FINANCIAL TIMES

THURSDAY 20 OCTOBER 2022 INTERNATIONAL NEWSPAPER OF THE YEAR ASIA

Cash is king again — and banks want a share
BROOKE MASTERS, PAGE 17

European industry is turning down the heat
BIG READ, PAGE 15

Nestlé and P&G squeezed as consumers tighten belts

- Third-quarter sales volumes tumble
- Shoppers recoil from price increases

JUDITH EVANS — LONDON
STEFF CHÁVEZ — CHICAGO

The two biggest makers of consumer goods have been hit by shoppers around the world tightening their budgets and turning to supermarkets' own-brand products, with Nestlé yesterday warning prices would have to rise further.

Sales volumes at Switzerland's Nestlé and US-based Procter & Gamble fell in the third quarter as inflation surged and consumers' tolerance for steep price increases began to crack.

Mark Schneider, chief executive of Nestlé, warned of more price rises ahead as energy and labour costs mount over the next few months.

"Obviously some of the pricing will have to continue [rising] . . . our pricing is still catching up with the hit we have taken from inflation," he said.

P&G, which generates more than half of its revenues outside the US, is also suffering from a strong dollar. Andre Schulten, its chief financial officer, said: "We fully expect more volatility in costs, currencies and consumer dynamics as we move through the fiscal year."

Price rises led by food are straining consumer budgets globally: Europe especially has been affected by the war in Ukraine and the resulting energy crisis. Eurozone inflation topped 10 per cent in the year to September, while UK inflation is also in double digits.

Schulten added: "We see high pressure on the European consumer, with high inflation and, certainly . . . energy costs will hit the consumer over the winter period."

Makers of global brands have so far fared better than expected as inflation has soared, but the squeeze has begun pushing more consumers towards cheaper products and own-brands. Companies' margins are also coming under pressure as they race to push through cost rises.

P&G raised prices by 9 per cent year-on-year across its product lines in the quarter to September, while Nestlé pushed through a 7.5 per cent year-on-year rise in the first nine months of 2022, its biggest in decades.

But P&G's sales volumes still declined 3 per cent in the quarter, while Nestlé's real internal growth — a measure of sales volumes and consumers' product choices — slid 0.2 per cent.

Nestlé's like-for-like net sales growth reached 8.5 per cent in the first nine months, its highest rate in 14 years, propelled by the price increases. The maker of Maggi noodles, Kit Kats and Nespresso coffee capsules said it expected full-year sales growth of 8 per cent.

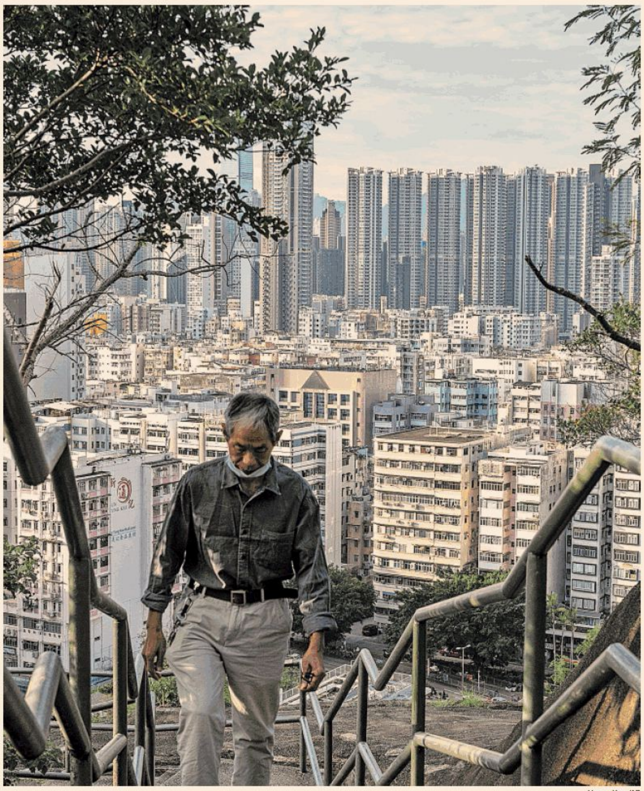
P&G, which makes Tide detergent and Tampax tampons, expects sales volumes to fall by 1 to 3 per cent in its fiscal year, down from its previous forecast for flat to 2 per cent growth. It also forecast a $1.3bn hit from the strong dollar this fiscal year, or a 6 per cent knock to its sales growth.

The US-based group declined to say whether it would raise prices further, but acknowledged limits to its pricing power, particularly in Europe.

James Edwardes Jones, an analyst at RBC Capital Markets, said Nestlé was "coping admirably" but noted that sales of its bottled water, prepared foods and confectionery had slowed. "Even Nestlé, it could be argued, is starting to show early signs of tougher conditions."

Lex page 18

Uphill challenge Hong Kong seeks to attract global talent and regain hub status after Covid



Vernon Yuen/AP

Hong Kong yesterday unveiled a new scheme to woo global talent.

A US$3.8bn fund has been launched to attract businesses back to Hong Kong after China's security crackdown and strict Covid-19 controls damaged its status as a global financial hub.

New measures include visa and tax concessions for skilled foreign workers as well as incentives for long-term expats to buy houses. Businesses focused on healthtech, AI, data science and fintech will be prioritised.

At least 140,000 people have left the city of 7.5mn after the double blow of pro-democracy protests in 2019 and the pandemic.

Hong Kong chief executive John Lee said: "The government will proactively trawl the world for talent. We have to present the true picture of Hong Kong to the world."

However, Covid rules preventing tourists from visiting bars and restaurants during their first three days in the city remain in place.

Luring global talent page 4

Briefing

▸ Food prices push UK inflation to 40-year high
The reading of 10.1 per cent for September has raised pressure on the Bank of England for a big rise in interest rates when it meets on November 3.— PAGE 2

▸ Pakistan flood loan plea
Islamabad has asked global lenders for billions of dollars in loans to rebuild the country after calamitous floods uprooted 33mn people.— PAGE 4

▸ Super League in revamp
New chief Bernd Reichart has said he wants the elite European football project to be relaunched, after it collapsed amid anger from fans and clubs.— PAGE 6

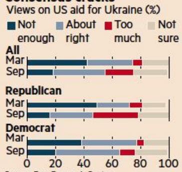
▸ Police raid Signa group
Austrian police have confiscated devices at the HQ of the owner of department store Selfridges, as part of a probe into corruption at the top of government.— PAGE 8

▸ Viewer surge lifts Netflix
The TV streaming platform's stock has been boosted after it revealed shows such as *Stranger Things* had helped it add 2.4mn subscribers.— PAGE 6; LEX, PAGE 18

▸ Australia pilot probe
The military has opened a probe into claims ex-air force personnel were made lucrative offers to teach Chinese pilots how to fly western attack aircraft.— PAGE 4

Datawatch

Consensus cracks
Views on US aid for Ukraine (%)



Source: Pew Research Center

The US has spent more than $60bn on economic and military aid to Ukraine since the Russian invasion in February thanks to big bipartisan majorities in both chambers. But that consensus may be fraying as Republican sentiment shifts

Meloni set to take charge in Italy as recession looms

Analysis ▸ PAGE 3

Putin tightens security and declares martial law in occupied Ukraine areas

MAX SEDDON — RIGA
CHRISTOPHER MILLER AND ROMAN OLEARCHYK — KYIV

Vladimir Putin has declared martial law in four occupied regions of Ukraine and given security forces sweeping powers in a sign that the Russian president is struggling to regain the military initiative nearly eight months into his war in the country.

The move, which also includes broad restrictions on travel including vehicle checks and "economic mobilisation" in much of western and southern Russia, is Putin's latest escalation as his army continues to cede ground to Ukraine.

Demanding the "entire system of state administration" contribute to the war effort, Putin yesterday authorised Russia's governors to maintain public order, ensure supplies for the armed forces and protect critical infrastructure. The measures, which are one step below martial law, cover eight regions bordering Ukraine, including the Crimean peninsula annexed by Russia in 2014.

The revamped security measures come in response to Kyiv's successes in counteroffensives in occupied regions, including an advance on the southern city of Kherson, and rising tensions at home over Russia's faltering invasion.

Ukraine's foreign ministry yesterday said that "Russia has started a new stage of terror in the temporarily occupied territories" by introducing martial law.

Putin's attempts to raise the stakes have largely backfired: he mobilised army reserves, illegally annexed four occupied regions and threatened to use nuclear weapons to defend them.

Russia's failures prompted unusually harsh criticism of the Kremlin from pro-war hardliners. In response, Putin appointed Sergei Surovikin, a notoriously ruthless general, to lead Russia's invasion forces and launched air strikes targeting critical infrastructure.

Russia's provisions on martial law allow Moscow to introduce stricter controls of transport, bans on all public gatherings, total wartime censorship, "additional responsibilities" for citizens, broad economic restrictions and more limits on movement — up to a possible exit ban for Russian citizens.

Occupation authorities in Kherson said they had begun evacuating residents yesterday, claiming an impending attack by Kyiv. Serhiy Kuzan, an adviser at Ukraine's defence ministry, said the evacuation amounted to a "forced deportation of civilians who have been taken hostage and are being exploited".

Crackdown on drones page 2

Australia	A$7.00(inc GST)
China	RMB30
Hong Kong	HK$33
India	Rup220
Indonesia	Rp45,000
Japan	¥650(inc JCT)
Korea	W4,500
Malaysia	RM11.50
Pakistan	Rupee350
Philippines	Peso140
Singapore	S$5.80(inc GST)
Taiwan	NT$140
Thailand	Bht140
Vietnam	US$4.50

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World Markets

STOCK MARKETS

	Oct 19	Prev	%chg
S&P 500	3708.16	3719.98	-0.32
Nasdaq Composite	10732.82	10772.40	-0.37
Dow Jones Ind	30534.88	30523.80	0.04
FTSEurofirst 300	1576.20	1582.88	-0.42
Euro Stoxx 50	3474.87	3463.83	0.32
FTSE 100	6924.99	6936.74	-0.17
FTSE All-Share	3777.93	3792.79	-0.39
CAC 40	6040.72	6067.00	-0.43
Xetra Dax	12741.41	12765.61	-0.19

CURRENCIES

Pair	Oct 19	Prev	Pair	Oct 19	Prev
$/€	0.979	0.985	€/$	1.021	1.015
$/£	1.126	1.132	£/$	0.888	0.884
£/€	0.870	0.870	€/£	1.150	1.149
¥/$	149.725	149.095	¥/€	146.588	146.866
¥/£	168.575	168.753	£ index	77.158	78.055
SFr/€	0.983	0.980	SFr/£	1.130	1.126

CRYPTO

	Oct 19	Prev	%chg
Bitcoin ($)	19212.86	19328.49	-0.60

GOVERNMENT BONDS

Yield (%)	Oct 19	Prev	Chg
US 2 yr	4.54	4.46	0.07
US 10 yr	4.11	4.05	0.06
US 30 yr	4.10	4.08	0.02
UK 2 yr	3.42	3.46	-0.03
UK 10 yr	3.87	3.95	-0.08
UK 30 yr	3.98	4.31	-0.32
JPN 2 yr	-0.04	-0.05	0.01
JPN 10 yr	0.25	0.25	-0.01
JPN 30 yr	1.50	1.51	-0.01

Dubai

Nikkei	27257.38	27156.14	0.37
Hang Seng	16511.28	16914.58	-2.38
MSCI World $	2457.86	2431.84	1.07
MSCI EM $	879.07	865.77	1.54
MSCI ACWI $	569.98	563.66	1.12
FT Wilshire 2500	4852.21	4794.49	1.20
FT Wilshire 5000	37905.29	37455.92	1.20

Ethereum	1300.04	1310.06	-0.76

COMMODITIES

	Oct 19	Prev	%chg
Oil WTI $	83.04	82.07	1.18
Oil Brent $	91.23	90.03	1.33
Gold $	1653.00	1664.75	-0.71

GER 2 yr	2.07	1.95	0.13
GER 10 yr	2.37	2.28	0.09
GER 30 yr	2.34	2.31	0.02

Prices are latest for edition
Data provided by Morningstar

A Nikkei Company

INTERNATIONAL

Cost of living

UK inflation rate climbs to 40-year high

Soaring food costs push up figure and increase pressure on central bank

CHRIS GILES, GEORGE PARKER AND SEBASTIAN PAYNE — LONDON

Britain's inflation rate rose to a 40-year high of 10.1 per cent in September, as soaring food costs more than offset price declines at petrol pumps.

The jump in inflation exceeded economists' expectations, rising from 9.9 per cent in August. It was driven by the highest food price increases in decades.

At more than five times the Bank of England's 2 per cent target, the rate will add to pressure on the central bank for a large interest rate rise on November 3.

The September inflation figures are important because they are normally used as the benchmark for increasing benefits and pensions in April.

After the figures were released yesterday, Prime Minister Liz Truss confirmed in the House of Commons that state pensions would rise in line with inflation, but made no similar commitment to non-pensioner benefits.

Truss was forced to guarantee the rise in the state pension after a backlash from Conservative MPs against the idea of scrapping the so-called "triple lock".

On Monday, Jeremy Hunt, the new chancellor, tried to keep open the option of below-inflation rises in pensions as he tries to fill a £40bn fiscal hole before his October 31 Budget. But in a sign of how Truss is being forced to govern from hour to hour, she told Hunt in emergency talks yesterday that the guaranteed pension rise would have to stay.

Hours later, Truss's floundering government plunged into further chaos as Suella Braverman, home secretary, was forced to quit after admitting a security breach. Braverman insisted she had committed only "a technical breach of the rules" and her resignation letter contained a broadside against Truss.

> Truss's government fell into further chaos after Suella Braverman, home secretary, resigned

Accusing Truss of breaking "key pledges" — including preparing to backtrack on a commitment to reduce immigration — Braverman suggested that the prime minister should also resign.

The cost of living crisis for people receiving non-pension benefits was highlighted by the inflation figure. With food prices rising at a multi-decade high of 14.6 per cent, economists said poorer families would be hit hardest.

George Dibb, head of the Centre for Economic Justice at the IPPR think-tank, said the "steeper rise in essentials such as food and drink where prices are now rising at over 14 per cent . . . underlines the need for greater support for the most vulnerable households this winter over and above the energy price cap".

The BoE will need to weigh the additional price pressures against the government's U-turns on unfunded tax cuts and less generous relief on household energy costs, which will reduce medium-term pressures on prices.

Samuel Tombs, chief UK economist at Pantheon Macroeconomics, said the "[BoE] is still is a long way from being able to claim victory" over inflation, but urged the central bank to worry more about "weakening consumer demand and emerging slack in the labour market" than the high level of inflation.

Paul Dales, chief UK economist at Capital Economics, said inflation would rise to 10.5 per cent in October and 11 per cent in April once the energy price guarantee expired. "Today's release highlights the danger that underlying inflation remains strong even as the economy weakens," he said.

Infrastructure threat

Norway vows crackdown on drones after Russians arrested

RICHARD MILNE
NORDIC AND BALTIC CORRESPONDENT

Norway has warned it will take action against foreign intelligence agencies that fly drones over its infrastructure, including oil rigs and airports, after the arrest of seven Russians in possession of the aircraft.

Oslo and other western capitals are on high alert after the sabotage of the Nord Stream gas pipelines between Denmark and Sweden last month and numerous sightings of drones near oil and gas facilities, power plants and other critical infrastructure.

Norway's intelligence service said yesterday it would take over the investigation of the increasing number of incidents involving drones. The announcement came on the same day the airport in Bergen, the country's second-largest city, was shut down following reports of drones in the area.

It was also disclosed that Norwegian police on Monday arrested a Russian-British dual citizen in the city of Hammerfest accused of flying a drone over the Arctic archipelago of Svalbard. The arrest came only days after six Russians were taken into custody in three separate incidents in Norway involving drones and unauthorised photographs of sensitive locations.

"It is not acceptable for foreign intelligence to fly drones over Norwegian airports. Russians are not allowed to fly drones in Norway," Jonas Gahr Støre, the prime minister, said yesterday.

Norway has replaced Russia as the biggest gas supplier to Europe after Moscow's invasion of Ukraine in February. Several Norwegian experts have warned that the country has been naive about the threat to key infrastructure after recent incidents, including the cutting of an internet cable to Svalbard, more than 500km north of the mainland.

The warnings have been heightened since explosions last month beneath the Baltic Sea off Denmark damaged the Nord Stream 1 and 2 gas pipelines between Russia and Germany.

"There has been a big lack of recognition of how strategically important Norwegian energy production . . . has been for Europe," Ståle Ulriksen, of the Royal Norwegian Naval Academy, told state broadcaster NRK, adding that the authorities had "naively" ignored espionage warnings.

The man accused of flying a drone over Svalbard is the son of a Russian businessman who is a friend and confidant of Russian president Vladimir Putin, the Barents Observer reported.

Støre said there was no direct threat to Norway but the security situation was serious, adding that the country had looked at its nuclear preparedness "from A to Z", as he called Russia a militarised, radicalised and, in many ways, totalitarian society.

Last week, a Russian man was held for flying a drone close to Tromsø airport in the north of the country, four Russians were arrested for taking pictures of sensitive areas and another was caught trying to leave the country with a drone.

Russia's embassy in Oslo accused Norway of hysteria and paranoia in arresting what it called tourists photographing "the country's beautiful nature".

Europe. Energy security

Croatian oil pipeline offers supply 'gateway'

Cold war-era infrastructure has emerged as a partial answer to lost Russian flows

MARTON DUNAI — BUDAPEST

Vital link: a section of the Adria pipeline at Duna, near Budapest
Akos Stiller/Bloomberg

The war in Ukraine has exposed the EU's dependence on Russian fossil fuels but an oil pipeline conceived as a Yugoslav rival to Soviet infrastructure could help Croatia emerge as a winner from Europe's energy crisis.

Zagreb is working on plans that could double the capacity of the Adria oil pipeline to 2mn tonnes a month. That would be a lifeline for fellow EU member states Hungary, Slovakia and Slovenia, as well as Serbia and Bosnia, which have terminals and refineries that connect to the pipeline and are trying to reduce dependence on Russian gas.

It is also increasing its capacity to import liquefied natural gas from the current 2.9bn cubic metres a year to 6.1 bcm/y, while an investment cycle in wind and solar power will allow it to be a net energy exporter, analysts said.

"Croatia has a good chance to be the energy gateway for a number of neighbouring central European countries in the current energy geopolitical situation and difficulties of energy imports from Russia," said Igor Dekanić, a professor at the geology and mining faculty of Zagreb university.

Croatia had begun to diversify its energy sources long before Moscow's invasion of Ukraine, importing a growing amount of oil from Azerbaijan and Kazakhstan while reducing oil flows from Russia to a little more than a quarter of its total imports in 2020, the lowest level since 2003.

Its regasification unit at the port of Omišalj strengthened Croatia's independence from Russian gas, which was less than 1 per cent of its total energy consumption by 2020, according to the IMF. Imports of LNG, mainly from the US, have replaced Russian supplies.

Now Zagreb stands to profit from becoming a larger supplier to neighbours forced to diversify their energy imports, collecting increased oil and LNG trans-shipment fees.

Hungary, Croatia's north-eastern neighbour, is also strengthening its Adriatic energy links. Budapest-based energy group MOL has depended on the Druzhba (Friendship) pipeline that pumps Russian crude across Ukraine to supply its refineries near Budapest and Bratislava. That model is now threatened by EU sanctions, possible war damage or a Russian decision to halt flows, as Moscow did with gas via the Nord Stream pipeline.

The EU exempted piped crude from a ban on Russian oil announced in May, which comes into force in December, and recently announced plans for a cap on Russian oil. Supply was disrupted via Druzhba in August, another reminder for countries in southern and eastern Europe to hasten contingency planning.

MOL's fallback option was the Adria pipeline, which begins at Omišalj. It may finally help Budapest reduce dependence on Russian oil, a plan it first hatched with Yugoslavia when the discussions over a regional pipeline started in the 1960s. MOL is also preparing an upgrade of its refineries, at a possible cost of €500mn, so they can process lighter, non-Russian blends of crude.

"Refineries always operate on worst-case scenarios," said a MOL executive. "We have no shades of grey. If we can imagine something, we have to prepare for it."

> 'Refineries always operate on worst-case scenarios. We have no shades of grey'

The Adria pipeline, operated by Croatian company Janaf, can transport about 1mn tonnes a month of oil. Planned additional investment to double the capacity would cover the needs of refineries in Hungary, Slovakia and Serbia, it said. "Janaf is prepared to act swiftly once the decision is made," the company said.

Hungary and Serbia last week said they would build a branch connecting to the Druzhba pipeline to ensure Belgrade continues to receive cheaper Russian crude. Janaf has increased its prices to pump crude to neighbours, said people familiar with the matter. The majority state-owned company declined to answer detailed questions from the Financial Times.

The increase in LNG import capacity at Omišalj to more than twice Croatia's annual consumption should boost Zagreb's regional role. "This will . . . truly make Croatia a regional energy hub," Prime Minister Andrej Plenković said last month.

Croatia could have already assumed a much bigger role as a regional oil and gas import hub had it not delayed and scaled back the construction of its LNG terminal for a decade, said András Simonyi, an energy expert at the Atlantic Council's Global Energy Center.

"The Croats are very late," Simonyi said. "The US is going to ramp up LNG production rapidly . . . the EU has also accepted gas as a transition fuel. So there will be gas. But will there be infrastructure in Europe? Nobody will wait for Croatia, which could move a lot more gas with bigger ambitions."

But Zagreb's measured approach, betting on a short-term resurgence in demand for fossil fuels while retaining a focus on investments in green energy, may yet pay off.

With its long Adriatic coastline, Croatia is eyeing rapid development of solar and wind power, said Dražen Jakšić, director of Zagreb's Hrvoje Požar Energy Institute. There is strong investor interest in backing new projects.

Julije Domac, an adviser on energy to President Zoran Milanović, said the government is targeting an expansion in solar power capacity from 160MW to 7GW, and a doubling in wind power from the current 1GW, and working on regulatory and grid upgrades to enable the country to transmit more renewable power, That will enable it to meet its goal to phase out coal plants, which still provide 40 per cent of its electricity needs, by 2033, and still have surplus power for export, he added.

Borrowing limits

Ireland relaxes crisis-era mortgage rules for first-time buyers

JUDE WEBBER — DUBLIN

Ireland's central bank has relaxed rules for first-time home buyers despite rising mortgage costs and concerns that the move will lead to higher prices and aggravate the country's housing crisis.

From January, first-time buyers will be able to borrow up to four times their gross income, up from 3.5 times under the current rules.

estate agents Daft.ie, Irish home prices were 7.7 per cent higher in the third quarter than a year ago, with the average listing price now €311,514, based on a weighted calculation across all property types and locations. That price is more than seven times the median annual wage.

Makhlouf said that, without taking other factors into consideration, "there will be a modest effect on house prices"

points over the summer to 0.75 per cent. It is expected to raise rates by another 75bp next week.

Michael Dowling, managing director of mortgage specialists Dowling Financial, told RTÉ radio: "I don't think [the measures] are going to increase house prices in an environment where interest rates are rising."

Irish mortgage lenders have begun raising mortgage rates — most by some 0.5 percentage points — on the back of the ECB's decisions.

Dermot O'Leary, chief economist at stockbrokers Goodbody, estimated that a couple earning a combined €80,000 and with a mortgage of €320,000 could end up paying more than 35 per cent of their income on repayments under the new rules if interest rates rise 3 percentage points.

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Representative, Anjali Mahindroo

the current rules.

The move, which follows a year-long review, was a "reasonable" recalibration of measures that had been in place since 2015, central bank governor Gabriel Makhlouf said. Those measures were a response to a credit-driven property bubble that burst in 2008 and crashed the economy.

Ireland's rules remain strict by international standards and measures restricting first-time buyers to borrowing 90 per cent of the property's value, or 70 per cent in the case of buy-to-let purchasers, will remain in place.

Ireland is struggling with a deep housing crisis driven by insufficient supply and high prices that make it difficult both to rent and buy.

According to a quarterly report by

will be a modest effect on house prices". However, he insisted there was no danger of runaway prices sparking a crisis that could endanger the economy.

"The review has concluded that while house prices have grown since 2015, the credit-fuelled element, where lending and property prices chase each other upwards in an unsustainable loop, has not been a driving force."

Ireland's economy and financial system were healthier than in 2015 and better able to withstand shocks, the governor added.

"The central bank is not going to start to make decisions that threaten financial stability," Makhlouf said.

The European Central Bank, which sets interest rates across the eurozone, raised borrowing costs by 125 basis

House hunt: Ireland suffers from an insufficient supply of properties

age points.

Pearse Doherty, finance spokesman for Sinn Féin, the nationalist party that is topping the polls in Ireland in part thanks to its commitment to fix the housing crisis, said the policy would lead to higher indebtedness and rising prices — while the problem of there being too few homes would remain.

"The concern here is by allowing people — even a small number of people — to borrow more because there's a small number of homes available, then it pushes up house prices because everybody has the ability to borrow that extra €30,000 or €40,000," Doherty told RTÉ. "Everybody now just has more money in their pockets to chase the same and outbid the same type of houses."

INTERNATIONAL

Italy's energy crisis poses first big challenge for Meloni

PM in waiting to take up post as high gas prices hit manufacturing groups

AMY KAZMIN — ROME

Until midsummer, Italian ceramics company Saxa Gres was on a high. It had record first-half sales of €50mn — up from €43mn for all of 2021 — as demand for its cobblestones and faux stone paving slabs surged in the post-coronavirus construction recovery.

But in July, Francesco Borgomeo, the company's president, shut down its three kilns and furloughed 500 employees as soaring gas prices made production economically unviable.

"I had no other option," he said. "I had to protect the company. It is impossible to produce like this. I am waiting for the storm to pass and then we will reopen."

Saxa Gres's woes are symptomatic of the deepening distress among Italian manufacturers in energy-intensive industries such as ceramics, paper, glass and metal, many of which have also slowed or suspended production. Their woes highlight the daunting task confronting Italy's prime minister in waiting Giorgia Meloni as she prepares to lead the country's most rightwing government since the second world war.

The former teenage neo-fascist activist is poised to replace incumbent prime minister Mario Draghi, a former European Central Bank president, after her rightwing bloc emerged victorious in last month's elections.

President Sergio Mattarella is expected formally to ask her to take the job, and form a government in the coming days, as Italy faces a looming recession, with rocketing energy prices eroding corporate profits and squeezing household incomes.

Meloni, and her finance minister, will have to maintain the stability of Italy's public finances and keep public debt — now 150 per cent of gross domestic product, the highest of any large eurozone economy — heading downward.

"The new government gets in at a bad time," said Lucrezia Reichlin, economics professor at London Business School. "There are lots of clouds on the horizon and not a lot to be optimistic about."

The IMF warned last week that Italy was heading for recession, projecting that its economy would contract 0.2 per cent next year. The Bank of Italy has forecast marginal growth in 2023 of 0.3 per cent with inflation of 6 per cent, but warned of a potential contraction of 1.5 per cent and inflation of 9 per cent if Russia cut all energy supplies to Europe.

Even under current conditions, some banks are already forecasting a more severe recession for Italy, which depends on gas for about 50 per cent of its electricity generation.

"It's going to be extremely tough," said Lorenzo Codogno, former director-general of the Italian treasury department. "The country is going through a substantial slowdown — probably recession — and there is a massive squeeze in incomes due to the cost of living crisis."

Meloni's Brothers of Italy party, which until now has been in opposition since its formation a decade ago, has few obvious finance minister candidates to steer Italy though the turbulence. Instead she had been seeking a respected technocrat to reassure markets and the ECB that public finances will be in competent hands. But so far those Meloni has tried to recruit, such as ECB director Fabio Panetta, have been reluctant.

Speculation is mounting that she will turn instead to Giancarlo Giorgetti, a senior member of Matteo Salvini's populist League who served as economic development minister in Draghi's government and is seen as one of the party's more moderate, pro-Europe figures.

Meloni said last week she considered Giorgetti an "excellent" person for the job and he has indicated a willingness to take it if tapped. Whoever gets the portfolio will be in for a tough time. "It's a very hot potato," Codogno said.

Prior to September's election Meloni, who once slammed "big financial speculators" that she said wanted to turn Italians into "slaves", repeatedly emphasised the importance of fiscal prudence as she sought to signal her reliability to Italian bond investors.

Since her electoral victory, though, she has acknowledged the need to offer "concrete help" to families and businesses struggling with rising costs — among Italians' top concerns, according to opinion polls. Ludovico Sapio, European economist at Barclays, said the new government would have to "strike a balance between prioritising growth and prioritising fiscal prudence" as it weighed up whether to extend measures adopted by the Draghi government to shield consumers from rising energy prices or to fulfil election campaign promises of tax cuts.

"Given the circumstances, an extension of . . . the energy-mitigating measures would be welcome, but it doesn't seem that Italy can afford a package of the size that we are seeing in the UK and Germany," Sapio said. "They will have to make a political choice not to include measures that could be seen as controversial or fiscally irresponsible."

Italy's options are complicated by central banks' efforts to combat inflation. "Monetary policy has made markets hypersensitive to the fiscal space and debt sustainability concerns," Sapio said.

Ceramics group chief Borgomeo hopes the EU will agree a gas price cap. "If they don't cap gas prices, especially in Italy, every activity will stop," he said. "There will be a lockdown for energy. It will be social and economic disaster."

Additional reporting by Giuliana Ricozzi in Rome and Martin Arnold in Frankfurt

See FT Big Read

Burning issue: protesters set alight energy bills in Rome during a rally this month against the cost of gas — Alberto Pizzoli/AFP/Getty Images

'There are lots of clouds on the horizon and not a lot to be optimistic about'

Russian ally Berlusconi and Putin trade gifts and 'sweet letters'

Silvio Berlusconi has said he has rekindled his friendship with Vladimir Putin, exchanging gifts and "sweet letters", according to a recording in which he also expresses dismay at Italy's military support for Ukraine.

"Putin sent me 20 bottles of vodka and a very sweet letter for my birthday," Berlusconi, who turned 86 last month, is heard saying in the recording published by Italian news agency LaPresse.

The former prime minister, whose Forza Italia party is part of Giorgia Meloni's rightwing coalition, tells an MP from his party that he responded with an "equally sweet note" and some Lambrusco wine.

Forza Italia said Berlusconi had been "reminiscing" about a historical episode. But in the recording, he also frets about Italy's support for Ukraine. "The Russian ministers said we are already at war with them because we supply arms and funding to Ukraine. I cannot express my opinion otherwise it gets leaked to the press."

Amy Kazmin and Giuliana Ricozzi

INTERNATIONAL

Asia

Hong Kong tries to lure back global talent

Campaign aims to regain business lost in security and Covid crackdowns

PRIMROSE RIORDAN, CHAN HO-HIM AND HUDSON LOCKETT — HONG KONG

Hong Kong has launched a HK$30bn (US$3.8bn) fund alongside a package of measures to attract international businesses back after strict coronavirus controls and a security crackdown battered its status as a global financial hub.

Chief executive John Lee introduced visa and tax concessions for skilled foreign and mainland Chinese workers yesterday in his first policy address, including a move to make it cheaper for long-term expatriates to buy houses.

Lee wants to reverse the effects of policies that sparked an exodus, reducing the workforce by at least 140,000 in a city of 7.5mn. As security secretary, Lee oversaw a crackdown that wiped out dozens of civil society groups and filled the city's jails with those charged after pro-democracy protests in 2019.

"The government will proactively trawl the world for talent," Lee said. "We have to present the true picture of Hong Kong to the world."

Lee did not reveal any further easing of Covid-19 rules that prohibit tourists from visiting bars and restaurants during their first three days in the city and prevent quarantine-free travel to the mainland. The benchmark Hang Seng index fell almost 2.4 per cent.

Lee said the city's overseas trade offices would encourage Hong Kongers to return, a pitch that could be tricky, as some government critics abroad have been prosecuted in their absence.

Expats who buy a residential property and stay long enough to become permanent residents, which is possible for some migrants after seven years, can gain a refund on extra stamp duty paid on their first home.

The government will also introduce a two-year "top talent" pass allowing those with an annual salary of more than HK$2.5mn or graduates from the world's top 100 universities to work in the city without a previous job offer.

Lee said a fund would also be set up to encourage strategic enterprises to relocate to Hong Kong. Businesses focused on healthtech, AI, data science, fintech and advanced manufacturing would be prioritised, he said.

Also announced was a handful of measures intended to bolster activity on Hong Kong's stock market, where new listings have slowed to a trickle this year, in part due to a regulatory crackdown on Chinese tech groups.

Hong Kong Exchanges and Clearing, the operator, would revise listing rules for its main board to facilitate equity fundraising by advanced tech companies and revitalise its Growth Enterprise Market to cater to the needs of small businesses and start-ups.

The city would also exempt some market makers from a stamp duty levied on transactions.

However, local brokers were sceptical the measures would have a lasting impact on market liquidity or the flow of new listings, pointing to the 30 per cent fall in third-quarter profits reported yesterday by HKEX.

"Will these measures work? And if they do, ask yourself — for how long?" said Louis Tse, managing director of Hong Kong-based Wealthy Securities. "In two years' time, you may end up in the same position you started in."

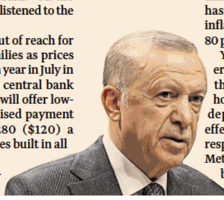
Turkey. Giveaways

Erdoğan goes on pre-election spending spree

Opponents believe president's $50bn subsidised housing proposals are just the start

LAURA PITEL — ANKARA

Home front: old and modern residences in Ankara. Inset, Recep Tayyip Erdoğan — Adem Altan/AFP/Getty Images



In the four weeks since President Recep Tayyip Erdoğan unveiled what he called "the biggest social housing project in the history of the Turkish republic", more than 7mn have flocked to sign up. Work on the first of the promised 500,000 new homes is set to begin this month, with the first foundations laid just as Erdoğan begins gearing up for elections.

Analysts and Turkish opposition officials see the $50bn state-subsidised project, aimed at helping low-income families get on the housing ladder, as one of the opening salvos of a huge spending campaign in the run-up to the vote, which is set to be the toughest contest faced by Erdoğan during his almost 20 years in power.

Government spending plans outlined last month show that, while the Treasury ran a roughly balanced budget for the first nine months of 2022, it plans to end the year with a deficit of about TL460bn ($25bn), a figure akin to about 3 per cent of gross domestic product. That points to a huge spending spree.

"I'm expecting them to do everything in their power, beyond anything they have done, as these are extremely high-stake elections," said Gülçin Özkan, a professor of finance at King's College London. "Nothing would surprise me in terms of the size of the fiscal package or the size of the credit guarantees."

Turkey's minister for environment and urban planning, Murat Kurum, rejects the suggestion that the scheme is electioneering. "This is not a project we have done because of worries about the upcoming elections," he said. "On the contrary, we have always listened to the needs of our citizens."

Housing has become out of reach for many lower-income families as prices soared 53 per cent year on year in July in real terms, according to central bank data. The project, which will offer low-income citizens a subsidised payment plan starting at TL2,280 ($120) a month, will see new homes built in all 81 provinces, he said.

Kurum repeatedly declined to say how much ing agency that has become a behemoth during Erdoğan's two decades in power, and generates its own income. The Treasury would also offer "some support".

But he added that Erdoğan would continue to roll out a series of big projects, some of which will be announced when he unveils his election manifesto later this month.

Support for Erdoğan and his Justice and Development party (AKP) has taken a hit in recent years as the country has reeled from currency crises and inflation that topped an official rate of 80 per cent in September.

Yet there is some evidence that generous giveaways aimed at cushioning the blow of soaring living costs for households, and strengthening their dependence on the AKP, has some effect. In June this year, 77 per cent of respondents told the Turkish pollster Metropoll that the economy was being badly managed. That figure began to decline in July, after a 30 per cent decline in the months since. Analysts expect Erdoğan to unveil another huge rise in the minimum wage, as well as an increase in public sector salaries, giveaways for pensioners and cheap loans to homes and businesses to win back former supporters.

The largesse poses challenges for the opposition parties, which must convince the public they would manage the economy better than Erdoğan yet also competing with his bumper giveaways.

The opposition has said of the plan, it should have been done sooner, that it will never happen, that it is unaffordable and unrealistic and that it is aimed at benefiting Erdoğan's friends in the construction sector. Yet Bilge Yılmaz, head of the economy brief for the opposition İYİ party, concedes that Erdoğan actually wants the opposition to attack it.

"They're saying: if we win the election, we're gonna give you this, but if the other guys come, they won't," he said.

Yılmaz argues that "most intelligent citizens" see through such claims. Yet he

'I'm expecting them to do everything in their power, beyond anything they have done, as these are extremely high-stake elections'

tion coalition wins next year, is building a programme that offers a way out of poverty, as well as eye-catching promises such as free breakfast and lunch for every child in school. But he says that his party "hasn't managed to do a good job at propagating that stuff", partly as the media is controlled by Erdoğan.

The impact of a large spending programme on state finances is likely to be manageable. Although the budget deficit has increased in recent years, it still remains low compared with many other emerging markets, with the government forecasting a deficit of 3.4 per cent of GDP this year. The same is true of the overall debt-to-GDP ratio.

But analysts warn of other risks stemming from a huge fiscal stimulus of the kind implied in the budget numbers. Atilla Yeşilada, an analyst for consultancy GlobalSource Partners, says that even if a spending spree delivers "temporary spikes" in Erdoğan's popularity, it will backfire by raising inflation and a call for imports. That, he argues, would

National security

Australian military checks claims China wooed former pilots

NIC FILDES — SYDNEY
KATHRIN HILLE — TAIWAN
MERCEDES RUEHL — SINGAPORE

Australia's defence force has launched an investigation into allegations that a number of its former air force pilots were offered lucrative packages to teach Chinese pilots how to fly western attack aircraft.

Australian pilots were among those approached by a South African flight school to train Chinese pilots to operate warplanes.

Britain's Ministry of Defence said this week that 30 former Royal Air Force pilots had been offered salaries of up to £237,000 a year to train People's Liberation Army pilots. One official said serving personnel had also been approached.

The New Zealand Defence Force told the Financial Times that four former pilots were employed by the Test Flying Academy of South Africa but that no serving personnel were involved.

The recruitment drive to strengthen the skills of China's air force comes at a time of high tension in the Indo-Pacific region.

In May, a Chinese J-16 fighter intercepted an Australian P-8 maritime surveillance aircraft over international waters and released "chaff" including aluminium that was ingested by the engine of the plane.

Richard Marles, deputy prime minister and defence minister of Australia, said Canberra had ordered an urgent review of the recruitment drive and would seek "clear advice" on what had occurred.

"When our Australian Defence Force personnel sign up . . . they do so to serve their country and we are deeply grateful of that," Marles said. "I would be deeply shocked and disturbed to hear that there were personnel who were being lured by a pay cheque from a foreign state above serving their country."

New Zealand's defence force said: "NZDF personnel are free to be able to gain employment once they leave service. However depending on their decisions, there may be repercussions to any future employment with the NZDF."

Conditions that could block employment with the NZDF include working against the country's national interest and providing services to a foreign defence entity.

Marcus Hellyer, a senior analyst at the Australian Strategic Policy Institute think-tank, said the prospect of former Australian fighter pilots training their Chinese counterparts seemed "outlandish", particularly after the incident in May and it would be perplexing if any had taken up the offer.

"Teaching PLA pilots to do air combat could mean revealing how our air forces operate, including our tactics. If it's true, it would be profoundly concerning," he said.

Senior government and military officials in Taiwan, which China claims as its territory and has threatened to annex by force, said that while there were retired Taiwanese military pilots serving in the Chinese civil aviation sector, the country was not aware of any former air force personnel having been the home-building programme would cost the government, saying only that some of the costs would be met by TOKİ, the state hous-

increase in the minimum wage came into force, just six months after a previous increase of 50 per cent.

The dissatisfaction with the economy has continued to

also believes that some of the poorest voters have become "addicts" of AKP support and are fearful of what would happen to them if the party loses power.

He says that the İYİ party, which hopes to run the economy if an opposi-

cause a fresh currency crisis of the kind last witnessed in December 2021, when the lira plunged. He said: "It would be a miracle for Erdoğan to spend that much money and for inflation not to increase, and the currency to remain stable."

recruited by the Chinese military.

But defence minister Chiu Kuo-cheng said Taipei could not restrict former members of its military from pursuing such activities in China long after they had been discharged.

Climate change

Pakistan calls for billions in loans to rebuild after flood disaster

JOHN REED AND FARHAN BOKHARI
LAHORE

Pakistan will ask international lenders for billions of dollars of loans to rebuild the country after calamitous floods uprooted 33mn people and pushed its cash-strapped economy even closer to insolvency.

Shehbaz Sharif said Islamabad was not trying to reschedule its external debt, of about $130bn, but did need "huge sums of money" for "mega undertakings", such as rebuilding roads, bridges and other infrastructure damaged or washed away in a deluge scientists have linked to climate change.

"We are not asking for any kind of measure [such as] a rescheduling or a moratorium," the prime minister told the Financial Times. "We are asking for additional funds."

Sharif would not be drawn on the exact amount his government was seeking but repeated the $30bn estimate of the damage caused by the floods, the worst natural disaster in the country's 75-year history.

"There is a gap — and a very serious gap — which is widening by the day between our demands and what we have received," Sharif said.

The prime minister also hinted that the failure of the international community to rally resources risked fuelling political instability in the nuclear-armed state, where opposition leader Imran Khan has been capitalising on widespread discontent.

Khan's Pakistan Tehreek-e-Insaf party on Sunday won six out of eight seats in by-elections held in three provinces. Analysts said the results bolstered the ousted prime minister's campaign for early elections.

"We are obviously concerned because if there is dissatisfaction leading to deeper political instability and we are not able to achieve our basic requirements and goals, this can obviously lead to serious problems," Sharif said.

"I'm not saying it in terms of any kind of threat, but I'm saying there's a real possibility."

French president Emmanuel Macron has promised to host a donors' conference to boost Pakistan's fundraising efforts. No date has been set for the conference but Sharif said he expected it to take place in Paris in November. The UN is finalising its own assessment of the amount Pakistan will need to rebuild.

> 'We are in a war against climate change-induced havoc, and we have become a victim'

Sharif, younger brother of former prime minister Nawaz Sharif, took power in April after Khan lost a no-confidence vote. His government narrowly staved off a liquidity crisis by securing a $1.1bn disbursement from the IMF in August as well as pledges of financing from China, Saudi Arabia and others.

Last month, the UN Development Programme suggested Pakistan suspend debt repayments and seek to restructure its loans because of a "climate change-induced crisis".

The devastation has also prompted environmental activists to call for "climate reparations" paid by richer countries to lower-emitting nations suffering the brunt of climate change.

However, Sharif said: "We are only asking for climate justice, we are not using the word 'reparations' at all.

Pakistani officials have been mindful of honing their pitch for international help — and emphasising their own efforts — at a time when western countries face competing demands for emergency funds to defray soaring energy prices and support Ukraine's defence against Russia.

"We are in a war against climate change-induced havoc, and we have become a victim," Sharif added. "Tomorrow another country [could be] and we don't want that to happen."

Dress code

Iran athlete in hijab incident flies home to warm welcome

NAJMEH BOZORGMEHR — TEHRAN

Elnaz Rekabi, the Iranian climber who took part in a competition in South Korea without wearing a headscarf at the weekend, returned home yesterday to a warm welcome.

As Rekabi arrived at Tehran airport, a crowd that included veteran climber Abbas Alinejad, chanted "Heroine Elnaz". Alinejad urged people to welcome Rekabi "peacefully" without putting her "at risk".

"I'm back to Iran thoroughly safe and sound," Rekabi told state media upon her arrival. "I apologise to the Iranian people because of the tensions and concerns I created . . . I had a lot of stress but nothing has happened so far."

Friends of Rekabi had feared she was being held by the authorities when they could not reach her after the competition. However, on Tuesday, she reappeared and said that her "clothing had a problem by mistake" in the event.

The Instagram statement raised suspicions she had been forced to distance herself from what was viewed as an act of civil disobedience in support of protests that swept Iran after Mahsa Amini died in custody after police claims she violated the Islamic state's dress code.

There had been expectations that the airport gathering might become another flashpoint, but the crowd did not start any anti-regime chants.

Rekabi rejected reports in media overseas saying she had disappeared after competing in Seoul. "It is not true there was no news on me for 48 hours. We are back according to our schedule."

Rekabi said she had been "busy with my technical stuff and shoes" when she was "unexpectedly" called to start her match. "Hence, I neglected my hijab and climbed the wall."

Koo's campaign Indian microblogging site courts parties across the political spectrum in effort to broaden user base ➔ PAGE 8

Companies & Markets

Relaunch plan for European Super League divides football

- Effort to revive failed competition
- Uefa and national bodies opposed

JOSH NOBLE, ARASH MASSOUDI AND SAMUEL AGINI — LONDON

The new boss of the failed European Super League expects it to be relaunched within three years and has promised to consider all options for its format, after the original project collapsed in the face of widespread anger among fans, clubs and existing leagues.

Despite falling apart within days of launch in April last year, the league has continued to operate as a corporate entity backed by three remaining member clubs: Real Madrid, Barcelona and Juventus.

A22 Sports Management, a company representing the Super League clubs, is planning to revive the competition and has appointed Bernd Reichart, a German media executive, as its new chief executive. His first job will be to open an "active and extended dialogue" across the game, the company said, with the aim of creating a new "sustainable sporting model" for European football.

> 'We want to see whether there is broader consensus about the problems facing European football'

"We want to reach out to stakeholders in the European football community and broaden this vision. Even fans will have a lot of sympathy for the idea," Reichart told the Financial Times. "It is a blank slate. Format will never be an obstacle."

Under the ESL's original template, 12 [...]

its rapid unravelling. The architects of the plan complained that European club competitions are badly run, with too many matches that have failed to engage audiences. Their original aim was to increase the number of games between top clubs, but they now acknowledge that the model must change if the ESL is to succeed.

"There is a reassessment. There is a clearly stated move towards an open format and that permanent membership is off the table," Reichart said.

"We want to see whether or not there is broader consensus about the problems facing European football."

But resistance to the idea seems as entrenched as ever with Uefa, the domestic leagues and governing bodies, and the European Club Association, a lobby group of elite clubs, all firmly opposed.

Reichart, a former chief executive of RTL Deutschland, said he was optimistic that the barriers to a new contest would be overcome and that a launch in 2024-25 was a "reasonable" expectation.

The three ESL clubs are involved in legal action against Uefa that accuses European football's governing body of operating a monopoly. The case is currently with the European Court of Justice. An initial recommendation is due in December and a formal ruling expected in the spring.

"If fundamental change is to come, we want to be prepared," said Reichart.

The presidents of the three ESL clubs have embarked on an outreach campaign, striking a conciliatory tone in an effort to build support for the fight with [...]

Netflix turnround Subscriber losses stemmed as successful shows help add 2.4mn members

Evan Peters stars in the streaming service's television series 'Dahmer — Monster: The Jeffrey Dahmer Story'

CHRISTOPHER GRIMES — LOS ANGELES

Netflix stock leapt yesterday after the group said it had stemmed subscriber losses in the quarter, as programmes including the fourth season of *Stranger Things* and *Dahmer — Monster* helped add 2.4mn members.

The result was more than double the subscribers Netflix had forecast, leaving it with 223mn paying accounts at the end of the third quarter, up 2.6 per cent from a year earlier.

The company expects to reach 227mn by the end of the current quarter, according to its earnings release.

"Thank God we're done with shrinking quarters," said Reed Hastings, chief executive. "We're back to the positivity."

[...] — from \$1.44bn a year ago to \$1.4bn. Earnings per share fell 2.8 per cent to \$3.10, better than \$2.10 a share that Wall Street had expected.

It warned that revenue and earnings would drop in the fourth quarter because of the effect of the strong dollar and headwinds such as inflation.

Hastings said the guidance was "reasonable, but not fantastic. We've got to pick up the momentum."

The company has launched two initiatives to shore up its business in the face of maturing subscription growth: a lower-cost, advertising-supported streaming service and an effort to limit password sharing.

Netflix moved quickly to create its advertising tier, developing the platform within only six months in part [...]

product officer, did not expect many subscribers to "trade down".

Netflix is planning to crack down on password sharing early next year. The company will offer account holders the ability to create "sub-accounts" for family or friends who piggyback off a single account.

With these two potential new sources of revenue, the company said it would stop providing guidance to investors on its number of new subscribers — a shift for a company whose share price rocketed for years based on its membership growth.

The new ad service and its effort to monetise shared accounts meant subscriptions would become "just one component of our revenue growth", the company said.

Tencent to spend \$3bn in stock buyback programme

RYAN MCMORROW — SHANGHAI

Chinese social media and gaming group Tencent has increased its share repurchases to spend more than \$3bn this year as the company's stock price plumbs four-year lows.

It has focused on returning cash to shareholders, with its outlook dented by China's sagging economy and President Xi Jinping's crackdown on gaming.

The Chinese group increased its buyback outlays to about HK\$600mn (\$76mn) a day last week, a pace that if maintained could hit HK\$90bn next year, on par with the buyback programme of rival Alibaba, according to estimates from analysts at Bernstein.

The repurchases are part of a strategic shift for the Chinese tech group. Beijing's antitrust scrutiny of its aggressive domestic dealmaking has slowed its huge investment outlays, which had previously consumed extra capital.

Tencent made just 46 investments in Chinese groups in the first nine months of the year, down from 199 over the same period the previous year, according to data from research group ITjuzi.

With its book of public and private holdings worth about \$140bn, Tencent is also eyeing sales of as much as Rmb100bn (\$13.8bn) of investee shares in the coming months, which could be funnelled into the buybacks or distributed as special dividends to investors.

Tencent shares have lost 67 per cent of their value since February of last year, hitting lows not seen since 2018. In August, it reported its first quarterly revenue decline, later losing the mantle of China's most valuable company to alcohol maker Kweichow Moutai.

In May, Tencent began to buy back 10 per cent of its outstanding shares over the following 12 months. It has bought back 76mn shares this year, less than 1 per cent of the total but more than the cumulative 26mn shares bought back over the past decade.

James Mitchell, chief strategy officer, told Wall Street in August that its cash flow from operations and large equity portfolio provided "substantial ammunition . . . to continue doing dividends and buybacks at an aggressive rate".

Under the ESL's original template, 12 elite clubs announced a breakaway competition to rival Uefa's Champions League. The closed structure, with members guaranteed involvement regardless of their domestic league performance, drew sharp criticism from across football and helped bring about

effort to build support for the fight with Uefa. Florentino Perez, president of Real Madrid, said in a recent speech that football was "sick" and "losing its position as the world's leading global sport".

Uefa has previously described the ESL project as a "danger to European football".

the positivity.

Netflix rose more than 15 per cent after stock markets opened yesterday in New York.

The video streaming pioneer, which shocked investors with its revelation in April that it had lost subscribers, reported a slight decline in net income

form within only six months in partnership with Microsoft. It will begin rolling out the service next month in 12 markets.

Some analysts have warned that the new tier may prompt users to switch to cheaper accounts, especially given rising inflation. But Greg Peters, chief

the company said.

Ted Sarandos, co-chief executive, said the company would hold its content spending to about $17bn per year.

"We're spending at about the right level," he said. "As we reaccelerate our revenue, we will revisit that number."

See Lex

and buybacks at an aggressive rate".

Robin Zhu of Bernstein noted the "buybacks suggest management is more optimistic than the market". It estimates that Tencent could return 5-6 per cent of its market capitalisation to shareholders next year via dividends, buybacks and distributions.

Passenger patience with sharply higher airfares is not unlimited

INSIDE BUSINESS
AIRLINES

Peggy Hollinger

If you have started thinking about a post-Christmas, Hanukkah or New Year holiday, you are not alone. Close to one in five travellers are already looking at booking breaks more than three months ahead, according to travel search engine Skyscanner. No matter where you live, though, it will cost you.

Airfares are soaring from New Zealand and Brazil to Europe and India. US inflation data published last week showed that average airfares there had risen 43 per cent over the past year.

Large parts of the world were still in Covid lockdown last year and a desperate airline industry might even have been prepared to give away seats if it could. So perhaps a 43 per cent rise is not that surprising.

But it is significant that average fares in the US for September have not been this high since 2014.

Yet people are still flying. In recent weeks operators such as Delta, United, Ryanair, easyJet and IAG have testified to the strength of people's appetite for travel, now and for the next few months.

"Demand has not come close to being quenched," said Delta's chief executive Ed Bastian last week as he upgraded profit expectations for the fourth quarter.

Airlines argue that high fares reflect the higher costs of operation after a surge in fuel prices, the rise of the dollar, and higher wage settlements with pilots, crew and other staff.

The staff shortages in particular have encouraged most of the legacy airlines to take a cautious approach to rebuilding capacity. Anyone who remembers the chaos of last summer will understand their wariness about scheduling flights that may not get off the ground.

But there may also be a temptation to keep a cap on capacity to cash in after two years of pandemic losses. Just look at the bumper quarterly profits being announced by the likes of IAG, Lufthansa and others, which freely admit that higher fares are a factor.

Even the industry's arch fare-cutter, Michael O'Leary, chief executive of Ryanair, has said that ticket prices will have to go up for several more years, and faster than even he expected just a few months ago.

> It is difficult to see what the pull will be to splash out on trips when there is a whopping heating bill or mortgage to pay

But, at some stage, passenger patience with record ticket prices will surely run out. Historical data from Ascend by Cirium, the aviation analytics company, suggest there is "an inverse link between demand and fare change", according to Cirium executive Rob Morris.

The relationship was most clear in the last expansion cycle, he says, when fast-growing budget carriers were able to significantly reduce the cost of travel and stimulate demand above the long-term growth trajectory.

This time round, the trend is moving in the opposite direction. Limited capacity is keeping airfares high, and the question is whether or when that affects demand. While demand is better than the industry had expected at this stage after the pandemic years, it is fragile and not yet exceptional compared with pre-Covid patterns.

According to data from ForwardKeys, the travel data provider, tickets issued for flights in Europe in the fourth quarter had recovered to 76 per cent of 2019 levels in the week to October 12, while airline capacity was running higher at 88 per cent. In the US, where demand seems more buoyant, there were still fewer passengers passing through airport security in October than in 2019.

Nevertheless, there are indications that passenger behaviour is normalising. Fewer travellers are leaving bookings to the last minute, say both Skyscanner and ForwardKeys. But if passenger behaviour is returning to normal, then tolerance of high fares could be expected to wear thin as people increasingly feel the effects of surging inflation and a darkening global economy.

It is normal for travellers to want to see family and friends over the festive period after a two-year absence. They may even shrug off the cost for the sake of spending time with loved ones again.

But, once the season is over, the economic clouds will be that much darker. It is difficult to see what the pull will be to splash out on costly airfares when there is a whopping heating bill or mortgage to pay.

Airlines may be thrilled with a better than expected autumn and the bounty that comes with it. But it would be premature to declare a definitive victory over the sector's bout of Covid until passengers start making their travel decisions in the depths of what promises to be a long, hard winter.

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COMPANIES & MARKETS

Property

Police raid Signa offices in graft probe

Real estate tycoon Benko's Austrian group searched over corruption claims

SAM JONES — BERLIN

Austrian police have raided the headquarters of René Benko's Signa Group, one of Europe's biggest luxury real estate investors.

Innsbruck-based Signa has a €24bn property portfolio that includes high-end department stores Selfridges in London and KaDeWe in Germany, as well as prime hotels and property in Zurich, Vienna and Munich, and New York's Chrysler Building.

Police searched Signa headquarters on Tuesday, confiscating laptops, hard drives, documents and mobile phones, in a swoop connected to a sprawling investigation by Austria's state prosecutor into government corruption.

Benko, the billionaire owner of Signa, has cut a distinctive figure for years, mingling with powerful politicians across central Europe. In his native Austria, where he is a regular fixture in the tabloid press thanks to his reputation for extravagant parties, often combining champagne and lederhosen, he was seen as particularly close to former chancellor Sebastian Kurz.

Kurz was forced to resign last October amid allegations of corruption.

Tuesday's raid follows an announcement yesterday from the Austrian prosecutor for economic crime and corruption, WKStA, that one of Kurz's closest

> Signa's €24bn property portfolio includes New York's Chrysler Building and Selfridges in London

political confidants, Thomas Schmid, a top finance ministry official, had turned state witness earlier this year and had provided investigators with more than 15 full days of testimony.

A copy of the WKStA warrant ordering the raid against Signa and Benko was obtained by the Financial Times and confirmed as genuine by government officials. News of the raid was first reported by Austria's state broadcaster, ORF, and Der Standard newspaper.

The WKStA warrant details dealings between Schmid and Benko, and alleges Benko sought to use aggressive accounting to avoid paying millions in taxes.

The warrant says prosecutors have reason to suspect Benko of bribery and incitement to abuse of office. It alleges he offered Schmid a lucrative job at Signa if he could use his influence, before he left government, to settle an investigation by tax authorities into his accounting methods.

Signa and Benko did not respond to a request for comment.

Bonds issued by the group dropped to their lowest level on record on Tuesday. A €300mn bond due in 2026 fell to just under 56 cents on the euro.

Though well known in the German-speaking business world, Benko began a bold expansion into other real estate markets — using his trademark approach of political savvy, leverage and complex financial engineering — just as the pandemic hit the high-end retail, luxury and travel sectors on which his property empire is built.

Signa has insisted that the high quality of its assets, typically in prominent locations, makes it more resilient.

Technology. Social media

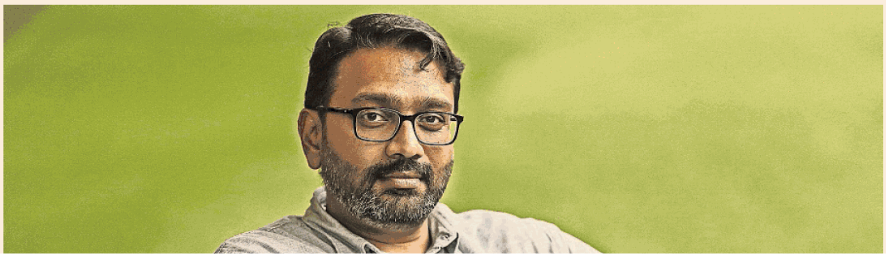
India's Koo aims to shed 'nationalist Twitter' tag

Platform woos parties across political spectrum in drive to widen base

CHLOE CORNISH — MUMBAI

Indian microblogging site Koo, branded by academics a "nationalist Twitter", is courting political parties across the country as it tries to persuade potential users that it is not a rightwing echo chamber.

Co-founder Aprameya Radhakrishna said: "I want to be known as the inclusive platform that we are building



Automobiles

VW faces potential legal action over climate-related lobbying

CHRIS FLOOD AND PATRICIA NILSSON
LONDON

Volkswagen faces possible legal action by a coalition of institutional investors that accuse the German carmaker of having refused requests to answer questions about its lobbying activities related to climate change.

Five Swedish and Danish public pension funds and the Church of England Pensions Board said they were concerned that while VW was "publicly championing the green transition", it may be lobbying against stricter climate rules.

Such a contradiction would expose the company to reputational and operational damage, they said.

It is one of the first times institutional investors have contemplated litigation on a climate related matter in Europe. The investors attempted to include climate lobbying as an agenda item at VW's 2022 shareholder meeting but this was vetoed by its management.

VW's stance on the environment has been a sensitive issue since the Dieselgate scandal broke in 2015 when several of VW's brands, including Audi and Porsche, were found to have used software that deceived regulators over harmful emissions. The carmaker is in the middle of a transition to electric vehicles — a costly process that is expected to have

> Five public pension funds and the Church of England Pensions Board say they

towards." He said community teams at Koo were approaching parties across the political spectrum as the social media site sought to expand its user base.

Koo attracted a flood of rightwing politicians after a spat between Twitter and Narendra Modi's ruling Bharatiya Janata party in February 2021 over farmers' protests against agricultural policies.

New Delhi accused Twitter of allowing disinformation about the demonstrations, while the social media group rejected demands to block journalists and protest leaders. Twitter then banned several pro-BJP accounts, including that of actor Kangana Ranaut, for violating hate speech rules. Alleging that Twitter was stifling rightwing nationalist voices, angered BJP operatives migrated to Koo.

Twitter "can't arrogate to itself the right to sit in judgment of what constitutes free speech", Amit Malviya, head of the BJP's information cell, wrote on Koo. "If you want our business, follow law of the land."

Due to the spat between India's government and Twitter, Koo was able to benefit from "a need for our own platform", said Radhakrishna, a serial entrepreneur who sold his first taxi start-up to mobility group Ola.

Academics at the University of Michigan called it an "attempt to create a 'nationalist Twitter'".

Trisha Ray, deputy director at the Centre for Security, Strategy and Technology run by the Observer Research Foundation, a think-tank, said: "Most of us would not have heard of Koo if it wasn't for the great Indian exodus from Twitter." Downloads of the Koo app went from 1.1mn in the last three months of 2020 to 4.6mn in the first quarter of the following year, according to data provider SensorTower.

Radhakrishna said people could post "whatever they want on the platform, as long as it abides by the law of the land", amid criticism that India's censorship laws are being "misused" by parties in power and as rival US tech groups struggle to navigate politics in the sensitive market.

Radhakrishna argued that unspoken rules that governed conduct in public should be practised online. In India, "if I'm in front of 100 people in person, I'm not going to say something thinking that it is inappropriate and I will probably land in some sort of trouble . . . The same filter of what I can and can't say in a country should apply online as well."

What can be said online in India is governed by broad laws, under which the government can demand that platforms block content. "The vagueness of the law is what leads to it being misused by whatever party is in power," said Ray. "It can be leveraged based on narrow political interests as opposed to specific threats and harms."

But the BJP association had led to problems for Koo, Ray said. "The intellectual space that Koo caters to is very narrow." Socially conservative and "perhaps anti-minority" viewpoints were most prominent.

Although Ray "wouldn't say that Koo was doing it by design", she saw "really hateful content being posted", potentially affecting Koo's ability to attract money. Radhakrishna said posts were moderated by machine-learning algorithms and could be reported by users.

The government tightened rules in February 2021, making social media platform employees personally liable if their company did not comply with official takedown orders. Twitter began a legal challenge to this three months ago, arguing that many blocking orders under the new rules had been excessive, targeting posts that were political, critical or newsworthy.

Modi stoked his popularity through Facebook and Twitter. But once in power he made self-reliance a priority, from manufacturing to tech, and promoted national champions. Bangalore-based Koo, which allows 400-character posts, won a 2020 government competition for homegrown apps.

Koo supports 10 languages and says it censors posts that demonstrably propagate hate. "We want to be neutral, unbiased, and not impose any of our thoughts on what is right or wrong," said Radhakrishna. Because Koo did not curate posts, "the app shows the true mood on the platform".

Radhakrishna said Koo had received some government takedown requests — "standard requests that get sent to all social media", and its policy was to follow them while making the removal transparent to users.

The Koo site's co-founder Aprameya Radhakrishna wants it to be considered inclusive
Dhiraj Singh/FT

People can post 'whatever they want on the platform, as long as it abides by the law of the land'

Having raised $44.5mn from investors, Koo is one of several sites to have emerged after Twitter's critics — most prominently Donald Trump — accused the platform of silencing views. None of these platforms, such as Gab, Parler and Trump's Truth Social, have gained much of a following in comparison to Twitter.

Koo was not initially used by Indian politicians — it even had an early China investor, despite rancour between Beijing and New Delhi — and Radhakrishna said the Indic-languages platform was designed to enable an inclusive exchange of ideas.

Downloads have slumped this year after the easing of lockdowns, but Radhakrishna said Koo had 10mn to 12mn monthly active users in India. Twitter had 24mn as of January, according to data provider Statista. "In just 2.5 years, we are close to half the size of our competitor," Radhakrishna said.

Koo has 250 employees and Radhakrishna expected to raise "our next larger round of funding by the end of next year". It planned to make money through "advertising and in-app transactions".

Koo is also being promoted in Nigeria, where many members of the government joined the platform after Twitter was banned.

Pensions Board say they are concerned

ramifications for the companies in its supply chain.

Adam Matthews, chief responsible investment officer at the Church of England Pensions Board, said it was "extremely disappointing to have to turn to the courts to get VW to do the right thing".

"VW is failing to demonstrate that the lobbying undertaken and funded by the company through its industry association memberships is aligned to its own climate goals," said Matthews.

VW said that while it shared the shareholders' view that "aspects relevant to climate protection deserve an even higher priority in reporting", it disputed claims the company had been legally wrong to dismiss their request to add items to its annual meeting agenda.

The German automaker, which sells roughly 10mn cars a year, said the "distinction between the legal and substantive assessment is important".

It added that it was "currently considering" ways to strengthen the "extensive transparency measures that we have already implemented".

The shareholders pressing action collectively own roughly 0.1 per cent of VW's shares, equivalent to a market value of about €62.3mn. But a court's decision would be legally binding, and set a precedent.

Emma Henningsson, head of responsible ownership at the Swedish pension fund AP7, said that the court case would clarify whether shareholders had a right to put an item on the agenda of an annual meeting.

Other governance issues such as diversity and inclusion, discrimination or conflicts of interest could then also be tabled for shareholder votes if the court case succeeded, according to AP7.

Additional reporting by Camilla Hodgson in London

Technology

ASML to feel only 'limited' pain from latest US export curbs against China

LAULY LI — LONDON
DEMETRI SEVASTOPULO — WASHINGTON

Europe's largest chip equipment manufacturer ASML has said that Washington's latest export controls against China have a limited impact on the company's equipment shipping plan for 2023.

"The direct implication for us is fairly limited," ASML's chief financial officer Roger Dassen said yesterday. "First off, as you know we are a European company. So there is not a lot of US technology in our tools."

The Dutch chip tool supplier makes a variety of products and is the only company capable of producing extreme ultraviolet lithography machines that are essential for manufacturing advanced semiconductors.

Taiwan Semiconductor Manufacturing Co, Intel and Samsung all rely on ASML's deliveries and services for the EUV tools to build cutting-edge chips. Dassen said ASML continued to ship non-EUV equipment out of Europe to China, as it evaluated the US export controls. He pledged the company would do "whatever it takes" to follow Washington's rules. It has already told its US staff to stop serving all Chinese customers while it assesses the sanctions.

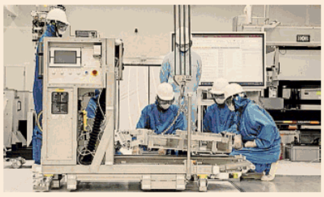
This is the first time ASML has commented on the impact of the new US controls, which impose restrictions on exports of technology to Chinese chip manufacturers and other entities involved in artificial intelligence and supercomputers.

Some of the rules also restrict non-US companies from exporting to China if their products contain US technology. While companies can apply for an export licence, Washington has signalled that most requests will be denied.

ASML, which has a stock market value of about $170bn, has been caught up in the US-China tech war with its planned shipment of an EUV machine to China's contract chipmaking champion Semiconductor Manufacturing International Corp.

The Dutch government has urged ASML not to ship the machine following US pressure that started during the Trump administration. The Biden administration has been holding talks with the Netherlands and Japan to agree on a list of chipmaking tools that should not be exported to China. The US wants to restrict the export of some non-EUV manufacturing tools.

Dassen said that though ASML could ship non-EUV machines to China, there would be an indirect impact on its equipment demand. He predicted that Chinese clients might be forced to reduce orders because they cannot get other equipment from the US chip gear suppliers as a result of the new controls.



TSMC, Intel and Samsung are reliant on the Dutch chip gear supplier
Ann Wang/Reuters

ASML chief executive officer Peter Wennink said in an analyst call yesterday that this could affect up to 5 per cent of the company's order backlog.

He added that ASML's business mostly served more mature chip production technologies in China rather than the advanced chip production targeted by Washington's export control rules.

The group's comments come as it reported stronger than expected earnings results for the latest quarter. It delivered €5.8bn net sales with a gross margin of 51.8 per cent for past quarter, above its previous guidance of between €5.1bn and €5.4bn, and a gross margin between 49 and 50 per cent. For the full year, ASML expects revenue to grow by 13 per cent to €21.1bn with a gross margin approaching 50 per cent.

ASML said overall demand for the company's equipment and systems remained strong and it believed expanding its capacity was "the right thing to do" despite uncertainties in the market, including inflation, deteriorating consumer confidence and the risk of an economic recession.

TSMC, the world's largest contract chipmaker and a client of ASML, last week lowered its annual capital expenditure by about 10 per cent to $36bn this year because of a slowdown in demand for smartphones and PCs.

"Clearly there is uncertainty in the short term but the secular trends are there," Dassen said, adding that the push from economies to bring semiconductor production onshore also supports demand. "I think that creates a situation that we're seeing where the lion's share of the customers are really still pushing us to get the tools sooner."

See Lex

COMPANIES & MARKETS

Solomon works to convince Goldman investors this reorganisation will work

Contrite chief offers withdrawal from consumer banking and reshuffle in effort to lift valuation

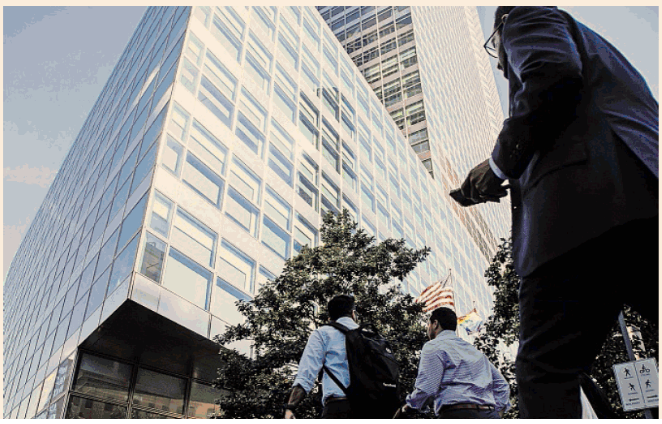
JOSHUA FRANKLIN — NEW YORK

As David Solomon set out to sell his latest overhaul of Goldman Sachs to investors on Tuesday, there was little sign of the sharp-tongued titan of the C-suite or the flamboyant "DJ D-Sol" known for frequenting music festivals. Instead, Solomon appeared contrite.

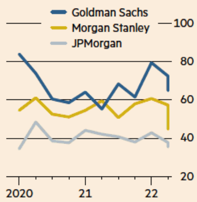
The second significant restructuring since he became chief executive four years ago was in effect an admission that the bank was under pressure from investors, who had become increasingly sceptical of its ambitions to launch a viable consumer brand after years of losses and high staff turnover.

"I appreciate the comment that shareholders haven't been excited about it," Solomon said of the foray into consumer banking during a call with investors. "And that certainly affects some of our decision-making."

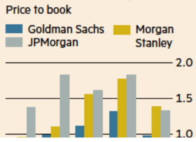
Describing the changes as an "evolution", Solomon outlined plans to pull back from retail banking and instead focus on its traditional strengths serving big companies and rich investors rather



Trading and investment banking
% of quarterly revenues



Stock market multiple
Price to book



Technology

Co-chief quits Kakao after backlash over messaging app's outage

SONG JUNG-A — SEOUL

Kakao's co-chief executive Namkoong Whon has resigned after an hours-long outage of the company's mobile services sparked a backlash against South Korea's main messaging app provider.

His resignation came after President Yoon Suk-yeol said that South Korea's antitrust watchdog would examine Kakao's market dominance after the incident highlighted the country's dependence on the company's mobile services.

"Although the network is run by a private company, it's practically national communications infrastructure," Yoon said this week.

"If a monopoly or an oligopoly causes market distortions and acts like national infrastructure, I think the government should take action."

Most of Kakao's services, including messaging, mobile banking and gaming, were restored following a fire at the company's data centre just outside Seoul on Saturday. Kakao will be run by its remaining chief executive, Hong than servicing Main Street customers. Goldman's much-vaunted Marcus consumer operation will be folded into a unified asset and wealth management division.

The corporate rejigging also underscored that Solomon is still searching for an answer that has bedevilled Goldman since he took over, and arguably since the company went public: how can the firm persuade investors to bestow a higher valuation on a bank that remains the envy of many of its Wall Street peers but depends on highly unpredictable revenue streams?

"You don't make changes if everything is going perfectly," said Christian Bolu, banking analyst at Autonomous Research. "So the fact that they're making some changes tells you there's some need to tweak the initial expectations."

Goldman's revamp will see it shrink from four divisions to three. Solomon has merged its investment bank — the company's crown jewel — with its trading division, creating a unit that reminded some veterans of the old Goldman he had tried to unpick. Having separated asset and wealth management in 2019, he is now putting them back together again.

A newly formed "platform solutions" business will combine the technology Goldman uses to support credit cards for Apple and General Motors and an online lending business, called GreenSky, which it acquired this year.

"This is actually something we've been talking about and working toward for the better part of a year," Solomon said in an interview with the Financial Times.

"We've realised that for us, given the way we're set up — we've built very, very good digital platforms and products — that being broad and going to a much broader set of potential customers doesn't play to our strengths."

Evolution, not revolution: David Solomon, below, says his second revamp of Goldman Sachs will play to its strengths
Michael Nagle/Bloomberg

Goldman's retail banking expansion was much vaunted when it launched in 2016 under its previous chief executive, Lloyd Blankfein, but that fanfare resulted in intense scrutiny from investors and within the bank as losses and costs mounted.

Marcus was successful as a low-cost funding mechanism for Goldman, amassing more than $100bn in customer deposits. But rather than deepening its connections with its retail customers, Goldman will now repackage the technology underpinning Marcus into its private wealth management business.

The market cheered the overhaul, which was announced alongside third-quarter earnings that beat analysts' expectations. Shares of Goldman closed 2.3 per cent higher on Tuesday, outpacing the broader market.

Goldman's retreat from "a mass retail strategy" was what investors were waiting for, according to Kush Goel, senior research analyst at investment manager Neuberger Berman, which holds Goldman stock. "It shows the management team is willing to reassess and readjust."

The question facing Solomon is whether his new structure will persuade investors to ascribe a higher valuation to his bank. Goldman trades at just under its book value, behind its average over the past five years of 1.05. Morgan Stanley, by comparison, trades at about 1.4 times book, with a five-year average of 1.32.

The most recent earnings highlighted how reliant Goldman remains on investment banking and trading. Due to the unpredictability of these businesses, they are not highly prized by investors, who prefer recurring revenues from fee-based businesses such as wealth management.

In the third quarter, investment banking and trading generated 65 per cent of Goldman's revenues. By comparison, the investment banking and trading division last year generated 35 per cent of revenues at JPMorgan and 44.8 per cent at Morgan Stanley.

Some bankers who know Solomon well say he is right to try to diversify but question how much can be achieved with another restructuring.

"It's just discombobulating a lot of the firm," said one former Goldman banker who worked with Solomon after he became chief executive. "They're moving the deckchairs but not actually managing the firm — just moving things into different buckets."

Solomon had pointed in the past to consumer banking as one of four areas of growth that would diversify Goldman's revenues.

Attention will now shift to the three other areas that would make the bank less reliant on dealmaking and trading: asset management, wealth management and transaction banking.

Investors have been impressed by fundraising at Goldman's asset management business, especially in alternative investments such as private equity, but "the jury's still out on the growth initiatives", says Autonomous's Bolu.

'They're moving the deckchairs but not actually managing the firm — just moving things into different buckets'

To oversee Goldman's three new divisions, Solomon picked lieutenants from his existing management team, who will all report to president John Waldron.

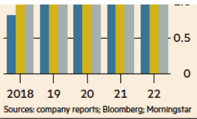
Dan Dees and Jim Esposito, who run the investment bank, and Ashok Varadhan, co-head of the trading division, will run the combined global banking and markets business. Stephanie Cohen, a close Solomon ally and most recently co-head of Goldman's soon-to-be-gone consumer and wealth management division, will lead the new platform solutions unit.

A big winner of the reshuffle appears to be Marc Nachmann, who through his work co-leading Goldman's trading division and investment bank has established a reputation for fixating on costs. He will run the combined asset and wealth management business. Julian Salisbury, previously co-head of the standalone asset management division, will become chief investment officer of the asset and wealth business.

"Marc's 'the fixer'," said one Goldman banker. "Private wealth and asset management are about to experience what it's like to work with Marc, which they definitely have not experienced before."

For Solomon, much is riding on whether this overhaul can succeed where the last one fell short. "Now, unfortunately for David, the clock is beginning to tick," the Goldman banker said.

Additional reporting by Brooke Masters



Sources: company reports; Bloomberg; Morningstar

Eun-taek.

But the outage spurred calls for tougher scrutiny of the country's leading platform operators, including Kakao and Naver.

KakaoTalk, Kakao's messaging service, launched in 2010 and has become South Korea's most ubiquitous mobile app, with 47mn active users in the country of 52mn people.

On the back of its popular chat app, Kakao has rapidly expanded into online payments, mobile banking, gaming, ride-hailing and restaurant booking services.

The company's diversification has sparked accusations of taking business away from small merchants, and lawmakers are planning to discuss reinforcing government oversight of Kakao and other platform operators.

The presidential office said it would set up a cyber security task force, calling the Kakao incident "a matter of national security".

Kakao said the impact of the outage on its revenues would be limited, but negative investor sentiment is likely to weigh on the shares of the company, which is grappling with falling sales after the booming online growth during the coronavirus pandemic.

Kakao shares have more than halved this year, although they bounced back 0.8 per cent yesterday. Kakao Pay is down nearly 80 per cent in the year to date, making it the biggest loser on the benchmark Kospi.

"Trying to resolve the problem with antitrust regulations doesn't look effective because KakaoTalk is free and people voluntarily use the app," said Wi Jong-hyun, a business professor at Chung-Ang University in Seoul.

"It is not desirable to crack down on the platform operators on the back of public anger over the service outage, for the industry's long-term development."

Technology

Uber aims to build $1bn ad business

DAVE LEE — SAN FRANCISCO

Uber has launched its global advertising unit with the goal of creating a $1bn business within the next two years by displaying promotions within its apps, on top of cars and on the back of seats.

The division, led by former Amazon advertising executive Mark Grether, was formed this year to build on its current ad business, which mostly consists of ads in its Uber Eats app, as well as car-top billboards in a few markets.

Uber's chief executive Dara Khosrowshahi has said the company was targeting $1bn in gross ad bookings by 2024, on an annualised basis. In the second quarter of this year, the existing ad business had an annual gross bookings run rate of $350mn, Khosrowshahi said during an investor conference last month.

Uber said its advertising platform was live in dozens of countries and would expand its international footprint over the next year.

The new ad formats, which have been piloted in some markets, include displaying promotions within the Uber app to customers as they book or complete a journey. Brands will also be able to have emails sent to Uber's 122mn active users globally, or place ads on the homepage of the Uber Eats app.

The company is piloting a scheme in Los Angeles and San Francisco in which tablets attached to the back of car seats are used to display trip information and advertising. Riders would have "full control" over ads with sound, Uber said.

"Through our advertising division, we can help leading brands grow their relationships with consumers by connecting them at a moment when a customer is uniquely attentive," Grether said in a statement yesterday.

The move follows similar efforts from rivals DoorDash and Lyft as the gig economy companies turn to advertising as a new high-margin revenue stream, with marketers seeking new places to reach consumers after Apple's recent privacy changes. The changes, which restrict data gathered for targeted ads, stand to benefit marketplace businesses that have a large amount of first-party data on consumer habits and intent.

Uber will advertise in its app, on cars and on the back of seats

Andrew Lipsman, from advertising research group Insider Intelligence, said Uber lagged behind DoorDash and Instacart when it came to revenue generated by search ads. He added that increasing advertising to the trip experience could backfire.

"Ads on tablets in the back seat is a risky proposition. Autoplay video ads are an ad format users almost universally hate, and were a key reason users abandoned taxis in favour of Ubers in the first place."

Uber's car-top advertising programme, which it has offered since 2019 in a handful of cities, pays drivers "rent" based on the amount of time driven with the ads.

Uber declined to provide additional details on how drivers might be compensated for allowing advertising within their vehicles.

Speaking to the Financial Times earlier this month, Uber's head of mobility Andrew Macdonald suggested advertising could be used to subsidise the cost of trips without decreasing drivers' earnings.

"If drivers earn more dollars because they're also monetising their asset — their car — then we can keep rider prices lower," said Macdonald. "This is one of the few things we can do where drivers earn more dollars per hour without us having to charge a consumer a single extra penny."

Travel & leisure

Carnival ship-backed bond nets $2bn

OLIVER BARNES AND IAN JOHNSTON
LONDON
ERIC PLATT — NEW YORK

Carnival has borrowed $2bn through a bond offering that used a dozen of its ships as collateral, as it works to refinance its huge debt pile amassed during the pandemic.

The world's largest cruise operator was able to borrow more than the $1.25bn it had planned to raise and at a lower interest rate than it was prepared to stomach just hours earlier, say two people briefed on the deal.

The new debt was discounted and priced with a coupon of 10.375 per cent, offering a yield to investors of 10.75 per cent. That was markedly below the 11.5 per cent yield bankers had marketed to credit investors on Tuesday morning, with the company citing "strong investor demand" for the bonds.

The issuance is the company's first foray into the junk bond market since May, when a 10.5 per cent bond coupon spooked the stock market.

The double-digit coupon underscored the rapid increase in borrowing costs as the Federal Reserve has lifted interest rates this year. On Tuesday, similarly rated corporate bonds traded with an average yield of 9.64 per cent, according to Ice Data Services.

Carnival is not the only one paying a premium due to market turmoil. Junk-rated companies have had to offer an average yield of 12.25 per cent to raise new debt in October, PitchBook LCD data showed. Last week, cinema operator AMC borrowed $400mn at a yield of 15.1 per cent to finance a subsidiary.

As part of the bond deal, Carnival's parent company has transferred 12 vessels, most of which became operational in the past two years and have a combined value of $8.2bn, to a subsidiary that ultimately issued the bond, using the ships as collateral.

The paper, which matures in 2028, puts the lenders 'at the front of the line' for any claim on the 12 vessels

John McClain, a high-yield portfolio manager at Brandywine Global Investment Management, said the bond showed Carnival was "getting creative" with collateral to avoid paying "eye-watering" interest. "Without the ships, I don't believe that they would have access to capital at a price they would have been comfortable with," he said.

Its share price is down 62 per cent this year to just above $8 but rallied more than 11 per cent on Tuesday after the bond was announced.

The structure of the bond, which matures in 2028, puts the lenders "at the front of the line" for any claim on the 12 vessels in the event that Carnival is unable to meet payments, said Ross Hallock, head of high-yield research at Covenant Review.

Carnival has had to contend with a ballooning debt pile, totalling about $35bn as of early September, after pandemic lockdowns. Meanwhile, recovery in cruise bookings has lagged behind. Last month, the Miami-based company reported a net loss of $770mn for its fiscal third quarter.

Carnival's dollar-denominated senior unsecured bonds maturing in 2026 rose as much as 4.7 per cent on Tuesday, in a sign of reassurance about the company's cash flow, but they continue to trade well below face value, according to bond trading platform MarketAxess. At the start of the pandemic, the company offered bonds secured against its 80-plus fleet to entice investors.

Still, some traders said the cruise sector's vulnerability to economic downturns and Carnival's high level of debt meant the double-digit yield on offer was not high enough.

"When I see 11.5 per cent for highly cyclical, highly levered US corporates and compare it with others in the market [that are offering similar yields], I'm not impressed," one investor said. "North of 15 per cent is when it becomes interesting . . . It's not difficult to find yield in this market."

Crypto. Fraud charges

Vigilante investors take up hunt for Terraform fugitive

Financials

Regulation risks choking up to £62bn of loans, say UK banks

EMMA DUNKLEY

The chief executives of 13 UK banks have written to the Treasury warning that regulation could prevent them from lending up to £62bn over the next five years.

Midsized lenders, including TSB, Metro Bank and Paragon, sent the letter this month urging the Treasury to amend rules that they say are holding back their growth, increasing their costs and affecting their ability to lend.

The banks that signed the letter are set to meet the city minister Andrew

Griffith today, according to two people familiar with the situation.

The lenders will raise concerns about the MREL or minimum requirement for own funds and eligible liabilities regulations, which aim to ensure the orderly wind-down of a failed bank without the need for taxpayer support, the people said.

The rules set out the amount of equity and debt a bank must hold to absorb losses if it fails and apply to any bank that has £15bn or more of assets or more than 40,000 accounts.

The group of banks argue the threshold is too low and disproportionately limits smaller lenders because of the interest costs of the debt they must issue to meet the requirements.

The letter to the Treasury pointed out: "As it stands, the UK has been a good place to start a new bank, as illustrated by the number of banking licences granted over recent years.

"However, whilst the barriers to entry have been reduced, the barriers to growth remain stubbornly high, as demonstrated by the fact that no new bank has yet to become a large bank."

It added that midsized banks are "captured by a regime designed for the resolution of large, systemically important banks. These thresholds put UK mid-tier banks at a significant competitive disadvantage relative to counterparts in the EU and US".

It went on: "The interest cost burden of carrying MREL debt directly reduces the level of capital a bank can hold to support growth."

It cited analysis by EY that said the extra cost would reduce lending by about £62bn over the next five years.

The bank lobby group, UK Finance, said in a report last year that when Tesco Bank issued a special bond, it priced 100 basis points higher than the equivalent bonds issued by Barclays and HSBC. "This demonstrates the competitive funding disadvantage faced by mid-tier firms subject to an MREL requirement," the report said.

The Bank of England introduced changes to the MREL rules for smaller banks last year and the central bank added that it would issue further individual transition plans for lenders as they approached the £15bn threshold.

On the run: Do Kwon is wanted in Seoul to face charges of financial fraud FT montage/Bloomberg/Dreamstime

Victims' group joins Seoul and Interpol in search for man behind failed digital tokens

SONG JUNG-A — SEOUL

Kang Hyung-suk's faith in cryptocurrencies was shattered by the $40bn collapse of Do Kwon's operator Terraform Labs, where he used to work in Seoul. Now he is looking for payback.

In about 10 days, Kang is flying to Dubai, the capital of the crypto-friendly United Arab Emirates, where he believes Kwon is hiding.

"Finding him could be easier than thought," said Kang.

The 26-year-old software engineer belongs to the UST Restitution Group, an association of nearly 4,400 crypto investors trying to track down Kwon, who is wanted in South Korea on charges of financial fraud.

"I want to recruit other people to join the search," said Kang. "There's a 50-50 chance of getting him in Dubai."

The international manhunt for Kwon, a 31-year-old Stanford-educated entrepreneur, is intensifying as retail investors try to recover from the devastating losses caused by the collapse of his terraUSD and luna coins in May.

Investors have launched class action lawsuits against Kwon in Singapore and the US, while Interpol has issued a red notice. South Korea was expected to revoke his passport yesterday.

Kwon claimed in an interview on crypto podcast Unchained this week that the charges against him were not "legitimate" and were "politically motivated". He said he was complying with document requests from South Korean prosecutors and apologised to the victims of his blockchain system's collapse.

He denied any wrongdoing but declined to disclose his whereabouts, citing security concerns. His last known location, at the end of April, was Singapore, say South Korean authorities.

URG members share their findings on Kwon and his company via Discord, a social messaging platform, and comb through the internet for clues to his whereabouts. Members have suggested that Kwon could be in Dubai, Russia, Azerbaijan, the Seychelles or Mauritius, among other locations.

"Dubai is friendly to crypto, very international (he would not stand out), and has limited extradition treaties in place," a URG member wrote in a report dated September 28. "It would seem like the best fit for the three to five-hour timezone shift apparent in the data."

URG comprises members from around the world. "His days are numbered," said a top URG member with the nickname Antithesis, who introduced himself as a 31-year-old Ivy League-educated American. "We have people who are very, very close to Do Kwon."

He claimed that his group was doing "lots" of work to track Kwon down. "I obviously wouldn't delve into specifics because publishing our methods would render them ineffective. I think we're doing more than anyone else, though."

Antithesis said he lost a big chunk of his life savings worth several hundred thousand dollars by betting on terraUSD and called the experience "devastating".

"The entire timetable for my life's plans has been upended and set back many years. The stress on top of it has also probably shaved off several years from my lifespan," he said.

Another URG member nicknamed HKTrader said he worked for a fintech company headquartered in Hong Kong and had blown his savings for a house on terraUSD. He said he spent a month organising a Singapore class action lawsuit against Kwon and discovered his whereabouts in the country by hiring a private detective.

"We tracked [him] down pretty well when he was in Singapore," HKTrader said, but he added that his group lost track of Kwon after he left the city-state.

He said he was sceptical of Interpol's ability to locate Kwon. "You know how Interpol works. It's up to the hosting country to act," he said.

'The entire timetable for my life's plans has been upended and set back many years'

Yet even if Kwon were arrested and extradited to South Korea, experts said it would not be easy to convict him for fraud or breach of capital market rules because of uncertainty over whether crypto is subject to securities law.

"I wonder how effective the legal action against him could be, given the lack of legal ground to punish crypto players," said Choi Hwa-in, a crypto expert in Seoul. "This would just strain the crypto market further, dragging down their value and hurting investors more as a result."

This month, a South Korean court rejected a prosecutors' request to issue an arrest warrant for Kwon's close aide who headed Terraform Labs' business operations, questioning if terraUSD and luna qualified as investment securities under the country's capital markets act.

Terraform Labs said the company would continue to communicate with authorities but blamed South Korean prosecutors for speaking to the press.

"Recent developments reaffirm that Terraform Labs and its stakeholders remain subjected to a highly politicised and erratic legal environment in South Korea," the company said. "The facts are on our side, and we look forward to the truth coming to light in the coming months."

Equities

Private equity groups circle the fallen stars of pandemic IPO bonanza

SUJEET INDAP AND NICHOLAS MEGAW
NEW YORK

Three-quarters of large US companies that went public during the pandemic bull market are trading below their offering price, forcing some once-promising names back into private hands at fire-sale valuations.

Of more than 400 listings where companies raised at least $100mn between 2019 and 2021, 76 per cent are below the price at their initial public offering, a Financial Times analysis of Dealogic data shows. The groups' median return since their respective IPO dates is negative 44 per cent.

The laggards include such hyped stocks as Robinhood Markets, Lyft and DoorDash, all of which went public during a market boom that ended in late 2021. The Nasdaq Composite index, which contains many growth companies, has fallen 32 per cent this year.

With share prices plunging, private equity groups are aggressively circling newly public companies as potential buyout targets, several Wall Street executives say. And some corporate boards have been receptive.

"When you think about the amount of private capital that has been raised that hasn't been deployed, then look at how public equity valuations have re-rated, it feels like it's going to be a natural pairing up," said David Bauer, who runs equity capital markets at KKR, the investment group known for its private equity business.

ForgeRock, a business software company, last week announced it would retreat to the obscurity of private markets just over a year after its September 2021 IPO, agreeing to sell itself to the private equity firm Thoma Bravo for $2.3bn.

It was a bitter pill. ForgeRock's stock price almost doubled after its New York listing, giving it a market capitalisation of about $4bn. Chief executive Fran Rosch said that merely being publicly traded added cachet and ultimately shareholder value.

"[The] market awareness of ForgeRock is growing . . . and I think certainly . . . the IPO is going to help in that as well," the chief executive told investors last November.

Yet with the 2022 rout in growth stocks, ForgeRock's share price fell as much as 50 per cent below its listing price. Even with the 53 per cent premium that Thoma Bravo has agreed to pay, the takeover price is almost a tenth below ForgeRock's IPO price.

With the Federal Reserve committed to raising interest rates and the economy seemingly headed for a recession, directors and shareholders of many businesses better known for breakneck revenue growth than profitability will face agonising choices over whether to accept offers from private equity firms or deep-pocketed strategic rivals looking for bargains.

"If the stock market has moved down and research analyst price targets have moved down . . . as a board you have to pay attention to those things," said Ted Smith, co-founder of Union Square Advisors, a technology-focused boutique investment bank.

Previous euphoric valuations might no longer be relevant, he added: "If you are two years from your IPO and an initial price spike, then the company's current market price is much more important to assessing value in a potential transaction."

As the stock market sells off indiscriminately, investors are trying to differentiate between target companies with a promise of profitability and those that simply surfed the pandemic market frenzy to achieve a listing.

Just a week before the ForgeRock announcement, the online marketplace Poshmark sold itself to the South Korean conglomerate Naver for just $1.2bn, a price that was a nearly 60 per cent discount to its IPO price.

A bellwether of the public-back-to-private trend was the direct-to-consumer mattress company Casper Sleep, which in 2021 sold itself to a private equity firm for less than $300mn, well below its equity valuation on listing in 2020. According to securities filings it only forecast hitting positive free cash flow in 2024, of $18mn.

Bauer said there was a split between companies that went public too early and faced questionable business models and those that had a long-term future but "don't want to have to work through growing back into those earlier valuations as public companies and would rather do it in a private context".

Industry observers said that among the potential buyers of fallen IPO stars, private equity specialists might well be more aggressive than other listed companies.

US private equity firms are also sitting on more than $500bn of dry powder to invest, according to Preqin.

Listed corporate groups have their own falling stock prices to worry about and investors who prefer that they steer clear of risky deals in a time of uncertainty. Shares of Naver have fallen 15 per cent since it announced its purchase of Poshmark.

While scores of new public companies' share prices remain deeply underwater, some remain buoyant. The healthcare services groups One Medical and Signify Health have recently announced deals to be sold to Amazon and CVS Health, respectively, at prices that top their IPO values. Airbnb, Zoom Video Communications and Chewy all trade at levels well above their IPO prices.

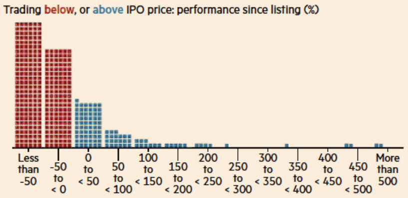
Still, a continuing bear market may force difficult decisions at more beleaguered companies.

"It's really hard to be a public company these days," said one prominent private equity investor. "Good news falls by the wayside and bad news is punished. It is the worst of both worlds."

Additional reporting by Antoine Gara

Three-quarters of US IPOs issued between 2019 and 2021 are trading below their listing price

Trading below, or above IPO price: performance since listing (%)



Reflects US IPOs of US companies raising more than $100mn, as at October 14
Sources: FT analysis; Dealogic; CapitalIQ

Ride-hailing group Lyft, which listed in 2019, is among companies whose shares languish below their IPO level Ringo HW Chiu/AP

COMPANIES & MARKETS

The day in the markets

What you need to know

- Wall Street hit by inflation fears
- UK government bonds edge higher
- Yen at 32-year low against dollar

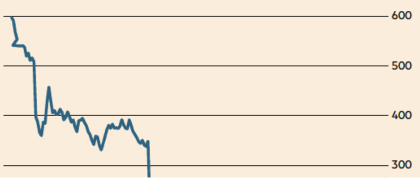
US stocks turned lower yesterday as signs of persistent inflationary pressures tempered upbeat sentiment about the latest flurry of corporate earnings.

The benchmark S&P 500 was down 0.6 per cent by early afternoon in New York, snapping two straight days of gains. The technology-heavy Nasdaq Composite lost 0.7 per cent. In Europe, the regional Stoxx 600 closed 0.5 per cent lower.

Those declines came as consumer

Netflix shares jump on subscriber growth

Share price ($)



Rather than fix Ethereum, Merge highlighted flaws

Hilary Allen

Markets Insight

The Ethereum blockchain that facilitates much of the crypto world last month finally accomplished the

to do the work and be compensated for it. The more ether someone stakes, the more likely they are to be chosen to create the new block.

problem. Users can pay validators higher fees to have their order executed first within a block of transactions. This is a cost on users that benefits the bigger

Those declines came as consumer goods giants Procter & Gamble and Nestlé posted better than expected earnings, but said sales growth had been bolstered by price rises.

Data yesterday also showed UK inflation sped up in September to 10.1 per cent, up from 9.9 per cent in August. The reading for the consumer price index was higher than the 10 per cent consensus among economists polled by Reuters.

Central banks, led by the US Federal Reserve, have turned the screws on monetary policy to try to rein in prices. The Fed has already increased borrowing costs by 0.75 percentage points at each of its last three meetings, taking its target range to 3 to 3.25 per cent.

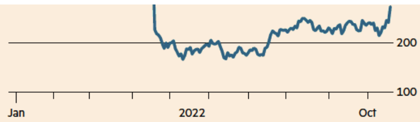
Concerns have intensified that such tightening will compound a protracted economic slowdown. Market participants have been closely monitoring the latest flurry of corporate financial statements for evidence of strain from inflation and rising borrowing costs. Some, including Goldman Sachs and Bank of America, have posted better than expected earnings. Companies in other sectors have also shown signs of resilience, with Netflix revealing after the closing bell on Tuesday that it had stemmed its subscriber losses in the third quarter.

But while global stocks have come under acute pressure so far this year — closing out three straight quarters of declines last month — some analysts and investors believe the rout is not yet over.

"We do not expect a sustained turnround anytime soon," wrote Mark Haefele, chief investment officer at UBS Global Wealth Management, in a note.

The yield on the 10-year US Treasury note rose 0.13 percentage points to 4.13 per cent as the price fell. The equivalent 10-year UK yield fell 0.06 percentage points to 3.89 per cent. The 30-year gilt yield slid more than 0.3 percentage points to below 4 per cent for the first time in more than two weeks, following a decision from the Bank of England to exclude longer-dated debt when it begins bond sales next month.

The pound lost 0.9 per cent to $1.122, while the greenback added 0.8 per cent against a basket of six peers. The yen hit a 32-year low against the US currency of ¥149.81. **Harriet Clarfelt**



Data as of lunchtime in New York
Source: Refinitiv

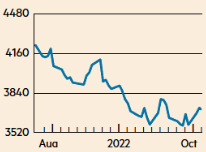
Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	3708.16	1576.20	27257.38	6924.99	3044.38	115735.53
% change on day	-0.32	-0.42	0.37	-0.17	-1.19	-0.01
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	112.872	0.979	149.725	1.126	7.224	5.280
% change on day	0.662	-0.609	0.423	-0.530	0.391	0.269
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	4.106	2.373	0.249	3.872	2.708	12.500
Basis point change on day	6.060	9.300	-0.510	-7.600	0.600	-6.900
World Index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	373.45	91.23	83.04	1653.00	18.70	3501.70
% change on day	-0.64	1.33	1.18	-0.71	0.54	-1.27

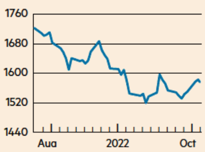
Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets

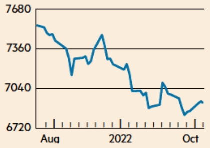
S&P 500 index



Eurofirst 300 index



FTSE 100 index



Biggest movers

%	US		Eurozone		UK	
Ups	Netflix	13.65	Asml Holding	7.27	Bp	2.25
	Intuitive Surgical	10.94	Fresenius	5.61	Int Consolidated Airlines S.a.	1.93
	United Airlines Holdings	7.17	Fresen.med.care	3.23	Pershing Square Holdings Ltd	1.87
	Baker Hughes	5.42	Tenaris	2.87	Hsbc Holdings	1.77
	Schlumberger	4.50	Omv	2.85	Vodafone	1.56
Downs	M&t Bank	-9.73	Philips	-4.97	Kingfisher	-5.89
	Northern Trust	-9.46	Merck	-4.63	Segro	-4.69
	Abbott Laboratories	-6.97	A.p. Moller - Maersk B	-4.22	Lloyds Banking	-4.68
	Comerica	-6.46	Carlsberg	-3.47	Hargreaves Lansdown	-4.23
	West Pharmaceutical Services	-5.43	Heineken Holding	-3.09	Rightmove	-4.22

Prices taken at 17:00 GMT. Based on the constituents of the FTSE Eurofirst 300 Eurozone. All data provided by Morningstar unless otherwise noted.

Wall Street

Netflix topped the S&P 500 index after adding more than 2.4mn members in the third quarter, more than double what Wall Street had expected and reversing two consecutive quarters of losses. Earnings of $3.10 a share smashed a consensus forecast by 97 cents while revenue of $7.93bn again beat analysts' estimates.

But the performance failed to impress Bank of America, which reiterated its "underperform" rating for Netflix on the grounds that this better showing coincided with the broadcast of its hit show *Stranger Things*. The broker warned that the streamer had become "vastly more hit-driven", with BofA seeing "very few high-impact original shows for the fourth quarter".

At the other end of the blue-chip benchmark was **Generac**, the energy tech group, which sank after slashing its target for sales growth to between 22 per cent and 24 per cent for the full year, down from an earlier range of 36-40 per cent. Aaron Jagdfeld, chief executive, said the results had been affected by lower home standby generator orders and the impact of "a large customer which ceased operations and has since filed for bankruptcy protection".

Winnebago, the manufacturer of recreation vehicles, pulled back after warning of "uncertain market conditions" for its fiscal 2023 year. *Ray Douglas*

Europe

Sweden's **Fingerprint Cards** fell a fifth after it admitted it had been hit by Covid lockdowns in China and high inventory levels across the smartphone sector.

It posted a loss SKr38.1mn ($3.4mn) compared with a profit of SKr32.3mn a year earlier following a 60 per cent year-on-year fall in third-quarter revenue.

Christian Fredrikson, chief executive, said a sharp decline in demand in China, as a result of pandemic-related restrictions, had had a "significant negative impact on . . . sales".

A cautious trading update weighed on Germany's **Sartorius**.

The lab equipment supplier posted a 16.6 per cent jump in sales on a constant currency basis for the first nine months of 2022, but warned that full-year revenue growth was "now expected to be in the lower half of the previous range of 15 to 19 per cent".

Another cagey forecast sent **Royal Unibrew** lower, with the Danish beverage group cutting its full-year outlook for operating profit to about DKr1.6bn ($210mn) from a previous estimate of DKr1.7bn to DKr1.85bn.

The company said it was "seeing pressure on margins in the short term due to the unprecedented inflation that has hit us during the past year".

Italian drinks group **Campari** also retreated after the update. *Ray Douglas*

London

Online fashion retailer **Asos** leapt despite posting a pre-tax annual loss of £31.9mn, down from a profit of £177.1mn a year earlier.

But sales "held up reasonably well", noted AJ Bell, with revenue up 0.7 per cent at £3.94bn for the year to August 31.

Providing a further fillip was the chief executive's plans to revamp the retailer's business model, which included a review of its customer acquisition strategy and a look at its supply chain operation, which had become "inefficient", said the group.

Takeover target **Shanta Gold** rallied after the precious metals group confirmed that, based on talks with Chinese suitor Yintai, any offer was "likely to be solely in cash", it said.

Shanta said a day earlier that it had received approaches from three companies, the other two being Shandong and Chaarat.

Whisky producer **Artisanal Spirits** climbed on announcing it had signed a new franchise agreement with FJK, South Korea's fourth largest liquor distributor.

Oil and gas explorer **IOG** plummeted following the release of an update described as "sobering" by SP Angel.

Its second-half production outlook was cut owing to "operational difficulties and below-expectation reservoir performance", said the broker.

Ray Douglas

...finally accomplished the long-promised and oft-delayed "Merge", a technical switch in the way it works.

The Ethereum blockchain is one of the world's most widely used digital ledgers, and is the main platform for Web3, non-fungible tokens and decentralised finance. While the Merge is good news for the environment, it brings the Ethereum blockchain's other problems into even starker relief.

Rather than relying on centralised intermediaries such as a bank to approve transactions, blockchains rely on what is known as a "consensus mechanism".

Before the Merge, Ethereum used the "proof-of-work" consensus mechanism. This involves so-called "miners" using enormous amounts of electricity to power computers to make repeated guesses of the number that will allow them to add a block of transactions to the blockchain. The winning miners are then compensated with cryptocurrency for their work.

The bitcoin blockchain still does it this way. Verification of bitcoin transactions uses more energy than entire countries such as Norway; in areas where lots of bitcoin mining occurs, local populations have suffered from rising energy costs and noise pollution.

Ethereum's shift to a "proof-of-stake" system avoids these environmental costs. Ethereum now uses an algorithm that randomly selects someone to create a new block to add to the blockchain. The party is chosen from those who have staked their ether (the Ethereum blockchain's native coin) for the chance to create the new block.

This creates incentives to acquire even more ether, and it seems reasonable to predict that any blockchain that relies on proof-of-stake will start to concentrate the ability to process transactions in just a few hands. Staking is already a highly centralised business involving some of the industry's largest companies, such as Coinbase, according to data provider Nansen. More centralisation seems inevitable.

Remember that the whole point of having a blockchain with a consensus mechanism is to avoid having to rely on centralised intermediaries to verify transactions. Without meaningful decentralisation, one has to wonder if all the other problems associated with Ethereum are worth it.

> A report by the US's Darpa found proof-of-stake blockchains can be successfully manipulated

For example, the Ethereum blockchain is notorious for congestion at peak times, which results in slower transaction processing times and fluctuating transaction fees (which are known as "gas fees"). At peak times, gas fees can be prohibitive for users trying to complete smaller transactions (in May 2022, average daily gas fees reached nearly $200), but the Merge has not changed the way gas fees are calculated or charged.

Such congestion adds to another is a cost on users that benefits the bigger validators, which will be chosen to create more blocks of transactions, and will therefore have more opportunities to pocket higher fees. A validator may even insert their own transaction ahead of others in order to profit from market movements, a practice known as MEV or "maximal extractable value".

The Merge will also not make the blockchain more secure. Ethereum's claims that it will do this assume that the Merge will increase decentralisation. But if the reverse is true, there are risks. A report commissioned by the US Defense Advanced Research Projects Agency found proof-of-stake blockchains can be successfully manipulated if the number of validators is too small.

The shift to proof-of-stake also increases the legal uncertainty around the status of ether. Before the Merge, US Senator Debbie Stabenow proposed a bill that lists ether as an example of a "digital commodity" falling outside of the Securities and Exchange Commission's jurisdiction (in the US, securities are regulated by the SEC, whereas the Commodity Futures Trading Commission has oversight over the commodities markets).

However, now that stakers pool their ether together in the hope of being compensated from the Ethereum blockchain's gas fees, a stronger case can be made that ether are securities and not commodities. The SEC might have something to say about Ethereum's claims about its decentralisation and its benefits.

Hilary Allen is professor of law at the American University Washington College of Law

MARKET DATA

WORLD MARKETS AT A GLANCE

FT.COM/MARKETSDATA

Change during previous day's trading (%)

S&P 500	Nasdaq Composite	Dow Jones Ind	FTSE 100	FTSE Eurofirst 300	Nikkei	Hang Seng	FTSE All World $	$ per €	$ per £	¥ per $	£ per €	Oil Brent $ Sep	Gold $
-0.32%	-0.37%	0.04%	-0.17%	-0.42%	0.37%	-2.38%	-0.64%	-0.609%	-0.530%	0.423%	No change	1.64%	-0.71%

Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison

AMERICAS

Sep 20 - - Index All World
S&P 500 New York

Sep 20 - Oct 19 Index All World
S&P/TSX COMP Toronto

EUROPE

Sep 20 - Oct 19 Index All World
FTSE 100 London

Sep 20 - Oct 19 Index All World
Xetra Dax Frankfurt

ASIA

Sep 20 - Oct 19 Index All World
Nikkei 225 Tokyo

Sep 20 - Oct 19 Index All World
Kospi Seoul

STOCK MARKET: BIGGEST MOVERS

UK MARKET WINNERS AND LOSERS

CURRENCIES

Kenyan Shilling	121.2000	0.0500	118.6607	-0.6778	136.4588	-0.6647
Kuwaiti Dinar	0.3104	0.0003	0.3038	-0.0016	0.3494	-0.0015
Malaysian Ringgit	4.7200	0.0040	4.6211	-0.0244	5.3142	-0.0236
Mexican Peso	20.1175	0.1095	19.6960	-0.0128	22.6503	0.0042
New Zealand Dollar	1.7584	-0.0029	1.7216	-0.0134	1.9798	-0.0138
Nigerian Naira	440.7500	-	431.5156	-2.6439	496.2395	-2.6230
Norwegian Krone	10.6019	0.0435	10.3797	-0.0207	11.9366	-0.0139
Pakistani Rupee	219.6500	-	215.0480	-1.3176	247.3035	-1.3072
Peruvian Nuevo Sol	3.9851	0.0041	3.9016	-0.0199	4.4868	-0.0191
Philippine Peso	58.9475	0.1725	57.7125	-0.1837	66.3689	-0.1556

..One Year		-	-	0.9765	-0.1528	1.1263	-0.0058
Vietnam	Vietnamese Dong	24475.0000	35.0000	23962.2547	-112.3187	27556.4080	-106.0328
European Union	Euro	1.0214	0.0062	-	-	1.1500	0.0010
..One Month		1.0212	0.0062	-	-	1.1499	0.0010
..Three Month		1.0206	0.0062	-	-	1.1495	0.0010
..One Year		1.0189	0.0062	-	-	1.1480	0.0010

The exchange rates printed in this table are also available at www.FT.com/marketsdata

FTSE ACTUARIES SHARE INDICES

FTSE All-Share Telecommunications Service Providers (5)	2485.74	1.15	1925.46	2457.50	2461.20	2635.93	6.68	1.04	14.37	90.35	3367.37
FTSE All-Share Health Care Providers (3)	10673.80	-0.36	8267.92	10712.10	10729.73	8632.32	0.55	4.48	40.89	58.27	9907.01
FTSE All-Share Medical Equipment and Services (2)	5046.87	-2.16	3909.30	5158.45	5053.22	6051.25	2.83	0.97	36.62	142.76	4875.09
FTSE All-Share Pharmaceuticals and Biotechnology (9)	18656.27	-0.07	14451.13	18669.70	18658.20	18009.63	3.08	1.14	28.35	489.47	15519.83
FTSE All-Share Banks (12)	2931.27	-0.30	2270.56	2939.98	2949.09	3032.26	4.44	4.27	5.28	128.47	2594.04
FTSE All-Share Finance and Credit Services (8)	10057.66	-0.62	7790.66	10120.03	9940.02	11250.31	2.07	2.05	23.50	208.41	13513.35
FTSE All-Share Investment Banking and Brokerage Services (31)	7364.94	-1.62	5704.88	7486.20	7446.59	10543.40	5.99	1.86	8.99	379.93	10333.23
FTSE All-Share Closed End Investments (192)	11005.67	-0.76	8524.98	11089.59	11074.34	13954.00	2.81	-0.77	-46.43	244.11	6862.75
FTSE All-Share Life Insurance (6)	6111.83	-0.06	4734.22	6115.63	6059.13	8112.91	5.01	1.08	18.45	294.59	7479.34
FTSE All-Share Nonlife Insurance (7)	3339.81	-0.61	2587.02	3360.25	3351.05	3577.04	4.33	1.24	18.68	130.27	7112.60
FTSE All-Share Real Estate Investment and Services (10)	1861.08	-2.86	1441.59	1915.79	1914.57	2964.26	2.71	3.76	9.82	41.03	5549.41
FTSE All-Share Real Estate Investment Trusts (45)	1873.87	-3.15	1451.49	1934.85	1953.45	2888.26	4.96	4.61	4.37	75.43	2827.14
FTSE All-Share Automobiles and Parts (2)	1164.33	-0.28	901.89	1167.60	1154.97	4177.24	0.84	-19.25	-6.21	14.02	1211.31
FTSE All-Share Consumer Services (2)	2988.72	-0.80	2315.06	3012.72	2979.44	2439.15	1.28	1.71	45.49	38.43	3791.19
FTSE All-Share Household Goods and Home Construction (13)	7533.47	-1.87	5835.42	7677.16	7751.95	14156.21	9.41	1.61	6.60	661.61	6739.78
FTSE All-Share Leisure Goods (2)	16817.44	-2.53	13026.78	17254.13	17065.90	26321.14	4.31	1.49	15.62	721.42	18671.86
FTSE All-Share Personal Goods (5)	25108.40	-1.54	19448.95	25502.18	25480.81	28668.27	2.04	2.75	17.85	402.68	19638.67
FTSE All-Share Media (11)	8841.32	-0.26	6848.48	8864.28	8795.06	9431.96	2.42	1.50	27.51	213.23	6215.01
FTSE All-Share Retailers (22)	1573.84	-2.85	1219.10	1620.08	1603.79	2703.91	3.20	3.63	8.60	43.41	2041.99
FTSE All-Share Travel and Leisure (29)	5720.84	-1.98	4431.36	5836.14	5768.38	8539.86	0.68	-10.97	-13.43	35.41	5911.86
FTSE All-Share Beverages (5)	27949.74	-0.54	21649.84	28101.02	28033.31	28156.84	2.14	1.99	23.43	584.47	22399.41
FTSE All-Share Food Producers (10)	5176.93	-0.86	4010.05	5221.87	5217.83	6519.82	2.86	2.14	16.30	83.25	4983.81
FTSE All-Share Tobacco (2)	35671.74	0.78	27631.30	35395.17	35375.63	27759.22	6.64	0.92	16.32	1728.22	33340.41
FTSE All-Share Construction and Materials (15)	6622.45	-0.32	5129.74	6643.79	6489.93	8266.03	3.45	0.65	44.58	217.85	8065.78
FTSE All-Share Aerospace and Defense (7)	4963.31	0.87	3844.57	4920.67	4851.95	4783.32	2.33	0.05	856.45	59.88	5999.77
FTSE All-Share Electronic and Electrical Equipment (10)	9600.40	-1.40	7436.46	9737.01	9570.47	13536.30	1.79	2.01	27.80	142.02	9477.13
FTSE All-Share General Industrials (8)	4575.05	-0.61	3543.83	4603.29	4491.56	5326.57	3.10	1.17	27.55	122.02	6017.34
FTSE All-Share Industrial Engineering (5)	14686.30	-2.00	11375.99	14986.54	14645.92	19304.92	1.78	2.01	27.97	261.52	19727.67
FTSE All-Share Industrial Support Services (31)	9210.28	-1.29	7134.27	9330.69	9239.09	11433.33	2.06	1.67	29.15	181.51	10591.95
FTSE All-Share Industrial Transportation (8)	4765.99	-0.76	3691.74	4802.33	4712.22	6705.00	2.45	3.42	11.96	98.14	4993.51
FTSE All-Share Industrial Materials (1)	14352.68	-1.71	422.36	14602.72	14877.78	18053.37	2.29	1.81	24.13	329.06	18129.58
FTSE All-Share Industrial Metals and Mining (9)	6982.89	-1.25	5408.94	7071.38	7139.55	6746.81	7.48	2.01	6.65	517.27	10718.54
FTSE All-Share Precious Metals and Mining (5)	8492.27	-2.87	6578.10	8743.21	8743.47	20214.59	4.21	1.86	12.77	358.99	5987.34
FTSE All-Share Chemicals (7)	12115.56	-1.14	9384.70	12254.71	12101.47	18036.91	3.03	2.04	16.17	335.92	12154.36
FTSE All-Share Oil, Gas and Coal (12)	7940.84	1.28	6150.97	7840.69	7901.72	6334.70	3.40	2.96	9.94	213.64	9924.25
FTSE Sector Indices											
Non Financials (335)	**4632.27**	**-0.34**	**4150.49**	**4648.00**	**4637.69**	**4926.82**	**3.76**	**1.67**	**15.89**	**147.30**	**8346.84**

Hourly movements	8.00	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High/day	Low/day
FTSE 100	6954.15	6922.74	6910.51	6944.00	6934.81	6925.43	6932.71	6917.78	6926.82	6954.19	6890.81
FTSE 250	17549.33	17430.87	17282.42	17364.25	17307.21	17230.30	17256.24	17235.17	17285.70	17552.65	17215.01
FTSE SmallCap	5796.31	5791.44	5767.63	5772.11	5767.82	5758.81	5760.24	5755.74	5766.88	5803.23	5751.73
FTSE All-Share	3801.20	3783.20	3772.68	3790.50	3784.50	3777.72	3781.85	3774.33	3780.19	3801.20	3764.82

Time of FTSE 100 Day's high:14:29:00 Day's Low08:27:45 FTSE 100 2010/11 High: 7672.40(10/02/2022) Low: 6826.15(12/10/2022)
Time of FTSE All-Share Day's high:07:03:00 Day's Low08:29:00 FTSE 100 2010/11 High: 4296.96(10/02/2022) Low: 3712.50(12/10/2022)

 † Sector P/E ratios greater than 80 are not shown. For changes to FTSE Fledgling Index constituents please refer to www.ftse.com/indexchanges. ‡ Values are negative.

FT 30 INDEX

	Oct 19	Oct 18	Oct 17	Oct 14	Oct 13	Yr Ago	High	Low
FT 30	2276.40	2287.90	2278.10	2232.70	2219.70	0.00	2880.10	2152.10
FT 30 Div Yield	-	-	-	-	-	0.00	3.93	2.74
P/E Ratio net	-	-	-	-	-	0.00	19.44	14.26

FT 30 hourly changes

8	9	10	11	12	13	14	15	16	High	Low
2287.9	2275.1	2263.2	2279.4	2277.5	2273.1	2276.5	2271.4	2275.5	2289.7	2260.2

FT30 constituents and recent additions/deletions can be found at www.ft.com/ft30

FT WILSHIRE 5000 INDEX SERIES

	Oct 18		Oct 18
FT Wilshire 5000	37905.29	FT Wilshire Mid Cap	5064.78
FT Wilshire 2500	4852.21	FT Wilshire Small Cap	4674.32
FT Wilshire Mega Cap	4835.70	FT Wilshire Micro Cap	4593.44
FT Wilshire Large Cap	4873.96		

Source: Wilshire. Wilshire Advisors LLC (Wilshire) is an investment advisor registered with the SEC. Further information is available at https://www.wilshire.com/solutions/indexes . Wilshire® is a registered service mark.

FTSE SECTORS: LEADERS & LAGGARDS

FTSE GLOBAL EQUITY INDEX SERIES

Oct 19 Regions & countries	No of stocks	US $ indices	Day %	Mth %	YTD %	Total retn	YTD %	Gr Div Yield
FTSE Global All Cap	9531	640.24	1.1	-4.6	-24.4	1023.99	-23.0	2.4
FTSE Global All Cap	9531	640.24	1.1	-4.6	-24.4	1023.99	-23.0	2.4
FTSE Global Large Cap	1907	572.80	1.1	-4.6	-24.6	944.32	-23.1	2.5
FTSE Global Mid Cap	2265	821.40	1.3	-4.9	-23.4	1235.78	-22.0	2.4
FTSE Global Small Cap	5359	860.22	1.3	-4.4	-24.8	1237.79	-23.6	2.2
FTSE All-World	4172	375.84	1.1	-4.6	-24.4	636.57	-22.9	2.4
FTSE World	2667	680.95	1.1	-4.4	-24.2	1547.67	-22.7	2.4
FTSE Global All Cap ex UNITED KINGDOM In	9239	677.51	1.2	-4.6	-24.4	1062.86	-23.1	2.4
FTSE Emerging Small Cap	1703	709.88	1.1	-7.2	-26.7	1182.96	-24.4	3.6
FTSE Emerging Europe	111	99.63	1.1	3.0	-76.0	208.14	-75.0	3.2
FTSE Latin America All Cap	262	720.60	1.3	2.5	1.6	1408.20	9.0	11.1
FTSE Middle East and Africa All Cap	332	741.94	1.2	-2.8	-6.9	1357.23	-4.2	3.2
FTSE Global wi UNITED KINGDOM All Cap In	292	274.71	-0.7	-5.3	-23.7	559.97	-21.3	3.9
FTSE Global wi USA All Cap	1812	901.32	1.2	-3.9	-22.7	1302.75	-21.7	1.7
FTSE Europe All Cap	1468	371.91	0.7	-3.9	-30.5	706.29	-28.5	3.4
FTSE Eurozone All Cap	667	353.21	1.1	-3.8	-31.9	665.94	-29.9	3.4
FTSE EDHEC-Risk Efficient All-World	4172	427.99	1.2	-4.8	-21.6	672.58	-20.0	2.8
FTSE EDHEC-Risk Efficient Developed Europe	576	271.13	0.9	-5.3	-34.4	476.17	-32.5	3.5
Oil & Gas	132	380.70	0.4	0.7	16.1	775.84	20.9	4.9
Oil & Gas Producers	88	381.92	0.2	2.4	20.2	799.32	25.5	5.1

Oct 19 Sectors	No of stocks	US $ indices	Day %	Mth %	YTD %	Total retn	YTD %	Gr Div Yield
Utilities	200	289.88	1.3	-11.6	-15.5	675.71	-13.3	3.6
Electricity	142	332.64	1.4	-11.6	-13.7	763.47	-11.6	3.4
Gas Water & Multiutilities	58	276.40	1.0	-11.4	-19.9	667.08	-17.5	4.0
Financials	855	237.53	1.3	-5.2	-20.8	455.51	-18.7	3.4
Banks	270	185.12	1.4	-3.7	-18.2	395.53	-15.3	4.3
Nonlife Insurance	72	321.61	1.0	-2.3	-8.2	536.53	-5.7	3.0
Life Insurance	51	194.61	1.0	-4.8	-19.5	374.20	-16.6	4.3
Financial Services	212	386.22	1.6	-4.9	-22.6	585.31	-21.5	1.9
Technology	363	433.72	1.0	-5.9	-36.1	565.35	-35.6	1.2
Software & Computer Services	187	677.56	1.0	-3.9	-36.7	818.78	-36.4	0.7
Technology Hardware & Equipment	176	370.32	0.9	-8.0	-35.4	519.35	-34.6	1.7
Alternative Energy	20	159.05	3.4	-19.1	-23.7	228.23	-23.4	0.5
Real Estate Investment & Services	142	230.64	0.7	-10.3	-29.9	448.17	-28.1	3.4
Real Estate Investment Trusts	108	407.63	1.1	-12.0	-31.7	950.74	-29.9	4.1
FTSE Global Large Cap	1907	572.80	1.1	-4.6	-24.6	944.32	-23.1	2.5

The FTSE Global Equity Series, launched in 2003, contains the FTSE Global Small Cap Indices and broader FTSE Global All Cap Indices (large/mid/small cap) as well as the enhanced FTSE All-World index Series (large/mid cap) - please see https://research.ftserussell.com/Products/indices/Home/indexfiltergeis?indexName=GEISAC&currency=USD&rtn=CAP&segment=global-developed--emerging. The trade names Fundamental Index® and RAFI® are registered trademarks and the patented and patent-pending proprietary intellectual property of Research Affiliates, LLC (US Patent Nos. 7,620,577; 7,747,502; 7,778,905; 7,792,719; Patent Pending Publ. Nos. US-2006-0149645-A1, US-2007-0055598-A1, US-2008-0288416-A1, US-2010- 0063942-A1, WO 2005/076812, WO 2007/078399 A2, WO 2008/118372, EPN 1733352, and HK1099110). "EDHEC™" is a trade mark of EDHEC Business School As of January 2nd 2006, FTSE is basing its sector indices on the Industrial Classification Benchmark - please see www.ftse.com/icb. For constituent changes and other information about FTSE, please see www.ftse.com.

FTSE 100 SUMMARY

FTSE 100	Closing Price	Day's Change	FTSE 100	Closing Price	Day's Change
3I Group PLC	1097.5	-17.50	International Consolidated Airlines Group S.A.	118.10	2.24
Admiral Group PLC	1948.5	-1.50	Intertek Group PLC	3724	-56.00
Airtel Africa PLC	126.20	0.60	Jd Sports Fashion PLC	98.42	-0.52
Anglo American PLC	2630	-26.50	Kingfisher PLC	203.00	-12.70
Antofagasta PLC	1085.5	-23.00	Land Securities Group PLC	515.60	-17.00
Ashtead Group PLC	4326	-39.00	Legal & General Group PLC	228.00	0.60
Associated British Foods PLC	1322	-5.50	Lloyds Banking Group PLC	40.61	-2.00
Astrazeneca PLC	9809	-35.00	London Stock Exchange Group PLC	7460	-14.00
Auto Trader Group PLC	517.80	-15.00	M&G PLC	176.10	-0.45
Aveva Group PLC	3150	-	Melrose Industries PLC	103.70	-1.35
Aviva PLC	408.30	4.30	Mondi PLC	1441.5	-6.50
B&M European Value Retail S.A.	308.40	-10.70	National Grid PLC	904.40	1.60
Bae Systems PLC	809.60	10.80	Natwest Group PLC	231.10	-5.60
Barclays PLC	144.30	-3.20	Next PLC	4759	-138.00
Barratt Developments PLC	344.20	-8.50	Ocado Group PLC	478.00	-2.10
Berkeley Group Holdings (The) PLC	3373	-69.00	Pearson PLC	889.80	-3.80
BP PLC	455.25	10.00	Pershing Square Holdings LTD	2720	50.00
British American Tobacco PLC	3303.5	20.00	Persimmon PLC	1233	-36.50
British Land Company PLC	341.10	-7.70	Phoenix Group Holdings PLC	538.40	0.40
Bt Group PLC	127.70	1.00	Prudential PLC	893.00	-6.20
Bunzl PLC	2778	-3.00	Reckitt Benckiser Group PLC	5912	42.00
Burberry Group PLC	1860	-12.50	Relx PLC	2223	3.00
Centrica PLC	69.88	0.52	Rentokil Initial PLC	507.40	-7.00
Coca-Cola Hbc AG	1959.5	4.50	Rightmove PLC	460.20	-20.30
Compass Group PLC	1812	-14.50	Rio Tinto PLC	4733	-15.00
Convatec Group PLC	211.60	-3.40	Rolls-Royce Holdings PLC	74.00	-0.28
Crh PLC	2982.5	3.50	Rs Group PLC	958.00	-16.00
Croda International PLC	6496	-92.00	Sage Group PLC	701.40	-3.80
Dcc PLC	4805	23.00	Sainsbury (J) PLC	182.95	-1.50
Dechra Pharmaceuticals PLC	2608	-106.00	Schroders PLC	378.30	-1.70
Diageo PLC	3661.5	-18.50	Scottish Mortgage Investment Trust PLC	750.00	11.40
Endeavour Mining PLC	1461	-42.00	Segro PLC	715.40	-35.20
Entain PLC	1154	-30.50	Severn Trent PLC	2345	-51.00
Experian PLC	2676	-28.00	Shell PLC	2273	20.00
F&C Investment Trust PLC	882.00	11.00	Smith & Nephew PLC	1000.5	-24.50
Flutter Entertainment PLC	10550	-365.00	Smith (Ds) PLC	283.80	-1.20
Frasers Group PLC	643.00	-10.50	Smiths Group PLC	1533.5	-15.50
Fresnillo PLC	686.40	-19.20	Smurfit Kappa Group PLC	2816	-29.00
Glaxosmithkline PLC	1382.2	18.40	Spirax-Sarco Engineering PLC	10600	-235.00
Glencore PLC	473.00	-10.05	Sse PLC	1478	-2.00
Haleon PLC	266.95	-1.85	St. James's Place PLC	993.60	-13.40
Halma PLC	2044	-30.00	Standard Chartered PLC	560.20	1.80
Harbour Energy PLC	371.80	-11.80	Taylor Wimpey PLC	88.74	-1.74
Hargreaves Lansdown PLC	765.20	-33.80	Tesco PLC	205.00	0.40
Homeserve PLC	1185	2.00	Unilever PLC	3899.5	6.00
HSBC Holdings PLC	474.00	8.25	Unite Group PLC	832.50	-17.50
Imperial Brands PLC	2026	29.00	United Utilities Group PLC	898.80	-21.20
Informa PLC	556.60	-5.60	Vodafone Group PLC	101.16	1.55
Intercontinental Hotels Group PLC	4556	-35.00	Whitbread PLC	2548	-58.00
Intermediate Capital Group PLC	991.00	-19.00	Wpp PLC	749.20	-11.60

UK STOCK MARKET TRADING DATA

	Oct 19	Oct 18	Oct 17	Oct 14	Oct 13	Yr Ago
Order Book Turnover (m)	59.98	66.44	197.87	197.87	197.87	177.69
Order Book Bargains	697888.00	759156.00	876414.00	876414.00	876414.00	946673.00
Order Book Shares Traded (m)	1401.00	1588.00	1760.00	1760.00	1760.00	2057.00
Total Equity Turnover (£m)	4962.17	5467.71	4665.54	4665.54	4665.54	4664.81
Total Mkt Bargains	888294.00	942639.00	1069698.00	1069698.00	1069698.00	1165423.00
Total Shares Traded (m)	5743.00	5946.00	5406.00	5406.00	5406.00	5633.00

† Excluding intra-market and overseas turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover. (u) Unavaliable. (c) Market closed.

All data provided by Morningstar unless otherwise noted. All elements listed are indicative and believed accurate at the time of publication. No offer is made by Morningstar or the FT. The FT does not warrant nor guarantee that the information is reliable or complete. The FT does not accept responsibility and will not be liable for any loss arising from the reliance on or use of the listed information.
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UK RIGHTS OFFERS

Issue price	Amount paid up	Latest renun. date	High	Low	Stock	closing Price p	+or-

There are currently no rights offers by any companies listed on the LSE.

UK COMPANY RESULTS

Company		Turnover		Pre-tax		EPS(p)		Div(p)		Pay day	Total	
ASOS	Pre	3936.500	3910.500	31.900L	177.100	30.900L	128.900	0.00000	0.00000	-	0.000	0.000
Baillie Gifford Japan Trust (The)	Pre			153.470L	162.382	164.880L	172.860	0.00000	6.00000	-	0.000	6.000

UK RECENT EQUITY ISSUES

Issue date	Issue price(p)	Sector	Stock code	Stock	Close price(p)	+/-	High	Low	Mkt Cap (£m)
10/07	10.00		ACG	ACG Acquisition Company Ltd	9.88	0.15	10.10	9.95	154.3
10/04	1.00		MII	Milton Capital PLC	1.05	0.00	1.20	1.00	105.0

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

Stock	Price	Day Chg	52 Week High	52 Week Low	Yld	P/E	MCap m
Australia (A$)							
ANZ Bank	25.83	0.18	28.75	20.78	5.61	11.27	48588.95
BHP Group	39.25	-0.38	53.72	35.56	10.06	9.59	125009.41
CmwBkAu	100.48	0.70	110.19	86.98	3.35	19.66	107233.82
CSL	276.96	1.26	319.78	240.10	1.05	41.26	84025.67
NatAusBk	31.66	0.43	33.75	25.43	2.73	17.55	62820.3
Telstra	3.88	0.03	4.20	3.62	2.48	32.84	28205.51
Wesfarmers	44.68	-0.22	61.34	40.03	3.83	23.90	31872.65
Westpac Bank	23.65	-0.33	26.44	18.80	3.61	17.90	52094.54
Woolworths	33.45	0.09	41.13	32.62	3.10	39.69	25600.76
Belgium (€)							
AnBshInBv	46.66	-1.10	58.72	45.56	1.10	24.10	79359.04
KBC Grp	49.08	-0.34	86.50	45.53	6.77	8.27	20031.96
Brazil (R$)							
Ambev	14.88	-0.02	18.12	12.81	3.60	23.63	44385.37
Bradesco	16.54	-0.04	17.72	13.53	4.77	8.05	15256.89
Cielo	5.98	-0.03	6.22	2.01	2.31	21.28	3076.87
ItauHldFin	24.65	0.01	25.16	18.86	2.99	10.26	23147.18
Petrobras	38.72	0.98	40.51	26.54	11.78	5.80	54575.96
Vale	71.33	-0.63	107.11	61.85	17.31	3.35	64557.82
Canada (C$)							
Bausch Hlth	8.87	-0.47	36.26	5.10	-	-2.93	2323.98
BCE	59.16	-0.49	74.09	55.66	5.36	21.82	39157.01
BkMontrl	121.25	-1.99	154.47	113.73	3.38	10.27	59600.82
BkNvaS	64.94	-1.61	95.00	63.19	5.18	8.95	56146.64
Brookfield	53.76	-1.14	79.04	51.51	1.11	19.64	64056.14

FT 500: TOP 20

FT 500: BOTTOM 20

BONDS: HIGH YIELD & EMERGING MARKET

BONDS: GLOBAL INVESTMENT GRADE

INTEREST RATES: OFFICIAL

INTEREST RATES: MARKET

BOND INDICES

VOLATILITY INDICES

BONDS: BENCHMARK GOVERNMENT

GILTS: UK CASH MARKET

GILTS: UK FTSE ACTUARIES INDICES

COMMODITIES

BONDS: INDEX-LINKED

BONDS: TEN YEAR GOVT SPREADS

Data provided by Morningstar | www.morningstar.co.uk

Magical staging of a much-loved film

THEATRE

Sarah Hemming

It's one of the most keenly anticipated dramatic entrances of the autumn. But it's not a Hollywood star or a rare comeback. It's a huge illuminated furry bus with a Cheshire cat grin that soars weightlessly through the air, screeching to a halt with a flick of the tail and a twitch of the whiskers, all the better to survey the ever so slightly alarmed audience.

This stunning magic-lantern cat-bus is just one of many ingenious solutions to the challenge of transferring Studio Ghibli's beloved **My Neighbour Totoro** to the stage in the Royal Shakespeare Company's production. Hayao Miyazaki's original 1988 film uses the infinite resources of animation to tell the tale of two small girls in 1950s Japan who find solace in the natural world and its spirits to help them through a distressing period when their mother is gravely ill.

The stage responds with its number-one asset: the audience's imagination. The result — in the hands of playwright Tom Morton-Smith, director Phelim McDermott, designer Tom Pye, lighting designer Jessica Hung Han Yun and puppeteer Basil Twist — is a gorgeous, uplifting tribute to the link between theatre and the imaginative realm of children's play.

Everything is analogue. The little black soot-sprites that greet Mei, 4, and Satsuki, 10, as they arrive in their creaky new home are tiny mop-heads, darting around the walls at the hands of their black-clad operators. This same army of watchful puppeteers brings us the cat-bus, Totoro's capricious friends and the forest spirit himself: a gigantic, unnervingly toothy fluff ball who fills the vast height of the Barbican stage.

There's a constant sense of movement, the show whisked forward by gliding screens and Will Stuart's delicate orchestrations of Joe Hisaishi's music, played live by a band perched in the trees. McDermott dusts it all with an air of mischief, including small, deliberate gaffes as reminders that this world springs to life courtesy of the puppeteers and our own willingness to join Mei and let our imaginations animate nature.

At the heart of the story is fear: two girls scared for their mother, a frazzled loving dad, quietly caring neighbours. They are precisely and warmly drawn, with Mei Mac and Ami Okumura Jones both outstanding and moving as the funny, redoubtable Mei and the more troubled, serious Satsuki.

Morton-Smith increases that emotional weight and judiciously expands the dialogue and a few characters, but otherwise the narrative remains faithful to the film.

It's not perfect: in fact, the show's shortcomings derive from that fidelity. The pace chafes sometimes on stage — it could be shorter, meatier and freer. But this is a tender, remarkably beautiful family show that extols kindness and leans into the film's emphasis on a world as seen through a child's eyes.

To January 21, rsc.org.uk

Above, from left: Mei Mac, Ami Okumura Jones and Dai Tabuchi in 'My Neighbour Totoro'. Above right: Alon Moni Aboutboul and Miri Mesika in 'The Band's Visit'

Manuel Harlan; Marc Brenner

My Neighbour Totoro
Barbican, London
★★★★★

The Band's Visit
Donmar Warehouse, London
★★★☆☆

The Boy With Two Hearts
National Theatre, London
★★★☆☆

Totoro is just one of the pieces about family, love and loss currently on the London stage. In **The Band's Visit**, David Yazbek's delicate 2016 musical, based on Eran Kolirin's 2007 film, a chance encounter between two groups of strangers brings unexpected emotional riches. Here, an Egyptian police band — the Alexandria Ceremonial Police Orchestra, to be exact — decked out in powder-blue uniforms, fetches up in a remote Israeli town because of a linguistic blunder at the bus station.

They're supposed to be playing a high-profile gig at an Arab cultural centre in Petah Tikva; instead they find themselves outside a sleepy café in the desert — to the considerable bemusement of the locals. The point, deftly unfolded, is that this error quietly does more to draw these Egyptian and Israeli citizens together than any official engagement.

"Welcome to nowhere," sing the locals, as they warn their visitors that this is a place where nothing happens. And that is borne out in the story, which is low on incident, high on atmosphere. The band members bond with their hosts through food, reminiscence and, above all, music. The lonely café owner and the starchy conductor share a beautiful and sorrowful evening out and oh-so-nearly get together (wonderful, drolly contrasting performances from Miri Mesika and Alon Moni Aboutboul).

Threaded through the evening are multiple examples of heartache. A smitten youth hangs out, hour after hour, by a silent payphone, waiting for his sweetheart to ring; a young couple, exhausted by early parenthood, snap at each other; a widower remembers meeting his wife.

The skimpiness of the piece does undermine it. Most characters have little depth and some are barely sketched at all, such as the tired wife (Michal Horowicz) and the lovesick lad (Ashley Margolis). The latter does eventually lead a joyous song, but it feels frustrating to have him sit by a wall all evening.

Then again, the fragmentary nature of the show is part of its point. Tiny changes shift the dial for characters: a boy plucks up the courage to talk to a girl; the phone finally rings; a clarinettist soothes a baby. Michael Longhurst's production rises to this, conjuring a spellbinding, dreamy atmosphere on Soutra Gilmour's bare-bones set and letting the music soar in this intimate space.

And it's the music that makes this show. Yazbek deploys a rich, intoxicating mix of Arab music, klezmer and jazz, which lifts this collection of vignettes into a fragile meditation on hope and connection. The band, sitting on an unfinished wall of bricks, are superb, lighting up the evening with soulful trumpet, cello or violin, lyrical oud, haunting clarinet and exhilarating drumming.

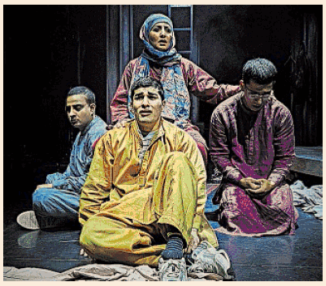
To December 3, donmarwarehouse.com

The Boy With Two Hearts, by Hamed and Hessam Amiri, has acquired a sobering topicality since premiering in 2021. Based on the brothers' own story (and adapted from their book by Phil Porter), it follows an Afghan family forced to flee in terror after the mother dares to speak out against the oppression of women. The show opens against the backdrop of protests in Iran. And while it's told with a spry, witty touch and inflected by the mischievous energy of the family's three young boys (played here by Shamail Ali, Farshid Rokey and Ahmad Sakhi), it never loses sight of the underlying horror of having to run for your life.

The Amiris' situation is further complicated by the condition of the oldest son, Hussein, who desperately needs specialist medical help for a heart defect. We follow them on a hazardous trip across Europe, hidden in lorries, squeezed into car-boots, freezing in grim apartments.

Amit Sharma's production has a fable-like quality, with the cast of five narrating the tale and acting out all the parts in brief tableaux. It's a limited format, but it's vividly delivered and drolly designed, with settings evoked by illustrated subtitles. And while the story is peppered with details specific to this family — the favourite dinner, the sibling arguments about football — the rows of jackets hanging silently above the stage remind us of all the other untold, stories.

To November 12, nationaltheatre.org.uk



Clockwise, from left: Farshid Rokey, Houda Echouafni, Shamail Ali and Ahmad Sakhi in 'The Boy With Two Hearts'

Jorge Lizalde/Studio Cano

Indie heroine sings her heart out

POP

Angel Olsen
Brixton Academy, London
★★★★☆

Arwa Haider

Between the plaintively rootsy serenades of her 2012 debut, *Half Way Home*, and the assured reflections of her sixth and latest album, *Big Time* (released this summer), Angel Olsen has worked through all the feelings. The US singer-songwriter's latest material expounds on love and grief, including the loss of both her parents; the elation of embracing her queer identity; the embers of past heartache; and the flare of hope on the horizon. Olsen's lyrical candour and melodic hooks have snagged her a devoted following, and an excited crowd greeted her when she appeared on stage for the yearningly catchy opening number "Dream Thing".

Olsen's compositions exude an old-time quality, drawing from classic Americana as well as 1980s-laced pop choruses. There's a fragility to her expressions, but they're served with steely energy, and her material sounded even more full-blooded live. The beauty of her songs' arrangements came through as well as the sentiments. backdrop of a verdant open-country panorama, somehow felt both intimate and expansive.

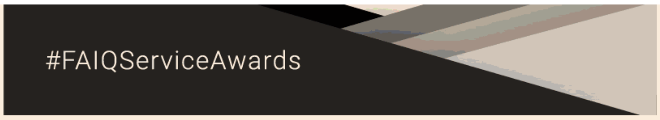
Much of the power lay in Olsen's own, distinctively tremulous Midwestern croon. The 35-year-old indie heroine came across as unaffectedly charismatic: singing her heart out, bathed in cherry-coloured light. Her audience rapport was evident when she chatted between songs in a droll drawl. At one point she pretended she was about to play a "ditty" written that day while "walkin' around London town", before launching into the spikily anthemic older favourite "Shut Up Kiss Me (from her 2016 album, *My Woman*), with the crowd eagerly chanting along.

It would have been impossible to cram Olsen's now extensive catalogue on to a single setlist — and it might have been unrealistic to hope for a blast of "Like I Used To" (Olsen's splendid 2021 duet with Sharon Van Etten) — but she and her band covered plenty of ground, including a pleasingly playful "All the Good Times". "It's only cute for so long to be like, 'I'm so sad,'" she announced cheerfully, before playing a solo guitar version of "Slowin' Down Love" — a late-1970s tune by US folk-rocker Tucker Zimmerman.

Despite insisting that this would be the final number, only minutes later she returned with full ensemble, as well as American singer-songwriter Tomberlin (who had played an impressive support set earlier in the evening). The encore cover of "Without You" was a sweetly surreal endnote to a show that was part alt-country revue, part spaced-out reverie.

angelolsen.com

Angel Olsen on stage at the Brixton Academy — Redferns



Olsen's excellent band were blissfully locked into the grooves, infusing tracks such as "Big Time" with warm strings (steel guitar, violin, cello) and lending growling bass and tender piano keys to "Ghost On". The mood was slow-burning but the pace never flagged. The atmosphere, along with the stage

FT BIG READ. EUROPE

European industry digs in for a long winter

The bloc's leading industrialists are warning about the potentially devastating impact of the energy crisis. Some companies have already cut production and many fear a permanent loss of business.
By Peggy Hollinger, Sarah White, Madeleine Speed and Marton Dunai

As European businesses brace for energy shortages, workers at one plant in south-eastern France are getting a new winter wardrobe. Saint-Gobain, the French building materials group, has ordered extra-warm coats and gloves for staff at its warehouse in the Alpine town of Chambéry, who have agreed to turn down the heat this winter. In order to cut gas consumption, temperatures will be closer to 8C, instead of the usual 15C.

"It will be just like working outside so we have to give them all the tools to work in an outside environment," says Benoit d'Iribarne, senior vice-president of manufacturing.

Turning down the thermostat is no mere cost saving for many of Europe's industrial companies as they dig in for a hard winter. With energy prices soaring to unprecedented highs after Russia's invasion of Ukraine, it has become a matter of survival.

Europe's industrial base employs some 35mn people or roughly 15 per cent of the working population. The bloc's leading industrialists warned earlier this month about the potentially devastating economic impact of the energy crisis.

"Soaring energy prices are currently precipitating an alarming decline in the competitiveness of Europe's industrial energy consumers," said the European Round Table for Industry in a letter to Ursula von der Leyen, president of the European Commission, and Charles Michel, head of the European Council. Without immediate action to cap prices for energy-intensive companies, "the damage will be irreparable".

On the surface, European industrial companies are putting a brave face on it — talking about the energy-saving measures they are implementing and the other costs they are finding to cut. While some are looking to coal and other fossil fuels to get them through the winter, others talk optimistically about the green revolution that the crisis is spurring.

But there is already evidence that major companies are reducing production in some sectors because of the energy shortage, even before the winter kicks in. And executives from chemicals to fertilisers to ceramic businesses warn that they risk losing permanent market share and could be forced to move some of their production to parts of the world that can offer cheaper and more reliable energy.

The alarm bells are ringing among Europe's politicians. "We are risking a

more efficient factories and processes in future. But first, these businesses have to get through the winter.

Those that could do so have increased prices. Cologne-based chemicals company Lanxess, which makes base chemicals and active ingredients for the pharmaceuticals market, increased base prices by up to 35 per cent when energy costs began to surge.

But price increases will not address the problem of gas shortages. Paper and packaging group DS Smith has ordered its factories to cut consumption by 15 per cent, a voluntary reduction agreed by EU member states in July. Machines that used to be idled between production runs will now be turned off, and thermostats turned down. "If we do things like this and turn down the thermostat from 20 to 18.5 degrees we reduce gas consumption significantly," says Miles Roberts, chief executive.

Valeo, the French automotive supplier, has asked factories to reduce energy consumption by 20 per cent, with measures such as halting production at the weekend and turning down temperatures during the week. Solvay, the Belgian chemicals company, says it is organising its factories to operate on 30 per cent less gas using alternative energy and mobile diesel-fuelled boilers.

Gas is the single most important source of energy for Europe's industrial companies. But gas is also an important feedstock, used in the chemicals and fertiliser industries. In total, industry consumes about 27-28 per cent of the bloc's total supply, according to Anouk Honoré, deputy director of the gas research programme at the Oxford Institute for Energy Studies.

But it is not that easy to cut the fuel out of many industrial processes. Roughly 60 per cent of industrial gas consumption is used for high-temperature processes of 500C and above, such as glassmaking, cement and ceramics. "For lower temperature processes, there are more options to use renewable energy and heat pumps," Honoré says.

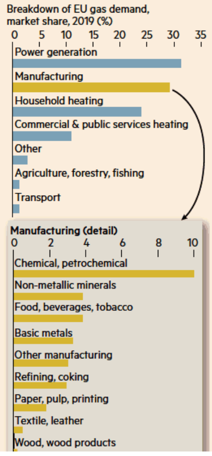
For that reason some companies are turning to fossil fuels, in a potential setback for the EU's green transition plans. Bayer, the German pharmaceutical and biotech company, in 2019 announced plans to move entirely to renewable energy. But it has now reactivated coal "just in case" it is unable to meet heat needs for production.

Carmaker Volkswagen is running power plants in Wolfsburg, its largest site, with coal for the next two winters, instead of switching to gas as planned as

A worker at a blast furnace in Romania, above. Facilities across Europe are implementing a range of actions — from halts to shifts in production, along with less drastic moves — to cope with the crisis
FT montage/Bloomberg

European industry's voracious appetite for gas

Breakdown of EU gas demand, market share, 2019 (%)



lower this quarter compared with last year after it cut production.

Metals trade body Eurometaux says all of the EU's zinc smelters have had to curtail or even completely halt operation, while the bloc has lost 50 per cent of primary aluminium production. Some 27 per cent of silicon and ferro-alloy output has also been mothballed, and 40 per cent of the furnaces, it adds. The fertiliser sector, which relies on gas as a feedstock, has also been hit, with 70 per cent of capacity offline, according to Fertilizers Europe. Goldman Sachs estimates that 40 per cent of Europe's chemical industry "is at risk of permanent rationalisation" unless energy prices are contained.

The same story is playing out in the plastics, ceramics and other energy-hungry industries. Consultancy Rhodium estimates that just five sectors account for roughly 81 per cent of Europe's industrial gas demand: chemicals, basic metals such as steel and iron, non-metallic minerals products such as cement and glass, refining and coking, and paper and printing.

In some of these sectors, temporary shutdowns are not only costly; often they are almost impossible to implement without permanently damaging equipment.

Saint-Gobain's d'Iribarne says the potential for energy reduction is limited in the company's glass factories, where furnaces have to keep burning to keep the glass from solidifying. "You can't reduce consumption by 30 per cent because that means you would have to shut down and that would damage the factory. You would need six months to a year to restart."

Arc International, a French glassware maker, has had to do just that. Normally furnaces at its plant in northern France need to run 24 hours a day, making up about half the factory's energy usage. Now the company has idled two of nine furnaces, and extended the maintenance period on another two, after gas bills increased almost fourfold this year. The company has also been hit by a sudden downturn in demand for some of its products, says Nicholas Hodler, the chief executive. As a result roughly a third of staff have been put on furlough two days a week.

The widespread shutdowns are raising concerns that the crisis is opening the door to rivals from regions with lower energy costs. European manufacturers have long complained about the competitive disadvantage posed by the bloc's fragmented energy market. Over the 10 years to 2020, European gas

their lower-cost plants outside Europe.

Ilham Kadri, chief executive of Belgium's Solvay, says the chemicals group could step up production of more energy-intensive products in lower cost markets if needed.

"We are looking at how to prioritise products," she says "We are a global company and can leverage assets outside Europe to compensate for any reduction in volume there."

One Italian steel executive says that high energy costs and Europe's carbon levy are forcing a rethink about where to produce steel, priced at €800 a tonne.

"The price of gas used to have a €40 [a tonne] impact, it has now risen to €400," he says. "If we add the carbon tax on top, the overall impact of energy costs is €600. It makes a lot more sense for us to move production" to Asia.

Packaging groups Smurfit Kappa and DS Smith are both looking to their factories in North America for paper supplies.

"We are bringing in more from the US than we have done in the past," says DS Smith's Roberts. "To make paper you use a lot of energy. In the US it is much more available and energy costs are much much lower."

Experts warn that the longer companies are forced to shift production from

> 'A reduction or halt of the exports, even temporary, risks translating into a permanent loss of market share'

Europe, the greater the risk that some output may never return. Honoré of the Oxford Institute for Energy Studies says this happened before.

"When European gas prices were at relatively high levels between 2010 and 2014, we saw relocation to regions with lower prices — such as the Middle East, north Africa and US," she says.

"Once investment decisions are made . . . it is hard to ask companies to come back," says Matthias Berninger, a senior executive at Bayer. "If we were to invest in a new site that has decades-long consequences."

Lower-margin, gas-hungry commodity producers, such as the fertiliser industry, could be among the first victims, suggests Trevor Houser of Rhodium. "The economics of producing natural-gas-based fertiliser in Europe will be poor for a long time," he says.

The threat is particularly acute in cen-

The lasting impact of the shutdowns across Europe will not be known for many months. But already the reduction in output of chemicals, steel and other critical, basic products is worrying those further down the value chain.

Companies such as Volvo and Bayer have begun to stockpile parts and materials in case suppliers run into trouble. "Our main concern is not the energy price but the availability of inputs we convert into pharmaceuticals," says Bayer's Berninger.

The future of Europe's gas-reliant chemicals industry — and in particular of BASF's Ludwigshafen site, the largest integrated chemical plant in the world — is deeply concerning for some industrialists. Ludwigshafen is a key supplier to manufacturers of everything from cars to toothpaste and is the engine of Germany's chemicals sector.

"If the German chemicals industry goes down, three weeks later every supply chain in Europe has a problem," says Cefic's Mensink.

Germany's dominance in the supply chain with industrial giants such as BASF means that even companies based elsewhere are exposed to the fallout of any gas rationing in the country. "If Germany is not able to supply . . . that will have ripple effect all across Europe," says Saint-Gobain's d'Iribarne.

Other countries may not have Germany's industrial heft, but their economies — and employment — are even more reliant on manufacturing. The OECD estimates that Poland, the Czech Republic, Slovakia, Austria, Slovenia, Sweden, Finland and northern Italy have the highest shares of employment in vulnerable gas-intensive sectors.

All these countries are scrambling to offer support to their industries and citizens as the weather grows chillier and energy demand rises. But many companies are already looking beyond this winter to the next, and predicting even tougher conditions.

"In 2022, there were decisive volumes from Russian sources," says Nitrogénművek's Bige. "If this all goes away, it paints a rather pessimistic picture for next winter [2023-24]. The proportion of new gas sources will increase, but the infrastructure is far from being able to catch up."

Arc's Hodler says the scope for increasing prices next year will also be limited. "The real question is whether in 2023 we will see a significant increase in energy costs," he says. "We are not going to be able to pass on all those extra costs to our customers without seeing a significant impact in volume."

massive deindustrialisation of the European continent," says Alexander De Croo, Belgium's prime minister.

Saving energy

In the meantime, companies in sectors from steel to chemicals, ceramics to papermaking, fertilisers to automotives are racing to reduce consumption both to cut crippling energy costs and to prepare for gas shortages over the winter, should governments impose rationing.

Many are finding ingenious ways to reduce energy use. French carmaker Renault, for example, is reducing the time it keeps paint hot — a process that accounts for up to 40 per cent of its gas demand.

Such innovations promise to deliver part of its decarbonisation efforts.

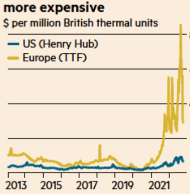
Even for the lower temperature industrial processes, alternatives are unusually scarce at the moment. The summer's drought has depleted hydropower capacity, while France's ageing nuclear reactors are unable to meet demand due to protracted shutdowns and maintenance issues. So some industries, faced with crippling energy prices and softening consumer demand, have decided that the best way to cope is simply to cut production.

Analysts at investment bank Jefferies estimate that close to 10 per cent of Europe's crude steel capacity has been idled. ArcelorMittal, Europe's biggest steelmaker, expects output from its European operations to be 17 per cent

Sources: Rhodium Group, Eurostat

Europe's overpriced energy has become more volatile and more expensive

$ per million British thermal units



Source: Refinitiv

prices were on average two to three times higher than the US, according to the International Energy Agency.

That gap has widened to as much as 10 times since Russia began cutting back supplies. "You can import [fertiliser] for half the price we can produce at," says Jacob Hansen of Fertilizers Europe.

Cefic, the European chemicals industry trade body, points out that since March this year Europe has become a net importer of chemicals by both volume and value for the first time. "This is seriously concerning," says Marco Mensink, director-general. "We are just way too expensive on a global basis because of energy costs."

In an effort not to cede ground to competitors, some companies are tapping

tral and eastern Europe, where many countries have been heavily reliant on Russian gas. Of Europe's 45mn tons of fertiliser production a year, Poland alone produces 6mn, according to industry sources. All five of its factories are idle. Another 3mn tons of capacity are offline in Hungary, Romania and Croatia. In eastern Europe, 20 per cent of European capacity has shut down.

Hungary-based fertiliser-maker Nitrogénművek is among those that have had to scale back. Zoltan Bige, chief strategy officer, warns that the implications of capacity reductions this winter could be devastating. "If we do not produce in the summer, the stock does not accumulate," he says, to meet demand when it starts to increase in the spring.

But there are those who believe the result of the crisis will be a stronger, greener industrial base. Companies such as Saint-Gobain, Solvay and Smurfit Kappa say they are accelerating energy-transition plans that were in place before Russia's invasion.

Tony Smurfit, chief executive of Smurfit Kappa, says his company is "spending three times what we would have spent" under previous plans. So there are reasons to be optimistic. "This will accelerate the green revolution. Fifty years ago there were no options for green energy and now there are. I think this will make Europe very green."

Additional reporting by Silvia Sciorilli Borrelli, Sylvia Pfeifer, Alice Hancock, Rafe Uddin, Peter Campbell, Lauly Li

The FT View

FINANCIAL TIMES
'Without fear and without favour'

ft.com/opinion

Brussels is right to press Warsaw on rule of law reforms

The European Commission must stay tough on internal threats to democracy

A new front is opening up in the conflict between Brussels and the EU's awkward squad over the rule of law and democratic governance. Future payments to Poland from the bloc's "cohesion fund" — worth up to €76.5bn in the current seven-year EU budget period — have been put at risk by its government's relentless undermining of its court system.

So far the stand-off between Brussels and Warsaw has focused on money from the EU's post-pandemic recovery fund. After long delays, Warsaw succeeded in getting Brussels' sign-off on its recovery plan after amending some institutional changes that had brought courts under the thumb of politicians. But before any funds are released, the plan itself requires further reforms on the judiciary to be completed, which hardliners in Warsaw are loath to accept.

The threat to cohesion funds, then, comes on top of the money Warsaw is already missing out on. The justification is that the rules governing them require compliance with the EU's charter of fundamental rights, which includes independent courts. Delaying or suspending cohesion payments would raise the financial stakes in the conflict, since the amounts at risk are much bigger than those in the recovery fund.

The stakes are also higher because Poland's economic situation is worsening. The energy crisis has brought a painful terms of trade shock: the inflation rate has reached 15.7 per cent, and the IMF expects the Polish economy to grind to a near halt next year.

There is never a good time to lose out on significant subsidies from abroad, but this moment is worse than most. This strengthens Brussels' leverage over Poland. The same applies even more strongly to the EU's other enfant terrible, Hungary, whose recovery plan has not been approved and which faces suspended subsidies due to its poor record in combating corruption. There, too, the economic situation is precarious: inflation is above 20 per cent and the central bank interest rate is at 13 per cent.

Both governments valiantly suggest that neither has an urgent need for the money. This is half correct — most cohesion funds are in any case years away from disbursement. But as the UK has demonstrated, markets can quickly get worried when a government cannot convince them how it will fill holes in the public finances.

The combination of withheld subsidies and a darkening economic outlook is having an effect. Both countries have introduced laws ostensibly to address the EU's concerns with a defective rule of law — court-packing in the Polish case and political capture of EU funds in the other — and an erosion of norms underpinning liberal democracy. Neither effort is anywhere near enough to repair the damage the countries' independent institutions have sustained. But they show that Brussels is not as powerless to counteract threats to its norms at home as many had thought.

> Power of the purse the EU is now wielding in earnest is clearly focusing minds in Poland and Hungary

The commission's pushback had earlier been not just halfhearted but largely confined to judicial tools, whether referrals to the European Court of Justice or invocation of the EU Treaty's article 7, which can suspend an offending state's voting rights if all other states agree. This achieved little, but the power of the purse Brussels is now wielding in earnest is clearly focusing minds in Warsaw and Budapest.

Having flexed its financial muscles and seen a reaction, Brussels is well-advised to stick to this course. There are temptations to avoid confrontation at a time when an external enemy is trying to divide Europe. That would be a mistake. The external threat to its liberal democratic model makes it all the more important for Europe to keep getting tougher on the threats closer to home.

Opinion Science

Pay no attention to the 'smug sleepers'

Ben Hickey

Jemima Kelly

As I slump wearily over my living room table, clutching my third cup of coffee and feeling distinctly nauseous and fuzzy-headed due to the lack of sleep I am suffering from — I got "just" six-and-a-half-hours last night — I am pondering a particular breed of pest that my life seems to be filled with: the smug sleeper.

These are the people who seem to be able to survive — thrive, even — on precious little sleep; the people who don't seem to find exhaustion an endlessly interesting and relatable conversation topic; people for whom mornings are apparently just as energising and joyful as any other part of the day (see also smug early risers). I resent these people. If they're not making me feel bad for being so slothful, they're tempting me into late-night escapades when I know I have to get up early the next day. Unlike them, I am guaranteed to wake up feeling hideous.

> They might have some kind of strange, peppy social high ground, but they can keep it

But alas, I know many such types. There's the colleague who writes witty

As if to taunt me further, a new study on Tuesday suggested five hours is the "tipping point for bad health". Was I to infer from this that I should therefore feel just fine on six of seven hours' worth of sleep a night? Thankfully, Russell Foster, professor of circadian neuroscience at Oxford university, tells me not. He stresses that "there is huge individual variability in sleep" and that for some people, therefore, this tipping point could actually be six hours or seven, or more.

There's no magic number for the amount of sleep we should be getting, Foster says. Instead, we should be figuring this out ourselves, based on whether or not we feel we're firing on all cylinders. An easy litmus test for this is whether or not we wake up before our alarm goes off in the morning — if we don't, we're probably underslept.

And not only does not getting enough sleep lead to poor physical health because of the increase in cortisol level it creates, which in turn suppresses the immune system; it also leads to bad mental health. Foster cites a 2006 study by a pair of Harvard researchers, for instance, who found that people who had not had enough sleep were more likely to hold on to negative memories and less likely to remember positive ones. "Your worldview is being biased [by] negative experiences, which means you can end up making some quite seriously bad mistakes about how you run your life," he says.

The scientific research on sleep can be confusing, though. And multiple studies have suggested that long sleep duration — more than seven or eight hours a night — is associated with higher mortality

Letters

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Fed tightening risks a global financial crisis

Your fine editorial ("Global economic warning lights are flashing red", October 17) should have gone further in questioning the appropriateness of the Federal Reserve's newfound monetary policy religion.

At a time when the US economy is already showing signs of weakness and when the dollar keeps soaring to new heights, the Fed keeps tightening monetary policy at a very rapid pace, not seen since the 1980s when the Fed was led by Paul Volcker. When US and global financial and credit markets are already showing signs of considerable fragility, America's central bank is engaged in quantitative tightening at the unprecedented rate of $95bn a month by not pumping the proceeds of maturing Treasuries back into the bond market.

Knowing that monetary policy operates with long and variable lags, might the Fed now be engaged in monetary policy overkill to regain control of inflation? We're already seeing cracks in the global credit markets. But might the Fed be inviting a global financial market crisis by continuing to raise interest rates and withdraw very large amounts of market liquidity at a time when world financial markets are on the back foot?

Desmond Lachman
Senior Fellow, American Enterprise Institute, Washington, DC, US

Education: elephant in the room of UK public policy

Martin Wolf rightly points out that, in the wake of the "mini" Budget, the UK must restore economic credibility as a matter of urgency, while the brunt of the fiscal adjustment should come from tax rises rather than spending cuts ("Restoring the nation's credibility will be hard", Opinion, October 17).

Wolf emphasises that Britain's major public services are under acute pressure, particularly the NHS, but makes no mention of the state of the education service. The disappearance of education from the public policy agenda of the UK over the past decade has been an extraordinary development.

If the UK cannot get education right, it won't get anything right on productivity, employment, economic growth or indeed tackling social disorder and rising crime. Since 2010-11, per pupil funding for schools and colleges in England has been frozen in real terms according to the Institute for Fiscal Studies.

Yet it isn't only about money: the school curriculum throughout the primary and secondary years is

outdated and needs serious reform. A comprehensive agenda for improving adult skills is essential in Britain's post-Brexit economy.

We need education at every age of life to become once again the top priority of governments.

Patrick Diamond
Professor of Public Policy, Queen Mary University of London, London E1, UK

Hacks fuel mistrust and slow crypto adoption

You report that Binance, the world's largest cryptocurrency exchange, has recently confirmed that it was the victim of a cross-chain bridge hack (Report, October 8).

The attackers initially made off with $570mn worth of BNB tokens. However, Binance and its validators took containment actions to limit the actual damage to closer to $100mn.

Blockchain bridges, which allow digital asset movement from one blockchain to another, have been the target of several hacks during the past 15 months.

Since the third quarter of 2021, $2bn of cryptocurrency has been stolen in 13 separate bridge hacks.

Interest in the hack initially was red-hot. Once contained, the crypto community quickly moved on — treating the attack as "business as usual".

But each hack delegitimises our industry, fuels public mistrust of our space and pushes back crypto adoption.

Tom Tirman
Chief Executive and Co-founder, PARSIQ Tallinn, Estonia

Questions for actuaries in the LDI pensions debacle

As the dust begins to settle on the defined benefit pensions liability-driven investments debacle, crucial questions remain ("Managers search their souls after LDI debacle", Report, October 8).

Were all the actuaries asleep at the wheel? What is the point of their years of training if most actuaries seem to have missed the biggest risk in a generation? What was the role of their governing body, the Institute and Faculty of Actuaries, which seems more poodle than Rottweiler?

It appears from a short news item that I wrote three years ago in 2019 for your sister publication Pensions Expert that some officials at the Bank of England were aware of potential disasters ahead. Were they so drowned in volumes of their own copious research that they could not see the wood for the trees?

Meanwhile, the Pensions Regulator has appeared totally out of its depth.

We must not let such a near disaster ever happen again.

Stephanie Hawthorne
Former Editor of Pensions World (1989-2017), London SM5, UK

Forget the notion politics has no relevance to rates

When government action unexpectedly cuts taxation and increases borrowing, the price of gilts falls and interest rates rise. This benefits some as it hurts others, including fund managers who fail to anticipate that change. It also challenges the notion that political action has no relevance to a central bank's decisions.

G R Steele
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OUTLOOK

KENYA

Nairobi's library restoration

We are not a reading nation," lamented a Kenyan librarian in 2015. He did not mean, of course, that Kenyans *can't* read — the vast majority can. He meant simply that most derive little pleasure from doing so, regarding literacy as a more or less regrettable necessity. Growing up in Nairobi, I often encountered such gloomy self-assessments of the nation's reading habits. People talk as

Kenyan institutions, the McMillan's origins are colonial. Established in 1931, it was a whites-only space for 31 years, until the British empire began to unravel. It bears the name of Sir William Northrup McMillan, an influential British-American settler who bought a large estate just outside Nairobi in 1905. Local notables would often repair to his country seat to drink and hunt with baronial vigour, and McMillan's guests are said to have included Winston Churchill and

publications, and much more work by African authors. They also want to organise its archival material, which is both highly valuable and utterly disordered, containing minutes from early meetings of the city council, miscellaneous grainy photographs and stacks of old newspapers.

The chaotic treatment of historical material in the McMillan reflects, I think, Kenya's reluctance to address painful aspects of its past. The portraits in a first-floor room provide

There's the colleague who writes witty newsletters every night at 2am, dozes off within "a couple of minutes", sets his alarm for 8am and arrives in the office positively brimming with beans. There's the new-mother fashion CEO friend who's never out of the pages of Vogue and has the most active social life I know, on four hours' sleep a night, maximum. And then there's the Cambridge academic father of another friend who, during a meditation, asked God to grant him the miracle of needing less than the seven-to-eight hours of sleep he had been getting up until then. He has leapt happily out of bed after six hours' sleep ever since (true story).

I am not of this ilk. In an ideal world, I would be a nine-hours-a-night kind of gal, possibly even nine-and-a-half. Come the weekend, if I am underslept, as I often am, I have been known to sleep in for teenagerish amounts of time (one recent and lovely slumber lasted over 12 hours). Am I doing something wrong? Should I feel ashamed? Should I, too, be asking for divine intervention, or at least be trying to train myself to sleep less?

higher mortality.

But just because sleeping a lot is "associated" with a higher death rate, that doesn't make it sleep's fault. "We've got causal evidence that short sleep is bad for you — we don't have causal evidence that long sleep is bad for you," Matthew Walker, a neuroscience professor at the University of California, Berkeley, and author of *Why We Sleep*, tells me. Walker says evidence suggests the reason studies have made this link is that those who are sick tend to sleep more to compensate for this and that, furthermore, the quality of sleep — which is crucial — is not taken into account in these studies.

So yes, the smug sleepers might have some kind of strange, peppy social high ground, but they can keep it. I don't wish to train myself to need less sleep — those aren't wasted hours as far as I'm concerned; quite the opposite. I want to savour sleep; luxuriate in it. Because whatever Bon Jovi might say, if you're gonna live while you're alive then you can't afford to put off sleep till you are dead.

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restoration grapples with a chaotic past

by Gisa Tunbridge

nation's reading habits. People talk as though, by virtue of some inscrutable law of nature, Kenya must remain an "oral culture", eternally estranged from the written word.

That lugubrious librarian was speaking, however, to Wanjiru Koinange, a Kenyan writer who has long been sceptical of her compatriots' alleged bibliophobia. For Koinange and her friend Angela Wachuka, a publisher, the problem is not that Kenyans lack interest in books, but rather that they lack access to them. "We just don't have enough spaces in this country," Koinange told me, "that are rooted in information sharing, and community, and . . . the arts".

Seeking to redress this deficiency, Koinange and Wachuka founded Book Bunk, a non-profit that refurbishes public libraries, in 2017. They renovate the buildings, update the collections and host events to encourage young Kenyans to engage with literature and the arts. Their next project will be the McMillan Memorial Library in Nairobi, Kenya's second-oldest book collection. Like many

included Winston Churchill and Teddy Roosevelt.

McMillan is barely remembered now, but a certain faded grandeur still clings to the neoclassical exterior of his library. Inside, however, decades of neglect and under-investment are impossible to conceal. The paint on the walls is peeling. The ceilings are bulbous with damp. In one room, about half of the wooden floor tiles have come loose and lie scattered beneath the desks.

The books reflect the interests and prejudices of long-dead Europeans, their original owners: a few tattered novels, many hopelessly outdated technical manuals, and a litany of anthropological treatises with titles that have aged rather badly, such as *Origins of Education Among Primitive Peoples*. When I visited, it occurred to me that if Kenyans don't read much, this collection seems to have been expressly designed to ensure that this remains the case.

Book Bunk wants to change this by modernising the catalogue: more world classics, more up-to-date

portraits in a first-floor room provide an example. On one wall hang several colonial grandees, including McMillan himself. Squinting at them from across the room is Daniel arap Moi, the former president who presided over a brutal one-party state for more than 20 years, and who delighted in banning books. In one of the largest national libraries of a multi-ethnic democracy, both racial exclusion and postcolonial tyranny are silently memorialised, with no acknowledgment of the contradictions, and no attempt to reconcile then with now. Coming to terms with the past means being able to read, think and talk about it openly. "The first part of grappling with anything", Koinange says, "is to stare it in the face." Rather than use the McMillan as a sort of national attic, into which unsightly heirlooms can be hastily consigned and safely ignored ever after, she hopes the library can one day serve "to show what was, show what is, but also what can be".

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Opinion

Banks are discovering that holding cash can be lucrative again

COMPANIES

Brooke Masters

Suddenly, everybody wants your cash. As recently as last year, many US and European banks were actively trying to get out of holding clients' ready money because they were awash with deposits.

The trend was quite extreme in Europe where central bank rates had been negative for years. UBS and Credit Suisse, among others, were charging their wealth management customers as much as 0.6 per cent simply for the privilege of having a large balance in their accounts. But US banks too kept cutting the interest rates they paid on corporate deposits in the hope of getting customers to go elsewhere. Money market funds and institutional cash management products, meanwhile, were paying next-to-nothing returns, and global asset managers were still having to subsidise them to keep the business going.

Now the worm has turned. Apple and Goldman Sachs are teaming up on a no-fee high-yield savings account. Some UK banks are offering regular clients special savings accounts that pay as much as 5 per cent. UBS has finally scrapped its cash balance fees, and institutional cash managers are telling me that they are actively plying corporate treasurers with other services to make their offerings more attractive.

This, of course, is monetary policy in action. Rising interest rates and the rolling off of central bank bond buying are reviving dim memories of what it means to live without free money.

Lenders profit by charging more for loans and credit lines than they pay out to get deposits. But this "net interest" income has been squeezed by years of rock bottom rates. Now it is now shooting up as banks immediately pass on higher rates to their mortgage and corporate loan customers, but move more slowly to raise rates for savers.

Wall Street giants and scrappy fintechs alike this week have reported substantial jumps in net interest for the quarter that ended on September 30, and the main UK banks are expected to report a similar bonanza. Slow moving custodian Bank of New York Mellon was among the biggest winners, with a 44 per cent increase year on year.

Now that holding cash can be lucrative again, of course more financial institutions want it. But competition is rising within the banking industry and from brokers and asset managers which offer money market funds and other products that pay better rates.

> Higher interest rates bring back dim memories of what it means to live without free money

Even though retail deposits tend to be sticky, customers read the headlines and they are starting to go in search of better deals. US retail money market funds have seen assets rise 10 per cent since the start of June to $1.55tn, although some of that is coming out of choppy equity markets, according to the Investment Company Institute.

Business customers, who have employees charged with making sure they get the best rates, are also pulling out their cash. Corporate deposits at JPMorgan, Citi and Wells Fargo have declined by nearly $120bn over the past year. But here, the money is not just shifting over to institutional money products. The ICI reports net assets have dropped slightly since June, and BlackRock, Morgan Stanley and JPMorgan's cash management units between them reported nearly $110bn in outflows in the last quarter.

Some companies are opting to buy bonds to take advantage of rising yields. But many are rethinking their approach to cash at a time when inflation has raised the cost of having it do nothing.

"During the pandemic everyone went out and raised a lot of money. Now they are figuring out how much they still need," says a veteran cash management banker. "There's less lazy cash sitting around on corporate balance sheets."

Other financiers agree that some of the liquidity that built up during the pandemic is starting to drain out. Gary Shedlin, BlackRock's chief financial officer, blamed the cash management outflows on "a general reduction in corporate cash levels". Volatile markets have made it harder for some companies to replace debt that rolls off: high-yield bond issuance has been sharply lower this year.

Bankers say that many companies are finding they have better use for their extra money. That may be strengthening supply chains and building up inventory, capital expenditure or the perennial favourite, share buybacks.

More worrying is the idea that money-losing companies are running out of cash now that investors have turned picky about topping them up. JPMorgan Chase CEO Jamie Dimon has predicted that US consumers have six to nine months of spending left in their bank accounts before they pull back and tip the economy into recession. How many start-ups are in a similar boat?

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There is no way back for liberal Conservatism

BRITAIN

Robert Shrimsley

These are tantalising times for Cameron Conservatives, that happy breed of metropolitan liberal Tories who rose with the former prime minister and were so thoroughly routed in the Brexit battles of the last few years. The unhappy collision of Trussonomics with economic reality seems to offer a return to fiscally prudent, moderate Toryism, personified by the appointment of Jeremy Hunt as chancellor and, effectively, leader.

Hunt, who served in every Cameron cabinet, has not only promised to be guided by the principles of "compassionate conservatism" as he seeks to balance the books, he has also installed Rupert Harrison, the key aide of former chancellor George Osborne, as one of a small council of economic advisers. Another ex-Cameron minister, Grant Shapps, has been made home secretary in place of Suella Braverman, the hardline Brexiter and purveyor of ferocious anti-immigration rhetoric.

As Tories debate how and when to defenestrate another leader, all the mooted contenders — Penny Mordaunt,

But those who hanker for the days of globalist, liberal realists should temper their excitement. There is no such thing as Brexity Cameronism. Today's moderate Tories are very different from those of 2010, a point illustrated by the fact that Sunak, an early Brexiter and Thatcherite, is now often described as being on the party's left.

As important, the economic and social circumstances which delivered that metropolitan liberal Conservatism are gone. Lower taxes are, for now, a pipe dream. The high tide of globalisation has passed, harsh geopolitics has intruded. Brexiters and China hawks have erected trade barriers to markets that were strenuously courted in the "follow the money" Cameron era. Hunt is right to prioritise regaining financial credibility, but until costly Brexit purism is abandoned there will remain a hole in Tory economic strategy. Even business tax cuts will not deliver inward investment if the rest of the world sees you as a bad bet. The grown-ups may be back but Brexit has robbed the country of a grown-up economic policy.

In 2010, Cameron used introducing gay marriage to signal that his party felt at ease with modern Britain. Today such battlegrounds are trans rights, immigration and cancel culture: even mainstream Conservatives use them to show they side with those who think progressive values have gone too far.

The base of people minded to vote Conservative has shifted. The Brexit

Ellie Foreman-Peck

ity, or a non-catastrophic defeat in the near future. Politics professor Tim Bale has argued persuasively that the ground has shifted, creating a values gap between Tory MPs, who veer towards both political and economic liberalism, and their voters, who are more socially conservative and interventionist. They want governments to protect them from social evils. Tories also fear leaving a space on the hard right for a traditionalist, Faragist party on issues like immigration and so-called culture wars.

This leaves only two viable paths and, given the demands of its voters for decent public services plus the Brexit cost to the British economy, neither leads to a meaningfully low-tax future. The first points towards rebuilding the Johnson coalition but without him or his cakeist economics; the other is a retreat into nativist social conservatism.

> Brexity Cameronism does not exist. Today's moderate Tories are very different

The first and more likely path, if Truss falls, is a more mainstream, fiscally responsible leader, a Brexit pragmatist. Where possible, financial pain will be pushed up the income scale and social conservatism answered with a hard line on law and order. This path offers a slim chance of recovery in the polls but, given looming cuts, may only pare back the scale of defeat.

The second path is more likely after a bad election loss. There is a pattern of behaviour among newly defeated political parties which sees a retreat to a purist base.

In this scenario the Tory party would pledge to throttle back immigration, even at the expense of growth, and promise to leave the European Convention on Human Rights. There would be Brexit purism, sharp dividing lines on social attitudes and illegal refugees, and a defence of the British empire. Tax cuts would again be promised, funded by

That approach was personified by Braverman who talked of dreaming about deporting illegal immigrants and denounced environmental protesters as the "tofu-eating wokerati". It is no accident that she had been steadily climbing the rankings in the ConservativeHome members poll which foretold the success of Liz Truss. Her views have a solid constituency in the party and her resignation letter makes clear her side will fight for them.

This path is a long-term threat to Conservatives. But higher education and the death of older voters are pushing the country in the other direction. For all his populism, Johnson knew he needed liberal Tories and was careful not to fall too far down the reactionary rabbit hole.

So Tories have two available futures but one leads to a long exile. Recent events suggest the party veering away from the second path but the Truss experiment has shown us to be wary of calling the bottom of a political market. There is always another rung down.

Business silence on Kanye West's anti-Semitism is not an option

Ari Emanuel

It's not enough for Twitter to lock the rapper Kanye West out of his accounts following his anti-Semitic tweet that he was going to go "death con 3 on JEWISH PEOPLE." West's business partners across the fashion and entertainment industries also need to speak out and take action.

Apple and Spotify, which host West's music, whoever organises West's tours, and Adidas, which collaborates with West on his fashion line, should all stop working him. The parent company of Parler, the Twitter competitor, should refuse to sell to West.

Silence is dangerous. It allows forms of hatred and racism, including anti-Semitism, to spread and become normalised. It coarsens and degrades our society and country.

This wasn't just one tweet. Shortly before his ugly return to Twitter, West was locked out of his Instagram account for an anti-Semitic post. And now Vice has obtained unaired footage from West's interview with Tucker Carlson on Fox of West "making bigoted statements about Jewish people".

We know that hatred is on the rise and is surfacing in troubling ways — from public figures of all kinds. In just the past few weeks, both LA City Council member Nury Martinez and Alabama Senator and former college football coach Tommy Tuberville were exposed for their deeply offensive, racist remarks.

West is not just any person — he is a pop culture icon with millions of fans around the world. And among them are young people whose views are still being formed.

> The rapper has millions of fans, many of whom are young people whose views are still being formed

This is why it is necessary for all of us to speak out. Hatred and anti-Semitism should have no place in our society, no matter how much money is at stake. According to the Anti-Defamation League, anti-Semitic incidents in the US were up 34 per cent in 2021 over the previous year.

Some of West's behaviour has been dismissed over time, citing mental illness, given that he was diagnosed with bipolar disorder after being hospitalised in 2016. However, mental illness is not an excuse for racism, hatred or anti-Semitism. Millions of people affected by mental illness do not perpetuate hateful ideologies. Others brush his comments off as just words, but hateful words far too easily become hateful actions.

In 2006, Mel Gibson made an anti-Semitic rant after being pulled over for driving while drunk in Malibu, California. I immediately called on the entertainment industry to refuse to continue working with Gibson.

Rishi Sunak and Hunt himself — are seen as being from the party mainstream.

coalition assembled by Boris Johnson is now the only plausible path to a major-

from those of 2010

supposedly painless spending cuts and imaginary wars on Whitehall waste.

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Yes, several years later, I recommended him for roles. But that was only after Gibson's public apology and his commitment to understanding the consequences of his actions.

He put in the work. "There is no excuse, nor should there be any tolerance, for anyone who thinks or expresses any kind of anti-Semitic remark," Gibson said.

I agree. It was true then and it's true now. We are all capable of learning and evolving, and if West would like to be educated about the history and consequences of anti-Semitism and the conspiracy theories he's parroting, if he wants to reach out to religious leaders — including rabbis, Muslim leaders, Christian leaders — I'd be happy to help.

But until that happens, the leaders he's doing business with need to speak up. Our clients LeBron James and Maverick Carter just cancelled an episode of James's YouTube talk show *The Shop: Uninterrupted* after West continued to repeat dangerous stereotype during filming. "Hate speech should never have an audience," said Carter.

Those who continue to do business with West are giving his misguided hate an audience. There should be no tolerance anywhere for West's anti-Semitism. This is a moment in history where the stakes are high and being open about our values, and living them, is essential. Silence and inaction are not an option.

The writer is chief executive of Endeavor, an entertainment and media company

Containing China is Biden's explicit goal

US POLITICS

Edward Luce

Imagine that a superpower declared war on a great power and nobody noticed. Joe Biden this month launched a full-blown economic war on China — all but committing the US to stopping its rise — and for the most part, Americans did not react.

To be sure, there is Russia's war on Ukraine and inflation at home to preoccupy attention. But history is likely to record Biden's move as the moment when US-China rivalry came out of the closet. America is now pledged to do everything short of fighting an actual war to stop China's rise.

It is not clear that corporate America, or its foreign counterparts, have fully digested what is about to hit them. For decades, serious businesses have based their growth models on having a China strategy — whether it be by exporting to China, or producing there, or both. Unless a company's product is, say, luxury goods or agricultural commodities, Biden's technological decoupling will hit their bottom line. His escalation also marks a final break with decades of US foreign policy that assumed China's global integration would tame its rise as a great power.

America's conversion to China containment is bipartisan. It was one thing for Donald Trump to target Huawei and ZTE, the Chinese telecoms conglomerates, and aim for managed trade. It is another for Trump's Democratic successor to isolate China's entire high-tech sector. It is notable there are no prominent voices raised in either political party against US-China decoupling. Washington's China politics is now about which party can get more to the right of the other.

There are two big risks to Biden's gamble. The first is that America is now close to making regime change in China its implicit goal. The new restrictions are not confined to the export of high-end US semiconductor chips. They extend to any advanced chips made with US equipment. This incorporates almost every non-Chinese high-end exporter, whether based in Taiwan, South Korea or the Netherlands. The ban also extends to "US persons", which includes green card holders as well as US citizens. That presents a binary choice between America or China. Most will choose the US. But there are tens of thousands of Chinese green card holders who will now be inclined to believe Beijing's claim that there can be no such thing as divided loyalty.

> National security has once again become the lens through which Washington sees the world

The hit to China's economy will be far bigger than the word "semiconductor" implies. Biden's move draws on the premise that any advanced chip can be used by China's military, including for nuclear weapon and hypersonic missile development. It is also meant to undercut China's goal of dominating global artificial intelligence by 2030. But all such chips are dual use, which means that the US is now committed to blocking China in all kinds of civilian technologies that make up a modern economy.

In most American and many western eyes, such steps look like a fair response to decades of Chinese intellectual property theft that has fuelled its military growth. In Chinese eyes, it will look like the US wants to keep communist China permanently down. It is no great leap from that to regime change.

The more imminent risk is that Biden's gamble could prompt Xi Jinping, China's president, to accelerate his timetable for Taiwan reunification. The island state is by far the world's largest maker of high-end chips. That Biden's move took place shortly before China's 20th party congress, which ends on Saturday with a likely third five-year term for Xi, is notable. Many China watchers think Xi wanted to put the party congress behind him before turning to his vow of fixing the Taiwan problem. Biden could have made a violent resolution to China's Taiwan policy more likely. He could equally have given Xi pause for thought. We will find out.

What we do know is that national security is once again the lens through which Washington sees the world. Rest in peace "the world is flat" and the "end of history". The US has endorsed a zero-sum metric in which China's rise is seen as being at America's expense. You could say that Biden is belatedly reacting to what China has been talking about for years — with increasing unsubtlety by Xi. But that is hardly reassuring. It means that the world's hegemon and its only serious rival now see each other through the same lens. As is usually the case in history, nobody else gets much of a say.

Will Biden's gamble work? I'm not relishing the prospect of finding out. For better or worse, the world has just changed with a whimper not a bang. Let us hope it stays that way.

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UK bank tax: Christmas gone

Christmas is approaching but UK banks must feel as if they are still on Santa's naughty list. After a decade in the doldrums, the gift of rising interest rates has arrived. The pleasure could be shortlived. UK chancellor Jeremy Hunt is reportedly preparing to source much-needed government revenues from the coffers of banks in order to fill a fiscal gap of at least £40bn.

A tax on an unpopular sector may appear the easiest solution. To some, UK banks are mere utilities. But as conduits of capital through the economy, more taxes on them further clog the financial system. For shareholders, a potential single-digit percentage hit to earnings offers little consolation.

As it stands, banks pay an effective tax rate of 27 per cent, comprising 19 per cent corporation tax and 8 per cent bank surcharge. On top of this, there is an existing bank levy on certain liabilities. With corporation tax set to rise to 25 per cent, even a reduction in this surcharge will mean an increase. If lowered to 5 per cent, the effective tax rate goes to 30 per cent.

That is pocket change, adding perhaps half a billion pounds annually to the Treasury at the lower end. Some will bay for even more taxes.

Share price reactions on the day reflected worry about earnings. Lloyds and NatWest, which are the most exposed, fell up to 4 per cent and 3 per cent respectively at one point. But consider that two-year forward earnings expectations for the sector have risen by half since the start of the year in line with the rates outlook, according to Refinitiv data.

Bank share prices have dropped 5 per cent since the start of the year as a recession approaches. The sector has never been cheaper on a forward price/earnings multiple of about 5 times.

One positive is that a tax on profits would avoid interfering with the Bank of England's monetary tightening. Previous floated proposals to lower the rate earned on reserves parked at the BoE would have effectively loosened policy on overnight rates.

With UK banks reporting third-quarter results next week, politically adept chief executives may well try their best to play down improving profits. Lex has noted that net interest income should bounce by about a fifth year on year for NatWest, Lloyds and Barclays' UK bank. To help offset any largesse, expect higher loan provisioning in the second half of 2022.

Netflix: ad break

Netflix is valued as if user growth were the most important metric. Vast content commitments, losses and high debt have been tolerated so long as this number rises. When it fell, so did the stock. Netflix's solution is to stop reporting guidance for the number.

Apple stopped reporting iPhone unit sales in 2019 after growth flattened. It pushed investors to look at revenue, where higher prices made up for lower unit sales. The nudge worked.

But Netflix is banking on high revenue growth that is not certain. In November it will launch an advertising-supported subscription tier. At $6.99 per month, it is less than half the price of the ad-free rate and cheaper than rival services. The hope is that this will erase the damage done by two consecutive quarters of subscription falls. But it risks cannibalising its users and lowering average revenue per user.

Netflix claims rivals are in worse shape, collectively losing $10bn a year. But its dismissal of the competition has not persuaded. In the third quarter, subscriptions rose by 2.4mn. A return to growth lifted the stock 13 per cent in after-hours trading, though it remains down on the year and is underperforming the S&P 500.

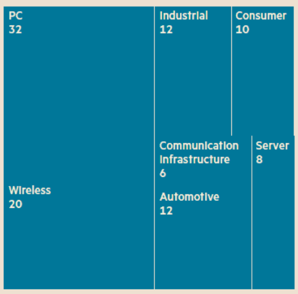
Netflix has gained 223mn subscribers, become a global brand and won Oscars. But it has drawn imitators that have chipped away at growth.

Some of the panic is unfair. Subscriber losses followed 37mn additions in 2020. Churn makes sense. Free cash flow is positive. But Netflix lacks the alternative stream that a rival such as Disney can lean on. Adding ad revenue is welcome, though it is entering as Disney makes the same move and the digital ad market is in a downturn. Still, if it could add $2bn in ad revenue plus $2bn from subscribers on the ad-supported tier, it would lift 2024 revenue above $41.5bn and return growth to pre-pandemic levels.

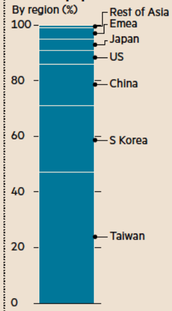
The gloomier forecast is that Netflix encourages existing subscribers to move to the lower tier and fails to win many new joiners.

ASML: chips to go

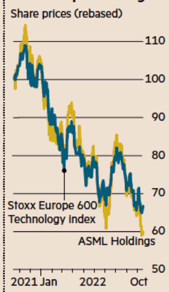
Chips are used in consumer electronics and other products exposed to the risk of a recession. The market is also concerned about ASML's exposure to the Chinese market following US export controls. Despite the Dutch group's industrial position, the stock has been marked down.



FT graphic Source: Citi



Source: ASML



Source: Refinitiv

ASML — which sells the kit required to make the very best sort of semiconductors — seems to be walking on water. In an industry buffeted by recession fears and the US-China chip fight, its machines are selling better than expected and it has more orders than it can handle. What's going on?

The answer is that ASML, with a €161bn market value, leads the pack in what remains — despite cyclical headwinds — a growth industry. If we really are to live in a world in which fridges order milk, cars drive themselves and computers write newspaper articles, that requires a lot of processing power.

ASML's new extreme ultraviolet (EUV) lithography units are mission-critical for ambitious chipmakers. They use tiny wavelengths to print more powerful chips.

No one else makes them — yet. And there aren't enough of them to go round. Pricing power would explain why ASML's operating margins touched a record high of 35 per cent last year, and why analysts are forecasting they will remain high into 2024.

This advantage will shield ASML from cyclical and geopolitical headwinds, for some time at least. Customers exposed to softening demand may push their orders back. But there are lots more waiting in the queue.

Meanwhile, the company reckons it will suffer little direct effect from US measures against China, as ASML is a European manufacturer.

However, indirect impacts from the softening of Chinese demand are a bigger concern, with 15 per cent of third-quarter sales coming from the country. But here, too, its €33bn order backlog lasting into 2024 should cushion the blow.

ASML cannot diverge from broader market forces forever. The stock market clearly has its doubts given that it has marked down ASML stock around 40 per cent since the start of the year, broadly in line with the global chip sector. Given ASML's industrial position, that suggests that investors see this latest downturn for semiconductors as something more than a dip.

Swiss Re: weather strains

Swiss Re, which acts as a backstop to insurers, is set for another quarterly loss. It expects a $500mn net loss in the third quarter. Blame Hurricane Ian, which hit Florida last month.

The Swiss reinsurer is set for claims of $1.3bn from the storm. Hurricanes, while horribly destructive for people in their path, are in the normal course of business for insurers. Swiss Re shares are therefore trading at about SFr74, down less than both the Swiss market and other European insurers in the past six months. The shares are not expensive, trading on a 2023 price-to-earnings multiple of under 7 times, less than rival Munich Re's 9 times, according to Bloomberg data. Its Swiss solvency ratio of 274 per cent as of July suggests a strong capital position.

Reinsurers provide financial protection for insurers. Some are reducing their exposure to natural disasters. Not Swiss Re. Insurance will be needed no matter how deep the downturn. Swiss Re regards it as important for driving future profits growth. Cover prices are rising, supporting its earnings.

Swiss Re will benefit, too, from rising interest rates, which will help its investment income. Too bad the market prices of many of these assets have slumped. The group can meanwhile expect a bounceback from its life and health division, hit by the tail-end of coronavirus in the first half.

Reinsurers prove their worth when times are hard. Covid-19 should help Swiss Re over the long term as the disease's spread has demonstrated the value of health insurance. Diseases and natural disasters are at least uncorrelated with economic woes.

Nevertheless, it acknowledges it is unlikely to meet its 2022 target of a 10 per cent return on equity, given the impact from natural catastrophes. But that is the nature of the business.

Swiss Re holds to its medium-term goal of achieving a 14 per cent return on equity in 2024. Investors should benefit from its robust qualities in recessionary times ahead.

P&G/Nestlé: brand disloyalty

Brand loyalty has its limits. Amid soaring input costs, multinational consumer goods groups are passing on higher prices to end consumers. Results yesterday from Procter & Gamble suggest shoppers have had enough.

So much for devoted customers. The maker of Tide detergent, Bounty paper towels and Pampers nappies warned that full-year earnings would be at the low end of its forecast. Expect more downgrades in the sector as inflation bites into household budgets.

Headline figures at P&G flatter to deceive. While organic sales rose 7 per cent in the fiscal first quarter, price increases of 9 per cent made the real difference. Volumes fell in all P&G product categories except grooming, which was flat. A stronger dollar has also hurt. P&G generates more than half of its sales from overseas. Indeed, little of the price increases fell through to the bottom line once currency headwinds were factored in, crunching margins. Overall earnings fell 4 per cent during the quarter despite revenue rising 1 per cent.

Nestlé has a similar story to tell. Analysts reckon sales volume stalled at the Swiss maker of KitKats and Nespresso capsules during the third quarter. Unlike P&G, it has the benefit of a currency tailwind. The greenback has gained 9 per cent against the Swiss franc this year. Both Nestlé and P&G get credit from investors for their defensive qualities. They trade at around 22 times forward earnings, in line with their five-year average.

But Nestlé may be a better choice. The Swiss group gets about 18 per cent of its sales from petcare. Penny-pinching shoppers may trade down to generic brands for household staples such as paper towels. But they are more reluctant to do so for their pets.

In the US, JM Smucker and General Mills both have large pet food businesses and have outperformed the wider market. Pets can be finicky eaters. Investors could be equally picky about big consumer groups.

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CROSSWORD

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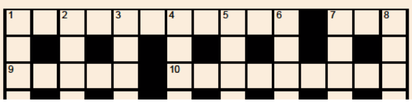
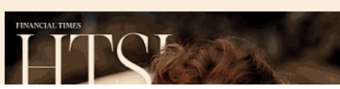
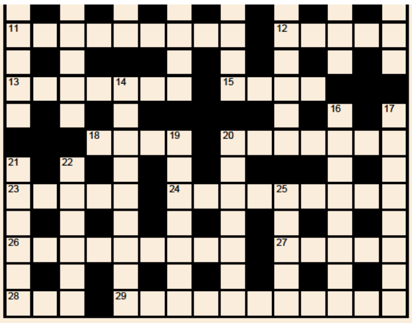


ACROSS
1 US footballer paid for an iffy doctor, according to Spooner (11)
7 Fix Canadian truck (3)
9 Child is a boy (according to Johnny Cash) (5)
10 Contagious disease? Alternatively, knocks back mineral (9)





11 Family doctor, inexperienced, new, wearer of shell suit (4,5)
12 Mysterious driver transporting northern rock star (5)
13 At home, hates being made to work hurriedly (2,5)
15 See 18
18, 15 Daughter introduced to posh boy working here at Dents (4,4)
20 Diva out of bed, taking ecstasy to improve her mood (5,2)
23 Joey sat without a perch (5)
24 Former requirement for care of new car that's arresting? (7,2)
26 Invited round to demolish saké and port? (5,4)
27 Turn away commercial, needing day off (5)
28 Cathedral city, English with lovely walls (3)
29 A worker in 18, 15, the winner of *What's My Line?* (5,6)

DOWN

1 Botch job for speedy F9? (5,3)
2 Arabs in Thessaloniki partial to a drink? (8)
3 European inland port shipping out an idiot (5)
4 Notes circulating Florida to stimulate the economy (7)
5 Former student Paul Hulme regularly trashed *Rising Sun* (7)
6 Ben Stokes almost fails to collect runs – one goes by the wayside (9)
7, 8 Rock, rap, reggae put in song in workplace of *Mike and the Mechanics?* (6,6)
14 Crammed, Devon & Cornwall got exciting after leaving hotel (7,2)
16 Poor German in this newspaper piece (8)
17 Single lady (Miss) pins Terylene trousers (8)
19 Crudely put, your electric commercial vehicle is capital (7)
20 Playing clarinet missing one key (7)
21, 22 Golf service? See my Korean guy in dirty overalls (6,6)
25 Angry rodent that is going around (5)

JOTTER PAD

Solution 17,229