

UK Recession Imminent?

Bhavin Dhanani

For the first time in 16 years the UK economy has contracted, confirming fears that an economic recession is imminent. The UK is technically not in a recession until two negative quarters of growth are realised but between July and September output fell by 0.5%. The fall was greater than expected by many analysts.

The services sector plunged by 0.4% over the quarter. Output within the manufacturing sector fell by 1%. The only sector to report a positive change in output was the farming, fishing and forestry industry which saw 0.4% growth. Analysts are now anticipating aggressive cuts in interest rates in

order to inject confidence into the economy. Many predict 2% in cuts from the current rate of 4.5%. This could trigger higher inflation alongside output falls leading to a situation of economic stagflation.

Before the official figures were released Gordon Brown and Mervyn King, the governor of the Bank of England, warned that the UK economy was likely to head for a recession. The Prime Minister went as far as saying that it was likely there would be "recession in America, France, Italy, Germany and Japan". Mr King had earlier stated that the British banking system had been closer to failing in October than at any time since the First World War.

On the back of the Friday figures UK shares tumbled by 8%, before closing 5% down on the day. The S&P 500 closed down 2.1%. In Germany, the DAX finished 4.95% lower and the Nikkei 225 in Japan hit a record low of 7,649.08. Sterling has also slid dramatically in the week. After Friday's news the pound fell by 8 cents against the dollar before recovering to a fall of 3.5 cents. It closed at \$1.5837. One year ago £1 would have bought \$2.0523. The weakening of the pound is due to the biggest decrease in economic output since 1990.



Mervyn King announces the UK is halfway towards a recession on the back of a 0.5% economic contraction.

IMF Offers World Banking Aid

Sarah Lloyd

As the markets continue to malfunction and affect countries rather than just companies, the IMF is considering a fund to help economies with a liquidity strain.

The first country to ask for help with their current liquidity issues was Iceland. The Icelandic government has asked the IMF for \$2 billion to overcome the banking crisis. The country hopes to benefit from the expertise of the IMF in using the money and policy decisions.

Iceland also hopes to receive another \$4 bn in loans from other countries as part of the package which will be spread over two years. Possible donor countries could include the US and Norway. They had been touting for help from Russia after they declared the UK acted, 'not as a friend'.

The approval of the IMF loan is critical for Iceland as it aims to restore confidence in the banking sector, stabilize the Krona through macroeconomic policies and achieve medium-term fiscal consolidation.

Iceland is not alone in discussions with the IMF as Hungary, Belarus, Ukraine, Serbia and Pakistan have all also approached the world organization. The difficulty for the IMF is differentiating between countries with liquidity strain and those with more serious balance of payments problems.

The establishment of such a fund has to would have to separate any balance of payments problems and provide credit without signaling a country is in trouble. The fund is being called the liquidity support facility.

Markets

- 97 companies in the FTSE fell this week after expectations of a global recession increased.
- The FTSE has managed to fall over 40% inside a year after crisis after crisis gripped the economy.
- It was confirmed this week that the ban on short-selling bank stocks will not be lifted for the foreseeable future.
- Overall banking share losses of 47% over this year look exaggerated when compared to retailers and house builders suffering 50% and over 70% losses respectively.

Winners, Losers

Company	Price	Change
3i Group (financials)	475.5p	5.6%
RSA Insurance (insurance)	119.1p	2.41%
Brambles (logistics)	311.5p	2.21%
British Energy (energy)	729.5p	-0.88%
Aviva (insurance)	219.75p	-28.3%
RBS (banking)	58.1p	-31.24%
Xstrata (commodities)	709p	-32.11%
STD Chartered (banking)	692.5p	-38.72%

World on the Brink of Long Deep Recession?

This week has seen Iceland, Pakistan, Serbia, Hungary, Belarus and many other countries approach the IMF for aid amid world problems. After a banking and housing collapse, the likes of which have not been seen since the 1920s, the world looks like it is teetering on the edge of a recession.

Commodities prices are falling and so are stocks and shares, but the biggest indicators of an imminent world recession are the crumbling exchange rates. In times of US hardship, as seen during the tail-end of last year, the dollar weakens. This was seen when the GBP-USD exchange rate exceeded 1:2. Now as the world begins to feel the pace of decreasing output, and thus decreasing demand, the self-perpetuating cycle has led many to believe no industry is immune.

The GBP-USD exchange rate has fallen to levels approaching 1:1.5. This points to the fact that as the world is falling into recession investors seek the greenback as their safe haven.

When the dollar was falling, world currencies rose, as did commodities prices as these were seen to be higher yielding options compared to cash. Most world exchange rates are pegged or at least have a component of their currency linked to the dollar. When one suffers they all do and thus people flood to the dollar to limit their exposure.

When commodity prices were increasing and driving up inflation the dollar was weak and imports cheaper. Now that commodities have fallen but the dollar has increased. In these tumultuous times the volatility is a saver's worst nightmare because either way inflation causes the value of money to decrease.

OPEC oil cut

Lets hope that OPEC have not ensured that the world enters a long dark recession. Supply constraints could back fire causing a collapse in either Brent oil demand or, due to market volatility, a commodity free fall as investors abandon the so called 'bubble' of the oil market.

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Any queries, comments or requests?
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Oil Supply Cut 1.5%

Sarah Lloyd

OPEC, the 12-country oil cartel, slashed production by 1.5 million barrels a day on Friday, ignoring Western fears and objections. A cut in production was intended to increase fuel prices—potentially adding to inflation in an already fragile global economy. The head of OPEC, Chakib Khelil, claims that the cut in production will have no impact on growth or inflation as the US and Europe have already stopped growing and oil was not the cause of the current crisis.

The US and the UK have criticised

the move, with the former stressing that the price of commodities should be determined by the market.

Whilst oil titans such as Saudi Arabia are profiting when oil stands at \$70-a-barrel, countries such as Venezuela, Iran, Iraq and Nigeria need higher oil prices.

Oil prices continued to fall despite the announcement and closed down on Friday amid fears of a global recession. For motorists this has led to a fall in petrol prices in the UK. Analysts claim OPEC has only shown how weak the markets and demand truly are.

Strictly Bites

Goldman Sachs is to cut 10% of its global workforce. At the moment Goldman employ 32,000 workers over the world. It is anticipated that up to 600 jobs will go in London. Goldman routinely cuts 5% of its workforce every year.

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PNC Financial Services Group is to acquire **National City bank**. This will make it the fifth largest bank in the US by deposits. The purchase is to be part funded by the US government's \$700 billion bailout package.

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Banking shares around the world sunk dramatically on **Friday** on the back of global recession fears. **HSBC fell by 14%** as investors are nervous about their exposure to emerging economies. Wall Street giants **Goldman Sachs** and **Morgan Stanley** also lost 7.5% and 8% respectively.

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Trading on the **Dow Jones futures** markets had to be halted on **Friday** because contracts had plunged so far. The stop had been put in place in order to prevent the market from free falling.

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There are fears that governments in the **US, Europe** and the **Far East** will be forced into closing stock markets to prevent meltdown. The last time an emergency holiday was imposed in the US was during 9/11 in 2001.

Lloyds TSB's potential takeover of **Halifax Bank of Scotland (HBOS)** is again under threat after HBOS's share price fell sharply. HBOS's share price now reflects a 40% discount on Lloyds' offer. Shareholders of Lloyds will meet in the third week of November to decide on the deal.

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UK insurer, **Prudential**, is considering taking parts of **American International Group's (AIG) Asian operations** as well as its UK life assurance arm.

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Two German banks are ready to use part of their government's **€500 billion** rescue package. **HSH Nordbank** and **WestLB** will apply for comprehensive aid from the government.

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Bank of America is looking to keep as many revenue generating brokers at **Merrill Lynch** as they can after offering them bonuses up to 100% of the revenue that they bring in. Rumours suggest that Merrill brokers are high in demand from rival Wall Street firms.

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After the share fall last week the **LSE** is trading at a four year low of 477.5p.

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The length of time since the last IPO has broken the previous record and now exceeds 180 days.

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Sources: www.theft.com, www.reuters.com, www.economist.com, www.timesonline.com, www.bbc.co.uk, www.yahoofinance.com, www.bloomberg.com