

Greeced Lightning! Will Greece Default? Will Athens Cut a Financial Deal with Moscow and Beijing?

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We seem to have finally arrived at some sort of moment of truth regarding Greece and their inclusion in the EU. The speculation is they will be out of money by April 9th, this Thursday, unable to make a less than 500 million euro payment. Please keep in mind they have already been raiding the country's pension plans to fund day to day services. How large of a "dent" they have already made remains to be seen but that is not the point. The point is this, any person, corporation or government who needs to dig into retirement savings for daily operations is like buying a carton of cigarettes with a credit card at 14.99% ...and then carrying the balance!

Before laying out their potential options, please keep in mind that Mr. Varoufakis was in New York this past weekend meeting with Christine Lagarde, Mr. Tsipras plans a trip to Moscow for Tuesday. Are they pleading for unpaid bailout funds from the IMF? And if they don't get them, do they cut a deal and fall into Russia's arms? This, just as so many nations have pledged their allegiance to the East and the AIIB bank (topic for tomorrow), Greece may be forced into a pivot toward the rising Sun. They do however have something left to offer, they stand between Turkey and Eastern Europe, they can provide a route for Russian gas to flow to Europe.

What options does Greece have left? As I see it, they really only have three, and all with blurry edges. First, they can cut some sort of deal with Germany (the EU) and the IMF. They can kick the can down the road by extending maturities of existing debt and restructuring it. The IMF still owes past monies pledged in bailouts, will they really throw new money away knowing it cannot be paid back? Obviously this does nothing to face the real problem, Greece simply has too much debt for the size of their economy (this is a global problem but not "admitted yet"). This option may have been taken off the table on Friday. As a side note, it was reported Friday by Der Spiegel the IMF evacuated their Athens office. Why would they do this? I can only come up with one or two scenarios. The IMF is giving up and know it is over ... or, they are getting out of town while they still can. Maybe they realize massive social unrest will be unleashed and don't want to see their employees hanging from lamp posts? This was [denied by Saturday](#) but interesting nonetheless!

Their second option is to just default. If they cannot make debt payments, they simply don't pay and thus become classified as a default. The next question is whether or not they would stay in the EU? Would they want to? Or even be allowed to? Option number three, an offshoot of number two, is Greece defaults and they decide to leave the EU (or are kicked out) and join team Russia.

My guess is we will see Greece default, leave the EU and cut a gas pipeline deal with Russia becoming a stepping stone for China's "silk road". At this point, it's the only thing that

makes any sense ...if you are Greek and try to do what is best for Greece. A story also making the rounds on Friday was preparations to [re issue the "drachma"](#) . If this is true, I would say the decision to leave the EU has already been made except for the formalities! The next question is the biggie, and one which will affect the entire world. How do the markets and financial systems react to this?

Before exploring this, James Turk proposed a theory the Greek banks will be bailed in as their deposit balances slip down to equal the close to 100 billion Euros that Greece [owes the ECB](#). He believes this will be done within the next 10 days or so. In my opinion, there is one big "IF" in this theory. I would question whether or not the ECB or even the BIS would have the authority to do Cyprus style bail ins if Greece leaves or has already left the EU. Wouldn't this be a sovereign decision? One made by the Greeks themselves? If I were a Greek depositor, I wouldn't however hang around to see how it turns out, I'm just not sure if the authority exists to bail in Greek banks? Another story out over the weekend is Germany may be preparing to [freeze deposits](#) of wealthy Greeks, will the rest of Europe follow?

As for market reactions, if Greece does end up cutting a deal with Russia/China and in fact does default, the first and most obvious reaction will be a further crash in the Euro itself. Participants will then turn their attention to Spain, Portugal and Italy and ask "who's next"? The thought process will be frenzied with investors wanting out first and asking questions later.

A Greek exit will be extremely complicated. They owe 350 billion euros, much of this debt was held inside under collateralized German and French bank portfolios, much of this was "swapped" out with the ECB. A default by Greece would "un swap" these bonds and thus bring the question of solvency to the heart of the Eurozone. Even more complicated is how the money will be handled for the "Target2" amounts owed to other Euro nations? This is a running balance of payments accounting for countries running trade deficits versus surplus nations. Greece obviously cannot pay for their already accumulated deficits, the question is, who eats the loss? Then of course there are derivatives at maybe 10 times the amount of debt outstanding, now we are talking big money and in the trillions.

Hedges will be broken, losers busted and winners not paid. The derivatives chain will be shaken by massive valuation swings and then broken by losing counterparties becoming insolvent. As I have said many times before, we live in an "instant information" age where computers (programmed algorithms) will all move in the same direction and all at once. In my opinion, a true Greek default has the potential of shutting down global markets within 48 hours of an announcement.

As I wrote last week, Greece is just one of three or more potential flash points which have the ability to tip our world upside down, The U.S. has sent 50 Abrams tanks to Ukraine, specifically defying Russia's warnings. The Austrian banking system is experiencing a systemic margin call and one that will reach the German banks themselves. We also have the U.S. throwing political matches all around a very dry Middle East. We fight against the Iranians in Yemen and alongside them in Iraq. We back the Saudis who just joined the Asian infrastructure bank against U.S. wishes. It is not even known if we still back the Israelis who also joined the AIIB. I have no idea what history will exactly point to as the spark, I do know "Greeced lightning" will be a good description as to the speed of the collapse once started.

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.

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