Global perspective needed for City reputation

CITY COMMENT
NICK ANSTEE

IT'S MONDAY and, having just returned to the Square Mile after leading a City delegation to the US, I now have to prepare to leave London again on Saturday for the first of two visits to the Gulf.

The close proximity of these business visits throws up some major contrasts between these two markets.

In many ways, the Gulf and US could not be more different. And yet the UK has the expertise and products needed to help both regions overcome the current economic difficulties they are currently facing.

Of course, the UK has its own problems but financial centres are not in a zero sum game and we can all be stronger if we work together to overcome our respective challenges.

Take Islamic finance. The UK today is the leading western country offering Islamic products – with $19bn in assets – and the leading market outside the Muslim world. London is the western hub as far as capital markets in the Gulf States are concerned and the London Stock Exchange raised $11bn via sukuk – or Islamic bond – offerings to the end of 2009.

As my last week spent in the US made clear, London is well positioned to act as a conduit for largely untapped liquidity in the Gulf that could benefit those firms hungry for capital on the other side of the Atlantic, especially in gas and oil.

With business funding in short supply in a post-credit crunch world, the petrodollars of Islamic finance – worth over $1 trillion worldwide – are needed to complement, if not replace, existing pools of capital.

This financing method is a welcome addition to the range of products and services that the City can offer to international investors. Furthermore, these are all backed by a trusted legal framework and concentration of expertise when it comes to specialist professional services.

The current crisis has shown how interconnected financial centres have become and therefore we – both policy makers and practitioners – need to adopt a global perspective in order to rebuild the industry's reputation.

As City workers, we know that this recent financial crisis has led to a breakdown in trust between parts of the City and wider society.

At the Guildhall dinner for International Bankers tonight I will speak about the need to restore that trust and re-establish a workable social contract between citizens and the City.

Nick Anstee is Lord Mayor of the City of London.

Bank may call time on its QE programme

UK ECONOMY
BY JESSICA MEAD

THE Bank of England is this week expected to turn off the stimulus taps and bring its unprecedented £200bn quantitative easing programme to an end when the Monetary Policy Committee (MPC) meets later this week.

The central bank has been injecting money into the UK economy from last March and has so far bought almost £200bn of assets, mainly gilts. But after the last increase to QE back saying that the gilt-buying is likely to end in February, when the Bank will benefit from a fresh set of inflation and growth projections.

But while a majority of economists still forecast the QE programme to be paused this month, recent data has put the cat among the pigeons.

Inflation data for December came in at 2.9 per cent – much stronger than many economists, or indeed the Bank of England, had forecast. This immediately prompted talk of policy tightening.

But then extremely weak GDP growth data for the fourth quarter was released last week. This tipped the balance back towards a continuation of the Bank's extremely expansionary monetary policy.

Economists are once again split about what the Bank ought to do. Investec's Philip Shaw thinks that the MPC will most likely be in wait and see mode for a while and will only start to hike rates around mid-year.

This will be in "response to increasing signs that the recovery is becoming self-sustaining and that the major downside risks to activity are disappearing", he added.

Citigroup's Michael Saunders also thinks that the MPC is likely to pause this week. This implies that the BoE gilt purchase programme will end, but it does not imply that the MPC will immediately seek to sell its gilts — "although this will, we suspect, start before year-end," he adds.

But other economists think that interest rates are likely to stay at the current of 0.5 per cent until at least the end of this year. The MPC might prove itself ready to inject further stimulus into the economy, should we experience a double-dip recession.

The next Inflation Report on 10 February will give more clues as to which view the MPC sides with.

HOW WILL THE MPC RESPOND TO INFLATION AND WEAK GROWTH?

Interviews by Jessica Mead

MICHAEL SAUNDERS | CITIGROUP

"It is by no means a done deal, but we expect that the MPC will decide at the upcoming meeting that improving growth prospects and upside inflation risks require it to suspend quantitative easing – leaving intact the stimulus but not expanding it further."

PETER DIXON | COMMERZBANK

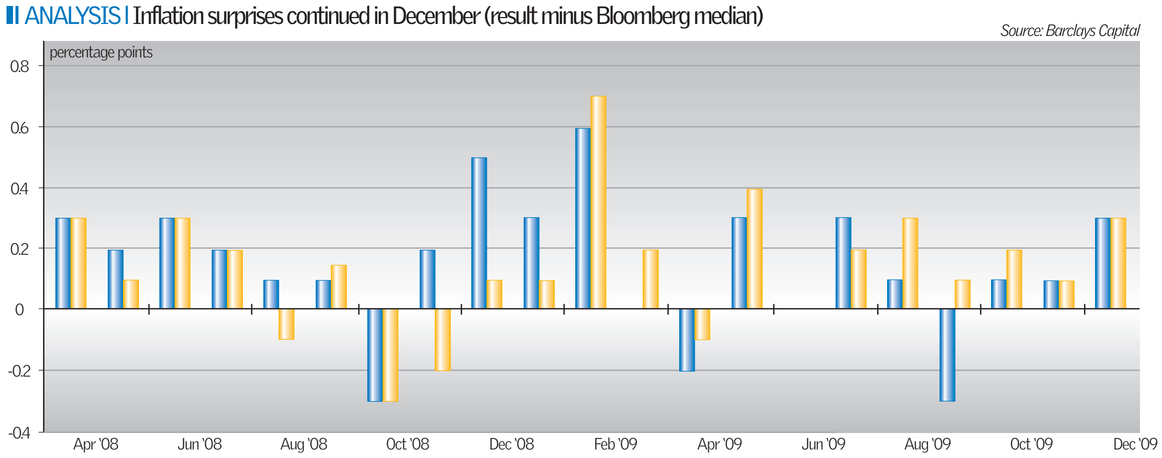
"It is doubtful that the BoE will give a definitive statement that it has finished buying assets. It is more likely that the decision next week will be couched in terms of a pause, with the implicit assumption that it could step into the market at some point in the future."

VICKY REDWOOD | CAPITAL ECONOMICS

"Fears that a looming inflationary surge will prompt the Committee to start tightening policy seem overdone. The large amount of spare capacity in the economy remains top of the MPC's concerns when it comes to the outlook for inflation further ahead."

ANALYSIS | Inflation surprises continued in December (result minus Bloomberg median)

Source: Barclays Capital



Double dip recession and effects of tax crackdown top London business fears

ECONOMY
BY VICTORIA BATES

THE fear of a double-dip economic recession and concerns that the government's tax crackdown will force talented individuals overseas have topped a list of major worries experienced by business leaders in London, according to a new survey.

London's top financiers and company executives are still fretting over a potential plunge back into recession, the research by accountancy firm PricewaterhouseCoopers shows, despite data last week showing the UK has officially exited recession.

The capital's most powerful business figures aligned themselves with the general feeling across the country that future public sector expenditure cuts could send the UK spiralling back into the economic mire, as the next government attempts to reduce the burgeoning fiscal deficit.

"Concern over the extent and nature of public spending cuts yet to be detailed is widespread," PwC head of regions Kevin Nicholson said. "The extent of expenditure cuts, given the fiscal deficit, is only now becoming apparent, and the likelihood is that local authorities and regional governments across the country will see significant cutbacks."

The survey, which was carried out across all the regions in the UK, also showed that a primary concern among business leaders in London is that the government's new 50 per cent income tax band and stringent changes to the non-dom tax policy will drive entrepreneurs, executives and senior management overseas to more favourable tax regimes.

Gold firms could increase valuation via a relisting

COMMODITIES

ALMOST 30 London gold companies could significantly enhance their stock market valuation if they were to migrate to a different exchange or consider dual listing, Edison Investment Research analyst Charlie Gibson has suggested.

Gibson said variations in the categorisation of gold resources in different countries – which change according to the reliability of estimated deposits – can have marked consequences for a company's rating.

Australia is particularly attractive to investors since it ascribes the highest value to so-called "inferred resources" and measured ounces, therefore offering a significant uplift in a company's value upon listing in the country.

Gibson added that the average gold ounce is actually worth $159 (£99.64) per ounce when taking into account the differences in valuation, rather than its historic benchmark worth of $35 per ounce. This is despite the average cost of discovering gold falling to just under $9 per ounce.