

Have we entered the final crisis of the Euro?

Charles Gave

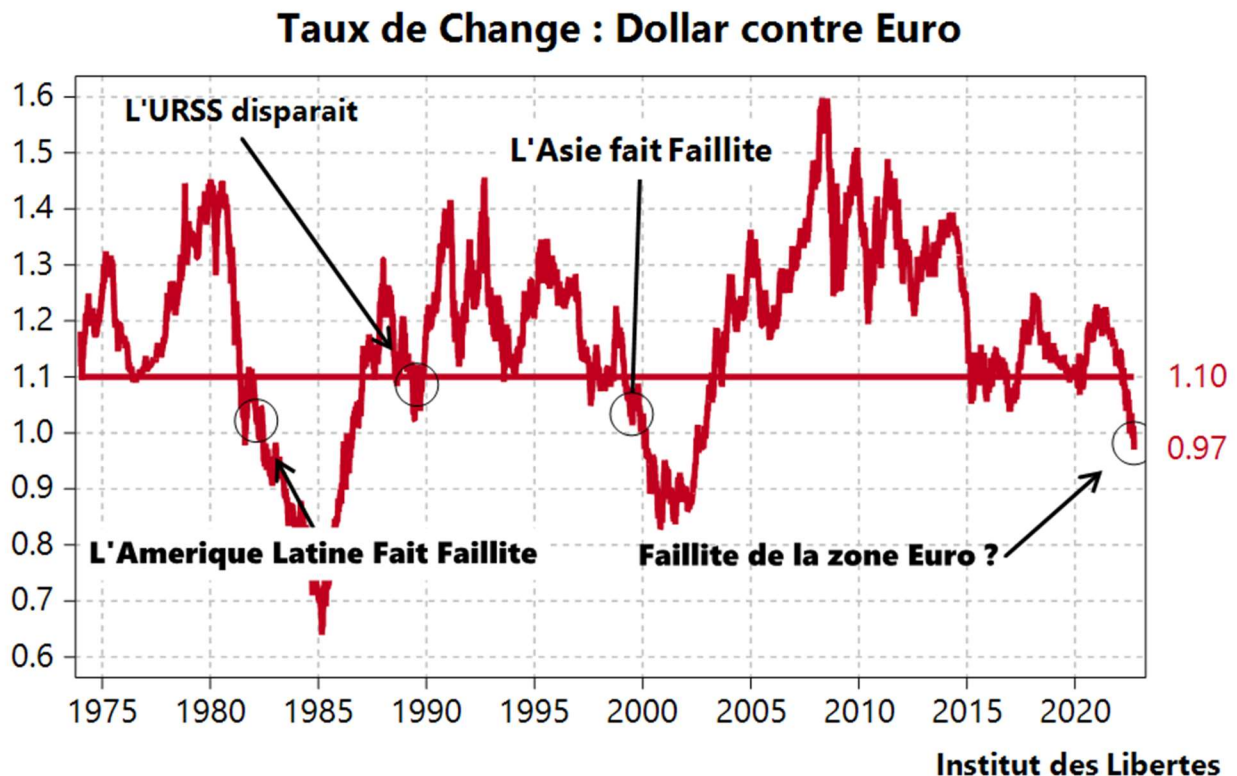
"It's when the tide goes out that we see those who were swimming without swimsuits".

Warren Buffet

Having been in the markets for fifty years or more, I have come to a fairly simple conclusion: when the US central bank starts to raise rates after a long period of low rates, many of those who borrowed when it was easy cannot repay and go bankrupt.

I have often compared this reality to fishing with dynamite on the high seas. You throw a stick of dynamite and it explodes at a depth of ten meters. First come the sardines and the whiting. Then come the tuna, sharks, dolphins and sperm whales. At the very end appear the big blue whales. And when the whales appear, then it is reasonable to stop being pessimistic and start buying in the financial markets. And for me, the whale this time may well be the Eurozone.

Please consider the following chart.



We have just reached 0.97 dollars per euro, which seems to indicate that the explosion has already taken place.

Since 1974, every time we went below 1.10, some time later, a blue whale came up, first Latin America in the 80's, then the USSR at the end of the same 80's, and finally Asia ten years later and it seems logical to me to predict that the next whale will be the Eurozone.

Why?

Because the countries of the Eurozone no longer pay for their energy in euros, since we are angry with Russia, and will have to pay for it in dollars, which they do not have, and must therefore buy in the market by giving euros in exchange. Those who are most "short" on the dollar in the world are the Europeans who did not know a year ago that they would need all those dollars a year later. And they are overdrawn both on energy, which everyone understood, and on the dollar, which few people understood.

If "to govern is to foresee", one can only be amazed by the forecasting abilities of Mrs. Von der Leyen and of Mr. Macron, who presided over Europe a year ago.

Who will break the order given (by whom?) to all European countries to stop buying oil or gas from Russia, and therefore to pay in dollars for what they buy from others?

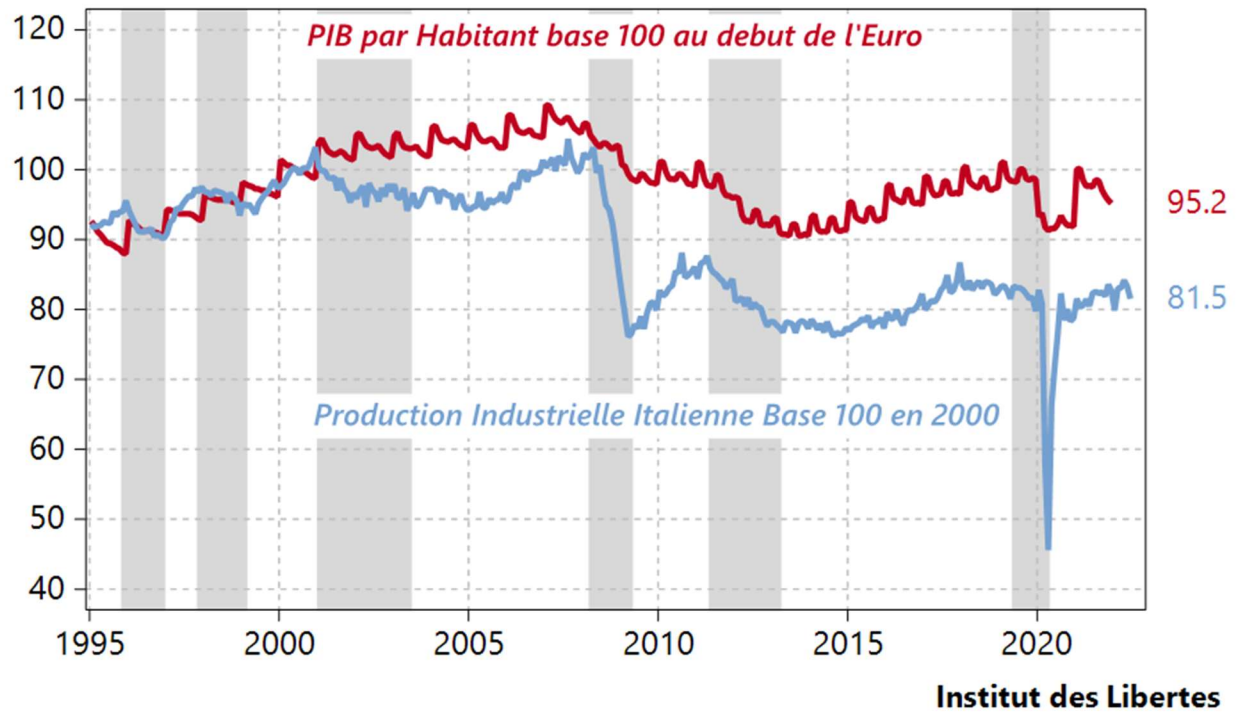
Who will cross the Rubicon first and thus trigger the nuclear reaction that will put an end to the existence of my favorite financial Frankenstein, the euro, is the question?

Well, at other times it would have been France. Today, I think it's Italy.

Let me explain.

First of all, Italy, which is voting as I write this, cannot take another rate hike even though it is entering a downturn again.

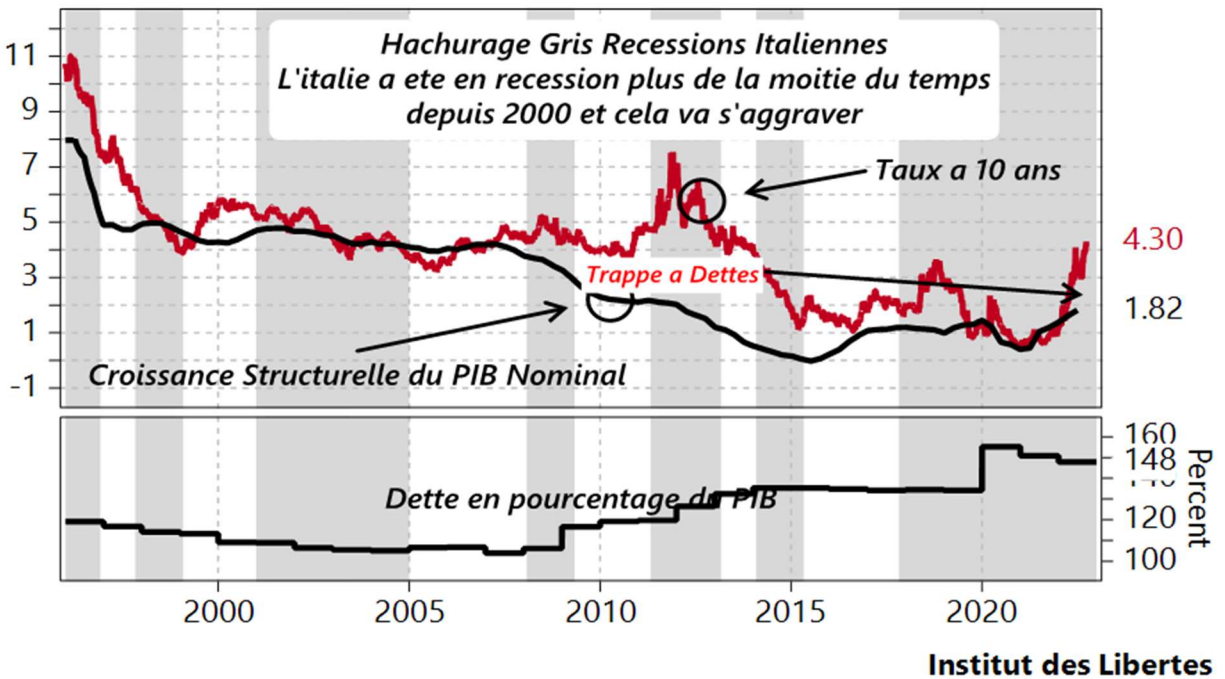
Italie : PIB par Habitant en Termes Reels



Italy's GDP per capita is down five percent since the creation of the Euro, while industrial production has fallen 18 percent since 2000 (thank you Mr. Draghi).

But a further three per cent fall in GDP per capita and a rise in debt as a percentage of GDP is looming in the not-too-distant future, as the third chart suggests.

Taux a 10 ans et PIB Italien



Nominal growth is less than 2 percent per year and interest rates are above 4 percent... and so the debt-to-GDP ratio is going to explode upwards again and go towards twice GDP.

Let's do a little rule of three.

Debt service is now at about three percent of GDP per year and the ECB can no longer manipulate Italy's rates downward, to keep Italy's head above water, since the US is raising its rates.

On today's growth figures (which will fall), and with interest rates rising over the next five years, debt servicing will rise to six percent of GDP, which means that the standard of living of every individual will fall by at least three percent, which is impossible.

And there is no solution as long as Italy remains in the Euro, and everyone in Italy knows this.

And Italy can easily get out because it has a primary budget surplus and a trade surplus. It does not need the financial markets to make ends meet, unlike France.

In any case, make no mistake: the Italian elections are about one thing and one thing only: the euro. "Always think about it, never talk about it" seems to be the watchword in Italy.

And so, the more "right-wingers" are elected, the higher the probability that Italy will abandon the euro.

No more "combinazione", so useful to the Draghi of this world.

The newly elected, if there are enough of them, will have to get out of the euro, and therefore out of Europe, as quickly as possible, so as to be able to sign contracts with Russia for the supply of energy, payable in new Lire.

This is a bad blow for NATO, which controls the entire Mediterranean from US bases in Italy.

Will the USA accept that Italy buys its energy from Russia?

I don't know, but if this is the price to pay to keep their bases in Italy and Greece, no doubt.

If someone has another solution, let him present it to the new Italian government, time is running out.

My comment on the elections, the results of which I do not know, is as follows:

If the right has a majority beyond current expectations, the euro is dead.

If the right has a majority in both houses, same conclusion

If the left does better than expected, the agony of the system will be prolonged. Buy gold