

Strictly BIF

UK Houses ARE Overvalued

Bhavin Dhanani

The international Monetary Fund has stated the UK housing market is overvalued in its World Economic Outlook report.

They have warned that there is a chance of a significant slide in the housing market, similar to what the United States is experiencing. Since the Monetary Policy Committee raised the rate of interest from 4.75% to 5% in the space of 11 months the housing market has cooled but prices are still increasing.

The recent volatility in global stock markets and imbalances in trade could also bring a halt to the

continuous aggregate economic growth the world has experienced. However it still forecasts the global economy to grow by 4.75% next year.

The old tale of the US leading the way for global growth seems to be changing. China has provided the main impetus into global growth. Overall the BRICs (Brazil, Russia, India and China) have accounted for over half of global growth.

The IMF is less optimistic about the advanced economies. The credit crunch had a greater effect than initially expected on the leading

nations. The IMF expects the European Central Bank and Bank of England to hold rates for now, but if the turmoil continues a cut may be necessary to restore stability.

Whatever the outcome will be in the financial markets the IMF are not as optimistic of global economic prospects as they once were. Many now feel the period of continuous economic growth could soon be over.



Multitude of estate agent boards demonstrating home owners capitalising on UK market growth

Material World Pure Gold

Phillip Butler

With oil nearing \$90 a barrel, commodities are being seriously affected by events in the Middle East.

Raw materials like Copper, Lead, Wheat, Cotton, Coffee and Cocoa have all seen double digit gains this year. This has led to the number of commodity traders being hired to increasing by 33%. These gains have been attributed to the current oil crisis, increasing demand for commodities such as Lead since they are investment substitutes of oil.

The increased value placed on commodities can be explained by investors' pursuit of 'alternative assets'.

Since the dot com bubble

burst, investors have been keen to diversify away from shares and gilts. This has led to new commodity based funds, including most recently Barclays Global Investors' timber fund.

Due to the recent credit crunch, a large amount of money has flowed into commodities, including gold, which is reaching its highest price for some decades (US \$763.0 up 13% on the week).

Some commodities are also seen as a hedge against the flagging dollar, and their versatility, especially in current market conditions, has led them to become attractive investments.

Market Change Winners, Losers

Market Change	Company	Price	Change
<ul style="list-style-type: none"> FTSE 100 closes at 6,527.90, down 203 points over the week. Dow Jones closes at 13,522.02, down 571 points over the week. Crude oil is expected to hit US \$100 a barrel by Christmas, taking petrol prices over £1 per litre. Expensive oil will hit India and China hard, slowing profits, hurting even the most universal companies 	Johnson Matthey (chemicals)	1719	2.7%
	Scottish & Newcastle (brewer)	767	18.9%
	Northern Rock (mortgages)	187	-31.6%
	DSG (retail)	121	-16.3%
	Aviva (insurance)	697	-11.0%
	Barclays (banking)	589.5	-9.0%
	Partygaming (casinos)	28	-11.8%
Rank (retail gambling)	103.5	-17.2%	

Company Profile

Name: Barclays PLC

Share price: 589.5p (down 9.0%)

Business sectors: UK Banking, Barclaycard, International Retail and Commercial Banking, Barclays Capital, Barclays Global Investors (BGI), Barclays Wealth and Barclays Wealth-Closed Life Assurance Business.

Customer Base: Retail banking serves 14 million customers. Small Business division provides services to 800,000 small businesses. UK Premier provides investment products to 270,000 customers. Barclays has retail & commercial operations in Africa Europe, and the Middle East.

Employees: 122,600

Shares: 6,720,612,000

Profit Break down: Investment banking 32%, UK Banking Products 30%, International and Private Banking 16.5%, Asset Management 9%, Credit Cards 7.5%, Barclays Wealth 5%

Junk Bonds

A Junk bond is debt rated at BB or lower according to Standard and Poor's. The bond's high risk is offset by the high yield coupon they offer.

During the 1970s Michael Milken demonstrated portfolios of junk bonds would provide a higher yield than investment grade bond portfolios, even after some companies defaulted on the crippling coupon payments (sometimes coupons can reach 18%).

Junk bonds, despite being subordinate to other forms of lending have a claim on assets and are tax exempt. Positive rewards, if the company becomes insolvent or profits decrease.

Junk bonds enabled companies to raise vast sums of money to fund leveraged buyouts in conglomerates larger than themselves. The market collapsed in the 1990, then again in 1997 and 1998 during the Asian crisis and Russia debt payment default.

Quarterly Earnings

The figures are in and it's a mixed bag of results. Three of the big US banks released 3rd quarter figures last week. After the turmoil in the financial markets, many investors were feeling nervous about the results.

Citigroup, the biggest bank in the US had a poor quarter. Net earnings fell a staggering 57% on the year previous from \$5.51 billion to \$2.38 billion. The news had a major effect on Citigroup's share price dropping \$1.63 to \$46.24 on the

day, and then to \$42.36 by the end of the week, its lowest level for 2 years.

The nation's second largest bank, Bank of America, followed Citigroup and announced a 32% fall in earnings, which in turn plummeted the share price over 9% during the week.

The third largest US bank; JP Morgan Chase & Co, despite the instability in the financial markets had a decent 3rd quarter, experiencing a 2% rise in earnings. This rise comes despite writing off \$1.3billion worth of debt because of the credit crisis.

Bhavin Dhanani

Banking Bites

Citigroup, Bank of America and JP Morgan Chase set up a fund worth up to \$100bn that is designed to boost liquidity and confidence in the money markets.

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Northern Rock's shares fell further due to shareholder uncertainty over the benefits of a takeover. Its Chairman,

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Following the recent success of RBS's takeover of ABN Amro, Carlsberg and Heineken are considering a cross border bid for the UK's biggest Brewer, Scottish & Newcastle.

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Swedish telecoms maker Ericsson's share price sank 24% after reporting profit warnings that would wipe out a quarter of the years profits.

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Oil prices increased to a record high, approaching \$90 a barrel closing at \$88.60.

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JJB Sports bought a 10.1% stake in Umbro, while Sport Direct owns 15%. Nike is also said to be interested in buying out the company.

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IMF has warned Central Banks around the world to stay focused on inflation during times of market turbulence.

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Carl Icahn a veteran activist investor who owns a stake in BAE systems has been pushing for a sale after BAE board rejected a \$6.7billion offer from Oracle.

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DP World, the Dubai ports operator, is hoping to raise \$4billion valuing the company at \$20billion, via the Middle East's largest IPO.

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The Dollar fell to a new lifetime low against the Euro amid prospects of further US interest rate falls.

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