

Italy's League sees euro collapse without ECB bond guarantee



ROME (Reuters) – The economic spokesman of Italy's ruling League party warned on Monday that unless the European Central Bank offers a guarantee to cap yield spreads in the euro zone, the euro will collapse.

"The situation can't be resolved, and it is going to explode," Claudio Borghi told Reuters after Italian, Spanish and Portuguese government bond yields rose in the wake of the financial turmoil in Turkish markets.

Borghi said the ECB should guarantee that yield spreads between euro zone government bonds not exceed a certain level, suggesting 150 basis points between the yields of any two sovereign bonds as a reasonable maximum.

"Either the ECB offers a guarantee or the euro will be

dismantled," said Borghi, who is president of the lower house budget committee.

The extra yield that investors demand for holding Italian bonds over top-rated German ones rose to its highest since late May earlier on Monday, briefly rising above 280 basis points before easing back to around 275.

A former trader and managing director at Deutsche Bank, Borghi said he expected those now selling peripheral euro zone debt would "end up losing out" because sooner or later the ECB would be forced to issue the guarantee he is calling for.

He said the fact that contagion from Turkey was pushing up yields in several euro zone countries showed that Italy's domestic political and economic situation was not the main reason for market pressure on its stocks and bonds in recent days.

Safe-haven German Bund yields fell to a one-month low, but Spanish and Portuguese bond yields were dragged higher by their Italian peers and the broader sentiment going against market assets seen as carrying greater risk.

Italy's 10-year yield at one point reached a two-month high at 3.109 percent, heading towards levels seen in late May when a political crisis triggered a huge sell-off in Italian debt.

The right-wing League has governed since June with the anti-establishment 5-Star Movement, eventually forming a coalition among former rivals following an inconclusive March election.

Ahead of the election, the League had called for Italy to exit the euro, but since forging its alliance with 5-Star it has repeatedly denied any suggestion that it is planning to orchestrate Italy's exit from the single currency.

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