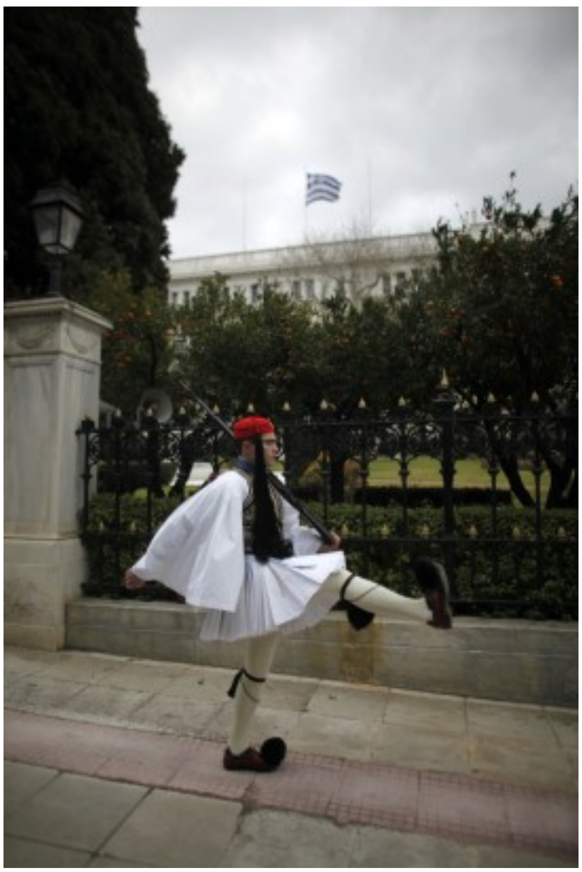
FINANCIAL TIMES

Eurozone crisis: live blog

January 30, 2012 8:54 am by John Aglionby



Will EU leaders make strides towards recovery? (Photo AP)

Welcome back to the FT's rolling coverage of the eurozone crisis. By John Aglionby and Tom Burgis in London with contributions from correspondents around the world. All times are GMT.

Today's main event is the European Union leaders' summit in Brussels, where growth and Greece's debt are expected to top the agenda. We expect more movement towards a fiscal discipline pact, too.

Also today Portuguese bond yields have soared, an Italian bond sale went satisfactorily and widening eurozone spreads over German debt suggest unease is setting in anew.

This post should update automatically every few minutes, but it may take longer on mobile devices.

20.02 The FT's Robin Wigglesworth and Kerin Hope, respectively our capital markets and Athens correspondents, have a scoop on the stuttering progress of Greece's efforts to plug the hole in its budget by selling off state-owned assets.

Greece will struggle to meet its target for assets sales even by the already delayed deadline of 2017, the country's privatisation adviser has said, highlighting the country's struggle to return to solvency amid a wilting domestic and European economy.

As part of its first bail-out package, Greece promised to sell €50bn of real estate and other assets by 2015, subsequently renegotiated to 2017.

Even that deadline now looks "difficult", according to Max Ziff, head of sovereign advisory at Houlihan Lokey, the restructuring-focused bank that is advising the Hellenic Republic Asset Development Fund.

19.53 Over in New York, after a shaky start US stocks are doing their best to ignore the eurozone summit, reports the FT's Ajay Makan.

The S&P 500, which had opened 1 per cent lower as traders woke up to ominous headlines from Brussels, has recovered steadily through the trading day, and was off just 0.3 per cent at 1,312.66 at 2.20pm in New York.

The idea that the US economy and market can "decouple" from Europe — the prevailing wisdom during the January rally — was once again to the fore.

"Our market is no longer completely in hock to Europe," said Randy Warren, principal of Warren Financial, a money manager. "We've been seeing a trend for selling pressure on Wall Street to ease when the European market closes and today looks like it's been no exception despite the Brussels summit."

The Dow Jones Industrial Average was off 0.2 per cent to 12,636.51, while the Nasdaq Composite index was flat, as Apple, the most heavily weighted stock in the index, climbed 1.3 per cent to within a *buck of its all time high at $453.34 a share.*

But Apple's exceptional performance so far this year also highlights weakness in the decoupling thesis. Data from Barclays Capital show that with half of the S&P 500 by market capitalisation having reported fourth quarter results, once Apple is stripped out, year-on-year earnings growth is just 0.2 per cent, and margins have shrunk.

19.30 That Fed survey of US banks (see 19.06) makes grim reading for their European counterparts. Of the banks who filled in the Fed questionnaire, 26 lend to European banks or their subsidiaries. Of those, five said they had tightened that credit "considerably" over the past three months, 10 said they had "tightened somewhat" and the remaining 11 said their lending was "basically unchanged". None had eased lending.

Of the 33 banks that have European rivals for business, only four said they had not witnessed a decline in competition over the past six months, 12 had registered no increase in business due to falling European competition and 17 said they had brought in more business at the expense of their European rivals.

19.06 As the summit discussions drag on, Chris Adams, the FT's markets editor, has the precisely the kind of news that will be giving European leaders sleepless nights.

Ouch. Fed survey shows more than two thirds of US banks tightened credit to European banks, affiliates, subsidiaries in January,says Reuters

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@ChrisAdamsMKTS

Christopher Adams

19.03 From Brussels, the FT's Stanley Pignal has the first inklings of a late night ahead.

MT @euHvR: Statement on growth and jobs approved >> And yet no white smoke. Is it time to call home and apologise to our spouses yet? #EU

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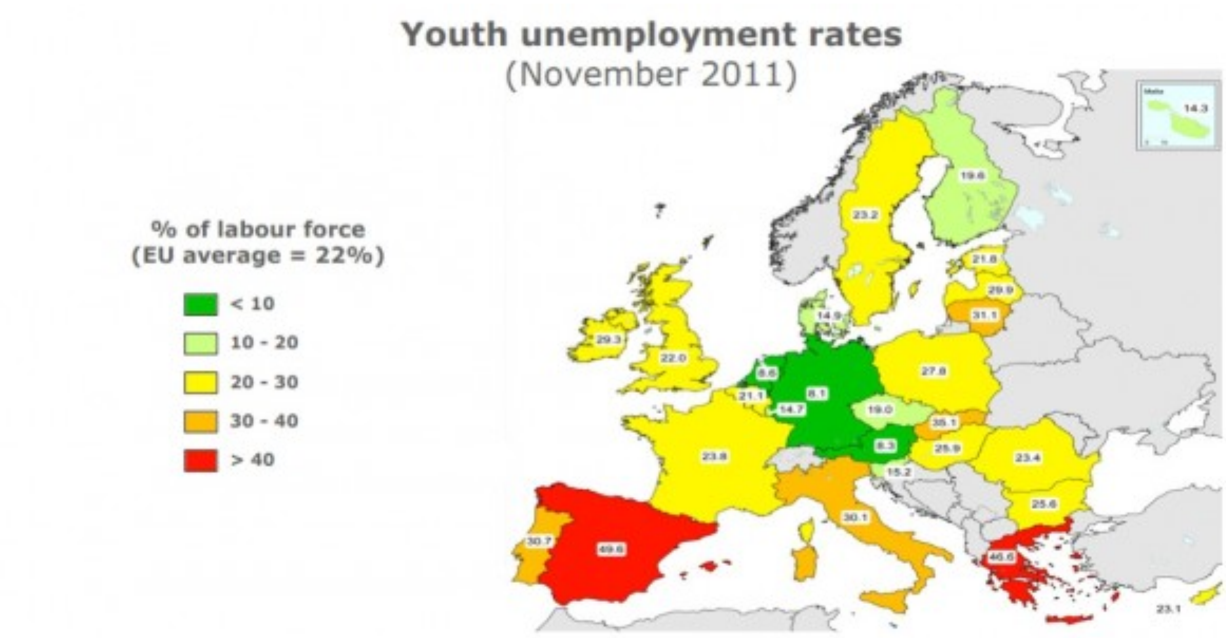
@spignal

Stanley Pignal

18.52 To no one's surprise, the EU summit is running much later than expected. The leaders have only just started discussing the fiscal treaty.

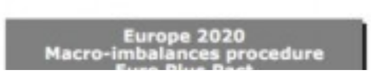
18.15 José Manuel Barroso, the European Commission's president, has published the presentation he delivered to EU leaders today.

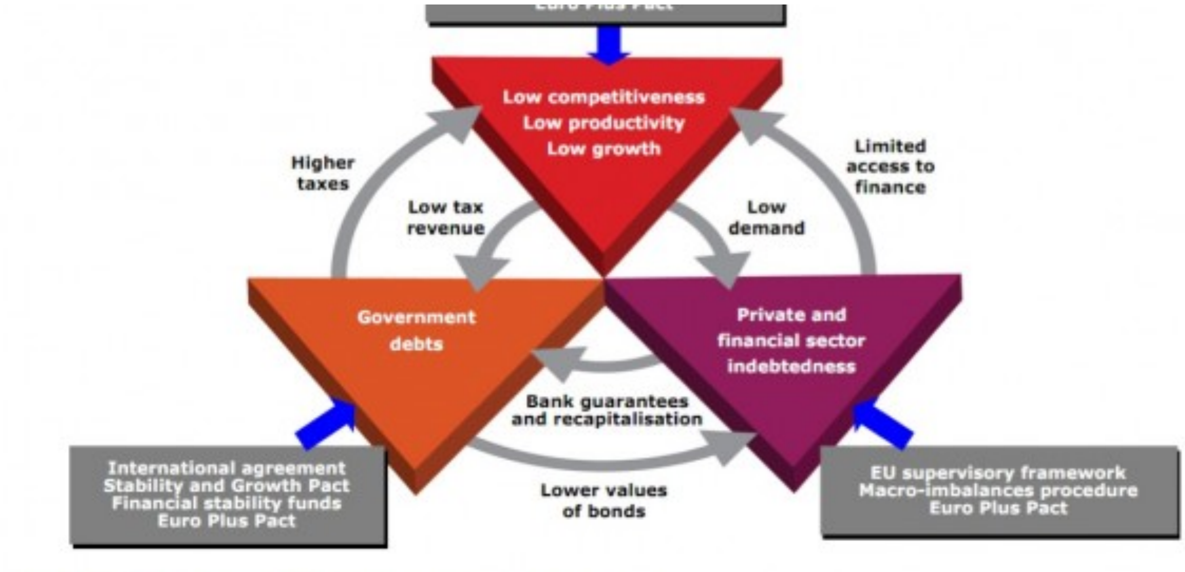
It contains this terrifying map showing the scale of youth unemployment in Europe.



Presentation of J.M. Barroso to the informal European Council, 30 January 2012

And this slightly bewildering flow chart showing how we're going to get out of this mess.





Presentation of J.M. Barroso to the informal European Council, 30 January 2012

17.49 On a day when gallons of analysts' ink have been spent extrapolating meanings from the turbulence in the bond markets and the likely outcomes of the EU summit, Sony Kapoor, managing director of Re-Define, a think tank, neatly encapsulates Europe's dilemma in a single sentence:

> *Austerity is not an end goal in itself and it is failing as a means to an end of reducing indebtedness or increasing economic sustainability.*

17.30 It has not been a merry day on European bourses. **Stocks** suffered their biggest falls for six weeks. A sense that the EU summit will not chart a decisive course out of the crisis weighed on sentiment, despite no one ever really suggesting that it would.

Nicolas Sarkozy's announcement of French tax on financial transactions did nothing to help the country's banking stocks, with BNP Paribas leading the descent, falling 7.1 per cent. British lenders fared little better, helping to pull the benchmark FTSE 100 index below 5,700 points to close at 5,671.09, a slip of 1.1 per cent.

17.08 One should never set too much store by the schedules of EU summits but at the moment we expect leaders' press conferences to get under way at 7pm or shortly thereafter. In the meantime, here is a round-up of today's developments so far.

- European leaders gathered in Brussels for their latest summit. This time, they are keen to move the agenda on to how to restart growth. We are waiting to hear what they have to say on the creation of a **permanent rescue fund** and how much closer they are to enshrining **fiscal rules** in a new treaty
- **Donald Tusk**, the Polish PM, has raised the loudest objections to the summit's draft conclusions (see 13.55), bridling at suggestions that EU members that have not adopted the euro would be invited to future summits on the new treaty at the discretion of the single currency nations. There has been some movement on the wording of this section: we shall see whether Tusk and his allies have been placated
- The stand-off between **Greece** and everybody else over the government's ability to implement spending cuts in exchange for bail-out money continues. A German proposal to force Athens to accept budget oversight from a eurozone commissioner caused much gnashing of teeth in the Greek press (see 12.29)
- The **euro** has fallen against other major currencies. Investors seeking safety have sent the Swiss franc soaring once again (see 11.48) and driven yields on US Treasuries to record lows (see 14.36)
- **Portugal's borrowing costs** rose sharply, reaching euro-era highs as many investors priced in a default (see 10.12)
- We learned that the **European Central Bank's purchases of government bonds** have fallen sharply (see 15.25), to just €63m in the seven days to the middle of last week from €2.24bn in the previous week, reflecting an improvement in market sentiment
- **France** cut its growth forecast to 0.5 per cent from 1 per cent, further clouding the outlook for Nicolas Sarkozy as he seeks re-election (see 14.55)

16.50 Suggestions for exactly what Cameron and Merkel were saying to one another (see 15.55) are coming along nicely — see the comments section below.

16.15 Courtesy of David Miliband, the former UK foreign secretary whose younger brother now runs the opposition Labour party, some recommended reading while we wait for the summit conclusions.

> Must-read: How to Save the Euro - George Soros http://t.co/5gJ1A69M
>
> about 6 hours ago via web Reply Retweet Favorite

@DMiliband
David Miliband

16.09 Further to Portugal's ballooning borrowing costs (see 10.12), analysts at Capital Economics have been weighing the likelihood that Lisbon is heading the way of Athens.

> *Although the government in Portugal is not as indebted as it is in Greece, we think it is also likely to default before too long. Portugal's existing bail-out package should ensure that is fully funded until the end of 2012. But with the 10-year government bond yield now above 16 per cent, it may have to seek* ***a second rescue deal*** *well before that deadline expires. With little chance of the debt burden being eased by strong growth – we expect GDP to contract sharply this year and next as fiscal austerity bites – a debt restructuring may be a quid pro quo for further official sector support.*
>
> *Alternatively, EU policymakers may decide that Portugal needs more aid, but that it does not need a debt restructuring. In this case, though, Portugal may still decide to default of its own accord if the conditions attached to a second bail-out are too onerous.*
>
> *What's more,* ***we also think uncompetitive Portugal (with a large current account deficit) may choose to leave EMU*** *[European monetary union, otherwise known as the euro] at some point in 2013. Indeed, this outcome now forms part of our central scenario, in which we expect Greece to be first to leave EMU this year.*

15.55 What words might have passed between David Cameron and Angela Merkel at the EU summit this afternoon? These two, seemingly natural allies, dramatically failed to find common cause at the last summit. Your suggestions for a caption to accompany the photo below are welcome in the comments section below (although please bear in mind that there might be children reading). Were we in a position to offer a prize, we would reward the winner with his or her weight in Portuguese bonds.

Oh for a lapel mic inadvertently left on... (Photo EPA)

15.45 From Brussels, news that Guy Verhofstadt, the energetic leader of the Liberal Democrats in the European parliament, has contributed his own idea to spur economic growth. Somewhat unoriginally, he calls it a European Growth Fund. The FT's Joshua Chaffin reports.

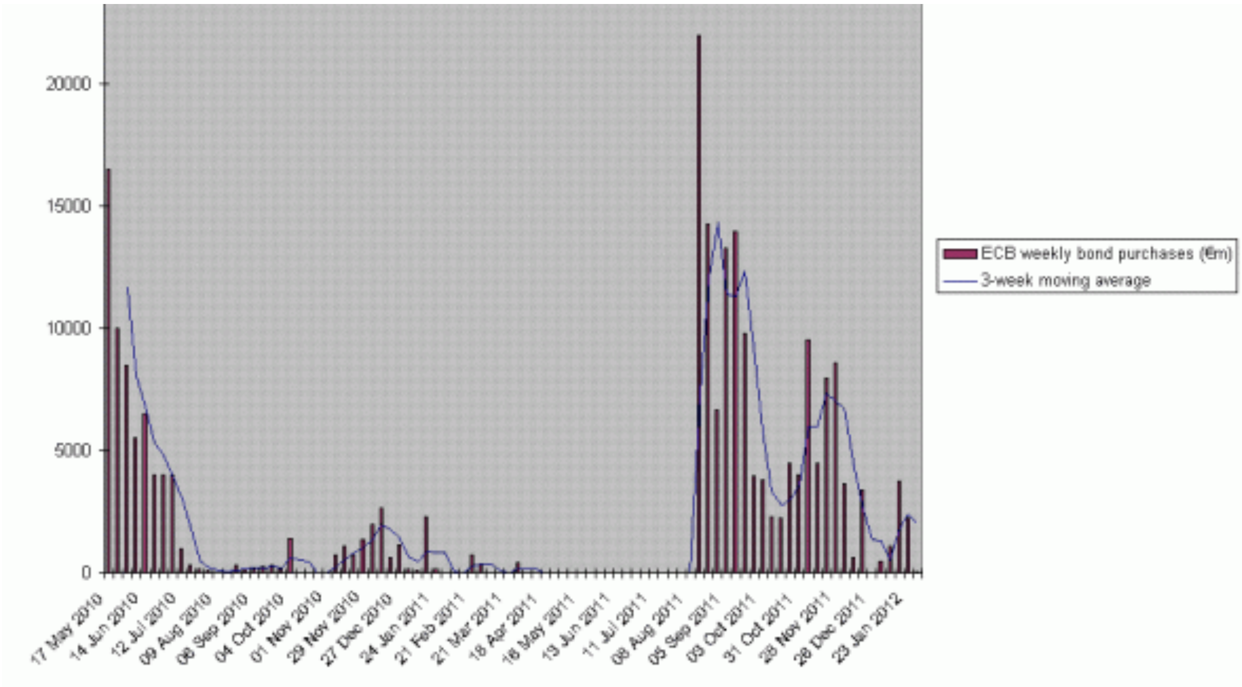
> *Speaking to a group of reporters outside the summit, Verhofstadt suggested converting the special fund the European Commission used to help rescue Ireland and Portugal and dedicating it instead to growth-enhancing investments in stricken countries.*
>
> *"Everybody is talking about growth, and you read the conclusions of this summit and you say, 'Great.' But where is the hardware to*

do it?" he asked.

The fund, known as the European Financial Stabilisation Mechanism, is managed by the commission, the EU's executive branch, and backed by the EU budget. Although it had a maximum capacity of €60bn, only about a quarter currently remains. When it comes to how such funds would differ from the wealth of structural funds, cohesion funds or European Investment Bank financing that is already available, Verhofstadt is a bit fuzzy.

The former Belgian prime minister also vowed to continue his obsessive push for common eurobonds. He promised to put a version of such a scheme on the table when member states negotiate with the European parliament over new budget rules. His chief argument is that such a scheme would lower interest rates for all eurozone governments, helping their economies to recover. "It's impossible to think we can solve this crisis without the mutualisation of debt," Verhofstadt said.

15.25: European Central Bank **government bond purchases have fallen sharply**, according to figures just released by the ECB. It spent just €63m in the seven days up to the middle of last week. That was down from €2.24bn in the previous week. The drop reflected the improvement in market sentiment.



But don't imagine Mario Draghi, ECB president, is about to announce the end of the controversial programme. Next week's data could show a big rise – the ECB has been intervening in Portuguese bond markets, where yields have risen considerably. Based on Financial Times's calculations, weekly spending under the programme has averaged more under Mr Draghi than under his predecessor, Jean-Claude Trichet, who stepped down on October 31.

14.55 BREAKING NEWS **France has cut its growth forecast** for this year to 0.5 per cent from the 1 per cent it had previously predicted.

Speaking to journalists in Paris, prime minister François Fillon said the budgetary impact of the adjustment to the outlook for French gross domestic product, which takes into account the slowdown in the rest of the eurozone, would be €5bn. But the government had left itself room to manoeuvre in the budget and would not need to implement further austerity measures as a result of the trimmed growth projection, the PM added.

On a cheerier note, Fillon went on: **"Growth should return in the eurozone, and France in particular, before the end of the first half of the year."**

All the same, the downward revision is another piece of unsavoury news for Nicolas Sarkozy, who is heading into an election **trailing in the polls** and having presided over the loss of France's cherished triple A credit rating.

The French president used an interview on prime-time television last night to announce a rise in VAT and the introduction of a tax on financial transactions alongside cuts to social charges on companies, which he said would spur hiring.

14.50 Currency traders are not being kind to the euro, which has fallen from seven-week highs against the dollar, losing 1.1 per cent by early afternoon to $1.3085. A currencies report from the FT's Alice Ross is here.

14.36 The yields on US Treasuries have fallen to record lows, another sign that the traders are not holding out much hope for resolute steps towards recovery from the EU summit and instead seeking safety.

Michael Hunter of the FT's markets desk writes:

> *Money is moving deeper into haven territory, boosting the price of US Treasuries and dragging down their yield. Benchmark 10-year US debt is now yielding a bargain-basement 1.85 per cent, down from an already cheap 1.9 per cent late on Friday.*
>
> *Traders are tracking the latest headlines out of Europe. As further moves to ensure that countries outside the eurozone have a place in drawing up policy within the shared-currency area, it all looks like more evidence that crisis-response-by-committee will once again fail to convince markets.*

14.27 Donald Tusk is at the centre of events as EU leaders begin their huddle in Brussels (see 13.55). The outcome of their deliberations over a new fiscal pact is expected to hinge on the Polish PM's willingness or otherwise to agree to terms that would make the attendance of non-euro EU members at future summits on the new treaty discretionary.

Earlier today he told reporters:

> *We will not express an acceptance of the present form in which the compact has been drafted, a compact that excludes or endangers*

> *the community-based method.*

14.22 Cecilia Malmström, Europe's home affairs commissioner, has been indulging in a spot of pathetic fallacy.

> Fog in Brussels thickens as Prime Ministers enter council building for summit. Symbolic? /CM
>
> about 6 hours ago via web Reply Retweet Favorite
>
> 
>
> @MalmstromEU
> Cecilia Malmström

14.08 David Cameron had a few words for reporters as he arrived for the summit — the first since the UK prime minister ~~announced plans to brick up the Channel Tunnel~~ exercised the British veto.

David Cameron has bridges to rebuild (Photo EPA)

> *This is the European Council where we need to get really serious about the growth agenda in Europe. That means completing the single market, it means signing trade deals with the fastest growing parts of the world and it means a serious effort at deregulation, particularly for small businesses, so they can create the jobs and the growth that we need.*
>
> *That's the agenda I am going to be pushing and I hope to find a lot of support.*

13.55: The fighting may not be over for the much-touted **fiscal discipline treaty**, according to diplomats gathering at the summit in Brussels, writes Peter Spiegel, the FT's Brussels bureau chief.


Donald Tusk. Photo AP

Several say that **Donald Tusk, the Polish prime minister, is still unhappy with language in the treaty** that would make his attendance at eurozone summits discretionary.

Leaders, who are now entering the summit building, are hoping for a relatively early evening finish , but officials say this is now probably dependent on Tusk and his willingness to cede ground. For those interested in the minutae, a copy of the new draft circulated Friday is here. Here's the key paragraph:

> *"In order to discuss specific issues concerning the implementation of this Treaty, the President of the Euro Summit will invite, when appropriate and at least once a year, to a meeting of the Euro Summit the Heads of State or Government of Contracting Parties, other than those whose currency is the euro, who have ratified this Treaty."*

The last draft, circulated on January 19, read this way:

> *"In order to discuss specific issues concerning the implementation of this Treaty, the President of the Euro Summit will invite, when appropriate and at least once a year, the Heads of State or Government of Contracting Parties whose currency is not the euro who have ratified this Treaty and have declared their intention to be bound by some of its provisions in accordance with Article 14(5) to a meeting of the Euro Summit."*

13.40 Lithuania, one of the EU's peripheral states where the economy had been recovering from an earlier recession, is starting to feel the effects of the European slowdown.

Reuters is reporting that the Baltic state's economy **contracted for the first time in two years in the fourth quarter of 2011**, heralding weaker growth this year in a country still recovering from an earlier deep recession.

The **quarter-on-quarter contraction of 0.9 percent** was the first since the final quarter of 2009 and brought the **year-on-year rate of growth down to 4.3 percent from 6.7 percent in the third quarter**. It was also less than the 5.1 percent expansion forecast in a Reuters survey of analysts.

With neighbouring Estonia already part of the euro zone, the EU member has said it aims to adopt the single currency in 2014, although President Dalia Grybauskaite has been quoted as saying that date is not realistic.

13.30: Lunchtime markets update. Not much change from this morning, according to Jamie Chisholm, the FT's global markets commentator. Stocks and commodities are still slightly lower over the rancour in Europe and the lack of a deal on Greek debt restructuring.

The **FTSE All-World equity index is down 0.5 per cent** and the **FTSE Eurofirst 300 is enduring a loss of 0.8 per cen**t as traders shift some funds away from growth-focused bets, after their recent good run, and into perceived havens.

S&P 500 futures point to Wall Street opening off 0.8 per cent. The benchmark last week entered "bull market" territory after gaining more than 20 per cent from the October cyclical lows on hopes falling bond yields in Italy and Spain signalled an end to eurozone contagion fears; better recent US jobs and manufacturing data; and the markets' inference that the Federal Reserve was prepared to support assets to help the economy.

13.11 Jean-Claude Juncker, the Luxembourg prime minister who heads the group of eurozone finance ministers, made a few comments to reporters on his way in to the Brussels summit. Asked about the German proposal for a eurozone commissioner to oversee Greece's budget – a proposal officials say is unlikely to be adopted – he said any such provision would have to be applicable not just to Greece but to any eurozone country that found itself in similar straits.

Asked by a British reporter whether UK prime minister David Cameron would be made welcome after he wielded the veto at the last summit, Juncker said: "I don't have any reason for not welcoming David around this table."

12.53 Dutch electronics manufacturer Philips has become the latest big European group to blame the eurozone crisis, at least in part, for falling profits.

> *Frans van Houten, chief executive, said the company had been hit by "weak European sales, postponement in deliveries of existing orders in our healthcare sector, and inventory corrections and other operational issues in our lighting business".*

Siemens and Xerox have of late similarly heaped the blame for poor numbers on Europe. Yet Friday's Lex column took such excuses to task:

> *Investors should be sceptical of this blame game. After all, how often do managers say they were taken by surprise by the strength in the emerging markets? Never – lucky success stories were always predicted and skilfully executed. Companies cannot have it both ways though. Plenty of people were worried about Europe a long time ago.*

If the cavalcades of shiny BMWs and Audis pulling up at the summit venue are anything to go by, Europe's leaders are at least doing their bit for the struggling autos sector.

12.46 Portuguese debt is setting fresh alarming records (see 10.12). Chris Adams, the FT's markets editor, tweets:

RT @ForexLive: Portuguese/German 10 year govt bond yield spread widens past 1,500 bps for first time in euro-era http://t.co/I4gEdOgD

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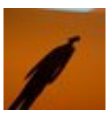
@ChrisAdamsMKTS

Christopher Adams

12.40 In contrast to other recent gatherings of EU leaders, this one is not being billed as The Summit to Save the Euro. On the contrary, what expectations there are are being managed firmly downwards, tweets the FT's Stanley Pignal in Brussels.

EU officials pushing line this is a "normal" #EU summit, not a crisis one, don't look for big bang but instead coordination on jobs/growth

about 7 hours ago via web Reply Retweet Favorite



@spignal

Stanley Pignal

12.32 Such is the chill wind in Brussels that the banks of photographers and cameramen awaiting the imminent arrival of the EU's leaders at the Justus Lipsius summit building resemble an Arctic expedition. You can sample the feverish excitement via this live feed.

12.29 And here is today's front page from Greek tabloid Ta Nea (see 12.18). You don't have to read Greek to get the gist.

Παπαδήμος και αρχηγοί: τρία όχι

Nein! Nein! Nein!

Στο σχέδιο για επιτροπεία

Στην κατάργηση 13ου-14ου μισθού

Στη μείωση του κατώτατου μισθού

Το μεγάλο φαγοπότι στο ΟΑΚΑ

12.18 Over to Athens, where Kerin Hope has been gauging the fury that has accompanied news of a German proposal that a eurozone commissioner oversee the execution of Greece's budget in exchange for more bail-out money.

> ***"Nein, Nein, Nein,"*** *screamed the headline in Athens tabloid daily Ta Nea this morning, referring to the German proposal along with demands by European Union and International Monetary Fund negotiators for cuts in the minimum wage and the abolition of the 13th and 14th monthly salaries that private sector workers get as an automatic bonus.*
>
> *Yet last year's initial deficit target was missed by around 2 percentage points of gross domestic product and one prominent Greek socialist came out today in favour of tight budget controls — though she doesn't spell out who should enforce them.*
>
> *Anna Diamantopoulou, education minister and a former European commissioner, said: "In order to address the substance of this problem, and the doubts of our partners, we need specific targets, quantitative and qualitative, that would be set by a determined government and checked every month by parliament and the people until there is a satisfactory stabilisation."*
>
> *A German politician couldn't have put it better.*

A German politician couldn't have put it better.

12.05 We are, as ever, very keen to read your comments at the bottom of this blog. batman111 has got the ball rolling with some trenchant thoughts.

> *The eurozone is "too big to fail"; Greece is "too big to fail" and any bank of any reasonable size is "too big to fail". As no one can fail, there is no way of ridding the system of excessive debts. I think we are in for a very long, rough and bumpy ride.*

11.58 Alice Ross, the FT's currency correspondent, has news that the **Swissie is once again strengthening significantly** as sentiment turns against the euro. Only last week the head of the OECD was warning that Switzerland's decision to cap its currency against the euro risked encouraging copy-cat protectionism on exchange rates.

Swiss franc dangerously close to the 1.20 limit today amid the euro sell-off. Low of SFr1.2044 earlier. SNB no doubt glued to screens.

about 8 hours ago via web Reply Retweet Favorite

@aliceemross
Alice Ross

11.51 Back to Brussels, where a general strike threatened to force EU leaders to meet in the eurocracy's second capital, Luxembourg, instead. Peter Spiegel, the FT's Brussels bureau chief, has been braving the snow.

> *Public transport is shut down and many local businesses are closed for the day, giving the Belgian capital something of a funereal air, particularly amid the bitter cold. Despite the work stoppage, there*
>
> *is little sign of disruption*

Striking Belgians (Reuters)

around the summit building itself. Belgian labour leaders have emphasised the strike is specifically aimed at protesting Belgian – not European Union – policies, specifically an overhaul to the Belgian pension system. As a result, there are no demonstrators thus far in Brussels' EU quarter and no additional security around the boxy Justus Lipsius summit building.

Indeed, because the summit is the first in many months that has not been billed as critical to the euro's survival, many journalists and other normal summit groupies appear to have stayed away this time and avoided the transport hassles that have forced the rest of the brave souls to hoof it around Brussels.

11.40 Could the eurozone debt crisis, with its attendant dampening of demand for raw materials, end up **pushing commodity prices higher**, as troubled banks retreat from financing new mines, oil wells and farms? Javier Blas, the FT's commodities editor, has this counter-intuitive analysis.

If the growth of project finance lending continues to slow down, fewer natural resources projects will see the light in the next five years, thus reducing the expected supply growth. The most capital intensive projects, including iron ore and oil, could suffer the most.

11.30 The FT's Mary Watkins has served up a full story on those rocketing Portuguese bond yields (see 10.12).

> *Portuguese credit default swaps rose to record levels, with the market now pricing in a 71 per cent chance that the country will default over the next five years.*

10.57 Over to Dublin, where a weekend poll showed a thumping majority of the Irish public want a referendum on the eurozone's planned fiscal treaty. The government is anxious to avoid such a vote for fear it could spark a backlash against four years of cutbacks to tackle Ireland's economic crisis. The FT's Jamie Smyth reports:

> *Dublin is unlikely to be able to tell its EU partners whether it will have to hold a referendum on the eurozone fiscal treaty for a few weeks at least, according to Ireland's European affairs minister Lucinda Creighton. She told Irish radio this morning that officials at the office of the attorney general had been involved in the negotiations on the draft text. But she said the AG had given no preliminary view on whether the draft treaty would need to be put to a public vote.*
>
> *The AG would require "a number of weeks at a minimum" to study the treaty before providing the government with advice on whether the treaty involves a transfer of power from Dublin to international bodies, said Creighton. She also warned that it would be "almost impossible to continue as part of the currency union" if Ireland didn't ratify the fiscal treaty.*

Given the heated debate over Ireland's economic health or otherwise, this might be the moment to draw attention to an advertising campaign encouraging tourism in the emerald isle. From a distance — or in a blurry photo such as this one of a London bus in motion — one might almost conclude that the authorities had taken the unconventional step of simply putting the nation up for sale…

10.48 From Brussels comes news, ahead of the summit, that a regular barometer of confidence in the eurozone's economic outlook improved in January, albeit less than expected.

A European Commission index of executive and consumer sentiment in **rose to 93.4 from a revised 92.8 in December**, less than the median prediction of 93.8 in a survey of 30 economists by Bloomberg.

Peter Dixon, economist at Commerzbank, told the news agency ahead of the numbers' publication:

> *Things may have turned a corner. Confidence is slowly returning to the market but we've got a long way to go before we start to see a proper recovery setting in. It does suggest the slide in activity we've seen recently is going to be a fairly shallow one.*

10.29 The results of the day's second closely watched debt sale are in and they look somewhat happier than Portugal's. Back to Michael Hunter on the FT's markets desk:

> *There's better news from Italy even as the pressure mounts on Portugal: the **yield on Rome's 10-year debt falls to its lowest level since October** at 6.08 per cent, down from 6.98 per cent at the end of December.*

That will doubtless offer some cheer to the government of Mario Monti as it struggles to balance the books. Elsewhere, though, there are signs of mounting unease. The **spread of Spanish 10-year debt over the equivalent German Bunds** — an indication of the premium investors charge to lend to Madrid relative to what is regarded as the eurozone's most solid economy — has climbed back above **300 basis points**. It had fallen beneath that level last week at the height of expectations for a quick between Greece and its private sector creditors.

Adds Hunter of the FT:

> *It's not yet time to pack tinned food and head for the hills. More a make-sure-there's-some-petrol-in-the-car-just-in-case kind of a feel.*

10.12 On the FT's markets desk in London, Michael Hunter reports that the worries about the outlook for a deal with Greece's private sector creditors to avoid a chaotic default are bleeding through into capital markets elsewhere on the eurozone's periphery.

> *Yields on Portuguese 10-year bonds touched a euro-era high of 15.66 per cent, while* ***yields on Lisbon's 5-year debt reach 20.91 per cent****, up 48 basis points. That's also a high mark since the inception of the shared currency.*

Last week we carried some analysis of Portugal's travails in the bond markets since its credit rating was cut to junk.

9.45: LEAKED DOCUMENTS ALERT: Peter Spiegel, the FT's Brussels bureau chief, is hearing that the Belgian capital has been awash with rumours for days that this afternoon's summit **will be followed by a smaller gathering of the 17 eurozone leaders to grapple with the still-uncertain second bail-out of**

Greece.

But without a final debt restructuring deal on the table, officials the FT's team talked to this morning said a Greece-focused session is increasingly unlikely, so the summit could actually break up at a reasonable hour – a welcome change for us reporters who waited until 4am and 6am for the last two summits to break up.

Instead, **today's summit will focus on economic growth and signing off on two new European treaties** – one to set up a **permanent €500bn eurozone financial rescue fund** and the other to **enshrine tough new debt and deficit limits on eurozone members**.

> *According to the draft communiqué circulated to national delegations late Friday, and obtained by the Financial Times, the leaders are set to promise to boost job growth for young workers – with help from Brussels in the form of reprogrammed EU development aid – liberalise the EU's internal single market, and give a boost to small and medium-sized companies.*
>
> *Many of the initiatives in the communique amount to implementing programmes already agreed to, however, and the issue is expected to generate little heat at the summit.*
>
> *Of more potential for dispute is the fiscal discipline treaty, where some disagreements remain over whether non-eurozone countries will be able to attend future summits about the single currency and whether the pact will trigger referenda in countries like Ireland and Denmark.*

A copy of the 11-page treaty circulated to national delegations late Friday, and also obtained by the FT, **finds some wiggle room that may make an agreement easier**. The referendum question centres around language that would force signatories to impose the tough new debt and deficit limits into their national constitutions – something that Ireland and Denmark are seeking to avoid.

The new draft gives both countries an out, saying the rules must be incorporated

The new draft gives both countries an out, saying the rules must be incorporated nationally "through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to through the national budgetary process". Whether that will be enough for Germany and the European Central Bank, who have pushed for more permanence, remains to be seen.

The language on summit meetings has changed as well from the previous draft, circulated January 19. The new language still gives eurozone leaders the option to invite non-euro countries "when appropriate and at least once a year", but provides more leeway to qualify for attendance.

Previously, countries who wanted to attend the summit would have had to have "declared their intention to be bound" by the treaty's measures, even if they were not in the eurozone. The new draft allows all signatories "who have ratified this treaty" to be invited, meaning non-euros won't have to abide by the pact's strictest measures. This is a gesture to Poland. **Whether France's Nicolas Sarkozy, who is keen on excluding non-euro countries, and Poland's Donald Tusk, who has been pushing for non-euro participation, will agree on this new language could be the most interesting part of the summit.**

9.30: Reuters is reporting that the euro has **retreated from six-week highs** against the dollar as a rally driven by short-covering runs out of steam, with investors awaiting news that Greece and its private creditors are closer to a debt swap deal ahead of an EU summit.

The single currency fell **0.5 percent to $1.3157** having hit a six-week high of $1.3233 in early trade. It had rallied almost 3 percent last week as speculators covered short positions.

9.20: Another expected flashpoint in Brussels is the German plan – as revealed by the FT – to impose a budget overseer on Athens in return for a €130bn bail-out.

Greek finance minister Evangelos Venizelos has said that the creation of such a position would improperly force his country to **choose between "financial assistance" and "national dignity"**. He insisted that EU leaders already had sufficient monitoring safeguards in place.

But Mr Venizelos's boss, PM Lucas Papademos reminded the country's political leaders what would happen if a deal to resolve the country's debt crisis is not finalised in the next week or three.

> *"If the process is not completed successfully, we will be faced with the spectre of bankruptcy that would have grave consequences for society, and especially for the poor."*

9.10: One of the main summit agenda items is expected to be the new **"fiscal compact"** – to ensure closer cooperation on budget policy in the 17-nation eurozone.

FT columnist Wolfgang Münchau believes it shouldn't be even on the horizon. He writes that the whole idea is **"quite mad"** and could well trigger an even bigger debt crisis.

> *While I have yet to meet anybody who can explain what good the treaty will do – except as part of some circular logic – the damage it will do is more evident. Just think of the entirely unnecessary fight with David Cameron, UK prime minister. But the British problem pales in comparison with the treaty's truly destructive powers. It will encourage eurozone member states to adopt extremely pro-cyclical policies.*

8.50: The markets are clearly not expecting much from today's summit. As Jamie Chisholm, the FT's global markets commentator writes, "stocks and commodities are in retreat as rancour within Europe ahead of another summit and the lack of a deal on Greek debt restructuring reduce optimism that the fiscal crisis is easing significantly".

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