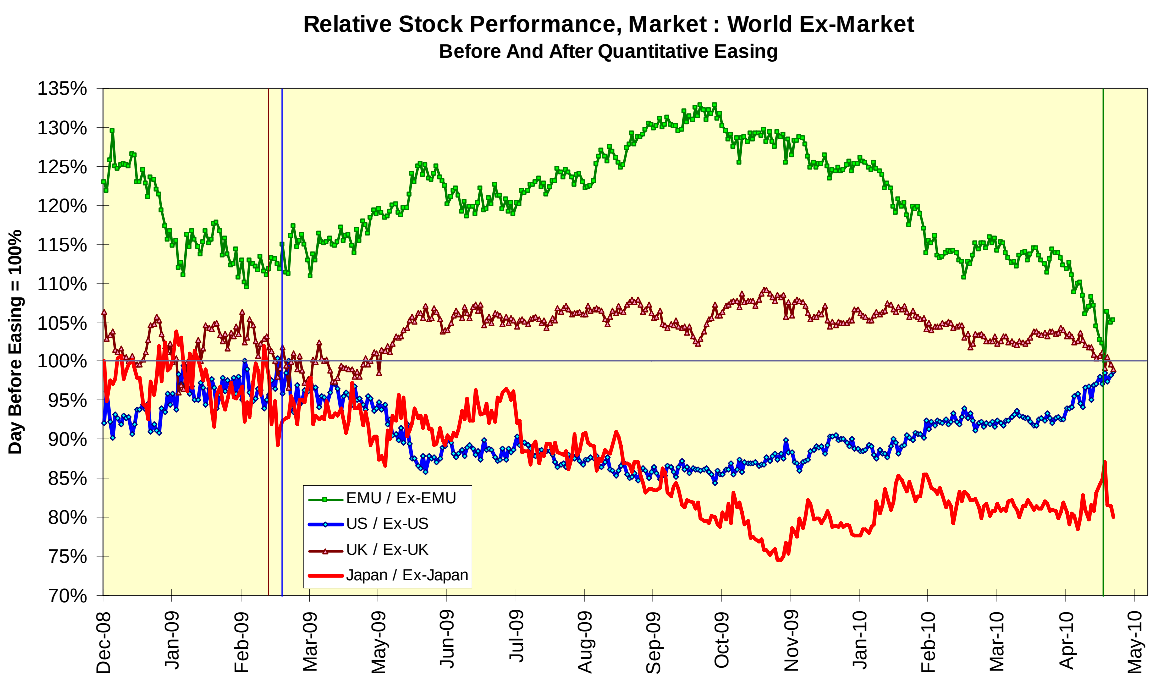
Too Much, Too Late In The Eurozone

When the trumpet sounds the cry to battle and it is time to gird your loins, will you even know where your loins are, much less how to gird them? In the case of the European Union, including the European Central Bank, the European Monetary Union and for all I know some residual representative of the now-lapsed European Coal & Steel Community, the start of the whole Euro-mess back in 1951, the answer clearly is, "No" on both counts. Jean-Claude Monnet was known as the father of Europe; I have lived through the Olympic skier Jean-Claude Killy, the late artiste Jean-Claude and now Jean-Claude Trichet of the ECB.

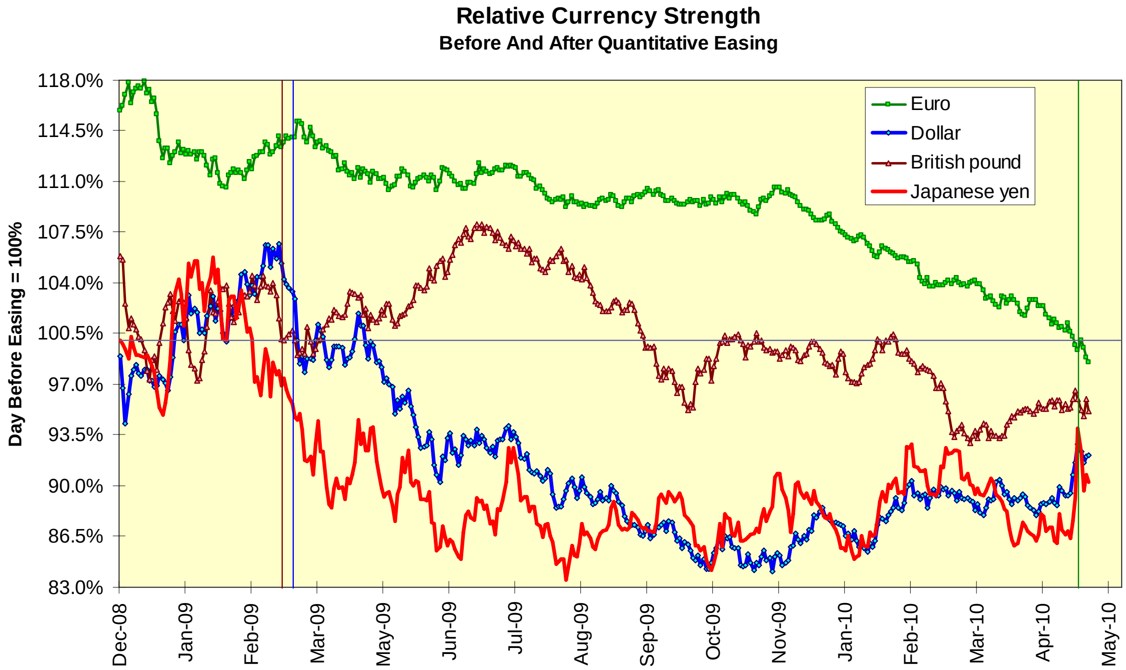
Too many Jean-Claude's and too few Irving's and this is what happens.

Let's expand on an analysis done recently for the relative stock and bond market performances of the Society of Quantitative Easers and add its newest member, the Eurozone. In a twist on the previous pieces, we will drop the Swiss franc as the base for relative stock market performance and will shift from the World Free index to "World Ex-country"indices for each national market involved. In addition, we will add comparative currency performance before and after the day before quantitative ease. Those days are marked with vertical lines with the exception of Japan, whose vertical line is the left-hand y-axis.

Let's focus on the Eurozone. Please note how its stock index has been deteriorating relative to the rest of the world since October 21, 2009; none of the other markets had such deterioration prior to the adoption of quantitative easing. While the European markets jumped in a relief rally immediately after Jean-Claude Trichet began pretending he was Johannes Gutenberg after an overdose of emetics, all previous experience indicates European markets will resume their decline as investors conclude the Man Behind The Curtain has been inhaling helium.



If we repeat the exercise for currencies as measured by the *Bloomberg* correlation-weighted indices, we see an ever more egregious decline in the euro prior to quantitative easing than existed for the other currencies. In fact, both the dollar and the British pound were rising into their March 2009 easings. These two currencies and the Japanese yen all are weaker now than they were before their respective central banks fired up the presses. This indicates the euro is going to get weaker still; why hold assets of a currency whose central bank is devaluing them right before your very eyes?



Had the ECB and the combined governments involved been more aggressive earlier in the game and joined the Society of Quantitative Easers before the Eurozone's sovereign credit problems emerged, the results might have been different. And, in fairness, we should note the possibility, however far-fetched, Europe will experience a renaissance not seen since Michelangelo was on the prowl. This is not the way to bet. What the ECB has done in its too-obvious foray into counterfeiting its own currency is simply too much, too late to do any good.