

## NEWS

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## Markets Hit by Bear Stearns Collapse

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Russian stock markets racked up hefty losses Monday as an 11th-hour deal to save U.S. investment bank Bear Stearns from bankruptcy sparked fears of further bad news to come.

JPMorgan said Sunday that it would acquire Bear Stearns for a mere \$2 per share, or \$236.2 million, a deal backed by the U.S. Federal Reserve that undercuts the investment bank's value by more than 10 times from Friday's close. The Fed simultaneously cut discount rates, enabling certain banks to borrow more cheaply.



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Russian stocks, which dropped by as much as 5.9 percent on the MICEX exchange late afternoon, pared back their losses in support of early U.S. trading, which eased on the expectation of an aggressive move by the Fed when it meets Tuesday.

MICEX, where the bulk of Russian trading takes place, closed down 4.23 percent to 1,582.02 points, while the benchmark RTS Index settled down 3.56 percent to 1,990.84 points, dropping below the psychologically important 2,000 mark.

Analysts said Russian stocks were tracking global markets, as investors hang back from putting more money in until the full extent of the deepening credit crisis is known.

"The U.S. is looking like it will go through a really torrid time over the next few trading sessions, and, therefore, Russia is going to suffer alongside it," said Roland Nash, head of research at Renaissance Capital.

Bear Stearns' difficulties spiraled last week after management admitted it was having problems with liquidity. JPMorgan, which has emerged relatively unscathed from the crisis, initially offered a 28-day bailout to the bank, backed by the Federal Reserve Bank of New York.

But clients of Bear Stearns withdrew \$17 billion from the bank in two days, pushing it to the brink of bankruptcy. Over a tense weekend, policymakers pushed Bear Stearns' management into a fire sale to avert a plunge of confidence in the financial sector before the opening of markets in Asia.

U.S. President George W. Bush stepped in to the fray Monday, seeking to reassure investors after a meeting with economic advisers by saying that the government was "on top of the situation."

Markets fell across the board Monday, sparked off by a rout in Asia, which saw Japan's benchmark 225 Index dip 3.7 percent, a 2 1/2 year-low, while Hong Kong's Hang Seng index dived by 5.2 percent. Major indexes in China, Indonesia, Australia and South Korea all closed lower.

As of 5 p.m. GMT, London's FTSE 100 was down 3.9 percent, France's CAC 40 down 3.5 percent, and Germany's DAX by 4.2 percent.

The turmoil spilled over into commodities, as oil reached a new high in New York at over \$111 per barrel, while gold leapt to \$1,032 per ounce, as investors continued to jump ship from the weak dollar. The dollar, meanwhile, hit a record low against the euro.

The currency's plunge came as analysts and investors speculated that the Fed, which has been accused of being behind the curve in reacting to the global crisis, could cut interest rates from 3 percent by a further 0.75 to 1 percentage point Tuesday in an effort to stave off a crisis of confidence and the prospect of a U.S. recession.

"The problem the Fed has at the moment is that it has to keep trying to surprise the market," Nash said. "If there's more than a 75 basis-point cut, it will help."

Russia's blue-chips failed to escape the global gloom Monday, with Unified Energy Systems down 4.7 percent on the RTS, while Norilsk Nickel slumped by 4.1 percent and Gazprom by 3.5 percent. OGK-5, in which Italy's Enel recently increased its stake to 60 percent, fell by more than 10 percent.

Analysts said a hard week was in store as fears mounted that there may yet be further victims.

Lehman Brothers saw its stock fall by almost 40 percent before staging a recovery, ahead of its first-quarter results Tuesday, amid fears of further losses at the bank. Goldman Sachs, also due to release results Tuesday, was off 6 percent as of 11 a.m. EST, after plummeting in early trading. Morgan Stanley, which is to report results Wednesday, was down 9 percent.

"[We] are dealing with the difficult issue of confidence. Everyone is just so scared," said Chris Weafer, chief strategist at UralSib. "Even though stories like Russia look very strong and very safe, there is a huge reluctance to buy anything."

Investors were reluctant to call the bottom on global markets Monday.

Peter Halloran, founder of Moscow-based hedge fund Pharos, said Russian markets on average take two to three weeks to decouple from the global markets.

"People aren't selling Russia because they are afraid of Russia," he said. "They are selling Russia because they have to raise cash. ... Russia is looking great, there is huge upside potential, [and] it is becoming quite easy as an investor."

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