**Title:** "Holy Liquidity, Batman!" United States Collaborates in Solving European Liquidity Crisis

**Subtitle:**

**Meta Description:** Holy Liquidity, Batman United States Collaborates in Solving European Liquidity Crisis

**Date:** 10-3-2011

**Author:** Joel R. Glucksman

**Formatted Content:**

**Raw Content:** <div dir="ltr" style="text-align: left;"><span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;">Early today, the United State Federal Reserve–joined by the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Canada and the Swiss National Bank–undertook a coordinated strategy to rescue the Euro Zone from a growing liquidity crisis. The actions by these central banks will increase the availability of U.S. dollars, through the Federal Reserve halving the borrowing rate charged for such loans. These dollars will be made available to foreign central banks and, through them, to foreign borrowers. Even the Chinese Central Bank joined in, reversing its recent “tight-money” policy, in order to provide greater capital liquidity within </span>China<span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;">.</span>
<div style="text-align: justify;">
<div style="text-align: left;"><span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;"><span class="Apple-style-span" style="text-align: left;"> </span></span></div>
<div style="text-align: left;"><span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;">The reason for this major market intervention is clear. In recent days, investor confidence in European sovereign debt has plummeted. Investors have fled from the Euro zone, pulling out their capital and demanding dollar-denominated investment vehicles instead. Interest rates on new issues of all Euro nation bonds have soared, and the market value of existing bonds has cratered. As the market value has fallen, </span>Europe<span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;">’s banks have seen their balance sheets severely impacted, as many large banks hold quantities of such bonds. As a consequence, the banks have slashed lending in order to bulk up their balance sheets.</span></div>
</div>
<div class="MsoNormal" style="text-align: justify;">
<div style="text-align: left;"><span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;"> </span></div>
<div style="text-align: left;"><span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;">Whatever the issues behind “monetizing” the national debts within Europe, or issuing Euro bonds to take over sovereign debt, it was becoming increasingly clear that the wheels were about to come off the bus. As a commentator on MSNBC said this morning, the “risk premium” on Euro to dollar swaps was “approaching Lehman levels.”</span>
<span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;">
</span>
<span class="Apple-style-span" style="font-family: Georgia, 'Times New Roman', serif;">Today's intervention will not solve the problem, but at least-for the first time in this cascade of ineptitude-the central banks are trying to get out in front of the wave. </span></div>
</div>
</div>