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Europe's Economic Crisis: Portugal, Ireland, Spain, Italy and Belgium are Heading in the Same Direction as Greece

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It isn't over until it is over. Of course, we are referring to Europe and its version of 1984. We find it profound that the bankers, politicians and bureaucrats of Europe can do what they have done with a straight face. Investor had a haircut shoved down their throats and the ECB, the European Central Bank and the IMF were exempt.

How does that work? That is because some are more equal than others. There is no question this will be a defining event for the European and world financial system. We did see a partial default, but only because the derivative creators, the ISDA, had to make one, otherwise their derivative business would have collapsed. No one will deal with an insurer or a bookmaking operation that doesn't pay off and constantly arbitrary changes the rules. Needless to say, such machinations are out of sight of the public, because 99% of them certainly do not understand derivatives.

Greece is on its way to its next crisis whether it be via austerity, demonstrations or a military coup. In all likelihood Greece will be followed by Ireland, Portugal, Belgium, Spain and Italy. It will also be interesting to see if bank deposits return to Greek banks. They probably wont and there will be great difficulty affecting any kind of a recovery. The Greek people through all of this have been left out of the equation.

As we mentioned in the last issue the leaders of the euro zone spent three years attempting to avoid such an outcome, but obviously underestimated the depth of the Greek and other country problems. It will be interesting to see how ISDA members handle the $3 billion plus in derivative settlements, or will we ever be privy to them? Whatever European thing was in the solutions it was certainly flawed and failed policy. Almost all politics and very little forward thinking. An avoidance of meltdown and purging only to face the music in six months to a year. Certainly a pyrrhic victory, when the allocation of funds comes up far short of what is needed. What can these people be thinking about, and what will Germany say this week when they expose the fact the new ESM, successor to the EFSF, is unconstitutional in Germany. In addition, these solvent European nations that have lent these funds in behalf of their taxpayers have got to reveal to them just how much they are on the hook for up until now. Are these people dumb enough to believe that austerity, lower wages and higher taxes bring prosperity? The whole scene is surreal and unrealistic. We also wonder what they think about the ECB and the IMF being excluded from Greek and other losses. The voter has to believe they are living in cloud coo-coo-land.

The deal that was structured for Greece holds the law in contempt and it will be litigated for

years. Why would investors want to invest under these circumstances? The rules are what they say they are at any given moment or juncture. Are other nations going to be willing to follow the same path? Every promise of the bankers, politicians and bureaucrats was broken. In the end investor losses were 70% or so. They should have taken 100% losses, but that is neither here nor there, the point is everyone was deliberately lied too. Greece was not a one-off case and the financial markets are well aware of that.

We wonder how the ECB is going to off load $290 billion in toxic bonds? Who will de dumb enough to buy them? As an example the Portuguese GDP could fall more than 5% in 2012. That could translate into 50% losses and a public debt burden of 118% of GDP in fiscal 2013. Their state owed debt takes this up another 10%. That is worse than Greece. Keep in mind a very little known fact, and that is that Portugal massaged their deficit last year, by taking 3.5% of GDP from private pension funds. Citizens of all nations play close attention. This theft is going to be a way of life for all bankers and politicians. They are all going to steal your retirement, so get ready for it. That is why we have been recommending all citizens in the US to exit all retirement funds that they can. In five months the IMF decides whether Portugal needs more money. Of course they will need more money. Portugal cannot now raise funds in the open market at reasonable rates, so the IMF has to step in with the EFSF. How will this fit with Spain and Italy? Not very well we imagine. All this means bondholders in the bonds of these countries will be sellers not buyers, which will place the ECB and the IMF in a desperate situation. Europe's problems have years to go.

Just to show you what shape European Central Banks are in they owe the ECB $650 billion. In addition if Greece had or does leave the euro zone in the future they will owe the solvent euro players another $125 billion in payable debt. A debt that will be far worse six months to a year from now. This means Germany will use the next bailout to say no, especially that the ESM won't be available to them, or so says their Supreme Court. We believe Germany wanted to take the loss and move on a year ago, but the bankers demanded no. Their dream of world government is still alive and more important than the EU financial system. Then again, we are told the Mediterranean is one vast deposit of natural gas. If so, then perhaps Greece is being held on to in order to access that gas and be less dependent upon Russia. As we had said so often since the early 1990's the EU and euro zone are doomed.

Greece stands no chance of recovery due to the inadequate funds rendered. Then there are the CDS payouts of some $3 billion, which will make things more difficult for other nations in the same predicament. The recapitalization of Greek banks is an insult to economic intelligence. They'll need twice the funds offered just to reach the 9% capital requirements. Greek pension funds will get ravaged, probably retaining 25% of former value. We see a coalition government on May 1st and that puts into question the future of the bailout deal just completed. Greece is going to be subject to 20% budget cut on top of what has already been cut. This deal engineered by the bankers is the worst of all worlds. It will cause serious EU problems for years to come.

Some months ago we wrote that there is about $70 billion in Greek CDS. Cut it in half and the losses could be $30 to $35 billion, not the $3 billion quoted from the industry. The question than arises will the counterparties be able to pay off? We will find out soon enough. There will be few winners and how far will the carnage reach? The deal structured was not at all voluntary for Greek creditors. It was extortion along the lines of the Spanish Inquisition. That is no way to conduct business. Then look at the social issues and possibility of a coup. Then there are the racist aspects putting hate squarely on the table. The

northerners do not like southerners in the Latin south.

As we mentioned earlier Portugal is headed in the same direction as Greece. No growth and no change of any kind. Italy and Spain will have to be bailed out like the others. Then there is the dark dirty secret that is France that follows close behind. These problems are going to go on and on and on.

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