

Conflicting Economist Views on UK Budget Deficit

Fresh figures have added to the increasing concerns over the UK's budget deficit. Public borrowing in January was overdrawn by £4.3bn, compared with a surplus of £5.3bn last year. Economists had expected January, typically seen to be a bumper month for the government, a surplus of £2.8bn.

There is mixed sentiment between economists where last weekend, a group of 20 economists to start tackling Britain's record £178bn deficit shortly after the upcoming

election. They claim spending cuts are needed to reassure the markets and to fend off the possibility of Britain's credit rating being downgraded. The UK's fiscal deficit remains nearly 13% of GDP. For comparison, Greece's deficit is 12.7%.

However, writing in a letter to the FT, more than 60 economists argued against withdrawing stimulus measures too soon. Led by Lord Skidelsky, the letter also played down the risk of a Greek-style fiscal crisis and questions how "foreign creditors will re-

act if implementing fierce spending cuts tips the economy back into recession".

Paul Krugman maintains the view that "fiscal contraction of an additional one or two percent of GDP in the near future has essentially no significance for the sustainability of government finances."

Sterling felt the after effects tumbling to 9 month lows against the dollar as the UK's policies remain hazy.

Alex Tang



Lord Skidelsky

Markets

On Thursday the FTSE 100 closed at 5,320, 5.01% below its 52-week high of 5,600, set on January 11th.

DAX closed at 5,670 on Thursday, 6.97% below its 52-week high of 6,094, set on January 11th.

Friday, the NIKKEI 225 closed at 10,124, 7.82% below its 52-week high of 10,982, set on January 15th.

Thursday the Dow Jones Industrial Average closed at 10,393, 3.14% below its 52-week high set on January 19th.

The FTSE 100 was at time of writing, 4.68 points down or 0.09%.

Winners & Losers

Company	Price	Change
Shire	1401.00p	6.95%
Tullow Oil	1233.00p	1.99%
British American Tobacco	2213.00p	1.98%
Unilever	1930.00p	1.79%
Randgold Resources	4664.00p	2.12%
Eurasian Natural Resources	1012.00p	2.41%
Anglo American	2434.50p	2.70%
Fresnillo	757.50p	3.56%

Barclays Bosses Forgo Bonus as Profits Soar

Jordan Hinze

Barclays has seen an increase of 92% in its full year profits to £11.6bn, up from £6.3bn in 2008. The figure includes a one off profit of £6.2bn from the sale of Barclays Global Investors (BGI) to US firm Blackrock last year.

A significant contribution amounting to £2.5bn, an 89% improvement on last year can be attributed to the banks investment banking division, Barclays Capital. The division's performance was enhanced by the growth in fixed income, currency and commodities trading.

The bank has doubled its core tier one capital ratio to 10%. This is a key indicator of the banks strength

and coupled with the substantial increase in profits, Barclays has given a boost to the UK banking industry.

Barclays has also announced it's to rein in the total bonus pool for staff to £2.7bn. It will pay £1.5bn of bonuses for 2009 and a further £1.2bn over three years. The majority of these bonuses will go to staff at Barclays capital which made £2.5bn for the bank last year.

However the figures do not include payouts to chief executive John Varley and President Bob Diamond who have turned down bonuses for the second consecutive year. However, Diamond did turn a £22mn profit from his stake in BGI.

Company Profile

Pearl Boateng

Name: Credit Suisse

Share price: \$43.37

Background: Global bank headquartered in Zurich, Switzerland serving clients in private banking, investment banking and asset management. Registered shares of Credit Suisse Group AG (CSGN) are listed in Switzerland (SIX) and as American Depositary Shares (CS) in New York (NYSE). Total number of employees is approximately 47,600. The Group's long-term ratings are: Moody's Aa2, Standard & Poor's A, Fitch Ratings AA-. On January 16, 2006, Credit Suisse First Boston (CSFB), now the Investment Banking division, Credit Suisse Asset Management (CSAM), and Credit Suisse Private Banking (CSPB), re-branded themselves, becoming collectively known as Credit Suisse. This move was initiated to better leverage each others' resources and capabilities to create a "One Bank" brand and effort.

Revenues (2009): Net income: CHF 6.7 billion

Return on equity: 18.3%

Total net new assets: CHF 44.2 billion

Tier1 ratio as of December 31, 2009: 16.3%

Assets under management as of December 31, 2009: CHF 1,229.0 billion

Cash dividend of CHF 2.00 per share to be proposed for 2009

Recent news: Credit Suisse, which unlike UBS (it's closest premier Swiss banking rival) weathered the global crisis without state aid, has rebounded under the leadership of former investment banker Brady Dougan. It posted a 6.7 billion Swiss francs (\$6.3 billion) profit in 2009 from a 2008 record loss, mostly due to its best-ever investment banking performance.

www.credit-suisse.com

Any queries, comments or requests?
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UK Inflation rises to 3.5%

Derek Weigel

The annual UK annual inflation rate reached a high of 3.5% in January. This has been labelled as "temporary" by governor Mervyn King, despite a high 3.1% core inflation rate (excluding energy prices). Inflation has been squeezed up due to the weak pound, gradually increasing oil prices and an increase to the VAT rate (15-17.5%). The housing market has seen a rebound in prices, which only adds to the inflation rate.

It has been speculated that inflation will continue to prove resilient as low interest rates provide easy money to investors across the globe, which boosts prices and inflation.

One concern is that wages are up by only about 1 per cent in the past year - which is a lot less than the 3.5 per cent rise seen in overall prices in

the economy. This means that UK citizens' real spending power is falling by 2.5 per cent a year at the current rate.

More importantly, all the ingredients for deflation are in the current UK economy. The Bank of England is planning on halting its special liquidity scheme, which could reduce mortgage availability further and cut short the house price revival. Also, the government is in vast amounts of debt and eventually will have to cut spending.

The overall outlook for the economy is grave. Inflation has returned, however deflation and continued recession looms on the horizon if nothing is done and the easy money dries up. It is hoped that the economy will be able to strengthen enough to avoid a recession after the bailout programs are stopped.

Strictly Bites

Sunny Shah

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The US Federal Reserve announced on Thursday that it would raise the discount rate at which commercial banks borrow from the central bank as part of moves to withdraw emergency support to the financial system.

A new miner is set to enter the FTSE 100 with the London flotation of a collection of African gold mines by Barrick Gold of Canada, the world's largest producer of the precious metal.

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The FTSE World equity index dropped 0.8% and the dollar touched a nine-month high versus the euro after traders were caught off guard by the US Federal Reserve's announcement that it would raise the rate it charged banks.

Boeing should take back its crown as the world's biggest civil aircraft maker from Airbus, its European rival, within four years, according to the head of the US group's commercial aircraft business.

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Akio Toyoda, Toyota's chief exec, agreed Thursday to appear before a committee investigating his company as lawmakers stepped up their scrutiny of the Japanese carmaker with a subpoena for documents held by one of its former attorneys.

US and European antitrust regulators approved an internet search alliance between Microsoft and Yahoo in a decision that backed the view of many big advertisers that the combination would give Google more competition.