

FINANCIAL TIMES

FRIDAY 7 OCTOBER 2022

INTERNATIONAL NEWSPAPER OF THE YEAR

ASIA



Quest to reuse millions of defunct data drives
BIG READ, PAGE 15

Four areas that threaten financial stability
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US looks at oil export ban over 'unnecessary' Opec+ cuts

White House says 'nothing off table'
Democrats push to punish Riyadh

FELICIA SCHWARTZ — WASHINGTON

The White House yesterday said there was "nothing off the table" as it considered responses to Opec+'s sharp cuts to world oil supply, including new releases from the US Strategic Petroleum Reserve to contain energy prices.

The Opec+ cartel led by Saudi Arabia and Russia on Wednesday agreed to lower production targets by 2mm barrels a day, or roughly 2 per cent of global oil consumption. Oil markets rose yesterday, with Brent crude at \$94 a barrel.

Brian Deese, director of the White House's National Economic Council, described the decision as "unnecessary and unwarranted" and said the US was looking at further sales from its strategic stockpile, which has already been drawn down by more than 200mm barrels in the past year.

He did not rule out an export ban or limiting exports on petrol and other refined products when reporters asked if the idea was under consideration. "What the president has directed us, and it continues to be the case, is to take nothing off of the table," Deese said.

Opec+ approved its output cut after US president Joe Biden made a controversial visit to Saudi Arabia in July in an effort to increase supplies of oil. He said after his meeting with Crown Prince Mohammed bin Salman that he expected Riyadh to "take further steps" to increase oil supplies.

Biden said yesterday he did not regret his visit. "The trip was not essentially for oil. The trip was about the Middle East and about Israel and rationalisation of positions. But it is a disappointment and says that there are problems," He added that he had not yet decided

how to respond to Opec+. "We are looking at all alternatives. We haven't made up our minds yet."

Opec+'s decision has given ammunition to lawmakers critical of the US-Saudi relationship. They have questioned the wisdom of Biden's about-face on relations with Prince Mohammed.

Three Democratic members of Congress said they would introduce legislation that would mandate the removal of US troops and missile defence systems from Saudi Arabia and the United Arab Emirates. "We see no reason why American troops and contractors should continue to provide this service to countries that are actively working against us. If Saudi Arabia and the UAE want to help Putin, they should look to him for their defence," House Democrats Tom Malinowski, Sean Casten and Susan Wold said in a statement.

Deese said White House officials were disappointed by the Opec+ move as energy supplies remained tight around the world. "If you look at the global energy picture and oil picture, the lack of supply continues to be a significant challenge," he said.

The oil industry has become increasingly worried over the prospect of curbs on refined oil product exports to bring down domestic fuel prices at the pump. US energy secretary Jennifer Granholm in August told oil refiners to build domestic inventories rather than export more fuel. Europe's energy crisis would probably be made worse by such a move, as the continent imports significant quantities of fuel from the US and is soon to halt all seaborne Russian oil imports.

Energy shock page 10
FT View page 16

United front European leaders assemble in Prague to build common ground on security



Martin Dostal/EPA-EFE/Shutterstock

French president Emmanuel Macron and European Commission president Ursula von der Leyen chat during the first meeting yesterday of the European Political Community in Prague, Czech Republic.

The summit brings together leaders from across Europe, including non-EU members, with the aim of strengthening the continent's security, stability and prosperity, a statement released

by the European Council said. It would also discuss energy security.

Proposed by Paris as a means to coordinate views from London to Ankara, the European Political Community group saw UK prime minister Liz Truss and Turkish president Recep Tayyip Erdoğan huddle with the EU's 27 leaders and those from 15 other states.

While British officials were keen to

steer clear of Brexit, Dutch prime minister Mark Rutte told reporters: "The relationship between the UK and the EU will be on the agenda."

The 44 leaders also plan to show a united front against Russia's war in Ukraine with discussions on European defence. Moscow and Belarus were the only two continental powers not invited to the forum.

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Briefing

► **UN blocks Uyghur debate**
China won a diplomatic victory as the UN Human Rights Council narrowly voted against holding a debate on a report that found abuses against the Muslim Uyghur population in Xinjiang. — PAGE 4

► **Shell's record run to end**
Lower refining and chemicals margins and weaker gas trading have led Shell to signal that its run of record profits is set to end in the third quarter. — PAGE 6

► **IMF boss delivers warning**
IMF head Kristalina Georgieva has warned falling incomes and rising prices would mean many countries next year would feel like they were in a recession. — PAGE 2

► **Munich Re climate action**
Pressure on reinsurance groups to do more to tackle climate change has led Germany's Munich Re to cut back its coverage of oil and gas projects. — PAGE 6

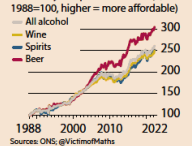
► **ECB flags fiscal fears**
Policymakers at the European Central Bank have flagged worries over fiscal packages and euro weakness threatening to push up inflation for years to come. — PAGE 2

► **Porsche overtakes VW**
A week after one of Europe's largest flotations, Porsche has taken the crown of the region's most valuable carmaker from parent group Volkswagen. — PAGE 6

Datawatch

Alcohol affordability rises

Real UK household disposable income divided by real price of alcohol (Q1 1988=100, higher = more affordable)



Alcohol sold in the UK in 2022 was 92% more affordable than it was in 1988. Alcohol tax rises between 2008 and 2012 halted this trend but tax cuts meant affordability rose steeply again, albeit more modestly in pubs and restaurants

Report page 3



Russia's call-up blunders feeds disquiet in Moscow

Blame game — PAGE 2

Table with 2 columns: Country and Currency/Code. Includes Australia (A\$7000inc GST), China (RMB30), Hong Kong (HK\$33), India (Rupee220), Indonesia (Rp45000), Japan (¥5000inc JCT), Korea (W6,500), Malaysia (RM150), Pakistan (Rupee350), Philippines (Peso140), Singapore (S\$5,800inc GST), Taiwan (NT\$140), Thailand (Bh140), Vietnam (US\$4,50).

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Bank of England says UK was on brink of financial crisis after market turmoil

TOMMY STUBBINGTON — LONDON

The Bank of England yesterday said its intervention in the UK government debt market last week stopped a £50bn fire sale of gilts that would have taken Britain to the brink of a financial crisis.

The central bank defended its action, saying had it not launched its emergency bond-buying in the wake of finance minister Kwasi Kwarteng's "mini" Budget, pension funds would have been forced to sell £50bn worth of long-term UK government debt "in a short space of time". This would far exceed the average daily trading volume of £12bn.

The BoE's defence of the scheme, in which it said it would buy up to £65bn in gilts over a 13-day period, is the clearest sign yet of how close the UK came to a market meltdown following Kwarteng's plan for £4.5bn in unfunded tax cuts.

Had the central bank not intervened, it feared there would have been a "self-reinforcing spiral" that threatened "severe disruption of core funding markets and consequent widespread financial instability", Sir Jon Cunliffe, the BoE's deputy governor for financial stability, wrote to the chair of parliament's Treasury committee.

The letter provided details on warnings received by the BoE ahead of its action. Cunliffe said managers of the liability-driven investment strategies at the centre of a crisis in Britain's pension fund industry had warned on the day Kwarteng made his fiscal statement that the huge moves in gilt yields would force them to dump government debt.

A number of LDI investors warned that their funds were likely to fall into negative net asset value, forcing them to wind up leveraged bets on interest rates

that they use to manage the swings in the value of their long-term liabilities to pensioners. That in turn would have led banks that lent to the funds to sell the gilts used to back these bets, creating a downward spiral in gilt prices.

The BoE has spent just £3.8bn in the first seven days of its programme, far below the potential maximum of £35bn. Traders said the possibility of larger central bank purchases had been successful in backstopping the market.

However, yields have begun to move higher again this week after the BoE bought no bonds at all on Tuesday and Wednesday. Thirty-year borrowing costs traded at 4.37 per cent yesterday, up from a low of 3.64 per cent after the BoE's intervention, but below the 20-year high of more than 5 per cent that forced the central bank to act.

Lex page 18

World Markets table with columns for Stock Markets, Currencies, and Government Bonds. Includes data for S&P 500, Nasdaq Composite, Dow Jones Ind, FTSE100, Euro Stoxx 50, FTSE All-Share, CAC 40, Xetra Dax, and various currency pairs.

BOVET 1822 Engineering Brilliance advertisement featuring two luxury watches and a sports car.

Dubai			
Nikkei	27311.30	27120.53	0.70
Hang Seng	18172.15	18067.97	-0.42
MSCI World \$	2500.08	2511.72	-0.46
MSCI EM \$	909.52	893.85	1.78
MSCI ACWI \$	580.85	582.14	-0.22
FT Wilshire 2500	4934.32	4946.09	-0.24
FT Wilshire 5000	36336.94	36332.53	-0.25

Ethereum	1363.82	1382.35	0.83
COMMODITIES			
	Oct 6	Prev	%chg
Oil WTI \$	88.04	87.76	0.32
Oil Brent \$	93.76	93.37	0.42
Gold \$	1700.50	1714.85	-0.84

GER 2 yr	1.78	1.87	0.11
GER 10 yr	2.08	2.03	0.05
GER 30 yr	2.03	2.02	0.01

Battista Tourbillon

Unique Automobili Pininfarina Design, Battista Hyper GT Details Throughout; Brand-New Patented Double-Sided Flying Tourbillon Movement; 10-day Power Reserve with Patented Spherical Rewinding System; Double-Sided Box Sapphire Crystal, Asymmetrical Dials, Limited to 30 Pieces in Titanium.

Prices are latest for edition
Data provided by Bloomberg

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INTERNATIONAL

Recession warning

IMF flags downgrade of global forecasts

Third of world's economy to suffer at least two quarters of contraction

CHRIS GILES — TOKYO

The global economy will feel like it is in recession next year, the head of the IMF warned yesterday, as the fund prepared to downgrade economic forecasts again.

Speaking ahead of the annual meetings of the fund and the World Bank, Kristalina Georgieva said a third of the world's economy would suffer at least two quarters of economic contraction in 2023. Georgieva added that the combination of "shrinking real incomes and rising prices" would mean many other countries would feel like they were in

recession, even if they avoided outright declines in output. The remarks signal that the IMF is set to downgrade its economic forecasts again next week, for the fourth consecutive quarter.

Blaming "multiple shocks", including Russia's invasion of Ukraine, high energy and food prices and persistent inflationary pressures, she said that growth in all of the world's largest economies was slowing, leaving "severe strains" in some places.

"The situation was "more likely to get worse than to get better" in the short term, she said, partly because there are emerging financial stability risks in China's property market, in sovereign debt and in illiquid assets. The near collapse of some UK pension funds last week following Chancellor Kwasi

Kwarteng's announcement of £45bn of unfunded tax cuts has sparked concerns that low growth and higher borrowing costs will trigger market turmoil.

However, the IMF wants central banks to continue to tighten monetary policy at pace to deal with inflationary pressures and to ensure rising prices do not become ingrained in company attitudes to their charges and wages.

"Not tightening enough would cause inflation to become de-anchored and entrenched, which would require future interest rates to be much higher and more sustained, causing massive harm on growth and massive harm on people," said Georgieva.

US treasury secretary Janet Yellen yesterday urged central banks, whose "prime responsibility" is to restore price stability, to "recognise that macroeconomic tightening in advanced countries can have international spillovers".

Georgieva acknowledged it would be very difficult for monetary policymakers to judge the impact of their policies when they were moving in sync with each other so quickly. Too many big rate rises could lead to a "prolonged recession", but the risk of doing too little was at present greater, she said.

Without naming the UK or Germany,

the managing director took a swipe at their recent measures to tackle high energy prices that insulated households and companies from much of the rise in prices. Georgieva's speech showed the fund was in no mood to offer more nuanced advice ahead of the visits of finance ministers and central bankers to Washington next week.

High food prices were causing pain for households in emerging economies and unsustainable debt crisis in many countries, she added. She offered countries with urgent need for food this winter a new "food shock" borrowing line, where countries could claim up to half of the money they have pledged to the IMF.

Additional reporting by Colby Smith in Washington
Gillian Tett see Opinion

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Without naming the UK or Germany,

Rising prices

ECB fears inflation for years because of fiscal boosts and weak euro

VALENTINA ROMEO — LONDON

The European Central Bank's rate-setters have expressed concerns over the potential for "self-reinforcing" inflation as governments' fiscal packages and the weakness of the euro threatening to push up prices for years to come.

Monetary policymakers, who are battling record high inflation of 10 per cent, warned that the nature of the price-setting process was changing, with price growth becoming "self-reinforcing, to the point that even a projected weakening of growth was not sufficient to bring inflation back to target".

The comments came in the minutes from the ECB's September monetary policy meeting, when the benchmark deposit rate was increased by 75 basis points, a record margin for the central bank, to 0.75 per cent.

The statements, which were published yesterday, will reinforce expectations of large interest rate increases in the months ahead, despite concerns the region's economy is edging towards a recession.

The eurozone's growth prospects have been hit hard by Russia's invasion of Ukraine, with the region's energy crisis also causing the surge in inflation.

Rate-setters highlighted the priority placed on bringing price pressures closer to their 2 per cent target, stating that "growth concerns should... not prevent a needed forceful increase in interest rates".

They argued that acting "forcefully" now could avoid the need to increase interest rates more sharply later in the economic cycle when the economy was slowing down.

"[The account] gives green light for further large hikes," said Ken Wattratt, head of European analysis and insights at S&P Global Market Intelligence.

Markets are pricing in a 66 per cent probability of a 75 basis points increase at the next meeting on October 27. There is a 34 per cent probability of a full percentage point rise.

The minutes warned that a number of indicators pointed to an increased risk of inflation staying high over the long term. "The longer high inflation persisted, the higher the risk that inflation expectations could become unanchored and the costlier it would be to bring them back to target."

Despite the large rate increases over the summer, the ECB members said the key policy rates remained "significantly below the neutral rate", at which they neither stimulate nor limit activity.

At the meeting, chief European economist at Capital Economics, said he now saw the deposit rate rising to 2.5 per cent by the end of this year and a peak of 3 per cent early next year.

The weakness of the euro, which has fallen to multi-decade lows against the dollar in recent weeks, was also a concern for the ECB, the minutes showed.

Governments' response to the energy crisis constituted "an upside risk to inflation", according to the ECB. Members agreed that measures to tackle energy prices should not be too broad and instead should be "temporary and targeted at the most vulnerable households and firms in order to limit the risk of fuelling inflationary pressures".

Ukraine war. Invasion troops

Botched Russian call-up triggers blame game

Overzealous mobilisation has forced the president to vow to send ineligible draftees home

MAX SEDDON — RIGA

In Dagestan, a poor Russian region in the north Caucasus that has seen some of the biggest protests against Vladimir Putin's mobilisation drive, governor Sergei Melikhov knew who to blame: overzealous local draft officers.

"Are you fucking morons?" Melikhov asked in a televised government meeting, reacting to a video showing a police van driving around towns blasting a message ordering all men to report to the draft office.

In Khabarovsk, in Russia's far east, the governor this week sacked the local draft officer after half of those who had been called up were sent back home when it emerged they had been selected by mistake.



Call to arms: Russian men undergo military training in the Rostov-on-Don region this month
Mainly supplied by RT, EFE, Shutterstock

amid reports of the grim conditions awaiting the draftees, some of whom have been told to pay for their own equipment, according to reports on independent Russian media.

Sergei Mironov, the leader of a Kremlin-controlled opposition party, said at a hearing on Monday in the Duma: "It's a disgrace when everyone has to pass the hat around for mobilised people. Why can't the greatest country in the world supply them with what they need? I'm not even talking about flak jackets and helmets, but we should be able to get them decent winter duffel coats."

The rising public disdain — for now largely aimed at low and mid-ranking officials rather than the president — is the most significant since Russia in March banned criticism of the war by making it illegal to "discredit the armed forces".

Now, as more bad news for Russia pours in from Ukraine and the home front, "the spiders in the closed jar have started working to find the culprit",

Mykhailo Podolyak, an adviser to Ukrainian president Volodymyr Zelenskyy, wrote on Twitter: "Someone won't make it out alive."

With the annexation, formalised at a ceremony in the Kremlin last week, Putin sought to rekindle the euphoria that met his 2014 seizure of the Crimean peninsula from Ukraine. At a concert in Red Square last Friday, entertainers urged Russians to back a "holy war" in Ukraine before Putin declared the four regions had been reunited "with their historical motherland".

Ukraine's victories on the battlefield, however, have sapped the celebratory atmosphere. The situation at the front is reportedly so dire that Alexander Zhilin, a retired army colonel, wrote on a popular Telegram channel lamenting that "the masters of strategic construction" had lured Russia into a trap, tricking it into annexing Crimea and starting the war, all to a disastrous end.

"There's no way out of this rat-trap. The Kremlin seems to have realised that

"The spiders in the closed jar have started working to find the culprit"

already. That's why they insist on inviting Kyiv to negotiate," Zhilin wrote.

The mobilisation effort, however, has only highlighted the Russian state's shortcomings and forced the Kremlin to calm the broader public. As many as 69 per cent of Russians are "worried", nearly double the total two weeks earlier, according to a survey by the Kremlin-linked pollster FOM late last month.

Margarita Simonyan, editor of Kremlin-funded news network RT, has regularly posted stories of Russians she says have been called up despite not meeting the draft criteria. That created the impression the state was responding to popular opinion: Simonyan hailed Putin's admission of mistakes as the creation of "real civil society" in Russia.

But Ukraine's advances have put those small victories in jeopardy. "All I'm asking, comrade generals, is for you not to shame our anthem, our faith, our desperation to keep these people and territories with us, and return to normal as an even bigger Russia," she said.

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Corruption probe

Ukraine serves former central bank chief 'notice of suspicion'

MEHUL SRIVASTAVA — KYIV

Ukraine's recently departed central bank governor was alleged to have fled the country this week as anti-corruption investigators served "a notice of suspicion" at the National Bank of Ukraine's headquarters for a senior official matching his career description.

A person familiar with the matter claimed shechenko, 49, had travelled to western Europe around the time of his public resignation.

Shechenko said in a Facebook post that he had resigned on health grounds.

"Dear friends, due to health-related issues that cannot be ignored any longer, I made a difficult decision. I am resigning from my position as the National Bank of Ukraine governor," he

The allegations come at a crucial time for Ukraine's central bank. It has printed money to help finance the war effort against the Russian invasion, stoking inflation as the country awaits a steady flow of western financial aid. The bank kept rates at 25 per cent at its most recent meeting to rein in consumer price inflation, which accelerated to 23.8 per cent in August.

For western donors, shechenko's

terday from the Kyiv-based offices of the Specialized Anti-Corruption Prosecutor's Office, and the Anti-Corruption Bureau.

The scheme described by the investigators involved more than 1,000 transfers to 52 "pseudo intermediaries" that were supposed to have brought new business to the bank.

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...former governor said in the Facebook post. "The war was yet another difficult test for our team and for me personally. I think we have passed it with dignity."
They added that the individual they sought had been the chair of the board at state-owned Ukrasbank from 2014 to March 2020. The notice related to a \$5.6m scam at the state-owned bank.
That matches Shevchenko's work at Ukrasbank, where investigators allege the ex-chair, alongside two deputies, siphoned off 206m hryvnia (\$5.6m) by authorising payments to intermediaries for bringing new clients to the bank. The statement said the ex-chair's whereabouts were unknown.

...investigations, Shevchenko's senior position in the government, and the fact that he managed to escape questioning in a criminal investigation, will raise serious questions about Ukraine's anti-corruption credentials, especially at a time when the country is entirely dependent on donors.
Investigators said they built their case by "questioning witnesses, searches, temporary access, information received from the bank's clients, computers and checking mobile devices that included detailed emails between participants of the scheme and documents".
The accused – the ex-chair and two of his deputies – were informed that they were suspected of embezzlement, abusing their official position, and of "official forgery", according to a statement yes-



Kyrylo Shevchenko is alleged to have left Ukraine around the time he quit

The accused are suspected of embezzlement, abusing their official position, and of 'official forgery'

In fact, prosecutors said, the new business was coming to the bank "on their own initiative".
Shevchenko became governor of the central bank in July 2020. It is unclear how the former governor left Ukraine, since men between 18 and 60 are barred from leaving the country without official government permission.
The Financial Times could not locate a lawyer for Shevchenko. The central bank spokesperson did not reply to a message seeking comment.

INTERNATIONAL

Germany's big energy package raises worries of higher gas costs in Europe

Berlin says its €200bn 'protective shield' is justified but EU leaders warn of adverse effects on bloc

VALENTINA ROMEI

European leaders have been quick to condemn Germany's bumper energy package, a €200bn "protective shield" announced last week to cushion its businesses and consumers from the impact of the continent's energy crisis.

They claim that Berlin's decision to go it alone undermines the EU's efforts to co-ordinate its response to the crisis and puts households and companies in the rest of the bloc at risk of paying higher energy prices.

"Faced with the common threats of our times, we cannot divide ourselves according to the space in our national budgets," said Mario Draghi, Italy's outgoing prime minister.

France's finance minister Bruno Le Maire and his Irish counterpart, euro-group chair Paschal Donohoe, echoed Draghi's calls for a more co-ordinated response. Ursula von der Leyen, EU commission president, called for a bloc-wide ceiling on the price of gas – a measure rejected by Germany.

Hungary's prime minister Viktor Orbán, who has spent much of this year locked in disputes with Brussels, decried the package as "cannibalism". Poland's prime minister Mateusz Morawiecki yesterday said "it cannot be the case that the EU's energy policy is dictated by Germany".

Is flak over Berlin's plan justified? Germany's finance minister Christian Lindner might have insisted the Comprehensive Protection Shield was "proportionate" to the size and vulnerability of the German economy but, by any reasonable standards, the package is large.

The €200bn plan, much of which will be financed with debt, corresponds to 5.6 per cent of the country's economic output in 2021.

Although Lindner has said the package will cover two years of spending, it comes on top of the €100bn of support already allocated by Berlin, meaning that German companies and households have received about 8.4 per cent of GDP in energy subsidies.

Together, the €300bn figure is more than double the support provided by Italy and France combined, the region's largest economies after Germany. In GDP terms, the package is at least three times as big as the support offered by most other eurozone countries.

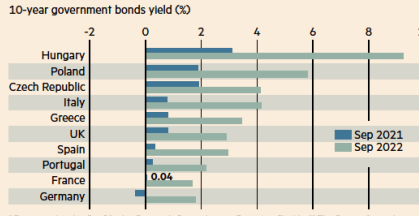
Antonio Fatas, professor of economics at INSEAD, said the size of the package "raised valid questions about whether this constitutes state aid in support of its business".

The figures that were announced are a cap, however, and the German government could end up spending less should energy costs fall. This is indeed what happened in the case of the country's Covid-era economic stabilisation fund, which was also criticised by member states for its largesse.

What is Germany's justification? Germany is the eurozone's manufacturing engine. Its factory output in 2021 was larger than that of Italy, France and Ireland combined. Its energy-intensive companies have, therefore, been hit particularly hard by the impact on

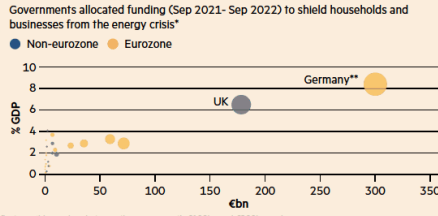


Most European countries have seen their borrowing costs surge



* Figures updated to Sep 21, plus Germany's Comprehensive Protection Shield ** The German figure does not reflect possible overlaps between the government's €100bn and €200bn packages Sources: OECD, Refinitiv, Bloomberg

Germany's energy package is relatively large in Europe



Power push: wind turbines and a power plant operated by RWE near Niedersachsen in west Germany In: Fotobandier/AFPT/Getty Images

energy costs of Russia's invasion of Ukraine. Some defenders of Germany's policy say this justifies its fiscal largesse. Others argue that, while a pan-Euro solution to the energy crisis would have been the best solution, the package would benefit other countries in the region – especially those with close trading relationships. "It is still preferable to lack of fiscal support at all and a deep economic contradiction in Germany," said Silvia Ardagna, chief European economist at Barclays Bank.

"It is in no EU country's interest, given close trade ties within the single market, to have Germany's economy weaken excessively," said Sandra Horsfield, economist at Investec, an asset manager. "A massive terms of trade shock [such as the European energy crisis] leaves only undesirable options on the table. It is a matter of choosing the least bad among them."

Will it push up prices elsewhere? That is possible. Nick Andrews, Europe analyst at Gavekal Research, argued that by lowering bills, the German package was likely to result in stronger demand, pushing up gas prices on Europe's wholesale markets. "While German companies will bene-

fit from lower energy prices, their counterparts across much of Europe will pay more, undermining their competitiveness," said Andrews. Berlin claims that the package will maintain the incentives to save energy as it will subsidise only a basic allowance of gas and electricity. It would also have to comply with state aid rules on energy subsidies, which were revised in July.

The package could also complicate life for the region's policymakers. Energy is the main reason why eurozone inflation reached a fresh record high of 10 per cent in the year to September, more than five times the European Central Bank's 2 per cent target.

France's 50 cent a litre rebate on the price of fuel at the pump that came into effect in September, an increase on the previous rebate of 18 cents that was introduced in April, combined with the maintenance of a tariff shield on gas and electricity prices, pushed down national energy inflation to below 20 per cent in September – far lower than the eurozone average.

Given the size of Berlin's package, the divergence in inflation between Germany and the rest of the bloc could be even greater. A one-size-fits-all monetary policy would, Andrews said,

'While German companies will benefit from lower energy prices, their counterparts across much of Europe will pay more'

become "more challenging to devise and a great deal less effective in execution, adding to the fragmentary forces at work in the eurozone".

Does it risk a market panic? Since Germany launched its programme, its borrowing costs have fallen. Other countries are not in such an enviable position. The market turmoil in the UK, triggered by unfunded tax cuts, is a reminder of the perils many countries face if they try to support households and businesses with greater generosity.

With German chancellor Olaf Scholz yesterday defending the package, claiming other states were also passing measures to offer relief to citizens struggling with energy bills, some countries, particularly in eastern and southern Europe, may end up having to risk a borrowing crisis and spend extra funds to subsidise households and businesses.

Claus Vistesen, chief eurozone economist at Pantheon Macroeconomics, said national initiatives were justified because "the EU can't act quickly enough". But INSEAD's Fatas said, while co-ordination was hard, given the severity of what Europe potentially faced this winter, there was "no other way to move forward" than a common solution.

Solidarity call

Belgian PM fears social unrest over soaring power prices

ALICE HANCOCK AND VALENTINA POP BRUSSELS

Europe risks a huge reduction in industrial activity and social unrest if it does not act quickly to bring down energy prices as winter approaches, Belgium's prime minister has said.

Without an intervention on gas markets, "we are risking a massive deindustrialisation of the European continent and the long-term consequences of that might actually be very deep", Alexander De Croo told the Financial Times.

Belgium is one of the EU countries that have called for a ceiling on the price of wholesale gas since the spring. The proposal had been resisted by the European Commission, fearing that gas exporters could send much-needed supplies to higher-paying regions, but on Wednesday it suggested it could back the idea.

De Croo said a layered approach to gas prices should be taken. This included a hand cap on the price of Russian gas, bilateral negotiations with friendly suppliers such as Norway and Algeria and a dynamic limit on the price of liquefied natural gas that could be pegged far enough above prices in the US or Asia to ensure continued flows to Europe.

He also called for a "solidarity mechanism" to ensure supplies to countries that still receive Russian gas, such as Austria and Greece, in the event that the Kremlin retaliates by cutting remaining gas exports to Europe.

Commission president Ursula von der Leyen signalled in a letter to European leaders on Wednesday that support from a wider base of EU member states meant that Brussels was willing to move forward with a gas price cap.

But she said it would need to be accompanied by bigger mandatory cuts to gas consumption than the 15 per cent voluntary reduction agreed by EU ministers in July.

"More demanding gas savings obligations will need to be prepared."

In 2021, Europe received 155bn cubic metres of gas from Russia, about 40 per cent of its total imports. That has fallen to 9 per cent in recent weeks as Moscow has steadily cut off supplies.

To counter the impact, the EU has signed off a series of plans to reduce gas demand and support industries and consumers under pressure from high electricity prices, which are pegged to the cost of gas.

De Croo warned that governments had to be "prudent" not only to counter soaring inflation, which is largely being fuelled by energy price rises, but also to contain the risk of social unrest. "Our populations are getting into which are completely insane. At some point, it will snap. I understand that people are angry... people don't have the means to pay it."

One of the options von der Leyen suggested to lower prices was to roll out a model used in Spain and Portugal, which caps the price of gas used for electricity consumption, across the EU. But several member states have pointed out that this will only increase demand at a time when Europe needs to preserve supplies.

Supply pledge. Market stability

EU and Norway agree 'joint tools' to tackle crisis

Oslø will take steps to help cut

leaders in Prague yesterday aimed at showing a united front against Russia's

Putin in his war in Ukraine. Russia and its client state, Belarus, are the only two

In Northern Ireland that could solve the dispute. London's non-compliance with

Pay dispute

French drivers start panic buying as strikes hit stocks

'excessively high prices in the short and longer term'

HENRY FOY AND ANDY BOUNDS PRAGUE

Norway and the EU have agreed to "jointly develop tools" aimed at reducing Europe's high gas prices, as Brussels rushes to find both effective and politically acceptable measures to tackle a looming energy crisis this winter.

Oslo said it would work with Brussels to "stabilise energy markets and limit the impact of market manipulation and of price volatility", in a move that could spur efforts to narrow EU divisions on how to tackle soaring prices caused by Russia's full-scale invasion of Ukraine.

Norway, which replaced Russia as the EU's biggest supplier of gas after the invasion, said it would continue to boost production and take steps "to reduce excessively high prices in a meaningful way in the short and longer term", in a joint statement released by Norwegian prime minister Jonas Gahr Støre and European Commission president Ursula von der Leyen.

Oslo's pledge came as a meeting of 44

war was overshadowed by rifts inside the EU on whether to impose a price cap on wholesale gas.

Støre used his speech to the summit plenary to say Oslo had "flexibility" to increase exports and that it was "ready to explore" EU proposals, according to two people briefed on his remarks.

Kaja Kallas, prime minister of Estonia, said EU states would today discuss the wider implications of Norway's commitment, adding that Tallinn was keen to bring down prices but also afraid of driving away suppliers.

"[Liquefied natural gas] can go to anywhere in the world. So if there is a price cap, then our security of supply could be in danger," she told the Financial Times.

Proposed by Paris as a means to co-ordinate views from Lisbon to Ankara, the European Political Community grouping saw UK prime minister Liz Truss and Turkish president Recep Tayyip Erdoğan huddle with the EU's 27 leaders and those from 15 other states.

Ahead of the meeting, Truss said it was a chance to "find common cause with our European friends and allies" as they try to defeat President Vladimir

continental powers that were not invited to the forum, which will discuss other issues such as European defence.

The participation of Truss was seen by many EU officials as a sign that London could be open to compromise over trading arrangements that have dogged the post-Brexit relationship.



Kaja Kallas: Estonia's premier says EU states will today discuss the wider implications of Oslo's commitment

Charles Michel, president of the European Council, hailed the event as "extremely important". The meeting would "try to renew the co-ordination and co-operation in order to have more stability, more security, more peace", he said.

While British officials were keen to steer clear of Brexit, Dutch prime minister Mark Rutte told reporters yesterday: "The relationship between the UK and the EU will be on the agenda."

The UK and EU have agreed to restart technical talks over trade arrangements

the deal it signed has triggered legal action by Brussels.

But the UK's commitment to the EPC could wane if there are not concrete achievements, British officials have said. One ally of Truss said: "The PM remains sceptical for a number of reasons: it can't just be a talking shop, it needs to not cut across Nato and the G7, and must have strong involvement from non-EU countries. It has to show it can deliver."

"But, given the situation in Ukraine and the energy crisis, it's right we attend. We played a huge role in setting the agenda on energy and migration."

Truss's key demand is that the EU and Norway keep supplying power to the UK. Truss has also said she wanted joint action with France and the Netherlands to stop criminal gangs helping migrants cross the English Channel. She was scheduled to meet French president Emmanuel Macron and Rutte.

EU leaders were staying on for an informal European Council meeting today, which is likely to focus on the energy crisis.

Additional reporting by George Parker in London and Valentina Pop in Prague

SARAH WHITE — PARIS

Strikes by energy sector workers are beginning to wreak havoc on French fuel and power supplies, with petrol stations that cut prices at the pump in recent weeks hit hard as they struggle with soaring demand and low stocks.

The fuel shortages have been the most acute in northern France, where one major TotalEnergies storage facility is at a standstill as workers demand higher wages to cope with inflation.

Local authorities said yesterday they had obtained access to strategic fuel stocks to ease the situation as queues formed outside petrol stations and some ran dry. They have also banned the sale of petrol and diesel in jerry cans.

But strains are being felt elsewhere in the country and have exposed the limits of government efforts to contain the fallout from Europe's energy crisis.

Workers in several industries, including at oil refineries and at nuclear power operator EDF, are staging walkouts to push for higher wages. The government has sought to shield consumers from rising living costs by spending €7.5bn on fuel subsidies this year and leaning on

Total to make additional discounts — but that has now added to the scramble at some fuel stations.

Drivers are rushing to refill at Total forecourts, causing gridlock on the roads of Paris and north-east France close to the border with Belgium, where people have been crossing to refuel at better rates. The prefect's office in the Hauts-de-France region asked people to refrain from panic buying to help essential services fill up.

Total said demand at its forecourts had risen 30 per cent since last month. It said it did not lack fuel stocks, even though some 60 per cent of France's refining capacity has been affected by stoppages. Two Total refineries have been disrupted by industrial action.

Total workers are demanding a 10 per cent pay rise. Inflation in France peaked at a record level in July, at an EU-harmonised rate of 6.8 per cent, before falling back in August and September.

Workers at state-controlled EDF also walked out yesterday over pay. That hit about 4 per cent of its total nuclear production and four of its reactors, just as the group is under pressure to increase its faltering output.

Friday 7 October 2022



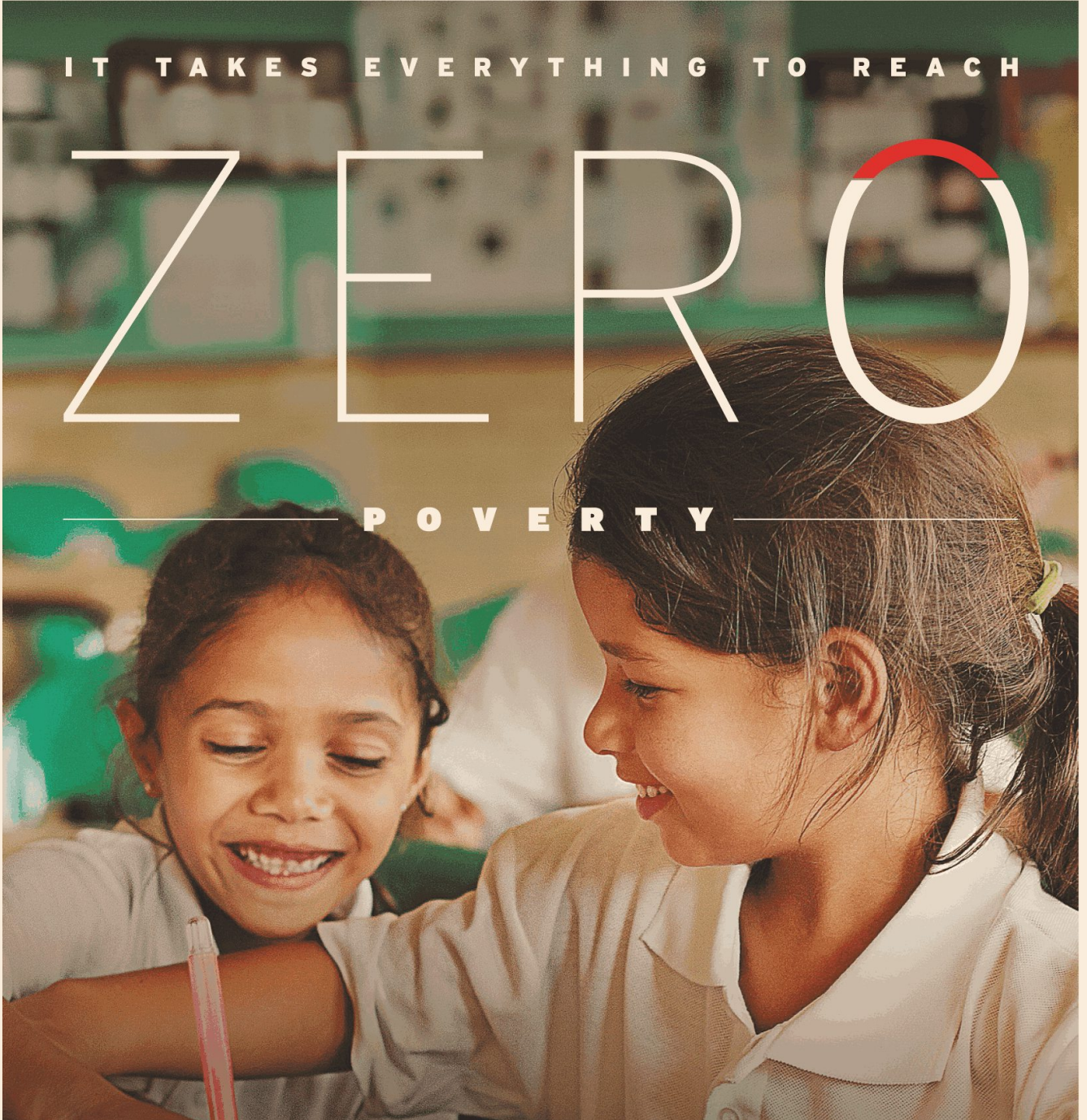
FINANCIAL TIMES

5

IT TAKES EVERYTHING TO REACH

ZERO


POVERTY



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Tax tactic Stocks and bonds rout boosts popularity of 'loss-harvesting' strategy as banks help the rich lighten their bills PAGE 8

Companies & Markets

Fall in refining margins to end Shell's record run on profits

- Chemicals and gas trades also suffer
- Recession fears weigh on oil price

TOM WILSON — LONDON

Shell has signalled that its run of record profits is set to end after lower refining and chemicals margins and weaker gas trading weighed on earnings in the third quarter.

Europe's biggest oil and gas company reported consecutive quarterly profit records in the first half of the year as the disruption in energy markets from Russia's invasion of Ukraine in February drove up prices for fossil fuels.

But oil prices have dropped from more than \$120 a barrel in June to about \$90 a barrel as recession fears in Europe hit economic activity.

In the three months to the end of September, Shell said margins in its refining

'We see the statement as disappointing given the weaker integrated gas trading result'

business were expected to be \$15 a barrel, down from \$28 a barrel in the previous quarter. This would reduce that division's third-quarter adjusted earnings before interest, tax, depreciation and amortisation by \$1bn to \$1.4bn compared with the previous three-month period.

At the same time, margins at the FTSE 100 group's chemicals unit have collapsed from \$86 a tonne in the last quarter to an expected minus \$27 a tonne, after a fall in global demand for plastics.

nificantly lower" than in the second quarter because of lower seasonal demand and the impact of a "volatile and dislocated" market, the company added. Shell is the world's biggest trader of liquefied natural gas.

Shares dropped nearly 4 per cent in early London trading yesterday, chipping into gains of about 41 per cent for the year, but ended 2.8 per cent down.

"Overall, we see the statement as disappointing given the weaker integrated gas trading result, coupled with another working capital outflow," said Biraj Borikhataria, head of oil and gas equity research at RBC Capital Markets.

In July, Shell reported quarterly earnings of \$11.5bn, breaking the record \$9.1bn recorded in the first three months of the year and more than double the \$5.5bn achieved in the same period a year earlier. It used the profits to launch a \$6bn share buyback scheme, on top of the \$8.5bn of buybacks it completed in the first half of the year.

The bumper earnings have led governments in several countries, including the UK, to impose additional taxes on energy companies this year, with some calling for another round of additional levies as long as energy prices remain elevated.

Outgoing Shell chief executive Ben van Beurden told an energy conference in London this week that governments were right to increase taxes to help protect the poorest parts of society from soaring energy costs. "One way or another there needs to be government intervention," he said.

Up a gear Porsche overtakes Volkswagen to become Europe's most valuable carmaker



Ahead of the curve: Porsche sells 300,000 cars a year, compared with the 10mn sold by VW — Kristian Dowling/Boomborg

PATRICIA NILSSON AND PETER CAMPBELL — LONDON

Porsche has become Europe's most valuable carmaker, taking the crown from parent company Volkswagen just a week after going public in one of the region's largest-ever flotations.

Shares in the sports car group climbed 3.5 per cent to €91 yesterday, giving Porsche a market capitalisation of €82.9bn and eclipsing Volkswagen, which was valued at €78.3bn.

VW braved a grim economic backdrop and the downturn in global stock markets to sell 12.5 per cent of Porsche, its most profitable brand, as the group bids to fund a major work into

valuation to Porsche, a luxury brand that produces far fewer cars than its parent.

The shift in valuations between the two groups echoes what happened with Italian sports car maker Ferrari, whose valuation eclipsed that of its parent Fiat following its 2015 IPO.

After being sold for €82.50 each,

By passing parent group VW's market cap, Porsche provides vindication for its initial public offering

300,000 cars a year versus the 10mn that VW does, had dipped below their IPO price earlier this week.

VW said measures to support the stock in the early days of trading were necessary because "September inflation data, renewed concern about energy supplies in Europe... and a worsening of the situation in Ukraine", had made the market backdrop tougher.

VW plans to return some of the €9.4bn it raised through the Porsche IPO to its shareholders via a special dividend, as well as ploughing money into electric vehicles.

Former VW boss Herbert Diess set a

Munich Re cuts coverage for oil and gas projects

KENZA BRYAN — LONDON

Munich Re, the world's biggest reinsurer, has cut back its coverage of oil and gas projects, as activists step up pressure on the industry to do more to tackle climate change.

The German reinsurance group said yesterday that from April next year, it would no longer invest in or insure the planning, financing, construction or operation of new oil and gasfields, new oil-fired power plants or developments in "midstream" oil infrastructure, such as storage and transport. But it did not rule out offering coverage for new gas pipelines, liquefied natural gas plants and gas-fired power plants.

Its listed equities and corporate bond portfolio will also end new direct investments in companies where oil and gas is the main activity. The group's Lloyd's of London syndicate, an underwriter for areas including offshore energy, said last week it would stop underwriting a wider range of oil and gas contracts from January. It already excludes activities such as Arctic drilling.

Insurers and reinsurers Swiss Re, Hannover Re, Scor, Axa XL, Mapfre, Italy's Generali and Fidelis have all introduced restrictions on reinsuring oil and, in some cases, gas since June.

Following Munich Re's decision, 45 per cent of the global reinsurance market by premiums has restricted cover for oil, according to analysis of industry data by campaign group Insure Our Future. Munich Re's global premium share is 13 per cent.

Reinsurers provide coverage for primary insurers and have been grappling with the fallout from increasingly frequent extreme weather events such as Hurricane Ian, which caused widespread destruction across Cuba and the south-eastern US last week.

Munich Re estimates insurers covered \$120bn of the \$280bn in global losses from natural disasters in 2021, and has flagged growing demand for catastrophe insurance in Europe. It has previously committed to reducing carbon emissions associated with its oil and gas coverage by 5 per cent relative to 2019 by 2025.

line trading update, which comes ahead of the release of Shell's third-quarter earnings at the end of the month, is the first sign that oil industry profits may drop this quarter from the record levels set earlier this year. Earnings from Shell's integrated gas business were also expected to be "sig-

one on major energy moments of speculation when it announced in September that Wael Sawan, head of gas and renewables, would replace van Beurden as chief executive at the end of the year. *Additional reporting by Mark Wembridge in London*
Opec+ energy shock see Markets

group tries to run a major push into electric vehicles. While VW has lost its title, Porsche's rapid ousting of its parent company as Europe's most valuable car group provides vindication for the initial public offering. VW executives had hoped that investors would attach a higher

snare in Porsche's comeback on their debut and have outperformed Germany's benchmark Dax index since. However, the share price has been supported by the banks that advised on the IPO, which purchased the stock between September 29 and October 4. Shares in Porsche, which sells roughly

a company target of beating Tesla in electric sales by 2025, which requires the group to sell millions of battery models. Diess was replaced this summer by Porsche chief executive Oliver Blume, who will lead the sports car maker as well as its German parent.

2022 BY JAMES
Lindsay Keenan, European co-ordinator at Insure Our Future, said Munich Re's decision sent a message to the insurance industry and energy companies that they could struggle for cover if they did not "align their business with climate science and the 1.5C climate target".

Text and image advances promise to write a new chapter for AI



INSIDE BUSINESS
TECHNOLOGY
Richard Waters

erative models such as this have been all the rage in AI. The ethical issues they raise are profound, ranging from the biases they could imbibe from the data they are trained on, to the risk that they could be used to spew out misinformation. But that hasn't prevented the hunt for practical uses.

Three things have changed to turn these systems from clever party tricks into potentially useful tools. One is that the AI systems have moved beyond text. Last week, Meta unveiled the first system capable of producing a video from a text or image prompt. That breakthrough was thought to be two years or more away. Not to be outdone, Google responded with not one but two AI video systems of its own.

This year's biggest AI breakthrough, though, has come in image generation, thanks to systems such as OpenAI's Dall-E 2, Google's Imagen and the start-up Midjourney. Emad Mostaque, the London hedge fund manager behind Stable Diffusion, the latest image-generating system to take the AI world by storm, claims pictures will be the "killer app" for this new form of AI.

For the generation that grew up with TikTok and Snapchat, this new creative tool could be profound, he says. It also presents an obvious threat to anyone whose livelihood rests on creating images in other ways.

The second big change comes from the rapidly falling cost of training giant AI models. Microsoft's \$1bn backing of OpenAI three years ago highlighted the prohibitive expense of this for ever-larger models. New techniques that

make it possible to achieve high-quality results by training neural networks with fewer layers of artificial neurons are changing the picture. The computing resources used to train Stable Diffusion would have cost only \$600,000 at market prices, according to Mostaque.

The third change has been in the availability of the technology. Google and OpenAI have been wary about making their technology widely available, partly out of concern about possible misuses. By contrast, Midjourney's image system is available to all users through a freemium pricing model. Stable Diffusion has gone further, open-sourcing its software and releasing details of how it trained its system. That makes it possible for other organisations to train an image model on their own data sets.

The risks that stem from such generative systems have received much attention. They churn out fresh images or text based on the millions of examples from which they have learnt, with no understanding of the underlying material. That can lead to nonsensical results as well as deliberate misinformation.

But in a business setting, at least some of these shortcomings could be controlled. The trick will be to find ways to embed the technology in existing work processes, creating tools that can suggest new ideas or speed up creative production, with human workers filtering the output. The idea is already being used to generate computer code.

The big question now, says one investor, is: will the existing giants of industries such as marketing, media and entertainment be the first to make use of these powerful new creative tools? Or will they be disrupted by a new generation of upstarts with their roots in AI?

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Watchdog flags Inmarsat deal concern

UK regulator says Viasat takeover risks pricier and poorer in-flight WiFi

KATE BEIOLEY AND ANNA GROSS LONDON

The UK competition regulator has said California-based satellite operator Viasat's \$7.3bn takeover of Britain's Inmarsat could lead to airlines facing more expensive and worse quality on-board WiFi, in a finding that is set to substantially delay the closure of the deal.

In an update yesterday, the Competition and Markets Authority said it planned to open an in-depth investigation into the tie-up, which would create one of the biggest space-based broadband providers.

Viasat and Inmarsat compete closely

in the aviation sector and particularly in the growing area of supplying on-board WiFi for passenger use. The regulator said airlines could be forced to pay more for WiFi as a result and be offered "lower quality connectivity solutions", "ultimately affecting the cost, quality and availability of services for airline passengers".

CMA senior director Colin Rafferty said: "Ultimately, airlines could be faced with a worse deal because of this merger, which could have knock-on effects for UK consumers as in-flight connectivity becomes more widespread."

Viasat and Inmarsat have five working days to offer a solution to allay the concerns, then the CMA has five days in which to respond. Otherwise the deal will face a probe that could take several months and would push the timeframe

for closure well into next year. It is not yet clear if Viasat and Inmarsat will put forward any remedies. They counter they must build scale to compete with US challengers.

"The CMA's decision to proceed to a Phase 2 review is not unexpected, even

A potential impact was cited on 'the cost, quality and availability of services for airline passengers'

though [in-flight communication] represents less than 10 per cent of the revenues of the combined company," said Mark Dankberg, chief executive and chair of Viasat. "We intend to work closely with the CMA to show that our transaction will benefit customers by

improving efficiencies, lowering costs, and increasing [in-flight connectivity] availability."

Viasat announced the takeover in November, a tie-up that combined two of the largest geostationary satellite operators. The merger was the first in a flurry of deal discussions across the industry, as some of the older and more traditional groups look to gain scale and fortify against challengers such as Elon Musk's SpaceX and Amazon's Kuiper.

SpaceX and Kuiper have shaken up the industry, attracting attention by betting on cheaper and smaller satellites that run from low Earth orbit. Older groups are more eager than ever to gain scale and adopt a multi-orbit strategy that spans different altitudes.

In July, French operator Eutelsat announced its intention to acquire UK rival OneWeb, and Luxembourg-based

operator SES has been in talks with US group Intelsat about a potential combination, according to people familiar with the discussions.

The CMA found that although entrants such as Starlink, OneWeb and Telesat were trying to target the aviation sector, it was one of the most difficult industries for satellite groups to enter. It was also difficult for airlines to switch internet providers, the CMA said, meaning the merged group might be able to "lock in" a large part of the customer base.

"There is no lack of competition in satellite connectivity for the aviation sector," said Rajeev Suri, chief executive of Inmarsat. "Strong players are already offering in-flight connectivity, and the new low Earth orbit players... are aggressively and successfully targeting aviation."

Industrials

Debut of China battery group spun off from arms supplier proves weak

EDWARD WHITE — SEOUL CHENG LENG — HONG KONG

One of China's biggest electric vehicle battery producers has made a weak debut on Hong Kong's stock market after investors shunned a group spun off from a company that makes missiles and fighter jets for the Chinese military.

China Aviation Lithium Battery's shares fell as much as 2.2 per cent on Monday, marking the latest disappointing first day of trading for a mainland Chinese company in Hong Kong.

The initial public offering of CALB, which sold 8 per cent of the company, raised HK\$10.1bn (\$1.3bn) after pricing at the bottom of its range, with a pre-IPO valuation at Rmb70bn (\$9.8bn). More than half of the share offer, or about \$735mn, was covered by 15 cornerstone investors.

CALB is a spin-off from the Aviation Industry Corporation of China, a state-owned defence group and supplier to China's People's Liberation Army.

Despite becoming China's third-largest and the world's seventh biggest EV battery group, analysts have questioned CALB's profitability and raised concerns about allegations of intellectual property theft from rival Chinese battery maker Contemporary Amperex Tech-

"The electric battery industry is not an industry you can crack into"

Technology. Buyout battle

Investors cash in after Musk agrees Twitter deal

Activist Icahn among the big winners after predicting Tesla chief would close on takeover

ORTENCA ALIAJ, ANTOINE GARA AND SUJEET INDAP — NEW YORK ARASH MASSOUDI — LONDON

Investors have been betting heavily on the outcome of the Twitter deal since Elon Musk offered to buy the social



media company for \$44bn in April.

The result has been anything but certain since the Tesla chief executive sought to terminate the transaction in July. But some big winners have emerged after Musk told Twitter on Tuesday that he intended to close the buyout at the agreed price of \$54.20 per share, sending the stock price soaring.

In the intervening months, Wall Street's deal experts had studied the transaction's legal contract and previous tie-ups to assess whether Musk could walk away.

The overwhelming consensus was that Twitter was on solid ground. Virtually no one believed that Musk's professed concerns over excessive fake accounts or a whistleblower alleging regulatory problems could be sufficient grounds for the billionaire to renege on the agreement.

The only surprise was that Musk caved seemingly without winning any concessions.

Over the past few months, billionaire activist investor Carl Icahn built a position of more than \$500m in Twitter, said a person familiar with the situation, after its share price fell below \$40 on mounting investor uncertainty and fears of a protracted legal battle between the two parties.

Florida-based hedge fund Pentwater Capital Management built a position in Twitter of about 22m shares but hedged it using put options, said a person familiar with the matter.

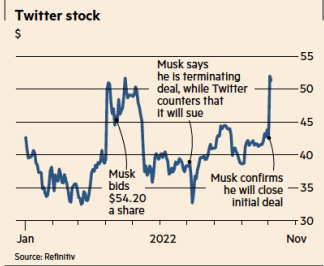
Icahn and Pentwater both stand to make hundreds of millions of dollars if Musk keeps his word and closes the takeover, said those familiar with the trades. Other large hedge funds such as DE Shaw are also in line for big windfalls.

Musk and Twitter are in negotiations about how to tie up the loose ends and formalise a closing, with the Tesla chief executive stating he wants a formal halt to the litigation in exchange for taking the steps to get Twitter shareholders their cash.

Icahn said he never doubted the deal



Twitter deal: Elon Musk said he would honour his \$44bn Twitter buyout
Robert Hennequin/SIPA/LightRocket/Getty



Source: Refinitiv

would reach this conclusion. "It is sort of simplistic. You could obviously see he wants this platform and, in my mind, he very well could afford it," he said. "To be a successful investor you have to see the forest from the trees. You look at the obvious, which is often missed."

Whenever a large merger is announced, so-called merger arbitrage funds place bets that seek to profit from the deal eventually closing.

There is usually a spread between the takeover price and the price at which shares are trading, reflecting both the risk that a deal collapses along with the cost of the trade until it completes.

In the days after Musk agreed to buy Twitter, the available return grew as investors priced in the prospect that he would not actually buy the company.

When Musk said he would back out of the takeover and Twitter's share price tumbled, the arbitrage became a losing trade.

Some large hedge funds lost money for months before adding to their bets over the summer in the belief Twitter's lawyers had negotiated an ironclad agreement that Musk would be compelled to close on.

"Anyone who uses the term arbitrage for any deal involving Elon Musk is misusing the term," said Nathan Anderson,

'You could obviously see he wants this platform and, in my mind, he very well could afford it'

founder of short selling firm Hindenburg Research. "It connotes a low-risk endeavour but Musk lives in an *Alice in Wonderland* kind of world."

Hindenburg has placed two winning bets on Twitter, initially shorting the shares in May when it became apparent to them that Musk would try to walk away from the deal after shares in both Tesla, his electric car company, and the social media platform started to fall.

Having closed out that bet, the firm disclosed Twitter as its first public long position on the premise that there was little hope that Musk could get out of the transaction.

The New York-based firm sold all of its Twitter holdings on Tuesday, reaping huge gains that Anderson was reluctant to quantify. But he did say that he was "happy to be stepping off the rollercoaster".

Others are staying in, more certain than ever that Musk will keep his word and pay the full \$54.20 a share. See Lex

you can crack into with cheap products'

nology. CALB denies the accusations.

In 2021, CALB reported an operating loss of Rmb479m. Its net profit of Rmb12m was driven by government grants totalling Rmb365m. CALB's gross profit margin of 7 per cent last year trailed margins of about 20 per cent for industry peers, according to Bernstein.

Neil Beveridge, an analyst with Bernstein in Hong Kong, said the group's history and state ties stood as a potential "obstacle" to winning over foreign customers as it pursued a \$26bn international push.

AVIC group still owns a 10 per cent stake in CALB through a listed subsidiary. The Changzhou city government remains CALB's biggest shareholder, with a 30 per cent stake. CALB's biggest customer, state-backed carmaker Guangzhou Automobile Corp, holds a stake of about 4 per cent.

CALB relies on Chinese customers for the majority of its sales, in contrast with CATL, the world's largest battery maker, which boasts foreign clients including Tesla, Peugeot and BMW.

Analysts noted the company did not spend as much on R&D as its competitors, with expenditure at 4 per cent of revenue in 2021, trailing industry leaders including CATL and South Korea's Samsung SDI, which spent 6 per cent of their sales on R&D.

But company chair Liu Jingyu insisted CALB was investing in line with its peers. "The electric battery industry is not an industry you can crack into with cheap products, it's an industry that needs strong back-up in technology knowhow," she said.

The listing comes as the Biden administration is increasing pressure on US companies to reduce their reliance on Chinese industry. Companies across the clean tech supply chain are also competing for resources as EV demand booms. Additional reporting by Maiqi Ding in Beijing and William Langley in Hong Kong

Banks

Wall Street lenders offer wealthy clients 'tax-loss harvesting' during market downturn

JOSHUA FRANKLIN — NEW YORK
MARY MCCOUGALL — LONDON

Wall Street banks have found a silver lining in this year's market rout — making money by helping wealthy clients sell some investments at a loss to lighten their tax bills.

This so-called "tax-loss harvesting" strategy has been around nearly as long as the federal tax code — which came into force in the second decade of the 20th century — but has surged in popularity this year as stocks and bond prices have plunged.

JPMorgan Chase last week launched a new "tax-smart" platform focused on tax-loss harvesting, joining financial groups such as Morgan Stanley and BlackRock in offering automated products that help investors benefit from the strategy.

"It's the only gift you have in a down

market. There's economic value in a loss," said one wealth adviser at a big US bank, who remarked that the majority of client calls in recent weeks have been about tax-loss harvesting.

Tax-loss harvesting is geared towards investors who have been steadily adding to their holdings over years. Recently acquired stocks that have fallen in value are sold at a loss, which can be deducted from any capital gains made in this or future years. The S&P 500 stock index is down 21 per cent this year.

"A priority this year is making sure that at least people don't pay taxes on their portfolios," said one private banker at Wall Street firm.

Typically, investors will sell then repurchase a portfolio with a similar risk profile. Under the Internal Revenue Service's "wash-sale" rule, investors are banned for 30 days from selling a security at a loss and then repurchasing the

same investment. "With 10 years of bull markets, this is an opportunity where clients are able to utilise tax-loss harvesting," said another private banker.

Tax-loss harvesting is one of several strategies US banks and money managers employ to minimise taxes for well-heeled investors. Some clients also hold on to profitable positions and use them as collateral for loans from big banks, thereby generating cash for expenses without reporting taxable income.

"There's an overall big picture issue about our tax code and the way it treats the wealthy," said Steve Wamhoff, director of federal tax policy at the Institute on Taxation and Economic Policy, a Washington-based think-tank. "They have this incentive to realise losses as soon as possible. But then they have this incentive to avoid realising gains."

The strategy has become more mainstream in recent years through the rise

of direct indexing providers such as Morgan Stanley-owned Parametric and BlackRock's Apero.

These enable investors to own a group of stocks that mimic the performance of an index, and customise the portfolio to manage for tax losses.

Investors in the US pay tax at their

'A priority this year is making sure that at least people don't pay taxes on their portfolios'

marginal income tax rate on gains from assets held for up to a year, with lower capital gains tax rates applying to assets held for longer.

In a note to clients in May, the asset manager State Street Global Advisors wrote that this might be "the largest

tax-loss harvesting opportunity in decades".

By the end of August, 99 per cent of mutual funds and exchange traded funds were trading at a loss for the year, according to State Street estimates. Rising interest rates from central banks around the world have also hit bond investments.

"It has created a really, really bountiful harvest of losses for investors this year," said Matthew Bartolini, managing director at State Street Global Advisors. In the 2020 tax year, there were \$19.5bn of net capital losses that could be used to offset capital gains, up 19 per cent from \$16.2bn in 2019, according to the most recently available data from the IRS.

Tax-loss harvesting is not just for US clients — in the 2020-21 UK tax year, more than £2bn of investment losses were offset against capital gains to lower

personal tax bills. David Henry, investment manager at UK wealth firm Quilter Cheviot, said tax-loss harvesting could be "very, very powerful" and was currently popular among buy-to-let landlords in the UK sitting on large gains but selling in anticipation of mortgage rate rises leading to a drop in house prices.

They also make greater savings because capital gains tax in the UK is charged at a higher rate for taxable property than all other assets, at 28 per cent and 20 per cent respectively, for higher and additional-rate taxpayers. Henry added that recent days had presented opportunities in the UK government bond market.

Investors nursing losses in exchange traded funds can sell them, crystallise the loss and buy back bonds directly; any difference between a bond price and its maturity value can be kept tax-free.

Friday 7 October 2022

★ FINANCIAL TIMES

9

COMPANIES & MARKETS

Incoming EDF boss faces barrage of problems as Paris takes full control

Rémont arrives as the energy crisis rages, nuclear outages cripple output and reactor rollout looms

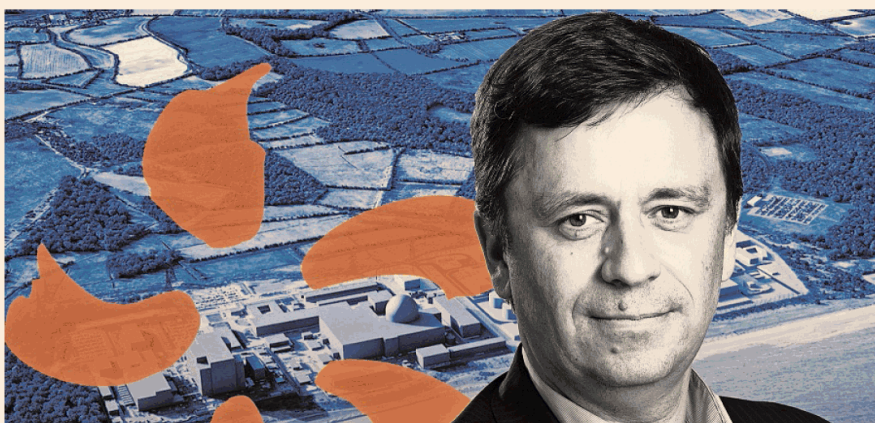
SARAH WHITE — PARIS

When EDF board members joined a video call in late August to discuss a UK nuclear project, they were instead treated to a stand-off between the utility's outgoing boss and the French state.

Rather than signing off the Sizewell C plant in Suffolk as Jean-Bernard Lévy had pushed for, the biggest French power producer's controlling shareholder demanded more time to finish new audit reports and the meeting descended into acrimony, according to people familiar with the discussions.

"Some people didn't understand what they were doing there and why there wasn't going to be a decision on anything," one of the people said. "It was messy."

The episode, one of several clashes at the company to have spilled into the open in recent months, will provide little comfort to Lévy's successor, Luc Rémont, who is due to take over as chief executive and chair just as Paris executes a plan to buy the 16 per cent of EDF it does not already own.



Oil & gas

Venture signs deal on lifting gas exports to Germany

MYLES MCCORMICK — NEW YORK

The newest US exporter of liquefied natural gas has signed a deal to increase exports to Germany, one of a flurry of sales to Europe amid a scramble to replace Russian energy supplies.

Venture Global said yesterday it would expand a 20-year contract with German utility EnBW by 500,000 tonnes of LNG a year to 2m tonnes.

US companies have executed about 47m annual tonnes of sale and purchase agreements with various countries this year, according to Webber Research and Advisory.

LNG is a central part of Germany's plans to cut Russian gas supplies, which accounted for 55 per cent of total imports before Moscow's invasion of Ukraine. It has recently chartered five specialised vessels that will allow imports by sea.

Until the invasion of Ukraine, Germany was planning to import more fuel from Russia via the Nord Stream 2 pipeline under the Baltic Sea. Those plans have been suspended.

Venture Global's deal with EnBW is the only long-term LNG contract locked



While the nationalisation clarifies the ownership structure, the company could still be subject to demands from the French state that have not always been in its immediate interest, including that it shield consumers from soaring energy prices.

Big strategic questions on everything from Sizewell to renewable energy investments still loom large.

EDF declined to comment on those plans or the August board meeting.

Rémont, an executive at conglomerate Schneider Electric, will need to tackle the group's short-term problems while preparing EDF to take on some of France's biggest nuclear construction projects in two decades, a period when it has struggled to complete any on time or on budget.

The company's electricity output is on course to reach all-time lows this year, after corrosion problems at the company's nuclear plants added to maintenance stoppages and led to the outage at one point of more than half the French fleet of 56 reactors. That has strained supplies across Europe as the region pivots from Russian gas, while turning France into a net power importer for the first time.

"It is absolutely crucial that EDF get their act together and that the nuclear capacity get back online," said Jean-Paul Harreman of consultancy EnAppSys, adding that countries such as Belgium, the Netherlands and Spain were particularly dependent on French output.

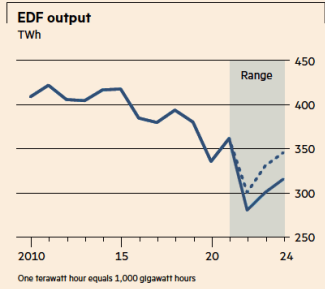
The production falls are set to wipe €29bn off EDF's core profits this year. The group has been forced to buy supply on soaring wholesale markets instead.

Government measures made EDF's plight worse, through a move to make it carry the can for price caps on electricity bills for consumers. The state has yet to rule out a repeat in 2023.

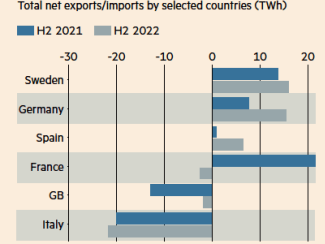
Like his predecessors, Rémont will have far from full sway over some of EDF's strategic questions.

But getting EDF on track to meet a plan to build at least six reactors in France will fall on his shoulders – no small task amid a dearth of skilled

Luc Rémont must prepare EDF for some of France's biggest nuclear construction projects in two decades FT magazine/Schneider Electric/EDF Energy



Sweden overtakes France on power exports



Sources: EDF; EnAppSys

industrial workers and nuclear engineers, in part due to a hiatus in big orders.

To repair corrosion problems at 12 French reactors that EDF pledged to get back online for the winter, the group had to resort to flying in teams of specialist welders from the US.

"There are two elements that, combined, make this a complicated job. One is that the nuclear sector is inherently complex, with very long investment cycles," said Patrice Geoffron, an economics professor at Paris-Dauphine university. "The other is that the French state has not always had a consistent line on its nuclear policy."

Building reactors in France will entail training thousands more workers, among several challenges in having the plants ready by 2035 when some of EDF's older sites will be reaching the end of their lifespans.

Little known to the French public, Rémont started as an industry aide in the cabinet of several economy ministers before a stint of several years as an investment banker at Merrill Lynch. His bosses in government included Nicolas Sarkozy before he became president and Thierry Breton, now EU commissioner for internal markets.

"He has a sense of economic patriotism," said Gervais Pellissier, an executive at French telecoms group Orange who met Rémont in 2002 when he helped ailing computer company Bull negotiate a bailout. "He's someone who can listen, who is not dogmatic."

That might help Rémont at EDF, a heavily unionised company where labour representatives fiercely opposed one attempt under Lévy to restructure

'It is absolutely crucial... that the nuclear capacity get back online'

'We don't know what kind of pathway will be set out for him'

that had been seen as a precursor to a break-up and job losses.

Rémont has experience of government dealings with Brussels, another from he will have to revisit to try to fix a litany of state aid and antitrust discussions, including a long-running drive by the European Commission to make EDF open its hydroelectric business to competition.

Bigger-picture decisions, however, may revert to the highest echelons of the French state and Emmanuel Macron. EDF, created in 1946, controls not only much of France's power generation but also its transmission. It has expanded into renewable energy at home and elsewhere while trying to compete as a nuclear player internationally, pushing its technology from Finland and Britain to the Czech Republic and Poland.

French officials have so far insisted that Sizewell C will go ahead, adding that the state has commissioned extra audits simply to calculate the financial consequences of removing a Chinese state-backed company from the project.

But the government might want to revisit some of its choices, bankers and union representatives close to EDF said, particularly as the group grapples with costly investments. By the end of this year, EDF's net debt is forecast to swell to about €60bn, while its French construction programme alone could cost another €52bn.

Martine Faure, a member of the CFE-CGC union who also chairs two EDF employee shareholder funds, said: "Will Rémont have to sell assets? We still don't know what kind of pathway the French state will set out for him."

in between Germany and the US. Other German companies – including Uniper and RWE – have signed earlier-stage deals to import US LNG.

Venture Global's shipments would begin in 2026 from the exporter's planned Flaquemin and CP2 plants in Louisiana.

"We've always believed that, over time, [US LNG] was what global distribution would trend to in terms of customers around the world building up portfolios," said Mike Sabel, Venture chief executive. "That's changed obviously – dramatically – recently because of the invasion."

Venture Global began operations at its Calcasieu Pass plant in Louisiana earlier this year, bringing the number of US liquefaction facilities – where gas is chilled and loaded on to tankers for export – to seven. One fully built it will have peak capacity of about 12m tonnes a year, bringing total US capacity to about 105m tonnes.

The recent surge in interest in LNG from the US marks a significant reversal of fortune for an industry that just two years ago was facing a crisis over environmental concerns and slack demand. But it has since benefited from a tight gas market and Moscow's weaponisation of gas exports in the wake of its invasion of Ukraine, which has forced Europe to look for alternative sources.

"The fundamentals were moving in LNG's favour prior to the invasion," said Michael Webber at Webber Research and Advisory, a consultancy. "But it reinforces the strategic significance of US LNG – particularly into Europe."

Despite the strong demand, the landscape remains competitive. Telurion, a developer chaired by US LNG pioneer Charif Souki, has struggled to raise funds for its Driftwood export plant near Venture's facilities in Louisiana. The \$25bn project's future is unclear after two big buyers pulled out last month.

Sabel said Venture Global had been involved in "extremely active negotiations and discussions" over potential deals for the past six to nine months.

Technology

Kalanick-linked lobbyist battles delivery apps

DAVE LEE – SAN FRANCISCO

A US lobbying group with ties to Travis Kalanick's dark kitchen start-up has set itself up to battle food delivery apps, including the entrepreneur's former company Uber, over fees and customer data.

The Digital Restaurant Association's stated goals – to challenge fees and gain access to customer data fiercely protected by food delivery apps – pits it against Uber, from which Kalanick was ousted as chief executive in 2017 following a string of scandals, as well as DoorDash and Grubhub.

The association was formed in March by executives at Tusk Holdings, a lobbying firm hired by Kalanick's City Storage Systems – parent of CloudKitchens – to help it fight regulatory battles around dark kitchens, which buy property to use as space to cook food to be sold via delivery apps.

CSS executive Guido Gabrielli, who heads the group's payment platform Otter, was listed as being on the DRA's board but was removed this week after the Financial Times' inquiries into its formation and leadership. A promotion for Otter remains on the DRA website, where it is described as a "partner".

Kalanick has become a force in the digital restaurant business through his CloudKitchens venture, a market that grew rapidly during the pandemic. At its most recent funding round, CSS was valued at \$15bn. It has more than 4,000 employees across the US, Latin America, the UK and the Middle East.

But growing demand has caused friction between digital restaurants and food delivery apps over which has access to customers' personal data.

The DRA's website said that it aimed to support city and state laws that benefited restaurants and would "fight to ensure restaurants have access" to customer information. Delivery apps have resisted such calls, citing privacy concerns.

The association says it will push for permanent caps on delivery fees charged by third-party apps. Some markets have taken this step, such as San Francisco and Philadelphia, where delivery fees cannot exceed 15 per cent of each order.

A greater amount of customer data about orders and consumer habits could be lucrative for CSS for advertising purposes. Otter, which helps restaurants manage orders from several food apps at once, requires restaurants that use its

service to share with it information about transactions.

A leader at Tusk Holdings disputed the characterisation that there were links between the DRA and Kalanick's CSS, saying the lobby group was "fully operated and funded" by Tusk Holdings.

Tusk Holdings is a lobbying firm founded by Bradley Tusk, an early Uber investor and former adviser who spearheaded efforts by the ride-hailing app founded by Kalanick to bat away regulation in New York.

More recently, the lobby group has worked for CSS. In Chicago, a Tusk Holdings managing director helped organise a protest opposing local legislation that put tighter restrictions on suitable locations for dark kitchens.

It comes as the growth of dark kitchens has caused controversy in certain cities, raising the prospect of regulatory battles that could affect CSS's ambitions.

Though in its early stages, the DRA would be "looking at all major cities" for its lobbying efforts, the person at Tusk Holdings said, aiming to position itself as "the national organisation focused on the future of restaurants". The website lists six restaurant companies as members, including Hooters and IHOP.

Technology

Ex-Uber security chief convicted in data case

DAVE LEE – SAN FRANCISCO

Uber's former head of security has been convicted of covering up a 2016 data breach at the rideshare group, hiding details from US regulators, and paying off a pair of hackers in return for their discretion.

The trial, closely watched in cyber security circles, is believed to be the first criminal prosecution of a company executive over the handling of a data breach.

Joe Sullivan, who was fired in 2017 over the incident, was found guilty on Tuesday by a San Francisco jury of obstructing an investigation by the Federal Trade Commission.

At the time of the 2016 breach, the regulator had been investigating the car-booking service over a different cyber security lapse that had occurred two years earlier.

Jurors also convicted Sullivan of a second count related to having knowledge of but failing to report the 2016 breach to the appropriate government authorities.

The incident eventually became public in 2017 when Dara Khosrowshahi, who had just taken over as chief executive, disclosed details of the attack.

Prosecutors said Sullivan had taken steps to make sure data compromised in the attack would not be revealed.

According to court documents, two hackers approached Sullivan's team to notify Uber of a security flaw that exposed the personal information of almost 60m drivers and riders on the platform.

The hackers, one of whom testified during the trial, turned down the company's offer of \$10,000 – the maximum payout under Uber's "bug bounty" policy designed to encourage private disclosure of security flaws – and threatened to release the data if a larger fee were not paid.

The parties negotiated a \$100,000 payment, which required signing a non-disclosure agreement and a commitment to delete any user data that had been obtained.

The two hackers later pleaded guilty to the attack.

Lawyers for Sullivan defended his actions in court, saying he had acted to protect users and had notified his superiors – including then-CEO Travis Kalanick – of the data breach.

The result will send shockwaves through the cyber security industry, raising questions over who should

take responsibility when damaging breaches occur.

"This verdict is misplaced," said Katie Mousouris, founder and chief executive of Luta Security, which specialises in managing "bug bounty" programmes for large organisations. "The role of chief security officer cannot become chief sacrificial officer if we want those roles to be effective."

Uber did not respond to requests for comment.

"Sullivan affirmatively worked to hide the data breach from the Federal Trade Commission and took steps to prevent the hackers from being caught," said Stephanie Hinds, US attorney for the northern district of California, in a statement.

"We will not tolerate concealment of important information from the public by corporate executives more interested in protecting their reputation and that of their employers than in protecting users."

Sullivan, a former government prosecutor specialising in cyber crime, previously worked at Facebook and Cloudflare.

A date for his sentencing has not yet been set. He could face up to eight years in prison.

COMPANIES & MARKETS

Commodities. Crude supply

Energy shock as Opec+ moves ahead with aggressive output reductions

Cartel on collision course with US as bond between Riyadh and Moscow strengthens

DAVID SHEPPARD – VIENNA
DEREK BROWER – SAN FRANCISCO
TOM WILSON – LONDON
JAMES POLITI – WASHINGTON DC

Deep oil production cuts approved by Opec+ have sent shockwaves across energy markets, put the cartel on a collision course with Washington and pointed to a strengthening bond between Saudi Arabia and Russia.

The Opec cartel and allied producers



Opec+ meeting – appears to have hit a wall.

Saudi Arabia is also understood to be upset over what it believes is a lukewarm US commitment to its security, including the limited US response to the attack on its oil facility of Abqaiq in 2019, widely believed to have been carried out by Iran.

Riyadh has looked to diversify alliances, from China to Russia, with the former a far bigger customer for its crude than the US.

Washington still has leverage as Saudi Arabia's biggest supplier of military equipment.

The price of Brent crude oil reached

agreed on Wednesday concisely to reduce output by 2mn barrels a day. The move threatens further inflationary pressures in a world economy already burdened by an energy crisis.

The implications are far-reaching, from the price of oil to the relationship between the US and Saudi Arabia.

The group led by Saudi Arabia and Russia lowered its collective oil production target by 2mn barrels a day, or about 2 per cent of global consumption.

The actual cut to supply will be less—probably closer to 1mn barrels—as many members such as Nigeria are already producing below their targets.

The move is an aggressive attempt to raise oil prices.

The decision threatens further inflationary pressures in an already burdened world economy

At \$90 a barrel, crude is well below levels reached soon after Russia's invasion of Ukraine but higher than at any point between 2015 and early 2022.

The pain of higher oil prices has been compounded by the stronger dollar for many countries, which must buy oil in the US currency. Petrol prices in the UK are above levels in 2008, when oil hit a record of almost \$150 a barrel, stoking inflation and a cost of living crisis.

Suhail Al Mazrouei, energy minister of the United Arab Emirates, said Opec+ was cutting to avert a price plunge such as the one that took place in the second half of 2008, when oil collapsed to \$30 a barrel during the financial crisis.

"We need to pre-empt a crash in the oil market because of the slowdown," Mazrouei said, arguing that long-term investment in the industry would suffer without action.

Saudi Arabia's energy minister, Prince Abdulaziz bin Salman, suggested that the group did not want to repeat the mistakes of central banks, which he implied had erred by not reacting quickly enough to curb inflation.

But high energy prices are a driver of economic pessimism. The most damaging price surge was created by Russia as it curtailed gas supplies to Europe in an attempt to weaken the west's support for Ukraine.



A nodding donkey at a Tatarstan field in Russia. The pain of higher oil prices is compounded by the stronger dollar for many countries, which must buy in the US currency. *Andrey Rudakov/Bloomberg*

The cartel's Gulf producers have been irritated by Washington's repeated releases of crude from its emergency stockpile.

The US has also spearheaded efforts to impose a price cap on oil exported by Russia. If the plan works, the Gulf producers fear the cap could drive down prices for their own oil—or one day be extended to them.

The White House accused Opec+ of "aligning" with Russia and damaging the global economy.

Jake Sullivan, Joe Biden's national security adviser, and Brian Deese, the top economic adviser, pointed to possible responses, including more releases from the national Strategic Petroleum Reserve—a possibility that the White House dismissed just a day ago.

"Responsible action" to boost domestic energy production was also on the table.

The Biden administration has vowed to consult with Congress on ways to

"reduce Opec's control over energy prices". The announcement suggested reviving "NoOpec" legislation, which would crack down on oil cartels by allowing the Department of Justice to sue countries for anti-competitive behaviour.

Helima Croft at RBC Capital Markets said that on top of the "dog-whistle"

2mn Group's agreed reduction in collective b/d production target
\$94 Brent move after the move, up from \$84 last week

Nopec hint, she believed that the "more clear risk" was that the US would move to restrict exports of refined products, such as petrol, in an attempt to prevent fuel price inflation.

The blustery reaction reflected the depth of disappointment in Washington, where diplomats had lobbied hard

in recent days to stop the cartel from announcing new cuts. Biden travelled to Saudi Arabia in July to patch up relations with Riyadh ahead of US midterm elections in November.

Sullivan and Deese did not question the US strategic and defence relationship with Saudi Arabia. Yet the split between Riyadh and Washington points to a broader disintegration in the decades-old energy alliance.

Biden described Saudi Arabia as a "pariah" during his election campaign—a reaction to the murder of journalist Jamal Khashoggi. Crown Prince Mohammed bin Salman has said he "does not care" if the US president misunderstands him.

The leaders' choreographed meeting in the kingdom made clear there is little affection between them. Months of petro-diplomacy to patch up ties, with White House officials repeatedly shuttling to Riyadh—including in the run-up to this week's

\$93.96 a barrel after Opec+ announced its cut, up from \$84 a barrel last week. Jorge León, a former Opec analyst who is now at consultancy Rystad, expects oil to surpass \$100 a barrel by Christmas.

More price rises are possible as European sanctions tighten on Russian oil sales in December. Moscow has also warned that it could cut oil exports to countries participating in the US price cap plan. Opec's new cuts, due to start in November, could therefore coincide with further falls in supply.

Years of under-investment across the industry meant supply was still constrained and spare capacity "extremely low", the head of state-backed oil company Saudi Aramco warned this week.

Gulf producers have been irritated by Washington's releases of crude from its emergency stockpile

While the production cuts would put "upward pressure" on prices, Christian Malek at JPMorgan said that the Opec+ intervention to keep oil prices high was designed to encourage all producers to start investing.

"The sheer size of the cut sends an important message to the industry," he said.

Prince Abdulaziz, the older half-brother of Prince Mohammed, has set the kingdom on a more assertive course in oil policy.

People briefed on Saudi Arabia's thinking believe Prince Abdulaziz is under pressure from his half-brother, the country's de facto ruler, to ensure an oil price of about \$100 a barrel to fund reform programmes.

Saudi Arabia and its allies in the Gulf are unlikely to turn their back on Russia. The Gulf states have not spoken out against the Ukraine invasion, and bringing Russia closer to the Opec fold has been a long-term aim. Saudi Arabia and Russia are the largest oil producers after the US.

Questioned about Russia's role in the energy crisis and whether it complicated their partnership, Mazrouei said: "In Europe, they have their own story, in Russia they have their own story. We can't be siding with this country or that country."

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Crypto

Terraform Labs' Kwon denies more of his assets have been frozen by Seoul

SONG JUNG-A — SEOUL

Do Kwon, the co-founder of collapsed cryptocurrency operator Terraform Labs, has denied that South Korean prosecutors froze an additional \$39.6mn of his cryptocurrency assets as South Korean authorities begin the process to revoke his passport.

The Seoul Southern District Prosecutors' Office said yesterday that Kwon's bitcoin holdings, worth a total of \$67mn and held in exchanges OKX and KuCoin, had now been frozen.

The prosecutors have launched a manhunt for the 31-year-old crypto entrepreneur behind the \$40bn implosion of the terraUSD and luna tokens.

"I don't get the motivation behind spreading this falsehood—muscle flexing? But to what end?" Kwon wrote on Twitter on Wednesday. "I don't know whose funds they've frozen, but good for them, hope they use it for good."

His denial came after CryptoQuant, a blockchain data analytics platform, said last month that the Luna Foundation Guard—a non-profit organisation set up in Singapore to promote terraUSD's growth—had created a digital wallet on crypto exchange Binance on September 15.

CryptoQuant added that 3,313 bitcoin

worth about \$67mn had been transferred from that luna wallet to KuCoin and OKX over three days.

Last month, South Korean prosecutors froze about \$27.4mn of bitcoin held

"I don't get the motivation behind spreading this falsehood—muscle flexing? But to what end?"

in the KuCoin wallet. OKX recently accepted authorities' demands to freeze an additional \$39.6mn.

But the prosecutors' office declined to say how it determined that the assets



Whereabouts unknown: Interpol has issued a red notice for Do Kwon

belonged to Kwon, who denied the assets were his.

Seoul's foreign ministry said on Wednesday that Kwon's passport would be revoked if he did not return it within two weeks, putting pressure on the fugitive crypto entrepreneur to return to South Korea and face charges of financial fraud and breach of the country's capital market laws.

Interpol has issued a red notice for Kwon after he allegedly refused to cooperate with a South Korean investigation into the meltdown of his algorithmic coins. Kwon has yet to be located but has denied that he is on the run. He could not be reached for comment.

South Korean prosecutors said Kwon left for Singapore at the end of April. Police in the city-state said last month that he was no longer there.

South Korea was one of the most enthusiastic adopters of cryptocurrencies but the collapse of Terraform Labs has led to greater scrutiny of the sector.

Crypto experts said investment in digital assets had slowed. "Venture capital has slashed its investment in the sector as the macroeconomic environment deteriorates amid high inflation and as bitcoin prices continue to fall," said Donghwan Kim of Bitz Labs, a Seoul-based crypto advisory firm.

Commodities

Copper and zinc climb after LME curbs UMMC delivery under Russia sanctions

HARRY DEMPSEY

Copper and zinc prices jumped yesterday after the London Metal Exchange restricted delivery of the metals by Ural Mining and Metallurgical Company in response to UK sanctions on its co-founder.

The LME said it would ban UMMC's copper and zinc from its warehouses and prevent the metals from being used to fulfil futures contracts unless the owner of the metal could prove to the exchange that it would not violate UK sanctions.

The ruling came after the UK imposed sanctions on UMMC president Iskander Makhmudov at the end of last month as part of its sweeping penalties on Russia since it invaded Ukraine.

The move is the biggest intervention yet by the LME, the largest metals marketplace, to restrict the flow of Russian metal through its market. UMMC is Russia's second-largest copper producer, supplying just under half of the country's refined copper production.

After the LME's move, copper gained as much as 2 per cent to trade at \$7,853 per tonne yesterday, its highest level in just under a month, while zinc rose as much as 2.3 per cent to \$3,148 a tonne. Prices slipped back as investors worried about slowing economic growth.

The stream of sanctions has provoked a debate among the LME's users over whether the exchange should ban products from Russia.

The LME said last week it was considering banning new Russian metals from entering the market. It would need to make formal proposals to its members.

US aluminium producer Alcoa has encouraged the exchange to ban

The UK hit the group's co-founder with sanctions last month as part of its penalties on Moscow

material from Russia but rival Russia has warned that the move would fuel volatility.

"The LME seems to be proceeding by the book, moving against companies and their metal only when they or their principals are sanctioned," said Edward Meir of Commodity Research Group.

Metals have tumbled this year on fears of an economic slowdown but tight supply caused by energy shortages and "self-sanctioning" of Russian metal has put a floor on prices.

Zinc gained further support yesterday after Glencore announced on Wednes-

day that it would temporarily shut a zinc smelter in Germany from November 1 because of high energy prices.

Policymakers in the west have been careful to avoid imposing sanctions on Russian producers of metals such as nickel, palladium and aluminium directly, in part because of the country's important role as a supplier.

Makhmudov was among the targets in the UK's package of sanctions, introduced on Russia in response to the referendums in four regions of Ukraine that Nato called "a sham".

UMMC said several months ago that Makhmudov, with an estimated net worth of £2.7bn, was no longer a controlling beneficiary and had left the board. The LME said yesterday it believed Makhmudov owned or controlled UMMC.

UMMC copper in the LME warehouse system would not be subject to restrictions since the Russian company did not retain ownership over the metal and none of its subsidiary's zinc was held in the system, the exchange said.

A ban on LME warranting does not necessarily prevent Russia from exporting material but the restrictions will make it harder for Russian metal to reach the market and could encourage more "self-sanctioning" by buyers.

COMPANIES & MARKETS

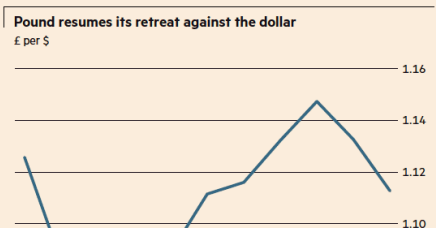
The day in the markets

What you need to know

- Wall Street losses deepen as S&P 500 and Nasdaq slip
- Sterling slides 1.8 per cent as dollar extends gains
- Government debt markets come under pressure after days of sharp swings

Wall Street stocks turned lower yesterday, extending losses as sentiment faltered after an upbeat start to the new month.

The S&P 500 was down 0.7 per cent by midday in New York after the broad index ended the previous session down 0.2 per cent, a decline that put the brakes on the strongest two-day advance for the US



The risks from derivatives have morphed

Satyajit Das

Markets Insight

In recent financial crises, derivatives have amplified and propagated losses in markets. They are now posing risks again but with a shift in

turn, this may trigger asset sales, transmitting price changes across markets. When positions have to be closed out, subsequent price moves can be exacer-

and risks by increasing gains and losses from a given event, such as small price moves or remote events. And with some structured derivatives



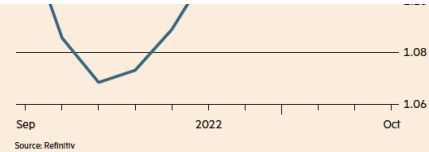
equities in more than two years. The technology-heavy Nasdaq Composite slipped 0.4 per cent.

In Europe, the Stoxx 600 lost 0.6 per cent after the regional gauge closed 1 per cent lower on Wednesday.

Equities have sold off broadly in recent months, with last week capping the longest streak of quarterly losses since the 2008 crisis. As central banks twist the screws to curb inflation, the prospect of ever higher borrowing costs has hit companies' valuations.

A report yesterday offered fresh figures on the state of US unemployment, with first-time jobless claims coming in at 219,000 for the week to October 1 — higher than the expected 203,000 and up from 190,000 a week earlier.

That weaker than forecast picture came hot on the heels of a disappointing Tuesday release on job openings in the world's largest economy, which had eased concerns over interest rate rises and, in turn, fuelled a rally in Wall Street equities. Current market pricing reflects



expectations of the main Fed interest rate peaking at 4.5 per cent in March 2023, down from estimates in late September of almost 4.7 per cent. The Fed's current target range stands at between 3 per cent and 3.25 per cent after three straight large jumps of 0.75 percentage points.

Government debt markets came under pressure yesterday after days of sharp swings. The yield on the 10-year US Treasury note added 0.05 percentage points to 3.81 per cent, while the policy-sensitive two-year yield rose 0.07 percentage points to 4.22 per cent. Moves were more pronounced in UK bonds, with the yield on the 10-year gilt adding 0.13 percentage points to 4.17 per cent as its price fell. The gilt market was last week gripped by crisis as the British government's "mini" Budget sparked fears over borrowing to fund big tax cuts.

In currencies, the dollar added 11 per cent against a basket of six peers, extending gains from the previous session. The pound slid 1.8 per cent to \$1.12, but continued to trade well above the record low of \$1.035 that it tumbled to after UK Chancellor Kwasi Kwarteng unveiled his fiscal plans on September 23. **Harriet Clarfelt**

their underlying nature.

Vulnerabilities in the financial system have emerged, ironically, through some well-intentioned initiatives to reduce risk. Since the 2008 financial crisis, there have been moves designed to reduce the level of credit between counterparties in markets.

The new regulations penalise so-called over-the-counter trades, deals conducted privately between parties, which are not secured by collateral. They also interpose "central counterparty clearing", or CCPs, on more trades, requiring them to be processed through independent houses.

The system requires traders to post initial and subsequent margins, or collateral, to cover current market-to-market and potential future losses. As much as 80 per cent of OTC trades, depending on type, now use CCPs. If bilateral collateral is included, a high portion of the \$12tn of current exposure to derivatives (based on fair market values after netting positions) is covered.

Such moves have implications. Rising use of collateral creates liquidity risk. Sharp moves in prices result in large cash calls to meet current losses and higher margins due to raised volatility.

Commodity traders have been forced to seek additional credit lines or government support to cover collateral needs. Substantial moves in interest rates and currencies have affected investors using derivatives to hedge long-duration liabilities, as seen with UK pension funds.

Such scenarios raise the prospect of counterparties being unable to find the necessary collateral and defaulting, in

ated and participants left unhedged. At a time when overall monetary conditions are tightening, increased collateral calls absorb liquidity more broadly, too.

Higher collateral requirements also are one factor in the declining use of derivatives for genuine risk management, increasing overall systemic vulnerabilities. They add to other deterrents to the use of hedges by companies such as the complex accounting rules for them. The fair market value of deriv-

— sold with esoteric names such as targeted redemption products, accumulators, auto-calleables — customers, knowingly or not, take on additional risk often without an identified worst case. These products have repeatedly caused problems in the past resulting in losses, expensive litigation and penalties for banks selling them.

Another systemic vulnerability arises from industry consolidation since 2008. This has meant most market segments are now dominated by a few performers, typically large dealers and investors, restricting trading liquidity and concentrating risk. The growth of CCP and clearing houses, which aggregate counterparty credit exposures, further localises exposure.

In addition, as clearing is a product that is largely undifferentiated between providers, there are adverse incentives for industry operators to undercut each other on required margins or default fund contributions, undermining the integrity of the system. Mutualisation of risk also creates moral hazard. Strong firms find themselves forced to bear the liabilities of weaker clearing members.

In 2018, losses on energy futures positions traded on Nasdaq consumed about two-thirds of its mutual default fund. All this means that the risk of derivatives — the wild beasts of finance or weapons of mass destruction — remains a "known unknown" in a future financial crisis.

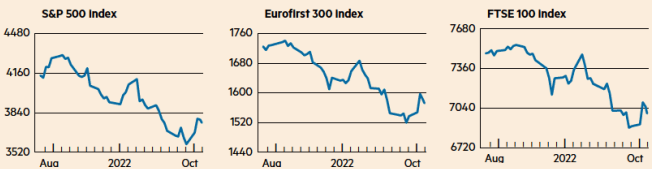
With genuine hedging demand stagnant, derivative activity has shifted to speculative applications that increase risk. Key users are hedge funds, wealthy people and small to medium-sized enterprises, which are less concerned about accounting treatment and disclosures. Such counterparties often use exotic options that magnify leverage

Satyajit Das is a former banker and author of 'Traders, Guns and Money' and 'A Banquet of Consequences Reloaded'

Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	S&P 500	Eurofirst 300	Nikkei 225	FTSE100	Shanghai Comp	Bovespa
Level	3759.19	1572.27	27311.30	6997.27	3024.39	117873.90
% change on day	-0.64	-0.64	0.70	-0.78	-0.55	0.58
Currency	\$ Index (DXY)	€ per \$	¥ per \$	£ per \$	Rmb per \$	Real per \$
Level	111.518	0.984	144.885	1.120	7.091	5.186
% change on day	1.320	-0.203	0.083	-0.356	0.000	-0.883
Govt. bonds	10-year Treasury	10-year Bund	10-year GIB	10-year Gilt	10-year bond	10-year bond
Yield	3.812	2.090	0.239	4.158	2.755	12.446
Basis point change on day	3.640	5.100	-0.590	12.900	0.000	12.000
World Index, Commods	FTSE All-World	Oil - Brent	Oil - WTI	Gold	Silver	Metals (LME)
Level	380.75	93.76	88.04	1700.50	20.44	3662.40
% change on day	-0.56	0.42	0.32	-0.84	-2.34	0.07

Main equity markets



Biggest movers

	US	Eurozone	UK
Ups			
CF Industries Holding	2.88	Porsche	2.45
Take-Two Interactive Software	2.58	Volkswagen	2.16
Apa	2.30	Asmi Holding	2.10
Old Dominion Freight Line	2.13	Tenaris	2.07
Albemarle	2.11	Renault	1.81
Downs			
Digital Realty Trust	-5.01	Arcelormittal	-3.88
Vf	-4.80	Enel	-3.51
Centerpoint Energy	-4.60	Telecom Italia	-3.38
Seagate Technology Holdings	-4.46	Muench Ruckervers	-3.26
Carnival	-4.24	Rwe	-3.17
		Kingfisher	-4.92
		Centrica	-4.44
		Rolls-royce Holdings	-3.56
		Smith (ds)	-3.52
		St. James's Place	-3.25

Wall Street

Twitter slid following a report that its deal to be bought by Elon Musk might have hit a snag. The Wall Street Journal said Musk's team was wrestling with the terms of a deal, adding that representatives of the Tesla chief had earlier held unsuccessful talks about trimming the offer price.

Apollo Global Management and Sixth Street Partners — investors that were lined up to help finance the purchase — said they were no longer in talks with Musk, said Reuters, quoting people familiar with the matter.

Some positive regulatory news lifted drug update group **Annovis Bio**, which announced that the Food and Drug Administration had authorised a late-stage study into buntanetap, its experimental treatment for those suffering from moderate Alzheimer's disease. Maria Maccacchini, chief executive, said: "We are on a clinical development pathway to bring forward a promising treatment."

Satellite group **Viasat** slid after the UK competition regulator said its \$7.3bn takeover of Britain's Inmarsat could lead to airlines facing more expensive and worse quality on-board WiFi.

Compass Inc rallied after an insider article that said buyout group Vista Equity Partners was looking at taking the real estate broker private. *Ray Douglas*

Europe

Spanish infrastructure group **Sacyr** climbed on news it was "actively" exploring the divestments of several divisions in order to reduce its debt.

On the cards was a 49 per cent divestment of its environmental and waste management business alongside the search for a partner that would take a 49 per cent stake in Sacyr Water "to promote growth in this sector".

Sacyr said it expected to achieve these aims within the next year.

Sweden's **Castellum** rose sharply on announcing that Akelius was buying 12.2 per cent of the real estate company from M2 Asset Management for SKr115 per share, which was above Wednesday's SKr113.25 closing price. Ralf Spann, chief executive at the Stockholm buyer, said the purchase was "a financial investment that offers diversification as well as a good dividend yield".

The news triggered a rally in other Swedish property groups, lifting **Wilhelms Fastigheter**, **Sagax**, **Fabege**, **Fastighets** and **Wallenstam**.

A cautious assessment weighed on Italy's **Mediobanca**, with Jefferies initiating coverage on the investment bank with a "hold" rating. Mediobanca's sensitivity to rates was less than peers', although "the right M&A approach could enhance [its] valuation", said the broker. *Ray Douglas*

London

The announcement that it would be returning more money to investors sent tobacco group **Imperial Brands** near the top of the FTSE 100 benchmark.

The end of a two-year "strengthening" phase was making way for a three-year "improving returns" phase that would begin with the repurchase of up to 10bn of shares, which would continue until the end of September next year.

Combined with its dividends, Imperial said it would be paying more than £2.3bn to shareholders for its fiscal 2023 year.

Trading platform **CMC Markets** rallied off the back of a "positive" trading update, said Shore Capital.

Half-year operating income leapt 21 per cent year on year to £153m, driven by "a pick-up in market volatility and client trading volumes", said Peter Cruddas, chief executive.

Car retailer **Motorpoint** dived after reporting a pre-tax profit of £3m for the half year, much lower than £13.5m for the same period a year earlier. This was due, in part, to "the costs of maintaining market-leading finance rates", it said.

The Derby-based group said macroeconomic conditions had continued to worsen, which was causing increasing consumer uncertainty. It was "therefore likely that this will reduce used-car sales volumes in the UK for the foreseeable future", it added. *Ray Douglas*

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European Services
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Jason Maude
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Strategist
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Development Director
Helsinki University Hospital
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MARKET DATA

WORLD MARKETS AT A GLANCE										FT.COM/MARKETSDATA			
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 \$
-0.64%	-0.39%	-0.69%	-0.78%	-0.64%	0.70%	-0.42%	-0.56%	-0.203%	-0.356%	0.0833%	0.228%	-0.22%	-0.84%

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

AMERICAS	EUROPE	ASIA
Sep 07 - S&P 500	Sep 07 - Oct 06 FTSE 100	Sep 07 - Oct 06 Nikkei 225
New York	Toronto	Tokyo
S&P/TSX COMP	Frankfurt	Kospi
		Seoul

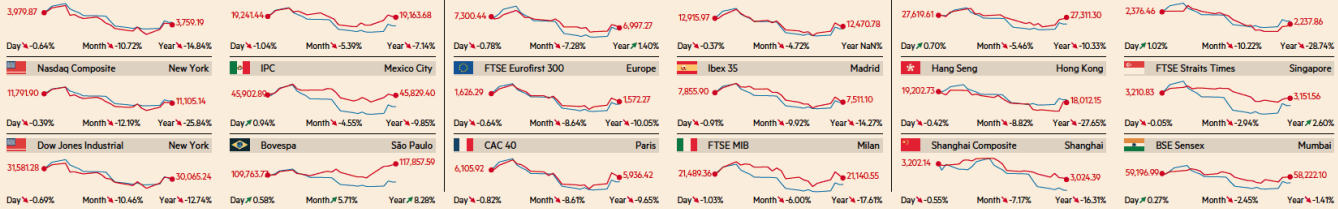


Table of global market indices including Country, Index, Latest, Previous, and % change. Includes Americas, Europe, Asia, and other regional indices.

STOCK MARKET: BIGGEST MOVERS

Table of stock market biggest movers, categorized by Americas, Europe, and Asia. Lists stock names, prices, and percentage changes.

UK MARKET WINNERS AND LOSERS

Table of UK market winners and losers, listing stock names, prices, and percentage changes.

CURRENCIES

Table of currency exchange rates for various countries, including Dollar, Euro, Pound, and others.

FTSE ACTUARY SHARE INDICES

Table of FTSE Actuary Share Indices, listing various insurance and financial company shares and their performance.

FTSE SECTORS: LEADERS & LAGGARDS

Table of FTSE sectors, listing industry leaders and laggards with their respective performance metrics.

FTSE 100 SUMMARY

Table of FTSE 100 summary, providing a detailed overview of the index's performance and components.

UK STOCK MARKET TRADING DATA

Table of UK stock market trading data, including volume, value, and other market statistics.

UK RIGHTS OFFERS

Table of UK rights offers, listing companies and details of their rights issues.

UK COMPANY RESULTS

Table of UK company results, listing major companies and their financial performance.

UK RECENT ISSUES

Table of UK recent issues, listing newly issued securities and their details.

FT 500: THE WORLD'S LARGEST COMPANIES. Includes a list of the top 500 companies by market cap, with columns for company name, market cap, and sector. Includes a logo for FT 500 and a URL for more information.

Main financial data table with columns for various indices (ASX, FTSE 100, Nikkei, Hang Seng, etc.), commodities, and regional market performance. Includes sub-sections for 'ASX 200: TOP 20' and 'ASX 200: BOTTOM 20'.

Table titled 'BONDS: HIGH YIELD & EMERGING MARKET' and 'BONDS: GLOBAL INVESTMENT GRADE'. It lists various bond categories, their yields, and performance metrics.

Table titled 'VOLATILITY INDICES' and 'GILTS: UK CASH MARKET'. It provides data on volatility indices and the UK cash market, including interest rates and yields.

Table titled 'COMMODITIES' and 'BONDS: INDEX-LINKED'. It covers commodity prices and index-linked bonds, showing price changes and yields.

Table titled 'BONDS: TEN YEAR GOV SPREADS'. It details ten-year government bond spreads across various countries, including Australia, Canada, France, Germany, and the UK.

Large advertisement for Morningstar. It features the text 'Equity Research from Morningstar' and 'Make consistent investment decisions powered by our independent global insights and a consistent methodology across all quantitative and qualitative universes.' It also includes the Morningstar logo and a 'Data provided by Morningstar' footer.

ARTS

Crowd-pleasing epic blazes a new trail

This week's film releases reviewed by Danny Leigh and Leslie Felperin

The sure-fire mark of a crowd-pleaser: a prologue receding up the screen, the story set up with a slow scroll of text. Borrowed from *Star Wars*, the device opens **The Woman King**, the sney epic from director Gina Prince-Bythewood. But rather than galaxies far, far away, an introduction is made to the Dahomey kingdom in what is now Benin, a real historical state at a turning point in 1825. Ties with the brutal Oyo empire are being severed. Defending Dahomey from the counter-assault will be another force from the record: the Agojie, an elite brigade of female warriors led by the fictional General Nanisca, played with scarred gravity by Viola Davis.

That Hollywood has released an action spectacular centred on black women in 19th-century Africa is clearly a landmark. You might call it a twist, given how trad the movie feels, a homage to *Braveheart* and *Gladiator*. The hyper-competitive jostle of new recruits even has a touch of *Top Gun*. If Nanisca scowls at wilful rookie Nawi, we know before she does that it is because she is reminded of herself. (The younger woman is nimbly played by Thuso Mbethu, star of Barry Jenkins' serial *The Underground Railroad*.) The story's beats might feel vintage or simply second-hand, depending on taste. The rest of the film will be a thrill for all comers. Prince-Bythewood gives the action a potent realism and detail. Gymnastic fight scenes come complete with a visceral crunch. Her film is so attuned to what makes an audience tick, you could see it in an empty cinema and still hear the cheering.

Broad pleasures are mined from the tangle of real history, with sparing use of airbrushing. If gender roles are flipped in battle, Dahomey is still a kingdom (the monarch an airy John Boyega). And while the story sees the state draw back



Above: Viola Davis in 'The Woman King'. Below, from left: Christian Bale, Margot Robbie and John David Washington in 'Amsterdam' — Lisa Kirshoff

from involvement in the slave trade, questions of complicity still linger more than most popcorn movies would allow.

In the middle of it all are the weary, frightened eyes of Davis. Could any other actress really play Nanisca? Like the film, the performance is built for universal appeal, but it will land most powerfully if you have watched the star carve out her own, hard-won place in Hollywood. On screen as in life, she strides on, implacable. DL
In US and UK cinemas now

"A lot of this really happened." So begins **Amsterdam**, the zany new comedy on thereabouts from director David O Russell (*American Hustle*, *Silver Linings Playbook*). The movie is a fiction with a



nut of fact attached, a dark new story from 1933 wrapped inside a screwball lark. Or maybe vice versa. Either way, talk of history abounds: being on the right side of it, getting stuck repeating it, everyone having their own.

The last part is certainly true of the three-sided friendship at the centre of the story. Pats one and two are a luminous free spirit (Margot Robbie) and a self-possessed lawyer (John David Washington). The third is Burt Berendson (outsized creation of Christian Bale), a doctor with a ripe Noo Yoik accent and specialism in cosmetic surgery. Pause your preconceptions. His work verges on the saintly, fixing the faces of penniless first world war veterans. He only survived the conflict himself with a glass eye and a fondness for the taste of his own medicine. Another thing about history: it's hard to escape.

All this is conveyed in the breathless manner of a child running in from an eventful playground. The plot is thick from the get-go, a woozy whodunnit. In 1930s Manhattan, old soldiers Bale and Washington are drawn into a murder mystery. The finger of suspicion points straight at them. An early casting coup involves Taylor Swift.

Believe me, I'm summarising. Within 10 minutes, Bale's artificial eye has popped out a thousand times, or at least it feels like it, a slapstick touch the movie never tires of. It takes a war for the mood to settle down. In an extended flashback to 1918, we meet the male leads again as wounded American troops under the care of Robbie's character, a French nurse who turns out not to be French at all, and more often a Dadaist artist. A triangular bond develops — one side romantic, the other two platonic — a union the movie never quite makes plausible. Still, after the armistice, all three find a gently decadent home in Amsterdam. If the Dutch capital is under-seen, put it down to being mostly symbolic: the site of precious, fleeting good times.

Chaos reigns again when the movie fast-forwards back to New York. The cast balloons. Make room for Rami Malek and Anya Taylor-Joy as a society power couple; Chris Rock's sardonic veteran; Andrea Riseborough playing Burt's estranged wife; Robert De Niro in the guise of military hero. Good lord, is that really Mike Myers? "OK! Everything all at once!" Bale exclaims. Indeed. Between the massed ensemble, a thematic blizzard too: bitterness asides on war, class, race, religion. Fragile human goodness. But the cast drown many of them out, a collective shagpile of over-excitement. The film has its own back-

Edinburgh is the setting for much of Stephen Frears's **The Lost King**. England always looms anyway, some of that is down to the protagonist, amateur historian Philippa Langley (Sally Hawkins) transplanted from south of the border. The English Midlands are also key to a true story filled with the quotidian stuff of town planning and Greggs pasties. But most pivotal of all is Richard III, and the shadow of the hunchback child-killer cast by Shakespeare, a hit job of much-debated accuracy yet one with pride of place in the national psyche.

Still another Englishness is the emotional nub: Langley as plucky outsider, defending a figure she sees as victim of a centuries-old libel. Here, that quest leads to the episode the movie lightly dramatises: the 2012 discovery of the monarch's remains beneath a Leicester car park. (The script is by Steve Coogan and Jeff Pope, with whom Frears also made *Philomena*.) But Langley's zeal is the real focus — product of an outraged sense of fair play, and perhaps a certain deep square-peggery. Even among the mixed bag of her local Richard III Society, another member asks why she is here. "You look quite normal," they say.

Hawkins and the deadpan register are the movie's aces. But it can't always locate the dramatic pulse of events, or crack the problem of a story visually rooted in a rectangle of tarmac. (In response, Langley is awkwardly kept company by visions of a fey but talkative Richard.) Still, the film makes great villains of technocrats from the University of Leicester who, by this

The Woman King
Gina Prince-Bythewood
★★★★★

Amsterdam
David O Russell
★★★★★

The Lost King
Stephen Frears
★★★★★

Nothing Compares
Kathryn Ferguson
★★★★★

telling, pushed Langley to the margins of her own triumph. They have angrily protested: a fresh discontent in the ongoing drafting of history. DL
In UK cinemas now

It's been 265,000 hours and 10,960 days — give or take — since Sinéad O'Connor tore up a picture of Pope John Paul II on *Saturday Night Live*. (A protest against the cover-up of child sexual abuse in the Catholic church.) That simple rendering of a photograph, one that used to hang in her mother's bedroom, was nearly enough to destroy the Irish singer-songwriter's career as a pop star.

As we learn in Kathryn Ferguson's rousing documentary **Nothing Compares**, the elfin-featured performer was a rebel from the start. As the film pieces together her story through archive montages, backed by the sound of a mature O'Connor, now 55, looking back in anger, sadness and amusement, we see that she always refused to be bossed around.

It started with shaving off her hair to defy her record company's wish that she look more feminine. Likewise, she said no when the label suggested she have an

Gymnastic fight scenes in 'The Woman King' come complete with a visceral crunch

abortion at 20, and continued ever onwards with outspoken dissent against racist acts by the UK police, protests against US foreign policy and campaigning for abortion rights in Ireland.

Ferguson is very effective in helping us to understand O'Connor's complex character, shaped partly by the horrific emotional and physical abuse she experienced from her mother as a child. Put into care by her parents, she ended up in a children's home that was attached to a care facility for survivors of the Magdalene Laundries, where "fallen" Irish women were forcibly interned until the 1990s. That placement led to O'Connor developing her musical talent thanks to a sympathetic teacher.

The movie doesn't quite do that talent justice by leaning heavily on vague, superlative-heavy praise instead of a more nuanced examination of her technique and skill. And it doesn't help that the estate that controls Prince's music refused to let the film-makers include her powerful 1990 cover of his ballad "Nothing Compares 2 U". Still, it's fascinating to learn that the iconic moment in the song's video when tears roll down her face was prompted by thinking not of a lover but about her recently deceased mother. LF
In UK cinemas and on Showtime in the US

Investors' Chronicle



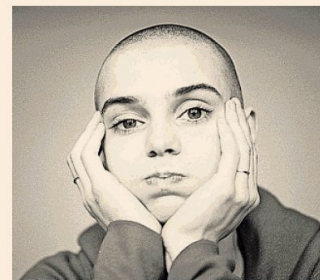
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Left: Sinéad O'Connor is the subject of new documentary 'Nothing Compares'. Below: Sally Hawkins and Harry Lloyd in 'The Lost King' — Andrea Cuffin/Graeme Hunter



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story, Russell and the headliners honing the characters through years of development. Finally let loose, the actors have such a blast you feel like you're looking in at a party from outside in a drizzly garden. As a professional voyeur, I often had fun regardless. But I'll be honest: at a particularly high-pitched moment,



Friday 7 October 2022

FINANCIAL TIMES

15

FT BIG READ. TECHNOLOGY

Companies like Amazon and Microsoft routinely destroy millions of used hard drives in the name of data security – but industry insiders say they are ignoring a better, greener and cheaper option.

By Alexandra Heal and Anna Gross

'We shred everything'

Mick Payne remembers the moment the madness of the way we dispose of our data was brought home to him.

The chief operating officer of Techbuyer, an IT asset disposal company in Harrogate, was standing in a large windowless room of a data centre in London surrounded by thousands of used hard drives owned by a credit card company. Knowing he could wipe the drives and sell them on, he offered a six-figure sum for all the devices.

The answer was no. Instead, a lorry would be driven up to the site and the data-storing devices would be dropped inside by authorised security personnel. Then industrial machines would shred them into tiny fragments.

"I walked out and thought, 'This is absolutely crazy,'" says Payne. "They couldn't allow the disks to leave the building – despite the fact we could wipe them on-site then sell to a new customer who could make use of them for years to come... It was a complete waste."

Payne had experienced first-hand the ubiquitous industry practice of shredding data-storing devices.

Every day when you fire off emails, update a Google document or take a photo, the data generated is not stored in a "cloud" as the metaphor suggests. Instead it is stored across several of the world's estimated 70mn servers, each



'We could wipe them on-site, then sell to a new customer who could use them for years to come. It's a complete waste'

one a steel box the size of a kitchen sink, made up of all sorts of precious metals, critical minerals and plastics.

The servers contain several data-storing devices, each roughly the size of a VCR tape. They sit inside the world's 25,000 data centres, some of which span floorspace equivalent to dozens of Olympic-sized swimming pools. When companies decide they want to upgrade their equipment, which usually happens every three to five years, data-storing devices are routinely destroyed in a process like the one Payne described.

Companies such as Amazon and Microsoft, as well as banks, police services and government departments, shred millions of data-storing devices each year, the Financial Times has learnt through interviews with more than 50 people who work in and around the decommissioning industry and via dozens of freedom of information requests.

This is despite a growing chorus of industry insiders who say there is another, better option to safely dispose of data: using computer software to securely wipe the devices before selling them on the secondary market.

"From a data security perspective, you do not need to shred," says Felice Allierti, a European Commission official who co-authored a report about how to make data centres more sustainable and is promoting "data deletion" over device destruction.

The trust problem

Underpinning the reluctance to move away from shredding is the fear that data could leak, triggering fury from customers and fines from regulators.

Last month, the US Securities and Exchange Commission fined Morgan Stanley \$55mn for an "astounding" failure to protect customer data, after the bank's decommissioned servers and hard drives were sold on without being properly wiped by an inexperienced company it had contracted. This was on top of a \$60mn fine in 2020 and a

15-fold

How much global internet traffic grew in 2010-20; resulting in a 25-fold increase in data-centre storage capacity

70mn

Servers in use around the world. Combined, these weigh as much as 192 Eiffel Towers

20mn

Low end of estimated number of hard drives that are decommissioned each year in the US alone

30,000

Pieces of equipment including servers and hard drives that Northern Ireland's police force says it has shredded over the past two years

700

New data centres set to be built around the world over the next three years

knowledge of Microsoft's data disposal operations says the company shreds everything at its 200-plus Azure data centres. Microsoft says: "We currently shred all [data-bearing devices] to ensure customer data privacy is maintained fully."

The UK's Department for Education, Department for Work and Pensions, Police Scotland and Police Service Northern Ireland told the FT that they shred all decommissioned data-storing devices. Northern Ireland's force says it has shredded 30,000 pieces of equipment including servers and hard drives over the past two years.

Some government departments say they follow National Cyber Security Centre guidelines, which recommend hard drives should be physically destroyed. However, HM Revenue & Customs and the Department for Business, Energy and Industrial Strategy say they do not mandate shredding and London's Metropolitan Police says it wipes where possible.

Data centre operators have faced scrutiny in recent years for their huge energy use. In July, they were partially blamed when it was found that the west London electricity grid had run out of capacity to support new homes, threatening housing targets in the capital. The focus on their energy guzzling puts pressure on companies to replace their systems whenever more power-efficient equipment comes to market, creating a trade-off between energy efficiency and environmental waste.

Energy use is "being reduced by just throwing more material at the problem," says Johann Boedecker, founder of the circular economy consultancy Pentatonic. "The open question is: how much energy reduction is worth how much waste?"

But with another 700 data centres set to be built around the world over the next three years, according to the tech

consultancy Gartner, the question of what companies do with millions of tonnes of electrical equipment has become more important than ever.

Critical materials

It is difficult to say exactly how many hard drives are decommissioned globally each year, but one study by the US National Renewable Energy Laboratory estimates it is at least 20mn in America alone. Although most data centre companies discard their storage devices after a few years, they could last for years – or even decades – longer, according to several industry experts.

The research suggests more than 90 per cent are destroyed when equipment is routinely decommissioned, even though most are still functioning. The European Commission estimates that about half face the same fate in the EU.

"Clients are so worried about disposal of data that they're insisting on the hard drives being destroyed," says Michael Winterson of global data centre provider Equinix. "It's a big issue that as an industry we need to figure out."

"We shred everything with data on it, there are no exceptions," says Greg Rabinowitz, president of Urban E-Recycling, an electronics disposal company in Florida. Decommissioning professionals like Rabinowitz mince the drives at their clients' behest – two others say they have even had requests to incinerate the remains.

While the shreds are widely sent for recycling, today's processes only recover about 70 per cent of the materials, according to Julien Walzberg, a researcher at the National Renewable Energy Laboratory.

Recycling plants usually separate the 6mm-wide morsels into aluminium, steel and circuit board for onward sale. But the hard drives contain important materials, such as neodymium and dysprosium in the magnets and nickel and palladium in circuit boards, which are often not recovered. Several of these are

used in the production of electric vehicles, and their recovery is a key part of the industry's push for sustainability and circularity at London South Bank University.

While various projects are being piloted to try to recover some of the materials lost in shredding, tearing up a drive after a few years of use still violates the first rule of sustainable consumption: reuse is always better than recycling.

"Even if you recover all the materials when you recycle a product, all the energy and money you have put into using those materials to manufacture the product's components... is lost," says Walzberg. In a study this year, he found reusing a hard drive avoids four times as many carbon dioxide emissions as slicing it up and feeding the pieces



through even the best imaginable recycling processes, when both scenarios are compared with current recycling.

The same problem applies to entire servers which, when deemed no longer useful, are often sent for recycling rather than reused. IT company Dell found that manufacturing accounts for half of the carbon footprint of one of its servers, accounting for energy-related emissions from four years of use.

Steve Mellings, who founded and runs the UK decommissioning industry certification programme Adisa, says energy

Mick Payne, main left, is the chief operating officer of Techbuyer, an IT asset disposal company. He describes the inclination to destroy data-storing devices as 'absolutely crazy'; a shredder at work, below and left

Lorne Campbell/Gustafson

putting providers have been taking steps towards reuse. Google says 27 per cent of the components it used in server upgrades in 2021 were refurbished inventory and that it overwrites data on its hard drives for reuse where possible. Microsoft now operates several "circular centres" for refurbishing old servers and says more than 80 per cent of its decommissioned assets will be reprocessed by 2024. But for hard drives, specifically, shredding is still the norm.

Several decommissioning experts say that, while some customers have already converted to erasing and reselling their data storing devices, others simply need to be educated about the efficacy and reliability of wiping software to help them move past the ingrained belief that physical destruction is necessary.

Gartner's Simon Mingay says many data centre operators would love to increase the quantity of goods that are awarded a second life but "they're hobbled by the requirements being placed on them by their customers".

For now, most customers still see the risk as outweighing the potential benefits. Rabinowitz, one of the few voices in the decommissioning industry still in favour of shredding, puts the problem simply: "Why risk it if there was any chance something was going to get left on it?"

If the big tech data storers, known in the industry as "hyperscalers", were to change their practices on drive reuse, others would follow – or so many decommissioning experts believe. But, as things stand, they are opting to prolong the life of the equipment the first time around. Last year Google said it would extend the life of its cloud servers from three to four years and Amazon Web Services prolonged its own from four to five years in February. Last month, Microsoft announced it would extend the life of its server and network equipment from four to six years.

Nonetheless, many experts are ada-

\$50m class action settlement reached earlier this year. Some of the hardware containing bank data ended up being auctioned online.

While the incident stemmed from a failure to wipe the devices before selling them, the bank now mandates that every one of its data-storing devices is destroyed – the vast majority on site. This approach is widespread.

One employee at Amazon Web Services, who spoke on condition of anonymity, explained that the company shreds every single data-storing device once it is deemed obsolete, usually after three to five years of use: “If we let one [piece of data] slip through, we lose the trust of our customers.” Amazon declined to comment. A person with



on US or EU lists of “critical” materials – so designated because of natural constraints on their supply or for geopolitical reasons. China, for example, produces 60 per cent of all mined rare earths.

The small amounts of critical raw material lost in shredding add up, contributing to the 54mm tonnes of electronic waste produced globally every year. Every speck lost requires more to be mined, often from areas of the world embroiled in conflict. Demand for such materials is projected to grow as the world electrifies itself away from fossil fuels.

“Shredding causes a massive problem for sustainability,” says Deborah Andrews, professor of design for sus-

movements from new technology are not as significant as they used to be. “If they’re using a 15-year-old antique server, it’s going to be heavy on consumption, but most servers [developed] over the past decade are pretty good,” he says. And even if advances do warrant a replacement, “that doesn’t mean you need to destroy the old.”

The case for refurbishing and reuse is not just a financial one. There is plenty of evidence to show that the performance gap between newer and older servers is narrowing, with the newer examples “not maintaining the same efficiency improvements” that were seen in the past, according to a recent paper led by academics at the University of East London. Some of the major cloud com-

pany that conventional drives can be securely wiped and reused, a practice that first emerged in the early 1990s but that has only gained significant traction over the past decade. “Saying we have to shred because it’s the only thing that’s secure is a miscalculation,” says Fredrik Forslund, vice-president of Blanco, a company that makes wiping software. Forslund describes shredding as “an absolute disaster.”

The FT asked several industry insiders and experts if they were aware of any case where data had leaked after verified wiping software, such as Blancco’s, had been used, and none were. “We’ve verified that sanitisation works and still they shred,” says Adisa’s Mellings. “The level of fear is palpable.”

The FT View



FINANCIAL TIMES
“Without fear and without favour”

The battle for control of the global oil market

Ill-judged Opec+ output cuts could backfire on the Saudi-led cartel

Joe Biden’s fist-bumping visit to Saudi crown prince Mohammed bin Salman was always a questionable exercise. Three months later, the US president’s reward has not been the hoped-for increase in oil output, but a headline cut of 2mm barrels a day by the Opec+ group that has allied the oil cartel with Russia since 2016. Five weeks before US midterm elections in which gasoline prices could play a decisive role, this looks like a snub. It also suggests Saudi Arabia is sticking fast to its relationship with Moscow, even as Vladimir Putin escalates his war in Ukraine. The kingdom may feel it is acting in its own and the cartel’s best interests, but its actions may prove a strategic error.

Saudi and Opec officials insist the cuts were not politically motivated. Faced

with a likely recession in Europe and elsewhere that will depress demand, they say they are attempting to put a floor under prices, protect revenues and increase capacity. After falling by a quarter since June, global crude prices are, in equivalent terms, also well below the sky-high levels natural gas and coal have reached thanks to Russia’s war.

Yet the move to reduce production now is part of a broader struggle for control of the global oil market. Saudi Arabia has been irked by US-led attempts to influence prices. The Biden administration has pushed for price caps on Russian oil – to squeeze Moscow’s revenues – from the G7 big democracies and the EU. Opec sees this as an attempt to shift the balance of power towards consumers, and fears such a mechanism could one day be deployed against it.

The US has also engaged in the largest ever release from its Strategic Petroleum Reserve to try to tamp down crude prices, and gas prices at US pumps – a intervention as hefty as Opec’s new cuts.

Releases have sometimes run at about 1m b/d, roughly equivalent to what Opec’s cutbacks will amount to once the underproduction of some members compared to their quotas is factored in.

The cartel is trying to regain control of the market and demonstrate that it still has the power to set the price. Saudi Arabia is surely engaged in political signalling, too, to a US president who called it a “pariah” after the brutal murder of the journalist Jamal Khashoggi, and an administration it feels is giving insufficient support to Riyadh’s security. It aims to show it has other friends, in Beijing, New Delhi and Moscow.

The Saudi crown prince risks overplaying his hand, as he has often done in the past. China, India and Russia are unlikely to extend anything like the same security protection to Saudi Arabia that the US has done over several decades. Pushing up oil prices now may only deepen any impending recession and the resulting destruction of demand. An irate White House has

The lesson for the US and western allies is that their partners in the Gulf are not reliable when it comes to energy

hinted it may now release even more oil from America’s stockpile. US lawmakers are calling to revive so-called Nopec legislation, which aims to crack down on oil cartels.

The lesson for the US and western allies is that their partners in the Gulf are not reliable when it comes to energy, and Opec is determined to maximise revenues from an asset for which demand must eventually be slashed by western-led efforts to combat climate change. It sees no obligation in the meantime to provide energy security cheaply to its customers.

Western consumer nations have few short-term, supply-side, answers other than investing in further fossil fuel production that would run counter to their climate aims. The long-term answer to all the multiple energy and climate problems they now face is the same: to make real efforts, which have so far barely begun, to reduce oil demand – and to speed up the dash to sustainable, green sources.

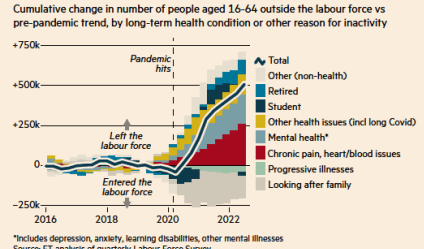
Opinion Data Points

Half a million missing workers show the UK’s failings

John Burn-Murdoch



Chronic pain, mental health and possible long Covid account for half a million more Britons missing from the workforce



The past two and a half years have been tough on most countries, but few have suffered as much as the United Kingdom. The pandemic has been the ultimate stress test for a nation’s basic functioning. Does the healthcare system have sufficient capacity and resources to bounce back? Is the state capable of supporting people as they seek to put their lives back on track? Time and again, Britain has come up short.

Perhaps the most damning statistic is what has happened to the UK workforce. Between January 2015 and January 2020, economic inactivity gradually descended in a virtually straight line as more and more people found work. Had this continued, there would be about 8.3mm economically inactive working-age Britons today. Instead, we have seen a steep climb to 9m, the only country in the developed world where people have continued dropping out in ever greater numbers beyond the acute phase of the pandemic.

But if the surface-level statistic is damning, then what lies beneath is worse. By analysing detailed data from the UK’s Labour Force Survey, I have been able to explore what has caused this sharp reversal. It reads like a catalogue of modern Britain’s greatest hits

Letters

Don’t dismiss Indonesia’s new capital as a vanity project

Your article “Indonesia on the hunt for investors to back its new capital” (Report, FT.com, October 2) argued that “there are concerns over China’s involvement, which could deter western investors”. I disagree. Now, more than ever, we must reject narratives which seek to divide, rather than bring together the global business community.

The private sector has no choice but to work together over the coming decades if we are to build a better world for future generations.

Particularly in a time of global geopolitical division, and increased levels of intergovernmental antagonism, global business must unlock the potential of globalisation, and be a force for co-operation and collaboration.

The Nusantara project, featured in your article, is an appropriate example of this. Our capital, Jakarta, is the fastest sinking city in the world. There is no question that we need a new capital. Nusantara can be the world’s flagship modern city, and serve as a

model for the smart, green cities of the future. These types of initiatives are not vanity projects – they are integral to our planet’s future. The world’s urban population is set to more than double with nearly seven out of 10 people living in cities by 2050, according to the World Bank.

We have no hope of reaching our global environmental targets if urban development continues on this trend – a green urban revolution is required.

This is but one of the countless global problems that the private sector must

play a crucial role in. At this year’s B20, the official dialogue forum with the global business community hosted alongside the G20 in Bali, we will be bringing together business leaders from across the globe to address these challenges.

We must build bridges, not walls, across the business world, and work together in pursuit of a common future.

Shinta Widjaja Kamdani
Chairwoman, Indonesian E20
Jakarta, Indonesia

What gas traders do in peacetime, not in war

Reflecting on Pierre Andurand’s Markets Insight column “Europe can learn to live without Russian gas” (September 28), this may be a good opportunity to consider more European, and less market-reliant, solutions for how to get on with the missing billions of cubic metres of gas. This is important because the shortages are set to wreck gas-intensive industries like tiles, petrochemicals, off-season vegetable production, bakeries and more besides.

These are not small sectors in Europe and windfall taxes at the national level may not raise enough money to help them.

But how about scrutinising the price mechanism itself? Facing Russia with a price cap on natural gas might be reconsidered if Europe is hit by social unrest when the winter freeze bites.

Meanwhile, it is striking that little work has been done on the effects of constraining the arbitrage opportunities of energy traders. Some have been in the news for receiving liquidity from states to deal with massive margin calls. But others have been making a killing from selling energy back to the same country where they bought from. Today, the consequence is the shocking prices industry is having to pay, with governments calling on Brussels for financial support.

While leaving traders to ply their trade may be defensible in peacetime in the name of having a European energy market, in wartime it becomes a form of war profiteering, with the EU and member states turned into ATMs for these intermediaries.

So why do we have to wait for non-nationalised or national-



ExxonMobil products” (“The Tories have led on climate until now”, Opinion, October 5).

One of their products is ethylene from ExxonMobil’s Fife facility in Scotland. This product is the basis for the PVC used for doors and window frames and a critical component in the quest for energy efficiency – and hence decarbonisation – via double glazing. Or would the critics of companies such as ExxonMobil prefer to use hardwood instead?

Professor Peter Edward
Professor Peter Dobson
University of Oxford
Garl Owen
Annwyn Solutions, Bromley, Kent, UK

Sri Lanka’s Tamils still live under militarisation

It’s great to see the FT reporting on Sri Lanka’s sustained militarisation, which in the online edition you can see the

If Truss taxes land, she won’t need spending cuts

Martin Wolf (“Truss’s growth plan is nothing but a magic potion”, Opinion, October 5) understandably dismisses the government’s “growth plan” as “a plan for inequality and insecurity”. But it could be converted into a fairer, fully funded tax-cutting strategy if it would only distinguish between earned and unearned incomes.

There is wide acceptance of high earnings for those at the top of their professions in industry, commerce, technology and the arts. Taxes demotivate all these activities, possibly just as much as with lower paid workers.

With increase of population and social amenities, demand for land presses inexorably on the fixed supply. Land values and rents increase apace. These are high earned incomes, their net income need not fall. With all earned incomes less hobbled by penal taxation, there can be fairness and net gain for all.

Roger Sandilands
Emeritus Professor of Economics
University of Strathclyde, Glasgow, UK

Some reasons why

Here’s the charge sheet for liability-driven investing

It’s a bit rich to claim, as David Knotey-Ahlu does (Interview, October 4), that liability-driven investing “has helped stabilise pension funding over the last two decades”.

After all, over 20 years UK 10-year gilt yields largely fell from a high of something over 5 per cent to lows, a couple of years ago, of about 0.1 per cent.

Annualised total returns over this period – of close to 6 per cent – are more in keeping with the long-term expected return for equities, as opposed to sovereign bonds.

It’s not clear to me how much LDI at its inception envisaged deploying leverage. But it has been very clear, to anyone who cared to look, that leverage became an increasingly important part of the proposition as yields fell.

As Patrick Jenkins (“Failure to learn lessons of 2008 caused LDI pensions blow-up”, Inside Business, October 4) observes “what started as a hedge in some cases became a leveraged bet – an irresistible way to ‘juice’ otherwise low returns”.

In 2008, demand for low-quality mortgages drove irresponsible lending and fuelled the speculative boom in US housing. Is it not plausible that LDI – far from stabilising pension funding – was a contributing factor in driving yields to levels that were irrationally low?

Stephen Swift
Client Partner, Artorius Wealth Management, London WC2, UK

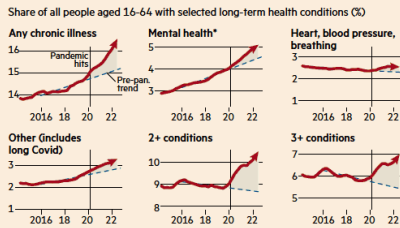
Business card column is silent on Asian etiquette

Your column “The business card is

First, a crumbling healthcare system. After a years-long descent, the number of working-age Britons unable to work due to chronic pain has climbed by almost 200,000 in the past two years relative to its former trajectory.

Next, a mental health crisis. The number of people aged 16-64 with selected long-term health conditions (3%)

Rates of chronic illness in the UK shot up during the pandemic, and continue to climb



*Includes depression, anxiety, learning disabilities, other mental illnesses Source: FT analysis of quarterly Labour Force Survey

Some may dislike the curbs on market freedoms and state intervention but the European energy system is fragile and prone to take down with it entire sectors and established political systems during hard times.

Remember Big Oil makes energy saving products too

In Pilita Clark's column, Lord Deben, chair of the UK's independent Climate Change Committee, is quoted saying "I hope nobody ever buys any

headline "The idyllic beach resort run by Sri Lanka's bloated military" (Report, October 3).

growth may prove elusive How will the government grow the British economy (Report, September 24)? Not by increasing the employment rate, given the shortage of labour and near full employment rate.

Not by paying us more for the jobs we already do, given the challenge of matching the rises in inflation, energy costs and mortgage rates.

Correction ● The Datawatch chart on the front page on October 5 showed the annual percentage change in UK retailers' sales, not market share as wrongly stated.

Opinion

The US is history's most successful failing state



AMERICA Edward Luce

richest "failed state" in the world. Yet US politics looks more like Belgium's every day. Unlike the US, Belgium is divided into language blocs, French and Flemish.

"legislating from the bench". Either way, American law is no longer above politics. The court is now rated as low in opinion polls as other institutions.

an existential mindset that has made an albatross of its constitution. It would be easier to convert America into a French-speaking country than amend its constitution.

years, it will be an ageing country beset with internal challenges. Relative to China, the US looks good. That is not saying much except in terms of power, which is relative.

Belgium shows that a nation can be both rich and ungovernable for long periods

A key sign of a fading power is its currency losing value. Britain, like ancient Rome, could tell you a thing or two about that.

With one undisputed tongue, America should be free of such paralysis. Yet the cultural divide between blue and red state America is as uncomprehending as any language barrier.

indeed global, challenges, should not fool itself that Albany or Austin, let alone Little Rock or Springfield, are the appropriate places to take tackle them.

There are two reasons for this. The first is that the US's rival is doing worse. That will almost certainly cause house prices to fall in the coming weeks.

For the time being, America's relative power is ascendant. The risk is that it will succumb to one of its bouts of global triumphalism. That would be a pity.

Four flashpoints putting financial stability at risk



MARKETS Gillian Tett

And while Fisher did not identify where "other things are likely to pop up", I suggest there are at least four places that investors (and regulators) should now watch closely (aside from other pension funds).

"volatility vortex" in US markets could emerge again. And, while central banks are trying to fix this, it is not easy to do.

More notable still, prices kept rising earlier this year, even after monetary tightening started. This may reflect structural shifts, like working from home, but it was also a consequence of the past ultra loose monetary policy.

lor Rishi Sunak such as ex-transport secretary Grant Shapps, who was told he wouldn't be offered a job in the new government simply because he had been on the other team.

Dallas is almost 5,000 miles from London. But when the UK gilt markets imploded last week - forcing the Bank of England to make a £65bn intervention to support pension funds - the drama left Richard Fisher, former chair of the Dallas Federal Reserve, winching.

One is the state of open-ended investment funds, or vehicles that let investors redeem assets at will. As the IMF notes in its forthcoming financial stability review, this sector has swelled to contain \$41tn of assets.

Investors should brace themselves for more surprises in these other

cial Reporting, for example, has now jumped to a two-year high.

aster in Treasuries in March 2020 and some observers fear that a so-called

surprises, in places outside than the UK

We can see that junk bond prices have recently tumbled; we cannot track the

gillian.tett@ft.com

the affections of Tory activists. Yet she may have already flown too close to the sun. Braverman prompted the biggest row of the conference when she called for the cut to the 45p rate to be reinstated and claimed Gove and co had "staged a coup". Downing Street was furious at her outburst.

Britain needs a growth strategy for the second machine age

TECHNOLOGY

John Thornhill



Here's some good news about Britain: the country is nifty at innovation. According to the latest Global Innovation Index, the UK ranks fourth in the world behind Switzerland, the US and Sweden. The country is particularly strong in creativity, research, financial services and infrastructure. Gold stars to Google DeepMind, Cambridge university and the newly opened Elizabeth rail line.

And here's a not-so-radical idea for whenever Britain next has a serious government: build on these strengths to maximise their benefits. Ministers should be doing far more to support risk-taking researchers and entrepreneurs, building businesses and creating jobs. Instead, they appear keener on

cossetting rent-seeking vested interests and bonused-up bankers, fixated on corporate welfare and tax cuts. That makes the government sound like a tone-deaf Thatcherite tribute band that no longer resonates with our times. It is too heavy on Big Bang 2.0 and too light on the second machine age.

As the GII's authors rightly highlight, two big changes are transforming the global economy: the digitisation of everything and the deep science revolution in areas such as artificial intelligence, quantum and biotech. "Over the next 10 to 20 years we will see massive opportunities in these two areas and those nations that are better prepared for them will benefit most," says Soumitra Dutta, dean of Oxford's Saïd Business School and co-author of the GII report.

Given its strengths in research and innovation, Britain is well placed to capitalise on both these transformations. But to do so, it needs to sharpen up in at least four areas.

First, it needs to double down on foundational research. Some of the UK's universities are world class. Cambridge remains the most intense science and

technological cluster in the world, according to the GII. In UK Research and Innovation, Britain has a research funding body that is pursuing a more agile approach to backing edgier research, rhetorically at least. ARIA, the fledgling moonshot research agency, is also a novel experiment that deserves sustained funding and support.

However, one big cloud darkening the sunlit uplands is the likelihood that the

The country is well placed to capitalise on the deep science revolution but must sharpen up

UK will lose access to the €95bn Horizon Europe science programme. Uncertainty over the future relationship has already cancelled several cross-border research projects. Replacement money is not enough: the government should do everything possible to ensure Britain remains connected to this collaborative European network.

That chimes with the second need: the UK must remain open to the world. While ministers may have shouted about Global Britain, too many echoes of Little England have been heard offshore. To be fair, the government's skilled workers' visa scheme has been helping to shelter the UK's vibrant start-up scene. Tech Nation found that non-UK nationals helped launch 18 per cent of all British tech companies. For the moment, the UK remains the world's third hottest start-up market, behind the US and China. But Britain needs the multinational spinouts now emerging from DeepMind to stay in the UK rather than spinning off to the US, Canada, France or Singapore.

Third, Britain should further incentivise adoption of innovation to boost productivity. Independent business agency Be The Business, rightly stresses that the biggest gains would come from encouraging the 60 per cent of middling companies to up their game. But the UK must also become savvier at backing its most dynamic, and productive, new companies. Long-promised reforms to free up institutional funds to invest

in venture capital should be enacted. Fourth, is smart regulation. That does not equate to no regulation, as ideological throwbacks believe. While US regulators have often been in the pockets of producers, their EU counterparts have overweighted consumers. There is an opportunity for Britain to strike a pragmatic third way in areas such as autonomous driving and data governance. Worryingly, such initiatives appear in danger of stalling and need to be rigorously pursued.

One former Tory minister told me it was "ridiculous" for Liz Truss to rail against an "anti-growth coalition". After all, the prime minister was part of a government that erected trade barriers with Britain's biggest export market and discouraged enterprising EU workers from moving to the UK.

Britain performs poorly in the GII's rankings on political and business stability. Rather than shifting the blame, Downing Street needs to take responsibility for developing a holistic, 21st-century growth strategy worthy of the name.

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Gilts/BoE: don't mention the pensions

A new government with a misguided spending plan took the UK to the brink of economic chaos last week. The Bank of England says it staved off a £50bn gilt fire sale amid tumbling sterling and spiking bond yields. It promised to buy long-dated gilts. That pledge expires next Friday. Catastrophists refer to this as a "cliff edge". Should investors be worried? A replay of the chaos is unlikely. The rush for the door by gilt holders was the result of a feedback loop in the pensions industry now out in the open.

The trigger was UK Chancellor Kwasi Kwarteng's promise of apparently unfunded tax cuts. As bond yields rose, pension funds were forced to dump up extra collateral for hedges against falling interest rates. The BoE put a ceiling on that cost via its willingness to contain long-dated yields. These are currently at about 4.3 per cent. The BoE has only used some £4bn of £65bn in firepower mustered against spiking yields. Its willingness to deploy this was enough to forestall panic.

Its day job of controlling inflation would also be easier without the unconventional economics of the Truss government. The chancellor has created a cliff edge of his own by promising to publish a funding plan in the next few weeks.

If this is unrealistic, more market disorder would follow. The "mini" Budget debacle, meanwhile, forced the BoE to postpone the start of quantitative tightening. Selling some of the £800bn of gilts it holds would have made it harder to maintain a yield ceiling at the long end of maturities. The bank hopes to begin QT at the end of this month.

BoE boss Andrew Bailey is now governed by expectations rather than governor of them. The threat of financial blow-ups among pension funds may force him to extend price support. And the cost of that would grow if government fiscal policy remains at odds with markets. With QT weakened as a strategy, interest rate decisions matter more. The next move is now more likely to be a steep 125bp rise, taking rates to 3.5 per cent.

Pain for the bank means less of it for investors in long-duration gilts. But this comfort is a dish endured cold. The

variety of price support most of them would prefer comes from transparent, intelligible policies in vigorous economies. For that, investors whose liabilities have not left them joined at the hip to gilts must look overseas.

Elon Musk: X-files

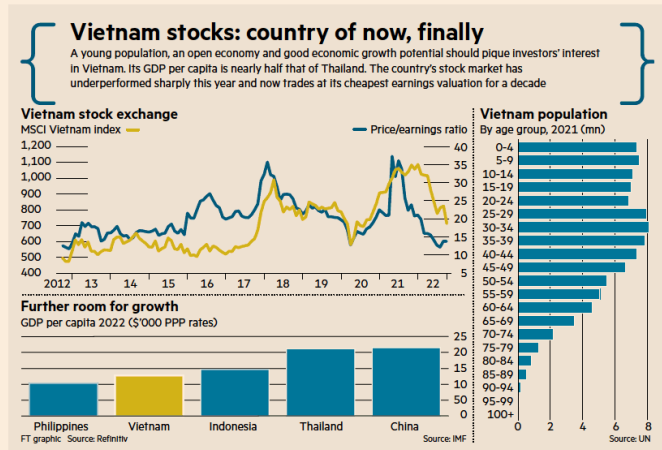
Western social media companies have long dreamt of creating an "everything" app on the same scale as WeChat. In China, online activities are grouped in one place – shopping, payments, subscriptions, messaging and entertainment. Parent company Tencent takes a cut of financial transactions. WeChat is less reliant on advertising revenue than US platforms. Elon Musk sees potential. When he agreed to buy Twitter he told employees there was an opportunity to build a WeChat equivalent outside China. His first tweet since agreeing to honour the deal stated it would accelerate "X, the everything app".

If Musk could turn Twitter into a super app he would radically transform its business. WeChat revenues, included in Tencent's "fintech and business services", were Rmb42.2bn (\$5.9bn) in the last quarter – five times the size of Twitter's.

To get there, however, Musk would need more sign-ups. WeChat has more than 1.3bn monthly users. Twitter has 238m monetisable daily active users (a metric it made up). One option might be to push Twitter's private messaging service. Alternatively, Musk could launch a new app. Tencent had messaging service QQ before creating WeChat as a mobile messaging app that cannibalised existing users.

Yet the circumstances that allowed WeChat to grow are impossible to replicate in the US. WeChat was launched in 2011 and expanded with smartphone adoption. In China, using one app to access other services via mini-apps makes sense. In the US, Apple and Google have a duopoly over app access. To make the service useful, Twitter would need to build partnerships with companies such as Uber but these already have standalone apps and will not welcome Twitter acting as gatekeeper. Snap's attempt to add mini-apps has been put on hold.

In a crowded market under intense



Some of the cheapest equities are in Vietnam. The country's benchmark index is trading at its lowest valuation in a decade. That gives investors a reason to get serious about this long-overlooked market. A soaring dollar has left the Vietnam Stock Index down nearly 30 per cent this year, trading at less than 10 times forward earnings. It is one of the worst-performing bourses among regional peers. Its blue-chips include real estate and technology conglomerate Vingroup, which has fallen 57 per cent this year. There is plenty of potential. The economy is expected to grow at the fastest pace in Asia this year. The population is growing and young.

More than 70 per cent of Vietnamese are below the age of 35. Gross domestic product per capita is \$5,694, less than a third of China's figure. This leaves ample room for growth. Vietnam has been one of the biggest beneficiaries of the US-China trade war. US groups have moved suppliers to Vietnam to dodge US tariffs and blacklists for operating in China. Apple sources a proportion of its popular AirPods earphones from Vietnam. It is testing watch and laptop production there. Exports to the US grew more than a quarter in the year to September, reflecting the shift. Pandemic lockdowns in China have reduced its manufacturing dominance. Vietnamese growth has been impressive. The economy expanded

13.7 per cent in the third quarter, after growth of 7.8 per cent in the previous one. As travel normalises, tourism, which accounts for about a tenth of the economy, should give those numbers a further boost. Vietnam's quasi-socialist market economy has helped it rapidly slash its poverty rate from 17 per cent to below 5 per cent in the span of just 10 years. However, it has downsides. Moving capital out of Vietnam is complicated. Exchange controls limit foreign currency outflows. This has partly been why Vietnam has been the country of the future for much longer than investors have hoped. But, at today's valuations, the risks are attenuating.

regulatory scrutiny, Twitter's odds of becoming a one-stop-shop app are not promising.

Pandemic debts: cruising for a bruising

The chief executive of Carnival has helpfully noted that next year each of us will have aged by four years since 2019. Some of us will weigh more, too. Consider Carnival, the global cruise line. Before the pandemic, its debt balance was just over \$10bn. Today, it sits lower in the water: its debt has swelled to more than \$35bn. That build-up followed the months-long grounding of its passenger ships. With little income and huge fixed costs,

the likes of Carnival, Royal Caribbean and Norwegian all managed to raise tens of billions of new debt in the Fed-driven euphoria of 2020 and 2021.

The cash, meant to offer a bridge to normality, seemed to work for a time. Carnival shares, which bottomed under \$10 per share in 2020, had tripled by the summer of 2021. Its stock has since tumbled back to its nadir. Once again, the cruise industry's leveraged corporate balance sheets have markets worried, especially with the threat of slowing consumption growth.

In late September, Carnival tried to put a happy spin on its latest quarterly results. Even so, it could only promise breaking even at the ebbside level in its next quarter. Hopes that the cruise line would forecast 2023 operating profits surpassing the pre-pandemic year,

based on higher prices compensating for lower bookings, flew out of the porthole.

At the same time, Federal Reserve hawkishness has spooked the junk debt market. Junk bond yields for cruise liners have soared into the mid-teens, according to CreditSights data. Teetering companies such as Carnival, as well as AMC Theatres and most US airlines, easily raised liquidity for their operating businesses during the dark days of the pandemic.

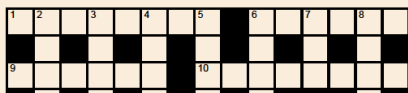
Given their towering debt stacks, only a fast recovery could truly return their equity values back to 2019 levels and restore investor faith.

Though the Covid virus threat has receded, a new threat to financial health has taken its place for the indebted.

NIKKEI Asia The voice of the Asian century

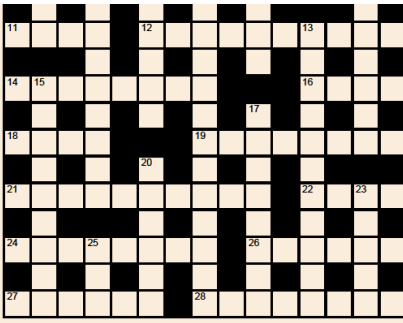
CROSSWORD

No 17,219 Set by BRADMAN



- ACROSS
- 1 Criminals in equipment-carrying gangs (8)
 - 6 Instruments exist in sports grounds (6)
 - 9 Stories in our paper constituting a bit of a bloomer (6)

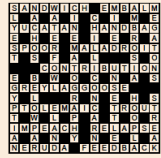
War without journalism?



- 10 Monastery being dissolved could create alarm, yes? (8)
 - 11 Something reconditioned maybe in old city (4)
 - 12 Criticises awful noises in informal discussion (3,7)
 - 14 Professional person putting on an act as one making suggestion (8)
 - 16 Money found in den that's been turned over (4)
 - 18 A fish jelly (4)
 - 19 Pals getting drunk in grass fell back (8)
 - 21 Infant left on island by an ancient city dweller (10)
 - 22 Party men generally lacking any heart (4)
 - 24 Famous Frenchman rues a sou being wasted (8)
 - 26 What about nasty jail for one opposing idolatry? (6)
 - 27 Run off, departure being across English river (6)
 - 28 Rough calculation of what's left in will – about one million (8)
- DOWN**
- 2KING and friend meeting (5)
 - 3Social occasion with fancy pageantry, road being blocked in (6,5)
 - 4Sanction an increase in salary? Not given priority! (8)
 - 5Prof's literature embellished with a form of art (4-11)
 - 6Stranger sort of glass (6)
 - 7Vehicle second-rate, unserviceable (5)
 - 8My quiet talk belittling firm's entertainment at event? (9)
 - 13Court rips 'im apart – the clerk records things here? (11)
 - 15Complicated series of actions getting a girl more agitated (9)
 - 17Mournful chap undermines scheme (8)
 - 20Dance around water in a children's game (2-4)
 - 23Good series of measures produced with hard work (5)
 - 25Country home being demolished in spring (3)

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FT SPECIAL REPORT

Watches & Jewellery

Asia



Queen of Siam
Thai designer wants to dip everything into gold
CUSTOMISATION Page 6



The surreal deal
How Dalí and Miró are inspiring new jewellery
DESIGN Page 15

Meeting of minds
Anna Hu on working with Alisa Moussaieff
COLLABORATION Page 15



Friday October 7 2022

www.ft.com/watches-jewellery

Secondary market leads sector's strong recovery

Historical records have been broken at recent auctions, says *Brynn Wallner*

When the onset of the pandemic hit Swiss watch exports in 2020, manufacturers and retailers were reluctant to express firm optimism about the future of the industry. But, since then, a combination of growth and hype has generated a horological frenzy, resulting in a new wave of watch wearing and purchasing habits.

In January of this year, the Federation of the Swiss Watch Industry (FH) reported an unexpectedly swift recovery from the 2020 dip in watch exports, which had been down by 13.1 per cent year on year. Driven by strong growth in the US alongside a steady upward trend in China, the last quarter of 2021 produced the best-ever annual results for

the sector, at SFr22.3bn (\$22.5bn) – some 2.7 per cent higher than in 2019, breaking the 2014 record by 0.2 per cent. Then, this past July, the FH reported that the first six months of 2022 saw nearly 12 per cent growth in the value of exports compared with the same period in 2021, taking total export value to SFr11.9bn.

And these export figures, representing the wholesale activity between Swiss watchmakers and their network of international retail partners, continue to slope upwards. The US, which had emerged as a strong driver for growth in 2021, holds 16 per cent of the value of all Swiss watch exports so far this year. But Asia, despite negative growth in China and Hong Kong due to lockdowns, remains the market leader, absorbing 49 per cent of the value of all Swiss exports this year to date.

Mid-year reports coming in from luxury groups such as Richemont and LVMH relay revenue growth across the board. Independent brands such as Rolex and Audemars Piguet do not share financial numbers, but "the demand for high-end watches by the most recognised and established brands

simply exceeds market supply," according to Mike Manjos, chief trading officer at pre-owned watch website WatchBox.

"We're seeing the strongest performance in the market within the ultra-rare and collectible space, and consumer interest, as measured by demand, has rapidly grown in the independent segment," Manjos reports. "Success by pioneering independent brands has institutionalised this type of manufacturer. Names such as De Bethune, FP Journe, Greubel Forsey, Grönlund, H Moser & Cie, MB&F, and Voutilainen date to the 2000s or even the 1990s."

These companies have also hit customers with wait-lists, therefore pushing consumers again towards the secondary market, which has seen its own growth as a result. Last year's report by McKinsey and The Business of Fashion put annual growth in the pre-owned watch market at 8 to 10 per cent from 2019 to 2025, with sales reaching between \$29bn and \$32bn.

Paul Boutros, head of watches for the Americas at auctioneer Phillips, says that the past two years have seen historical records broken at watch auctions. In

Continued on page 3

Asia is still the watch market leader, holding 49% of the value of all Swiss exports



K-pop goes upmarket

Several members of the K-pop band Blackpink have been enlisted by luxury brands for their high-jewellery launches. As K-pop keeps growing in popularity in the West, singers such as Rosé (far right) have fronted global

advertising campaigns for Tiffany. Similarly, the popularity of Jisoo (second from left) and Lisa (far left) had streams of young fans flocking to hotels in Madrid and Paris where Cartier and Bulgari were holding high jewellery events.

Page 10

1932 COLLECTION

THE STARS ALIGNED

In 1932, Gabrielle Chanel created Bijoux de Diamants, the first High Jewellery collection in history. Inspired by the allure of the stars, it was designed to be worn freely in a brand-new way. Mademoiselle then turned her concept of jewellery in motion – part of her vision for women – into a manifesto.

In 2022, CHANEL High Jewellery celebrates this celestial revolution with the launch of the 1932 Collection, based on the perpetual motion of the stars and tailored to the natural movements of the body. In the same spirit, CHANEL asked an author known for his reflections on movement to write a manifesto for the new collection.

After winding around from the nape of the neck, the string of diamonds suddenly bursts into a shooting star, trailed by a cascade of sparks leading to a sapphire that fits perfectly into the negative space of a crescent moon of diamonds. A fragmented nimbus then explodes around a profusion of carats pulsating at the neckline. A line of precious stones rises and falls with the rhythm of the breath, trapping the gaze in their bewitching depths. Beneath this blue eclipse, a string of crystals leads the eye toward the heart, where a diamond sun blazes, its early-morning rays oscillating and sparkling with the wearer's movements. In this theatre of precious stones, celestial bodies undulate on the skin's "Milky Way," sketching new landscapes each time the head moves or tilts. Like the necklace, the collection is a series of celestial bodies journeying across the skin and enhancing each movement of the body as the planets travel past twinkling stars. The beauty of the world lies in this radiance. The glow of the stones is tangible, sculpted into the diamond, itself becoming a jewel, liberated, as if the aura could be removed and worn as a brooch. What was a parure has become a jewel, a stone cut in stone, made even more precious by what has been removed from it. From the depths of the Earth to the Cosmos, there is little light, but it sometimes burns beneath the eyelids in insistent lines. The gems begin to dance within us: diamonds, blue diamonds, rubies, yellow diamonds, sapphires and rings running along the fingers, orbiting, spilling their brilliance over the hand. Bracelets and diamonds give way to a streaking comet on the skin, a virtuoso play of light and the ever-changing gestures of a woman who is suddenly the centre of the universe.

Hugo Lindenberg



CHANEL HIGH JEWELLERY

THE NEW 1932 COLLECTION CELEBRATES THE 90th ANNIVERSARY OF THE BIJOUX DE DIAMANTS COLLECTION, CREATED IN 1932 BY GABRIELLE CHANEL.

TRANSFORMABLE ALLURE CÉLESTE NECKLACE IN WHITE GOLD AND DIAMONDS, WITH A 55.55-CARAT OVAL-CUT SAPPHIRE.

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Watches & Jewellery

Kering buyout boss vows: 'We will never be mainstream'

Interview Patrick Pruniaux tells Robin Swithinbank about the break away and his plans for regrowth

Four months on from completing the management buyout that may come to define his career, Patrick Pruniaux can just about admit it to himself. "I was talking to a friend of mine that I met as a student almost 30 years ago, and he said I'd always wanted to be an entrepreneur," he says. "I was happy in my corporate life, but deep inside, yes, I think I always had that ambition."

On May 31, the 50-year-old Frenchman and a group of private investors completed a management buyout of the Sowind Group, the holding company for the high-end Swiss watch companies Ulysse Nardin and Girard-Perregaux – until then, owned by the French luxury conglomerate Kering.

The sums behind the deal, which included the currently dormant brand Jean Richard, were not disclosed, but Pruniaux, who had been Ulysse Nardin and Girard-Perregaux's chief executive, says he is now the main shareholder. Kering declared €29m of capital gains from asset disposals related to the sale in its half-year report at the end of July. Ulysse Nardin and Girard-Perregaux have more than 400 years history between them. However, judging by figures produced by Morgan Stanley, they

have been in freefall for years. Revenues at Ulysse Nardin have halved since 2018, according to the financial services company's estimates, while Girard-Perregaux is now so small that it is no longer ranked among Switzerland's top 50 dial names.

Nevertheless, Pruniaux, who left Apple in 2017 to join Ulysse Nardin, is bullish. "We are growing at more than 40 per cent," he says of his group's performance this year. "We are going to be back to 2018 numbers," he adds – without, however, disclosing any specific figures.

If Morgan Stanley's calculations are correct, though, that would put Ulysse Nardin's revenues in the region of SF110m and Girard-Perregaux's at around SF60m.

"Over the last couple of years, we've done very significant market cleansing, closing down distribution and buying back product," says Pruniaux. "When you buy back product, you withdraw that amount from your revenue."

Some experts believe Pruniaux and his investors have a battle on their hands. "Girard-Perregaux is no longer in the big league," says Oliver Müller, founder of the Swiss consultancy LuxeConsult and one of the authors of Morgan Stanley's annual industry reports. "It now has to find a virtuous dynamic that will allow it to grow again after a decade of continuous decline."

The sale had been rumoured for years and was widely seen as an acknowledgment by Kering that it could not compete in the high-end watch category.

Kering, owner of fashion brands such as Gucci, Saint Laurent and Balenciaga, said in May that it would give priority to the houses with the potential to become "sizeable assets within the group, and to which it can provide decisive support over time".

Analysts were not surprised the group let the venerable watchmakers go.

"The two brands were too small to move the needle," says Erwan Rambourg, head of consumer retail and research at HSBC. "They were a rounding error. Kering came to the conclusion they shouldn't spend as much time on those assets."

Pruniaux believes the brands' newfound independence can catalyse growth. "We see a clear appetite for independent brands," he says.

"Watch lovers, diehard collectors and new customers are getting interested in watches that are less mainstream. We are not and will never be mainstream. We will not go over 25,000 units for Girard-Perregaux, and not over 15,000 for Ulysse Nardin."

Rob Corder, co-founder of the specialist publication WatchPro, agrees with the approach. "It was deemed by management that they could turn

it into a more profitable business being independent," he says. "And, when you look at the brands growing fastest, such as Breitling and Audemars Piguet, it's the independents that have been most successful over the past few years."

Pruniaux says he is running waiting lists of at least a year on some models, such as the Girard-Perregaux Laureato, a 1970s stainless steel luxury sports watch that has seen a recent surge in popularity.

Interest in Ulysse Nardin's Freak watches is high, too, he says. A good sign, perhaps, but Pruniaux is not happy. "It's nothing to brag about," he says. "We're working to lower that wait, but it's hard. We are a manufacture, with a very high level of craftsmanship. We can't just press a button and produce more."

He says he has added 50 staff this year, including a number of watchmakers recruited from "very reputable brands". Retailers are talking positively. "Laureato has been a tremendous success and we can't get enough of it," says Brian Duffy, chief executive of the Watches of Switzerland group. "There's room for both brands to be much bigger than they are today."

Further growth may come from Asia. By the year end, Pruniaux says he will have opened 20 monobrand boutiques in China, split evenly between the two makers, having previously had none.

His Asian customers give him hope. "Today, the average age for Ulysse Nardin in Asia is below 35," he says. "South-east Asia is very dynamic, and we're expanding very nicely in Asia. We're investing in China, but with very exclusive distribution."

While the Swiss watch industry has



Clockwise from above: Patrick Pruniaux, chief executive of Ulysse Nardin and Girard-Perregaux; the Freak X and Freak S models; the Laureato Eternity – Johann Saury

yet to feel the effects of the global economic turmoil, some believe troubled stock markets and rising inflation could pose a danger to lower profile brands. "There is this theme that big is beautiful in times of crisis, which are a lot rougher on smaller assets," notes HSBC's Rambourg. Confidence may not be the most reliable currency in Swiss watchmaking, but Pruniaux the entrepreneur still has plenty of it. "We have proven the naysayers wrong," he says. "Otherwise we would have failed already."



TIME INSTRUMENTS FOR URBAN EXPLORERS

Bell & Ross

BELL & ROSS COLLECTION Automatic 40mm 168m water-resistant bellross.com

Oris Thais up with marine charity

Oris has created a limited edition version of its Aquis dive watch to raise awareness of the plight of the dugong, an endangered species of marine mammal that is known to inhabit waters around the island of Koh Libong off Thailand. Conservationists and islanders believe there are 170 dugongs in the area and are aiming to protect the colony from illegal hunters who kill the creatures for their meat and oil. The Oris Aquis Date Calibre 400 watch (below) features a green dial inspired by the sea surrounding Koh Libong and a grey bezel based on the colour of the mammal's skin. An engraving of a dugong mother and calf adorns the back of the watch, which costs £2,800 and is limited to 250 examples.

Phillips heads east

Auction house Phillips is previewing highlights from its November Hong Kong watch sale at four locations throughout Asia during the coming weeks. The watches, which include a 1953 Patek Philippe Reference 2499 first series valued at HK\$7.8m-15.6m (\$1m-2m), were on show in Bangkok until yesterday before moving to Singapore (October 15-15); Taichung (November 9) and Taipei (November 12-15). All 260 lots, including an ultra-rare Philippe Dufour Simplicity which has been in the hands of its original Japanese owner since 2007, will be at the auction taking place on November 28-29.

Going up

Young Swiss dial name Norqain – founded in 2018 by Ben Kuffer and advised by industry veteran and former LVMH watch division boss Jean-Claude Biver – has opened its first outlet outside Switzerland in Singapore's prestigious Orchard Road shopping area. Norqain's watches can be found in the Melcher's luxury goods complex, where its retail space is fitted with a ski lift chair imported from Zermatt, site of the brand's original store.



Japanophilia in the UK

British watch brand Schofield's HQ in the West Sussex village of Upper Beeding might be 6,000 miles from Tokyo, but that did not prevent Japanophile founder Giles Ellis from taking inspiration from a manhole cover spotted in the city's Fuchu district. And now the cover's decorative pattern – depicting a blossoming plum tree – appears on the sterling silver and glass case back of Schofield's latest model, the Japanese Beater B5 (right). The tree's soft pink tones were also applied to the dial and strap of the watch, which sells for £3,580 and is supplied with a matching lapel pin.



Going for the triple

High-end Japanese brand Grand Seiko has announced that its watches have been nominated for awards in three categories at this year's Grand Prix d'Horlogerie de Genève – the Oscars of watchmaking. Grand Seiko's Kodo model is tipped to win the tourbillon category, while its Ushio Tide and Mistflake watches powered by the hybrid Spring Drive movement will compete in the dive watch and Petite Aiguille prizes respectively. Winners will be announced at the GPHG ceremony in Geneva on November 10.

Fruitful market

Golden Concept, a Swedish manufacturer of ultra-luxury tech accessories, says Asia is proving to be the most popular market for what it claims is the world's most expensive Apple Watch case. The Diamond Edition case is hewn from a solid block of titanium set with 445 diamonds and costs \$15,000. Just seven will be made and, of the three delivered since the product's August launch, two have gone to Asian buyers.

Oriental arts

Seiko has released a pair of limited edition Presage watches inspired by kabuki theatre, the classical dance and drama shows which became famous during the 17th century for their elaborate costumes, stylised performances and elaborate make-up. The three-hand (£900) and chronograph (£1,050) models will each be available in 2000 examples and have brown dials decorated with a traditional

pattern from the Heian period and strap linings in *hakuro* – a scarlet brown colour. Both elements featured in typical outfits worn by kabuki masters. The watches follow a collaboration announced in August between Seiko and Kosuke Kawamura in which the collage artist produced dial patterns for a series of 5,000, £380 Seiko 5 sports watches.

Living the dream

Singapore will play host to the second Zenith DreamHors event on Wednesday, during which the watch brand will introduce its three new female ambassadors. Japanese actress Chiaki Horan, French violinist and social media star Esther Abrami and British rally driver Katie Munnings, who competes in the Zenith-sponsored Extreme E electric race series. The DreamHors concept was established in 2020 to promote the brand's Defy Midnight collection, its first purely female watch line. Existing Asian ambassadors include Singapore media personality Sheila Sim, Japan's Olympic rhythmic gymnast Airi Hatakeyama and veteran Chinese actress Song Jia.

What goes around

Asian buyers heading to Geneva for the annual November watch auctions have been snapping up tickets for the inaugural edition of RE-Luxury, which claims to be the first show open to the trade and public that focuses on the "re-commerce" of luxury goods. The brainchild of Fabienne Lupu, former president and chief executive of the Fondation de la Haute Horlogerie, RE-Luxury will host 30 exhibitors ranging from artisan restorers to pre-owned watch sellers including Richard Mille, eBay and WatchBox. The four-day event, running from November 4-7, will also feature conferences and talks about the new circular economy in the luxury world. Lupu hopes to stage a similar show in Hong Kong if this one proves successful. Tickets for the Geneva event cost SF750 per day or SF950 for four days.

Sky's the limit

Teenage Japanese-British skateboarding sensation Sky Brown is the latest ambassador to be recruited by watchmaker Tag Heuer. The 14-year-old, who shot to fame last year when she won bronze at the postponed 2021 Olympic Games held in Tokyo – despite suffering multiple skull fractures in a training accident – still lives in the town of Miyazaki where she was born. Simon de Burton

Watches & Jewellery

Collectors warm up to presentation watches

Branded pieces given as gifts to employees now command a premium after years of neglect, says **Kate Youde**

Watch collector Davide Dukcevicch loves that his vintage Rolex is a mix of "high culture" and "low". The Air-King 5500 model in question has the red-and-blue logo of Domino's Pizza on the dial. "It's whimsical, it's pop-art, and it's fun," says Dukcevicch, an investor in cellular agriculture from Providence, Rhode Island. "The whole back story to it is really appealing to me, as well." Domino's Pizza founder Tom Monaghan tells in his 1986 autobiography *Pizza Tiger* how he first started giving watches to franchisees who met

their sales targets in 1977 – beginning with the Bulova from his own wrist. Over the next few years, the US businessman gave "several Seikos", and then "hundreds" of Rolexes (centre). Dukcevicch's 1986 Rolex, which has the original owner's initials engraved on the case back, came with a note from Monaghan that said the watch was "a symbol of prestige" earned for reaching \$200,000 weekly sales. These watches – specially customised by Rolex – proved so difficult to sell on the secondary market that some dealers took drastic action to disguise their origins. Now, however, they are proving popular, driving up prices and prompting interest in other watches presented by employers in recognition of service. Jonathon Burford, a watches specialist for Sotheby's, says the Domino's Rolex used to be "unloved". "They were selling at a significant discount to the extent that, over the

years, dealers would very often polish out the engraving on the case back or try to take off the dial and put on a standard dial because the presence of a Domino's Pizza logo would be a distraction from the financial value of the watch," he explains. However, thanks to increased focus among collectors on rarity, he says the watches have sold for a "significant premium" in the past couple of years and can attract four or five times that of an equivalent unbranded Air-King at auction if they have the correct dial, engraving and papers. Sam Hines, the Hong Kong-based managing director of online auction house Loupe This, says the model is "becoming quite fashionable". "Typically, in Asia, you will have one collector who will buy one and then he is spending time with other collectors and they want to get one to be part of the club."

Domino's Rolexes were selling for under \$2,000 five years ago, recalls US dealer Eric Wind, owner of Wind Vintage. Prices started to rise in 2020, he says, but "everyone took notice" when one sold at Christie's for \$20,000 – four times the low estimate – in October that year. Such is the turnaround in popularity that buyers need to be careful. "I've seen people, because they have the [previously undesirable] dial that they threw in the drawer, try to put it in another watch and often it's incorrect for the serial number," says Wind. He says the Domino's Rolex has kicked off a "boom more interest" in presentation watches generally, particularly those with a corporate logo on the dial, as Rolex no longer offers that personalisation service. Domino's still gives a Rolex Air-King to store managers who exceed sales targets but the logo is on the steel bracelet rather than the

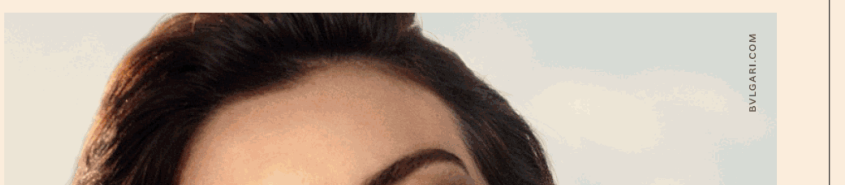
dial. Earlier this year, Wind sold an Air-King given by Calvert Distillers Company of Maryland in 1977 and a Rolex Date made for the 1985 Honda Bowl, which he thinks was awarded to the winner of a motorsport event. Other watchmakers also produced special pieces for companies. A late 1960s gold Patek Philippe Calatrava that was gifted by financier Bernie Cornfeld of Investors Overseas Services to an employee who achieved \$1m worth of sales was sold in February by Loupe This for \$6,600. Similarly, Sotheby's sold a Heuer, c1970, featuring the logo of US spark plug brand Champion for \$HK25,940 (\$3,050) last year. Yet Rolex remains best known for the practice, having commissioned watches for brands including Coca-Cola (far left) and oil company Total (far right).

Rolex's sibling company Tudor has since taken up the baton of making special series that are not commercially available. In May, Sotheby's sold a Tudor Black Bay, one of 75 made in 2018 for the Royalty and Specialist Protection branch of London's Metropolitan Police, for \$FR65,000 (\$63,880) – seven times the high estimate (below). Wind says the customised Black Bay models that singer Ed Sheeran gave to the crew on his Divide tour sell for around \$50,000 on the secondary market. "The modern Tudors with logos on the dial have gone really crazy in terms of value as well, so I think that has helped inspire interest," he says. He thinks the fact prices have "skyrocketed" for Rolexes with the signature of a retailer such as Tiffany & Co on the dial has also raised awareness of this form of personalisation. Soon after acquiring his Rolex, Dukcevicch bought an Air-King given by US supermarket chain Winn-Dixie as a 10-year Safe Driver award in 2001. "I have been on the hunt for other stuff, but they're hard to come by," he says.



Pre-owned watch market leads sector's strong recovery

has been a concentrated marketing and product response to women's rising demand for higher-end complications and, as a result, expects 30 per cent of AP's clients will be female by 2030. "Today, we see a much bigger interest from our ladies clientele for complicated timepieces," says Christian Selmoni, the style and heritage director at Vacheron Constantin. Its Traditionnelle perpetual calendar ultra-thin model is the brand's first-ever perpetual calendar watch created intentionally for women. Marketing, too, has become thought-



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Continued from page 1

2021, Phillips achieved the highest annual sale total for any auction house in history at \$209mn – a 57 per cent increase from 2020. But the record could be broken yet again this year, as Phillips had already reported \$127.5mn in sales before the autumnal auctions started.

“What we’re seeing here is that the market is very large – much larger than what it used to be for a collector’s auction,” says Boutros, crediting this greatly increased attention on the watch world, in part, to social media. Last year, Phillips sold a special collaborative Nautilus watch by Patek Philippe and jeweller Tiffany & Co for \$6.5mn during a nail-biter auction.

Even regular Patek Philippe Nautilus watches command a premium in secondary markets. Frequently referred to as one of the three “hype watches” (alongside the AP Royal Oak 15202ST and the Rolex Daytona 116500LN Black Dial), the Nautilus peaked at \$237,700 for a model that would normally retail at \$35,000, but with a waiting list of close to 10 years.

This inflated number drew new investors looking to make a quick profit by reselling watches. However, this summer’s crypto market meltdown triggered a sell-off of popular timepieces, as their owners suddenly found themselves in dire financial straits. Meanwhile, in Asia, more than a dozen popular watch brands have lost between 20 per cent and 50 per cent of their value on the secondary market since Shanghai, China’s commercial capital, imposed a strict lockdown in March.

Still, despite relative price dips, the overall hype, market conditions, and rise of the pre-owned market has managed to attract a slew of enthusiasts who are shifting the market with differing buying habits. Over the past two years, women have become a rising consumer segment within the male-dominated watch industry. Frustrated by lacklustre product offerings and sexist marketing campaigns, women have become increasingly vocal about what they want in a watch.

Ginny Wright, chief executive of Audemars Piguet Americas, talks of the brand’s shift toward its female clients: “When I started at AP [in 2019], 16 per cent of our clients, at least in North America, were self-purchasing females. Now, it’s 23 per cent.” Wright says there

fully female-focused, with watchmakers hiring strong female brand ambassadors to entice this burgeoning consumer group. Last year, Panerai signed on Chinese actress Dilraba Dilmurat, understanding the potential of influencers to boost brands, as particularly evident in Asia. Since 2016, the company’s female market in China has grown 60 per cent, with the fastest rise occurring since Dilraba’s appointment.

This shift has been seen across the industry with the continuation of Omega’s HerTime exhibition and Zenith’s DreamHers campaign launched in 2020, to name but two. Most recently, in September 2022, Tag Heuer signed with 14-year old professional skateboarder Sky Brown to appeal to a younger female crowd, which is warming up to the watch industry via the pre-owned market.

According to last year’s Deloitte Swiss Watch Industry study, the shift toward the pre-owned market is particularly strong among young consumers, with 42 per cent of millennials and 34 per cent of Gen-Zs saying that they would buy a pre-owned luxury watch.

“Whether it’s the sharing economy or being more socially conscious, younger consumers today are far less reluctant to buy items that were previously owned,” says Karine Szegedi, consumer industry leader at Deloitte Switzerland. “This generational shift will continue to benefit the pre-owned watch industry in the years ahead and is certainly part of a wider trend towards more sustainable shopping behaviour among young people.”

With more diverse and younger consumers, come fresher perspectives. A new wave of watch wearer is best exemplified by the American rapper and record producer, Tyler, the Creator. Over the past few years, Tyler has amassed an impressive collection of vintage Cartier timepieces – mostly found under the “ladies” category – fuelling a trend toward genderless watches.

Cartier, a brand long defined by androgynous appeal, has since surpassed Omega as the second-largest Swiss watch brand behind Rolex, according to Morgan Stanley’s 2021 annual report on the Swiss watch industry. The Richemont-owned brand has become increasingly favoured by the younger set, drawn in by its relatively lower prices and a nostalgic yearning for the genderless timepieces worn by the likes of Diana, Princess of Wales and artist Andy Warhol.



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Watches & Jewellery

My Favourite Pieces Trained engineer Ahmed Rahman has an eye for aesthetics as well as for what lies under the bonnet, writes Nicholas Foulkes

How to be a disciplined collector

Bangladeshi textile and pharmaceutical manufacturer Ahmed Rahman is a respected voice in watch collecting. A trained engineer, he speaks about timepieces with an insight and a knowledge that puts many modern watch executives to shame.

Yet his journey into the world of horology began not with his interest in mechanical engineering, but at the cinema. “I’ve always been a huge James Bond fan and, when I was a teenager at boarding school in England, Pierce Brosnan had taken on the mantle of James Bond, wearing an Omega Seamaster,” he says.

“I was completely enamoured with the Seamaster and dropped a hint to my parents that, when I graduated from boarding school, I wouldn’t mind receiving that as a graduation present. They very kindly obliged. But it turned out that they bought me the quartz one, so I ended up taking it back to the retailer and exchanging it for the mechanical one. That was my first proper watch.”

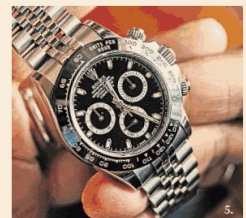
things. In those days, you really had the thrill of the chase.”

With time and experience, he has become a disciplined collector and, to enter his collection today, a watch has to satisfy at least one of three criteria: “Either the watch tells a story, or it is mechanically very interesting. The third test is that it just looks very nice.”

1. Cartier Tank Cintree
Cartier’s Tank Cintree is one of the brand’s classics that has come to the fore again in recent years. Its slender, straight-sided, curved case blends elegance with ergonomics and this example with a blue sunburst dial was a special order from Cartier. “It’s one of the most elegant watches in the history of Cartier, especially from a masculine point of view, the curved, elongated shape of the case hugs the wrist.” There is also link to cinema. “In *The Thomas Crown Affair*, Steve McQueen wears a watch which is very similar and that was the inspiration for my watch.”



Ahmed Rahman at Mark’s Club in London — Craig Gibson



His second 'proper' watch purchase was a vintage Heuer Monaco. "I don't consider myself to be a vintage watch collector", he says, explaining that this was another cinematically motivated purchase. "I was influenced by Steve McQueen, in *Le Mans*."

It was while studying engineering at university that his interest in watch movements began. He recalls with great fondness an Elysian period before the instant information age of the internet. "It was a lot more fun to try to look for

2. Patek Philippe Reference 3733
Another favourite dress watch is the Patek Ref 3733 with the lapis lazuli dial. For Rahman, this is an unusual choice. Dating from about 40 years ago, it crosses the line into vintage. Nevertheless, he appreciates the timeless modernity and dressy discretion of a recondite and underrated Patek Philippe. "Along with the Cintree, the 3733 is my dinner jacket watch, a go-to timepiece on formal occasions." Like almost all the watches in his collection, the watch is white metal, in this case white gold.



3. Audemars Piguet Royal Oak Perpetual Calendar Ultra-Thin
This ultra-thin perpetual calendar speaks to Rahman's inner engineer. Its innovative movement architecture and the multifunctional nature of components means that all parts can be on one plane, rather than superposed, making it exceptionally slender. If Rahman has one criticism it is of the choice of polished platinum for the bezel – "a scratch magnet". But those scratches testify to the time it spends on his wrist and the affection he has for the most famous creation of legendary watch designer Gérald Genta.

4. Patek Philippe Reference 5970
The Ref 5970 is regarded by many, including Rahman, as the perfect 21st century Patek grand complication. "When I went into collecting, chronographs were something I focused on." He feels that a chronograph gives what he calls "mechanical substance" to a watch while adding visual interest. "A chronograph always makes a watch look very interesting. The 5970 marries that with a perpetual calendar in a 40mm case size which, for me, is the sweet spot when it comes to case sizes. The aesthetics and proportions of the 5970 have always spoken to me in a way that other watches don't."

5. Rolex Daytona
No collection of watches can call itself complete without at least one Daytona and Rahman's is no exception. "Rolex, in general, is all about practicality and wearability. They are rugged and dependable." What makes his Daytona slightly different is that it is on a jubilee bracelet launched in 1945 to accompany the newly launched Datejust model. "I got that watch on the Oyster bracelet, but switched it to a jubilee on the recommendation of a friend. It's supple, and has the right amount of lustre. It's not overpowering. It's just a very, very comfortable bracelet to wear all the time."

6. FP Journe Chronomètre à Résonance
"What attracts me to FP Journe, and this watch in particular, is the idea behind it," says Rahman. "I read about the phenomenon of resonance and how resonance works in physics, and to be able to transpose that idea to high end watchmaking was miraculous within the confines of a wristwatch."
"It remained quite affordable on the secondary market for a long time. Luckily, I bought mine at auction some years ago as, today, I would not be prepared to spend the money these pieces now command, as prices are now driven by speculators."

Hajime Asaoka: Japanese watchmaker takes on the resellers

Short online selling windows aim to exclude buyers who are after a quick profit, says *Simon de Burton*

Horological fame: Hajime Asaoka in his Tokyo workshop with his creations — Christopher Jew, Carl Court/Getty Images

assembled by him and his team of four, who occupy two tiny studio workshops in the Bunkyo area, Kuroko Tokyo watches use ubiquitous Miyota movements and other bought-in parts. But such is Asaoka's cult following that thousands have been sold since he began shipping the watches worldwide in 2019.

In fact, the demand for new Kuroko Tokyo models is so great that Asaoka now announces them for sale on the company's website with a 10-minute buying window — and no indication of how many of each will actually be produced.

"Many people who succeed in buying one of our watches immediately offer them at far higher prices to others who haven't managed to order before the allocation sells out," he explains. "We have tried to control that by making them

little more than a decade ago, the name of Hajime Asaoka was unknown in the watch world. But, now, the 57-year-old's timepieces are in such demand that he has had to impose special measures to deter speculators

from buying them simply to resell. It started back in 2009 when Tokyo-based Asaoka was passing his days working as a designer of prototype telephones and steam irons while spending his evenings labouring over his first, home-made watch.

Sitting late into the night at a cramped workbench, he used makeshift tools bought from eBay and took guidance from YouTube tutorials and second-hand reference books, such as *Watchmaking* by the late English horologist George Daniels.

Despite being a beginner, Asaoka went in at the deep end and chose to build a tourbillon regulator, known for being one of the most complex of all mechanisms to perfect.

Against all odds, Asaoka succeeded, and news of his remarkable achievement spread like wildfire, after a short film he had posted online showing the uncased movement in action was spotted by French watch journalist Gregory Pons.

"He wrote an article about it but, unfortunately, didn't include any contact information," says Asaoka. "Somehow, a retailer in Ginza got in touch with me and asked if I wanted to make a watch to sell."

Having left his day job, Asaoka took up the offer and built another tourbillon — which quickly sold for ¥6m (£37,100).

Five further watches followed during the next five years, and he has since made around 30 different pieces under the Hajime Asaoka dial name — including tourbillons, chronographs, and three-hand models all to his own, distinctive design and priced between £15,000 and £80,000.

Most of the watches have been bought by the world's leading collectors, and such is the quality of Asaoka's work that two pieces were nominated for the 2020 Grand Prix d'Horlogerie de Genève — the Oscars of the watch world — with another being shortlisted in this year's Challenge category.

This time, however, the name on the dial is not Hajime Asaoka but Kuroko Tokyo, the sub-brand founded by the maker in 2018, initially to sell more affordable watches to his Japanese fans who admired his work but could not afford, or find, one of his rare haute-horlogerie pieces.

Although they are entirely designed by Asaoka and

available only for a limited time and by not revealing the number of each edition — although we really have no choice but to make small numbers, simply because we have such limited production capacity."

In May of this year, a Kuroko Tokyo Reiva watch — a model that sold out within six minutes of its 2019 launch — appeared at a Phillips auction in Geneva where it exceeded its SFr4,000 (£330) presale estimate by more than six times, fetching SFr25,200.

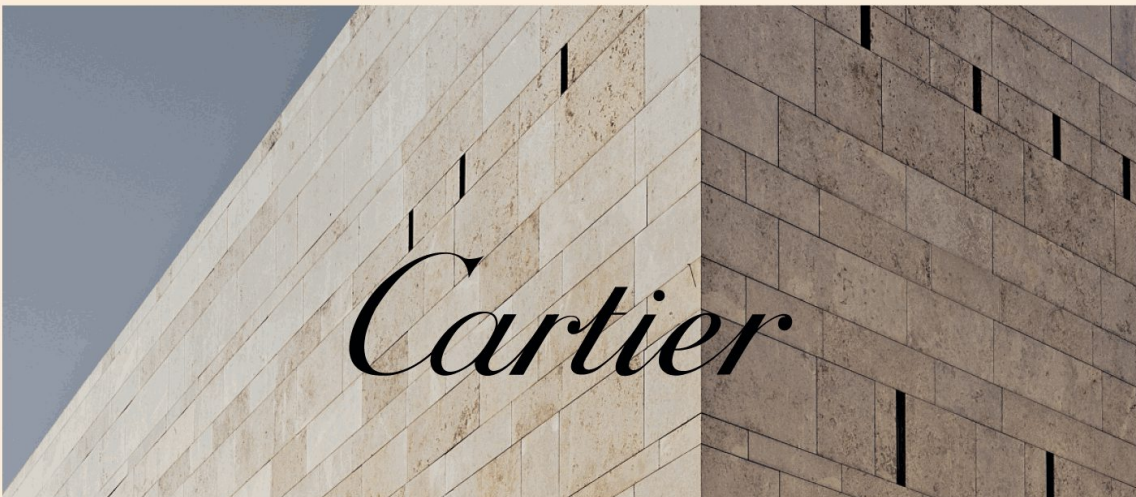
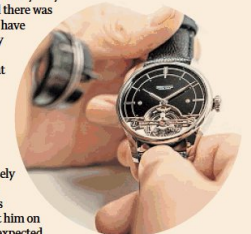
For those who are quick off the mark, though, a new Kuroko Tokyo remains good value. One of the latest models, a calendar watch called the Calendrier Type 1 that could have been bought for

around £1,500, went on sale on August 11 and sold out within 24 hours.

Sam Kessler, editor of watch lifestyle magazine *Oracle Time*, has followed the progress of Kuroko Tokyo since the watches became widely available in 2019. "Like other micro brands, they operate on the basis of providing phenomenal design and attention to detail at incredibly affordable prices," he says. "They don't spend money on marketing, they are completely transparent about the components that go into their watches and, due to the small size of the company, production is necessarily limited. The result is a well-deserved streetwear level of hype and instant collectability."

Asaoka, meanwhile, continues painstakingly to produce his high-end, own name watches in minuscule numbers using components that he makes entirely himself — and, in true Asaoka style, they are never simple. "Before I made my first watch, I had designed inexpensive watches for sale in department stores but never tried to make any part of one," he says. "Because of that, people often ask me why I chose to make a tourbillon as my first watch — and there are two reasons. The first is that my motivation to do something goes down very quickly if it is too easy; the second is that tourbillon watches are generally very expensive, and there was no way I could have afforded to buy one."

But, now that Asaoka probably can afford to buy one, he does not actually need it — because he wisely held on to that first, ambitious project that set him on the road to unexpected horological fame.





Watches & Jewellery

Brands seek out local retailers to fill in the gaps

Relationships between independent shops and watchmakers has flourished, says *Rachael Taylor*

Jeremy Pragnell was only 20 years old when he purchased his first Patek Philippe watch in 1969. The British son of a jeweller had discovered the brand while working at watch retailer Meisner



stores dedicated to Omega, Tag Heuer, Tudor and Breitling – a total of five stores. Whether consumers pick up on the link depends “how far down the journey they go”, says Duffy.
Even watch brands that want to own and operate their own boutiques sometimes seek out the assistance of established local retailers to do so, as Oris did when it opened its first British boutique in London as a pop up in 2019 through a partnership with retailer Fraser Hart. “We took it over independently nine months later,” says Isra Shah, Oris’s UK director of sales and marketing. “We saw the commercial value in taking this over far that retail, but it was the one

while working at watch retailer Meister in Zurich – and he fell hard.

A lack of proficiency in Swiss-German meant Jeremy Pragnell's social life in Switzerland was limited, but this allowed him to save much of his wages. Combining the cash with a 1ct diamond an apprenticeship in London's Hatton Garden had allowed him to purchase, he sought his employer's help to buy one of the coveted watches. "The owner of the business was quite taken aback," says Charlie Pragnell, Jeremy's son and current managing director of British watch and jewellery retailer Pragnell, as Patek Philippe watches were "extraordinarily expensive" even back then.

Meister did not carry the model Jeremy desired, so the owner contacted the brand's owner Henri Stern to request it, mentioning that the intended customer was one of his young apprentices. Impressed by this, Henri Stern charged his son, Philippe Stern – today Patek Philippe's honorary president – to hand deliver it. "And that's how the relationship began," says Charlie.

On returning to the UK, Jeremy petitioned his father George Pragnell, owner of Stratford-upon-Avon jeweller Pragnell, to stock his favourite watches and by the mid 1970s the store became the first UK retailer to offer a full collection of Patek Philippe timepieces. Sales of these expensive and relatively unknown watches were slow, until Patek Philippe's popularity soared in the late 1980s. Pragnell's early commitment has paid dividends as the brand is now an important part of its business. While Charlie will not share numbers as to the commercial importance of any one particular product or brand, he says turnover at Pragnell's three Stratford, London and Leicester stores is split evenly between watches and jewellery. In 2021, the retailer reported a 21 per cent turnover uplift to £63mm, with profits of £7.8mm, up from £4.1mm the year before.

The partnership has been so successful that when Pragnell celebrated the 50th anniversary of its Stratford-upon-Avon store in 2004, Philippe Stern and



Charlie Pragnell (top) runs retailer Pragnell which introduced Patek Philippe (left) to the UK. Watches of Switzerland run Tudor shops (right) — David Harrison/eyewire

Jeremy Pragnell collaborated on a special minute repeater in the store's black and gold colours with numerals to match the style of the numbers above the shop door. Pragnell is the only retailer Patek Philippe has collaborated with in this way, and when one of the five limited-edition watches came up for auction at Christies in 2012 it sold for \$575,340 to an Asian collector. The original was sold in 2004 for £162,000.

While Patek Philippe might have needed to rely on Pragnell in the 1970s for an introduction to the British shopper, this is certainly no longer the case, however the relationship remains intact. In September, Pragnell doubled the size of its store on Mount Street,

Mayfair, and an important element of the refurbishment was a dedicated Patek Philippe area, as well as one for Rolex – the only two watch brands it sells at its London outpost. So why, when watchmakers could use established brand power, easily amplified by digital outreach, to sell direct to consumers for full margin, do many still choose to operate via retail partners? "With full margin [achieved by direct retail] comes rent, people, systems, security," says Brian Duffy, chief executive of Watches of Switzerland Group. "So the return on capital investment and on retail is less than the brands make wholesaling overall."

Watches of Switzerland is enjoying a

strong period of growth. Full-year results for the 2021/22 fiscal year show its total revenue was up 40 per cent to £1.2bn with pre-tax profits increasing 98 per cent to £64mm. This is fuelling fresh expansion plans, much of which are focused on monobrand watch boutiques, of which the group operates 50 in the UK alone – a figure that has tripled in the past five years. This summer it opened a Breitling store in Stockholm, a Tudor boutique in Glasgow, and an Omega store in Copenhagen. It also operates Tudor, Rolex, Breitling, Bulgari and Grand Seiko boutiques in the US, where revenue jumped 48 per cent to £428mm in 2021/22.

Although these stores might be

branded as if they are run by the watchmakers themselves, it is Watches of Switzerland powering the retail operation. Duffy sees these dedicated boutiques – which he believes work well alongside Watches of Switzerland's multi-brand stores – as simply an extension of consumer choice, as "a natural evolution as the brands continue to invest and expand and elevate".

He gives the new Battersea Power Station retail development, due to open with 100 stores on October 14 in London, as an example of this harmony. At the site, Watches of Switzerland Group will operate a Watches of Switzerland store selling multiple brands, including Rolex and Cartier, and also standalone

offer (at least partly), but it was the support of our retail partner that provided the leverage and insights to explore this as a first for the UK."

Japanese watchmaker Seiko takes a blended approach. Some of its monobrand stores are run by retail partners – such as the Grand Seiko store in New York City's Soho operated by Watches of Switzerland – and others direct by the brand, including its store in London's Knightsbridge and another set to open on the city's Bond Street this autumn. "Our relationships with our retail partners work as a joint approach; acknowledging the fact that they are experts in retailing and we are watchmaking experts – which works in a well-balanced way," says David Edwards, managing director of Seiko UK.

Indeed, the tone of conversations between watch brands and stores is changing from one that was historically transactional, and often underpinned by power plays, to something more collaborative. Federico Ziviani, general manager at watch brand Gerald Charles, says he has weekly meetings with his London stockist Arjie to share local market updates, as well as discuss client feedback and requests. "We cultivate a very transparent and reciprocal relationship of continuous collaboration and trust," says Ziviani. "Listening to each other is a fundamental component."

While working through retailers can offer brands all manner of logistical boons, at the heart of this continued reliance on a traditional supply chain model is a more emotional motivation: an understanding that the relationships specialist retailers cultivate with their clients will always be stronger than a single brand can, and that these human touch points remain vital to watch sales. "Patek and Rolex understand that family jewellers around the world are their allies and advocates," says Charlie Pragnell, pointing out that neither of these market-dominating watchmakers rely on direct sales. "They can't possibly know all their customers personally. We do."

Patcharavipa augments vintage pieces with Thai gold

Celebrity-favourite jeweller wants to make a name out of 'Siam gold', discovers Ming Liu

When it comes to jewellery, Thailand may be best known as a go-to, business-friendly destination for manufacturing. But, recently, another type of export is shining a light on the country: the Thai designer Patcharavipa Bodiratnangkura.

Since setting up her brand in 2016, Patcharavipa has seen her textured gold jewellery on A-listers such as Gigi Hadid, Janet Jackson, and the award-winning actor Kodi Smit-McPhee. Rihanna, too, has worn an engraved, 1970s Rolex King Midas watch customised by Patcharavipa – one of three Patcharavipa watches that the singer purchased, says the Bangkok-born, London-based jeweller.

From scalloped Escargot hoop earrings to tactile, diamond-set chain necklaces and a Tiny collection of 1cm-sized Zodiac pendants, Bodiratnangkura's designs are stamped with a soft, sculpted gold finish that looks almost hammered – but is not quite. The technique is something of a secret. "It's not hammered – but I don't say how I make it," says Bodiratnangkura. "A lot of people are using organic shapes or textures right now, but with me, the finish is still very original."

Clients are drawn to the bespoke-like, rugged finish, which reflects Patcharavipa's various design influences: the architecture of London and Paris, where she has her headquarters and a showroom respectively, 1950s French artists such as Jean Dubuffet and Fernand Léger, not to mention Thailand itself. She cites the country's seaside cliffs and caves where she spent holidays as a child, the coconut shells that inspired her debut collection, as well as her Thai jewellery family heirlooms and the delicate gold jewellery that is worn at Thai weddings and funerals, such as gold necklaces, hair pins and pearl pieces. "My designs are traditional but with an old soul," says Bodiratnangkura.

Gold, by far, is her signature, which she calls Siam gold. "I came up with the name after seeing it on a silver pill box that my grandparents were given for their wedding," recalls Bodiratnangkura. "On the bottom it said

'Siam gold sterling silver'. It was so sweet – and a name we shouldn't forget. Thailand used to be called Siam. There's a sweet resonance to it."

Siam gold exudes a hue that is typical of Thai gold jewellery, which Bodiratnangkura describes as "a little bit more shiny, more yellow than Italian gold". The 18ct gold is specially plated in the Bangkok atelier that is attached to Patcharavipa's boutique in the Thai capital. The workshop employs seven craftspeople who specialise in all areas of jewellery making, from goldsmithing and plating, to polishing, engraving and stone setting. "We're very lucky to have our own atelier and make our own decisions," says Kenzi Harleman, Bodiratnangkura's partner. "The team works only for us – otherwise we wouldn't be able to do all these things. The workshop can spend days just working out a certain technique."

According to Thomas Chauvet, head of luxury goods equity research at Citi, "Thailand has been a leading jewellery design and manufacturing hub for over two decades."

"It all started with the opening of the Gemopolis tax-free zone in the early 1990s, which attracted a number of global and regional jewellery players," he says. Among the most prominent is the Danish jeweller Pandora, which manufactures exclusively in Thailand and, in 2021, reported its highest revenues to date of DKK23.4bn (£2.8bn). The company cited its Thailand production as one of the factors that helped mitigate the impact of the pandemic – and no wonder the country is just as popular with small makers, too. "Thailand seems like a relatively easy choice as it offers a business-friendly environment and competitive costs, highly skilled workforce for the craft of jewellery, political stability and a number of financial incentives," notes Chauvet.

The bulk of Patcharavipa's designs are priced between £5,000 and £6,000. There is also a couture line featuring larger stones, the most expensive piece of which is £250,000. It is influenced by Bodiratnangkura's studies at the Gemological Institute of America and the Asian Institute of Gemological Sciences.



Clockwise from above: Patcharavipa Bodiratnangkura (right) and Kenzi Harleman; 18ct Siam Gold Escargot earrings; Diamond Row 10 necklace; customised 1970s Rolex King Midas worn by Rihanna — Charlie Ebbey/FT

Neither Bodiratnangkura nor Harleman wear watches themselves, but they like the idea of customising "forgotten treasures" – namely, 1970s gold watches from top marques like Rolex, Patek Philippe and Vacheron Constantin – and transforming them into the kinds of watches they would wear. Once again, this is where having a wholly-owned atelier comes in

handy. For a customised 1957 Rolex Oyster Date, for example, each white gold-plated silver link in the bracelet was handmade before being assembled into a jewel-like piece.

The watches, Harleman says, introduced an entirely new customer base to the brand. Bodiratnangkura and Harleman say they are just having fun – making pieces more intricate and interesting. "It's watches now, but could be something very different in the next few years," suggests Harleman, who hinted at "retouching" the likes of old Cartier lipstick holders, or creating drinking glasses and salt and pepper shakers. "It could be a lot of different things," he says.





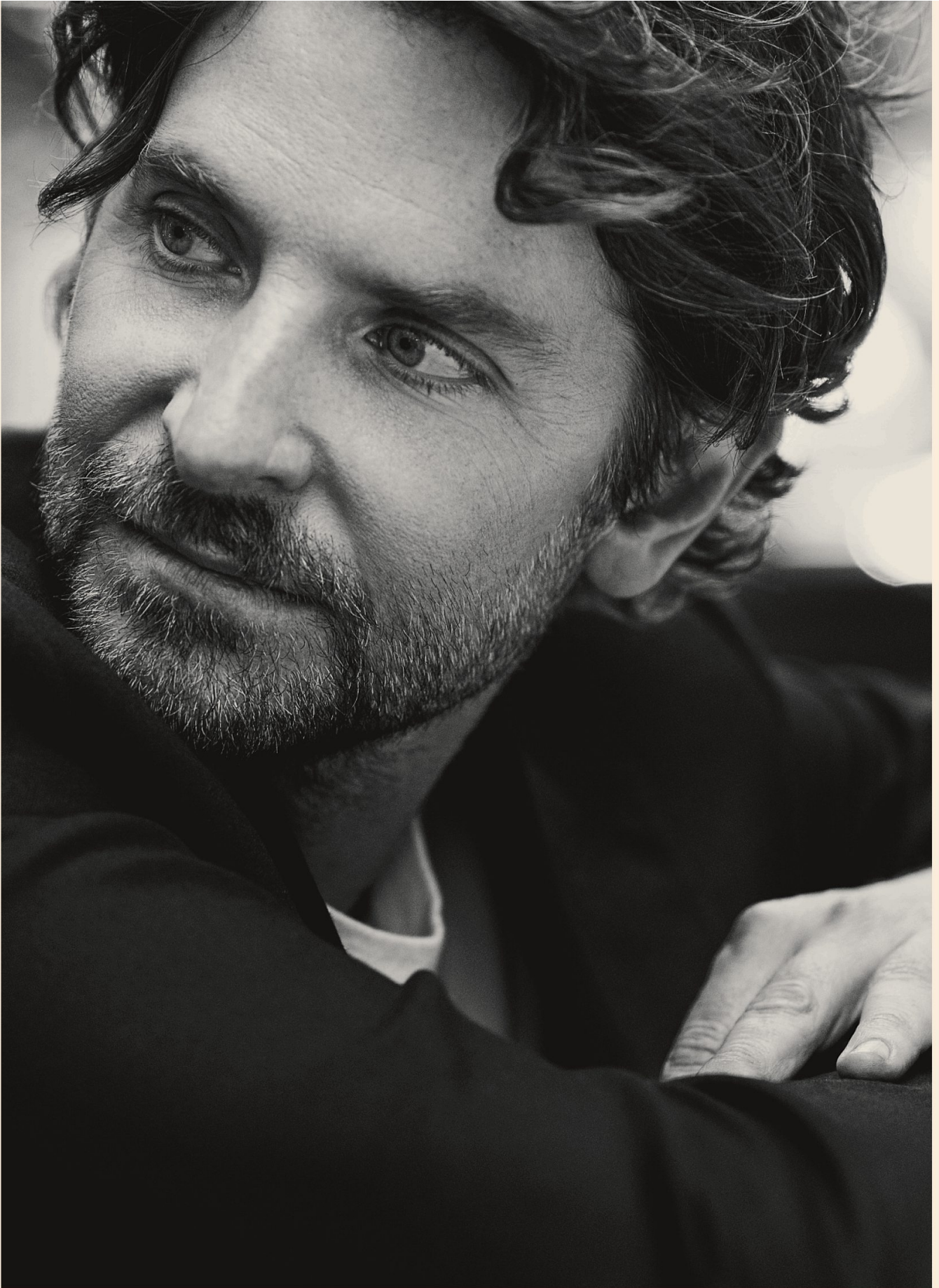

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JOURNEY BEYOND TIME



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Watches & Jewellery

K-pop stars boost heritage jewellery brand sales

Brands enlist Korean pop singers to engage with a younger audience, reports Milena Lazizzera

Korea's rise to the status of a cultural superpower, influencing creative industries globally, is being celebrated in an exhibition called Hallyu! The Korean Wave at the Victoria and Albert Museum in London, running until June 25 2023.

But Hallyu – a Chinese term referring to the soaring popularity of South Korean pop culture across the world – is increasingly shaping the business of luxury houses, too.

Several high-jewellery launches in June this year happened with the blessing of a K-pop singer as guardian angel. Jisoo was the guest of Cartier's Beautés du Monde gala in Madrid; Lisa was with Bulgari in Paris; while Rosé, a Tiffany ambassador, made an appearance at the grand opening of its exhibition, Vision & Virtuosity, held at the Saatchi Gallery in London.

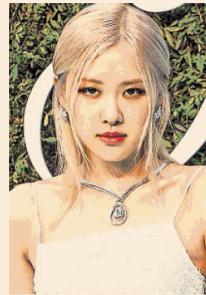
These three performers, together with Jennie, one of Chanel's global ambassadors, sing and dance in the K-pop band Blackpink. And, through their brightly coloured and rhythmically choreographed video clips, conceived as mini-movies, they hold sway over millions of young fans across China, Asia and beyond.

"Think of the Spice Girls – then add the power of more than a quarter of a billion followers on social media. Associating with these K-pop stars is a way for the jewellers to be culturally relevant, reach a new younger audience, and boost sales in an uncertain macroeconomic environment."

"With the success of K-pop and K-drama, Korean talent has been able to have a strong cultural presence and influence globally," says Alexandre Arnault, executive vice-president for product and communications at Tiffany, of its choice of Rosé as a brand ambassador.

K-pop ambassadors position the brand "as culture-shaping, and attract younger customers and key opinion leaders," says Federica Levato, senior partner in the fashion and luxury business at consultancy Bain & Company.

But, in business, culture must sing in sync with commerce. In June, Bain published a luxury report that identified Korea as the new Japan, with a market totalling about €15bn – or 5.2 per cent of the global €288bn luxury market. That



Clockwise from top: a Hallyu-themed exhibition at Britain's V&A museum; members of K-pop band Blackpink, Rosé, Lisa and Jisoo, have collaborated with brands on their high jewellery launches
Victoria and Albert Museum's Yen Myung-Cul/Marc Pizacki/Mike Marland/WireImage/Getty Images

suggests it has grown from being 50 per cent of the size of Japan's market (2016) to 75 per cent (2021). Nestled between China and Japan, not only is Korea a vibrant tourist shopping destination, it has also steadily developed a strong base of local consumers who have pushed jewellers to spruce up their retail presence. Cartier, which already counts 19 points of sale in the country, is opening a

new flagship store this month. Last month, Chaumet added a fourth store in Seoul. "It is important to the Maison to engage with local audiences," says chief executive Jean-Marc Mansvelt.

Instead of costly ambassador contracts, often in the seven-figure region, the 242-year-old brand has built "friendships" for tactical activities with K-pop singers Nayeon, Krystal Jung and

Cha Eun Woo and actress Song Hye Kyo. The try-on-tiara filter Chaumet launched with Nayeon last Christmas "has been downloaded by many followers, old and new ones, who have all played with it and generated stories and posts," says Mansvelt.

Media analytics company Launchmetrics reckons Rosé's single Instagram post promoting Tiffany's exhibition in

London was worth \$2mn of the firm's proprietary "media impact value". Bulgari chief executive Jean-Christophe Babin reports a similar K-pop effect – and increased sales of entry-price pieces at about €3,000. "Since we began working with Lisa, there has been an increased buzz online, especially on Twitter, all across Asia and beyond," he says.

According to Equité research, 15 to 20 per cent of luxury purchases worldwide are already made by the Gen Z demographic – under 25 years of age now – an estimate that reaches 30 per cent of consumers in China. "Being associated with a vibrant, young pop culture helps legacy brands to transition into the Gen-Z preference cluster," says Daniel Langer, the firm's chief executive and professor of luxury strategy at Pepperdine University in Malibu, California. Babin agrees. "The Asian market differs slightly from those elsewhere as the luxury industry there tends to lean more to a younger crowd. So, it is essential for Bulgari to be inspirational and make them fall in love with the brand through storytelling, which is in line with their values."

He also stresses Asian women's influencing power in every field. "Asia is undoubtedly the engine of global growth. Cities such as Seoul, Tokyo or Shanghai are today as influential as traditional fashion and luxury capitals such as Milan, Paris or New York."

However, more than popularity and youth, Arnault Carrez, senior vice-president and chief marketing officer at Cartier, is concerned with the long-term relevance of the brand. "For sure, we have noticed an uptick in searches for certain products and more engagement on social media since signing Jisoo, but we are not obsessed with ambassadors, or ambassadors with very high reach – we want to engage with talent," he says. "Jisoo has worked extremely hard to reach her position, and she complements the other people we partner with."

Carrez adds that Cartier's ambassadors come from varied professional paths, such as boxer and author Ramla Ali and actor Paul Mescal, who does not have a social media presence. "We do not have a communications strategy to attract a young audience, as we do not create products with a young audience in mind," he says, pointing to products such as the Santos watch, created more than a century ago, which is still popular among young consumers.

Indeed, with LVMH's and Richemont's half-year results showing a healthy 22 per cent and 49 per cent growth in sales of watches and jewellery, respectively, their over-100-year-old brands look poised to stay "Forever Young" – in the words of the Blackpink song.

In with the old Antique pieces are finding a fresh market as Bulgari, Cartier and Van Cleef & Arpels spur buyer interest, writes Francesca Fearon

Asian collectors cultivate taste for high-end vintage jewellery

High-quality diamonds find a ready market at Asia's auctions, but antique jewellery is attracting attention, too.

At Christie's spring sales in Hong Kong, the Magnificent Jewels auction raked in \$54.3mn, aided by some impressive figures for Bulgari including a 1970s diamond and ruby necklace selling for \$355,384.

Some choice antique jewels from Van Cleef & Arpels, Tiffany & Co, and Mauboussin also sold well.

There are established collectors, like Albion Art in Japan, but, elsewhere in Asia, antique jewellery is finding a new market – especially pieces by Cartier and Van Cleef & Arpels. When the Chinese first started buying high jewellery, they were only interested in contemporary creations, say jewellery houses. "We saw a hesitation to venture into pieces from the past

and cultural programmes hosted by auction and jewellery houses, together with social media, has spread the knowledge, enhancing the allure of antique jewellery among Asian collectors.

However, beyond Asia's auction houses there is Cartier Tradition (selling pre-1970s heritage jewellery) and Cartier Vintage (post 1970s) and only a handful of specialist antique dealers like the Palais Royal Paris gallery in Hong Kong and Revival in Singapore, catering to this newfound interest.

Illustrating this passion to learn, Gilles Zaliulyan, co-founder of Palais Royal Paris, which wholesales and retails

many of them are collectors of Chinese works of art like ceramics and paintings." Kang launched her business in 2013 having spent 15 years working for Christie's in Shanghai and Beijing and so her first customers were drawn from those clients.

"The first year was a challenge," recalls Kang, as there was no culture of buying vintage in Singapore and only a small group of collectors. "So I had to think bigger and took trunk shows to Hong Kong, China and Taiwan. It took time but many early adopters of buying vintage have seen their purchases increase in value and," she adds, "since Covid, the Singapore market has become very strong for me."

People care more for Cartier, Van Cleef & Arpels and Bulgari, says Zaliulyan. He attributes the success of those brands to the marketing activities of



ble gold jewellery," she says noting vintage animal jewellery being all the rage, while "Bulgari from the 1980s and 90s and retro Hermès are very hot right now". At, Hancocks in London, 1960s and

That relationship is so important says veteran London dealer Sandra Cronin, who has attracted a network of Chinese clients over 15

mostly due to superstition," says Natacha Vassiltchikov, the international deputy heritage director of Van Cleef & Arpels, who develops the maison's vintage (1920s-90s) jewellery collection. "Today the situation is quite different: our heritage collection always attracts a lot of interest at high jewellery events [in China]," she says. Like other collectors "they appreciate creations which are rare and have a distinctive style and look". Sales, influential exhibitions, and pro-



antique jewellery, recalls taking one Chinese client around the Musée des Arts Décoratifs in Paris. "After that [visit] she realised vintage was so much more interesting than modern jewellery, because they are handmade one-of-a-kind pieces," he says, "so she started buying antique jewellery." It is, however, still a niche market in mainland China says Brenda Kang, founder of Revival in Singapore. "Clients are those who have an affinity for vintage because

their respective heritage departments, which he also supplies. "However, we do carry a lot of Suzanne Belperron, Boivin, LaCloche, Boucheron and some Mauboussin," he says. His favourite era though is Art Nouveau for its profound creativity, "and I'm totally crazy about René Lalique." Kang's inventory is not too dissimilar: Boivin, Belperron, LaCloche, Pierre Sterlé, and more recently the contemporary designer JAR (Joel Arthur Rosenthal). "For a while Art Deco platinum or Tutti-frutti, and Edwardian diamonds were popular, but since Covid I've seen an increase in popularity of more weara-

70s Bulgari pieces are selling well, driven by Chinese interest says director Guy Burton. "More recently we have seen a huge interest from the UK-based Chinese market in Victorian jewellery," he adds. "Antique jewels may present better value (as there is no VAT here), but shipping to China is problematic with import duties there based on material value for the gold and gemstones." The advantages for clients of buying from specialists, say dealers, is the opportunity to try on the jewellery, to feel it for weight and comfort rather than rely on photographs; the direct relationship with an expert and avoiding the frustrations and disappointments of a bidding process.

Clockwise from main: Sales at Christie's Magnificent Jewels auction in Hong Kong hit \$54.3mn; Boucheron peacock feather necklace; Cartier gem-set bird brooch; Van Cleef & Arpels Mystery set sapphire and diamond Ludo hexagon bracelet; Bulgari ruby necklace

years: "It all comes down to trust, ethics and being in it for the long term." Some of them are private clients, and some are dealers acting on behalf of customers in China – they share images of the jewellery via video link direct to clients from her showroom. One keen client has been collecting in preparation of opening a museum in China in the future. "They just want the best," says Cronin, "regardless of whether it has a signature, which is a big credit to them as it shows they are knowledgeable and not led by a name."



Soir de Fête necklace

HIGH JEWELLERY

CHAUMET PARIS

Watches & Jewellery

PAD London The UK capital showcases bold contemporary styles aimed for an international clientele, reports *Kate Youde*

Designers reimagine Indian jewellery heritage

When Valery Demure visited a jewellery fair in Mumbai before the pandemic, there was one local brand that stood out. She liked everything she saw from Moksh, whose pieces showcased techniques including micro pearl weaving. "You could tell there was a desire to expand outside India and also to convey a more contemporary India," says the jewellery curator and consultant.

So, next week, Demure will show Moksh's designs in Europe for the first time, when the PAD London design fair returns to Berkeley Square.

The brand is among a "new wave" of contemporary designers from India that are reimagining the country's centuries-old jewellery heritage, which has long influenced Western design, to create bold new styles for an international clientele. "You have a new guard of Indian designers," says Demure, known for spotting new talent. "It's only starting, but it's quite exciting."

Net-a-Porter, which already stocked pieces by Bina Goenka, Amrapali and Ananya, launched Indian jewellery brand Kamyen on its platform last month.

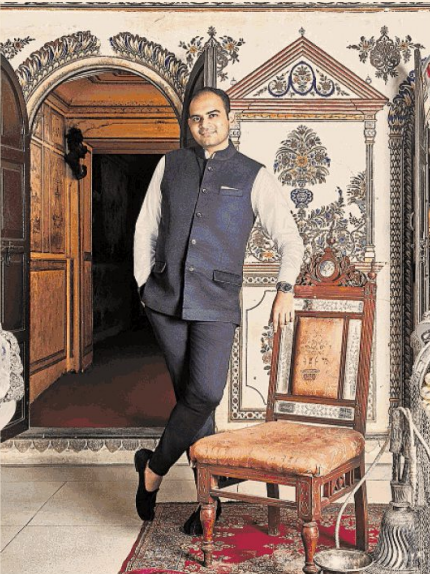
International auction houses are also promoting the work of contemporary Indian designers.

Christie's is showing six pieces by Neha Dani, who has her own stand at PAD London for the first time this year, in its private sales salon in London. The New Delhi-based designer draws on India's tradition for detailed handicraft and coloured gemstones — Jaipur is the world's lapidary capital — but is keen to bring her own perspective to jewellery. This includes using titanium, which she says gives her "freedom to explore" larger designs, as she is not restricted by the weight of the metal, and to create "another palette of colour" by anodising it.

Phillips held a selling exhibition of about 40 Santi pieces in London last month, the first time the brand's jewellery had been shown publicly. The pieces by Krishna Choudhary, who launched his first designs in London in 2019, were displayed alongside the historical Mughal jewels and objects from his family's collection that inspired them. His gem-set titanium jewellery draws on traditional Indian architectural and decorative motifs including paisley.

"He honours his family legacy and tells his beloved story of Indian jewelled arts through the filter of his individual vision of modernity," said jewellery historian Vivienne Becker, exhibition co-curator, in publicity ahead of the sale. "He has become a leading exponent of a new wave of excitingly innovative Indian jewellery."

Benoit Repellin, worldwide head of jewellery at Phillips, says Choudhary's use of old stones, which are "very hot on the market" at the moment, such as carved emeralds and



Clockwise from above: Krishna Choudhary of Santi; ruby diamond ring and pearl earrings from Moksh, emerald petal and diamond wave rings by Santi; diamond and sapphire earrings and pearl necklace from Bhagat; blue moonstone diamond cuff and pink diamond earrings by Neha Dani



old cut diamonds, appeals to clients. "It adds more charm and one can feel the story behind it," he says.

He credits jeweller Viren Bhagat, of Mumbai-based Bhagat, with giving "more visibility to contemporary Indian jewellers in a broader market". Bhagat's pieces have been displayed in museums worldwide and were part of Christie's \$109.5m sale of Indian jewels and jewelled objects from the Al Thani collection in 2019.

They attract high prices: Christie's sold a five-strand natural pearl and diamond necklace for £1,695,000 in the 2019 sale. A pair of diamond and sapphire earrings fetched \$126,000, against an estimate of \$30,000-\$50,000, in June this year. "Viren has his very distinctive, Deco-inspired Indian jewellery style," says Rahul Kadakia, international head of jewellery at Christie's. "There's always an inspiration which leads back to India, but his jewellery is not just Indian, in that you can wear it anywhere. That is the magic."

India has been an important global influence in jewellery because it is "culturally ingrained in the country", says Kadakia. As the recent exhibition, Cartier and Islamic Art: In Search of Modernity, at the Dallas Museum of Art showed, stones and techniques from India inspired the jeweller in the early 20th century.

"In a lot of instances, it was with Indian clients in mind that [French houses] produced jewels that had a particular Indian element to it and yet were very Deco," says Kadakia. This is something that New Delhi-based jeweller Hanut Singh knows only too well: his grandparents, Maharaja Kumar Karamjit Singh and Maharani Sita Devi of Kapurthala, took their stones to French houses in the 1920s and 1930s. As an untrained designer, Singh says the resulting jewellery by the likes of Cartier was his "study field".

Singh, who counts Madonna and Beyoncé among his clients, is represented by Parisian dealer Karry Berreby, who also shows work by Mumbai jeweller Estaa in her eponymous gallery. She has noticed "more and more" interest in contemporary Indian jewellery from customers in Europe and the US because of its versatility.

"The Indian jewellery pieces you can wear with a long black dress or with jeans," says Berreby, who exhibited jewellery by Singh and Estaa at PAD Paris in April.

Most of Neha Dani's clients are based in the US, Europe or the Middle East. She says that, as the younger generation steps into the Indian jewellery industry, there are more designers emerging.

"Everybody's experimenting, deviating away from the traditional motifs and traditional Indian jewellery," she says. "They're bringing in their individual flavours. I think there's going to be a lot more designers in the coming years coming out of India."

Two Geneva-based events want to fill the gap left by the defunct trade show, says *Maria Doulton*

Fresh fairs emerge from Baselworld's



demise

When Baselworld's 102-year reign as the defining world watch and jewellery fair ended abruptly in 2020, it left a vacuum. The Geneva-based Watches and Wonders show – an extended version of the original Salon International de la Haute Horlogerie, which had started as luxury group Richemont's riposte to Basel – swiftly stepped in to cover the big watch brands. But many jewellers who used to exhibit under the auspices of Baselworld had to find other solutions on their own.

So, two new events emerged from the jewellery industry itself to fill the need for jewellery fairs in Europe.

The first was GemGenève, which held its inaugural show in 2018, followed by Haute Jewels Genève in 2019, just a year before the first lockdowns. While GemGenève is held in May in a wing of the vast Palexpo exhibition halls, Haute Jewels Genève now takes place in late March at the Hotel Kempinski – coinciding with the Watches and Wonders trade show.

The shows have different profiles. GemGenève mainly caters to gemstone and antique jewellery dealers, and Haute Jewels Genève is aimed at high jewellery brands and manufacturers looking to meet wholesale buyers and find new outlets for their jewels.

Behind GemGenève are two Swiss men: Thomas Faerber and Ronny Totah. Faerber started as a diamond dealer in 1973 in Basel and moved into antique jewellery and coloured gemstones. Totah specialises in coloured gemstones and antique jewels.

"We were in at the deep end," says Faerber of the creation of GemGenève, now in its fourth edition. "We never expected to be exhibition organisers but we felt that we weren't welcome in Basel anymore. There was a need for a show where organisers and exhibitors spoke the same language and in an environment that is right for us."

The 201 exhibitors at GemGenève in May 2022 were a mix of diamond and gem stone dealers, antique dealers, and some contemporary jewellery design-

"When Baselworld closed down we were left high and dry. While Basel had over 1,000 exhibitors, we have selected just 18 brands"

Michael Hakimian, Yoko London

ers. The show focuses on what Totah describes as "human-size, mainly family-run, businesses, that behave well. We select those who are good in their sector with a breadth of price points."

GemGenève reported 3,302 visitors to its latest show, mainly made up of buyers looking to source loose stones and antique jewels. Though primarily a trade event, it is open to the public and Totah reports that 25 per cent of the visitors are private buyers. There will also be a special November 2022 edition of GemGenève "to respond to the needs of the market" which could not travel for many months due to global lockdowns.

Haute Jewels Genève is an even younger event that had its first show in 2019 with just four exhibitors. It was put together by Michael Hakimian, chief executive of Yoko London, the pearl jewellery brand that also wholesales pearls and manufactures jewels.

"There is no doubt we filled the gap left by Basel," says Hakimian. "When the show closed down, we were left high and dry. While Basel had over 1,000 exhibitors, we have selected just 18 brands. Each has its own niche and look with a strong heritage, innovative products, good reputation, and an international reach. The spirit of the show is to try and help each other."

Above: Michael Hakimian at the ribbon cutting opening of Haute Jewels Geneva
Right: Visitors at GemGenève
Yoko London; David Fraga

Haute Jewels Genève coincides with Watches and Wonders and benefits from the fact that the buyers from big global retailers are in town. The date is also crucial, says Hakimian, as orders placed in April can be fulfilled in time for the Christmas season.

But there is room for both shows. In fact, Hakimian's operation, Yoko London, will be exhibiting at GemGenève in November to gain access to its audience, in order to sell loose pearls and manufacture services.

"We are not competing with GemGenève at all," says Hakimian. "I liaise closely with them and we share our strategies."

Hakimian feels there is still a need for Asian and American shows and that smaller and more focused exhibitions for specific sectors will spring up in Asia, the Middle East and America.

"The day someone creates a show that can bring all the high end jewellers together, I will book a booth," says Hakimian. "I didn't start out as an exhibition organiser and never thought I would be designing showcases, lighting systems and overseeing security and we don't do this as a profitmaking venture but because our industry needs it. Our third edition is already sold out as everyone rebooked. I am a very busy man."



Watches & Jewellery

Assay Mandatory standards aim to boost jewellery exports and give consumers more confidence in the purity of gold they buy, reports *Caroline Palmer*

Hallmarking set to bring order to India's gold trading

None is sure how many jewellers there are in India. The All India Gem and Jewellery Domestic Council (GJC), which represents jewellery retailers in the country, puts the figure at between 500,000 and 350,000. What is certain is the importance of the sector to the country's economy and its culture. The gem and jewellery market is the second largest in the world, contributing roughly 7.5 per cent to gross domestic product, 15 per cent to merchandise exports, and directly employing 10m people.

So, when, in June 2021, the government introduced mandatory hallmarking for all gold jewellery into a sector that embraces both the village jeweller in a tiny workshop and the big glossy stores of Mumbai or Delhi – plus everything in between – the challenges were always going to be complex.

The rule change was the culmination of more than a decade of dispute between the government and the industry. Hallmarking has been voluntary since 2000 but only 50 per cent of jewellery was sold with marks that certify the item as being particular caratage – whether 18ct or 22ct, for instance.

One of the prime movers behind mandatory hallmarking has been the World Gold Council, which believes modernising the sector could boost jewellery exports and give consumers more confidence in the purity of gold they buy.

This issue of trust is at the heart of the

new regime and has become more pressing as societal changes affect how, and where, consumers buy their gold jewellery. "While people trust the jewellers, there have also been many, many cases where people always expect – even if it is their own jeweller – that [when] he is telling me [a piece of jewellery] is 22ct, it is really not 22ct," explains Somasundaram PR, the regional chief executive of WGC's Indian operations. "The point is I get a benefit that when I go back to him [to sell the piece] he cannot say it is not 22ct."

"There is not absolute trust in purity and price," he says, but also notes that gold transactions in rural areas were as close to a banking service as the locals could get. "There was never a bank in those places, so gold was actually a financial inclusion tool."

Research by the WGC has shown that when consumers go to sell their pieces to a jeweller from whom they have not bought, "80 per cent of them found it was under caratage. It need not necessarily mean the jeweller actually

"There was never a bank in those places, so gold was actually a financial inclusion tool"

Somasundaram PR, World Gold Council



cheated them," says Somasundaram PR. "It is also possible the bar itself did not have the right standards. But then who do you blame when the entire chain was like this?"

He is referring in particular to the period before 1991, when gold imports to India were banned. At the time, buyers would tolerate impurity by sellers, given the problems of sourcing gold.

Pure, 24ct gold is too soft to withstand wear, so, for jewellery making, it is generally alloyed with other metals. As the Bureau of Indian Standards (BIS), which is overseeing the introduction of the hallmarking regime, points out in a recent briefing paper on mandatory hallmarking: "The need for alloying of gold... makes the public extremely vulnerable to excessive adulteration."

The BIS also acknowledges the complex nature of Indian jewellery, which is mainly made of high caratage gold but with numerous soldered joints of much lower caratage. This makes determining its purity even harder.

In addition, 24ct plating of low caratage jewellery is common. "The consumer, though well aware of such malpractices, still has no option but to submit himself to repeated cheating by unscrupulous traders," it states.

The hallmarking scheme has been fraught with problems, however. Two months after its launch, most of India's jewellery stores staged a one-day strike. Jewellers objected to the way the system was being implemented, but their anger

was mainly directed at the hallmarking unique ID (HUID). Described by the WGC as potentially "transformative for the jewellery sector", it is a laser mark that assigns an alphanumeric code to each piece of jewellery, to show the identity of the seller and the assay centre.

Its introduction slowed the hallmarking process down considerably, though, with jewellers unable to sell their pieces without the hallmark. As a result, its scope has been pared back for now, with

All that glitters: the complex nature of Indian jewellery makes the purity of its gold hard to determine
Hindustan Times via Getty Images

the HUID imprinted on jewellery and in the digital records of assay centres, but not integrated with the records of jewellers or manufacturers. It is a concession that will please those jewellers that had raised concerns about privacy.

Ashish Petha, chair of GJC, which helped persuade the government to phase in hallmarking so that infrastructure, including new assay centres, could be put in place first, says that despite the protests, a "large part of the industry has welcomed it [mandatory hallmarking] and embraced it with open arms".

He points to the 120m pieces that are expected to be hallmarkled this year, up from 50m before the pandemic.

But the GJC still has concerns, such as problems trading jewellery between districts in the scheme and those yet to be included. There are also worries about penalties for falling foul of the rules.

"In some places, the law states if one of your pieces falls with more than 4 per cent difference in purity declared, your registration can be cancelled. An extreme step and the person can go out of business," says Petha.

However, he praises the government response to the industry's concerns throughout the process and is optimistic these issues will be resolved.

According to WGC, there will be consequences, though. These include increased costs for small retailers in particular – which could lead to consolidation and "a more organised and formal jewellery industry".



Indian jewellers steer clear of Russian rough diamonds

Cutters and polishers strengthen traceability to retain business, writes *Milena Lazizzera*



size of the diamonds when cutters and polishers buy directly from such places. Dimexon, an Indian cutter and polisher specialising in melee diamonds, is one of the companies that buys direct from miners. In addition to a database

Speaking at the St Petersburg International Economic Forum in June, Sergei Ivanov, president and chief executive of Russian diamond miner Alrosa, announced that the company was maintaining its originally forecast output of 54-55m carats in 2022 – above its 2021 production of 52.4m carats.

This comes despite Western jewellery brands vowing after Russia's invasion of Ukraine to stop sourcing from Alrosa – which, up to 2021, supplied one-third of the global annual total of 116m rough diamonds. It also highlights the challenges for suppliers and traders under pressure to keep Russian stones at bay.

Caught in the middle are the 1m cutters and polishers of the 4,000 firms based in India, a country that handles more than 70 per cent of all diamonds and whose political elite has long courted close ties with Russia.

"There is a massive loophole, as once a rough diamond [the sole object of sanction] has been polished in places like India, according to the sanctions it has been transformed enough to become of Indian origin," notes Tobias Kormind, managing director of 77diamonds.com. He refers to the principle of "substantial transformation" which allows changing the place of origin of goods to where they were processed.

Nevertheless, some Indian polishers and cutters serving Western jewellers have been keen to support brands' pledges that no Russian stones would tarnish their clients' jewels.

"We adhere to the global sanctions and make our procurement decisions accordingly," says Devansh Shah, partner at Venus Jewel, a company specialising in cutting and polishing diamonds from 1 to 30 carats and above. "Each of our diamonds is individually tagged and



tracked throughout its diamond journey from the time we receive them as rough stones through to the final polished diamond." Piyush Patel of Dharmanandan Diamonds, another Indian facility specialising in large diamonds, praises the industry's IT prowess in tracing the stones' provenance.

The groundwork for such a system was laid during the early 2000s, when concern over conflict "blood" diamonds led to the implementation of the Kimberley Process certification scheme.

This requires miners to export rough stones in numbered and sealed, tamper-proof containers – alongside documents of origin issued by governments.

Moreover, prominent jewellers have taken responsibility for addressing consumers' concerns by participating in various industry-backed certification schemes and trying technological solutions, such as blockchain.

For example, De Beers has begun tracking diamonds weighing 1 carat or more from mine to market using Tracr, a system based on blockchain and artificial intelligence.

Once mined, a rough diamond is scanned, photographed, appraised, and

then registered on the Tracr platform. As the diamond is cut, polished and further appraised, more images and information are added to its digital identity.

Last year, De Beers presented a collection of eight fully traceable rings weighing more than 5 carats.

While it is easier to imagine how large stones can be segregated, the task seems daunting for the tiny melee diamonds used in pave settings, which are usually traded in bulk rather than individually. Yet, in trading hubs such as Antwerp, rough diamonds arrive in sealed batches sorted by size and bearing details of the mine of origin. So granular traceability does not decrease with the

Big business: 1m cutters and polishers are employed in 4,000 companies in India – *Dimitrios*

system that tracks all its diamonds, Dimexon issues written confirmations of the non-Russian origin of its stones.

"Ironically, we had a low single-digit percentage input from Russia and as such were never overly dependent on Russian supplies," says Vishal Mehta, Dimexon's director. But he expects sanctions will put pressure on prices. "We face increased competition, within our suppliers, from those manufacturers who had a high Russian dependence and are looking for alternate sources."

Cutters and polishers concur that, if prices have not dramatically increased so far, it is thanks to subdued demand from China, mired in its zero-Covid policy and yet to reopen. But diamond analyst Paul Zimmisky believes that there will be some supply shortages of non-Russian diamonds over the next 12 months, with consequent pressure on prices, as the West and Japan account for about three-quarters of global diamond demand.

Meanwhile, some jewellers, such as London-based Moussaieff, have had to adapt to the limited supply. "There are less goods available for higher prices," says owner Alisa Moussaieff. "Some colours which are mostly mined in Russia are extremely scarce." As a result, she was forced to look elsewhere for new suppliers who have different sources.

Zimmisky says: "What ultimately happens is the supply chain will become bifurcated between non-Russian diamonds and Russian diamonds. Once the industry adapts, non-Russian goods will be sent to the Western consumer markets and Russian goods... to the rest of the world."

Eddie LeVian, chief executive of US jewellery brand Le Vian, agrees – adding that "the Chinese are able to absorb that [Russian] supply even in their current choppy environment".

The challenge will therefore move on to tracing Russian diamonds from the secondary market.

Watches & Jewellery

Exhibition The family retailer-turned-designer wants to showcase Liverpool's creative industry and the company's early years, says *Kate Joyce*

Boodles' jewellery history on display

Boodles chair Anthony Wainwright liked to keep his family jewellery business a step ahead of the competition in Liverpool. So in March 1962 he jetted to 10 cities around the world in 16 days, stopping to source beautiful stones from dealers in India, Thailand and Hong Kong, and pearls in Japan.

To mark the 60th anniversary of the tour, his son Nicholas Wainwright, current Boodles chair, is making his own journey this month: around Europe in 10 days. Just as the jeweller paid homage to Anthony's adventure with a collection last year, so this trip will inspire new designs launching in spring next year.

Three rings from the upcoming collection will go on display at Lady Lever Art Gallery in Port Sunlight, Wirral, north-west England, this month in Boodles' first exhibition. Staged as part of the gallery's centenary, Pure Brilliance: The Boodles Story will tell how the Bond Street Jeweller grew from a shop in Liverpool, across the River Mersey from the gallery, into a national brand creating designs seen on a global stage.

The story begins on the opposite, north-east coast, in Hull, where clock-maker Thomas Kirk set up a business in 1798 that expanded into jewellery and silverware. Kirk & Co opened a branch in

Liverpool in 1889. Anthony's grandfather, Henry Wainwright, moved from Leicestershire to work in this shop and bought the business in 1898.

Liverpool was "a great commercial city by that time", says Alyson Pollard, head of the gallery. A transatlantic trading port, its population grew from 77,653 in 1801 to 517,980 in 1891. "Jewellery and other businesses were moving to Liverpool because there was quite a large middle class with more money to spend because of this growth in mercantile trade," says Pollard.

Henry changed the shop's name to H Wainwright & Sons to include his children, Harold and Herbert, and the family bought another Liverpool jeweller, Boodle & Dunthorne, in the early 1910s.

Henry and Herbert amalgamated the businesses under the Boodle & Dunthorne name after the first world war – which claimed Harold's life – in the Lord Street building that remains the headquarters. The company shortened its name to Boodles in 2004.

Anthony returned from second world war service in Burma after the deaths of his father Herbert and grandfather Henry in 1945 to find the business struggling. He persevered, against the advice of his bank manager and accountant.

His 1962 tour included a visit to Tiffany & Co in New York. "He'd always have a tape measure in his pocket... he'd be busy measuring up how long



other jewellers' windows were and taking photos of what they were doing," says Anthony's grandson James Amos, a Boodles director. "He wanted to be inspired by the best in the world."

Amos credits the trip with kick-starting growth. Three years later, Anthony opened a second branch, in Chester. Today, Boodles has five shops in London, four in northern England and one in Dublin.

Boodles was a retailer until it took on a full-time jewellery designer, Rebecca Hawkins, in 1990. Now all jewellery is designed in-house in Liverpool. Hawkins has designed a one-off gold bracelet for

the exhibition, which runs from October 22 until March 5. It features diamond-encrusted motifs inspired by the Grade II-listed gallery's glass ceiling domes, while the gems – aquamarines, morganites, kunzites, green beryl and yellow beryl – reflect colours in Pre-Raphaelite paintings in the collection. Also being displayed is the emerald and diamond Greenfire necklace worn by Helen Mirren in the high-octane film *Fast & Furious 3*.

The gallery is in the model village built by its founder William Hesketh Lever to house workers from his soap factory (later Unilever). It is not known whether he bought from Boodles, but he did inspire Anthony. The late chair wrote in a paper on jewellery marketing, "It was the first Lord Leverhulme who once stated he knew at least half of Unilever's massive and very successful advertising budget was completely wasted. When challenged by shareholders... he replied with a smile that he did not know which half it was!" Boodles will hope a 75-page

exhibition brochure it is distributing to 12,000 UK customers will not go to waste.

Amos says the show helps "further to establish our history as an important part of what we do [and] as a building block for... the future". Boodles will replicate panels from the exhibition in the basements of its Liverpool and Bond Street shops, and display key pieces.

Amos says Boodles has realised that "it's increasingly useful to be able to look backwards" for brand reputation.

"We don't have Indian Maharajas and kings and queens of Russia having bought our jewellery, but we do have our own family history," he says.

Milan's Alba Cappellieri hosts global exhibitions

Carrousel du Louvre between November 9-13 includes the Garden of Impressionism tiara, inspired by her love of impressionist art. Pastel-hued stones including pink, purple and white sapphires, pink spinels and aquamarines, are set alongside diamond beads were assembled in four groups separated by four larger beads. Boghossian's design features seven natural jadeite beads each

Big on jadeite

Boghossian has created a sautoir that he believes to be the largest jadeite bead necklace ever conceived. The piece is worn by the 108-bead Court necklace inspired by the Qing dynasty in China, in which beads were assembled in four groups separated by four larger beads. Boghossian's design features seven natural jadeite beads each

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Pomellato will celebrate the role of Milan in its design process in a free exhibition at the Jing building in Tokyo's Harajuku fashion hub from October 21-30. Curated by author Alba Cappellieri, head of jewellery and accessory design at the Polytechnic University of Milan, the exhibition is split into three themes: creative design, heritage of craftsmanship and "whispered elegance". The Italian jeweller will use the show, named Pomellato – From Milan to Tokyo: A Journey Through Craftsmanship, Creativity and Design, to unveil five new pieces in its La Gioia high jewellery collection. Online registration is required to attend.

Cappellieri is also the curator behind another upcoming exhibition, this time for Van Cleef & Arpels. More than 250 pieces of jewellery, watches and precious objects created by the French house since its launch in 1906 will be on show in Riyadh between January 19 and April 15 2023. Split into three sections, the Time, Nature, Love exhibition at the National Museum of Saudi Arabia will also feature archival documents, sketches and gouache designs. The jeweller, which has two boutiques in Riyadh, has supported the 21,39 Jeddah Arts event in Saudi Arabia for the past seven years.

Yes she Chan

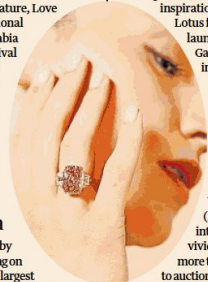
More than 150 pieces by Wallace Chan are going on display in the second-largest exhibition of the Chinese artist's jewellery in mainland China. The Wallace Chan: Earthly–Unearthly solo exhibition is being held as part of the fifth China International Import Expo, taking place at the National Exhibition and Convention Center in Shanghai between 5-10 November. It features loans from Chan's collectors and his latest unseen works including Pupa, a ring inspired by the lifecycle of a butterfly. The jewellery display is Chan's largest in mainland China since his first solo exhibition at The Capital Museum, Beijing, in 2010.

measuring approximately 26mm, with the top two connected to two gourd-shaped jadette footcups. The sashira, which will be shown first at the brand's Hong Kong boutique from mid-October, also features trapeze and baguette-cut diamonds and small brilliant emeralds.

Red alert

De Beers Jewellers is using red enamel for the first time, in pieces launching in China in January. The diamond specialist is adding two new styles to its signature Enchanted Lotus collection for Chinese new year. A pendant and a bracelet, both in rose gold, will feature the range's lotus flower motif in micropave diamonds atop vivid red enamel.

Separately, De Beers is taking inspiration from Enchanted Lotus for a pop-up store launching at Grand Gateway 66 in Shanghai in mid-October.



Ticked Pink

Sotheby's offered one of the purest, pinkiest diamonds ever to appear in Hong Kong this week. The 11.15ct Williamson Pink Star (left) is one of only two internally flawless fancy vivid pink diamonds of more than 10 carats to come to auction. It is outsized by the 59.60ct CTF Pink Star, which sold for \$71.2mn in 2017. Sotheby's toured the Williamson Pink Star, unveiled in London in August, to Dubai, Singapore and Taipei ahead of the sale. It had estimated the diamond would achieve over HK\$170mn (\$21mn).

Fine art on display

Chinese jewellery designer Feng Ji will unveil 12 new pieces at the Fine Arts Paris & La Biennale fair in Paris next month. The jewellery on display at

from the merger of two of France's leading art fairs.

Hotel gallery

Cindy Chao (left) is opening a permanent gallery in the Regent Taipei hotel in Taiwan in mid-October. The Taiwanese jeweller has collaborated with design teams from the Netherlands, France, Belgium and Singapore to present her high jewellery creations in a "mobile museum" set-up, the first Cindy Chao The Art Jewellery gallery. The pieces on display, which include jewels from the Black Label Masterpieces and White Label collections, are not for sale. Potential buyers must make a reservation for a private viewing in one of the brand's showrooms in Taipei, Hong Kong and Shanghai.

Sparking auctions

Bonhams is offering 10 pieces by Tiffany & Co in its Hong Kong Jewels and Jadette auction on 27 November. Part of a private collection started in the late 1970s, lots include a ring, estimated at HK\$3.2mn-HK\$6.3mn, which features a 10.56ct round brilliant-cut diamond surrounded by fancy pink and round brilliant-cut diamonds. Other highlights are an 18ct yellow gold, platinum and diamond Schlumberger for Tiffany & Co 'Tulip necklace (estimate HK\$800,000-HK\$1.5mn) and a pair of matching gold earrings with a pavé diamond butterfly motif and gold bows (estimate HK\$80,000-HK\$120,000) made for the collector.

Peridot's history

The free Peridot, The Past, Present & Future exhibition, being held in collaboration with the Full Gemstones mining company at Shenzhen Jewelry Museum in China, draws to a close on Sunday. The display shows how the green stone was treasured by the Ancient Egyptians but is also used in futuristic jewellery designs. Kate Youde

Watches & Jewellery

Collaboration crosses cultures and generations

Alliance Recent pieces from Alisa Moussaieff and Anna Hu draw on their two traditions, writes *Ming Liu*

The 2017 Paris Biennale art fair was the first time the eponymous jeweller Alisa Moussaieff saw the work of Anna Hu, a fellow exhibitor almost five decades her junior. It was an event that Moussaieff will never forget. "Not only did Anna have a nice show, she managed to attract the press," Moussaieff recalls. "There was a Chinese delegation that we tried to get – she got them, and we didn't. I very much remember that."

The following year, Moussaieff, who is based in London, invited Hu to her Bond Street boutique for a meeting. Hu recalls feeling intimidated, despite being the Taiwan-born daughter of a gem dealer and growing up surrounded by exquisite stones, then cutting her teeth at Christie's, Van Cleef & Arpels, and Harry Winston before starting her own brand in New York, aged 30.

Moussaieff's reputation preceded her, however. The house is synonymous in the industry with an inventory of exceptionally large, jaw-dropping stones, and is rooted in an illustrious gem-trading history that dates back to the 12th century Mongolian ruler Genghis Khan – who reputedly was a client.

But the admiration was mutual. Moussaieff immediately asked what they could do together. "This was literally before I sat down," recalls Hu, who recently moved to Monaco and divides her time between there and the US. "She got right to the point about a co-operation concept."

The results, in 2021, were eight co-created jewels, which highlight the symbiosis – both creative and commercial – between these two independent jewellers.

Headlining the pieces is what Moussaieff calls the "star piece – Anna's star idea": a magnificent



Taking flight: Anna Hu (left) joined with Alisa Moussaieff (bottom) to create a series of eight high-end pieces combining the former's unique design style and the latter's tradition of exceptional stones. The titanium Metamorphosis butterfly motif bracelet, features a mix of coloured diamonds, garnets, tourmalines and sapphires, topped with a 35.4ct brown marquise diamond – *Francis Gate, Allen Knox*



jewellers. Although Hu points to a "diet chemistry" with Moussaieff – fuelled by a mutual appreciation of their individual, family-run businesses – the latter's prized gem inventory is key to this union.

"This partnership reflects the coming together of two high-end players with a focus on large, highly prized gemstones, targeting wealthy buyers," says Tobias Kormind, managing director of the online Jeweller 77 Diamonds. Important stones, he adds, are increasingly seen as a store of wealth in tumultuous times, as "the stock markets have gyrated massively; through the financial crisis in 2008, during Covid, and now with the war in Ukraine and all the macroeconomic issues this has caused". High quality gemstones traditionally perform well in an inflationary environment, he notes, with prices for some of the highest quality diamonds rising by more than a third in the past year, and almost 60 per cent in five years.

The eight co-created pieces are priced upwards of seven figures each and only some have sold. More are being added, says Moussaieff, who does not seem overly concerned about sales at the moment – and hints at working with other designers in the future.

With Hong Kong scrapping its quarantine rules last month, and more wealthy clients starting to travel again, she is optimistic about

unconventional, design-led jewels – like the Sky Tower – finding a buyer. Plus, she adds: "If it doesn't sell after one year, I take out the diamond and put it in one of our traditional mountings. But I [would] like to have this sold because I believe in [Anna's] mounting."

Perhaps Moussaieff sees something of her younger self in Hu – her passion and initiative as both a creative and business owner. "She's quick, she's vivacious, and a pleasure to work with," says Moussaieff, who admires Hu's recent travels to the US to meet Chinese clients, who increasingly reside abroad. "She does things before we even think about them. That is really a great advantage."

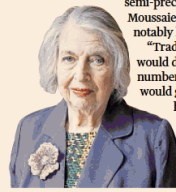
Meanwhile, the 90-something

titanium Metamorphosis bracelet set with a harmonious smorgasbord of coloured stones – brown, yellow, brown, and yellow-orange diamonds; mandarin, orange, and demantoid garnets, Paraíba tourmalines and sapphires, among them. The piece takes inspiration from Mozart's *12 Variations on "Ah, vous dirai-je, Maman"* (music is a recurring theme for Hu, a cellist). The butterfly motif bracelet is topped with Moussaieff's exceptional 35.4ct marquise brown diamond, alongside a pair of old-cut, trapezoid diamonds, each more than five carats, set on the butterfly's wing. Hu first saw the two stones set in a ring and asked



Moussaieff if they could be broken up and remounted into her design. Moussaieff didn't hesitate. "Nobody else can do that because everybody else has a board of directors above them," she says, adding that she found the idea "financially quite clever", too. "The ring would have sold for 'X' amount and now, in this combination, the whole piece will be sold for more. So it's not a sacrifice." Another standout piece is the architectural Sky Tower necklace for

which Hu took inspiration from Tower Verre, a 320m-tall skyscraper adjacent to New York City's Museum of Modern Art. Crafted through geometric slices of titanium and featuring an intricate, classic Chinese motif on the underside, the design speaks to Anna's signature merging of east and west touchpoints. Meanwhile, a whopping 102.18ct brown-yellow diamond centre stone is Moussaieff's hallmark. Had they been designing independently, says Moussaieff, Hu would have used a



semi-precious centre stone, while Moussaieff's jewel would have been notably heavier. "Traditionally, a 100-carat stone would demand an important number of stones around it – and would get it," says Moussaieff. "But here, Anna used small diamonds and titanium." Design collaborations are commonplace between talents in fashion and even watches, but rare between

Moussaieff is more like a mentor to Hu, who says the two speak nearly every day. Topics range from stone colour tendencies, to the gem market – such as this week's momentous Sotheby's sale of the 11.15ct Williamson Pink Star, one of the world's pinkest and purest diamonds to come to market – and to chatting about their children. "For me, it's really to learn from someone who is so clever, so brilliant, so sharp and cut-throat," says Hu. "I take that as the most priceless lesson. I really cherish every single second that she spends time with me because I know it's historical. This won't be repeated."

A century of surrealism on show

Jewellers seek inspiration from surrealist designers, writes *Melanie Abrams*

Surrealism – the early 1900s movement that embraced unusual combinations and the unconscious, and among whose pioneers was Salvador Dali – is having a moment at art fairs, in museums and on catwalks. And, now, jewellery is sharing in this surrealist spotlight, in a travelling show from the Vitra Design Museum in Germany, which opens at the London Design Museum on October 14 and runs until next February.

Called *Objects of Desire: Surrealism and Design 1924*, today, the exhibition explores the influence of the movement on design through around 350 objects. Among those on show are Dali's lobster telephone and a blue-glass beaded eye and faux-pearl teardrop brooch, originally designed in 1937 by Jean Cocteau for Elsa Schiaparelli and remade by him in 1952.

Indeed, contemporary jewellers have long been inspired by surrealism, a movement that is "all about disrupting expectation and breaking the rules", says Kathryn Johnson, curator of the Design Museum's exhibition. New York-based Taiwanese jewellery designer Anna Hu has adapted the

runny lines of Dali's melting watches from his painting, *The Persistence of Memory*, on a crucifix – adding a fluid edge of silver-grey diamonds and aquamarines to the traditional cross lines for her Beethoven Moonlight pendant.

Yet, alongside the creative inspiration, surrealist designs have a business value for contemporary jewellers, too. "Surrealism is one of those things that people can understand, whether someone is an art aficionado or not," says Los Angeles-based jeweller Sonia Boyajian. Her surrealist collection, with pieces named after various artists, includes a ceramic Rene butterfly brooch pin – the wings glazed with a sky motif, and skies that feature in the paintings of Belgian artist René Magritte, a leading figure in the surrealist movement known for his reality-distorting paintings.

"There's reality and then there's social media, and that whole thing is surreal, if you ask me, because we are no longer connected to what is real and what is not," says Boyajian, who created her Surrealist Collection in 2017 after reading Dali's autobiography, *The Secret Life of Salvador Dali*. "Everything is like this idea, and we don't know any more what

the truth of the ideas."

Alexander Pertot, co-founder of the Swiss art jewellery house Gems and Ladders, said that its reproductions of artist Meret Oppenheim's sketches and designs in 2014, such as her fur bracelet – included in the London Design Museum show – kick-started the business. "She's a well-known artist, especially in central Europe, Germany and Switzerland, and this helped to create attention around what we do," he says. While Pertot declined to disclose its revenues, the Oppenheim pieces now make up between 25 and 30 per cent of the business, with the sugar-cube ring its bestselling piece, racking up 70 sales since 2014.

Paris-based jeweller Lorenz Bäumer, founder of Maison Bäumer Vendôme, has been using surrealist works and techniques since the 2003 sale of writer André Breton's art collection in Paris. He says it makes his work distinctive. "It puts you in a spot where you don't use the same techniques, as perhaps you'd sketch around a stone, or you'd make a specific design for a necklace. There, it's about finding elements and letting your brain wander and coming up with some-

thing – it's a very different way of creating jewellery," says Bäumer, who has designed jewellery for Chanel.

He offers several examples: his rose brooch with a diamond dewdrop, which references American avant-garde photographer Man Ray's iconic shot of glass tears; his Kiss of the Bee ring, which used automatic drawing; his free association where he "put together randomly all these elements". Also, the mouth, Dali's brooch with pearl teeth, features a bee. "The fact the bee stings, the fact that it's such an interesting animal symbolically, and why would it land on somebody's mouth which is something that would make people [feel] very uncomfortable but at the same time beautiful," he says.

Jewellers agree that their surrealist-inspired designs attract a new type of art-collector client. As Matthew Harris, founder of Mateo New York, puts it: She "definitely has deeper pockets and she's not scared of wearing something interesting. She doesn't have a million Cartier bracelets on."

Last month, Harris reintroduced an eye pendant with a 0.21-carat diamond teardrop at \$5,250, based on Dali's 1945 painting, *The Eye*, but feminising the eye shape adding diamonds and a teardrop. Indeed, his earlier limited-edition pendants, made for online

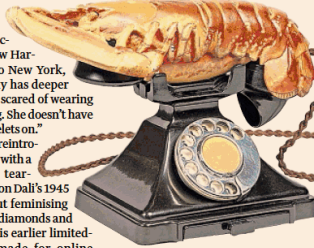


Clockwise from above: Dali's *Metamorphosis of Narcissus* 1937; Dali's lobster telephone; Meret Oppenheim x Gems and Ladders fur bracelet; Jean Cocteau's Schiaparelli Eye brooch; Sonia Boyajian's Rene brooch pin – Salvador Dali/Gala-Salvador Dali Foundation/DACS London/Tate Hans Jörg Walter; Franks Strauss for Design Museum den Bosch; Salvador Dali/Fundació Gala/DACS London

retailer Net-a-Porter in 2018, led to him creating his first high jewellery collection in May, "because the demand was there". The crystal-quartz version sold out to the luxury retailer's private VIP customers before they even hit the website, according to the jewellery designer.

Yet there are challenges with surrealist-inspired designs as they can be less easy to sell, according to Paris-based jeweller Lydia Courteille. She has yet to sell her Dali- and Schiaparelli-inspired, 18ct yellow-gold, orange sapphire and black diamond lobster earrings, with hanging fire opal, and a few other pieces from her *Homage to Surrealism* collection from 2012. They are large – 7.5cm long by 2.5cm wide – and "people are looking for things to wear every day", she says. "There are not enough collectors to sell these things too."

As to the future, jewellers are still seeking inspiration from surrealist designers, such as Joan Miró for Gems and Ladders, and Yves Tanguy for Bäumer. And, with the centenary of Breton's first Surrealist Manifesto in 2024, the value of these surrealist-inspired designs could pay dividends.




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