

## UK Interest Rates Still At Record Lows

Folarin Araromi

At yesterday's monthly meeting, the Bank of England's monetary policy committee voted to maintain the official interest rate at 0.5%. The committee decided not to extend its quantitative easing programme, whereby it has purchased £200bn of assets, mostly in gilts.

The decision was widely expected following confirmation of an end to recession last year, with slight growth in GDP in the last quarter. This came cou-

pled with the slow and steady recovery in house prices throughout the year. However, the level of growth, 0.1%, was far below the general expectations, leading some to speculate the MPC would continue quantitative easing.

In its statement, the Bank said that although growth is slow, there are signs that consumer spending has picked up modestly, and the sharp decline in business investment has eased. It also noted that

CPI inflation in December surged to well above its 2% target and is likely to have risen even further in January. "The considerable stimulus from the easing in monetary policy, the lower level of sterling and the recovery in the UK export markets should together support domestic activity," said the Bank. However, it asserted intentions to revive quantitative easing if the anticipated recovery runs out of steam.



### Markets

On Thursday, FTSE 100 Index closed at 5,058, 9.69% below its 52-week high of 5,600, set on January 11, 2010. As at 13.00pm the FTSE 100 was trading at 5061.28.

On Thursday, Dow Jones Industrial Average closed at 10,002, 6.78% below its 52-week high of 10,730, set on January 19, 2010.

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### Winners & Losers

Company	Price	Change
Compass Group	448.60p	4.86%
Liberty Intl	457.90p	1.24%
United Utilities Group	531.00p	1.05%
Scottish & Southern Group	1166.00p	0.60%
Lloyd's Banking Group	48.75p	4.88%
Schroder's	1108.00p	4.89%
Invensys	295.20p	5.38%
ICAP	300.00p	17.83%

## Greek sovereign debt causes panic

Derek Weigel

Pound Sterling and the Euro dropped today with investors showing concern over the levels of debt in various EU countries. Greece, Spain and Portugal have struck fear into the hearts of investors.

The Euro sank to an 8-month low of under USD1.38/Euro, and Sterling sank 0.85% against the dollar. Greece's expanding debt problem has long been a problem, and many predicted problems when it entered the Eurozone in 2001. Then, its public debt reached over 100% of GDP. Last month saw the yield on ten-year Greek government bonds jump to 7.1% - the highest since the country joined the Eurozone. However, Greece is not the only

EU member coming under heavy fire for its debt issues.

Portugal and Spain have both felt the heat from investors and Euro politicians alike to deal with their respective debt problems. Blue-chip stock indexes in Spain and Portugal slumped by nearly 6% and 5% respectively.

Med countries were able to take advantage of EU membership by borrowing at low rates during boom times, however now struggling to repay the debt. Officials are worried about the spread of problems to larger countries such as Spain and Italy, that would be a lot more costly than Greece or Portugal to bailout.

## Company Profile

Pearl Boateng

**Name:** Terra Firma Private Equity Group

**Invested:** Over €13bn across Europe since 1994

**Overview:** Terra Firma is one of the UK's better known Private Equity Groups, attributed towards the recent media spotlight upon its investment in EMI—the music recording group.

The group was set up in 1994 by Guy Hands, a former Nomura head of Principal Finance Group and Goldman Sach's head of Euro Bond Trading. Today the firm employs over 100 professionals across three market locations—London (HQ), Frankfurt and Guernsey. Since its inception in 1994, the firm has invested over €13 billion of equity capital and has finished investments worth an aggregate transaction value of €43 billion

The firm aims to profit from asset rich, undervalued companies that the group believes it can turn around to make a profit. It has invested funds across a variety of industries including publican companies, cinema venues and more recently motorway service stations.

Terra Firma focuses on buyouts of large, asset-rich businesses, which are in need of strategic, operational or management change.

The firm operates three funds—named Terra Firma Capital Partners I, II and III, and each fund utilizes a different approach.

TFCP I comprised of assets acquired between 1994 and 2002, and is now fully realised.

TFCP II and III follow Terra Firma's strategy of making control investments in asset or cashflow rich companies in regulated sectors normally in Europe.

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## Doubt cast in Survival of EMI Stephanie Clarke

Terra Firma, the British private equity firm is reportedly considering asking investors for up to a further £120 million to invest in troubled record label, EMI, that it has a major stake in so as to avoid default on its debt in the coming year.

EMI, label of the likes of Queen, the Beatles and Kylie Minogue, told Terra Firma it may need the sum to stay compliant with its debt covenants through March 2011. If EMI does not comply, Terra Firma risks losing its equity stake in the label, held through an investment vehicle, Maltby Capital.

It is claimed that in a letter to investors, Terra Firm announced that it's considering EMI's request, as long as a new business plan is submitted to them by the end of the month. Guy Hands, head of Terra Firma has been fighting to maintain control of EMI,

which, at the height of the equity boom in May 2007, it paid £4 billion for. The firm has been battling with its main lender on the deal, Citigroup.

Late last year, Terra Firma sued Citigroup, claiming that Citi falsely stated that a rival private equity firm would 'win' the deal if it didn't submit a bid and therefore were tricked into doing the deal. They also argue that Citigroup was trying, improperly, to undermine its control of EMI in an attempt to force a sale. Citigroup, however, denies these allegations.

Citigroup has successfully moved the lawsuit, filed in the New York state court, to federal district court and is now petitioning that it is dismissed and legal action be moved to the UK—something Mr Hand's will not want being a non-resident of the UK in protest at recent tax hikes.

## Strictly Bites

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Bank of America has become the first major financial institution to be prosecuted for its role in the recent credit crisis. The firm and two of its senior executives duped shareholders about mounting losses at Merrill Lynch and manipulated Washington into handing over \$20bn in TARP Funds to help finance the 2008 merger.

The European Central Bank held rates at 1% for the ninth month in a row - inline with the BoE decision and analyst forecasts. Member countries economies remained fragile and there was continued worry over sovereign debt issues of Mediterranean countries.

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Jamie Dimon, JP Morgan Chase's chief exec reignited the banker bonus debate on Thursday, by exercising \$10mn in share options just days before he is set to be granted his '09 pay package—expected at between \$10—\$15mn. Goldman Sach's CEO Lloyd Blankfein is believed to be in line for a \$20bn package—setting the tone for Wall Street CEO's remuneration.

ICAP, the world's largest inter-dealer broker warned uncertainty in financial services regulation had hurt trading volumes since the beginning of the year, causing its shares to slump a fifth on its close price yesterday.

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The US Mortgage Market is braced for an increase in rates in the coming month as the Federal Reserve ends its gigantic \$1250bn buying programme, part of a monetary policy move to reduce mortgage rates for the average homeowner.

State Street reached a \$313mn settlement with US regulators over allegations it misled investors about their exposure to the sub prime mortgage market. The Securities and Exchange Commission had accused the Boston based bank, it had informed some investors with better information than others. This led to a 'fire' sale of some investors assets causing the fund as a whole, to plunge in value.

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