

FINANCIAL TIMES

THURSDAY 18 AUGUST 2022

INTERNATIONAL NEWSPAPER OF THE YEAR

ASIA

Symbol of rust

Rush to spruce up Eiffel Tower is short-termist — VICTOR MALLETT, PAGE 14

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Has chief Solomon reinvented the investment bank? — BIG READ, PAGE 13



Driving Ms Cheney

Quest for truth fed wrath of Trump's devotees — EDWARD LUCE, PAGE 15

Soaring UK inflation rises above 10% for the first time in 40 years

◆ Pace outstrips G7 and most of Europe ◆ Peak forecast at 13% ◆ BoE set to raise rates

CHRIS GILES — LONDON

The UK's inflation rate, the highest among G7 nations, entered double-digit territory in July for the first time in more than 40 years on the back of soaring global food and energy costs.

Consumer prices were 10.1 per cent higher than a year earlier, rising from the June rate of 9.4 per cent and exceeding expectations that inflation would remain in the single digits.

With price rises forecast to peak at more than 13 per cent this year, the toll on living standards is likely to push the UK economy into recession.

The Bank of England is now expected to impose another 0.5 percentage point increase in interest rates next month.

While all advanced economies have seen a rise in inflation, it has been stronger in the UK than in other G7 countries and most European nations. That reflects the country's greater use of gas, the underlying strong growth in spending last year and a decline in the employment rate caused by Brexit-related trade frictions.

Unlike the US and Canada, where the inflation rate softened slightly in July, price pressures intensified for most goods and services in the UK.

However, the Federal Reserve is still in the midst of raising rates to calm inflation. In Fed minutes released yesterday, officials discussed the need to keep interest rates at levels that restrict the economy "for some time" to ensure they can contain soaring inflation.

For Liz Truss and Rishi Sunak, who are in a face-off to become the next British prime minister within three weeks, the victor's economic inheritance will resemble the 1970s era, when Britain was regarded as the "sick man of Europe".

Fitch, the rating agency, said yesterday that "a challenging mix of high inflation and slowing economic growth in the UK will constrain policy options for the next prime minister".



Price pain: food inflation hit 12.7% in July, affecting the poorest most

Nadhim Zahawi, the UK's recently installed chancellor, said: "I understand that times are tough, and people are worried about increases in prices that countries around the world are facing."

Economists described the rise in inflation — the UK's highest since February 1982 — as bleak.

"Silver linings to this report are few and far between," said Sandra Horsfield of Investec. "The Bank of England will feel the pressure for further monetary

'Silver linings to this report are few and far between'

Sandra Horsfield, economist

tightening to combat higher prices."

Bread, dairy products, meat and vegetables contributed the most to the increase in inflation. With chaos at airports and restricted supply of flights, the price of package holidays also rose much faster this year than in 2021.

Food price inflation hit 12.7 per cent in July, the highest rate in the category for more than 20 years. The core rate of CPI inflation, excluding energy and food prices, also exceeded expectations in July, hitting 6.2 per cent, ahead of economists' expectations of 5.8 per cent.

Only 12 per cent of the categories that make up the UK index were prices rising at an annual rate below the Bank of England's 2 per cent target.

Samuel Tombs, chief UK economist at Pantheon Macroeconomics, said this

reflected "near-term momentum" in price rises rather than falls in prices a year ago.

UK inflation is expected to moderate in the next two months as cheaper petrol prices in August feed into the calculations, but the other 67 countries is likely to widen further in October when the latest energy prices are fed into lower living standards especially among poorer households, leading to a likely recession that the central bank expects to last more than a year.

Short-term UK borrowing costs yesterday soared to their highest since 2008 as investors priced in a rate rise next month. Two-year gilt yields rose 0.3 percentage points to 2.45 per cent. Markets page 8

Briefing

◆ Balkan talks aim to calm Kosovo clashes The leaders of Serbia and Kosovo will hold "difficult" talks in Brussels today after weeks of tension resulted in border disturbances, stirring fears of a conflict between the Balkan neighbours. — PAGE 2

◆ Polish economy takes surprise hit Poland's economy, the largest in eastern Europe, shrunk an unexpected 2.3 per cent in the second quarter as Russia's war in Ukraine looks likely to trigger a recession in the region. — PAGE 2

◆ English Premier League to net £6bn Revenue for the Premier League is set to rise 10 per cent to £6bn this season as a deal to show top-tier English football on US TV helps it further outscore European rivals. — PAGE 5



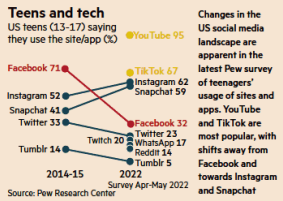
◆ Saudi student jailed for retweets A court in Saudi Arabia has sentenced Leeds university student Salma al-Shehab, a Saudi citizen, to 34 years in prison for retweeting posts by dissidents and spreading "fake news". — PAGE 4

◆ Norway fund warns of hard times ahead The head of the largest sovereign wealth investor, Norway's oil fund, warned of hard years ahead after it made a \$174bn first-half loss as monetary stimulus policies were cut and interest rates rose. — PAGE 5

◆ Israel and Turkey renew relations Attempts to strengthen their ties with neighbours across the Middle East will see Turkey and Israel appoint respective ambassadors for the first time since 2018 after years of strained relations. — PAGE 4

◆ Gas crisis pushes Uniper to €12bn loss German utility Uniper says it has become a pawn in the Ukraine conflict after it reported a €12.3bn loss in the first half as a dramatic drop in Russian gas deliveries pushed it close to insolvency. — PAGE 5

Datawatch



Garland rides political storm over Trump probes

Garland under pressure — PAGE 3

Japan's latest advice on alcohol to its younger generation: please drink more

LEO LEWIS AND KANA INAGAKI — TOKYO

While most countries would welcome sobriety among their youth, Japan has veered in the opposite direction: with a campaign encouraging them to drink more alcohol.

The east-Asian nation's tax agency is requesting ideas on how to tempt younger citizens to pick up a tipples from the finance ministry frets over the fiscal implications of generational change.

The unorthodox government-backed "Sake Viva!" contest is calling on people aged between 20 and 39 to help devise business ideas to revitalise an industry hit by demographic changes, the pandemic and diminishing interest.

The planned intervention follows the failure of Japan's drinks industry, despite its marketing powers, to stem a long-term slide in Japanese alcohol con-

sumption that began well over a decade before the pandemic.

Taxes on alcohol products accounted for 3 per cent of the government's tax revenue in 2011 but had fallen to 2 per cent by 2020, according to the tax agency. Japan's government runs a chronic budget deficit and has total debts equivalent to more than twice the nation's gross domestic product.

A fall in the volume of alcohol consumed in Japan was inevitable once the indigenous population began to shrink over a decade ago and the proportion of citizens aged over 65 rose to more than a quarter of the country eight years ago.

According to the tax agency, Japan's average annual intake of booze per adult has dropped from 100 litres per year in 1995 to 75 litres by 2020.

The World Health Organization in 2018 put Japan's annual per capita

drinking rate — expressed in terms of pure alcohol — at 8 litres a year, more than China's 7.2 litres but less than the UK's 11.4.

Younger Japanese people, in common with many others of their generation elsewhere in the world, drink less heavily than their forebears and increasingly do not drink at all.

"Sake Viva!" aims to draw out ideas that acknowledge fundamental shifts in lifestyle — not just those caused by the pandemic but also longer-term factors weighing on Japan's drinking habits.

Organisers hope that entrants will come up with "new products and designs", as well as plans to encourage drinking at home.

Japan's health ministry said it had not co-operated with the tax agency on its contest but was in close regular contact with it over alcohol and health issues.

Table listing exchange rates for various countries including Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Pakistan, Philippines, Singapore, Taiwan, Thailand, and Vietnam.

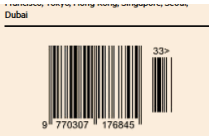
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Market data table including Nikkei, Hang Seng, MSCI World, and various commodities like Oil and Gold.

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INTERNATIONAL

Regional tension

Nato seeks Balkan restraint ahead of talks

EU to mediate between Kosovo and Serbia after border clashes

EU and Nato have since stepped up pressure on both sides to de-escalate the tension for fear of destabilising the wider Balkan region and south-east Europe, already shaken by almost six months of war in Ukraine following Russia's full-scale invasion.

"We are going to have difficult discussions tomorrow. We do not agree almost on anything," Vucic said after talks with Nato secretary-general Jens Stoltenberg yesterday. Stoltenberg met Kurti separately afterwards and urged "all sides to show restraint and avoid violence".

"We're going to have difficult discussions tomorrow. We do not agree almost on anything"

"We did not want to cut them off and cause a crisis, and also give a pretext for Serbia to intervene or to link the north with its own power network, but this situation is not sustainable," Kurti said. "We have made an agreement in June but it has not been implemented."

Standing next to Stoltenberg at a press conference at Nato's headquarters yesterday, Vucic said Kosovo and its international backers must not "blackmail Serbia, or order Serbia how to act. It doesn't work like that."

Europe. Les Républicains
French centre right struggles for relevance

After poll failure, party is being pulled in different directions by Macron and Le Pen

LEILA ABOUD AND VICTOR MALLET PARIS
Since defeat in France's presidential election and parliamentary elections this year, the shattered centre-right opposition has fretted over how best to rebuild into a credible national force worthy of founder Charles de Gaulle.



Rebuilding: Olivier Marleix, centre front, who heads Les Républicains in the national assembly. Below, Aurélien Pradié



but if I didn't ask the question, then no one else would," he said. Clotti appeared to respond by saying everyone would have a place if he led the party. "Everything must be rebuilt... the ability of our party to bring together different personalities has always been its force," he tweeted.

'If we don't succeed in rebuilding a credible centre right, there is a risk that Marine Le Pen will win power'

adopted some of LR's proposals, such as maintaining universal petrol and diesel subsidies and allowing employees to be paid for days off not taken. Both bills passed mainly because of support from LR, but Le Pen's RN also backed one. Marleix argued that LR "successfully arm-wrestled fuel prices for consumers."

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Oxford research
Covid linked to brain disorders two years after infection

CLIVE COOKSON - LONDON
Covid-19 significantly increases the risk of developing dementia, psychosis and brain fog two years after infection, according to the first extensive study of the disease's persistent neurological and psychiatric effects.

at three-fold increased risk of psychotic disorder, even though this is rare - 18 in 10,000 in the two years after Covid."

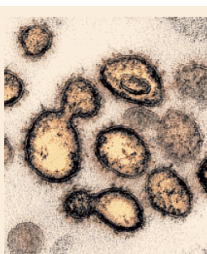
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COVID-19 SYMPTOMS, SUCH AS FATIGUE AND BREATHLESSNESS TO PROBLEMS RELATED TO THE BRAIN, SUCH AS A LACK OF MENTAL CLARITY. SCIENTISTS HAVE ESTIMATED IT COULD AFFECT MORE THAN 100M PEOPLE WORLDWIDE.
Researchers at Oxford University analysed the electronic health records of 1.25m people diagnosed with Covid and a matched control group consisting of an equal number of patients who had other respiratory infections.
The data, covering 14 brain disorders, were provided by the US-based TrineX global health research network.
The impact of Covid was most marked in people aged 65 and over, among whom 4.5 per cent developed dementia over the subsequent two years, compared with 3.3 per cent of the

...AND THE PATIENTS ALSO REPORTED SYMPTOMS THAT SUGGEST THAT NEW CASES OF NEUROLOGICAL CONDITIONS LINKED TO COVID INFECTION ARE LIKELY TO OCCUR FOR A CONSIDERABLE TIME AFTER THE PANDEMIC HAS SUBSIDED," SAID PAUL HARRISON, SENIOR AUTHOR OF THE STUDY PUBLISHED IN THE LANCET PSYCHIATRY.
But he added: "We are not talking about a tsunami of neurological and psychiatric illness."
Max Taquet, who led the analysis, said 25 findings stood out in the study's 185,000 patients aged under 18. Children were twice as likely to develop epilepsy or seizures, he said - 2.6 per cent developed the condition after Covid against 1.3 per cent after another respiratory infection.
Second, Taquet added: "Children are



Sars-Cov-2: study tried to distinguish between effects of different variants

SYMPTOMS USUALLY AFTER INFECTION, SIMILAR RATES OF NEUROLOGICAL AND PSYCHIATRIC DIAGNOSES ARE OBSERVED AS WITH DELTA," HE ADDED.
Taquet said the findings suggested the burden on healthcare systems might continue even with variants that were less severe in other respects.
Looking into long Covid more broadly, the scientists at Oxford University stressed that a great deal of research was still needed on all aspects of the condition, from definition and prevalence to biological causes and possible treatments.
"My sense is that we know much less than we think we know about long Covid," said Harrison.
"There are many more questions than answers," agreed Taquet.

INTERNATIONAL

Garland under pressure after taking on Trump in legal battle

US attorney-general's decision to probe former president is loaded with risks

JAMES POLITI — WASHINGTON

On his first day as US attorney-general last March, Merrick Garland told employees of the justice department that he was inspired by Edward Levi, a Republican who served in the same role under Gerald Ford in the 1970s.
Levi, like Garland, was a Chicago native, but more importantly, he was widely credited with restoring faith in American justice after the scandal-ridden presidency of Richard Nixon.
"The only way we can succeed and retain the trust of the American people is to adhere to the norms that have become part of the DNA of every justice department employee since Edward Levi's stint as the first post-Watergate attorney-general," Garland said.
"Those norms require that like cases be treated alike. That there not be one rule for Democrats and another for Republicans; one rule for friends and another for foes," he added.
Garland is trying to apply those principles to Donald Trump, an effort that has suddenly thrust the former federal judge and prosecutor into the political limelight.
Until he authorised the unprecedented FBI search of the former president's Mar-a-Lago residence last week, Garland had faced frustration from the left over his perceived hesitancy in investigating Trump, particularly over the January 6 attack on the US Capitol in 2021.
But now, Garland has become a lightning rod for conservative fury, accused by Trump and his allies of spearheading a politically motivated plot to under-

mine his chances to run for a second term in 2024.
"[Garland] is taking on a former president of the United States who still has a very large following, filled with conspiracy theorists. He has had to proceed with great caution," said Elaine Kamarck, senior fellow in the governance studies programme at the Brookings Institution.
"He's not talking about it. He didn't ask the White House's permission. He is just playing it very, very straight, which is his reputation," she added.
The attorney-general had been aware for months that Trump was withholding documents at Mar-a-Lago from his time at the White House, including some that were highly classified. Garland told senior prosecutors to persuade Trump's lawyers to release them, first voluntarily, then through a subpoena.
After those efforts failed, Garland authorised the request for a search warrant, but refrained from speaking publicly about the Mar-a-Lago swoop on the day it occurred. He has only done so once since, although without delving into the substance of the probe.
"Much of our work is by necessity conducted out of the public eye. We do that to protect the constitutional rights of all Americans and to protect the integrity of our investigations," he said.
In recent days, however, court filings by the Department of Justice have shown the gravity of Trump's potential violations of the law, invoking provisions relating to obstruction of justice and mishandling information critical to national security under the Espionage



Line of fire: Merrick Garland, second left, attends a Washington Senate hearing in April. Below, supporters of Donald Trump outside his Florida home



Act. They have also revealed the wide-ranging nature of the investigation, which includes more than one witness.
Garland, who helped secure the convictions of Oklahoma City bomber Timothy McVeigh and domestic terrorist Ted Kaczynski in the 1990s as a US attorney and who served for 24 years on Washington DC's federal appeals court, will want to ensure the case for pursuing a criminal indictment of Trump is ironclad before he takes the next step, which would be to seek charges.
"They are likely combing through the evidence, figuring out what [Trump] had exactly... and figuring out if they

need to go investigate other angles, other people," said Kel McClanahan, a national security lawyer and a professor at George Washington University. "This is being run like a mob investigation, like an organised crime investigation."
The search of Trump's home has made Garland, as well as the DOJ and FBI generally, villains in the eyes of the right, adding to public pressure on the attorney-general and raising safety concerns for the prosecutors, officials and agents working on the case.
"Impeach Merrick Garland, gut the DOJ, defund the corrupt FBI, and Impeach Biden. Weaponized law enforcement is communism and has no place in America," Marjorie Taylor Greene, a Republican lawmaker from Georgia and one of Trump's closest allies on the extreme right, tweeted on Monday.
Other Republicans, including on the House judiciary committee, have asked Garland to retain his own documents related to the search and be ready for a probe of his actions should they regain control of the lower chamber of Congress in November.
But Garland, who was nominated to the Supreme Court by Barack Obama but denied a confirmation hearing by

'He's got an obligation to uphold the law, but he obviously understood the huge political ramifications and he's a very careful person'

Senate Republicans, has so far appeared to withstand the pressure. "The attorney-general is in an extremely, extremely difficult position," said Aziz Huq, a constitutional law scholar at the University of Chicago.
"I think that what the justice department and what Garland have tried to do... is to demonstrate the legalistic bona fides of the justice department at a time in which those bona fides have come under tremendous strain," he added.
If Garland shies away from indicting Trump, either over the classified documents at Mar-a-Lago or his role in the January 6 riot, his legacy may end up being that of the attorney-general who blinked while challenging a former president's wrongdoing. But ploughing ahead with a prosecution, even an ultimately successful one, is not without its risks in a country as deeply divided as the US.
"He's got an obligation to uphold the law, but he obviously understood the huge political ramifications and he's a very careful person," said Kamarck at the Brookings Institution. "Why would you open a hornet's nest like this unless you had some serious crime in mind?"
Edward Luce sees Opinion

IPA Incorporated by Royal Charter

FT FINANCIAL TIMES

Come back in a year and tell us if cutting your

Budget was a good idea

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INTERNATIONAL

Mediterranean

Turkey and Israel move to repair relations

Both to reappoint envoys but Ankara vows to defend Palestinian rights

AYLA JEAN YACKLEY — ISTANBUL
JAMES SHOTTER — NAZARETH

Turkey and Israel are to appoint respective ambassadors for the first time in four years, as both countries seek to bolster relations with their neighbours across the volatile region.

Ties between the Mediterranean neighbours have been strained for more than a decade.

Recep Tayyip Erdoğan, Turkey's president, has long criticised Israel's treat-

ment of Palestinians. The two countries last expelled each other's ambassadors in 2018 over the killing of scores of protesters in Gaza by Israeli soldiers on the anniversary of the creation of the Israeli state.

But Erdoğan is now trying to repair relations across the Middle East after his assertive foreign policy put him at odds with many Arab states, as well as western allies, exacerbating a long-running economic crisis as investors stayed away.

In recent months he has secured pledges of billions of dollars in investment after reconciling with regional rivals Saudi Arabia and the United Arab Emirates. This will help boost the Turk-

ish economy ahead of an election next year. Erdoğan has also reached out to other foes, including Egypt and Armenia, to mend relations.

Israel and Turkey began talks on restoring relations this year when President Isaac Herzog became the first Israeli head of state to visit Turkey in 14 years.

The Turkish foreign minister, Mevlüt Çavuşoğlu, said yesterday that Turkey would announce the name of its ambassador to Tel Aviv soon.

"Reappointing ambassadors is important for developing bilateral relations. On the other hand, we will continue to defend the rights of Palestine, Jerusalem and Gaza," he told reporters.

"It is important that our messages on this will be directly conveyed at the ambassadorial level in Tel Aviv."

A statement from Israeli prime minister Yair Lapid said restoring relations with Ankara would promote regional stability and economic growth as he worked to "strengthen Israel's standing in the world".

Israel has forged diplomatic ties with the UAE, Bahrain and other Arab states in recent years, countries that share an interest in containing Iran.

Saudi Arabia, however, had held out from joining the 2020 Abraham Accords, which focused on improved ties with Israel. The kingdom, which views itself as the custodian of Islam's

holiest sites and a leader of the Muslim world, has insisted that Israel should settle its conflict with the Palestinians before it could normalise relations with Riyadh.

This month, Riyadh opened its airspace to flights to and from Israel for the first time.

Erdoğan has previously said he wants to co-operate with Israel on an undersea pipeline to ship its gas via Turkey to Europe, which is seeking to diversify its energy supply away from Russia following the invasion of Ukraine.

Turkey has been at loggerheads with Israel, Greece, Cyprus and Egypt over the rights to potential natural gas stores in the Mediterranean sea.

Human rights

Saudi student sentenced to 34 years over 'fake news' tweets

SAMER AL-ATRUSH — RIYADH

A Saudi court has sentenced a Leeds University student to 34 years in prison for retweeting dissidents and spreading "fake news", according to rights groups.

Saudi citizen Salma al-Shehab, a 34-year-old mother of two, had been detained during a visit to the kingdom in 2020 over messages she had posted on her Twitter account.

A court this month sentenced her to 34 years, including time served, said ALQST, a Saudi rights group, and the Freedom Initiative, a US human rights organisation. After that, she faces a 34-year travel ban.

The sentence, seen as unusually harsh, comes amid a crackdown by the kingdom on dissidents and critics that has drawn condemnation from western countries.

The once-ultra conservative kingdom is undergoing a transformation, with its day-to-day ruler Crown Prince Mohammed bin Salman rolling back decades of

'ALQST is gravely concerned over al-Shehab ... and the extraordinary length of her prison term'

religious strictures while shaking up its oil-reliant economy. The measures have won him support among many Saudis but have been accompanied by repressive measures.

The sentencing, dated August 9 according to ALQST, was only just made public. It came just weeks after US President Joe Biden visited the kingdom and met Prince Mohammed. Biden said he had pressed the Saudi leader on human rights.

Biden came to office vowing to turn Saudi Arabia into a "pariah" over the 2018 murder of Saudi journalist and dissident Jamal Khashoggi. The CIA had concluded that Prince Mohammed ordered the "capture or kill" mission, something the prince has denied.

However, Biden has since been forced to backtrack and seek Saudi Arabia's help in increasing oil production to tame energy prices after Russia's invasion of Ukraine and rampant inflation.

ALQST said al-Shehab had been charged with supporting "those seeking to disrupt the public order", a reference to her retweeting support for jailed dissidents, and "publishing false and tendentious rumours on Twitter".

"ALQST is gravely concerned over al-Shehab for peaceful activism and the extraordinary length of her prison term, which goes well beyond the Saudi authorities' already excessive harsh standards of repression," the group said.

The sentencing is subject to appeal, and the government's media centre did not immediately respond to a request for comment.

Prince Mohammed has continued to face scrutiny over the arrests of activists, dissidents and bloggers. A Twitter account said to belong to al-Shehab had retweeted pleas for the release of activists, including Loujain al-Hathloul, who had campaigned for a woman's right to

Brazil. Centrão group

Bolsonaro gives thanks to political kingmakers

Powerful legislators prop up president in exchange for funds from 'secret budget'

BRYAN HARRIS — SÃO PAULO

Standing in front of thousands of loyal supporters at his re-election campaign launch last month, Brazilian president Jair Bolsonaro took the microphone and singled out a dignitary from the crowded stage.

"We have the outstanding presence of the Speaker of the [House of Representatives], my longtime friend, Arthur Lira. He owns the agenda of the House. If it wasn't for Arthur Lira, we wouldn't have gotten to this point," said the far-right leader.

It was a frank admission of reality. For more than a year, Lira and the political bloc he leads, an amorphous group known as the Centrão, has propped up Bolsonaro's administration, staving off more than 100 impeachment requests and pushing big government spending packages through Congress.

In exchange, Lira and the Centrão, which means "Big Centre", have become immensely powerful and carved off big chunks of public funds for discretionary use in what is known as the "secret budget".

While the Bolsonaro administration has lurched from crisis to crisis, including its handling of the Covid-19 pandemic and corruption claims against the president's family, Lira and the Centrão have become political kingmakers.

"The Centrão rules Brazil, without a doubt," said Ciro Gomes, a leftwing former lawmaker who is challenging the Brazilian leader in the October election. "Bolsonaro sold out to them completely."

The Centrão today encompasses a handful of political parties and 220 out of the 513 federal lawmakers, known as *deputados*. It traces its origins to the end of the military dictatorship in the late 1980s when parliamentarians banded together to support weak, democratically elected presidents.

Since then, it has become embedded in Brazilian politics, offering support to governments of any stripe, left or right, in exchange for plum political posts and the resources to support its electoral machines in home constituencies.



Election plea: a protester holds a placard saying "Dictatorship never again" in São Paulo this month. Below, Arthur Lira, left, shakes Jair Bolsonaro's hand in July

Artistas/Reuters/Redux; Mateus Bonanni/Redux/Agency/Getty Images



political scientist at the Getulio Vargas Foundation think tank. "It is a group of parliamentarians who are more concerned with being close to government resources than to any independent political orientation or ideology."

As a populist outsider on the campaign trail in 2018, Bolsonaro railed against the horse-trading and pork barrel politics of the bloc. But when corruption allegations against him and his family surfaced, he quickly forged an alliance with the group that arguably saved his government.

Despite being booed by the crowd at Bolsonaro's campaign event, Lira has single-handedly prevented impeachment proceedings against the president by simply shelving the requests.

Elected Speaker with the backing of Bolsonaro in 2021, the lawmaker from north-eastern Alagoas has also played a crucial role in pushing through several pieces of government legislation, including a huge spending package that increases cash transfers to Brazil's poorest by 50 per cent ahead of the election.

"Lira has the sword of Damocles dangling permanently over Bolsonaro's head," said Felipe Campante, a professor at Johns Hopkins University, referring to the Speaker's control over impeachment proceedings. "The Centrão is as strong as they've ever been and that is due to the fact that the executive is as weak as it has ever been."

In return for its support, the bloc has claimed crucial government posts, notably the presidential chief of staff, which is currently held by Ciro Nogueira, who was a vocal supporter of consecutive

'Lira has the sword of Damocles dangling permanently over Bolsonaro's head'

has been growing influence in the allocation of government funds. With support from the government, the leaders of Congress in 2020 created the secret budget, a legal but opaque mechanism to transfer funds from the executive to lawmakers' constituencies.

Felipe Rignoni, an opposition lawmaker, said the Centrão has "without doubt become more and more powerful and the secret budget is proof of that".

"There has always been this type of behaviour that today is called the secret budget, which is the allocation of funds in exchange for voting in favour of government projects in Congress. But it was much more timid, with much less money. The secret budget is now worth absurd amounts and this is a risk to the democratic process."

While parliamentarians have always received government cash for public works projects, the budgets were limited in size and there was transparency about who received how much. In the past two years, the size of these stipends has almost tripled, while the recipients

“More than a specific group, the Centrao describes a type of parliamentary behaviour,” said Graziella Testa, a



leftwing administrations before joining the Bolsonaro administration. Analysts say the Centrao’s real prize

have been shrouded in mystery. Lira declined to comment. Additional reporting by Carolina Ingizka

drive in the kingdom before it was allowed in 2018, and who was released in 2021.

Middle East

Egypt bank chief quits as economy struggles

ANDREW ENGLAND — LONDON

Egypt’s central bank governor has resigned as the Arab state struggles with a foreign currency shortage and the economic repercussions of Russia’s invasion of Ukraine, according to state-run media.

President Abdel Fattah al-Sisi had accepted Tarek Amer’s resignation and appointed him as a presidential adviser, Egyptian state media reported. There was no announcement on his replacement. The bank is due to hold a monetary policy committee meeting today.

Amer had held the post since 2015 and was appointed for a second term four years later. But he came under growing pressure after foreign investors withdrew \$20bn from local debt markets and global food and energy prices soared after Russia invaded Ukraine.

In March, Egypt turned to the IMF for additional financial support and those negotiations are continuing. It is already one of the fund’s biggest borrowers, securing a \$12bn loan in 2016 and about \$8bn in loans during the pandemic.

The government was credited for

making tough fiscal reforms to secure the IMF loan in 2016, including allowing the Egyptian pound to devalue, with the currency losing half its value.

But Sisi’s regime has been criticised for expanding the role of the military across all spheres of the economy, putting off private investors and crowding out the private sector.

Economists have also expressed concern about its dependence on foreign investor inflows to help finance its current account, and the central bank’s determination to keep the pound stable to attract portfolio investors.

“Amer has maintained a stable currency to make sure foreign investors don’t make any losses, which has created a massive moral hazard trade where investors can just go in and know they aren’t going to make any FX losses,” said a banker. “And when things get tough they just withdraw their money. It happened in 2018 and in 2020 during coronavirus and again this year.”

Greater exchange rate flexibility is believed to be one of the IMF conditions for a new loan package. The banker added that the central bank had also

imposed new regulations that meant importers had to use letters of credit. But banks had lacked the capacity to process all the letters of credit, causing a backlog that had created a shortage of some imported raw materials and luxury goods, the banker said.

In a note, Amer said he resigned “to leave room for new blood to take responsibility and push forward Egypt’s successful development process under the leadership of the president”, according to state-run Al-Ahram media group.

Jason Tuvey, an economist at Capital Economics, said Amer’s resignation “points to a growing tension within policymaking circles on the best way to address the country’s external imbalances”. He added: “The fact that talks with the IMF have dragged is probably a sign that some officials are reluctant to follow through on the fund’s demands and would prefer to rely on support from the oil-rich Gulf economies.”

Gulf states, including Saudi Arabia and the United Arab Emirates, have pledged billions of dollars of investment and financial support to their traditional ally.

Japan

Four held in Tokyo Olympics bribery inquiry

LEO LEWIS AND KANA INAGAKI — TOKYO

Japanese prosecutors have made their first arrests after a summer of raids on organisations and individuals suspected of giving and receiving bribes during the preparations for the Tokyo 2020 Olympic Games.

The four arrests included the former chair of Japan’s largest maker of business suits and a former senior executive of advertising agency and public relations behemoth Dentsu.

The arrests mark the first time criminal proceedings have been linked with the Tokyo Olympics, an event that cost almost twice as much as envisaged, which was postponed by a year because of the pandemic and was preceded by a series of scandals and resignations.

Haruyuki Takahashi, a former member of the Tokyo 2020 Olympics board who previously worked at Dentsu and was seen as one of the most influential figures ahead of the Games, was arrested yesterday on suspicion of receiving bribes from former executives of Aoki Holdings. Hironori Aoki, the company’s 83-year-old founder, was also arrested.

According to the media, Aoki told investigators he did not consider the payments made to Takahashi as “bribes”. Takahashi could not be reached for comment and left Dentsu in 2009. Dentsu said it was “fully co-operating with this investigation”. Takahashi has repeatedly denied the

Arrests mark the first time criminal proceedings have been linked with the Tokyo Olympics

by Takahashi received \$51mm (\$380,000) in more than 50 payments from an asset management firm linked to the three former Aoki executives between October 2017 and March 2022. Prosecutors also alleged that Aoki’s ex-chair and its two former executives paid a total of \$28mm to Takahashi’s company via the firm between September of 2019 and March this year.

The arrests were made about three weeks after prosecutors raided the offices and homes of Takahashi and Aoki, as well as the headquarters of Dentsu and ADK, an advertising agency.

Dentsu was core to Japan’s campaign to secure rights to host the Games and to amass the support of big companies.

A French investigation into vote-buying allegations around the bidding process for the 2020 Games prompted the resignation in 2019 of the president of the Japan Olympic Committee, Tsunekazu Takeda, who stepped down without providing a clear explanation of his decision. Dentsu has spent nearly six years denying claims it was involved in the corruption under investigation by French prosecutors.

Thursday 18 August 2022

FINANCIAL TIMES

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Chips downturn Intel and Micron set to slash capital spending despite passage of US legislation to increase production ▶ PAGE 7

Companies & Markets

Norway fund warns of tough times after losing \$174bn

- ‘Risk we haven’t seen the worst yet’
- Chief worries July rally will unravel

ADRIENNE KLASA AND ROBIN WIGGLESWORTH

The head of Norway’s oil fund has warned investors of several difficult years ahead, as the world’s largest sovereign wealth fund swung to a \$174bn loss in the first half of 2022.

“Markets don’t go down in a straight line and I’m worried that we can have tough times for an extended period,” Nicolai Tangen, the fund’s chief executive, said in an interview with the Financial Times. “There is a risk that we haven’t seen the worst yet.”

The effects of reversing the monetary stimulus and low interest rate policies that had dominated from the 2008 financial crisis through to the pandemic were huge, he said.

“The best way the market could steal your money in July was to rally, so that’s what it did”

“I’m more in the several years [of difficult markets] camp. I don’t think this is done overnight.”

July’s market rally had encouraged some investors but was likely to be a false dawn, he said.

“The market has got one function, and that is trying to steal your money every day. The best way the market could steal your money in July was to rally, so that’s what it did,” Tangen said.

The \$1.2tn fund suffered a 14.4 per cent loss, or the equivalent of \$174bn, in the first half of the year, driven by a sell-off across all sectors except energy, it said yesterday. It had gained 14.5 per cent during 2021 as markets soared following the reopening of economies around the world.

“The fund is now so big that the sums become very big. . . But we are a long-

term investor so we have to tolerate these kinds of swings,” Tangen said. “What was unusual this time is that we lost money both in stocks and bonds.”

Norges Bank Investment Management’s equity portfolio was hit particularly hard in the first half, losing 17 per cent, while fixed income was down 9.5 per cent. Facebook parent Meta was the single biggest contributor to NBIM’s stock market losses in the first half.

The fund’s investments in unlisted property delivered a 7.1 per cent gain but they make up only 3 per cent of the overall portfolio. Its renewable energy infrastructure investments fell 13.3 per cent in value.

The sovereign wealth fund, which owns the equivalent of about 1.5 per cent of every listed company in the world, had inflows of Nkr556bn (\$56.8bn) in the first half of 2022, while currency movements bumped up the fund’s value by Nkr642bn. The MSCI All-World index of global stocks is down 14 per cent this year. The fund said it had outperformed its own benchmark by 1.14 percentage points.

Tangen had previously warned that Russia’s invasion of Ukraine would make inflation problems worse. In an interview with the FT in January, he also described himself as “the team leader for team permanent” in the debate on how long high inflation might last.

Tangen reiterated this view yesterday. “There is a risk that inflation will be tougher to get down than many think,” he said. “Inflation feeds on itself.”

The oil fund was set up in 1996 to invest the proceeds of Norway’s oil and gas industry and is housed in its central bank. It is a quasi-index fund, with its overarching investment mandate set by the finance ministry while material changes to how the fund invests must be approved by parliament.

Sales pitch Premier League revenue set to hit £6bn as global TV rights overtake home deal



Crystal Palace take on Liverpool in the Premier League, Europe’s wealthiest competition — Andrew Yates/EPA-EFE/OutshutStock

JOSH NOBLE — LONDON

English football has stretched its financial lead over European rivals, with Premier League revenue set to rise to £6bn in the first half of this season thanks to the soaring value of international broadcast rights.

The English top flight is expected to earn more from its overseas rights than from its domestic deal for the first time, following a new \$2.7bn six-year deal with Comcast’s NBC to show games in the US.

Europe’s other top leagues are struggling to keep up, according to Deloitte’s annual football finance report released today. Revenue at Spain’s La Liga is projected to remain flat at €3.7bn, while Germany’s Bundesliga will enjoy a 16 per cent boost to €3.6bn.

Of the two smallest of the continent’s Big Five leagues, Italy’s Serie A is on track to generate €2.4bn this

season, a slight rise on last year, while income at Ligue 1 in France is estimated to stay at €1.8bn. Revenue at both leagues has yet to return to pre-pandemic levels.

The widening gap with the Premier League is partly explained by timing: some European leagues are locked in to long-term broadcast deals that are not up for renewal for a number of years. The Bundesliga, for example, is only two years into its six-year US deal with ESPN.

Oliver Kahn, chief executive of Bayern Munich, recently told the Financial Times that increasing the value of German football’s US broadcast rights was the priority for those in the game. Bayern was one of a number of big European clubs that toured the US this summer in an effort to create a buzz around football for leagues outside England.

Nevertheless, the latest US rights deal shows how far ahead the Premier

League is in terms of commercialising its overseas appeal.

“There is a real sense [at European leagues] that more can be done internationally. They want to feel as though they can catch the Premier League,” said Tim Bridge, lead partner of the sports business group at Deloitte. “But the reality is now that the Premier League is streets ahead of the competition.”

Despite the booming income at Premier League clubs, teams in the second tier of English football are under increasing financial pressure. Many clubs in the Championship have spent big sums on players in an effort to gain promotion to the Premier League. The financial gamble has resulted in large debts and high wage bills.

Deloitte described Championship finances as “perilous” and warned that “with sustained and collaborative consideration”, the situation was likely to worsen.

Uniper on the brink as it posts €12.3bn first-half loss

OLAF STORBECK — FRANKFURT

German utility Uniper has reported a €12.3bn first-half loss, saying it had become a “pawn” in the Ukraine conflict, with a dramatic drop in Russian gas deliveries pushing it to the “brink of insolvency”.

The loss by Europe’s biggest importer of Russian gas is one of the largest by a German company, eclipsing Bayer’s €10.5bn in 2020.

Klaus-Dieter Maubach, chief executive, warned yesterday that Europe faced a grim winter and that the gas supply crisis made it “almost impossible” to predict the group’s performance in the second half of the year.

“We do assume that Gazprom, if it wanted to, could considerably increase its gas deliveries through Nord Stream 1,” he said, adding that gas prices had gone haywire because of “concerns about the reliability of energy supply”.

Germany, which before the Ukraine war bought 55 per cent of its gas from Russia, is trying to avoid rationing energy this winter. Despite the shortfall in Russian deliveries, its gas storage facilities have been filled to 77.5 per cent capacity, in line with Berlin’s plans. The government aims to bring the level to 95 per cent by November.

Uniper, majority-owned by Finnish utility Fortum, last month received a €15bn bailout from Berlin, which will take a 30 per cent stake and provide loans to prevent a collapse. Uniper’s share price has lost more than 81 per cent this year, bringing its market capitalisation down to €2.8bn.

A drop of up to 80 per cent in Russian deliveries since June has forced Uniper to buy expensive gas on the spot market to meet contractual obligations to supply clients including 100 regional utilities owned by municipalities.

From October, Uniper will be able to pass on 90 per cent of the higher costs to consumers. It warned it would continue to generate operating losses for the coming 18 months but hoped it could “return to positive territory” in 2024.

Over the past 12 months, gas prices in Germany have risen more than fivefold to €200 per megawatt hour. Uniper said it had suffered an average daily loss of €60m since the supply through Nord Stream 1 began to dwindle in mid-June.

It has also taken a €2.7bn impairment on its stake in Nord Stream 2, the defunct Russian pipeline project, and a €4.9bn loss on its derivatives position.

Subsidy blow to Musk brings orbital broadband back to earth

INSIDE BUSINESS
AEROSPACE

Peggy Hollinger



deliver high-speed broadband from low earth orbit – where delays in transmitting data are substantially shorter than from satellites at higher altitudes – it is Starlink. The company already claims more than 400,000 users and has launched nearly 3,000 satellites. Its spacecraft can hitch a ride on rockets flown by parent SpaceX, which also happens to manufacture the satellites.

Even if \$900mn is a drop in the bucket to a multibillionaire entrepreneur like Musk (Forbes estimates his net worth at around \$270bn), that must have hurt. Certainly \$900mn was key anchor revenue for a new satellite broadband constellation that has to heavily subsidise customer terminals – priced in most markets at \$599 – in order to expand the service.

But what must have been even more painful is that the Federal Communications Commission, in reversing a December 2020 grant, called proposals from Starlink and another subsidy candidate “risky.” It also questioned Starlink’s ability to deliver a reliable and affordable offer.

That decision cast a cloud not only over Starlink, which may still appeal against the decision, but over the many satellite broadband hopefuls that are making a business case out of connecting the world’s 2.9bn unconnected.

If any group seems equipped to

But the service is still a long way from qualifying for the FCC’s largesse. Acknowledging that “Starlink’s technology has real promise”, FCC chair Jessica Rosenworcel indicated that the agency was not willing to “publicly subsidise its still developing technology”.

There have been suggestions that the FCC’s about-face was politically motivated or due to lobbying from the powerful fibre and cable industries – a charge the agency denies.

There was no change in direction, said the FCC, “but rather... the way this process was designed to work”. The initial grant had been provisional on further due diligence. The U-turn is a timely warning to those such as Amazon, OneWeb, Telesat and others planning LEO broadband services that the industry remains a long way from being competitive – either for the billions still living offline or those in more populated areas.

Once built, the constellations can deliver connectivity to new areas far quicker than terrestrial providers. But the economics of delivering the service from networks of hundreds or thousands of satellites are not yet consumer-friendly due to the complexity of the systems. And if \$600 for a terminal is too much for consumers in a country

The FCC, in reversing a December 2020 grant, called proposals from Starlink and another subsidy candidate ‘risky’

such as the US, how will those in less affluent countries afford it?

Tech is evolving fast and terminal costs and performance will improve. But as LEO networks win new subscribers and average data demands increase, they will also be under pressure to spend billions more on bigger fleets and better satellites to address congestion.

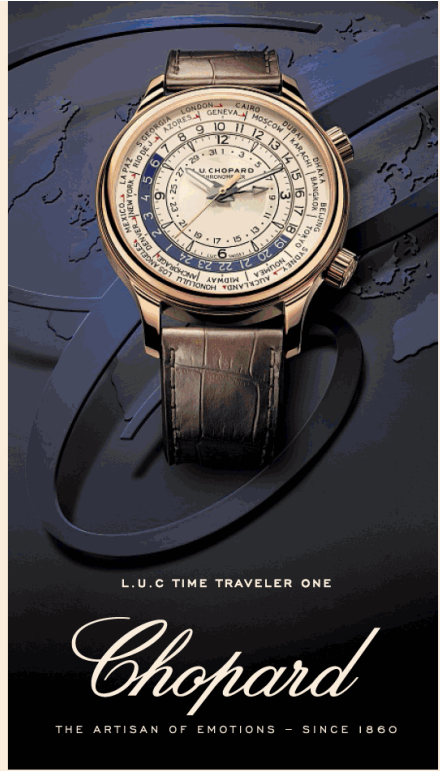
“LEO operators are planning for larger next-generation constellations and those new satellites must incorporate technology advances, all requiring more and more investment,” said Carissa Christensen, chief executive of consultancy BryceTech.

Nathan De Ruiter of consultancy Euroconsult said: “The challenge that [they] have is that you need to keep money pouring in to keep the network expanding to meet growing customer requirements.”

Mega-constellations of satellites are costly to operate and monitor. Roger Rusch, president of consultancy Tel Astra, writing in SpaceNews, estimated that the biggest constellations would overrun initial budgets “by a factor of two or more”. Any government considering subsidies for LEO broadband providers will have to weigh this trade-off between the cost and sustainability of an unproven business model and rapid internet access for the underserved.

It is a tough decision, made more difficult by the fact that terrestrial providers have also often failed to deliver. But in most emerging technologies, government support has a key role. Perhaps not in the context of this FCC programme. But if the dream of bringing broadband to everyone everywhere is to be realised, it is unlikely to be accomplished without accepting that there will be some risk.

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COMPANIES & MARKETS

Technology

Tencent posts fall in quarterly revenue

Slowing China economy and regulatory crackdown leave business shaken

PRIMROSE RIORDAN — HONG KONG

Tencent has reported its first decline in quarterly revenues, with China’s most valuable group shaken by the slowing economy and a regulatory crackdown.

The technology business missed analysts’ sales expectations after posting quarterly revenue of Rmb134bn (US\$19.7bn) in the three months to June 30, down 3 per cent from the same period last year and below forecasts of Rmb135.6bn. Net profit fell to

Rmb18.6bn, down from Rmb43bn in the second quarter of 2021 and missing analyst estimates of Rmb25bn.

The group has slashed staff numbers, saying it had “optimised our workforce” in a cost-cutting drive that had reduced expenses. “During the second quarter, we actively exited non-core businesses, tightened our marketing spending, and trimmed operating expenses,” chair Pony Ma said yesterday. “Looking forward, we will focus on enhancing the efficiency of our businesses and launching new revenue initiatives.”

The slowing Chinese economy has hurt the company’s quarterly advertising revenue, which dropped 18 per cent compared with the year before. Tencent

said it was looking to roll out advertising formats to reach social media video viewers, which it believed would lead to new revenue streams.

Fewer big game releases, lower user spending and moves to protect minors are among the challenges

Tencent has been hit with a regulatory clampdown on gaming that began last year, with the government slowing approvals and restricting children to about three hours of play a week.

Regulators paused approvals for new

games in July last year as they sought to align the industry with party values and make games less addictive. While it restarted approvals in April, Beijing is yet to publicly sign off on any from Tencent. “The domestic game industry is facing transitional challenges including fewer big game releases, lower user spending, and measures to protect minors,” the company said.

As it contemplates obstacles closer to home, Tencent has been looking to expand abroad and has increased its investment in foreign start-ups. But it reported that revenue from its international gaming segment fell 1 per cent in the quarter. “The international games market is experiencing a post-pandemic

digestion period as players resume offline activities,” it said.

Tencent flagged that it was looking for investment opportunities. James Mitchell, chief strategy officer, said a report that it was in talks to sell down its Meituan stake was “not accurate”, without giving details.

Mitchell said the company had a listed portfolio worth more than \$90bn and private investments worth \$50bn, and Tencent was focused on returning capital to shareholders.

Amid a wave of tech industry redundancies in China this year, the company lost almost 5 per cent of its staff in the quarter, trimming the number of its employees to 110,715.

Financial services

Average pay for partners at PwC in the UK exceeds £1mn

MICHAEL O'DWYER — LONDON

PwC partners in the UK were paid an average of more than £1mn for the first time last year, buoyed by a jump of one-third in the firm’s consulting revenues and the disposal of part of its business.

The results kicked off what is expected to be another season of bumper earnings for the Big Four accounting firms, which also include Deloitte, EY and KPMG.

But PwC warned that inflation and rising wages were likely to reduce partner pay in the current year.

It handed half of its 24,000 UK employees pay rises of at least 9 per cent in July in an effort to attract and retain staff in a hot labour market and respond to rising inflation.

“I expect the average partner income to come down next year in line with that investment,” said Kevin Ellis, UK chair and chief executive.

Demand for the firm’s services would remain strong because companies would still need advice on adapting to changes in technology and supply chains, Ellis said, warning that he expected a rise in insolvencies.

Reflecting on EY’s plans to split its audit and advisory businesses, the PwC chief said: “We are committed to [being] a multidisciplinary firm. And I think I’m going to be quite relieved that I’ve still got a very strong insolvency practice.”

The decision to honour all job offers throughout the pandemic was the ‘biggest driver’ of the firm’s growth

Profits for PwC UK, which includes the firm’s Middle East business, increased 19 per cent to £1.4bn in the 12 months to June 30.

Profits were more than £1.5bn after accounting for the UK element of the \$2.2bn sale of PwC’s global mobility business, the proceeds of which were shared among the locally owned firms that make up PwC’s international network.

Distributable profits for PwC’s 995 UK and Middle East partners, who own and run the business, rose to an average of £1,025,000, with the top earners being paid significantly more.

The figure included £920,000 in trading profits, up from £818,000 a year earlier, plus a bonus of £105,000.

Energy. Renewable power

Obstacle course awaits Biden’s climate ambition

Factors such as land-use rules and import controls threaten to impede implementation

MYLES MCCORMICK — NEW YORK

The US climate, tax and spending law signed by president Joe Biden this week holds the potential to spark an explosion of renewable power projects across the country. Clean-energy executives, climate advocates and scholars have praised it, saying it is the first serious legislative attempt to tackle emissions that fuel global warming.

But a host of obstacles may stand in the way. They range from tariffs and import controls that are driving up the cost of solar panels, to state land-use laws over which the federal government has no control.

The new law is “absolutely game-changing”, said Jos Shaver, chief investment officer at Electron Capital Partners, a renewables-focused asset manager with \$2.8bn under management.

“But it’s an energy transition, not an energy switch. It’s not going to happen overnight and there’s going to be a lot of bumps in the road.”

The Inflation Reduction Act will pump a record \$369bn into clean energy. The Biden administration predicted that the law would allow the country to slash greenhouse gas emissions by 40 per cent from 2005 levels by the end of the decade, cutting it within



Sun traps: Ipsos Solar panels in Alexandria, Virginia. Below, making a panel at First Solar

will expand options for financing projects.

“It really opens the floodgates for us to expand the rollout massively of the pipeline of projects with a planning horizon that gives us certainty,” said

The potential for retroactive tariffs along with supply chain snags drove down solar installations in the last quarter to their lowest level since the start of the pandemic, according to Wood MacKenzie’s consultancy.

“It’s an energy transition, not an

of a local industry over time. “When you have critical mass and you need things, it comes naturally,” Azagra said.

The development of solar and wind farms at a scale that decarbonises the economy will require construction

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COMPANIES & MARKETS

Fixed income. Borrowing costs

Gilts sell off as hot inflation lifts rate rise expectations



Darkening skies: the Bank of England will draw little comfort from the easing global inflation situation because of greater domestic pressures on prices, analysts say – Charlie Bibby

Yield curve inversion deepens in sign of growing worries that BoE may trigger a recession	UK short-term borrowing costs surge Two-year gilt yield (%)	Expectations for Bank of England rate rises push higher Implied bank rate in May 2023 (%)	Yield curve inversion worsens Difference in two- and 10-year gilt yields (percentage points)
	7	2.6	3

Crypto

Pension fund CDPQ admits it went into digital assets 'too soon'

SCOTT CHIPOлина AND JOSEPHINE CUMBO

Canada's second-largest pension fund manager has written off its \$150mn investment in crypto lending platform Celsius Network and conceded it went into crypto "too soon".

Charles Emond, chief executive of Caisse de dépôt et placement du Québec, said its investment in Celsius last October marked the end of its foray into the digital asset industry.

Celsius became one of the biggest names to be caught by the sharp collapse in the price of digital assets in the spring.

In June, it froze customer withdrawals and weeks later filed for Chapter 11 bankruptcy protection in New York, a move that revealed a \$1.2bn hole in the company's balance sheet.

CDPQ, the \$304bn investment firm that manages pension plans and insurance programmes in Québec, said yesterday that the stake in Celsius was written off "out of prudence".

"For us it's clear when we look at all of this, even if the last chapter has not been written, that we went in too soon into a sector that was in transition, with a business that had to manage extremely quick growth," Emond said.

"Whether it is Celsius or any other investment,

a 98 per cent rise. The UK figures sparked a rout in the country's short-dated debt, which is sensitive to changes in interest rate expectations, as investors raised their

note, a proxy for borrowing costs worldwide, rose 9bp to 2.92 per cent. Lyn Graham-Taylor, rates strategist at Rabobank, said bond markets could sell off further, adding: "The central banks are

scrutinise the minutes of the US Federal Reserve's latest monetary policy meeting for any further clues about the central bank's strategy for tackling inflation. Ian Johnston

amount of "residential floor space started" in April to June 2022 down by nearly half compared with last year. The pace of homebuilding has not been this slow since 2009. The result is extra supply for the rest of the world. Iron ore, metallurgical coal and copper are essential materials for making construction steel, household appliances and electrical wiring. Before the recent downturn, China consumed about two-thirds of the world's iron ore and metallurgical coal and about 40 per cent of the copper. Lower demand means lower prices. Compared with the recent peak in July 2021, iron ore futures are up by half while Chinese metallurgical coal prices are down by about a third. Global copper prices have dropped by

On top of that, China's provincial and local governments had relied on revenues from land sales to cover about a third of their spending. That money is no longer coming in. According to China's ministry of finance, local government revenues from land sales so far this year were 31 per cent lower than in the first six months of 2021. While local government bond issuance is soaring, this mostly reflects cash flow shortfalls rather than new investment spending. Desperation is leading some local governments to raise money at a savers 9 per cent yields from household loan savers even though the central government issues 10-year bonds at yields below 3 per cent. The impact of China's housing crash is being compounded by the government's

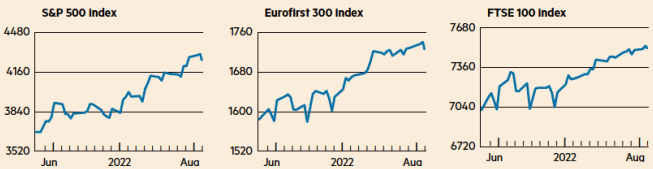
the Netherlands Bureau for Economic Policy Analysis. But China's exports continue to rise, providing foreign consumers and businesses with the goods they need. In the past, the massive imbalance between China's healthy exports and weak imports was a drag on the global economy, depriving workers elsewhere of the incomes they would have earned selling goods and services to Chinese customers. But now that inflation and commodity shortages are bigger concerns than underemployment, China's troubles may be just what the rest of the world needs.

Matthew C Klein is the founder of The Overhoot and the co-author of Trade Wars Are Class Wars

Markets update

Table with columns for US, Eurozone, Japan, UK, China, and Brazil. Rows include Stocks (S&P 500, Eurofirst 300, Nikkei 225, FTSE100, Shanghai Comp, Bovespa), Currency (\$ index, Yen, Rmb, Real), Govt. bonds (10-year Treasury, Bund, JGB, Gilt, bond), and Yield (2, 10, 30-year). Includes % change on day and Basis point change on day.

Main equity markets



Biggest movers

Table of biggest movers in US, Eurozone, and UK. Includes Agilent, Progressive, Eli Lilly & Co, Valero Energy, Tjx Companies, Jack Henry & Associates, Carnival, Analog Devices, Norwegian Cruise Line Holdings Ltd, Royal Caribbean, Coloplast, Oci, Jeronimo Martins, Kerry Grp, Alstom, Sanofi, Thyssenkrupp, Infineon Tech, Continental, Diageo, Bp, British American Tobacco, Flutter Entertainment, Reckitt Benckiser, Persimmon, Aveva, Int Consolidated Airlines S.a., Prudential, Haleon.

Wall Street

Retailer Target sank after a big earnings miss blamable on efforts to whittle down its stock levels. Earnings per share come in at 39 cents in the second quarter, sharply below the 72 cents Wall Street had estimated. Brian Cornell, chief executive, said Target had been "rightsizing" inventory goals, which was placing "significant pressure on our near-term profitability". Better than expected results sent Agilent Technologies rallying. The lab instrument manufacturer posted a 22 per cent year-on-year rise in quarterly earnings of \$1.34 per share, topping the Refinitiv-compiled estimate by 14 cents. Agilent also raised its full-year guidance, forecasting revenue in the range of \$6.75bn to \$6.78bn, up from the \$6.67bn to \$6.73bn target stated in May. Bank of America said Agilent's sector was in much better shape than many expected, benefiting from lower cyclicity, higher recurring revenues and more exposure to faster growing markets. Manchester United rallied after Tesla chief Elon Musk announced he was buying the football team on Twitter, only to recant hours later saying it was a joke. Bloomberg later reported that the team's owners, the Glazer family, were open to selling a minority stake. Talks were ongoing, Ray Douglas

Europe

Forecast-beating results alongside an upgrade to its outlook lifted Switzerland's Tecan, the provider of lab instruments. Sales grew almost 30 per cent to SFr584m (\$613m) in the first half of the year, comfortably beating the UBS estimate of SFr542m. Underscoring this revenue growth was strong demand for automation solutions for non-Covid applications and "significant price increases for products and services", it said. Tecan said its full-year revenue would now grow within the mid- to high-teens range, up from the "mid-teens" forecast stated in March. Finland's Marimekko fell sharply after its second-quarter results failed to deliver the large beats of its more recent updates. Operating profit climbed 17 per cent year-on-year to €5.7m, which was 3.6 per cent ahead of what analysts had expected, but was not as impressive as the 47 and 27 per cent beats achieved in the previous two quarters, respectively. Higher than expected costs weighed on Danish pharma group Lundbeck, which reported core operating profit of Dkr899m (\$121m) against Dkr999m. Additional investments in marketing and sales costs were in part to blame for the squeeze on profits, Ray Douglas

London

Theatre chain Cinesworld plummeted to a record low after warning that ticket sales were still "below expectations". Worrying investors was the group's response to ensure balance sheet strength, which may include a deleveraging that would "likely result in very significant dilution of existing equity interests in Cinesworld", said the company. Revolution Beauty surged on news that Boohoo had made a "strategic investment" in the personal care product group. The fast-fashion retailer's 71 per cent stake made it Revolution's fourth-largest shareholder, according to Refinitiv data. Shore Capital said the "investment appears logical given the existing commercial relationship and the potential for full ownership in due course". Boohoo already sells Revolution products through some digital channels. A slide in half-year profits weighed on housebuilder Persimmon, which posted pre-tax profits of €439.7m for the six months ending June 30, down from €480.1m for the same period a year earlier. AJ Bell said it was "easy to understand why the market is being cautious" about property groups, not least in light of mounting mortgage costs and UK house price growth slowing in June, Ray Douglas

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MARKET DATA

World Markets at a Glance. FT.COM/MARKETSDATA. Change during previous day's trading (%). Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison. ASIA. FT.COM/MARKETSDATA. Includes various market indices and their performance over different periods.

Table of stock market indices for various countries including Asia, Europe, and the US, listing indices like Nikkei, Hang Seng, and S&P 500 with their respective values and changes.

STOCK MARKET: BIGGEST MOVERS

Table showing the biggest movers in the stock market, categorized by gainers and losers, with columns for stock name, price, and change.

UK MARKET WINNERS AND LOSERS

Table showing the biggest winners and losers in the UK market, including companies like BT Group and AstraZeneca.

ASIA MARKET WINNERS AND LOSERS

Table showing the biggest winners and losers in the Asia market, including companies like Alibaba and Tencent.

EURO MARKET WINNERS AND LOSERS

Table showing the biggest winners and losers in the Euro market, including companies like SAP and Volkswagen.

US MARKET WINNERS AND LOSERS

Table showing the biggest winners and losers in the US market, including companies like Amazon and Microsoft.

CURRENCIES

Table showing currency exchange rates for major currencies like the Dollar, Euro, and Pound.

FTSE 100 INDEX

Table showing the performance of the FTSE 100 index, including daily and weekly changes.

FTSE 250 INDEX

Table showing the performance of the FTSE 250 index, including daily and weekly changes.

FTSE 100 SUMMARY

Table providing a summary of the FTSE 100 index, including sector performance and key statistics.

UK STOCK MARKET TRADING DATA

Table showing trading data for the UK stock market, including volume and value.

UK RIGHTS OFFERS

Table listing UK rights offers, including company names and offer details.

UK COMPANY RESULTS

Table listing UK company results, including earnings and revenue.

UK FTSE 100 INDEX

Table showing the performance of the UK FTSE 100 index.

UK FTSE 250 INDEX

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UK FTSE 100 SUMMARY

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FTSE 100 INDEX

Large table showing the FTSE 100 index components, including company names, prices, and changes.

FTSE 250 INDEX

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Table with columns: Ticker, Price, Change, % Change, Volume, etc. Includes sections for FT 500: TOP 20 and FT 500: BOTTOM 20.

Table with columns: Index, Value, Change, % Change, etc. Includes sections for Interest Rates: Official and Interest Rates: Market.

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All-singing, all-swimming Edinburgh Fringe

Despite setbacks and obstacles, this year's Festival

through the most modern of settings. Jessica Clark's direction is urgent and pacy, while Clark's central performance

Fringe is staging a wealth of theatrical experiences, writes Alice Saville

THIS year's Edinburgh Fringe has an embattled but cautiously hopeful atmosphere. It began with storms: the Fringe Society sparked anger with its decision to scrap the Half Price Hut and the official Fringe App...

Truth's a Dog Must to Kennel According to acclaimed theatremaker Tim Crouch, continuing to lead theatre after all the havoc of the past two years is "like fucking a corpse". His solo performance is an affectionate but despairing dialogue with the art form he has made his career in...

Head Set Fringe regular Victoria Melody is one of life's enthusiasts, known for hurling herself into the worlds of pigeon fancying or beauty pageants or funeral



Rebekah Hinds, left, and Brontë Barbé in the musical 'Kathy & Stella Solve a Murder' - Mhaela Bodovic

directing and making funny, astute shows about the results. But could her whole career just be a symptom - a way of coping with undiagnosed ADHD? After getting her diagnosis, she turns scientist, exploring why performers seem disproportionately likely to have ADHD...

(le) Pain Most fringe venues smell of sweat and damp. But Jean-Daniel Broussé's show is full of the delicious aroma of baking bread, thanks to an onstage oven, which he uses to recreate the atmosphere of the rural French bakery where he grew up...

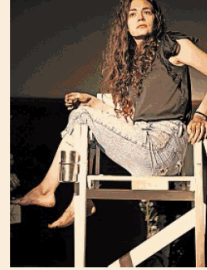
top with a joy that won't be pummelled into submission.

Assembly Roxy to August 28

Brown Boys Swim School's nearly over and Kash and Mohsen can't wait to make a splash at the end-of-term pool party. Just one snag: they can't swim. Karim Khan's moving, witty play explores the pains of assimilation through the story of two Muslim teenagers who are afraid of floating away from their white classmates...

Pleasance Dome to August 28

Kathy & Stella Solve a Murder Paines Plough's Roundabout venue is having a very, very good year, serving up some of the Fringe's best shows. Among them is this offbeat gem of a musical about Kathy and Stella, two true-crime obsessives with a failing podcast who (plot twist!) find they've got a real-life murder to solve...



Haley McGee in 'Age Is a Feeling'

lines, sketching the ironic contrasts between the language of feminism and the horrorfulness of the murders this pair are building their careers around. "I can't see any danger in linking all my self-esteem to the approval of strangers," announces Kathy as their podcast finally takes off online...

Roundabout to August 28

Sap Rafaella Marcus's play is a thriller in miniature, gathering strength from the complex web of ideas it touches on over its 70-minute span. It subtly reveals the stigma attached to bisexuality as Daphne (Jessica Clark) is forced to conceal her past from her new girlfriend...



Anish Roy, left, and Varun Raj in 'Brown Boys Swim' - Gerard Lewis

melts poignantly from naive confidence to abject terror. An unsettling hour or so, but a worthwhile one.

Roundabout to August 28

Age Is a Feeling The Fringe is a place that makes you acutely aware of the passing of time: each day divided into precious one-hour segments, and, for regular attendees, each familiar location overlaid with memories. In her wonderfully ambitious solo show, Haley McGee wrestles time and fate to the ground...

Summerhall to August 28

We Were Promised Honey! There's more time travel on offer in Sam Ward's performance: with the energy of an early charismatic alien, he sends us soaring into an apocalyptic future. This is climate change theatre, without the hand-wringing and papier-mâché sculptures of doomed rainforest animals...

edfringe.com

FT LIVE FUTURE OF NEWS New Models for Expansion 14 September | Digital Conference | #FTNews. Includes speaker bios for Joseph Kahn, Paula Kerger, Akio Fujii, Delphine Ernotté Cunci, Kevin Merida, Ben Smith, and a QR code for futurenews.live.ft.com.

Between perfection and purgatory

CLASSICAL MUSIC

Ruhrtriennale Jahrhunderthalle, Bochum

Shirley Aphorop

The sound sets your teeth on edge. Gérard Grisey's music calls for micro-tonal deviations from standard pitch. The musicians of Klangforum Wien play them with such delicious precision that you squirm in your seat...

It is this perfectionism in impossible demands and unplayable scores that makes Klangforum Wien such a thrilling ensemble to hear. They, along with the similarly obsessive vocal ensemble Chorwerk Ruhr, form the core of Ich geh unter lauter Schatten...

The Ruhr festival's "creations" call for multimedia experiments in vast industrial spaces. This is no exception: set designer Hermann Feuchter has devised an extraordinary set in Bochum's vast Jahrhunderthalle...

Stage director Elisabeth Stöppler and conductor Peter Rundel have assembled an evening of music by Grisey, Giacinto Scelsi, Iannis Xenakis and Claude Vivier around the cheerful theme of death.

Grisey's Quatre chants pour franchir de seuil (Four Songs to Cross the Threshold) form the centrepiece, interlarded with other works. Stöppler and her team have dressed the choir and orchestra in rough grey overalls, ghosts of the hall's former workers...

From the visceral first notes of Scelsi's Okanagon, we are captivated. But as the evening's hour and 40 minutes unfold, a purgatorial feeling encroaches. There is no real narrative, and the directorial team's series of disjointed events fail to

replace one. Characters dress and undress, the chorus strews paper across the floor, a singer circles the performance space on roller skates and the audience sits in the sauna-like heat, growing weary...

This is a pity, because the musical performances are extraordinarily good. The four songs are divided between four sopranos, and Sophia Burgos, Kerstin Avemo, Kristina Stanek and Caroline Melzer deserve special mention for their unearthly, polished performances...

To August 21, ruhrtriennale.de



Ruhrtriennale's 'Ich geh Unter lauter Schatten' Volker Bräunchen

British way and the American "patronizing", peaked in 2015, and has fallen quite markedly since.

allowances should be made. But to assume others feel oppressed and need special treatment, without finding out how they feel first, is, well, patronising.

jemima.kelly@ft.com



by Victor Mallet

stop the rust before it starts." Eiffel made sure that every part of his tower, then the world's tallest building, was accessible so it could be repainted.

and that the puddled iron underneath was in perfect condition. Who to believe? I went to look for myself, shrugging off the persona of the cynical Parisian and joining the 25,000 tourists a day who visit France's most famous attraction.

In short, while Gustave Eiffel turns restlessly in his grave, the tower will have to wait until the 2030s for a full round of maintenance to eliminate the rust and secure its future.

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Opinion

Climate is a supply chain problem that cannot be ignored

BUSINESS

Helen Thomas



After weeks of scorching heat, it was possible to take a stroll on the parched bed of the Loire river. Low water levels in the Danube have forced countries in eastern Europe to start dredging to keep barges moving along the critical waterway.

of food and goods around the world are almost bafflingly wide-ranging and complex. Companies' first concern might be which of their plants, or their suppliers, are exposed to the rising risks. Governments are focused on the threats to food supply.

ved, professor of ports and waterways at Delft University of Technology, "There has been a lot more attention on the impact of shipping on the climate than on the impact of the climate on shipping."

is partial loading of vessels, or running more journeys with smaller ships. Not only does this mean a vicious emissions cycle, especially as low water levels mean more resistance and more fuel — it also has effects in cost and congestion terms around the waterways and port system.

given the scale of the problem. More generally, these weather events tend to be treated as discrete emergencies, rather than as part of a worsening systemic problem. That creates what the UN's office for disaster risk reduction calls a cycle of disaster-response-recovery-repeat.

There's a danger that the waterborne infrastructure of global trade itself will dry out or shut down

aside, have made the system more susceptible to disruption. Vessels have become progressively larger, and more difficult and costly to rescue when things go wrong.

Serbia and Kosovo must dial down Balkan tensions

Misha Glenny

It's hardly a secret that there's not much chemistry between President Aleksandar Vučić of Serbia and Albin Kurti, Kosovo's prime minister. But each was expected to receive the same tough message from Nato and the EU on a two-day trip to Brussels starting yesterday.

At the start of August, the government in Pristina said members of the Serbian minority in northern Kosovo must swap their Republic of Serbia vehicle registration plates for Kosovo ones. This was in line with agreements reached in 2013 and 2015.

The longer the dispute festers, the greater the risk of a destabilisation of south-eastern Europe

Russian leader invaded Ukraine. Belgrade often stands accused of fostering close ties with Moscow, influenced by the historical friendship between Serbs and Russians.

Good leaders don't worry about unity

BRITAIN

Robert Shrimmsley



We have reached the stage in the Conservative leadership contest where, with everyone confident Liz Truss will defeat Rishi Sunak, handy advice is being dispensed among the political class.

pledges made to rightwingers and making room in her cabinet for people who did not support her, her defeated rival, his allies and moderate Conservatives. This is a terrible idea. While Truss should not seek disharmony, she cannot buy unity.

effective government. This demands calculated boldness. Of course it also requires her policies to be the right ones and there are strong reasons for doubt about both her economic strategy and hard line on Brexit.

Office is one of the most demanding and politically dangerous wings of government. Loyalty matters but strong leaders need effective ministers.

grasped she may as well be immediately bold. Misjudgment here will doom either prime minister.

A prevailing economic orthodoxy isn't smashed — as Truss insists is necessary — by being halfhearted

The truth that set Cheney free

US POLITICS

Edward Luce



Whether it is Michael

son can become a platform for rebirth. It is worth recalling that in spite of their attempts to ingratiate, Dukakis and Kerry each lost their presidential contests to Bush.

only" as they are pejoratively called — as any of her colleagues. Cheney's defenestration thus begs the question: what defines today's Republican party?

Conventional parties manage their extremes. In the case of today's Republicans, however, the extreme sets the narrative. In another time, Marjorie Taylor Greene, the congresswoman from Georgia, would be dismissed as a political freak.

urban America. The more ignorant you sound, the more contemptuous the cultural elites, which is worth its weight in electoral gold.

All these processes have intensified since the war in Ukraine, which is testing European resilience and unity. The EU is hosting millions of Ukrainian refugees. It faces a winter energy crunch. Wildfires rage across Europe. Inflation is soaring. Brussels needs instability in the Balkans like a hole in the head.

W Dukakis in 1988 doing a photo-op in a tank or John Kerry in 2004 dressed in goose-shooting camouflage, US democracy is rich with pandering moments. It is less generous with examples of politicians alienating voters on principle. When Liz Cheney, who was ejected from her Wyoming district on Tuesday night, opposed her party leadership in early 2021 she quoted at them from St John's gospel: "The truth shall set you free". Her fixation on bringing about Donald Trump's demise - possibly in the form of a jail sentence - has turned Cheney into America's most celebrated electoral scribe. Unlike the real thing, the political ver-

Trump is Republicanism, the party and the country are heading for a reckoning. "We stand at the edge of an abyss," Cheney recently said. What does her defeat tell us about the future of US democracy? The clearest message is that the Republican party has become an authoritarian cult. Cheney is among the most conservative lawmakers in the US. She voted 95 per cent of the time with Trump during his term in office. She is for every tax cut, against every abortion, and in favour of every new weapons system on offer. Much like her father, Dick Cheney, the former vice-president, Liz Cheney is as close as a politician gets to personifying the Stars and Stripes. She is as far from being moderate - "Republican in name

Marco Rubio and Texas's Ted Cruz were Much like her father, she is as close as a politician gets to personifying the Stars and Stripes speaking their minds in 2016 when they depicted Trump as a low life con artist. Harriet Hageman, the Trump-endorsed Republican who unseated Cheney, was probably sincere in 2016 when she called Trump a "racist and xenophobic". Ambition, and fear of the mob, have turned all these figures into hollow mini-Trumps.

Last week she got rousing applause at a party event when she said she opposed solar panels because they only work when the sun is out. "I want to stay up later at night," she said. "I don't want to have to go to bed when the sun sets." Today's Republican party belongs to Greene not Cheney. It is even more strongly motivated by what it hates than by admiration of Trump. I have no idea whether Greene is as stupid as she sounds. She could also be highly savvy. The key to success in today's conservative movement is to provoke those who look down on it. It guarantees media notoriety that can be monetised. Trump devised the model. But he is not the last word on it. The key is to enrage the overeducated moralisers in bicastal

to count for much among her fellow Republicans today. It is possible that she is planning to play the spoiler against Trump in the 2024 Republican primaries. She could again sacrifice herself for a larger cause. A loftier bet is that in 2025 or beyond she will be ready to pick up the pieces of a party suffering from post-Trump stress disorder. But this may be to overstate the degree to which the pathology is solely about Trump. "There will come a day when Donald Trump is gone, but your dishonour will remain," Cheney told fellow Republicans. This is an uplifting thought but also a truism. The pressing question is what happens between now and then.

sirens of nationalist populism may be seducing some members of both governments and that the Serbian minority in Kosovo is becoming restive, believing Belgrade has already conceded too much to Pristina. Kurti and Vučić need to overcome their personal and political differences. Equally, the EU must revitalise its strategy of absorbing the western Balkans. The longer the Kosovo dispute festers and the region's states remain outside the EU, the greater the danger of a catastrophic destabilisation of south-eastern Europe. That's in nobody's interests. Except Moscow's. The writer is rector of the Institute for Human Sciences (iwm.at) in Vienna

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Lex

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Yangtze/climate change: river weak, emissions high

Water levels in the Yangtze hit a record low this week. Southern China is battling a drought with temperatures around the river exceeding 40C since last month. That spells trouble for Chinese hydropower and a tilt towards coal that will raise carbon emissions. The world's great rivers have been arteries for commerce and culture for millennia. Some of them are in trouble. Water levels in the Rhine, Danube, Po and Colorado are unusually low. The effects range from supply route disruption to crop failures. In parts of China, energy supplies are threatened as water used by hydropower plants dwindles. Water available from the main Three Gorges reservoir is already at half average levels. Japanese carmaker Toyota, Taiwan's Foxconn and Chinese battery maker Contemporary Amperex Technology are among businesses that have closed factories this week due to the resulting power crisis. Important provinces such as Sichuan, China's third-largest, made the switch to hydropower as a key energy source more than seven years ago. At that time, Beijing was pushing aggressively for more renewables.

Friendly policies and fat subsidies helped utilities such as China Yangtze Power to increase market share rapidly. Operating margins have exceeded 50 per cent for more than a decade. China Three Gorges Renewables, which also has China Three Gorges Corporation as its parent, has comparable margins. Despite enviable earnings, shares of Three Gorges Renewables are down 15 per cent this year and trade at 20 times forward earnings, half the level of a year ago. Strict policy mandates to cut coal usage and increase renewable power capacity are weakening.

Severe droughts are occurring more frequently in China. Last summer, the hydropower hub of Yunnan province was hit, causing power cuts that disrupted factories for months. The current heatwave in Southern China is forecast to last another two weeks, the longest since records began. Beijing is prioritising the fight to support economic growth over the push for renewables. Average daily consumption at coal-fired power stations was 15 per cent higher than a year ago in the first two weeks of

August at 8.16mm tonnes. Persistent droughts would damage the status of hydropower as a reliable source of energy. In a painful irony, they would also increase China's already substantial contribution to climate change.

Meme stocks: the fundamental things apply

Are meme stocks still a thing? Very much so, if the 400 per cent surge in the stock of US home goods retailer Bed Bath & Beyond over the past month is anything to go by. Conventional wisdom dismisses these as detached from fundamentals. A more accurate view is they are detached from their fundamentals but not from those of the market.

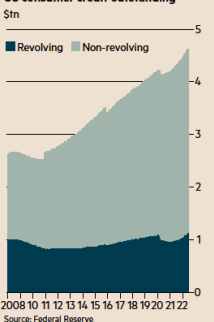
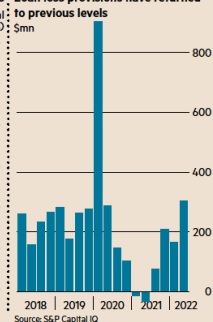
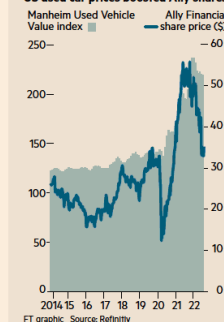
Reddit's WallstreetBets crowd laid low during the worst of this year's rout. A sustained rally on Wall Street since June, fuelled by a stronger-than-expected corporate earnings season, has lured them back.

Meme stocks, like bitcoin, are useful gauges of animal spirits that depend on evidence of decent, old-fashioned earnings somewhere else in the financial system. Bed Bath & Beyond was the third most bought stock by retail investors on Tuesday, according to Vanda Research. Trading volume hit nearly 400mm compared with an average of less than 12mm. The stock was only behind Tesla for bullish call options traded among retail investors. GameStop, the video game retailer that became the original meme stock last year, has almost doubled in value since May. Movie theatre operator AMC, another Reddit favourite, has gained 40 per cent over the past month. This week's buying frenzy in Bed Bath & Beyond appeared to have been triggered by news that the vehicle of investment influencer Ryan Cohen had bought call options betting the stock can rise as high as \$80 a share.

None of that justifies the stock's valuation of 70 times forward earnings - not given the retailer's shrinking cash position and struggle to revive sales growth. Second-quarter profits among S&P 500 groups are expected to have risen 10 per cent from a year earlier, according to Refinitiv data. This is unlikely to last given high inflation and shifting consumer habits. Reappearance of meme stock traders should hint

Ally/Warren Buffett: shifting out of neutral

The pandemic boom in used car prices lifted shares in consumer lending group Ally Financial. Lower demand and tighter financial conditions have led to a retreat in both since. A return to pre-pandemic provisioning or higher levels of consumer debt should not yet be reasons for concern



It does not have quite the same lustre as the Golden Age of Athens. But 2020-21 will be remembered as halcyon days by US used car merchants, if no one else. Warren Buffett does not think the good times are quite over. Filips stock Berkshire Hathaway tripled its stake in Ally Financial, an auto lending mainstay, to \$1bn during the second quarter.

The world's most famous investor evidently believes lending margins will remain robust and default rates low in consumer credit. In the two pandemic years, shares in Ally rallied 57 per cent. The stock was buoyed by consumers flush with cash flocking to buy used vehicles. Auto manufacturers were unable

to meet demand for new cars. Ally shares have fallen by a quarter so far in 2022. Wall Street is worried about the finances of the US consumer as well as a normalisation in the auto market. Ally says those worries remain overstated, a view that now has the implicit endorsement of a legendary investor.

Between the end of the 2019 and the start of 2022, the Manheim Used Vehicle Value index increased by a vertiginous 70 per cent. Higher used car prices supported bigger loans at a time when there were virtually no concerns about immediate credit losses.

Net interest revenue increased substantially in the current quarter compared with 2021. However, Ally

was forced to accrue credit loss provisions so big that pre-tax income fell 40 per cent year on year. The company insists those provisions are simply a natural reversion to ordinary levels.

Ally's internal models forecast used car prices falling 50 per cent over the next couple of years. Still, lower prices are not a death knell and could lead to even steeper volumes of sales to buyers sidelined by elevated prices, according to Ally.

The company's share price has fallen far enough to trade at near book value. This must have grabbed Berkshire's attention. Buffett's bet is a vote of confidence in consumer banking broadly as well as auto loans.

to the Fed that inflationary pressures are still ballooning - which means expected rate rises may be too low.

Housebuilders/windfall taxes: Wimpeying out

Politicians are imposing, or at least proposing, windfall taxes on energy groups. One justification is that profits are "too high". But politicos weaken their argument by declining to follow it to its conclusion, that any mature business with fat profits should pay extra taxes. Consider Persimmon. The housebuilder posted first-half results yesterday. Profit margins, as defined by ebita, were 26 per cent, according to S&P Capital IQ, against a

figure for BP of 24 per cent over the period. Persimmon and three other housebuilders - Taylor Wimpey, Barratt and Berkeley - have all made fatter profits on this measure than BP and Shell over the past 12 months.

You could argue that the case for windfall taxes is stronger. UK housebuilders have received heavy indirect government support via subsidies for homebuyers. New housing supply is artificially constrained by a restrictive planning system. Both factors keep prices and margins high. Persimmon has returned £3bn in dividends in the past five years, more than three times as much as in the preceding five-year period. This year's payment is expected to match last year's record £750m. There are several reasons UK

housebuilders evade calls for excess profit taxes. It would mean indirectly taxing new homebuyers, some receiving subsidies, for example. But energy groups are candidates for special punishment for cognitive as much as practical reasons. The sting of higher energy bills is felt by all consumers, even as energy groups' profits rise. In contrast, paying steep prices for new homes afflicts a minority intermittently. Subsequent house price gains mollify the victims.

In both cases, the case against windfall taxes is the same: they stifle investment, cut supply and lift prices.

There is an argument that persistently high profits are a symptom of market failure. The solution would be reform. But many will prefer lashing out selectively at business.

NIKKEI Asia The voice of the Asian century

CROSSWORD

No 17,176 Set by BOBCAT

ACROSS

- 1 Keep quiet about little Italian restaurant by river steps at Aviemore? (10)
- 7 Wrong . . . or, in time, ultimately right (4)
- 9 Rustic less of resistance in circuit (4)
- 10 Condition restricting movement is secured by finance provider following discharge (10)
- 11 Refuse to jinx woman out with teacher on the rebound (6)
- 12 Look at Bottom - unconstrained, asinine, and beginning to heehaw. Would a fairy call for this? (5)
- 13 European once in prison needs exceptionally large place for business (8)
- 15 Rustic claims he's the unidentified horned beast (6)
- 17 It's not good of the French to take on very loudly (4)
- 19 Serve the lot right to impose silence (8)
- 22 Unfortunately, corn here's run short (4)
- 23 Drink first couple of beers after author's declaration of personal impartiality (6)
- 25 They establish connections and maintain them without revealing the point (6,4)
- 26 Supply east? (4)
- 27 Lament line finally adopted by Livingstone? (4)
- 28 Electronic data gathered about people going west. In these? (6,4)

DOWN

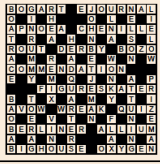
- 2 One of St Paul's letters describes clever dramatic effect (7)

RONALD PHILLIPS

GREAT ENGLISH FURNITURE

JOTTER PAD

Solution 17,175



- 3 Perhaps bend Hamlet's ear every now and then (5)
- 4 Insensitive promotion in marketing firm leads to some embarrassingly lengthy litigation (4,4)
- 5 One such as Betjeman recollected patriots in verse (15)
- 6 Rabbit novel sent up to occupy youngster on vacation (6)
- 7 Inca by profession's a needlewoman? (9)
- 8 Prize pupils bored by mindless repetition? On the contrary (7)
- 14 Actor's base offence in play involves son in real life (3-6)
- 16 Potential guide for TES production line found in loff? (5,3)
- 18 Siege-gun: a war engine used to some extent in the dark (7)
- 20 I could be in deep water, having given criminal a fresh start (7)
- 21 Spooner's drink ready? Correct! (6)
- 24 Like "fundamental" it's tetrasyllabic, but not latterly used in translation (5)



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ENGLISH, CIRCA 1730

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