The euro crisis has turned into a fatal disaster

Tradingfloor.com Lars Seier Christensen , co-founder & CEO, Saxo Bank A/S Filed in Lars Seier Christensen Denmark, 09 May 2013 at 13:09   In his keynote speech at this week's #FXDebates event in London, Lars Seier Christensen, the co-founder and co-chief executive of Saxo Bank, said the euro crisis had turned into a fatal disaster with huge consequences for the members involved.

"I have rarely, in my 25 years career in foreign exchange, witnessed an equally turbulent and fascinating time," he told the audience.

Here is the speech in full:

Talking points

Thank you for inviting me to open the second FXDebates event.

I am quite excited by the FXDebates initiative, so let me start by telling you a little bit about the initiative.

Last year, Saxo Bank joined forces with Bloomberg and published a series of articles for an e-book covering the latest trends in the Foreign Exchange market. In March, this turned into the first FXDebates event and I am delighted to open the second FXDebates on a rather daunting subject, the euro crisis.

I'm particular proud of our co-operation with Bloomberg as they have been champions in pushing 'thought leadership' to a new level with their editorial strategy. I would also like to extend our thanks to CityAM for their support of todays event.

Thought leadership is not just another buzz word. Thought leadership is rather an honest and rational approach to outperform in a rapidly changing digital economy.

It’s about business leaders recognizing the opportunities enabled by new megatrends in the market. Those in my view center around technology, of course, but also a significant shift in investor perception. Investors are looking for transparency, independent information and to enable their self empowerment and independence of thinking, where before they would rely more on traditional sources in the banks.

That is bad news for old, outdated private banking models relying heavily on client trust, but it is good news for financial institutions deploying technology, information sources and communication channels intelligently and innovatively, involving and engaging investors much more actively in the decision making process.

With the FXDebates, Saxo Bank, a specialist in online trading and investment, and our esteemed guests get an opportunity to highlight our and their intent to better educate traders and prepare them in the best possible way for the dynamic world of foreign exchange. The understanding of the importance of foreign exchange and the use of the market, both as an asset class in itself, and as a crucial overlay to other assets classes remains surprisingly limited, even among many professional participants.

Understanding fully the impact of currencies on our world and our investments is more necessary and relevant than ever. Used extensively as centrals tool in defining international trade policies and growth initiatives, investors need to fully grasp the implications on their portfolios. And of course, most importantly, the euro crisis has turned into a fatal disaster with huge consequences for the members involved. I have rarely, in my 25 years career in foreign exchange, witnessed an equally turbulent and fascinating time.

And as this is the main subject of our debate today, let us turn to the situation in the Eurozone.

Frankly, it is a complete mess. And it is a mess that gets worse and worse every day. Only not in Brussels. There we hear an endless litany of promises of recovery in six months time, always in six months time, we hear the Euro is safe, and that if just we all hand over more responsibility to our Masters in Brussels, everything will be just fine.

Nothing could be further from the truth. We have just been through the bailout of the fifth Euro zone country, and both Slovenia and Malta are queuing up to be next. When, not IF, the Troika arrive in these two countries, it will create to an absurd situation where nearly half of the Eurozone countries have been broken by their adoption of the common currency, the same EURO they joined with such high hopes for the future.

Now these are small countries, and can be treated as such… just look what happened to Cyprus. I would suggest to Malta, Slovenia and other bailout candidates that they hang on for dear life until after the German election. After Cyprus, we now know what happens if you get in the way of a German leader seeking reelection.

What is it that is going so wrong in the Eurozone? I think we all know very well by now. The Euro is a political construct, and it simply has no sound economic or fiscal foundation. Unless that is put in place, the Euro will be doomed eventually.

The political capital invested in Euro is gigantic, so the will to keep it alive for absolutely as long as humanly possible, should never be underestimated. Every tool in the box – and I seriously mean EVERY single tool in the box- will be tried, before the unelected, unaccountable people in Bruxelles capitulate to reality. But doomed it is, the Euro, be in no doubt about it.

Actually, a lot of people knew this already when the Euro was introduced. Saxo Bank’s chief economist, Steen Jakobsen, that did work related to the Delors commission back in the nineties, has often told me that the dangers playing out now, were openly discussed at the time. But the political pressure to move forward back then was relentless, and the momentum in the EU seemed so strong, that it was expected by many that the foundation could be put in place after the house was built.

Not so. Because during the first decade of the Euro, it became clear that the suggested benefits from the Euro never materialised. There was no strengthening of Europes clout in the world, there was no discipline among the members, there were serious issues beginning to show for the weaker countries that could not keep up with Germany when it came to competitiveness and productivity. There was no way to manage the economy without controlling your own short term interest rates. There was no way to devaluate your currency to create renewed equilibrium and ability to compete. There was no long term beneficial impact on long term interest rates, as the big winners from the Eurozone, Germany could and would not sell to their citizens that they should underwrite a common Eurobond, or make large transfer payments to the weaker countries forever.

And now, there is no way that the European populations are willing to move forward with the necessary further integration. Not that they get asked directly a lot,as almost all decisions are made by their parliaments or in Bruxelles behind closed doors, because no one dares to ask their populations via a referendum – they know the answer would be a resounding NO! And a NO it should rightly be, because Europe is not, and will never be, the United States. Our cultures, our economies, our populations are far too diverse to ever integrate efficiently and happily in a forced union.
Instead, integration is brought in via the back door, via contributions to the bailout mechanism, by corruption of the ECBs balance sheet, by the banking union that would destroy

the credibility of even sound banks if fully implemented, by passing treaty changes quickly and uninformed via the parliaments, claiming that representational democracy justifies that. Well, it doesn’t. A parliament that gives up national sovereignty knowing full well that their population would reject it, are committing treason, in my view.

But one thing is politics, another is economics, although it gets harder and harder to tell the two apart.

Anyone with a rational view of the world now sees the currency collaboration as a historic failure that can lead to even further fatal consequences for Europe and the continent’s competitiveness vis-à-vis the rest of the world.

In my view, there are a number of things that are very clear. The Eurozone will eventually break up. It could happen in a multitude of different ways.

The weaker countries could leave. If this process was managed in an orderly fashion, it could be done at lower costs than the current and future bailouts, and it would quickly set the exiting countries back on a recovery course.

Germany could leave. As the sole beneficiary of the Eurozone until now, this is not likely to happen anytime soon, but as the bills begin to pile up even higher, that may all of a sudden seems an attractive solution to the German citizens. Of course, this would mean a much higher German exchange rate, but with the pressure off for a while, it would reduce the urgency of the crisis for the remaining 16 countries, that would experience a growth boost from a significantly, but not catastrophically lower Euro rate.

A multi-currency zone could evolve, with countries with more similar economic conditions and objective could group together and achieve more appropriate currency levels.

But all of these scenarios would require rationality returning to Bruxelles. It could be certainly be achieved with less chaos and less economic mayhem than what otherwise awaits the Eurozone.

This could even secure attractive outcome of an EU returning to focus on a common market, reducing trade friction between the economies, and benefit from the big diversity of different competences across Europe – we have the benefit of both highly educated workforces and low cost industrial workers, more than 500m consumers, and the benefit of competing tax and social welfare systems.

Again, I repeat, all of this requires rationality to return to the Eurozone. And frankly, this does not seem to be on the cards, unfortunately.

If rationality does not return, what can we expect…

In my view, recession will continue for years, and even turn into depression. Forget about recovery in six months, it will always be six months from now.

Euro denominated assets will remain unattractive, and downright dangerous, to hold for years to come.

Bond yields will rise substantially, in all the 17 countries as the unsustainability of the situation becomes ever clearer.

Bruxelles will claim ever more power, and use it ever more poorly. The financial sector will be drowned in self defeating regulation, taxes and cross border responsibility for failing banks, that will eventually destroy also the healthy banks.

Cyprus WAS a template. Expect not only bail ins, which if defined clearly ahead of time could be part of the solution, but also outright confiscatory wealth taxes, disguised as solidarity payments. The governments of Europe need money, and the private sector has it. It is as simple as that. Be very paranoid.

Expect latent surprises in the Eurozone minefield. The Cyprus chaos has ensured this. A normal private depositor that has worked hard to save up for his family, will not move his account to Switzerland or Singapore. But what will he do when his country is having a bailout over the weekend? I would say the mattress will look a safer place than his bank over that weekend. So bank runs could start instantaneously.

Of course, the answer to bank runs is capital restrictions. Expect a lot more of that, always introduces as short term and temporary, but very hard to remove once in place. Iceland is in its 5th year of “temporary” capital restriction – just for your reference.

There are a lot of things to worry and think about if you are a citizen or investor in the Eurozone.

So all the more reason to welcome the the second FXDebates event about the euro crisis. I for one look forward to hearing what our panel has to say.

This crisis will not pass. This is reality for investors and traders around the world and that’s why this is an important forum.

A crisis is also an opportunity as it creates conditions for change. Hopefully a change towards more transparency, reform but also intellectual honesty. This forum should be a stepping stone towards better understanding based on openness, intellectual capacity and two organizations with a firm belief in that voicing and exposing opinions is key, particularly in time of crisis.

FX and the debate of currencies is very much both part of the solution and the problem of Europe today.