Dangerous derivatives—why are Australia's banks hiding their gambling?

The least understood threat to the financial system is from derivatives, the complex financial gambling instruments designed by advanced mathematicians that investor Warren Buffett called “financial weapons of mass destruction”. While the average bank customer won’t know how derivatives work, they can recognise how dangerous they are, from the numerous derivatives disasters that have caused massive bankruptcies in recent decades, including Orange County in 1994, Barings Bank in 1995, Long-Term Capital Management in 1998, Enron in 2001, and—the big one— the global financial crisis in 2008, triggered by the derivatives meltdown of Lehman Brothers and AIG. Today, Deutsche Bank is like a ticking time-bomb sitting on nearly US$50 trillion in bad derivatives bets, which the IMF has warned have the potential of setting off another global banking meltdown.

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Australia's dangerous derivatives

Like their international counterparts, Australia’s banks are also heavily involved in derivatives trading. The following charts were created by the Citizens Electoral Council over more than 20 years of monitoring the derivatives exposure of Australia’s banks, and they reveal how Australia has become a casino economy. CEC Research Director Robert Barwick presented these charts in a 3 May 2019 interview with banking expert Martin North on his Digital Finance Analytics YouTube channel, called “Dangerous Derivatives and Why Our Banks Are Hiding Them”.

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