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Euro Getting Cheaper Buoys Export-Driven Rebound (Update1)
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(Adds Spanish parliament vote in 13th paragraph.)

By Vernon Silver

May 27 (Bloomberg) -- “The crisis is over.”

So says Emeric Challier, a money manager at Avenir Finance Investment Managers in Paris.

Rather than being alarmed by the plunging euro -- down 4.1 percent against the dollar in the week before the European Union’s nearly trillion-dollar bailout for debt-saddled members and 3.1 percent the week after -- he cites the economic boost a weaker currency provides.

“The advantage of the euro drop is it will continue to support the recovery,” says Challier, who is betting that Spanish, Portuguese and Italian government bonds will rise.

German exports and Spanish and Greek vacations become cheaper for Americans and Asians, Bloomberg Markets magazine reports in its July issue. The benefit is especially significant if the euro is depressed a year or more, he says.

The fiscal discipline that comes as a condition of the rescue package will also benefit European economies after the initial pain of government spending cuts and tax increases, says Christoph Kind, head of asset allocation at Frankfurt Trust, which manages about $17 billion.

There are some precedents. South Korea and Indonesia flourished after the Asian currency crisis of the late 1990s ushered in budgetary restraints and financial reforms, Kind says.

“Hopefully history repeats itself, and these austerity packages lead to substantial improvement here,” he says.

Shares Benefit

Kind is bullish on European equities, especially shares of manufacturers that will benefit from the cheaper euro.

“Automakers, capital goods producers are in good shape -- companies like Siemens,” he says. Siemens AG, the maker of electronics and railroad equipment based in Munich, rose 8 percent in the week after the bailout plan was completed on May 10. The shares are up 10 percent so far this year, through yesterday.

Before Europe’s finance ministers hammered out the giant loan package, the region’s sovereign debt crisis had been deepening for months. Yields on Greek two-year bonds reached 18.85 percent -- topping the interest rate on a Visa Gold card available in Greece.

Europe’s Disciplinarian

As Greek, Spanish, Portuguese and Irish borrowing costs rose, the budget deficits that triggered the crisis became more intractable, says Christopher Pryce, a director at Fitch Ratings in London who studies sovereign debt. He says the rescue, which includes funds from the International Monetary Fund and sovereign debt purchases directed by the European Central Bank, broke that cycle.

German Chancellor Angela Merkel is Europe’s disciplinarian. She was reluctant to join the bailout amid resentment at home over fiscal recklessness elsewhere in Europe. The day the rescue was done, Merkel called for stricter enforcement of EU rules on deficits.

Greek Prime Minister George Papandreou, Spanish Prime Minister Jose Luis Rodriguez Zapatero and other European leaders are trying to fall in line. Papandreou has announced three rounds of deficit-reduction measures so far this year -- even amid violent protests against cuts to wages and pensions. His socialist government is increasing levies on fuel, alcohol and tobacco.

Following the bailout, Spain announced a 5 percent cut in public sector wages. Today the Spanish parliament ratified the government’s austerity plan, the nation’s deepest budget cuts in 30 years. Portugal has pledged to slash wages and raise taxes to trim its budget deficit.

Fiscal Medicine

Of course, there’s no guarantee that European leaders will keep taking their medicine.

Luca Cazzulani, senior fixed-income strategist at UniCredit SpA in Milan, Italy’s biggest bank, says investors who doubt Europe’s resolve have turned from betting against sovereign debt -- now protected by the bailout -- to wagering against the euro instead.

Currency investors have been overwhelmingly bearish on the euro this month. Net short positions in the euro versus the dollar -- the difference between bets on a decline and bets on a gain -- jumped to a record 113,890 contracts on May 11, according to the U.S. Commodity Futures Trading Commission. The euro fell as low as $1.2144 on May 19, its weakest since April 2006.

Euro skeptics say the forced spending cuts and tax increases across Europe’s southern tier will scuttle a recovery before it takes hold.

“The fiscal austerity measures will be a big drag on growth,” says Andrew Wilkinson, senior market analyst at Interactive Brokers Group in Greenwich, Connecticut.

‘Long-Term Gain’

The attack on the euro may end later this year as more investors begin to believe in Europe’s fiscal discipline, fixed- income investor John Stopford says.

“By implementing economic reform and taking some pain, there’s long-term gain,” says Stopford, co-head of fixed income at Investec Asset Management Ltd. in London, which oversees about $65 billion.

“European countries are learning the right way to confront this situation,” says Fabrizio Fiorini, head of fixed income at Aletti Gestielle SGR SpA in Milan, who manages about $8 billion. “And the market will discover this is strong for European bonds, stocks and the euro. In one or two years, everyone will discover we did the right thing.”

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