analysts flay Europe’s central bank, warn of economic catastrophe

When the world’s tenth largest bank (and second largest in Europe) sends out a research note that uses the terms, “central bankers can also lose the plot”, “catastrophic” and “the Great Depression”, you tend to sit up and take notice.

Deutsche Bank, Germany’s largest (and No. 10 in the global pecking order after Bank of America) has taken a baseball bat to the European Central Bank, urging it to change course before it is too late. Change course, that is, from money printing and negative interest rates; the longer they persist with the present strategy, the bank says, the greater the damage to Europe will be. (And the rest of the world won’t feel too comfortable if Europe falters, either.)

Deutsche’s chief German economist, Stefan Schneider, and head of multi-asset research, Stuart Kirk, are joining a growing band of noted commentators who have run out of patience with the world’s central banks.

This is what Marc Faber (the original Dr Doom) said on business television a few months ago: “We all agree on one thing, that the market economy functions best because the opposite is socialism, communism and central planning, which has been a complete failure. But now democracies have implemented a system that is basically run by a bunch of professors and they target inflation, they target exchange rates, they target the quantity of money, I mean, is the world crazy to give them so much power?”

And this more recently from David Stockman, budget director in the Reagan administration and later Wall Street player: “Central bankers are now in the denial and anger stages of the famed stages of loss: denial, anger, bargaining, depression and acceptance. Central bankers are in denial that all their trillions of dollars, euros, yen and yuan have completely and utterly failed to achieve the desired result: “organic” (i.e. un-manipulated by central states/banks) expansion of productivity, investment and household earnings. The failure of their policies is finally sinking in, and central bankers are sagging under the depressing reality. They look somber, freeze up at the microphone.”

Well, now Deutsche Bank has joined the critics.

The bank notes that the Bundesbank and Federal Reserve are respected for achieving monetary stability, often in the face of political opposition. (There will be many who would not share that flattering view of the Fed, but we’ll let that pass.) Then the note continues: “But central bankers can also lose the plot, usually by following the economic dogma of the day. When they do, their mistakes can be catastrophic.”

Deutsche believes the European Central Bank has “gone awry”. In their own institutional way, the Deutsche authors sink the knife deeply, saying that by following the current dogma – broad-based quantitative easing and negative interest rates – the ECB “risks the long-term stability of the Eurozone”.

The central has lost credibility within markets and, more worryingly, among the public, it adds.

Deutsche then accuses the ECB of pushing its policies to extremes, causing misallocations in the real economy that become increasingly hard to reverse without even greater pain. “Savers lose, while stock and apartment owners rejoice.”

The central bank needs to start reversing its policies, normalizing interest rates. The “or else” is not left entirely to our imaginations.

Deutsche lists the mistakes of various central banks over the past 100 years, the first being one that haunts the world today.

“In the 1920s, the Reichsbank thought it could have 2,000 printing presses running night and day to finance government spending without creating inflation,” Deutsche notes. “Around the same time the Federal Reserve allowed more than a third of U.S. deposits to be destroyed via bank failures, in the belief that banking crises were self-correcting. The Great Depression followed.”