Credit Suisse warns of bond funding cloud on horizon

Rosamund Urwin
04.12.09

The bear market will be back at the end of next year.

That's the verdict of Credit Suisse, which today issued a bleak warning to investors of further pain ahead, particularly in the UK.

In its 2010 equity strategy note, the Swiss banking heavyweight predicted shares will suffer across the globe late next year as a government bond funding crisis unfolds. But analysts warn that the UK is the worst off, with the highest chance of a government debt funding crisis of any country in the G7.

They also believe such a crisis could force the Bank of England to expand its quantitative easing programme and that the monetary policy committee risks losing credibility with its overly-optimistic forecasts for economic growth this year and next.

Credit Suisse warns that the UK economy is in dire straits and that its long-term problems appear much more severe than those in the US and Europe.

It also believes FTSE stocks look overbought compared with other markets. Analysts warn to be most cautious about the domestic cyclical stocks, picking out Kesa, 1p cheaper at 158p, Marks & Spencer, flat at 400p, and Debenhams, ½p higher at 84p. Shares in London fell as heavy losses from banking stocks weighed on the index. The benchmark FTSE 100 lost 14.96 points to 5298.04.

It would be disastrous news for British Airways' long-suffering passengers if the threatened cabin strike goes ahead this month, but Citigroup was looking on the bright side. The Canary Wharf big-hitter reckons the cratering in the airline's shares that this would inevitably cause would provide a great buying opportunity for investors.

Citi is now a fan of BA, advising clients to snap up the stock and raising its price target from 250p to 280p. It believes a recovery in premium traffic will give a boost to earnings next year, with Club World, its most profitable part of the business, already starting to bounce back.

Meanwhile, the bank's aviation experts reckon that the Iberia and American Airlines mergers will bring synergies of £1.3 billion, while any positive news on its American joint venture should push up the shares. The broker optimism sent the shares flying to the top of the FTSE winners board, 1½p stronger at 209½p.

Meanwhile, investors are wondering just how much worse it could get for AIM-listed Pubs n' Bars. The group, which operates about 90 “community” pubs in the South-east has complained lately of difficult trading conditions and a lack of credit from suppliers.

Today it asked for its shares to be suspended from trading before the market opened “pending clarification of the group's financial situation”. The shares were suspended at 2¾p, which values the business at £2.4 million.

Banks were largely on the back foot after a mixed note from JPMorgan. Royal Bank of Scotland took the wooden spoon among the top flight, falling 3p to 34p as the bank's analysts advised dumping the shares.

They warn that there are “hard decisions ahead” for RBS chief executive Stephen Hester and that it is difficult to determine what the group will look like after the EU has made its restructuring demands. But they predict European competition watchdogs will take a 15% bite out of core pre-tax profits. They set a 38p price target for the shares, or around 31p if it is forced to make sell-offs.

Barclays lost 1p to 302p despite the broker upgrading the shares from underweight to neutral while HSBC, its top pick, marked time at 722½p.

Tokyo shares rose above the 10,000 mark for the first time in five weeks. The Nikkei Average closed 44.92 points higher at 10,022.59, posting its biggest weekly gain in more than a year and rising over 10% on the week. This broke a five-week losing streak thanks to a wave of short-covering.

Asian stock markets were mostly marked slightly lower amid jitters about the crucial US jobs numbers.

Economists forecast that the US lost another 130,000 jobs in November, with the unemployment rate unchanged at 10.2%. Any disappointment about the numbers is expected to trigger a fresh round of selling.

On Wall Street, shares were hit by a bout of late selling amid new signs of weakness in the economy. A worse-than-expected snapshot of the country's service sector showed activity contracted last month after expanding in October. The Dow slid 86.53 points to 10,366.15 but is still down only 1% from Tuesday's 14-month closing high.

http://www.thisislondon.co.uk/standard-business/article-23779463-credit-suisse-warns-of-bond-funding-cloud-on-horizon.do