

## Surge in Oil Prices

Bhavin Dhanani

The price of oil is moving ever closer to \$100 a barrel after an extremely volatile trading week.

Last Wednesday saw West Texas Intermediate hit a record high of \$98.62. Alongside this Brent Crude also reached \$95.19. By close their prices had settled to \$96.32 and \$93.18 respectively.

Since 2002 prices have increased more than four fold and since the turn of the year they have risen 60%.

The major cause of the price rise has been a substantial level of ex-

cess demand. With emerging economies such as India, China and Russia requiring more oil to fuel growth, analysts fear that supply is incapable of keeping pace with demand.

The price of oil and currency demonstrate a negative correlation, the weakness in the dollar is thus raising the oil price. The poor strength of the dollar enables importers to buy commodities priced in dollars at far cheaper rates.

Other factors include the winter effect - as temperatures decrease

the demand for oil increases.

The surge in oil prices has had an effect on drivers in the UK with the average price of unleaded breaking £1 a litre.

Although many feel prices are high at their present levels, they are still below the prices oil reached in 1980. With inflation adjusted values the price in 1980 would have been \$101 today.



UK pump prices reaching highs as the cost of oil approaches \$100, Source: www.bbc.com

## Delta Fail in Sainsbury's Bid

Phillip Butler

After a summer of negotiation, the long awaited Delta takeover of Sainsbury's failed at the last.

With the deal standing at £10.5 billion, Sainsbury's wanted additional funds for their pensions but Delta felt this made the deal too expensive.

Delta were beginning to feel uneasy about the deal; the current credit crisis is making market conditions very volatile, increasing risks. Sainsbury's debt to earnings ratio was already 10:1, so any fluctuations in rates would cause Delta repayment problems.

The market reacted badly to news of the failure; Sainsbury's shares lost 21%, the most since 1988. With the change in share price and high levels of debt, Standard & Poor's is to consider cutting its investment quality rating of Sainsbury's to BBB-, the lowest investment grade rating.

However, aside from takeover distractions, the business is running well with revenues likely to increase by £51million from the same period last year. Despite this the company's high leverage is still impacting its investment quality.

### Markets

- On Wednesday 7th November, stock-brokers within the LSE were left without accurate prices due to a "glitch".
- Inflation figures are expected to show an increase in the Consumer Prices Index from 1.7% to 1.9%. This is mainly attributed to rising fuel prices.
- Sales figures released this week are expected to show a slow down in activity as consumers save for Christmas.
- The Bank of England's quarterly inflation report is released this Wednesday.

### Winners, Losers

Company	Price	Change
Rio Tinto (mining)	5624p	28.8%
Close Brothers (banking)	890p	17.6%
BG (gas)	1005p	12.0%
Anglo American (mining)	3486	11.9%
RBS (banking)	402.75p	-15.3%
Friends Provident (financial services)	148.67p	-16.3%
St James's (financial services)	290p	-21.9%
Sainsbury's (retail)	427.5p	-23.0%

## Company Profile

**Name:** Citigroup inc.

**Share price:** \$33.10

**Business sectors:**

**Global Consumer Group**, investment, insurance and lending products for 200 million customers. Composed of three businesses: Cards, Consumer Finance and Retail Banking.

**Corporate and Investment Banking**, provides investment banking and advisory services, debt and equity trading, institutional brokerage, foreign exchange, structured products, derivatives and lending.

**Global Wealth Management**, personalized wealth management for high-net-worth clients, investment finance and banking services

**Alternative Investments**, private equity, hedge funds, real estate, structured products and managed futures.

**Notable M&A:**

In May 2007, Citigroup acquired Egg Banking plc (Egg) from Prudential PLC.

**Employees:** 332,000

**Revenue:** \$146.7 billion (2006), 54% from Global Consumer Group, 7% from Global Wealth Management, 32% from Citi Markets and Banking and 7% from Alternative investments.

**Net income:** \$21.54 billion (2006)

## Market Cap

Market Cap or Market capitalization is equal to the number of shares of a publicly traded company multiplied by its share price. Purchases and sales of stock affect share prices and thus market cap is a good measure of public opinion of a corporation.

The values are categorised into Micro-Cap, Small-Cap, Mid-Cap and Large-Cap (blue chip). The figures range from values under \$250 million to values over \$10 billion.

The top 10 companies (Oct 2007) by market cap:

Exxon Mobil (oil) \$526 billion

PetroChina (oil) \$433 billion

General Electric (cars) \$420 billion

China Mobile (telecoms) \$382 billion

ICBC (Insurance) \$382 billion

Altria (tobacco) \$331 billion

Microsoft (software) \$291 billion

Gazprom (oil) \$278 billion

Royal Dutch Shell (oil) \$273 billion

Sinopec (oil) \$270 billion.

Due to the current economic climate with high oil prices it is of no surprise that 50% of the largest companies, when listed by market cap, are associated with fuel.

## Another Bites the Dust

Bhavin Dhanani

**Three** weeks ago Citigroup announced a 3<sup>rd</sup> quarter earnings decrease of 57% and additional write downs of up to \$11 billion. Last Sunday the Citigroup chairman and Chief Executive Officer Charles (Chuck) Prince stepped down from his position.

He became the second chairman of a high profile bank to leave his post following Stanley O'Neal's departure from Merrill Lynch last week. Prince, like O'Neal, is receiving a more than healthy leav-

ing package. The bank revealed Prince's severance payout could reach \$95 million. He owns \$53 million in shares and is set to receive a further \$30 million in equity, share options and pension entitlements. Furthermore, Prince has access to an incentive bonus which is based on equity performance and is currently worth an estimated \$12 million.

Robert Rubin, a former treasury secretary, has been named as the Citigroup's new chairman.

## Banking Bites

General Motors has announced a \$39 billion net loss in its third quarter, mainly due to tax credit write downs.

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PetroChina became the worlds most valuable company this week after a partial flotation, at one point the company was worth \$1trillion.

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TomTom has raised its offer for Tele Atlas by 41% to \$4.2billion following Garmin's entry into the bidding last week.

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Silver and Platinum reached a 26 year high this week partly helped by the weakness of the dollar. Gold is near its lifetime high.

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IAC, InterActiveCorp, owner of Ticketmaster, has decided to spin off 4 divisions in order to refocus on its fastest growing businesses such as Ask.com

To calm down the rampant Chinese economy, which grew 11.5% in the third quarter, banks are now required to set aside 13.5% of reserves, curbing excessive loan growth.

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Visa has filed to raise a massive \$10 billion, making it the largest IPO (Initial Public Offering) in the world this year.

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Mervyn King, governor of the Bank of England, stirred the Northern Rock situation further by commenting that the government did not act quick enough.

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Northern Rock is seeking a buyer, with Asian banks rumored to have been contacted.

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Morgan Stanley expects more misery in the fourth quarter as earnings could further shrink \$2.5billion due to further US subprime mortgages exposure.