

MPC Have Real Decisions to Make

Bhavin Dhanani

The Bank of England last week released its quarterly inflation report which revealed that the Monetary Policy Committee (MPC) faces a real headache. With rising inflation and slow economic growth, interest rate decisions will be tough for the MPC this year. Governor of the bank Mervyn King said, he faces "a difficult balancing act".

According to the report the central bank is anticipating that the economy will grow by less than 2% this year, significantly lower than the 3% growth experienced in 2007. Mr King said the chance of a recession

is likely but a severe downturn does not seem to be on the cards.

The report also stated that inflation could rise to around 3%, much higher than the target of 2%. If inflation does reach 3%, Mr King would have to write another letter, his second in a year, to Alistair Darling (Chancellor of the Exchequer) explaining the causes. Mr King stated that rising food and energy prices along with the effects of the credit crunch have contributed to the steady rise in prices.

With these two macro-

economic indicators going the wrong way the MPC are in a pickle. The interest rate cuts that the market expects may just be a dream at the moment.

In addition Mr King also predicted that house prices will level off and stay constant for a while. A pessimistic market has led to the highest number of surveyors reporting house price falls since 1992. Goldman Sachs has predicted a 5% fall in house prices this year.



Mervyn King the Governor of the Bank of England could face his second policy letter in a year.

Give Credit to Suisse

Phillip Butler

A complex week saw the two largest Swiss banks, UBS and Credit Suisse release their yearly figures, amidst much market anticipation.

Both have been caught up in the sub prime chaos but Credit Suisse has gained the upper hand over UBS in the latest round of quarterly and yearly profits announcements.

UBS headlined on Thursday by announcing \$11.3bn losses for the fourth quarter leaving there 2007 full year figures \$4bn in the red; the first time a loss has been recorded in a decade (since 1998) for Europe's largest bank. To make matters worse, Credit

Suisse, it's smaller Swiss rival, only announced write-down's of \$1.18bn in the fourth quarter retaining full year net profits of \$7.7bn. Credit Suisse is now one of the few financial companies to announce full year profits for 2007.

UBS also increased its sub prime worries through an announcement of a \$26.6bn exposure to new sub prime loans which were previously unknown.

Credit Suisse has certainly taken the upper hand and must be hoping to build on this in 2008 whilst UBS must restructure and rebuild to regain the top perch as the leading Swiss bank.

Markets

Winners, Losers

- For 2007 12 companies moved from the Aim listing onto the FTSE. With tighter regulations and listing controls the FTSE still possess the ability to increase the shareholder base of a company. An increased number of firms are expected to make the jump this year.
- The FTSE 100 barely changed on the week only up 0.06%, the Dow Jones rose 1.36% and the Nikkei was the biggest winner increasing over 4.6% on the week.
- Results for mortgage lending figures are expected this week from the Association and council of mortgage lenders.

Company	Price	Change
Hochschild (Mining)	429.5p	13.7%
Ladbrokes (Gambling)	329p	11.1%
IMI (Engineering)	407.5p	11.0%
British Energy (Energy)	545p	10.7%
Firstgroup (Travel)	605.5p	-8.1%
A&L (Financial Services)	525p	-13.5%
Go-Ahead (Transport)	1840p	-16.9%
B&B (Financial Services)	176.25p	-27.5%

Company Profile

Name: Banco Santander

Share price: €111.62

Business sectors:

Retail Banking, across 10,000 branches it offers retail banking to 63million customers. Operates in continental Europe, Latin America and the United Kingdom

Asset Management and Private Banking, consists of managing mutual funds, national & international private banking and insurance

Global Wholesale Banking, Corporate Banking in Spain, Europe and New York. Also includes the global investment banking arm

Notable M&A:

October 2007, succeed as part of RBS consortium in ABN Amro acquisition, taking all Latin American operations and Italian bank Anton-venta

Employees: 131,819

Sales Revenue: Retail banking 82%, Asset Management, Wholesale & Private banking 18%

Total Revenue: for the fiscal year 2007 net interest income increased 23% to €15.29billion. Net profit €9.06 billion after write-downs

"W" Recession

The recent US government help package for its economy is sparking fears of a double dip recession. There is little doubt that fiscal policy will provide much needed help to an economy in trouble, but "W" recession could result.

When an economy slips between positive and negative GDP growth it exhibits this recessionary state. The shape of the graph of GDP against time would demonstrate an increase from a few quarters of negative growth to positive growth and then back to negative again. The causes are normally a reduction in demand for goods and services due to spending cutbacks. The new deflationary state is even harder to rectify.

Figures from spring to summer, when the benefits kick in, may show the economy is healthy but the period after is the problem. The poor state of the markets especially in housing will result in more recessionary pressures. The housing crisis which started the problems will benefit from the tax rebates but \$1,200 is very little towards an average mortgage.

Stimulus to Avoid Recession

Phillip Butler

On the 13th of February George Bush put pen to paper signing a fiscal stimulation package worth up to \$168bn.

The finance is in the form of tax rebates for households and temporary investment incentives for businesses. The package aims to defend the US economy against a looming recession. The US has already exhausted the use of monetary policies by reducing interest rates to 3% over the past couple of weeks. With

fears of a downturn in the economy rising, controversial fiscal stimulus is now being tried to encourage spending and investment.

The package is viewed as controversial because it could lead to stagflation and an increase in the country's debt levels. Other fears include the possibility of a 'W' shaped or double dip recession.

The US government has acted as quickly as possible in trying to limit the worst of any recession.

Strictly Bites

Bradford & Bingley, the former building society, reported a 49% decrease in profits of £126 million in 2007.

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Morgan Stanley has said it intends to cut **1000 jobs** from its mortgage business. It will also shut its UK **sub prime** home loan division.

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The German government has come up with a £1.1 billion bailout of **IKB**, another victim of the global credit crunch.

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Barclays is mulling over whether to purchase a controlling stake in the **Russian** retail bank **Expobank**.

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Chairman of the **Federal Reserve**, **Ben Bernanke**, has said he will act "as needed" to fight a **recession** in the US.

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The **Japanese** economy grew at an annualized **3.7%** over the last quarter of 2007. The **Nikkei** also increased by **4.3%** on the 14th February, its largest for six years.

FGIC has become, the first **bond insurer** to be downgraded by the trio of **Moody's**, **Standard and Poor's**, and **Fitch Ratings**. **Warren Buffet** announced he offered to reinsure the three struggling **bond insurers'** portfolios (**Ambac**, **MBIA**, **FGIC**) for \$800bn.

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SRM Global increased its stake in Northern Rock to 10.8%. They along with **RAB Capital** and **Legal & General**, almost have a blocking stake to any **Virgin Group** bid.

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Yahoo! is attempting to strike a deal with **AOL** to prevent it being acquired by **Microsoft**. **News Corp** is expected to join the bidding soon driving **Yahoo's** price up.

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UBS has hired **Jerker Johansson** from **Morgan Stanley** to lead its **investment banking** division.

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The strong **Euro** pushed the **euro-zone** into a trade **deficit** in December last year.

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Citigroup has injected **£51mn** into a **hedge fund** and barred investors from withdrawing from another.