

World Bank Rates Plummet

Sarah Lloyd

The Bank of England set a record low last Thursday with the latest 50 basis point cut, taking the interest rate down to 1 percent. This is the lowest interest rate level in its illustrious 300 year history.

With the Bank having cut interest rates five times in as many months, analysts are split over whether there will be a further rate cut in March or whether rates have now bottomed out.

Central banks around the world are fighting with the same problem – what to do when interest rates hit zero? The Fed Reserve has already cut interest rates to between zero and

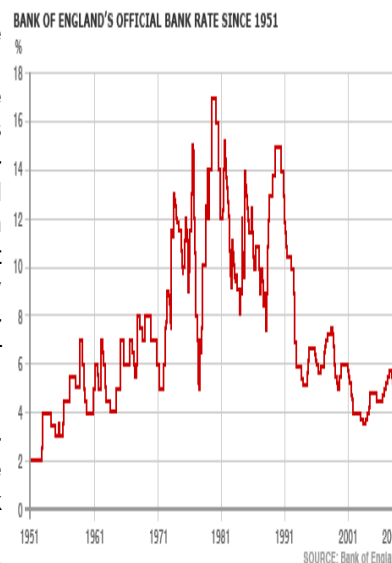
0.25 percent and Japanese rates stand at just 0.1 percent.

Japan had to deal with a similar dilemma at the beginning of the decade. The Bank of Japan is now planning to spend £8bn to buy shares held by commercial banks in efforts to ease the credit crunch in Japan. This move is very much an effort to mirror the plans recently exercised by the west.

Economists suggest the BoE move interest rates further towards zero and engage in quantitative easing. As such, the focus of monetary expansion shifts from the demand side to the supply of money. The aim would be

to supply cash to those that want to hold it, as well as some excess, in the hope that the excess would be spent or invested. This policy would require the close attention of the BoE to ensure that the excess base money does not impact upon inflation, exchange rates or asset prices.

The International Monetary Fund predicts that the British economy will shrink by 2.8 percent this year. Despite the rate cuts the pound has strengthened against the euro and dollar recently.



UK base rate's decline over recent months see the rate at an all time low

Ratings Fall in Credit Crisis

Pearl Boateng

A number of national governments, banks and other financial institutions have received either warnings or downgrades in their credit ratings by agencies such as Moody's, Fitch and S&P's. The Irish government is the first to receive a warning due to the slowdown in economic activity and its inflexibility in adjusting its fiscal and monetary policy. However, due to its relatively good standing prior to the credit crunch and fiscal surpluses, its rating currently remains at AAA. Other countries in the Eurozone recently downgraded by Moody's include Portugal, Spain, Italy and Greece. Greece and Italy, for example, were targeted due to their high level of public spending and huge deficits.

Companies have also been targeted; Barclays' share

price has dropped 10.5% to 94.9p after Moody's warned of significant further write-downs. Previously triple-A rated banks have been hit the hardest, possibly due to heavy criticism of the methods used, computer bugs and previous ratings issued. Other companies, such as Swiss Re who received £2.2bn from investors like Warren Buffet, have sought funds to retain their credit rating.

Toyota has been taken down to Aa1 due to the exogenous effects on the global car industry. Similar action has been taken against Hartford Financial Services due to a decrease in its capital and its financial inflexibility. Moody's is particularly aiming to increase their credit checks on a vast range of companies and governments due to severity of the financial crisis.

Markets

- Tuesday sees the consumer confidence results for the US released. This is usually a big indicator as to the state of spending in the market
- Tuesday also sees the UK announce its balance of trade figures. The indicator is expected to deteriorate due to the weakening of the pound.
- Wednesday and Thursday sees the BOE inflation report and claimant count released. Inflation is expected to decrease and the claimant count is expected to grow.

Winners, Losers

Company	Price	Change
Barclays	113.60p	23.08%
BA	147.90p	22.43%
Wolseley	204.75p	21.44%
Aviva	396.75p	19.23%
Astra Zeneca	2615.0p	5.49%
BAE Systems	377.50p	6.27%
Brambles LD	279.50p	-8.44%
Unilever	1401.0p	-9.26%

The consequences of the current Interest rate lows

The rate lows aim to stimulate consumer spending as consumers will save a smaller percentage of their disposable income. Consuming (C) more increases aggregate expenditure (GDP) [$AE = C + I + G + (X - IM)$]. Lower costs of borrowing encourages businesses to borrow, subsequently investing (I) further. Individuals' mortgages will also be significantly lower. A two fold effect occurs. Disposable income and house prices both rise because the demand for property will increase as the cost of borrowing lowers, increasing individual's relative wealth. Rises in consumer spending subsequently increase the quantity of money individuals require. To provide this the BoE would be required to inject new money into the economy, also known as quantitative easing.

The issue is the pressure that will be applied to inflation as prices rise in tangent with demand for goods and services. With inflation still well above target but expected to drop sharply during the course of this year, it seems like a risk the central bank can take in the short term. A further counter argument to the low rates is the adverse affect on deposits. As explained savings will decrease. The current financial situation already lacks liquidity so by banks forfeiting deposits by passing on the low bank rates, after being pressured by government, it reduces banks capacity to lend.

This does not solve the issue causing GDP growth to be negative.

World recession to follow...

Last week saw a massive knock for the world economy as the IMF almost estimated a world wide recession. It revised down global growth for 2009 by 1.7% to 0.5%, the slowest rate since pre-war periods. UK economic outlook was reported as dismal raising questions as to why the UK is suffering more than it's economic counterparts?

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

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

mail@strictlyBIF.com

Banking Profit News

Bradley Wright

This week saw a number of year end reports being issued from some of the world's leading companies in finance. Bank of America this week reported a profit of \$4.01 billion. However, the bank suffered over \$15 billion in losses as a result of its exposure to Merrill Lynch's bad debt. The bank itself posted a loss of over a billion dollars in the final quarter of 2008.

Spanish banking giant Santander has snapped up a number of the British retail banks in the past 12 months as a result of the credit cri-

sis. They announced €8.8 billion in profit for 2008 up 8.9% from 2007.

Deutsche Bank AG reported a net loss of €3.9 billion for the year 2008. However, the loss before tax was €5.7 billion, suggesting Deutsche may have transferred losses from last year's report, to their 2008 balance sheet.

Next week will see the annual reports of UK bank Barclay's, who are expected to report a profit of at least £5 billion. We will see rival Lloyd's release on the 27th February which should be a good benchmark to determine how the UK financial industry has fared.

Strictly Bites

Goldman Sachs:

Profit for 2008: \$2.322 billion
Revenue for 2008: \$53.579 billion
Year high: \$211.94
Year low: \$47.41

□□□

Morgan Stanley:

Profit for 2008: \$1.707 billion
Revenue for 2008: \$61.883 billion
Year high: \$51.80
Year low: \$6.71

□□□

JP Morgan Chase:

Profit for 2008: \$5.605 billion
Revenue for 2008: \$67.3 billion
Year high: \$50.63
Year low: \$17.70

□□□

Citi:

Loss for 2008: \$18.715 billion
Revenue for 2008: \$19.145 billion
Year high: \$29.73
Year low: \$2.80

□□□

UBS:

Loss for 2008: \$2.19 billion (estimated)
Revenue for 2008: \$10.3 billion (estimated)
Year high: \$37.73 (NYSE)
Year low: \$8.33 (NYSE)

Credit Suisse:

Loss for 2008: \$2.44 bn (estimated)
Revenue for 2008: \$15.4 bn (estimated)
Year high: \$58.40 (NYSE)
Year low: \$25.27 (NYSE)

□□□

Deutsche Bank:

Loss for 2008: \$5.69 bn (estimated)
Revenue for 2008: \$16.1 bn (estimated)
Year high: \$122.98 (NYSE)
Year low: \$21.13 (NYSE)

□□□

HSBC:

Profit for 2008: £1.37 bn (estimated)
Revenue for 2008: £81.2 bn (estimated)
Year high: 938p
Year low: 460p

□□□

Barclays:

Profit for 2008: £3.51 bn (estimated)
Revenue for 2008: £23.4 bn (estimated)
Year high: 510.8p
Year low: 47.3p

□□□

Royal Bank of Scotland:

Loss for 2008: £0.1 bn (estimated)
Revenue for 2008: £10.3 bn (estimated)
Year high: 427.5p
Year low: 10p