

## MERKEL'S GREEK STRATEGY RISKS A BACKFIRE AS EURO'S ESCAPE ROUTES ARE MAPPED OUT

Germany and France's drive to try to force Greece to honor its euro commitments risks a backfire on Chancellor Angela Merkel and President Nicolas Sarkozy. An entire week after the currency's guardians declared for the very first time that it is definitely possible for the 17-nation bloc to shrink, U.S. stocks took a tumble on concern German politicians are already working to create exit chutes for the weakest members. Starting with Greece, the sell-offs suggests Europe's crisis is spiraling into a new stage as investors bet on which countries are most likely to quit the euro. The risk is that this will make it a lot harder for debt-laden countries to convince investors they can get their finances in order and for policy makers such as Merkel, Sarkozy, and the European Central Bank President Mario Draghi to bolster up the euro's defenses. "This is a dangerous phase," Neil MacKinnon, who is the global macro strategist at VTB Capital in London and a former U.K. Treasurer official, told Bloomberg Television's "On the Move" with Francine Lacqua yesterday. "All of a sudden, we're talking about the future of monetary union in its current format." On Nov. 9 the U.S. stocks dropped as news broke that members of Merkel's ruling Christian Democratic Union party plan to debate a motion next week, allowing countries to leave the euro region. In the past two sessions, the Standard & Poor's 500 Index fell as much as 1 percent, and also Europe's Stoxx 600 Index has lost 2.6 percent. Today, stocks rose as Europe took steps to address its woes with former central banker Lucas Papademos becoming Greece's interim leader. The Senate votes today on the debt-reduction measures, paving the way for a new government that may be led by former European Union Competition Commissioner Mario Monti. On Nov. 2 in Cannes, France, Merkel and Sarkozy ignited speculation that the euro area could contract near midnight, when they warned outgoing Greek Prime Minister George Papandreou that a planned referendum on his country's latest bailout must serve as a ballot on whether Greece wants to stay in the euro. "The referendum will revolve around nothing less than the question: does Greece want to stay in the euro, yes or no?" Merkel said while standing next to Sarkozy. While the ploy worked and Papandreou shelved the referendum, it undermined the message of the euro's founding treaty that membership was "irrevocable" -- a line Sarkozy and Merkel had stuck with for the past two years since the crisis broke out. Stephen King, who is the chief economist at HSBC Holdings Plc in London this week, said that Sarkozy and Merkel opened a "Pandora's Box." He was referring to the Greek myth in which the first woman on earth disobeys orders of the gods by opening a jar



and unleashing unspeakable evil around the entire world, leaving only a little bit of hope behind.