Bush and Bernanke calm market fever

By Sam Fleming

FEDERAL Reserve chief Ben Bernanke has vowed to stem the US economy from the storm engulfing world markets, raising expectations of a rate cut later this month.

His promise came as a leading forecaster warned there is now a serious threat of a US recession, dreading the strongest world economic expansion since the beginning of the 1990s.

Opening a meeting of central bankers in Jackson Hole, Wyoming, he said the Fed's job was to monitor the situation, "in the event that would act as needed to limit the adverse effects on the broader economy that may arise from the disruptions in financial markets."

Shortly afterwards, President George Bush said he would help sub-prime borrowers to hold on to their homes and tighten safeguards against predatory lending.

The twin pledges helped restore some confidence to beleaguered financial markets which have been buffeted under fears of a global credit crunch.

The FTSE 100 index finished up 0.9
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Traders took Bernanke's comments as a signal that the Fed's main rate is likely to be lowered at its forthcoming September meeting.

Two weeks ago the Fed cut its forecast on emergency loans to banks. In a report the Economic Intelligence Unit said there is a 30pc chance of the US tumbling into recession. It warned: "This would have a substantial fall-out for the rest of the world."

European governments are also scrambling to stem the crisis. EU officials are due to meet in Brussels on Wednesday next week to discuss the markets meltdown.

Their discussions will also cover the institutional arrangements for coping with the collapse of a major European lender. The forum will prepare the ground for a ministerial gathering later in the month.

Bernanke signalled he is ready to provide further cheap credit to the banking system if needed to provide liquidity and promote the orderly functioning of markets.

Bush said he would allow the Federal Housing Administration to guarantee loans for borrowers who are behind on their payments, allowing them to avoid repossession.

Corbet leaves S&P as credit crunch bites

By Brian O'Connor

THE credit crunch has claimed the scalp of a ratings agency chief executive.

Standard & Poor's president Kathleen Corbet is leaving to pursue other opportunities' after a torrent of criticism for the agencies for failing to see the sub-prime crisis coming.

McGraw-Hill, S&P's parent company, said her departure was not related to criticism of the agencies.

But its own shares have plunged from $72 to $50 in two months. Its companies they rate.

Angela Merkel to US Senate Banking

WASHINGTON, 2007

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