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On SYRIZA's Greek Election Win

Monday, January 26, 2015

Donald Luskin with research input from **Lorcan Roche Kelly**

Draghi had to end a crisis in 2012 after SYRIZA lost. This time it won, but Draghi acted first.

It should be no surprise to markets that SYRIZA -- the "Coaltion of the Radical Left" -- has won Sunday's Greek legislative election -- polls have called it consistently for the last month. SYRIZA's 36.3% vote-share is only sufficient to earn it 150 seats in Greece's 300-seat parliament, one seat short of a majority. SYRIZA has reportedly already formed a coalition with the small Independent Greeks party (ANEL), who will have 13 seats in the new parliament. Alexis Tsipras will be Greece's next prime minister.

As of this writing, after an initial knee-jerk risk-off reaction, markets seem to be taking the election calmly. *Fair enough -- we don't see this as an especially threatening situation. This is not a re-play of 2012.*

- Remember, nobody really disagrees about the big issues.
- *Neither SYRIZA, the Greek people, nor the rest of Europe want Greece to become a failed state.*
- *Neither SYRIZA, the Greek people, nor the rest of Europe want Greece to leave the euro.*
- *All the rest is just sweating the small stuff.*
- To be sure, the upcoming negotiations will be acrimonious. And be ready for the English-speaking press in London -- who informs the US about polyglot Europe -- to make it seem as dire as possible.

Most imporant, the worst case is eminently survivable.

- When SYRIZA came in second in the June 2012 election (see "Εκλογη" June 15, 2012), Spanish and Italian sovereign bonds yields surged to dangerously high levels, signaling the serious risk that Europe's institutions had neither the will nor the way to keep the currency union intact. European Central Bank President Mario Draghi ended that risk with his famous "whatever it takes" speech the next month (see "On Draghi in London" July 26, 2012).
- This time around, SYRIZA has won. But this time Draghi has acted pro-actively, not reactively, introducing a revolutionary sovereign bond QE program (see "On the January ECB Policy Meeting" January 22, 2015). It has nudged already ultra-low sovereign yields across the euro area to even lower levels. And this time, a

Update to strategic view

EUROPE MACRO, EUROPE BONDS, ECB, FX: SYRIZA has won the Greek election, and formed a coalition with ANEL, so it can now form a government, elect a president, and negotiate its bail-out with the Troika. It will be tough, with no new purchases of Greek bonds in the ECB's new QE. But no one wants to see Greece become a failed state or exit the euro. And already the Belgian finance minister has indicated compromise is possible. The global economy is far less fragile than at the last Greek election in 2012. We don't see a serious systemic threat here.

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weakening euro is seen by markets not as a sign that the currency is heading for non-existence, but rather that its central bank is committed to ending the risk of deflation.

- *Even if Greece defaults (again), even if it leaves the euro, or even if it leaves the European Union, we don't see why in today's far less fragile global economy, it would be a catastrophic systemic event.*

Looking to the next steps, it is a major positive that SYRIZA so quickly found a coaltion partner. It means that Greece can form a government. We'll have to see how stable it will prove to be, especially under the pressures that are sure to bear down upon it in the coming months. But it's a better start than a hung parliament.

- The first order of business is to elect a president. It was the failure to do so that triggered this snap election in the first place, when former Prime Minister Antonin Samaras couldn't muster the necesssary super-majority in the parliament (see "Here Come Greek Elections -- and QE from the ECB" December 30, 2014).
- Now, a president can be elected by a mere majority.
- With a government in place, it will be possible to hold negotiations with the Troika (the EU, the ECB and the International Monetary Fund) over the ongoing terms of Greece's bail-out. With no government, the debt time-bomb would have just kept on ticking, and nobody would have been there to argue about how to defuse it.
- The ECB has created a pressure-cooker environment for the negotiations. In the press conference following last week's Governing Council meeting, Draghi pointedly told reporters that its new asset purchase program has been structured with rules that exlude purchase of Greek bonds until July, when "there will be some large redemptions of SMP [Securities Market Programme] bonds." So even then, QE will only replace Greek bonds the ECB already owns.
- In the run-up to the election, statements for German officials have generally been insistant that Greece stand by the existing terms of the bail-out. But there were intriguing exceptions. In the aftermath of yesterday's election, while Germany talked tough, Belgian Finance Minister Johan Van Overtveldt broke ranks and revealed what is probably Europe's bottom line: "we can talk modalities, we can talk debt restructuring, but the cornerstone that Greece must respect the rules of monetary union -- that must stay as it is."

Bottom line

SYRIZA has won the Greek election, and formed a coalition with ANEL, so it can now form a government, elect a president, and negotiate its bail-out with the Troika. It will be tough, with no new purchases of Greek bonds in the ECB's new QE. But no one wants to see Greece become a failed state or exit the euro. And already the Belgian finance minister has indicated compromise is possible. The global economy is far less fragile than at the last Greek election in 2012. We don't see a serious systemic threat here.

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