

Credit Crunch Watch

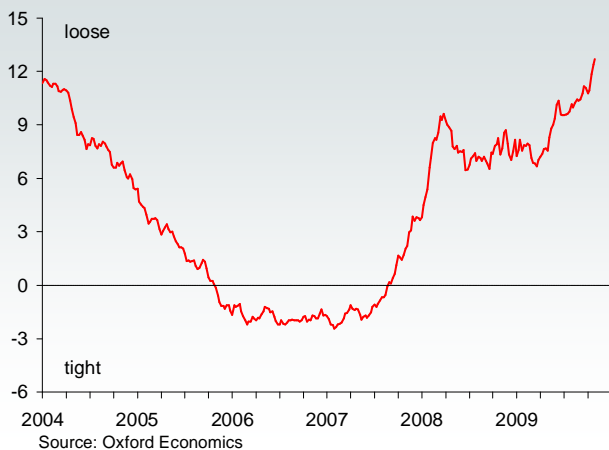
US: Financial stress indicator



Financial stress indicator

- The financial stress indicator is a composite index of a number of indicators including risk spreads, mortgage spreads, equity volatility, commercial paper and commercial loans outstanding and the spread of LIBOR rates over T-bill rates (the “Ted” spread). The stress indicator fell again last week, driven by a further narrowing of corporate bond spreads and lower equity volatility. These shifts offset a rise in 30-year mortgage spreads. Stress levels are now at their lowest levels since February 2008, and while still well above their long-term average have also dropped below the levels seen in previous periods of distress such as in the early 1990s and in 2001-2003.

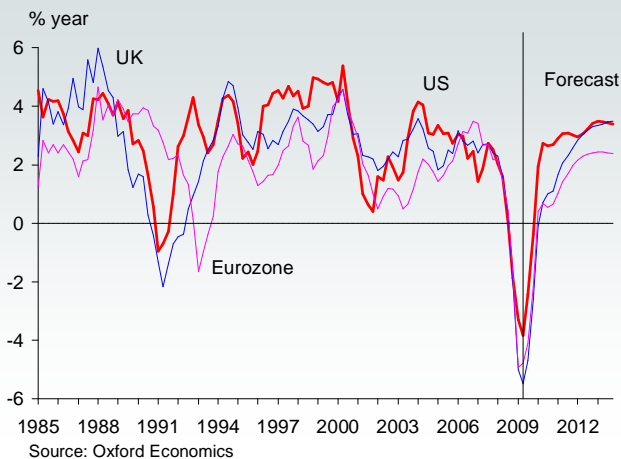
US: Monetary conditions indicator



Monetary conditions indicator

- The monetary conditions indicator is a composite index based on the Fed funds rate, the 10-year bond yield, the yield curve slope and the effective or trade-weighted dollar exchange rate. There was another significant easing of monetary conditions in the last week, taking conditions further into record ‘loose’ territory. The main driver of this was the weaker dollar. The trade-weighted dollar index last week was more than 7% down year-on-year. Meanwhile credit continues to contract, with commercial & industrial loans dropping for the nineteenth straight week in the week to October 7.

World: GDP growth

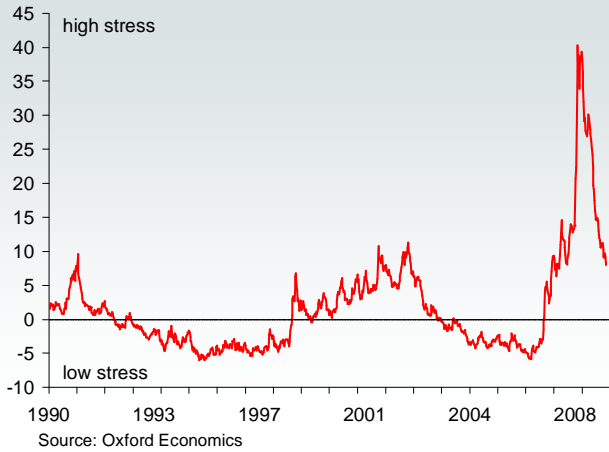


Growth forecasts – US, UK & Eurozone

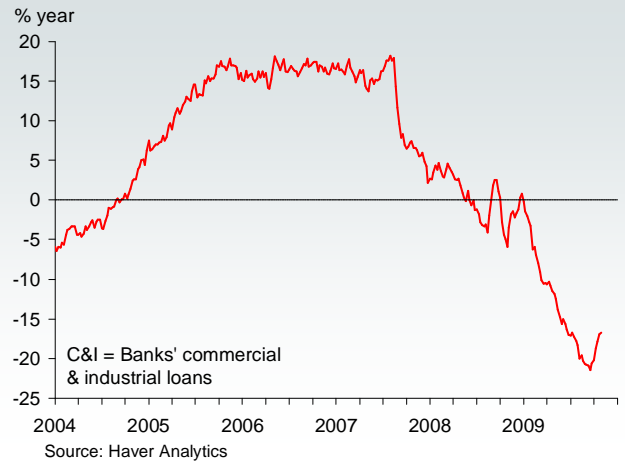
- Another somewhat mixed week in terms of key data releases. In the US, the Beige Book described a relatively subdued economic recovery, and this view received some support from another slight slip in ABC weekly consumer confidence, and higher than expected weekly jobless claims. Existing home sales for September bucked this trend, however, with a robust rise of almost 10%. In the UK, the first estimate of Q3 GDP shocked by showing a 0.4% contraction – the sixth straight decline – although upward revisions seem likely. September retail sales also disappointed, coming in flat for the second straight month. Elsewhere in Europe, the picture looked more upbeat. The October PMI figures showed a further rise in the Eurozone, especially for the service sector, and August industrial orders also showed a solid 2% monthly increase.

US financial stress measures

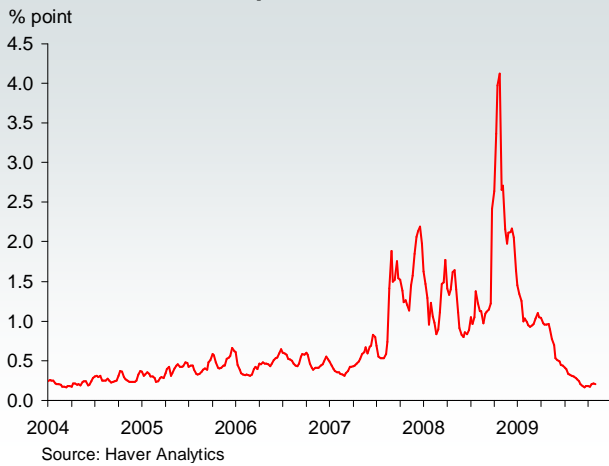
US: Financial stress indicator



US: C&I loans & CP outstanding



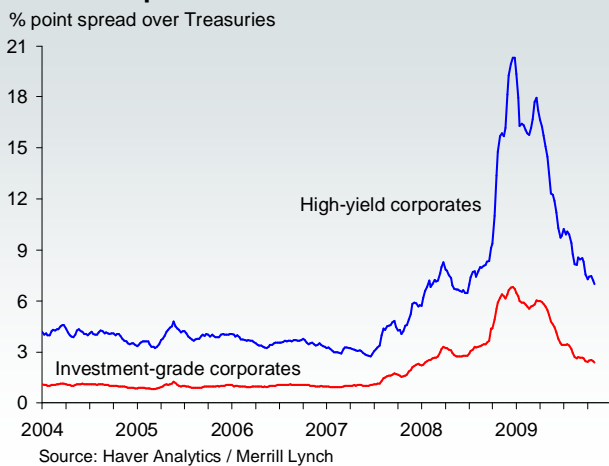
US: 3 month libor spread over 3 month T-bill



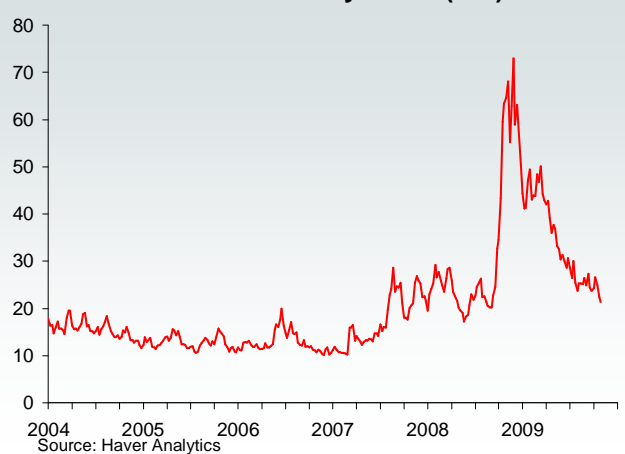
US: Mortgage rates (Freddie Mac)



US: Risk spreads

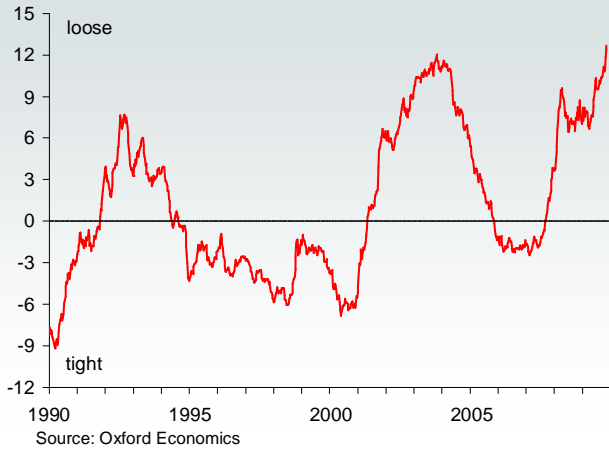


US: CBOE market volatility index (VIX)

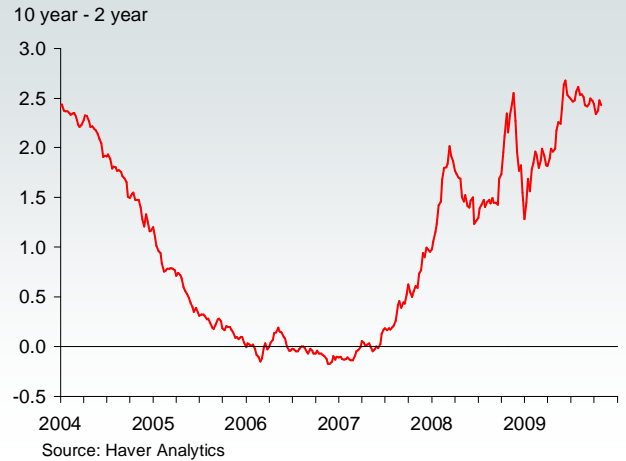


US monetary conditions & other indicators

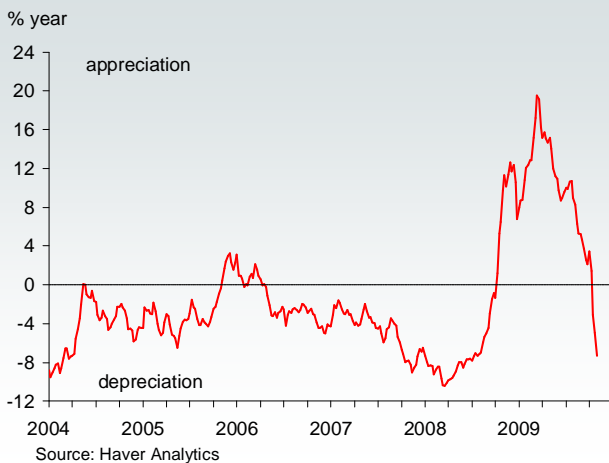
US: Monetary conditions indicator



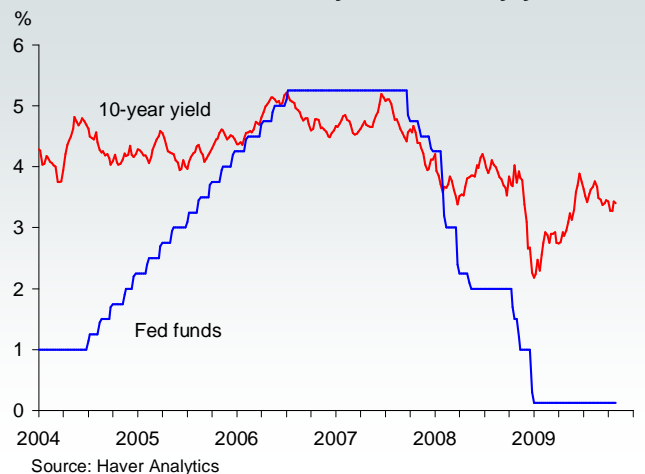
US: Yield curve slope



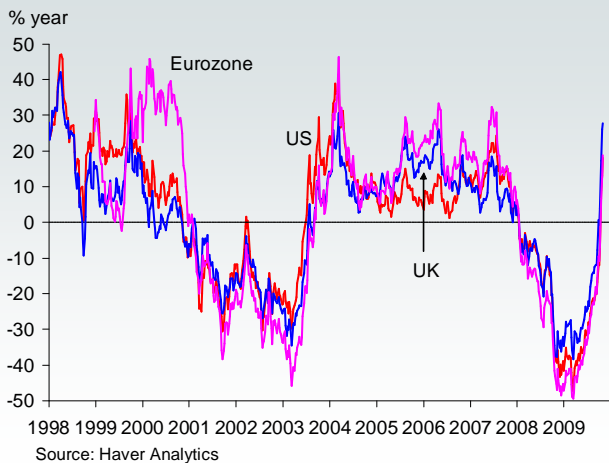
US: Exchange rate (trade weighted index)



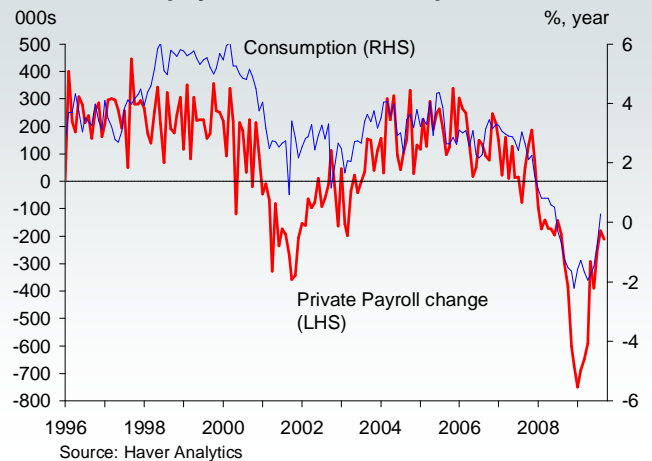
US: Fed funds rate & 10-year Treasury yield



US, UK & Euro: Stockmarkets



US: Private payrolls and consumption



Credit crunch timeline

Apr-07	New Century Financial, subprime lender, files for bankruptcy
Jul-07	Credit crunch begins, sharp rise in financial market volatility Bear Stearns hedge funds collapse Bernanke warns subprime losses may reach US\$100bn
Aug-07	BNP Paribas halts withdrawals from hedge funds due to liquidity problems <i>Fed cuts discount rate 50bp to 5.75%</i> Sachsen Landesbank sold to LBBW due to subprime losses
Sep-07	Sharp rise in interbank rates Northern Rock seeks emergency support from bank of England <i>Fed cuts funds rate 50bp to 4.75%</i>
Oct-07	UBS announces first subprime losses of US\$3.4bn Citigroup announces US\$9bn of losses, Merrill Lynch US\$7.9bn <i>Fed cuts funds rate 25bp to 4.5%</i>
Dec-07	<i>Bank of England cuts rates 25bp to 5.5%</i> Coordinated central bank liquidity support to cover year-end needs - succeeds in temporarily lowering interbank rates S&P downgrades several monoline insurers <i>Fed cuts funds rate 25bp to 4.25%</i>
Jan-08	Major stock market falls in major economies <i>Fed cuts funds rate 125bp to 3.0% in two steps</i> MBIA insurance group announces US\$2.3bn losses due to subprime
Feb-08	<i>Bank of England cuts rate 25bp to 5.25%</i> G7 estimates subprime losses could reach US\$400bn Northern Rock nationalisation announced
Mar-08	<i>Fed offers US\$200bn of liquidity support, biggest amount yet, extends to primary dealers</i> Bear Stearns collapses and is acquired by JPMorgan <i>Fed cuts funds rate a further 75bp to 2.25%</i>
Apr-08	IMF warns credit crunch losses could reach US\$1 trillion <i>Bank of England cuts rates 25bp to 5%</i> <i>Bank of England announces Special Liquidity Scheme offering to swap £50bn of banks' illiquid assets for Treasury bills</i> <i>Fed cuts Funds rate 25bp to 2%</i>
May-08	UBS launches US\$15.5bn rights issue as losses reach US\$37bn
Jun-08	More capital raising efforts - Barclays raises £4.5bn
Jul-08	US mortgage lender IndyMac collapses Authorities announce support for US mortgage lenders Freddie Mac and Fannie Mae HBOS rights issue in UK flops, leaving shares with underwriters <i>ECB increases rates 25bp to 4.25%</i>
Sep-08	Freddie Mac and Fannie Mae rescued by US government Lehman Brothers files for bankruptcy, break up begins Merrill Lynch taken over by Bank of America Federal Reserve announces US\$85bn rescue of AIG, government to take 80% of equity UK's HBOS taken over by Lloyds TSB Washington Mutual closed down, assets sold to Citigroup Belgium's Fortis rescued by Belgian/Dutch/Luxembourg government, Eur 11.2bn cost Paulson Plan announced to buy bad bank assets worth up to US\$700bn UK mortgage lender Bradford & Bingley nationalised Belgian bank Dexia bailed out with Eur6.4bn Further steep rise in interbank rates, sharp drop in equity markets US House of Representatives rejects Paulson Plan
Oct-08	<i>Bank deposit guarantees by Ireland, Greece, Germany, Denmark, Spain and Austria</i> US Senate and House of Representatives pass revised Paulson Plan Second rescue of Germany's Hypo Real Estate Iceland currency collapse and nationalisation of banks UK announces bank bailout scheme <i>Coordinated 50bp rate cut by in US, UK, Eurozone, Sweden, Canada and Switzerland</i> <i>Rate cuts in China, Korea and Taiwan</i> <i>Fed announces direct purchases of commercial paper</i> US plans US\$250bn purchase of stakes in banks Bank bailout plans announced in Holland, Sweden, Korea, Switzerland, Australi, Belgium, France, Germany, Italy and Greece. Asset purchase plans in Spain and Belgium. <i>Fed cuts rates further 50bp to 1%</i> Merill Lynch, Citigroup and UBS announces further US\$18bn writedowns in Q3 <i>Japan cuts rates to 0.3% from 0.5%, India cuts rates 1%</i>
Nov-08	IMF bailout packages for Ukraine, Hungary, talks with Pakistan & Iceland China fiscal stimulus package of US\$586bn <i>Bank of England cuts rates 150bp to 3%</i> <i>ECB cuts rates 50bp to 3.25%</i> Fiscal stimulus packages announced in Germany, Spain and France Eurozone proposes coordinated €200 billion stimulus effort Rescue package for Citigroup - US\$20 billion of equity and US\$306 billion of guarantees <i>Federal Reserve to purchase up to US\$800 billion of asset- and mortgage-backed securities</i> <i>Fed Chairman Bernanke discusses possible purchases of Treasury bonds</i>
Dec-08	<i>Bank of England cuts rates 1% to 2%, ECB cuts 75bp to 2.5%</i> <i>Federal Reserve cuts rate to 0-0.25%, Bank of Japan cuts to 0.1%</i>
Jan-09	<i>Bank of England cuts rate to 1.5% from 2%, ECB cuts to 2% from 2.5%</i> Commerzbank receives €10 billion recapitalisation from German government Bank of America receives additional 20\$ bn bailout in US UK proposes loan guarantee scheme for banks, fund for Bank of England asset purchases
Feb-09	US agrees new stimulus package worth US\$790 billion
Mar-09	HSBC announces US\$18 billion rights issue AIG announces US\$62 billion quarterly loss, US\$30 billion additional government bailout <i>Bank of England cuts rates 50bp to 0.5%, announces £75 billion of quantitative easing</i> <i>ECB cuts rates 50bp to 1.5%</i> <i>Federal Reserve announces big expansion of quantitative easing operations</i> <i>US Treasury announces new plan for removing toxic assets from banks</i>
Apr-09	<i>G20 summit features substantial new resources for the IMF</i> <i>ECB cuts rates 25bp to 1.25%</i> <i>IMF increases estimates of global writedowns to \$4.1 trillion</i>
May-09	<i>Bank of England increases asset purchase scheme to £125 billion</i> <i>ECB cuts rates 25bp to 1%, announces €60 billion of covered bond purchases</i> <i>Fed stress tests suggest large banks need \$75 billion more capital</i>
Jun-09	Ten US banks announce to repay TARP bail-out funds
Aug-09	<i>Bank of England announces to increase QE operations to a maximum of £175 billion</i>