

European stocks rallied on news that the central banks of the US, the UK, the European Central Bank, and those of Japan, Canada and Switzerland and Japan would be releasing US\$247 billion of funds to ease the severe liquidity pressures in short-term money markets. In the UK the shares of many of the FTSE listed banks such as Barclays, RBS and HBOS rose. Lloyds TSB announced more details of its £12.2 billion takeover of HBOS valuing HBOS' shares at 232p, which led to them rising 40% to 206.50p. The Chinese government on Thursday evening (Beijing time, mid-afternoon London) announced that it would support the country's stock market, which is down 70% since last October. Stamp duty on stock purchases is to be stopped and a state investment agency is to buy shares in three state-controlled banks. The Russian government pumped 60 billion roubles (£1.3bn) into the country's three largest banks in order to defend liquidity in its markets and the Russian Micex market was re-opened today so that repurchase deals could be carried out. But the main stock market will remain closed until tomorrow. Russia's government announced that it will cut duties on oil exports which will gift the industry US\$5.5 billion; this led to the shares of Russian oil companies such as Rosneft and Lukoil rising strongly in London.

Expectations of further consolidation in the US financial sector and the increase in available liquidity helped support the US market in early trading on Thursday and the S&P 500 index was marginally up shortly before midday. Investment bank Morgan Stanley was reported to be in talks about selling a 49% stake to state-controlled China Investment Corporation. The Securities and Exchange Commission (SEC) unveiled new rules which prohibits 'naked' short selling (thereby forcing investors to actually borrow shares before they short them). The oil price which had dropped below US\$100 a barrel on Monday for the first time in four months rose back close to the US\$100 mark again on Thursday, while the gold price made further 'safe haven' gains. Below Charles Whall, Global Analyst – Resources and Utilities at Newton Investment Management, give his thoughts on oil market developments and where the oil price is heading:

'The fundamental correction in the oil price ... has been driven too far by the effects of technical factors. Just as index buying had driven the oil price up too far too fast, so concerns over the credit crisis, forced redemptions and the wholesale selling of commodity indices have driven the correction.'

"The oil price has fallen sharply in recent weeks and we regard this fall as being attributable to a combination of technical and fundamental factors. First, in relation to fundamentals, the effect of higher prices and a slowing global economy was to weaken demand at the same time as the Saudis were under huge pressure to demonstrate that they could ensure the market was supplied. An increase in Saudi supplies and the weakening demand picture saw US demand fall by over a million barrels a day, while OPEC production rose by over a million barrels a day in June (just as prices peaked). This spurred the fundamental correction, which we think has been driven too far by the effects of technical factors. Just as index buying had driven the oil price up too far too fast, so concerns over the credit crisis, forced redemptions and the wholesale selling of commodity indices have driven the correction. We expect an oil price of around US\$90/barrel to be a natural floor, as it is the marginal cost of supply, but further index selling could take it below this level."

"The fundamental picture is tightening as we move towards the final quarter of the year. During the third quarter, approximately 60 million barrels of production will have been lost owing to unforeseen outages, hurricanes, conflict in Georgia and production failures in Angola and Nigeria. As pump prices correct and as consumers grow accustomed to higher prices, there are some signs that demand is steadying. It is still difficult to read the situation in China, but we would anticipate that, with OPEC delivering just 50% of the stated cuts, global inventories should fall by a million barrels a day during the fourth quarter, thereby causing oil prices to firm. Although 2009 remains difficult to call, the delay for many new projects suggests a rapid tightening in the oil market from 2010."

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