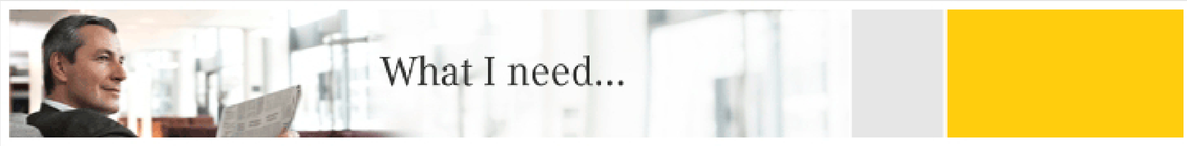
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Financial markets

Just another manic Monday

Sep 5th 2011, 11:55 by Buttonwood

IF THIS is the week that senior traders and investors return to their desks (British children are returning to school), they have not returned from holiday in a very cheerful mood. As I write, the DAX is down 3.7% and the FTSE 100 is off 2.2%; Italian bonds are falling for the 11th successive day.

Some of this could be a hangover from Friday's jobs report in the US, and from the lawsuit launched by an arm of the government against the banking sector. But Europe's wounds are also self-inflicted. Let us sum up the recent news. The Greek talks with its multinational lenders have been suspended (broken down?) on signs the government is missing its targets; Italy's politicians are backtracking from the measures unveiled in its austerity budget. Europe's Plan A - that countries will bring their debts down through fiscal discipline while the markets wait patiently - looks less and less likely to succeed. In the FT, Wolfgang Munchau said that

> *the very least one should expect is for the eurozone to abandon all austerity measures with immediate effect*

Actually, that is rather a lot to expect. Just to illustrate the confusion among policymakers, Christine Lagarde, the new head of the IMF, said at the weekend that European countries should

> *consider stimulus measures to drive growth*

while Jean-Claude Trichet, head of the ECB, called for faster implementation of austerity measures.

Plan B for the euro-zone was for fiscal union, meaning that the Germans would guarantee the debts of the periphery. But with Angela Merkel suffering her fifth regional election defeat of the year, the German government will be more reluctant than ever to sign a blank cheque.

1 day 1 week 2 weeks

While the authorities bicker, the borrowing costs of banks are rising as US money market funds retreat from the region. The costs of insuring against European corporate defaults has risen 7% today. That will make the banks even less keen to lend; the annual growth rate of private sector lending was just 2.4% on the latest data.

Animal spirits may not be the only factor that drives an economy. But when you consider all the above factors - sovereign debt crisis, fiscal austerity, bank funding pressures, weak credit growth, falling markets, political drift - the background facing consumers and businesses is very gloomy. Only those German companies exporting to China can feel immune.

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Manly Horse wrote: Sep 5th 2011 1:36 GMT

I'm reminded of the old joke...

If you ask an Irishman for directions he'll say, "I wouldn't start from here".

Europe, the US and Japan are all in a bad place, there is no painless way out and even those of us in growth markets will feel the pain for a while to come.

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Courtjester wrote: Sep 5th 2011 3:39 GMT

I really "love" when everybody's idea of solving the debt issues is to spent other peoples money.

Whilst Greece and Italy limit their efforts to get their own places in order - why, if the core is sufficiently stupid to pay up anyway? - the core tax payers are taken for a ride.

It appears to be time to peacefully! take action, to introduce some real democracy into the proceedings.

Why not restart the famous "Mondy evening meetings", practised by Eastern Germans to express their discontent? Why not visit the office of your local MP - anywhere in Europe - every Monday evening - say at 8pm - to express - PEACEFULLY so to not impair the message - of what you think about more bailouts (whatever that is).

Even if you are not living in the EUROzone, we are all contributing via the IMF, paying more due to inflation etc.

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bampbs wrote: Sep 5th 2011 5:32 GMT

Robust animal spirits are a necessary, but not sufficient, condition of economic growth. The default for new businesses is failure. But, as anyone knows who has started a business, that fact is set aside in an unanalyzed glow of confidence. Otherwise, no one would get through the 80-100 hour weeks it takes.

If people are afraid of failure, easy money is irrelevant.

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thetrader wrote: Sep 5th 2011 6:10 GMT

I think you need to take a closer look at gold and precious metals. I feel with all of the debt issues countries have , the US, Europe and bailing out other countries, one needs to hold some safe haven as precious metals. It is volatile, but it will help protect against inflation and there is a bull market in precious metals. Bonds are too risky to hold, with low interest rates, CD's and savings accounts don't provide a worthwhile return, and also due to the current devaluing of the dollar, the dollar value and its purchasing power will slowly erode. I trade precious metals and feel like when I buy them I win, when I sell them and get dollars, I feel like I lose. This article is to help alert people to get on board for the precious metals for their own good before the precious metals get to higher prices and then it will be too late. I remeber commentators saying when gold got to a $1000, it was in a bubble and would collapse, I remember other commentators saying the same thing when it got to $1900, and wonder what they will say when gold hits $2500,get my point. Everyone must decide this for themselves. Most commentators or financial analysts such as those on CNBC miss the point on this and only a small portion of the public is aware also. Eventually most people will probably pile into precious metals for their returns and all of the publicity it will get, for my money that will be the time to sll precious metals as it will then be in a bubble

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oneofthepeople wrote: Sep 5th 2011 6:34 GMT

Credit that is used for unproductive purposes cannot be repaid. When total debt to GDP passes the 90% mark, the extra is wasted on projects that make no economic sense. That is why historical studies show that debt beyond about 90% of GDP is counter productive. This is true for both the public and private sectors.

The banks' plan to double credit every decade or so is counter productive. It simply does not work in the real world.

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shaun39 wrote: Sep 5th 2011 6:41 GMT

With a collapse in business investment, and modest rises in net consumer saving, what assets should we all buy?

The gold bubble is a bad joke, we've got another tech bubble on our hands and 10 year government bonds (in "safe" markets, such as Germany, the US and the UK) have never been more expensive (rates have never been lower).

Should we be buying more equity stakes in businesses that are themselves just sitting on piles of cash?

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nLkszjiNVf wrote: Sep 5th 2011 7:22 GMT

Re: Europe, the US and Japan are all in a bad place.

Japan's property bubble happened 10 years before ours. I had naively assumed that Western governments would avoid making the same mistake. Were they stunningly stupid or just unable to resist temptation? If the latter then who's next for a thrilling ride on the dodgy rollersoaster?

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pashley1411 wrote: Sep 6th 2011 1:18 GMT

I wouldn't pretend to have answer to the "debt" problem. Having trained southern Europeans to live beyond their means and in notions of cotton-socialism, there are no easy paths pack. But its far easier to make predictions.

The Gordian knot of debt will be easily cut, with a default.

Banks and taxpayers money lent to southern Europeans to tide them over will be lost, every cent, or centium, as you were.

Every northern leader who advocated giving money to southerns will, very soon, retire in disgrace.

Some will be charged and tried.

And Europe will wake up and realize that it is a much poorer place than it imagined.

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Yukon Dave wrote: Sep 6th 2011 5:37 GMT

The bubble after World War One and World War Two are far too desirable for some in power that were not touched by war.

The solution is simple but hidden to those blind in love. Do you leave your lover or stay and fight. Governments have become out of control to the people they no longer serve. Collapse is not acceptable, while continuing forward is not possible.

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teacup775 wrote: Sep 6th 2011 6:06 GMT

@shaun39

Only if that pile will keep it's value. A years supply of food, or land with water might be a good idea.

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lev. d. wrote: Sep 6th 2011 7:12 GMT

"Some of the selling could be a hangover from friday's job report..."

Capitalism cannot creat jobs even when interest rates are forever at ZERO, money is both cheap and free, and you have a massive unemploed reserve to tap into, but STILL NO JOBS!... THIS IS FINAL PROOF, IF ANY BE NEEDED, THAT CAPITALISM CONNOT TAKE SOCIETY FORWARD, CANNOT DEVELOP OR EXPAND PRODUCTION... but wait!, the "investors have arrived back at their seets!!!"

REJOICE AMERICA! REJOICE!!! The financial jihadist are back from their yachts and private jets, and will procede to steer AMERICA back to... bubble, bubble, toil and trouble...

WORKERS UNITE!

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felarov wrote: Sep 6th 2011 10:39 GMT

German companies exporting to China is the ultimate proof of animal spirit. China in the 2020 could well be the Japan of the 1990 as its expansion is touching its limited resources. Some investors will finally turn their blind eye on this new armagedon: the Euro problems would take a backseat and keep this position for as long as the focus has shifted.

So welcome to virtual reality where problems are made in a couple of public discussions or properly shaped headlines and loose their interest with the next more fashionale topic that comes along. For the suffering that is caused by this gossiping the Germans would simply say : "wir haben es nicht gewusst !"

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Nirvana-bound wrote: Sep 6th 2011 4:20 GMT

Europe is a goner & the not-so-great USofA, a lost cause waiting to implode. The clock is ticking..

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serban p. wrote: Sep 6th 2011 7:02 GMT

It is time for European leaders to face the fact that the money to pay the creditors is simply not there and no amount of austerity imposed on debtor countries is going to make it miraculously appear. Right now
Europe policy seems to amount to flagellating countries that find themselves below water (whether for reckless borrowing or for other reasons) in the hope that taxpayers will not have to bailout either the lending
banks or the countries in question. That approach is bound to fail and investors are keenly aware of it. Greece is in a hopeless position but most others are not, bold fiscal policies could help them energize their economies. Unfortunately boldness is highly unlikely, particularly from Germany whose citizens are under the illusion that because their country has been fiscally virtuous it can escape this crisis unscathed.

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Hedgehog58 wrote: Sep 7th 2011 12:54 GMT

It will be a challenge, but this, too, shall pass. The banks will need to take a hit. The taxpayers (once upon a time, citizens) will need to take a hit. People will lose their jobs and will suffer. A few yachts will need to be sold. Then it will are start again. We have been down this path before...

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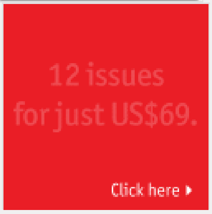

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