FOREX FOCUS: Germany May Get Its Bundesbank Back

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LONDON (Dow Jones)--This is Germany's chance to get what it has really always wanted--a second Bundesbank.

Let's face it, the European Central Bank has always been a poor second to the German central bank. Even now, 12 years after its inception, the euro-zone central bank's anti-inflation credibility is still very much in question.

And the euro, unlike the Deutsche Mark, is hardly seen as a strong currency.

If anything, the recent sovereign debt crisis has damaged the single currency's reputation and dented its chances of competing with the U.S. dollar as a global reserve currency.

But now, Germany has a chance to change all that.

As the sovereign debt crisis rumbles on and Germany comes under more pressure to provide funds for its poorer neighbors, it has the opportunity to make a key demand in return--the appointment of Bundesbank President Axel Weber to the helm of the ECB when its current French president, Jean-Claude Trichet, retires later this year.

Before Trichet there was a Dutch president, Wim Duisenberg, and the ECB has always struggled to convince financial markets that its policy stance would be anywhere as hawkish as the Bundesbank.

For German Chancellor Angela Merkel, getting Weber to head up the ECB would be quite a coup and could go some way to help quieting her critics at home.

Despite the creation of a bailout program, the European Financial Stability Facility, and despite pay-outs to Greece and Ireland, tensions in euro-zone financial markets remain and the cost of funding for peripheral debtors continues to rise.

Chances are, these tensions won't go away and could still intensify. Greek debt was downgraded even more Friday and the future of Ireland's government is in doubt as Prime Minister Brian Cowen faces a secret ballot on whether he should continue to lead the ruling Fianna Fail party.

Debt-raising exercises by Portugal, Spain and Belgium later this week could also all provide more evidence that investor faith in the euro zone is still deteriorating.

At the center of the uncertainty is the EFSF and proposals that the EUR440 billion fund set aside should be increased to ensure that enough is available for bailing out even the region's larger debtors.

Of course, much of that increase would have to come from Germany, leaving Merkel with the unpalatable task of convincing coalition parties of her minority government to support the proposals.

Her finance minister Wolfgang Schaeuble made it clear at the weekend that he doesn't see any need to increase the fund and suggested that guarantees be improved to ensure that more of the original fund can be made available to debtor countries.

The whole issue of the EFSF is expected to dominate a meeting of euro-zone finance ministers on Monday and Tuesday, but any final agreement isn't likely to emerge until a meeting of euro-zone leaders on Feb. 4 at the earliest. There have been suggestions that negotiations will rumble on until March.

This could make life easier for Merkel.

The longer tensions rise and the more difficult negotiations become, the greater the chance she has of convincing other leaders to accept a German at the head of the ECB. She will also have more time to convince her coalition partners that securing the euro's future in the longer term might be worth a larger debtor bailout package in the short term.

Bloomberg	TNI FRX POV
Reuters	USD/DJ
Thomson	P/1066 or P/1074

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