

Worst Week Since 9/11

Bhavin Dhanani

Monday saw the biggest market falls worldwide since the terror attacks in 2001. The FTSE 100 fell by 5.5%, slashing the value of the leading companies by £77 billion. The CAC 40 in France fell 6.8%, whilst the DAX in Germany saw a decrease of 7.2%. The falls were sparked by the fear of a recession in the USA.

An emergency meeting by the Federal Reserve on Monday night saw interest rates in the US drastically cut by 75 basis points to 3.5%. This restored some investor confidence with the FTSE closing up 2.9%. It had however fallen at

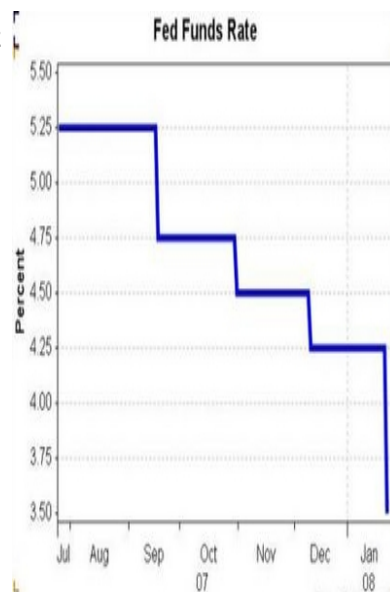
one stage by 4%. In New York the Dow Jones lost 4% immediately after opening but rebounded soon after to end the day down 1%.

On Wednesday most of the gains realised in Europe were wiped out. The FTSE declined 2.2% as the European Central Bank stated they would not be cutting interest rates by as much as the Federal Reserve. Whilst indices in Europe fell, US stock markets rallied sharply, with the S&P 500 closing up 2.1% and Dow Jones also up 2.5%.

All of the major stock markets had a very

strong Thursday but Friday saw more falls worldwide, with investors still concerned about the state of the global economy. Although markets had started the day on the rise, the FTSE ended down by 0.12% and the S&P 500 closed 1.6% down.

Many analysts are predicting more turbulence in the markets in the short term as the uncertainty of the state of the global economy continues.



Recent cuts in the US interest rate by the Federal Reserve

French Bank Unhinged

Phillip Butler

As record breaking market drops occurred around the world, most of which were anticipated, no-one realised nearly €5bn was being lost by a single trader alone.

Jerome Kerviel who worked for Societe Generale, France's second largest bank by market capitalisation, placed unauthorised bets on futures linked to the European stock markets.

Kirviel's activities were not exposed for three days. When uncovered the bank's shares were immediately suspended; after trading recommenced their price plummeted.

This fraud has sparked

massive interest as it is the first case in the financial markets since Nick Leeson lost £860m and Yasuo Hamanaka lost \$1.8bn on the London Metal Exchange in 1996. The losses incurred by Barings due to Leeson subsequently brought the British Bank down in 1995.

Some investors believe this fraud played a big part in market volatility this week.

Societe Generale have acted quickly and have announced a €5.5bn share offering to repair its balance sheet after also incurring writedowns of €2.05bn due to the sub-prime crisis.

Markets

Winners, Losers

- Despite the Federal Reserve cutting US interest rates by 75 basis points a week before their monthly meeting this week, another 50 point cut is expected when they meet for their scheduled monthly outlook.
- Despite the massive percentage losses on particular days this week, the FTSE 100 closed only 33 points down. The changes, however did mean a 635 point range throughout the week's highs and lows.
- The Societe Generale problems are estimated to have been responsible for 10% of all worldwide trades this week.

Company	Price	Change
Randgold (commodities)	2485p	17.3%
Barratt (housing)	457p	16.6%
St James's (financial services)	277p	14.2%
Arm Holdings (architecture)	124.5p	13.2%
Ferrexpo (commodities)	225.5p	-10.2%
Autonomy (computing)	859p	-10.8%
Lonmin (commodities)	2900p	-10.9%
Close Brothers (bank)	799.5p	-15.3%

Company Profile

Name: Bank of America Corp

Share price: \$39.48

Business sectors:

Global Consumer and Small Business Banking; deals with consumer banking and credit cards

Global Corporate and Investment Banking; provides merger and acquisition advice, underwriting and trading

Global Wealth and Investment Management; looks after the assets of corporates and individuals. Currently holds assets for around 80% of the global fortune 500 companies

Notable M&A;

Purchased FleetBoston bank for \$50 billion in 2004

Purchased Credit card firm MBNA in 2006

Purchased LaSalle for \$21 billion in 2007

Employees: 203,425

Sales Revenue: 90% of revenue originates from the US market. Bank of America holds \$1.72 trillion in assets.

Total Revenue:

Net interest income \$66.32 billion, 2007. 51% of income in 2005 from Global consumer business. \$117,017 million in 2006 revenues, \$21,133 million profit.

Monoline

Monoline bond insurers have recently been blamed for the upheaval in the markets. The insurers provides bond and interest payment in case of issuer default.

These insurers are the backbone of the whole corporate bond issuance industry, insuring over \$2.4 trillion in debt between them. If they default on their promise the collapse could be catastrophic. When the fed cut interest rates by 75 basis points the markets rallied, when the US government said monoline insurers would be rescued, the reaction was even greater.

The two biggest bond insurers wrote-off \$8.5 billion in the third quarter as they tried to make money from sub-prime. Their initial good rating has been hit by poor liquidity from recent losses, Fitch demoted Ambac two ratings notches this week. Since June Ambac has lost 80% of its share price. If a bond insurer's rating is cut, so are its insured bonds and thus Fitch cut 137,500 other ratings after it downgraded Ambac.

Bloomberg recently stated that losing an AAA rating could mean investors and borrowers losing \$200 billion in the future.

Bank of America Down

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Bank of America last week announced a 95% fall in fourth quarter profits.

The last three months of 2007 yielded a net profit of \$268 million. In 2006 this figure was \$5.26 billion. The fall in profits was attributed to sub-prime related write-downs of \$5.28 billion, 76% more than estimated in November.

Chief executive Kenneth Lewis said "We certainly are not

pleased with our performance. We are cautiously optimistic about 2008."

The fall in profits resulted in 1150 job cuts in the investment banking division which lost \$2.76 billion in the fourth quarter. The bank also intends to sell its hedge fund brokerage unit.

Wachovia, another large US bank reported a 98% fall in fourth quarter profits to \$51 million, as it recorded bad debts of \$1.7 billion.

Strictly Bites

The **FSA** failed to adequately supervise **Northern Rock's** activities and the **Bank of England** did not do enough to smoothe **money markets** before the run on **Northern Rock**, according to a panel of **lawmakers** from a treasury committee.

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According to **Bloomberg**, the **financial market** turmoil has lead to 25,000 job losses worldwide.

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The **European Central Bank** has said it has to be cautious with **interest** rate reductions as it cannot allow a surge of **inflation** to become **entrenched** in the market.

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European Stocks fell for a seventh consecutive week amid fears that even with the efforts of the **U.S.** policy makers the **U.S. economy** will slip into a **recession**.

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The **FTSE 100** has suffered its worst ever start to a new year since its inception.

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BHP Billiton has indicated it will not increase its offer for **Rio Tinto**.

Gold reached further highs at **\$923 an ounce** after investors flooded to acquire the **defensive stock**. **Analysts** think gold could reach **\$950 - \$975** this year.

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Credit Suisse has announced it will trim a further **500 jobs** after demand for its **services** is slowing.

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Scottish and Newcastle, the UK's largest Brewer, has agreed a price of **£7.8bn** to be bought by **Carlsberg** and **Heineken**, who will split up the brewer.

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The **Chinese Economy** has reached a **13 year high** for its **economic growth** attaining **11.4%** last year. Fears of **overheating** and **inflation** remain.

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GM is the world's biggest car manufacturer according to 2007 sales. Sales of **9.37 million** units topped the ever growing **Toyota** by **4,000**. The Japanese firm is widely expected to take the top spot in 2008 after **GM's** 76 year run at the helm.