News

FTSE hangs on amid

BY MATT DICKINSON

THE FTSE 100 Index avoided another bloodbath yesterday amid hopes a rescue of the US financial system could still be on the cards.

Further heavy losses for world markets had been feared after Monday's shock US Congress rejection of the $700 billion (£388 billion) bank bail-out.

But the FTSE closed 1.7 per cent higher – up 83.7 points at 4902.4 – while the Dow Jones Industrial Average recouped a slice of Monday night's 7 per cent fall.

The recovery came after President George Bush vowed to get the Wall Street rescue plan through Congress, warning the consequences would be "painful and lasting" if the deal was not passed.

However, Anthony Grech, a market strategist at IG Index, said it may not take much for market sentiment to turn negative again.

"Expectations are that this bail-out will get rubber-stamped sooner rather than later, but recent events have done nothing for market sentiment so at the moment it would be somewhat over-optimistic to expect that this rescue plan will be the answer to all of the current problems," he said.

A number of banks remained under pressure yesterday despite the revival in London.

Shares in HBOS fell another 14 per cent – raising fears about whether Lloyds TSB will have to revise the terms of its proposed takeover. Barclays was also down 2 per cent, with Royal Bank of Scotland 1 per cent lower.

Money markets were in fresh turmoil with the rate at which banks lend to each other overnight soaring as scared financial institutions looked to hoard cash.

In normal conditions, overnight lending costs should be virtually the same as the Bank of England's 5 per cent base rate.

But in sterling markets, they jumped more than 1.5 per cent to 6.78 per cent – the highest level since the collapse of US investment bank Lehman Brothers.

Yesterday Chancellor Alistair Darling met with the Tories' shadow chancellor George Osborne and Liberal Democrat economic spokesman Vince Cable to discuss the banking crisis which led to the nationalisation of lender Bradford & Bingley on Monday.

Prime Minister Gordon Brown also spoke with Conservative leader David Cameron and Lib Dem leader Nick Clegg.

Mr Cable emerged from what he described as a "short, business-like" meeting where he discussed the current state of the economy and forthcoming banking legislation with Mr Darling.

Mr Cable said governments had an "absolutely central role" to play in order to "preserve financial stability".

He added that he was "pretty certain" politicians in America would be able to thrash out a deal, but warned that a similar situation should not be allowed to happen here.

Mr Clegg also called on the Government to provide a 100 per cent guarantee for all savers' deposits in the UK, a move announced by the Irish government and which will apply to six Irish banks.

Commenting on Monday night's shock US Congress vote, John McFall, chairman of the Commons Treasury Select Committee, said US politicians had "turned off the life support system for the economy".

TAKING STOCK: traders at the New York Stock Exchange yesterday as stocks staged a partial rebound after their biggest sell-off in years Picture: **Richard Drew/AP**

OPINION – Experts give their views on what impact the global crisis will have on Northern Ireland

The Stockbroker: **Patrick Mahoney, Edward Jones Investments, Belfast**

THESE events have profound implications for local people.

At the very least, it affects people who are planning for retirement – which is almost all of us.

For anyone who is not in a final-salary pension scheme, their pension schemes are all money-purchase and part of the overall return is dictated by market movements.

On a very superficial level, the decline on the stock market will impact long-term pension provision for a large majority of people, particularly those in their 40s or 50s.

The credit crunch means that both individuals and companies will find it harder to get mortgages or other loans.

Ultimately that must depress consumer spending and business investment.

That will feed through into the local economy.

Most people buying shares buy for the long to medium term and therefore can ride through the storm, but there is a perceptible switch into what are perceived to be safer government gilts, which have no risk of default.

But we will come out of this as we have in the past.

Markets work in cycles – you have an upward and then you have a downward.

The Financial Planner: **Jonathan Davis, Armstrong Davis, City of London**

THERE is still a great deal more pain to come.

The global banking system is in crisis. That is why every other day we are hearing of another bank going under or being nationalised, whether here or in America or Europe.

The effect is less lending in the financial system – that means less economic activity, increased unemployment and vastly falling house prices continuing.

I think the credit problems will continue well into next year which means that those who are running their business on credit could find that banks call in their loans on 30 days' notice – just like in the 1980s.

There will be a lot of businesses going bust because of lack of cash flow.

The Government would be loathe to allow a bank's retail deposits to go up in smoke, but it would be imprudent to have more than £70,000 per couple or £35,000 individually in the one bank, just in case.

Monetarily, the Government should have done what it has already done.

But politically, they cannot afford it which is why Gordon Brown is continually saying he's taking decisive action.

Actually, he should have taken decisive action a few years ago and turned off the easy lending taps.

The Economist: **Gordon Welsh, former Government economist and director of EPEC, Belfast**

CERTAINLY within two or three houses on either side of you, anywhere in Northern Ireland, there will be somebody who is deeply affected.

The vast majority of people will experience no difficulty at all.

But there will be concentrated pain – particularly in the buy-to-let property market.

In the short to medium term, a lot of people reliant on financial services for employment will lose their jobs – a potential reduction of 10 to 20 per cent in those services directly related to banking products and financial services.

We have simply done too much (financial) activity and now it is going to be a time of "seven years' lean" – although hopefully not as much as that.

In terms of more dramatic effects in the next few days, I think we'll be largely insulated from those as we don't have the financial services, the Lehman Brothers, etc, that others have.

The difficulty for Northern Ireland is that in the medium to longer term this means extreme pressure on public sector borrowing and spending in the UK.

Northern Ireland is still very dependent on public money so I see us facing a very difficult three or four years.