

Interest Rates Finally Cut

Bhavin Dhanani

Thursday saw the Bank of England decide to cut the base rate by 25 basis points to 5.5%, a welcome relief for homeowners. This was the first decrease in interest rates for two years.

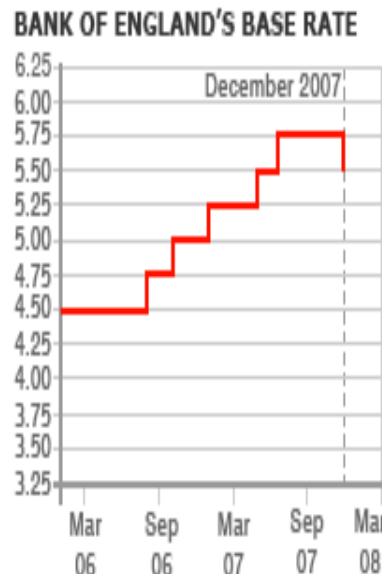
The decision was expected by experts after figures were released that proved the credit crisis was having an impact on the UK economy. One of the biggest drivers for the rate cut was a fall in consumer confidence. Nationwide stated that consumer confidence fell by its largest amount in a single month since its survey began in 2004. Evi-

dence was also presented that demonstrated house prices have been falling recently. According to Halifax house prices were down 1.1% in November. Another key reason for the rate cut is the accelerating LIBOR which is feared to have a large impact on consumer and business lending.

Before the statistics were released many felt the rates would stay put for the time being as a result of rising oil and food prices. However it seems the Bank of England has cut rates to prevent a complete economic slow down.

Many experts feel the rate cuts are not over. Many believe that two more cuts are planned for 2008 in an attempt to encourage investment and spending to get the economy moving forward on target.

Meanwhile the European Central Bank held base rates constant despite inflation being at a six year high. At present inflation in the eurozone stands at 3%, significantly higher than its 2% target.



Bank of England Base Rates cut in December. Source bankofengland.com

RBS Take a Sub-prime Hit

Phillip Butler

RBS is the last of the UK's big three banks to announce losses after the summer's credit squeeze.

£1.5bn has been set aside by the company, which is not only lower than investors feared, but lower than its UK rivals. Barclays and HSBC each set aside £0.2m and £0.65m more respectively.

£300m of the write-down is from the newly acquired ABN Amro business and a further £250m from accounting gains from revaluing debt. This places the losses under the £1bn mark, substantially better than its rivals.

RBS has also announced high expectations of achieving their yearly profit targets. This boosted investors' expectations lifting the share price up 12.75p. However the share price is still down 25% on the year showing that RBS has got a distance to go before it reaches the heights of early 2007.

Heavier losses were avoided by RBS because they packaged and sold their sub-prime debt rather than holding it. Conversely, Citigroup, which made the biggest loss in the market, held the debt and ended writing off £4.0 - £5.5bn.

Markets

- Trade figures are released this week and are expected to show that the credit crunch and weakening of the dollar has harmed UK exports. This is expected to cause a larger current account deficit in 2008.
- This Tuesday also sees the final figures that the new quarterly FTSE 100 will be based on and it is expected seven companies will be entering the stock exchange.
- The FTSE 100, Dow Jones and Nikkei all saw this week. The FTSE 100 closed only 200 points from its 52 week high.

Winners, Losers

Company	Price	Change
Signet (jewellery)	68.75p	10.0%
Cairn Energy (energy)	2528p	7.6%
Xstrata (mining)	3656p	6.9%
British Land (investors)	975p	6.1%
Cookson (materials)	686p	-7.9%
Hays (recruitment)	114.5p	-10.0%
Emap (navigation)	746.5p	-10.2%
Mitchells (brewery)	507.5p	-12.0%

Company Profile

Name: Royal Bank of Scotland Group

Share price: 483.5p

Business sectors:

Corporate Markets: Global Banking & Markets and UK Corporate Banking

Retail Markets: Divided into Retail Banking and Wealth Management

Ulster Bank: Banking and financial services for Irish customers

Citizens: US Commercial and Personal Banking

RBS Insurance: Provides insurance in UK, Spain, Italy and Germany through Direct Line, NIG, Churchill Privilege and Green Flag

Manufacturing: Customer and Operating Divisions support

Notable M&A:

Recently acquired ABN Amro in October 2007 as leader of a banking consortium. RBS will take Wholesale and Corporate banking, Asian and some European operations

Employees: 135,400 (2007)

Sales Revenue: Business banking and Financial markets 33%, insurance 21%, Retail Banking 20.5%, Citizens 12%, Online Retail Banking 7%, Ulster Bank 3.5%, Wealth Management 3%

Total Revenue: \$54.8 billion (2006)

Overheating

Overheating is attributed to an economy where aggregate demand exceeds supply. An overheated economy is characterised by substantial economic growth at an often unstable rate.

Resources are often over employed to meet high demand; they are used beyond their capabilities in an unsustainable manner.

With a rapidly growing economy a shortage of workers occurs and the average wage increase, this increases the money consumers have, thus a greater demand for goods and services. Investments are not providing output at the same rate that demand is increasing and thus there is an increase in imports to combat this, which alters the current account of the nation.

Since services are not imported when demand increases, the price goes up and thus inflation occurs.

Finally investment is increasing in this period of growth to capitalise on strong demand, bank lending thus increases.

Therefore the three signs of overheating are changes in nation's current account, credit lending and country inflation.

China to Cool it

Bhavin Dhanani

The Chinese central bank has announced that commercial banks must increase their reserves in an attempt to cool the booming economy.

From Christmas Day banks must allocate 14.5% of deposits into reserves, a 1% increase on the current figure. In 2007 this figure has been increased on ten occasions. On each of the previous nine the figure rose by 0.5%. The move will result in \$51 billion leaving the banking system.

The People's Bank of China said "the increase is in line with a tightening monetary policy." Inflation has been highlighted as a problem for the Chinese economy in 2008. In October inflation stood at 6.5% according to the CPI. This has been down to rising labour, food and energy prices.

The central bank has raised interest rates five times this year, and it is likely more rises are on their way.

Banking Bites

Morgan Stanley chief operating officer, **Jonathan Chenevix-Trench**, has quit, adding to the **credit crisis** casualty list.

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Famous Investor Warren Buffett, could overtake Bill Gates as the world's richest man this year, according to Forbes.

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US private equity group **JC Flowers** has walked away from the **Northern Rock** bid unless the parameters of the deal are changed by the **Treasury** or **Northern Rock**.

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Plans to freeze the sub-prime interest rates have been set by **US** president **George Bush**, with the hope to stabilise the desperate **US** housing market.

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Following higher than expected job growth in the **US**, the **Dollar** rose to a one month high against the **Yen**, reducing **US recessionary** concerns.

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Japan's growth has not reached expectations in the third quarter of **1.5%** against **2.6%** predicted.

The Pound fell against all 16 most traded **currencies** following the announced **interest rate** cut.

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Chinese Insurance group **Ping An** is chasing **AIG**, the **American Insurance** group, for the world's second largest insurer spot. **AIG** collects more premiums in a month than **Ping An** does in a year but **Ping An** shares trade at roughly four times **AIG's**.

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Credit Suisse and **Morgan Stanley** have signed agreements for joint ventures in China, after an imposed two year ban because **China** feared foreign domination when **Goldman Sachs** and **UBS** signed agreements.

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British high street banks have discarded a **new banking code** aimed at removing age discrimination for credit. **Banks** argued that age related factors are hugely important when issuing credit.

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Shares in **China Railway Group** ended up 27% and 69% after debut listings on the **Hong Kong** and **Shanghai** stock markets.