

People Who Play With Fire...

Exit polls in respect of the vote in Mrs Merkel's home State of Mecklenburg-Vorpommern (hope I got the spelling right), suggest that she has been trounced, as have her coalition partners (Free Democrats), who have been so badly beaten that they could have lost all their representatives in the regional assembly. This is the 6th regional election loss this year for Mrs Merkel and her coalition - a bit careless I would have thought.

Now it gets serious. The key election issue was Mrs Merkel's handling of the Euro Zone crisis - she had tried to get tough on the Euro Zone - too little, too late. However, I suspect she will be far less tolerant from now on. As I keep banging on, Mrs Merkel is not a natural leader - she is a back room operator, cautious of taking a position unless she has achieved prior consensus. Furthermore, she does not understand markets - a common problem with most European politicians, bureaucrats and officials.

The next German regional elections are in Berlin later this month.

The Greeks have been ignoring all calls to get serious. They have run out of time. On Wednesday, the German Constitutional Court rules. Most believe that they will not block the bail out of the peripheral Euro Zone countries. Quite possibly, but giving a blank cheque to the executive, is also unlikely, in my humble opinion. They may, for example, insist on additional oversight by the German Parliament, which will make the EFSF and the future ESM unworkable, as decisions (which need Parliamentary approval) will take far too long to deal with market issues - basically means that it is over to you ECB/Monsieur Trichet to sort things out - and they are totally reluctant, though what choice do they have.

Recently the German President accused the ECB of violating its mandate and Article 123 of the Lisbon Treaty. The head of the German Central Bank (the Bundesbank), Mr Jens Weidmann has, equally, been highly critical of the ECB - he stated that EU law was being "gutted" by the ECB bond purchases of Italian and Spanish and other PIIGS debt. No diplomatic terminology there, you will note.

Essentially, the EU/ECB have overreached themselves and imposed their wishes (through unelected Commissioners in the case of the EU and appointed Board members in the case of the ECB) upon Europe. I seem to remember "no taxation without representation" and we all know what happened next. The French have generally exercised more political control (until the French revolt) over their people, than other countries in Europe and Mr Trichet - well he's French.

Recent polls suggest that the German's don't necessarily want to ditch the Euro. Yes, a number want the DM back, but the majority (quite sensibly) will live with the Euro, but don't want to bail out the entire Euro Zone, especially if they don't meet their commitments (Greece....). I totally understand that sentiment. Indeed, I believe the Germans have been uber generous to date, but that generosity has a limit.

This, off course, leads me back to the Greeks. They have totally ignored all their commitments/promises etc. Their fiscal position is unsustainable and worsening. The proposed austerity measures are unworkable and the Government has given up trying. This cannot continue. However, the Greeks will have to be allowed to default - and I mean 70%+ haircuts - forget the 21% "deal" with the banks. Then you have the next issue, recapitalisation of the European banks and avoiding contagion spreading to, not just the other PIIGS, but Belgium and France and.....

The Italians better reconsider their recent attempts to backslide from their commitments - they have a large debt maturity this week - some E14.6bn and E62bn by the end of September (the highest ever in a single month). In total, Italy must roll over E170bn by end December - Whoops. Italian 10 year bond spreads crept up to near 5.30% on Friday, up 30bps+ recently.

We are coming to an end game - waffle, bluff and bluster wont work mes amis. Neither will the recent Merkel comments (and the views of the senior German politician I met last week) who told me that the markets were just getting hysterical and that they (the politicians/bureaucrats/officials) have it all under control and ample time to sort things out.

I still have the email address of the particular German politician. I don't believe I'm generous enough to avoid sending him a short note in due course, though I suspect that my invitation to visit the Bundestag will be forgotten about. Oh well, still worth it - indeed, it's irresistible.

Will await the market reaction and the German Constitutional Court ruling on Wednesday, just to be sure though.