Markets and insights archive

ECB holds key to Greece

BY TOM STEVENSON, FIDELITY PERSONAL INVESTING, 06 JULY 2015

Attention is already shifting from Greece's surprise No vote in Sunday's referendum to what next for the beleaguered economy. And that means all eyes are on the European Central Bank (ECB), which holds the purse strings for Greece's vulnerable banks.

The ECB has already frozen Emergency Liquidity Assistance (ELA) to Greece's banks, cash that they need in order to pay even the limited withdrawals that depositors are now allowed to make each day. Without an extension of ELA, it is hard to see how the banks can re-open, which would have catastrophic consequences for an economy that is already on its knees.

The trouble is that the ECB is not able to extend emergency assistance in the absence of collateral assets that it believes can be used to repay loans if necessary. Unfortunately, those assets are largely Greek government debts that are increasingly likely to default and so might not be considered as a suitable buffer.

Greece has already defaulted on a €1.6bn payment to the International Monetary Fund and within two weeks faces a repayment of more than twice as much to the ECB itself. That payment on 20th July really is a proper point of no return in this endless series of pseudo-deadlines.

Financial markets may have been surprised by Greece's No vote but they took the news of the stronger than expected rejection of creditors' proposals pretty much in their stride.

Certainly markets moved as they might be expected to, given the increased likelihood that Greece is now heading out of the Eurozone. Investors shifted assets into safe havens like German and US government bonds and the yen and out of riskier assets like shares and commodities. But the movements were relatively modest.

In part that reflected relief at the decision by firebrand finance minister Yanis Varoufakis to fall on his sword as the price for further talks between Prime Minister Tsipras and the troika of creditors.

It would be wrong to overstate the importance of just one man in those stalled talks but there is no doubt that the former finance chief's combative style had driven a wedge between Greece and its partners.

The positive of Varoufakis's resignation was doubly helpful given other developments in global markets. That's because, somewhat off the radar in Europe, China's equity slump continues despite increasingly desperate moves by the authorities to put a floor under the Shanghai and Shenzhen markets.

Overnight, Beijing moved to shore up the fragile equity markets by promising liquidity injections and strong-arming banks to shelve a long list of flotations which have been blamed for pulling funds out of the secondary market.

The Chinese stock markets, which had more than doubled since last summer in an almost state-sponsored rally, have crashed by 30% in only three weeks as inexperienced and nervous margin traders have run for cover at the first sign of a market correction.

So markets face yet another difficult week in both Europe and Asia. Unusually, the US, back from its Independence Day holiday on Friday, must watch as an almost helpless by-stander. Perhaps the only positive for investors from the weekend's volatility is that it will give the Federal Reserve pause for thought in its deliberations on the next move for interest rates.

For investors, the current volatility is another test of their resolve and ability to look through the current turmoil at the longer-term picture. It is important to remember that Greece is a bit-part player in the global economy and in European financial markets. That is not to underestimate its potential to sour sentiment, but investors should also focus on the ongoing economic recovery in the rest of the region and the relative value in European shares now the first quarter froth in the market has well and truly been blown away.

European equity funds on Fidelity's Select List of preferred funds include: BlackRock Continental European Fund, FP Crux European Special Situations (watch our interview with manager Richard Pease), Invesco Perpetual European Equity Income, Jupiter European Special Situations Fund and Threadneedle European Select Fund.

For a low-cost passive investment in European shares, investors could consider the Fidelity Index Europe ex-UK fund.

Important Information

Read more daily investment insight

Share

More daily insights

More from the Insights team

Follow Tom on Twitter
www.twitter.com/tomstevenson63

Follow Maike on Twitter
www.twitter.com/MaikeCurrie

Expert opinion RSS feed
Receive the latest expert opinions as they are published - RSS feeds

Sign up to receive Best of Tom's articles

Monthly round up of the most popular

Title*
Last Name*
Email*
* Required field

Submit