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“Sorry, son, all my money’s tied up in currency.”

—W.C. Fields.

“Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head.”

— Warren Buffett

You will be happy to discover that this month’s letter has finally reached the length I promised, or almost. I must admit it has not been an easy task by any measure but I have humbly abided to the democratic readership of “The Staines Letter” who has been pleading since inception that I manage to shorten the length of my letters. Next month’s letter will confirm this trend and be less than 10 pages long. So before I lose any further precious typing space let’s jump to this month’s essay.

My previous letter was all about crunching the numbers on US government debt and seeking to achieve a better understanding of all those complex and sometimes misleading extrapolations that accompany it. My conclusion was that this hysteria surrounding the rise of US government debt levels appeared to be considerably disconnected with reality and I suggested instead that you consider long duration US treasury securities as an investment.

This month I was hoping to explain why this conclusion did not apply to all countries and explain why. Talk about timing. Since then, hell has broken loose for the Club Med countries and the short Euro suggestion I was about to share is like offering you flood insurance after a tsunami has transformed your home into some underwater attraction for scuba diving tourists. Too late to offer the flood insurance trade, the European Union ship is sinking with the Euro sinking even faster, the question now is whether there are any life boats.

Comparing debt levels across countries based on debt/GDP and deficit/GDP ratios is a useless exercise if you have not initially recognized which countries enjoy **double sovereignty** and which only **simple sovereignty**. There are major differences between these two groups and any comparison that does not consider their level of sovereignty is bound to produce useless conclusions. The rules that apply to sovereign nations issuing debt in their own sovereign currency (double sovereignty) and operating under flexible exchange rates do not abide to the same rules and constraints than those who don’t (simple sovereignty).

The website!

<http://www.thestainesletter.com>

*“... the US, Japan, Switzerland, UK and Sweden **always** have the ability to repay their debt. They can **never be forced** into default. Should they require new money either to repay maturing debt or for the issuance of new debt in their own currency they may **always** “print” the needed currency whether in the form of new debt issuance or by simply crediting bank reserves accounts held at the central bank.”*

“For the government there is no difference between issuing treasuries, bank notes or electronic credits. External financing issues are rendered inconsequential.”

If we put aside the inflation and currency risk for the time being, the most evident risk for an investor in government debt is basically one of solvency. What creates a government solvency risk? At the end of the day a government faces a solvency risk if unable to redeem its existing debt or if it is unable to finance itself through the issuance of new debt. The debt levels, the deficit levels or even the amount of unfunded promises are all subjective issues that will vary with perception and sentiment. The first group who enjoys double sovereignty, in the likes of the US, Japan, Switzerland, UK and Sweden **always** have the ability to repay their debt. They can **never be forced** into default. Should they require new money either to repay maturing debt or for the issuance of new debt in their own currency they may **always** “print” the needed currency whether in the form of new debt issuance or by simply crediting bank reserves accounts held at the central bank. The first and traditional option in times of deficit is to issue more government bonds. In the US, the Treasury will issue bonds that the banking sector or non-bank sector will purchase. If the bank purchases the bonds its asset mix will have simply changed (less reserves more Treasuries) and if it's the Non-Bank Private sector who purchases the bond then, same as for the banking sector, its asset mix changes (less deposits more Treasuries) which will then also reduce the deposits at the bank of the purchaser and reduce the need for reserves by that same bank. Now suppose that for whatever reason the yield demanded by market participants rises to levels where the interest cost would weigh heavily on the budget, think of Greece as a recent example.

Unlike Greece, when you enjoy double sovereignty you won't even be forced into paying this higher level of interest. The monetary body will simply credit bank reserves accounts held with the central bank. In the US, if the Treasury chooses to simply credit the bank reserves accounts held at the Fed it will simultaneously instruct the bank to credit the deposit accounts of the recipients of the spending (military, education, you name it). By doing so the fed is monetizing the deficit, or put simply, it is issuing non-redeemable money instead of debt and in the process significantly reducing the interest cost of its deficit. For the government there is no difference between issuing treasuries, bank notes or electronic credits. External financing issues are rendered inconsequential. So as we see there is no instance where a country with double sovereignty can be forced to default, none.

“These governments do not enjoy sovereignty in the currency of issuance. They have no ability to “print” the currency needed to honor their debt. European countries have no individual control on their currency.”

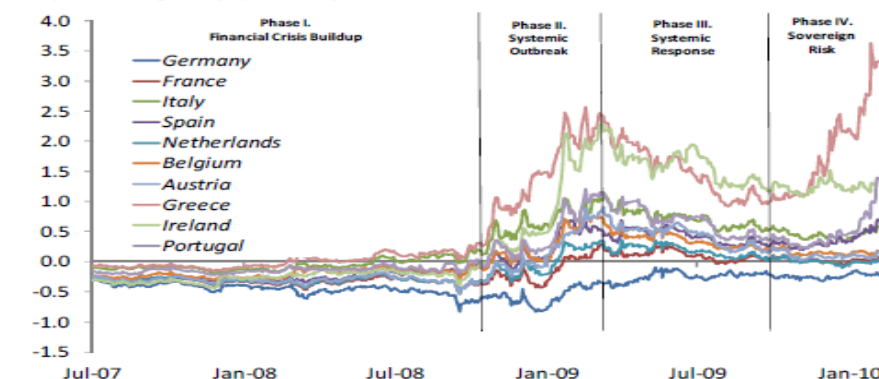
It’s a very different story for the second group, the countries that don’t have control on the currency in which they are issuing government debt. Many Asian and Latin American countries have issued debt in foreign currencies or in the case of Europe in a common currency. When a country other than the US issues debt in dollars, it will have to find the dollars needed to redeem the debt. These governments do not enjoy sovereignty in the currency of issuance. They have no ability to “print” the currency needed to honor their debt. European countries have no individual control on their currency. Although the power to “print” may appear surprising to many, in fact, it is the ease with which countries are ready to abandon currency sovereignty that has always astonished me. External financing issues become center stage in times of stress.

When one is comparing or investing in sovereign debt across different countries it is essential to understand that not all government debt is made equal. Some enjoy the immense privilege of double sovereignty and some don’t. The risks and benefits of investing across these groups are extremely different. Now that we have indentified this key difference let’s have a look at the debt levels of these two groups. In the latest Financial Stability Report published by the IMF in April 2010 we find:

Country	Gross Debt/GDP	5y CDS spread	Structural Deficit	Current Account Balance
<u>Double Sovereignty country</u>				
Japan	227.3	66	7.5	2.8
United States	92.6	42	9.2	-3.3
United Kingdom	78.2	77	7.6	-1.7
Australia	19.8	38	4.9	-3.5
Canada	82.3	n.a	3.0	-2.6
Switzerland	39.8	45	0.3	9.5
<u>Simple Sovereignty country</u>				
Greece	124.1	427	8.9	-9.7
France	84.2	50	4.6	-1.9
Germany	76.7	33	3.8	5.5
Portugal	85.9	160	7.1	-9.0
Spain	66.9	130	7.3	-5.3
Ireland	78.8	155	7.9	0.4
Italy	118.6	125	3.5	-2.8
http://www.imf.org/external/pubs/ft/gfsr/2010/01/pdf/chap1.pdf (page 5)				

As well as a nice chart depicting government debt stress levels:

Figure 1.7. The Four Stages of the Crisis
(Ten-year sovereign swap spreads, in percent)



Source: Bloomberg L.P.

Notice how the double sovereignty countries can support significantly higher debt levels without incurring a significant rise in the CDS spread. The bond markets are clearly pricing the privilege difference of currency sovereignty.

I am not implying that a country that can “print” its currency is immune to any consequences and that its debt level is irrelevant. Debt levels are relevant but not in the way most perceive them to be. Excessive debt levels ultimately create a need for adjustment but that adjustment will not take the same path for these two groups.

To understand why debt levels alone are irrelevant we don’t need any esoteric extrapolations, all we need is a cold look at over five centuries of plain double entry book keeping.

We know from basic financial accounting identities that if we divide the economy into three sectors – private, government and foreign – if all three sectors are balanced the result **must** be zero:

$$Private\ financial\ balance + Government\ balance + Foreign\ balance = 0$$

This also means that if one is not in balance and is in deficit, another **must** be saving. If we rearrange the terms we also know that:

$$Private\ balance + Government\ balance - Current\ Account\ balance = 0$$

“This identity reminds us that if the current account is in balance, then any government deficit will be matched dollar for dollar by savings from the private sector. If the current account is in surplus, then and only then can both the private and government sector save at the same time, think of China as the perfect mercantilist example of such an achievement.”

This identity reminds us that if the current account is in balance, then any government deficit will be matched dollar for dollar by savings from the private sector. If the current account is in surplus, then and only then can both the private and government sector save at the same time, think of China as the perfect mercantilist example of such an achievement. This is the natural law of balance that regulates the financial accounts. When we entered this period of rising government spending, the doomsayers have been vocal that there would not be enough savings to address all the new government spending. This is a clear misunderstanding of double entry book keeping. The creation of any financial asset generates both an asset and a liability given the two-sided nature of financial assets; in the case of a government deficit, the liability remains on the government’s balance sheet while there is a simultaneous increase on the asset side of the non-government sector. Government deficits do not withdraw savings from the private sector they simply transfer wealth from the public sector to the private sector. The pool size has not changed, only its composition has through the transfer of wealth from public to private. As for the willingness of the private sector to finance the deficit remember that this is an irrelevant issue for a country that enjoys double sovereignty as the government may finance its deficit in any monetary form it wishes to do so. External financing vulnerability is an issue for the simple sovereignty group, not for those with currency sovereignty. So where does the adjustment take place? This is the real question.

The Austrian school of thought, who has now also been given the name of “Austerians”, is pleading for fiscal austerity. Reducing government spending... sounds great, but how exactly will that be achieved?

We know that if the government goes into a saving mode, either the current account must run large surpluses or the private sector must go on a spending spree. After having been burnt twice in the last decade, first by the equity markets and then by house prices, consumers in most developed countries are now in a deleveraging process which is likely to last for the next couple of years. Double digit unemployment rates and the prospect of rising tax rates will clearly restrain any further household indebtedness. A balance sheet recession is a slow process that reflects a significant change in behavior that is unlikely to be altered by the traditional monetary policy tool of lowering interest rates. Some hope may come from the corporate sector which has been deleveraging ever since the technology bubble burst ten years ago.

“Trade is where the adjustment must take place if governments wish to balance their budgets. Actually, current accounts are more explanatory of CDS spreads than any other variable. The correlation between current account and budget balance exceeds 75%. ”

“The only tangible result of this harmonization was to significantly raise the wages of the Club Med countries thereby reducing their competitiveness and exports whilst financing their large current account deficits through mortgage debt and private sector leverage. Ten years later, the peripheral countries find themselves unequipped to generate an export-led recovery.”

Any increase in investment by the corporate sector would be a most welcome development in helping to limit the deflationary forces unleashed by the consumer sector retrenchment.

So what's left in our equation, where is the adjustment factor? The current account... Trade is where the adjustment must take place if governments wish to balance their budgets. Actually, current accounts are more explanatory of CDS spreads than any other variable. The correlation between current account and budget balance exceeds 75%. This goes a long way in explaining why the largest spreads are endured by those countries with the largest current account deficits as you can see in the chart.

It is no dirty secret that currency devaluation is the only short term viable option to achieve the necessary current account swing. Remember that the devaluation process does not initially require any government intervention. A currency will depreciate naturally as market participants feel less at ease in holding it and expect it to weaken. This in turn should gradually lead to an increase in exports as the goods produced become more competitive. But then again, you simply don't have this natural balancing act when your use a currency that does not reflect your economic situation and on which you don't hold sovereignty. If Greece, Spain or Portugal that are currently running current account deficits between 5 and 10 percent of GDP wish to swing into surplus they will either suffer insufficient currency weakening because of the more stable economic situation of the other Euro member countries or will be unable to profit from the weakness as it will benefit the other strong manufacturing members just as much if not more. Ironically, this inextricable situation is the result of actually joining the European Union.

What was supposed to create wonders by harmonization actually fuelled unprecedented current account imbalances across the European Union with Germany and the Netherlands exporting to Spain, Greece and Portugal. In fact, prior to this financial crisis, Spain and Ireland which are now considered reckless spenders, had much better managed their budgets much better than Germany over the past decade. European Union monetary policy which has always been geared to protect the slower growth of France and Germany resulted in massive property bubbles in Ireland, Portugal and Spain.

“... the only option available is a large swing to surplus in the current account. Unfortunately, in the absence of currency sovereignty and the possibility for these countries to devalue their currencies, by continuously trying to balance their budgets each country will successively fall into contraction or even depression which will only reduce tax receipts and ultimately result in a debt restructuring.”

The convergence trade on government spreads only added momentum by reducing the cost of borrowing. The only tangible result of this harmonization was to significantly raise the wages of the Club Med countries thereby reducing their competitiveness and exports whilst financing their large current account deficits through mortgage debt and private sector leverage. Ten years later, the peripheral countries find themselves unequipped to generate an export-led recovery.

It appears that this situation will inevitably lead to a restructuring of government debt for the weakest members of the European Union. As I have shown, based on straightforward accounting identities, the only option available is a large swing to surplus in the current account. Unfortunately, in the absence of currency sovereignty and the impossibility for these countries to devalue their currencies (by continuously trying to balance their budgets) each country will successively fall into contraction or even depression which will only reduce tax receipts and ultimately result in a debt restructuring. Whatever the European Central Bank does, nothing short of a temporary exit of Greece from the euro followed by an eventual re-entry at a much lower exchange rate will do the trick. Nothing. And the same unfortunate path is to be expected by all other European countries without the ability to export themselves out of oblivion. The question is clearly not if but when. Whether this will ultimately lead to a break-up of the Union is another question. German banks exposure to Club Med debt is around 500 billion, and the unintended consequences of a withdrawal are immeasurable in terms of post break-up economic stress. The recent unilateral German move to get closer to Russia through a proposal for cooperation on security that is clearly at odds with its NATO membership could well be an indication that Germany is looking at options to support its export economy in the face of what will be an extremely long period of stagnation and contraction in Europe.

But how about those that do enjoy double sovereignty? After all, although I have showed in my previous letter that there are still options open for the US to balance its budget and that the situation is clearly not as frightening as some would want us to think, I believe we have reached a major tipping point. I expect that running a current account surplus will be one of the major policy objectives that will break the cycle of imbalances we have witnessed for over half a century. Let me explain.

Bretton Woods Inertia

To understand the seismic change I believe is ahead of us we must go back in history where a single event brings much light on the cornerstone of the prosperous six decades we have enjoyed and the trade imbalances this has fostered. As we all know, at the end of World War II the Continent was in total ruins. The US, on the other side, emerged with an industrial might significantly larger than before the war started.

The balance of power had reached extremes and with it, an historical opportunity for the US. In July 1944, 730 representatives from 44 different countries met in a small village in New Hampshire and agreed to a system of exchangeable currencies and open rules of trade. The general objective was to avoid another depression that appeared to have been caused by flexible exchange rates that limited trade and investment whilst fueling speculation and competitive depreciations. For a desperate Europe, the choice was basically between accepting Soviet occupation (unlikely to withdraw after the war) or accepting U.S protectorate. Of course, for America, it was much more than simply providing US financing in the hope of rebuilding Europe, it was the unique opportunity to extend its wartime alliance and counter the Soviets. By doing so, the United States became the hegemonic military power it is today. Communist ideology was refrained from spreading out of the Soviet Union whilst Europe and Japan benefited from “unconditional” economic benefits through the extension of loans (of which many became grants) and almost tariff-free access to US markets.

Since then, less has changed than is generally perceived and the pursuit of globalization and free trade is very much alive; in stark contrast to geopolitics which have very little resemblance to those days. Communism is no longer a threat. The policy of spreading capitalism ideology and military deference has been largely achieved and the threats to US hegemony have significantly evolved. Why would the US continue to accept the mercantilist policies of Germany and most of South-East Asia now that the dollar has now long reached a reserve currency status? The only dysfunctional contender, the EURO, has already proven to be an unreliable alternative. The large increases in public debt coupled with the return of politics at the center stage of economic policy are likely to prove the tipping point for many trade policies that have shaped our world for over 65 years.

“The large increases in public debt coupled with the return of politics at the center stage of economic policy are likely to prove the tipping point for many trade policies that have shaped our world for over 65 years.”

“It is only when backed against a wall by mounting systemic risk that the decision to completely rethink the monetary union will be forced upon the member countries. Until then, the Euro will continue to weaken and the divergence in economic performance and financial accounts will only accentuate.”

The most powerful and misunderstood bull market today is politics. This political bull market is planting the seeds for profound changes in long term policies and will be reflected by a large increase in market volatility for as long as the markets fail to understand the unintended consequences of these tectonic changes. Think of it, this is the largest build up in government debt since World War II and this is the largest economic contraction since the Great Depression. The policy that has shaped our world economies between these two major events is Bretton Woods.

Summary

Have you ever wondered why we spend hours typing on a totally counter intuitive keyboard layout? Inertia. This layout dates from the development of the mechanical typewriter in the nineteenth century and was specifically designed to avoid jamming by placing the most frequently used letter pairs in a way that it would be hard to type them rapidly. Another reason was to place all the letter of the word “typewriter” on the top row so that the salesmen could show off without knowing how to type. Two centuries later we are still using this same uncomfortable layout although jamming is clearly impossible with keyboards. The costs of changing the layout are ridiculously cheap and yet inertia has kept us from making this easy change that would offer clear benefits for all.

If inertia has kept us from doing this costless and easy technological change what should we expect from 16 European governments stuck in a monetary system that is clearly not working? More inertia. It is only when backed against a wall by mounting systemic risk that the decision to completely rethink the monetary union will be forced upon the member countries. Until then, the Euro will continue to weaken and the divergence in economic performance and financial accounts will only accentuate. In the US and even more so in Europe, fiscal austerity and tax increases have become the motto of governments. Who would blame a government who wants to reduce its debt? It makes for reassuring headlines stamped with responsibility. But as we have seen, to avoid contracting economies and deflation, any government savings must be accompanied by either private sector spending or current account surpluses.

“If Japan had experienced a drop in GDP similar to that of the US during the Great Depression and stayed there for 15 years, the cumulative loss in output would have exceeded 20 trillion dollars. This loss was avoided with "supplementary" deficits from 1990 to 2005 that amounted to "only" 3 trillion dollars. A good use of deficits by any measure!”

The reduction in deficits will only bring forward an abrupt halt to what has been a tepid recovery entirely fuelled by government spending. Austerity will only accelerate the deflationary cycle and increase the short-term pain; hold on to your Treasuries, they are looking better by the day. Still some are predicting inflation as the Fed expands its balance sheet. Do they not know that loan creation has nothing to do with reserve balances but everything to do with the willingness to borrow of creditworthy borrowers? Have they not seen how Japan has been only capable of avoiding deflation through massive government spending never mind failing miserably to entice any corporate or household borrowing? The risk is not too much borrowing in a balance sheet recession, the risk is that without responsible government spending economies enter deflationary spirals that eventually lead to depression. Should any economy fall into a deflationary spiral, unemployment will skyrocket forcing families to cut back on spending for their children's education. A full generation would bear the misplaced fiscal austerity, leaving them with an economy in ruin. Between 1990 and 2002 about 15 trillion \$ of wealth was destroyed in Japan from the fall of land and share prices (equivalent to 3 years of Japanese GDP), three times more destructive in terms of wealth destruction than the Great Depression. In just four years during the US depression-era GDP was cut in half. Instead, in Japan, by 2005 nominal GDP increased 13% above the peak of the bubble. If Japan had experienced a drop in GDP similar to that of the US during the Great Depression and stayed there for 15 years, the cumulative loss in output would have exceeded 20 trillion dollars. This loss was avoided with "supplementary" deficits from 1990 to 2005 that amounted to "only" 3 trillion dollars. A good use of deficits by any measure!

After 1933, the New Deal policies enabled the government to employ 25 million people through the construction of 651'000 miles of highway, 125'000 public buildings, 124'000 bridges, 8'000 parks and 850 airports. These expenditures enabled GNP to expand by 48% and double tax revenue as well as explain how the budget deficit barely changed as a percentage of GNP during that period.

Although the US may find some respite from corporate sector spending, the Club Med countries are stuck between a rock and a hard place with no escape. Any weakness of the Euro will benefit first and foremost the

“Had you bought gold in 1980 and held it the following twenty years you would have lost close to 10% on an annualized real basis. Had you invested in the Dow Jones instead, well let’s just say that the irony is that both gold and the Dow were trading at about 850 at the time. Even if your ancestors had successfully stored it for future generations since 1500, you would have found yourself five hundred years later with a depressing 90% real wealth loss.”

Greece is only the tip of the iceberg of what is likely to transform into a long succession of debt restructurings. If the US follows Europe on austerity measures, expect growing intervention in trade. As long as the private sector balance sheet recession has not stabilized, and in the absence of government spending, only a rise in exports may limit the contraction. The Bretton Woods era is coming to an end and with it a very probable rise in protectionism and currency intervention. We are living interesting times.

Make a buck ...?

All the trades I have shared with you have performed very well and I just wish to add a little update and insist that it is not too late to put them on if you have not.

The Long Utilities/ Short Consumer Discretionary trade is basically a negative beta play that should benefit not only from the consumer balance sheet recession but also the low interest rate environment that I believe will last very much longer than the consensus expects with the Utilities SPDR paying a 4.36% dividend yield. The long US Treasury bonds trade has performed extremely well during the past month. I strongly believe that by the time we exit this position, the ten year Treasury yields will be at levels no one is currently expecting. For those who believe that it is too late to enter this trade I strongly recommend you read the latest Economic Letter by the Federal Reserve Bank of San Francisco published the 14th of June and titled “The Fed’s Exit Strategy for Monetary Policy” (see link on the last page). In it, the Fed explains how a simple rule of thumb consisting of a regression of the funds rate on core consumer price inflation and on the gap between the unemployment rate and the CBO’s estimate of the natural rate of employment summarizes the Fed’s policy response over the past two decades. According to this rule the funds rate would have to be negative until late 2012 if it were to deliver future monetary stimulus consistent with the past. And this actually ignores the zero lower bound!

But now to this month’s trade. The trade is long gold in Euro. I know, I know, everyone and their dog is apparently bullish gold so why bother. Not only is this trade totally consensual it is also suggested only now by your humble writer who has missed the whole run from below 300 to 900.

“The euro, which is a de facto gold standard for euro zone members, is the latest example of the hardship imposed on countries with no currency sovereignty and which are forced to choose between sensible domestic policies and the urge to correct external imbalances.”

It is only above 900 that I started building a position, shame on me. But as the old saying goes, fool me once shame on you, fool me twice shame on me. So yes I believe that a unit invested in Gold in Euros makes sense but why exactly? It is clearly not because I expect a burst of inflation. If anything, the past few centuries have showed how unreliable gold has been as a long-term store of wealth. Had you bought gold in 1980 and held it the following twenty years you would have lost close to 10% on an annualized real basis. Had you invested in the Dow Jones instead, well let's just say that the irony is that both gold and the Dow were trading at about 850 at the time. Even if your ancestors had successfully stored it for future generations since 1500, you would have found yourself five hundred years later with a depressing 90% real wealth loss. Another gold bug argument for holding gold is that it makes for a perfect currency, a standard of value. I see it more as a meaningless chemical element that has caused much suffering and the spill of so much blood across the history of mankind, an inexplicable obsession. Those wishing that we return to a gold standard should be reminded just how unstable and dysfunctional the global financial system may be when it was arbitrarily determined by the supplies of a metal whose major sources are located in Russia and South Africa. History is crowded with examples demonstrating how muted our boom-bust cycles have been since 1971 compared to the adjustments the gold standard previously imposed on countries.

Ironically, it is precisely because the gold standard is so imperfect that I am recommending gold today. The euro, which is a de facto gold standard for euro zone members, is the latest example of the hardship imposed on countries with no currency sovereignty and which are forced to choose between sensible domestic policies and the urge to correct external imbalances. It has ensured that the euro zone may not run large fiscal imbalances. This loss of sovereignty is the Damocles sword on the head of European countries which will ultimately force the weakest into a succession of debt restructurings. As the imbalances across the different member countries grow larger, the Euro will reflect the mounting stress it has imposed on itself. Finally, like all currencies before it under a gold standard, it will be forced to devalue. Of course, the euro is not really backed by gold but I see gold as a measure of systemic risk.

It measures the level of confidence investors have in governments and the financial system. Similar to volatility, it measures the level of uncertainty. Gold is attractive when most other assets are unattractive. At a time when government's solvability is questioned and currencies will have to bear the weight of adjustment, gold is an attractive tail hedge. The metal will benefit from the diversification that Europeans will actively seek for as the net closes around them and provide an interesting tool to benefit from rising European sovereign credit spreads without taking on the counterparty risk inherent in derivatives. To end I wish to leave you with this final thought. The latest gold bubble in the 1970's, which pushed gold up 14 fold, was attributed to the collapse of the Bretton Woods system. As mentioned previously, I tend to disagree and believe that the tipping point for the Bretton Woods system as just been reached and with it the end of an era. If so, imagination could well be the only limit to this gold bubble.

My portfolio

New trade:

30.06.2010 LONG 1 UNIT OF GOLD IN EUR (XAU/EUR)
@ 1'016 EUR (price June 30, 2010)

Past trades still open:

14.05.2010 LONG 1 UNIT OF TLT @ 94.88 **+ 6.89%**
+dividend TLT 0.33 01/06/2010

9.04.2010 LONG 1 UNIT OF XLU @ 30.24 **+ 4.50%**
SHORT 1 UNIT OF XLY @ 33.97 long/short trade
+dividend XLU 0.32 18/06/2010 – XLY 0.11 18/06/2010

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IN THE PRESS & REFERENCES

In the press:

Europe's Finance Firms hold \$78 billion Greek, Portuguese Sovereign Debt:

<http://www.bloomberg.com/news/2010-05-11/europe-s-finance-firms-hold-78-billion-greek-portuguese-sovereign-debt.html>

Who's exposed to Greece, bank edition

<http://ftalphaville.ft.com/blog/2010/05/06/221606/whos-exposed-to-greece-bank-edition/>

The PIGS' external debt problem

<http://voxeu.org/index.php?q=node/5008>

Germany, Greece and Exiting the Eurozone

http://www.stratfor.com/weekly/20100517_germany_greece_and_exiting_eurozone?utm_source=GWeekly&utm_medium=email&utm_campaign=100518&utm_content=readmore&elq=ea74ea1e1bdd4c35901644615efeb87e

The European Union Trap

http://www.investorsinsight.com/blogs/john_mauldins_outside_the_box/archive/2010/03/09/the-european-union-trap.aspx

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<http://www.frbsf.org/publications/economics/letter/2010/el2010-18.html>

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