

Banks Slash Rates as Markets Crash

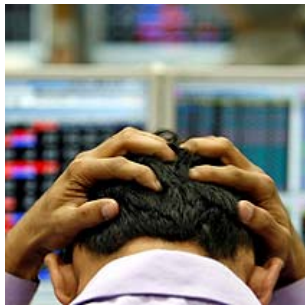
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OTTAWA_- With world stock markets reeling at the prospect of a sharp downturn in the U.S. economy spreading around the globe, the Bank of Canada and the U.S. Federal Reserve both slashed interest rates on Tuesday.

Before markets opened, the Fed announced an emergency rate cut of 75 basis points to 3.5 per cent. It also lowered the discount rate it charges on direct loans to banks by 75 basis points to four per cent.

Meanwhile, the Bank of Canada reduced its key lending rate 25 basis points to four per cent.



An Indian broker reacts while trading at a stock brokerage firm in Mumbai, January 22, 2008. Shares from Sydney to London sank for a second day on Tuesday, dragging commodity prices with them and promising similar falls for Wall Street as investors abandoned assets exposed to the risk of a global economic slowdown.

News of the Fed rate cut failed to stave off sharp declines in U.S. stock markets,

with the Dow Jones Industrial Average falling 302.80 points, or 2.47 per cent to 11801.54, by 9:51 a.m.

The Toronto Stocks Exchange rallied however, up 263 points to 12,395, after suffering a 600-point loss the day before.

The Canadian dollar rose 67 basis points to 97.48 cents US.

"Financial market conditions have deteriorated since October,"_the bank said in an accompanying statement, "leading to a tightening of credit conditions in industrial countries. Given this, and a deeper, more prolonged decline in the U.S. residential housing sector, the 2008 outlook for the U.S. economy is now significantly weaker" than forecast in October.

While the bank said it expects domestic demand to remain strong in Canada, it projects weaker growth in 2008 than previously forecast. It said it expects somewhat stronger growth in 2009. It has also slashed its inflation expectations, saying both core and total inflation should fall below 1.5 per cent by the middle of this year before returning to the two per cent target by the end of 2009.

"In line with this outlook, the bank has decided to lower the target for the overnight rate and further monetary stimulus is likely to be required in the near term to keep aggregate supply and

demand in balance and to return inflation to target over the medium term."

The larger U.S. rate cut "is the first rate cut of this magnitude since Oct. 2, 1984, and the first inter-meeting cut to the fed funds rate since September 17, 2001 (just after 9/11)," said Eric Lascelles, chief economics and rates strategist for TD Securities.

"The magnitude of the action suggests that the Fed now treats both the economic and financial market conditions with a great deal of seriousness, and that the Fed was either well behind the curve or believes that the magnitude of the situation is the most serious in several decades."

The Bank of Canada move, one of the last by outgoing governor David Dodge, comes as a rout of global markets continued to dash value from stock values. The Nikkei stock average closed down 5.65 per cent and Hong Kong's Hang Seng index lost 8.65 per cent a day.

European markets recovered after falling more than 4.4 per cent, with the pan-European FTSEurofirst 300 index up 0.6 per cent at 1,287.92 points after the Fed's announcement.

The subprime mortgage market downturn, largely blamed for much of

the global liquidity crisis, wreaked more damage Tuesday on U.S. bank earnings. Bank of America Corp, the second-largest U.S. bank, said on Tuesday that its fourth-quarter profit was hurt by more than \$7 billion of losses tied to poor trading decisions and mounting credit woes.

Wachovia Corp. said profit fell 98 percent to its lowest since 2001 after write-downs for bad loans and mortgage-backed securities.

Oil markets were not spared as crude was off \$3.31 to \$87.26 as expectations of slowing industrial demand sent the contract for light, sweet crude for February delivery down \$3.31 to \$87.26 a barrel in electronic trading on the New York Mercantile Exchange by midday in Europe.

Shanghai copper and zinc futures fell by their four per cent daily limit as fears that the risk of a U.S. recession could eat into global growth

Source: The Vancouver Sun, Tuesday, January 22, 2008
<http://www.canada.com/vancouver/news/story.html?id=064ef1e9-5a27-4851-b525-d7d3b8e16a7f&k=4659>

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