

## Bank shares recover from early losses after credit rating downgrade panic

By Niamh Hennessy

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IRISH bank shares recovered from heavy early morning losses when investors panicked following a credit rating downgrade.

This news comes as a survey shows most economists think the European Central Bank (ECB) will not budge on interest rates until late next year at the earliest.

The Reuters poll showed none of the 78 economists polled said the ECB would change interest rates from a record low of 1% when it meets on September 2 and medians suggest the first move up to 1.25% won't be until the last months of 2011.

Ireland's credit rating was cut one step by Standard & Poor's to AA-, the lowest since 1995, on concern the rising cost of supporting the country's financial system will swell the budget deficit.

AIB finished the day down almost 3% at 78 cent, while Bank of Ireland finished up 1.07% at 76 cent. Irish Life and Permanent closed the day down almost 3% at €1.49.

CRH meanwhile recovered from significant losses on Tuesday and finished the day up just over 2% at €11.96. Overall Irish stocks finished in positive territory.

Fergal O'Leary, a director at Dublin-based Glas Securities said historically if the sovereign rating is cut, it naturally follows that banks operating in the nation and companies strongly reliant on the Government are typically downgraded as well.

"Investors are likely to demand a higher premium for the Irish banks to issue new debt," he said.

Irish bank bonds are among Europe's riskiest because of losses triggered by the collapse of the nation's property market.

About €30 billion of government-guaranteed debt securities are due to be rolled over by the banks next month, triggering concern they will have to resort to ECB funding as the cost of borrowing in capital markets soars.

The yield on Irish two-year Government bonds rose as much as 31 basis points to 3.127%. That's the highest since May 7, the day that European Union leaders started to put together a bailout plan for the euro region.

Investors overreacted to the downgrade and the surge in credit insurance and drop in bond prices has created an investment opportunity, according to strategists at Conduit Capital Markets.

"There's been a knee jerk reaction to the whole Ireland downgrade," said Anke Richter, a strategist at Conduit in London. "There's a buying opportunity of bonds here."

Swaps on Ireland's sovereign debt jumped 21 basis points to 331, the highest level since March 2009, CMA prices show. The swaps surged above contracts on Iceland, which is ranked six levels lower and whose financial system collapsed in 2008, for the first time.

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