

PRESS DIGEST

23 August 2010 to 27 August 2010



[Note – the details contained in this press digest have been drawn from a review of the Financial Times and the Economist]

Key prices at the beginning and end of the period taken from the Financial Times newspaper.

	End 27 August	Start 23 August	Wk's % Change	Wk's Change
FTSE 100	5,201.56	5,195.28	0.12%	6.28
Dow Jones Ind. Average	10,125.75	10,196.59	-0.69%	-70.84
Brent Crude \$ Sep	75.17	74.43	0.99%	0.74
Gold \$	1,240.75	1,226.75	1.14%	14.00
Currencies				
\$ per £	1.547	1.551	-0.26%	-0.004
\$ per €	1.272	1.269	0.24%	0.003
€ per £	1.217	1.222	-0.41%	-0.005
Interest rates				
UK Gov 10 year yield	2.90%	2.98%		-0.08%
US Gov 10 year yield	2.65%	2.58%		0.07%
UK 3mths	0.73%	0.73%		0.00%
US Fed Funds Eff	0.19%	0.19%		0.00%

Economic Backdrop

As fears about the outlook for the **US economy** continue, investors bought government bonds and gold, and equities fell, though the DJIA and S&P 500 recouped some ground at the end of the week.

At the Central Bankers' conference in Jackson Hole, Wyoming, Mr. Bernanke said the US recovery had softened more than expected, but the central bank was ready to take further steps if needed. On Friday, US second-quarter GDP growth was revised down to 1.6% from the original estimate of 2.4%: however, this was better than the expected figure of 1.4%. The number of initial jobless claims fell for the first time in a month, with the number of people starting to claim unemployment benefit last week dropping by 31,000 to 473,000. Sales of existing homes in America plunged to their lowest level in more than a decade, down 27.2% in July compared with June. Sales of new homes also plummeted to a record low since figures were first kept in 1963. Both declines were worse than had been expected, and follow the expiry of a tax credit for homebuyers

Next week brings the release of two closely-watched US economic indicators – the non-farm payrolls report and the Institute for Supply Management's survey of manufacturing activity.

In **Europe**, investors switched out of peripheral eurozone debt as sovereign concerns returned to the markets. The yield spread between Irish and German 10-year yields hit a record after

Standard & Poor's downgraded **Ireland's** sovereign rating, while the Greek-German spread rose again above 900bp. However, **Portugal**, one of Europe's troubled economies, raised €1.3 billion (\$1.6 billion), with bids nearly double the amount on offer. The European Central Bank reported on Monday it had stepped up purchases of eurozone government bonds last week, which revived speculation the ECB had intervened in Irish bond markets. The composite eurozone purchasing managers' index, covering manufacturing and services, fell from 56.7 in July to 56.1 in August, a two-month low. Excluding Germany and France, the indices showed growth was extremely modest in August and weaker than in July. The purchasing managers' indices are regarded as an early indicator of business trends, and the latest readings contained some hope of growth continuing at a brisk pace, even if the US economy slows. But they intensified worries that the region will be marred increasingly by weaker growth in the peripheral eurozone countries such as Spain and Greece, where fears remain over the stability of public finances

Gold benefited from the rise in broad investor risk aversion: it reached an eight-week high above \$1,240 an ounce.

Mergers and Acquisitions

3PAR, a data-storage firm, finally accepted **Dell's** second offer of \$24.30 a share, cash, just above Hewlett-Packard's offer of \$24, valuing the company at \$1.6bn, net of the company's cash. Dell believes that 3PAR's superior utility storage solution will enhance its position in cloud-based storage applications.

Intel, the world's largest microchip-maker, said it would buy **McAfee**, a maker of security software, for \$7.7 billion. The deal is Intel's largest effort yet to diversify away from making computer chips. It is also a bet that security needs to be incorporated into hardware to combat future threats.

Campbell's, the American maker of tinned soup, has emerged as a potential bidder for **part of United Biscuits**, which manufactures Jaffa Cakes.

Robert Swannell, the investment banker who helped defend **Marks and Spencer** against a bid from Sir Philip Green in 2004, was confirmed as the next Chairman of the group.

Half-year net profits at **WPP**, the world's largest advertising company, rose 39%. The firm said ad revenues were rising in all big markets, though it admitted to some "uncertainty" about the prospects for Europe and America.

Financial Institutions

HSBC entered into exclusive talks to buy a controlling stake in Nedbank, South Africa's fourth-largest bank by assets. Anglo-South African insurer Old Mutual, which owns 52% of Nedbank, is thought to be trying to sell its stake. HSBC has to balance its desire to do the deal with its unwillingness to overpay for shares that are already close to their year high. It has two months' exclusivity to formalise an offer.

Crédit Agricole, France's biggest retail bank by number of branches, reported a doubling of first-half net profit as resilience in domestic banking offset international losses, driven by continued problems at its Greek banking subsidiary. The mutual banking group was forced to make a €418m goodwill impairment charge at Emporiki, its Greek bank, in the three months to the end of June. This followed last year's €485m goodwill writedown.

Royal Bank of Canada, Canada's biggest financial institution, reported an 18% drop in Q2 earnings, as net income from its capital markets division tumbled by almost two-thirds, mainly due to trading of European sovereign debt. This was offset by improved performance in its core Canadian banking business and its global wealth management arm.

The **Financial Services Authority** fined **Société Générale** £1.6m (\$2.5m) for inaccurately reporting trades to British regulators. According to the FSA, the French lender misreported 80% of its trades over a two-year period.

The UK insurance arm of **Zurich Financial Services** has been fined a record £2.275m for losing the personal details of 46,000 customers, including in some cases bank account and credit card information. The fine, the highest ever paid by a single UK company for a data protection failing, stems from an August 2008 incident in which an outsourcing company in South Africa lost an unencrypted back up data tape.

Credit

Standard & Poor's downgraded **Ireland's** public debt by one notch, citing the cost of bailing out Anglo Irish Bank. The ratings agency estimates the bail-out will cost the country up to €50 billion (\$63.5 billion), though Ireland has protested at the downgrade, arguing that S&P's analysis is "flawed". The agency forecasts debt will peak at 137 per cent of gross domestic product compared with 97 per cent estimated by the Irish government. S&P also warned that the cost of recapitalising the country's banks would rise to €50bn (\$63bn, £41bn) – more than twice government predictions.

International banks used a record amount of **Spanish government bonds** as collateral to borrow money in the markets this week, showing that confidence has risen for an improvement in Spain's economy. Another reason for the increased willingness of banks to accept Spanish bonds as collateral is that LCH.Clearnet launched clearing services for Spanish government bonds on 9 August. LCH.Clearnet and Eurex provide central counterparty facilities that cover potential losses in loan defaults. Spain is the fourth largest economy in the 16-country single currency bloc.

Other

European bank regulators have overhauled their **guidelines on industry stress testing** for the first time since 2006, after last month's tests on 91 European institutions were criticised for not being tough enough. On Thursday they published a detailed blueprint of how European lenders should identify and manage risk following a three-month public consultation. In contrast to July's one-off examinations of leading European banks, the new guidelines are designed to be applied by regulators day by day.

Bob Herz, chairman of the **US Financial Accounting Standards Board**, announced that he is to retire, two years earlier than expected. This means the top two positions in global accounting are now up for renewal. A search is already on for a replacement for Sir David Tweedie, head of the **International Accounting Standards Board**, who is due to retire in 2011.

The **Financial Services Authority** released a discussion paper to try to stop banks from exploiting differences in the amount of capital they have to hold against losses in their trading and banking books. The Basel Committee on Banking Supervision has already imposed higher capital requirements for proprietary trading, that will come into force at the end of next year, but the FSA argues more changes are necessary.

Calendar

Tuesday 31 August –

USA- Consumer Confidence/ FOMC Meeting 31 Aug Minutes

Wednesday 1 September

USA – ISM manufacturing

Thursday 2 September

Eurozone GDP

Friday 3 September

USA Unemployment Rate/ Non-farm payrolls.