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What's Next..North or South!

There may still be some pull backs along the way even if March turns out to be the low point of this credit crunch for the FTSE. A one touch with the trigger set to 5900 could return 50% over the next 17 days.

/24-7PressRelease/ - DOUGLAS, ISLE OF MAN, April 25, 2008 - On a day when you hear about the worlds largest bank CITI Group losing \$5 Billion and cutting 4,000 jobs world wide, you might expect markets to be down severely. You might also have expected the FTSE to stumble on the news that RBS is preparing a rights issue to shore up its balance sheet. However, apart from some early nervousness on Friday, the UKs benchmark index managed to close the week up 3.2%. The CAC & DAX both managed 4.3%.

The worse is behind us argument continued to gather pace as evidenced by RBS share price actually rising on the day of the rights issue announcement. Investors had been speculating for months that RBS would be taking this step and in some ways the eventual announcement relieved some of the pressure on the UK banking sector. More than anything markets hate indecision and traders seem buoyed by the hope of an eventual end point to the liquidity crisis.

A significant catalyst last week was some positive earnings announcements from some heavy hitting US companies; Intel, Coca Cola, Honeywell, Caterpillar, Google and IBM all surprised to the upside. According to Bloomberg, profits have slumped 26% on average from the companies releasing results so far with the financial sector being the worst hit. However, this was largely expected to be the case, and share prices have adjusted to price in consensus estimates. One important question is whether US companies have truly under promised and over delivered, or if investors are just fearful of missing out on a rally.

On the currency markets, the Pound and Dollar made up lost ground lost after figures showed Eurozone inflation hitting a 16-year high. Chinese CPI was also red hot with staples such as soyabeans and rice continuing to rise. The price of rice has doubled since August 2007 while sugar and wheat have retreated from recent highs. The king of commodities, oil, continues to make record highs and until this market significantly retreats, inflation projections will remain high. This will put further pressure on central banks such as The Bank Of England, which has to balance fighting inflation with easing the liquidity crisis in the credit markets.

Inter bank lending rates have remained stubbornly high since the summer, with the actual cost of lending being a quarter point higher than the official LIBOR rate. The fact that The Bank Of Englands recent loan action was over subscribed by three times the amount tells its own story. With little movement on LIBOR or mortgage fees so far, the next move could put further pressure on the Bank of England to cut rates.

Traders at BetOnMarkets foresees that while the worst may or may not be behind us, what is probable is that it won't be plain sailing from here in either direction. There may still be some pull backs along the way even if March turns out to be the low point of this credit crunch for the FTSE. A one touch with the trigger set to 5900 could return 50% over the next 17 days.