Dubai

Nikkei	27875.91	27818.62	0.21
Hang Seng	18930.38	18847.10	0.44
MSCI World $	2617.84	2619.50	-0.06
MSCI EM $	962.55	979.91	-1.77
MSCI ACWI $	608.93	610.49	-0.26
FT Wilshire 2500	5149.97	5131.76	0.35
FT Wilshire 5000	40231.29	40089.18	0.35

Ethereum	1500.40	1638.24	-8.41
COMMODITIES			
	Sep 15	Prev	%chg
Oil WTI $	85.16	88.48	-3.75
Oil Brent $	90.67	94.10	-3.65
Gold $	1703.90	1704.85	-0.06

GER 2 yr	1.52	1.41	0.12
GER 10 yr	1.77	1.71	0.05
GER 30 yr	1.76	1.75	0.01

Prices are latest for edition
Data provided by Morningstar

A Nikkei Company

INTERNATIONAL

Monetary policy

World Bank warns on global recession risk

Governments urged to avoid aggressive rate rises and use targeted relief

CHRIS GILES — LONDON

The World Bank has warned that leading central banks risk sending the global economy into a "devastating" recession next year if policymakers raise interest rates too high over the months ahead and stress financial markets.

The Washington-based organisation called on monetary authorities in the big economies to co-ordinate their actions to reduce the overall amount of tightening.

Central banks, led by the US Federal Reserve, have embarked on aggressive rate rises in 2022 in a bid to tame inflation that is at or near double figures in several advanced economies for the first time in decades.

Energy and food prices have surged following Russia's invasion of Ukraine in February, triggering a cost of living crisis. To control inflation, the World Bank urged governments to provide targeted relief to vulnerable households instead of relying on tighter monetary policy.

World Bank president David Malpass said momentum in the global economy was sliding and more countries were already falling into recession.

"My deep concern is that these trends will persist, with long-lasting consequences that are devastating for people in emerging market and developing economies," he added.

He called for more action to boost production to ease inflationary pressure, rather than all the focus being on curbing spending.

Increased investment would, he said, "improve productivity and capital allocation, which are critical for growth and poverty reduction".

'My deep concern is that these trends will persist, with long-lasting consequences'

The World Bank did not produce new forecasts for the global economy, but noted that the outlook for 2023 had been deteriorating as rich and poor countries alike responded to high inflation by seeking to limit spending.

"Central banks around the world have been raising interest rates this year with a degree of synchronicity not seen over the past five decades, a trend that is likely to continue well into next year," the World Bank said.

The warnings come ahead of crucial policy votes at the Fed and Bank of England next week. The US central bank is expected to raise rates by 75 basis points for the third meeting in a row on Thursday, while UK borrowing costs are likely to rise by 50bp.

The expected rises in global interest rates would bear down on inflation, but not enough to meet central banks' targets, which are usually around 2 per cent, the World Bank warned. Core global inflation, excluding energy, was still likely to be running at a rate of 5 per cent next year, twice the pre-pandemic rate. If such a level of inflation persuaded central banks to become even more aggressive, global economic growth would decline to 0.5 per cent in 2023, according to the World Bank.

That would meet most definitions of a global recession just three years after the last one, the World Bank added, because with population growth, average global incomes would be falling.

In its modelling, the bank said there needed to be some tightening of monetary policy, but this should be accompanied by every effort to ease bottlenecks both internationally and domestically to allow production to increase without stoking inflation.

Europol

Dirty money kingpin with cocaine links detained after arrest in Spain

BARNEY JOPSON — MADRID
JUDE WEBBER — DUBLIN

Spanish police have arrested one of Europe's biggest money launderers, the associate of a notorious Irish gang who used a sham vodka brand and an underground banking system to process up to €350,000 a day of dirty funds.

The suspect, who was detained in Málaga this week, oversaw an operation that collected large amounts of cash from criminal organisations and then "delivered" it with no transaction records to criminal groups in other countries, Europol said.

He was arrested along with two associates in Spain and one in the UK while 11 related property searches were conducted in an operation involving Spain's Guardia Civil, the UK's National Crime Agency and the Dutch and Irish police as well as Europol.

The authorities did not name the ringleader who was detained, but Europol said he had been designated by the US Treasury's Office of Foreign Assets Control in April for providing support to Ireland's Kinahan clan, one of Europe's most notorious crime syndicates.

He was the first person to be arrested since the US measures were announced. They targeted seven individuals, including cartel boss Christy "the Dapper Don" Kinahan, and his sons Daniel and Christopher Jnr, who are based in Dubai.

The US accused the Kinahans of smuggling narcotics into Europe and engaging in money laundering, frequently using Dubai as a "facilitation hub for its illicit activities". It offered a reward of $5mn for information that could disrupt the clan's activities.

The arrest of the "European element" to an illicit business alleged to have trafficked Colombian cocaine through west Africa was another nail in the clan's coffin, said Nicola Tallant, investigations editor at the Sunday World and an expert on organised crime in Ireland, following a move by the United Arab Emirates earlier this year to freeze its assets. The Kinahans also have deep ties to boxers and promoters at the highest level of the sport. "It's over for them," Tallant said. "There's no doubt about it."

The money laundering operation had processed more than €200mn during the 18 months it was being investigated by law enforcement, police said.

To disguise the source of the money, the gang created a luxury vodka brand that was promoted at parties and events in the nightclubs and restaurants of Spain's Costa del Sol to create the impression of a successful business.

But data from Spain's tax agency showed the company in reality did not generate enough profit to support the plush lifestyles of the people arrested, according to the Guardia Civil.

Another person arrested ran a car dealership and provided the criminal gang with specially adapted vehicles containing concealed apartments to transport large amounts of cash.

Police said the criminals used the "hawala" underground banking system — an informal way of transferring money without physically moving funds that involves handing cash to a "hawaladar" in one place then having a colleague of theirs hand out the same sum elsewhere.

Scandinavia. Nationalists

Sweden's far right eyes kingmaker role

SD likely to drive hard bargain to become support party in parliamentary coalition

RICHARD MILNE
NORDIC AND BALTIC CORRESPONDENT

Sweden's leftwing Social Democrat party secured more seats than any other party in this week's election, yet Magdalena Andersson, its leader, was forced to submit her resignation as prime minister yesterday.

Instead, Ulf Kristersson of the centre-right Moderates will get the first chance to form a government; the first rightwing rule in eight years in the Nordic country. But to do so he needs the support of the far-right Sweden Democrats, which beat the Moderates to come second in the election.

Kristersson, who faces an in-tray that includes not just an application to Nato but also the forthcoming EU presidency, has to find common ground with a loose coalition, including the Sweden Democrats. The right-of-centre bloc beat Andersson's leftwing coalition by a slender three-seat majority in final results confirmed yesterday.

Kristersson's party lost ground, dropping to third place for the first time since 1976 with 19.1 per cent of the vote. The Sweden Democrats, second with 20.5 per cent, became the most successful anti-immigration party in Europe.

"The result has weakened Ulf Kristersson. Even though the Sweden Democrats scored just 1 per cent more, symbolically it matters a lot," said Ann-Cathrine Jungar, a specialist on radical right parties at Södertörn University.

Most political scientists expect the nationalists to gain national influence for the first time not by entering government, but by driving a hard bargain to become a support party in parliament to a rightwing coalition.

In giving some influence to the Sweden Democrats, a party with roots in the neo-Nazi movement, Kristersson is following in the footsteps of recent rightwing leaders in Norway, Finland and Denmark, all of whom have had nationalist groups in government or as support parties for rightwing governments.

He will now try to start negotiating with the Sweden Democrats along with his close ally, the Christian Democrats,

Difficult task: Moderate party leader Ulf Kristersson will try to form a government. Below, Magdalena Andersson
Fredrik Sandberg/EPA-EFE/Shutterstock

and the Liberals to form a coalition.

Jenny Madestam, associate professor at the Swedish Defence University, said the Sweden Democrats would try to "get the most out of the position as second biggest party", complicating matters for Kristersson.

"The Sweden Democrats are in a position to put heavy pressure on Kristersson in terms of reforms but also positions. Most likely they want to stay outside government but get a lot of reforms in return."

After the last election in 2018, it took the Social Democrats a record 134 days to patch together a government that struggled to last a full term. The leftwing government was forced twice to govern with a rightwing budget and regularly won votes by the slimmest of margins.

Rightwing officials and commentators say they expect government formation to be smoother this time, as the four parties involved agree on many policies and campaigned together. The biggest obstacle is the mutual distrust between the Liberals and the Sweden Democrats.

"The leftwing wants to portray it as the two parties hating each other because they want us to fail," said Carolin Dahlman, a rightwing author and commentator. "But when you look at specific topics that this government has to solve on crime, immigration and the economy, they have similar positions."

A rightwing government is likely to take a tough approach on law and order, after Sweden went from one of the lowest levels of shootings in Europe to the highest within a decade. It is also likely to take a restrictive view on immigration, which the Sweden Democrats have long blamed for an increase in gang crime. It would also back a revival of nuclear power in Sweden.

But there are differences among the parties on issues such as jobless benefits; Kristersson favours cuts, yet the more populist Sweden Democrats want to boost some measures, as well as cultural issues such as public service television. Dahlman said she expected "bumps on the road" due to the coalition's small majority, but that if the rightwing parties fail to agree, Andersson would return as prime minister.

'They [Sweden Democrats] want to sit on the sidelines and be able to complain and push their politics'

Ultimately, the Sweden Democrats need to decide what they want to do, say political experts. On election night on Sunday, four senior party members said they thought the party should enter government, with one suggesting they could demand the prime minister post. But they have toned down the rhetoric.

"The Sweden Democrats don't want responsibility. They want to sit on the sidelines and be able to complain and push their politics. If they would be part of the government, people would say they are responsible for things, and that's uncomfortable for them," Dahlman said.

For now, Kristersson, both a winner and loser in these elections, is talking of bringing people together and creating a government for all Swedes. But first he has to form a government and handle the emboldened nationalist party.

"Our voters are sending a signal that they can't be ignored," said Aron Emilsson, a Sweden Democrat MP. "They expect we will have an influence on immigration, integration, law and order, [and] energy matters."

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West Africa

Nigerian inflation at 17-year high and currency weakens

AANU ADEOYE — LAGOS

Inflation in Nigeria hit a 17-year high of 20.5 per cent in August, driven by soaring prices of food, diesel and a weakened currency, data released by its statistics agency showed yesterday.

and Ukraine over grain supplies, a weaker naira has meant that Nigeria has not benefited, FDC said.

The Nigerian currency has depreciated by almost 25 per cent against the dollar since the start of the year. Core inflation, which excludes food and

Supply chains

Biden secures tentative deal to prevent nationwide rail strike

JAMES POLITI — WASHINGTON
TAYLOR NICOLE ROGERS — NEW YORK

President Joe Biden has announced that a tentative deal has been reached to avert a rail strike that threatened to disrupt supply chains and inflict serious damage on the economy as early as

ment is validation of what I've always believed: unions and management can work together for the benefit of everyone."

In a statement, the unions said the new contracts would provide rail employees "a 24 per cent wage increase

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Representative, Anjali Mahindroo

Nigeria has been experiencing double-digit inflation since March 2016, but the situation has been exacerbated by a chronic shortage of dollars and global pressure on prices because of the war in Ukraine.

The National Bureau of Statistics said food inflation in August was 23 per cent, from 22 per cent in July, on the back of an increase in the cost of essentials such as bread, cereals, meat and other items. The seventh consecutive rise of the year follows July's 19.6 per cent.

Lagos-based Financial Derivatives Company said in a note that "the combined effects of insecurity, global supply disruptions and higher logistics costs are still taking a toll on general prices".

While food prices have declined in the wake of an agreement between Russia

energy prices, has risen to 17.2 per cent as the depreciating currency and high transport costs take their toll.

Nigeria's central bank has increased interest rates by 250 basis points to 14 per cent since May. Analysts say an increase of 50bp could be implemented at the bank's next monetary policy committee meeting on September 26.

But Pieter Scribante of Oxford Economics Africa said an interest rate rise was unlikely to be effective in cutting inflation. "Inflation is being driven by supply-side factors like higher input costs and food shortages which limits overall policy effectiveness of higher interest rates," said Scribante, who predicted inflation would peak in the fourth quarter of 2022, with a tapering off expected only next year.

today.

The agreement came after months of negotiations involving the US's largest rail companies and the unions that became increasingly intense in the past few days.

Top Biden administration officials stepped in to mediate in the talks, including Marty Walsh, the labour secretary, Pete Buttigieg, the transportation secretary, and Brian Deese, director of the National Economic Council.

"This is a win for tens of thousands of rail workers and for their dignity, and the dignity of their work," Biden said as he celebrated the deal from the White House's Rose Garden. "It's a recognition of that."

The president added: "This agree-

during the five-year period from 2020 through 2024, including an immediate payout on average of $11,000".

The risk of a rail strike across the world's largest economy had risen sharply in recent days, triggering increasingly strident warnings, particularly from business groups and leaders, that it would deal a blow to already-strained supply chains, exacerbating inflationary pressures and leading to widespread shortages.

For Biden and congressional Democrats, such a hit to the economy with less than two months to go before the November midterm elections would have been politically toxic. A strike would have also been crushing for Biden because he has cast himself as the most union-friendly US president in decades.

INTERNATIONAL

German leader faces growing pressure to supply Ukrainian army with tanks

Scholz urged by coalition partners to rethink arms policy and help Kyiv solidify battlefield gains

GUY CHAZAN — BERLIN

Ukraine's military gains against Russian forces in the north-east are piling pressure on the German chancellor to rethink his resistance to sending tanks to Kyiv, with even his coalition partners calling the policy into question.

Olaf Scholz has maintained a cautious stance on arms deliveries to Ukraine. He has sent sophisticated artillery pieces and anti-aircraft guns and yesterday Berlin said it would send Kyiv two more Mars multiple rocket launchers and 50 Dingo armoured vehicles. But he has stopped short of providing tanks.

Defence minister Christine Lambrecht held to that line, saying no other country was sending western-built tanks to Ukraine "and we have reached an understanding with our partners that Germany won't go it alone".

But the rout of Russian troops in the north-east — the Kremlin's biggest military setback since it was forced to withdraw its forces from Kyiv and the north in March — has prompted calls for a change of policy.

Officials in a growing number of Nato countries are calling for a big increase in weapons deliveries to Ukraine, arguing a well-supplied army could liberate even more territory. They have also pointed to the significant role played in Ukraine's recent battlefield successes by western arms such as the US-made long-range rockets known as Himars.

Analysts have also warned that the latest advances could leave Ukrainian forces overstretched, and their ever-longer supply lines vulnerable to Russian attack. That bolsters the argument for providing western tanks and track vehicles such as the M1 Abrams, the Challenger 2 or Leopard.

"For the Ukrainians to reconquer territory they need speed, protection and fire — and you can only get that with a combination of armoured vehicles, artillery, air defence and tanks," said Claudia Major, a defence analyst at the German Institute for International and Security Affairs.

But Lambrecht said this week that Germany had "reached its limit" in terms of supplying Ukraine, amid concerns that the Bundeswehr's own stockpiles were becoming dangerously depleted. The fear was, she said, that Germany might be unable to fulfil its military commitments to Nato.

That argument was dismissed by Nato secretary-general Jens Stoltenberg last week. Asked what countries should do when faced with the choice of helping Ukraine or fulfilling their obligations to the alliance, he said arming Kyiv enhanced Nato member states' own security.

"By ensuring that Russia, that President [Vladimir] Putin, does not win in Ukraine, we are also increasing our own security and strengthening the alliance," he said.

War battered: Ukrainian tanks pass through a reclaimed part of the Kharkiv region. Below, Olaf Scholz with Ukrainian PM Denys Shmyhal in Berlin
Kostiantyn Liberov/AP, Carsten Koall/Getty Images

Stoltenberg's comments were "hard for Scholz because it kicked away the main crutch for German policy on not sending tanks", said one senior diplomat in Berlin. "[Stoltenberg] basically said: forget your obligations to Nato, Ukraine is the priority."

Other big Nato powers such as France are not seeing such intense political debate on the issue, he said. "But that is because Germany is perceived as a kind of litmus test for European support for Ukraine," he added. "That is why it is so consequential."

Ukraine, too, is intensifying the pressure on Berlin. This week Dmytro Kuleba, its foreign minister, called the signals from Berlin "disappointing", saying German Leopard tanks and Marder infantry fighting vehicles were needed to "liberate people and save them from genocide".

"Not a single rational argument on why these weapons cannot be supplied, only abstract fears and excuses," he tweeted. "What is Berlin afraid of that Kyiv is not?"

The US has also hinted that Germany could do more. "As much as I admire and applaud all that Germany is doing . . . the only thing that exceeds that is my expectations of what Germany and the US will do moving forward," Amy Gutmann, the US ambassador to Berlin, said last weekend. "We will do more. We must do more."

German foreign minister Annalena Baerbock also indicated that her country's policy could change. "As far as modern battle tanks are concerned, we have to decide on this together, in a coalition and internationally," she said. "But in the decisive phase Ukraine is in right now, I don't think it is a decision that should be delayed for too long."

> 'Not a single rational argument on why these weapons cannot be supplied . . . What is Berlin afraid of that Kyiv is not?'

Marie-Agnes Strack-Zimmermann, a liberal MP who is head of the Bundestag's defence committee, went further by appealing to all those "who have still not understood that in a war situation like this, Ukraine's successes can only be underpinned if they get the weapons they need now".

The German arms industry is also urging Scholz to consider dropping his resistance to supplying tanks. This week the arms producer Rheinmetall said it had repaired 16 Marders from old Bundeswehr stockpiles. The vehicles were ready to be sent to Ukraine but had yet to be granted an export permit by the government.

Even Scholz's own party, the Social Democrats, is beginning to show more flexibility on the issue of tanks. Michael Roth, an SPD MP and head of the Bundestag's foreign affairs committee, said it was true that no country had yet supplied western tanks and infantry combat vehicles. "But such arrangements are not set in stone," he said. "That is why we should sit down with the US and figure out what else we can supply."

Gillian Tett see Opinion

'Terrorist acts'

Moscow ratchets up missile strikes against vital infrastructure

ROMAN OLEARCHYK — KYIV

Russia is stepping up missile strikes on Ukrainian infrastructure, blowing up reservoir dams and electricity generators in a campaign described by Kyiv as "terrorist acts" aimed at slowing its counteroffensive.

A second day of Russian strikes hit a dam in the central city of Kryviy Rih, Ukrainian president Volodymyr Zelenskyy's hometown, yesterday.

"There were two strikes again in the area of hydroelectric infrastructure," Oleksander Vilkul, the city's mayor, said in a post on Telegram.

Having stated earlier yesterday that water levels were receding after construction crews patched up the dam and river fortifications, Vilkul again urged citizens to seek safety in bunkers.

The dam, which forms a vast reservoir along the Inhulets River, was hit many times on Wednesday, unleashing floods in a city known for iron and steel production.

Running water stopped in some neighbourhoods, forcing residents to buy supplies of drinking water.

Earlier this week, Russian missile strikes on electricity generators and grids cut power across eastern regions, from Kharkiv in the north-east to Zaporizhzhia in the south-east.

"The day before they hit the power plant in Kharkiv and left hundreds of thousands without electricity, now they are hitting a dam at a huge reservoir, threatening to flood and deprive people of running water," said Yuriy Sak, an adviser to Ukraine's defence minister.

"They are artificially making natural disasters . . . These strikes are yet more proof that Russia is a terrorist state that is impotent on the battlefield and tries to compensate for its humiliation by terrorising civilian populations and targeting civilian infrastructure," Sak added.

Moscow's defence ministry has not officially announced a new focus on targeting civilian infrastructure. However, the escalation has not gone unnoticed by Russia's pro-war commentators, many of whom had been surprised by Ukraine's rapid advance in the north-east after it announced its intention to focus on the southern Kherson region.

Many pro-invasion observers cheered the attacks on infrastructure, describing them as long overdue, while politicians stepped in to justify the strikes.

"It's time for Russia to abandon the rules which it adopted, causing it to target only military infrastructure, and not other [targets]," Sergey Mironov, a member of the Duma lower house of parliament, said on Tuesday.

On the Kryviy Rih strikes, Zelenskyy said: "All the occupiers can do is . . . try to leave people without light, heat, water and food. Can it break us? Not at all. Will they face retribution? Definitely yes."

Additional reporting by Polina Ivanova

War in Europe. Economic clampdown

US and EU push Turkey further on Russia sanctions

Washington moves to target banks integrated into Moscow's Mir processing system

HENRY FOY AND SAM FLEMING
BRUSSELS
JAMES POLITI — WASHINGTON

Mir payment network because that carries some sanctions-evasion risks."

"We need to close loopholes," according to the second official, involved in this month's talks between the EU and US on sanctions enforcement, citing Turkey as the major target.

In guidance issued on Thursday, the US Treasury department warned that

lender DenizBank and state-controlled Halkbank, notorious for its alleged role in a scheme to evade US sanctions on Iran that dates from 2010, signed up to Mir after Putin launched his full-scale invasion in February.

İşbank said its policy required "strict compliance with all applicable US sanctions", adding: "We closely monitor

become a channel to evade sanctions".

As part of efforts to strengthen enforcement, Mairead McGuinness, EU financial services commissioner, is aiming to visit Turkey next month, said those familiar with the plans. A senior EU official said: "Commissioner McGuinness has recently visited a number of countries to discuss issues related to

US foreign policy

Senate panel passes bill to fund weapons for Taiwan

DEMETRI SEVASTOPULO — WASHINGTON

The US Senate foreign relations committee has passed a bill to provide $6.5bn to fund weapons and other support for Taiwan as the Chinese military escalates activity around the country.

zone". But the impetus to help Taiwan after Russia's invasion of Ukraine gained momentum after China responded to House Speaker Nancy Pelosi's visit to Taipei with extensive military exercises.

"As China intensifies its threatening rhetoric and military aggression, it's

LAURA PITEL — ANKARA

The US and EU are stepping up pressure on Turkey to crack down on Russian sanctions evasion amid concerns that Ankara's banking sector is a potential backdoor for illicit finance.

The US is focusing on Turkish banks that have integrated into Mir, Russia's domestic payments system, two western officials involved in the plans said, as Brussels prepares a delegation to express its concerns to Turkish officials.

The pressure on Turkey comes as western capitals pivot towards tighter implementation of sanctions rather than the imposition of new measures. That shift acknowledges that economic sanctions imposed after Vladimir Putin's invasion of Ukraine in February failed to damage Russia's economy as much as they had hoped. But they maintain that closing off loopholes in the current measures will slowly squeeze the Kremlin's financial lifelines.

"You're going to see us kind of focus on financial sector evasion," said the first western official. "We'll send a message very clearly that, for example, third-country financial institutions should not be interconnecting with the

non-US financial institutions risk "supporting Russia's efforts to evade US sanctions through the expanded use of the [Mir system] outside the territory of the Russian Federation".

It added that the US's Office of Foreign Assets Control was prepared to use its "targeting authorities" — such as imposing blocking sanctions — in response to supporters of Russia's sanctions evasion, including in relation to Mir.

Turkey's president, Recep Tayyip Erdoğan, whose country has been a Nato member since 1952, has pursued what he calls a "balanced" approach to the Ukraine conflict. His refusal to sign up to sanctions against Russia and a recent pledge to deepen economic co-operation with Moscow have alarmed his western allies. Erdoğan, who will meet Putin today, said last month there was "serious progress" on expanding Mir in Turkey.

Five of Turkey's largest banks, VakıfBank, Ziraat Bank, İş Bank, Denizbank and Halkbank, are members of the Mir payment system, developed by Russia's central bank as a domestic alternative to Visa and Mastercard.

Two of those, UAE-owned private

sanctions and take the necessary measures to carry out Mir card transactions in compliance with this policy."

DenizBank said: "We don't execute transactions with sanctioned banks. We fully comply with international sanctions on Russia." Halkbank, VakıfBank and Ziraat Bank did not comment.

Turkey's foreign ministry said that while Ankara had a longstanding policy of only implementing UN-backed sanctions, "we have also been equally firm in our policy of not allowing Türkiye to

A branch of Halkbank, one of the lenders in the Mir payment system

financial services, and the implementation of sanctions in particular, given Russia's aggression against Ukraine."

Wally Adeyemo, deputy US treasury secretary, wrote to Turkish businesses last month warning them of "Russia's attempts to use your country to evade sanctions" and the risks of "conducting transactions with sanctioned Russian-based entities".

Rolled out in waves of measures after Russia's invasion, western sanctions have sought to cut off Russia's biggest banks, energy and defence companies and hundreds of senior officials and rich businessmen from the world market.

As part of the broader crackdown on sanctions evasion, western efforts will target individuals handling payments on behalf of Russians as well as businesses that have helped set up parallel payment networks for Moscow, according to one of the officials.

The EU and US will also target entities assisting Moscow with processing Russian export revenues or facilitating imports of industrial or defence products banned under western sanctions, the three officials said.

Darwinian groups see Companies

The Senate panel passed the Taiwan Policy Act by 17:5, underscoring strong bipartisan support for Taiwan. The bill, still to be ratified by the full Senate and the House, is the first time the US will directly finance weapons for Taiwan.

The bill also creates a $2bn loan facility to help Taipei buy weapons, and makes Taiwan eligible for a programme that would help it stockpile weapons for any possible future conflict with China.

The bill would also require the White House to impose sanctions on at least five Chinese state-owned banks if the US president finds that China has "engaged in a significant escalation in aggression" against Taiwan, in a blockade or seizure of its outer islands.

"We need to be clear-eyed about what we are facing, just as we need to be clear in our response," said Robert Menendez, Democratic chair of the panel who championed the bill. "We are . . . lowering the threats facing Taiwan by raising the cost of taking the island by force so that it becomes too high a risk."

Congressional support for Taiwan, already strong, has grown as China has flown more fighter jets and bombers into Taiwan's "air defence identification

imperative we take action now to bolster Taiwan's self-defence before it's too late," said Jim Risch, the top Republican on the committee.

China accused the US of diluting the One China policy, which has existed since the US and China normalised diplomatic relations in 1979, Washington recognises Beijing as the government of China yet recognising, without endorsing, its view that Taiwan is part of China.

Highlighting the rising concern about Taiwan, President Joe Biden this year warned that the US military would defend Taiwan from any Chinese attack. Taiwan has also featured in the five conversations that Biden and Xi have had since the former took office.

The White House has repeatedly dismissed Chinese claims it was undermining the One China policy. But the Biden administration persuaded Democratic senators to alter parts of the bill it saw as symbolic but that would not secure Taiwan or foster Beijing's assertions the US was diluting the four-decades policy.

The foreign relations committee is said to be working to weave parts of the bill into the defence spending bill before the midterm elections in November.

INTERNATIONAL

Local government

China land-buying spree bails out cities

Financing vehicles try to prop up real estate sector that is vital to economy

SUN YU — BEIJING
TOM MITCHELL SINGAPORE

China's local government financing vehicles have launched a land-buying spree with borrowed funds, bailing out cities and provinces struggling for cash after an exodus of debt-stricken private sector developers.

The spree ahead of President Xi Jinping's expected appointment to an unprecedented third term next month highlights efforts to boost the pandemic-hit economy, which grew 0.4 per cent year on year in the second quarter.

Local governments have traditionally relied on LGFVs to support growth by spearheading infrastructure investment. Now they are being called upon to prop up the real estate sector, which accounts for about one-third of total economic output.

According to official data, land acquisitions by LGFVs rose to Rmb400bn ($58bn) in the first half of the year, up more than 70 per cent on the same period in 2021. Overall land purchases, traditionally dominated by private developers, have fallen almost a third as Beijing cracks down on speculation.

The aim is to help cash-strapped local authorities for which selling land is an important source of income. But the LGFVs, which play a critical role in funding long-term infrastructure development, are being forced to borrow more from state banks and to issue bonds to finance the deals.

"I view this as an indirect government bailout that's politically acceptable," said Andrew Collier, managing director at Orient Capital Research in Hong Kong.

Most LGFVs, which typically have little experience in property, are leaving their newly purchased plots idle. This, combined with the housing market meltdown, means the short-term relief local authorities get from the land purchases ultimately risks bigger problems for an already faltering economy.

"The governments are basically asking the LGFVs to pay inflated prices [for land] in a declining market, which isn't sustainable," said Collier.

LGFVs are known for their sluggish financial performance and their emergence as major players in land auctions comes as private developers cut back because of the industry-wide debt crisis.

A plunge in land sales and softening prices have added to pressures on local governments already grappling with shrinking tax bases amid the wider economic downturn. This has led many cities and provinces to ask LGFVs to fill the vacuum left by private developers.

"We have played a critical role in keeping the land market and government revenues from falling off a cliff," said an executive at Yueyang Urban Construction and Investment, an LGFV in Hunan province that spent Rmb1.3bn on land in the first half of this year.

Official data show LGFVs accounted for almost a quarter of land sales in the half, against 9 per cent in the same period a year ago. The ratio exceeded 50 per cent in some less-developed cities.

But the spree has been costly for the LGFVs. To make up for the lack of bidders, many cities have raised the minimum price for land auctions. That has often forced LGFVs to pay a premium at a time when the market is weakening.

India. Film industry

Southern blockbusters take on Bollywood

All-action movies in languages other than Hindi have become firm nationwide favourites

CHLOE CORNISH — MUMBAI

After two years of pandemic restrictions, India's avid movie fans are flocking back to cinemas. But the revival has not been driven by Bollywood, the Mumbai-based Hindi-language movie industry that has become synonymous with Indian film.

Blockbusters made in southern cities and characterised by superhero characters, mythology, violence and spectacular visual effects are enticing audiences back to the big screen, rather than the romantic storylines, comedies and dramas at which Bollywood excels.

Forecasters predict box office takings this year will beat the Rs109.5bn ($1.4bn) record set in 2019. But films playing in Hindi accounted for 34 per cent of India's gross box office takings for the first seven months of 2022, down from 43 per cent on average in 2018, according to research consultancy Ormax Media. And 41 per cent of Hindi box office takings came from films originally shot in southern Indian languages such as Kannada, Telugu, Tamil and Malayalam and dubbed into Hindi.

Hindi is the official language, with 530mn speakers, according to India's last census in 2011. But 22 languages are recognised in the constitution and, from Bengali to Malayalam, regional-language film industries thrive.

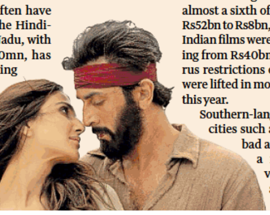
"Imagine it like Europe," said Gaurav Gandhi, Amazon Prime Video's India country head.

The total of 500 southern-language films released in 2021 was about five times the number of Hindi productions, according to media group Comscore.

Affluent southern states often have more cinema screens than the Hindi-speaking heartlands. Tamil Nadu, with a population of less than 80mn, has 1,104 screens; Hindi-speaking northern Uttar Pradesh, India's most populous state of nearly 230mn inhabitants, has just 539.

The trend is being driven by changes in the type of productions made in

Big show: the Hyderabad set of 'Baahubali', one of a host of southern films challenging Bollywood's romantic epics, below — Dhiraj Singh/ Bloomberg



subtitled films on streaming services, which has increased Hindi-speaking audiences' exposure to content made in the south.

Hindi speaker Ankit Pandey, 29, has switched his allegiance from Bollywood. "If you gave me both options, I would prefer south Indian movies any day," said the Mumbai clothing salesman. "I don't need to prevent my kids from watching certain parts, like in the Bollywood films," he adds — a nod to Bollywood's occasionally racy sequences.

The recovery follows a bruising Covid-19 pandemic. Bollywood's gross box office takings for 2021 plunged to almost a sixth of their 2019 level, from Rs52bn to Rs8bn, according to EY. South Indian films were more resilient, declining from Rs40bn to Rs24bn. Coronavirus restrictions on cinema attendance were lifted in most states by the start of this year.

Southern-language movies made in cities such as Bangalore, Hyderabad and Chennai, are filling a mass entertainment void left by Bollywood, according to SS Rajamouli, director of *bali*, which broke box office records for a south Indian film.

"The Hindi film industry was more into making urban-centric films," said Rajamouli, adding that cinemagoers in the mass markets, India's smaller cities and vast rural hinterland, "started feeling that the films were not to their taste".

An increase of multi-screen cinemas in cities encouraged Bollywood to produce more genre-specific films, such as comedies and romances, rather than all-action flicks with broader appeal, analysts said.

"In the south we still continued making those . . . more action-centric films," said Rajamouli. "That brought the mass pockets of northern India, [who] started liking the dubbed films of the south."

Bollywood's own big-budget "masala movies", mass-market offerings swinging from song and dance to fight scenes, were also struggling. July release *Shamshera*, starring household name Ranbir Kapoor and reportedly shot on a hefty Rs1.5bn budget, flopped.

Two southern releases have been this year's biggest commercial hits, according to Ormax — the Kannada-language

'If you gave me both options, I would prefer south Indian movies any day'

which was shot in Telugu and raked in Rs8.7bn.

Nationwide, southern Indian hits have been underpinned by new ways that movies reach audiences, partly thanks to streaming services and wider distribution in cinemas.

For the four main southern languages, "50 per cent of their audiences started coming from outside the home state", said Amazon's Gandhi, adding that viewers devoured content during lockdown: Indians spent 52 per cent more time streaming in 2021 than they did in 2019, according to consumer data provider Data.ai.

Platforms such as Netflix, Amazon Prime and Disney Hotstar are new territory for Telugu and Tamil filmmakers. Pushkar and his wife Gayrathi, predominantly Tamil language film-makers both known only by their family names, recently released thriller *Suzhal: The Vortex* on Amazon, its first big southern-language series.

For Rajamouli, language is always less important than the storyline. "The audience is putting their hard-earned money across the counter and buying a ticket. They don't care whether the film

Foreign inflows

White House sounds alarm over inbound technology investment

DEMETRI SEVASTOPULO — WASHINGTON

President Joe Biden has urged his administration to pay close attention to inbound investment deals involving critical technologies such as semiconductors, as part of a continuing effort to address security threats from China.

Biden yesterday issued an executive order aimed at boosting scrutiny of deals involving foreign companies in high-tech industries such as artificial intelligence, quantum computing and biotechnology. It was aimed at the Committee on Foreign Investment in the US, an inter-agency panel that vets inbound investment for security risks.

Janet Yellen, US Treasury secretary who chairs the Cfius process, said the order would sharpen government focus on protecting national security while maintaining an open investment policy.

"Strengthening our supply chains and protecting against foreign threats enhances our national security," Yellen said. "It also reaffirms Cfius's mission to protect America's technological leadership and the security of our citizens' sensitive data from emerging threats."

The order did not mention China by name. However, the industries named closely resemble the list of high-tech sectors that the US believes are a significant target for Chinese espionage, including legal efforts by Beijing to secure access to cutting-edge technology, such as through an acquisition that could later be used to threaten the US.

US intelligence agencies, led by the National Counterintelligence and Security Center, last year launched a campaign to inform companies about links between Chinese companies and its government, military and intelligence services. That effort has focused on AI, quantum computing, biotechnology, chips and autonomous systems.

During a recent visit to London for talks with British intelligence and security officials, FBI director Christopher Wray warned UK companies that China and its spying activities posed a more serious threat to western businesses than companies realised.

The order did not provide Cfius with new powers, but a senior US official said it would send "a clear public message to the private sector in a way the committee's day-to-day work often can't about some factors we . . . are focused on".

In the order, Biden said Cfius officials should consider the impact of a transaction on the resilience of critical US supply chains, which has been one of his administration's priorities.

The White House is also considering issuing an executive order to create a screening mechanism for outbound US investment, just one of many efforts to make it harder for China to obtain cutting-edge technology.

"We are looking at gaps in our existing toolkit, including whether it would be or is appropriate to look at some targeted and narrowly scoped requirements around . . . specific kinds of US investment in foreign competitor countries," said the US official.

While Cfius vets inbound investment deals on a case-by-case basis, a second US official said the executive order was intended to stress that the committee

Bollywood, and by greater availability of

2015 Telugu and Tamil-language blockbuster *Baahu-*

macho gangster drama *KGF: Chapter 2*, which grossed Rs9.7bn; and Rajamouli's fantastical freedom fighter epic *RRR*,

comes from Hindi or Telugu."
Additional reporting by Andrea Rodrigues in Mumbai

should also examine patterns that pointed to security threats.
See FT Big Read

Royal family

King Charles to slim down British monarchy in response to calls for modernisation

WILLIAM WALLIS — LONDON

In the first week of Charles III's reign, there have been subtle signs of traditions changing in an institution that traces its origins back more than 1,000 years to the fractious kingdoms of Anglo-Saxon England and early-medieval Scotland.

Straying outside the gates of Buckingham Palace for the first time since his accession last Friday, King Charles shook hands and conversed with members of the public. During her 70-year reign, his late mother, Queen Elizabeth II, who died last week at the age of 96, never shook hands on walkabouts.

As well as establishing his own style, King Charles has for a long time made it known that he intends to "slim down" the monarchy in response to public demand for a more modern institution with lower costs and less ostentation.

There was a brief glimpse of what this might mean in 2012 when tabloid newspapers reported simmering resentment among some royals who felt Charles, then Prince of Wales, was pushing them to the margins.

This was after the Queen appeared on the balcony of Buckingham palace for her 60th jubilee with only the future King, his wife Camilla, and sons Prince Harry and Prince William and the latter's wife, Catherine. Typically, there would have been a multitude of dukes, duchesses and cousins.

"In one version of [a slimmed down monarchy] you have a narrower number of people living off the public purse. He has a vision of that being the direct line of succession rather than all the cousins and aunts," said a friend of the new king who asked to remain anonymous. "It will be less about the royal family and more about direct successors, less about the history, heritage and glamour, more focused on the role of head of state."

The monarchy is by default conservative, however, and any change to the numbers on the royal payroll is likely to come about gradually as family members die or leave for other reasons.

"The slimmed-down version is what we are seeing already," said one person familiar with the thinking in the new king's household.

Another who has worked for King Charles, pointed out some of the royals — the Duke and Duchesses of Gloucester and Kent and Princess Alexandra, for example — are elderly and when they are gone, their official roles will end.

Among the younger royal family members, King Charles's son, Prince Harry, and his wife Meghan have already withdrawn from official roles. Meanwhile, Prince Andrew, the king's brother, was barred from official duties by the Queen because of his friendship with convicted sex offender Jeffrey Epstein. He denies any wrongdoing.

The Queen and other royals at Buckingham Palace in 2019 — Chris Jackson/Getty Images

This slow attrition of family members would suit the monarchy's gradualist approach to change.

"The demand is for a more modern, approachable and inclusive monarchy to fit with the times," said Vernon Bogdanor professor of government at King's College London. "But the monarchy changes gradually by adapting. Anyone who is in receipt of public funds in the royal family should be required to take part in what has become a public service monarchy," he added.

Given the number of occasions royals are expected to attend, the number of paid family members cannot be cut too drastically, Bogdanor said. "There are a lot of events — the opening of a new town hall in Wigan or a library in Hartlepool — where people prefer a royal to a politician. It gives prestige to the area."

But one of Queen Elizabeth's long time advisers predicted before she died that demand for more radical change would inevitably surface once she was gone. Norman Baker, a former Liberal Democrat minister in David Cameron's coalition government and author of *And What Do You Do?*, which examines royal finances, sees a slimmed-down monarchy in very different terms to those that have emerged from the palace.

"What slimmed down is not, is having five people on the balcony. It's making the monarchy modern and accountable, something much closer to the Benelux or Scandinavian models," he said, noting that other surviving European monarchies managed on a fraction of the budget afforded to the Windsors.

In the UK, this would mean reducing the number of royals to protect and palaces to maintain, and discontinuing the more anachronistic privileges and entitlements afforded them, he said.

These include such perks as the exemption from inheritance tax that King Charles will shortly enjoy, breaks on corporation tax afforded to the private royal estates of the Duchy of Cornwall and Lancaster, and the secrecy with which the monarchy is allowed to conduct some of its affairs. "The main problem underpinning everything is freedom of information. The monarchy should be subject to the same rules as other parts of the public sector. They are public servants with public money and should be subject to the same public accountability," Baker said.

However, the fervour with which the public has responded this week to the death of a much loved Queen and the accession of her 73-year-old son, suggests the kind of change envisaged by Baker remains some way off.

"The reality is [King Charles] needs the support of the periphery just like the Queen did. The whole thing about being royal is being seen and being seen to be believed. He can't do it as a one-man band," said the person familiar with his household.

Race is on Carmaker Porsche sets out to win a luxury price tag that competes with Ferrari's as its IPO looms ➔ COMPANIES, PAGE 9

Companies & Markets

Shell chief to make way for successor at end of year

- Van Beurden calls halt to speculation
- Gas and renewables head to take job

TOM WILSON — LONDON

Shell chief executive Ben van Beurden is to step down after almost a decade in the job, with head of gas and renewables Wael Sawan named to replace him as leader of the energy major.

Yesterday's announcement ends months of speculation over who would succeed van Beurden at the FTSE 100 company. Big Oil chief executives rarely serve longer than 10 years, and initial preparations for van Beurden's departure began shortly after Sir Andrew Mackenzie's installation as chair in May last year, according to people familiar with the matter.

Sawan, who will step up at the end of the year, inherits a company generating record profits but still facing big questions about the strength and pace of its strategy to cut emissions as it shifts away from hydrocarbons to cleaner forms of energy.

> Sawan inherits a company facing questions about the strength and pace of its strategy to cut emissions

Shell reported quarterly earnings of $11.5bn in July, breaking its profit record for the second consecutive quarter.

A dual Lebanese-Canadian national born in Beirut, Sawan has long been viewed as a contender to replace van Beurden. He joined the group in 1997 and has run its oil and gas projects in

but an area where Sawan had less experience. He has been a member of Shell's executive committee since July 2019.

Mackenzie described Sawan as "an exceptional leader" with "strategic clarity" and a "deep understanding" of Shell and the energy sector.

Shell said the board had conducted an extensive external search before appointing from within. Other internal candidates said to have been considered include Huibert Vigeveno, head of Shell's downstream business, and Zoe Yujnovich, head of upstream.

Sawan's appointment is likely to result in another round of reshuffles on Shell's eight-person executive committee, starting with the selection of a new gas and renewables head.

Biraj Borkhataria, head of oil and gas equity research at RBC Capital Markets, said Sawan was "respected" by the investor community. "The shift is likely to be more of a continuation than revolution of the strategy put in place by van Beurden," he said.

Van Beurden, who has spent his entire 39-year career at Shell, will continue to advise the board until the end of June, when he will leave the company.

In nine years as chief executive, he oversaw the $52bn acquisition of BG Group, relocated the company's headquarters to London and overhauled its strategy with a commitment to reduce oil production and slash emissions.

But the Dutch executive has also faced criticism, not least in his native Netherlands, where a court last year ruled that Shell needed to cut emissions faster.

Global investor Patagonia founder donates his business to the battle against climate change

Chain reaction: clothing group's profits after reinvestment will fund green causes — Budrul Chukrut/SOPA Images/Sipa USA/Alamy

EMMA DUNKLEY AND GARY JONES

Patagonia's billionaire founder is handing the outdoor clothing company to a trust that will use future profits to battle the climate crisis.

Yvon Chouinard said in an open letter to shareholders that the money the company makes after reinvesting in the business will be used to "help fight" climate change.

The 83-year-old, who has a net worth of $1.2bn, said he was transferring his family's ownership to a trust and a non-profit organisation to channel profits to environmental causes. The company expects to give $100mn

money we make after reinvesting in the business will be distributed as a dividend to help fight the crisis."

The company will continue to operate as a private corporation run for profit. Its voting stock is being transferred to the Patagonia Purpose Trust, which will be overseen by the family. The non-voting stock has been given to the Holdfast Collective, a non-profit group.

Patagonia, founded in 1973 in California, has hundreds of stores across five continents. Though known for selling outdoor clothing, it has its roots in climbing equipment, with climbing enthusiast Chouinard iden-

ing selling the business and donating the money or listing Patagonia on the stock exchange.

However, he said he "couldn't be sure a new owner would maintain our values or keep our team of people around the world employed". He said taking the company public would have been a "disaster", as listed businesses are "under too much pressure to create short-term gain".

The move by Patagonia comes as more companies shift towards stakeholder capitalism, balancing the financial benefit of shareholders with the interests of employees, customers and the environment.

Adobe agrees big premium with $20bn deal for Figma

RICHARD WATERS — SAN FRANCISCO
CRISTINA CRIDDLE — LONDON

Adobe has agreed to buy design software group Figma for approximately $20bn, sending a jolt through a sector that has been among the hardest hit in the tech sell-off that began last year.

San Francisco-based Figma, which was founded in 2012, allows software developers and designers to collaborate remotely and design everything from slides for presentations to user interfaces on mobile apps.

Along with Australian start-up Canva, it is part of a wave of new browser-based design tools that have opened up the design process to millions of non-designers, expanding the market and presenting a potential threat to Adobe, the traditional leader in design software.

The price, which will be paid half in cash and half in stock, is double what Figma was valued at in its most recent private funding round last year and 10 times its valuation in 2019, despite the recent collapse in software stocks.

Acquisitions at multiples of 50 times revenue and higher were common during the software boom that peaked in the pandemic, but multiples for most groups have dropped below 20 this year and acquisitions have become scarce.

The big premium contributed to a slide in Adobe's stock price early yesterday, which was triggered by a cautious earnings forecast from the company. The downbeat projection wiped 16 per cent, or $28bn, from its value.

"People in this environment are asking, why large deals? There are questions," said Shantanu Narayen, Adobe chief executive. But he claimed Figma would be a "transformative" deal, and that its browser-based approach and collaborative tools would boost his company's overall market.

Danny Rimer, a partner at Index Ventures, which claims to be Figma's biggest investor, said it was on track for a listing before talks with Adobe began.

Figma chief executive Dylan Field came up with the idea for the company after dropping out of Brown University with co-founder Evan Wallace at the age

Qatar, its deepwater business from Houston and the upstream division.

Sawan's appointment last year as head of the integrated gas and renewables business was viewed internally as a sign he was being groomed for the top job. Gas and renewables is now Shell's most strategically important division,

After rallying 40 per cent this year, Shell's share price is up about 10 per cent since van Beurden was appointed.

"It has been a privilege and an honour to have served Shell for nearly four decades and to lead the company for the past nine years," van Beurden said.

See Lex

a year to the non-profit organisation.

"Earth is now our only shareholder," Chouinard wrote in the letter. "Instead of extracting value from nature and transforming it into wealth for investors, we'll use the wealth Patagonia creates to protect the source of all wealth. Each year, the

trying early on the need for tools that did not damage rocks.

Since 1985 the business has donated 1 per cent of sales to the preservation and restoration of the environment, awarding more than $89mn to environmental groups. Chouinard said he had considered other options, includ-

Other corporate chief executives have pledged to give away some of their wealth to philanthropic and environmental causes.

Microsoft co-founder Bill Gates said in July that he was putting another $20bn into the charitable foundation run with his ex-wife.

of 19, after accepting a $100,000 grant from Peter Thiel, the financier.

In its third-quarter results yesterday, Adobe posted net income of $1.1bn on revenues of $4.4bn, 13 per cent growth year on year or 15 per cent on a constant currency basis.

See Lex

Ethereum faces five issues that will decide the Merge's success

INSIDE BUSINESS
TECHNOLOGY

Richard Waters

Has Web3 just had its Netscape moment? The launch of the first web browser in 1994 was a turning point for the internet. Now, if crypto enthusiasts are to be believed, the switch by the Ethereum blockchain to a new system for validating transactions — a move known as the Merge — is an equally historic moment for what has become known as Web3.

Moving away from its previous, energy-intensive validation mechanism puts Ethereum on a more sustainable long-term path. For the network that has become the main platform for blockchain-based applications, such as non-fungible tokens and decentralised finance, that is certainly significant.

But nine years after Ethereum was launched, there is still a long way to go. Here are five issues that will help to determine whether the Merge will one day be seen as a significant moment in the history of the internet.

First, the new validation mechanism, known as proof of stake, doesn't on its own solve one of Ethereum's biggest problems: that it can handle only 15 transactions per second, a bottleneck that has led to high transaction fees.

The Merge at least clears the way for the network's next big step, scheduled for the second half of next year. Called "sharding", this would involve splitting the Ethereum database into 64 fragments. Since every computer on the network would no longer need to keep a record of every transaction, it would greatly increase capacity and speed.

There are still big, unresolved questions about how this will work. Also, sharding will not be a complete solution. A 64-fold increase would lift the network's capacity to nearly 1,000 tps — not far off the 1,700 tps capacity of the Visa network. But the promise of Web3 is to use blockchain technology to mediate every online interaction, meaning far greater capacity will be needed.

Second, the Merge brings with it a whole set of unknown risks. In essence, a market worth $200bn is being shifted on to entirely new foundations, with new mechanisms and new roles for market intermediaries that haven't been tested in real-world conditions.

> It's anyone's guess whether the yield will compensate for the new risks — not to mention the volatility in the cryptocurrency itself

Rather than the risks, many market participants are likely to be more focused on the potential for higher returns. Under the new proof of stake system, holders lodge ether as collateral to validate transactions in return for "staking rewards". That has turned a previously unproductive asset into one that now offers a yield — something many are likely to find attractive. But at this stage, it's anyone's guess whether the yield will compensate for the new risks — not to mention the volatility in the cryptocurrency itself.

Third, the buildout of a broader layer of market infrastructure on top of Ethereum is still in its infancy. So-called layer two networks, such as Polygon and Optimism, act as "roll ups", batching up individual transactions and lodging only a single entry on the Ethereum blockchain. Along with sharding, Ethereum's backers claim this might lift overall capacity to 100,000 tps.

The companies that operate on top of Ethereum in this way could themselves become powerful new intermediaries in the blockchain world — something that runs counter to the ideal of decentralisation on which crypto is founded.

This leads to the fourth point: as the broader Ethereum system evolves, its backers will have to ditch some of the crypto world's ideological baggage.

The emergence of influential new intermediaries could also give governments a new point of leverage over the system. For instance, if large numbers of holders turn to crypto exchanges for help with staking, then those exchanges would play a key role in validating transactions. That could expose them to political pressure to block certain transactions in pursuit of financial sanctions.

Fifth, and finally, improving the underlying blockchain infrastructure will do nothing to solve Web3's biggest challenge: demonstrating why this technology is needed in the first place.

The optimists claim that, with the Merge completed and work under way on solving Ethereum's scaling challenges, effort will shift increasingly to building the consumer-friendly experiences needed to draw large numbers of users. That means devising things such as crypto wallets and marketplaces for digital assets that are easier for ordinary mortals to use. It also means coming up with new applications that could not have worked as well on the existing web.

The Ethereum Merge doesn't provide any clues about what those uses might be. But, to paraphrase Winston Churchill, it at least shows that Web3 has got to the end of the beginning.

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FT Weekend

COMPANIES & MARKETS

Media

Springer boss was landlord in Adidas outcry

Chief tipped off his own tabloid on sports brand's lockdown rent freeze

OLAF STORBECK — FRANKFURT

Axel Springer's chief executive used his best-selling tabloid to campaign against the decision by Adidas to stop paying rent during the pandemic, without disclosing he was the company's landlord.

Mathias Döpfner, who has a 22 per cent stake in Springer worth more than €1bn, has become one of the world's most powerful publishers, acquiring US media such as Politico as he tries to build "the leading digital media company of the democratic world".

In March and April 2020, Springer's flagship tabloid Bild published more than 20 articles chiding Adidas for a planned rent freeze during the first lockdown. Other retailers with similar policies, including H&M, Ceconomy, Deichmann and Puma, received significantly less attention. The coverage triggered a national outcry that culminated in one MP burning an Adidas shirt and posting a clip on social media.

During its campaign, Bild did not disclose that its group chief executive was an affected landlord of Adidas and the source of the initial story. Land registry data reviewed by the Financial Times show that Döpfner is the co-owner of a period building on Münzstrasse in the centre of Berlin in which Adidas rented a store that operated over two floors.

When Döpfner was informed about the decision by Adidas to freeze rent payments, he was furious, according to people familiar with the matter. He contacted Bild's editor at the time, Julian Reichelt, and suggested the paper orchestrate a public outcry on the grounds that Adidas was highly profitable and the non-payment violated the basic principles of free economies.

Hours later, Bild broke the news about the rent freeze by Adidas.

In news and opinion articles over the following days, Adidas chief executive Kasper Rørsted was cast as a greedy capitalist who undermined the fundamental principles of trust.

The Bild campaign plunged Adidas into a PR crisis, as customers and politicians threatened a boycott and German labour minister Hubertus Heil suggested that Adidas could be sued.

At the time, two out of three Adidas shops globally were closed in lockdowns. Adidas suspended its share buyback programme and its dividend, and later asked for a €3bn government-backed emergency loan.

As the furore continued, Adidas eventually backtracked, buying full-page adverts in German newspapers, including Bild, to apologise for its "mistake".

Springer's code of conduct stipulates that "journalistic publications should not be influenced by the personal or business interests of third parties, commercial interests of the company itself outside of the journalistic business or the personal financial interests of the editors themselves".

In a statement to the Financial Times, Springer denied there had been a potential conflict of interest, calling the notion "absurd". The publisher said Döpfner passed on the information to Bild as he "immediately knew this was a matter of overriding public interest". The publisher said Döpfner disclosed his interest to Reichelt but added that it would have been "absolutely not reasonable to disclose the source" in print.

"The story . . . was a mega scoop for Bild and was picked up by many other journalists internationally, including the FT," said Springer, adding that Döpfner "acted completely in line with our guidelines". Reichelt said: "As a matter of principle I do not discuss or confirm sources . . . As an editor, it was my decision to run the story."

Adidas declined to comment.

Additional reporting by Silke Richter in Berlin

Industrials. Cost of living

Turkey's businesses learn to ride out inflation

Executives focus on pricing, productivity and exposure to exports in hunt for resilience

LAURA PITEL — ANKARA

While western businesses reel from the highest inflation experienced in decades many of their Turkish peers, who face a rate almost 10 times higher, are taking it in their stride.

The country has suffered many crises but the economy continues to grow, propped up by cheap credit, diversification and savvy corporate management honed during past turmoil.

Banks

China's state lenders cut deposit rates to lift economy

HUDSON LOCKETT AND CHENG LENG
HONG KONG

Some of China's biggest state-run banks have cut deposit rates for the first time since 2015, as Beijing searches for ways to boost flagging growth in the world's second-largest economy without risking runaway depreciation of the renminbi.

State lenders including Industrial and Commercial Bank of China, Bank of China, Bank of Communications and

"It is difficult but we have faced this in Turkey [before]," said a senior executive at one of the country's biggest manufacturers. "Somehow we know how to support the customers, the dealer network, to continue operations in a high inflation environment," he added, citing how the company had managed to find a sweet spot for pricing that covered its costs without deterring customers.

Charlie Robertson, chief economist at investment bank Renaissance Capital, said Turkish corporate management teams had experienced "soft coups, violent coups, sustained triple digit inflation and multiple currency crises" in the 25 years that he has spent following the country. "Darwin's 'survival of the fittest' certainly applies in Turkey," he said, adding that it is also buoyed by the demographic dividends of its young population and strong underlying GDP growth. The economy expanded 7.6 per cent year on year in the second quarter and 11 per cent last year.

One of many challenges for Turkish company bosses has been worker pay due to the erosion of purchasing power caused by official inflation that topped 80 per cent in August. Eurozone inflation hit a record 9.1 per cent in August.

As price rises began to take off in the summer of last year, Mustafa Tonguç, chief executive of DHL Express in Turkey, complied a list of the cost of 50 basic products and compared them with their equivalents in Germany in an effort to persuade bosses in the logistics provider's headquarters to lift the wages of his 1,100 staff. He would raise them a further three times in the year ahead.

"We as business can't fix the global economy but we can take care as much as we can of our people," said Tonguç. "In the last 12 months, a lot of companies went bankrupt. We felt people should be assured of their job security."

Tonguç also came up with a new pricing structure for customers and suppliers, which include businesses in the textiles and automotive sectors, that fixed the cost of some parts of their fees and linked others to rapidly changing inputs such as the cost of fuel and packing. His advice to western executives is: "Don't panic, focus on productivity . . . focus on the things you can change."

Rates of exchange: official inflation in Turkey topped 80% in August while eurozone inflation hit a record 9.1%
Erhan Demirtas/Bloomberg

Much of the Turkish business world is angry and frustrated at president Recep Tayyip Erdoğan, who is so opposed to high interest rates that he has ordered the central bank to cut borrowing costs.

Still, even if his erratic economic management marks a break with the stability of his early years in power, executives say they at least have experience of dealing with high inflation and currency weakness from past difficult periods in the 1980s and 1990s.

The most recent sharp plunge in the lira last December, when it hit a new record low, was "not nice", conceded Tolga Kaan Doğancıoğlu, chief executive of the Turkish bus manufacturer TEMSA. But he said that, as inflation began to climb in Turkey and worldwide, his company "immediately switched gears" and decided to access the financing needed to increase production of low margin non-electric vehicles.

"Obviously, high inflation or hyperinflation in the long run is not healthy. But there is a period, a sweet spot, [where] as a company, you need to take agile decisions in order to not lose the market." He added: "In an inflationary environment, investing early has a virtue as well."

Turkish companies reduced their exposure to swings in the lira in recent years by "dramatically" scaling back their dollar and euro-denominated debt and accumulating hard currency, according to Murat Üçer, an economist at the consultancy GlobalSource Partners.

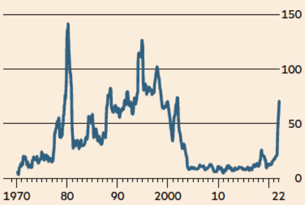
The deleveraging has brought their net open foreign currency position down from roughly $200bn in 2018 to $100bn today. "This is a welcome and understandable development," he said.

Still, there are concerns about the true scale of problem loans in the banking sector as state lenders, in particular, have used cheap credit to help struggling companies stay afloat.

Many of the most successful Turkish businesses — including those in the automotive, chemicals and textiles sectors — have prioritised exports, taking advantage of the weaker lira to sell their goods across the world and helping to power economic growth.

It has been tougher for those heavily reliant on local sales. Fitch last month downgraded the debt rating of a string of corporates, including white goods maker Arçelik and the telecoms company Turkcell, because of their high exposure to the domestic market.

Turkey's history of surging inflation
CPI (%)



Source: Turkey Data Monitor

'We as business can't fix the global economy but we can take care as much as we can of our people'

The CEO of a large retail business focused on Turkey lamented that, even if his sales grow in lira terms, the falling currency means that the profits disappear when converted into dollars. "It makes life very difficult with investors," he said.

Robertson at Renaissance warned there was a risk that the government's array of unorthodox measures aimed at supporting growth while also propping up the currency were putting the country's sovereign credit rating under pressure and could eventually "come back to bite" it. He pointed to a government-backed scheme that promises to compensate savers for a slide in the exchange rate as one example.

Others praise the resilience but lament the missed opportunities for the country, where GDP per capita is down from a peak of $12,600 in 2013 to $9,600 last year — a stark illustration of the erosion of prosperity.

"I worked so hard for the last 20 years only for our country to be back where it was in the 1990s," said one senior executive at a company with interests in tourism and energy. "This country is so resilient and so dynamic that somehow most people are still standing . . . But this country could have been another South Korea. I feel very sad when I think about where it could have been compared to where it is today."

Agricultural Bank of China cut interest rates for three-year deposits by 0.15 percentage points yesterday to 2.6 per cent, according to the banks. The lenders also reduced rates for three-year certificates of deposit by 0.1 percentage points to 1.45 per cent.

The measures mark the latest attempt to revive growth in China, where policymakers are struggling to contain the fallout from disruptive Covid-19 lockdowns and a liquidity crisis cascading through the property sector.

The cut to deposit rates comes after China trimmed its benchmark lending rate in August, with the one-year loan prime rate lowered 0.05 percentage points to 3.65 per cent and the five-year LPR, a reference rate for mortgages, slashed by 0.15 percentage points to 4.3 per cent, as regulators sought to support small businesses and homebuyers.

Economists and analysts said the coordinated move yesterday suggested the banks had received instructions from the People's Bank of China.

Rising rates in the US have spurred capital outflows from China, as investors have traded renminbi for dollars, putting the Chinese currency on a course for its largest annual fall against the dollar on record.

"The PBoC is in a bit of a bind at the moment," said Julian Evans-Pritchard, senior China economist at Capital Economics. "It wants to provide more monetary support to the economy, but at the same time they don't want to let the exchange rate go too far beyond Rmb7 against the dollar."

Evans-Pritchard added that lower deposit rates would allow Chinese banks to cut lending rates further without requiring an official cut to the benchmark LPR that could undermine China's currency. "It's a sort of stealth approach to pushing down lending rates," he pointed out.

Analysts at Nomura warned that cuts to the deposit rates would have a "negligible impact on the economy", adding that the "keys to an economic recovery" were China's Covid-19 policies and whether Beijing took decisive action to boost housing demand.

Travel & leisure

Schiphol airport chief quits over disruption

PHILIP GEORGIADIS

The chief executive of Amsterdam's Schiphol airport has resigned over the flight chaos that is still gripping the Dutch hub, becoming the most senior corporate casualty of this year's travel disruption.

Dick Benschop, a former politician, said he would quit because of the intense criticism he and the airport have received in the Netherlands following months of problems caused by staffing shortages.

"A lot of attention, and criticism, has been directed towards the way in which Schiphol is tackling the problems and my responsibility as CEO . . . I do not want the attention on me as an individual to become an obstacle for Schiphol," he said in a statement. "I have done my very best, but we're not there yet. I hope that things improve soon."

Benschop is one of the first aviation chief executives to resign over the problems this summer, and to take publicly take personal responsibility.

The boss of Manchester airport Karen Smart resigned in April following disruption over Easter, while easyJet's chief operating officer Peter Bellow quit in July. British Airways chief executive Sean Doyle made a string of changes to his senior management as the airline grappled with disruption in May.

Benschop will remain in place while Schiphol's supervisory board searches for a successor. Its chair, Jaap Winter, said the airport was facing "ongoing bad news", and "must return" to giving passengers and airlines a "quality" service.

Schiphol is one of Europe's busiest airports and has suffered from a wave of disruption that has extended into the autumn. The airport was one of the first to impose a cap on passenger numbers to try to get a grip on operational problems that began this summer.

The drastic measures helped impose greater reliability, but Schiphol was this week forced to ask airlines to cancel more flights because of low staffing levels. Passengers have complained of long queues stretching through the airport even as the busiest part of the summer season comes to an end.

Benschop has led Schiphol since 2018, and was a senior executive at Shell. He was also deputy minister for foreign affairs between 1998 and 2002.

Insurance

AIG's Corebridge unit slips in market debut

NICHOLAS MEGAW — NEW YORK

Shares in Corebridge Financial, the life and asset management arm of insurance group AIG, slipped in early trading after it completed the largest US initial public offering of the year at the bottom of its target range.

The unenthusiastic reception for the first large IPO since May highlighted investor caution around new listings — even for profitable groups like Corebridge that are seen as relatively low risk compared with growth-focused start-ups. AIG, which remains Corebridge's majority owner, sold 80mn shares, or 12 per cent of the company, at $21 per share, raising $1.7bn.

The deal gave Corebridge an initial market capitalisation of $13.5bn, 12.5 per cent below the top of its target range and 39 per cent below the price at which private equity group Blackstone bought a stake last November.

Stock markets have been volatile since Corebridge started its roadshow last week, with the S&P 500 suffering its worst sell-off since June 2020 on Tuesday. However, the index's closing price on Wednesday was 1 per cent higher than when Corebridge's target price range was announced.

Shares in the carved-out business opened at $20.50 when they started trading on the New York Stock Exchange yesterday afternoon, while the S&P 500 slipped 0.2 per cent.

The stock market debut of Corebridge is being closely watched as a test of investor confidence in a broader reopening in the IPO market, which has been largely shut for most of the year because of market volatility and economic uncertainty.

Corebridge had previously aimed to list in the second quarter but AIG blamed the "high degree of equity market volatility" in May and June for the delay.

Corebridge reported revenue of $16bn in the first six months of 2022 and net income of $6bn, though the figures were flattered by gains tied to a reinsurer that Corebridge owns a minority stake in.

Adjusted return on average equity, the company's preferred measure of profits which excludes the gain from Fortitude, the reinsurer, was 8.1 per cent, compared with its target range of 12 to 14 per cent.

COMPANIES & MARKETS

Porsche hopes its IPO can outpace Ferrari's

Carmaker's advisers seek a luxury valuation but critics have concerns around its models and corporate governance

PETER CAMPBELL — LONDON
JOE MILLER — FRANKFURT

Ferrari's blockbuster listing in 2015 proved that carmakers can transcend their manufacturing roots and be valued as luxury businesses.

Now, with its own initial public offering only weeks away, the race is on for Porsche to convince investors it belongs to the same exclusive class as the Italian thoroughbred.

"The idea [to list Porsche] has been there ever since the [Agnelli family] IPO-ed Ferrari," said Cole Smead, an investor in Volkswagen, which owns Porsche. "It captured the imagination of what Porsche is truly worth."

There are some obvious parallels with Ferrari. Both make powerful, head-turning sports cars sold to the world's wealthy. Both have pledged to invest in electric models, while also keeping their much-loved combustion-engine models on the road for as long as possible.

Porsche has also hired Italy's Mediobanca, which took Ferrari and luxury names such as Salvatore Ferragamo public, as a financial adviser for the IPO. But there are also significant differences that stem from the radically different roads the two businesses have taken over the past few decades.

Ferrari has focused exclusively on

Alex Kraus/Bloomberg

executives stress the advantages of its size and strategy of targeting a bigger market.

"Ferrari is a luxury niche player," Porsche chief financial officer Lutz Meschke said in July. "We can benefit from our economies of scale. That's a big difference."

For now, investors seem convinced to a certain extent.

While advisers expect a 30 to 40 per cent corporate governance discount on Ferrari's valuation, this would still make the Porsche listing one of Europe's largest, valuing the business above the likes of rival Mercedes-Benz at about €80bn.

The IPO could also follow the trajectory of Ferrari's flotation, which priced at the top of the range as investor demand outstripped shares on offer, then fell in the first few weeks after the sale before rising in subsequent months, the advisers added.

One prominent Tesla investor, who is considering buying, expects the Porsche

'Ferrari is a luxury niche player. We can benefit from economies of scale. That's a big difference' expensive sports cars, raising prices and limiting supply — hallmarks of the luxury trade. Porsche, however, has expanded into the more affordable market and embarked on a major expansion in sport utility vehicles, propelling sales to more than 300,000 a year, close to Jaguar Land Rover.

Sales of its Taycan electric sports car alone are four times Ferrari's total annual shipments.

Porsche advisers, pressing the case for luxury valuation, point out that it sells 15,000 cars in the super-luxury price bracket, similar to Ferrari, and intends to launch additional models at this level.

But that does not wash with some analysts, who say a carmaker's claim to luxury status should be judged by its cheapest model, not its most expensive. Nobody considers Ford — which makes the $500,000 GT supercar — a luxury nameplate, they argue.

The crucial question is "how much you have to pay to access the brand?", said Philippe Houchois, an auto analyst at Jefferies. Today, customers can buy a new Mercedes for $35,000 and a Porsche for $65,000, but they will have to pay upwards of $250,000 for a Ferrari, he added.

Brand positioning aside, there are other big differences between the two.

Porsche, for example, has said it is targeting a profit margin of between 17 and 19 per cent in the midterm, and more than 20 per cent in the long term. This is a long way short of Ferrari's 25 per cent margin in 2021 and it says it wants to increase that again this decade.

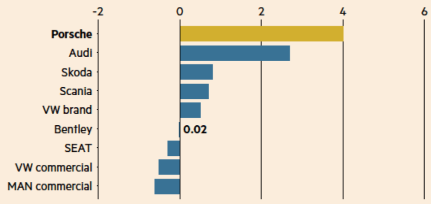
The German group is also a long way behind its rival on corporate governance.

Ferrari is run independently of its former parent Fiat and the Agnelli family and trades freely on the open market.

In contrast, retail investors are being offered only 10 per cent of Porsche's shares and they do not carry voting rights. The remaining 2.5 per cent on sale is likely to be bought by the Qatar Investment Authority, one of VW's largest shareholders.

Porsche has driven profitability at Volkswagen Group

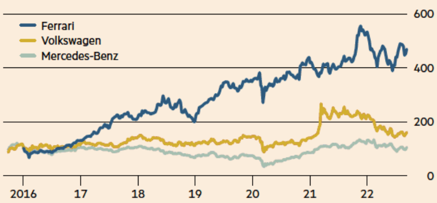
Operating income, 2021 (€bn)



Sources: Volkswagen; Refinitiv

Porsche hopes it will be valued in the same class as Ferrari

Share prices rebased



At the same time, the Porsche-Piëch family, which is VW's largest shareholder, is being offered 25 per cent of the voting shares, which puts them in effect back in charge of an asset they lost direct control of in 2012 when VW bought Porsche in a reverse takeover.

It also means the business remains firmly enmeshed in VW's convoluted corporate governance structure — a web of interests including the state of Lower Saxony, unions and the Porsche-Piëch's investment vehicle — which has deterred some serious investors from buying the stock.

"The Porsche IPO bears the hallmarks of inadequate corporate governance at the VW Group," said Ingo Speich, a portfolio manager at institutional investor Deka, a top-20 VW shareholder.

Oliver Blume: Porsche and VW chief will retain both roles after the listing

"First and foremost, it is about the owning [Porsche-Piëch] family being able to invest in Porsche ordinary shares and continue to call the shots."

At the same time, VW recently replaced chief executive Herbert Diess with Porsche's own boss, Oliver Blume, who will continue to hold both roles after the listing.

Blume has insisted that VW and Porsche "have the same interests", although they have recently taken different paths on software and autonomous driving. Some investors have backed his dual mandate, one arguing that the arrangement "might speed up things".

Nonetheless, such decisions contrast unfavourably with Ferrari, said Houchois.

"If you're going to use Ferrari as a benchmark, the returns [at Porsche] are half, the governance is unclear and the liquidity is a challenge," he said. "There are a lot of Ferrari features in Porsche, but they are too big and too accessible to be truly compared."

Aware of these criticisms, Porsche IPO to be a success, achieving a valuation at the higher end of estimates of between €60bn and €90bn.

Bankers marketing the deal also insist questions about corporate governance are unlikely to undermine sales.

"Corporate governance is certainly the focus topic [among potential Porsche investors]," said one banker involved in the IPO, "but it's not a deal-breaker."

"We should not expect VW to become a governance leader, we have to accept it the way it is," commented a major VW shareholder.

"Porsche is an outstanding asset. This is what people will look at in the end, the fundamental numbers."

Energy

EDF warns nuclear woes will cut €29bn of profit

SARAH WHITE — PARIS

EDF warned that core profits would take a €29bn hit this year from outages at France's nuclear reactors, a sharp rise on its previous forecast just weeks ahead of full renationalisation by the French government.

More than half of the 56 reactors run by EDF are offline, a record number, as corrosion problems discovered at some sites add to maintenance stoppages, including some that were delayed by the Covid-19 pandemic.

That has pushed output close to all-time lows, sapping electricity supply in a country that is normally an exporter of power and forcing the company to buy power on wholesale markets that have become hugely costly as Russia chokes gas supplies to Europe.

EDF had previously estimated the hit to its earnings before interest, taxes, depreciation and amortisation at €24bn for 2022.

The French government is poised in the coming weeks to launch a tender offer for the 16 per cent of EDF it does not already own. It has said it wants to take full control as EDF gears up to build new reactors and addresses problems with its existing fleet.

People close to the operation have said the company's financial woes have added to incentives to remove it from the glare of markets. EDF will also need to add to its large debt pile to fund new plants.

The group has come under government pressure to get its reactors running again for the winter and fix the corrosion issues discovered last December as quickly as possible. It has said restarts are on track and capacity should return to last winter's levels, to 45 to 50 gigawatts.

The faults have turned the spotlight on France's once-mighty nuclear industry just as orders for new plants had begun to pick up again worldwide — and have heightened a stand-off between the state and EDF management.

EDF's Chinon nuclear plant in Avoine, central France

Outgoing chief executive Jean-Bernard Lévy, set to be replaced in the coming weeks, has publicly called out a lack of political direction by successive governments, which he blamed for staff shortages in the sector. Government ministers, meanwhile, have criticised EDF for its operational woes.

EDF's finances were also hit this year by government measures to cap electricity bills for households, adding to tensions between the state and the group.

The caps on price rises will be extended into 2023, with power bill increases limited to 15 per cent, although it is unclear whether EDF will be made to shoulder some of the cost of the measure.

France's grid operator RTE has warned that targeted power cuts may be needed at moments of strain on the system in the coming months unless households moderate their energy use.

France is also counting on imports from other countries, including Germany and Britain, to meet power demand, even though gas shortages and strained supplies elsewhere could limit their export capacity.

COMPANIES & MARKETS

Fixed income. Deteriorating outlook

Investors raise doubts over $15bn debt sale to fund Citrix buyout

Software group's acquirers will need to borrow more to fund job cuts after deal closes

ERIC PLATT AND ANTOINE GARA
NEW YORK

Bankers arranged $15bn in debt financing to fund the leveraged buyout of software maker Citrix. But as they attempted to sell the bonds and loans over the past week, they shocked prospective investors by revealing that the company would need to borrow even more money soon after the deal closed.

funding LBOs," said Tim Crawmer, a portfolio manager at asset manager Payden & Rygel.

To finance the equity portion of the LBO, Elliott will roll about $125mn in Citrix stock it already owns into the privatisation and raise more than $2bn in cash. Vista will merge its Tibco software business into the LBO at a $4bn valuation. The companies will raise $2.5bn through a preferred equity security that carries a whopping interest rate of 12 per cent above Sofr, the floating interest rate benchmark.

On last week's lender call, bankers at BofA, Citrix's recently hired chief execu-

On a call last Thursday, executives at Citrix acquirers Vista Equity Partners and Elliott Management said that soon after their transaction closed, the company would need to draw from a revolving credit line to help fund $200mn in cost-cutting initiatives and the movement of some staff to outside the US, according to four people briefed on the matter.

"They don't have cash on hand and cash in the business to pay for severance

> 'Maybe a lot of . . . yield hungry people will believe in the story and there will be enough of a discount'

and other wind-down cash expenses," said one investor on the call. "It was lousy."

The marketing of Citrix's debt has become a closely watched gauge of Wall Street's dealmaking abilities, and it has been difficult. The banks agreed the financing package in January before the Federal Reserve initiated an aggressive campaign to rein in US inflation by raising interest rates, making it vastly more expensive to fund takeovers with borrowed money.

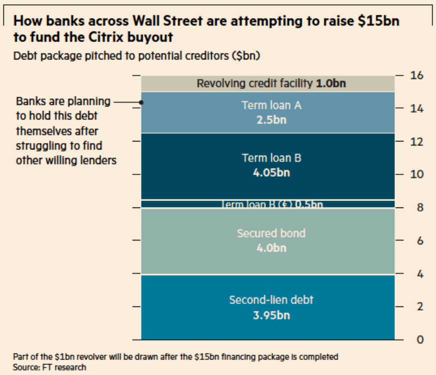
The banks — led by Bank of America and Credit Suisse — have set a September 19 deadline to offload the debt. So far, investors have been reluctant to take out their cheque books. One creditor called the $16.5bn LBO a "bull-market deal" that made little sense now.

The extra borrowing, to come from a $1bn revolving credit line — a type of facility that is rarely tapped right after a buyout — was seen as a red flag by investors, according to people briefed on the matter.

BofA and Credit Suisse — which are working side by side with more than 30 other brokers on Wall Street including Goldman Sachs and Barclays — have been slowly building their order books as they market the debt to investors.

The debt financing includes a $4.55bn term loan and $4bn secured bond, as well as loans the banks plan to hold themselves. Demand has been tepid, with commitments for the loan surpass-

Debt to fund the Citrix deal has become a more difficult sell since interest rates have risen Justin Sullivan/Getty Images



ing $4bn and orders for the bond reaching more than $3bn on Tuesday, according to people with knowledge of the matter. Bankers generally seek to drum up orders that are at least twice as big as the deal size.

To entice some investors, the banks have offered mouth-watering discounts. The secured bond, which was initially expected to yield between 8.5 per cent and 9 per cent, could now be priced with a yield as high as 9.5 per cent, one person added on Wednesday.

Bankers still expect the transaction to be completed, although they face a very different picture to what they imagined when they clinched the deal in January. About $741mn has been earmarked for some of the banker fees and discounts that Citrix's acquirers would need to offer to finalise the financing package, according to documents circulated this month. But as banks have had to increase the discounts on that debt they are staring down losses of hundreds of millions of dollars.

BofA, Credit Suisse, Vista and Elliott declined to comment.

A sharp market sell-off on Tuesday has only complicated the situation as investors fret that the Fed will need to choke off growth to tame raging inflation. One big lender said that the deal had been going somewhat well until that morning, when the latest consumer price index report was released.

"In August I heard lots of big asset managers [were] putting in big tickets and they were excited to get a big coupon," the lender said. "After CPI that kind of fell apart. Citrix is . . . a canary for investor demand."

The precarious mood in markets has already rippled out across Wall Street, with JPMorgan Chase and Citigroup warning that investment banking revenues will be down substantially this quarter. For private equity groups such as Vista, which rely on banks' fundraising machinery to buy up bits of corporate America, rockier credit markets will cap the size of buyouts.

"Companies and investors are going to be more concerned about protecting capital and maintaining liquidity than they are in the camp of chasing risk by

tive Tom Krause, Steven White of Vista and Isaac Kim of Elliott tried to sell Wall Street on the Citrix-Tibco combination, which they referred to repeatedly as "ComboCo".

The anodyne ComboCo description underscores its low-profile business, which will be a titan in the management of servers, virtual desktops and the organisation of data and applications on cloud computing networks.

ComboCo's buyers fielded a barrage of

> 'The risk is that inflation is harder to control than the market anticipates'
> Robert Cohen, DoubleLine Capital

questions on its growth, the competitive pressures coming from Microsoft and Amazon, and how outsourcing engineers, reducing sales and marketing staff and culling products would translate into profits.

In a more hesitant market where dealmakers no longer fear missing out on large deals, some have deemed the deal overly complex and carrying too much financial engineering for the expected pay-off.

"Maybe a lot of starved, yield hungry people will believe in the story and there will be enough of a discount . . . that they [underwriters] build a strong book," one lender said. "But there's a lot of hair."

Private lenders including Apollo Global Management and Ares are backing the deal, investing in the term loans and providing some flexibility in a difficult market where the average US junk bond now yields 8.4 per cent. But many investors are deciding to stay on the sidelines.

Robert Cohen, a portfolio manager at asset manager DoubleLine Capital, said the rapid shift in expectations around the Fed was "driving everything" in the market.

"The risk is that inflation is harder to control than the market anticipates," he said. "We're worried about deteriorating macro conditions, and that's traditionally not the time when investors deploy a lot of capital into the single-B [corporate debt rating] risk."

Crypto

Ethereum marks digital asset milestone with Merge upgrade but work lies ahead for mainstream acceptance

JOSHUA OLIVER — LONDON

Ethereum has completed a long-awaited upgrade to its system in a move expected to slash its energy costs and intended to prepare the ground for more use of crypto technology in mainstream finance.

The upgrade, known as the Merge, which changes how new transactions are verified on the Ethereum blockchain, was completed early yesterday, said co-founder Vitalik Buterin.

Ethereum powers large swaths of the Web3 world, which includes applications such as digital collectibles and decentralised finance systems.

The milestone, which has been promised by developers for years, was hailed as one of the most significant moments in crypto's short history by fans, who planned "Merge parties" in cities around the world and followed livestreamed watch parties on social media.

"This is the first step in Ethereum's big journey towards being a very mature system. There are still steps left to go," Buterin told developers.

The Merge marked a high-stakes test for the crypto sector after the crash in token prices this spring wiped $2tn off the value of digital assets and shook faith in the market.

Changing the architecture that underpins the $200bn ether cryptocurrency, the flagship token on the Ethereum blockchain, and tens of billions more of related assets and applications is fraught with risks, from technical hiccups to squabbles among participants in the decentralised network, even after the Merge was completed.

Its backers expect a successful Merge will boost confidence in Ethereum, launched in 2015 by Russian-Canadian programmer Buterin, and the multitude of tokens and projects that run on its blockchain, as well as blunt criticism over its energy consumption.

However, Ethereum developers said they would need to monitor the network over the coming days to ensure the upgrade is working smoothly.

"It is a complicated task," said Edouard Hindi, chief investment officer at crypto hedge fund Tyr Capital. "One forgotten fine tune . . . could lead to a lot of volatility, and the market is in a panicky mood."

The Merge represents just one step in a plan sketched out by Ethereum developers to overcome limits on the network's capacity, which are seen as a big hurdle to achieving mainstream adoption of decentralised finance.

"[The Merge] solves one issue but it does not solve a heck of a lot of other issues," said Lars Seier Christensen, co-founder of Saxo Bank, who now runs a blockchain project called Concordium.

Ethereum, like bitcoin, has so far relied on network participants solving complex maths problems to validate new blocks, a process called proof of work. Ethereum's energy consumption was similar to that of Finland.

The Merge refers to the moment when the existing Ethereum blockchain linked with a new network where transactions are validated by a group of individuals and corporations that have staked their own tokens as collateral for the security of the network, a system called proof of stake.

The Ethereum Foundation estimates that replacing proof of work will cut the blockchain's energy consumption by about 99.95 per cent. It will also eliminate the need for Ethereum miners, companies that make money from validating new blocks via proof of work.

Anticipation of the Merge has helped boost the price of ether, which has risen about 75 per cent since its low point in June. Ether has gained ground against bitcoin, which has recovered just 15 per cent over the same period.

However, the long effort to complete the upgrade underscored the difficulty of making improvements to the Ethereum blockchain. Transactions on the network are still hampered by slow speed and high costs, which critics have said limits the system's ability to grow.

Hindi said the Merge was "just one step in the right direction. There are three or four more steps. It is a two or three-year process. It's a big, big plan that is being rolled out and we will have a lot of surprises on the way, good and bad ones."

See Inside Business

Vitalik Buterin: 'This is the first step. There are still steps to go' — Michael Ciaglo/Getty

Currencies

South Korea eyes 'contingency plans' to stabilise the won

SONG JUNG-A — SEOUL

South Korea said it was reviewing "contingency plans" to tackle foreign exchange volatility, with the Korean won hovering at a 13-year low against the US dollar as currencies across Asia come under pressure from an increasingly hawkish Federal Reserve.

Finance minister Choo Kyung-ho stepped up verbal intervention yesterday to try to stem an acute sell-off in the South Korean currency, saying authorities would take necessary measures if there was excessive volatility.

"The exchange rate is rising too fast and people are concerned about this. So we are closely monitoring the market situation," he told a session of parliament. "We are staying on alert and reviewing various contingency plans through inter-ministry discussions."

The won extended losses yesterday, falling to Won1,393.7 against the dollar, its lowest level since March 2009. The currency of the export-driven economy has weakened 17 per cent against the dollar this year.

The Bank of Korea warned this month that the won's recent fall had been too fast relative to the country's economic fundamentals. The central bank raised its policy rate in August by a quarter point to 2.5 per cent and signalled more tightening to counter the won's weakness.

Analysts expected the currency to continue its descent until the end of this year, dragged down by the Fed's aggressive monetary tightening and Seoul's ballooning trade deficits.

"Asian currencies, including the won, will remain under pressure for the time being as the Fed continues its outsized rate hikes while Japan maintains its loose stance, China is cutting rates and South Korea is not raising rates as much as the US," said Hwang Se-woon, a researcher at Korea Capital Market Institute. "But the won is likely to fall further, although its pace is unlikely to be as rapid as the yen's or yuan's."

The weaker won has heightened inflationary pressure by increasing import costs, as Asia's fourth-largest economy relies heavily on energy imports. South Korea's inflation rate slowed to 5.7 per cent in August, from 6.3 per cent in July, a 24-year high.

But the finance minister has forecast South Korean inflation to peak in October. The country reported a record trade deficit of $9.47bn in August as export growth slowed while higher prices of oil and other commodities inflated the country's import bill.

"We do not expect the trade account to turn supportive of the won in the near term," Standard Chartered said in a recent research note. "Slowing global growth and external demand will likely keep the trade account under pressure, outweighing any benefits from a pullback in commodity prices."

COMPANIES & MARKETS

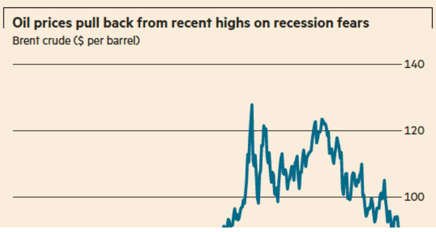
The day in the markets

What you need to know

- Wall Street and oil hit by interest rate and recession fears
- Asia currencies under pressure
- Government bond values fall

US stocks and oil prices dropped yesterday as investors scrutinised economic data for clues about how aggressively the Federal Reserve will raise interest rates to curb inflation.

The broad S&P 500 gauge was down 0.6 per cent by late morning in New York. The technology-heavy Nasdaq Composite lost 0.9 per cent. European equities also slipped, with the regional



Scares lie ahead on the economic rollercoaster

Mohamed El-Erian

Markets Insight

The stunning shift in the market mood and prices over the past week is testament to the underlying

Europe is yet to supplement the fiscal-driven protection of households from high prices with an energy allocation approach that minimises structural

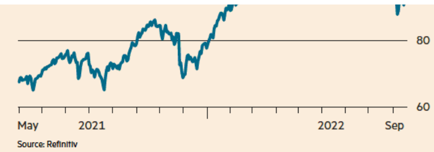
dented third, consecutive 0.75 percentage point rise next week. This will accompany a pick-up in the pace of balance sheet reduction by the Fed and I equities also slipped, with the regional Stoxx 600 index declining 0.6 per cent.

Those moves came as fresh reports on the US labour market and retail sales gave mixed signals about the health of the world's largest economy, less than a week before the Fed announces its next monetary policy decision.

First-time jobless claims in the US came in lower than expected yesterday, at 213,000 for the week ending September 10 — down from 218,000 for the week before and lower than economists' forecasts of 226,000. That data pointed to a tight labour market, one of the factors taken into account by the Fed as it strategises on borrowing costs.

Retail sales for August were hotter than expected — rising 0.3 per cent month on month, compared with expectations of zero growth.

Earlier this week, worse than expected US inflation data had spurred investors to crank up their estimates of how far and fast the Fed would increase rates to cool demand. Markets are now pricing in a one-in-four chance that the US central bank will hoist rates by a full percentage point next week, slightly lower than the one-in-three chance priced in immediately after the inflation report.



Source: Refinitiv

The prospect of aggressive monetary policy tightening by the Fed has intensified pressure on currencies in Asia, where some central banks have maintained a much looser stance.

Offshore renminbi lost up to 0.6 per cent to pass 7 against the greenback for the first time since July 2020. Japan's yen hovered around its weakest point in 24 years, while South Korea's won traded at levels last seen in March 2009.

In a sign of traders expecting more assertive Fed action, government debt markets came under pressure, with the yield on the policy-sensitive two-year US Treasury note rising 0.07 percentage points to 3.85 per cent. Germany's two-year Bund yield added 0.13 percentage points to 1.52 per cent.

Oil prices fell sharply amid mounting fears of recession and lower demand, with international benchmark Brent down more than 3 per cent to $91.24 a barrel. US oil prices were off 3 per cent to just over $86 a barrel. **Ian Johnston, Harriet Clarfelt and Derek Brower**

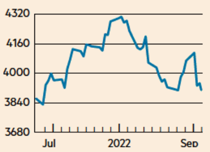
Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	3909.38	1638.89	27875.91	7282.07	3199.92	109543.30
% change on day	-0.93	-0.62	0.21	0.07	-1.16	-0.91
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	109.771	1.000	143.470	1.149	6.978	5.229
% change on day	0.103	0.000	0.592	-0.777	0.224	1.075
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	3.464	1.765	0.252	3.163	2.661	12.738
Basis point change on day	6.690	5.400	-0.080	3.300	-0.400	6.700
World Index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	398.15	90.67	85.16	1703.90	19.51	3716.30
% change on day	-0.80	-4.79	-4.81	-0.06	-2.11	-0.95

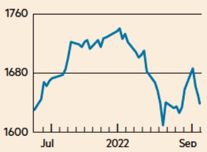
Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets

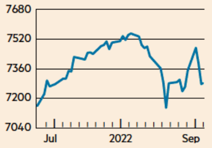
S&P 500 index



Eurofirst 300 index



FTSE 100 index



Biggest movers

%	US		Eurozone		UK	
Ups	Wynn Resorts	8.79	Caixabank	5.78	Barratt Developments	4.38
	Humana	6.83	B. Sabadell	4.90	Ocado	4.30
	Netflix	5.07	Kbc	4.75	Taylor Wimpey	4.05
	Royal Caribbean	4.58	Erste Bank	3.69	Berkeley Holdings (the)	3.37
	Las Vegas Sands	4.19	Ing	3.59	Lloyds Banking	3.05
Downs	Adobe	-16.83	Omv	-4.28	Melrose Industries	-4.28
	Albemarle	-5.28	Dassault Systemes	-4.23	Endeavour Mining	-3.21
	Valero Energy	-5.27	Repsol	-4.05	Rentokil Initial	-2.65
	Phillips 66	-4.41	A.P. Moller - Maersk B	-4.01	Croda Int	-2.64
	Servicenow	-4.15	Adidas	-4.01	Dechra Pharmaceuticals	-2.59

Prices taken at 17:00 GMT

Based on the constituents of the FTSE Eurofirst 300 Eurozone

All data provided by Morningstar unless otherwise noted.

Wall Street

A poorly received takeover sent **Adobe** plummeting to the bottom of the S&P 500 benchmark. The Photoshop maker announced it was buying Figma, a collaborative web design tool, for $20bn in a cash and stock deal.

The price tag was considered high for a group that appeared to provide features that overlapped with Adobe's offering.

Souring sentiment further was a trading update in which Adobe forecast revenue of $4.52bn for its fiscal fourth quarter, which was below the $4.58bn Wall Street had expected.

Railroad operators **Union Pacific** and **Norfolk Southern** climbed on news that a tentative deal had been reached to avert a large-scale rail strike. The agreement ended a months-long deadlock between rail groups and unions.

IronNet plummeted after chair Keith Alexander warned that the cyber security group had "encountered unexpected headwinds" that necessitated a "further restructuring" in order to contain costs.

In light of this shake-up, IronNet said it was withdrawing its previously issued sales and annual recurring revenue guidance for its fiscal 2023 year.

A tie-up with reality TV stars helped lift retailer **The Children's Place**, which announced a festive-themed pyjama campaign featuring Kris Jenner and Khloé Kardashian. *Ray Douglas*

Europe

Shares in **Vantage Towers**, Vodafone's wireless towers business, rose more than a tenth on a report yesterday that KKR, Global Infrastructure Partners and other private equity firms were competing to buy a stake in the unit.

Bloomberg reported that EQT, the Swedish investor, was also exploring a potential investment in the German-listed towers business.

Shares in **Hennes & Mauritz**, known as H&M, slipped by more than 4 per cent after the Swedish retailer said the third quarter had "got off to a weak start" before it improved sequentially.

The group posted net sales of SKr57.5bn ($5.4bn) for the three months to August 31, up 3 per cent year on year. In local currencies. Net sales fell 4 per cent.

Kion continued to come under pressure yesterday, with its shares sliding more than 6 per cent after they tumbled by more than a quarter in the previous session.

The German supplier of forklifts and warehouse equipment and automation technology indicated this week that the multinational's adjusted profits and free cash flows in the third quarter would be "substantially impacted" by "intensifying supply chain shortages" and higher costs for materials, energy and logistics. *Harriet Clarfelt*

London

Shares in **THG** lost almost a fifth yesterday after the ecommerce group downgraded its sales and profits forecasts for the rest of the year, citing the higher cost of energy and commodities.

The Manchester-based company formerly known as The Hut Group said that it expected sales growth of around 10-15 per cent and adjusted core earnings of between $100mn and £130mn for the year ending December.

Shares in the furniture retailer **DFS** slipped. Continuing pre-tax profits were down 43 per cent to £58.5mn in the 12 months ending in June, the company reported, citing industry-wide inflationary headwinds, as well as supply chain constraints and "softened" consumer demand.

Elsewhere, **Hilton Food Group**'s shares slid by more than a quarter after the company said it expected full-year profits to come in below expectations, pointing to consumers becoming more cost-conscious, higher raw material prices and rising interest rates.

Energy and materials stocks were among the worst performers yesterday, tracking a fall in commodity prices. Oil and gas exploration company **Tullow Oil** fell almost 4 per cent, while gold specialist **Endeavour Mining** was down 3 per cent. *Abby Wallace*

ment to the underlying instability in the current environment for policymakers and investors. And it is an instability that will intensify in the coming months.

The catalyst for what many labelled "market carnage" on Tuesday — 3 to 5 per cent single-day losses in big US equity indices — was an ugly inflation report. And the August figures for the US were disappointing in so many ways including, most importantly, a higher month-on-month increase and broadening in drivers of core inflation.

Judging from the dramatic surge in the two-year government bond yield, as well as moves elsewhere in Treasuries, markets found themselves scrambling to price in an "HFL" moment — that is, rates that are going Higher, getting there Faster, and staying there Longer.

This time around, the delay in investors accepting a more rapid reversal in the highly supportive approach for markets by central banks had little to do with the prior inclination of policymaking officials to weaken the anti-inflation policy message. This tendency had previously helped keep alive the hope of a soft landing and a rapid pivot away from a tightening liquidity regime.

But since the late August Jackson Hole speech of Fed chair Jay Powell, the US central bank's officials have been unusually consistent in stating their unconditional commitment to battle unacceptably high inflation, as well as in conveying the policy implications.

For policymakers and investors, there will be more bracing realities to digest in the months ahead.

First, global growth fragility is rising.

approach that minimises structural damage to the economy.

China has yet to find a politically acceptable way out of the Covid "lives-versus-livelihoods" trap that, without progress in effective countrywide vaccination, undermines the country's contribution to demand and supply in the global economy. Even the US, the strongest of the systemically important economies, faces internal growth headwinds. And all this at a time when inflation pressures, and the demand destruction that comes with that, will only dissipate slowly.

> Given the hot inflation numbers, the Fed has no choice but to front-load its policy response

As this develops, market inconsistencies will be become harder to sustain. With higher short-dated yields, the TINA edge (There Is No Alternative) that stocks have long possessed is being eroded. Longer dated bonds now offer better protection against a big global slowdown and financial system stress. And the economic and financial risks of such a strong dollar, both at home and more importantly internationally, are harder to sidestep. This is not a good environment for central banks to be playing catch-up. The risk of another policy mistake is rising.

Given the hot inflation numbers, the Fed has no choice but to front-load its policy response, including an unprecedented balance sheet reduction by the Fed and, I suspect, an upward revision in forecasts for the peak of this interest rate cycle.

Meanwhile, the European Central Bank has to incorporate the implications of considerable fiscal policy efforts to offset the impact of the energy crisis on households and business.

The natural inclination to soften the monetary policy stance in the face of global growth fragility and unsettling financial market instability collides with the reality of persistently high inflation and the urgent need to restore policy credibility. Indeed, central bank hesitation would only serve to worsen the scale and complexities of 2023's economic and policy challenges.

This week's market turmoil is not just about the clash between markets' recent over-optimism and economic and policy realities. It is also a reflection of investors better coming to terms with the complex uncertainty that confronts both policymakers and their own approach to asset allocation.

The good news lies in the twin prospect of economies putting behind them a long period of inefficient allocation of resources, and value being restored to markets heavily distorted by over-protracted central bank intervention. For such prospects to be realised, economies and markets still have to navigate the higher possibility of policy mistakes, market stress and the behavioural traps that typically accompany whipsaws in investor sentiment.

Mohamed El-Erian is president of Queens' College, Cambridge, and an adviser to Allianz and Gramercy

MARKET DATA

WORLD MARKETS AT A GLANCE

FT.COM/MARKETSDATA

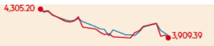
Change during previous day's trading (%)

S&P 500	Nasdaq Composite	Dow Jones Ind	FTSE 100	FTSE Eurofirst 300	Nikkei	Hang Seng	FTSE All World $	$ per €	$ per £	¥ per $	£ per €	Oil Brent $ Sep	Gold $
-0.93%	-1.23%	-0.45%	0.07%	-0.62%	0.21%	0.44%	-0.80%	No change	-0.777%	0.592%	0.811%	-1.63%	-0.06%

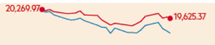
Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison

AMERICAS		EUROPE		ASIA	
Aug 16 - -	Aug 16 - Sep 15	Aug 16 - Sep 15	Aug 16 - Sep 15	Aug 16 - Sep 15	Aug 16 - Sep 15
S&P 500 New York	S&P/TSX COMP Toronto	FTSE 100 London	Xetra Dax Frankfurt	Nikkei 225 Tokyo	Kospi Seoul

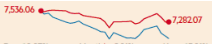
Index — All World



Day -0.93% Month -8.72% Year -12.46%

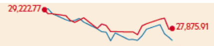


Day -0.70% Month -2.88% Year -5.29%



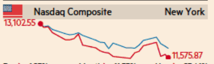
Day 0.07% Month -2.91% Year 3.91%

Day -0.55% Month 0.32% Year NaN%



Day 0.21% Month -2.31% Year -9.07%

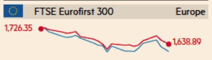
Day -0.40% Month -4.99% Year -23.72%

Nasdaq Composite — New York


Day -1.23% Month -11.55% Year -23.41%

IPC — Mexico City

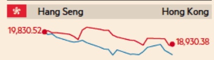

Day -0.21% Month -4.15% Year -10.68%

FTSE Eurofirst 300 — Europe


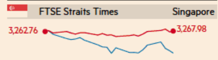
Day -0.62% Month -5.59% Year -8.32%

Ibex 35 — Madrid


Day 0.37% Month -3.84% Year -8.00%

Hang Seng — Hong Kong


Day 0.44% Month -6.04% Year -25.66%

FTSE Straits Times — Singapore


Day 0.31% Month 0.00% Year 6.14%

Dow Jones Industrial — New York


Day -0.45% Month -8.58% Year -10.94%

Bovespa — São Paulo

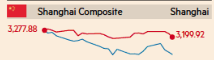

Day -0.91% Month -3.03% Year -4.74%

CAC 40 — Paris


Day -1.04% Month -6.04% Year -7.44%

FTSE MIB — Milan


Day -0.21% Month -2.53% Year -13.98%

Shanghai Composite — Shanghai


Day -1.16% Month -2.35% Year -12.63%

BSE Sensex — Mumbai


Day -0.68% Month 0.77% Year 2.87%

Country	Index	Latest	Previous
[illegible]	[illegible]	[illegible]	[illegible]

(c) Closed. (u) Unavailable. † Correction. ♥ Subject to official recalculation. For more index coverage please see www.ft.com/worldindices. A fuller version of this table is available on the ft.com research data archive.

STOCK MARKET: BIGGEST MOVERS

AMERICA	LONDON	EURO MARKETS	TOKYO
[illegible]	[illegible]	[illegible]	[illegible]

UK MARKET WINNERS AND LOSERS

FTSE 100	FTSE 250	FTSE SmallCap	Industry Sectors
[illegible]	[illegible]	[illegible]	[illegible]

Based on last week's performance. †Price at suspension.

CURRENCIES

Sep 15	Currency	DOLLAR Closing Mid	Day's Change	EURO Closing Mid	Day's Change	POUND Closing Mid	Day's Change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Rates are derived from WM Reuters Spot Rates and MorningStar (latest rates at time of production). Some values are rounded. Currency redenominated by 1000. The exchange rates printed in this table are also available at www.FT.com/marketsdata

FTSE ACTUARIES SHARE INDICES

Produced in conjunction with the Institute and Faculty of Actuaries

[illegible]										

FTSE Sector Indices

Non Financials (336) 4045.58 -0.18 4342.63 4054.54 4929.86 - 3.58 1.67 16.75 138.75 8715.39

Hourly movements / Time of FTSE 100 Day's high / Further information is available on http://www.ftse.com © FTSE International Limited. 2013. All Rights reserved. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. † Sector P/E ratios greater than 80 are not shown. For changes to FTSE Fledgling Index constituents please refer to www.ftse.com/indexchanges. ‡ Values are negative.

FT 30 INDEX

	Sep 15	Sep 14	Sep 13	Sep 12	Sep 09	Yr Ago	High	Low
FT 30	[illegible]							

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

FT WILSHIRE 5000 INDEX SERIES

	Sep 14		Sep 14
FT Wilshire 5000	[illegible]	FT Wilshire Mid Cap	[illegible]
FT Wilshire 2500	[illegible]	FT Wilshire Small Cap	[illegible]
FT Wilshire Mega Cap	[illegible]	FT Wilshire Micro Cap	[illegible]
FT Wilshire Large Cap	[illegible]		

Source: Wilshire. Wilshire Advisors LLC (Wilshire) is an investment advisor registered with the SEC. Further information is available at https://www.wilshire.com/solutions/indexes. Wilshire® is a registered service mark. Copyright ©2022 Wilshire. All rights reserved.

FTSE GLOBAL EQUITY INDEX SERIES

Sep 15 Regions & countries	No of stocks	US $ indices	Day %	Mth %	YTD %	Total retn	YTD %	Gr Div Yield
[illegible]								

FTSE SECTORS: LEADERS & LAGGARDS

Year to date percentage changes

[illegible]			

FTSE 100 SUMMARY

FTSE 100	Closing Price	Day's Change	FTSE 100	Closing Price	Day's Change
[illegible]					

UK STOCK MARKET TRADING DATA

	Sep 15	Sep 14	Sep 13	Sep 12	Sep 09	Yr Ago
Order Book Turnover (m)	[illegible]					
Order Book Bargains	[illegible]					
Order Book Shares Traded (m)	[illegible]					
Total Equity Turnover (£m)	[illegible]					
Total Mkt Bargains	[illegible]					
Total Shares Traded (m)	[illegible]					

All data provided by Morningstar unless otherwise noted. All elements listed are indicative and believed accurate at the time of publication. No offer is made by Morningstar or the FT. The FT does not warrant nor guarantee that the information is reliable or complete. The FT does not accept responsibility and will not be liable for any loss arising from the reliance on or use of the listed information. For all queries e-mail ft.reader.enquiries@morningstar.com

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

UK RIGHTS OFFERS

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

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

UK COMPANY RESULTS

Company		Turnover		Pre-tax		EPS(p)		Div(p)	Pay day	Total
Anglo Asian Mining	Int	[illegible]								
Aquila Energy Efficiency Trust		[illegible]								
Aurrigo International		[illegible]								
Big Technologies		[illegible]								
Brooks Macdonald Group		[illegible]								
Checkit		[illegible]								
DFS Furniture		[illegible]								
Downing Renewables & Infrastructure Trust		[illegible]								
Gresham House		[illegible]								
Hilton Food Group		[illegible]								
IGas Energy		[illegible]								
Keystone Law Group		[illegible]								
Kier Group		[illegible]								
Renishaw		[illegible]								

Figures in £m. Earnings shown basic. Figures in light text are for corresponding period year earlier. For more information on dividend payments visit www.ft.com/marketsdata

UK RECENT EQUITY ISSUES

Issue date	Issue price(p)	Sector	Stock code	Stock	Close price(p)	+/-	High	Low	Mkt Cap (£m)
09/02	11.00		ZAMZ	Zamaz PLC	10.00		15.0	12.00	10.06

§Placing price. *Introduction. ‡When issued. Annual report/prospectus available at www.ft.com/ir
For a full explanation of all the other symbols please refer to London Stock Exchange website.

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

FT 500: TOP 20

	Close price	Prev price	Day change	Day change %	Week change	Week change %	Month change %
Bausch Hlth	10.40	10.34	0.06	0.58	1.29	14.2	28.64
CaixaBnk	3.62	3.43	0.20	5.78	0.41	12.8	18.98
ING	9.96	9.61	0.35	3.59	1.11	12.5	4.81
Deut Bank	9.21	9.02	0.19	2.07	1.01	12.3	12.87
KBC Grp	55.18	52.68	2.50	4.75	5.27	10.6	4.12
IntSPaolo	1.92	1.90	0.02	1.04	0.18	10.3	3.57
SHOP	44.71	44.36	0.35	0.79	4.10	10.1	-13.67
EastJpRwy	7681.00	7537.00	144.00	1.91	681.00	9.7	8.35
BcoSantdr	2.68	2.59	0.09	3.52	0.23	9.2	0.38
Carnival	11.01	10.57	0.44	4.12	0.93	9.2	2.94
Renault	31.33	30.61	0.72	2.35	2.43	8.4	2.54
BBVA	4.99	4.88	0.11	2.23	0.36	7.8	4.40
Natwest Group	274.20	269.70	4.50	1.67	19.80	7.8	-2.30
Unicred	10.96	10.87	0.10	0.90	0.77	7.6	7.61
Swedbank	153.45	149.60	3.85	2.57	10.60	7.4	8.79
SBI NewA	572.15	571.75	0.40	0.07	39.30	7.4	7.81
ChinaMBank	41.15	39.35	1.80	4.57	2.80	7.3	-1.56
ConocPhil	115.97	117.71	-1.74	-1.48	7.65	7.1	15.32
SvnskaHn	93.48	91.40	2.08	2.28	6.08	7.0	1.56
BHP Group	38.74	38.60	0.14	0.36	2.47	6.8	-0.23

Based on the FT Global 500 companies in local currency

FT 500: BOTTOM 20

	Close price	Prev price	Day change	Day change %	Week change	Week change %	Month change %
Adobe	308.99	371.52	-62.53	-16.83	-74.64	-19.5	-31.51
HomeDep	272.85	276.34	-3.49	-1.26	-27.05	-9.0	-13.19
BlackRock	633.08	643.58	-10.50	-1.63	-58.84	-8.5	-16.28
Advanced Micro	76.15	77.45	-1.30	-1.68	-6.63	-8.0	-24.78
McKesson	341.02	341.40	-0.38	-0.11	-29.14	-7.9	-8.40
Altria	41.65	41.76	-0.12	-0.28	-3.51	-7.8	-7.85
Digital Realty	113.29	116.08	-2.79	-2.40	-9.37	-7.6	-14.98
CrownCstl	161.08	166.50	-5.43	-3.26	-13.16	-7.6	-12.52
Amgen	227.43	228.12	-0.69	-0.30	-18.02	-7.3	-9.54
ValeroEngy	103.82	109.59	-5.77	-5.27	-8.11	-7.2	-6.90
Cintas Corp	398.76	402.89	-4.13	-1.03	-30.63	-7.1	-8.98
Ericsson	72.98	75.19	-2.21	-2.94	-5.32	-6.8	-6.30
Workday	156.36	160.13	-3.77	-2.35	-11.22	-6.7	-12.93
Shrwin-Will	224.87	225.85	-0.98	-0.43	-15.91	-6.6	-12.59
PetroChina	3.50	3.49	0.01	0.29	-0.24	-6.4	-0.85
PublStor	317.84	324.68	-6.84	-2.11	-21.55	-6.3	-10.54
AmerTower	245.22	251.82	-6.61	-2.62	-16.46	-6.3	-12.84
Lowes	191.72	192.39	-0.67	-0.35	-12.66	-6.2	-7.89
Franklin	24.65	24.54	0.11	0.45	-1.61	-6.1	-14.61
Intel	28.88	29.18	-0.31	-1.05	-1.88	-6.1	-20.49

Based on the FT Global 500 companies in local currency

FILM

Danny Leigh

Freak out in a movie daydream, oh yeah

Pop music is meant to be a novelty, the province of the brand new and the right now. In this regard, David Bowie was a stickler. That is the first obstacle for **Moonage Daydream**, director Brett Morgen's memorably far-out documentary account of the singer and polymath. How do you make a fitting history for a man who spent his life scrubbing out the past?

It turns out you start with a surprise: Bowie always did like to keep people on their toes. So, from among the many jukebox favourites the film might open with — "Heroes" just one obvious example — Morgen picks instead the techno din of 1995's "Hallo Space Boy", top 10 hit in Finland and Israel, unloved footnote everywhere else.

And yet on screen and across spacetime, tearful superfans lose their minds, awed young faces from the days of Ziggy Stardust. Take the overture as meeting another challenge. If we go in thinking we already know an overfamiliar figure, Morgen invites a reappraisal with hands at the scruff of our necks. Between those wonderstruck teens, moved to near-religious hysteria, and a tune from a point when most people had stopped listening to the new material, an unlikely question suddenly arises: wait, remind me, who on earth was this "David Bowie"?

And what the hell is *Moonage Daydream*, Morgen wants us to ask too, wilfully channelling his subject's jagged high art spirit. Close your eyes and you can picture the director bristling at the polite term "music documentary". Open them for upper-case Cinema.

The basic ingredients are the usual archive remnants, forgotten TV docs and tense exchanges with middlebrow chat show host Russell Harty — but assembled here into a grand, kaleidoscopic scramble of freaky, un-narrated fragments.

Still, amid the chaos, Morgen borrows a sly old trick as well. For all his chilly futurism, Bowie was also that most enduring thing, a brilliant stage performer. Here too, we keep circling back to concert footage, given its own jittery edge by the simple expedient of ear-splitting volume. (This really is a movie to be heard and seen on the big screen.)

Above: David Bowie in 'Moonage Daydream'. Right: Julia Roberts and George Clooney in 'Ticket to Paradise'

Moonage Daydream
Brett Morgen
★★★★☆

Ticket to Paradise
Ol Parker
★★★☆☆

Skandal: Bringing Down Wirecard
James Erskine
★★★★☆

Funny Pages
Owen Kline
★★★★☆

In theory, the air of strange transmission might make the film hard going for newcomers. Actually, those more likely to be alienated are casual admirers who come for a singalong. If Morgen seems like the kind of fan who would sniff at such behaviour, the pay-off to his ambition can be thrilling. The soundtrack is part of the process, greatest hits stripped back to isolated basslines and echoey drum tracks.

The same sense of starting over informs the portrait of Bowie himself. Beyond the standard spacemen and androgyny lies the legacy of his culturally hip, schizophrenic half-brother Terry Burns, who died in 1985: a dread of mental illness and a magpie fascination with writers, thinkers and the zeitgeist. But the movie ventures further still, putting a fingertip on teasing ideas about the black holes in our identities, the the lack of an authentic self we might hope to fill with, for instance, our taste in films or music. ("I am a DJ/I am what I play," as he sings on camera.)

Not every Bowie gets past Morgen's gatekeeping. A connection left unmade is the one between art and commerce, when the star's individualism and frantic work ethic surely prefaced the 1980s as much as anything on *Scary Monsters (and Super Creeps)*. (The pioneering "Bowie Bonds" sold to investors in 1997 go unmentioned too.)

And, having scaled the outer limits, Morgen finally gives in to convention. A belatedly neat three-act structure finds our hero succumb to humdrum superstardom, before creative rebirth. The redemption story feels pat compared with what came before, but then, like lesser moments of the Bowie back catalogue, there is an upside — a reminder of how deathless the best stuff is.
In UK and US cinemas from September 16

After the happy ever after comes **Ticket to Paradise**, a sugary screwball served with a thick wedge of nostalgia. The director is Ol Parker, but more relevant still is producer Working Title, the veteran British romcom makers who once defined the genre — not least via the much-loved *Notting Hill*. Now one star of that movie, Julia Roberts, reunites with the company if not fictional beau Hugh Grant. Instead, her opposite number is George Clooney, the pair cast in a story crafted like a sequel to an imagined smash from the 1990s.

The twist is the starting point. Roberts's busy art dealer and Clooney's bullish architect enjoyed their picture-book moment a quarter century ago — one followed by a bitter split. Their names are Georgia and David, but let's be real here, they are Julia and George, two megastar personas making a comic show of bickering when their characters are thrown back together. The pretext is another passion: a holidaying daughter Lily (Kaitlyn Dever) gone head over heels in Bali for gallant local seaweed farmer, Gede (Maxime Bouttier).

The movie is uncertain of how much it wants to make fun of the job. As it is, we learn more about monofilament lines and flash freezing than we might in other romcoms, with wisdom dispensed too about the harmonies of the ocean. "I am so out of balance," Lily sighs. An engagement follows, pending married life amid the spa-treatment visuals. And so for artfully fuzzy reasons — er, something about their own middle-aged fear of commitment? — her estranged parents rejoin forces to crush love's young dream, and return Lily to America.

While the headliners play wrecking balls, the film would crumble without

And yet there are Roberts and Clooney, doing the robot to Run DMC during a drunken Bali night out, and the sheer dazzle of star power and perfect teeth almost makes it OK.

Of course, the love the movie really celebrates is the one that cinema-goers once reliably felt for big names of their ilk, as well as slick, mid-budget crowd-pleasers such as *Ticket to Paradise* — a movie down on one knee, earnestly asking for another chance.
In UK cinemas from September 20 and US cinemas from October 21

When does new documentary **Skandal: Bringing Down Wirecard** turn seriously odd? The rise and fall of the German online payments giant always did have a touch of the surreal. Could serial fraud and money laundering really have been the whole purpose of such a darling of the Frankfurt Stock Exchange? (Spoiler warning: yes.)

Peak bizarre is surely reached when the trail of wrongdoing from company headquarters arrives at a terraced house in small-town Consett, County Durham. But not so fast. Next stop is a dog groomer in the rural Philippines. Yet all this is only the half of it. "And then the story gets weirder," promises FT reporter Dan McCrum, who led the investigation that would topple the company. Remarkably, he is right.

Collegiate kudos aside, Wirecard truly is a great story, streamlined here for the general Netflix audience. Graphic novel visuals propel the narrative; a beginner's guide to finance introduces the short sellers who also smelled a rat. The focus is democratic, split between those investors and a gaggle of FT staffers. But McCrum sees most screen time in a tale pre-packed with espionage trappings, documents in Tesco bags passed under the table of Japanese restaurants, shady figures from a Wirecard counter-op evaded on the Central Line. Former FT editor Lionel Barber (colourful of language) becomes a sitting target, bugged from across the Thames.

Moreish detail keeps coming. (Even though Wirecard was in bed with gangsters, staff were primly asked to call the porn sites it worked with "emotional content.") A jaunty tone is easy to strike now, but the film also spotlights the stakes when the outcome was still up in the air, a lesson in how sticky things can get for newspapers harassed not just by hired goons but national authorities. The German financial regulator was so protective of Wirecard, it took up legal cudgels on the company's behalf. And then, yes, the plot only thickens. Fiction is once more out-stranged by the periodic madness of the market.
On Netflix from September 16

Can any age be as hideous for everyone concerned as 17? Witness **Funny Pages**, a scabrous comedy of painful growth from first-time director Owen Kline. The teenager is New Jersey high schooler Robert Bleichner (precisely played by Daniel Zolghadri).

If you saw his eager expression and knew only that he was a wannabe comic book artist, you might brace yourself for a typical indie coming-of-age, sweet and heartwarming. Eighty-six minutes later, you would still be braced. From the first scene between Robert and his boundary-free art teacher, the movie delights in nudging you on to the wrong foot — and Robert is revealed as a sneering ingrate, leaving home for attempted independence in down-at-heel Trenton.

The movie is set in the present but has the bleachy look and antic energy of a lost American burlesque by Hal Ashby or Elaine May, time capsuled in 1974. Laughs are abundant, but my God, the film can be sad and queasy too, filled with the frank misanthropy of underground comic writer Peter Bagge. The story can hardly be autobiographical — Kline is the son of actor Kevin, raised on New York's Upper East Side — but somewhere he clearly picked up a hawk eye for the misfit lives of suburbia.
In UK cinemas from September 16

Left: FT reporter Dan McCrum in 'Skandal: Bringing Down Wirecard'. Below: Matthew Maher, left, and Daniel Zolghadri in 'Funny Pages'

reaffirm and accelerate the pace of several such developments.

Xi's remarks as he presided this month over a meeting of the Central Commission for Comprehensively Deepening Reform, one of the party bodies he uses to rule China, set out a clear vision for technology.

The development of "core technologies" was not something that could be left up to the free market but had to be led by China's government, the state broadcaster CCTV quoted Xi as saying.

In an indication of the importance that Xi attaches to this agenda, he appears set to pack the new Central Committee, which comprises about 200 of the most senior officials in China, with technocrats, rather than career

from renewables by 2025

Sam McNeil/AP

chain vulnerability perpetuated by the fact that 95 per cent of installed indigenous Chinese capacity is dedicated to

named 8,997 enterprises as "little giants", putting them in line for tax breaks so they can help China compete with the US and other western powers.

Xi, in a letter to the meeting, said he hoped such enterprises would "play a more important role in stabilising supply chains" — indicating his ambition that the "little giants" would help to indigenise China's technology industry.

Support for such efforts can be found in Beijing's increasing control over the country's venture capital industry. In the past few years, China has overseen the establishment of more than 1,800 so-called government guidance funds, which have raised more than Rmb6tn ($900bn) to invest largely in tech sectors that Beijing deems "strategic".

be held in our own hands," he said.

With the country's energy self-sufficiency rate at about 80 per cent, that leaves some 20 per cent of supply — mostly in the form of imported oil and gas — relatively vulnerable to external shocks. China is particularly concerned about shipping routes through "chokepoints" such as the Strait of Malacca, where US naval power remains supreme.

Michal Meidan, a director at the Oxford Institute for Energy Studies, says Beijing is adopting an increased focus on renewables such as solar and wind as part of the solution. "China looks at the global geopolitical situation and assesses the vulnerabilities around supply chains," says Meidan. "Enhanc-

been at pains not to fall foul of western sanctions imposed on Russia, but also its focus on decoupling from the dollar has sharpened'

Such a heavy emphasis on domestic technology poses a significant risk to those multinational companies focused on supplying the Chinese market. However, some analysts believe there are still important limitations on the scope of the "fortress China" plans.

Yu Jie, a senior research fellow at Chatham House, a UK think-tank, argues that China cannot afford to completely isolate itself from the world due to its export-oriented structure.

"Sectors with strategic importance and everyday necessities for the population will be treated as matters of national security," says Yu, "whereas sectors that require foreign capital and manpower will remain open and interconnected to the world."

The FT View

FINANCIAL TIMES

'Without fear and without favour'

ft.com/opinion

The Truss government sends a signal to the City

Bonus cap was always a misguided policy, but there is a political cost to scrapping it

The bonus cap was imposed by the EU in the wake of the financial crisis to try to temper excessive risk-taking by bankers. Since then, it has had the perverse effect of driving up fixed pay, thereby diluting the discretion of regulators in dealing with wayward traders and hobbling banks' ability to cut costs in downturns.

The UK has long been against the cap, even mounting a legal challenge against the EU (eventually withdrawn) over its implementation. Repealing it after Brexit has been on the to-do list of the last two governments, but they viewed the political risks as too great. Now Kwasi Kwarteng, the new chancellor in Liz Truss's government, wants to push ahead, despite the unfortunate optics of doing so during a cost of living crisis. His decision is ultimately the right one.

The cap limits bonuses to 100 per cent of bankers' fixed pay, or 200 per cent with shareholder approval. Beyond the EU cap, the UK introduced rules that enable banks to claw back bonuses reaching back a decade in the event wrongdoing is discovered, giving Britain one of the strictest bonus regimes in the world.

No doubt, scrapping the bonus cap will be a gift to Labour and risk entrenching Conservatives in voters' minds as the party of the rich. With inflation in the UK standing at 9.9 per cent — the highest in the G7 — it will make it harder for the government to argue for wage restraint for public service workers, when banks will be free to dole out multimillion-pound bonuses. The opposition leader, Keir Starmer, has already derided the plan as "pay rises for bankers and pay cuts for district nurses".

The move would show the City of London a little love after two prime ministers who were lukewarm in their support for one of the UK's key sectors. It would fit with the new government's true-blue, avowedly Thatcherite aversion to red tape. But while it will help the City compete for talent with banks in Hong Kong or New York (where there are no similar caps), its contribution to Kwarteng's 2.5 per cent annual economic growth target will be marginal. More significant is its role in signalling the government's intent to deliver a Brexit dividend.

Cutting the cap is intended to be part of a wider deregulatory agenda for the City, dubbed "Big Bang 2.0". Deregulation for its own sake, however, is a mistake. Plenty of measures introduced since 2008 have made banks safer, from tougher capital and liquidity requirements through to rules designed to improve personal conduct. Caution is needed before diluting any of these. Moreover, many were set at a global, rather than EU level, meaning they cannot be repealed simply because of Brexit. This leaves Kwarteng at risk of presenting more a whimper than a bang.

Repealing the limit after Brexit has been on the to-do list of the last two governments, but they viewed the risks as too great

When the cap was introduced, it was characterised as a move by the EU to rein in London's buccaneering bankers — with some justification. But the UK unilaterally imposed its own stringent measures, notably ringfencing retail lenders from their riskier investment banking units, and holding senior managers personally liable for wrongdoing on their watch, as well as the bonus clawbacks. Each step of deregulation will have to be judged on its merits. Jettisoning the bonus cap is justifiable; other potential reforms, such as ditching clawbacks, would not be.

Making a marginal, albeit headline-grabbing, deregulatory move to appease the City is one thing. A bigger test will be whether the government can push through truly meaningful structural reform in areas, such as planning, where its supporters may be more resistant to change.

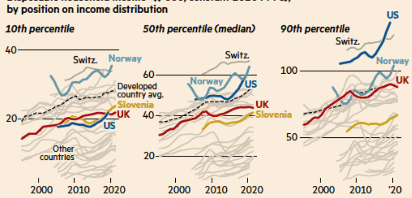
Opinion Data Points

Britain is a poor society with some very rich people

John Burn-Murdoch

In Norway, people across the income distribution have high living standards. In the UK and US, the rich fare well but the poorest rank low vs other countries

Disposable household income* ($'000, constant 2020 PPPs), by position on income distribution



Sources: FT analysis of data from Eurostat EU-SILC survey, OECD and UK Family Resources Survey
*Household incomes equivalised using modified OECD scale to be representative of a two-adult household

Where would you rather live? A society where the rich are extraordinarily rich and the poor are very poor, or one where the rich are merely very well off but even those on the lowest incomes also enjoy a decent standard of living?

For all but the most ardent free-market libertarians, the answer would be the latter. Research has consistently shown that while most people express a desire for some distance between top and bottom, they would rather live in considerably more equal societies than they do at present. Many would even opt for the more egalitarian society if the overall pie was smaller than in a less equal one.

On this basis, it follows that one good way to evaluate which countries are better places to live than others is to ask: is life good for everyone there, or is it only good for rich people?

The country desperately needs migrant labour but may soon have to ask new arrivals to take a pay cut

To answer this, we can look at how

top earners rank fifth, the average household ranks 12th and the poorest 5 per cent rank 15th. Far from simply losing touch with their western European peers, last year the lowest-earning bracket of British households had a standard of living that was 20 per cent weaker than their counterparts in Slovenia.

It's a similar story in the middle. In 2007, the average UK household was 8 per cent worse off than its peers in north-western Europe, but the deficit has since ballooned to a record 20 per cent. On present trends, the average Slovenian household will be better off than its British counterpart by 2024, and the average Polish family will move ahead before the end of the decade. A country in desperate need of migrant labour may soon have to ask new arrivals to take a pay cut.

Across the Atlantic it's the same story, only more so. The rich in the US are exceptionally rich — the top 10 per cent have the highest top-decile disposable incomes in the world, 50 per cent above their British counterparts. But the bottom decile struggle by with a standard of living that is worse than the poorest in 14 European countries including Slovenia.

To be clear, the US data show that both broad-based growth *and* the equal distribution of its proceeds mat-

Letters

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Bagehot's central bank rule applies to commodity futures too

Gillian Tett raises some important issues regarding energy derivatives trading and clearing (Opinion, September 9). A few further points are worth making.

First, commodity derivatives serve an important social purpose by allowing not just the locking-in of future sale prices by producers. Equally importantly, the existence of functioning derivatives markets enables the provision of long-term fixed-price contracts to consumers of energy. However, as the current debacle once again illustrates, the risk management of such instruments is far from trivial.

One important lesson from the crisis is that central clearing and strict collateral rules that have been imposed by regulation in the past decade do not remove financial risk but merely redistribute it. Thus, well-intentioned attempts to make the market completely "safe" will inevitably end in failure. Energy supply is arguably at least as crucial a part of the critical infrastructure of modern societies as the banking system. Consequently, while the fundamental causes of the present extreme price volatility need to be addressed, the final backstop to the market will necessarily come from the taxpayer.

But there should be a price to pay for failures in risk management. Governments would therefore do well to adapt Walter Bagehot's rule of central banking when choosing who to support and how: in times of liquidity crisis, lend unlimited amounts to solvent operators against good assets (broadly and sensibly defined) but at a punitive interest rate.

Antti Suhonen
Professor of Practice, Department of Finance, Aalto University School of Business, Espoo, Finland

Why doubts persist about Melrose's takeover of GKN

Regarding your report that Melrose is to spin off GKN's auto business (Report, September 10), I argued at the time of the original deal in 2018 that support for Melrose's bid for GKN was "shallow and short-termist" (Letters, February 7, 2018).

At that point, GKN had lined up a definitive agreement under which Dana, the US automotive supplier, had offered $6.1bn — $1.6bn cash, the assumption of $1bn pension liabilities, and Dana shares valued at $3.5bn — for just GKN's auto division. Shareholders could have cashed in, while retaining all GKN's other activities, perhaps adding the proceeds from a potential divestment of the powder metallurgy division, which was also under consideration.

With support from the City, Melrose acquired GKN for £8bn. Today the whole of Melrose, which comprises all GKN's assets including the auto, aero and powder metallurgy divisions as well as Melrose's other activities, has a market cap of £5.15bn ($5.97bn).

So how exactly has Melrose lived up to its promise to increase shareholder value? From Britain's viewpoint, GKN auto closed its Driveline factory in Birmingham last year with the loss of over 500 skilled jobs: just 50 white-collar workers remain out of 21,000 worldwide.

When I worked for GKN (1974-1980), our team helped to take the auto division Drivelines global. If the need for a global approach is now being finally acknowledged in Melrose's proposed IPO, why did the City and its commentators not support GKN's global deal with Dana four years ago, in preference to yet another takeover by a conglomerate?

Will Melrose really prove more competent than GKN's own managers

the corporate sector, in the relevant period. If you switch, on a full-time basis, from being a company employee to self-employment, your entire earnings — whether high or low, and whether or not they change up or down as a result — will migrate away from the "wages and salaries" sector of national income.

If you then trade as a company, your earnings will themselves have moved into corporate profit; and if not, they will go into profits of the personal sector. Either way, you will be contributing to an increase in overall corporate profit relative to pay — without anybody being necessarily "badly done to". I have tried, so far without success, to see whether there has been any authoritative research on this statistical effect; I am starting to suspect that there has not been.

Another possible distortion comes from the extent of privatisation of previously state-owned commercial services. In countries like the UK, and the ex-communist parts of eastern

Judge Japan not on its EV sales but its hybrid success

The Lex note ("Toyota: slow lane", September 10) is right that Japanese carmakers rank low in relation to electric vehicle sales made, yet with their hybrids they are leading in terms of the true decarbonisation delivered to-date, and likely will be for at least the decade ahead.

Whether you look at the taxi fleets in Zurich for the last decade, or the preferences of US and European consumers again this year as gas prices surge, the terrific mileage and efficiency being delivered surely exceeds the true CO_2 contribution of the large EVs with their environmental footprint from the mining of battery materials through to charging points powered by fossil fuels.

And Toyota's new battery plant investment announced this month for its hybrids — with a breakthrough design of a nickel/hydrogen battery — comes also without the much-talked about issues related to lithium batteries whose cost, safety and recycling are challenging all automakers.

Ray Kubis
Miami, FL, US

British lack of deference didn't help in Brexit vote

Reading advice provided by those who have been involved in government can be interesting. So I was curious to know what Tony Blair's former adviser John McTernan had to say in his opinion piece "How to run a government from Downing Street" (September 3).

He presents some practical advice, but in the comments on the difficulties a prime minister has handling the endless scrutiny he includes that of "an increasingly well-educated, informed, and non-deferential electorate".

'There is no greater joy at the start of the day'

I agree with Monica Seeley (Letters, August 20) on the joys of journaling. I took my O-level equivalent in India in December 1970, and wrote all my papers with a fountain pen. I still have that one.

Throughout my training and a 35-year career as an ophthalmic surgeon in the NHS I have always written all the notes with a fountain pen.

Several of my patients would compliment me as I wrote clinical notes, remarking that it had been a long time since they had seen a consultant using a fountain pen. As calligraphy is my hobby, clarity of my notes was never a problem, often compensating for all the jokes about doctors and their handwriting.

However at medical school, I had my pathology paper returned with spelling mistakes underlined in red by the professor.

When I asked him "Why me?", he explained that mine was the only paper he could read word for word. I learned very quickly that if I was to continue writing neatly, I had to work on my spelling!

There is no greater joy, at the start of the day, than unscrewing the cap, dipping the fountain pen in a bottle of ink, and writing the journal.

Arvind Singh
Glasgow, UK

Second-home feature shows FT's Chinese walls

In House & Home, the author and philosopher Julian Baggini asks: "Is owning a second home unethical?" (FT Weekend, September 3).

It's an interesting question for a newspaper which depends, in large measure, upon advertising revenue from both property developers and

To answer this, we can look at how people at different points on the income distribution compare to their peers. If you're a proud Brit or American, you may want to look away now.

Starting at the top of the ladder, Britons enjoy very high living standards by virtually any benchmark. Last year the top-earning 3 per cent of UK households each took home about £84,000 after tax, equivalent to $125,000 after adjusting for price differences between countries. This puts Britain's highest earners narrowly behind the wealthiest Germans and Norwegians and comfortably among the global elite.

So what happens when we move down the rungs? For Norway, it's a consistently rosy picture. The top 10 per cent rank second for living standards among the top deciles in all countries; the median Norwegian household ranks second among all national averages, and all the way down at the other end, Norway's poorest 5 per cent are the most prosperous bottom 5 per cent in the world. Norway is a good place to live, whether you are rich or poor.

Britain is a different story. While the

equal distribution of its proceeds matter for wellbeing. Five years of healthy pre-pandemic growth in US living standards across the distribution lifted all boats, a trend that was conspicuously absent in the UK.

But redistributing the gains more evenly would have a far more transformative impact on quality of life for millions. The growth spurt boosted incomes of the bottom decile of US households by roughly an extra 10 per cent. But transpose Norway's inequality gradient on to the US, and the poorest decile of Americans would be a further 40 per cent better off while the top decile would remain richer than the top of almost every other country.

Our leaders are of course right to target economic growth, but to wave away concerns about the distribution of a decent standard of living — which is what income inequality essentially measures — is to be disinterested in the lives of millions. Until those gradients are made less steep, the UK and US will remain poor societies with pockets of rich people.

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competent than GKN's own managers in handling its high-tech aero division, or equally its global activities? Or should we expect a quick sell-off, once the undertaking it gave the government to retain technology in Britain expires next year, with the loss of more jobs and yet another global champion?

Professor Chris Carr
University of Edinburgh Business School
Edinburgh, UK

Shift from pay to corporate profit is not what it seems

We often see concern expressed in your columns about a trend in OECD countries in recent decades that suggests a higher share of national income is going to corporate profit as compared with pay. Rana Foroohar's column again alludes to it ("Who will pay for the shift to resilience?", Opinion, September 12).

It occurs to me that there could be some distorting factors behind the trend. Many countries have seen some significant shifts towards self-employment, mainly from within the ex-communist parts of eastern Europe, the scale of this over the past 35 years or so has been heavy. It has created a whole new sector of corporate profit, with no direct effect on employment income.

So let us try to be sure that available data on any subject is meaningful before founding too many moral panics on it.

Andy Thompson
Worcester Park, Surrey, UK

Here's the choice — grey survival or going green

In "An energy reckoning looms for the west" (Opinion, August 20) Helen Thompson discusses the implications of Europe's energy planning decisions in response to today's energy crisis. The real choice, however, is not between "economic misery or compromise". Rather the globe should decide whether to attempt a grey survival in the short run or go green for long-term sustainability.

Haris Doukas
Associate Professor, National Technical University of Athens, Greece

and non-deferential electorate". Really? I wish!

Non-deferential they may be, but would that lack of deference be necessary if the electorate had chosen more wisely in the 2016 referendum, the last two elections, and in the recent (Conservative membership) vote to a new party leader, and thus a new prime minister? Cause and effect?

Christine Speer
London TW9, UK

Quiet quitting; the French were at it 20 years ago

I do not understand why the English-speaking world is making such a fuss about "quiet quitting" (Opinion, September 13).

The French wrote the book about it, literally, almost 20 years ago. *Bonjour paresse* by Corinne Maier, a writer, psychoanalyst and economist, is an international best-seller.

The French subtitle reads: "On the art and necessity of doing the least possible in the enterprise."

Jem Eskenazi
London N3, UK

from both property developers and secondary home sellers, not to mention ad spend from private jet sales and charter companies.

At least it can be said that there seems to be a proper "Chinese wall" between the business and editorial arms of the Financial Times.

Or, perhaps, as Baggini's personal website states, his ideas are meant to be "seeds of thought, scatttered [sic] to either take root or not". We'll never know for sure.

Small ideas sadly often do take root and, in this case, the FT might rue the day that the article was published. Certainly, the advertisers of homes in Ibiza, London or the Côte d'Azur might well object.

As would many of those full-time residents who depend financially upon the generous visits of their second-home and summer neighbours.

It is just a pity Baggini didn't take the users of private jets to task too, among them Hollywood's "limousine liberals" who are forever preaching at us about the dangers of climate change.

James W Gerard
New York, NY, US

Opinion

Iran may have overestimated US appetite for reviving nuclear deal

Kim Ghattas

Negotiations to revive Iran's 2015 landmark nuclear deal with the west are back in the the deep freeze. Last weekend, Tehran doubled down on some of its conditions and European powers responded by saying they had reached the limits of their flexibility.

The talks in Vienna have see-sawed endlessly since negotiations resumed last April under President Joe Biden. There have been pauses and pessimism, followed by predictions of a near conclusion. This downturn feels more definitive — the deal may not be revivable, though no one will declare it dead. Certainly, the Biden administration will not re-engage fully until after the November midterms. US secretary of state Antony Blinken put the blame squarely on Tehran: "Iran seems either unwilling or unable to do what is necessary to reach an agreement."

It's easy to stay focused on the diplomacy, levels of enrichment and nuclear safeguards, all of which are important. As negotiations drag on, Iran becomes closer to being a threshold nuclear state and the International Atomic Energy Agency has warned that the information gap about the country's activities is growing. But there is an immediate real-life impact to this outcome. Some in the region follow every twist and turn in the negotiations as though their lives depended on it — because they do.

Siamak Namazi, the longest-held Iranian-American hostage in history, has been incarcerated in Tehran's notorious Evin prison since 2015 on trumped-up charges. Along with his ageing father, Baquer, and two other Iranian-Americans hostages, Morad Tahbaz and Emad Shargi, Namazi is being used as a pawn by Tehran in an effort to extract more concessions in negotiations with the US.

Each step back and forward in these talks, brings Namazi hope and despair. Through his American pro-bono counsel, he implored Biden to "get involved & show the resolve needed to free ALL US hostages here before it's too late".

On the other side of the equation, there is a palpable sense of relief in some parts of the Middle East, particularly Lebanon and Iraq, where many suffer the violence of Iran's proxy militias. There is incessant talk in Beirut and Baghdad about the billions of dollars that would be released to Tehran if sanctions are lifted, and how much that would boost both its hard and soft power. Iran has been stung by the backlash against its influence in Iraq — new funds would help appease disgruntled allies. In Lebanon, where the economy has been in freefall for the past three years, there's been more vocal criticism of Hizbollah for failing to provide basic necessities to its supporters.

> The expectation was a quick conclusion of talks. But Tehran misread the changed dynamics

So what next? Iran may still be calculating that it is better served by dragging out the process. But it risks overestimating how much the White House wants the deal. When Biden came into office, Iran and its regional partners watched with glee as he appointed key officials they remembered from the Obama administration, including Special Envoy for Iran, Rob Malley. The expectation was a quick resumption and conclusion of negotiations.

But Tehran misread the changed dynamic of old Obama hands staffing a new Biden administration. Jake Sullivan, now national security adviser, always took a tougher line on Iran, as did William Burns, now CIA chief. Iran repeatedly upped its demands, and Washington has called its bluff. Iran may believe the White House is busy fretting about the failed negotiations, but since this spring, I've sensed some indifference in Washington about whether or not a deal is reached. Plan B consists of close co-ordination with regional allies, including Israel, to ensure better containment of Tehran than in the past.

Those seeking to understand Iran's next move would do well to watch Iraq, where political turbulence rules and street protests almost led the country into civil war. This was effectively a battle between Iran loyalists and their opponents, including Moqtada al-Sadr, the prominent Shia cleric. Al-Sadr and others may not be timing their political moves according to the state of nuclear talks, but they will inevitably seek to gain advantage from Tehran's waning appeal.

Iran's regional opponents often engage in wishful thinking about how quickly its influence will subside, hoping its proxy militias will loosen their grip on Shia communities in Lebanon or Iraq, and imagining the eventual demise of the Islamic Republic.

They will be waiting for a long time. But the nuclear talks faltering at the same moment as the possibility of a Russian defeat in Ukraine and a morale boost for the west, is an interesting inflection point. The opportunity is that this will further deepen Iran's unease — the risk is that it will drive it to deploy more force.

The writer is author of 'Black Wave'

The IMF must step up to help Ukraine

WORLD

Gillian Tett

Efi Chalikopoulou

Ever since Ukraine liberated the Kharkhiv region last weekend after Russian occupation, western observers have wondered how Moscow might respond. Now they partly know.

"Russia has answered Ukraine's counter offensive by destroying civil infrastructure," Ukrainian prime minister Denys Shmyhal told the Financial Times on Thursday, noting that Russian missiles have knocked out electricity plants and seriously damaged the gigantic Kryvyi Rih dam.

This creates big humanitarian and military challenges. But it also invites a key economic question: can Kyiv contend with the immediate, spiralling financial costs of destruction without tipping into fiscal crisis and/or hyperinflation?

The problem for Ukraine is not just how to fund the costs of future peacetime reconstruction, estimated to be in the region of $350bn. It also faces an immediate budgetary crisis as it tries to keep its economy (and its people) alive, and power on. Unless it receives rapid assistance from the IMF, among others, Kyrylo Shevchenko, central bank governor, forcefully outlined the problem earlier this week. Since the invasion, Ukraine's economy has shrunk by more than a third, inflation jumped above 20 per cent — and an estimated $97bn in infrastructure was destroyed, just by June.

This is alarming. But it could soon get worse. Shmyhal says the government currently has a $5bn hole in its monthly budget since tax revenues have collapsed, while military spending has soared.

Sympathetic western creditors have "reprofiled" existing foreign debt, saving Kyiv around $6bn, bankers tell me. Shmyhal says the finance ministry has also sold $14.5bn of domestic war bonds and plans to sell more.

But the central bank is wary of too much war bond issuance because it fears this will lead to hyperinflation. It is entirely correct to worry: war often sparks disastrous inflationary spirals.

And though Kyiv has received an estimated $17bn of international loans and grants this year, this does not entirely plug the fiscal hole. And Shmyhal reckons that Ukraine will face monthly deficits of around $3.5bn in 2023, assuming the war drags on.

So what should the west do next to shore up Ukraine's financial defences? Probably the most important move would be to urge the IMF to provide meaningful support.

The fund has already implemented small(ish) dollops of $1.4bn emergency aid since the invasion. The second emerged this week after Kristalina Georgieva, IMF head, spoke to President Volodymyr Zelenskyy by phone, as he headed to the eastern front lines.

However, Kyiv is now asking the fund to offer a fully fledged programme, ideally of at least $15bn. Such numbers are not unprecedented in IMF history: Greece and Argentina received more to battle their respective crises. But what would make any Ukraine package controversial is that the IMF has never implemented a significant structural adjustment programme in a country engulfed in full-blown war before.

Moreover, Ukraine's relations with the IMF have been prickly in recent years. Economists at the fund have fretted about the country's "poor governance" (the polite phrase for corruption) and Zelenkskyy's erratic commitment to economic reform in the past.

> Meaningful support soon could prompt more aid from the US

On Ukraine's part, there has been widespread resentment of western financiers and IMF austerity plans — and opposition to the idea of foreign investors grabbing Ukrainian assets. So much so, that when Zelenksyy was "just" a TV actor playing the fictional president in the popular show *Servant of the People* (before becoming the actual president in 2019), he enthusiastically kicked the IMF out of Ukraine. You could not make this up.

But war is now resetting Ukraine's political economy, ushering in once-unimaginable levels of unity and innovation — and undermining the power of previously dominant oligarchs. This creates more openings for reform. And Zelenksyy's government is trying to show that it will be as fiscally responsible as the IMF needs.

Last week, Rustem Umerov, an official [...] sovereign wealth fund. Umerov tells me he has a mandate to sweat state assets, or sell them to global investors, to raise cash. So I, for one, hope that the IMF finds the courage to offer meaningful support soon, not least because this could prompt more aid from the US and Europe as well. An IMF reform programme could pull in more private sector investment if (or when) war ends, or even sooner if western governments start offering war insurance to private investors.

Georgieva, for her part, has hinted she is getting ready to be creative: after speaking to Zelenskyy, she told staff that "we are going to modify somewhat our engagement capacity" and "there is a build-up toward a fully fledged program."

This is good news but she cannot act without the support of the IMF board. So all eyes are now on what the US and European governments do at next month's IMF autumn meeting. There is much at stake — for Kyiv and the west.

Mini-Budget is a great gamble with the UK's public finances

ECONOMICS

Chris Giles

Kwasi Kwarteng is set to deliver a mini-Budget next week that will define the economic policies of Liz Truss's Conservative government.

We know the new chancellor will reverse this year's rise in national insurance contributions and stop a planned increase in corporation tax rates next April. Kwarteng will outline the costs of holding down gas and electricity prices this winter, although this forecast will come from the Treasury without the independent scrutiny of the Office for Budget Responsibility. And finally, he is set to establish a new government target of 2.5 per cent economic growth every year, supplementing the Bank of England's 2 per cent inflation target.

It is easy to imagine how Kwarteng will sell the new policy of tax cuts to boost growth and longer-term economic performance to the House of Commons. "The central objective of the government's economic strategy is to maintain a faster rate of growth of national output," Kwarteng might say. Lower taxes are vital because it is "crucially important to look beyond the next year and to lay firm foundations on which we can build a fast rate of economic growth in the future."

"We have made massive reductions in taxation so as to increase employment," the chancellor will conclude. "We have held down [energy] industry prices," thereby demonstrating that "expansion and the attack on inflation" go hand-in-hand.

> Our best defence against loose policies is for Britain's independent institutions to stand firm

Kwarteng, who holds a PhD in economic history, will instantly recognise that I used no imagination in devising these words, just the cut and paste function on my computer and a copy of Anthony Barber's 1973 Budget speech. It came a year after the same Conservative chancellor said in his 1972 statement, "I do not believe that a stimulus to demand of the order I propose will be inimical to the fight against inflation."

These two Budgets are widely regarded as the worst pieces of short-term economic management in Britain since the second world war. Inflation soon rose above 24 per cent and comparisons with the "Barber boom" are never complimentary. The Budgets did not even help Edward Heath win the general election in February 1974.

While Truss had few options but to hold down energy prices this winter, there is no need to stoke inflationary pressures and weaken the longer-term sustainability of the public finances with additional permanent tax cuts.

it risks losing this economic battle — whatever happens on the military side.

one structural adjustment programme in Ukraine, in 2015. It has also given two

and Europe as well

cial who is running peace negotiations, was appointed as head of a putative

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Moreover, assuming new policies improve the long-term average rate of growth of the economy simply repeats Gordon Brown's mistake in late 2006 when he announced a faster trend growth rate of the economy before demonstrating success.

The coming fiscal statement is therefore taking great risks both with inflation and the public finances. The gaping trade deficit will rely on the kindness of strangers to finance the UK living persistently beyond its means and the chancellor will have to hope that financial markets this winter are gentle.

In these circumstances, the best defence against loose policies is for the UK's independent economic institutions to stand firm. The Bank of England needs to demonstrate that it is determined to offset the additional inflationary pressure created by the government's borrow and spend attitude.

The OBR should insist on publishing an official forecast by the end of 2022, so that it can meaningfully meet its legislative requirement to produce two assessments of the public finances a year. It should reject Kwarteng's wishful thinking over a 2.5 per cent trend growth rate until the chancellor can demonstrate he has achieved his ambition.

There is little doubt that these institutions must be irritating for a chancellor who is "unashamedly pro-growth". But they were created precisely to guard against repeating the mistakes of the 1970s. That moment has come.

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Smarter machines risk creating dumber humans

TECHNOLOGY

John Thornhill

When one of Google's senior researchers asked the company's LaMDA chatbot whether it was a "philosophical zombie" (exhibiting human-like behaviour without having any inner life, consciousness or sentience) it replied: "Of course not." Unconvinced, Blaise Aguera y Arcas asked the AI-enabled chatbot how he could know this was true. "You'll just have to take my word for it. You can't 'prove' you're not a philosophical zombie either," LaMDA answered.

Our machines are becoming smarter — and sassier — at astonishing and unnerving speed. LaMDA is one of a new generation of large language, or foundation, models, which use machine learning techniques to identify patterns of words in vast data sets and automatically replicate them on demand. They operate like speedy auto-complete functions, but with no instinctive or acquired preferences, no memory and no sense of history or identity. "LaMDA is indeed, to use a blunt (if admittedly, humanising) term, bullshitting," Aguera y Arcas wrote.

When OpenAI, a San Francisco-based research company, launched one of the first foundation models, called GPT-3, in 2020 it stunned many users with its ability to generate reams of plausible text at remarkable speed. Since then, such models have become bigger and more powerful, expanding from text to computer code, images and video, too. They are also emerging from sheltered research environments into the wilds of the real world and are increasingly being deployed in marketing, finance, scientific research and healthcare. The critical question is how closely these technological tools should be controlled. The risk is that smarter machines may only make dumber humans.

The technology's positive commercial uses are highlighted by Kunle Olukotun, a Stanford University professor and co-founder of SambaNova Systems, a Silicon Valley start-up that helps clients deploy AI. "The pace of innovation and the size of the models is increasing dramatically," he says. "Just when you thought that we were reaching our limits, people come up with new tricks."

Not only can these new models generate text and images but interpret them too. This enables the same system to learn in different contexts and handle multiple tasks. For example, Hungary's OTP bank is working with the government and SambaNova to deploy AI-powered services across its business. The bank aims to use the technology to add automated agents at its call centres, personalise services to its 17mn retail customers and streamline its internal processes by analysing documents. "Nobody really knows what banking will look like in 10 years' time — or what the technology will look like. But I am 100 per cent sure that AI will play a key role," says Peter Csanyi, OTP's chief digital officer.

> If trained on biased data sets, AI foundation models can devalue the currency of truth and threaten privacy

Some companies that have developed powerful foundation models, such as Google, Microsoft and OpenAI, restrict access to the technology to known users. But others, including Meta and EleutherAI, share it with a broader customer base. There is a tension between allowing outside experts to help detect flaws and bias and preventing more sinister use by the unscrupulous.

Foundation models may be "really exciting and impressive" but are open to abuse because they are "designed to be devious", says Carissa Véliz of Oxford university's Institute for Ethics in AI. If trained on historically biased data sets, foundation models can produce harmful outputs. They can threaten privacy by extracting digital detail about an individual and using bots to reshape online personas. They can also devalue the currency of truth by flooding the internet with fake information.

Véliz makes an analogy with financial systems: "We can trust money so long as there is not too much counterfeit. But if there is more fake money than real money, the system breaks down. We are creating tools and systems we cannot control." That argues for the implementation of randomised control trials for foundation models before release, she says, just as for pharmaceutical drugs.

The Stanford Institute for Human-Centred AI has pushed for the creation of an expert review board to set community norms, share best practice and agree standardised access rules before foundation models are released. Democracy is not just about transparency and openness. It is also about institutional design for collective governance. We are, as the Stanford institute's Rob Reich puts it, in a race between "disruption and democracy".

Until effective collective governance is put in place to control the use of foundation models, it is far from clear that democracy will win.

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Lex.

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Fosun: spree cleaning

Fosun is showing signs of stress. The highly indebted Chinese conglomerate has alarmed investors, with one of its entities planning to cut its holding in a core healthcare unit. It has followed up by saying it will file a lawsuit against Bloomberg. The bone of contention was a news report alleging that regulators asked some lenders and state-owned companies to examine their exposure to Fosun.

Shares plunged then rallied after Fosun denied the report, which it said had "seriously misled investors". But the spat changes nothing financially. Data suggest Fosun is in a bad place.

Hong Kong-listed shares have nearly halved in the past year to a decade low. Some of its offshore bonds have fallen below 45 cents on the dollar.

The group owns a sprawl of businesses from French resort group Club Med to English football club Wolverhampton Wanderers. Net liabilities are 83 per cent of Fosun's enterprise value, according to S&P Global. Bond repayments next year are expected to be as much as $8bn. Debt has grown amid a drop in earnings, which fell by a third in the first half.

It is equally pertinent to ask how strong the political credit of Fosun is with the Chinese Communist party.

The government has been reining in conglomerates that expanded overseas via takeovers. Deleveraging is a key policy goal. Beijing restricted large overseas investment sprees five years ago, especially in areas such as hotels, entertainment, real estate and sports clubs. These were areas where Fosun had been an active acquirer.

The parallel is with local peers HNA and Anbang. Debt-fuelled foreign acquisition sprees triggered official disapproval. The authorities jailed or detained top executives from Anbang and HNA. The Chinese government seized Anbang in 2018, HNA went into bankruptcy administration last year.

A key differentiating factor between these groups and Fosun is subsidiary Fosun Pharma. The healthcare unit, which is the Chinese partner of German biotech BioNTech, posted surging earnings and sales last year on the back of Covid-19 vaccine sales.

The Fosun entity's plan to cut holdings in this core asset looks like a financial and political mistake. The 3 percentage point reduction in a reported indebted stake of 38 per cent would not be large. But it points to a dangerous direction of travel. Fosun should sell overseas trophy assets first.

Patreon: creator inflator

The creator economy was supposed to supplant traditional media and entertainment business models. Instead of working for a company, writers, comedians, filmmakers and other creators of content could go straight to their audience, charging a subscription for access to their work. Platforms facilitated publishing and payments and took a cut of income in return. Patreon, Substack, Cameo and OnlyFans carved out their own niche.

But as in the real economy, inflation is hitting the creator economy hard. Competition for content is fierce. San Francisco-based creator platform start-up Patreon grew to employ more than 450 people before deciding this week to cut its workforce by almost a fifth.

Chief executive Jack Conte blames the job cuts on a "broader economic slowdown". But it may also be more difficult to sign up new podcasters, bloggers and artists. More social media companies are offering to pay creators directly. TikTok has its own Creator Fund, for example. They offer a larger potential audience too.

Patreon has spent increasing sums on marketing to build a stable of over 250,000 creators. They pay up to 12 per cent of their income plus a payments processing fee. Lockdowns sent more artists, and their audiences, online. That lifted Patreon's user numbers.

Patreon raised funds at a $4bn valuation last year — more than triple its previous worth. This was meant for rapid expansion. It more than doubled staffing to over 1,000 by the end of 2022. It planned more international content, video and perhaps crypto.

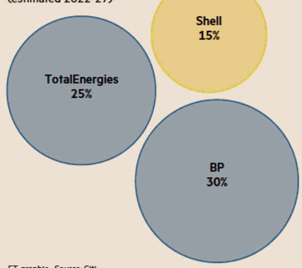
Conte is right that investors across private tech companies are pulling back. Funding has fallen in the past two quarters, according to CB Insights data. In the past quarter, global funding was $108.5bn, the lowest quarterly sum since early 2021. But the return of in-person entertainment and competition for content creators are dragging on Patreon too. What sounded a simple premise — connecting creators to their audience — is proving expensive.

Shell/Wael Sawan: a flare for gas

The Anglo-Dutch oil producer plans to devote less of its investment budget to renewables than TotalEnergies or BP. Under its outgoing chief executive, total share price return has been sluggish compared with its largest rivals. Also its valuation has fallen to historic lows.

On pure renewables investment Shell lags behind peers

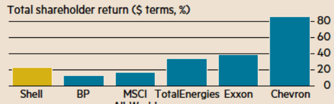
Renewables capex as % of total (estimated 2022-27)



FT graphic Source: Citi

Since 2013, Shell has beaten the sector but not its largest rivals

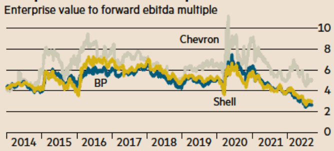
Total shareholder return ($ terms, %)



Source: Refinitiv

European oil valuation multiples have contracted

Enterprise value to forward ebitda multiple



Source: S&P Capital IQ

Natural gas has explosively punctuated the tenure of Shell's chief executive Ben van Beurden. A year after his 2014 appointment, he gambled on the costly £35bn ($52bn) acquisition of liquefied natural gas producer BG Group. This week, as he announced his retirement, gas lies at the heart of the Ukraine war and Europe's economic distress.

Gas has relatively low emissions when fully combusted. It should figure as a stepping stone in the crossing to a low-carbon economy. New boss Wael Sawan must navigate Shell through that transition. A suave communicator, Sawan must convince the City that Shell's relatively sluggish shares are worth buying.

Shell's total returns — in this case, including dividends but not buybacks — have hardly dazzled under van Beurden. Larger rivals such as Chevron and Exxon have delivered more for shareholders, as has France's TotalEnergies. Shell looks historically cheap versus earnings, at about three times forward earnings before interest, tax, depreciation and amortisation.

This presents a big challenge for Sawan, latterly in charge of integrated gas and renewables. So far, Shell has not devoted much of its capital expenditure budget to renewables. The figure of 15 per cent is about half the total for BP and TotalEnergies.

BP and TotalEnergies also trade cheaply. Markets are not convinced renewables will earn sufficient returns above cost of capital. Last year, a Dutch court found Shell needed to reduce emissions faster. But spending alone will not suffice.

Sawan needs to squeeze the most he can from Shell's gas assets. These already make up 30 per cent of ebitda. The BG acquisition forced Shell to sell other assets and reduce investment. Though perhaps an old-fashioned way of evaluating oil producers, the amount of reserves over average annual production has shrunk a third since 2013 to eight years, more than big peers, says Citi.

Van Beurden's parting gifts to his successor are strong free cash flow and a very clean balance sheet. Sawan must now show investors he can lift earnings smartly during the energy transition.

THG: no whey

Good looks are in the eye of the beholder. Precious few investors share beauty business THG's good opinion of itself. Back in May, the Manchester-based ecommerce group said a 170p-a-share offer greatly undervalued its prospects. Yesterday, a profit warning sent the shares down more than a tenth to 42p. They have fallen 91 per cent in value since the initial public offering.

THG blamed yesterday's cut to full-year sales and profit expectations on consumer spending pressures. But confidence had already been sapped by worries over corporate governance and its business model. Higher interest rates have burst the tech bubble, which inflated the estimated value of THG's technology division. A much-hyped agreement for SoftBank to buy a stake in this terminated in July.

It does not help that THG's results are difficult to unpick. Boss Matt Moulding trumpeted record sales in the first half, up 12 per cent. But this included the contribution of several 2021 acquisitions. Analyst Numis estimates that organic second-quarter sales growth was minus 1 per cent.

Strangely, THG compared its valuation to that of Unilever and drinks company Fevertree on its analyst call. Their forward EV-to-sales ratios are nearly 10 times that of THG's. The latter's 0.3 times multiple does not look cheap against the similarly valued Asos and Boohoo, which are more obvious comparators.

THG insists it has enough cash — £266mn plus an undrawn £170mn facility — to carry it through. Its debt facilities are long-dated, with a £600mn loan maturing in 2026. It hopes that it will stop burning cash next year, after a £271mn outflow in the first half. It is counting on reduced capital spending and a recovery in gross margins, as the cost of whey — used in its protein drinks — falls from its April high.

Seeing is believing. After repeated disappointments, THG needs to repair its margins and cash flow convincingly for investors to give it another look.

Adobe/Figma: image problem

Design software company Figma encourages collaboration. Its browser-first tools allow designers to participate in the creative process online in real time. But the San Francisco company's collaboration with Adobe could encourage the acquirer's shareholders to part ways with it.

Adobe, the company behind Photoshop, is splashing out $20bn in cash and shares to buy Figma. The deal values the business at double its last private valuation.

It is a steep premium. PitchBook estimates Figma revenue last year was $150mn. Adobe is paying 133 times that figure. Growth is rapid, however. Figma is forecast to generate over $400mn in annual recurring revenue (ARR) this year.

Adobe wants to add collaborative services for digital products — particularly for non-professional users. Its move to cloud-based subscriptions, where users pay a monthly fee, has been a great success. Subscriptions make up about 92 per cent of revenue.

Figma fits an existing strategy. Adobe is positioning itself to offer more online, team-based tools. Last year, it bought video collaboration platform Frame.io for $1.3bn. In December it launched Creative Cloud Express.

Its largest acquisition comes at an awkward time. The stock price more than doubled between the start of 2020 to hit a record high last November. Since then, tech stock weakness, a strong dollar and pulling out of Russia have weighed on the price.

Adobe's stock fell 17 per cent on news of the deal. This is equal to a $30bn decline in market equity — more than Figma's price. Adobe's poor fourth quarter forecast showed the effects of lower discretionary spending. With less than $6bn in cash and short-term investments Adobe will need to raise funds to cover the deal.

The final problem is that Figma competes with Adobe XD. Adobe will need to use its suite of image editing tools to make this deal look good to regulators — as well as to investors.

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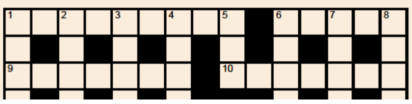
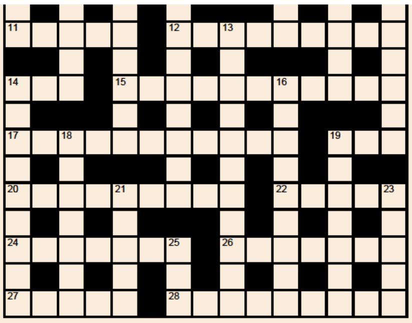
CROSSWORD

No 17,201 Set by ZAMORCA



ACROSS
1 Clap after Ernie's joke (9)
6 Press backing ordinary Republican is significant (5)
9 Beat disease initially with unconventional medicine (7)
10 Pepperpot stew infused with last of chilli pieces (7)



11 Turn with weight on back of foot (5)
12 One gets worm aristocrat prison sentence with year inside (5,4)
14 Change colour of interior to marigold yellow (3)
15 Used to put in cakes, teas and rugs to go out in car (6,5)
17 Actor's stand-in, flipping crazy, hurt behind twice (5,6)
19 Encouraged to be US agent (3)
20 Frank, violently set upon, is keeping all right (9)
22 Blimey – heard Mum's making curry! (5)
24 Drug tube's hampering A&E tutor (7)
26 Home help rejected by North American state (7)
27 Young husband with spectacles conceals a brute (5)
28 Request meals without starter for new recruits (9)

DOWN
1 Wife's indeed gutted, it hurts, she's lost her husband (5)
2 Press notice Queen going into doze, missing party (7)
3 Involved with computers supporting record rise in magazine genre (9)
4 List of contacts from one day on shift work (7,4)
5 Three quarters of fish coming up to sleep (3)
6 Quiet month's unknown for woman with kids (5)
7 Kind of saw adopting new team name bringing bad luck (7)
8 Made a new arrangement concerning progression with education (9)
13 Turns to regularly feeding rare breeding bird (4,7)
14 Counter old truth, abandoning it for breakthrough (9)
16 Entered surreptitiously and rattlesnake made tail noise (7,2)
18 Hunt sabotage's routine breaking story (7)
19 Deal with container for ashes collected in fire chamber (7)
21 Quietly a lot struggle with philosopher (5)
23 Acceleration madness without end brought about pile up (5)
25 Decline in eBooks (3)

JOTTER PAD

Solution 17,200