



## ***Just Another Manic Monday on the Markets***

The Dow Jones Industrial Average closed below the 10,000 mark for the first time in nearly four years on Monday 6 October 2008. At one time during the trading session, the Dow had shed as much as 800 points before recovering to just about 9950. This downward move below a key level followed closely on the heels of the Dow's historic and largest single point drop ever of 777 points, on another 'manic Monday' – the 29<sup>th</sup> of September – a mere two weeks before.

The drama on Wall Street unfolded as the US Government's USD700 billion bailout failed to inspire confidence and allay investor fears over the state of the fragile financial system. The inability of European leaders to reach a collective agreement to deal with the credit crisis contagion now facing the Euro-region only served to heighten investor anxiety.

Other stock indices around the rest of the world were not left unscathed. Financial stocks spanning the globe were hit hard as BNP Paribas agreed to take control of Fortis after a government rescue failed, and German state and financial institutions put together a 50 billion-euro (USD68 billion) rescue package for Hypo Real Estate Holding AG.

Emerging markets posted their worst intraday decline since 1987 with the MSCI Emerging Market equity index down 11%. The Brazilian stock index (Bovespa) closed at 42,100.80 down 2416.50 points, a loss of 5.4%. The two largest listed Brazilian companies, Vale de Rio Doce and Petro Brasileiro SA saw their shares fall more than 10% on concern that demand for metals and fuel will dampen. Brazil is also the world's largest producer of coffee, orange juice and sugar with approximately half of its listed companies being raw materials producers. As such the Brazilian equity index has fallen victim to the recent commodities correction. The Bovespa had tanked as much as 13% during the session forcing trading on that exchange to be halted twice that day.

Over in Russia, their stock index, the Micex Index, fell 172.55 points to 752.00 before trading was halted for the third time. The Russian government has been coping with the worst financial turmoil since the state's debt default in 1998. In terms of remedial measures, the government has pledged more than USD150 billion for banks and companies via loans and tax benefits. For instance, on September 17<sup>th</sup> the Russian Finance Ministry pledged USD44 billion for OAO Sberbank, VTB Group and OAO Gazprombank, the country's three biggest banks on the understanding the funds would be used to end a seizure in money markets after interest rates soared to a record 11.1%. On 6 October, shares of Sberbank, Russia's largest bank, dropped as much as 22%, and OAO Gazprom the country's biggest company and gas export monopoly, fell 20%.

Across Asia as well, stock indices were hurt. In India, the Bombay Stock Exchange's Sensitive Index, or Sensex, fell 5.8% to 11,801.70, its lowest level since September 2006. ICICI Bank Ltd., India's second-biggest lender, saw its shares fall 2.8%. Over in China, the Hang Seng Index closed at 16,803.30 down 878.60 points, a drop of 4.96%.

In its relentless drive to ease the credit crunch, the US Federal Reserve announced on Tuesday 7 October that it would

create a special purpose vehicle to purchase three-month unsecured and asset-backed commercial paper. This has come in the wake of the fact that lending in the commercial paper market has come to a near standstill in recent weeks given the turmoil in U.S. financial markets. U.S. stock indices still closed lower for a fifth straight session on 7 October though, that saw the S&P 500 ending the trading day at a five-year low of 996.40 breaking below the psychological barrier of 1,000 mark, as the Federal Reserve's latest steps to ease frozen credit markets did little to appease nervous investors.

In a synchronized move announced prior to the opening of U.S. markets on 8 October, the Fed lowered its key lending rate by half a percentage point, to 1.5%. The European Central Bank slashed its key rate to 3.75% from 4.25%, and the Bank of England trimmed its benchmark rate to 4.5% from 5%. The Bank of Canada, the Swiss National Bank and the Swedish Riksbank cut rates as well. The Bank of Japan did not follow suit, but instead issued a statement supporting the moves. It is left to be seen whether these measures would lead to a turnaround of the ongoing dire situation facing the global financial system.

For risk-averse investors, the best option with respect to US shares at this juncture would be to liquidate and wait, that is, sell-off existing equity positions and do not enter new ones until there are definite signs of a fundamental turnaround where select financial firms, transportation companies and even some consumer discretionary companies are likely to lead the rally. Investors who can afford to and are inclined to take risk in the US stock market under current conditions should proceed with extreme caution as they may be forced to bear the pain of short to medium-term downside on stocks of even good companies and are advised to develop and stick to a trading strategy. Until the fate of the financial system becomes clearer, the US stock indices may be in for many more volatile trading days ahead.

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### ***Current Happenings in Local and International Markets:***

- Economist: US meltdown will not affect T&T
  - After local stock market plunge: Calls for new trading controls
  - Flour price down, bread still up
  - CMMB predicts 16 per cent inflation by year-end
  - Farrell: T&T not ready for Vision 2020
  - Financial crisis affecting Caribbean tourism
  - ANSA McAL executives hold exploratory talks with Grenadian PM
  - Jamaican market loses \$9.3b of value in two days - Down \$83.6b since September
  - Standard & Poor's predicts economic downturn for Barbados next year
  - Fed, ECB, Central Banks Cut Rates in Coordinated Move
  - Paulson Signals U.S. May Invest in Banks to Shore Up Confidence
  - Bernanke, Paulson Seek Global Help as Crisis Swamps U.S. Steps
  - Wells Fargo plans to buy Wachovia; Citi ends talks
  - Oil plunges below \$80 as global demand weakens
  - GE 3rd-Quarter Profit Falls 22%, Hurt by Finance Unit
  - August US trade deficit falls to \$59.1B
  - Latin American Banks Dig Into Reserves to Salvage Currencies
  - U.K. May Own 30 Percent of Big Banks in Bailout Plan
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- Brazil's Inflation Rate Drops to Lowest in a Year
- Bank of America Raises \$10 Billion After Dividend Cut
- China Cuts Interest Rate for 2nd Time in Three Weeks
- S&P 500's Decline Makes Decade Worst Ever
- British Banks Get Unprecedented Government Bailout

**Table 1: Regional Market Performance (as at 9 October 2008)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	1,001.88	-5.37	-10.09	2.02	6.16
All Trinidad	1,335.53	-6.67	-10.52	11.23	12.39
JSE Index	96,805.37	-1.23	-8.63	-10.34	-1.38
JSE Select	2,553.20	-1.04	-13.22	-12.83	0.58
All Jamaica	94,198.62	-1.24	-12.17	-11.78	0.51
BSE Composite	1,038.74	0.14	-3.03	0.97	2.18

**Table 2: International Market Performance (as at 9 October 2008)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	909.92	-18.34	-25.69	-38.03	-41.86
Nasdaq Composite	1,645.12	-16.78	-25.55	-37.97	-41.33
Dow Jones Industrial	8,579.19	-18.16	-23.61	-35.32	-39.43
German Dax	4,887.00	-15.69	-21.60	-39.42	-38.76
FTSE 100	4,313.80	-13.62	-20.34	-33.19	-34.79
Nikkei 225	9,157.49	-17.91	-26.15	-40.18	-46.63
Hang Seng	15,943.24	-12.45	-22.19	-42.68	-43.52
DJ Eurostoxx	2,629.04	-14.62	-19.38	-40.25	-40.89

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