

Friday's Headlines:

- Sixteen Spanish banks downgraded
- Greek poll predicts pro-bailout government
- Fitch downgrades Greece ahead of elections
- Cameron at odds over QE as a tool for recovery
- Fitch say top banks need \$556bn in equity
- De La Rue prepares to make drachma notes
- France's new leadership starts with a pay cut
- Nikkei drops on Spain bank worries
- Euro at new low as Fitch downgrades Greece
- Oil likely to slide as US economic data weakens
- Low prices help gold move off four-month low

News:

SIXTEEN Spanish banks and four of the country's regions were downgraded by ratings agency Moody's last night as the sovereign debt crisis spread from Greece to the Eurozone's larger troubled economies.

GREEK voters are returning to the establishment parties that negotiated its bailout, a poll showed on Thursday, offering potential salvation for European leaders who say a snap Greek election next month will decide whether it must quit the euro.

GREECE's credit rating was downgraded one level by Fitch Ratings on concerns the country won't be able to muster the political support needed to sustain its membership in the euro area as leaders began campaigning ahead of the second national vote in six weeks.

PRIME Minister David Cameron said yesterday that there is scope for even more monetary stimulus from the Bank of England, putting him at odds with Paul Fisher, a senior Bank official, who said this should only be considered if the economy takes a serious downturn, which is a scenario he does not envisage occurring.

RATINGS agency Fitch yesterday said the world's top banks may need to raise a total of \$556bn to meet new capital rules, cutting returns by 20% and forcing them to curb investor payouts and raise customer charges.

DE LA RUE, the British company that produces banknotes for more than 150 countries has asked staff to select potential security threads for use in new banknotes so that it is ready should Greece exit the euro.

FRANCE's new left-wing government started work on Thursday with pledges to combat excessive austerity but better manage public finances, marking the debut with a 30% pay cut for the President and all ministers.

Markets:

OVERNIGHT, Japan's Nikkei share average dropped sharply with securities hammered by fears of contagion from Spain's ailing bank system and a strong yen pushed down exporters.

TODAY, European shares are set to open sharply lower, heading for their worst weekly loss since late November on an escalating crisis hitting Spain's sovereign debt and its banks, downgraded en masse by Moody's overnight.

Currencies:

THE EURO touched a four-month low, extending declines to a third-straight week, amid concern Europe's sovereign-debt crisis is worsening. The 17-nation currency was 0.2% from a three-month low versus the yen after Fitch Ratings downgraded Greece's long-term credit rating to CCC from B-, citing heightened risk that the nation may not be able to sustain membership in the monetary union.

Energy:

OIL may decline next week on signs of a slower economic recovery in the US, as consumer confidence fell last week to the lowest level in almost four months and more people than forecast filed claims for unemployment benefits.

Commodities:

GOLD rose slightly yesterday, as buyers were enticed to the market because of its relatively low price. However, the 2.51% rise to \$1575.20 still leaves gold well below its recent \$1795 peak in March as investors steer clear of the traditional safe haven despite renewed Eurozone worries hitting other assets like stocks and bonds. Analysts believe the unusual falls in gold prices have been caused by central banks ending quantitative easing, thus reducing inflationary pressures which eat away at the value of assets like bonds.

DATA AT 0640 GMT (FT.COM)

| Index | Value | Change |
|---------------|----------|--------|
| FTSE 100 | 5,338.38 | -1.24% |
| S&P 500 | 1,304.86 | -1.51% |
| Eurofirst 300 | 981.43 | -1.15% |
| Nikkei 225 | 8,592.52 | -3.20% |
| Shanghai Comp | 2,351.6 | -1.15% |

| Commodities | Value | Change |
|-----------------|-----------|--------|
| WTI Crude Oil | \$91.93 | -0.68% |
| Brent Crude Oil | \$106.50 | -0.92% |
| Gold 100oz | \$1,573.8 | -0.04% |
| Copper | \$3.47 | -0.33% |
| Corn | \$6.20 | -0.80% |

| Forex Pair | Value | Change |
|------------|----------|--------|
| \$ per € | 1.2660 | -0.19% |
| \$ per £ | 1.5749 | -0.20% |
| ¥ per \$ | 79.3600 | +0.08% |
| ¥ per € | 100.4700 | -0.18% |
| € per £ | 1.2436 | -0.02% |

| Bonds | Rate | Change |
|----------------|-------|--------|
| 10 Year UK Gov | 1.84% | 0.00% |
| 2 Year US Gov | 0.30% | 0.00% |
| 10 Year US Gov | 1.71% | +0.02% |
| 10 Year Japan | 0.82% | -0.03% |
| 10 Year Bund | 1.40% | -0.03% |

| Prediction | Opening | Change |
|---------------|------------|--------|
| FTSE 100 | -68 points | -1.3% |
| German DAX | -75 points | -1.2% |
| French CAC-40 | -30 points | -1.0% |