

The Note - Monday business

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NEWS AND COMMENT

China activates great wall of money

The Chinese government today agreed to buy a \$3 billion stake in US private equity firm Blackstone and could hand it part of a \$200 billion fund which China has earmarked for overseas investments. The deal was negotiated in three weeks.

Comment: That Communist China is taking a stake in a US-based private equity firm and earmarking \$200 billion of reserves for similar investments would appear to be a massive leap both politically and economically. However, from China's point of view this is simply a wise diversification of just a sixth of its reserves. It is a canny alternative to investing in its own market, which has been showing signs of boiling for some time. By taking stakes of less than 10 per cent in target US companies it avoids Federal scrutiny which knocked down its bid for oil firm Unocal two years ago. By buying part of a private equity firm rather than the sort of infrastructure assets these firms are chasing, it avoids bidding up the prices. It is a coup for Blackstone, which will capitalise on the relationship giving it a ring-side seat at the restructuring of Chinese industry.

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Robert Lindsay

Hips and rates hit house price surge

The rising interest rate is putting the brakes on the UK housing market after mortgage lending fell by 9 per cent in April and gross mortgage lending reached £28.8 billion. The average house price showed its smallest gain since the beginning of 2007.

Comment: It has taken four interest rises and the threat of the Home Information Pack, deadline on June 1, to holster the UK housing market. No abrupt reversal, but certainly a slowdown. The signs have been there a while. The latest two: a 15 per cent fall in mortgage approvals to a 14-month low at £3.9 billion and Rightmove's April house price growth index falling to just 0.1 per cent, the lowest this year. Nationwide has already signalled an expected slowdown between July and December when growth rates could be 5 per cent. There was a time this would have been considered galloping, but with the UK pace at 10.9 per cent and London at 14 per cent a welcome breather might be appreciated by first time buyers and nervous switchers. Not a signal for the Bank of England to turn soft on rate rises. One more should do the trick.

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Dearbail Jordan

Pfizer cull spells new radical change

Restructuring at Pfizer has claimed two more casualties, with the chief financial officer and head of research and development at the world's biggest drugmaker both set to depart. Chief executive Hank McKinnell was ousted last August.

Comment: The sudden departure of Pfizer's chief financial officer and chief scientist will do little to boost morale at the world's largest drugs company, as the Nigerian state of Kano sues the group for \$2.7bn over the deaths of several children. The executive departures look like an attempt by chief executive Jeff Kindler to accelerate changes in the sprawling US company, which faces losing 41 per cent of its current income in five years. The company's drugs pipeline is looking weaker than ever. Kindler, appointed last summer, is trying to reinvigorate Pfizer's research arm while firing thousands of marketing staff and closing down a number of plants. Surrounding himself with new faces at senior level may well allow him to execute an even more radical agenda.

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Robin Pagnamenta

Fees clue to rising London dominance

Europe's investment banks enjoyed a 37 per cent surge in fee revenues last year as they benefited from the continent's boom in bids and deals, a report out today has found.

Comment: So now we know how they afforded those eye-watering bonuses. European bankers pocketed \$23 billion in fees last year, accounting for a third of the global total. Although the UK was the source of about a quarter of the deals, half of those done in Europe went through London. These figures come from the International Finance Services in London, a confessed lobbyist for the capital's financial markets, but give an interesting insight into trends. Europe is now matching the US in terms of fees growth, which should delight the cheerleaders for London over New York.

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Miles Costello

LONDON MARKETS
BRYCE ELDER

Oil demand keeps FTSE climbing

Northern and First Choice rise
Goldman smiles on metal prices
Bid hopes lift water companies

Energy and mining stocks helped the FTSE 100 test a new six-year high as commodity prices extended their recent rally.

BP and **Shell** advanced in tandem with crude oil prices after gunmen attacked an oil facility in Nigeria, the world's eighth-largest exporter. **BG Group** was further helped by suggestions it could become a takeover target for Exxon Mobil. Meanwhile, **Anglo American**, **Lonmin** and **Xstrata** paced the mining stocks as China's metals markets bounced overnight, with traders and analysts shrugging off fiscal tightening measures put in place by its central bank on Friday. Goldman Sachs raised its house forecasts for nickel and zinc today, predicting that demand from China, Europe and Japan would offset a US slowdown.

Northern Rock inched higher after UBS analysts removed the stock from its "reduce" list on valuation grounds. Shares in the mortgage lender have underperformed the UK bank sector by 12 per cent since quarterly results in April, taking "some of the froth" out of the valuation, UBS said.

Among the mid-caps, **First Choice** jumped more than 5 per cent after Merrill Lynch added the holiday group to its "Europe 1" list of recommended stocks. The operational and synergy opportunities from its proposed merger with Tui could send shares higher by more than 50 per cent, Merrill told clients.

On a more speculative tack, **Pennon** rose 3 per cent on talk that the water and waste disposal company may be a bid target.

FTSE 100 latest
6,662.0 + 21.1

£/\$ 1.9691 - 1.9695

OIL Brent 21-day
\$69.82 + \$0.42

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