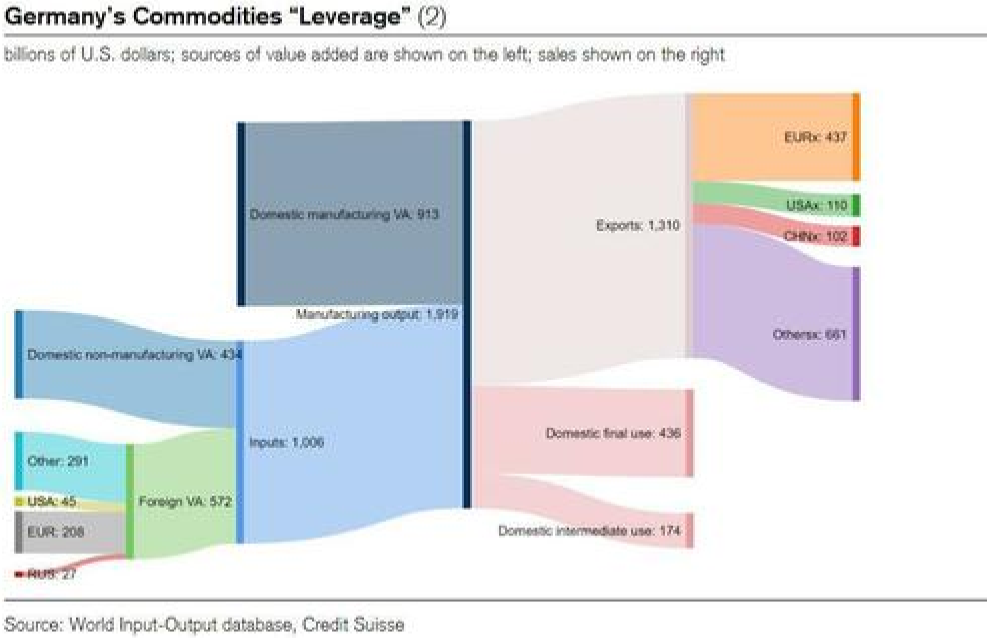
Sweden, Austria Start Bailing Out Energy Companies Triggering Europe's "Minsky Moment"

Description

Last weekend, Credit Suisse repo guru published what may have been the most insightful snippet of the entire European energy crisis (to date) when he extended the infamous "Minsky Moment" framework to Europe, and specifically Germany, which he said "*can't cover its payments without Russian gas and the government is asking citizens to conserve energy to leave more for industry*." He then elaborated that *"Minsky moments are triggered by excessive financial leverage,* ***and in the context of supply chains, leverage means excessive operating leverage: in Germany, $2 trillion of value added depends on $20 billion of gas from Russia… …that's 100-times leverage – much more than Lehman's."***



But while Germany still pretends it can somehow avoid a devastating crisis this winter besides bailing out Uniper, one of the country's biggest utilities (after all, admission would make Trump's 2018 warning accurate and prescient, and everyone knows that according to Western intellectual snobs Trump can't possibly ever be correct), other European nations are succumbing to what Zoltan dubbed a "supply-chain Minsky moment."

On Wednesday it was Austria, which announced it would bail out the country's main energy supplier with a two-billion-euro ($2 billion) loan, the AFP reported. Chancellor Karl Nehammer said **the loan to Wien Energie was an "extraordinary rescue measure" to ensure its two million customers – mainly Vienna households – continue to receive electricity.** It will run until next April.

Wien Energie asked for a bailout this weekend after suffering financial trouble amid soaring energy prices and speculation the company mismanaged their funds. Nehammer said Wien Energie, which is owned by Vienna, would have to answer questions as to how they got into trouble.

"The goal was to help people quickly… It has now been agreed that all of these questions, which are rightly raised, must be answered promptly by Vienna (and) the energy supplier," he told reporters.

The company – almost entirely dependent on Russian gas – said earlier this week that it had been hit by the "price explosion" which it has not yet passed on to customers, assuring it remained solvent. As part of its rescue, the company is expected to pass through soaring costs, which means a historic price shock is coming to Austria next… and soon Sweden.

Following in Austria's footsteps, on Saturday morning **Sweden announced it will give emergency liquidity support to electricity producers after the government said it feared Russia's decision to halt gas deliveries to Europe could place its financial system under severe strain.**

Prime minister Magdalena Andersson said the government would offer hundreds of billions of kroner in support to electricity producers, the FT reported. The PM warned that, left unchecked, **rising collateral demands for electricity producers could ripple through the main Nasdaq Clearing market in Stockholm and, in the worst case, spark a financial crisis….** just as Zoltan warned almost half a year ago**.**

Her remarks came after Russia said on Friday evening that it would no longer supply gas via the Nordstream 1 pipeline. That announcement came after energy markets had closed for the weekend.

"Yesterday's announcement not only risks leading to a 'war winter' but also threatens our financial stability," Andersson said, standing alongside Sweden's financial regulator, central bank governor and finance minister at an emergency press conference on Saturday.

Sweden's dramatic action underscored the seriousness of the situation facing Europe as it scrambles to secure enough energy ahead of the winter and tries to avoid the spread of distress among electricity producers.

As we reported previously, Germany already bailed out one of the country's biggest utilities, Uniper, and its majority shareholder, Finnish energy group Fortum, in turn asked the government in Helsinki for support. **Fortum warned on Monday that its collateral requirements had risen by €1bn to €5bn in the previous week, and that a default by a smaller player would cause "severe disturbances to the Nordic power system".**

Andersson said **the support would apply to all Nordic and Baltic players**, and would need approval by the Swedish parliament's finance committee on Monday. Even the country's central bank was forced to chime in: **"We need to isolate this in one market so it doesn't infect the financial sector,"** said Stefan Ingves, governor of the Riksbank.

While Swedish authorities said they saw no immediate risk to financial stability (translation: *financial stability is on the verge* of collapse), **but were worried that otherwise-solvent companies could struggle to find enough liquidity,** causing potential ripple effects. "Russia is waging an energy war against Europe to divide us. But we will not let Putin succeed," Andersson said.

Andersson's comments come a week before parliamentary elections in Sweden with polls pointing to a surge in the anti-Immigrant, Eurosceptic Sweden Democrats, who are set to become the nation's 2nd largest party. She said her centre-left government stood ready to act, just as it did over the Covid-19 pandemic, but it's unclear if she will even get the votes to be in majority.

Erik Thedéen, head of Sweden's Financial Supervisory Authority, said power prices in Sweden had risen 11-fold in the past year, leading to a jump in collateral demands. He added that without liquidity support electricity producers could face bankruptcies and large losses that could lead to the collapse of the clearing house. "It is under very severe stress," he said.

In hopes of easing Eurpope's "Minsky Moment" energy crisis, last week, European Commission President Ursula von der Leyen said Monday the bloc was preparing to take "emergency" action to reform the electricity market and bring prices under control. Also, on Friday, G7 members unanimously decided to impose price caps on Russian oil imports (an absolutely idiotic scheme as explained yesterday, and one which will send oil prices sharply higher). In response, Russia shocked markets when, late on Friday, it said that the previously scheduled resumption of natgas supplies to Europe via the Nord Stream 1 pipeline won't happen due to an "accidental" oil leak. This ensures that European nat gas and power prices are set to hit new all time highs come Monday.

by Tyler Durden

Category

1. Economy-Business-Fin/Invest
2. Main

Date Created
09/05/2022