

The Other Side of the Street December 16, 2007

Comments

So it happens, Bastiat explained , that lawmakers and policy makers, in pursuit of a 'small present good,' bring down on society 'a great evil to come.'"

The "falling all over ourselves to make sure each minute is a happy one and to hell with the future" continues. The Fed cuts and the market is not happy. So the next morning, the Fed tries again and it leads to more selling.

As noted ad nauseum herein, the problem is too big this time.

It is after noon in Jellystone Park

Notes

- **Forbes – Gary Shilling column** The rate cuts are not coaxing skittish lenders into making new subprime loans. And backed CDOs (collateralized debt obligations) aren't getting any love from institutional investors either. I view the Fed's latest maneuvers as similar to someone "pushing on a string." Lenders want to lend to those who don't need to borrow and won't lend to those who do. Moreover, individuals and companies with heavy debt are probably thinking more about reducing it, rather than augmenting it. In any event, it seems highly unlikely that the Fed will push rates low enough and fast enough to prevent the impending subprime ARMs reset shock, unless of course the financial markets collapse soon. And if that happens, it wouldn't make much difference anyway.
- **Forbes – Gary Shilling column** I foresee a 25% peak-to-trough decline in median single-family house prices nationwide. Remember, the earlier leap in prices was so exuberant that it would take a 50% fall to return them to the post-World War II norm, after adjusting for inflation and the increasing size of houses. I'm also forecasting a 60% peak-to-trough decline in existing house sales, a forecast that many view as extreme. But between November 1978 and May 1982, sales fell 55% in what was a much less severe housing slump than is ongoing today.
- **Dec 10 - This morning, the Chinese government made another attempt to cool down their bubbling economy.** The central bank raised the required reserve ratio (RRR) -- the proportion of cash banks are required to keep on hand -- for the 10th consecutive time this year. Under normal conditions, hiking the RRR has a cooling effect on the stock market. Not so in China. An RRR of 14.5%, the highest in China since the mid-1980s, barely gave buyers pause. The Shanghai Composite (SSE) rose a full 1% on the news. Despite a hefty fourth-quarter correction, the SSE is still looking to return 90-100% this year. AF
- Dec 10 - The end result is that we need to ponder whether a market-friendly Fed and a government that is desperately trying to show that it is dealing with this

whole subprime mess will help this nascent bounce continue, or if this past week's run-up has provided market players with the ideal opportunity to sell into the news. An aggressive rate cut back in September certainly helped the bounce off of the lows of August to continue, but after the second cut in October, it seems as if investors have become a lot less certain that the Fed can fix all that ails us. The other thing that we need to consider is that there aren't all that many trading days remaining in 2007, and money managers will undoubtedly be anxious to add some relative performance by aggressively pushing fast moving stocks higher. Should that happen, then it is likely that others will start chasing strength, which in turn would help any rebound to just keep on going. RS

- “The Bureau of Labor Statistics (BLS) used a full suite of gimmicks on the November jobs report,” says John Williams of Shadowstats.com. “It was not credible and showed indications of heavy manipulation aimed at keeping jobs growth positive but still weak enough to pressure the FOMC toward an easing. “Even so, the BLS reported seasonally adjusted November payrolls up by 94,000, following October's revised 170,000 gain. Unadjusted year-to-year payroll growth fell in November, to 1.04%. The decline in November annual growth, to 1.0%, has historic parallels seen only during recessions.”
- **The Swiss megabank UBS has joined the billion-dollar write-down club this morning... in dramatic fashion.** They announced a \$10 billion fourth-quarter write-down today, the biggest to date for any non-U.S. bank.
- Until 1980, total credit market debt in America never exceeded 130% of GDP. Now, it is more than 330%. And derivative contracts, based on credit, have grown even faster. There are now \$45 trillion worth of credit default swaps, for example, up nine-fold in the past three years.
- Dec 10 - Washington Mutual plans to raise \$2.5 billion through a preferred stock offering and will cut its dividend to 15 cents from 56 cents in moves designed to generate \$3.7 billion in additional capital. In addition, the Seattle bank also expects to report a fourth-quarter loss and plans to cut thousands of jobs.
- Dec 10 - No small wonder, then, that news of an 18.4% year-over-year decline in the October pending home sales index sent the broad market soaring this morning. [it is all good]
- Summary Recap The U.S. is on the precipice of its first consumer led recession since 1991. A wave of U.S. bank failures is coming. LIBOR rates are rising in the U.S. and UK smack in the face of interest rate reductions. The ECB continues with hawkish rhetoric. German businesses paid back more than they borrowed for the first time since the 1980s. Three-month Euribor rates are 93 basis points over ECB rates. One-month LIBOR rates are 74 basis points over the Fed Funds Rate. The Fed's and BOE's easing actions simply are not working to restore faith in the credit markets. Credit conditions based on LIBOR are worse now than in the August and November stock market swoons. Banks remain reluctant to lend to one another in spite of central bank efforts to provide liquidity. Neither central bank appears to be in control of anything at the moment. **Minyanville 12/10**

- “UBS does not exaggerate when it characterizes the debacle in MBS structures as “the biggest failure of ratings and risk management ever.” . . . “The question we raise is why error continued to be piled on error long after it was obvious that the subprime math was fuzzy. In market economies absent collusion or government intervention, mistakes tend to be rectified expeditiously.” . . . “A Fitch-commissioned study of more than three million loans originated between [1997 to 2006] ‘found that as much as 70% of early payment default loans contained fraud misrepresentations on the application.’” . . . “‘In the economy,’ wrote Bastiat, ‘an act, a habit, an institution a law, give birth not only to an effect, but to a series of effects.’ So it happens, Bastiat explained, that lawmakers and policy makers, in pursuit of a ‘small present good,’ bring down on society ‘a great evil to come.’” . . . “Chinese consumer inflation in November jumped by 6.9% from the year before. Consumer price inflation for Qatar, Oman, and Saudi Arabia accelerated by 14%, 7% and 5.4% ” Grants 12/14/07
- PPI rose 3.2%, the largest gain since August 1973
- CPI rose 0.8% the highest in 2 years
- Moody’s changes outlook on Legg Mason debt to negative citing potential losses from money market fund redemptions. WSJ 12/15/07 B6A
- Rice Prices hit 20 year highs WSJ 12/15/07 B1
- B of A, Wachovia and PNC said writedowns will exceed forecasts WSJ 12/13/07 A1
- Sallie Mae fails to reach accord, warns on 2008 WSJ 12/13/07
- Crude soars to \$94 per barrel WSJ 12/13/07
- Super SIV “may be losing momentum” WSJ 12/13/07
- Total report writedowns of impaired mortgages are fraction of the lowest estimates of total loss WSJ 12/13/07
- “the big picture is that a bunch of people basically accepted much more debt than their balance sheets could afford. That has to be cured and it can only be cured with time.” WSJ 12/13/07
- A manpower survey found only 17% of companies plan to add jobs in Q1 2008 – a four year low WSJ 12/12/07

Headlines

Strong Retail Sales Signal No Slump – IBD A1 12/14/07

Central Banks Launch Effort to Free up Credit – Fed Extends \$40 billion; **weak effect of rate cuts spurs unusual measures** – WSJ 12/13/07 FP

Web links

Credit

- Dec. 15 (Bloomberg) -- Moody's Investors Service put FGIC Corp. and XL Capital Assurance Inc. on notice that they may have their Aaa credit ratings lowered and said MBIA Inc. still needs to prove it deserves its top ranking as part of a review of the world's top bond insurers. While the New York-based ratings company stopped short of stripping the Aaa rankings of each insurer, it said it will review FGIC and XL for a possible downgrade and lowered the outlooks for MBIA, the largest bond insurer, and CIFG Guaranty to "negative," indicating they may come under further scrutiny for a cut. MBIA raised the capital after Moody's said on Dec. 5 the Armonk, New York-based **company was "somewhat likely" to face a shortage of capital. Less than a month earlier, Moody's had described a potential shortfall as "unlikely."** [This is how fluid the situation is and demonstrates the lack of reliability of ANY information indicating that anyone has their hands around any potential containment of the credit problems] "While Moody's believes that the Warburg Pincus investment will address the estimated hard capital shortfall at MBIA, the negative outlook incorporates uncertainty about the performance of the guarantor's portfolio," Dorer said in today's statement. **Moody's Puts FGIC, XL on Notice for Downgrade; MBIA Outlook Cut** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aYsZwWwm5Hmk&refer=home>
- Dec. 10 (Bloomberg) -- Bank of America Corp. will wind down a \$12 billion enhanced cash fund after losses on holdings that included structured investment vehicles. The Columbia Strategic Cash Portfolio was frozen last week and "it's being wound down," Bank of America spokesman Robert Stickler said in an interview today. The net asset value of the fund, which had \$33 billion two weeks ago, was 99.4 cents on the dollar today, Stickler said. **Bank of America to Wind Down \$12 Billion Enhanced Cash Fund** http://www.bloomberg.com/apps/news?pid=20601087&sid=aRwpYVW0RL_Q&refer=home
- Dec. 10 (Bloomberg) -- **UBS AG will write down U.S. subprime mortgage investments by \$10 billion, the biggest such loss by a European bank, and replenish capital by selling stakes to investors in Singapore and the Middle East.** Europe's largest bank by assets plans to raise 13 billion Swiss francs (\$11.5 billion) from Government of Singapore Investment Corp. and an unidentified Middle Eastern investor by selling them bonds that will convert into shares, Chairman Marcel Ospel said on a conference call with reporters today. **UBS rose 1.4 percent in Zurich trading on optimism writedowns are now out of the way. [what is "out of the way" are the current issues. There will be** The bank may post the first full-year loss since the Zurich-based company was created through a merger a decade ago. UBS followed Citigroup Inc., the largest U.S. bank, in taking on strategic investors to bolster capital. "UBS was quite clever this time to couple some extremely bad news with some good

news," said Dieter Winet, who helps manage about \$50 billion including UBS shares at Swisscanto Asset Management in Zurich. "It's positive that capital is placed in firm hands. This will help restore trust in private banking and asset management and help UBS write new business." "My bet is that the UBS share price now has a very firm foundation to move materially higher [it's ALWAYS all good on Wall Street] over the next 12 months," said James Bevan, who helps oversee \$10 billion as chief investment strategist at CCLA Investment Management. New York-based Citigroup announced last month a \$7.5 billion cash infusion from Abu Dhabi after record mortgage losses wiped out almost half its market value. Ping An Insurance (Group) Co., China's second-largest insurer, bought a 4.18 percent stake in Fortis for 1.81 billion euros (\$2.7 billion). "Because there's a lot of liquidity in those countries and those sovereign wealth funds, they'll be looking for investment opportunities," said Masafumi Oshiden, a Tokyo-based fund manager at BlackRock Japan Co. whose parent company holds \$1.1 trillion in assets. "The valuations have come down a lot." [if you view the world simplistically and look at market caps and trialing P/E that might be right. If you look where we are going, there is plenty of room to "come down a lot MORE] Societe Generale SIV Societe Generale SA, France's second-biggest bank by market value, said today that its Tier 1 ratio will fall by 5 basis points after it agreed to bail out its structured investment vehicle by taking on \$4.3 billion of assets. Paris-based Societe Generale said last month that its Tier 1 ratio was 7.7 percent at the end of September. SIVs are being forced to cut assets as investors shun the short-term debt they used to finance purchases of higher-yielding securities because of concern about holdings related to U.S. mortgages. Societe Generale joins London-based HSBC Holdings Plc and Rabobank Groep NV in Utrecht, Netherlands, by taking on SIV assets. UBS posted its first loss in almost five years in the third quarter after the subprime contagion led to \$4.66 billion in markdowns on fixed-income securities and leveraged loans. **Bottom in November?** [ah, yes, the bottom is in!!!] The bank's losses already cost the jobs of Chief Executive Officer Peter Wuffli, his finance chief Clive Standish and investment-banking head Huw Jenkins. Ospel told journalists on a conference call that there is "no pressure internally" for him to resign, though he doesn't "expect or want" a bonus for 2007. Marcel Rohner, who was named CEO in July, CFO Marco Suter and Chief Risk Officer Joseph Scoby are scheduled to give analysts and investors a business update in London tomorrow. Speculation about subprime writedowns in the past quarters has been "distracting," Rohner said. **Credit markets may have reached a bottom in November, when values fell to "extremely bad" levels, [then December arrived and "may have" got changed to "did not"]** he told journalists. "Draw a Line" The bank was expected to write down about 2.6 billion francs in the fourth quarter, according to the average estimate of five analysts who published forecasts over the past month. "This appears to be an attempt to draw a line under UBS's subprime woes and circumvent any contagion of sentiment to its wealth management businesses," Keefe, Bruyette & Woods Ltd. analysts Matthew Clark and Vasco Moreno said in a note to clients **UBS to Sell Stakes After \$10 Billion in Writedowns** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aLbriQo4Aj4Q&refer=home>

- Dec. 10 (Bloomberg) -- MBIA Inc., seeking to avert a crippling reduction of its AAA credit rating, will receive as much as \$1 billion from private equity firm Warburg Pincus LLC. Shares of MBIA, the world's biggest bond insurer, soared as much as 27 percent

after the company said it will sell \$500 million of common stock to Warburg Pincus. [stock hit as high as \$38+ as “the bottom was in” and it was “a great buy”. . . . turned out the buy might not have been so great – closed at \$27.60 five days later] The private equity firm will also backstop a rights offering of up to \$500 million next year, Armonk, New York-based MBIA said today. MBIA said it faces “significantly” higher losses from a slump in the value of securities it guarantees. The added capital may help ward off a cut in MBIA's top credit rating, which is under scrutiny by Moody's Investors Service, Fitch Ratings and Standard & Poor's. MBIA's AAA ranking stands behind \$652 billion of state, municipal and structured finance bonds and losing the AAA credit rating would endanger those ratings, as well as cut off MBIA's ability to guarantee debt, its main source of revenue. “It's a positive for the company,” said Rob Haines, an analyst at CreditSights Inc. in New York. “It staves off the potential for a rating downgrade.” Warburg Pincus, the New York-based firm started in 1971, will initially buy 16.1 million common shares at \$31 each. [they must have “known something” or since they are down 10% in a week, maybe not!] The firm will also receive seven-year warrants and have the right to appoint two directors. Warburg Pincus has \$2.7 billion in financial-services investments include Bermuda-based insurers Aeolus Re Ltd. and Arch Capital Group Ltd., and Dime Bancorp, the New York-based parent of the Dime Savings Bank. MBIA's top executives said they also will buy \$2 million of stock at \$31. [let's see these are the fine steward's who appernalyt failed to notice the risks in structured finance, I want to invest with them!] Mark-to-market losses will be more than in the third-quarter and the company will set aside as much as \$800 million to cover losses it expects to take on securities backed by home equity loans, MBIA said. Shares of New York-based Ambac Financial Corp., whose debt ratings are also under examination, jumped \$2.71, or 10 percent, to \$29.55. [which also proved to be a great shorting point as the stock five days later trades at \$22.81] Ambac, the second-largest bond insurer, is also rated “likely” to need capital by Moody's. Underwriting Concerns The ratings firms are examining at least eight bond insurers on concern that a slide in the credit quality of some of the 80,000 securities they guarantee requires them to hold more capital to justify their AAA ratings. Bond insurers charge to underwrite debt and give it an effective AAA ranking, allowing issuers to borrow more cheaply. The insurers guarantee \$2.4 trillion of debt and downgrades could cause losses of \$200 billion, according to Bloomberg data. Citigroup Inc., the biggest U.S. bank by assets, received a \$7.5 billion cash infusion from the emirate of Abu Dhabi and **Countrywide Financial Corp., the biggest U.S. mortgage lender, sold \$2 billion of preferred stock to Bank of America Corp. in August to bolster its finances amid the housing slump.** [and they are sure glad they did not buy the common, which in August traded above \$20, Friday's close was \$9.80] UBS AG today said it will write down its portfolio by \$10 billion and sell stakes to investors in Singapore and the Middle East. Writedowns MBIA in October posted a \$36.6 million loss because of writedowns on mortgage-related securities and halted stock buybacks to retain capital. So far this quarter, the company “has observed a further widening of market spreads and credit ratings downgrades of collateral underlying certain MBIA-insured CDO tranches,” the company said in today's statement. The fair value of the assets slumped by about \$850 million in October, MBIA said. The company will have “significantly” larger mark-to-market losses in the fourth quarter. “**Given the magnitude of MBIA's exposures, as demonstrated again this morning with UBS's**

writedowns, I don't see how \$1 billion moves the needle,' [let's see bears win bears win????] said David Einhorn, president of Greenlight Capital LLC in New York, which has a short position on MBIA. Shares of bond insurers have tumbled this year as short-sellers bet they will struggle to raise capital and may even go bankrupt. In a short sale, investors borrow securities and agree to sell them at a later date, profiting from any drop in the stock.
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aFaBQJyijgo&refer=home>

Commercial Real Estate

Commodities

- Dec. 17 (Bloomberg) -- Wheat rose above \$10 a bushel for the first time as record prices fail to curb demand and dry weather threatens crops in Argentina. Soybeans gained to the highest in 34 years and corn reached its highest in nine months. Wheat futures for March delivery rose as much as 30 cents, the exchange-imposed daily limit, to \$10.095 a bushel on the Chicago Board of Trade in after-hours electronic trading. Soybeans jumped to \$11.9225 a bushel, the highest since June 1973, while corn advanced to \$4.4275 a bushel. Companies including Kellogg Co., General Mills Inc. and Sara Lee Corp. have been forced to raise prices to consumers as wheat surged to a record, stoking inflation. The cost of the grain, used to make bread, cereals and noodles and as livestock feed, has more than doubled in the past year as adverse weather reduced output from Australia to the U.S. and Canada. "Global supply is really tight at this time," Tobin Gorey, a commodity strategist at Commonwealth Bank of Australia, said from Sydney. "Saying there's a near-term top in the price is a very dangerous thing to do." **Wheat Rises to Record Above \$10 a Bushel; Soybeans, Corn Gain**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aq.DSsx0jUwY&refer=home>

Currency

Diversification

Derivatives

Housing

- Dec. 14 (Bloomberg) -- For U.S. homeowners, builders, bankers and realtors, the crash of 2007 will only get worse in 2008. **Everyone from mortgage-finance company Fannie Mae to Lehman Brothers Holdings Inc. expects declines next year. Existing home sales will drop 12 percent and existing home prices will fall 4.5 percent, Washington-based Fannie Mae says. Lehman analysts estimate almost 1 million mortgage loans will default in 2008, up from about 300,000 this year.** "We're only halfway through the housing shock," said Ethan Harris, chief U.S. economist at New York-based Lehman, the fourth-biggest U.S. securities firm by market value. "It's just a matter of time before the weakness spreads to the rest of the economy." The housing market collapse has been anything but the "soft landing" that Federal Reserve Bank of

San Francisco President Janet Yellen and David Lereah, former chief economist at the National Association of Realtors in Chicago, **predicted for real estate at the start of 2007**. Median home prices declined in the U.S. this year, the first annual drop since the Great Depression, according to forecasts from the National Association of Realtors. "I'm not going to sit here and tell you it's going to turn real strong next year," said Jim Gillespie, chief executive officer of Coldwell Banker Real Estate LLC, the largest U.S. residential brokerage, according to Franchise Times. "It's not going to turn real strong next year." Gillespie said he doesn't make housing market forecasts. Lender, Homebuilder Woes **"The whole thing has deteriorated faster and further than we or anyone else had anticipated," [actually any number of people including your correspondent not only anticipated it, but wrote extensively about it more than a year before it began to be noticed]** said Ron Muhlenkamp, president of Wexford, Pennsylvania-based Muhlenkamp & Co., which has about \$2.5 billion under management and holds shares of mortgage lender Countrywide Financial Corp. and homebuilder Ryland Group Inc. The five biggest U.S. homebuilders by revenue, led by Miami-based Lennar Corp., recorded writedowns and charges totaling about \$7.5 billion this year for land that plunged in value. Mortgage companies, including Irvine, California-based New Century Financial Corp., the second-largest subprime lender in 2006, have filed for bankruptcy protection after borrowers unable to repay their loans defaulted. H&R Block Inc. of Kansas City, Missouri, shut Option One this month after plans to sell the subprime home-lending unit fell apart, and U.S. regulators ordered Santa Monica, California-based Fremont General Corp. to stop selling subprime mortgages, loans given to people with poor or limited credit histories or high debt levels. U.K., Canada Fallout from the subprime crisis in the U.S. has crimped economic expansions in the U.K., Canada and Germany. **Investment in U.K. commercial real estate may slump 60 percent in the fourth quarter as buyers shun large acquisitions of shops and offices, Chicago-based Jones Lang LaSalle Inc., the world's second-largest property brokerage, said Dec. 10.** Spending on British commercial real estate, Europe's largest investment market, may decline in the final three months of the year to 5 billion pounds (\$10.2 billion) from 18.6 billion pounds a year earlier, Jones Lang said in a statement. Investment for all of 2007 may fall 24 percent to about 48 billion pounds. Falling prices are already hurting U.K. property funds. New Star Asset Management Group Ltd., the fund company founded by John Duffield, said earlier this week that value of its U.K. commercial property mutual fund was cut by 8.2 percent after the value of its buildings dropped 18 percent since July. Market lending rates rose worldwide in the past month as writedowns linked to subprime defaults heightened concerns about the strength of financial institutions. Anxiety Continues "Until the public is convinced that the subprime credit exposure has been identified, quantified and dealt with, there will continue to be anxiety," said Todd Canter, international director at LaSalle Investment Management in Baltimore, where he helps manage about \$11 billion in real estate stocks. "There will continue to be volatility in the marketplace." **Some economists and real estate executives say the industry may be on the verge of turning around. Lawrence Yun, chief economist at the National Association of Realtors, said "we are touching the bottom" for existing-home sales. Coldwell Banker's Gillespie said demographic and economic changes, such as rising immigration and employment, will help boost home sales. "People buy for lifestyle, and there's a lot of pent-up demand out there," Gillespie said. [this is the used car**

salesman telling you that someone is going to buy the car you are looking at in an hour if you don't buy now. The text is green so I can be sure to follow up on these predictions]

Offices, Apartments U.S. office sales fell 70 percent in October from a year ago, industrial sales declined 24 percent, and retail and apartment sales dropped 50, according to New York-based research firm Real Capital Analytics Inc. The declines are the biggest since the company began keeping records in 2001. The 128-member Bloomberg REIT Index rose 62 percent in the two years ended Feb. 8, the day before New York-based Blackstone Group LP bought Equity Office Properties Trust for \$39 billion, including debt, in the real estate industry's biggest leveraged buyout. The index has dropped 26 percent since then. "You're not seeing the Equity Office transactions anymore," said Dan Fasulo, Real Capital's managing director for research. "It's extremely difficult right now to finance the large portfolio transaction and privatizations we've seen over the last couple of years. I can't even think of one major privatization that has been announced since the credit crunch." "I know we weren't predicting things would get this bad," said Frank Liantonio, executive vice president for global capital markets at New York-based Cushman & Wakefield Inc., the largest closely held real estate services provider. "There were some signs there, but I don't think anyone anticipated the level of dislocation that was actually created." [there was a hedge fund in California that made 1,000% this year because they did in fact see it coming] **U.S. Housing Crash Deepens in 2008 After Record Drop**
<http://www.bloomberg.com/apps/news?pid=20601109&sid=af2DBA6IKMLA&refer=home>

Housing Finance

Macro Economic

- Dec. 17 (Bloomberg) -- Centro Properties Group, an owner of U.S. shopping malls, plummeted 70 percent in Sydney trading after cutting its profit forecast because it was unable to refinance debt amid the fallout in the U.S. subprime mortgage market. Dividend payments are expected to be 40.6 Australian cents in the year to June 30, 2008, down from 47 cents in a previous forecast, the Melbourne-based company said today in a statement. Centro won't pay a dividend in the first half, the statement said. The slump wiped A\$3.4 billion (\$2.9 billion) off Centro's market value as the company said it may have to sell assets after it was unable to refinance A\$1.3 billion of debt. Investors, concerned that losses on securities backed by U.S. home loans will escalate, have shunned all but the safest of debt, driving up corporate borrowing costs. "We never expected nor could reasonably anticipate that the sources of funding that have historically been available to us and many other companies would shut for business," Chairman Brian Healey said in the statement. Shares of Centro fell A\$4.00 to A\$1.70 at 10:31 a.m. in Sydney, slicing the company's market value to A\$1.4 billion. Centro Retail Group declined 61 cents, or 43 percent, to 81.5 cents, valuing it at A\$1.9 billion. Centro said it may spend about A\$40 million refinancing and restructuring its debt. The company has more than A\$5 billion in outstanding bonds and loans, more than half of which fall due in the next three years, according to data compiled by Bloomberg. Centro Properties took

on debt to expand its holdings to more than 800 shopping centers across Australia, New Zealand and the U.S., including adding A\$14 billion of American assets in fiscal 2007. **Centro Shares Slump After Profit Forecast Cut on U.S. Subprime**
<http://www.bloomberg.com/apps/news?pid=20601087&refer=home&sid=aUtIX.SZ8Xm8>

- Dec. 17 (Bloomberg) -- London led the biggest drop in U.K. home values for at least five years this month as higher mortgage costs and the prospect of further declines in prices kept away buyers, a report by Rightmove Plc showed. The average U.K. asking price fell 3.2 percent to 232,396 pounds (\$473,437) from November, the largest decline since the survey of real-estate agents' listings began in 2002, Britain's most-used property Web site said today. London home costs dropped 6.8 percent, also the most recorded by Rightmove. "The market is tough out there," Miles Shippide, the company's commercial director, said in an interview. "We see a flat outlook for next year, with no price rises, as we work our way through this liquidity crisis." The Bank of England this month cut the benchmark interest rate for the first time in two years, citing the threat of an economic slowdown. Confidence among British real-estate agents has slumped as pricier mortgages and the worst performance for property values since 1995 discourage homebuyers. Prices in the London region fell an average of 28,099 pounds on the month and all 32 areas of the capital in the survey had declines, led by the districts of Hackney, Tower Hamlets and Islington, Rightmove said. Home costs in Kensington and Chelsea, where Russian billionaire Roman Abramovich lives, fell 4.9 percent to 1.65 million pounds. "Bated Breath" "The market is obviously on the turn," said Jonathan Slater, a chartered surveyor at Foster Slater in central London. "A lot of people are waiting to get through Christmas. There's a lot of bated breath and nobody quite knows what's next." **London Leads the Biggest U.K. House-Price Drop for Five Years**
http://www.bloomberg.com/apps/news?pid=20601087&sid=akkFGUdy_lqg&refer=home
- Dec. 16 (Bloomberg) -- Former Federal Reserve Chairman Alan Greenspan said he sees warning signs of so-called stagflation, a combination of slow economic growth and rising prices. "We are beginning to get not stagflation, but the early symptoms of it," Greenspan said on ABC's "This Week" program. "We had a period of remarkable disinflation" in the years following the end of the Cold War, when inflation rates declined, Greenspan, 81, said. "That period is now coming to an end." Greenspan cited rising prices of Chinese exports together with declining productivity increases in the U.S. and elsewhere as signs that the era of declining inflation rates may be ending. U.S. consumer prices rose the most in more than two years last month on record energy costs, a government report last week showed. The consumer price index increased 0.8 percent in November, up from 0.3 percent the previous month. Prices excluding food and energy climbed 0.3 percent. **Alan Greenspan Says He Sees 'Early Symptoms' of Stagflation**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a4eJtSntp2YA&refer=home>
- Dec. 15 (Bloomberg) -- European stocks had the biggest weekly loss in a month, led by mining companies and banks, **on concern a plan by central banks to add cash to the financial system won't prevent an economic slowdown**. The U.S. Federal Reserve, along with central banks in the euro region, the U.K., Canada and Switzerland agreed Dec. 12 to offer as much as \$64 billion to financial institutions in the biggest coordinated

move since the 2001 terrorist attacks. A day earlier, the Fed cut its benchmark interest rate by a quarter-point. Some investors had expected a bigger reduction to preserve the economy's six-year expansion. 'More Volatility' 'A central bank should calm down concerns," said Herbert Perus, who helps oversee the equivalent of \$57 billion as head of global equities at Raiffeisen Capital Management in Vienna. "The Fed achieved the opposite, creating more volatility." The Chicago Board Options Exchange Volatility Index jumped 7.7 percent this week. Investors' expectations for price swings in German stocks, as measured by the VDAX Index, soared 11 percent. National benchmarks fell in all 18 western European markets except Iceland. Germany's DAX Index slipped 0.6 percent and France's CAC 40 decreased 2 percent. The U.K.'s FTSE 100 lost 2.4 percent. The Stoxx 50 dropped 1.7 percent, and the Euro Stoxx 50, a measure for the euro region, sank 1.4 percent. **The euro interbank offered rate banks charge each other for three-month loans stayed near a seven-year high, falling 1 basis point to 4.94 percent, the European Banking Federation said Dec. 14. That's 94 basis points more than the European Central Bank's benchmark interest rate. The two-week rate jumped a record 80 basis points to 4.95 percent.** 'Lack of Trust' 'Credit market problems have worsened since summer," said Roger Kunz, head of investment strategy at Clariden Leu in Zurich. "Lack of trust between banks is the problem." The Dow Jones Stoxx Basic Resource Index dropped 6 percent as copper, nickel, lead, tin and zinc declined and Goldman, Sachs & Co. reduced its recommendation on the industry to "neutral" from "attractive." "Recent downgrades from our economists in China, Europe and the U.S. imply that we expect a period of weaker than consensus global growth in 2008," London-based analysts including Peter Mallin Jones wrote in a report dated Dec. 14. **Banks Retreat** The Dow Jones Europe Stoxx Banks Index dropped 2.7 percent, the third-worst performance among 18 industry groups. "There's no need to rush into bank stocks," said Christoph Berger, who helps manage the equivalent of \$95 billion at Cominvest Asset Management in Frankfurt. "The question is what measures to replenish capital are still ahead." UBS dropped 3.4 percent. The Zurich-based bank will write down U.S. subprime mortgage investments by \$10 billion, the biggest such loss by a European bank, and replenish capital by selling stakes to investors in Singapore and the Middle East. Northern Rock Plc tumbled 17 percent. The U.K. bank bailed out by the Bank of England on Dec. 13 named Andy Kuipers as chief executive officer to replace Adam Applegarth and said it may have to write down as much as 281 million pounds. Rentokil, Lafarge Rentokil Initial Plc plummeted 21 percent, the steepest loss in the Stoxx 600. The second-largest British parcel delivery company said Dec. 13 that fourth-quarter pretax profit may fall short of targets by as much as 10 million pounds, weighed down by overnight express courier City Link. **European Stocks Decline on Economic Concerns; BHP, UBS Retreat**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aVEXl4Ya12Sc&refer=home>

- Dec. 15 (Bloomberg) -- U.S. stocks had the biggest weekly decline in a month after a Federal Reserve interest-rate cut and the biggest coordinated effort since 2001 to provide banks with cash failed to assuage concern that the economy will contract. Shares declined even after central bankers in North America joined those in Europe to inject money into the financial system and alleviate gridlock in credit markets. Reports that showed

accelerating inflation caused concern that the Fed will be unable to cut interest rates more to prop up growth. **“A recession is in the works,”** Andy Engel, who helps run the \$1.81 billion Leuthold Core Investment Fund that has outperformed 97 percent of its peers this year, said from Minneapolis. “You're seeing definitely the impact from the crisis in the credit industry. But we're also seeing that spread into other areas.” **U.S. Stocks Decline as Fed Fails to Assuage Recession Concern**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aNVeyi2xynL0&refer=home>

- US interest rates will plunge from 4.5pc to 2pc as the American economy suffers its first consumer recession since 1991, Merrill Lynch has forecast. The investment bank warned in its annual economic outlook that America is under attack by the "Four Horsemen" of soaring energy prices, unemployment, a housing slump and an ongoing credit squeeze, but it remained optimistic about prospects for the rest of the world in 2008. The one significant exception to this global "rebalancing" is Britain where a "notable slowdown" is predicted. Merrill forecasts three rate cuts by next May, with the first quarter point reduction pencilled in for this week's meeting of the Bank of England's monetary policy committee. The MPC's decision on rates is due tomorrow. Merrill Lynch's North America economist David Rosenberg presented an almost unremittingly gloomy forecast for the US economy next year. "The US consumer is on the precipice of experiencing its first recessionary phase since 1991 - the last time we had the combination of high, punishing energy prices; weakening employment conditions; real estate deflation and tightening credit conditions" he said. The only ray of light is in America's export sector, which Mr Rosenberg said was "literally booming" as a result of the plunging dollar and still strong growth in the rest of the world. Merrill said investors should play the ongoing shift in economic power in the world by investing in US exporters and companies serving the fast-expanding domestic economies of emerging markets. Mr Rosenberg said high energy prices alone would drain 1.5 percentage points from American economic growth and he warned that gasoline prices of more than \$3 a gallon were the equivalent of a 1pc wage cut across the US economy, "just in time for the holiday season". He said growth in employment had halved compared with a year ago and warned that only three sectors - the government, health and leisure - were still creating jobs. The rest of the economy, accounting for 60pc of all employment, had shed 50,000 jobs in the past two months. On the housing market, Merrill warned that the supply of unsold new homes had doubled compared with the recent boom years, while sales of second-hand homes had fallen by 30pc. "We reiterate that real estate deflations are unique and have never ended well for the consumer, the credit market or the economy. We can identify only five periods post WWII when the real value of housing assets turned negative on a year-on-year basis. All of these time periods inevitably included a consumer downturn. Maybe it will be different this time, but we fail to see why," Mr Rosenberg concluded. Merrill Lynch's gloomy view of the outlook for the world's biggest economy contrasted with its ongoing optimism elsewhere. TJ Bond, the bank's Asia economist, said "we do not expect any significant slowdown in China. Exports to the US may slow, but this should be offset by China's continued export penetration of other key regions, notably Europe." He predicted inflationary pressures in Asia but said the flood of surplus labour from China's rural hinterland to the booming coastal provinces would keep rising prices in check for another

two years. One of the major risks to the global economy, Merrill Lynch said, was a dollar crisis but it predicted soaring central bank reserves and growth in sovereign wealth funds would underpin "risky" assets like equities and non-US currencies. **Merrill forecasts gloom for US economy**
<http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/12/05/cnmerrill105.xml>
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Retail

- Dec. 16 (Bloomberg) -- The growth of U.S. Internet sales slowed to 18 percent this holiday season from the year-ago period as consumers limited spending because of declining home values and higher gasoline prices. Online spending from Nov. 1 through Dec. 14 was \$22.7 billion, Reston, Virginia-based ComScore Inc. said today in a statement. Web sales in November and December may advance only 20 percent, a record low for the industry, and slower than the 26 percent gain made last year. U.S. retailers may see the worst holiday sales growth since 2002. Customers, grappling with \$3-a-gallon gasoline and the first drop in the median home price since the Great Depression, have reduced purchases. Wal-Mart Stores Inc. and Toys "R" Us Inc. offered discounts of 50 percent or more and free shipping on Web purchases to attract shoppers. **"The slowdown in online sales growth is a direct result of the difficult economic situation,"** said Larry Freed, chief executive officer of ForeSee Results, an online research firm based in Ann Arbor, Michigan. "The discounting has become more aggressive than last year." Feeling the Pinch Web sales have increased 17 percent since Nov. 1 among those earning \$50,000 to \$100,000 and 28 percent among consumers with incomes of more than \$100,000, according to an analysis by ComScore. Consumers earning less than \$50,000 have spent 10 percent more on online shopping than in 2006, dragging down overall results, ComScore said. "Many consumers across all income segments are either feeling the pinch this holiday season or are lacking the confidence to spend at the rate they had in the past," ComScore Chairman Gian Fulgoni said in the statement. "Consumers in lower income segments appear to be the most affected, as evidenced by the sluggish growth in their rate of online spending." 'Green Monday' Amazon.com Inc., the world's largest online retailer, fell \$3.32, or 3.6 percent, to \$89.08 on Dec. 14 in Nasdaq Stock Market composite trading. EBay Inc., the largest global auctioneer, dropped \$1.39, or 4.1 percent, to \$32.70. A record \$881 million was spent Dec. 10, known as "Green Monday," and was the heaviest Web spending day on record, ComScore said. The remainder of the week saw more "modest spending," Fulgoni said in the statement. Tomorrow may be the biggest online sales day of the 2007 holiday season because most retailers end free shipping on Dec. 17 or 18, said Freed. Running Late **In-store sales fell 2.7 percent in the seven days through Dec. 8, following a 4.4 percent decline a week earlier,** Chicago-based research firm ShopperTrak RCT Corp. said last week. About 12 percent fewer shoppers visited stores last week, compared with the same period a year ago, ShopperTrak said. Consumers are completing their holiday shopping later than usual, and they're trimming purchases because of higher food and energy costs. The National Retail Federation in Washington forecast a 4 percent increase in holiday sales this year, the smallest since 2002. Toys "R" Us sales did well the weekend after Thanksgiving, and have been "erratic" since, Chief Executive Officer Gerald Storch said

in a Dec. 13 interview. Sales on Dec. 22, the Saturday before Christmas, may rival Black Friday, the day after Thanksgiving, Storch said. ``We're being more aggressive with promotions but we're not discounting closer to the cost of the product than we did in past years," said Storch. ``We have a very aggressive promotional schedule between now and Christmas." **U.S. Internet Sales Slow as Consumers Limit Spending**
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