E-U

E.U Debt Crisis

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European Debt Crisis

A brief analysis

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A brief history for cabbies

The Investment Banks and Capital Markets It has have colluded in such a way as to never lose on an investment.

In other words, they attempted to create a situation where there would be very little or practically no risk with investments. They have created credit default swaps along with other derivatives in just about everything, Gold, Silver even Water in an attempt not only to absolutely control the markets but also through the purchase of debt and physically seize the assets of many indebted nations countries including many in the Eurozone. They have tempted governments like Greece to ease their debt burdens by purchasing into these schemes.

If these investments subsequently fail, the banks seize an opportunity to purchase as much of the country’s major assets as they can. In this they are making almost everything the unfortunate country owns, a finite resource subject to a price,

The allowance of speculation began in approximately 1866.

Now everything is game it appears, including food resources that is why we see the price of grain fluctuate wildly because speculators bet on the price going up or down.

When the Banks themselves get into trouble

The Banks themselves often get into trouble are then desperate to get debt-laden companies off their books, large wealthy hedge funds will offer to buy these debts burdened companies, but only at cheap bargain prices. Later they will hive off and sell at a great profit the better performing businesses. They achieve this by holding huge reserves from speculation chiefly in the currency markets which allow them to buy into any situation.

In the current financial situation, many banks do not have such a huge leverage. Hedge funds do not help businesses or economies as such, they just sit in the middle and trade when things go bad. This is why, in this present debt-laden European crisis, Hedge funds are set to make huge profits out of the current debt-ridden squeeze.

The contrast between the Greeks losing their jobs and the massive number of profits being made by Hedge Fund's investors will inevitably result in renewed anger against investors by countries populations.

Winners or losers the loss of confidence in Europe will affect us all.

Whatever happens in Greece will eventually affect British exporters and more importantly exports to the whole EU.

Export Credit Guarantees

For example, a Greek company orders goods from the UK, the exporter needs credit insurance cover against his Greek customer not paying his bill, currently, many British credit insurers will not provide this cover because of the risk that the Greeks could leave the EU and their currency would revert to the Drachma which for a period may be worthless. This will be a loss, either way, the Greeks who cannot export and their prospective British insurers who cannot provide cover would lose their fees t

Trading in the City of London

The I-E-G index lets individuals bet on stock market price movements including currency bonds etc without having to buy any of the underlying investments, profits of late have improved spectacularly, increasing every year.

The current Eurozone crisis is allowing another boon in business, investors like markets to move around. Last August the footsie moved more than 100 points in a day an incredible violent movement

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 E. IJ processing 965.000 daily trades. Trouble in Europe is good for them volatility is excellent.

As a small currency trader, for example, you may take a position that the Euro is about to fall and make some money out of it. That is what hedge funds do but on a far bigger scale, by managing vast sums including pension funds.

They currently have far fewer constraints on the sort of tactics they use, than other current forms of financial transactions.

Their Mantra is to preserve their client's money through adversity and opportunity The current opportunities are amongst currencies and governments under stress.

This is the most uncertain period for a hundred years, and also the most dangerous ever.

For some, this monolith might be an opportunity, for instance, if the Euro loses some of its value, then German manufacturers would see their exports rise as their prices relative to other currencies are cheaper.

Hedge funds will make money out of any situation diversity is the name of the game.

If you believe that Germany will be less affected than for example Italy, you will invest in one and divest in another.

Hedge funds can go long on assets or go short and sell an asset.

Sell short means you will sell at a price and commit to buy back in the future and hopefully, time this in such a way that you can buy back the asset at a lower price. You can make a profit on your investment if it goes up or down !! but the risk is yours !! and this can be hefty.

Hedge funds are on the ground in the financial turmoil in Europe, you might not think that Greece, at the epicentre, is a place to make money. While the parliament argues about cuts for others the distressed state of the economy is the perfect place for money-making opportunities. For example: -

One of the biggest commercial real estate agents in Greece picked up a top investment for a large sports shoe manufacturer on the main street in Athens, the equivalent of Oxford Street London WI. at one point the building was worth 110.000 Euros a month in rentable value that has now dropped to 50.000 a month almost a 50% drop, the holders of property are painfully coming to terms with the reality of the property holding asset value.

All of this also has an impact on ordinary Greeks the ebbs and flows of cash which in turn determines the fate of the real business. This is also the sharp end of employment and livelihoods, distressed homes and broken families are the human impacts, of financial turbulence which is where it is most keenly felt.

Italy

Italy can be sited as another example their debt began to grow in the heady days of the 1960s when Italy's left-wing dominated governments began to build its welfare state.

The government spending rose and continued to do so through the economically troubled 1970s as extra cash had to be found to meet the losses of nationalised industries and a rising bill for redundancy payments etc.

The Italians like the Greeks are notorious for avoiding their tax obligations, later governments continued to turn a blind eye to the evasion, like most governments they are populist and want to remain in power, now the economic chickens have come home to roost, Europe lives beyond its means.

much of Europe had borrowed money cheaply to buy goods it simply could not afford. In effect, many Europeans had used Germany's credit ratings to indulge their own material desires.

Germany The opposite is Germany, they were the exception.

Given the chance to take something for nothing, the German people simply ignored the offer. There was no credit boom in Germany, property prices were completely flat. There was not any borrowing consumption because this behaviour is totally unacceptable in Germany, this is deep in the German psyche. It is perhaps a leftover of the collective memory of the Great Depression and hyperinflation of the 1920s.

The current German Government are equally prudent, because if you are not adhering to fiscal responsibility then you have no chance of being elected to power in Germany.

In the moment of temptation Germany fiscal behaviour was a complete opposite mirror image of Iceland, Ireland, Greece, the United States and Britain. Other countries used foreign money to fuel various form of insanity, the Germans never did.

E.U

The EU

The EMU has been forced to bail out some countries, so banks and governments are forced to sell their troubled assets at a deep discount to the market. For example, Hedge funds amongst others who are delighted to provide loans and also buy assets, knowing eventually, that they will come back and make a handsome profit sometimes as much as 40% this is because with a bit of financial engineering and restructuring of labour, (for example laying off employees) this will provide excellent returns for their investment needs.

On the other hand, if the E.IJ decides not to bail out, the so-called (RIGS) Portugal, Italy, Greece and Spain, the hedge funds and other vulture funds could take a huge financial hit but they will rely on that not happening as it would be a major threat to International finance credibility, probably the EU bank will eventually decide it will give limited assistance to cover the debt of the RIGS, by buying or providing 20 cents in every Euro [Dollar loan held by the hedge funds. Still a profit, but not a huge one, we will have to wait and see.

So how does this all eventually end?

If this crisis is to be overcome, then overtime Eurozone countries will have to pool more resources and share more control over each other’s tax and spending. This will be a big loss of national sovereignty for all countries.

The Uk

So what of the Uk, what are its chances in all of this, well many believe there is light at the end of the tunnel, but one wonders for how long. Britain has benefited from a 20% currency devaluation which has helped exports, especially tourism, as we are not part of the Euro, we can still low or raise our interest rates at will, something the P.I.G.S cannot do.

Can we just leave Europe to get on with it, well no !! if we want to leave, we must weave our way through the nightmare of Clause 11 of the Lisbon treaty, read that and you will realise leaving is not an option.

The problem with leaving Europe.

Gold Reserves

Why Derivatives eventually collapsed and had to be bailed out by the US Federal Reserve Bank and

European Banks

# Or To Big to Fail

Before 1913 the US Gold reserve decided to allow 40% Gold Reserves plus Taxes and Bonds Gilts to make up the reserves of the United States Treasury. In 1948 after the Bretton Woods agreement it was decided by the world governments, that Gold would still be held, but this time backed up by the US dollar, now the major reserve currency. Fast forward to 2012, governments in the main, do not hold large reserves of gold, guarantees on debt loans to other countries is provided mainly by taxation, bonds and gilts. In today's economies, the new boy on the block are credit derivatives. This new one, it might be argued is fraught with unknowns and would prove a decidedly risky investment.

AIGs begins to fail.

Hank Paulson Chairman of the US Federal Reserve Bank and Timothy Geiter secretary of the Federal Reserve Bank or (Fed) came up with an explanation of how the crash happened. AIG was a major insurer in the US and Leman was a major bank. Leman started bundling up home loans with mortgages backed by securities, selling slices of loans to investors and making large amounts of money, So they started pushing more to lenders of credit, small banks etc saying come on we need more loans to people with good credit, as less and less of these good credit customers were available they lowered the credit score rating and went bottom-feeding a term used to describe individuals with a low credit score. Before, an individual would have needed a high credit score or search to obtain a loan with a down payments of 20%, but now the bank would accept lower credit scores without a deposit. The regular guy in the street assumes the banks know what they are doing, so if they are willing to loan me, then I must be able to afford it. So, he reaches for the American dream, he buys a house, the banks know these crap mortgages are a risk, so they started to insure themselves against conceivable mortgage default, this moved the risk from their books to the insurers, they can now invest more money give out more mortgages and make more money. One of the companies that took on a whole lot of these insurance policies was AIG.

Why would they do this? The answer is fees hundreds of millions of fees. They thought the house.

https://www.net-trix.net/bloa-oost/debt/

E.U prices would go up and up, but they do go down, typical of these mortgages is a person who buys a house, they are offered a teaser rate (lower rate) at the time of purchase, this looked tremendously attractive but rates do go up, when they did the individual cannot find the payments and defaults, AIG now has to make a payment to the bank for the Swap (If the reference contract defaults, the protection seller pays par value of the contract to the buyer and transfers ownership to the seller) this was happening all over the world, AIG cannot pay and go under every bank begins to book massive losses on the same day they all begin to go under.

Question. Why was it not regulated?

Answer. No one wanted it they were all making too much money on Derivatives. No way to lose.