

## US Recession Imminent

Bhavin Dhanani

The American economy, like the UK's, is on the brink of recession after it experienced negative growth in the third quarter of 2008. At an annualised rate, the biggest economy in the world contracted by 0.3%. It is the biggest quarterly fall since 2001. However the contraction was smaller than analysts' expectations.

Consumer spending, which makes up 70% of gross domestic product (GDP) in the United States, fell sharply by 3.1%, the first drop in 17 years. Furthermore, spending on non-durable goods such as food and clothing plunged a massive 6.4%. Investment spending, that done by businesses, also fell. The

trade deficit in the United States did get better due to the strengthening dollar, preventing an even larger economic contraction.

US consumer confidence also fell to a record low in October. The index that measures consumer confidence fell to 38, an all time low. In September the index stood at 61.4. Pessimism is growing amongst US citizens over the health of the economy, the deteriorating housing market and the level of unemployment which shot up in September to 6.1%, a five year high.

To stave off the doom and gloom in the US, authorities are acting. Last week the Federal Reserve cut the base interest rate to

1% from 1.5%. Just over a year ago the interest rate stood at 5.25%, confirming that the stagnating economy will take immediate priority over the threat of inflation.

Meanwhile, the historically stationary Japanese interest rate was cut for the first time in seven years. The Bank of Japan cut the key base interest rate to 0.3% from 0.5%. The Nikkei 225 has plummeted to record lows in recent times, whilst the strength of the Japanese Yen has weakened the profits of Japanese exporters such as Sony and Toyota.



Ben Bernanke, US Federal Reserve Chairman, announced a cut in interest rates this week to stave off an impending US recession

## Mixed Results Amid Credit Crunch

Sarah Lloyd

Spanish banking group Santander is surviving the credit crunch better than most others. They announced a 5.5 per cent rise in net profit over the past three quarters. However, the rise in bad loans shows it has not been completely immune to the crisis.

Net profit rose to 6.9 billion Euros, with net interest income of 12.9 billion Euros. Santander's CEO, Alfredo Saenz, has warned that the bank's future growth will not be on par with the group's formidable growth up to this point.

As a result of new accounting reclassification of assets approved by the European Union, Germany's Deutsche Bank avoided 845million Euros in potential mark-downs. The bank expressed caution for the fourth quar-

ter and failed to state a full-year target.

Deutsche Bank's net profit was down a massive 94% to 435million Euros with overall net revenue of 4.37bn Euros.

UBS AG, the world's biggest wealth manager will be reporting third quarter results early this week but has already announced a net profit of 293 million Swiss francs (\$261.9 million), net of outflows.

Amid, efforts to reassure shareholders and the market, Societe Generale has brought forward the release of its third quarter results from Nov 6 to Nov 3. Speculation that the bank has lost on trading operations have continued even though the bank has repeatedly sought to reassure shareholders.

### Markets

- Thursday will see the release of figures for the Consumer Price Index; the Index is expected to increase despite lower fuel prices.
- The ECB will announce its action on European interest rates on Thursday. The organization is expected to follow the US and cut the base rate. This is due to fears the European economies are stagnating and heading towards recession
- Finally Thursday will also see the Bank of England announce its decision on UK interest rates. Again our central bank is expected to follow the US and cut the rate.

### Winners, Losers

| Company                 | Price   | Change  |
|-------------------------|---------|---------|
| HBOS (banking)          | 104.00p | 70.49%  |
| Xstrata (commodities)   | 1126p   | 58.82%  |
| Aviva (insurance)       | 384.75p | 56.88%  |
| Std Chartered (banking) | 1061p   | 56.03%  |
| M & S (retail)          | 219.75p | -2.01%  |
| Carnival (tourism)      | 1365p   | -9.90%  |
| BT Group (telecomms)    | 115.70p | -10.45% |
| Barclays (banking)      | 168.00p | -12.23% |

## Oil Giants Announce Huge Profits Increase

This week saw BP, Exxon and Royal Dutch Shell announce their third quarter profits. All reported massive percentage increases on the back of high oil prices over the summer.

BP's profits surged 148% to £6.5 billion for the third quarter. Oil prices peaked at \$147 in the summer and as demand increased in conjunction with the price BP was able to announce its best quarter on record. The average price achieved per barrel increased \$40 to \$111 compared to last year.

Royal Dutch Shell showed its hand next and results were just as staggering. The oil giant announced profits of £6.8 billion, up 71% from last year. This was despite a 6.6% decrease in production due to hurricanes in the Gulf of Mexico and disruption in Russia.

Finally, Exxon smashed its own record for an American Corporate's quarterly profits, announcing a profit figure of \$13.4 billion, up 42% from last year.

Despite oil's recent freefall the commodity seems to be a stable source of reliable income. With the world's major oil companies announcing profit increases quarter on quarter the possibility of a world recession seems not to be the problem it once looked. While the stock market reacted poorly to HSBC's and Standard Chartered's emerging market business model the same was not true for BP and Shell.

Gordon Brown has spent the last week with in the Emirates states to try and convince the oil rich nations to pump more cash into the IMF to stave off a possible world recession. The visit has been announced as a success, and part of the Gulf's recent trillion dollar oil windfall will be invested with the IMF.

The oil rich countries, whilst acquiring the odd football club, have also pushed more money into our banks. As Barclays does not want the stigma associated with borrowing from the government they visited the Abu Dhabi and Qatari Sovereign Wealth Funds. Both will now invest heavily and combined will own 32% of the British company.

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## Porsche Squeezes Market

Sarah Lloyd

A rally in commodity stocks pushed the FTSE up by 2 percent on Friday and helped the FTSE record its best performance since its inception. However, October's performance registered the worst monthly loss since the 1987 crash. Shares worldwide tumbled for most of October but coordinated world-wide interest-rate cuts bolstered most markets towards month end.

Hedge funds, however suffered this week as a share squeeze in Volkswagen's equity led to a meteoric rise in demand.

VW shares quadrupled and the company briefly became the largest in the world by market capitalisation after Porsche announced a majority shareholding of 74%. With Germany's Lower Saxony State owning a further 20%, only 6% of the company's shares were available on the market. This caught out funds with bets against the German car manufacturer's share price. Brokers had to pay over the odds for shares in order to meet their short positions. Porsche took advantage of the desperate demand for VW equity and sold 5% of their newly acquired stock back into the market making an immediate profit.

## Strictly Bites

A rival bid for Halifax Bank of Scotland (HBOS) could scupper Lloyds TSB's potential takeover of the Scottish bank. The rival bidder has been described as "a financial services company with worldwide reach".

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Barclays has announced it will receive a capital injection of £7.3 billion from the sovereign wealth funds of Qatar and Abu Dhabi. The deal will see the two emirates hold a 32% stake in the bank. Shares in the bank fell over concerns about the cost of funding in comparison to that on offer from the British government.

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Commerzbank, the second largest bank in Germany, has revealed its interest in receiving an injection of capital from the German government. The bank which recently acquired Dresdner has suffered due to exposure to Iceland and Lehman Brothers.

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House repossessions are up by 71% compared to a year ago. There were 11,054 repossessions in the second quarter of 2008. Meanwhile, mortgage approvals rose in September by 1,000 to 33,000

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Lazard Capital Markets has been ordered to pay more than \$3 million to settle a case where it was found guilty of inducing clients illegally. The broker has no connection to Lazard.

Goldman Sachs has set aside a pot of £7 billion for salaries and end of year bonuses.

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The life insurer, Friends Provident, has abandoned plans to sell its wealth management arm, Lombard. It was put up for sale nine months ago but potential buyers were unable to finance a deal due to the credit crisis.

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American Express is to cut 7000 jobs, equating to 10% of its global workforce. Salaries will be frozen and no recruitment will occur until 2010.

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According to building society Nationwide, house prices have fallen by 14.6% in the past year. In the past month prices fell by 1.4%.

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JP Morgan is planning to alter the terms of mortgages to improve conditions in the housing market. They will either reduce the interest on the loan or reduce the loan amount should the homeowner fall into negative equity.

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The Icelandic government were aware their banking system was struggling back in April according to Channel 4. They allege the Bank of England was approached for financial help by the Icelandic Central Bank.