

Quotable

“Don’t shake hands too eagerly.”

Greek Proverb

Commentary & Analysis

Global cooperation in trouble and Spain to request aid

This can’t be a positive indicator

Maybe it is too much to say the global financial system is coming apart at the center, but I don’t think it’s too much to say global cooperation is close to complete breakdown based on the recent dismal IMF meeting.

1. **China boycotted the IMF meeting in Tokyo.** Not exactly what we want to see from the world’s second largest economy and morphing superpower.
2. **Emerging markets are ticked off at Eurozone favoritism.** Brazil’s finance minister, Mr. Guido Mantaga, told the *Financial Times* he has had it with these meetings that concentrate on Europe only, at the expense of emerging market economies. “Currency wars will continue while the only route for escape being studied is monetary expansion,” Mantaga said.
3. **Fed Chairman Ben Bernanke says don’t blame me.** He said in a speech that its very doubtful US monetary expansion has any negative impact on EMs i.e. generating hot money flows. And tacitly he told EMs to stop complaining about US monetary policy and start doing some stimulating of their own. This was not what EMs expected or wanted to hear.
4. **IMF Chief Christine Legard tells European leaders that their austerity measures are dangerous and ineffective.** Countries cannot afford to sacrifice growth at this time, no matter the longer term consequences, was effectively her message. This was a direct shot at German policy in the Eurozone.
5. **German Finance Minister quickly defended austerity measures** as the only proper course. Germany wants more austerity, and to control the process as a quid pro quo for more wealth distribution from its taxpayers.
6. **US Treasury Secretary Geithner?** Blah, blah, blah...What a surprise.

Are you *truly* a Global Investor?

Get our monthly global macro investment research and become exactly that.

- ✓ In-depth coverage of economies and markets around the world plus simple, straightforward investment ideas.

[For a FREE preview of the September publication click here.](#)

And [sign up today](#) for only \$99 per year!

[Read more ...](#)

“The IMF has scaled back its global growth forecast for 2012 to 3.3% from 3.5%, and has warned that even its dimmer outlook might prove too optimistic if Europe and the United States fail to resolve their crises,” *The Guardian* reported.

So, China and the emerging market block of countries are unhappy with IMF policies and their lack of policy control at the institution. European leaders are at odds as to how to deal with the ongoing crisis. Fed Chairman Bernanke doesn't seem to care about the impact of his monetary experiment is doing to the rest of the globe i.e. those who still must use the dollar as a reserve currency. Leadership from the largest and most powerful economy—the United States—is required now more than ever, but seems woefully lacking.

Maybe I am overplaying this, but do think this lack of global cooperation validates to at least a small degree the view as I expressed last week—the global trading system could be in big trouble.

Spain to request aid...all good, except the risks

This morning, the *Financial Times* is reporting that Spain is preparing a request for official aid. Spain still says it doesn't really need the money, but there could be significant benefits to Spain in the form of lower interest rates if the ECB gets busy with its bond-buying program. The aid request will have to be approved by German lawmakers, according to the FT.

This may do the trick. Lower market interest rates may give Spain and other countries time to work out their problems. But two points of concern:

1. Will other countries quickly follow to the European Stability Mechanism trough for aid? ESM is not fully capitalized, and funds are limited. I think this is one of Germany's concerns.
2. What if the market decides to challenge the ECB i.e. bond speculators sell into ECB buying? Spain is not taken “off” the market; they remain quite actively at the mercy of future interest rate trends. If unlimited bond buying cannot sustain lower interest rates, speculators will likely lodge a full frontal attack on Italy. I don't believe ECB bond buying is really “unlimited” do you?

So, cautious optimism is helping the euro today. But serious downside risks remain. Stay tuned, the saga continues.

Jack Crooks

Black Swan

www.blackswantrading.com