

Recent Events

U.S. News

United States \$1 trillion shortage for benefits

Greece Crisis

European Union's Involvement in Greece's Financial Downturn

Wall Street

Stocks potentially crossing into positive territory this week

Upcoming Events

Look out for lectures and events organized by the society!

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# Richmond Finance

## Society

### Weekly Newsletter



Omar Elneser

## The *Doomed* Euro

Europe's single currency was launched in the beginnings of 1999. Out of the 27 member states of the European Union, 16 make use of the currency while 23 countries have their currencies directly pegged to the euro. After the US dollar, the Euro is the most held international reserve currency and many respectable economists including Alan Greenspan have discussed the conceivable possibility of the euro replacing the US dollar as a reserve currency. Then the credit crunch happened which was followed by a global financial crisis and we have seen how Europe is trying to spend its way out of recession. The needs of each country are distinct, such as the ability to print their own money and have absolute control of its supply of money. With the exception of the UK, all other European countries have a very rigid labor structure which limits the flexibility and economic agility of each country. Undoubtedly, Germany is and always will be a powerhouse, but the Germans cannot continue to finance all the holes being opened by poorly managed countries as shown currently. And this is not only about Greece's debt crisis; it's much more than that. So many European countries are well above the debt and deficit levels enforced. What is next? When Germany is in need of a weaker Euro because it has been overtaken by China as the world's largest exporter; the Greek are in need of loans because their economy becomes more and more illiquid and they cannot print money; the Spanish are unwilling to adapt fair value mark to market accounting practices so they make it even harder to value assets.

There are just too many conflicts of interest, getting a weighted-average rate of inflation and interest rate is not enough to let the more developed members run the market place the way they would like to. Now it has to be considered that a weaker Euro helps tackle unemployment, but because of massive spending by governments inflation is on its way back so it seems that we have a dilemma. A weak Euro favors exporters, while a stronger Euro have others relying in financial services. In general, things seem to run smoothly when systemic risk is low and growth is high but in these are the times when we should measure the currency and its future potential. I believe the Euro as a currency seems to be condemned and I would not be surprised if before 2010 the Euro and the Dollar reach parity. The European ideal is not enough to prevent this from happening. Ideals are pretty, such as the Arab Union, but apart from values there is reality. In Europe, there are too many barriers such as culture, a history of wars, language, and economic structures. There is no harmonization of labor laws, economic structures, and no country is willing to surrender their independence to an Euro institution that has a high potential for failure. No matter what, stay loyal to the greenback because even if the Chinese try to undermine the currency, it seems that they have no substitute in real terms.



# Greece – From Comedy to Tragedy

Cezar Coroblean

Just when the recession was thought of ending without leaving a single European Union country bankrupt, there was a devastating turn of events. It didn't come from Bulgaria, or Romania, not even the badly "hurt" Baltic countries or Ireland. Instead Greece, a member of the EU since 1981 and of the Euro Zone since 2001, found itself in the situation of having a budget deficit of 12.7%, double the initial forecast for 2009 and nearly four times over the 3 percent limit foreseen by European Union rules. The first concerns regarding Greece's public deficit were reported after last year's close default of Dubai (the emirate was saved only by a last minute \$10 billion loan from the neighbour emirate Abu-Dhabi). Wolfgang Munchau, co-founder and president of Euro intelligence, was one of the first high profile analysts to say that Greece might find itself in the same position as Dubai, but the main difference would be that the Brussels officials might not act as the country's saving angels.

Greece is not the only EU member with a high public deficit and if the country would become bankrupt the EU might have second thoughts before bailing. This might create an "*a priori*" belief and other members that might get in Greek's situation will expect to be bailed. Spain, EU's fourth largest economy, is probably the best example. With an unemployment rate of nearly 20% and a public deficit of 11.4% for 2009, bailing out Spain might be more than the EU can chew. On comparison, Greece's economy is ranked as being the 11<sup>th</sup> largest in the union. The difference between the two countries becomes easier to observe when absolute values are compared. As of 2008, Spain's GDP amounted to €1,088 billion whereas Greece had a GDP of €240 billion.

At a 12.7% public deficit rate and a GDP of € 230 billion for 2009 (assuming that the Greek economy decreased by 4.1%, the EU overall decreases in GDP for 2009) the country urgently needs at least € 30 billion.

However, according to the FT, Greece might need almost the double of this sum, € 53 billion, to be more exact. The country already raised € 60 billion during 2009 to cover its public deficit, but with the prospect of 2010 being worse than 2009 how much will the investors be willing to lend the country?

On the 25<sup>th</sup> of January, Greece issued a total of € 5 billion in five-year fix rate governmental bonds, but the demand for the securities was of nearly € 20 billion. The main reason for the high interest that investors show in Greek bonds is the high risk premium that the country is paying. Currently Greece is paying nearly two per cent more in interest on its debt than Germany or other Euro Zone members. The five-year bonds were offering a 6.2% annual yield, 0.4% more than the bonds issues during 2009 and almost 4% more than the five-year German bonds. The two-year bonds offer an annual yield of 4.34%, whereas the ten-year bonds have a coupon of 6.17%, almost 1.5% more than the Irish bonds, which offer the second largest yield in the Euro Zone.

After the success of the first issuance of bonds, Greek officials began talks with Chinese official and investor for the sale of bonds worth € 25 billion in the Asian country. However, just as Bear Stearns failed to save itself in China, so did Greece. The Chinese investors showed very little interest in the Greek bonds probably because on the long run the euro/yuan exchange rate is expected to decrease and it will offset the gain on the securities.

For now, Greece managed to raise € 8 billion that should be enough to keep the country "running" until May when it is set to pay back some of their long-term debt. However, it will be interesting to follow up the evolution of the Greek situation and hope that Spain will not end in the same situation.

## A Risk Averse Approach to Emerging Markets

As relatively recent trends have shown, the greatest potential for earning high returns quickly is to invest in the rapidly growing economies of emerging markets. The continuous expansion of production and demand for stock in countries such as China, India, and Brazil has created a great opportunity for international investors but has also caused a significant increase in stock prices in those economies.

Investing large sums of money in these emerging economies has extremely rich potential but also exposes stock holders to immense amounts of risk. Therefore, traders have been looking to alternative methods of involvement that still create an opportunity for large gains while also providing stronger security against risk during times of economic pitfalls. An increasingly popular solution to this problem is to invest in companies with significant activity in emerging markets. Buying shares in large multinational corporations based in developed countries who have lucrative and growing operations and sales in countries such as China, India and Brazil is a way for shareholders to participate in the emerging markets economy while still shielding themselves from the high cost of foreign stock prices and high volatility of those stocks.

Another advantage of investing in the multinational corporations is that energy and commodity demands in these developing countries are also increasing. Therefore, the multinational corporations are experiencing increasing growth in a broad variety of industries and countries in addition to the developing ones due to their increased demand for imports. Within the next 20 years it is forecasted that over one billion people will make up the middle class in developing countries around the world, which means that labor force and sales will grow in proportion to the increasing population.

Emerging economies also currently hold over 90 percent of the world's oil supply, along with a large spectrum of other natural resources. As these economies become more established they will rely less on the developed countries and will decrease the demand for their products. Although this radical decrease in demand for developed nation's tangible goods and financial assets won't happen over night it is still beneficial to consider investing in these emerging markets while it is still economical for foreign investors to do so.

*Lauren Schultz*

## Links to Additional *Current Events* and Financial News

**1.** The past two weeks have seen a positive trend for the United States economy but there are substantial international challenges ahead this week that could potentially disrupt the momentum.

[http://money.cnn.com/2010/02/19/markets/sunday\\_lookahead/index.htm](http://money.cnn.com/2010/02/19/markets/sunday_lookahead/index.htm)

**2.** The United Kingdom's opposition Conservative Party plans to give discounts on stakes of U.K. banks sold to taxpayers if elected.

[http://online.wsj.com/article/SB10001424052748704751304575079333389392108.html?mod=WSJEUROPE\\_hpp\\_LEFTTopWhatNews](http://online.wsj.com/article/SB10001424052748704751304575079333389392108.html?mod=WSJEUROPE_hpp_LEFTTopWhatNews)

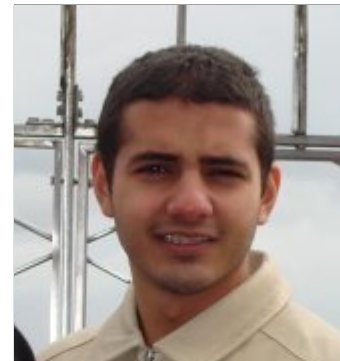
**3.** The Dutch coalition collapses due to divisions within cabinet regarding troops presence in Afghanistan and therefore has plans to pull all troops out in August.

[http://www.ft.com/cms/s/0/2ce4b0ae-1e0e-11df-ae0b-00144feab49a.html?nclick\\_check=1](http://www.ft.com/cms/s/0/2ce4b0ae-1e0e-11df-ae0b-00144feab49a.html?nclick_check=1)

## Meet the Finance Team\*!

### A Look Back at Last Week

We held our first informational meeting in the Atlantic House Common Room where we discussed goals and ideas for the coming semester. We also spoke to a few of our upcoming speakers for this semester to finalize dates that they will be visiting Richmond.



**Omar Elneser**  
*Chair*



**Cezar Coroblean**  
*Vice -Chair*



**Grese Rexhepi**  
*Treasurer*



**Diana Simion**  
*Secretary*



**Pascal Kraus**  
*PR Officer*



**Lauren Schultz**  
*Chief Editor*

### Upcoming Events!

Monday, February 21, 2010 Dr. Cohen will be giving a guest lecture to any and all students who are interested. Please refer to the Student Union's Academic Committee for more details.

We welcome you all to join us and feel free to submit a piece of work or article you have written to the Finance Society Weekly Newsletter if you would like to be published to [lauren.schultz@students.richmond.ac.uk](mailto:lauren.schultz@students.richmond.ac.uk)!



\*Mentor: Dr. Ivan Cohen, PhD.  
Associate Professor in Finance and Economics

### Joke of the Week:

"Economists were created to make meteorologists look good."

