"7 Quick Points on Europe"

#1) Here are the most relevant recent notes for an Epsilon Theory perspective on the underlying political and market risks in Europe: "The Red King" (July 14, 2014) and "Now There's Something You Don't See Every Day, Chauncey" (Dec. 16, 2014).

#2) **Markets reacted positively to last Thursday's announcement because Draghi *doubled* the amount of QE that he leaked to the press on Wednesday.** Financial media pegged QE at 600 billion euros on Wednesday and 1.2 trillion euros on Thursday. Once again, Draghi played the Narrative game like a maestro.

#3) **This is NOT open-ended QE**. Sorry, but the Narrative game doesn't work like this. If you mention a target date (September 2016), then that becomes the Schelling focal point, no matter how much you try to walk that back by saying it's open-ended.

#4) **Risk-sharing, or the lack thereof, matters**. Draghi won approval of a doubled QE target by minimizing the mutualization of QE risk among EU countries. 80% of the bond-buying will be done by national central banks, and Germany will only buy German government bonds, France will only buy French bonds, etc. That's important for two reasons. First, if Italy or Spain goes off the rails, then the Bundesbank's balance sheet isn't immediately crippled. Second, this is why German bonds are rallying just as hard (harder, really) than periphery bonds. It's also why US bonds are rallying so hard, because you can't maintain a huge spread between the only risk-free rates left in the world.

#5) **Market complacency on Greece is a mistake**. Not because Greece itself is a huge systemic threat, but because the same political dynamics in Greece are coming soon to Italy. Greece is Bear Stearns. Italy is Lehman.

#6) **In tail-risk trades as in comedy, timing is everything.** Even if you think that it's an attractively asymmetric risk/reward profile to bet on a Euro crisis (and I do), this is a heavily negative carry trade. If you don't know what the phrase "negative carry trade" means, then please don't make this bet. If you do know what it means, then you know that you either have to play a lot of hands to make the odds work out for you (and the nature of systemic crises makes that impossible) or you have to be spot-on with your timing.

#7) **In a fundamentals-driven market you need to look at fund flows; in a Narrative-driven market you need to look at Narrative flows.** With Draghi's announcement last Thursday, there is no longer a marginal provider of market-supportive monetary policy Narrative. Or to put this in game theoretic terms, the 2nd derivative of the Narrative of Central Bank Omnipotence just flipped negative. We've shifted from an accelerating Narrative flow to a decelerating Narrative flow, and that inflection point in profoundly important in game-playing. The long grey slide of the Entropic Ending begins.

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