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THE BANKER'S COMMENT BY JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: 254 euros - tonnage price of milling wheat, twice that of a year ago.

Anthropology at the service of anti-bank hatred.

We do not usually comment upon press articles in this newsletter. We now break from this practice because certain things simply cannot be allowed to slip by.

Perhaps to sustain the atmosphere of bank hatred, a daily newspaper which supposes itself to be a cut above the norm thought it suitable to publish a piece by a so-called "anthropologist-economist" claiming – and Wikileaks is said to be the source – that there is an agreement between leading Anglo-Saxon financiers and diplomats to present the crisis, in all circumstances, as one of liquidity, despite being fully aware that it has become one of solvency. This, writes the chronicler, explains the astonishment of true economists, researchers and competent journalists who know full well that the crisis is one of solvency and are surprised that measures undertaken do not correspond to the problem. But, he adds, what these experts take as incompetence is in truth a deliberate policy aiming to protect the interests of the banking caste to the detriment of the public interest.

Let us pass over the fact that the agreement of which he writes dates from March 2008, several months before the collapse of Lehman Brother, a time when many enlightened observers believed the crisis to be past. Above all, though, the author gives not one example of these rascally measures, and with reason. Over the last two years, political, monetary and financial leaders have emphasized the need to improve banks' solvability and most actions taken regarding the crisis during that period have been towards solving problems of solvency: banks' recapitalization (by the way, heavily criticised by those whose opinions that chronicler shares), aid funded by taxpayers or by loans, but above all the profound reworking of the Basle mechanism (Basle III) which induces a near-tripling of requirements for banks' capital.

That these measures do not exactly please the banks is shown by the professionals' protests and cries of alarm, but they were taken, yes, in their own interest because in this case, in these vital matters, the banks' own interest is tied with that of the public. This is a truth which seems to be too scandalous to bring some to admit.

The climb in bond rates; plenty of temporary reasons rather than a real trend.

With the rise from 2.95% to close on 3.3% for the French OAT yield, from 2.7% to 3% on the German Bund's, and from 3% to almost 3.3% on the 10-year UST Bond, long yields have reached one year early what most analysts forecasted for the end of 2011. Could this be a sign that activity and even inflation are picking up - as some believe with satisfaction? Textbooks teach that a steepening yield curve can indicate an acceleration of activity. In point of fact, the very low levels early in autumn were due to exceptional circumstances, in particular the "flight towards quality" to the detriment of the bonds of weak States in the euro zone and to the benefit of other sovereigns, including the US. Other circumstantial reasons could explain the recent rise: the US President/Congress agreement to extend the massive tax cuts which served to erase the impact on yields of the "quantitative easing"; the investors' appetite for corporate debt from weak States– better rated than the sovereigns; there is also the attraction of alternative investments in commodities' markets. None of the above makes for a trend.

Is the European Financial Stability Fund (EFSF) opening the way for issues of euro-bonds?

The EFSF having become the markets' favourite, its bond issues are being snapped up. Some deduce from this that it validates arguments favouring euro-bond issues that would be bound to be successful. Looked at more closely, the infatuation with EFSF bonds can be explained: these are bonds fully guaranteed by the best signatures among European States, issued -to avoid any nasty surprises- at a rate higher than those of Germany, whereas in the light of their references they should have been placed under better conditions. Unless we assume that all such Eurobonds would benefit from similar guarantees, the experiment cannot be considered as a test for eurobonds where markets would no doubt recognize not only the German and French debts, but also those of Greece, Spain and Italy, which would certainly be less attractive than the Bund or even the French OAT.

The yuan's march towards internationalism, small steps for now.

Last summer, the McDonald's chain made the first international loan issue drawn up in yuan. For some months now Hong Kong has been harbouring off-shore activities in yuan: creation of an international inter-bank market; opportunity for off-shore and central banks to invest in securities on the Chinese inter-bank market. Small steps so far. On top of offering complete convertibility of its currency, China would have to become a net exporter of capital for the yuan to become fully internationalized. But, since any advance of the yuan on the path to real internationalization would be made at the expense of the other reserve currencies, the threat to the dollar is real, but over what time period? In any case, the starting gun has been fired.

Expression of the month: Annus Horribilis.

That is what the euro zone is said to have endured in 2010. The crises concerned only countries which together share a mere 5% of the zone's total GDP. Will other countries be affected? Some fear it, others hope for it. Though exchange markets demonstrated wisdom (the euro's rate against the dollar fell by barely 5%-6%), provocations are multiplying, with catastrophic forecasts from experts, all of them Anglo-Saxon (Roubini, Rogoff, and even a Nobel prize holder in economics), and with rumours like the unsigned Reuters dispatch on so-called pressures on Portugal to call on the EFSF. This climate brings to mind the bad times of 1992-93 when speculation ran rife against the notion of a single currency.

ECB presidency: Germans in a hurry.

Nothing prevents the Germans from claiming the ECB presidency on the grounds that the institution is based in their homeland; but it was not thought that they would ask for it so quickly. They had of course already realised that the "one man one vote" rule took from them any dominant influence on the Board (only French economists and journalists continue to claim that the Bundesbank makes the law at the ECB); however, they believe that in present and future situations the weight of "small country" majority coalition representatives could erode the institution's credibility and that therefore the "large credible countries" should maintain control. The French have had their turn, now it is theirs. Except that … it seems that the country whence the President hails cannot really influence the institution's policy. Luckily!

Each month, Jean-Pierre Patat, Honorary Director-General of the Banque de France and a TAC advisor, offers his own point of view on the economic and financial news, with total editorial freedom. Email : jppatat@tac-financial.com
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