



THE BANKER'S COMMENT BY JEAN-PIERRE PATAT A former central banker looks at the news

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Figure of the month (or the day): how can one not talk of them? 56%, the drop in value of Societe Generale's shares since the start of the year.

An American conspiracy against the euro zone?

This was suggested by Medef's president; a surprising accusation to be expected rather from rabid anti-liberals.

It will not be denied here that the euro zone has plenty of enemies. This has already been mentioned. This summer, "rumors" suggesting the forthcoming lowering of France's rating and the threatened failure of Societe Generale brought to mind the odious manipulations that we experienced in the 1990s, when certain individuals (to whom idiots are now complaisantly proffering microphones to garner pearls of wisdom) were attempting to torpedo the single currency process. That said, it would be wrong to stay with this diagnosis that clears Europeans of responsibility. Markets are now convinced that the euro zone cannot continue to function properly without serious progress in governance. They are waiting for something "dramatic" in that respect. Sarkozy's and Merkel's exertions are real; but in their eyes this serves only to highlight the non-presence of those who should be leading action in this domain - the Commission and above all the Eurogroup.

There are also those European banks that are heavily engaged in the public debts of fragile countries. Seeing the importance of banks' involvement in financing the economy in the euro zone (over three quarters versus less than half in the USA) plus the links existing between many of these establishments, the possibility of real problems among major banks is frightening ... and rightly so. Especially as these banks could reassure us by strengthening their own assets, or at least by letting it be known that this would be done when market conditions were more favorable. To be sure, the new General Manager of the IMF was rather heavy handed in the matter. But the banks' reticence (not to word it more strongly) in face of the new Basle III rules, filled as they are with deadly forecasts on their possible effects upon credit distribution and growth, do not exactly reassure the pension fund manager regarding the ability of credit establishments to anticipate a future that is not necessarily wholly rosy.

Name of the month: Jürgen Stark.

Announcing his forthcoming resignation (he might have chosen a moment when markets were less jittery), the ECB's chief economist astounded some and panicked others. Stupefaction! Following Weber's resignation a journalist, with that so-very French conviction that the ECB is a clone of the Bundesbank, naively writes that these events demonstrate that "the two Germans sitting on the Governors' Committee no longer have the main influence" (was such indeed the case beforehand for this "well informed" observer?). Panic among those who always crave a protecting power, rocky markets plunged. That resignation, coming from a man of real quality, shows that our neighbours (at least those who have responsibilities in matters monetary) failed to understand that a great central bank has to adapt to a wholly novel context.

Eurobonds: the markets' new whim.

Let us pass over the totally immoral character of this product (rewarding poor management, penalizing good) and instead ask ourselves who would issue such bonds, who would service them? There is no clear answer. At what rate would they be issued? At the arithmetic mean of the zone's levels, claim optimists. Are we really supposed to believe that market operators could be stupid enough to ignore what this mish-mash would contain in terms of default risk? One rating agency estimates that this instrument's rating (should it ever see the light of day) could well be fixed at the level of the zone's lowest rate! To cap it all, some analysts share these reservations, to say the very least. Even so, subsequent to the latest Sarkozy/Merkel meeting, they are griping "they might have touched upon the subject"!

Golden Rule. Maybe, but why overlook what already is?

Political manoeuvre or not, the introduction and vote by Parliament of its budgetary "golden rule", with its adoption by Spain and no doubt soon by Italy, confirm the flippancy of European governments regarding treaties they have signed. Because, in fact, there is already a mechanism approved by all countries that is far less convoluted than is this famous golden rule and which, if respected, guarantees healthy public finance; it is the Stability and Growth Pact. Sadly, the Pact, which too was a remarkable instrument for macro-economic management in the absence of a federal budget, was discredited by the very ones who should have been its most ardent defenders: the President of the Commission, qualifying it as "idiotic" (a shameful recollection that) and the two countries who brought it into being - France and ... Germany - who came together in 2005 to ask that it be substantially diluted. Now, when international agreements have become mere "scraps of paper", we have reached the point where we must try to bond through constitutional texts - with the risk of arousing the suspicions of the rating agencies if the text is not fully adopted; these agencies made no such demands, but now that these proceedings are under way they are watching them closely.

The Fed at its wits end.

The American central bank was recently described by an analyst as "at its wits end" in face of the clear slowing down of economic growth. Is this so surprising? The Fed has tried everything - zero rates, massive quantitative easing, and all to no avail, apart from contributing to maintaining the poor functioning of the inter-bank market and so making it hard to refinance those establishments most heavily engaged in distributing credit (why risk lending at a near 0% to banks which might well be in trouble tomorrow?) and feeding speculation on raw commodity prices. All the Fed can find to do as innovation is promise to maintain rates at their present level until 2012. Markets, the first moments of delight over, are perplexed by this unheard of engagement to abandon all interventions in monetary policy. One may criticize the ECB's orientations, worry about them even (see below), but one cannot deny that at the ECB they do at least have a "vision".