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## “Who Said Chicken Little was Wrong?”

Over the last year or so, we have watched the countries of Europe try to cope with the economic tribulations of several members of the Euro Zone. The woes of these countries follow a similar path: economic decline (caused by various reasons), mounting sovereign debt causing questions about the ability to repay, demands from the financial markets for higher interest on government obligations to reflect their increasing riskiness and, finally, further economic decline as national wealth is devoted more and more to paying that higher interest. This kind of death spiral now endangers the euro and even the political glue that holds the European Union together.

This letter is not aimed at solving these problems. Instead, it takes a look at how the leaders of Europe have responded to what German Chancellor Merkel calls Europe's greatest challenge since World War II. Let's go country by country:

- Greece. In Greece, the truly bad boys of the Euro Zone, the way back has, until recently, been led by George Papandreou. He is an extremely articulate and rational man, one who appears to recognize how his country got into its mess and what needs to be done to get out of it. He is clear on Greece's need to stay with the euro, and he secured measure after measure from his parliament devoted to recovery. Most recently, he secured a broad-based agreement with Zone countries to bolster Greece's efforts.

It was astounding, therefore, when he took his new deal back to Athens, that he announced that he would submit it to a national referendum. That step, which threw the entire status of Greece back into serious question, quickly caused Papandreou to lose his job. After spending weeks and months working to negotiate a credible program of relief, he tossed it aside. One can only wonder what pressures caused this remarkable man to inflict such harm on himself and his country.

- Italy. Perhaps as a result of the Greek fiasco, Italy has become the latest target in the financial markets. The country has assured its Euro Zone partners for months that it will take the steps necessary to get its budget under control, but few people placed much trust in the words of Prime Minister Berlusconi. For years he has been behaving like a buffoon and has embarrassed his people; only the lack of a credible candidate from opposition parties had allowed him to stay in office.

But the chickens came home to roost. The extreme danger confronting the Italians finally compelled them to force Berlusconi out. In Italy, as in Greece, the government is now composed of “technocrats”, who are asked to come up with measures to avert disaster, something no one expects from the politicians.

- France. France may be the next country put under pressure by the speculators. President Sarkozy has undertaken a number of measures that should curb the country’s deficits, but his low domestic approval rating makes the success of his programs somewhat speculative. The problem appears to come more from his proclivity to making rash comments on just about any subject, rather than any unmanageable opposition to his policies. Another leader who shoots himself in the foot.
- Germany. Germany holds most of the cards in this quagmire, since it holds most of the money. Its influence should have made it easier to organize an orderly and effective response to the crisis, one that would put an end to the corrosive speculation against the weaker countries of the Zone. No one doubts that Chancellor Merkel has political problems at home in convincing her people that maintaining the euro is in their national interest and that those countries that want to be leaders must lead. But her caution has made solving the problem more and more difficult as she insists on half steps and band-aids. And, for some reason, she has followed every initiative agreed by the Zone countries with worrying comments that serve immediately to undermine confidence in what progress that has been made.
- Britain. Recently, the British, who are not in the Euro Zone, have awakened to the fact that the collapse of the Zone would severely and adversely affect their own recovery. Thus, Prime Minister Cameron appeared at a recent Zone summit meeting to offer his advice on how to cope with the problem. To put it mildly, this intervention was not appreciated, both because Cameron has spent his term in office damning the euro and its adherents and because his prescriptions for reform have not had marked success in his own country. Another example of a leader tripping over himself.

This letter is written about Europe from afar, perhaps lending some clarity to the analysis, perhaps fogging the issues. But what if the analysis were reversed? What must the Europeans think about what goes on in the U.S.? We intentionally delayed composing this letter until we heard from the “super committee” charged with addressing the deficit. Its failure is just the latest by the people’s representatives to get a handle on what they need to do. Europe bashing, no matter how justified, has become more and more an exercise of the pot calling the kettle black.

Here are the cost data for this month:

- Scrap and Pig Iron After staying fairly level for the last nine months, prices for #1 dealer bundles and #1 busheling (Chicago) fell about 10% last month. The former is now at \$445 per mt and the latter at \$450. As previously pointed out, these prices are still pretty high historically. The spot price for Brazilian pig iron (cif New Orleans) also declined by about 5% to \$498 per mt.
- Natural Gas The Nymex contract price declined again this month, but only by 2 cents to \$3.55 per mmBtu. It may be that the six-months steady easing of prices, probably due to enhanced recovery practices, may be losing steam.
- Ocean Freight The Baltic Capesize Index dropped about 440 points this month, to 3108. Still not much demand pressure on bulk carriage ocean rates.
- Exchange Rates Not surprisingly, the euro was down by four cents from last month at \$1.35. Rates have been all over the place, on an almost day by day basis. The pound was off 2 cents to \$1.56, and the Canadian dollar declined by two cents to \$0.96.

Our letter reaches you after Thanksgiving, but the timing does not dilute our views that, whatever the difficulties we face, we are lucky to live in the United States of America. So, we give thanks for that, for our families and our friends. As usual, this letter will be posted on our site, [www.coreysteel.com](http://www.coreysteel.com) and on the international site, [www.steelonthenet.com](http://www.steelonthenet.com).