"This Sucker Could Go Down"

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"Chaos," "disarray," "unprecedented political wrangling," Treasury Secretary Henry Paulson on bended knee pleading for a lifeline, and President George W. Bush warning, "if money isn't loosened up, this sucker could go down." These were the dramatic scenes in Washington yesterday where the historic $700 billion bailout plan now looks very much in doubt, The New York Times, Wall Street Journal and Financial Times all report this morning. Congressional negotiators called off talks at 10:30 p.m. EST, the NYT reports, failing to reach an agreement and all but piercing the bubble of hope generated by the markets' comeback earlier in the day [3]. The high drama culminated in a plea from Paulson to Democratic leaders, barging into their White House meeting on Thursday, urging them not to say anything that could destroy the fraught negotiations, WSJ reports. The newspaper adds, "In doing so, the Treasury secretary got down on one knee, a gesture that one of these people described as a moment of levity in a rough day."

The big opposition comes from House Republicans who, according to NYT, "have spent days expressing their unease about a huge government intervention, which they regard as a step down the path to socialism." A socialist? Paulson, the former head of Goldman Sachs? Such recriminations point to how far the the bailout talks have devolved in a matter of days [4], the FT reports. Even the appearance of senators John McCain and Barack Obama, calling a pause to their campaigns, couldn't bring order to the process, Los Angeles Times reports. Instead, it added emotionally charged political theater, precisely what McCain said he wanted to eliminate with the campaign trail detour. (It didn't help that McCain kept his running mate on the campaign trail on Thursday and continued to attack his opponent on the airwaves with a volley of ads, the LAT adds.)

Earlier in the day there had been a flicker of hope. Democrat and Republican senior lawmakers had agreed in principle to a deal that "would authorize unprecedented government intervention to buy distressed debt from private firms, would include limits on pay packages for executives of some firms that seek assistance and a mechanism for the government to take an equity stake in some of the firms, so taxpayers have a chance to profit if the bailout plan works," the NYT reported. But, hours later, the undoing came when Republicans introduced an alternative plan [6] that "would make use of a government-run mortgage insurance program, rather than have Uncle Sam buy overvalued mortgages from banks and other institutions," BusinessWeek reports. The stalled plan sank Asian stocks [7] on Friday, AFP reports, and Europe was down too [8], Bloomberg adds. Expect another day of high drama on Friday.

To make matters worse, Washington Mutual went under yesterday. As part of the largest bank failure in U.S. history [9], federal regulators seized the 119-year-old thrift on Thursday and arranged a fire sale deal with J.P. Morgan Chase, WSJ reports. "J.P. Morgan agreed to pay $1.9 billion to the government for WaMu's banking
operations and will assume the loan portfolio of the thrift, which has $307 billion in assets," the newspaper reports. The hastily arranged tie-up, designed by the FDIC, is intended to keep the bank operating without any disruption, LAT reports. The deal vaults JP Morgan Chase into first place in the American banking sector by deposits, WSJ reports. Not all banks are so gung-ho these days. HSBC announced it would be cutting 1,100 jobs around the world, blaming the current financial turmoil for the decision, BBC reports. General Electric, too, is forecasting further pain, forecasting a profit shortfall for the rest of 2008 citing "unprecedented weakness and volatility in the financial services markets," NYT reports. The culprit is weaknesses in its finance arm G.E. Capital, which accounts for half of G.E. profits.

Meanwhile, the deepening credit pullback threatens to create a cash squeeze that could "soon affect how companies meet payroll, pay vendors and make investments," the WSJ ominously reports. The problem, according to the WSJ, is that the overnight Treasury repo market, the short-term commercial-paper markets and the floating-rate municipal bond markets -- you've probably only heard of these markets if you run the finances of a business -- have virtually seized up in recent days, all but locking out business from securing short-term credit needed to run daily operations. “These moves are having extraordinary negative impacts on the brick-and-mortar level of the U.S. economy,” T. J. Marta, a fixed-income strategist at Royal Bank of Canada told NYT. “We’re not talking about highfalutin, fat-cat Wall Streeters. This is whether or not your local hospital gets the new wing put on.”

Financial gloom was backed up by some hard economic facts. CNN Money writes that new home sales fell to its lowest level in 17 years last month, while "the backlog of unsold homes rose to a bloated 10.9-months' supply" at the current sales pace," added the WSJ, quoting a Commerce Department report. At the same time, there's been a sharp decline (4.8% in August) in orders for durable goods such as cars, furniture and appliances - demonstrating that "a slowdown in business and consumer spending -- two key drivers of economic growth -- is already under way". Together, the data offered sobering "fresh evidence the economy is in recession," Bernard Baumohl, managing director of Economic Outlook Group in Princeton, N.J. told the WSJ. For the first time in nearly a century the U.S's financial superpower status is threatened, says the FT. It quotes a speech given to the German parliament yesterday finance minister Peer Steinbrück. "The U.S. will lose its status as the superpower of the world financial system. This world will become multipolar," he said pointing to new capital centers emerging in Asia and Europe. Not all of the world will benefit from the U.S. decline. Countries in "Eastern Europe, Latin America and Africa that depend on foreign capital and shoulder American-style trade deficits," are at acute risk, writes the NYT. Enter the International Monetary Fund: it is calling for a "multinational consultation — involving the United States, Europe, China and other financial powers — to develop a coordinated response to the crisis."

Blackberry parent company Research In Motion clocked a 72% jump in second-quarter profits to $495 million, but that healthy-looking figure failed to match Wall Street hopes and expectations, sending "shares plummeting more than 19% in extended trading," reports Business Week. Despite selling 1 million Blackberries during the first half of the year, Wall Street analysts are surveying the ruins of their own sector and fear its impact on RIM. Perhaps it's just as well then that RIM is looking to expand out of Wall Street into Main Street. The company warned that performance in this financial quarter also is likely to disappoint the street as it pours money into "four, possibly five new [consumer-oriented smart phones] phones that.....could catapult the company further out of its U.S. corporate niche into the big leagues," writes Fortune.

And finally, to hear the Church of England tell it, short-sellers are no better than "bank robbers" or "asset strippers" as Archbishop of York John Sentamu told bankers earlier this week at the curiously named Worshipful Company of International Bankers gala. The good bishop appears to be eating his words this morning, however. Ekklesia, an outfit that has managed the Church's investments, told The Guardian it was asked in 2006 to set up a currency-trading hedge that shorted the national currency, the pound sterling. "The archbishops should be extremely careful when attacking City bank robbers for short-selling and speculation. Amongst the billions of pounds that the church currently invests in property and shares are..."
hundreds of millions invested in oil and mining companies," Jonathan Bartley, co-director of Ekklesia, tells the newspaper. Probably not wise to mention this little short-selling business in this weekend's sermon.


Links:
[7] http://afp.google.com/article/ALeqM5hO7vokB0_cTf3JoKWQb8Y-0Fphwg