Fear grips banking sector as Barclays cuts 2,100 more jobs

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Bank's total staff losses this week now near 5,000
Heavy selling on Wall Street on poor retail sales data

World stockmarkets fell sharply again today as anxiety over the strength of the banking sector swept through the City.

Shares in HSBC, Barclays, Royal Bank of Scotland and Lloyds TSB were all hit hard as investors lost faith in the banks. This helped to wipe more than 200 points off the FTSE 100 index of leading shares, which closed down almost 5%, or 218.51 points, at 4,180.64.

Barclays announced plans to cut a further 2,100 jobs at its retail and commercial banking business, taking its total job cull over the past week to almost 5,000, and traders were also unsettled by an admission from Deutsche Bank that it would report a loss for 2008.

There was also heavy selling on Wall Street, following the release of grim US retail sales figures for December, with the Dow Jones industrial average falling by around 250 points by the close of trading in London.

While the early release of Deutsche's year-end numbers unnerved the entire banking sector, HSBC was also weaker after analysts predicted it would need to raise up to $30bn (£20.6bn) of capital through a rights issue and by halving its dividend.

HSBC was off 8% at 588.75p, Barclays fell more than 14% to 142.1p, Lloyds TSB was down by almost 12% at 117.2p and RBS fell to 41.7p, down more than 18%. There was some speculation that the lifting of the ban by the Financial Services Authority on short selling on Friday might also be having an impact on shares.

The forecast by analysts at Morgan Stanley is particularly significant as HSBC is the only bank listed in London that is yet to tap investors for cash to bolster its balance sheet. The Morgan Stanley analysts argue in a detailed research note that "HSBC's capital position is not as strong as you think".

Lloyds, in the last stages of its takeover of HBOS, was caught up in the uncertainty while RBS was lower despite the sale of its 4.3% stake in Bank of China to raise £800m.

The numbers from Deutsche were worse than expected, causing a shudder of fear through the European banking sector with an announcement that it made a net loss of €4.8bn

(£4.3bn) in the final quarter of 2008.

Amid fears that banks face a renewed crisis, Deutsche said its full-year net loss would be of the order of €3.9bn.

In a trading update ahead of official figures on 5 February, Germany's biggest bank blamed exceptionally severe market developments in the final quarter of last year.

It said it had suffered extraordinary hits on its credit trading and in equity derivatives, even while it was "de-risking" its once-stellar investment bank and reducing its balance sheet by €300bn.

But Deutsche, which has cut its exposure to leveraged loans from €12bn to €1bn and to commercial real estate to around €3bn, said its Tier One capital ratio – a key measure of a bank's financial strength – remained on target at around 10%.

A "disappointed" Josef Ackermann, Deutsche's chief executive, admitted that "an exceptionally difficult market environment" had exposed "some weaknesses in our platform" but insisted that measures to address these were already under way.

December's retail sales figures, released by the US commerce department, showed that US seasonally adjusted retail sales dropped 2.7% in December. Excluding gasoline and cars, sales were down by 1.5%, the largest drop since September 2001. Luxury retailer Tiffany confirmed the scale of the retail gloom by reporting a 21% drop in Christmas trading compared with a year ago.

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