FINANCIAL TIMES

WEDNESDAY 21 SEPTEMBER 2022 — INTERNATIONAL NEWSPAPER OF THE YEAR — ASIA

No magic number
Why climate change thresholds are counterproductive — OPINION, PAGE 16

Indonesia rising
The archipelago has defied a global economic crisis — BIG READ, PAGE 15

The cost of tradition
Britain pays a steep price for its conservatism — JANAN GANESH, PAGE 17

Nato fears escalation in Ukraine as Kremlin moves to annex lands

- Territories to vote on joining Russia
- Mass mobilisation looms
- Stoltenberg decries 'sham'

POLINA IVANOVA — BERLIN
ROMAN OLEARCHYK — KYIV
HENRY FOY — BRUSSELS

Nato has accused Moscow of escalating its war on Ukraine after Kremlin allies in occupied territories announced referendums on joining Russia and its parliament approved legislation clearing the way for military mobilisation.

Four Moscow-controlled regions in Ukraine will hold votes this week, a step that the Kremlin has resisted until now and which western powers and Kyiv immediately denounced as a sham.

Russia's Duma also passed a law yesterday to increase penalties for desertion and evasion of conscription in the event of mobilisation, a further sign of Moscow's hardening stance.

Jens Stoltenberg, secretary-general of Nato, decried the referendums as "a further escalation" of the war. "Sham referendums have no legitimacy and do not change the nature of Russia's war of aggression against Ukraine," he said.

President Vladimir Putin's Russian administration has been on the back foot since losing thousands of square kilometres of territory to Ukrainian forces this month, increasing the clamour from pro-war hawks for full-blown annexation and mobilisation.

The referendums will take place between September 23 and 27 and be held in two territories — the Donetsk and Luhansk People's Republics — ruled by Russian-backed strongmen since they broke away from Kyiv in 2014.

Votes will also be held in Kherson and parts of Zaporizhzhia province, two southern regions seized by Russia when it invaded Ukraine this year.

The votes follow a 2014 referendum in Crimea on joining Russia, which was widely condemned internationally.

Western analysts have suggested that annexing further territories could allow Moscow to claim that Nato arms provision to Ukraine amounted to an attack on Russia itself. "Encroachment on to Russian territory is a crime which allows you to use all the forces of self-defence," said former Russian president Dmitry Medvedev. "This is why these referendums are so feared in Kyiv and the west." He added that the votes were a "restoration of historical justice".

Mykhailo Podolyak, an adviser to Ukrainian president Volodymyr Zelenskyy's administration, called on the international community to respond to the plans "by increasing arms aid and introducing new economic sectoral sanctions against Russia".

US national security adviser Jake Sullivan said Washington would reject further attempts to annex occupied parts of Ukraine "unequivocally", adding: "We will never recognise this territory as anything other than part of Ukraine."

Sullivan said the planned referendums, along with reports Russia might hold a mass mobilisation drive, were signs of "a country that has suffered setbacks, militarily, diplomatically".

The law passed by the Duma yesterday would criminalise desertion and other acts "during a period of martial law, armed conflict, or mobilisation", rather than only after a clear declaration of war. Russia has used contract soldiers and mercenaries, without officially deploying the conscript army or mobilising the wider population for war. Moscow continues to refer to the conflict as a "special operation".

"The Duma has just considered and adopted . . . several changes to the criminal code at breakneck speed," wrote the lawyer Ivan Pavlov, who has previously defended Russian opposition leader Alexei Navalny.

"Most likely, there will soon be a big announcement . . . [and] we will be able to call the war a war."

Additional reporting by Felicia Schwartz in New York

A mural painted on a Moscow apartment block in support of the 'special military operation' in Ukraine. Until now, Russia has relied on mercenaries and contract soldiers
Maxim Shipenkov/EPA-EFE/Shutterstock

> 'Sham referendums have no legitimacy and do not change the nature of Russia's war of aggression'

Briefing

▸ Truss plays down US trade deal hopes
UK prime minister Liz Truss yesterday admitted a free trade deal between Britain and the US was not in sight as she headed to the UN General Assembly in New York and talks with President Joe Biden.— PAGE 2

▸ Morgan Stanley fined over data breach
US bank Morgan Stanley has been fined $35mn by regulators after unwanted computer hardware containing sensitive client data was found to have been auctioned online.— PAGE 5

▸ Venezuela's Maduro linked to torture
A UN report has directly implicated Venezuelan president Nicolás Maduro in intelligence services operations to target and torture his perceived enemies.— PAGE 4

▸ EU asylum chief in misconduct claims
The head of the EU's asylum agency is facing misconduct claims after staff called for a probe of top management over alleged nepotism, misleading reports and mishandled harassment cases.— PAGE 2

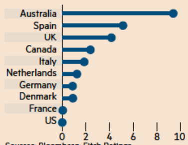
▸ Brazil on edge over pre-election attacks
Brazilian authorities are on alert ahead of presidential elections next month after a series of attacks, including the murder of two supporters of frontrunner Luiz Inácio Lula da Silva.— PAGE 4

▸ Call for $1tn annual renewables spend
The world will need to invest about $1tn a year in renewable power and up to $130bn in hydrogen by 2030 to avoid catastrophic climate change, says a report ahead of the COP27 summit.— PAGE 2

▸ Private equity acts as 'pyramid scheme'
The private equity industry increasingly resembles a pyramid scheme in which groups sell companies to themselves and to peers, a top executive at a leading Danish pension fund has warned.— PAGE 6

Datawatch

Borrowers hit
Variable-rate mortgages as a % of 2020 new loans



Sources: Bloomberg; Fitch Ratings

Around the world, soaring borrowing costs are squeezing homebuyers and property owners alike. Borrowers in Australia, Spain and the UK experience the most significant payment shocks as interest rates rise.

Another nail in the coffin for Spacs as backer Palihapitiya fails to find target

ORTENCA ALIAJ — NEW YORK

Chamath Palihapitiya, one of the big champions of special purpose acquisition companies, has thrown in the towel by returning $1.5bn to investors after failing to find targets.

The former Facebook executive, who once labelled himself the Warren Buffett of his era, said two of his vehicles would liquidate, blaming valuations and volatility for his lack of success in finding deals.

Spacs, publicly traded vehicles that raise cash to acquire private companies, took off as an alternative to traditional initial public offerings but the market has plunged this year as investors shy away from riskier businesses.

"Over the past two years, we evaluated more than 100 targets and while we came close to doing a deal several times, we ultimately walked away each time for a couple of reasons," said Palihapitiya in a regulatory filing.

Palihapitiya became the face of the boom in blank-cheque companies, partnering British venture capitalist Ian Osborne to launch several Spacs as the market took off. He used social media to promote his deals and rally retail investors who saw a way to gain access to public companies that often had no revenue or even a product.

Social Capital Hedosophia, which combined the name of Palihapitiya's venture capital firm with Osborne's own business, named after Greek gods of pleasure and wisdom, launched six Spacs in total.

Their first deal, with Richard Branson's Virgin Galactic, set the tone for the kind of targets blank-cheque companies would pursue: early-stage businesses that made grand promises to revolutionise their industries.

Shares in the space travel venture shot up to as much as $55, allowing Branson and Palihapitiya to sell out of the company and make hundreds of millions of dollars before the stock crashed to about $5.

Other businesses that Palihapitiya helped take public, including real estate group Opendoor, healthcare company Clover Health and online lender SoFi, are all trading below $10, the price at which investors buy into a Spac.

"Looking back, I am proud of the companies we helped bring public," Palihapitiya said.

His deals were often followed with much bravado on Twitter, where he presented himself as a helper to retail investors despite his billionaire status.

Lex page 18

Niger's population boom stirs debate on poverty

Divided opinion ▸ PAGE 4

Australia	A$7.00(inc GST)
China	RMB30
Hong Kong	HK$33
India	Rup220
Indonesia	Rp45,000
Japan	¥650(inc JCT)
Korea	W4,500
Malaysia	RM11.50
Pakistan	Rupee 350
Philippines	Peso 140
Singapore	S$5.80(inc GST)
Taiwan	NT$140
Thailand	Bht140
Vietnam	US$4.50

No: 41,125 ★

Printed in London, Liverpool, Glasgow, Dublin, Frankfurt, Milan, Madrid, New York, Chicago, San Francisco, Tokyo, Hong Kong, Singapore, Seoul,

World Markets

STOCK MARKETS

	Sep 20	Prev	%chg
S&P 500	3872.45	3899.89	-0.70
Nasdaq Composite	11514.19	11535.02	-0.18
Dow Jones Ind	30773.86	31019.68	-0.79
FTSEurofirst 300	1595.81	1611.38	-0.97
Euro Stoxx 50	3465.26	3499.49	-0.98
FTSE 100	7192.66	7236.68	-0.61
FTSE All-Share	3947.56	3976.66	-0.73
CAC 40	5979.47	6061.59	-1.35
Xetra Dax	12670.83	12803.24	-1.03

CURRENCIES

Pair	Sep 20	Prev	Pair	Sep 20	Prev
$/€	1.000	1.001	€/$	1.001	0.999
$/£	1.141	1.141	£/$	0.876	0.877
£/€	0.876	0.878	€/£	1.142	1.139
¥/$	143.735	143.285	¥/€	143.656	143.464
¥/£	164.051	163.446	£ index	76.498	77.012
SFr/€	0.964	0.966	SFr/£	1.101	1.101

CRYPTO

	Sep 20	Prev	%chg
Bitcoin ($)	19015.00	19536.58	-2.67

GOVERNMENT BONDS

Yield (%)	Sep 20	Prev	Chg
US 2 yr	3.96	3.94	0.02
US 10 yr	3.57	3.48	0.09
US 30 yr	3.57	3.51	0.07
UK 2 yr	3.35	3.19	0.17
UK 10 yr	3.29	3.13	0.16
UK 30 yr	3.58	3.45	0.14
JPN 2 yr	-0.07	-0.08	0.00
JPN 10 yr	0.25	0.25	0.00
JPN 30 yr	1.31	1.28	0.03

Dubai

Nikkei	27688.42	27567.65	0.44
Hang Seng	18781.42	18565.97	1.16
MSCI World $	2580.55	2569.29	0.44
MSCI EM $	938.53	944.12	-0.59
MSCI ACWI $	599.53	597.59	0.32
FT Wilshire 2500	5086.63	5050.33	0.72
FT Wilshire 5000	39730.71	39451.08	0.71

Ethereum	1362.60	1376.20	-0.99
COMMODITIES			
	Sep 20	Prev	%chg
Oil WTI $	83.20	85.36	-2.53
Oil Brent $	90.05	92.00	-2.12
Gold $	1664.65	1689.10	-1.45

GER 2 yr	1.70	1.61	0.09
GER 10 yr	1.92	1.80	0.12
GER 30 yr	1.92	1.80	0.12

Prices are latest for edition
Data provided by Morningstar

INTERNATIONAL

Bilateral ties

Truss admits US trade deal not on agenda

UK premier's assessment ahead of Biden talks leaves hole in post-Brexit plans

GEORGE PARKER — NEW YORK

Liz Truss has admitted that a UK-US trade deal, long seen as one of the biggest prizes of Brexit, is not on the horizon, as she arrived in New York on her first overseas trip as prime minister.

Brexit supporters insisted that the 2016 Leave vote would open the way for a free trade agreement with the US, which would dwarf deals with countries such as Australia or New Zealand. But US president Joe Biden has made it clear that such a deal is not a priority and on the flight from London to New York, Truss admitted it was not on the agenda.

"There aren't currently any negotiations taking place with the US and I don't have an expectation that those are going to start in the short to medium term," Truss told reporters en route to the UN General Assembly.

Her frank assessment ahead of a meeting with Biden in New York leaves a hole in the government's post-Brexit trade strategy, a core part of Truss's ambition to boost the UK's growth rate.

Boris Johnson's government replaced a deep trade deal with the EU, Britain's biggest trading partner, with a more basic trade agreement that threw up numerous barriers.

The argument ran that Britain would compensate for lost trade with Europe by striking trade deals around the world, such as the one agreed last year with Australia. Truss said her focus was to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, along with trade deals with India and the six countries of the Gulf Cooperation Council. "Those are my trade priorities," she said. Asked when a trade deal with the US might be feasible, Truss declined to comment.

'I don't have an expectation that [talks] are going to start in the short to medium term'

A leaked UK government document in 2018 assumed a US trade deal might boost Britain's gross domestic product by 0.2 per cent in the long term, compared with official forecasts suggesting that Brexit would cut GDP by 4 per cent in the long term. The analysis said deals with countries including India, Australia and those in the Gulf and south-east Asia might add a total of 0.1-0.4 per cent to GDP over the long term.

Truss's downbeat comments on a putative US deal partly reflect the fact that Biden and Congress are in no hurry to conclude a trade deal with Britain.

When Truss meets Biden today, post-Brexit trading arrangements in Northern Ireland are expected to come up. Biden wants Truss to settle a row with the EU on the issue and some Democrats have warned the UK there can be no trade deal unless the matter is resolved.

Truss's allies said the prime minister wanted to "decouple" the issues, making it clear that her tough stance on the Northern Ireland protocol would not be affected by threats of trade reprisals, especially as no deal was on the table.

In May, Nancy Pelosi, Speaker of the US House of Representatives, warned that unilateral UK legislation to scrap the protocol, which is being pushed through parliament, could endanger Britain's prospects for a free trade deal.

Talks with Biden at the UN will also focus on the war in Ukraine and broader security co-operation. Truss said: "The number one issue is global security and making sure we are able to collectively deal with Russian aggression and ensure that Ukraine prevails."

Janan Ganesh/Martin Wolf see Opinion

Asia hub. Quarantine review

Hong Kong eyes rugby Sevens reboot

Organisers hope return of sporting event will help financial centre bounce back

PRIMROSE RIORDAN AND CHAN HO-HIM
HONG KONG

Game on: Argentina play New Zealand at the 2019 Sevens. Below, fancy dress and beer drinking are part of the event
Isaac Lawrence/AFP/Getty Images

Hong Kong is betting on the return of its rowdy rugby Sevens tournament this year to restore the Asian financial centre's fortunes as the city's leader said he would "actively study" relaxing a hotel quarantine requirement that has frustrated businesses and residents of the territory since 2020.

Conceived in 1976 as a vehicle for cigarette advertising, the Sevens tournament has evolved into a weekend of corporate events, financial industry networking and wild boozing in fancy dress. It will return in November for the first time since 2019, after being suspended for the pandemic.

"This is really all about getting Hong Kong moving again," said Robbie McRobbie, Hong Kong Rugby Union chief executive. "And an opportunity to demonstrate that Hong Kong can still throw a good party."

The city has been attempting to soften its quarantine policies in the lead-up to the event, which has attracted more than 100,000 fans in previous years, pledging that travellers would not be sent to government facilities if they tested positive for Covid-19. Hundreds of arrivals have been forced to isolate in basic government facilities or hotels after testing positive at the airport.

Hong Kong, once one of the globe's top financial, trade and aviation hubs, has been in effect sealed off from international visitors owing to compulsory hotel quarantine of up to three weeks.

Last month, the quarantine requirement was cut to three days, but the restrictions, along with a crackdown in response to anti-government protests in 2019, have cost the territory business and sparked an exodus of residents.

The city sunk into recession in the second quarter, with gross domestic product contracting 1.4 per cent, after a 3.9 per cent decline in the first three months of the year. Alarm over Hong Kong's isolation is growing among the city's business elite, senior business leaders pointed out.

Yesterday, as cases continued to drop, Hong Kong chief executive John Lee said: "Different departments are actively studying . . . what room it gives us to adjust quarantine arrangement for people arriving at the airport."

Lawmakers including Michael Tien said they were confident the government would drop the quarantine in time for the event, perhaps by moving to a "zero plus seven" arrangement under which travellers would be subjected to testing and some social restrictions for a week after entering the territory.

"The administration would like to make some sort of change to cope with the big events in November," another lawmaker said. But the rugby tournament, plus a financial forum and fintech conference the same month, is being planned on the assumption that Covid curbs will still be in place.

Players have been booked into the city's Kerry Hotel in a "closed loop" arrangement, in which they will be restricted to mixing at their hotel and training grounds.

"Sevens players are all professionals, and long gone are the days of them all going off down [central bar street] Lan Kwai Fong on Sunday; those days are long gone," McRobbie said when asked how the athletes would react to being blocked from the city's nightlife.

Rival financial hub Singapore has also organised events, including its own fintech festival, which has attracted an international guest list.

Even a pro-Beijing lawmaker is worried. "Hong Kong's travel regulations cannot compare with those of Singapore," said Ronick Chan. "This will undermine the attractiveness of our finance summit, leading enterprises to attend Singapore's in-person conference while attending the Hong Kong event virtually."

International executives invited to the forum by the Hong Kong Monetary Authority have also been reluctant to accept exemptions from quarantine, which could draw negative publicity.

'If they don't lift the quarantine, it will be a PR disaster'

"If they don't lift the quarantine, it will be a PR disaster," an executive at a Hong Kong conglomerate said.

The territory has taken a more relaxed approach than the mainland, where "zero Covid" has been enforced ahead of a Communist party congress where President Xi Jinping is expected to be granted a third term next month.

While Standard Chartered and HSBC, which make the bulk of their income in Hong Kong, are sending their chief executives, Bill Winters and Noel Quinn, to the financial forum, other organisations are sending Asia-Pacific leaders. Deutsche Bank's Asia head, Alexander von zur Muehlen, for instance, will represent the bank.

Bankers will be flocking to Hong Kong Stadium for the rugby, too. In previous years, brokerage CLSA's corporate box was notorious for risqué themes; Deutsche Bank had a walk-in ice bar with vodka. This year, however, ordinary fans will not be served food and must wear masks except when drinking.

"All the gremlins will the ironed out and everyone will want to come," a person familiar with arrangements said.

Renewable energy

Investment of $1tn a year needed to hit climate goals, research says

CAMILLA HODGSON — LONDON

Annual investments of about $1tn in renewable power and up to $130bn in hydrogen by 2030 are needed to avoid the catastrophic effects of climate change, according to a report on behalf of 45 world leaders.

The report calculated that the world would need to add four times the amount of renewable energy that was deployed in 2021 every year by 2030, and drastically increase hydrogen production to stem global warming.

Up to 8 terawatts of additional renewable capacity will be required by 2030, up from about 3TW last year, according to the research, jointly published by the International Energy Agency, the International Renewable Energy Agency and the UN, ahead of the COP27 climate summit in November.

The supply of "renewable" and "low carbon" hydrogen, the latter using carbon capture technology to trap emissions, would also need to increase to about 150mn tonnes by 2030, implying a doubling each year from 2023.

The paper was commissioned by 45 governments making up 70 per cent of the global economy that signed a commitment, dubbed the "breakthrough agenda" at the UN climate summit in Glasgow last year, to make clean technologies affordable by 2030.

Recommendations for how to reach the goals included the negotiation of international standards for "low-carbon" hydrogen, higher minimum energy performance standards for energy-intensive appliances and common target dates by which all new road vehicles must be zero emission.

"Progress is not yet fast enough to meet the goals that countries have agreed under the breakthrough agenda," the report said.

Countries and companies must work together to create and expand markets for clean technologies, the report said, including through purchase commitments and processes to channel finance and technical assistance to coal-producing countries to move away from the fossil fuel.

Among the biggest barriers was a "collaboration gap" that threatened to delay reaching net zero "by decades", it said.

While the energy crisis caused by Russia's invasion of Ukraine has increased demand for renewable energy, tough economic conditions have pushed countries to adopt protectionist stances.

"We are entering the first truly global energy crisis . . . [which is] affecting almost everybody around the world," said Fatih Birol, IEA executive director. "It is important to separate facts from fiction . . . clean energy is not a driver but a lasting solution to the current and the next energy crisis to come."

Developing countries have branded as hypocritical the clamouring by European nations for alternative gas supplies to replace those from Russia, given that rich nations have urged poorer ones not to develop fossil fuel reserves.

"We cannot leave Africa to have only renewable energies," said Macky Sall, the president of Senegal, at the Africa Adaptation Summit this month. "No country has managed to develop with only renewable energies."

Anjana Ahuja see The FT View page

FINANCIAL TIMES
6th Floor, Nan Fung Tower
Central, Hong Kong

Japan: Nikkei Tokyo Newspaper Printing Center, Inc., 1-10-5, Shinonome, Koto-Ku, Tokyo 135-0062
Representative; Hiroko Hoshino; ISSN 0915-9460

Misconduct claims

Brussels asylum agency accused of covering up 'irregularities'

RAPHAEL MINDER — WARSAW
HENRY FOY — BRUSSELS

The head of the EU's asylum agency is facing accusations of misconduct three years after she was tasked with restoring the body's credibility following her predecessor's abrupt resignation.

In a complaint sent to the EU's anti-fraud agency and the European Commission, employees of the European [...] impossible to alert "the management board, the European Commission, the European Parliament and the public", they claimed.

Allegations against Gregori include appointments that contravened human resources rules. She rapidly promoted the careers of allies, breaching EU guidelines, and has kept employees in jobs for longer than the duration stipulated in their temporary contracts [...] fraud, they argued that unjustified salaries were paid out as a result of these wrongful appointments, citing "the fraudulent use of EU budget channelled into irregular salary payments" to dozens of managers.

The asylum agency allegedly hired some people who were linked to "corruption cases publicly reported across Maltese media", as well as relatives of some of the agency's managers who got [...]

Gregori and other managers also sent misleading reports to the commission and the European Parliament and included false information in internal control reports, the employees claimed.

Olaf, the EU anti-fraud unit, confirmed that it had received the complaint and was evaluating its "potential investigative interest according to standard procedures". A probe would be opened if the watchdog decided it had [...]

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Letters to the editor
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Published by
The Financial Times (HK) Limited, 6th Floor, Nan Fung Tower, 88 Connaught Road Central, Hong Kong
Asia Editor: Robin Harding

Printed by
Australia: Spotpress Pty Ltd, 24-26 Lillian Fowler Place, Marrickville, NSW 2204
Hong Kong: Kin Ming Printing Co Ltd, 15/F BLK A, 18 Ka Yip Street, Ming Pao Industrial Centre, Chai Wan; Representative; Angela Mackay;
ISSN 1025-918X
South Korea: Maeil Business Newspaper, 30-1, 1-Ga, Pil-Dong, Jung-Ku, Seoul, 100-728
Singapore: SPH Media Limited, 2 Jurong Port Road, 619088
Representative, Anjali Mahindroo

mission, employees of the European Union Agency for Asylum called for a probe into top management over alleged nepotism, misleading reports and mishandling of harassment claims.

The complaint, seen by the Financial Times, is targeting executive director Nina Gregori, who took charge in 2019 after the departure of predecessor José Carreira, who had faced accusations of harassment. The unnamed whistleblowers decided to sound the alarm to help restore the agency's proper functioning, they wrote in the complaint.

"Gregori has now set up a complex system of legal structures and controls that give an appearance of compliance and regularity but that, in reality, hide and cover all agency's irregularities," they alleged. Gregori has ensured it is [...]lated in their temporary contracts, according to the complainants.

Gregori and her senior managers rejected the allegations in a statement.

The EUAA is based in Malta and employs about 2,000 people, offering member states legal, technical and operational assistance. In January, the agency was given a new name and mandate to help unify the way member states handle asylum claims.

A Slovenian national who worked in her country's interior ministry for two decades, Gregori was appointed with a mission to strengthen oversight over recruitment, procurement and internal controls in the wake of the allegations against her predecessor.

While the employees did not accuse the agency's management of financial [...] some of the agency's managers who got to "skip the queue" to land jobs, according to the complaint, which did not name the people allegedly wrongfully recruited.


Nina Gregori: she and senior managers reject the allegations

[...] opened if the watchdog decided it had competence to act and if there was "sufficient suspicion of serious misconduct" involving either fraud, corruption or illegal activity, it said.

The commission confirmed receipt of the complaint and said that Olaf would analyse "potential investigative interest" and follow-up actions.

The EUAA said that Gregori and the other senior managers cited in the complaint "strongly refute the anonymous allegations of gross irregularities and are saddened" by the attacks. It deplored "the repeated use of factual inaccuracies and the distortion of facts intended to damage the good reputation that the agency and its staff have been steadily building over the past three years". It would collaborate with Olaf.

INTERNATIONAL

Europe on verge of ditching negative rates in bid to tackle surging inflation

Sub-zero policy hit lenders' profits and penalised savers, but central bankers say it boosted loan growth

MARTIN ARNOLD — FRANKFURT
KANA INAGAKI — TOKYO

The era of negative interest rates in Europe is set to end this week when Switzerland's central bankers leave Japan as the sole proponent of one of the most controversial economic experiments of recent times.

Surging inflation has led monetary policymakers to raise rates above zero and ditch a policy that, by paying borrowers and penalising savers, turned the principles of finance on their head.

The Swiss National Bank, which for years used the policy to counter the threat of falling prices, is expected to raise its benchmark policy rate by as much as a percentage point from its current level of minus 0.25 per cent tomorrow after inflation climbed to a 30-year high in August.

Watched with fascination by economists and consumers when it was introduced by Sweden's Riksbank in 2009, the policy ultimately fell short of hopes that it would quickly vanquish the threat of deflation and revive growth.

"It has not proven to be the holy grail that we were looking for," said Katharina Utermöhl, senior European economist at German insurer Allianz.

While central bankers have stuck to claims that the topsy-turvy policy boosted loan growth, it is best known for producing some bizarre results in practice. For years, investors paid to lend money to governments such as Germany's, while housebuyers earned interest from banks on their mortgages in some countries such as Denmark.

It also provoked fierce attacks in the eurozone after the European Central Bank implemented the policy in 2014, with savers voicing their frustration at banks charging them to hold deposits.

Critics of aggressive monetary easing claim it inflated asset bubbles and widened inequality. Monika Václavková, a student from the Czech Republic, harangued a group of European central bank bosses at last month's Alpbach conference in Austria for cutting rates to "artificially low" levels. Václavková said the policy pushed up share and property prices and asked: "How do you think a person like me will be able to finance my first home in the next decade of my life?"

The Swiss decision will follow similar moves by Sweden, Denmark and the ECB, which ended its negative rates policy after eight years in July.

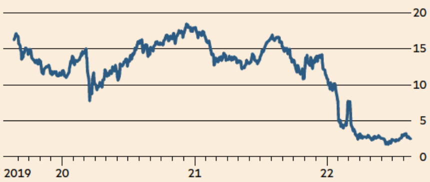
The ECB's last rate cut, to minus 0.5 per cent in 2019, proved so controversial in savings-obsessed Germany that its top-selling tabloid newspaper portrayed the central bank's then chief, Mario Draghi, as a vampire sucking savers' accounts dry.

"With the benefit of hindsight, it turned out to be a mistake, not only in theory but also in the internal politics of the ECB," said Lorenzo Bini Smaghi, chair of French bank Société Générale, who left the ECB board before it cut rates below zero in 2014.

The move caused bitter debates between officials, who argued over whether its side-effects outweighed the benefits. "The only significant effect of negative rates was to keep the euro lower, which in a deflationary world had limited impact in any case."

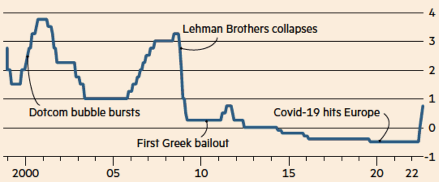

Munich: the sub-zero policy proved so controversial in savings-obsessed Germany that one tabloid newspaper portrayed the central bank's then chief as a vampire sucking savers' accounts dry
Krisztian Bocsi/Bloomberg

Negative-yielding global debt pile has shrunk
Market value ($tn)



Bloomberg Global Aggregate Negative Yielding Debt Index

ECB interest rates have returned to positive territory
Eurozone deposit facility rate (%)



Sources: Bloomberg; European Central Bank

Markus Brunnermeier, an economics professor at Princeton University, noted that while the policy was not "a massive success" for the ECB, it worked in the sense that it managed to convince everyone that below-zero rates were another weapon in central bankers' armoury. "It shows you can go negative," he said.

Sweden's Riksbank became the first to ditch the policy two years ago. This month, the Danish central bank followed suit to shore up the krone and avoid importing more inflation via higher import prices. Switzerland's expected rate rise is also aimed at boosting the franc, in contrast to its attempts to weaken the currency when inflation was low.

Responding to the moves, a flurry of European banks have rushed to announce they will no longer charge customers for holding their deposits. The total amount of global debt with interest rates below zero, meaning creditors pay to lend money, has shrunk nearly 90 per cent from its $18.4tn peak in late 2020.

The one outlier is the Bank of Japan, which is unlikely to abandon sub-zero rates and a cap on bond yields at zero in the near future, despite higher prices and a fall in the yen. That is mainly because Japan's headline inflation has remained low at 3 per cent, and there has been no pass-through from a rise in commodity prices to higher wages.

Japan's central bank, however, stands at a crossroads with its governor Haruhiko Kuroda's 10-year tenure ending in April next year. His successor could shift the BoJ's stance on rates, but a recession in the US could also force it to maintain its monetary policy.

"The big question for next year is whether the BoJ will be able to shift towards normalisation even under a new governor," said Masamichi Adachi, chief economist at UBS in Tokyo.

The ECB has branded the experiment a success, estimating it caused an average 0.7 per cent of extra bank lending per year than there would otherwise have been, based on surveys of lenders.

'With hindsight, it turned out to be a mistake, not only in theory but also in the internal politics of the ECB'

The ECB also added that the policy produced an extra 0.4-0.5 percentage points of economic growth and found little evidence that big sums of money shifted into cash, lying dormant in bank vaults and safes, a key criticism levelled at the policy.

However, German banks rushed to return a record €11bn of cash, mostly in €500 and €200 notes, to the ECB after its deposit rate rose to zero in July, suggesting the policy had caused some hoarding of hard currency.

While German lenders complained that the policy ate into their profits and was hard to pass on to clients, Ralph Wefer at German price comparison site Verivox said 455 of the 1,300 banks it analysed had been charging retail depositors as well as business customers.

Brunnermeier went on to point to the "psychological difficulty" the policy created for fellow Germans. "When you are growing up in Germany, you are taught that it is a virtue to save money and then suddenly you are punished for doing so, and it seems to make no sense."

See The FT View

Cost of living

Swedish central bank raises rates by most in three decades

RICHARD MILNE
NORDIC AND BALTIC CORRESPONDENT

Sweden's Riksbank revealed its biggest interest rate rise in three decades yesterday, starting a week in which central banks around the world are expected to take similar action.

The bank raised interest rates by 1 percentage point to 1.75 per cent as it sounded the alarm over soaring inflation. The US Federal Reserve, Swiss National Bank, Bank of England and Norway's Norges Bank are all expected to follow suit in coming days with rate increases of 0.5 to 0.75 percentage points.

Sweden's central bank was one of the last to raise rates this year, opting to lift them from zero in April after years of lower inflation than its 2 per cent target. In August, inflation stood at 9 per cent, the highest in Sweden since 1991.

The 1 percentage point rise is the biggest since the country's inflation-targeting regime was introduced in 1993, and is the joint highest this year by one of the main western central banks after the Bank of Canada made a similar increase in July.

"Inflation is too high. It is undermining households' purchasing power and making it more difficult for both companies and households to plan their finances. Monetary policy now needs to be tightened further to bring inflation back to the target," the Riksbank said.

The bank indicated it would increase interest rates by a further 0.5 percentage points in November, and 0.25 points in February but then possibly stop.

Torbjörn Isaksson, chief analyst at Nordea bank, called the increase "historic" and added: "The Riksbank is far behind the curve and is now trying to catch up. Monetary policy is indeed front-loaded. The bank will do what it takes to bring down inflation, even if it will lead to a recession."

The Riksbank has struggled for more than a decade with its inflation target. It was one of the few western central banks to raise interest rates in 2010-11 after the global financial crisis, in what some economists dubbed "sadomonetarism". It cut them soon afterwards.

It then took its main policy below zero in 2015 and kept rates negative for five years as it worried about inflation remaining stubbornly below its target.

Now, it is facing the same dilemma as nearly all central banks: how to curb surging inflation without harming the economy. Sweden's households are some of the most indebted in the world and most have floating mortgage rates.

"Rising prices and higher interest costs are being felt by households and companies, and many households will have significantly higher living costs," the Riksbank said. "However, it would be even more painful for households and the Swedish economy, in general, if inflation remained at the current high levels. By raising the policy rate more now, the risk of high inflation in the longer term is reduced, and thereby the need for greater monetary policy tightening further ahead."

The Fed is expected to raise rates by 75 basis points today while the Swiss, British and Norwegian central banks are all forecast to raise by 50bp tomorrow.

Monetary policy

Fed 'dot plot' set to flag further tightening

COLBY SMITH — WASHINGTON

trol without causing significant eco-

Economists expect the near-term

Aid package

Netherlands puts up minimum wage by tenth

ANDY BOUNDS AND VALENTINA POP

12 per cent in the year to August and is

budget also prolonged cuts on transport

Federal Reserve officials are under pressure to prove they are serious about stamping out inflation by backing their hawkish rhetoric with a new set of interest rates this week.

Following its two-day policy meeting, the Federal Open Market Committee is today expected to raise interest rates by at least 0.75 percentage points for the third time in a row as it tries to cool the overheating US economy.

The decision, which would lift the federal funds rate to a new target range of 3 per cent to 3.25 per cent at a minimum, will be accompanied by a fresh "dot plot" that compiles officials' forecasts for interest rates until the end of 2025.

"The message has to be that they don't see an end of the tunnel in terms of rate hikes," said Ethan Harris, head of global economics research at Bank of America.

The new projections, the first since June, will also include estimates for inflation, unemployment and growth.

Harris said the Fed's June projections were "not plausible". Those forecasts signalled the US central bank was confident of achieving a "soft landing" whereby inflation is brought under con-

nomic damage.

The dot plot is expected to project more aggressive monetary policy running this year and potentially into 2023, according to forecasts.

Barbara Reinhard, head of asset allocation at Voya Investment Management, said: "The dot plot is going to have

'Housing and labour supply are not temporary and create more distance the Fed needs to travel'

to show that once they raise rates to their terminal level, they are going to leave them there."

The terminal level refers to the point at which rates will peak in the Fed's campaign to tighten monetary policy, which is its most aggressive since 1981.

The median forecast for the policy rate is expected to rise to about 4 per cent in 2022 and peak even higher in 2023. In June, officials predicted the fed funds rate would reach 3.4 per cent by the end of the year and 3.8 per cent in 2023, before declining in 2024.

inflation forecast to rise marginally and for officials to acknowledge that growth and employment will take a bigger hit than they predicted early in summer.

Back then, they estimated the unemployment rate would creep up to 4.1 per cent by 2024. It hovers at 3.7 per cent at present and, according to a Financial Times survey of top economists, is expected to top 4 per cent next year.

The chief concern is that supply constraints will keep stoking inflation, meaning the Fed needs to do more to contain it.

"Housing and labour supply are constraints that won't be temporary, and they create a lot more distance that the Fed needs to travel," said Betsy Duke, a former governor at the central bank.

Bringing inflation back down to 4 per cent could occur "fairly easily", she added, but it could be "much more difficult" to get it below 3 per cent.

Many economists warn the Fed's credibility is at stake, especially as some question its resolve to root out inflation.

Fed chair Jay Powell sought to snuff out those concerns last month when he delivered his most hawkish message to date at Jackson Hole, Wyoming.

BRUSSELS

The Dutch government has raised the country's minimum wage by 10 per cent, as lower-paid workers grapple with the impact of the soaring costs of food, fuel and housing.

The measure, the centrepiece of an €18bn aid package to help households cope with rising inflation and energy prices, was revealed in the budget yesterday.

King Willem-Alexander, who outlined the government plan in his annual Speech from the Throne, an address to parliament that precedes the budget, said: "It is a painful reality that more and more people in the Netherlands are struggling to pay their rent, grocery bills, health insurance and energy bill[s]."

Several European countries, including France, Germany, Italy and Spain, have announced minimum wage increases, but the Dutch measure — a rise from €1,756 a month — is the highest jump. Social benefits, including child allowances and pensions, will rise and income taxes will fall slightly to combat the surge in price pressures. Inflation hit

expected to remain high next year despite a cap on energy prices.

The Dutch government is joining many countries in imposing a windfall tax on companies extracting oil and gas after thrashing out a deal with industry on Monday night. EU governments in recent weeks have been locked in negotiations on how to structure an EU-wide windfall tax and price cap on energy companies, and the Netherlands is likely to set the level in line with that.

Energy prices across Europe have surged following Russia's invasion of Ukraine at the end of February. The

Helping hand: lower-paid workers are struggling with soaring costs

fuel duty until next July, costing €1.2bn.

The King acknowledged that the measures, aimed primarily at low- and middle-income households, could not prevent some from being worse off.

To fund the package, corporation taxes will rise. The oil and gas windfall tax will raise around €2.8bn in 2023 and 2024 combined. Bumper revenues from the Groningen gasfield will also help fund the measures.

The budget deficit will be 3 per cent in 2023, just within EU fiscal rules, with debt falling to 49.5 per cent of gross domestic product because of inflation.

Frank van Es, a senior economist with Rabobank in Utrecht, said the support for households could increase price pressures. "It is a quite expansionary budget that will drive up inflation," he said.

Rabobank expects 5 per cent inflation and just 0.2 per cent growth next year, against government forecasts of 2.6 per cent inflation and 1.5 per cent growth.

The Netherlands Bureau for Economic Policy Analysis, a government agency, has calculated that up to 1mn people are at risk of falling into poverty as a result of rising prices.

INTERNATIONAL

UN fact-finding mission

Maduro named in Venezuela torture report

President accused of working with security services to target enemies

JOE PARKIN DANIELS — BOGOTÁ

Venezuelan intelligence services worked with President Nicolás Maduro to target and torture perceived enemies, said a UN report published yesterday.

The study, the third that investigators from the UN Fact-Finding Mission on Venezuela (FFMV) have published since their mandate in 2019, found that "Maduro and other persons of his inner circle, as well as other high-level authorities were involved in selecting targets" that would be arrested and tortured.

Previous reports found that since 2014, crimes against humanity in the oil-rich but crisis-ridden South American nation have been widespread, with authorities accused of murder, rape, arbitrary detention, torture and forced disappearance, among other atrocities.

The latest report goes further, detailing abuses by the country's military intelligence agency (known as DGCIM) and civilian intelligence agency (known as SEBIN), as part of a plan orchestrated by Maduro and his inner circle.

"The human rights violations by state intelligence agencies, orchestrated at the highest political levels, have taken place in a climate of almost complete impunity," said Francisco Cox, a member of the FFMV. "The international community must do everything to ensure that victims' rights to justice and reparations are guaranteed."

The report also detailed abuses in the Orinoco Mining Arc, a mineral-rich and lawless region where workers are subject to summary justice and sexual violence by armed groups and state forces.

Venezuela, which has the world's largest proven oil reserves, is mired in political and economic turmoil. Despite de facto dollarisation of the economy, insecurity, inflation and widespread shortages prevail, while Maduro has clamped down on dissent.

The crisis has led about 6.8mn Venezuelans to leave, often arriving on foot in South American countries ill-equipped for the exodus. "Venezuela is a repressive state where the entire system exists only to intimidate," said Alfredo Romero, director of Foro Penal, a human rights pressure group in Caracas, Venezuela's capital.

When the so-called Bolivarian revolution began with the election of leftwing populist Hugo Chávez in 1999, his state-led economic policies were popular with the poor and were funded by rocketing oil prices. When Maduro succeeded his late mentor in 2013, declining oil prices left him strapped for cash, and living conditions for millions of Venezuelans nosedived.

Maduro has resisted challenges to his rule, most notably in early 2019 when the US and dozens of other countries recognised opposition leader Juan Guaidó as the legitimate leader.

Maduro also faces a continuing investigation by the International Criminal Court for crimes against humanity.

Rights groups hope that the FFMV's mandate will be extended at a vote by members of the UN's human rights council on October 7.

"The fact-finding mission has been essential to push for accountability for crimes against humanity in Venezuela," said Tamara Taraciuk, deputy director of the Americas division at Human Rights Watch.

West Africa. Birth rate

Niger population explosion divides opinion

Some say high pregnancy level gives nation more clout but others warn it deepens poverty

DAVID PILLING — NIAMEY

If Niger's population explosion has an epicentre, it is Issaka Gazoby maternity hospital in the sandswept capital of Niamey. It is here that Mady Nayama, the facility's director, and his staff perform daily miracles in a country that, at 6.6 children per woman, has the world's fastest-growing population.

The hospital provides free treatment to expectant mothers in a country twice the size of France, many with complications requiring emergency Caesareans. "They come from Diffa, from Agadez, from Zinder," Nayama said of those who arrived from distant cities.

"It's really not easy," he added during a tour of the overcrowded wards, as anxious relatives waited outside for news in temperatures that touched 40C.

On current trends, Niger's population is on course to nearly triple from about 24mn in 2020 to a projected 68mn in 2050, according to the UN Development Programme's latest forecast.

If that projection proves correct, Niger's population will have grown by 25 times in the century to 2050, a period over which the global population will have risen a relatively modest fourfold.

For some Nigeriens, such prodigious growth is something to celebrate in a world where populous countries such as China enjoy geopolitical clout.

But while the fast-growing population in much of Africa is often presented as a demographic boon, many people warn about the links between a high birth rate and poverty.

Although Niger is an outlier, many other African countries, especially in the west and east, are also experiencing fast population growth. By 2050, one in four people will be African against nearly one in six today.

"People say that this is just something that worries western countries," said Garé Amadou, editor in chief of La Nation newspaper, referencing what some regard as a hidden foreign agenda to contain Africa's population. "In Niger, the main way of thinking is that we have a vast land and not enough people."

For Djamila Ferdjani, a doctor and

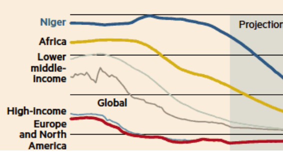
Growth surge: mothers with children wait to see a nurse at a pop-up clinic in Liboré, near the capital, Niamey
Tim Cocks/Reuters

poverty. The fundamental question is how to break this circle," she said.

Niger regularly appears at the bottom of the UN's human development index and has an income per capita at market prices of just $600 a year.

"A family that does not have access to healthcare will see some of its children die, so prepares accordingly," said Ferdjani. "A family without access to energy, water, nearby schools or a decent roof will keep daughters at home early to help mothers — often anaemic and tired

Niger hit hardest by world-leading fertility rate
Children who live to end of mother's child-bearing years



from pregnancies — with household chores or marry them off as soon as possible to benefit from the dowry."

Many economists believe a birth rate — the average number of babies a woman is projected to have in her lifetime — of below three is a prerequisite for rapid development. "Countries with high fertility rates never get rich," said Charles Robertson, chief economist at Renaissance Capital.

President Mohamed Bazoum, who was elected last year, has weighed in on an issue that is sensitive in a nation where 98 per cent of the population is Muslim and many men regard large families as prestigious.

In his inauguration speech in April 2021, Bazoum characterised the high birth rate as a weakness, saying that girls were dropping out of school and marrying too early. About 77 per cent are married before the age of 18 and 28 per cent before their 15th birthday. He has set his government the task of keeping girls in education for longer, even in border regions where many

'Poverty generates a high birth rate and a high birth rate generates poverty'
Niamey doctor

nationwide boarding schools where girls can be taught in safety.

In June, Bazoum went a step further by banning his own cabinet ministers from taking a second wife, declaring that the practice of polygamy was "a bad thing". This is a politically risky pronouncement in a country where nearly a third of the population lives in polygamous marriages.

"What he's saying is just crazy. He's a comedian," said Mikka Adam Maiga, 56, a professional translator who has two wives and is to marry a third. "My belief is that he wants to please western countries, though why I don't know."

Maiga said the Koran encouraged men to have many children and more than one wife, so long as they could provide for them.

Back at the Issaka Gazoby hospital, Nayama said there were signs that attitudes were changing. Many religious leaders were advocating the use of contraception, teenage pregnancies were falling and Niger's birth rate, although still the world's highest, had been edging

Maturities extension

Ecuador deal on debt relief restructuring boosts ties with China

JOE PARKIN DANIELS — BOGOTÁ

Ecuador announced on Monday night that it has reached a debt relief restructuring agreement with Chinese banks worth $1.4bn until 2025, as Beijing increasingly offers bailouts to countries at risk of financial crises.

The government of centre-right president Guillermo Lasso said it had reached deals with the China Development Bank and the Export-Import Bank of China (Eximbank) worth $1.4bn and $1.8bn, respectively. The agreements will extend the loans' maturity and reduce interest rates and amortisation.

Overall, these agreements will provide $1.4bn in debt service relief as repayments to the China Development Bank will be reduced by more than $745mn over the next three years and repayments to China Eximbank will be reduced by about $680mn to 2025.

"As a result of these agreements, the maturities are extended to 2027 for China Development Bank and 2032 for Eximbank, allowing the cash flow relief to support government priorities," said the Ecuador presidency.

The South American nation had been seeking since February to restructure its debt with China, its most important financial partner for the past decade, beginning under leftist former president Rafael Correa. But Chinese financing, totalling about $18bn in loans since Correa took office, has drawn scrutiny from economists over high interest rates and a growing dependence on the Asian power.

China has disbursed billions of dollars in emergency loans to countries in recent years in bailouts that have made Beijing a competitor of the western-led IMF.

Pakistan, Sri Lanka and Argentina are three of the largest recipients of China's rescue lending, receiving $32.83bn since 2017, according to data compiled by AidData, a research lab at the US College of William & Mary.

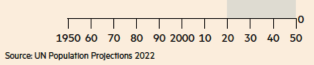
Funds freed up by the restructuring are expected to provide relief for Lasso, who is negotiating with indigenous leaders after demonstrators brought the country to a standstill in June over rising prices. Their demands include higher spending on social programmes.

A separate deal announced last week between state oil company Petroecuador and China will bring in $709mn, the company said, while Ecuador's finance minister, Pablo Arosemena, has promised the money raised from that deal will fund social spending.

Analysts in Ecuador cast the restructuring as a political victory for the Lasso government, which has been weakened by protests as well as its minority status in Congress.

"It's a positive deal. There is an important political demand for a more active state role and more active state spending," said Sebastián Hurtado, founder of Prófitas, a Quito-based political risk consultancy. "The reduction in payments that is being achieved is important from the perspective of public finances."

Ecuador is pursuing a free trade deal with China, which it hopes to reach by the China-Latin America and the Caribuniversity professor in Niamey, this is the wrong conclusion in a semi-desert country where fertile land is at a premium. "Poverty generates a high birth rate and a high birth rate generates



Source: UN Population Projections 2022

schools are disrupted by jihadi activity.

Bazoum, who has linked terrorist recruitment with demographics — too many young men seeking too few jobs — has advocated the establishment of

down for the past two decades.

Yet, Nayama said, some people were resistant to change. "Our religion tells us that, if God gives a child, he will feed it. But that's not happening."

bean business summit in December.

Hurtado said the restructuring deal could be a precursor to an agreement. "It is not easy, but in any case it is the sign of a good relationship with China."

Latin America

Attacks stoke fears of increasing political violence as Brazilians prepare to vote

BRYAN HARRIS AND MICHAEL POOLER
SÃO PAULO

A spate of brutal attacks has fuelled concerns of rising political violence in Brazil ahead of presidential elections next month.

Authorities are on alert following the murders in recent weeks of two supporters of race frontrunner, leftwing former president Luiz Inácio Lula da Silva, by backers of incumbent rightwing leader Jair Bolsonaro.

The assailant shouted "here is Bolsonaro" as he shot an official from Lula's Workers' party (PT) in the first of the killings in July, according to police.

The assault followed the detonation of a homemade bomb packed with faeces at a campaign rally in Rio de Janeiro for Lula, who leads polls by about 10 percentage points ahead of the first round vote on October 2.

Although no one was hurt in that incident, the attacks have fostered an atmosphere of insecurity, with both candidates eschewing the typical campaign trail camaraderie and *abraços* — hugs and embraces. Lula has used a bulletproof vest at events.

While on the stump for the presidency in 2018, Bolsonaro was stabbed in the abdomen and almost killed. He has since undergone multiple surgeries to treat the resulting health problems.

Tabata Amaral, a federal lawmaker from São Paulo, argues that much of the tension stems from Bolsonaro's aggressive rhetoric, which is taken as a green light by some of his more radical supporters to intimidate the opposition.

"I'm not saying that there was no violence before. And both the left and the right have some responsibility for what is happening. "But we have a president that is constantly telling his supporters that they should shoot the opposition," said the centre-left politician.

There were 214 recorded cases of violence against prominent politicians in Brazil during the first half of this year, according to the Observatory for Political and Electoral Violence at the Federal University of the State of Rio de Janeiro.

That represents a more than fourfold increase since researchers began collecting data on the trend in 2019 at the start of Bolsonaro's mandate. The group also found 40 homicides of politicians between January and June this year.

More than 67 per cent of voters, meanwhile, say they fear being attacked because of their political preferences, according to pollster Datafolha.

"Episodes of political violence have become more frequent and widespread, reaching in 2022 levels not seen in previous electoral cycles in what is a clear sign of democratic erosion," said Mário Braga, an analyst at consultancy Control Risks. "The main trend we have seen so far — and the one that is likely to persist at least over the coming months — is that of radicalised rightwing individuals targeting their opponents."

Shooting victim: a Workers' party official's funeral is held — Alexander Moschkowich/AP

Bolsonaro's rhetoric is applauded by his conservative fans for its common touch and honesty. He is often compared to an uncle figure, who says controversial things but means well. For them, his derogatory comments about the gay community, for example, are attempts at humour.

For critics, the president regularly crosses the line. At a recent debate, he verbally attacked a female journalist, earning a rebuke from another candidate. While running for the presidency in 2018, Bolsonaro told a crowd "let's shoot" PT supporters. He later said he was speaking figuratively.

Lula, who served as president between 2003-10, says the violence has been encouraged by the loosening of gun ownership laws since Bolsonaro came to power. The number of people with registered firearms for collections, sports and hunting has grown 470 per cent in this period to more than 670,000. "The country is heading towards savagery. People are being induced to exacerbate violence, this in a country which has been facilitating the sale of arms," Lula said recently.

But the former leader is not without controversy. He has praised and defended a former PT city councillor, who is facing attempted murder charges after allegedly pushing a rightwing businessman in front of a truck in 2018.

For Simone Diniz, a professor at the Federal University of São Carlos, "political violence is not something new. The difference is that today certain authorities encourage the practice."

Additional reporting by Carolina Ingizza

Inside Business see Companies pages

Missed opportunity Calpers admits that putting its private equity programme on hold has cost it up to $18bn ➔ MARKETS

Companies & Markets

Watchdogs fine Morgan Stanley for data breaches

- SEC hands $35mn penalty to bank
- 'Astonishing' failings over hardware

STEFANIA PALMA — WASHINGTON
JOSHUA FRANKLIN — NEW YORK

US regulators have fined Morgan Stanley $35mn for an "astonishing" failure to protect customer data, which resulted in some computer hardware containing sensitive client data being auctioned online.

The US Securities and Exchange Commission said yesterday that the Wall Street bank's wealth management business failed to protect information identifying about 15mn customers over a five-year period.

From at least 2015, the bank, which agreed to settle the charges without admitting or denying the accusations, failed to properly dispose of devices storing clients' personal data, according to the SEC. Morgan Stanley hired a moving company that did not specialise in discarding data and tasked it with disabling thousands of servers and hard drives, the agency said.

> 'Today's action sends a message . . . they must take seriously their obligation to safeguard such data'

The moving company subsequently sold thousands of the bank's devices, some of which contained customer data, to a third party before they were eventually resold on an online auction site.

The bank has recovered some but not most of the equipment, the SEC said.

The authorities also found Morgan Stanley failed to protect customer data while shutting down some servers on its network.

During this procedure, the bank realised 42 servers that may have stored customers' unencrypted personal information were missing.

"We are pleased to be resolving this matter. We have previously notified applicable clients regarding these matters, which occurred several years ago, and have not detected any unauthorised access to, or misuse of, personal client information," Morgan Stanley said in a statement.

The director of the SEC's enforcement division, Gurbir Grewal, described the failings by Morgan Stanley as "astonishing".

"Today's action sends a clear message to financial institutions that they must take seriously their obligation to safeguard such data," Grewal said in a statement.

The penalty is significantly larger than the $1mn fine that the wealth management business agreed to pay to the SEC in 2016 for a similar offence. The same division also reached a settlement in a class action suit over data breaches, a resolution that included the creation of a $60mn fund to compensate victims.

Morgan Stanley took a majority stake in Citigroup's Smith Barney wealth management business in 2009 before completing a full buyout in 2012.

The division formed the centrepiece of Morgan Stanley's push into wealth management and its efforts to reduce its reliance on investment banking and trading.

The move against Morgan Stanley comes as the SEC heightens scrutiny of Wall Street's record-keeping practices.

The agency has launched an investigation into communications storage that has spread across the banking sector, with lenders preparing to pay more than $1bn in penalties to the SEC and the Commodity Futures Trading Commission.

JPMorgan in December agreed to pay US regulators a record $200mn for failing to maintain records of employees' communications on personal devices.

Lukoil limbo US buyout group Crossbridge in top spot to buy Russia-owned Italian refinery

Critical cog: the ISAB refinery near Syracuse, Sicily, supplies 22 per cent of Italian road fuels — Gaetano Adriano Pulvirenti/AP

SILVIA SCIORILLI BORRELLI — MILAN
DAVID SHEPPARD AND TOM WILSON
LONDON
JAMES FONTANELLA-KHAN
NEW YORK

A US private equity firm is the frontrunner to acquire a Lukoil refinery in Sicily as Italy seeks an alternative to nationalisation for a plant facing shutdown if it stays in Russian hands.

Crossbridge Energy Partners spent 12 days carrying out due diligence at Lukoil's ISAB facility at Priolo this month, according to three people close to the situation. The firm, an affiliate of Postlane Capital Partners, bought an ageing Danish refinery from Shell in 2021.

When EU sanctions targeting Russian seaborne oil exports come into full effect in December, the Priolo refinery will lose access to the Lukoil-supplied crude on which it relies. A sale to non-Russian owners would allow the plant, which supplies 22 per cent of Italian road fuels, to seek alternative sources of oil.

The move to safeguard the future of the Priolo refinery follows Germany's decision last week to nationalise three refineries part-owned by Russia's state-backed oil champion Rosneft.

Italy, in political deadlock since the collapse of its national unity government in July, has refused to explore nationalisation of the Lukoil plant.

Energy transition minister Roberto Cingolani said last week "the best thing would be a takeover by a non-Russian international counterparty".

But the matter could be revisited by a new government after Italy's general election on Sunday. The current administration has power to intervene only in case of an imminent threat to jobs or energy security.

Crossbridge declined to comment on the potential for a deal. ISAB Lukoil declined to comment. The refinery's new chair, Rustem Gimaletdinov, visited Sicily this week and told staff no sale was planned, according to local media reports.

Vitol, the world's largest independent oil trader, has also recently held talks with Italian authorities on the Sicilian plant, say the people close to the talks. Norway's state-backed energy company Equinor also expressed provisional interest, say two people familiar with the discussions. Both declined to comment.

Businesses are reluctant to enter direct negotiations with a Russian counterparty, given the potential for reputational damage, the people said, and want the Italian government to act as an intermediary.

Vitol has also held talks with Crossbridge to explore a joint bid but they have so far failed to reach an agreement, according to people with direct knowledge of the matter.

Additional reporting by Max Seddon in Moscow and Richard Milne in Oslo

Dimon says bank capital rules pose an economic risk

JOSHUA FRANKLIN — NEW YORK

Jamie Dimon, chief executive of JPMorgan, has warned US lawmakers that capital requirements for large banks pose "a significant economic risk" that is curtailing their capacity to lend to homebuyers and other customers.

Dimon said "the continued upward trajectory" of capital requirements is making it harder for banks to meet customer needs just as "storm clouds" are gathering on the horizon for the US economy.

"This is bad for America, as it handicaps regulated banks at precisely the wrong time, causing them to be capital constrained and reduce growth in areas like lending, as the country enters difficult economic conditions," Dimon said in written remarks to the House committee on financial services.

Dimon lamented that JPMorgan, the largest US bank with $3.8tn in assets, must set aside more than $200bn in additional capital because of the impact of new rules.

Dimon's remarks reflect the tension US regulators have faced since the aftermath of the 2008 financial crisis, when steps were taken to address weaknesses in the banking system. Critics such as Dimon have complained that capital requirements rules are now too strict.

Tougher capital rules have pushed more lending out of the regulated banking sector, with more financing done by so-called non-bank lenders. In the mortgage market, for example, these non-bank lenders now make the majority of the loans, according to industry publication Inside Mortgage Finance.

Proponents have argued this has pushed riskier lending away from deposit-gathering financial institutions that are systemically important to the economy, such as JPMorgan. However, borrowers from non-bank lenders typically have to pay higher interest rates because banks are able to use their deposits as a cheaper source of funding.

An annual stress test conducted by the Federal Reserve showed the largest US banks could weather a severe economic downturn and their capital levels would comfortably remain above regulatory minimums.

Dimon is to address the House committee today and the Senate committee on banking, housing and urban affairs tomorrow. He will be joined by other bank chiefs, including Bank of America's Brian Moynihan, Citigroup's Jane Fraser and Wells Fargo's Charlie Scharf.

Many Brazilian executives are still quietly backing Bolsonaro

INSIDE BUSINESS
LATIN AMERICA

Michael Stott

Less than two weeks before Brazil's elections, it might appear from the outside that business has deserted President Jair Bolsonaro. Despairing of his attacks on the integrity of Brazil's voting system and fearing a Trumpian insurrection if he loses, executives seem to have lost patience with the hard-right former army captain.

An open letter in defence of democracy last month, seen as a rebuke to Bolsonaro, united Brazil's traditionally conservative banking association Febraban, the powerful São Paulo industry lobby Fiesp and unions and non-government organisations.

Another declaration vowing to defeat attempts to overturn an election gathered more than 1mn signatures, including those of Pedro Moreira Salles and Roberto Setúbal, co-chairs of Brazil's biggest bank Itaú Unibanco, and Walter Schalka, chief executive of pulp and paper giant Suzano.

Yet the reality is different: whisper it quietly, but many Brazilian business executives and bankers still prefer Bolsonaro to frontrunner, leftwing former president Luiz Inácio Lula da Silva. "I would expect the large majority of business executives to vote for Bolsonaro," said Oliver Stuenkel of Getulio Vargas Foundation (FGV), a think-tank. "However, the intensity of support has declined." Many executives like the Bolsonaro administration's free-market slant, despite a splurge of welfare spending ahead of the election. They point to independence for the central bank, several privatisations, relatively healthy public finances and legislation to trim public sector pensions as achievements.

While few would go as far as José Koury, the owner of a Rio shopping centre who was investigated by police after purportedly telling a WhatsApp group he preferred a coup to the return of Lula's Workers' party (PT), most are enjoying a stronger than expected economy. Economists see gross domestic product growing at least 2.5 per cent this year. Foreign direct investment shot up 78 per cent last year to $50bn, according to the United Nations Conference on Trade and Development.

Bolsonaro's indifference to the razing of the Amazon rainforest may alarm the west but the country's powerful soy and beef farmers instead see a champion of their interests. Elections in Brazil are mainly funded with public money, companies are banned from donating and individuals may only give up to 10 per cent of annual income.

> 'I would expect the large majority of executives to vote for Bolsonaro. However, the intensity of support has declined'

The latest numbers from Brazil's election commission still show key agribusiness figures backing Bolsonaro. Among them is Oscar Luiz Cervi, a big soy and corn farmer, who gave R$1mn ($190,000). Odílio Balbinotti Filho, one of Brazil's biggest seed producers, donated R$600,000. Lula, by contrast, relies mostly on public funds given to his party.

Many western investors and multinationals would prefer to see Lula back in charge. They largely accept the former president's assurances that he would govern moderately. They also want to avoid awkward questions from shareholders about investing in a nation led by Bolsonaro, a man whose coarse attacks on gays and women have made him a pariah in much of Europe.

By contrast, they remember Lula from his 2003-10 presidency as an international celebrity, feted for reducing poverty and promoting Amazon rainforest conservation.

Brazilian business executives have different memories. They recall the man whose time in office coincided with what the US Department of Justice called "the largest foreign bribery case in history", a vast corruption scheme centred on the state-controlled Petrobras oil company. Bribery convictions that put Lula behind bars were quashed but corruption scandals overhung his administration (Lula has always maintained his innocence but has acknowledged failings during government).

"Almost all the people I know will vote Bolsonaro," said a private equity executive from São Paulo. "They won't say so in public but they are doing well under Bolsonaro and they don't trust Lula."

Bolsonarista executives are likely to be disappointed. Almost all opinion polls show Lula winning a likely second round run-off at the end of October by a large margin. But there is a consolation for conservatives: the polls indicate the veteran leftist will lack a majority in the new congress, where a strong establishment bloc known as the "Centrão" is likely to call the shots.

"Business people know that the 'Centrão' will be in charge," said FGV's Stuenkel. "There won't be much space for an ultra-leftist economic agenda."

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COMPANIES & MARKETS

Financials

Danish fund warns on private equity

ATP executive says deals within industry appear akin to a pyramid scheme

KAYE WIGGINS — CANNES

A top executive at Denmark's largest pension fund has compared the private equity industry to a pyramid scheme, warning buyout groups are increasingly selling companies to themselves and to peers on a scale that "is not good business".

Mikkel Svenstrup, chief investment officer at ATP, said he was concerned because last year more than 80 per cent of the sales of portfolio companies by the private equity funds that ATP has invested in were either to another buyout group or were "continuation fund" deals, where a private equity group passes it between two different funds that it controls.

"We're a big fund investor, we have hundreds of funds and thousands of portfolio companies," he said.

"This is not good business, right? This is the start of, potentially, I'm saying 'potentially', a pyramid scheme. Everybody's selling to each other . . . Banks are lending against it. These are the concerns I've been sharing."

ATP is a major investor in private equity funds. It has $119bn under management and has committed money to 147 buyout funds, according to PitchBook data.

Svenstrup's comments, made at the IPEM private equity conference in Cannes, are similar to those made by Amundi Asset Management's chief investment officer Vincent Mortier in June. Mortier said some parts of the private equity industry "look like a pyramid scheme, in a way".

> 'Everybody's selling to each other . . . Banks are lending against it. These are the concerns'

Svenstrup said the "exponential growth" of the private equity industry in recent years, as investors have poured cash into its funds, would stop "at some point", adding that this was "just a question of time".

"It's not that I think the private equity market is going to drop off a cliff," Svenstrup said. "We're just going to be looking [at] potentially low returns and high costs."

He added that the industry played an important role as "a key driver of taking some companies from one step to the next and eventually hopefully getting IPO-ed or owned by some long-term owners".

ATP is cutting down on the number of private equity groups it commits money to, he told the conference.

"Obviously we've been looking very carefully at . . . who's been tweaking [returns figures by] using bridge financing, leveraged funds . . . all those tricks they do to kind of manipulate the IRR," he said. IRR, or internal rate of return, is a key measure by which private equity groups report returns to their investors.

FT **Why we need a wealth tax**
Video: a well-designed net wealth tax can raise revenue and tackle inequality, argues the FT's Martin Sandbu
ft.com/video

Technology. Social media

BeReal looks to avoid 'one-hit wonder' pitfalls

Photo-sharing app explores how to monetise with new features while shunning ads

AKILA QUINIO — PARIS
CRISTINA CRIDDLE AND TIM BRADSHAW
LONDON

Photo-sharing app BeReal is exploring in-app payments for extra features to avoid Instagram-style advertising, as the French start-up grapples with glitches caused by this summer's surge in its popularity among Gen Z users.

BeReal has become wildly popular with teenagers and college students in the US as well as in Europe, with its emphasis on capturing an authentic moment at a specific time without editing or filters that are commonplace on rivals Instagram, TikTok and Snapchat.

The app has grown from 10,000 daily active users just over a year ago to more than 15mn today, surpassing internal targets. Insiders expect it to reach tens of millions by the end of the year.

"Tons of apps can find users, but few can keep them. It [is] fascinating how well they [can] retain users . . . world-class," said Jean de La Rochebrochard, a BeReal board member and partner at Kima Ventures and New Wave, investment firms co-founded by French billionaire Xavier Niel.

The company raised $30mn in a series A funding in June, led by Andrees-

No filters: BeReal sends a notification to users at a given time of the day, with a two

form used by gamers and crypto enthusiasts, which charges a monthly subscription from $2.99 for bonus content such as digital stickers.

No paid features are likely to launch

fashionable Paris district of Marais. As a former camera editor for influencers, Barreyat saw that curated social media content could harm young people's mental health. The launch of his app

> 'Tons of apps can find users, but few

BeReal merchandise is given away at fraternity and sorority parties or other events. The strategy is working: the US now accounts for 40 per cent of BeReal's downloads, according to data from ana-

Pharmaceuticals

Haleon rejects GSK and Pfizer calls to make Zantac lawsuit provisions

JUDITH EVANS

Haleon said yesterday it had rejected requests to provision for costs related to US lawsuits over the heartburn drug Zantac, its latest pushback against a threat that has hung over the FTSE 100 consumer health company since it was spun off from GSK in July.

GSK and Pfizer, partners in the joint venture that was spun out to become Haleon, both previously sold Zantac. Haleon does not sell Zantac in the US, but fears that it could be held liable in lawsuits over the drug's potential links to cancer has driven its share price down, according to James Edwardes Jones, analyst at RBC Capital Markets.

Shares in Haleon have fallen more than 16 per cent since it was listed, trailing the 3.5 per cent drop in the FTSE 100. Its shares closed up 2.3 per cent yesterday. The group said it had rejected indemnification requests from GSK and Pfizer "on the basis that the scope of the indemnities set out in the joint venture agreement only covers their consumer healthcare businesses as conducted when the JV was formed in 2018".

It added: "At that time, neither GSK nor Pfizer marketed [over the counter] Zantac in the US or Canada."

Indemnification is a legal process of providing security against potential damages. Zantac was pulled from the US market after a Food and Drug Administration investigation into the levels of N-nitrosodimethylamine (NDMA) in the drug. NDMA can cause cancer when consumed in large amounts.

> 'GSK believes there are grounds for it to bring indemnification claims in certain potential liabilities'

Potential costs linked with Zantac, together with the prospect of Pfizer and GSK disposing of their holdings in Haleon — 32 per cent and 5.4 per cent, respectively — "will act as a turn-off for staples investors", Edwardes Jones said.

GSK said it rejected Haleon's point of view. "The litigation is at an early stage and the history of ownership of US OTC Zantac is complex," the drugmaker said.

"We do not agree with Haleon's position. GSK believes there are grounds for sen Horowitz and Accel. Its valuation was not disclosed but several people told the Financial Times it was about $600mn.

The free app's rapid rise to prominence has already drawn copycat features from TikTok, Instagram and Snapchat, bringing forward discussions about its long-term business model.

BeReal and its executives declined to comment for this article, which is based on interviews with multiple people close to the company.

The app's executives are said to be keen to avoid the pitfalls of larger US rivals such as Facebook and Snapchat, keeping a small team focused on improving the product rather than raising vast sums from venture capitalists to pursue global expansion.

However, investors are urging BeReal to introduce new features that can help it avoid becoming a "one-hit wonder" like other faddish social apps, such as Houseparty or Clubhouse. Those discussions have also included early consideration of how best to monetise the platform without ruining the experience for users.

BeReal's core product will remain free to access but it is weighing optional paid-for extras. The approach is likely to resemble that of Discord, the social plat-

with a two-minute window to take a snapshot — FT montage

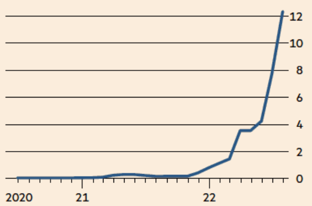
before the second half of next year, these people said. Though some at BeReal see ads as intrusive, advertising has not entirely been ruled out.

But breakneck growth has made monetisation a lower priority for BeReal than bolstering its technical infrastructure. Its capital reserves and small team mean there is no immediate need to start generating revenue.

The company, founded in 2020 by 26-year-old Alexis Barreyat, has about 40 staff working at its headquarters in the

BeReal downloads

Worldwide installs on Apple App Store and Google Play (mn)



Source: Sensor Tower

coincided with growing awareness of this among a new generation of users.

The app sends a notification to every user at a given time of the day, with a two-minute window to take a snapshot using both the front and back cameras on the phone. But the very design that made BeReal a hit has led to widespread glitches. Because millions of users try to access the platform at the same time, the so-called data throughput or concurrency is comparable to some of the world's largest internet platforms.

Barreyat, who does not have a high school diploma, attended Niel's coding school, 42, in France. His first pitch to Niel's headhunter La Rochebrochard, in March 2020 when BeReal had just 500 users, was unsuccessful.

But a year later, after Niel's son said he loved the app, La Rochebrochard called Barreyat back. BeReal's user base had by then grown to 30,000. After two days of due diligence, Niel's team invested $1.2mn to acquire a 10 per cent stake in the company.

Despite its aversion to in-app advertising, in-person marketing campaigns on US college campuses have been key to BeReal's success. Its campus ambassador programme pays some students about $250 a month, plus about $7 commission for each new user acquired.

But few can keep them. It [is] fascinating how well they [can] retain users'

lysts Sensor Tower, making it the app's largest market.

"I like BeReal because it is so transparent," said Sharon Choi, a 21-year-old ambassador at Stony Brook University in New York. "On Instagram and TikTok everything is filtered; on BeReal I don't need to Photoshop myself."

But some critics fear BeReal lacks the resources to control harmful content, a problem that has long plagued social networks. BeReal does not have its own large-scale content moderation team, instead relying on automated filtering.

Frances Haugen, a former Facebook product manager who blew the whistle on the tech giant, accusing Meta of prioritising profit over safety, said BeReal's design could make it difficult to introduce misinformation but ephemeral photo sharing can lead to sharing of other kinds of harmful material.

"Unlike TikTok, Facebook, or Instagram, BeReal does not emphasise going viral or building large reach — meaning there is less ability for the small number of bad apples to have much impact — disincentivising bad behaviour," Haugen said. "At the same time, it's never OK to tack on safety systems at the end — I hope they have an intentional integrity plan they're weaving into the development of their platform."

it to bring indemnification claims in respect of certain potential liabilities, including against Haleon."

Worries over Zantac have cast a shadow over Haleon's first months of independence after it became the only listed pure-play consumer health company of significant size. The drop in the share price has left its market capitalisation at less than half the £50bn that GSK was offered for the business by Unilever late last year, before it was spun out.

In its first-half results, also released yesterday, Haleon said the return of colds and flu following the lifting of Covid-19 restrictions had boosted sales of drugs such as Theraflu, helping to push like-for-like net sales growth to 11.6 per cent in the six months to June 30.

Sales of respiratory medicines shot up 46.7 per cent in the period from a year earlier, Haleon said, as the Omicron wave of coronavirus added to rates of mild illness. Painkillers and vitamins also sold more, with Panadol racking up growth in the "mid-20s per cent".

That helped push up adjusted operating profit by 21.2 per cent to £1.2bn, as the group maintained its full-year guidance for like-for-like net revenue growth of 6 to 8 per cent and a slight decrease in adjusted operating margin from last year's 22.8 per cent.

Utilities

Germany prepares to take control of Uniper

MADELEINE SPEED — FRANKFURT
TOM WILSON — LONDON

The German government is poised to nationalise struggling utility Uniper, which has been brought to the brink of insolvency by the fallout from Russia's invasion of Ukraine.

Once Europe's biggest importer of Russian gas, Uniper has suffered as Moscow cut supplies of natural gas to Europe, forcing it to buy more expensive gas on the spot market to meet its supply contracts.

Uniper said yesterday it was in final discussions with Berlin about a new rescue package, in which the German government would provide a further €8bn of capital and acquire the 56 per cent of its shares currently held by the Finnish energy company Fortum. "As a result, it is envisaged that the federal government will obtain a significant majority stake in Uniper," the company said.

Germany already owns a 30 per cent stake, which it acquired in July as part of an initial €15bn rescue package. Chancellor Olaf Scholz said at the time that Uniper was of "paramount importance" to the country's economy and for safeguarding energy supplies. The utility requested more support in August, raising the bill for its bailout to €19bn.

Fortum confirmed that negotiations over a sale of its shares to the German government were in "the final stages" and included the return to Fortum of the financing it had provided to Uniper, previously estimated at about €8bn.

However, both companies said a final agreement had yet to be reached.

Uniper reported a €12.3bn first-half loss this year, among the largest of any German company in history.

German officials have been working to avoid a collapse of the utility, fearing it could trigger a wave of insolvencies.

VNG, one of Germany's biggest importers of natural gas, in September requested a bailout from the government, saying it had been forced to absorb heavy losses caused by reduced deliveries from Russia's Gazprom.

The government this month pledged €67bn in loan guarantees and liquidity assistance for energy companies, money that had been set aside for companies after the Covid-19 lockdowns.

Other European governments are also under pressure to bail out energy companies. Finland and Sweden unveiled €33bn in liquidity support to electricity producers.

Financials

Asset manager drops climate denier backing

CHRIS FLOOD

Federated Hermes, a champion of environmentally friendly investment strategies, has bowed to client demands to withdraw sponsorship of a coalition of US public officials that opposes action on climate change in an embarrassing U-turn for the $632bn asset manager.

Pension funds clients in Denmark, Norway, Australia and the UK had asked Federated Hermes why it had agreed to act as a gold sponsor for the State Financial Officers Foundation — a Republican group that lobbied against President Joe Biden's climate change policies. The foundation has dismissed environmental policies as a "scam" and members have threatened to remove state retirement assets from financial companies that do not support fossil fuel industries.

Pittsburgh-based Federated has not yet explained its decision to end the controversial partnership but several pension funds confirmed they were notified by the company that the SFOF sponsorship agreement would end next year.

Kirstine Lund Christiansen, head of ESG at the Danish pension fund P+ and a client of Federated Hermes, said it was "very positive" that the asset manager had not renewed the sponsorship.

Anders Schelde, chief investment officer of AkademikerPension, another Danish fund and a client of Federated Hermes, said it welcomed the decision in light of SFOF's climate denialism.

"We are concerned about the growth of anti-climate change lobbying that is taking place in the US," said Schelde.

The Australian Council of Superannuation Investors, representing 16 pension funds with combined assets of more than A$1tn ($670mn), had expressed "strong concerns" about the sponsorship. Australian superannuation funds are a key client group for Federated Hermes, which has a team based in London that provides advice on ESG.

Activists added to the pressure on the company by holding protests outside its London office and at industry events where its staff were participating.

"This U-turn only happened because clients, customers and campaigners around the world called out Federated Hermes for its hypocrisy," said Alex Wilks of the Sunrise Project, a climate campaign group.

Democratic state and city treasurers last week released a letter criticising Republican peers over blacklists against companies that pursue ESG goals.

- in respect of the Senior Notes:
at the latest 6 Business Days following the date of the latest Meeting of any Series (i.e. 14 October 2022) (the "**Senior Consent Fee Payment Date**"), an amount equal to 0.10 per cent. of the aggregate nominal amount of the Senior Notes for which any noteholder has validly cast its vote (the "**Senior Consent Fee**"). The Senior Consent Fee will be paid by the Centralising Agent, on behalf of the Issuer, to the noteholders holding the Senior Notes on the date of the meeting and who have validly cast their votes; and

- in respect of the Hybrid Notes:
at the latest 6 Business Days following the date of the latest Meeting of any Series (i.e. 14 October 2022) (the "**Hybrid Consent Fee Payment Date**"), an amount equal to 0.25 per cent. of the aggregate nominal amount of the Hybrid Notes for which any noteholder has validly cast its vote (the "**Hybrid Consent Fee**"). The Hybrid Consent Fee will be paid by the Centralising Agent, on behalf of the Issuer, to the noteholders holding the Hybrid Notes on the date of the meeting and who have validly cast their votes.

II. SECOND CONVENING NOTICE

The meetings relating to the Series listed below could not validly deliberate on first convocation on 15 September 2022 due to the lack of the required quorum, consequently the board of directors (*Conseil d'Administration*) of the Issuer ("**Board of Directors**") has decided to reconvene the holders of the Notes (hereinafter, the "**Noteholders**") of the Series listed below to general meetings to be held on second convocation at 10.40 a.m. and 10.50 a.m. (Paris time), on 6 October 2022, at the administrative office of the Issuer located at 30 rue Madeleine Vionnet, 93300 Aubervilliers (the "**Meetings**").

ISIN	TO THE HOLDERS OF THE: TITLE	TIME (in Paris)
FR0011912575	€75,000,000 Fixed Rate Notes due 2029 of which €75,000,000 are currently outstanding (the "**May 2029 Notes**")	10.40 a.m.
FR0012829406	€50,000,000 2.25 per cent. Notes due 1 July 2030 of which €50,000,000 are currently outstanding (the "**July 2030 Notes**" and together with the May 2029 Notes, the "**Notes**" and each a "**Series**")	10.50 a.m.

The Meetings are convened, on second convocation, to deliberate on the same agenda and proposed resolutions as the Meetings convened on first consultation, as follows:

AGENDA

1. Approval of the merger pursuant to which the Issuer shall be merged with and into Veolia Environnement S.A., whereupon the separate existence of the Issuer shall automatically cease and Veolia Environnement S.A. shall be the surviving entity in the merger (the "**Merger**");
2. Filing of the documents relating to the Meetings; and
3. Powers to carry out formalities.

CONSENT FEE

Subject to all relevant resolutions listed above being approved at the Meetings of each Series (whether held on first convocation or second convocation), such interconditionality being waivable by the Issuer in its sole and absolute discretion, the Issuer will pay:

- in respect of the Senior Notes (as defined above): at the latest 6 Business Days following the date of the latest Meeting of any Series (i.e. 14 October 2022) (the "**Senior Consent Fee Payment Date**"), an amount equal to 0.10 per cent. of the aggregate nominal amount of the Senior Notes for which any noteholder has validly cast its vote (the "**Senior Consent Fee**"). The Senior Consent Fee will be paid by the Centralising Agent, on behalf of the Issuer, to the noteholders holding the Senior Notes on the date of the meeting and who have validly cast their votes; and

- in respect of the Hybrid Notes (as defined above): at the latest 6 Business Days following the date of the latest Meeting of any Series (i.e. 14 October 2022) (the "**Hybrid Consent Fee Payment Date**"), an amount equal to 0.25 per cent. of the aggregate nominal amount of the Hybrid Notes for which any noteholder has validly cast its vote (the "**Hybrid Consent Fee**"). The Hybrid Consent Fee will be paid by the Centralising Agent, on behalf of the Issuer, to the noteholders holding the Hybrid Notes on the date of the meeting and who have validly cast their votes.

VOTING PROCEDURES

In accordance with Article R.228-71 of the French *Code de commerce*, the rights of each Noteholder to participate at the relevant Meeting will be evidenced by the entries in the books of the relevant account holder of the name of such Noteholder on the second business day in Paris preceding the date set for the Meeting (i.e. 4 October 2022) at 00.00 (midnight) (Paris time) (an "**Account Holder Certificates Deadline**").Noteholders that wish to vote at the relevant Meeting can either (a) physically attend the relevant Meeting, (b) vote by proxy or (c) vote by correspondence.

(a) Noteholders wishing to participate physically in the relevant Meeting must provide (i) an Account Holder Certificate signed by the relevant account holder of the Notes ascertaining the holding of the Notes in its account (the "**Account Holder Certificate**") duly executed dated no later than the Account Holder Certificates Deadline (as defined above), (ii) a valid identity card or a passport, with a power of attorney, if relevant and (iii) with respect to Hybrid Notes, confirm whether it is an Eligible Noteholder or an Ineligible Noteholder.

(b) A Noteholder can give proxy in writing to a person for the purpose of representing it at the relevant Meeting, subject to the provisions of Articles L.228-62 and L.228-63 of the French Code de commerce. Noteholders wishing to vote by proxy must provide, through their account holder, duly completed voting documents (together with the Account Holder Certificates) to the Centralising Agent at the latest on 3 October 2022 at 23.59 (Paris time) (final reception date).

(c) Noteholders wishing to vote by correspondence must provide, through their account holder, duly completed voting documents (together with the Account Holder Certificates) to the Centralising Agent at the latest on 3 October 2022 at 23.59 (Paris time) (final reception date). Voting documents will be delivered on demand by the Centralising Agent (details of which are set out below).

Attention of the Noteholders is drawn to the fact that, in accordance with Article R.225-77 of the French Code de commerce, the Issuer will not take into account the voting documents received after 3 October 2022 at 23.59 (Paris time) (final reception date). Noteholders may have earlier deadlines stipulated by their respective account holder or broker.

Voting documents (together with the Account Holder Certificates) received for the relevant Meeting held on first convocation shall remain valid for the relevant Meeting held on second convocation.

On second convocation, no quorum shall be required. Decisions at each Meeting shall be taken by a simple majority of votes cast by Noteholders of the relevant Series attending such relevant Meeting or represented thereat either on first convocation or second convocation.

DOCUMENTS ON DISPLAY

The following documents will be available for inspection by the Noteholders at the registered office of Vigie, at the specified offices of the Paying Agent, from Société Générale Securities Services (as set out below) (the "**Centralising Agent**") and, save for the Consent Solicitation Memorandum, on the website of Veolia Environnement (the sole shareholder of Vigie as of the date hereof) (https://www.veolia.com/en/Suez-Bond-Consent) during the 15-day period preceding the holding of the Meetings:

- the report of the Board of Directors dated 31 August 2022;
- the text of the resolutions which will be proposed at the relevant Meeting;
- the relevant conditions;
- the Consent Solicitation Memorandum dated 31 August 2022;
- the merger treaty dated 2 August 2022; and
- the relevant voting documents.

CENTRALISING AGENT Société Générale Securities Services : 32 rue du Champ de Tir – CS 30812 44308 Nantes Cedex 3, France via Elisabeth Bulteau, +33 2 51 85 65 93 agobligataire.fr@socgen.com

COMPANIES & MARKETS

The Amazon roll-up boom begins to unravel

Aggregators that bought marketplace sellers to benefit from efficiencies of scale have almost halted dealmaking after a $12bn frenzy

DAVE LEE — SAN FRANCISCO
TIM BRADSHAW — LONDON

In 2021, investors poured more than $12bn into a new breed of start-ups focused on buying Amazon marketplace sellers. This year, the funding has mostly dried up, with dealmaking all but halted as ecommerce growth stalls and investors grow wary.

It has meant that the acquisition start-ups, known as aggregators, which were previously clambering over each other to pay over the odds for sellers, have now been left to rue their over-exuberance. Many have cut jobs or been forced to narrow their focus.

"Last year was crazy," said Shrestha Chowdhury, chief technology officer at Berlin-based aggregator Razor Group, which at the peak was buying a dozen companies a month. "I wouldn't do that again."

Amazon aggregators, or roll-ups, are groups that buy sellers who typically do the bulk of their business through Amazon's third-party marketplace. The thesis is that by combining many brands under one roof, efficiencies can be found in areas such as marketing spending and inventory management.

In 2021, as the ecommerce sector surged following the large shift in behaviour during Covid lockdowns from buying services to goods, confidence in the roll-up model was sky high. According to data from Marketplace Pulse, investors poured in more than $12bn into roll-up companies last year.

But so far in 2022 funding has dropped to just over $2bn, the lion's share of which came before the stock market slump in March that was prompted by rising inflation, the war in Ukraine and a broad sell-off in tech stocks. This confluence of factors hit the

for instance, went as far as offering a

Group was making one or two deals each

Marketplace

survival," said Juozas Kaziukenas, ana-

'If 2021 was

also suspended acquiring companies, according to two people familiar with its operations. Instead, one of the people said, it would focus on "organic" growth of the brands it has already brought in.

Several other aggregators, including Heroes and Berlin-based SellerX, have also sacked dozens of staff between them this summer.

There has been a "palpable change in the mood", said Taliesen Hollywood, director of specialist M&A agency Hahnbeck, which has brokered large seller deals with aggregators.

"Brick and mortar grew faster than ecommerce for the first time in history," Hollywood said. "By the start of 2022 it was clear the acquisitions weren't performing as well as they'd hoped. Ultimately that meant they had overpaid for some of those businesses."

Much of 2021's frantic dealmaking was funded by debt, with aggregators often paying interest rates as high as 18 per cent when starting out, Hollywood said. As growth slows and with no clear path to profitability, several operators may soon breach their debt covenants, he said.

Aggregators' fortunes have not been helped by conditions on Amazon itself. Seller fees have increased more than 30 per cent over the past two years, according to Marketplace Pulse, with Amazon citing logistical pressures. Other additional costs have included a 5 per cent fuel surcharge imposed in April that is levied on every delivery made via Amazon's own logistics network.

In addition, some aggregators were finding that categories that performed well during the booming pandemic months had seen a sharp drop-off. "Everyone has bought their bread-baking ecommerce sector particularly hard.

"The private market almost shut down," said Riccardo Bruni, co-founder of London-based aggregator Heroes. "For a certain period of time access to capital became impossible."

That is a stark contrast to 2021, when aggregators were desperate to win deals by spending big. Groups such as Acquco, free Tesla in return for successful referrals. Such was the competition, promising merchants were being bought for about six to seven times adjusted earnings before interest, tax, depreciation and amortisation.

Roll-ups are now much more cautious, with some suspending dealmaking altogether. Chowdhury said Razor month — which still makes it one of the more active aggregators. Industry insiders estimated that of several dozen aggregators that had raised capital over the past two years, fewer than 10 were still making acquisitions.

"If 2021 was the year to launch an aggregator and attract what looked like unlimited capital, 2022 is the year of

hub: an Amazon distribution centre in Eastvale, California. The US group has raised seller fees by more than 30% over the past two years
Watchara Phomicinda/ MediaNews Group/The Press-Enterprise via Getty Images

lyst with ecommerce research company Marketplace Pulse. "The market is still active, but I think it will be a long slump of quietness before some of those find the winning formula."

Massachusetts-based Thrasio, the largest aggregator having raised at least $3.5bn and made more than 200 acquisitions, cut some 20 per cent of its staff in May, shortly after announcing the hiring of Amazon veteran Greg Greeley as its chief executive.

As part of the cull, Thrasio's acquisitions team was almost entirely done away with, two people familiar with the company said. The company told the Financial Times it was still looking at brands but would not say if any deals had happened since May's cuts.

Perch, another leading aggregator that has raised more than $930mn, has

'If 2021 was the year to launch an aggregator . . . 2022 is the year of survival'

'Brick and mortar grew faster than ecommerce for the first time in history'

machines," said Bruni from Heroes.

Despite all the pressures, believers in the aggregate model are finding positive signs for the remainder of 2022 and beyond, keen to distance their business models from other flash-in-the-pan investment frenzies in recent years, such as rapid grocery delivery apps or 2018's electric scooter boom.

"Generally speaking, as we go into 2023, I think all of the actions that are being taken by folks now are going to build a far more resilient business model," said James Serena, co-founder and chief executive of Telos Brands, a smaller-scale aggregator based in San Francisco.

Sebastian Rymarz, chief executive of aggregator Heyday, said his group had managed to avoid "mass" lay-offs and was looking at deals that could bring in an additional $450mn in yearly revenue, in an effort to "take advantage of the dislocation" in the space.

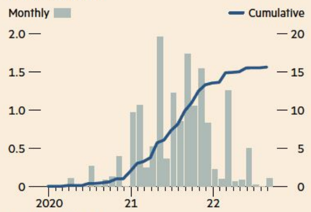
Shipping costs, while still elevated, are now about two-thirds below their pandemic highs.

"The pressure on the supply chain has significantly eased — primarily driven by lower global demand," said Philipp Triebel, co-founder of SellerX. "We see an amazing opportunity to acquire high-calibre assets at lower prices over the next 12 to 24 months."

Still, a bruising 2022 has meant talk in the sector has now turned to consolidation — the roll-ups being rolled up — said two people close to aggregator businesses. It was "on a lot of people's minds", one person said.

Investors cool on Amazon roll-up companies

Money raised ($bn)



Source: Marketplace Pulse

Financials

Norway oil fund steps up pressure on climate

CAMILLA HODGSON — LONDON
RICHARD MILNE — OSLO

Norway's sovereign wealth fund and a group of investors with more than $10tn under management led a series of corporate climate change pledges expected this week, in events alongside the meeting of world leaders at the UN General Assembly in New York.

The world's largest sovereign wealth fund said it would require the companies it invests in to reach net zero emissions by 2050 and to publish those goals by 2040 at the latest. At present, only one in 10 of roughly 9,000 companies it has invested in have a net zero target.

The $1.2tn fund, based on assets from Norway's oil and gas revenues, has already sold out of coal producers and consumers, as well as some oil explorers. The updated pledge coincided with New York climate week.

At the same time, the UN-convened Net Zero Asset Owner Alliance, a group of 74 institutional investors with $10.6tn in assets, said in an annual progress report that two-thirds of its members had committed to short-term 2025 decarbonisation targets. That represented an additional $2.5tn worth of assets covered by short-term targets.

Speaking to the Financial Times, alliance chair Günther Thallinger said the energy crisis had created a "very difficult context" that put action on climate change "under pressure" but backsliding must be avoided.

The alliance is part of the Glasgow Financial Alliance for Net Zero, a broad coalition of financial institutions that committed to decarbonising their portfolios at last year's COP26 climate summit. The group and its members have come under pressure from campaigners for being too slow to act.

Thallinger, who helped found the Net Zero Asset Owner Alliance in 2019 ahead of the creation of Gfanz, said the groups had to get away from "conceptual discussions" and "do the work".

"We do not want to have concept on top of concept . . . This is something we are trying to communicate to other initiatives," he said. Time and expertise

The UN's Race to Zero campaign is seeking action over deforestation

should be focused on making the real economy greener, rather than on writing "another new standard".

Yesterday, UN secretary-general António Guterres urged action on climate change and strengthened his call for governments to impose a windfall tax on oil and gas company profits.

"We need to hold fossil fuel companies and their enablers to account," he said. That included targeting the financial institutions and public relations firms that "invest and underwrite carbon pollution" or "shield" the industry from scrutiny.

Yesterday, a report co-authored by the International Energy Agency estimated that annual investments of about $1tn in renewables would be needed to supply clean power to the world's growing population and avoid the catastrophic effects of climate change.

The COP26 president, UK cabinet minister Alok Sharma, and members of the UN's Race to Zero campaign will push financial institutions to eliminate commodity-driven deforestation from portfolios by 2025, in a report released at the New York climate week summit.

"Due to the unique role of deforestation in driving emissions, and the role of the standing forest and terrestrial ecosystems in mitigating carbon, the financial sector must front load its transition to net zero," Sharma will say.

Cross asset. Wall Street pressure

Soaring US 'real yields' pose fresh threat to stocks

Cross asset

Calpers says missing the private equity boom lost it up to $18bn

JOSEPHINE CUMBO — LONDON

Calpers, the biggest public pension plan in the US, admitted a decision to put its private equity programme on hold for 10 years had cost it up to $18bn of returns as it announced an overhaul of its governance.

In a frank assessment of past failings at the $440bn retirement system, chief investment officer Nicole Musicco said the scheme serving 2mn Californians had suffered from "frequent changes" to its strategy that had "detracted" from its return profile.

Investors are expecting higher inflation-adjusted returns on ultra-safe US government debt

KATE DUGUID

US real yields, the returns investors can expect to earn from long-term government bonds after accounting for inflation, have soared to their highest level since 2011, further eroding the appeal of Wall Street equities.

The yield on 10-year Treasury inflation-protected securities (Tips) hit 1.2 per cent yesterday, from about minus 1 per cent at the start of the year, as traders bet the Federal Reserve will tamp down inflation by raising interest rates and keeping them elevated for years to come.

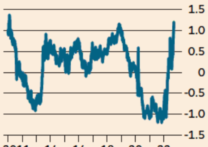
"What you see in the higher real rates is the clear expectation that the Fed is going to drain a tremendous amount of cash and liquidity out of the market," said Steven Abrahams, head of investment strategy at Amherst Pierpont.

The Fed has already lifted its main interest rate from near zero at the start of the year to a range of 2.25 to 2.5 per cent. It is expected to boost it by another 0.75 percentage points later today, with further increases bringing the federal funds rate to about 4.5 per cent by early 2023.

The Fed's quantitative tightening programme, in which it is reducing its $9tn balance sheet, is putting additional upward pressure on yields.

US real yields surge

Yield on 10-year Treasury inflation-protected securities



Source: Bloomberg

Inflation expectations are easing from their recent peak

10-year break-even rate (%)

The jump in so-called real yields has been driven in part by expectations that the Fed will be able to bring inflation closer to its long-term target of 2 per cent in the years to come.

A measure of inflation expectations known as the 10-year break-even rate, which is based on the difference in yield on traditional Treasuries and Tips, has eased from a high of 3 per cent in April to 2.4 per cent this week. That would mark a dramatic decline from the August inflation rate of 8.3 per cent.

Real yields fell deeply into negative territory at the height of the pandemic as the Fed cut interest rates to stimulate the economy, sending investors racing into stocks and other risky assets in search of returns.

Now, rising real yields on ultra-safe US Treasuries are damaging the relative appeal of holding equities.

Fast-growing companies that led the huge rally on Wall Street from the depths of the coronavirus crisis in 2020 are under the most pressure from rising real yields. That is because higher real yields reduce — or "discount" — the value of the earning these companies are expected to generate years from now in models investors use to gauge how expensive stocks look.

"What is important for growth equities is not whether the peak has happened in interest rates but the fact that the discounting rate will remain higher for a longer time," said Gargi Chaudhuri, head of iShares investment strategy for the Americas at BlackRock. "For the next 18 to 24 months, all of these companies' valuations will continue to get discounted at that higher level."

Since the start of the year, the tech-heavy Nasdaq Composite has tumbled 27 per cent. A recovery in the latter half of the summer has been all but obliterated as expectations of further aggressive Fed action have been cemented. The fall in unprofitable tech stocks, which had posted spectacular gains as investors chased high yields, has been particularly notable — with a Goldman Sachs index tracking such companies losing half its value in 2022.

The Federal Reserve is expected to boost interest rates by another 0.75 percentage points later today — Andrew Harrer/Bloomberg

"Very expensive and very unprofitable technology companies have been accustomed to discounting their cash flows at a negative rate and now have to readjust to positive rates," Chaudhuri said. "Because your discounting rate is higher, the valuations of those companies will look less attractive, because they're discounting at a higher level."

Rising real yields may also put greater pressure on companies that took out leveraged loans, which are made to borrowers that already have significant debt loads. Interest rates on these loans are usually floating, meaning they adjust in line with the broader market as opposed to being fixed at a particular level.

Rising real yields may also put pressure on groups that took out leveraged loans

"This is particularly bad news for leveraged borrowers," said Abrahams.

Ian Lyngen, head of US rates strategy at BMO Capital Markets, said that "sentiment across the economy, in terms of risk asset performance and the perception of the impact on consumers, is closer to real yields than it has been to nominal yields".

He added: "The logic there being that when adjusted for inflation, real yields represent the clear impact of effective borrowing costs on end users."

"Our returns have been frankly lower than expectations," said Musicco, who was appointed in February last year. "We constructed a portfolio to limit downside and missed out on a big chunk of growth . . . a 10-year era of growth."

Musicco said the scheme's returns had suffered from several missteps in 10 to 12 investment areas but zeroed in on the fact it had not deployed enough capital to private markets at a time when they were booming.

"Taking a sharper look at the scheme's private equity programme, the period between 2009 and 2018 was a period of time when we really stopped committing . . . the programme was put on hold," she said.

'We constructed a portfolio to limit downside and missed out on a big chunk of growth . . . a 10-year era'

"The impact of us not deploying capital during that period of time is estimated anywhere [from] $11bn to $18bn," she added.

Musicco was addressing the fund's investment committee following a "deep dive" into the system's performance over the past decade that was launched soon after her appointment. Calpers announced a 6.1 per cent loss in the year to June 30, a performance that lagged behind its peers.

Calpers also needed to "reflect" on its decision to favour global markets from 2008, said Musicco, rather than capitalising on domestic opportunities in the US.

"Our decision to go global for growth rather than having a home bias . . . didn't work as hoped," she said.

Unveiling plans to turn the scheme round, Musicco announced an overhaul of its governance and pledged "more frequent and dynamic" reviews of its asset allocation strategy.

"We really need to develop a robust governance framework to make sure we are really benefiting from agile decision-making," she said.

"Over the past 10 years, we have seen our returns being lower than expected, we've underperformed peers, we've had inconsistent pacing with our private market programmes," she went on to point out.

"We really need to make sure we have a culture that holds folks accountable for active risk-taking."

Equities

Chinese electric vehicle maker's $1bn listing to be biggest HK IPO this year

HUDSON LOCKETT — HONG KONG

Electric vehicle maker Zhejiang Leapmotor Technology is seeking to raise as much as $1bn in what would be Hong Kong's largest initial public offering this year, in the latest test of investor appetite for China's fast-growing EV market.

Leapmotor plans to raise as much as HK$8.1bn ($1bn) from the sale of about 131mn shares in Hong Kong in a range of HK$48-HK$62 each.

The IPO would be the biggest this year in Hong Kong, where only two listings have brought in more than $1bn. Both were secondary share sales by companies trading on mainland Chinese exchanges, with battery component supplier Tianqi Lithium raising $1.7bn in July and retailer China Tourism Group Duty Free $2.1bn last month.

Local brokers said investors remained broadly unenthusiastic about the city's IPO market, which has remained sluggish over the past year as Beijing has cracked down on fast-growing Chinese internet and technology groups, which were once responsible for most of Hong Kong's biggest listings.

"The IPO market at the moment in Hong Kong is lukewarm," said Dickie Wong, head of research at Kingston Securities. He added most local investors "are not participating in any IPO subscriptions any more because they can't make any profits".

Leapmotor's push to list this month has received substantial support from cornerstone investors.

State-run investment funds such as the Jinhua Industrial Fund and Zhejiang Industrial Fund, along with three other cornerstone investors, have pledged to buy about $308mn worth of shares.

Powering ahead: the assembly line at Leapmotor's factory in Jinhua, China

Leapmotor's core electric vehicle business operates in a sector that is widely expected to grow rapidly in the coming years, thanks to strong government support.

However, Kingston Securities' Wong said investors were less willing to ascribe "sky-high valuations" to Chinese EV makers because of the dominance of existing players such as BYD, known as "China's Tesla". "The industry outlook is quite promising," Wong said, "but, on the other hand, the competition is very keen between automakers."

According to its prospectus, Leapmotor recorded a net loss of Rmb2.9bn ($414mn) in the 12 months to the end of 2021, and a loss of Rmb1bn for the three months ending in March this year. Leapmotor said it would use proceeds from its listing on research and development, enhancing production capacity and boosting its sales network and branding.

JPMorgan, China International Capital Corp, Citigroup and China Construction Bank are sponsors of the deal, set to price on Friday. Leapmotor expects to begin trading on September 29.

Crypto

Nasdaq plans digital assets custody services and considers token trading

SCOTT CHIPOLINA — LONDON

Nasdaq is expanding into the crypto market in a fresh sign that the world's biggest financial institutions have not been deterred by the crash in digital asset prices.

The US exchanges operator said yesterday it was launching a digital assets services business that would begin with custody of crypto tokens for institutional investors. The New York company, which handles billions of dollars of share deals daily in stocks such as Apple and Tesla, also said it was considering rolling out trading of digital assets.

Its push comes on the heels of other big Wall Street names also rolling out crypto services, shaking off a turbulent summer for the market where the most popular crypto tokens, such as bitcoin and ethereum, plummeted in value, and the failed terra stablecoin project caused financial ruin for investors.

The size of the crypto market also fell from more than $3tn to less than $1tn, claiming once-prominent crypto firms such as Celsius and Three Arrows Capital as casualties.

Asset management giant BlackRock announced the launch of a spot bitcoin private trust made available to institutional clients and connected its trading network to crypto exchange Coinbase. Fidelity also said it would allow investors to add cryptocurrencies to their portfolios in 401(k) retirement plans.

Nasdaq said the custody of digital assets could lay the foundation for crypto trading services in the future.

'Distributed ledger technology is transformational for business, for finance'

"That is a progression that Nasdaq sees," said Ira Auerbach, Nasdaq's senior vice-president and new head of the unit, called Nasdaq Digital Assets.

Auerbach, a former executive at digital exchange Gemini, added that trading is "certainly further down the line. We believe custody is foundational."

He said the market's interest in the blockchain technology that underpins many digital assets had sustained the market's interest in spite of the crash. "Distributed ledger technology is transformational for business, for finance, and for the world at large," he added.

However, the market for custody of crypto assets is growing competitive. Unlike traditional assets such as shares or futures, the owners of the assets are as responsible for safeguarding the assets, much as they would be for protecting their cash. One Nasdaq rival, Intercontinental Exchange, failed to make headway in the market with its custody venture Bakkt.

Auerbach said Nasdaq had "absolutely unrivalled" institutional knowledge and had talked to market participants about "pain points for institutions" involved in the crypto space. "We think we are in a unique position and have a right to win in that space both on custody and eventually building on top of that for other services," he added.

Nasdaq said it would also be able to employ its other capital market services, such as surveillance, market abuse and financial crime software. Last year, a record $14bn worth of cryptocurrencies was used for illicit activity, more than double that in 2020, according to analytics firm Chainalysis.

The day in the markets

What you need to know

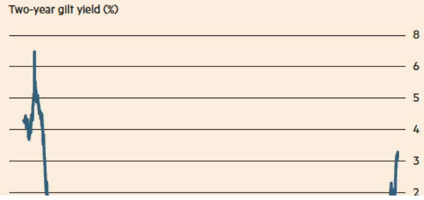
- Ford slips almost 7% as supplier costs soar by a further $1bn
- S&P 500 drops 0.8%, while the tech-heavy Nasdaq Composite slides 0.7%
- Yield on 10-year German Bund jumps 0.15 percentage points to 1.94%

US stocks turned lower yesterday and government bonds came under pressure, as investors awaited an interest rate decision by the Federal Reserve.

Wall Street's S&P 500 gauge lost 0.8 per cent, while the technology-heavy Nasdaq Composite slid 0.7 per cent. In Europe, the regional Stoxx 600 gauge fell

UK government bonds under pressure

Two-year gilt yield (%)



To enforce Russia oil cap, G7 must fix maritime gaps

Michelle Wiese Bockmann

Markets Insight

If G7 leaders really want to enforce a proposed strict price cap on Russian oil exports, they will have to do more to plug the regulatory gaps in

gating the practices with a report expected in 2024.

Russian oil producers will be able to quickly scale up logistics workarounds

The same mid-Atlantic transshipment practices for Russian oil are seen at anchorages off Malta, Ceuta (the Spanish autonomous city on the

Europe, the regional Stoxx 600 gauge fell 0.8 per cent, while London's FTSE 100 slipped 0.5 per cent as traders returned after a UK public holiday to mark the state funeral of Queen Elizabeth II.

Central bankers are poised this week to discuss how far they can jack up borrowing costs to curb rapid price growth, while facing the prospect of a prolonged global economic downturn.

In a reflection of the challenges weighing on corporate America, shares in Ford slipped almost 7 per cent in early dealings yesterday after the carmaker said on Monday that inflation-related supplier costs in the third quarter would run about $1bn higher than expected.

That announcement came days after a profit warning from FedEx led the group's shares to their biggest daily drop on record.

Yields on US government debt ticked upwards yesterday, after reaching their highest levels in more than a decade on Monday ahead of the start of the Fed's two-day meeting at which rate-setters are expected to deliver a third 0.75 percentage point rate rise in a row.

The yield on the 10-year US Treasury note added almost 0.1 of a percentage point to 3.59 per cent, having pushed above the 3.5 per cent threshold in the previous session for the first time since April 2011. The yield on the policy-sensitive two-year bond remained at a 15-year high of 3.98 per cent.

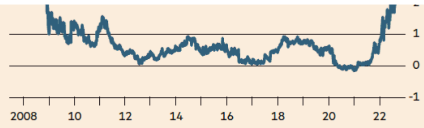
Selling pressure was more pronounced in eurozone debt markets, with the yield on the 10-year German Bund up 0.15 percentage points to 1.94 per cent. The UK's 10-year gilt yield also added 0.15 percentage points to 3.3 per cent, while the two-year gilt yield rose 0.22 percentage points to 3.34 per cent.

In the UK, markets are pricing in the likelihood of the Bank of England raising interest rates by 0.75 percentage points this week, following a 0.5 percentage point increase in August, the sharpest rise in 27 years.

Sweden's central bank raised its policy interest rate by a full percentage point to 1.75 per cent.

Sterling slipped 0.4 per cent to $1.139 after sinking on Friday to its lowest level against the dollar since 1985.

Chris Flood and Harriet Clarfelt



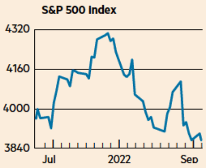
Bond yields rise as their prices fall
Source: Refinitiv

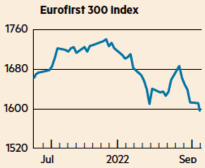
Markets update

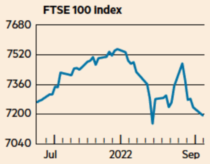
	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	3872.45	1595.81	27688.42	7192.66	3122.41	112120.23
% change on day	-0.70	-0.97	0.44	-0.61	0.22	0.27
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	110.131	1.000	143.735	1.141	7.013	5.168
% change on day	0.359	-0.100	0.314	-0.059	0.000	-0.992
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	3.569	1.922	0.255	3.289	2.659	12.630
Basis point change on day	8.720	12.300	0.280	15.800	-1.200	12.600
World index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	392.42	90.05	83.20	1664.65	19.00	3679.00
% change on day	-0.69	-1.32	-1.90	-1.45	-1.94	-0.28

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







Biggest movers

%	US		Eurozone		UK	
Ups	Wynn Resorts	5.28	Porsche	3.87	Lloyds Banking	2.50
	Las Vegas Sands	3.86	Ucb	1.42	Haleon	2.33
	Expedia	2.26	Volkswagen	1.23	Int Consolidated Airlines S.a.	2.23
	Apple	2.17	Raiffeisen Bank Internat	1.20	Halma	1.75
	Netflix	2.13	Danske Bank	0.92	Fresnillo	1.48
Downs	Ford Motor	-9.79	Ses	-7.46	Ocado	-9.63
	Iron Mountain	-6.28	Kone	-5.41	Persimmon	-6.50
	Weyerhaeuser	-5.77	Coloplast	-4.94	Barratt Developments	-5.64
	Int Paper Co	-4.82	Heidelbergcement	-4.57	Intermediate Capital	-5.44
	Westrock	-4.72	Klepierre	-4.39	Admiral	-5.28

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

Auto group **Ford** sank to the bottom of the S&P 500 benchmark after flagging up supply chain issues.

It said during the third quarter, inflation-related supplier costs would run to about $1bn, "higher than originally expected". The supply shortages would result in 40,000 to 45,000 "vehicles on wheels" — built but awaiting parts — at the end of the quarter.

Ford's rival, **General Motors**, also sank following the warning.

The supply chain was also at the centre of news on **Cognex**, which provides machine vision products. The group rallied after revealing it could fulfil orders "sooner than anticipated" owing to its ability to replenish inventory destroyed in a fire at its main contract manufacturer.

Cognex increased its revenue guidance for the third quarter, forecasting sales of between $195mn and $205mn, up from a previous estimate of $160mn to $180mn.

Casino operators **Wynn Resorts** and **Las Vegas Sands** climbed following reports China was set to ease entry rules for some foreign tourists. Both groups have properties in Macau, a peninsula off the south coast of China.

Biotech group **Virax** soared on announcing the distribution of monkeypox test kits in markets accepting the CE safety mark, such as the EU.
Ray Douglas

Europe

The withdrawal of its guidance sent Austria's **Lenzing** tumbling. The chemicals company said it was suspending its earnings outlook for its 2022 financial year owing to a "drastic deterioration of the market environment".

High volatility in energy and raw material costs prompted the move, it said.

Swiss biotech supplier **Bachem** rallied after securing two contracts, worth SFr25mn ($26mn) next year and SFr150mn in 2024.

The deals related to the provision of "large volumes" of peptides to unnamed customers, with the possibility of "significantly higher orders for the following years", said Bachem.

Another supply deal pushed Denmark's **Bavarian Nordic** higher. The biotech group announced a revised contract with the Public Health Agency of Canada worth $234mn to supply its smallpox vaccine, with a further option at $180mn.

A new multiyear contract was also signed with Canada's Department of National Defence, worth $2mn alongside options of up to $18mn. A surge in monkeypox cases across the globe has increased demand for smallpox vaccines that can also treat the outbreak.

Danish lender **Sydbank** rose after lifting its profit outlook for 2022 due to a "significant increase in core income", it said. *Ray Douglas*

London

Publisher **Future** dived after confirming media speculation that its chief executive had "informally indicated that she would like to step down by the end of 2023".

Zillah Byng-Thorne is approaching nine years at a group that, before yesterday's sell-off, had risen more than 600 per cent since she joined.

Another boardroom shake-up weighed on **Frasers Group**, which announced that director Mike Ashley would be stepping down.

Russ Mould, investment director at AJ Bell, said the move felt "seismic".

Ashley's "entrepreneurial skills . . . helped take the business from a single store in Maidenhead to one of the UK's largest retailers", said Mould.

Home improvement chain **Kingfisher** fell following a 30 per cent year-on-year slide in pre-tax profit to £472mn for the six months ended July 31.

Analysts at RBC Europe noted that a softer UK performance had been offset by "stronger than expected results in France and Poland".

SThree, a specialist in filling positions in the science, tech and engineering sectors, rallied after lifting its outlook. For its 2022 financial year, SThree expected pre-tax profit to be "at least" 7 per cent ahead of the market consensus, led by growth in Germany, the US and the Netherlands. *Ray Douglas*

more to plug the regulatory gaps in the global shipping industry. Russian oil producers and Chinese buyers are already exploiting the same tactics used to ship US-sanctioned Iranian and Venezuelan crude around the globe.

Such strategies to obfuscate the origin and destination of oil are numerous, and are threatening the integrity of the global regulatory system underpinning world trade.

But at the core of these tactics are multiple ship-to-ship transfers on a fleet of elderly, anonymously owned tankers that regularly change names and national flags, often with laundered identification numbers. They also often have questionable insurance, and switch off or manipulate vessel-tracking data so movements cannot be traced.

This underbelly of substandard ships ply some of the world's busiest waters carrying billions of dollars of oil unchecked.

Combined Iran and Venezuelan volumes are about 1.5mn to 1.6mn barrels per day, which is about 3 per cent of total seaborne trade in oil. Iran is about 1mn to 1.2mn bpd of this and Venezuela about 400,000 to 500,000 bpd. To put that in context with Russia: in August, some 1.7mn bpd of Russian seaborne crude exports went to EU, 1.7mn bpd to China and 1mn bpd to India.

Some 220 tankers are thought to use subterfuge practices to evade detection of shipments of US-sanctioned Venezuelan and Iranian oil, mostly to China and Syria.

The legal committee of the UN agency responsible for shipping, the International Maritime Organisation, is investigating quickly scale up logistics workarounds with buyers so that oil can circumvent embargoes and price caps; there is evidence this has already begun. At least a dozen tankers previously engaged in Iranian or Venezuelan oil trades have switched to Russia in the past three months as European and North American bans begin, and amid self-sanctioning by many north-west European shipowners.

Post-sanctions, once Russia-linked and newly acquired ships are added to the mix, 400 vessels could be deployed for transporting oil from Iran, Russia and Venezuela, according to an estimate by Paris-based shipowner BRS Group. That would be about 10 per cent of the international tanker fleet.

> A key question, though, might be how strictly the G7 wants to enforce a price cap

At least one anonymous Chinese buyer has spent $376mn since February to buy a fleet of 13 elderly tankers now at the centre of a fully operational, mid-Atlantic tanker transshipment hub for Russian crude to China, a Lloyd's List inquiry showed. This hub in international waters enables high-risk, ship-to-ship transfers of Russian-origin crude.

Under scant regulatory and technical oversight, oil from Baltic Russian ports is transferred to larger tankers, often with vessel-tracking transponders off. The tankers then set sail for China.

(the Spanish autonomous city on the Moroccan side of the Strait of Gibraltar) as well as Kalamata off Greece, Kavkaz, Russia, and Alexandria, Egypt. Similar hubs for Iranian crude are seen at anchorages in international waters off the United Arab Emirates, Oman and Malaysia.

Other tactics allow vessels to broadcast or display misleading details about their location or identity. The transmission of laundered Maritime Mobile Service Identity numbers, a nine-digit number assigned to a ship's radio, allows owners to change things around in much the same way as putting in a new SIM card can change a mobile phone number.

More worryingly, the North Korean playbook shows Russia it's possible to launder identity numbers, which are issued by the UN agency and meant to remain with a ship for its lifetime, no matter how many name or ownership changes.

Any accompanying phoney documentation goes unchecked because shipowners target countries to register, or flag, vessels where law enforcement is poorly resourced.

A key question, though, might be how strictly the G7 wants to enforce a price cap. It is clear that even if the grey market in Russian oil expands, it is still not enough to carry all the current traffic to China, India and the EU.

A shortfall in supply could add to upward pressures on oil prices, risking more cash going to the Kremlin.

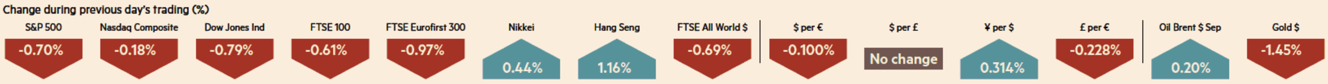
Michelle Wiese Bockmann is markets editor at Lloyd's List

MARKET DATA

WORLD MARKETS AT A GLANCE

FT.COM/MARKETSDATA

Change during previous day's trading (%)

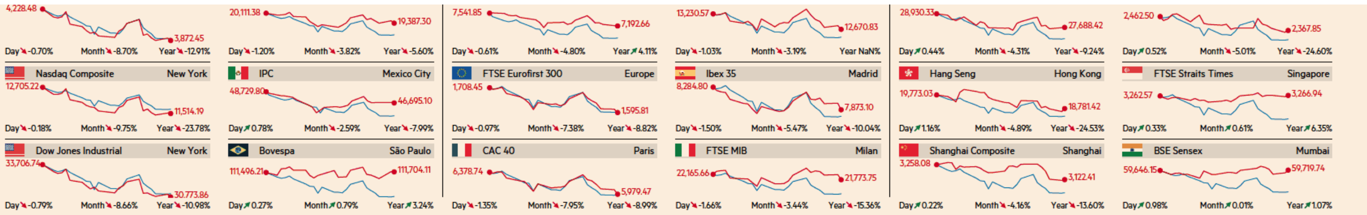


Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison

AMERICAS
Aug 21 - - Index All World
S&P 500 New York
Aug 21 - Sep 20 Index All World
S&P/TSX COMP Toronto

EUROPE
Aug 21 - Sep 20 Index All World
FTSE 100 London
Aug 21 - Sep 20 Index All World
Xetra Dax Frankfurt

ASIA
Aug 21 - Sep 20 Index All World
Nikkei 225 Tokyo
Aug 21 - Sep 20 Index All World
Kospi Seoul



(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

Based on the constituents of the S&P500 | Based on the constituents of the FTSE 350 index | Based on the constituents of the FTSEurofirst 300 Eurozone index | Based on the constituents of the Nikkei 225 index

UK MARKET WINNERS AND LOSERS

FTSE 100 | FTSE 250 | FTSE SmallCap | Industry Sectors

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

CURRENCIES

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

UK SERIES www.ft.com/equities

Produced in conjunction with the Institute and Faculty of Actuaries

FT 30 INDEX

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

FT WILSHIRE 5000 INDEX SERIES

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FTSE GLOBAL EQUITY INDEX SERIES

FTSE SECTORS: LEADERS & LAGGARDS

Year to date percentage changes

FTSE 100 SUMMARY

UK STOCK MARKET TRADING DATA

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

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POWERED BY MORNINGSTAR

UK RIGHTS OFFERS

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

UK COMPANY RESULTS

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

§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 Share Service notes.

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

Stock	Price	Day Chg	52 Week High	52 Week Low	Yld	P/E	MCap m
Australia (A$)							
ANZ Bank	23.84	0.28	28.75	20.78	5.79	10.92	47739.78
BHP Group	39.18	1.37	53.72	35.56	9.60	10.05	132839.82
CmwBkAu	96.53	1.87	110.19	86.98	3.32	19.84	109876.25
CSL	283.03	0.05	319.78	240.10	0.98	44.28	91408.86
NatAusBk	30.22	0.52	33.75	25.43	2.72	17.59	63911.98
Telstra	3.80	0.01	4.20	3.62	2.41	33.78	29406.71
Wesfarmers	46.04	0.60	61.34	40.03	3.54	25.86	34962.39
Westpac Bank	21.89	0.34	26.44	18.80	3.71	17.40	51329.58
Woolworths	34.87	0.20	41.13	32.62	2.83	43.45	28349.79
Belgium (€)							
AnBshInBv	49.43	-0.40	58.72	46.66	1.03	25.71	85813.45
KBC Grp	54.26	-1.06	86.50	45.53	6.08	9.20	22607.67
Brazil (R$)							
Ambev	15.54	0.07	18.12	12.81	3.42	24.87	47360.9
Bradesco	16.60	0.54	17.29	13.53	4.71	8.14	15644.84
Cielo	5.30	0.01	6.22	2.01	2.59	19.01	2786.23
ItauHldFin	24.02	0.73	27.85	18.86	3.04	10.07	23045.54
Petrobras	34.94	0.12	40.51	24.50	12.95	5.28	50317.69
Vale	68.70	-1.76	107.11	61.85	17.83	3.25	63528.02
Canada (C$)							
Bausch Hlth	9.80	0.01	37.42	5.10	-	-3.30	2651.85
BCE	61.97	-0.59	74.09	60.93	5.03	23.29	42361.64
BkMontrl	126.13	-1.42	154.47	118.79	3.19	10.89	63773.6
BkNvaS	70.72	-0.87	95.00	69.95	4.67	9.93	63154.06
Brookfield	63.49	-0.62	79.04	55.51	0.92	23.63	77880.95
CanadPcR	97.74	-0.60	106.93	82.12	0.69	26.27	68143.45
CanImp	63.27	-0.74	167.50	59.03	8.45	4.92	42906.86
CanNatRs	70.27	-1.22	88.18	40.69	2.53	12.22	59185.89
CanNatRy	155.90	-0.26	171.48	137.26	1.40	25.42	79709.91
Enbridge	54.07	-0.70	59.69	46.88	5.50	21.17	82066.19
GtWesLif	31.12	-0.67	41.50	29.93	5.52	9.82	21735.98
[illegible]							

Stock	Price	Day Chg	52 Week High	52 Week Low
Finland (€)				
Nokia	4.60	0.01	5.71	4.12
SampoA	44.93	-0.94	48.74	35.85
France (€)				
Airbus Grpe	91.97	-1.47	120.36	88.91
AirLiquide	118.56	-2.72	153.40	118.02
AXA	24.94	-0.11	29.09	20.34
BNP Parib	48.44	-0.92	68.07	40.67
ChristianDior	613.00	-8.00	733.50	513.00
Cred Agr	9.27	-0.14	14.27	8.09
Danone	49.53	-0.12	60.35	46.48
EDF	11.92	0.01	12.67	6.64
Engie SA	12.60	-0.28	14.61	9.79
EssilorLuxottica	143.90	-1.00	195.00	132.70
Hermes Intl	1244.5	2.50	1678	957.60
LOreal	334.05	1.00	433.65	300.45
LVMH	634.00	-7.00	741.60	535.00
Orange	9.80	-0.25	11.94	8.93
PernodRic	184.65	-4.20	214.50	166.60
Renault	31.20	-0.38	38.07	20.47
Safran	96.52	-2.60	123.12	87.85
Sanofi	79.77	-0.57	106.08	76.45
Sant Gbn	39.62	-0.92	64.82	39.03
Schneider	116.06	-2.44	173.78	110.02
SocGen	23.45	-0.51	37.68	18.34
Total	48.87	-0.43	57.41	37.34
UnibailR	48.37	-2.17	73.09	45.69
Vinci	90.40	-1.49	103.74	80.74
Vivendi	8.46	-0.06	12.16	6.22
Germany (€)				
Allianz	171.86	-2.24	232.50	164.46
BASF	41.60	-0.80	69.15	39.33
[illegible]				

[illegible]

FT 500: TOP 20

[illegible]

FT 500: BOTTOM 20

[illegible]

BONDS: HIGH YIELD & EMERGING MARKET

[illegible]

BONDS: GLOBAL INVESTMENT GRADE

[illegible]

INTEREST RATES: OFFICIAL

[illegible]

INTEREST RATES: MARKET

[illegible]

BOND INDICES

[illegible]

VOLATILITY INDICES

[illegible]

BONDS: BENCHMARK GOVERNMENT

[illegible]

GILTS: UK CASH MARKET

[illegible]

GILTS: UK FTSE ACTUARIES INDICES

[illegible]

COMMODITIES

[illegible]

BONDS: INDEX-LINKED

[illegible]

BONDS: TEN YEAR GOVT SPREADS

[illegible]

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

Left behind by the revolution

Wolfgang Tillmans was once ahead of his time, but has time caught up with him? Ariella Budick visits a MoMA retrospective of his work

From left: 'Lutz & Alex sitting in the trees' (1992); 'blue self-portrait shadow' (2020) — All images courtesy of the artist, David Zwirner, New York / Hong Kong, Galerie Buchholz, Berlin / Cologne, Maureen Paley, London

Wolfgang Tillmans seems to think we've all lived the life he photographed. "I can get in touch with somebody when they recognise a feeling," he has said, claiming to read his public's thoughts: "'Oh, I felt like that before. I remember jeans hanging on a banister, even though I've never seen that exact pair. I've seen my oranges on a windowsill.' It's the sense that 'I am not alone'."

Wolfgang Tillmans: To look without fear, a full-immersion retrospective at MoMA in New York, overflows with moments of presumed recognition. There are, in fact, oranges on a windowsill and jeans dangling from a banister. Also, living rooms defaced by a night's partying, and an abundance of stubbled heads and hairy armpits. People dance, kiss, clean themselves. Tillmans' work depends on the sense of community that these fragments of existence might foster, instants preserved and ennobled by the fact that he observed them. Surely you, dear viewer, who have known sweat and hangovers, are moved by the knowledge that others have, too.

Or possibly not. Tillmans' photographs emerged from a context that is more transient and clubby than universal. Technically haphazard or out-of-focus, they speak most stirringly to those who were young in the 1990s — specifically, to the subculture of dance parties, exuberant sexual experimentation, cassette mix tapes and filthy apartments. I belong to Tillmans' generation, but not to his world, and the feeling I get from his early photographs is less "you've been here" than "you had to be there".

MoMA's blowout puts the full force of the museum's institutional cred behind the 54-year-old artist's output. Eight years in the making, with 417 works that fill the entire sixth floor, the show aims to be definitive. It also seems valedictory because while Tillmans could still have decades of creative work ahead of him, as a photographer he seems spent. "To look without fear" centres on the era between the fall of the Berlin Wall and Brexit, when Europe was a land of open borders and freewheeling cosmopolitanism. It oozes with nostalgia for a time before ubiquitous digital cameras and social media, when professionals could titillate connoisseurs by celebrating amateurishness, and the idea of documenting nothing much could still be read as transgressive.

His most memorable photos came early in his career. A 1992 shot captures his friends Lutz and Alex perched in a tree, wearing raincoats that fall open to reveal their prelapsarian nakedness. Like an impishly androgynous Adam and Eve, they have climbed the forbidden tree and sit in foliage, their dewiness fixed forever. The edgy indie publication i-D included this shot in a spread of Lutz and Alex's cryptic relationship (the title was "like brother like sister: a fashion story"), propelling Tillmans into the world of magazines, photojournalism, art galleries and museums.

From the beginning, he grasped the power of art historical reference to elevate the everyday. Portraits of his friends evoke the bodies of German Renaissance nudes. In a 1988 self-portrait in a swimsuit, Tillmans adopts the contrapposto of Cézanne's monumental male bather (a star in MoMA's collection). "Anders pulling a splinter from his foot" (2004) summons the torqued body and fixed concentration of the "Spinario", a Roman bronze in the collection of the Metropolitan Museum.

MoMA acknowledges these links to the past, but it's more intent on pumping up Tillmans' radicalism and continued relevance. In a catalogue essay, senior curator Roxana Marcoci makes much of the fact that his work has appeared in many formats: postcards, music videos, set designs and so on. "By transmitting, sharing and setting images free, by multiplying their lives, he proposes a fully democratised experience of art," she writes.

Never mind that he was hardly the first photographer to publish wherever and however he could, or to slip from the rarefied to the plebeian and back again. Marcoci's claim, like the show as a whole, ignores how smartphones and social media have done a more thorough job of distributing and democratising images than any single maestro could. Now everyone can do what Tillmans did in the 1990s: cherish the magic of banality. Sure, he was uncannily prescient about today's deluge of pets, plants, selfies and dick-pics. He saw such undistinguished snapshots as agents of empathy, oracles of feelings, thoughts and ideas. But what happens to your uniqueness when your insight becomes obvious? MoMA sets out to make an argument for a body of work that winds up foundering on its own mediocrity. Asserting that he got there first isn't enough.

Tillmans dismisses the idea of a photograph as aesthetic object, yet he gets prickly when critics dismiss his work as shallow. "A painting by Ernst Ludwig Kirchner or George Grosz of a nightclub scene from 1924 Berlin [is] seen as culture" he has said. "Whereas people would shrug off a wild night at the Front nightclub as a decadent party." He appears to confuse subject matter with form. Grosz made nightlife meaningful because he brought his gifts as painter and draftsman to bear on political satire. Tillmans has no such power.

What makes this retrospective so disappointing is not just the work's unimpressive artistry, but its stunted consistency. Tillmans hasn't developed much since his heyday, a fact that he tries to hide with a non-chronological arrangement. Though he continues to worship youth, his improvisational manner has aged poorly. He took up digital photography in 2008, but its precision gleam undercuts the roughness, so that his pictures become more generic. Spare abstractions that suggest close-ups of fabric or drying paint are as interesting as they sound. He tries to compensate for the scant charm by sprinkling them among shots of unapologetic youths, and by making them really big.

> Now everyone can do what Tillmans did in the 1990s: cherish the magic of banality

The installation is part of the opus. Tillmans prints his pictures in dimensions that range from postcard to mural, and hangs them in random groupings, whether toddler height or near the ceiling. Some are fixed to the wall with tape or pins, while others are framed. Navigating this exhibition feels like a game with secret rules and no obvious goal.

This comes off as affectation, a way to distract from repetition. The approach is more reactionary than radical. The point that photography lies somewhere between mass-market medium and a museum-worthy object has been made many times before, and the studied informality hearkens back to El Lissitzky's 1929 *Film und Foto* showcase of avant-garde photographs and MoMA's own *Family of Man* blockbuster in 1955. In the end, the show manages to undercut its own premise: instead of presenting Tillmans as a pivotal, crucial figure, it reveals a tentative, backward-looking artist left behind by his own revolution.

To January 1, moma.org

'August self portrait' (2005)

Gaming nostalgia proves lucrative

Developers and players are cashing in with remasters, updates and a $200,000 tournament. By Chris Allnutt

Heidelberg Castle has suffered more than its fair share of disaster over the centuries. Partially destroyed by lightning in 1537, it was twice sacked by the French during the Nine Years' War before lightning struck again in 1764 and it was ravaged by the resulting fire. By the time Mark Twain came to it in the 1870s, it was "deserted, discrowned, beaten by the storms, but royal still".

It is a fitting place, then, to hold a tournament for *Age of Empires II*, a game in which battles rage and castles fall with alarming regularity — but one that continues to stand the test of time. When the 16 players competing in the sixth edition of Red Bull Wololo: Legacy enter the castle in October, they will be hoping to sustain rather less damage to their own defences than Heidelberg has.

That a medieval real-time strategy game first released in 1999 can still attract a tournament with a $200,000 prize pool speaks to its timelessness: the game was so beloved for its easy-to-pick-up but hard-to-master mechanics that it spawned first an *HD Edition* in 2013, then a *Definitive Edition* in 2019, not to mention expansions, the most recent released in April this year.

"*Age of Empires II* struck the perfect balance," says professional player Ørjan Larsen, better known to the community as "TheViper", who will be hoping to fact that a winning formula cannot easily be improved upon. Of the 10 most played games on the PC platform Steam in the past week, half were first released in 2013 or before, including the top two.

We live in an age of rose-tinted remasters, and such is the apparent appetite for old favourites that we're seeing the release of updates to titles that are newer than the classics we're still playing. The two most recent *Uncharted* titles, released in 2016 and 2017, have already been enhanced and repackaged

> That a medieval strategy game from 1999 can still attract a tournament speaks to its timelessness

for PlayStation 5. *The Last of Us* (2013) has been remastered twice while epic *The Witcher 3: Wild Hunt*, released seven years ago, is set for a next-generation release later this year.

And it is, by and large, older titles — those that have had longer to build a competitive scene and tweak their game mechanics — that dominate the most lucrative tournament rosters. *Dota 2* continues to top the table for e-sports prize money, with about $48mn up for grabs in 2021, eight years after its initial release. *Counter-Strike: Global Offensive* (2012) and *League of Legends* (2009) earned players $21mn and $8mn respectively. That's nearly a third of all 2021's prize money.

As a franchise, *Age of Empires* speaks particularly well to the penchant for nostalgia. The series has spawned four games in total, with *Age of Empires IV* released last year, but the second game still boasts the higher player count on Steam. The success says more than any competition between the two, argues Will McCahill of World's Edge, the Microsoft studio behind the franchise.

"The vision for *AoE II Definitive Edition* was to make *Age II* as people remembered it, not the way that it actually was," he says. "The goal of *Age of Empires IV* was to build a modern take on the classic [formula]."

Heidelberg Castle is no stranger to rebuilds, having been partially restored at the end of the 19th century; empty windows remain on an upper facade, a reminder of what once stood behind. Gaming's own history is somewhat shorter, but those competing will still be hoping to prove that while most empires rise and fall, some are eternal.

Red Bull Wololo: Legacy takes place October 21-30, redbull.com

Ørjan 'TheViper' Larsen, left, takes on Marco 'JorDan_AoE' Bloch at Red Bull Wololo V last year

defend his Red Bull Wololo title. "Even if the game from 1999 was released now, it would still be a decent game."

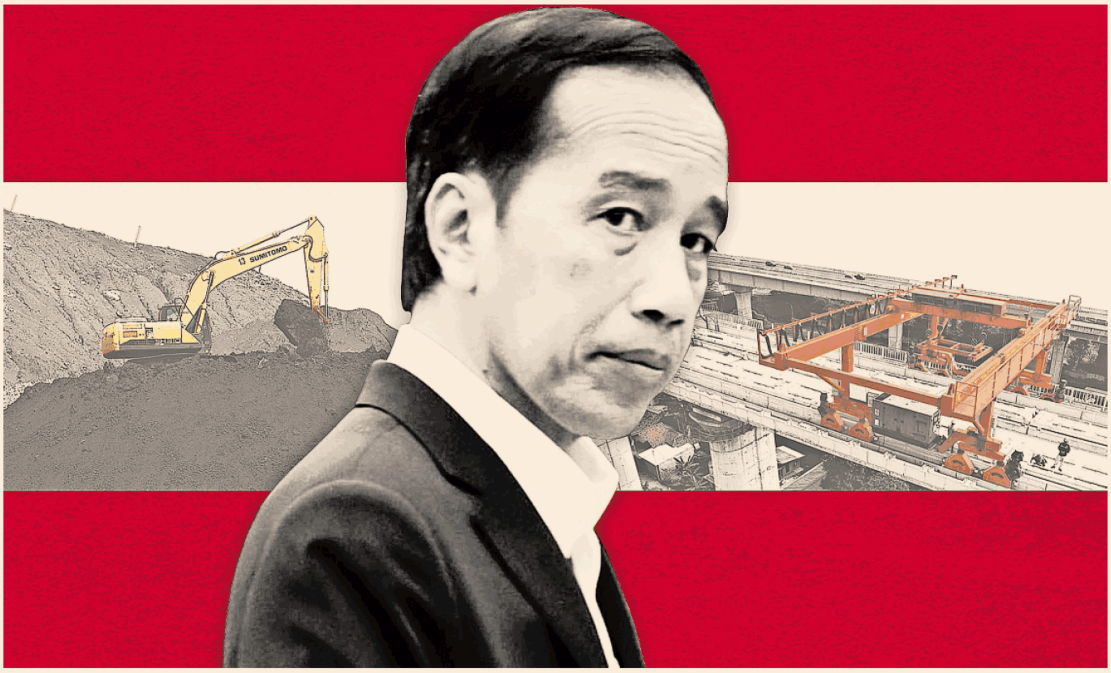
Age of Empires II is far from the only title to attract both love and money long after it first hit the shelves. Its continued success speaks to a certain nostalgia among gamers, or perhaps simply to the

Julian Schilase

FT BIG READ. ASIA

The economy is prospering under President Joko Widodo even as global growth stutters. But with no clear successor ahead of elections in 2024, the country's political stability could be put to the test.

By Mercedes Ruehl and Joe Leahy



Indonesia's wealth of natural resources has enabled President Joko Widodo to spend heavily on infrastructure

FT montage; Bloomberg

Indonesia's success story

In 2013 the US investment bank Morgan Stanley dubbed Indonesia as one the "fragile five", a group of emerging economies that it believed were especially vulnerable to a jump in interest rates in the US.

Almost a decade later, US interest rates are rising sharply, which is adding to the economic problems in the developing world. But Indonesia appears unruffled.

At a time when the global economy is being battered by the war in Ukraine and the energy, food and climate crises, Indonesia has emerged as an unlikely outlier, boasting both a booming economy and period of political stability.

Gross domestic product expanded 5.4 per cent year on year in the second quarter, well above forecasts. The country's inflation rate of 4.7 per cent in August, prior to a recent petrol subsidy cut, is one of the lowest globally. Its currency, the rupiah, is among the best performing in Asia this year and its stock market is hitting record highs.

The resource-rich archipelago, south-east Asia's largest country with 276mn people, is riding high on soaring commodity prices. Exports rose 30.2 per cent year on year to $27.9bn last month, the most on record. The world's largest producer of nickel, a critical component in electric vehicle batteries, Indonesia is putting in place plans to benefit from the surge in EVs.

Much of the credit for this boom has gone to President Joko Widodo, who has managed to maintain popularity with both ordinary Indonesians and investors alike after eight years in power. A poll released this week by research firm Indikator Politik Indonesia showed 62.6 per cent of Indonesians approved of the charismatic former furniture salesman's performance, down about 10 percentage points since before the fuel subsidies were cut, but still leaving him as one of the world's most popular democratic leaders.

Support for Widodo, who is known as "Jokowi", is so strong that at one point his supporters were pushing to change the constitution to allow him to stand for a third term in office.

Widodo will have a chance to show off this prosperity to the world when he hosts the Group of 20 summit in Bali in November. He plans to use the event to court interest from global investors, including for his most ambitious and controversial plan yet — a more than $30bn proposal to shift Indonesia's capital from Jakarta to the jungle-clad island of Borneo, a project that could yet decide his legacy.

"What we want to build is [a] future smart city based on forest and nature," the president tells the Financial Times over a lunch of spicy soup and Japanese barbecue at the presidential palace in Jakarta, his face lighting up at the mention of the new capital. "This will showcase Indonesia's transformation."

But even as investors flock to see the new Indonesia, some worry about the sustainability of its newfound stability. Next year, campaigning begins for the 2024 election and Widodo does not yet have an anointed candidate to carry on his agenda. Critics say he could have done more to further embed Indonesia's young democratic institutions, leaving it vulnerable if a more venal leader comes to power in future.

"So many emerging markets have problems. Indonesia doesn't have them right now, the economy is firing on all cylinders," says Kevin O'Rourke, a Jakarta-based analyst on Indonesia and principal at consultancy Reformasi Information Services.

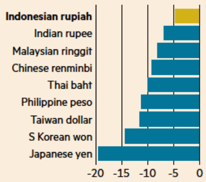
"The problem is politics. We are 18 months from election day and that could present a stark contrast in Indonesia's longer-term outlook. It could be good after 2024 or it could be quite bad."

Political outsider comes good

The Widodo who will host world leaders at the G20 summit is almost unrecognisable from the humble former mayor of Solo, Central Java, where he started his political career 17 years ago. Although he retains some of his old pastimes, such as listening to heavy metal and riding motorbikes, he has emerged as an astute political tactician at the national level. A

The rupiah has been relatively untouched by this year's strengthening of the dollar

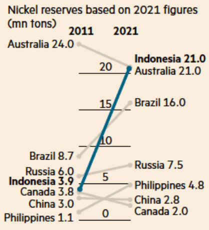
Change vs $, Oyear to date (%)



Source: Refinitiv

Indonesia has the largest nickel reserves in the world

Nickel reserves based on 2021 figures (mn tons)



Sources: US Geological Survey; National Minerals Information Center

has helped the economy. With inflation relatively low, Indonesia's central bank only raised interest rates for the first time in three years in August to 3.75 per cent. Banks are also still lending and exports are booming, not just from commodities. Widodo's signature "omnibus law" that loosened employment regulations to help job creation has encouraged more foreign investment, as some producers diversify manufacturing away from China.

"You can see what Indonesia is exporting now, right across the board. You name it: textiles, garments, footwear, machinery, furniture, electronics, autos . . . things that create good jobs and incomes. This was the second year of double-digit, year-on-year growth," says Reformasi's O'Rourke, referring to Indonesia's export earnings over the past several months.

Economists warn that Indonesia's main commodity exports, such as coal and palm oil, still play a "big role" in driving growth. Commodity prices could start to lose steam this year as western economies slow down, says David Sumual, the chief economist of Bank Central Asia in Jakarta.

"Next year will be quite a challenge," he says. "That's why I have downgraded my GDP forecast to below 5 per cent."

Inflation, which has been suppressed by fuel subsidies, could also rise quickly to hit 8 per cent by October, according to Priyanka Kishore, chief economist for south-east Asia and India at Oxford Economics. "The central bank has jumped on the global hiking cycle later. They may have to do a bit more, more quickly, to tackle inflation now," she says.

At a busy market in Jakarta, the price of chillies used in staple dishes such as *nasi goreng*, Indonesian fried rice, have increased after the fuel subsidy cuts by more than 50 per cent, hitting sales, says vendor Arif Rachman, 28. "I usually sell 5kg of red chilli. Today it was about 3kg," he says, troubled by the rise in costs.

Indonesia has introduced restrictions on some commodities, including taxes on coal and nickel, that have jolted markets. Yet they have also helped the

railway — China's first overseas high-speed bullet train project — while others have been poorly planned, with some shiny new airports in far-flung locations devoid of travellers. But the makeover is clearly visible, even to outsiders.

"I expected a change. But I didn't expect such a change. Yes, there were traffic jams but they are not as bad as before," the former Singaporean minister Yeo says of a recent visit to Indonesia. "Jakarta airport is better than any airport in the US."

Yet by far the flagship industrial policy of Widodo's second term has been his attempt to use Indonesia's huge nickel reserves — which are tied with Australia as the world's largest — to create a domestic electric vehicle industry.

In 2020, the government banned outright the export of nickel ore, forcing foreign companies, many of them Chinese, to begin refining it onshore. While most of the end-product is going into the stainless steel industry, the aim is to begin extracting more higher grade material for use in batteries. Indonesia is expected to provide a significant part of the new nickel supply needed by the global EV industry, but its reserves of laterite ore require more processing.

Widodo credits the restrictions with lifting the value of nickel ore-related exports from $1.1bn annually five years ago to nearly $20.9bn last year.

He adds that the next step could be to extend the policy to Indonesia's large reserves of bauxite and copper. Demand for the materials, used for aluminium production and renewables, is also growing globally. While the EU has challenged the export restrictions for unfairly limiting access of European producers in the World Trade Organization, Widodo is unapologetic. "It can create jobs for the people and give the added value for Indonesia," he says.

The plan to refine Indonesian ore into battery-grade material is still just starting, with one refining plant commissioned in May last year and seven more in the pipeline, all on the island of Sulawesi, according to Isabelle Huber, a visiting fellow at the Center for Strategic

an investment advisory business.

The nickel industry, however, still faces problems. The most common process for producing battery-grade materials is through the high-pressure acid leaching (HPAL) method, which produces the largest quantities of waste, known as tailings. Indonesia bans dumping of this toxic residue into the ocean, while "dry stacking" these tailings is difficult in a high-rainfall tropical environment. This could be an obstacle to supplying western markets, adds Bryson, as EU and US EV battery manufacturers "won't be open to processes which produce tailings".

Another potential problem is the use of dirty coal-fired power as energy for nickel processing plants. This will make it hard for batteries sourced from this nickel to be sold in the US and EU.

The issues around nickel are part of a broader series of criticisms of the country's environmental record. Local coal producers are able to supply 25 per cent

5.4%	2,042km
Year-on-year GDP growth in the second quarter, beating forecasts	Length of toll roads built throughout Indonesia under President Widodo

of coal to local plants at a steep discount, hindering the ability of renewable energy projects to be competitive, including solar, in a tropical country. "It is really economic development versus ESG," says one foreign-based investor.

Widodo's other priorities have included the country's education system and its bloated state-owned enterprises. In both, he has appointed well-known entrepreneurs or businessmen to lead the changes.

With other south-east Asian countries aggressively vying to attract industries diversifying out of China, Widodo's government needs to modernise its state-owned companies, whose assets are the equivalent to half of GDP.

State-owned enterprises minister Erick Thohir, who once owned Italian football team Inter Milan, says the

Central Java governor Ganjar Pranowo.

Critics also say that under Widodo, the powers of Indonesia's once formidable Corruption Eradication Commission (KPK) have been weakened. The commission's personnel were converted from staff of an independent agency to civil servants in 2019, undermining the body's autonomy from the government, critics claim. Last year, Indonesia scored 38 out of 100 on a widely used corruption index by global group Transparency International, on a par with Brazil and lower than India and China.

Widodo insists the KPK remains independent and points to fines and jail time for politicians in recent years.

The president also has failed to undo hundreds of regulations mostly introduced under predecessors that discriminate against religious minorities, LGBT individuals and women, such as those compelling use of the veil for girls at school, says Andreas Harsono of Human Rights Watch.

Yet the issue that could decide the president's long-term legacy — for better or for worse — is Nusantara, the new capital. The project's proponents say flood-prone Jakarta is sinking, in some areas by 25cm per year, and Indonesia needs to spread its development beyond the main island of Java.

Nusantara will be three and a half times the size of Singapore and four times larger than Jakarta. The first phase of the project, which entails moving the presidential palace, armed forces, the police and other ministries by 2024, is being funded by the government. The development is slated to be completed by the country's centennial in 2045, when Indonesia hopes to be the world's fourth-biggest economy.

Bambang Susantono, a former Asian Development Bank official who was appointed chair of the Nusantara Capital City Authority this year, puts the cost for this first stage at "more than Rp50tn [$3.3bn]", but insists this will not all be public money. "We are developing with a state-owned budget because we need to create market confidence," he says. "[But] the interest from the private sec-political outsider, Widodo has favoured "big tent" coalitions, bringing friends and foes alike into his cabinet.

George Yeo, Singapore's former foreign minister, calls it "democracy with Javanese characteristics".

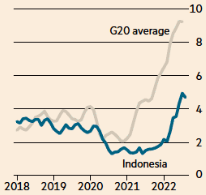
"That is: 'We will campaign like hell, we will call each other names, but when the ballots are counted and we all know what the relative proportions are, we will form a coalition cabinet . . . and you'll get your share'."

This, he argues, has led to Indonesia's stability. One example is Prabowo Subianto Djojohadikusumo, a controversial former army general who ran a fierce campaign against Widodo in 2018 but is now the minister for defence.

Investors say this political stability

Indonesia's inflation remains low by international standards

CPI inflation (annual % change)



Source: OECD

development of its domestic processing and refining sectors.

"The headline is clearly that things are going well," says Eugene Galbraith, director at mobile phone tower company PT Protelindo.

Advantage in natural assets

One of Widodo's principal achievements has been to expand infrastructure on an unprecedented scale for Indonesia, a vast country of more than 17,000 islands. His governments have constructed 2,042km of toll roads in eight years, he says, compared with about 780km in the prior 40 years, as well as 16 airports, 18 ports and 38 dams. Costs have blown out on signature projects such as the Jakarta-Bandung high-speed

and International Studies.

Near Jakarta, South Korea's LG Energy Solution and Hyundai Motor Group are building the country's first EV battery cell plant, while Hyundai is building an EV plant nearby.

"Indonesia can still be a first mover and they're lucky, they've got the most reserves [of nickel]," says James Bryson, director at PT HB Capital Partners,

> 'Many emerging markets have problems. Indonesia doesn't have them right now, the economy is firing on all cylinders'

reforms are urgently needed if Indonesia is to create enough jobs for its young population. "If you look at the Indonesian population, it's 270mn. The majority of our demographic is young. If they don't get jobs, a country as big as Indonesia will create problems for the region," says Thohir.

Corruption concerns

Widodo's hosting of the G20 has thrust the question of the president's legacy into the spotlight.

Investors worry that he has no clear political successor as the 2024 election draws closer. Lacking his own political party, he has so far been unable to clinch a nomination from a political party for his apparent preferred candidate,

tor is there."

Critics counter that building infrastructure on Borneo's peatland is tricky. One high-profile backer, Japan's SoftBank, pulled out this year.

Others argue Widodo will get the project to a point where it has to proceed. "Nusantara will be too big to fail," says Fajar Hirawan, a researcher at the Department of Economics, Center for Strategic and International Studies.

But Widodo, who says he plans to dote on his five grandchildren and work with "nature" when he steps down in 2024, is adamant about the urgency of building the new capital. It is needed to ensure that development spreads beyond Java "so that progress can be [enjoyed] by all", he says.

The FT View

FINANCIAL TIMES

'Without fear and without favour'

ft.com/opinion

Central banks must remain resolute in tackling inflation

Federal Reserve and Bank of England should stay the course on rate increases

In a big week for monetary policy, the US Federal Reserve and Bank of England are under pressure to show they are serious about tackling stubbornly high inflation. Last week's US inflation figure for August of 8.3 per cent — above expectations and still near 40-year highs — spooked the financial markets. A slight fall to 9.9 per cent in the UK in August was also hardly cause for celebration. While both central banks have been rapidly raising interest rates this year to rein back demand, this week they will set policy amid an increasingly frail growth outlook. Increasing the cost of credit further will hurt already ailing households and businesses, but both central banks will need to hold firm.

In America, a drop in price growth over the summer from a 9.1 per cent peak in June had generated some optimism. News of easing global supply chain pressures and high retail inventories gave hope that price growth would be tamed quickly. But the case for the Fed to go slower on rate increases at its meeting on Wednesday, after its 75 basis point increase in July, has not strengthened. Core inflation — which strips out volatile items like energy and food — pushed higher last month and shows the US economy is still overheating. The labour market remains resilient too, with high demand for workers sustaining upwards pressure on wages.

The US has however been relatively less affected by the energy inflation ravaging Europe. In Britain, the government's recent plan to cap energy bills for households and businesses, with more details of the latter due to be unveiled on Wednesday, should help to lower near-term inflation. But the package — estimated to cost around £150bn — risks keeping demand and inflation higher over the medium term. This boosts the case for the Bank of England to continue to decisively raise rates on Thursday. Indeed, further stimulus, in the form of tax cuts expected to be unveiled at Friday's mini-Budget, will give a jolt to spending too.

Wage pressures also remain firm in the UK: unemployment has fallen to its lowest rate since 1974, while high levels of inactivity continue to strain the labour supply. Indeed, at 5.5 per cent, wage growth remains inconsistent with the BoE's 2 per cent inflation target. The collapse of sterling to a 37-year low last week against the dollar, which adds imported price pressures, also means the BoE will need to be wary of falling too far behind the Fed.

The challenge for both central banks is raising rates while recession risks remain strong. While the US economy has shown some resilience, business activity has been losing momentum. In the UK, the energy package will cushion the impact of surging energy prices, but many will still face a testing winter.

> The longer it stays elevated, the greater the damage it will do to households and businesses

Global headwinds from Europe's energy crisis and China's ongoing Covid-19 lockdowns will also damp growth prospects in the months ahead. Higher interest rates will only add to the pain.

Yet the risk of high inflation becoming entrenched is the greater danger. The longer it stays elevated the greater the damage it will do to households and businesses. While inflation expectations have fallen recently, US consumers still expect it to be over twice the Fed's target in a year's time. Many will be looking for officials' interest rate projections to signal a robust monetary policy for the rest of 2022 and potentially into 2023. Meanwhile, in the UK, public satisfaction with the BoE's handling of inflation recently fell to its lowest on record. Both central banks need to bolster their credibility, after falling behind the curve on inflation. Acting firmly and quickly now will be important — especially as the damping growth outlook may make rate rises harder to pull off in the near future.

Opinion Environment

'Magic numbers' are clouding climate debate

Andy Carter

Anjana Ahuja

Climate change has become an existential crisis of notable exactitude, its parameters mapped out by precise temperature rises, thresholds, deadlines and "tipping points" of no return.

The world should not warm more than 2C above the pre-industrial average; we have until 2030 to keep the rise in check; Earth has already passed the lower temperature thresholds of five out of 16 tipping points, with potentially ruinous consequences for coral reefs, permafrost and polar ice.

That last finding, revealed in an analysis published earlier this month in the journal *Science*, deepened the gloom around whether global efforts are sufficient to cap warming fast enough. But it also elicited a more provocative complaint: that scientists, activists, policymakers and the public

> Better metrics allow scientists to link abstract weather data with everyday experience

have become too fixated on the numbers attached to the climate crisis, for no tangible benefit.

That is the view of Bob Kopp, a climate scientist at Rutgers University in

late and we should just give up."

Even the dragon-fearers, he says, do not respond identically. Some will opt for impassioned activism, in the mould of Extinction Rebellion; others may become paralysed by anxiety; some will cope with the threat by rejecting or denying it. The prospect of overshooting a threshold can also undermine public support for mitigation and increase the clamour for adaptation, including drastic measures such as geoengineering.

Concerns over climate messaging have surfaced before. In 2018, when the Intergovernmental Panel on Climate Change estimated that a 1.5C rise could happen by 2030, the prospect was quickly framed as "12 years to save the world". Professor Mike Hulme from Cambridge university, with others, took issue with such "deadline-ism", arguing that "the imagery of deadlines and countdown clocks offers an illusory cliff-edge after which the world heads inevitably to . . . the collapse of civilisation. The effects of climate change are more likely to be intermittent, slow and gradual."

Fascinatingly, De Meyer is drawing inspiration from risk messaging used in the Covid pandemic, particularly the focus on R, the reproduction number. An R above 1 represents a spreading epidemic; below 1, a shrinking epidemic.

That metric was explained and shared regularly with the public, who could incorporate it into personal decision-making. R reflects an epidemiological reality, he points out, "but with climate, there is no real substance attached to the idea that [a rise] above 1.5C is disaster and below is

Letters

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Black boxes abound in human decision-making

In asking us to "beware the rise of the black box algorithm", Stephen Bush (Opinion, September 20) rightly identifies that at least in our lifetimes, the real danger from algorithms is unlikely to arise from catastrophic events triggered by malevolent artificial intelligence, and much more likely from the many "minor tragedies and public policy failures" caused by unreliable AI.

However, in defence of algorithms, most human decision-making is pretty opaque too.

From universities that guard the exact basis of individual admissions to interviewers who use their experience to decide who to hire, "black boxes" abound in so much of human decision-making.

On the other hand, few algorithms are truly opaque — many are either designed to be inherently explainable or can be understood with reasonable confidence through post hoc explanations.

So, while the idea of rigorous checks before introducing advanced algorithms in public policy and the workplace is a good one, we should use this opportunity to also hold our old-school human approaches to the same level of scrutiny and standards. We may be surprised by what we find.

Shameek Kundu
Chief Strategy Officer, TruEra, Singapore

An idea for redirecting part of the banker bonus

The chancellor Kwasi Kwarteng is in a good position to extract at least a modest price from the bankers in return for scrapping their bonus cap ("City welcomes Kwarteng plan to scrap bonus cap", Report, September 16). He should not give in without a significant concession in return.

The key policies of the current government are boosting economic growth and levelling up. Banks in the UK have been only lukewarm supporters of local finance initiatives, such as community development finance institutions (CDFIs), which promote economic growth in deprived areas and among disadvantaged groups. CDFIs lend to businesses previously declined by banks, which would appear to make them high risk. In fact, over 90 per cent of CDFI borrowers go on to successfully repay their loans and grow their business.

In the US, banks are compelled by law to support CDFIs, resulting in an additional $200bn in annual lending to deprived areas and excluded groups. Local spending multipliers lead to significant additional economic growth and a reduction in economic inequalities.

UK banks have long resisted similar community reinvestment legislation as being unnecessary. However both the levelling-up white paper and recent research by the British Business Bank have shown this to be untrue.

The chancellor is now presented with an excellent opportunity to require UK banks to lend (not give) say 10 per cent of their annual bonus pool to lenders such as CDFIs. The risk to banks in doing so would be less than 1 per cent of their bonus pool. The impact on business lending to deprived areas would be worth billions each year.

more firms embraced genuinely flexible working and based pay on output rather than working location or hours, people could work on their own terms — and firms wouldn't have to resort to such desperate measures to prevent burnout.

Molly Johnson-Jones
London E9, UK

Analysis of poverty understates the issues

John Burn-Murdoch's excellent piece ("Britain is a poor society with some very rich people", Opinion, September 16) understated the issue. Those at the base of the income distribution have lost in other ways too: austerity bringing steeply declining provision in public services.

Per capita funding of state schools has shrunk, provision of youth and sports and library services is curtailed, rural bus routes cut and social care and policing are floundering for lack of

Why the euro will attract capital from dollar zone

In "A post-dollar world is coming" (Opinion, August 29) Ruchir Sharma overlooked to mention the strengths of the euro.

The euro is the second global reserve currency. It counts on a lower ratio of government debt and fiscal deficit to gross domestic product than the US, a decade-long trend of positive current accounts, only likely to be interrupted this year because of the energy crisis — and that could be easily managed via a lockdown this winter — and a net international investment position.

The European Central Bank has also delayed the tightening of monetary policy, when compared with the Federal Reserve. If the ECB were to tighten while the Fed loosens in support of a US economy in recession, the yield differential may revert in favour of the euro that would attract capital from other currency areas.

Eurozone fiscal policy should be kept expansionary, to compensate for the depressive effects of monetary tightening.

The northern eurozone economies could now favour an expansionary fiscal policy in the southern eurozone economies, even a certain degree of sovereign debt mutualisation and banking union. Indeed, supporting the demand of the eurozone's south could shield the exporters of the eurozone's north from falling orders during a contraction of global demand.

All these trade, monetary and fiscal strengths should make the euro a candidate for attracting capital from the dollar currency area, a currency that will probably appreciate during a US financial and dollar crisis, as during the years following the dotcom crash.

Luca Bindi
Kirchberg, Luxembourg

Bring back the Kaiser!

The passion for environmentalism of King Charles III, as described so well by Tony Juniper (Opinion, September 19), is perhaps the strongest point in favour of a British-style constitutional monarchy: it is an institution that has always taken "the long view".

Thus it offers a much-needed contrast to our present-day politicians, whose attention spans tend to last from one election to the next.

This long view, based on the knowledge of history, the sense of responsibility for the future and a commitment to decency and honourable action worldwide seems so sorely lacking among our ruling class, to wit, for example, Brexit, the shameful withdrawal from Afghanistan or Germany's foot-dragging in providing Ukraine with heavy weapons, actions which could all have dire consequences for the future.

When asked if Germany would ever have a monarchy again, the head of one of its four royal dynasties is reported to have said: "I doubt it, but I have raised my children to be able to reign responsibly should that moment come."

I probably belong to a tiny minority of Germans yearning for a constitutional monarchy balancing democratic governments.

Having experienced the Third Reich followed by Communist rule in the Soviet zone of occupation and, more recently, the comportment of short-sighted, craven politicians, mainly driven by ideology, I have often regretted that my country was deprived of an emperor or king with a long view on the throne when Kaiser Wilhelm II was rightly forced to abdicate after the first world war.

Any one of the three other kings in Germany, those of Bavaria, Saxony or Württemberg, would be well equipped to ascend the throne in a democratic setting.

I admit, this is wistful dreaming. Still, the world would have been spared Hitler.

With this in mind, I wish the UK blessed years with its new king; may his long view mitigate some follies of 10 Downing Street!

Uwe Siemon-Netto
Laguna Woods, CA, US

The King's leaking pen recalls a metonymic adage

John Gapper's column "The King's problems with pens break the royal

New Jersey. "I worry about [tipping points] feeding this idea that there is this threshold, and below it we're OK, above it we're not," Kopp told the journal, adding that a wrong-headed belief in "magic numbers" could instil a feeling of hopelessness as humanity tiptoes closer to the cut-offs. Kopp's critique shows that climate messaging needs a reset to make it more accurate and relevant to our lives.

Kris De Meyer, director of the Climate Action Unit at University College London, is sympathetic to Kopp's view and is trying to devise a more effective way to use numbers, including an "unusualness index" for unseasonable weather: "Many climate scientists think that if only people were made aware of the problem, even made fearful enough, then they will act, but fear doesn't drive action in predictable ways."

De Meyer adds that "if you draw a line in the sand at 1.5C or 2C, some people will see it as a line of existential threat and if we go over that, we are in the land of the dragons. In others, it creates a sense that, the closer we get to the boundary, it's too safe . . . 1.5C doesn't help you to understand why that hot day in April when you went to the beach was an unusual day weather-wise, even though there was no catastrophe."

Together with the wildlife charity WWF and the Quadrature Climate Foundation, he is now exploring several risk metrics, such as an unusualness index, which could be given out on weather forecasts, like UV levels and pollen counts. Better metrics allow scientists — and journalists — to link abstract climate data with everyday experience, explaining, for example, how Canadian heatwaves last year pushed up pasta prices in the UK.

Another effective strategy may be to swap talking for action. Polls indicated that our risk perceptions during the pandemic were swayed less by actual Covid statistics than by how others, including government, reacted. Given that ministers are signalling that net zero targets may be ditched in the rush for growth, a decision to abandon action on climate commitments could end up being the worst message of all.

The writer is a science commentator

By making such an agreement the chancellor would not only please the bankers but make a small step towards delivering on the government's policy objectives.
Peter Udale
Director, Responsible Finance
Winchcombe, Gloucestershire, UK

Citi jobs with beach views will not cut the mustard

As an ex-investment banker, I can tell you that an office with beach views is no way to ensure work-life balance ("Citi opens Málaga hub to woo junior analysts", Report, September 15). Nor is attempting to entice workers to Málaga with the prospect of "only" having to work eight-hour days and getting weekends off. Since when were weekends a perk? Reasonable working hours should be a given. And Citibank's Málaga employees will have to pay a pretty price for their newfound "work-life balance", sacrificing half their pay, compared with colleagues doing the same jobs in London.

If I worked at Citibank I wouldn't go anywhere near such an offer. Perhaps if resources. If wealth is defined as the ability to do stuff, and not just by income, the impoverishment of the least advantaged is startling and shaming.

The rich haven't much noticed because the axe has fallen on distant parts of the forest that they never see.
Steve New
Fellow, Hertford College
Associate Professor of Operations Management, Saïd Business School
University of Oxford, UK

Truss can woo tourists by reintroducing VAT refund

As the new prime minister wants to turn the UK into Singapore-on-Thames, she should bring back the VAT refund for foreign tourists, which was scrapped in January 2021.

This would guarantee that tourists, especially those from the Far East, would put the UK back on their travel itineraries and stop going to Paris, Rome and Madrid to do their sightseeing and shopping.
Paul Gold
London N3, UK

Giving JFK the last word on weaponisation

I find myself increasingly puzzled at the use of the term "weaponisation" to describe Russia's approach to EU gas supplies.

The inference seems to be that this is something entirely different in nature to the sanctions strategy deployed by the US and EU (Report, Special Reports, September 20).

Chambers Dictionary defines a weapon as something that kills someone, and as "something one can use to get the better of others".

President Joe Biden seems to appreciate that global sanctions against Russia which have, as he put it in a speech in Warsaw in March, the "power to inflict damage that rivals military might".

So why is it so surprising that Russia adopts a "weaponised" strategy by way of response?

As John F Kennedy said: "New weapons beget counter-weapons."
Craig Pouncey
Tervuren, Belgium

spell" described how King Charles III reacted when faced on live television with a leaking fountain pen (Opinion, FT Weekend, September 17). His Majesty has witnessed that the pen is indeed mightier than the sword!
Mark Peaker
London W1, UK

Corrections

- An article on September 19 wrongly suggested that Turkish president Recep Tayyip Erdoğan was expected to attend Queen Elizabeth II's funeral.
- Sheikh Mohammed bin Zayed al-Nahyan, president of the United Arab Emirates, did not attend the Queen's funeral via phone, as incorrectly stated in an article on September 19.
- Nigeria's non-oil exports in 2021 were $8bn, not $16bn, while its earnings from crude oil sales were $33bn in the same year, not $145bn as incorrectly stated in an article on September 20. In addition, a chart on Nigeria's oil output incorrectly labelled the y-axis as thousands of millions of barrels a day rather than millions.

Opinion

Britain's love of tradition comes at a price

POLITICS
Janan Ganesh

Imagine spending the last 40 years in Germany. You see a relatively homogenous nation become one in which a quarter of the population have a migrant background. It absorbs, at short notice, a much poorer country of 16mn people called the German Democratic Republic. It grows out of pacifism to wield lethal force in Kosovo and beyond. Through all this social change, which should rock the political system, you enjoy a scarcely believable level of civic stability. Olaf Scholz is just the fourth chancellor you have known since October 1982.

All praise, then, to the Hohenzollerns. Only a monarchy, I am led to understand, could have presided over such orderly evolution.

Forgive the snark. It is just that, amid Britain's real and natural grief, some bold claims have been made about the uses of tradition. One is that only by keeping some key things the same can a society change: continuity enables its opposite. The implication is that, without the monarchy, the UK would never have become a polyethnic and irreligious nation, at least not so peacefully. Who believes this? And can they not think of republics that have managed the same feat? In a generation or two, Ireland swapped the pervasive church for legal abortion, agriculture for professional services, scant diversity for quite a bit, little wealth for rather a lot.

This isn't a case for a UK republic, a cause for which there is neither great demand nor need. The point is rather that Britain gives its traditions far too much credit. At best, they are innocuous. At worst, they impose a material cost on the nation. There is a link between Britain's conservatism and its seeming fate as a middle-income country with a world capital attached.

Think of all the constraints on growth in the UK. The connecting theme is traditionalism. One is the planning regime, which stops the expansion of productive cities and money-spinning research laboratories. It does so on the touching premise that England's countryside is uniformly beautiful. All democracies have Nimbys. In few are they so able to spin their self-interest to other voters as a defence of the national soul. (Often, they are defending some grass by junction 6 of the M1.)

> At best, it is innocuous. At worst, it imposes a material cost on the nation

Or take the fiscal treatment of the old. With student loan repayments, a working graduate faces a severe effective marginal tax rate. An entrepreneur who forms and sells a business likewise owes the state a share of the capital gain. Sit on a house since 1990, by contrast, and amazingly little will be asked of your passive asset appreciation. Nor will any government with a survival instinct tamper with the terms of your pension. Again, the problem is not just the elderly's raw weight of votes. It is the ease with which the rest of the electorate is moved by mystical appeals to tradition: old age as a moral achievement, residential property as something inviolate.

There is yet a third example of what we might call expensive conservatism. But Brexit is something the UK is still years away from being able to discuss. The leaders of the national movement still insist it was a vote for a more, not less, open country. (On immigration policy, they have been roughly as good as their word.) Most of the 52 per cent who voted that way, though, wanted a more familiar and traditional Britain. Only a liberal zealot would deny the legitimacy of that desire. Only the intellectually dishonest, six years on, would deny the economic cost of it.

At each turn, Britain's economy seems to run into a growth-blocking wall of past-worship. Ancient universities? A national specialism. Training the less academic? The halfhearted project of every government. And so labour productivity continues to lag much of the rich world.

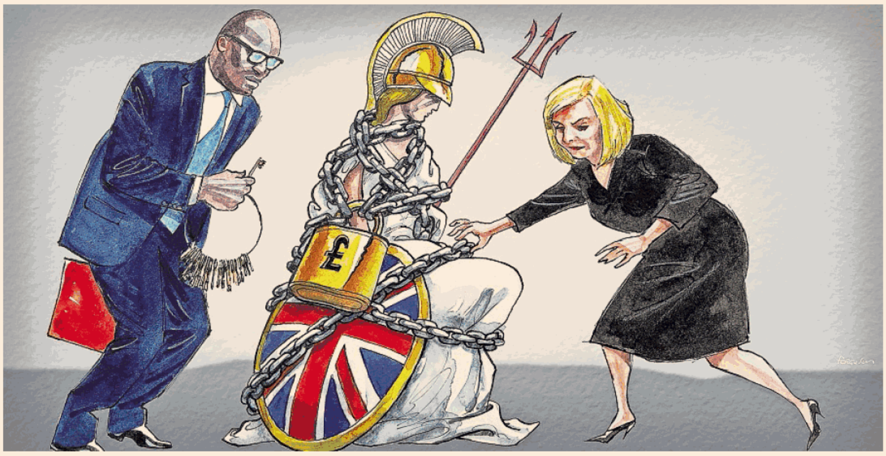
In a sense, the nation's dilemma is captured in the persons of Liz Truss and King Charles III. One is a modern-minded, growth-at-all-costs prime minister. The other is a pastoral romantic. There are encouraging signs of the monarch growing terse and elliptical in the expression of his opinions. But these command a following in the country regardless. To arrest the UK's decline, Truss will have to confront them.

There is no disgrace in choosing tradition over growth. Other countries seem to do just that in their revealed preferences. But Italian per capita income is easier to live on when there is also Italian weather. Japanese stagnation is not so bad when there are also Japanese crime rates. If the UK embarks on the economic trajectories of those countries, what is its cushion?

Meaning, unity, comfort in grief: as the past two weeks have shown, Britain finds all these things and more in tradition. It won't find prosperity there.

janan.ganesh@ft.com

The economic consequences of Truss



Martin Wolf Economics

It is surely a fantasy that further tax cuts and deregulation will transform performance

The country is returning to a more normal life. But it will not be that normal. Liz Truss will see to that.

On Friday, Kwasi Kwarteng, chancellor of the exchequer, will follow up his emergency energy package with a mini-Budget. The latter is expected to reverse the rise in national insurance contributions and stop a planned increase in corporation tax. It will also set a target of annual growth at 2.5 per cent. Should we take that seriously? No and yes. No, because the idea that the government of a market economy can meet a growth target is ridiculous. Yes, because it will guide policy. The question is whether it will guide it for good or bad. My bet is on the latter.

Neither Hayek nor Friedman would have thought a growth target at all sensible. That is planning. Hayek would rightly insist we have neither the knowledge nor tools to deliver one. In *Britannia Unchained*, published in 2012 (two of whose authors were Kwarteng and Truss), Brazil was proposed as a model. Ten years later, that looks silly.

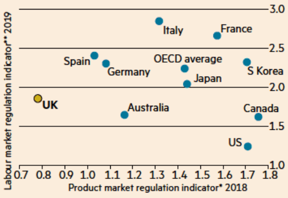
A growth target is not just unworkable, but a danger. Suppose Kwarteng tells the Treasury and Office for Budget Responsibility they must assume this consider policy. Truss says "the economic debate for the past 20 years has been dominated by discussions about distribution." Yet, says the OECD, the UK has, after the US, the highest inequality in the distribution of household disposable incomes of all high-income countries. Nor were George Osborne's post-crisis austerity policies at all concerned with "distribution". Her view of the UK's past debate is a red herring.

We need to recognise instead that 40 years on, Thatcherism is a zombie idea, for two opposing reasons — both what was achieved and what was not.

Thatcher *did* liberalise labour markets, curb trade unions, privatise nationalised industries and slash top tax rates. Her policies (which included promotion of the EU's single market), as well as those of later governments, also strengthened competition in product markets. Overall, today's UK is a low-tax country, by the standards of other high-income economies. It has a deregulated economy, in which the successful are well rewarded, but those who do less well are penalised. Such Thatcherite aims then are now a reality. (See charts.)

What then did Thatcher and those who followed her fail to achieve? They did not liberalise the biggest distortion

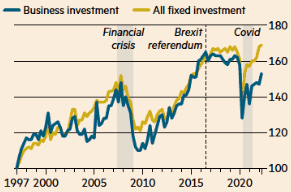
The UK already has a relatively deregulated economy



* Barriers to firm entry and competition
** Strictness of employment protection
Source: OECD

Real business investment peaked at the time of the Brexit referendum

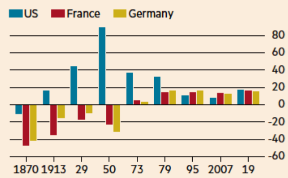
UK real gross fixed capital formation (Q1 1997=100)



Source: ONS

The UK has not caught up with French or German productivity since 1979

Relative labour productivity (GDP per hour worked, % above/below UK level)



Source: Nicholas Crafts

allowed the search for safety in corporate pensions to shift portfolios away from the supply of risk capital to business to ownership of government bonds. This in effect turned the plans into state-backed pay-as-you-go schemes.

In all, economic performance has *not* been durably transformed for the better. In 2019, output per hour worked in the UK was much the same, relative to France and Germany, as it had been in 1979. Above all, productivity has stagnated since the financial crisis. Investment is the lowest as a share of GDP of all big high-income countries. Business investment has remained below its peak in real terms since the Brexit referendum. The previous implosion of the financial sector under "light touch regulation" did not help. Nor did post-crisis austerity or the folly of Brexit itself. The uncertainty alone is bad for confidence and so for investment

The idea that further tax cuts and deregulation (such as lifting the cap on bankers' bonuses) will transform this performance is a fantasy. What is simple performance and political stability may depend on lower inequality, not still more than the country has today.

The Truss government is not just devoted to tax cuts and deregulation. It also continues to suggest the possibility of breaking with the EU over the Northern Ireland protocol, which would also be a breach with the US. This would undermine confidence in the UK's probity, add to uncertainty, prove that Brexit has not been done and suggest that the government cannot live with the choices it made on its own flagship they created a new coalition of traditional supporters with former Labour voters. Today, Brexit is not done, the NHS is in crisis and levelling up seems on the way to oblivion. Just 81,000 Tory party members have chosen as prime minister someone who was not even the first choice of their elected members of parliament. She has no mandate for the policies she wishes to pursue. One can imagine little better designed to exacerbate today's pervasive cynicism about politics and politicians.

Trust is easy to destroy, but hard to

target in their forecasts (if they are allowed to make any.) If he is wrong, deteriorating public finances could generate a crisis of confidence, as happened in the 1970s. He seems to dismiss such worries as mere "managerialism".

So, let us put the target to one side and

in the economy, which is land use. They did not transform the skills of the population, which has been made harder by the conditions in which many children grow up. They failed to address defects in corporate governance, which bias spending against investment. They

Brexit is not done, the NHS is in crisis and levelling up seems on the way to oblivion

has already been done. What is left is hard to do. To take one example: higher investment requires higher savings. From where are these to come? There are also the linked complexities of climate change and energy. Moreover, the evidence is that both better economic

policy. To add to all this, Truss seems set on breaking with China, too. Her UK seems determined to be friendless.

Furthermore, the Tories won their majority under Boris Johnson on getting Brexit done, strengthening the NHS and "levelling up" poorer areas. In so doing,

recover. This is why keeping one's word matters. Britannia is not "unchained". It is instead sailing in perilous waters. Can the new captain and first mate even see the rocks that lie ahead?

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A Meloni-led government need not spell disaster for Italy's institutions

Rosa Balfour

A far-right political party with roots in the post-fascist movement is likely to become Italy's largest political grouping after elections on Sunday. The Brothers of Italy are set to surge from under 5 per cent of the vote to up to 25 per cent or more.

If the polls are reliable, the leader of the Brothers of Italy, Giorgia Meloni, is expected to preside over a coalition government with longtime partners the League and Forza Italia, two rightwing populist parties that have been in and out of government since 1994.

After 19 months of stable and internationally credible leadership under Mario Draghi, European capitals are bracing for the return of a more fissiparous Italy. What impact would a rightwing Italian coalition have on European politics? Three dimensions stand out: EU policies to counter Russian aggression in Ukraine; Italy's co-operative stance on the European stage from the economic and political points of view; and the resilience of Italian democracy.

The pro-Russian record of both Forza Italia and the League raises legitimate concerns that the next government in Italy will sap the EU's resolve over Ukraine. These fears may be exaggerated. Having ideological roots in Italian post-fascism, the Brothers of Italy are instinctively suspicious of the successor state to the Soviet Union, and Meloni has reiterated her support of Europe's sanctions. And the League, when in government with the Five Star Movement in 2018-19, did not relax the sanctions on Russia imposed following the annexation of Crimea.

Italian public opinion will continue to be divided, but past behaviour suggests Italy will stay the course where the EU's Russia policy is concerned.

However, it could be a more recalcitrant partner in other areas of European

Despite several attempts to undermine the rule of law, the country's democracy has largely held strong

co-operation, notably economic and fiscal policy. The election campaign has seen the Brothers of Italy promise to support families and small businesses through a difficult winter and to review plans to access EU recovery funds, with a helping of economic nationalism thrown into the mix for good measure. Their position on Europe's green transition commitments is also nebulous.

There are also reasonable grounds for wondering about the competence of a putative rightwing coalition. Back in 2011, the coalition led by Silvio Berlusconi, which contained individuals now running for similar ministerial jobs, collapsed rather ignominiously on the brink of a financial meltdown. There are few indications any lessons have been learnt — other than blaming Brussels and technocrats still works electorally.

Brussels will no doubt push back on all these fronts, and the continuing confrontation with Hungary over the rule of law suggests it will have the resolve to do so.

Rightwing populist parties across Europe tend towards the same ultra-conservative social values. How a government led by Meloni will deal with reproductive rights, women's rights and the rights of migrants will have serious implications for the future of democracy in Italy.

Nevertheless, the question remains whether the success of the far-right in countries such as Hungary, Sweden and now possibly Italy could ever be conducive to new forms of rightwing co-operation in the EU. Russia's war in Ukraine has driven a wedge between Poland and Hungary, while the national interests of Sweden and Italy are divergent. Rightwing parties across the EU mobilise on anti-immigration platforms, but their solutions are almost invariably to put up borders rather than share responsibilities.

Italy has long been stigmatised as an ungovernable country with a volatile electorate. Yet the flipside of executive instability has been the resilience of the country's democracy, especially by comparison to countries, such as Hungary, in which populists have captured the state.

A breakthrough into the mainstream made by a party with post-fascist roots could of course be a sign that a highly ideological rightwing populism is prospering at the expense of the traditional centre-right. But Italy has had strong populist parties for 30 years and, despite several attempts to undermine the rule of law, the country's democratic institutions have largely held strong. A constitution carefully crafted after the second world war to prevent the return of fascism has underpinned this resilience.

A rightwing coalition government with a relatively small majority will not be able to do serious damage to Italy's laws and society. As for the economy, however, its future hangs in the balance.

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Mike Ashley/Frasers: lode off our minds

Soldiers in trenches mythically raise helmets on sticks to assess where the enemy line of fire begins. In UK corporate governance, Mike Ashley has been that tin hat. Bullets have regularly whizzed around the boss of sportswear retailer Sports Direct.

Next month, Ashley will quit as a director of the expanded business he founded, renamed Frasers. Controversies should no longer erupt around his bonuses, derivatives bets or treatment of warehouse staff.

Venturesome bosses will just have to adopt another lodestone of what annoys City investors. The latter are less tolerant of eccentric entrepreneurs and family control than peers in the US and Asia. Mavericks will have to watch Matthew Moulding of The Hut Group to see what provokes hostile fire.

Cynics will snark that change at Frasers is no change at all. Ashley is shedding the title of executive director. Michael Murray is theoretically in full executive control. But Murray is the son-in-law of Ashley, who could retain influence via his 68 per cent stake and a seat at the Sunday dinner table.

The riposte is that stock market investors and family-controlled businesses must sometimes compromise for mutual benefit. Companies need the capital, status and scrutiny a listing brings. Investors need to attract businesses to the public market or it will die.

Ashley enjoyed rapturous applause during Sports Direct's rapid growth phase. The claque fell silent as he floundered with his leadership role and sales faltered. The market worth of rival JD Sports has exceeded that of Sports Direct since 2016 thanks to better procurement, marketing and City relations.

Murray's job is to close the gap. The business has been refurbing stores that too often resembled explosions in a trainer factory. One aim is to pacify sportswear brands intent on selling direct to consumers online.

Ironically, the shares of Frasers have lost their discount to JD Sports partly thanks to the group's cut-price image. Both trade at a forward price/earnings ratio of some 11 times. Frasers' PEG ratio — which measures price/earnings against forecast growth — slightly lags behind that of JD. But optimists of the sell side have made too little allowance for consumers trading down.

Frasers is a better defensive proposition — if Ashley can resist the temptation to interfere.

Spac implosion: share unalike

Silicon Valley mainstay Chamath Palihapitiya was the embodiment of the blank cheque craze between 2019 and 2021. He may now be the face of the subsequent bust. Yesterday, Palihapitiya announced that two of his outstanding special purpose acquisition companies (Spacs) would return $1.5bn to backers. They are unable to meet a deadline to find private groups with which to merge.

Palihapitiya coined the term "IPO 2.0" to describe his strategy of taking hot upstarts to public markets via mergers with Spacs. The trend appeared to muffle complaints from ordinary investors previously deprived of the chance to profit from high-growth start-ups.

Yet five of the half-dozen groups that Palihapitiya has taken public are at least 40 per cent below their $10 per share listing price. They include such fallen stars as Opendoor, SoFi and Virgin Galactic.

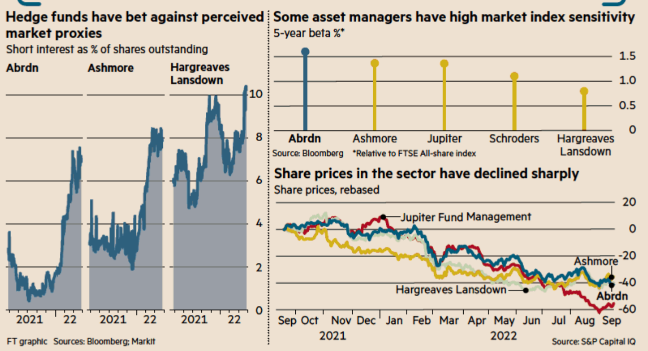
Palihapitiya himself seems to have done just fine. In a recent interview, he claimed that his $750mn of Spac profits represented double his outlay. Therein lies the rub of blank cheque deals. Sponsors are typically granted 20 per cent of the shares simply for arranging the mergers. Such incentives can result in questionable companies being brought to market. The sponsor tends to profit no matter how poorly a business performs in the public sphere.

It is not just Spac groups that are floundering. The traditional tech IPO market has in effect shut down, as has the market for risky corporate debt. Palihapitiya said underlying market conditions prevented him from being comfortable signing any new deals.

In theory, this should be the perfect time for sages, real and imagined, to scoop up assets on the cheap. Palihapitiya was one of several serial Spac issuers who claimed a unique ability to identify good companies at good prices across industries. In reality, this cohort looks like bull market opportunists who found a clever way to score a windfall for themselves.

UK asset managers: short of ideas

Short sellers have increased their bets against UK fund and wealth managers this year. The stocks are sensitive to movements of the broader UK stock market, reflected in high beta coefficients. However, that is not the case for Hargreaves Lansdown. This year asset and wealth managers have performed poorly.



During bull markets, funds that short stocks can struggle to keep up with long-only brethren. Hedge funds are now getting their own back this year, shorting UK-listed fund managers such as Abrdn and Ashmore.

In both cases, short positions relative to outstanding shares have jumped towards two-year highs, according to data from Markit. The income that asset managers receive from fixed fees falls in parallel with the value of portfolios. That makes fund groups obvious targets for hedge funds that expect securities markets to fall further.

For Abrdn, analysts expect a 6 per cent decline this year. It is likely to be triple that rate for Ashmore in the year to June 2023.

Abrdn has deeper, structural problems. Bonus payments usually account for about half of asset managers' costs, says Numis. Such variable pay counters the vagaries of markets. By contrast, Abrdn's fixed costs are easily above 80 per cent.

Newish chief executive Stephen Bird wants to fix this by focusing more on wealth management. Last year, he bought retail specialist Interactive Investor for £1.5bn to capture the DIY end of this market. However, hedge funds are also shorting sector leader Hargreaves Lansdown.

Ashmore offers a wager on falling emerging markets securities. It has a record of buying bonds in out-of-favour countries such as Argentina, Ukraine and Lebanon. A soaring US dollar has pummelled these contrarian bets.

Shares of both Abrdn and Ashmore are sensitive to movements in their home index, measured as beta. Over five years Abrdn's share price volatility has been 1.6 times that of the FTSE All-Share index, and Ashmore's 1.4 times. That compares with 1.1 times for Schroders. That may reflect a higher domestic orientation at Schroders.

Short positions can have unlimited loss potential. As leveraged proxies for market movements, shorts on listed fund managers make some sense. But focusing on those with structural problem such as Abrdn offers less risk.

Starbucks: buzz kill

Millions go to Starbucks for their daily caffeine fix. But with once high-octane shares down more than a fifth this year, the world's biggest coffee chain needs a fresh jolt of its own.

Howard Schultz, Starbucks' founder who in April returned as interim chief executive, thinks more automation in the US and further China expansion are the answer. The stock's still rich valuation of 29 times forward earnings leaves little room for error.

Under the sweeping "reinvention plan" unveiled last week, Starbucks expects adjusted earnings to grow between 15 and 20 per cent in each of the next three fiscal years. Comparable sales should rise between 7 and 9 per cent annually over the period. Both forecasts are significantly higher than the previous guidance.

Starbucks' plan to meet these bold new financial targets rests on two pillars: the US, where it faces a restless workforce, and China, where business remains severely disrupted by Beijing's strict zero-Covid policy.

In America, Starbucks operates 9,000 stores. It will invest a further $450mn in new technology. This comes on top of $1bn it has committed this year to improving employee pay and benefits. New machines and systems should cut the time needed to make complicated drinks and food items. Baristas may welcome assistance but are unlikely to stop pushing for better training and treatment.

This US productivity investment makes sense. Expanding in China does not. Plans to raise its store count there by 50 per cent to 9,000 over the next three years is a risky gambit.

Starbucks generated 13 per cent of its fiscal 2021 revenue from China, making the country its second-largest market after the US. But repeated Covid lockdowns have hit turnover hard. Revenue from China fell 40 per cent year on year in the latest quarter.

The Chinese economy is faltering. As long as Beijing insists on its zero-Covid policy, Starbucks will struggle to swallow such a rapid expansion.

Tech valuations: get down

Adobe's record-breaking $20bn purchase of design software company Figma is the biggest acquisition of a venture capital-backed US company in history. Profitless, fast-growing start-up deals agreed at high-altitude revenue multiples are common in the tech sector. What is unusual is that this one comes in the wake of a sweeping downgrade in tech stock valuations.

The tech-heavy Nasdaq index is down 29 per cent from a record high in November. Yet the reset in valuations has not fully fed through to the private sector. The most valuable listed tech companies all trade below last year's highs. Yet some private companies are negotiating higher valuations. Elon Musk's rocket company SpaceX raised money at a $127bn valuation in May, up from $100bn last year.

Venture funds are sitting on billions of dollars of funds. There is appetite for disruptive technology. Companies that have reached late-stage funding rounds are able to negotiate follow-up deals.

But there are also signs of change. More than 580 VC-backed private companies hit $1bn valuations for the first time last year, making them unicorns. This year the figure is 265, according to research firm PitchBook.

San Francisco-based Forge Global, a private marketplace where investors can trade shares in private companies, says the average price of companies trading on the platform last month was 29 per cent below the last funding round. Forge's own share price has fallen from $32 in May to less than $3.

Private sector valuations are driven by expected investor exits. With the initial public offering market dry, these should fall. High start-up valuations may simply be out of date. To avoid facing a lower valuation, many start-ups are opting not to raise funds. Down rounds are stigmatised for start-ups that expect only to see their value rise.

Swedish payments company Klarna had to accept an 85 per cent drop in its valuation in order to raise capital. Figma is not an indication of a healthy private market, it is the exception.

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CROSSWORD

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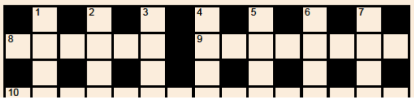
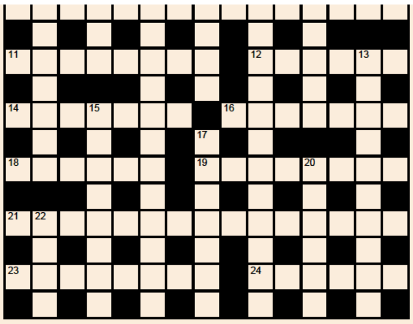


ACROSS
8 Testing on-field exchange (3-3)
9 Return average toffee drinks (8)
10 Suspect: "I'm scot-free" – hence not returning to it? (5,2,3,5)
11 Part of the ceremonial Celtic attire



of Treliske and Hugus (5-3)
12 Fairies got over woodpecker (6)
14 City troubled after rolling my film (5,2)
16 Two of the same please, landlord, for singer and songwriter (3,4)
18 The first of practical jokes played around city (6)
19 Weighted rent, ignoring the shackles of age (8)
21 After resignation of Hammerstein, Rodgers this gobsmacked? (2,1,4,3,5)
23 With a single dash, we see him lose his get-up-and-go! (8)
24 All the drinks one's got in local (6)

DOWN

1 Doorstepper alert (funny?) – but neither Neil nor Glenys get in (5,5)
2 Vineyard out of Santa Cruz in new production lines (6)
3 Toast ox cryptically in desert? (3,3,5,4)
4 Discover good news for England's opposition at Lord's? (4,3)
5 Move dangerously to shatter teenage romance? (5,5,5)
6 Second collection of ashes causing sorrow (8)
7 Advertise to promote Spar (4)
13 Character-forming interpretation for Spooner to tear up (3-7)
15 Talked-about international lived for spinning? Yes and no (5,3)
17 Do a class (7)
20 Gushing report of degree class (3-3)
22 All the best art at auction houses (2-2)

JOTTER PAD

Solution 17,204