

Rising Interest in SocGen

Bhavin Dhanani

After Jerome Kerviel's trading shenanigans that resulted in a £3.7 billion loss, Societe Generale have become a takeover target for two of its French rivals.

On Thursday France's biggest bank BNP Paribas revealed its interest. In 1999 BNP failed in an attempt to acquire SocGen but with the bank reeling from heavy trading losses, many feel this time may be different.

Meanwhile Credit Agricole, another of SocGen's domestic rivals, has appointed Lazard, the American bank, as advisors in a

possible break-up bid. Agricole has thrown out the possibility of a separate bid.

Certain competition problems have arisen hindering a bid by either bank. Agricole would be unable to purchase SocGen's retail banking arm as it already has a 30% market share. A solution may be for Agricole to acquire SocGen's investment banking arm with BNP taking the retail arm.

The hunt for SocGen may not stay within French borders. City analysts predict that foreign banks with small investment banking op-

erations and limited activity in wholesale markets could make a bid. British bank HSBC fits the bill perfectly here, whilst Deutsche Bank is also being touted as a potential bidder.

Speculation of a takeover boosted SocGen's share price which closed at €87.99. However, with the board keeping faith with chief executive Daniel Bouton despite heavy political pressure, a takeover of SocGen is not a certainty at all.



SocGen CEO Daniel Bouton facing pressure to quit at a recent conference

Another US Fed Cut In a Week

Phillip Butler

Markets

Winners, Losers

- The FTSE 100 showed some signs of recovery this week after closing up almost 3% on the week. This is on the back of the Bank of England cuts and large expectations that the future will be rife with inter-company takeovers for consolidation.
- The huge Federal Reserve cuts this week are expected to push the US closer to inflationary pressures on the back of their recessionary concerns.
- Currys' owner DSG is to take British telecommunications firm Orange to court this week over claims it owes over £9 million to the company.

Company	Price	Change
Aquarius Pt (commodities)	667p	21.3%
Ferrexpo (resources)	270p	19.7%
Rio Tinto (mining)	5600p	19.3%
Mitchells (housing)	450.25p	15.2%
Shire (medicine)	942.5p	-4.8%
St James's (housing)	262.25p	-5.3%
A & L (banking)	674.5p	-8.4%
Friends Provident (financial services)	136p	-17.5%

The Federal Reserve has cut interest rates by a further 50 basis points to 3% a week after rates were cut by 0.75%. Rates have now fallen 2.25% since August when the credit crisis first erupted onto the financial scene.

The Fed have taken a very aggressive monetary approach which is aimed at keeping the ever degrading US economy away from a possible recession. As with any monetary policy decision the effects on the economy can take 12-18 months to filter through. This brutal policy of interest rate reductions could cause long term volatility

in a market which has seen stability in previous decades.

Along with the rate cut, the US government is putting together a fiscal stimulation package worth over 1% of US GDP, targeting the economy's growth rate which is languishing at 0.2% in the previous quarter.

With inflation running over the 2% target level real rates are barely positive. This leaves the balance of economic stimulus and financial stability in a fine degree of equilibrium which is causing huge uncertainty in the global markets.

Company Profile

Name: BNP Paribas SA

Share price: €65.28

Business sectors:

Corporate and investment banking; Deals with advisory and capital markets including corporate finance and trading

Retail banking; Consists of French and international retail banking

Asset management and services; Operates along three lines; wealth management, insurance and securities services

Notable M&A;

March 2007, acquired a 51% stake in Findomestic

July 2007, acquired Banco BGN

Employees: 141,911 (2006)

Sales Revenue:

Finance and investment banking 28%, international retail banking 26%, French retail banking 20%, asset management services 16%, others 10%. The French market constitutes 49% of the bank's revenues and 79% originates in Europe

Total Revenue:

Three quarters of 2007 saw banking income increase 15% to €24.12billion and net income increased 22% to €6.82billion. 2006 annual revenue €27.9billion

Sovereign Wealth Funds

Sovereign wealth funds are funds owned by the state and consist of surplus savings of the host country. These funds have grown in size in the Gulf states recently due to rising oil prices and increasing Asian exports.

Some are run as profit making companies like Norway's and some to provide a buffer to volatility but all are built to avoid the possible inflation problems that would arise through investing such vast sums all in one go in the home economy.

With massive pools of money to invest these funds look to developed countries. The companies including oil firms and banks gain more money and they invest in ever riskier assets in search of greater profit.

The recent credit crunch has led banks and other large institutions to seek the liquidity of the sovereign funds. In the last ten months they have invested \$69 billion.

The current wealth of these funds is estimated at \$2.9 trillion and will reach \$10 trillion in 2012. This year alone their wealth is expected to increase by \$300 billion due to interest payments and the growth of Asia and their surpluses. Their size however is still only 2% of the world's \$165 trillion of traded asset and even at projected growth figures they will only reach around 3% in 2012. Their market size is still well behind the 22% and 18% pension and mutual funds hold respectively.

Aid for Monoline Insurers

Bhavin Dhanani

The mortgage bond industry, which has taken a battering as a result of the US sub-prime market, is to be given a major cash injection as it struggles to cope with an increase in claims.

Eight of the world's biggest banks including the UK's Barclays and Royal Bank of Scotland are planning to raise around \$15 billion of cash to assist many of the struggling firms. The consortium also features Citigroup, Dresdner and Wachovia from the

US, Societe Generale and BNP Paribas from France and Swiss bank UBS.

Ambac, the second largest bond insurer in the world, will be first in line for help. It struggled to raise \$1 billion last month and is in desperate need of capital.

Experts feel this aid is not enough. Some in the industry have suggested a figure of \$200 billion is necessary in order to ensure the survival of monoline bond insurers.

Strictly Bites

Mervyn King, governor of the **Bank of England**, has been appointed to serve a second five year stint as governor. His short term aim is to keep the **UK** economy away from a **recession**.

□□□

The fatalities of the **credit crisis** reach new highs as the co-president of **Merrill Lynch**, **Ah-mass Fakahany** has resigned.

□□□

Citigroup has released some positive news after recent turmoil by announcing a joint venture with **Central China Securities**.

□□□

Tony Blair has taken another **financial services** job since stepping down as Prime Minister by becoming **Chief Exec** of Swiss group **Zurich Financial Services**.

□□□

Alliance and Leicester have been forced to **write-down** an additional **£135million** due to the **credit market turmoil**. This has sent its share price tumbling by **16.5%**.

Microsoft has launched a **\$44.6bn** unsolicited bid for **Yahoo! Inc** following two years of declines for **Yahoo!** and **Microsoft's** desire to close the gap to rivals **Google**.

□□□

Shell announced record **profits** of **£13.9bn** for **2007**. Although the figure looks staggeringly large it's **capital expenditure** for **2007** was **£12.8bn**, another record amount.

□□□

Aluminium Corp. of China and **Alcoa Inc.** bought a **£7.2bn** stake in **Rio Tinto Group** in an attempt to disrupt **BHP Billiton Ltd.'s** **hostile bid** for the **world's third largest** mining company.

□□□

Eurozone inflation is at record highs of **3.2%** and is growing at the quickest rate since the **Eurozone** was establishment in 1997.

□□□

UBS is expecting a **SFr 4.4billion** loss for **2007** and **SFr 12.5billion** for the quarter when they release their figures on the 14th February.