



Will Markets Do to Goldman What They Did to Greece?

GOLDMAN SACHS, POLITICS, GOVERNMENT, ECONOMY, FINANCIAL SERVICES, GERMANY

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Germany's **BayernLB** cutting all business ties with the – still – golden boys of US investment banking **Goldman Sachs** was certainly bad news for Goldman CEO Lloyd Blankfein.

Bad for reputation and bad timing, as the decision came only a few days after the SEC first announced it was investigating Goldman for fraud in connection with a package of structured products it marketed during the height of the financial crisis.

But while the loss of BayernLB as a client is certainly unwelcome (which banker likes to lose customers?), it must be more the fear about "what next?" that wafts through the top floors of Goldman's HQ in Manhattan.

Finally it seems that Goldman's management is going on the offensive, Blankfein himself phoning some of the more important clients and ... what?

Presumably ensuring them of the solidity of the company, the integrity of its bankers and the excellence of their investment advice. Which is precisely what may come into question with the SEC investigation.

Last year (and for many years), Goldman was ranked as one of the top ten banks for dealing with the German government - from placing public sector debt to privatizing public sector business (such as IPOs of Telecom or Post). That position and the fat profits that come with it are now in serious danger.

Already there are murmurings from Berlin that business ties with Goldman must be "examined at all levels." From sources in the Finance Ministry one hears that the Kapitalmarktausschuß (that's the capital market committee in charge of issuing federal government debt) is looking into Goldman's mandate in the Bundesanleihekonsortium (the very prestigious group of banks that place German government paper – this year alone a limp 343 billion euros!!!).

When next week's new 10-year Bund is issued, one may be fairly sure that Goldman is not part of the issuing consortium (although nobody from the Finance Ministry or the capital market committee was willing to confirm or deny that so far).

Will Politicians Jump on Goldman?

However, that must not necessarily mean there will be big announcements from Berlin. The capital market committee can simply decide for one Bund issue after the other not to call on Goldman to be part of the placement consortium. That would be bad enough, but at least not a headline-heavy big bang with bells and whistles.

There still is the far more damaging – for Goldman at least – possibility that the German government decides to make (no doubt politically very popular) announcements on this.

Politicians have to win elections. It's forever an easy match-winning goal for politicians to be seen putting the foot down against what is perceived as irresponsible bankers who are just out for maximizing their own profits at the expense of their investors and of perpetually suffering tax payers.

So it might be rather tempting for German politicians to step in front of the press and announce with some indignation that all business dealings with Goldman on government level will be "suspended" until the bank is cleared of all present allegations.

So far, both the Finance Ministry and the Chancellery have been very tight-lipped about the issue – at least on the record. Off the record one could hear indignation and vexation. And also the muttered mentioning of Greece.

We all remember that Goldman was also one of the banks named in connection with helping Greece do some funky (but LEGAL financial juggling of their deficits). That did not go down well in Berlin or Brussels! So it might well be "pay-back" time for Goldman now

Clouds Are Gathering

Of course, there are other reasons closer to home.

IKB: Remember good old Industriekredit-Bank? A once very healthy financier of the German Mittelstand, which then sadly decided it was high time to get a little more adventurous and invest in some nice structured products marketed by a prestigious Wall Street bank called Goldman Sachs? Even more sadly, this CDO was called Abacus 2007-AC1 and is the one now under investigation of the SEC.

BayernLB: Since 2008, Goldman has advised the struggling Bavarian Landesbank with detoxifying its toxic assets. Can one blame the Bavarians for at least being skeptical as to how good (for BayernLB) this advice might have been?

City of Berlin: Goldman bought a residential portfolio GSW in 2004 from the city of Berlin and now will IPO it earlier than previously agreed with the city. Why is the timing so important? Because an IPO now produces a much fatter profit for Goldman, which would actually change the initial contract. The ins and outs of this deal might well be disputable one way or another, but the bitter after-taste for the client – the city of Berlin – very much remains. Enraged Berlin finance senator, Ulrich Nussbaum, fumed: "How those investment bankers of Goldman Sachs are behaving in business relations raises seriously the doubt whether they are earnest business men. ... Judged by personal experience with Goldman Sachs in the last months, I intend if possible not to do any business any more."

Let's put it this way: The clouds are gathering over Goldman's head and at this point it is almost irrelevant whether the actual criminal allegations of the SEC will stick or not. Whatever happened to "innocent until proven guilty"? True. But it's not that simple, is it?

Somehow "innocent until proven guilty" does not work in the financial community and in the markets. The list of companies (or indeed countries) that rammed against icebergs of financial speculation and sank faster than the Titanic is long and getting longer every day. The bankers at Goldman should know that better than anybody else.

Many a times they have done the afore-mentioned sinking themselves. Financial markets are all about anticipating what happens next, not about what is right and wrong or fair or justified.

And right now, financial markets might just decide to do to the bankers of Goldman Sachs what they have done to the likes of Greece for these past months: shoot them down and then wait to see when, at what price or if ever they will stand up again.

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