

Tough Obama Regulation Plans Announced

Stock markets fell at the end of last week, with U.S. President Obama's long-awaited announcement on the financial system, which proposed a complete overhaul of the American banking system and its regulation. It is believed that this radical new approach would limit banks ability to make large yields on trading.

Obama made his proposal on January 21, and it has been met with both criticism and optimism. In the proposal, there is a call for a cap on a firm's liabilities relative to its market share, thus reducing the chance that a small clus-

ter of banks will be able to hold large amounts of control over the financial markets and system. The proposal also included a requirement for banks and their parents companies to divest from any hedge funds they own or invest in.

Most controversially, the plan called for banks to stop all proprietary trading, which is trading the bank's own capital. There is much concern over this last requirement, as trading is where liquidity is provided to the market and large banks earn profits. However, President Obama's main motivator behind this

clause is that he wants to avoid large banks borrowing money from the Federal Reserve at a risk-free rate and using this to trade with. Many senior bank executives have declared dismay at the proposals.

This, along with tougher capital requirements, is aimed at curbing the reckless borrowing and investing which was a primary factor in the lead up to the financial crisis. It is expected that large banks will fight hard against this bill, and it is interesting to see how it will turn out.

Derek Weigel



Markets

On Thursday, FTSE 100 Index closed at 5,191, 7.31% below its 52-week high of 5,600, set on January 11, 2010.

At the time of press (13.45 GMT) the FTSE 100 sat up 0.88% at 5191.

On Thursday, DAX Index closed at 5,606, 8.01% below its 52-week high of 6,094, set on January 11, 2010. Trading 1.16% up, on Friday at 5605.

On Thursday, Dow Jones Industrial Average closed at 10,120, 5.68% below its 52-week high of 10,730, set on January 19, 2010.

Winners & Losers

Company	Price	Change
Whitbread	1406.00p	3.08%
Intl. Power	325.00p	2.36%
Intertek Group	1222.00p	2.35%
HSBC Holdings	675.20p	2.3%
Prudential	579.50p	1.45%
Legal and General	75.50p	1.56%
ICAP	374.10p	1.99%
TUI Travel	257.40p	2.68%

The UK is Out of Recession (albeit marginally)

Stephanie Clarke

After 6 consecutive quarters of contraction the UK has officially emerged from recession, with a growth figure in the last quarter of .1%. The recession was the longest ever recorded. During the 18 month period output slumped by 6%, while public borrowing increased to an estimated £178bn.

In light of this optimistic sign, Alistair Darling, Chancellor of the Exchequer, stressed "I'm confident but I'll always remain cautious," despite remaining sure that "we are on a path to recovery."

Others remain disappointed at the figure of 0.1%. Hugh Pym, BBC chief economics correspondent told how "It [the growth figure] was below analysts' expectations. The figure could be moved down, or indeed upwards."

George Osborne, shadow chan-

cellor explained "Let's be clear - this is about as weak growth as you can get."

Meanwhile, chairman of the Federation of Small Businesses, John Wright, said that the recovery remained "frail" and that "in order to strengthen the recovery it is important that we boost consumer confidence and demand and that interest rates are held steady as continued investment in the economy will be the key to ensuring a sustainable recovery,"

The UK has been the last of the seven major OECD countries to exit recession, and many feel the return of the 17.5% VAT will only cause another contraction (resulting in a double dip). The news did not excite the City as the FTSE continued its negative spell on Wednesday, down 1.13%.

Company Profile

Name: Citigroup Inc Pearl Boateng

Share price: \$3.24 up 0.04 (1.25%)
(27/1/10)

Overview: The group's activities are divided over five divisions. The biggest is Global Corporate and Investment Bank and it's dedicated to key account customers - offering brokerage (both prime and normal), financial planning and banking services.

The second division - Global Consumer, is responsible for activities aimed at private customers and the insurance sector. It offers commercial bank services, credit cards, management services, savings and insurance policy offers.

The third, Global Investment Management and Private Banking, provides asset management services. Next is Global Wealth Management, the global private wealth management service is an equity research unit of Citigroup that provides comprehensive financial planning and advisory services to many institutional and private customers.

Venturing into the world of Internet banking, Citigroup also has a system for on-line payments and an on-line commercial bank known simply as Citi-bank On-line.

Revenues/Losses 2009: Citigroup Reported 2009 Full Year Managed Revenues of \$91.1 Billion and Expenses of \$47.8 Billion

Full Year 2009 Net Loss of \$1.6 Billion

Fourth Quarter Net Loss of \$7.6 Billion (\$0.33 Per Share); Excluding the impact of TARP repayments the bank lost \$1.4 Billion (\$0.06 Per Share)

Tier 1 Capital Ratio at 11.7% and Tier 1 Common Ratio at 9.6%

Tier 1 Common of \$104.6 Billion and Allowance for Loan Losses of \$36.0 Billion

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Strictly Bites

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Robert Stheeman, Chief of the UK's Debt Management Office, warns that the final purchase by the Bank of England's quantitative easing project could create uncertainty in the GILT market, leading to either rising yields or interest rates.

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Mark Kurland, founder of former Bear Stearns hedge fund New Castle, has pleaded guilty to Federal charges, widening the group of conspirators who have acknowledged roles in the Galleon hedge fund insider trading conspiracy.

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The liquidity and frequency of trading within leading US and European bond and equity markets could be seriously damaged if politicians move forward with proposals to tax financial transactions through a 'Tobin Tax', according to Michael Gooch, chairman and chief executive of GFI Group, one of the world's largest interdealer brokers.

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The EU made clear yesterday it would not abandon Greece and allow the mounting debt crisis to jeopardise the euro zone. Germany and France made moves to reject claims they had already formulated a rescue plan as markets closed.

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The Chinese office in charge of foreign currency reserves denied reports earlier on in the week, a 'white knight' team of Goldman Sachs' bankers had approached them in hope of buying a large chunk of Greek debt (amounting to more than \$5bn).

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KKR has bought the UK's largest pet store, Pets at Home, for £955m. The takeover comes after a highly competitive auction between some of the world's biggest private equity groups, with Pets at Home's persuading owner Bridgepoint, to abandon plans for an IPO. The deal demonstrates credit markets are easing as KKR used a syndicated loan backed by both Nomura and Deutsche to fund the deal. A whole host of private equity buyouts are expected this year, with New Look top of the list.

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Warren Buffett increased his stake in assurance firm Munich Re by ploughing over a \$1bn into it. Many believe Buffett has called the bottom of the market in assurance, after seeing heavy losses in the past associated with their involvement in CDS and MBS markets.

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Last night saw head of the Federal Reserve, Ben Bernanke voted back in charge. Only a week ago there was great doubt across global markets about his return, with traders placing bets on him being voted out. The 70-30 vote certainly quashes any doubt of his past success, but he faces great challenges in the future with over a trillion dollars in mortgage securities needing to be offloaded back into MBS markets.

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Bank of America reported its second quarter loss of 2009 in the final quarter totalling \$5.2bn, no doubt to do with the \$45bn TARP repayment. Losses from its consumer lending business grew to \$8.45bn, up from \$5.54bn demonstrating the problems facing the US consumer, with over 10% unemployed.

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Wells Fargo reported profits of \$2.82bn in the final quarter, despite repaying \$25bn in TARP. For the full year the bank reported \$12.27bn in profits, compared to only \$2.65bn in 2008. Wells charged \$5.89bn in defaults in the final quarter, up from \$5.52bn the previous.

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BBVA, the Spanish consumer lender also reported this week reporting a 94% drop in profits, underlining the problems facing Spain and the euro zone. Income slid to 31mn euro, down from 512mn the year previous. The bank has taken massive hits in its US business which it grew aggressively through acquisitions, as well as continued problems across its core business in Spain.

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Goldman Sachs net revenues reached \$45.17 billion and net earnings of \$13.39 billion for the year. It produced a 22.5% ROA common shareholders' equity.