

## US Bailout and Public Fury

Sunny Shah

Top bank chief executives held peace talks with President Barack Obama at the White House last week as the administration sought to soothe tensions over lavish Wall Street bonus payments. The meeting came at the end of a week in which Mr. Obama pushed back against efforts by Congress to impose hefty tax penalties on bonuses and warned people not to "demonise" investors and entrepreneurs.

Mr. Obama initially echoed and even encouraged public anger towards Wall Street after revelations earlier this month that AIG had used taxpayer money to pay \$165m of bonuses to top employees. However he took back his

rhetoric this week amid mounting concern that anti-Wall Street sentiment could undermine his administration's efforts to shore up the financial sector.

Tim Geithner, Treasury secretary, asked for support from investors for his plan, announced on Monday last week, for a public-private partnership to buy up the toxic assets weighing down bank balance sheets. The administration has also been rattled by signs that healthier banks could withdraw early from the Troubled Asset Relief Programme because of heavy-handed government intervention, a move that would make it harder for the administration to kick-start lending.

Despite these efforts the mood has turned sour. Public dislike of the banking industry, blamed by many for provoking the worst global economic crisis since the 1930s, is reaching a new intensity in the US, Britain and continental Europe. Some AIG employees received death threats. In the UK, the home of Sir Fred Goodwin was attacked and London is braced for anti-capitalist demonstrations this week during the G20 summit.



Timothy Geithner kicked off the Obama administration plans to clean up the US's toxic assets.

Bradley Wright

## Gilt Auction Failure one-off

For only the third time in UK bond offering history, not enough investors turned up to the UK's gilt auction. The last such event was seven years ago.

It could be a problem for a government who are looking to raise record sums to fund a massive stimulus package, as well as a number of bailouts. A trend of offering failures would be a big problem for the Debt Management Office (DMO) who are the government department handling sovereign debt in the UK.

The Bank of England could be forced to push up interest rates in an attempt to improve bond yields which may make them more attractive for investors.

Robert Stheeman of the DMO stated to the FT on Thursday that "one auction failure is not a disaster for the bond markets or the economy - it only becomes a problem if a trend appears".

Analysts offer some consolation to the government with many believing the failure was a one off. Mervyn King's comments on Tuesday were seen as a contributing factor.

Mr King stated the government should refrain from another stimulus package in the Budget due in April. His comments also coincided with the CPI indicating a jump in inflation. With gilts being 40 to 50 year maturities, an increase in inflation would virtually wipe out any profits from the bond yields.

### Market Weekly Winners, Losers

Company	Price	Change
Barclays (banking)	173.8p	65.6%
Morgan Stanley (banking)	\$24.35	20.31%
Goldman Sachs (banking)	\$108.08	11.06%
RBS (banking)	26.6p	10.83%
HSBC (banking)	402.5p	8.49%
JP Morgan (banking)	\$27.40	-0.41%
Bank of America (banking)	\$7.34	-4.86%
Citi (banking)	\$2.62	-16.29%

# The G-20

Next week sees finance ministers and central bankers of the twenty largest economies converge on the Excel Centre in London. The ultimate aim is to come up with a solution to the global economic crisis and a number of proposals will be discussed. This group of nations is known as the G-20.

Members of the G-20 include the UK, USA, Germany, France, Italy, the rest of the EU, the BRIC's and Australia. Such is the seriousness of this meeting that the leaders of these nations will be in London. In addition to these nations, global bodies including the World Bank, International Monetary Fund and the Development Committee will be represented. Overall this elite group accounts for two thirds of the global population and over 80% of the global gross domestic product. No continent is without a member so it truly is a diverse and economically powerful group.

The G-20 was created in 1999, when it held its first meeting in Berlin, Germany. It replaced the G-33, which put forward the plan of holding regular meetings to ensure that global problems are tackled in unity and susceptibility to crises is reduced. The G-20 promotes equality amongst its members. There is no voting structure and each country has their say. The choice of members was made on the basis of their importance in global financial systems, geographical balance and population representation.

## US toxic asset plan

Will Geithner's latest plan to remove toxic assets from the financial system really work? The fundamentals are there, they need to be removed to avoid sustained stagnant economic problems like Japan but will the US tax payer have to take the losses on the extremely hard to value assets no-one wants?

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# MUFG/MS Japan arm Merger

Sarah Lloyd

Mitsubishi UFJ Financial Group (MUFG) and Morgan Stanley have announced a merger of their Japanese brokerage arms. The result of this merger has created Japan's third largest brokerage house.

MUFG will hold a majority 60% holding in the venture which should be finalised by March 2010. The deal will see a chief executive named from MUFG and chaired by a senior Morgan Stanley employee. The combined group has not yet been named, however benefits are apparent for both parties. MUFG can take advantage of Morgan Stanley's in-

vestment banking expertise and global scale. MUFG can offer a massive Japanese client base.

It should be noted that according to Thomson Reuters data, MUFG and Morgan Stanley would have ranked first in advising on M&A's in Japan last year, outperforming Nomura. However, Nomura will remain hard to beat in equity underwriting where it has ranked first for the past 6 years.

The tie up comes as Citigroup plans to sell its brokerage arm, Nikko Cordial Securities. MUFG has been touted as a potential buyer.

# Strictly Bites

Mervyn King, Governor of the Bank of England, has been forced to write another letter to Chancellor Alistair Darling explaining why the Consumer Price Index has once again risen unexpectedly to 3.2%, up from 3% in January. Reasons include the weakening of the pound, the relative increase in price of imports, travel costs and food prices. Food prices have risen significantly with vegetables being the biggest culprit.

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The Serious Fraud Office (SFO) has raided a number of central London addresses in connection with an investigation of an alleged fraud perpetrated on Allied Irish Bank estimated at £56 million. It was said to involve loans provided by the Irish bank for the purchase of UK investment properties where the lease documentation had been falsified by a blue chip company whose name is yet to be disclosed.

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The final quarter of 2008 saw the Irish gross domestic product shrink by a record 7.5 per cent, compared with the same period in 2007. Investment fell 31 per cent, triggered off by a 25 per cent decline in building activity. Consumer spending was also down 4 per cent whilst exports fell 8.4 per cent. The Irish central bank is currently forecasting the economy to contract by 6 per cent in the remainder of this year.

The US economy contracted by 6.3% in the fourth quarter of 2008 at what is said to be its fastest rate since 1982. Corporate profits also fell at the sharpest pace in 55 years and jobless claims continued to increase. The downturn was blunted by reduced imports, an increase in exported goods and the role of government spending.

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Treasury bill yields with one month maturity in the US have fallen below zero for the first time in 2009. The yield ranged between -0.01% and -0.02%. This is a clear indication of how risk averse investors have become. Analysts have identified a key reason for the fall as being the end of the first quarter.

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Oil prices have fallen sharply this week as the commodity market continues to find stability. The slow nature of the economic upturn is said to be a strong factor in the fluctuations in prices. Gas prices also fell with falls reported at 12.8% this week.

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Romania is currently the latest Eastern European country set to receive financial support, a total of €20 billion. The IMF will lend €12.95 billion and the remaining support will be provided by the European Union, World Bank and multilateral institutions.