

# Strictly BIF

## Quarterly Earnings Released

Bhavin Dhanani

**Four** of the big US banks have released 3<sup>rd</sup> quarter figures recently. After the turmoil in the financial markets, many investors were feeling nervous about the results.

Citigroup, the biggest bank in the US had a quarter they would like to forget. Net earnings fell 57% on a year earlier 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 per share on the day, but

by the end of the week it was down to \$42.36 its lowest level for 2 years.

Next came the nation's second largest bank, Bank of America. They, like Citigroup, had a tough quarter and announced a significant fall in earnings of 32%, which hit its share price by over 9% the week.

JP Morgan Chase & Co, despite the instability in the financial markets had a decent 3<sup>rd</sup> quarter, experiencing a 2% rise in earnings.

This rise comes despite the bank writing off \$1.3billion worth of debt.

Last week was the turn of Merrill Lynch and things took a dramatic turn for the worse. Merrill announced a pre-tax loss of \$3.5billion, due to an \$8.4billion write-down of debts. The announcement of its results brutally hit the share price, which fell 6%.



Citigroup Centre at Canary Wharf

## Black Monday Anniversary

Phillip Butler

### Market Change Winners, Losers

- FTSE Real Estate Index has fallen 32% over the course of 2007 and is expected to sink lower by 2008.
- The Federal Reserve Board (US) meets this week and is expected to cut borrowing costs further despite the 0.5% cut made in September because of decreasing market liquidity.
- September mortgage approval figures will be scrutinized by The Bank of England this week for signs of a slowdown.

Company	Price	Change
Home Retail (Retail)	423¾p	13.5%
Debenhams (Retail)	115¼p	13.3%
Cairn Energy (Energy)	2463p	13.1%
Bradford & Bingley (Banking)	291¾p	13.0%
Anglo Irish (Banking)	11.45p	-5.1%
British Energy (Energy)	538p	-7.1%
DCC (Business Support)	18.45p	-7.2%
Charter (Communications)	1090p	-9.3%

Last week saw the 20th anniversary of Black Monday. Black Monday (Monday October 19th 1987), as a brief reminder, had the largest one day percentage decline in the history of the stock market. The Dow Jones Industrial Average (DJIA) fell 508 points to 1739, a massive 22.6%, Hong Kong collapsed a staggering 45.8% and the UK plunged 26.4%.

With the current market turbulence, soaring oil prices, US economy growth concerns and the credit crisis, some feared a re-run of the disaster that occurred two dec-

ades ago. However the major US stock markets made a positive contribution to the days trading, closing up by the end of Monday. This was mainly a result of good earnings news from technology firms including Apple. Volatile trading did occur on Monday, with Asian stock markets falling a couple of percent, catching up with the US decline on Friday. European markets also saw a marginal decline from investor cautiousness, but nothing on the scale expected by pessimists.

## 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 or below BB according to Standard and Poor's. The bond's high risk is offset by its high yield coupon.

During the 1970s Michael Milken demonstrated junk bond portfolios would provide a higher yield than investment grade portfolios.

Junk bonds, despite being subordinate to other forms of lending, have a claim on assets and are tax exempt.

The role of junk bonds in takeovers changed during its history, from providing the "mezzanine" level financing to constituting the entire bid enabling the bidder to bypass expensive bank loans.

The market collapsed in 1990, 1997 (Asian debt crisis) and 1998 (Russia debt default).

## BP Fine Pumped Bhavin Dhanani

British Petroleum was fined a mammoth \$373million last Friday by the US Department of Justice, however its share price closed up 24p at 629p. The share price rallied because earnings and fines were better than initially forecasted.

The bill constituted three separate fines. \$303million for price manipulation in the propane market and \$50million for in-

adequate maintenance, resulting in an explosion in Texas killing 15. Finally, \$20million was for not monitoring pipeline corrosion causing a 4,800 barrel spill.

On Tuesday BP released their 3<sup>rd</sup> quarter earnings which showed a 45% decrease in profits. The fall is largely a result of a decrease in production at refineries. Chief executive Tony Hayward branded the fall as "dreadful".

## Banking Bites

Microsoft surpassed expectations with sales for Vista and Halo 3 exceeding \$1billion in the first quarter. Shares followed suit increasing 16% in the past week.

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Apple's sales of \$24billion meant it broke \$20billion for the first time in its 31 year history.

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Merrill Lynch & Co have been engulfed by rumours, suggesting there will be a change of CEO after this quarter's awful results.

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The biggest UK insurance takeover since 2000 escalated this week when Pearl Group Ltd raised its offer for Resolution Plc to £4.93billion topping Standard Life Plc's bid.

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The Pound weakened against the Euro for the third week running, hinting the Bank of England may lower interest rates.

Industrial and Commercial Bank of China took a \$5.5billion, 20% stake in Standard Bank (Africa's biggest Lender). This is the biggest foreign acquisition by a Chinese company

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The 'Volkswagen law', which has stood for 47 years, has been overturned by the European Court of Justice. This now removes Volkswagen's takeover protection, increasing speculation of a Porsche bid.

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Nike agreed a £285million fee for Umbro, giving it rights to the England national team and 6 premier league teams.

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US housing markets have slumped further with sales of homes down 8% since August and 19% compared to September 2006.

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Microsoft paid \$240million for a 1.6% stake in Facebook.