

## Market Turmoil Spirals

Bhavin Dhanani

A week of carnage left global stocks reeling despite a simultaneous effort by industrial nations to boost confidence. The week was capped off with a huge sell off of shares as panicked investors attempted to cut their losses.

On Wednesday the UK Government announced a radical scheme to rescue the ailing banking sector. The eight largest UK banks and building societies will have the opportunity to borrow capital from the government in exchange for preference shares. In addition to this the Bank of England has made £100 billion available for short term loans

discount loan window of £100 billion. Furthermore, the Government has guaranteed up to £250 billion in interbank loans in an attempt to kick start interbank lending.

Later on Wednesday six major central banks reduced interest rates by 50 basis points in a move never before seen. The Federal Reserve, Bank of England, European Central Bank, and central banks in Canada, Sweden and Switzerland all took action in a coordinated attempt to stabilise the world economy. The UK base rate now stands at 4.5%. European and US rates are now 3.75% and 1.5% respectively. Despite this stock markets

continued to tumble.

Black Friday saw indexes around the world nose-dive. The FTSE 100 fell by almost 9%, a weekly fall of 21%. This is the second biggest decline over a week, the first being the week of Black Monday in 1987.

G7 finance ministers are meeting over the weekend to discuss remedies for this credit crisis. The solution needs to be a universal one in order to stave off the threat of a worldwide recession.



A selling frenzy occurs as traders fight to liquidate positions in ailing UK stocks

## Iceland's Savings Frozen in UK

Sarah Lloyd

Monday saw the Icelandic government nationalize the country's two largest banks in order to avoid national bankruptcy. The rest of the week saw the government seize more of the banking system, taking over Kaupthing, Landsbanki and Glitnir. A deal to sell most of Landsbanki's overseas corporate finance and brokerage business to Iceland's Straumur-Burdaras investment bank for 380mn euros fell through on Friday.

British officials were due to hold talks with Icelandic authorities over the weekend on how to best deal with the estimated £1bn of British deposits trapped in Iceland's collapsed banks. Other European countries were also assessing the costs, with Austria's Erste Group Bank saying it had 300mn euros in exposure.

Britain's Local Government Association estimated 108 British local authorities have around £750 mn invested in Iceland's banking system. The British Chancellor has promised that every penny held by the private British saver will be safe. The pledge goes over and above the current Treasury guarantee of the first £50,000 of customers' savings.

At the end of the week, Ice-save was finally declared to be 'in default' by the Financial Services Authority triggering compensation payments to all UK customers of around £16,000 per frozen account. An anti-terror law was also invoked freezing Landsbanki's British assets which led Iceland to declare "we consider this to be a completely unfriendly act." ING will acquire £2.5 bn of deposits and 160,000 customers.

### Markets

- Oil closed below \$90 per Barrel for the first time in nine months.
- The FTSE 100 fell 21% on the week.
- 98 of the 100 companies listed on the UK's flagship index were down over the seven days to close of business Friday.
- 93 of the 100 fell by over 10%.
- 32 of the 100 fell by a percentage greater than 20% of its closing value from last Friday.
- The Dow breached the significant 8,000 mark for a point during trading on Friday amid increased fears of a global recession.

### Winners, Losers

Company	Price	Change
Harmony Gold (commodities)	586.00p	25.62%
Randgold (commodities)	2255p	7.79%
3i group (financials)	500.50p	-30.58%
Lloyds TSB (banking)	189.00p	-34.75%
HBOS (banking)	124.20p	-38.05%
Kazakmys (commodities)	334.50p	-42.21%
Barclays (banking)	207.50p	-43.61%
RBS (banking)	71.70p	-61.49%



## Britain's Current Icelandic Exposure

Christian Esposito

Gordon Brown has reacted to Iceland's refusal to guarantee British deposits in its failed banks by declaring the situation as "totally unacceptable and illegal".

Over 100 local councils, an array of police constabularies, fire services and children's hospices could lose out. Many figures have been quoted but around £8 billion seems to be the par value for deposits. Over half of this value is in the internet based IceSaver. Below is a breakdown of how much the worst effected will lose.

### Councils

Barnet council £27m  
Breckland council £12m  
Brent £15m  
Caerphilly county council £15m  
Cheltenham borough council £11m  
Dorset county council £28.1m  
Gloucestershire county council £12m  
Havering council £12.5m  
Hertfordshire £28m  
Hillingdon council £20m  
Kent county council £50m  
Lancashire county council £10m  
Neath Port Talbot £20m  
Norfolk county council £32.5m  
North Ayrshire £15m  
Northumberland council £23m  
Nottingham city council £42m  
Plymouth city council £13m  
Surrey county council £20m  
West Sussex £12.9m  
Westminster council £17m

### Authorities

Transport for London £40m  
Dorset police authority £7m  
Sussex police authority £6.8m  
Hertfordshire police authority £3m  
Gwent police authority £1m  
Metropolitan police £30m  
West Yorkshire £6m  
Northumbria £3.5m

Extract Taken from Guardian News & Media 2008

## Bank recapitalisation... Is it the way forward?

After the UK announced an unprecedented strategy to combat the credit crisis by buying stakes in UK banks, the US have followed suit by putting aside some of the \$700bn fund to buy equity in US banks. At the G7 meeting Europe is being pushed to follow suit. But will this solve the banking crisis?

Have a view, let us know [www.strictlyBIF.com](http://www.strictlyBIF.com) > Blog

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## Wachovia Deal Finished?

Sarah Lloyd

The continuing legal issues surrounding the Wachovia takeover, by either Citigroup or Wells Fargo, appear to have been resolved. Citigroup began acquisition negotiations first, offering a joint \$2.1 billion with the Federal Deposit Insurance Corp. Four days later Wells Fargo offered, and had accepted, an \$11.7 billion all-stock deal to the Charlotte, N.C.-based bank.

Federal antitrust regulators on Friday cleared Wells Fargo's acquisition bid after Citigroup and Wells Fargo were encouraged to reach a

quick resolution outside of court. The fight for control had reached both state and federal courts with Wachovia's situation deteriorating in the meantime. Whilst Citi has decided not to challenge the deal in court, it is demanding \$60 billion in damages for breach of contract. It is thought Citi pulled out after their due diligence of Wachovia's books illustrated further write-downs.

Like JP Morgan Chase and Co, which last month acquired Washington Mutual Inc, Wells Fargo is taking advantage of the worst financial crisis since the Great Depression.

## Strictly Bites

**Moody's**, the rating agency, has stated it will **review** the long term credit ratings of Wall Street giants **Morgan Stanley and Goldman Sachs**. This resulted in a **nosedive** of the banks' share price.

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**Barclays** will consider **tapping** the market for additional funding. As part of the Government's bailout plan the banking industry must raise **£25billion** of capital in order to qualify for the **£250billion** of inter-bank loan guarantees.

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The **Swiss** economic minister, Doris Leuthard, has vowed that the Swiss government **will not** let banking giants **UBS and Credit Suisse go bankrupt**.

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Rumours are gaining momentum that **RBS chairman, Sir Fred Goodwin**, could soon **leave** his post as the bank's share price has plunged of late. Since the bank led a consortium in the takeover of ABN Amro the share price of **RBS** has **declined by 82%**.

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**French and German** officials are meeting this weekend to thrash out a **rescue deal for European banks**. It is thought that the plan would be **modelled** on the **British** one.

The **Reserve Bank of Australia** has cut the **base rate** from **7% to 6%**, the largest cut the nation has seen since May 1992.

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**Fortis**, the Belgian bank which has been part nationalised in the Netherlands, has seen its **Belgian and Luxembourg operations sold to BNP Paribas**, France's biggest bank. This makes **BNP** the **largest** European bank by size of **deposits**.

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The **Netherlands, Belgium and Spain** have increased their **guarantees** on bank deposits to **€100,000**. **Austria** has **guaranteed** all deposits.

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The issuers of **credit default swaps** (CDS) against **Lehman Brothers** face a bill of **\$365billion**. The underwriters of the derivatives must pay **91.375 cents** to the dollar to settle the CDS contracts

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Since the start of the credit crunch, the number of **mortgage products** available has **fallen** by almost **7,500**.

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The **International Monetary Fund** (IMF) has warned that the **UK** is almost in **recession**. It predicts the economy will **contract by 0.1%**, resulting in **higher unemployment**.

