

Europe Enters Recession

Bhavin Dhanani

Official figures released by Eurostat, the equivalent of the Office of National Statistics in the UK, have shown that gross domestic product in the eurozone area fell by 0.2% between June and September. The contraction follows on from a 0.2% fall in the second quarter of 2008 meaning that the eurozone is now in a recession.

Since the euro was adopted as a single currency, the area has experienced booming growth. Analysts are anticipating the economic welfare of the eurozone will get a lot worse before it gets better. The general feeling is that a recovery will not take place any time before 2010.

Some nations within the eurozone are suffering heavily. The biggest economy within the region, Germany, this week released gloomy figures confirming an economic contraction of 0.5% in the third quarter. This was a bigger fall than expected. The trade balance was a fundamental reason behind the fall. Exports have fallen and imports have risen, however consumer spending did increase. Spain also experienced negative growth in the third quarter for the first time since 1993. The economies of Portugal, the Netherlands and Italy all stagnated.

More of a surprise was the positive growth that France had in the third quarter. The economy

grew by 0.1%. In the second quarter of 2008 the French economy contracted by 0.3%. The rise was attributed to increased consumer and business spending up 0.2% and 0.3% respectively. A separate report has shown the French labour market eroding which will impact fourth quarter performance.

Inflation across the area was reported to have fallen 0.4% to 3.2% in October, thanks mainly to the tumbling oil price. Falling inflation and stagnating growth suggests a likely interest rate cut.



This week the ECB announced Europe has entered a recession after two successive quarters of negative growth

More Bad News For UK Economy!

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Markets

- The Consumer Price Index (CPI) for the US is released this Wednesday and is expected to show a decrease in inflation as oil price reductions have positively impacted the cost of living
- The Consumer Price and Retail Price indices (CPI and RPI) for the UK are released on Tuesday this week and both are expected to mirror the predictions for the US, with a decrease in the cost of living.
- The FTSE 100 this week closed down 5.10% at 4,419.66.

Winners, Losers

| Company | Price | Change |
|---------------------------|---------|---------|
| Vodafone (telecoms) | 122.55p | 13.16% |
| BT (telecoms) | 123.80p | 9.95% |
| Sainsbury's (supermarket) | 292.00p | 6.57% |
| Reuters (media) | 1204p | 5.34% |
| Man Group (hedge fund) | 215.75p | -23.12% |
| HBOS (banking) | 82.80p | -23.15% |
| ICAP (financials) | 247.50p | -24.25% |
| Vedanta (resources) | 581.50p | -27.13% |

Sterling plunged this week to a 13 year low against the Euro whilst sinking to a 6-1/2 year low versus the US dollar after the Bank of England announced worrying signals in its inflation report.

The governor made three key points during the press conference. He revealed that current estimations predict inflation has a high probability of dipping below the Bank of England target to 1%. There is also the possibility that the UK will see deflation. UK GDP growth for 2009 is expected to be negative leading to further UK rate reductions. The likelihood of another large rate cut is seen as almost certain with some money market participants have already priced in a 100 basis point cut in anticipation of December's MPC meeting.

This news from one of the worlds most respected economic figures sent sterling towards their historic lows. Investors fled the UK pound as little other news encouraged investment in sterling, meaning many looked for the higher returns on offer elsewhere.

The UK budget deficit is at its largest for 60 years and is considerably higher than other developed countries. Predictions in the report also state that the housing market is likely to slow for at least the remainder of 2008,

The constantly down-beat news flooding the economy at the moment is the fundamental reason why sterling has fallen so dramatically. However, a proportion of the falls are understood to be a price correction since sterling was considered overvalued at the start of the year.

G20 Meeting

For the first time since the G8, the world's growing economies were invited into the "rich nations" club. The recent G20 meeting included leaders from China, Brazil and India as well as the usual stalwarts from Europe Japan, Russia and the US.

Out-going United States President, George Bush, led the conference aimed at providing a cooperative approach to future crisis-fighting and financial systems issues. Nicolas Sarkozy, the French premiere, pushed for President Bush to hold the world summit at relatively short notice amid the world's current problems.

The G20 together are responsible for more than 85% of the world's Gross Domestic Product. The meeting in Washington over the weekend discussed the global financial crisis. They discussed the causes, the effects, the fallout and how to prevent such a disaster from reoccurring.

The leaders left the summit instructing their economic heads to review a series of key global measures. Their reports are due to be ready by the end of March. A second summit has been called for April next year.

The world's premiers promised bold moves including: increased oversight of banks, reforms of some global financial institutions like the World Bank, and agreeing concerted interest rate and tax cuts as called for by Gordon Brown.

Are we doomed?

With the increasing number of job cuts in the financial sector, most recently seen at Goldman Sachs and Citigroup, what are the implications for banking internships, placements and graduates? Is the global financial crisis going to help or hinder our studies and work experience?

Have a view, let us know
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Any queries, comments or requests?
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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

G20 Receive Asia Cash

Sarah Lloyd

During the G20 summit this weekend the Japanese Prime Minister, Taro Aso, was expected to announce that Japan will lend the IMF \$100bn in temporary funds. Furthermore, Mr. Aso aimed to encourage other member states to follow suit.

China is expected to loan the IMF a further \$500 million within weeks. China, like many other potential lenders, is believed to have encouraged Pakistan to seek IMF assistance. This comes amid fears that the economic meltdown of a nuclear state will play towards al-Qaeda.

At present the IMF is not in need of additional capital. However there are growing concerns that the current global financial crisis will force more countries to follow Pakistan and Iceland in seeking financial support from the fund.

Japan expects support to be offered by other Asian leaders in order to see further global cooperation and to help emerging economies cope with their already strained domestic funding. Over the weekend, Mr. Aso was also expected to argue an increased IMF role in monitoring movements in financial markets.

Strictly Bites

Several companies within the finance sector have this week announced significant job cuts. The Royal Bank of Scotland has announced 3,000 jobs will go in its investment banking division. Citigroup will cut a further 10,000 jobs on top of the 11,000 in October. Fidelity, will cut 1,700 jobs worldwide.

The proposed takeover of Halifax Bank of Scotland (HBOS) by Lloyds TSB is under pressure again. The chairman of HBOS, Lord Stevenson, wrote to shareholders urging them to accept the deal. If the deal is vetoed by shareholders it is likely that HBOS will face full nationalisation.

The UK staff who are still working at collapsed investment bank, Lehman Brothers, will receive their annual bonuses. Creditors of the bank met with administrator, PWC, to discuss the money owed to them. The process is expected to take up to seven years.

Merrill Lynch held on to 99% of its top brokers after it was sold to Bank of America. Around 6,200 brokers signed a contract which would keep them at the combined institution.

London based estate agent, Savills, has said that luxury homes will fall in value by 14% in 2009. Savills also

Freddie Mac, has asked for a loan to the value of \$13.8 billion from the US Treasury. The recently nationalised institution recorded a \$25.3 billion loss in the third quarter. Fannie Mae reported a \$29 billion quarterly loss and also asked for a loan. The \$100 billion assigned to both for emergency loans may not suffice.

Barclays are trying to renegotiate the terms of the Abu Dhabi and Qatari sovereign wealth funds' investment. Existing shareholders are prepared to vote against the deal forcing the bank to turn to the Government for funding.

Recently nationalised Bradford & Bingley has seen its chairman, Rod Kent, stand down, along with non-executive directors Nick Cosh, Ian Cheshire and Steve Webster.

The Federal Reserve has approved an application from American Express, the credit card company, to become a bank holding company. Despite publicly stating that the change was not essential, Amex decided to go ahead with the transition due to market volatility.

Raoul Weil, the CEO of UBS's global wealth management, has been charged in the US with tax evasion. There have been allegations clients were assisted in avoiding taxes.

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