

A Solution To The Eurozone Crisis? Details Would Be More Helpful

Has anyone read the actual Euro Summit Statement?

Item 3, The EU must improve its growth and employment outlook... Very laudable. A roadmap to achieving this would be even more useful.

Item 4 is a statement of affirmation to continue with fiscal consolidation and reform. What kind? You mean like Maastricht? Well there were no details so we can optimistically hope for Maastricht type criteria or pessimistically wait for Godot.

Item 10 is an admission that the only chaps responsible for policing the austerity policies in Greece will be the Greeks. Time will tell how useful this is considering the Greek's abilities thus far in tax collection.

Item 12 actually has numbers in it which is a guarantee of 100 billion euros of additional financing till 2014. The haircut on current Greek debt is also specified here, a whopping 50%. The precise language speaks of an invitation to develop a voluntary exchange at a nominal discount of 50%. The appropriate response of a creditor might be, no thanks I mate. You can pay me the whole thing. Presumably the EU has convinced the banks to agree but how about other bond holders? And what about CDS? Perhaps someone would like to consult ISDA on their take on this so-called voluntary exchange.

Item 13 is a step in the right direction. It commits the future cash flows of Helios and other privatisation revenues to reduce indebtedness. Hope they can make this stick. Especially as they plan that these cash flows will restore the EFSF. Cash trapping and cash waterfalls are a great concept for security and risk tranching.

Item 16 has all member states solemnly reaffirming their inflexible determination to honour their individual commitments to unspecified reforms and fiscal conditions. Its more useful to specify something you require unwavering adherence to. As opposed to 'I promise to be good,

honest.'

Item 19 talks about leveraging the EFSF basically requiring the EFSF to provide subordinated debt financing to support further leverage. This would provide more firepower to the bailout efforts. Consider this, however, that the EFSF commands a AAA rating, alright, so that means they are as solid as some mortgage backed CDO tranches, but by providing subordinated financing to insolvent sovereigns, the potential for loss becomes significant it not high. Even the a ratings agency would not be so blind as to not downgrade the EFSF. Providing guarantees to the EFSF would render it a mere conduit. The Germans and French may as well wire cash to the Greeks. The administrative costs that would save are significant.

Item 21 is a bit precarious. It calls for the Eurogroup to finalise terms and implementation in November, basically implying that terms have not been finalized and that nothing is yet under implementation.

Items 24 through 29 are statements of intent regarding economic and fiscal coordination, not a concrete plan. The intent is laudable but there are no action points.

The rest is governance which the Euro members can spend up to March 2012 debating.

Not a mention of the 1 trillion euros.

But markets are up today and not by a bit. Its total and utter relief that the Europeans have at last found resolution to the credit woes of Greece, Italy, Spain and Portugal. For Greece at least there is a respite. But while they remain in the Euro they are commercially inefficient and are likely burning through the capital lent them. Time will tell.

The Euro Summit Statement is a true product of Brussels, long on words and short on details, very few numbers, very few action points, very few deadlines, and lots of rhetoric about principles, broad objectives and a warm fuzzy feeling. For now the markets have forgotten the fear of the last 2 months. But absent a more well defined, clearly specified, quantified and milestoned plan, we'll be back here if not in months then inside of 3 years. Bet on it.

