

PRESS DIGEST

30 August 2010 to 3 September 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 3 September	Start 30 August	Wk's % Change	Wk's Change
FTSE 100	5,428.15	5,201.56	4.36%	226.59
Dow Jones Ind. Average	10,447.93	10,150.65	2.93%	297.28
Brent Crude \$ Oct	74.60	75.17	-0.76%	-0.57
Gold \$	1,251.24	1,240.75	0.85%	10.49
Currencies				
\$ per £	1.544	1.551	-0.45%	-0.01
\$ per €	1.286	1.269	1.34%	0.02
€ per £	1.200	1.222	-1.80%	-0.02
Interest rates				
UK Gov 10 year yield	3.01%	2.98%		0.03%
US Gov 10 year yield	2.71%	2.58%		0.13%
UK 3mths	0.67%	0.73%		-0.06%
US Fed Funds Eff	0.19%	0.19%		0.00%

Economic Backdrop

Global equities finished the week higher and bond prices lower, after better than expected data from **the US**. The US employment report for August revealed that private sector hiring rose by 67,000 (against a forecast gain of 41,000), and the non-farm payroll report also showed that the number of people employed fell less than expected. However, the US economy is not growing sufficiently fast to create enough jobs to bring down the unemployment rate, which rose to 9.6% from 9.5%.

When news came that the Institute of Supply Management (ISM) index of national service activity had fallen from 54.3 in July to 51.5 in August, which was worse than expected, this added confusion to the markets and limited the gains in equities and falls in bonds.

In **Europe**, the ECB left its key lending rate at 1%, and extended its emergency support for eurozone banks until early in 2011.

Gold soared at one point to about \$1,250 an ounce, more than \$100 higher than levels of only 3-4 years ago, and up 12% since the start of 2010, reflecting the uncertainty of investors as to the direction of global economies; silver prices have also hit their highest levels since March 2008. The price of wheat, corn and other cereals rose again after Russia said it would extend its grain export ban and global meat prices have hit a 20 year high.

Mergers and Acquisitions

Although **Dell** made a revised offer last week for **3PAR**, a data-storage firm, the board of 3Par finally decided to approve **HP's** offer of \$33 per share.

Sanofi-Aventis, the French pharmaceuticals group, reiterated its offer of \$69 a share to take over the US biotechnology company, **Genzyme**, and hinted that they would take a hostile offer to shareholders if necessary.

Axa, the French insurance and wealth management company, which is the largest investor in **Goldman Sachs**, reduced its holdings in Goldman by more than half in Q2.

Financial Institutions

HSBC has again warned of the risk of banks leaving Britain if the Commission on Banking went ahead with the recommendation to oblige universal banks to split their high street banking from their investment banking activities.

Royal Bank of Scotland has announced that it will axe another 3,500 jobs on top of the 9,000 job losses last year, taking to nearly 27,000 the number of staff lost in 2 years. It is also looking into the disposal of its Direct Line car and home insurance business.

JP Morgan is to close the commodity trading unit that trades with the bank's own money, to comply with the "Volker Rule", which bans proprietary trading and limits the capital that banks can put into in-house hedge funds.

Anglo Irish Bank, which was nationalised last year, has revealed that it could need a further €1.5bn to €2.5bn in state aid. This is on top of the €22.9bn it has already received from the government to maintain minimum capital requirements. However, the Chief Executive said that the bank would not need the €35bn, estimated by Standard and Poor's when it downgraded Ireland's long term government debt last week.

Other

European governments reached agreement last week on reform of financial supervision in the EU, involving the creation of a **European Systemic Risk Council**, to assess threats to regional financial stability, and the establishment of three watchdogs, covering banking, insurance and securities markets, respectively. Under the deal, the European Central Bank president will chair the ESRC for the first five years, and there will be a review of the legislation after three years. The new watchdogs will have no direct supervisory powers, other than for credit rating agencies. Day-to-day supervision of individual companies and markets will remain with national supervisors but the new EU bodies will develop harmonised rules and approaches to co-ordinate their actions. The deal is now likely to be discussed by EU finance ministers on Tuesday and could then be put to the full European parliament later this month. The legislation needs formal approval from both the parliament and member states to allow the new bodies to be up and running by January.

European companies are hopeful they will not be forced to use clearing houses for over-the-counter (OTC) derivatives trades after the European Commission proposed that they be given exemptions from sweeping regulation to clamp down on such markets. Companies use OTC derivatives to manage routine business risks – such as exposure to changes in currency moves and interest rates. Brussels now proposes setting two thresholds that will determine whether non-financial users of OTC derivatives need to use clearing.

The **Securities and Exchange Commission** warned credit rating agencies that it now had the authority to bring fraud cases over conduct outside the US that has "foreseeable effects" in the country. The SEC highlighted the fact that the Dodd-Frank financial reform act, which came into effect in July, now gives federal courts express jurisdiction over enforcement actions outside the US where conduct includes "significant steps or a foreseeable substantial effect" in the US.

Calendar

This week the central banks of Japan, Australia, Canada and the UK hold interest rate-setting meetings.