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A NEW / DIFFERENT "EUROPEAN CRISIS?"



On this past weekend's edition of the *Korelin Economics Report*, I spent two segments with my friend Al Korelin discussing **two major issues concerning Europe**. There are others; especially where the growing rebellion against unchecked immigration is concerned.

For present purposes I will quickly recap the two that could have the most immediate impact *on markets*. (Go to <http://www.kereport.com/2018/05/19/hour-2-ker-politics-europe-usa/> for the full discussion of these *and more*.)

1. Driving Europe towards Russia...and away from the Dollar

There has for quite a few years now been an uncomfortable feeling in much of Europe over the way in which the neocons and other "Deep State" people who run American foreign-policy have led to worries about yet more war on the European continent. President Donald Trump *as a candidate* seemed of a mind to both rein back in military adventures generally and patch things up with Russia specifically. In short, he *seemed* to want to defuse--rather than exacerbate--tensions.

Instead, he may be in the process of (in one sense anyway) reuniting Europe--against the U.S. to some extent--around a few common themes:

* As German Chancellor Merkel has *again* said recently, it is time for Europe to look to itself for security and other needs; not the U.S. any longer. Thus, priorities set would be *Europe-centric*.

* As it is, America's recklessness as they see it in pulling out of the Iran nuclear deal is as

intolerable to **their own energy and military security** as it is *insufferable* in the way it came about. Though Trump by no means deserves all of the blame for the present state of affairs which have built over two generations, he is--loathsome as he is personally to many in Europe--conveniently in place as the scapegoat on whom can be heaped the scorn of all of Europe.

And he's the *justification* now if Europe really is about to "unhitch" its wagon from America.

* With a chutzpah befitting him personally and his enablers/partners in scuttling the Iran deal (where America is concerned, anyway), **Trump's threat to Germany especially over Nord Stream 2 had to be seen as WAY beyond the pale.** As I said on the podcasts this weekend, Germany and the rest have every right to tell both Trump and those pulling *his* strings to go straight to Hell where they belong.

There is no doubt that Friday's meeting between Russian President Vladimir Putin and Frau Merkel focused in some part on this added pipeline that will keep a flow of Russian fuel headed her way.

* In Italy, the coalition government forming between the Northern League and 5-Star Movement is especially insistent that it--and Europe more broadly--correct the mistake of recent years in allowing U.S.-based military and assorted other interests to drive a wedge between Europe and Russia. Much more so than the legendary "bromance" between Putin and former P.M. Berlusconi, Italy's would-be new leaders appreciate **the deeper cultural, economic and security ties that *should* exist here**, whether "the U.S." or an expansionary U.S.-run N.A.T.O. likes it or not.



Where *strictly energy* security is concerned, Europe wants *and needs* oil from Iran as well as that natural gas from Russia. **And this is where things may be about to get very interesting!**

On Friday, the European Commission began a process of reinvigorating and strengthening a "Blocking statute." In short, in various ways, it would either block or seek to elsewhere mitigate any sanctions imposed by the U.S. on European-based companies that "violate" sanctions imposed by the Netanyahu...er, excuse me...Trump Administration.

More interesting still are plans being laid that would have the E.U. set up a mechanism to bypass the U.S. financial system where necessary and import oil from Iran via direct European transfers to Iran's central bank. Read that one again, folks. And then *again*. It was one thing when the likes of a Saddam Hussein or Moammar Qaddafi threatened what in comparison was a pimple on a flea, saying they would boycott the global dollarized system. Now we are conceivably talking about all of Europe where energy is concerned.

I rather doubt that Donald Trump expected he was beginning to totally reorder the postwar global balance when he began this process of uniting Russia and Europe on one side, against the U.S., Israel and a United Kingdom that can't lick both the others' boots fast enough. *But he may be doing just that.*

And as I opined on the podcast, that would be one of the greatest things for the cause of global peace in quite a while.

All of this bears watching; especially this business of Europe ditching the U.S. dollar and how it buys energy from Iran. The near-term market consequences *could* include 1. a reversal of the dollar's rally, or at least a muting of it, 2. MORE of a rise in U.S. interest rates than might otherwise be occurring and 3. actually a softening of the recent oil rally (all else being equal) if it turns out that *Europe* has decided that Iranian oil won't be taken back off the market after all.

Near term, the extended deadline (June 1) for Trump to decide whether to add Germany and other E.U. nations to those nations whose steel and aluminum exports he would impose tariffs on will give us a read on which way things may go. But unless I miss my guess, don't hold your breath waiting for Merkel to cave on Nord Stream 2...or anything else. Nor should she.

2. Italy Swings HARD toward a *real* populism



(NOTE: From left to right in the nearby montage you'll find Beppe Grillo, the comedian and 5-Star Movement founder/elder statesman; Luigi Di Maio, new 5-Star Party leader; Sergio Mattarella, Italy's caretaker president; Matteo Salvini, Northern League Party leader and Silvio Berlusconi, the 3-time Italian P.M.)

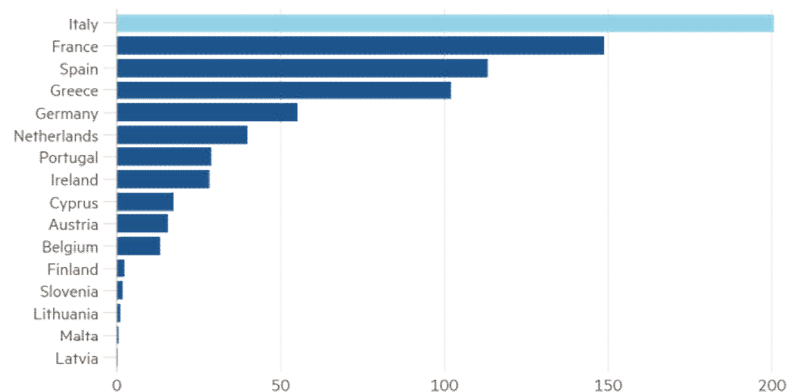
The blow that was dodged by the overall E.U.

last Spring--when neither France's Marine Le Pen nor the Netherlands' Geert Wilders could ride their "populist" and anti-E.U. Establishment campaigns to victory--**finally did reach Brussels' solar plexus when Italy voted.** The two leading vote getters were the parties that Brussels *least* wanted to see; and between the 5-Star and Northern League, work has been ongoing between the two of them (primarily) as they hope to put certain egos aside (by no means guaranteed yet) and form a workable government based on the platform they just finished hammering out.

Though watered down from some of the earlier extreme positions (the parties no longer come right out and claim to want to ditch the euro, at least not yet) there is still no shortage of ones that draw either nervous laughter. . . or cause dread. A variety of tax cuts, a rollback of unpopular "reforms" enacted during the 2010-2011 euro crisis and a laundry list of new social spending would take the current deficit (less than 2% of GDP) to *over 5%*. **At the same time, the parties want to reclaim from the**

Non-performing loans

Eurozone, €bn Q4 2017



Source: ECB
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European Central Bank the final determination of how they clean up their continent-leading banking mess. This--as it has been--will be a non-starter in Frankfurt.

As I commented over the weekend, I'm a bit mystified that global markets have for the most part yawned at all of this. True, Italian bond yields have popped more than anyone else's in the euro zone lately; *yet their 10-year rate is STILL nearly one full per cent below 10-year Treasuries, closing at 2.23% Friday against 3.06% for Uncle Sam's I.O.U.* Some will say it is because this coalition government won't ever get off the ground, and that markets thus aren't all that worried. Plus, President Mattarella effectively has the power to declare the whole attempt to form a government unworkable, and *could* call for a new election.

But as I write this Sunday afternoon, it has JUST been reported that Salvini and Di Maio have agreed on a prime minister (the identity of whom, as of yet, has NOT been made known.) Both men would get top cabinet posts, and would be able to additionally place their respective people in top levels of government.

Despite the now-increased angst this is going to cause as a new week starts--as, among other places, you can read at <https://www.bloomberg.com/news/articles/2018-05-20/italy-s-populists-seek-new-premier-amid-french-warning-on-euro>--**some will STILL hope that Mattarella will kill the whole thing.** But now that a prime minister candidate has also been agreed on, that just got harder to justify. We may know more on Monday how things will evolve, when Salvini, Di Maio and their to-be-revealed P.M. candidate have their audience with the president.

To be continued. . .

The above is excerpted from the May 21, 2018 issue