

Euro Malignancy. No Euro Breakup, Just Lots of Bumps

The Euro is a chronic disease. But you can bet on the good days and bad days in Europe as the governments and the ECB sequentially crash and revive the patient.

Spain is a case in point. Its government is financially unviable, its real estate market is terminal, its banks are, with the exception of the international ones, skint, its factor prices are all wrong and its fiscal strategy is misguided.

Fortunately, the ECB will co-opt the banking system to refinance maturing Spanish government debt thus prolonging Spain's Euro membership and liquidity even while its solvency is indeterminate.

What does this mean?

Well, it means that every so often you can buy a levered structured product called Santander, which does the majority of its business in Lat Am, in Brazil to be precise (its Argentinian exposure is tiny), which basically borrows at cheap rates and lends them either to good private credits abroad, or dodgy sovereign ones at home.

It means you can buy Telefonica, whose bonds still yield close to AAA, but whose equity is a levered cash flow pass through of telephony contracts both in Lat Am and Spain.

It means you can periodically get good assets on the cheap just when fearful investors are dumping, and you can sell it back to them again when markets stabilize and these same investors have their bouts of confidence.

Apply the above to Italy and France as appropriate.

The Euro will be an incredibly rich investment opportunity as long as we recognize a couple of things.

1. As a unified currency, it doesn't work. Or at least it is destabilizing of

domestic prices, and it encourages imbalances to accumulate.

2. European governments are wedded to the idea of the Euro and have equated it with social and indeed martial and strategic cohesiveness.

3. Imbalances will therefore accumulate until they need to be addressed. This will occur cyclically and provide the necessary directional volatility and relative value dislocations.

Don't let it go to waste.