March 9, 2010

White House resists Greek pressure for crackdown on speculators
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Globe and Mail Update

Obama says debt problem is something Europe should solve on its own

U.S. President Barack Obama says Europe should deal with its own debt problems, resisting pressure from Greek Prime Minister George Papandreou and other European leaders to join a crackdown on speculators.

Mr. Papandreou argues that investor manipulation of credit default swaps is pushing Greece to the brink of financial ruin and dragging down the euro. European officials say they might ban some credit default swaps, while German Chancellor Angela Merkel called on Washington to help curb trading in the financial instruments.

But White House officials said Greece should focus on righting its economy and lowering its crushing debt.

"This is something the Europeans can, and should, solve on their own," White House spokesman Robert Gibbs said, as Mr. Obama and Mr. Papandreou met in Washington on Tuesday.

The White House's cool response to Greece's call for a regulatory crackdown shows there's still no consensus on what - if anything - to do about the problem of speculators.

After the meeting, however, Mr. Papandreou insisted that Mr. Obama reacted favourably to European ideas on curbing speculators.

Experts disagree on the extent to which credit default swaps are to blame for the problems facing Greece, Ireland, Portugal, Spain and other heavily indebted European countries.

Swaps probably accelerated Greek's "day of reckoning" in confronting its debt, agreed Eswar Prasad, a senior economic fellow at the Brookings Institution in Washington. But to "blame speculators for the root cause is incorrect," he added.

Even German market regulators don't seem to share Ms. Merkel's concerns about speculators. BaFin issued a statement on Monday saying it hasn't seen any evidence of massive speculation in swaps on Greek bonds. BaFin acknowledged spreads on Greek CDSs have widened, but that's because investors are demanding more insurance on the country's debt.

On Monday, Mr. Papandreou called credit default swaps a dangerous "scourge."

"Europe and America must say 'enough is enough' to those speculators who only place value on immediate returns, with utter disregard for the consequences on the larger economic system," he said.
Credit default swaps are a form of insurance on bonds that investors can buy and sell, often without actually owning the underlying securities. Prices for the insurance ratchets up when a borrower appears more likely to default, and that, in turn, raises the costs of securing financing.

What are credit default swaps?

They're like car insurance for the bond market, Boyd Erman explains

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Calling for tighter regulation of some derivatives trading, Mr. Papandreou, Ms. Merkel and other European officials have complained that the market for credit default swaps is prone to manipulation, particularly in the case of purely speculative "naked" sales.

The European Commission has threatened to ban such sales on sovereign debt. The EU plans to push the idea at the June G20 summit in Toronto.

A top Obama administration official suggested Greece should concentrate first on getting its economy growing again and cutting its debt. The official repeated the administration's commitment to push for "more transparent trading and central clearing for standardized derivatives" as part of a broader financial reform package now in Congress.

Meanwhile, U.S. Commodity Futures Trading Commission chairman Gary Gensler endorsed additional regulation of swaps. During a speech in New York, Mr. Gensler said the CFTC and the U.S. Securities and Exchange Commission are looking at "ideas" to enhance regulation, including changes to bankruptcy laws plus stricter bank capital rules. "Additional reforms . . . should be considered to address the unique characteristics of the products," said Mr. Gensler, pointing out that he was not speaking for the Obama administration.

Why are European officials concerned about them now?

Boyd Erman explains

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The outstanding volume of CDSs on Greek bonds stood at roughly $83-billion (U.S.) in mid-February, roughly twice the level of a year ago. That has helped push up the interest rate Greece must pay bondholders as it rolls over its debts. The current yield on Greek 10-year bonds stood at 6.2 per cent on Tuesday - about twice the rate on comparable German bonds.
"It's clear we cannot continue borrowing at those rates," Greek Finance Minister George Papaconstantinou told the CNBC business channel.