



MARKET ANALYSIS

October 2008

The month of September saw the continued gathering of storm clouds, with increasing evidence from a wide range of economic data that much of the Western world is either in, or heading for recession. Concerns mount about the financial sector, with interbank rates continuing their upward trend, and with names such as Lehman Bros, AIG, Washington Mutual, HBOS and Bradford & Bingley all making headlines for the wrong reasons. Eyes have been firmly fixed on Washington and the at times heated debates in the House of Representatives, as Federal Reserve Chairman Bernanke and Secretary Paulson strive to seek approval for their \$700BN bailout package. Although this was eventually passed in early October, many doubts remain as to its effectiveness, and whether such a massive sum will actually be enough to address the problem.

Meanwhile oil prices continue to fall, as markets expect a slowdown in demand and the commodity bubble appears to be leaking, as once again the world prepares for a reduction in manufacturing output.

UK – The announcement of the proposed Lloyds TSB takeover of HBOS, along with the nationalisation of Bradford & Bingley, coupled with the subsequent sale of that banks savings arm to Santander confirmed what many have been thinking for some time, that the UK banking sector has major concerns, both in relation to its sub prime exposure, but also the numbers of buy to let mortgages, which look increasingly less attractive as the housing market declines. The latest data points to a continued contraction of consumer expenditure and a fall in industrial output. Although the Bank of England Monetary Policy Committee voted to keep interest rates unchanged in September speculation continued to mount as to when rates would be cut.

Europe – Increases in unemployment were posted in the Eurozone, primarily resulting from sizeable increases in France and Spain. September economic sentiment also declined to a five year low in September. The ECB admitted that they were close to making an interest rate cut in September, which again builds speculation that rates may soon be following a downward path. At the end of the month the Euro dropped to a one year low against the US dollar which again suggests that markets expect the ECB to abandon its hawkish stance on interest rates.

Key Data			
	30/9	28/8	+/(-)%
FTSE 100	4902.45	5636.6	(13.0)
Dow Jones	10850.66	11543.96	(6.0)
CAC	4032.1	4482.6	(10.0)
DAX	5831.02	6422.3	(9.2)
Nikkei 225	11259.86	13072.9	(13.9)
Hang Seng	18016.21	21261.9	(15.3)
£ = \$	1.80		
Euro = \$	1.424		
£ = Euro	1.255		

Interest Rates	
Bank of England	5%
European Central Bank	4.25%
US Treasury Reserve	2%

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US – The main news story concerned the Paulson/Bernanke bailout plan, with Congressmen and women fully aware that the plan did not sit well with the average American. Whilst much attention had been focused on this, a raft of generally poor economic data was published, highlighting that the problems facing the US were not solely related to the credit crunch. As a result US markets had a difficult month, especially in the last week when the Dow fell by 7.3%. Wall St now looks a different place, with the investment banking structure having largely been transformed. The dollar however had a good month, gaining against all major currencies except the yen.

Asia Pacific – The emerging Asian markets of India & China have suffered from the slowdown in economic activity in the West with industrial production falling and business confidence down. The last week in September was particularly difficult, with the Nikkei 225 falling by 8% (its biggest fall in 13 months) and the Hang Seng falling by 5.4%. Unemployment edged upwards throughout the region amid concerns about the health of the US economy.

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