Weekly Market Summary

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The Greek Saga Continues .. What is Next??

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As we head into the weekend and move closer to the European Union Sunday July 12th deadline for reaching a deal with Greece on a rescue in exchange for austerity measures and economic reforms from the latter, here are the major overnight news/information that markets need to be aware of:

- In an 11th hour bid to stay in the euro, the government of Greek Prime Minister Alexis Tsipras offered on Thursday to meet most of the demands made by creditors in exchange for a bailout of 53.5 billion euros ($59.4 billion). The package of spending cuts, pension savings and tax increases almost mirrored that from creditors on June 26th (Seriously?! All this fuss and market uncertainty in past weeks to end up accepting a package that was disapproved by 61% of Greek voters in a July 5th referendum?!)
- The first hurdle will be approval of this latest package in the Greek Parliament in coming hours. Far right members of the Tsipras government as well some of his supporters in the Syriza party have already expressed dissatisfaction at many of the concessions made, which would imply that Tsipras will have to rely on opposition votes for this latest proposal to pass!
- The bailout submission now opens a 48 hours window in which it will be assessed by the trio of Greek creditors (EU commission, ECB & IMF) before being put to a vote by Eurozone finance ministers this Sunday (though it appears that EU leaders will likely have the final say on whether the debt-addled country will get a new three-year loan).
- Even if all the above is met, the “deal” would still need to be passed through various national parliaments for final approval (ratification by the German Bundestag as well as by the parliaments of Finland, Slovenia, Portugal, and Estonia).
- NOT TO FORGET, that Greece has a history of not sticking to agreed rescue programs (either due to difficulties in implementation or lack of strong will).

Market reaction has so far been a return to “risk-on” trading with a vengeance, as the Greek proposal is met with optimism that a tentative step in the right direction has been timely made! EURO/USD has rallied to a high of 1.1180, WTI oil and gold remain very much unchanged at 53.45 and 1163.0 respectively, US and German 10-year Treasury yields have jumped markedly with levels last at 2.38% and 0.88% respectively. European stocks have opened 2% higher after a rally in equity prices that started yesterday, and US stock futures are pointing to another solid jump when US cash markets later today (Dow Futures up 187 points, S&P futures up 25 points).

Greece’s proposal includes creditors’ longstanding demands for sales tax increases and cuts in public spending on pensions. Greece also proposes the restructuring of its debt and a package of growth measures of 35 billion euros. For Greece, time is of the essence: Two weeks of bank closures and capital controls have piled on to the economic misery of its 11 million citizens, who – just a week back - voted so overwhelmingly against more austerity!! The bailout money – if approved – would be used partly by the Greek government to cover debt repayments between 2015 and 2018, mostly to the IMF and the European Central Bank. It will then be left with debt owed only to EU institutions.

Germany is under tremendous pressure to accept the Greek proposals, as a chorus of countries and key institutions demand debt relief for Greece, a shift that could break the five-month stalemate and avert a potentially disastrous rupture of monetary union at this Sunday's last-ditch summit. In a highly significant move, the European Council has called on both sides to make major concessions, insisting that the creditor powers must do their part. "*The realistic proposal from Greece will have to be matched by an equally realistic proposal on debt sustainability from the creditors*," said Donald Tusk, the European Council president. That would be the first time Europe's institutions have acknowledged clearly that Greece's public debt – 180% of GDP – can never be repaid. Still, German Chancellor Angela Merkel has said "a classic haircut" is out of the question, but tacitly opened the door to other forms debt restructuring, conceding that it had already been done in 2012 by stretching out maturities. A report by the IMF said a debt haircut of 30% of GDP "*would be required*" to meet the original debt targets agreed in 2012. This could be achieved be stretching out the maturities of bonds to forty years and lowering the interest rate, sparing EMU governments the political pain of having to crystalize direct losses for their taxpayers.

Also the US has clearly lost patience with the Europeans, bringing over the past week its huge diplomatic power to bear, as it fears that mistakes in Greece could lead to a geostrategic fiasco and serious damage to the NATO alliance. "*Greece's debt is not sustainable*," said Jacob Lew, the US Treasury Secretary. "*I think it is a mistake for the European economy, the global economy, to take the risks that are involved with an uncontrolled crisis in Greece,*" he said. Mr. Lew added the two sides were only €2bn a part when talks broke down, yet potentially hundreds of billions are at stake if the crisis spins out of control. He deemed it a bizarre form of risk management.

That has led Wolfgang Schaeuble, the German Finance minister who is taking a hard line on Greece's debt woes, tell his US counterpart that Germany would gladly swap burdens with its American counterpart. "*I offered my friend Jack Lew to take Puerto Rico into the Eurozone if the U.S. were willing to take Greece into the dollar union*," Schaeuble said at an event in Frankfurt on Thursday. Lew, the U.S. Treasury secretary, "*thought that was a joke*," Schaeuble added (Puerto Rico, a U.S. commonwealth, is struggling with $72 billion in debt that its governor says the island can't repay).

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