

## Japan's Growth Deteriorates

Bradley Wright

This week saw Japan's government come under increasing pressure to act amidst the global slow-down. The world's second largest economy announced a fall of 3.3% in its quarterly GDP report for the final three months of 2008. Many academics and economists have suggested the fall is significantly higher than predicted - a sign that the largely exporting country is being hit hard by declining global sales in automobiles and electronics.

The government is beginning to acknowledge the severity of the crisis with Kaoru Yosano, minister for monetary and fiscal policy, claiming 'This is the biggest crisis since the war'.

Japanese officials have continued to resist calls from opposition parties as well as businesses to expand the stimulus plan announced last year, whereby £15.3 billion was handed out in cash as well as other measures.

Another problem blighting the current Japanese premiership is the time taken for new legislation to be passed. This is due to the majority of the upper parliamentary house being controlled by the opposition. The leading party has been trying to push the budget for fiscal year 2009 through the upper house for some time. Parliament's organisation structure, with the entirely separate lower and upper houses, has been a contributing factor to Japan's

slow response to control the crunch.

Economists predicted on Monday that this quarter would be as bad for Japanese growth and that recovery would be 'complicated by looming deflation even if the rate of decline in GDP slowed down'. Exports have been plunging, as has consumption within the economy. This is a sign of the increasing number of the population being made redundant as a result of job losses and/or businesses shutting down in some of the country's leading companies.



Japan's Prime Minister is still struggling to pass this year's fiscal policy through parliament.

## Markets Fall Across the World

Sunny Shah

### Markets

- The UK Gross Domestic Product and Producer Price Index are released Wednesday. Both are expected to indicate a contraction in the UK economy.
- Consumer confidence figures across Europe, Japan and the US are released this week. The index is an indicator to suggest how consumer spending will change into the coming months.
- Tuesday sees the Current account index for Europe released.

### Winners, Losers

Company	Price	Change
RBS (banking)	22.60p	10.78%
LBG (banking)	60.10p	6.56%
Barclays (banking)	102.70p	5.77%
Morrison (supermarket)	269.25p	5.07%
Old Mutual (insurance)	43.50p	-16.35%
Rexam (industrials)	262.50p	-16.53%
Brambles Ld (logistics)	215.00p	-16.83%
Land Group (property)	516.50p	-16.89%

The growing realisation that there is no quick fix to the ailing global financial system, rumours that some of the world's biggest banks such as Citigroup and Bank of America might have to be nationalised by the US government and increasing news of job cuts in the automotive industry amid poor sales pushed world stock markets deep into the red last week.

Citi fell 22.3 per cent to \$1.95, bringing its losses last week to nearly 44 per cent and reducing its market value to \$10.6bn. Bank of America fell another 3.6 per cent to \$3.79, giving it a loss of 33.6 per cent last week. In the US, the Dow Jones Industrial Average dipped to a six-year low and the Standard and Poor's 500 registered a weekly loss of 6.9 per cent. In Japan, the Nikkei 225 Average fell 4.7 per

cent. In Europe, the FTSE Eurofirst 300 recorded a weekly fall of 7.3 per cent as it reached its lowest level since March 2003. The MSCI Emerging Markets index dropped 8.5 per cent, its worst week since Nov.

In commodities, gold touched an 11-month high of \$1,005.40, a rise of 6.8 per cent over the week. This was a result of investors shunning risky assets for the relative safety of bullion. Heightened worries regarding global growth put other prices under pressure, with the Reuters-Jefferies/CRB commodities index hitting a 6½-year low.

The 10-year US Treasury yield fell 15bp to 2.75 per cent as investors brushed off slightly higher than expected core inflation readings on Friday. Germany's 10-year Bund yield dropped

# Corporate Bonds

Sarah Lloyd

A corporate bond is a debt instrument issued by a firm in order to raise money for business ventures. Corporate bonds have shot to prominence recently. In an environment where interest rates on savings accounts are low and volatility exists in equity markets, many investors are looking at corporate bonds. Yields on corporate bonds are relatively high, even on investment grade companies, those which are very unlikely to default.

Some of the investment grade rated companies with high yields on offer include the following. Rolls Royce, a utilities company, is currently yielding 6.87% on a bond maturing in 2016. Tesco, the biggest supermarket in the UK, offers a yield of 6.25% on a bond with maturity in October 2010. High risk companies are offering even higher yields. Taylor Woodrow, a home builder which has been battered by the fall in property prices is yielding 16.22% on a bond maturing in 2012, an excellent return for the risk seeking investor.

It's not all just about the yield with corporate bonds. There is also the possibility of capital gains. Just like any asset class, demand and supply will be the key determinant of the price. Demand for corporate bonds is rising quickly due to the yields on offer. In addition, with interest rates set to fall further, bond prices should continue to rise in symmetry to the rise of government bonds.

## Japan lost era

After a 3.3% fall in GDP in Q4 of 2008, the worst by any developed nation in the current world recession, Japan looks set to endure further 'lost decades'. After stagnant growth for 10 years, and with the biggest financial and economic crisis since the war, Japan looks set to fall as an economic power through further years of stagnation... **Have a view, let us know**  
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BNP Paribas, a leading French bank, and ING, the biggest Dutch financial services company, posted quarterly results last Thursday.

Analysts were proven correct as they had forecasted quarterly losses at both firms. BNP posted a fourth quarter loss of 1.37 billion euros, whilst ING's loss was of 3.7 billion euros.

ING shares have fallen 72 per cent in the last year, compared to a 47 per cent fall for the DJ Stoxx European insurance index. Shares in the

Dutch bank and insurance group, which has already received a 10 billion euro injection from the Dutch state last year, were trading at a 16-year low on Friday amid concerns it might miss debt interest payments and talk from traders of nationalisation.

BNP Paribas' dividends were reduced by 70 percent after the Q4 loss was announced. BNP was hit by losses in the investment banking arm, exposure to alleged Madoff fraud and the slump in the Ukrainian economy where it has operations. The CEO of BNP remains confident of a profitable 2009.

## Strictly Bites

Moody's has downgraded Lloyds Banking Group (LBG) after it recorded a £10billion loss in 2008. The bank's relatively good position in the financial crisis is said to have been put in jeopardy by the merger with HBOS last year and it's huge mortgage loan book. The Lloyds Banking Group risks nationalisation with government ownership already at 43%.

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Gold prices have risen to over \$1000 a troy ounce as investors choose bullion over shares. The flow of investment funds into EFT's has increased significantly and there has been a 4% increase in global demand for the commodity driven by a 64% increase in investments.

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The Federal Reserve has revealed new 'longer term' forecasts for inflation, which aim to be more consistent with its policy to promote price stability and full employment.

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General Motors and Chrysler have presented their survival plan to the government as a condition of receiving funds. Both firms have requested more government funding, \$16.6 and \$5 billion respectively. The companies intend to close more factories, reduce its workforce, and discontinue brands such as Hummer and Saturn, unless a buyer is found, as well as decreasing its capacity annually by another 100,000 vehicles.

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UBS has agreed to disclose the identities and bank details of almost 250 account holders as well as pay \$780 million to American authorities in a bid to end a criminal investigation into the institution. They allegedly encouraged clients to open accounts protected by Swiss secrecy laws to evade the American tax regime.

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China has agreed to lend \$25 billion to Rosneft, a Russian state owned oil company, and Transneft, it's pipeline monopoly, in exchange for a daily supply of 300,000 barrels of oil (about 10% of China's current oil imports) over the next two decades.

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Obama's administration has emphasized it's commitment to private ownership amidst fears over the possible nationalization of both Citigroup and Bank of America. With recorded losses of 44% and 33.6%, rumors have surfaced with regard to the future of both banks. Both banks prompted regulators for clarification in order to rule out the possibility of nationalization.

The Securities and Exchange Commission (SEC) have charged Sir Allen Stanford, a Texan billionaire, with fraud estimated at approximately \$8 billion. Many of the account holders and investors who were targeted and lost money are from Latin America, with officials in Venezuela taking control of the bank.