

JVB Financial Group, LLC

CRONIN'S CORNER MONTHLY

A Perspective on the International Economy

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by Keith Cronin, JVB Senior Vice President of US Credits and International Sovereign Trading

The effluvium has wisped itself into some ether beyond, and although the bumptious self-righteousness is a perpetual, at least the Oscars are now over for another year. The trophies have been 'awarded to' - without a losing pledge in sight - fashions have perpetrated the red carpet faux-pas, and actors have bumbled over ingratiating acceptance speeches with voracious vacuity. More significantly, a blessed bard from a place called Stratford-upon-Avon had once upon a time penned that the 'world is a stage'. The poignant accuracy of these words has forever been apparent but with time's trample to the present perhaps they have never been so obvious. The evolving global theater of news that paints our mood on a daily count comprises many acts. Most are tersely dramatic, more and more are becoming bitterly tragic, and, yes, even some smack of Hollywood histrionics and their perfumed profundity of the frivolous. Almost every country on the planet has had some soliloquy in the past few years as economic pestilence, political pandemonium, or financial flippancy have all taken a swing. Many nations have reeled, staggered, or swooned but most seem to be ready for the next installment and seem to be successfully avoiding the negative news bytes for the right reasons. Other countries are black-holed into apparent disarray as problems and tribulations seem to forever court them. Seemingly cloaked in elongated drama is Italy. Whether it is in La Scala or a government Palazzo in Rome, hysterical histrionics are but only a few syllables away. Whether it is the teetering economy or the sybaritic Berlusconi, Italy's stage is in danger of being trampled. Now, another character has come into her life - again. This one brings with it not just the parochial, almost parental, concerned European high brow but a global arena held captive by the outcome. Cue, Libya.

Long before Colonel Qaddafi's newfound exposure to media hounds and global warlocks had reignited, Italy was already on the tip of many a frown. The Prime Minister, Silvio Berlusconi, (now you didn't really believe that Angela Merkel is running Italy?) is apparently Italy's third richest man and has a curriculum vitae that a Hollywood screenplay would devour. Owner of AC Milan soccer club, and with interests in television and publishing, the Knight (a bestowed sobriquet following a knighthood he received many years ago) can never be accused of lacking ambition. However, what he may lack is some judgment. This year he faces at least four trials on alleged corruption and underage prostitution charges and since he entered politics has supposedly spent nearly five hundred million Dollars defending himself and his companies from the crusaders of law. For a prime minister to be thus vilified surely deserves a nod with Guinness and their record books. Berlusconi fervently claims that all the charges brought against him are false

and that Italy's judges are on a quest to destroy him. Hardly a fountain of originality that one, but this parliamentary soap-opera has the potential to wobble the political stability of a country that is already grappling with an anemic economic recovery.

Italy's GDP shrank by over five percent in 2009 but the country managed to fidget through 2010 and ultimately ink a positive growth number on the register—albeit an underwhelming rate of only one percent. The Euro average was just under two percent, thus the austerity measures and their effects, it seems, can already be discerned. The Italian vision is to, of course, reduce the fiscal deficit and public debt that she has on her books. The problem, a la PIIG, will be to achieve that whilst keeping the economy on an upward trajectory and cutting the deficit by an estimated twenty five billion Euros at the same time. It has to be noted that Italy's fiscal deficit isn't catastrophic. At just over five percent of GDP last year it was actually lower than that of France, significantly lower than the rest of the peripheral nations and not too far from Germany's, which was at four percent. Italy's public debt, however, could be catastrophic since it currently stands at approximately one hundred and fifteen percent of GDP. Not only is this cringe-worthy across the continent, but it ranks high amongst the country's global peers and we think it's likely that this number will go even higher. This will continue to stimulate fears of default and with an unemployment rate of eight and a half percent the famous Italian persiflage is in danger of rapidly eroding. With Portugal, and then perhaps Spain, next on the market's target list, an imminent Italian assault seems unlikely but Italy's immediate future remains upon a vector of 'contingent'.

Although Italy is a member of the 'G7', her role in Europe has always seemed marginalized by Germany and France. Now however, it seems, that Italy may be able to flex a diplomatic muscle that her European (and indeed most of her Global) peers don't have. Her former colony of Libya has suddenly not only pushed Italy on a diplomatic crash course, but may have also put the Italian administration in an awkward position as an unofficial interlocutor between the West and Colonel Qaddafi. Italy ruled Libya with an iron fist for over thirty years and the termination of this brutal colonial rule in 1943 brought with it a relationship renaissance between the two countries. When UN sanctions were lifted on Libya seven years ago it was Italy that helped Qaddafi and his country re-establish a footing on the international stage and the famous scenes of Moammar and Silvio embracing in Rome continue to heave of a poignant conviviality all these years later. The economic links between the two nations cannot be underestimated. Italy is Libya's largest

(Continued on page 2)

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(Continued from page 1)

trading partner and imports about a quarter of its oil and over ten percent of its gas from its North African ally. Libya holds significant stakes in Italian Blue chips which include Fiat, soccer giant Juventus and energy behemoth ENI. The signing of a 'friendship treaty' a few years ago was a way for Italy to apologize and compensate (to the tune of five billion Dollars) for the atrocities committed during her rule of Libya and also a way for her to control her interests in the country. It also ensured that Libya would control migratory flows and thus a mass exodus of Libyans to Italy, and ultimately Europe, would be prevented. Significantly, though, this treaty included a clause which would prohibit Italy from granting permission to NATO troops to use Italian military bases from which to launch any attack upon Libya. Thus, it is not a stretch to understand Italy's vacillation to recent events and the conundrum that presented itself to Rome. Whilst the European Union readily agreed to implement a UN resolution freezing Qaddafi's assets and imposing an arms embargo, Italy stopped short of actually freezing Libyan assets. The fear of Italian assets then being nationalized in retaliation was a real one and therefore Italy paused. So, what has Italy actually done in response to the crisis? They eventually decided to suspend the above-mentioned friendship agreement which now, theoretically at worst, makes a military strike by NATO more logistically feasible, but we think if this were to happen it would not include an Italian contingent. They have also placed a Rome-based Libyan bank under Italian control following the EU's decision to freeze the oil rich nation's assets last week. The Bank, Banca UBAE, handles payments for Libya's oil and gas exports and, despite it currently being under the guidance of the Bank of Italy, it appears that the bank's assets have not been frozen and that they are being

allowed to undertake business as usual. Clarification from Italian officials is, as expected, a meandering waltz of opaque susurrations. This is hardly surprising. Italy's interests are arguably more firmly cosseted under Qaddafi's thumb as we have seen the evidence of the nurtured bond that he has with his Italian counterparts. The Italians however, cannot be seen to be giving assistance to the maligned Colonel for fear of an international backlash and if they are seen to be helping the rebels this would severely damage their relationship with Qaddafi himself – assuming he remains in power. This last fact remains tantamount. At the time of writing it is significantly plausible that the uprising will be quelled and Qaddafi will indeed remain in power. The rebels pleaded for international assistance and, it has to be said, all they got were blithering promises from Washington and beyond. Severely ill-equipped, it seems the rebels can not overthrow the forty-year-old regime from within. Washington and Europe will face criticism for their inaction and the calls now for a no-fly zone over Libya seem redundant and will likely achieve nothing. It appears that the international community's paralysis may have saved the Italians from making some major, potentially debilitating, political and economic decisions. The global divisions on how to confront the crisis probably helped prevent a successful coup by the rebel forces and may have inadvertently saved the Italian relationship with Libya and maintained Italy's standing of one of Libya's main conciliators with the West. It appears that Colonel Qaddafi will have the opportunity to see the Trevi fountain once again—if he chooses to.

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