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"European Crisis" – An internal memo from Robert Rodriguez on November 30, 2011 highlighting current financial/fiscal problems and maneuvers in Europe

Dear Colleagues,

I was up very late last night watching measures of European short term funding go to the highest levels seen since March 2009 during the last financial crisis. Had they risen about 2 basis points higher, we would have broken into a new and dangerous zone. Along with several bank downgrades after the close yesterday, this was shaping up to be a potentially serious day. A *Forbes* article today, "Big European Bank Failure Averted: What Central Banks Did Not Tell Us", confirms that a major bank was having difficulty funding liquidity needs.

Early this morning there was a coordinated response by several foreign central banks to provide liquidity to Europe and European financial institutions. These actions were not factored into the market but were always a possibility. I've been looking for some type of European bilateral fiscal agreements, along with ECB and IMF participation, to help stem the crisis. My estimate has been that something had to be done between December 2 and 9 that played into key upcoming ECB meetings. Any announcement that did not contain a substantive response from these meetings could unravel the financial markets further.

Having said all this, the central bank moves are only a temporary band aid. This policy does not attack the core issue of the unfolding crisis and that is uncontrolled fiscal spending along with non sustainable sovereign debt levels. Non competitive economies are driving these negative trends. Europe still has to deal with these basic issues. Additionally, back stopping their financial institutions and weaker economies will entail trillions of Euros. How Germany participates is key. Germany faces a Devil's bargain. It is still unclear to me, and I am highly doubtful, that the necessary and very long term fiscal austerity measures required can be done successfully and thus, all this financial/fiscal maneuvering will only addresses short-term challenges.

In much the same way that liquidity and swap lines were thrown at the U.S. economy during the last financial crisis, fundamental structural reforms, both fiscally and financially, have not been done, thus, in my opinion, we continue to be in an interim environment with final determination yet to come.

Initially, these liquidity type measures only had a short-term positive impact in the U.S. Follow on non-traditional monetary policies added to the attack. The final costs for these actions have not yet been totaled.

Again, we live in financially dangerous and volatile times.

Bob