



For Auld Lang Syne, My Dear

The year 2008 has definitely been one for the history books. The severe tightening in global financial conditions has produced a deep downturn in many economies. The U.S., Euro region, Japan and the U.K. are in the worst recession in post-WWII history and together for the first time since 1982. Economic activity in emerging markets has decelerated sharply with an expected average growth rate of just 0.5% annualized in fourth quarter 2008 (4Q08). In recalling the financial atrocities of 2008, there are some events worth mentioning.

Housing sector slump

It all began when someone invented a way to split a pool of mortgage loans into multiple shares which can be sold in tranches and allowed everyday investors to buy into these investments. As low interest rates spurred house purchases and caused housing prices to increase, loans were given to riskier and riskier borrowers. These borrowers started to default on their mortgages and foreclosures caused housing prices to drop. Demand for housing went down causing many of these derivative instruments that banks were invested in to become literally worthless. Worse yet, the loans that banks took to invest in the derivatives still needed to be paid off and banks that were heavy into derivatives were no longer able to pay their bills. RealtyTrac, the leading online marketplace for foreclosure properties, said that U.S. foreclosure filings during the month of November 2008 decreased 7% from October 2008 but was still up 28% from November 2007.

Northern Rock on the rocks

On February 17 2008, Northern Rock became the first British bank to be nationalized since the 1970s. The bank was having problems raising funds to replace maturing money market borrowings. In addition to having a liquidity problem since institutional lenders became nervous over extending credit to mortgage banks following the US sub-prime crisis. Northern Rock would prove to be the first of many of Britain's once-booming banks to trudge through the Chancellor's door begging for aid during the course of the year.

'Bare' Sterns

The troubles at Bear Sterns in the month of March brought light to the financial disaster that was spreading through the markets. As America's house prices turned south, other banks and shareholders lost confidence in Bear's ability to meet its debt obligations. On March 14 2008, the U.S. Fed provided emergency financing to Bear Sterns via U.S. bank JP Morgan in the first bailout of a broker since the Great Depression. By the end of the month, JP Morgan had secured a deal to purchase its once rival at US\$9.32 a share.

Lehman Brothers says goodnight

September may have been the most dramatic month of the year. It began with the Fed's nationalization of Fannie Mae and

Freddie Mac and continued with Bank of America buying Merrill Lynch amidst liquidity fears and Lehman Brothers filing for bankruptcy. In the first half of 2008 alone, Lehman stock lost 73% of its value as it continued to report losses. Without a buyer in sight, the U.S. government let Lehman hit the ground. On September 17 2008, the New York Stock Exchange de-listed Lehman Brothers. The crisis continued with American International Group (AIG) having to borrow \$85 billion at first instance from the Fed to avoid bankruptcy. Federal Deposit Insurance Corporation (FDIC) seized Washington Mutual and sold its assets to JP MorganChase for US\$1.9 billion and later announced that Citigroup Inc. would acquire banking operations of Wachovia. However, on October 3 2008, Wachovia announced the entire company would instead be merging with Wells Fargo. After much controversy and Citigroup's attempts to stop the deal, on October 12 the U.S. Federal Reserve approved Wells Fargo's takeover of the bank, a deal which would create the largest bank branch network in the United States.

Global inflation

Oil was one of the major contributors to the high inflation experienced around the globe in the first half of the year. Crude oil doubled in price in less than six months and soared to a record high of US\$147 on July 11 2008. Its seemingly unstoppable rise was cut short by a slowing global economy, and by extension, falling demand, as crude oil fell to below US\$40 a barrel in December. A wave of deflation is now very likely to sweep the globe due to falling commodity prices and contracting resource utilization.

Iceland thaws out

The Icelandic financial crisis revolved around the collapse of all three of the country's major banks following their difficulties in refinancing their short-term debt and a run on deposits in the U.K. The national currency depreciated 40% against the Euro during 2008 and the economy experienced inflation of 14% resulting in a hike in interest rates that drove overnight lending rates to 15.5%. The market capitalisation of the Icelandic stock exchange dropped by more than 90%, and a severe economic recession is expected.

So what's in store for 2009? There seems to be no light at end of the tunnel according to some analysts: The global economy appears to be spiraling toward a recession. Falling consumer spending is leading to increased unemployment as businesses reduces costs to stay afloat and an expected reduction in global GDP by an annualized 3% in 4Q08. The developed economies will continue their recession into 2009 while emerging markets are expected to show tepid growth figures in 1Q09. Central banks in developed economies are aggressively lowering policy rates toward zero with the Fed already at 0-0.25%, Bank of Japan at 0.1% and European Central Bank heading to 1% by 2Q09. Although an economic recovery is expected to begin by 2Q09, growth will remain sluggish and deflation will become a serious short-term risk as long as growth and demand remain weak.

Current Happenings in Local and International Markets:

- Finance Minister projects lower inflation
 - SBTT growth slows in fourth quarter
 - Declines continue to monopolise trading activity
 - Sagicor Group Jamaica leads the way in best practices
 - Blue Cross replaced - To be rebranded as Sagicor, Merger to be finalised by March
 - FCIB loses value, but Jamaican operation grows profit
-

- Discover, Capital One Closing Inactive Accounts to Reduce Risk
- EU Says Economy Faces Substantial Impact From Crisis
- U.K. Jobless Claims Rose at Fastest Pace Since 1991
- Fitch cuts Venezuela credit rating
- Bailout approved: Automakers to get \$17.4B
- Panasonic to buy Sanyo in \$9 billion deal

Table 1: Regional Market Performance (as at 18 December 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	846.06	-0.89	-5.81	-13.85	-11.06
All Trinidad	1,161.84	-0.26	-3.71	-3.24	-2.07
JSE Index	79,510.29	-3.25	-11.93	-26.36	-24.18
JSE Select	1,936.77	-1.10	-17.13	-33.88	-32.65
All Jamaica	72,532.32	-1.21	-16.11	-32.07	-30.65
BSE Composite	934.58	-0.17	-6.13	-9.16	-8.64

Table 2: International Market Performance (as at 18 December 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	885.28	1.34	3.04	-39.71	-39.16
Nasdaq Composite	1,552.37	2.95	4.66	-41.47	-40.20
Dow Jones Industrial	8,604.99	0.47	2.14	-35.13	-34.97
German Dax	4,756.40	-0.23	3.86	-41.04	-39.41
FTSE 100	4,330.70	-1.32	2.90	-32.93	-31.03
Nikkei 225	8,667.23	-0.61	4.07	-43.38	-43.01
Hang Seng	15,497.81	-0.74	19.99	-44.28	-42.03
DJ Eurostoxx	2,452.42	-1.33	2.61	-44.26	-43.13

DISCLAIMER

The information contained in this documentation is for your information only. All information contained in this documentation has been obtained from and is based on sources, including but not limited to, newspaper and magazine articles that CMMB believes to be accurate and reliable. However such information, facts, calculations, methodology, assumptions and estimates contained in this documentation have not been verified by us. All opinions and estimates constitute the Author's judgment as of the date of the documentation which are subject to change; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this documentation is given or made by CMMB in any form whatsoever. Consequently, CMMB assumes no liability for the accompanying information, which is being provided to you solely for general information.