

Bank Rate at Record Low

Bhavin Dhanani

The Bank of England's Monetary Policy Committee (MPC) last week slashed rates for the second consecutive month. The latest decrease sees the key rate fall by 100 basis points to 2%, the lowest level for 50 years.

The expectation amongst analysts was that rates would fall so the move did not come as a surprise especially in comparison to the 150 basis point cut enforced by the central bank in November. The bank rate is now 3% lower than in September, highlighting the speed at which the Bank of England has reacted to adverse economic conditions recently. The MPC had come under criticism for not acting quickly

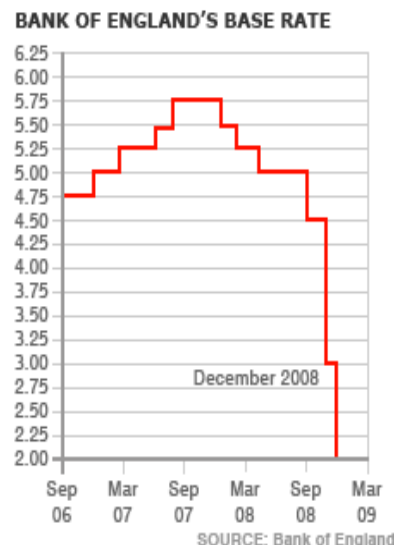
enough when the signs of an economic downturn were clear.

The decision by the MPC is aimed to kick start lending in the inter-bank, business and consumer markets. Mortgage lenders have reacted differently to the rate cut. HSBC and Lloyds TSB will pass on the full cut to standard variable rate mortgage holders. Nationwide, the biggest building society in the UK, will pass on a cut of 0.69% while Halifax Bank of Scotland (HBOS) will pass only 0.25%. Other banks have yet to announce their actions or will not pass on the benefits to the customer.

Meanwhile, the European Central Bank has cut rates by 75 basis points to 2.5%

the biggest since the creation of the euro. Other central banks around the globe to cut rates include the Danish and Swedish central banks. The two oceanic nations, Australia and New Zealand, saw rates cut by 100 and 150 basis points respectively.

The great fear amongst analysts is depreciation in the value of the pound. The low base rate means that yields across UK securities will fall and so the demand and value of the pound decreases. This week the pound fell to its lowest rate against the euro ever, falling to



Taken from the Bank of England website, the graph demonstrates the recent severity of the base rate.

Sarah Lloyd

New Star AM to be De-Listed

Whilst being highly leveraged was fashionable for firms a year ago, analyst's recommendations now have one piece of advice— avoid leveraged companies at all costs.

Unfortunately, this advice came too late for New Star Asset Management, who will be delisting from the stock exchange after being forced into a £240million debt for equity swap.

The company took on £300m of debt in April 2007 (with shares valued above £4 per common equity share) in order to finance a return of capital (£363mn) to its shareholders.

However, servicing that amount of debt necessitated that everything go according to plan. When the stock market plunged, New Star's shares fell through the floor fell to 1.8p.

Plagued by money outflows, New Star is said to have reached an agreement with its banking syndicate to enable the company to re-structure and thus concentrate on their investment performance rather than capital.

Even though the cost of re-structuring cannot be ignored, the Chairman John Duffield has said that "...in current market conditions ... there is no other option but to ensure the stability of the business."

New Star Asset Management's economist, Simon Ward has warned that the UK economic downturn can be expected to continue throughout next year, recovering only in 2010. His predictions are more pessimistic and in contrast to the Bank of England who expect recovery in the third

Markets

- The FTSE closed down this week at 4,049.37, this comes after last week's rally.
- Monday sees the release of the Producer Price Index in the United Kingdom and United States respectively. The figures are expected to show the cost of production for companies has decreased after the price of energy has fallen of late.
- Germany announces it Current Account position. The figures, along with the rest of the world, are expected to decrease.

Winners, Losers

Company	Price	Change
RBS (banking)	66.70p	21.72%
Johnson Mat (chemicals)	946.00p	17.30%
Man Group (financials)	75.90p	16.77%
Legal & GNRL (insurance)	270.50p	16.47%
First Group (leisure)	386.75p	-11.19%
Old Mutual (insurance)	47.00p	-13.76%
Rio Tinto (commodities)	1096.0p	-23.09%
Xstrata (commodities)	589.00p	-27.64%

Job Cuts a Plenty

It is clear that firms want to clear the decks before Christmas, and get all of the bad news out of the way this year. Nine new firms announced job cuts this week on top of the recently announced 30,000 to go when the Merrill Lynch, Bank of America deal goes through in the new year.

Credit Suisse announced 5,300 jobs will go around the world along with 1,400 contractor positions.

Commerzbank ' Dresdner Kleinwort, 1,200 jobs will go in London and 150 in Frankfurt.

Nomura International, 1,000 jobs will go in London.

State Street, the firm has confirmed that up to 1,800 jobs will be cut, or 6% of the workforce.

Jefferies & Co, 300 staff, or around 12.2% of the workforce, are said likely to be axed.

Macquarie, around 100 positions are said to have gone in the bank's Melbourne and Brisbane offices.

Carlyle Group, 100 positions, or 10%, of the private equity firm's staff, are likely to lose their jobs.

Legg Mason, the cull will be in addition to the staff already let go over at Legg Mason Capital Management.

Morgan Stanley, the firm has now shut its office in Greece, which it opened in 2004. It has also closed its Turkey office's operations.

Which economy will bear brunt of the World recession?

The financial crisis has been unravelling quickly towards the end of 2008 as economies around the world implement strategies to tackle the global issue. Each country will be affected differently but which economies will suffer the greatest impact and plunge to the longest deepest recession?

**Have a view, let us know
www.strictlyBIF.com - Blog**

Any queries, comments or requests?
Please contact us at:

mail@strictlyBIF.com

Merrill All-Clear for Merger

Sarah Lloyd

Friday saw Merrill Lynch shareholders vote in favour of the Bank of America take over. The all-stock transaction, expected to close by December 31, will bring about the end of a legendary firm.

Chief Executive, John Thain admitted the situation was difficult, but that the benefits for staff and shareholders could not be ignored, and the new global footprint would allow great opportunities. However, descendants of Merrill Lynch's founders described the event as "a funeral" openly blaming the firm's pre-

vious CEO, Stan O'Neal— "Shame on them for allowing this former CEO to consciously and openly disparage Mother Merrill, throw our founding principles down a flight of stairs and tear out the soul of the firm."

Neither Mr. O'Neal nor any of the outside board of directors attended the meeting.

EU competition authorities cleared the acquisition last Friday but this was viewed as a formality as the deal did not arouse suspicions of harming competition. The US Federal Reserve cleared the deal last month.

Strictly Bites

8 Canada Square, more commonly known as the HSBC headquarters, has been repurchased by the British banking giant from Metrovacesa, the Spanish property developer. After originally selling for £1.09 billion, HSBC has bought back at £838 million thus recognising a profit in excess of £200 million.

HSBC has taken the first move to free up credit markets as it announced it will make £1 billion accessible to businesses. The bank said the money is earmarked for businesses who are struggling with cash flow for the short term but who also have a strong business model.

After the completion of its takeover of Halifax Bank of Scotland, Lloyds TSB has said it will retain both the Halifax and Bank of Scotland brands. The combined group has 3000 branches across the UK, which is expected to decrease as the operations of the two banks are fused.

France has announced a €26 billion stimulus plan to help avert the financial crisis. This amounts to a €1 billion loan for carmakers as well as €5 billion worth of investment in the public sector. There will also be €11.5 billion worth of tax breaks to companies. The spending takes the budget deficit to 3.9% of GDP which is above the 3% allowed by the EU.

There are still many savers from Ice-save, part of the collapsed Landsbanki, who have not yet claimed their savings. The Financial Services Compensation Scheme said there are still 24,000 savers yet to use the online application to transfer their money. If they fail to do this by the end of 2008 they must apply on paper which will take at least a further six weeks to process.

Oil prices are down again this week. Brent crude closed Friday at \$39.86 in London, while in New York prices were slightly higher at \$41.74 a barrel. The figures are a four year low for the oil price. Some Merrill Lynch analysts believe that the price has scope to fall below \$25 if China's economy exhibits any further signs of slowing down.

The number of jobless people soared in November in the US. 533,000 people lost their jobs the biggest cut in jobs in a month since 1974. This brought the total unemployment rate to 6.7% of the national population, a 15 year high.

According to a survey by the Halifax, house prices fell by 2.6% in November alone taking the annualised fall in prices to 14.9% from this time a year ago. The average house price in the UK is now a much more affordable £163,605.