Thoughts on outcome long after smoke of Greek referendum clears July 4, 2015

Potential long-term financial and geopolitical impacts associated with 323bn euro Greek debt/solvency showdown (http://www.bbc.com/news/world-europe-33375653):

1. If Greece stays in the EU: the ECB ultimately bails out Greece by printing more money, further debasing the euro.

2. If Greece leaves the EU and the euro: the toxic Greek debt that EU countries (taxpayers!) and the ECB assumed from European (primarily German and French) money center banks gets placed, at a fraction of issue value, back on the balance sheet of money center banks, potentially crippling those banks with write-downs, especially when considering the trillions of dollars of (higher) interest rate, currency, and credit default swap exposure money center banks, led by Deutsche Bank, have. Needless to say, given the tightly woven international fabric of money center "derivative chains," this could lead to a counterparty crisis (banks no longer trust each other), a freeze up of credit (debt) markets, spiking interest rates, and massive "2008-style" monetary illiquidity – which could shut down commerce/the economy, much as has been happening in Greece.

3. If Greece isn't "saved" by the EU/the ECB: this opens up a huge "savior" opportunity for Russia and, by extension, China. How so? These Eastern giants could recapitalize Greece in exchange for Greek real assets, such as farmland, and for access to Greek (NATO country) ports. Russia, from the Black Sea south and west, is keen to extend/bulk up its warm water Mediterranean access for both naval power projection and commercial reasons. Greece occupies a very strategic geography as the Greek peninsula extends south toward Africa along the Aegean Sea.
(www.google.ch/maps/place/Greece/@38.2749497,23.8102717,6z/data=!3m1!4b1!4m2!3m1!1s0x135b4ac711716c63:0x363a1775dc9a2d1d)

Speculation as to *ultimate* political outcome of this weekend's referendum (http://www.telegraph.co.uk/finance/economics/11712465/greece-crisis-live-no-vote-polls.html): the ECB, at the behest of the EU/politics and with implicit Greek approval, will refinance Greece and thus further debase the euro. This will likely be viewed by European/Western political and financial power brokers as the least tumultuous, least destabilizing, most status quo friendly, and most familiar "solution." The costs associated with a "Greek divorce" are just much too high, be they financial, economic, or geopolitical, for the Western decision makers to contemplate. This is especially true in view of the fact that our turbocharged financial repression (QE and ZIRP-based misallocations and asset bubbles)-enabled Keynesian trajectory since the 2008 financial crisis has massively enriched the very select few that effectively or directly determine (and benefit from) "policy" at the cost of the many.

"We are all Greece," and decision makers are kicking the can down the road (bullet point 1 outcome thus most likely) until confidence is lost, much like the boy that cried wolf once too often. Confidence in what? Confidence in the efficacy of financial repression-based asset price determination/bubbles in an era of markedly rising sovereign insolvency risks, reduced liquidity, diminished transparency, growing misallocations, and declining productivity/growth. (A preview of possible coming attractions came this January, when the SNB, against multiple repeated proclamations to the contrary, decided to de-peg the Swiss franc to the euro, and triggered "overnight" double-digit resets in asset prices and currency valuations.)

Conclusion: inevitably, increasingly tender confidence will be overwhelmed by ever bigger markets*, specifically by the return of "bond market vigilantes," whose claims on economic output, currently at a post WWII peak and rising, are much more sizable than just seven years ago. Commensurately, a stout "traditional asset(s)" valuation reset is arguably solely a question of "when," and not "if." Fire insurance has to be bought prior to the fire, and that policy should be as long-lived as possible, as ruling class chicanery, albeit long in the tooth, has proven to be "a cat with nine lives." It is in this sense that physical precious metals, which have been in a four-year bear market deepened by concerted, well-documented asset price manipulation http://www.bloomberg.com/news/articles/2014-02-28/gold-fix-study-shows-signs-of-decade-of-bank-manipulation), come to mind as attractive long-lived portfolio insurance assets. Politics has been in the driver's seat far too long. Economics ultimately trumps politics. This, in my view, will be the ultimate outcome of the Greek debt enmeshment, which could well be considered as nothing other than a global microcosm.

Sincerely,

Dan Kurz, blogger
(dan_34135@yahoo.com)

* - Global debt reached $199trn in 2014 vs. $142trn in 2007; OTC interest rate derivatives outstanding 12/2014: $505trn vs. $393trn in 12/2007; http://dkanalytics.com/wp-content/uploads/2016/10/20-Returns-valuations-and-precious-metals-May-2015.pdf, p.1