Do you have a Plan B?

So "Merkozy's" plan to plan for a plan has had the desired effect, in the short term. The bear squeeze in equity markets has continued and their sick patient, the euro, has had a further remission. The plan thus far, it has to be said, shows little substance over form, but there is an almost palpable feel good factor around as snippets of good news – strong US retail sales announced on Friday – hit the headlines.

At the same time consumer confidence has reached multi year lows propelled no doubt by the doom and gloom of a few weeks ago. Consumers are however a fickle bunch. They may say they are less likely to spend but then along comes the new "iThing" from Apple and it's a case of "shiny thing make it better".

The case for the cunning plans will be discussed at the EU summit next weekend in Brussels. On the agenda will be a bigger write down on Greek debt (plan A), more fire power for the European Financial Stability Facility EFSF (plan B) and yet another recapitalisation of the banking system (plan C).

The Greek hair dresser's bill has been much discussed already by the "euro elite" and 50% off the mullet looks almost certain. However they need a way to avoid calling this most obvious of defaults a default. Otherwise those dreadful speculators who have arranged insurance on their bond holdings by bidding up the price of credit default swaps (CDS) will get off scot-free. Never mind that most of the major buyers of sovereign CDS are banks prudently controlling their risk exposure to avoid being caught up in plan C. The providers of this insurance include many of the weaker banks, trying to earn their way out of the hole they are in, knowing that they will get bailed out if a default happens. They will need bailing out anyway so denying that the Greek haircut is a default will only hurt the good guys but then nobody like a banker these days...

It has already been a hard road to get all eurozone governments to sign off for the initial funding for the EFSF (Slovakia being arm wrestled into a corner at the last moment) and it would take a change of the EU constitution to allow any gearing up or money printing a la Federal Reserve, by the ECB. This would probably take far longer to approve (if ever) than the markets have the patience for.

Plan C will happen; with or without the other two. Dexia, the Franco-Belgian bank, has set the ball rolling. Its Belgian operations have been bought by their government for €4 billion and along with France and Luxembourg are giving state guarantees for up to €90 billion to secure borrowing for the next ten years. This of course is a nationalisation not a recapitalisation and it won't be the last.

The amounts involved with Dexia are petty cash in the great scheme of things but it is indicative that each EU country will be pressured to look after its own banks, if they can, and don't expect Germany to come to the rescue. It is all very reminiscent of the machinations of the flawed Exchange Rate Mechanism (ERM), the precursor to the euro. The whole euro project was, and still is, a battle between France and Germany for control of European monetary policy. Nothing has changed...

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