

JVB Financial Group, LLC

CRONIN'S CORNER MONTHLY

A Perspective on the International Economy

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History's horologists will tell you that Christopher Columbus was late. In fact, almost five hundred years before his purported touchdown upon the soil of North America, another European had already inhaled the virgin aromas of the new continent. Mention of his name, Leif Ericson, may induce a cranial scratch and perhaps beg the question as to whether he was the guy with the beard in the pop group ABBA. We're not sure of Leif's propensity to carry a tune upon crested waves and horn-rimmed helmets, but we're pretty sure he didn't play a synthesizer. Of Norse decent however, he and his brethren descended from the Scandinavian moraines and glacial gardens to explore and extrapolate their violent world. In many European countries the legacies of the Viking footprint can still be seen. Cities like Dublin and Cork, in Ireland, were founded upon the victories of Viking raiders, and their quest to trade eventually took them beyond what is now modern day Turkey. Scandinavia's exports today lack the temerarious terrors that the long-ships of the Norsemen cargo'ed across a continent, in the days before a bureaucratic afflatus decided to unify the countries of Europe. Today's Europe holds a place for the Scandinavians, although these northern frontiers have but only a toe in the tumultuous waters of the Rhine and the Loire.

Although not part of the Euro-zone, Scandinavia's presence remains composed and affable within the European Union itself. The twenty-seven member European Union assembly includes seventeen partners who have adopted the EURO as their currency, and ten who have, arguably, escaped the incommodious of a Byzantine European central bank. Of the Nordic ilk, only Finland is prone directly to the vicissitudes of fortune that swirl around the Euro. Having adopted the common currency in 2002, the Finns have recently garnered headlines with vociferous criticisms heaped upon Europe's recalcitrant spenders. A right wing party—The True Finns—recently campaigned the general election there upon a platform of resolute euro-skepticism and their mandates threatened to jeopardize the bailout package agreed for Portugal. If the bailout had been vetoed by the Finns, this would have had

dire consequences for the whole region and not only for just the Periphery nations or the Euro unit itself taken in a vacuum. Undoubtedly, the phone lines between Berlin and Helsinki have been buzzing and Finland will now support the rescue program, although it seems obvious that most Finns (like the Germans) consider these bailouts as frenzied nostrums that will only result in delaying the inevitable. Finland is probably not powerful enough to scupper any German-led proposals to save the periphery but it is evidence that the more parsimonious European nations are becoming increasingly irascible towards their more spendthrift counterparts.

Finland's neighbors to her west do not have to grapple with the economic scurrilous-ness that confronts those of the Euro family. Denmark, Sweden, and Norway continue to maintain their legacy currencies and show no immediate desire to infringe upon that status quo. However, the composition of this trio is not linear, as Norway is neither a member of the Euro Zone nor the European Union. Whilst Denmark joined the Union in the early seventies and Sweden in the mid-nineties, Norway continues to exhibit continued reservations towards the European model. Referendums in the seventies and in the nineties (presumably when Denmark and Sweden were joining) were met with a Nordic 'Naei' as the Norwegian populous voted against joining the European Union. Whilst Sweden and Denmark have shown that membership of the European Union does not necessarily cost a loss of monetary sovereignty, it seems the Norwegians are not prepared to risk any of the potential imbroglios that could smack of European helotism. Norway however is not completely independent of the continent or her economic initiatives. Its membership of the rather less-known European Economic Area (EEA) allows her, along with Nordic neighbor Iceland, to participate in the EU's single market without having to commit to full membership of the European Union. This situation doesn't in any way suggest that Norway is indifferent towards the European Union. Being her biggest trading partner, she can have no latitude

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for complacency but it seems that Europe's political panoply appeals not to Oslo. That being said, Norway isn't exactly on the verge of economic or financial extinction situated on the verge of Europe's club elite as the country enjoys being the world's second wealthiest nation per capita. The paragon of the 'mixed economy' model, the country's vast wealth can be in no small part attributed to her oil and gas reserves. The discovery of deposits over fifty years ago has propelled Norway to now being the fifth largest oil exporter and the third largest gas exporter on earth. Although a major player then in the oil industry, Norway's consistency is commendable as the nation has also avoided becoming a member of the unctuous OPEC cartel. What Norway hasn't been able to avoid, however, is the need for tighter monetary policy. The central bank raised interest rates in mid May, for the first time in a year, as the accelerating economy apparently needed a dapple of break fluid. With unemployment at only three percent, domestic consumption has helped tug inflation close to the central bank's target of two and half percent. Higher interest rates have been administered by central banks in Sweden and Brazil and from India to the Philippines tighter money is becoming more ubiquitous. Currently it seems inevitable that Norway will embark on more rate hikes but we continue to feel that the economy's strength will remain assertive. The profundity of the country's sovereign oil wealth will help protect it against any skews in global growth and prevent the country from being exposed to the nimbus of suffocating debt and fiscal deficits that some of her European counterparts are smothered with. The Krone should get support from such underlying fundamentals and higher interest rates but of course it will remain vulnerable to the corybantic swirl of uncertainty and volatility that will likely continue to plague the euro and which could, consequently effect global risk appetites.

Whilst Norway will continue to forge ahead upon the lustrous Krone, another Nordic nation remains determined to join the farrago that is currently the Euro Zone. Lilliputian Iceland remains committed to a future with the Euro despite its current malaise. Iceland hit the skids over two years ago when the country's biggest banks were unable to attain secure short-term funding. The government stepped in, commandeered the banks and forced the bondholders to take substantial losses. The Icelandic Krona (yes, the Nordics like titular uniformity across their catalog of currencies) consequently fell over seventy percent, which helped eliminate the country's trade deficit, which in turn is helping drag Iceland out of its own recession. The recovery there seems insipid and the relatively high eight percent rate of unemployment suggests that the country will have to continue to depend upon a depressed currency unit to help dispel the recession proper. Of course, this policy option will be rendered impossible upon the arrival of the Euro but we think that Euro adoption is at least three to five years away for Iceland, assuming of course that the common currency doesn't go the same way as Iceland's capricious volcano family.

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