



Moody's is preparing to cut the ratings of the big banks who were hailed as too big to fail!

UBS AG, Credit Suisse Group AG (CSGN), and Morgan Stanley's credit ratings may be cut by as many as three levels by Moody's Investors Service, which is reviewing 17 banks and securities firms with global capital markets operations.

Goldman Sachs Group Inc. (GS), Deutsche Bank AG (DBK), JPMorganChase & Co. (JPM), and Citigroup Inc. (C) are among companies that may be downgraded by two levels, Moody's said in a statement, adding that the 'guidance is indicative only.'

Moody's today cut some European insurers' ratings based on risks stemming from the region's sovereign debt crisis.

Barclays Plc (BARC), BNP Paribas (BNP) SA, Credit Agricole SA, HSBC Holdings Plc (HSBA), Macquarie Group Ltd. (MQG), and Royal Bank of Canada may also be cut by two levels, Moody's said. Bank of America Corp. (BAC), Nomura Holdings Inc. (8604), Royal Bank of Scotland Group Plc and Societe Generale SA may be lowered by one grade.

Should these downgrades be enacted it will likely raise the cost of borrowing and force banks to increase collateral, which in turn would put the ratings company at odds with bond investors, who are sticking with their bets that new capital rules and trading limits will make the financial firms safer in the long run.

I would opine that, over the next two years, these big banks will be certainly weakened. I would also add that it is already very difficult for any bank raising capital today. The above action will just make it much more expensive as well as a very difficult task.

Downgrade

Moody's went on record on 19 January 2012 stating that credit profiles of many global lenders are weakening amid worsening government finances, economic uncertainty and higher funding costs.

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