

Barclays and HSBC Top Forecasts

Derek Weigel

Banking giants HSBC and Barclays have reported strong underlying profits for this year. This has widened the gap between the beleaguered government supported banks RBS and Lloyds. Barclays reported a £1.5 billion haul led to a doubling of profit in the first nine months.

HSBC said results were "significantly ahead" for the quarter to September 30th. The announcements have given hope to investors that bad debts amongst the big banks have started to level off as there were reports of

charges. Over at Barclays, reports were indicating a £4.54 billion jump in profits for the first three quarters of 2009.

These figures are about 20% lower than this time last year, and a similar situation has happened at HSBC with reports of lower profits at the same time last year. This is due to the fact that both banks have been hit hard by tightening in the credit market spreads. It is increasing speculation that both banks, which avoided turning to the taxpayers for aid, are beginning to put the financial woes of last year behind them.

This has, however, negative aspects as it has led to a fear of returns of the excess bonuses of the pre-crisis days. Both HSBC and Barclays have rushed to assure investors that this is not the case and that decisions on bonuses will take into account the fragile economical conditions of today.

In other news, HSBC has announced it will sell its global headquarters in Canary Wharf for £772.5m to the South Korean National Pension Fund—one of Asia's largest sovereign investors.



Markets

The FTSE sets a new 52 week high Thursday, inline with the Bank of England's inflation report. The London Index touched 5305. Through the week the FTSE 100 is up by 25.04%

Thursday saw the DOW touch close to its 52 week high of 10342, closing at 10282. It stands at time of press up by 0.97 % on the week.

Thursday the FTSEurofirst 300 Index closed at 1,019, 1.21% below its 52-week high of 1,031, set on October 20, 2009.

The Nikkei 225 closed at 9770, Friday 9% below its 52 week high of 10,767.

Winners & Losers

Company	Price	Change
Liberty Intl.	496.80p	11.8 (up 2.43%)
InterContinental Hotel's group	857.00p	19.00 (up 2.27%)
British Land Co	494.60p	9.9 (up 2.04%)
Land Securities	725.00p	14.50 (up 2.04%)
Eurasian Natural Resources	875.00p	-31.50 (down 3.47%)
Vedanta Resources	2320.00p	-69.00 (down 2.89%)
ICAP	417.40p	-12.30 (down 2.86%)
Xstrata	1003.00p	-29.00 (down 2.81%)

King offers Stark Warning

Stephanie Clarke

With the release of the Bank of England's latest quarterly Inflation Report on Wednesday, Mervin King warned that the UK recovery is "only just starting." He described how inflation will remain volatile in the short run and could "rise sharply over the next few months." This, he explained, will come with the reversal of VAT to 17.5% and increased petrol prices, and follows last week's decision of the MPC to pump a further £25bn into the economy as part of their Quantitative Easing programme. Inflation is currently 1.1% and is expected to exceed the target in coming months.

In terms of growth, following the recent contraction in GDP of 0.4%, the Bank of England has significantly revised its forecasts however still expecting a slow and unstable recovery. Growth rates of 2.1% and 4% are anticipated for 2010 and 2011 respectively according to the Inflation Report. Mr.

King described a "more buoyant picture looking ahead, that is encouraging. But this does not alter the extent of the challenges facing the economy."

Signs that the UK labour market is stabilising brought a more upbeat outlook with the Office of National Statistics also revealing this week that the rise in UK unemployment is slowing. In the past quarter the jobless rate rose from 7.7% to 7.8%. Unemployment in the quarter totalled 2.46 million.

Meanwhile elsewhere, France and Germany have achieved continued growth with third quarter growth of 0.3% and 0.7% respectively. Other countries that have emerged from recession during the third quarter include Austria, Italy and Slovakia according to the latest data, joining the USA who reported third quarter growth at an annualised rate of 3.5%.

Company Profile

Pearl Boateng

Name: Lloyds Banking Group plc

Share price: 90.00(GBp), +0.75(price change), +0.84(percentage change)

Business sectors: The Company operates in three divisions: UK Retail Banking, Insurance and Investments, and Wholesale and International Banking.

Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

The Company also operates an internationally with presence in 40 countries. Services are offered through a number of brands, including Lloyds TSB, Halifax, Bank of Scotland, Scottish Widows, Clerical Medical and Cheltenham & Gloucester.

On January 16, 2009, Lloyds Banking Group plc acquired HBOS plc. In November 2009, The Bank of New York Mellon Corporation completed the acquisition of Insight Investment Management Limited from the Company.

Other info: For the six months ended 30 June 2009, Lloyds Banking Group PLC's interest income increased 89% to £16.5B. Net interest loss after LLP totalled £3.55B vs. an income £2.55B. Net income totalled £7.1M down from £570M.

Net interest income reflects higher sales from UK Retail Banking, Wholesale & International Banking segment and decrease in interest expense. Net income was offset by an increase in operating expenses.

The banking giant recently laid plans to launch a further £13.5bn rights issue, as well as offering bondholders the opportunity to swap debt for 'CoCo's', a form of bond that can be converted to equity in the event of Tier One capital falling below 5 per cent.

Lloyd's have also revealed 5000 job cuts as the business continues to integrate HBOS. The majority, some 2800, will come from the group operations that include IT, payment services and collections. The remaining cuts will come from its mortgage and insurance businesses.

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

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M & A Activity on the Rise

Sarah Lloyd

M&A seems to be on the rise with the Kraft Foods Inc bid for Cadbury turning hostile as the former seeks a \$9.2bn loan to finance the takeover. Kraft is offering potential lenders 2-3% above the LIBOR. This interest rate margin may be increased in Kraft is downgraded— a possibility being discussed by both Moody's and Standard & Poors. Whilst Kraft is bidding £10.1bn for Cadbury's, the latter is urging shareholders to reject the bid.

Another possible merger involved British Airways and Spanish airline, Iberia. Thursday (12 Nov) saw BA shares on the

rise as rumours that the merger was imminent hit the markets. However, by the close of day some of those earlier gains had been reduced.

News that Hewlett-Packard will be buying 3Com has raised concerns in the financial sector as issues concerning competitiveness, negative impacts for the other firms which had been regarded as possible targets and the end to possible partnerships between HP and other firms. Analysts and industry participants state that the deal will have negative impacts upon all other providers of networking equipment.

Strictly Bites

Sunny Shah

The Eurozone escaped recession in the third quarter with 0.4% rise in the GDP compared to the previous quarter. During the same period US grew by 0.9% and UK still remained in recession.

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House prices in England and Wales rose by 0.7% in October and prices are at levels last seen in September 2006, about a year before prices peaked according to the FT House Price Index.

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The UK's Serious Fraud Office has opened an investigation into the \$550m (£332m) London hedge fund manager, Dynamic Decisions Capital Management as it received complaints on one of its offshore fund.

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Timothy Geithner, US Treasury secretary, welcomed a commitment by Asia-Pacific ministers to "market-oriented exchange rates that reflect economic fundamentals" at a meeting of the Asia Pacific Economic Co-operation group in Singapore. But Officials said there was no attempt to press China into ending the dollar peg.

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Gold edged down on Friday after hitting a record above the \$1,100 mark in the previous session, while crude oil prices steadied after dropping by more than \$2 a barrel on Thursday on fresh evidence

of US demand weakness.

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The US trade deficit unexpectedly widened in September by the largest amount in 10 years, figures show. The trade gap, the difference between US imports and exports, grew 18.2% to \$36.5bn (£21.9bn) from August.

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Berkshire Hathaway, the investment firm pioneered by Warren Buffett, has seen profits almost triple in the third quarter. The company reported a profit of \$3.2bn in the three months to September, up from \$1.1bn the year previous.

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China's central bank has acknowledged the need for a stronger Renminbi, days ahead of Barack Obama's arrival in Beijing. Obama's visit comes as the US dollar hits a 15-month low on a trade-weighted basis, raising questions about its future as the global reserve currency.

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JP Morgan has announced it will take full control of Cazenove, the Queen's stockbroker. JP Morgan are to buy the 50 per cent of the business it does not already own. The deal is potentially valued at £940m, and will provide large windfalls for a select group of current and past partners of the firm. JP Morgan is believed to offering 500p per share, a premium on the 245p traded.