

March 23rd, 2013

Cypriot banks sent shock waves around the globe subduing equity markets and bank stocks around the world.

How does Cyprus events affect us? Directly, it has no affect on Canadian and American financial service firms. It does however deeply affect the EU. The EU's proposed answer to Cyprus's problem may set off a global precedence. Cypriot banks are the deposit holders for almost all of Russia's wealthy elite. Cypriot banks have been under the microscope since the announcement of Basel iii and mandatory bank compliance. It lacks deposit-taking regulation and non-compliance is the foundation on which the EU decision was based on. The EU answer so far is as follows: The ECB will not offer liquidity to the banks but the bank must seek remedy from depositors themselves. In other words, take the need to be liquid from your account holders not us. Cypriot banks are rife with corrupt capital from Russia's elite. Cyprus finance Minister rushed off to Russia seeking funds to remain liquid and returned home with no support from mother Russia.

By coming to their aid, the ECB feels strongly it will send a signal to the global banking community to ignore Basel iii compliance. Buyer beware if you choose to do business with a non-compliant bank, your funds are not protected.

Something like this has not occurred since the great depression. Is Cyprus an experiment? One thing is for certain, Vladimir Putin will not take this laying down.

Markets around the world saw choppy trading but managed to close up on Friday.

Sequester is having a greater impact on investor behaviour. Politicians are behaving poorly with either side refusing to bend. Fortunately, for America, employment continues to improve. Housing is growing daily and Ben Bernanke's magic bullet solution is working.

In Europe, Cyprus's shock waves shook the continent hard. The EU is already dealing with declining industrial output. The IfO Institute released some unexpected numbers on business confidence. Economists were expecting to see confidence rise again to 107.8 surpassing February's reading. The index reading for March fell to 106.7.

In Asia, Cyprus contagion fear hit Japan hard pushing equity markets down and forcing the Yen to rise. Cyprus's credit rating declined to junk status is weighing heavy on Japan.

China's Shanghai composite index shrugged off negative news by posting a mild gain of 0.2%.

Australia's All Ordinaries had a rocky week ending up marginally.

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Oil prices for May delivery finished up \$1.26 to \$93.71 a barrel.

Gold saw an initial boost from the bad news but finished down at \$1,606.10, down \$7.70 an ounce.

The full effects of finance Minister Jim Flaherty's budget won't be known for a few weeks. On the surface, the budget appears to be much of the same old receipt that has worked so well.

An in depth review will be released once full details of the budget are provided. Flaherty faces a bigger issue than a budget. Once Governor Carney leaves for London, the heavy lifting may fall on the minister's shoulders until the new bank Governor can make a name for himself, as did Mr. Carney and Mr. Dodge before him.