

Going Once, Going Twice...

Bhavin Dhanani

Friday saw the deadline for any bidders for the troubled bank, Northern Rock, to make their proposals. It is believed that around eight heroes await to rescue the bank. Virgin Group and Olivant Advisors confirmed they have made proposals. Other potential suitors include ING, and private equity groups, Apollo and JC Flowers.

Virgin Group proposed a repayment of a "significant amount" of the money borrowed from the Bank of England. They would also

drop the Northern Rock name in favour of Virgin. Meanwhile, Olivant Advisors would keep the brand, but proposed a "prompt repayment" of its borrowing. Rock has currently accumulated a debt of £24billion, but this figure could reach £30billion.

Friday also saw the resignation of the Rock's chief executive Adam Applegarth and three other board members, David Baker, Keith Currie, and Andy Kuipers. All have stepped down, but will remain involved with the bank. Four

non-executive directors, Derek Wanless, Nichola Pease, Adam Fenwick and Rosemary Radcliffe, have resigned with immediate effect.

Since Northern Rock revealed it borrowed from the Bank of England on September 14th, shares have fallen by 79%. Its share price closed this week at 132.6p, valuing the company at £559million.



The rush on Northern Rock after it announced borrowing from the Bank of England

Bank Releases Inflation Report

Phillip Butler

This week saw the release of the Bank of England's latest inflation report. The announcement occurs quarterly and gives analysts and investors a look in to the reasons behind the current interest rates.

Described as a 'gloomy report', Mervyn King, the Bank's governor, outlined several issues that have affected interest rate decisions in the past few months and possible decisions in the future.

According to the report the credit squeeze will hit the UK economy hard

early next year causing equity prices to fall further and increase risks in the currency market.

Also predicted are two interest rate cuts in 2008 aimed at keeping inflation on target at the 2% level. The governor has not ruled out a UK recession, fall in house prices, reduction in consumer spending or an increase in unemployment.

This leaves the MPC, Monetary Policy Committee, in the difficult situation of rising inflation and slower growth, also known as stagflation.

Markets

Winners, Losers

- Over the last 3 months, some of the worst in history, the FTSE 100 and FTSE 250 have risen 6% and 8% respectively.
- This is despite the first bank run in over 100 years, the resignation of multiple investment bank CEOs, stagnant house prices, stagnant retail sales and a 25 year oil price high.
- Due to the above the Bank of England is expected to cut interest rates in December after the credit crisis hits markets fully (the delay attributed to the credit crisis is between 3 and 6 months).

Company	Price	Change
Johnston Pr (consulting)	287p	11.3%
Morrison (utility services)	283.5p	7.1%
Vodafone (telecoms)	191.3p	6.7%
Thomas Cook (travel)	291p	6.3%
Michael Page (recruitment)	318.25p	-10.4%
Anglo American (mining)	3086p	-11.5%
Invensys (technology)	246.5p	-12.3%
Charter (communication)	922.5p	-14.6%

Company Profile

Name: HSBC Holdings PLC.

Share price: 844.00p

Business sectors:

Personal Financial Services, retail banking, current accounts, consumer and property loans, savings, insurance and pensions

Commercial Banking, financing, factoring and cash management

Corporate Markets, advice to businesses in M&A, joint ventures and capital-intensive partnerships

Investment Banking, investment and trading in world markets

Private Banking, asset management for high net worth individuals

Notable M&A:

October 4, 2006, acquired Solstice Capital Group Inc, mortgage financier

Customers: 125 million

Employees: 312,000

Sales: 58% personal financial, 18% corporate and investment banking, 16% commercial banking, 4% private banking and 4% other

Revenue: \$70.1 billion (2006)

Stagflation

Stagflation is a contraction of the two words, stagnation and Inflation. It was first attributed to Chancellor of the Exchequer Iain MacLeod when he addressed parliament in 1965.

The condition describes a period of slow economic growth with high unemployment, hence the economy stagnates, and a rise in prices, hence inflation. Stagflation occurs when the economy fails to allocate goods and services efficiently, and is normally triggered by exogenous (unexpected) factors.

Stagflation occurred in the 1970s when oil prices rose dramatically, prompting sharp inflation in the more economically developed countries.

Success against stagflation occurred when Federal Reserve chairman, Paul Volcker sharply increased interest rates to reduce the money supply in 1979.

More Sub-Prime Woes

Bhavin Dhanani

Last week saw two of the three big British banks reveal their sub-prime third quarter losses. HSBC and Barclays both fell victim to the credit crunch. but then again who hasn't?

On Wednesday, HSBC disclosed it has written off \$3.4billion worth of bad debts. Despite this, an increase in revenues has compensated for the bad debt loss, and profits in the third quarter

will be higher than the previous year, according to the bank. HSBC's share price closed this week up at 844p.

On Thursday, Barclays announced that losses of \$1.64billion in its investment banking arm, Barclays Capital. However, strong trading is expected to offset the losses incurred. Rumours were circulating the bank was expecting a loss of around \$10billion. Barclays' share price ended the week at 533p.

Banking Bites

China has been urged to revalue its **currency** by **EU** and **US** finance ministers and bank governors with the aim of reducing **China's** huge **trade surplus**.

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The rising cost to protect company debt has led **Moody's** to put \$500m worth of investments on **downgrade review**.

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BHP Billiton, the world's largest mining company, has pledged a \$30bn share buy back if its takeover of **Rio Tinto**, the number three in the industry, is a success.

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EU antitrust regulators are investigating **Google's** \$3.1bn bid for **Double Click**, an online advertising company, after fears arose about competition.

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John Thain, chief executive of the **NYSE Euronext** has agreed to take the vacant CEO position at **Merrill Lynch**.

Wal-Mart's third quarter profits beat expectations reaching **\$2.9billion** on sales of a staggering **\$91billion**.

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For the first time in at least a decade the **worlds biggest financial institutions** are paying more to borrow in the **bond market** than industrial companies.

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Resolution Plc, the UK's biggest manager of closed life insurance funds, has agreed to a \$10.2billion takeover by **Pearl Group Ltd**.

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IBM has made its biggest acquisition, a \$5billion purchase of **Cognos**, a Canadian business intelligence software maker.

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Vodafone beat analysts expectations by announcing six monthly profits of **£3.3billion** after growth in **Turkey and India** was faster than expected and an increase in revenues from European data services.