



Those who cannot remember the past are condemned to repeat it. Santayana

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WINTER WARNING



No Man Is an Island, Entire of Itself

Ireland, the Emerald Isle, also earned the economic label of the Celtic Tiger during its economic boom times in the mid 1990's. Nowadays, however, this small country is facing its most serious and dangerous economic period since the great potato famine of the 1830's. While that disaster spawned the mass migration of a million Irish to Canada, including this writer's paternal great grandfather, the current global depression bodes ill for the Irish economy. Plagued by the bursting of a real estate bubble, growing government deficits, increasing bank loan losses and seemingly, endless business scandals; economists expect that Ireland's gross domestic product will contract by 6.5% and its unemployment rate will exceed 10%, during 2009. Since thousands of technology jobs continue to be relocated from Ireland to lower cost areas in Eastern Europe and Asia by companies such as Dell Inc., we expect that these economic projections will err on the low side.

The economic danger for Ireland rests on the possibility that growing bank losses will exceed the Irish government's ability to honour its guarantee of all liabilities in the banking sector. Indeed, Standard and Poors (S&P) recently downgraded Ireland's sovereign debt rating from AAA to AA (High) and warned that *"the downgrade reflects our view that the deterioration of Ireland's public finances will likely require a number of years of sustained effort to repair, on a scale greater than what is factored into the government's current plans."* Additionally, just last week Fitch Ratings Agency downgraded the credit ratings of the Bank of Ireland and the Allied Irish Bank from A to A (Low), citing the banks' probable need for additional capital injections. Obviously, Ireland will need additional financial assistance from members of the European Union, as well as the International Monetary Fund (IMF). If this aid is not forthcoming, Ireland could ultimately, be pushed to the brink of default on its sovereign debt, thereby, adversely affecting the credibility of the Euro. Moreover, such a default could initiate a domino effect to other weak sisters within the European Union, such as, Spain, Portugal, Italy or Greece.

Flaherty Will Get You Nowhere (2)

Last week, Canadian Finance Minister Jim Flaherty established a 10-member Advisory Committee on Financing, to identify existing gaps in the availability of credit within the



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Canadian economy. The Committee members represent a cross section of CEO's and CFO's from the Canadian corporate sector and two executives from investment management firms. The Committee Chair explained to the press that Mr. Flaherty "wants us to tell him what we see on the street every day, in every day life". These panel members hardly represent fixed income dealers or traders on "the street" firing lines "every day." Since some of these executives represent companies which lost money by investing in non-bank asset backed commercial paper (ABCP) in 2008, we seriously doubt that a committee majority could interpret the dynamics of a bond yield curve, or yield spreads; let alone conceive an outlook for interest rates, or actively manage a fixed income investment portfolio. Assuredly, the Canadian credit markets are more complex than perceived "gaps" in the lending policies of various financial institutions.

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