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THE ITALY BOND ATTACK BREACHES EURO DEFENSES

The euro-region's defenses have been breached. Today, investors propelled Italy's 10-year bond yield to a close at a euro-era of 7.25 percent after the promised exit of the Prime Minister Silvio Berlusconi failed to convince them that his country can slash Europe's second-largest debt burden. The biggest signal to date that the single currency's third-largest economy is falling victim to it's two-year debt crisis forces German Chancellor Angela Merkel, European Central Bank President Mario Draghi and all of their peers to decide just how far they are willing to go to defend the euro. ''The market is testing the commitment of the euro zone's stewards,'' says Eric Chaney, who is a Paris-based chief economist at insurer AXA SA and he is a former official in the French Finance Ministry. ''Italy is the real crisis battleground.'' With Italy's debt at 1.9 trillion euros ($2.6 trillion) it exceeds that of Greece, Spain, Portugal and Ireland combined. Though Italy is unlike these nations, it does have a systematic importance as the world's third-largest bond market and eighth-biggest economy. Even after Berlusconi's offer to quit, his nation is still left struggling to try and produce a government stable enough to deliver austerity after LCH Clearnet SA raised the deposit it demands for trading Italian securities. ''While Italy is considered too big to fail, she may be too big to save unless there is a major change in attitude towards resolving the crisis.'' said John Higgins, who is an economist at Capital Economics Ltd. in London. ''Things could be about to turn very ugly.'' Today, the yield on Italy's 10-year bond surged 48 basis points to levels which previously drove Greece, Ireland and Portugal to seek international bailouts. According to CMA prices, the credit-default swaps on Italy's government bonds jumped 12 basis points to a record 551. The investors want ''a signal that Italy has taken control of its accounts and is increasing the competitiveness of the system,'' Marco Tronchetti Provera. who is the Chairman of Pirelli & C. SpA, which is Europe's third-biggest maker of tires, told the reporters today in London. ''Parliament has to take action soon. The global pressure sitting on Rome is building substantially, just days after Group of 20 leaders decried that inability of European counterparts to defeat a crisis that is now in its third year and is threatening global growth. European Union Economic and Monetary Affairs Commissioner Olli Rehn says he would like to answer ''very specific questions'' on economic pledges by the weekend. Today, U.K. Prime Minister David Cameron said Italian interest rates are ''getting to a totally unsustainable level.'' ''This is a form of meltdown,'' said Marc Ostwald, who is a fixed-income strategist at Monument Securities Ltd. in London. ''I would imagine the telephones between international finance ministries and central banks are in danger of running so hot they'll melt down themselves.''