

## View from the Bridge

By Clive Hale

Going, going.....

an alternative look at the investment world

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I make no excuses for returning to the Greek tragedy, although I have very few for referring to Nick Clegg in my last post as "Nigel", apart from the transient and immemorable nature of many Lib Dem leaders and my proximity to pensionable age whenever that might be.

Less than a week ago 10 year Greek bond yields were approaching 8%. Since then they have flirted with 9% before closing on Friday at 8.6%. Even worse is the fact that short term bond yields have reached 11%. Such an inverted yield curve suggests that the day of reckoning is ever closer as investors demand a larger and larger premium for supplying Greece with cash flow let alone long term borrowing.

The real tragedy is that this will all turn out far worse for the rest of Europe than Greece itself, which is quite used to financial, economic and social turmoil. A helping hand has been proffered and the Greeks are off to the IMF to shake it, although it may turn out to be an iron fist. The chances of any EU participation look very slim with 86% of Germans saying it is wrong to bailout the Greeks according to a poll in one of their "Sundays".

As ever the meat in the "problem" sandwich is the banking system. Total Greek sovereign debt exceeds €320 billion and a great deal of it is held by European banks. The Americans, who seem oblivious to the fact that an IMF bailout is going to cost them money too, have at least poured huge sums into their banking system, which is still fragile, but, arguably, much better capitalised than some in Europe.

Greece is an unwelcome reminder to the world's central banks, as if they need one, that rising short term interest rates create exceedingly unpleasant and intractable problems. Bernanke, as Jeremy Grantham of GMO, puts it in his latest quarterly bulletin (a must read <https://www.gmo.com/Europe/Research/default>), has been infected with "Greenspanism" and rates in the US will be on hold for some time, but others, especially in the more "porcine" parts of Europe, and perhaps the UK, may be less fortunate.

Activating the rescue mechanism and turning over economic policy to EU and IMF oversight is "a new Odyssey for Greece," Papandreou said on Friday. "But we know the road to Ithaca and have charted the waters," he said, referring to the return of Ulysses to his island home after a ten year absence. Holders of ten year Greek paper will shortly be finding out that the current tragedy is not a myth...

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