Title - A paragon of virtue… March 26th 2010

So the Greek debt problem has been solved. If Greece finds itself unable to raise money in the bond markets, then some combination of IMF/EU funding will kick in (although very loosely specified at this stage), but in that eventuality chaos will already be centre stage. Greece will not be getting any favours from the EU on the rate of interest it will have to pay (currently over 6% and nearly twice the rate of 10 year German bunds). They would normally expect to pay less via the IMF, but the currency devaluation lever they would normally pull is not available in the eurozone.

The EU leaders (and there are a confusing plethora of them) say this is a triumph for European co-operation. But only days ago Jean-Claude Trichet, head of the European Central Bank, said it was a "very, very bad idea" to let the IMF into the eurozone. He has now done a volte face after Zhu Min, the vice-governor of China's central bank, weighed in with his concerns about the lack of EU cohesion over the issue and the implied threat that Chinese support to the eurozone sovereign debt market would be less forthcoming.

As ever Mr Market will make the call. Greek yields are very attractive for income seekers and the last auction was well covered. With implicit EC backing there is no reason to believe the bond markets will shut their doors. Dare I say it but Greece is an irrelevance compared to the ongoing structural problems within the eurozone as a whole. Germany has clearly signalled that it does not want to see fiscal sovereignty devolved to the centre, unless that centre is Germany, and the rift with France is deepening.

The Council of Ministers yesterday called for the formation of a European economic government. Gordon Brown prefers the term "governance", for which there seems to be no French equivalent, and Sarkozy is struggling with poor election results and is trying to regain credibility with his own voters by highlighting the debate on CAP reform or preferably a lack of it.

In the US Bernanke has confirmed that accommodative monetary policy will continue to be the norm for a while yet, which suggests the Fed knows that the recovery is still very fragile. They have absorbed over $1 trillion in mortgage back securities and other "toxic" debt from the banks that are now stuffed with cash reserves that they are recycling into the Treasury market and are playing the yield curve for all they can get. This is one reason why yields remain low and the equity market is on a roll and has been for the past 12 months; unwinding the gut wrenching declines of last October.

But has the global economy regained the same poise exhibited by the markets? GDP growth is improving, but how much of this is due to government stimulus programs? In Japan after 20 years of such medicine they are still in a deflationary environment despite a debt to GDP ratio approaching 200%! Issuance of JGBs in 2010 will exceed the government's revenue from taxation. Makes Greece a paragon of virtue by comparison…