

## World Markets Tumble!

Bhavin Dhanani

**There** was a week of devastation in the financial markets last week. Indexes, stocks and oil all suffered sharp falls after the economic crisis deepened on the back of the news that Japan has technically fallen into recession.

The FTSE 100 index, the leading index in the UK, shed 11% in a week. Only on Tuesday did the index finish up. Three consecutive days of falls has left investors reeling. The index has fallen to its lowest level for five and a half years. Across the pond in the United States, stocks also took a pounding until good news emerged that Barack Obama had selected Timothy Geithner as Treasury secretary. Mr

Geithner is currently president of the Federal Reserve Bank of New York. On the week, the S&P 500 lost 8.4%, a figure that would have been much worse had it not been for Friday's rally. The Dow Jones fell by 5.3% on the week.

Oil prices also reached lows. This week saw the price fall below \$50, a huge fall from the heights it reached in July. The global recession has hit the oil price significantly. The oil cartel OPEC are meeting on Saturday and there is a strong possibility that output will be cut for the second time in succession.

Gold, a traditional haven in downturns, did see rises. The precious metal

closed at \$792.50 per ounce.

One company reeling is Citigroup, the American bank, which lost 60% of its market value in this week. After four consecutive quarters of losses, investors seem to have lost all confidence in the bank. Speculation is rife that the US government are set to rescue the bank. Analysts feel the institution has "too big to fail" status. The bank is in a cost cutting process after announcing 52,000 more job cuts this week. This is on top of 25,000 announced last week.



Vikram Pandit, the Citi CEO, this week announced huge job cuts across the banking supermarket

Sarah Lloyd

## UK Inflation, Japanese Recession

### Markets

- GDP figures will be released for the UK this Wednesday. Expenditure figures are expected to rise as a result of Sterling's weakening against the Euro and US Dollar.
- US GDP figures are also expected this week.
- European, US and Japanese unemployment figures are to be released this week.
- The FTSE 100 closed at 3,817.59 after four days of decreases across the week.

### Winners, Losers

Company	Price	Change
Antofagasta	430.75p	35.99%
Randgold	2,378p	32.77%
Kingfisher	118.10p	17.51%
Std life	266.5p	16.38%
AstraZenaca	2,472p	-12.03%
Legal & GNRL	62.50p	-12.71%
Schroders	659.00p	-17.88%
Hammerson	491.50p	-22.05%

The Consumer Prices Index (CPI) dropped from 5.2% to 4.5% in September, the biggest drop in 16 years. The Bank of England has said inflation could fall below its target of 2% next year, and might drop as low as 1%.

During the third quarter, the UK economy shrank for the first time since 1992, falling by 0.2% in the third quarter.

Furthermore, the pound has fallen to its lowest level against a trade-weighted basket, denominated in US dollars, since 1996.

New data shows euro zone demand plunged, and world central bankers considered the prospect of deflation as the Bank of Japan left its benchmark inflation rate at just 0.3 percent.

Japan has now officially entered a recession, with

year-to-year Gross Domestic Product falling by 3% in the three months ended June 30. Unfortunately, the recession in Asia's biggest economy is expected to continue.

Japanese Prime Minister Aso allegedly prefers tax cuts to increased spending as a possible measure to overcome the country's poor economic conditions. His measures are thought to include the reduction of corporate tax rates from 40% to 30%.

The UK economy is also under the pressure of deteriorating performance as October retail sales fell by 0.1% compared to the same month of last year. On a like-for-like basis, ignoring the impact of new store openings, October sales are down a huge 2.2%.

## IMF Explained

The International Monetary Fund (IMF) was established in 1946 during the Bretton Woods era. There are currently 185 member nations, some notable exceptions being the communist nations of North Korea and Cuba.

There are three main types of work the IMF undertakes. First, the surveillance of economic and financial developments and how policy should be implemented in order to prevent an economic crisis. Second is the process of lending to countries with balance of payment problems. Finally, the provision of technical assistance to member nations. This can include providing training on fiscal, monetary and exchange rate policies, as well as compiling economic statistics.

The day-to-day work of the IMF is carried out by the Executive Board, which consists of 24 nations. Of these nations, eight are fixed (USA, Japan, Germany, UK, Russia, Saudi Arabia, China and France) and sixteen rotate every two years. Every member has a weight of power which is determined by the country's importance in international trade and its economic size. Unsurprisingly, the United States has the largest voting power.

In the storm of this financial and economic crisis, several nations have requested loans from the IMF, most notably Iceland, which had a \$2.1 billion two year loan approved this week. The Ukraine is also a notable addition to the IMF's

### 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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## IMF Bailout of Iceland

Sarah Lloyd

After the collapse of the Icelandic banking system in October, the International Monetary Fund (IMF) agreed to a \$2.1 billion loan in order to 'restore confidence and stability in the economy'. Iceland is the first Western European nation to get an IMF loan since 1976.

Before their recent approach to the IMF, Iceland was in talks with Russia for a \$4 billion loan. However discussions broke down earlier this month.

The IMF's two-year loan, subject to

quarterly review, has allowed the country to withdraw approx \$827million immediately, and the rest in eight equal instalments subject to quarterly reviews.

The loan aims to fill 42% of Iceland's 2008-2010 financing gap, and to help the country with what the IMF described as 'a banking crisis of extreme proportions'.

Iceland is expected to overhaul its regulation system, especially insolvency laws, reintroduce a flexible interest rate regime and stabilise its currency with the IMF funds.

## Strictly Bites

HSBC has added former Bank of England Deputy Rachel Lomax and Goldman Sachs veteran John Thornton. Both as non-executive directors on the bank's board .

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Deutsche Bank will cut 900 jobs across their Global Markets division. The cuts will be felt in the London and New York offices.

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Morgan Stanley posted its strongest recruiting week ever in its global wealth management group. The division added 53 new brokers. Over the past three weeks, the firm has recruited 105 advisors with more than \$8bn in assets under management.

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Top executives at Goldman Sachs will receive no bonus for 2008 after the group's seven most senior bankers waived their right to a payout.

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JPMorgan Chase & Co has announced it is cutting 10 percent of its investment banking staff, which equates to around 3,000 jobs .

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Hilco, the restructuring company seeking to buy Woolworths' 840 stores for £1, increased its offer for the chain on Friday by offering to assume a greater share of the retailer's £385m debt.

Bank of America Corp said it will boost its stake in China's third-largest bank, China Construction Bank Corp, to 19.1 percent from 10.75 percent.

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Rothschild this week announced a 31%, 459 million euro, improvement in profits to almost 1.5 billion euros for the year.

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Morgan Stanley has announced that it expects India, Korea and Australia to be the worst affected in the Asia-Pacific area by the global financial crisis.

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Citi, U.S. banking giant, saw its shares tumble 23 percent on Wednesday to a 13-year low. Shares closed down \$1.96 at \$6.40 on the New York Stock Exchange. Overall equity in the company fell over 33 percent this week.

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The Bank of New York Mellon Corp. said it will cut its worldwide work force by 4 percent, or about 1,800 jobs. The shares gained 42 cents to \$24.78 after news of the cuts.

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The Government has suffered a £10bn paper loss in less than six weeks on its planned £37bn investment in Lloyds, HBOS and Royal Bank of Scotland.

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Sources: [www.theft.com](http://www.theft.com), [www.reuters.com](http://www.reuters.com), [www.economist.com](http://www.economist.com), [www.timesonline.com](http://www.timesonline.com), [www.bbc.co.uk](http://www.bbc.co.uk), [www.yahoofinance.com](http://www.yahoofinance.com), [www.bloomberg.com](http://www.bloomberg.com)