

# FINANCIAL TIMES

TUESDAY 13 SEPTEMBER 2022

INTERNATIONAL NEWSPAPER OF THE YEAR

ASIA



**'The Merge' Historic moment or just another crypto hype?** — BIG READ, PAGE 13

## Family grief Royal farewell in Scotland

Queen Elizabeth's four children, King Charles, Princess Anne, Prince Andrew and Prince Edward, follow the hearse carrying their mother's coffin in Edinburgh, the Scottish capital, yesterday.

Ceremonial guns fired from the ramparts of Edinburgh castle as the four led a procession up the Royal Mile from the palace of Holyroodhouse to St Giles' Cathedral for a service of thanksgiving for the Queen, who died last week. Her coffin will be flown to London today where she will lie in state in Westminster Hall from tomorrow.

King Charles will meanwhile travel on to Northern Ireland and Wales as he marks his accession to the throne by visiting all the nations of the United Kingdom. It was confirmed yesterday that US president Joe Biden will be among heads of state attending the funeral. **London prepares for Influx** page 3  
**Sebastian Payne** page 15



### Briefing

► **Goldman set to resume annual jobs cull**  
Goldman Sachs is planning lay-offs that threaten to result in hundreds of job losses, in a sign of a Wall Street M&A slowdown. Its cull of underperforming staff was paused during the pandemic. — PAGE 5

► **German growth predicted to shrink**  
Germany's GDP will shrink in 2023 as soaring energy costs caused by Russia's curbs on gas supplies reduce disposable income and consumers rein in their spending, the Ifo think-tank says. — PAGE 2

► **China currency to suffer its largest dip**  
The renminbi is set for its largest annual decline on record against the dollar despite Beijing making bold moves to stem its fall as China-US monetary policy divergence hits exchange rate stability. — PAGE 8

► **US criticised over Covid booster rollout**  
The Biden team's decision to roll out new Covid boosters without clinical testing on humans risks denting public trust and raising hesitancy over jobs, health experts have warned. — PAGE 4

► **Silicon Valley lay-offs boost Wall Street**  
Wall Street bourses, banks and market makers say they are recovering lost ground in the talent war for computer engineers as lay-offs and hiring freezes spread through Silicon Valley. — PAGE 7

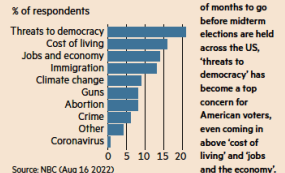
► **Far-right party makes gains in Sweden**  
Long ostracised because of its neo-Nazi roots, the anti-immigration Sweden Democrats are now the largest party in the rightwing opposition, which holds a thin lead over the ruling bloc. — PAGE 2

► **Twitter whistleblower prepares to talk**  
The ex-Twitter executive who is central to Elon Musk's attempt to back out of buying the group is set to discuss his concerns over the social media platform's security at a US Senate hearing. — PAGE 5

► **HK office glut forces leasing flexibility**  
More flexible Hong Kong leasing deals are being formed to woo business to the city amid excess levels of office space sparked by lockdowns. — PAGE 6

### Datawatch

#### US voters' concerns



# Germany lays out goal to assume leading military role in Europe

◆ Pivot in strategic thinking ◆ Ukraine war triggers shift ◆ More aid expected for Kyiv

GUY CHAZAN — BERLIN

Germany must assume a leading military role in Europe, the country's defence minister has said, underscoring how Russia's war in Ukraine has transformed Berlin's strategic thinking.

Christine Lambrecht made her comments as Ukraine pressed on with its counter-offensive in the east of the country and Russia vowed to continue with the invasion until all its military goals were met.

The war has increased pressure on Germany to step up its contribution to the western alliance, despite historic reservations over playing a bigger role after the second world war. Lambrecht argued that Berlin was doing so for reasons "to do with our size, our geographical

location, our economic power, in short with our heft".

In comments to the German Council on Foreign Relations she added: "That makes us a leading power whether we like it or not — in the military sense, too." Lambrecht said that the US would remain Europe's main protector and there could be "no substitute for the American nuclear deterrent for the foreseeable future".

The UK and France, both nuclear powers, have been Europe's strongest military forces for more than 70 years.

But Lambrecht argued that the rise in tensions between Washington and Beijing over Taiwan and a US pivot to the Asia-Pacific region meant "we are called on to do more than before for Europe". She added: "Germany is prepared to

make a decisive contribution to fair burden-sharing."

Echoing a speech this year by Chancellor Olaf Scholz, the defence minister said that Germany had to meet the Nato goal of spending 2 per cent of GDP on defence "over the long term", not just for the next couple of years.

"We must avoid a situation where, in a few years, we cannot afford to maintain the equipment we are purchasing now," Lambrecht said, reiterating plans to set up three combat-ready army divisions by the early 2030s.

The success of the Ukrainian counter-offensive, which has reclaimed more than 3,000 sq km of terrain in the east, has also increased expectations that the west will step up weapons deliveries to Kyiv. Ukraine's southern operations



Germany's defence chief Christine Lambrecht

said her country's heft made it a leading power in the military sense "whether we like it or not".

command yesterday said it had also liberated about 500 sq km of territory from Russia's forces.

"The tone has shifted, without a doubt," said a senior European diplomat. "You won't really hear anyone talking against more weapons now, just a chorus of supporters and one or two staying silent."

Lambrecht acknowledged that Germany's Nazi-era crimes and its "war of destruction" between 1939 and 1945 had turned "scepticism about the military into a kind of virtue". But she said it could guarantee peace and freedom for its people only if Germany defined security as "the central task of this country".

**Reports & analysis** pages 3 & 4  
**FT View** page 14  
**Gideon Rachman** page 15

## Tumbling consumer demand in US and Europe hits top appliance maker

OLIVER RALPH AND ABBY WALLACE

Electrolux, the world's second-largest home-appliances manufacturer, has warned of a steep drop in demand in Europe and the US, in one of the steepest yet of the toll that high inflation is having on consumer spending.

The grim outlook prompted the Swedish company to embark on a major cost-cutting plan.

Electrolux said yesterday that demand in the third quarter had fallen at a "significantly accelerated pace" compared with the previous three-month period and that it expected sales to remain weak in the US and Europe next year.

Chief executive Jonas Samuelson said that he expected consumer confidence to stay low in Europe, adding: "I think people will hold on to their wallets quite

hard." Consumers in Europe and the US face higher inflation and rising interest rates, triggered in large part by Russia's invasion of Ukraine.

While economists are divided on whether the US will fall into recession, few expect Europe, which is battling an acute energy crisis after Russia withdrew gas supplies, to escape a prolonged slowdown. Germany's economy, Europe's biggest, is set to shrink by 0.3 per cent next year, according to the Ifo, a leading think-tank, which in June had estimated 3.7 per cent growth in 2023.

Electrolux said the challenge of evaporating demand was compounded by the high level of inventory that retailers held as well as persistent supply-chain curbs. As a result, Electrolux said its third-quarter earnings would decline significantly from the second quarter.

Retrenchment would target variable

and structural costs, Electrolux said, with "special attention" on eliminating inefficiencies in supply chains and production. The group will lay out more details, including a "potential material restructuring cost", when it releases third-quarter results on October 28.

Electrolux's move to address costs is a sharp contrast to the summer of 2021, when Samuelson expected inflationary pressures, then largely driven by the pandemic's disruption to supply chains, to begin to ease.

The group's gloomy forecast came hours after Thule Group, a Swedish maker of cargo carriers, said that retailers had reduced purchases as a result of "consumer uncertainty" and excess inventory. Thule said sales would be hit until early next year.

Its shares slid 11 per cent yesterday. **German economy** page 2



**EY's bosses move to sell bold demerger to partners**

**Challenge just beginning** — PAGE 7

Australia	A\$7000nc GST
China	RMB30
Hong Kong	HK\$33
India	Rs220
Indonesia	Rp45000
Japan	¥5000nc JCT
Korea	₩500
Malaysia	RM150
Pakistan	Rupee 350
Philippines	Peso 140
Singapore	S\$5.800nc GST
Taiwan	NT\$140
Thailand	Bht140
Vietnam	US\$4.50

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### World Markets

STOCK MARKETS				CURRENCIES				GOVERNMENT BONDS			
	Sept 12	Prev	%Chg	Pair	Sept 12	Prev	%Chg	Yield (%)	Sept 12	Prev	%Chg
S&P 500	4094.50	4067.36	0.67	\$/£	1.013	1.004	0.987	US 2 yr	3.55	3.51	0.04
Nasdaq Composite	12188.32	12112.31	0.63	\$/€	1.171	1.158	0.854	US 10 yr	3.30	3.29	0.01
Dow Jones Ind	32318.19	32151.71	0.52	\$/¥	0.886	0.887	0.1	US 30 yr	3.45	3.45	0.01
FTSE100	1898.54	1858.36	1.70	€/¥	142.375	142.450	0.05	UK 2 yr	3.09	3.10	-0.01
Euro Stoxx 50	3848.05	3570.04	2.19	\$/¥	166.657	164.985	1.02	UK 10 yr	3.08	3.09	-0.01
FTSE All-Share	4108.19	4041.46	1.65	\$/¥	0.964	0.966	-0.2	UK 30 yr	3.45	3.47	-0.02
CAC 40	6325.69	6212.33	1.95	CRYPTO				JPN 2 yr	-0.08	-0.08	0.00
Xetra Dax	13402.27	13088.21	2.40					JPN 10 yr	0.25	0.25	0.00
								JPN 30 yr	1.29	1.31	-0.03

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Nikkei	28542.11	28214.75	1.16
Hang Seng	19382.25	18854.62	2.69
MSCI World \$	2682.90	2636.17	1.77
MSCI EM \$	970.29	957.22	1.37
MSCI ACWI \$	627.92	612.34	1.73
FT Wilshire 2500	5336.45	5222.23	1.61
FT Wilshire 5000	41447.15	40789.29	1.61

Ethereum	1714.99	1766.29	-2.90
COMMODITIES			
	Sept 12	Prev	%chg
Oil WTI \$	88.72	86.79	2.22
Oil Brent \$	95.00	92.84	2.33
Gold \$	1713.40	1709.35	0.24

GER 2 yr	1.30	1.31	-0.01
GER 10 yr	1.65	1.69	-0.04
GER 30 yr	1.75	1.80	-0.06

Prices are latest for edition  
Data provided by Bloomberg

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Tuesday 13 September 2022

## INTERNATIONAL

## GDP data

## UK economy stalls as cost pressures bite

Output flattens in second quarter as inflation hits consumers and businesses

VALENTINA ROMEO AND CHRIS GILES  
LONDON

The UK economy stagnated in the three months to July as the cost of living crisis hit households and businesses.

Output was flat, according to official data released yesterday, compared with economic growth of 0.3 per cent in the three months to April.

The latest data will soon be superseded by figures that are likely to show a relative decline in UK economic performance compared with other leading economies such as Germany.

In yesterday's data from the Office for National Statistics, the growth rate lost momentum as rising costs hit consumers and businesses. Inflation hit a 40-year high of 10.1 per cent in July, eroding the money people have available to spend on goods and services.

The size of the economy in July was no higher than six months earlier and the monthly rise in gross domestic product of 0.2 per cent fell short of the 0.4 per cent forecast by economists polled by Reuters. Economists had expected more of a bounce back from the 0.6 per cent fall in GDP recorded in June, which reflected the loss of two working days linked to the Queen's platinum jubilee celebrations.

"The disappointingly small rebound in real GDP in July suggests that the

economy has little momentum and is probably already in recession," said Paul Dales, economist at Capital Economics.

The GDP data showed services expanding 0.4 per cent but production, including manufacturing, falling 0.3 per cent.

"The small rebound in real GDP in July suggests that the economy is probably already in recession"

cent, after a decrease of 0.9 per cent the previous month. Construction also saw two consecutive sharp contractions.

Some analysts believe a freeze in average annual household energy bills at £2,500 for the next two years,

announced last week by new prime minister Liz Truss, will help support demand over the coming months.

James Smith, economist at ING, said the package of measures "should help limit the depth of any downturn over winter". But with many households and businesses struggling to keep up with energy payments, the outlook remains downbeat. "Households still face a further decline in their real incomes during the second half of this year," said Martin Beck, economic adviser at the EY Item Club. "As things stand, the economy is unlikely to do more than stagnate over the coming year."

Economists expect the Bank of England to raise interest rates for the seventh consecutive time on September 22. Higher borrowing costs are likely to

cause a further slowdown in household demand, with consumer confidence in August dropping to the lowest level since records began almost 50 years ago.

By the end of this month, economists and policymakers will have to contend with heavily revised GDP figures, which are likely to show a slower recovery from the Covid-19 pandemic than the current set of numbers.

In May, UK economic performance since the start of the pandemic appeared to be significantly better than that of Germany. But revisions to both countries' data since then have reversed the story. The ONS has published new estimates for GDP up to the end of 2020 that show the level of UK output 2.5 per cent lower at the end of the period than the current set of figures.

## Think-tank warning

## Impact of gas price surge expected to cut growth in Germany

MARTIN ARNOLD — FRANKFURT

Germany's economy will shrink next year as soaring energy costs caused by Russia's throttling of gas supplies reduce disposable income and consumers rein in their spending, according to a leading think-tank.

The Ifo think-tank in Munich warned the recent surge in electricity and gas prices was "wreaking havoc" on the German economy and would lead to a 0.5 per cent decline in gross domestic product next year — a marked deterioration from an estimate of 3.7 per cent growth made in June.

The main cause was the expected "decline in private consumer spending" triggered by energy suppliers "markedly adjusting their electricity and gas prices in the light of high procurement costs, especially at the beginning of 2023", Ifo said.

The downgrade underlines the mood of mounting pessimism on the eurozone's largest economy. Last week another think-tank, the Kiel Institute for the World Economy, slashed its forecast for German GDP next year by 4 percentage points to minus 0.7 per cent, warning: "With the high import prices for energy, an economic avalanche is rolling towards Germany."

German deputy finance minister Florian Toncar yesterday warned of an "increasing risk of stagflation" in the country, telling the VZW insurance sector publication: "We are experiencing supply chain problems, production bottlenecks and price increases the likes of which we haven't seen in decades."

Berlin recently announced a €65bn relief package to cushion the impact of the energy crisis on households. But Ifo said this would "fall far short of offsetting" the blow to household disposable income, which it predicted would drop sharply. German inflation would average 9.5 per cent next year, up from 8.1 per cent this year, Ifo said, predicting consumer price growth would peak at 11 per cent in the first quarter, which would be a 70-year high.

The cuts in gas supplies from Russia over the summer and the drastic price increases they triggered are wreaking havoc on the economic recovery following the coronavirus, said Timo Wollmershäuser, senior economist at Ifo.

Europe's largest economy, which shrank 4.6 per cent after coronavirus hit in 2020, rebounded last year with growth of 2.9 per cent, according to the World Bank. But in the three months to June, the German economy stagnated.

Carsten Brzeski, head of macro research at Dutch bank ING, said he expected the German economy to start shrinking in the third quarter as high energy prices hit consumers and businesses. "It is like watching a train running into a wall and you can see the wall is coming," he said.

Some of Germany's biggest energy users are cutting back on production. ArcelorMittal, Europe's largest steelmaker, said this month it would switch off one of the blast furnaces at a steelworks in Bremen, northern Germany.

However, Ifo sounded relatively upbeat about German industry, predicting that "manufacturing and the associated business services providers will support the economy".

## Scandinavia. Politics

## Swedish nationalists celebrate election gains

## Anti-immigration Sweden

Democrats prepare to wield influence on national stage

RICHARD MILNE — STOCKHOLM

The final result of Sweden's elections may still be unknown but it is already clear who the biggest winners are: the nationalist Sweden Democrats.

Long ostracised by the political mainstream for their neo-Nazi roots, the anti-immigration Sweden Democrats are now the largest party in the rightwing opposition, which holds a slender lead over the ruling leftwing bloc with a full preliminary result due tomorrow.

One word was on the lips of many Sweden Democrats MPs at a raucous party on Sunday evening on the outskirts of Stockholm. "It is revenge," said Henrik Vinje, deputy leader.

Linus Bylund, chief of staff, said: "It is revenge because the other parties have treated us badly — even the three [rightwing] parties on our side. But time passes and time heals."

Victory for the rightwing bloc would give the Sweden Democrats influence for the first time at a national level. The current gap with the leftwing coalition is 47,000 votes, equivalent to an average constituency.

Since bringing the Sweden Democrats in during the past two years by allying with them on issues such as crime and immigration, the centre right has said it would not want the nationalists in government but as support in parliament.

But the Sweden Democrats are likely to make greater demands now they appear to have won more votes than the Moderates of Ulf Kristersson, the likely prime minister, to become the second-biggest party. About 95 per cent of votes have been counted, with the centre-left Social Democrats coming in first as they have since 1917.

"We would like to go into government," said Richard Jomshof, party secretary. "There is a lot of pressure from our voters. I'm not sure they would settle for being outside government." He suggested the party lay claim to the post of prime minister, a prospect its potential coalition partners are unlikely to support.

The Sweden Democrats' base is in the south, the entry point for most immigrants and notorious for deadly shoot-



Party mood: Jimmie Åkesson, Sweden Democrats leader, right, hails poll wins. Below, prime minister Magdalena Andersson



ings in Malmö, across the Öresund strait from Denmark, where the Danish People's party in 2015 became the largest rightwing group. The Sweden Democrats' sister group has since been all but wiped out in opinion polls as Danes appear to have punished it for refusing to take office and the centre-left took many of its policies.

"The Danish People's party's biggest mistake was they never dared to take an active part in government," said Jomshof. "We want to do that. I'm not here for the sake of the Sweden Democrats. I want to make change in Sweden."

Political stability has been elusive since the Sweden Democrats, led since 2005 by Jimmie Åkesson, entered parliament in 2010 and the mainstream tried to deny the nationalists any influence.

Magdalena Andersson, the Social Democrat prime minister, who has had to govern twice with a rightwing coalition, quit after seven hours in the job late last year only to be rescued by a Swedish-Kurdish MP who nearly

derailed Stockholm's Nato application. Kristersson, whose Moderates lost ground despite promises to tackle crime and immigration, had said he would work to unite the nation as it prepared to join Nato and take over the EU presidency on January 1.

But he faces a real struggle to cobble together a viable coalition if the results are confirmed. A one-seat majority would test his ability to reconcile the Liberals and the Sweden Democrats.

Anders Borg, a former Moderate finance minister, thought there would be a rightwing government. "On the crucial issues like migration, fiscal policy, energy and investment, I don't think the differences will be that huge," he said.

Borg, whose wife is of Jewish origin, played down fears about the Sweden Democrats' roots, saying they were now a "centre-right party", adding: "I don't think people are that worried. Sweden will be the same."

The Sweden Democrats would join other anti-immigration parties in the Nordic region in gaining influence, after

"We are the party that has changed the least over the past 20 years"

Linus Bylund, chief of staff

Progress entered government in Norway and the True Finns in Finland. But neither had their origins in a movement quite like "Keep Sweden Swedish".

The nationalists argue they are ready for power, pointing to their experience in Sölvesborg, a small southern town where a party member was mayor and where they increased their share of the vote on Sunday by 10 percentage points.

They feel they also are reaping the benefits of having consistently warned that Sweden's immigration policies, which were tightened in 2015, would lead to a rise in crime.

"Consistency helps. This is a trust business. Since we are conservatives our voters count that we stand solid. We are the party that has changed the least over the past 20 years," said Bylund.

As the thumping techno beats from their party faded, the Sweden Democrats' euphoria did not. Jomshof said: "This is an incredible milestone. For the first time, we are a legitimate partner in a new government. We are not alone any more."

## Energy crisis

## French left steps up pressure on Macron over windfall taxes

AKILA QUINIO — VALENCE AND PARIS  
LEILA ABOUD — PARIS

Activists at a rally of the French far left sported white T-shirts with the slogan "tax the rich", while their leader, Jean-Luc Mélenchon, accused corporate "profiteers" of "disgracefully enriching themselves".

The rhetoric at the event in the Rhône Valley showed how the French left aims

leftwing Nupes alliance of 147 MPs, which became the second-biggest parliamentary bloc after elections in June. The left is trying to win back support among working-class voters, many of whom have backed Marine Le Pen's far-right National Rally.

But the bid to secure legislative wins may prove challenging given the parties do not always agree on policies or strategy. "We can't afford the luxury of being

to help consumers and businesses cope with inflation.

Macron has sought to neutralise the left's campaign. Last week, he urged the EU to create a "contribution mechanism" on energy operators whose production costs are far inferior to the sale price on markets. The European Commission supports the overall idea and member states asked it to draw up a detailed plan. Brussels will circulate proposals

"tax" or "super profits", suggesting his aim was really to "limit the scope and ambition" of such levies.

"Our group in the European parliament and the Nupes at the National Assembly will build on citizen mobilisation to make sure that big corporations will at last pay their fair share of tax," she said.

The left tried to pass a windfall tax in parliament in July that would have

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YVES DUPONCHET FOR THE FT. ALEXANDER  
TO CAPITALISE ON EUROPE'S ENERGY CRISIS  
to assert itself as the most effective opposition  
to President Emmanuel Macron. It is  
calling for a broad windfall tax, not  
just on some energy producers, as  
Macron urged Brussels to do last week,  
but on any companies judged to be earning  
excessive profits.

"We will use any means to up the pressure  
on the government," said Manuel  
Bompard, an MP for Mélenchon's La  
France Insoumise (France Unbound)  
party.

The party will back labour unions in  
national protests over the cost of living  
this month and is using its new  
position on a parliamentary committee  
to advocate for the windfall tax. The  
campaign is a crucial test for the new

energy. "We can't afford the luxury of being  
a fruitless opposition," said Philippe  
Brun, a Socialist MP, adding that Nupes,  
which includes the LFI, socialists, communists  
and greens, needs to "bring home some wins"  
to keep voters on side.

Macron's government has resisted the  
calls to impose broad windfall taxes on  
companies prospering from the energy  
crisis as it would clash with its pro-business,  
tax-cutting policies. But it has  
forced EDF, the state-controlled nuclear  
operator, to contribute about €9bn to  
treasury coffers by imposing a price cap  
on electricity, while renewable energy  
operators have paid €8bn.

Separately, the government has  
pressed companies such as TotalEnergies,  
the oil major, and CMA-CGM, the  
shipping group, to cut prices voluntarily

soon with the aim of a final decision by  
the end of the month.

Manon Aubry, an MEP for LFI, said  
Macron had avoided using the words



Jean-Luc Mélenchon leads the leftist  
charge as the cost of living rises

published in July that would have  
imposed a 25 per cent levy on a swath of  
corporations. But they narrowly lost to a  
united front of Macron's party and the  
rightwing Republicans after Total vol-  
untarily agreed to cut fuel pump prices.

"The big CEOs clearly have their  
friends in the assembly, so we must  
carry the people's voice," Bompard said  
in an interview.

For LFI, street protests matter as  
much as its work in parliament, where  
its attitude has often been to "radically  
oppose anything and everything," said  
Philippe Marlière, a University College  
London European politics professor.  
The government has repeatedly  
accused it of seeking chaos rather than  
solutions and vowed not to negotiate  
with it or the far right.

Tuesday 13 September 2022

FINANCIAL TIMES

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## INTERNATIONAL

# Ukraine's lightning advance boosts its case for more weapons from west

Allies express hope that more territory can be retaken but caution Russia's army is far from beaten

HENRY FOY — BRUSSELS

The rout of Russian troops in north-eastern Ukraine has raised hopes among Nato allies that a well-supplied army could liberate even more territory, strengthening demands to rapidly expand the supply of western weapons to Kyiv.

The unprecedented and widely unexpected Ukrainian advance has emboldened officials from the US, UK and more hawkish EU countries, officials told the Financial Times. They cited private conversations over the weekend, given that the counter-offensive was under way as western defence ministers met in Germany to discuss maintaining weapons supplies.

"The tone has shifted, without a doubt," said a senior European diplomat. "You won't really hear anyone talking against more weapons now, just a chorus of supporters and one or two staying silent."

A second official said: "It is 100 per cent true that more weapons mean more Ukrainian territory. And less blood, less tears."

But western intelligence and defence officials cautioned that the advance would not necessarily be repeated all along the war's front line and that while it was likely to force Moscow to reassess its strategic aims it was unlikely to herald a collapse of Vladimir Putin's army.

"I'm watching this closely," a senior western intelligence official said of the Ukrainian advance. "[I'm] cautiously optimistic."

Ukraine's lightning advance, which began early last week and in which it seized critical towns and some 3,000 sq km of territory, is the biggest military setback for Russia since it was forced to retreat from the north of the country in March after five weeks of failing to encircle Kyiv.

Oleksii Reznikov, Ukraine's defence minister, told the FT that while the advance had gone "better than expected", Kyiv had to be careful not to be overconfident and allow its front line supply lines to become overstretched and risk a Russian counter-attack. "We have to be worried," he said.

Moscow has claimed that the significant shift in the war's front line was the result of a decision to "regroup" and move forces further south to repel Ukrainian attacks in the occupied Kherson region.

Konrad Muzyka, director of Poland-based defence analytics company Rochan Consulting, said it was now possible to imagine Ukrainian forces advancing to positions they held before Putin launched his invasion on February 24 — when large parts of the Donbas region and Crimea were controlled by Russian proxies and annexation respectively — if western military support was maintained and there was no full-scale mobilisation of the Russian population.

"We are probably now entering the third stage of this war, where Ukraine has the initiative and Ukraine gets to decide what the focus will now be," said Muzyka.

"It does not mean that Ukraine will achieve all that it wants but that now it gets to choose where the war goes," he said, adding: "It is only going to get harder from here."



Charging in: Ukrainian service members ride tanks during a counter-offensive operation in recent days in the Kharkiv region — Ukraine armed forces/Facebook



The US, UK and other Nato allies have pledged to supply Ukraine with weapons worth more than \$16bn, but have only delivered half that so far, according to publicly available data collated by the Kiel Institute for the World Economy, a German think tank.

Western officials have admitted that weapons shipments have been sporadic in recent months because of logistical challenges and concerns among allies that their own stocks are running low.

The recent advances, which have involved strategic use of western arms — particularly high-precision long range missiles such as the US-made HIMARS system — have supported the argument of those who say the scale of shipments and the rate of delivery should increase, say security officials and analysts. "The HIMARS are clearly making a huge difference," said the western intelligence official. "As has the allied training and weapons."

Muzyka said: "If HIMARS had been there from Day 1, then the conflict would have been very different." He added that a missile system was likely to have "annihilated" Russia's immobile and exposed supply lines during its failed assault on Kyiv.

Gabrielius Landsbergis, Lithuania's foreign minister, said on Sunday that allies that had previously dragged their feet on weapons supplies were guilty of "appeasement".

He said the success around Kharkiv had proved "beyond doubt that Ukraine could have thrown Russia out months ago if they had been provided with the necessary equipment from day one."

"Putin's genocidal plan to wipe Ukraine off the map has failed. He is in no position to negotiate. The war must end with his unconditional surrender." But other officials cautioned that, despite the shifting front line, the war was likely to last for months longer. Many western capitals believe that the purpose of increasing Ukraine's military strength is to improve its position on the battlefield and thus in any eventual peace talks.

"Make no mistake... we have to be prepared for the long haul and be ready to provide support to Ukraine for as long as it takes," Nato secretary-general Jens Stoltenberg said on Friday. "Wars are by nature unpredictable. And we know that Russia has a lot of military capabilities."

See FT View and Opinion

## Counter-offensive

# Kremlin says invasion will go on until all military goals accomplished

JOHN PAUL RATHBONE AND  
ROMAN OLEARCHYK — KYIV  
POLINA IVANOVA — BERLIN

Russia will push on with its invasion of Ukraine until all military goals are met, the Kremlin has said, as it responded to the counter-offensive in the east in which Kyiv has reclaimed more than 3,000 sq km of terrain.

The military setback is the Kremlin's biggest since it was forced to reverse plans to take the Ukrainian capital and has led to a rising tide of recriminations in Moscow over who is to blame.

President Vladimir Putin had been fully briefed on the relocation of Russian forces, Kremlin spokesman Dmitry Peskov said yesterday. The defence ministry has acknowledged Russian troops were pulled back in the Kharkiv region, but authorities have since avoided calling it a retreat.

"The president is in constant, round the clock communication with the minister of defence and with all the military commanders," Peskov said.

Asked if Putin still trusted his military leadership, Peskov replied that the "special military operation" — the name Moscow gives to its invasion of Ukraine — will continue, and "will continue until all the goals that were originally set are achieved".

Ukrainian troops yesterday worked to consolidate gains they had made since launching the offensive east of Kharkiv. In Izium, a key logistics hub where thousands of Russian troops had been stationed, Ukrainian soldiers hoisted the national flag over the central district government building in the main square.

Nataliia Humenyuk, spokeswoman for Ukraine's southern operations command, said yesterday that the country's forces in the southern Kherson region, where Ukraine initiated an earlier counter-offensive, had also liberated about 500 sq km of territory from Russia's forces. Towns liberated included Visokopyllya, Novovoznesenske, Bilohirka, Sukhyi Stavok and Myrolyubivka, she said.

Tensions have also risen over artillery strikes at the Zaporizhzhia nuclear power plant in southern Ukraine, which Kyiv and Moscow blame on each other.

In a phone call with French president Emmanuel Macron on Sunday, Putin warned of potential "catastrophic consequences" of what he claimed was Ukrainian shelling targeting the plant. Ukrainian officials say it is Russian forces that are hitting the facility as a provocation. Macron said it was Russia that was responsible for tensions at the site and demanded the withdrawal of its forces.

Russian media reports appeared to shift after the rapid advances, which followed weeks of stalemate.

Over the weekend, Russian state television anchors spoke of fierce fighting in the east, while pro-war reporters and bloggers wrote frank posts online about the rout. Other reporters embedded with Russian troops live-blogged their experience of the withdrawal and cautioned leaders to learn some lessons from the defeat.

Additional reporting by Ben Hall in London

Queen Elizabeth II. Period of grief

## London prepares for huge influx of royal mourners



## Arrival of millions of visitors expected to strain security and transport services

JIM PICKARD, DANIEL THOMAS AND ARBY WALLACE — LONDON  
WILLIAM WALLIS — LEWES

London is braced for the arrival this week of millions of people to mourn the passing of Queen Elizabeth II, with some warned they face queues of up to 30 hours at Westminster to pay their respects to the former monarch.

The period of mourning, culminating in the funeral, is expected to attract vast crowds, echoing other historic UK moments including the late monarch's coronation in 1953 and the death of Diana, Princess of Wales in 1997.

The influx is set to strain the capital's transport system, lead to shortages of hotel rooms and pose a security challenge. Many foreign leaders are due to attend the funeral on Monday at Westminster Abbey, including US president Joe Biden, European Commission president Ursula von der Leyen and Australian prime minister Anthony Albanese.

The mourning continued yesterday as King Charles III said he would devote himself to "the precious principles of constitutional government", in a ceremony at Westminster that served as a reminder of the monarch's constrained role in Britain's democracy.

As Prince of Wales, Charles had called himself an "invertebrate interloper and meddler", but the new monarch said last week that his life "will change" now that he has ascended the throne.

People will pay their respects by attending the Queen's "lie in state", when her coffin will be placed on a platform in Westminster Hall, the oldest part of the houses of parliament, from tomorrow until the funeral.

Up to 10,000 police will be deployed in London and 1,500 soldiers will be on hand to control the crowds.

"It's a massive challenge for the Metropolitan Police and for me personally. But we have been preparing for many, many years," said Sir Mark Rowley, head of the Met.

Roads in London will be closed, patrols visible in key locations, and personal protection officers will be stretched as they take care of VIP visi-

tors. Parm Sandhu, a former chief superintendent at the Met, said services would be "stretched". "The crowds themselves will be a target for terrorists. The funeral itself will be a target for terrorists," she told the BBC.

In Westminster Hall, the Queen's body will be in a closed coffin draped in the royal standard, the sovereign flag. Each corner will be guarded by military units from the Sovereign's Bodyguard, the Household Division, or the Yeoman

Warders of the Tower of London. Downing Street refused to put an estimate on how many mourners are likely to visit Westminster Hall, but some government officials privately estimate the figure could be close to 1mn. Number 10 said the numbers would be far higher than the 200,000 who attended the lie in state of the Queen's mother in 2002.

Michelle Donelan, culture secretary, told MPs on WhatsApp yesterday: "Queues could be up to 30 hours as we

are obviously expecting and planning for unprecedented demand."

The government said it would lay on water and first aid facilities for mourners going to Westminster Hall, who will have wristbands enabling them to visit the toilet before returning back to their place in the queue.

The expected large crowds mean hotels have sold out of rooms in central London, especially around Westminster and London's West End.

One hotel executive said under Operation London Bridge, the longstanding plan for the Queen's death, many rooms were allocated to police and support services, others by international media.

This left fewer rooms for visitors from around the UK and internationally who wanted to pay their respects, she said.

Travelodge, one of London's largest hoteliers with 75 sites, said its "hotels in central London and Windsor are literally sold out, and demand is growing strong for our hotels situated near to a train or tube station throughout Greater London".

The average price for a hotel room in London during the funeral week has almost 40 per cent higher than last year,

according to Trivago, the online booking site.

Cafes and pubs are getting ready for a busy week as people come into London, with some preparing to open immediately after the funeral ends to capitalise on demand for food and drink.

After the ceremony in Westminster, the King flew to Edinburgh, the Scottish capital, where he attended a thanksgiving service for his late mother in the city's St Giles' Cathedral, also attended by the prime minister Liz Truss.

As ceremonial guns were fired from the ramparts of Edinburgh castle, King Charles led a sombre procession up the city's Royal Mile as the late Queen's coffin was transported from the royal palace of Holyroodhouse to the cathedral.

Thousands of well-wishers lined the street to watch the procession, many collecting wristbands that will enable them to file past the Queen's coffin before it is flown to London this afternoon.

Additional reporting by George Parker, Jasmine Cameron-Chileshe in London and Peter Foster, Lukanyo Myranda in Edinburgh



Paying homage: the long queue to Buckingham Palace in London yesterday to honour Queen Elizabeth II, who died last week in Balmoral  
Martin Meszner/AP

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## INTERNATIONAL

### Energy

# Indonesia says buying Russian oil an option

Widodo considers offer of discounted fuel in effort to relieve cost pressures

MERCEDES RUEHL AND JOE LEAHY  
JAKARTA

Indonesia needs to look at "all of the options" as it considers joining other Asian economies, including India and China, in buying Russian oil to offset soaring energy costs, said president Joko Widodo.

The south-east Asian nation has not imported significant amounts of oil from Russia for years, but Widodo's government is under increasing pressure to curb rising costs after being forced to increase some fuel prices by up to 50 per cent this month.

Any move to buy Russian oil at a price above a cap being set by G7 countries could leave Indonesia vulnerable to US sanctions as it prepares to host a G20 summit in Bali in November. Widodo has invited world leaders including Rus-

sia's Vladimir Putin and Ukraine's Volodymyr Zelenskyy to the meeting.

"We always monitor all of the options. If there is the country [and] they give a better price, of course," Widodo said in an interview with the Financial Times in response to a question on whether Indonesia would buy Russian oil.

"There is a duty for [the] government to find various sources to meet the energy needs of their people. We want to find a solution," said Widodo, who is known as "Jokowi", at the presidential palace in Jakarta.

Widodo's comments underscored the difficulty many countries face as they try to navigate geopolitics and the energy crisis.

Indonesia, south-east Asia's largest economy, has long followed a policy of non-alignment with superpowers. Widodo visited Moscow and Kyiv in June, just months after Russia's invasion of Ukraine in February, to personally invite their leaders to the G20 summit.

"It would be bad public relations actually if the government did it [bought

Russian oil] as Indonesia is a non-aligned nation and was even a founder of the non-aligned nation movement," said David Sumual, chief economist of Bank Central Asia in Jakarta.

Moscow has offered to sell oil to Indonesia at a 30 per cent discount to the



'We always monitor all the options. If a country gives a better price, of course'

Joko Widodo, Indonesian president

international market rate, according to the country's tourism minister. Pertamina, Indonesia's state-owned oil company, said in August it was reviewing the risks of buying Russian oil.

The US last week threatened to impose sanctions on buyers of Russian oil that did not observe a planned price cap and that used western service providers, such as maritime insurance companies, in the transactions, increasing the potential risk for those dealing with Moscow.

Indonesia's decision to reduce energy subsidies this month was spurred by a threefold increase in the cost of fuel subsidies from the original budget, to Rp502.4tn (\$34bn).

The economy has weathered the energy crisis thanks to strong domestic consumption and high prices for two of its biggest exports, coal and palm oil, with gross domestic product growing 5.44 per cent in the second quarter from a year earlier.

Yet the rising fuel prices are expected to push inflation higher and force the

central bank to increase interest rates, potentially hitting economic growth.

"Energy is closely related to the best interests of the people," Widodo said.

If Indonesia were to join India and China in buying Russian oil, it would further help Moscow offset much of its lost income from a fall in shipments to Europe. An FT analysis of Chinese and Indian customs statistics showed the countries imported 11mn tonnes more oil from Russia in the second quarter, compared with the first quarter.

Indonesia and Russia also have several large energy projects planned, including a \$16bn oil refinery in East Java being built by Pertamina and Russia's Rosneft. Russia's state-owned Zarubezhneft has a half stake in the Tuna oil and gas exploration block in the South China Sea, an area close to Indonesia's maritime border with Vietnam.

Widodo said other leaders expected to attend the G20 summit included Chinese president Xi Jinping and US president Joe Biden. The Ukrainian president may make a speech virtually, he added.

## Africa. Education

# Strike weighs on Nigerian university students

Long-running dispute shows no sign of ending as government grapples with economic woes

AANU ADEOYE — LAGOS

Social work student Favour Irabor had been hoping to graduate from the University of Lagos at the end of the year. But just as the 23-year-old began writing her thesis, the main trade union representing Nigerian university lecturers began a four-week "warning" strike over pay.

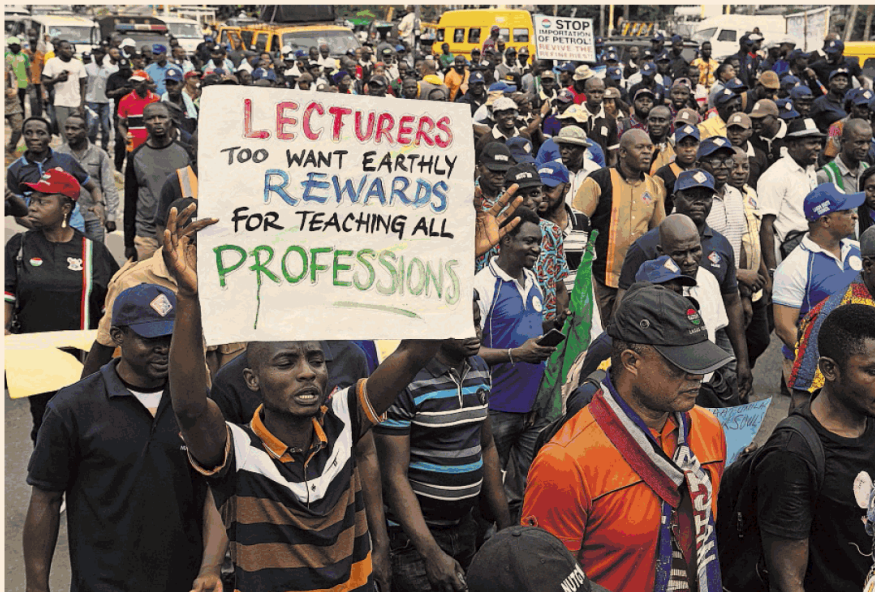
More than six months later, Irabor and the 1.7mn students who attend government-funded universities in Nigeria — some 95 per cent of those studying for degrees — remain at home as negotiations between the government and the Academic Staff Union of Universities are deadlocked.

"I was hoping the strike would be resolved in two months," said Irabor.

The dispute is part of a crisis in education that affects students of all ages in Africa's most populous country. The UN Children's Fund estimates 18.5mn Nigerian children aged 5-14 are out of school, more than anywhere else in the world. Attacks on schools by jihadists in Nigeria's north-east and armed kidnappers in the north-west have compounded a problem caused by poverty, early marriage and teen pregnancies. More than 80 per cent of children who enrol in schools dropout after the age of 14.

The latest industrial action, in which the ASUU's 61,000 members have walked out, comes at a time when university students had barely returned to classes in the aftermath of a 10-month lecturers' strike and Covid-19-enforced school closures in 2020.

University funding lies at the heart of the dispute. Nigeria has subsidised higher education to redistribute the nation's wealth since it began earning massive oil profits in the 1970s. But the population has quadrupled to 200mn



On the march: union members rally in support of striking university staff near Lagos in July  
Puta Uthman/Ekpa/AP Photo Images

showed Nigeria generated \$3.8bn but spent \$4.5bn to service debt. The government borrows heavily from deep domestic capital debt markets to keep afloat.

The government missed its revenue target in the first four months of 2022 by 49 per cent and oil revenues are 61 per cent below budget forecasts despite rising oil prices. Nigeria, Africa's biggest oil exporter, is producing well below its

how best to fund tertiary education. Nigeria allocated 7.9 per cent of its most recent budget to education, up from a decade low of 5.6 per cent in 2021, with N335.4bn (\$797mn) going to universities. Of the 170 universities registered in the country, 106 are funded almost exclusively by the federal and state governments.

Government involvement has kept fees low. In 2019, the most expensive

'Every sane country should find a solution when something like this

versities will become unaffordable in a country where more than half of its citizens live below the \$2 a day poverty threshold.

The ASUU, in a statement, said the government's "poor management of the economy" was the primary reason its demands could not be met. "There is wasteful spending, misappropriation of funds and outright stealing of our collective patrimony," it said. A presidential

'There are already groups calling it the mouse vaccine. We have a trust problem in this country'

a shot targeting the original Covid strain and the B.1 sub-variant, which has since been superseded by BA.4/BA.5.

Experts say vaccine hesitancy is just one of several challenges facing the US booster campaign.

Two-and-a-half years into the pandemic, there is growing public complacency towards Covid, as most people have contracted the virus and been vaccinated. The Biden administration has also failed to secure \$22.4bn additional funding from Congress, which could restrict its ability to replenish vaccine supplies.

"People have booster fatigue. They feel... they are mostly protected and the pandemic is largely behind them. So I think there will be less interest in these boosters," said Paul Offit, director of the Vaccine Education Centre at Children's Hospital of Philadelphia.

Offit was one of two members of an Food and Drug Administration advisory



since the policy was introduced, causing the cost of tertiary education to soar. A large number of federal universities have been established and the government has taken over several non-performing state universities, further raising costs.

Nigerian universities should be allocated the equivalent of \$1.2bn a year under an agreement reached between trade unions and government in 2009. The union wants that to rise to \$2.6bn.

The government has said it cannot afford the bill for funding universities. A fiscal report for the first quarter of 2022

daily Opec targets because of pipeline vandalism and poor infrastructure. Expensive petroleum subsidies have prevented it from benefiting from high crude prices.

Cheta Nwanze, partner at SBM Intelligence, a consultancy in Lagos, said tertiary education had become a "burden" that the government could not adequately fund. He said the government was responsible for too many tertiary institutions and should focus on improving basic education to make a greater impact on people's lives.

Policy makers and unions disagree on

tuition fee at a federal university cost the equivalent of \$200 a year, whereas private universities charge as much as \$5,000.

Some experts have called for institutions to increase tuition fees to levels charged in other so-called middle-income countries. In South Africa, the continent's most industrialised economy, tertiary institutions earn more revenue from tuition fees and other sources than they get from the government.

But the Nigerian teachers' union opposes raising student fees, saying uni-

happens. This is not normal'

spokesman declined to comment on the accusations, and Adamu Adamu, education minister, did not respond to requests for comment.

Disruption of the academic calendar has left students in limbo. Sodiq Mus-tapha, a second-year dentistry student at the University of Lagos who has been filling time tutoring secondary school students, said the situation was disheartening and students felt neglected by the government.

"Every sane country should find a solution when something like this happens," he said. "This is not normal."

panel to vote against asking Pfizer and Moderna to develop the bivalent vaccine without clinical data showing it performed better than the existing jab. "What bothers me in this is that we are willing to move forward with a vaccine with no human data? I just think that's a lot to ask people," he said. Vaccination and booster rates in the US lag behind other developed countries. Authorities said the threat posed by waning immunity and the potential for a wave of infections in the autumn justified its decision to roll out bivalent boosters without clinical data.

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announces an invitation for participation in the auction for the sale of movable property-bauxite in bulk, in the amount of 78,739,52 tons on the official website of the Company (www.kukabar.me).

The contact persons are:

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#### Legal Notices

##### Alexander David Securities Limited

Count Number: CH - 2022 - 00287

Principal Address: 10 Baker Street, London W1U 7EU

Principal Trading Address: 48 Queen Victoria Street, London, EC4N 4EA

Share Crooks, Malcolm Cohen and Emma Seyers, the joint liquidators of Alexander David Securities Limited (No. 0883279) (in Liquidation) which is authorised and regulated by the Financial Conduct Authority (the "Company") have applied to the Business and Property Courts of England and Wales, Insolvency and Companies Court for approval of a

liquidation plan in relation to Alexander David Securities Limited (the "Company"). The Application has been listed for a first hearing at 10.30 am on 28 September 2022.

Any person who may have an interest in client money held by the Company should contact the liquidators by email at [adsl@alexanderdavid.co.uk](mailto:adsl@alexanderdavid.co.uk) in relation to the Application using the following contact details: Catherine Warner via email at [adsl@alexanderdavid.co.uk](mailto:adsl@alexanderdavid.co.uk).

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#### US economy

## Consumers' inflation and home price expectations ease

LYDIA TOMKIV — NEW YORK

US consumers' economic outlook eased further in August as inflation and home price growth expectations declined, an improvement that is still unlikely to lead the US central bank to loosen monetary policy at its next meeting.

Consumers' inflation expectations over the next 12 months fell to 5.7 per cent in August from 6.2 per cent in July, while the three-year inflation expectation measure fell to 2.8 per cent from 3.2 per cent, according to the Federal Reserve Bank of New York's survey of consumer expectations.

Perceptions about households' current financial situations compared with a year ago improved, the bank's economists said, with fewer households reporting a worse situation than a year ago.

The improving outlook comes ahead of today's release of the closely watched consumer price index for August, which is expected to report a second consecutive monthly decline in the annual rate of inflation.

Analysts polled by Reuters expect August's consumer price index to register a reading of 8.1 per cent year on year, down from 8.5 per cent in July.

But the recent improvement in con-

sumer sentiment is probably still not enough to deter the Federal Reserve from implementing a third consecutive 0.75 percentage point increase at its pol-

Consumers are more optimistic that petrol prices and home prices, two big drivers of inflation over the past few months, will not increase significantly in the year ahead. Expectations on home price growth fell to the lowest reading since July 2020, with median home price expectations down 1.4 percentage points to 2.1 per cent.

Home prices soared during the pandemic as a lack of inventory and low interest rates fuelled strong demand.

High prices, as well as the Fed's policy tightening campaign pushing mortgage rates to their highest level since 2008, have since tempered demand from potential homebuyers.

Federal Reserve chair Jay Powell has said the bank will act so inflation does not become entrenched



icy meeting later this month, as Fed chair Jay Powell said last week that the US central bank would act "forthrightly" to make sure elevated inflation does not become entrenched.

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Chain reaction Uranium price powers ahead as nations increasingly turn to nuclear option during energy crisis • MARKETS, PAGE 8

# Companies & Markets

## Goldman set to fire hundreds as dealmaking activity slows

- Annual jobs cull returns after Covid
- Fears over growth in US and Europe

JOSHUA FRANKLIN — NEW YORK

Goldman Sachs is planning to implement a round of lay-offs in the coming weeks that threatens to result in hundreds of job losses among the bank's employees, according to a person briefed on the matter.

In a sign of the dealmaking slowdown on Wall Street, Goldman will restart its annual cull of underperforming bankers, which it paused during the Covid-19 pandemic at a time when banks were struggling to keep pace with their workload.

The process typically results in between 1 and 5 per cent of company-wide employees losing their jobs, with the impending review set to result in

The planned lay-offs are indicative of broader concerns in finance of job cuts amid a drop-off in dealmaking activity and a slowdown in economic growth in the US and Europe.

The move reflects the feast-or-famine nature of the banking industry, with the planned cull coming after a blockbuster year of profits in 2021 for the sector as a whole.

In investment banking, Goldman's revenues in the first six months of 2022 were down 38 per cent year on year, a smaller drop than at peers JPMorgan Chase and Morgan Stanley.

Revenues have fallen 83 per cent in asset management, while the bank is conducting a review of its loss-making consumer division.

The drop-off has been particularly acute on equity capital markets desks as stock market listings have dried up. One bright spot has been Goldman's trading division, where revenues are up 15 per cent year on year and accounted for almost three-quarters of the bank's total net revenues in the first six months of 2022.

Compensation and benefits are the biggest expense item for banks such as Goldman. For its revenue-generating employees, the bulk of pay typically comes in the form of year-end bonuses, giving the bank flexibility to lower costs in a fallow year.

However, adjustments in variable pay are often accompanied by laying off employees who are ranked poorly by managers.

At Goldman, compensation and benefits were down 31 per cent year on year in the first six months of 2022, a steeper drop than the 25 per cent fall in net revenues.

Morgan Stanley chief executive James Gorman said in July that the bank's "ultimate weapon" to manage a slow-down is pay.

## Journey's end Soames 'outsources himself' after eight years steering contractor Serco



On line: Serco's Caledonian Sleeper, which Rupert Soames used to visit his Highlands estate — Robert Lancaster / Albany

MARK WEBBRIIDGE

Rupert Soames is to retire as chief executive of Serco after leading the London-listed contractor for more than eight years, saying it was now "time to outsource myself".

Soames, who steered the company to recovery after it teetered on the brink of collapse in 2013, will step down as chief executive and from the board at the end of the year. He will be replaced by Mark Irwin, head of Serco's UK and Europe division.

"It has been the privilege of my working life to lead Serco for the last eight years. My respect and admiration for the wonderful team of people at Serco... is unbounded," Soames said in a statement.

Shares in Serco fell nearly 7 per cent to 168p yesterday, below the roughly 270p price when Soames took over in May 2014. That year, Serco posted a £990m loss from revenues of £3.95bn. In 2021, the group reported pre-tax profit of £192m from revenues of £4.4bn.

Soames, a grandson of Sir Winston Churchill, became chief executive when the outsourcing was weighed down by scandals involving the manipulation of data for out-of-hours healthcare services, and for charging the UK government for electronic tags on prisoners who had died or were back behind bars. He was poached from power supplier Aggreko with a remit to turn the group around.

Soames narrowed Serco's focus to Covid-19 testing programme. Serco also operates the Caledonian Sleeper — the train service between England and Scotland that Soames has used to visit his Highlands estate — which was hit by strikes over pay and conditions last year.

He kept what he called a "shit-o-meter" on his desk — a lavatory brush to remind him of the gravity of the problems a company focused on public sector contracts could face.

Soames drew the ire of corporate governance groups when he received a pay package of almost £5m in 2020, a year when the outsourcing attracted controversy over its role in the Covid test and trace programme. Irwin will be paid a basic salary of £800,000, below Soames's £850,000, as well as pension contributions and short-term and long-term performance-related share incentives.

He joined Serco in 2013 and previously ran the group's Asia-Pacific division. Before Serco, he worked in private equity roles in the US and China, and for GE in the US and Australia.

See Lex



Rupert Soames, who led Serco to recovery after taking charge as it teetered on the brink

## Twitter whistleblower will testify to Senate panel

HANNAH MURPHY — SAN FRANCISCO

The former Twitter executive turned whistleblower who has become central to Elon Musk's attempt to back out of buying the social media company is set to discuss his concerns over the platform's security in a US Senate hearing today.

Twitter's ex-chief security officer, Peter "Mudge" Zatkoff, will appear before the Senate Judiciary Committee in a session that will thrust Twitter's cyber security practices into the spotlight — and could shape the future of Musk's high-stakes legal battle with the company.

Zatkoff, who was fired by Twitter this year, filed a complaint to US authorities in early July alleging that Twitter had misled users and regulators about its lax cyber security practices, and raised concerns about bots on the platform.

The accusations were seized upon by the Tesla founder, who is already suing Twitter in order to get out of his \$44bn deal by arguing that it underestimated the number of bots on the platform and misled regulators on that matter.

On Wednesday, a Delaware judge agreed to consider Zatkoff's allegations as part of that case after Musk's team asserted that, if true, they would constitute fresh grounds to cancel the deal.

Zatkoff has also been subpoenaed by Musk's team to testify at the trial, which is set for early October. Separately on Friday, Musk's lawyers said in a letter to Twitter that the company's \$775m severance payment to Zatkoff in June was made in breach of the merger agreement, and therefore constituted "an additional basis to terminate" the deal.

According to Musk's lawyers, the payment violated a clause in the merger agreement stating that the company should not make severance payments outside of the ordinary course of business "without consulting Musk first."

Musk was not notified nor asked for consent, his lawyers said, but only found out about the payment on September 3 through legal filings. Yesterday Twitter's lawyers dismissed the accusations on the payment as "invalid and wrongful", adding it "intends to enforce the Agreement and close the transaction on the price and terms agreed upon with the Musk Parties".

Twitter's lawyers earlier said Zatkoff's allegations that the company misled its risk committee on cyber security matters were investigated internally and "found to be without merit".



## Energy crisis should spur a banking-style regulatory overhaul

### INSIDE BUSINESS

#### FINANCE

Patrick Jenkins



It is a measure of quite how jittery the world feels right now that we have been awash with "Lehman moments" in recent months. The implosion of China's Evergrande late last year was portrayed by many observers as a potential Lehman moment for the overleveraged Chinese property sector. The crypto collapse in March was another.

Yet it is noteworthy, alarming even, when a government minister makes the analogy. Last weekend, Finnish economy minister Mika Lintilä compared today's energy crisis in Europe with Lehman Brothers' role in the financial meltdown of 2008 as he unveiled a €10bn loan and guarantee package to safeguard his country's energy sector.

Hyperbole or not, he was almost right on one point. Without intervention, an existential crisis loomed for many energy companies, putting pressure on the banks that lend to them or the clearing houses known as central counterparty (CCP) exchanges that intermediated those finance contracts.

Such are the sky-high prices and the market dysfunction, triggered by Vladimir Putin's invasion of Ukraine and his curtailment of gas supplies to Europe.

Though Finland and Sweden were alone in acting a week ago, others have followed. European leaders gathered in

Prague on Friday to discuss a co-ordinated bailout package, including state guarantees, and a range of other measures. "The world should remember Lehman," I wrote back in March, "and brace for a global financial and economic shock."

Financial policymakers insist that they have absolutely been braced – not just for this shock but for many others.

They point to the robustness of the banking system in the face of Covid and now in the face of the energy meltdown and rampant inflation.

This, they say, proves the success of post-2008 financial regulation when bank capital and liquidity rules were toughened. Elaborate mechanisms were put in place then to allow authorities to put failing banks into orderly wind-down and most derivatives trading was routed through monitored CCPs, rather than being executed in obscure over-the-counter deals.

The banking system has indeed been robust – though largely thanks to state interventions before economic stress could reach the banks.

Without Finland's rescue package and a similar one in Sweden the day before, the local Nasdaq clearing house, or the banks that are its members, would have been left to bear the stress.

Similarly in 2020 and 2021, vast Covid relief packages granted to businesses around the world staved off the risk of mass bank loan defaults.

It is tempting to dismiss such events as unavoidable and exceptional, and deserving of exceptional government intervention. But more could still be done pre-emptively to mitigate their

### Finland's economy minister compared today's energy crisis with Lehman Brothers' role in the 2008 financial meltdown

impact. The 2008 financial crisis highlighted the critical nature of the banking system and triggered a regulatory restructuring to safeguard it better. But the policymaking was blinkered.

CCPs were consciously turned into systemically important structures in that post-crisis crackdown but regulators accepted the exchanges' argument that tough collateral management rendered high capital levels as buffers for risk unnecessary. The Nordic experience raises further doubts about that assumption.

In the core energy market itself, cues could and should have been taken from post-crisis financial regulation. Around 2008, Libor and Euribor, the borrowing benchmarks that sometimes had been casually calculated on the basis of imaginary transactions, proved dangerously manipulable and artificially costly for banks that had products tied to them.

In a similar way now, the so-called TTF benchmark has been proven to be a flawed gas price metric for electricity markets – manipulated in effect by Putin. Given the dominant role of Russian gas in that mechanism, its manipulation could have been foreseen.

Yet only now are EU policymakers discussing a change.

More broadly, the weak regulation of energy pricing and hedging is damagingly similar to the oversight of flawed funding models of poorly supervised banks in the run-up to 2008.

We are being punished now for not understanding the fragility of our energy systems. As well as tackling this crisis, policymakers must be proactive in ensuring that all our critical infrastructure – energy, water, the internet – is as robustly regulated as the banks were after 2008.

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FINANCIAL TIMES

Tuesday 13 September 2022

### COMPANIES & MARKETS

#### Property

## Office glut forces HK developers to be flexible

City records high vacancy rates after lockdowns and exodus turn the tables

PRIMROSE RIORIAN AND CHAN HO-NIM — HONG KONG  
MERCEDES RUEHL — SINGAPORE

Hong Kong's property developers are having to construct more flexible leasing offers to attract businesses as the city faces more than 246 football fields of excess supply of office space by 2025.

With Covid-19 isolation policies tipping Hong Kong's economy into recession,

companies such as Société Générale and Deutsche Bank have downsized in the territory over the past two years. Pandemic measures have also caused an exodus of foreign and local residents and paused the return of mainland Chinese groups, which had been expected to take up space.

"The leasing market, if [it's] not at the bottom, it's reaching the bottom and will remain [there] for some time," said Paul Yien, executive director of office leasing advisory at JLL in Hong Kong. "There's a lot of space to absorb and digest. There is a lot of new sup-

ply... which means rental will be under pressure."

The higher vacancy rates are already affecting developers, which had become accustomed to easy profits over the years thanks to tight land supply.

Henderson Land Development, one of Hong Kong's biggest property developers, reported a 34 per cent drop in first-half profits year on year to HK\$5.1bn (\$650mn).

In a rare move in a city where landlords have long ruled, some tycoons are introducing more flexible contracts to attract tenants. New World Develop-

ment, run by Chow Tai Fook's Cheng family, is offering a six to nine-month cooling-off period for its new 11 Skies project near Hong Kong airport, two people familiar with the matter said.

Hong Kong has consistently had the world's most expensive property market due to its limited space and strategic location near the Chinese manufacturing and technology hub in Guangdong.

CBRE Group, the real estate investment firm, estimated vacancies in the city hit 11.9 per cent at the end of the first half, the highest since the third quarter of 2003, with 9.8mn sq ft availa-

ble. According to property agency Colliers, the prime office vacancy rate had grown to 12.3 per cent as of August.

Savills, the real estate firm, estimates there will be a total of 17.2mn sq ft of available grade-A office space over the next four years with an expected annual take-up rate of 1mn sq ft per year, leading to an oversupply amounting to nearly 250 football fields.

Panasonic, Nielsen, Deutsche Bank, Standard Chartered, Nomura, UBS, BNP Paribas, Société Générale and National Australia Bank have all downsized in the city over the past two years.

Some mainland banks are still expanding in Hong Kong despite gloom over the Chinese economy and border restrictions. In August, China International Capital Corporation leased floors in Sun Hung Kai's International Commerce Centre in Kowloon. Deutsche Bank gave up space in the same building a year before.

Office rents have dropped 27 per cent from mid-2019, according to Cushman & Wakefield Research.

At the same time in Singapore, Savills is forecasting top-grade office rents will rise 3 per cent in 2022.

### Financials. Court battle

## Ritblat in tax fight over employee trust

HMRC claims it was misled ahead of £141mn payments from flagship property fund

KADHIM SHUBBER AND GEORGE HAMMOND — LONDON

Property tycoon Jamie Ritblat is battling the UK's tax authority over tens of millions of pounds that HM Revenue & Customs claims is owed by him and his real estate investment firm, Delancey.

HMRC claims income and employment-related taxes are owed on £141mn of profits from Delancey's flagship fund that was paid from a trust to 24 employees, including Ritblat.

The payments began months after HMRC accepted just £400 in a 2015 settlement that barred the agency from collecting further taxes from the trust's beneficiaries or Delancey. HMRC now alleges the deal was agreed on the basis of misrepresentations made by Delancey and the trust through advisers EY and law firm Olswang during the settlement negotiations.

The dispute threatens to cast a shadow over one of the UK's best known property investors, whose portfolio spans several of London's biggest regeneration projects, such as the Earl's Court development.

Ritblat and Delancey have asked the High Court to hold HMRC to the 2015 deal, which would leave the £141mn in effect untaxed apart from the £400 settlement payment. HMRC has sought to tear up the agreement.



Delancey, launched by Ritblat, below, in 1995, sealed the deal including

Olympic Athletes' Village in Stratford, east London, in partnership with Qatar's sovereign wealth fund. In 2019, alongside Dutch pension fund APG, Delancey bought the Earl's Court exhibition and

contributions had been made, according to HMRC. In January 2016, the trust paid £10mn to Ritblat.

In the tax years 2015-16 to 2018-19, the DV4 Trust made distributions to

tal position of £125mn. The court filing quotes by EY that refers to the DV4 Trust investing £1,000 into a "BVI partnership" alongside third-party investors.

'HMRC have been challenging

Dickins & Jones building on Regent Street in central London in 2006.

The scheme involved transferring the property to a BVI partnership on the same day that DV3 bought it for the same price. HMRC lost twice in the tax courts before finally winning at the Court of Appeal in 2013.

The trigger for this latest tussle was Ritblat's 2015-16 tax return, filed in January 2017, according to the HMRC filing. The return disclosed the £10mn payment from the DV4 Trust in January 2016. The tax authority opened an inquiry into his tax return in December 2017, beginning years of legal wrangling. In January 2018, Ritblat's representatives gave HMRC a letter from Harbour stating that as trustee had exercised its discretion to award him £10mn.

In February 2020, Ritblat's lawyers provided HMRC with accounts for the BVI partnership and the DV4 investment fund entity, prepared by EY, the HMRC filing says. The partnership's carried interest shares in the fund entity as of March 2015 were worth £135mn, and the DV4 Trust owned 95.5 per cent of the partnership.

In its filing, HMRC said that if it had had the full picture of the DV4 Trust at the time, it would not have agreed to the £400 settlement.

The stakes for Ritblat and Delancey are significant. Ritblat initially went to the tax tribunal to force HMRC to close its inquiries into three years of his personal tax returns from 2015-16 to 2017-18. He succeeded, but the closure notices HMRC issued in September 2020 claimed he owed income taxes on £100,000 of payments from the DV4



In a June court ruling, HMRC said it was not "at this stage" alleging the claimed 2015 misrepresentations were made fraudulently or recklessly.

Delancey said: "Unfortunately, proceedings had to be brought against HMRC as they have breached the terms of an agreement in respect of an employee benefit trust settlement opportunity which they publicly initiated and offered to hundreds of employees and trusts."

"The company added: "We believe that this agreement is valid and strongly reject the allegation that misrepresentations were made by the trust, its professional advisers and Delancey."

HMRC said: "We are committed to ensuring that everyone pays the right tax under the law."

Law firm CMS, which merged with Olswang in 2017, said: "HMRC has made no allegations of wrongdoing against CMS (formerly Olswang) and there is no basis for their doing so."

EY said: "We strongly refute any suggestion of wrongdoing by EY."

The son of Sir John Ritblat, who grew British Land into a multibillion-pound landlord and developer, Jamie Ritblat has carved out his own reputation since launching Delancey in 1995.

Ritblat's landmark deals came in the wake of the financial crisis: Delancey took rival developer Minerva private in 2011 and spun off the company's assets, before purchasing the 2012

assets including for the 2012 Olympic Athletes' Village in Stratford, east London  
Marcin Rogozinski/Ulamey

bought the Earl's Court exhibition area surrounding land in west London for £425m.

The firm has donated £350,000 to the Conservative party since 2011, including a £100,000 gift in 2020. The company operates as an adviser to funds that include outside investors.

The battle between Ritblat and HMRC centres on a trust set up in 2007 as Delancey raised £1.5bn from investors for its flagship client fund, known as DV4 Limited.

The DV4 Trust is an employee benefit trust and held the Delancey employee profits, also known as carried interest, from the DV4 Limited investment fund. Sitting between the two entities was a British Virgin Islands partnership. The DV4 Trust owned most of the partnership, and the partnership in turn owned shares entitling it to 20 per cent of DV4 Limited's profits if the fund achieved at least a 7 per cent annual return.

DV4 Limited did not beat the 7 per cent hurdle rate until the financial year ending March 2014, according to the June HMRC court filing, which cites the DV4 Limited and partnership accounts. Carried interest then began accumulating, totalling £133m by March 2015.

At the time of the £400 settlement in July 2015, no distri-

bution of the DV4 Trust made distributions to Delancey employees totalling £141m, of which £65m went to Ritblat personally, according to HMRC.

Employee benefit trusts were once widely used as tax avoidance vehicles. Companies would receive tax deductions on payments into EBTs, but the employee beneficiaries would not have an immediate corresponding tax liability. HMRC has cracked down on EBTs for more than a decade and in 2011 laws were enacted to further curtail abuses.

"HMRC have been challenging EBTs for some years and nearly always win," said Catherine Gannon, founder of the law firm Gannons.

Between 2011 and 2015, HMRC invited employers to resolve any liabilities related to such trusts through negotiation rather than litigation. In 2015, the DV4 Trust entered the settlement programme.

DV4's trustee was Harbour, a Cayman Islands-based fund services company. Harbour did not respond to a request for comment. The trustee's tax and legal representatives were Delancey's longtime advisers EY and Olswang. HMRC says both advisers were also acting on Delancey's behalf in settlement talks.

HMRC in its June court filing alleged EY played down the significance of the DV4 Trust during the settlement negotiations by referring to just £1,000 in assets it had in 2008 and not telling HMRC that by March 2015 it had a capi-

talismship alongside third-party investors who made equivalent investments. The portions quoted in the filing do not describe the partnership being a vehicle for carried interest rewards from the Delancey fund.

HMRC alleges the document gave the false appearance the partnership was an arm's length commercial investment.

The trust in 2008 allocated portions of its ownership of the BVI partnership to specific Delancey employees. EY proposed a settlement of £400 to be paid by Harbour on the basis that in 2008 the value in the trust had not changed since the initial £1,000 invested by the trustee.

"It is considered unlikely that there would have been any change in the value of the investment [the trust hasn't received any return whatsoever]. Also, as a third party paid an equivalent amount and since that also represents 100 per cent of the trust assets, we consider that this is reasonable in the context of a voluntary settlement," EY partner Jim Wilson wrote in an email to HMRC in June 2015. HMRC accepted the offer and agreed the £400 settlement with clauses blocking it from seeking additional taxes from Delancey or the trust's beneficiaries.

Delancey is no stranger to fights with the taxman. Ritblat's previous fund, DV3, had attracted HMRC's ire over a scheme to avoid £2.6m worth of stamp duty tax on its £65m acquisition of the

EBTs for some years and nearly always win'

a £18.4m of payments from the DV4 Trust in those three tax years. The notices were accompanied by side letters noting that HMRC could make further arguments that he owed other taxes on the payments that would make his liability much larger.

Ritblat has appealed against the closure notices in the tax tribunal. He also sued HMRC in the High Court in 2021, seeking a declaration that the 2015 settlement precluded HMRC from making the "threats" he claims it did in the side letters.

HMRC has denied making threats and issued a counterclaim in that case in June this year. The tax authority has argued that if the 2015 settlement is upheld, then it should be entitled to damages from Delancey and Harbour for lost tax revenue.

Ritblat and Delancey are due to file their response to the counterclaim by the end of this month.

The HMRC counterclaim noted other Delancey employees had sought to use the 2015 settlement to avoid taxes on DV4 Trust payments, including managing director Paul Goswell, a member of the council at King's College London.

This year, HMRC opened a new front, suing Delancey for £32m of national insurance contributions it claims is due on the £141m of total distributions the DV4 Trust made between 2016 and 2020. The lawsuit has been stayed pending resolution of the other cases.



## Employment

# Part-time jobs and cost-of-living pressure bring record number of UK over-65s back into work

DELPHINE STRAUSS

A rise in part-time work drove employment among Britons over the age of 65 to a record high of almost 1.5m in the second quarter of 2022, the Office for National Statistics revealed yesterday.

The increase in people working past what was until recently the state pension age could reflect rising cost of living pressures forcing some out of retirement, matching trends seen in the US.

In the three months to June, 1,468,000 people aged over 65 were in work, a jump of 174,000 from the previous quarter, taking the employment rate for this age group to 11.9 per cent.

Both the rate of increase and the level of employment were the highest on record, according to the ONS.

Working lives have over time lengthened in the UK as life expectancy improved and the government implemented successive increases in the state pension age, which rose to 66 at the end of 2020.

The latest figures mark a return to this long-term trend, following a dip during the coronavirus pandemic, when many older people were furloughed or chose to stay away from workplaces amid health concerns.

There has, however, been no such rebound in employment among work-

ers in the 50-64 age group, many of whom dropped out of the workforce during the pandemic and have yet to return.

Their inactivity rate is a significant concern for the Bank of England, because the reduction in the size of the labour force is making it harder for employers to recruit and adding to inflationary pressures in the economy.

The ONS noted that while payroll employment among the over-65s had returned to its previous steady upward trend, the rebound in self-employment had been much sharper.

Older people who had recently joined the labour market also tended to work



In the 3 months to June, 1,468,000 people aged over 65 were in work

relatively few hours, the ONS added, reducing the average working week for that age group.

This could suggest that people are turning to contract work to top up their incomes as prices rise and stock market falls erode the value of retirement savings.

Workers could also be attracted by rising wages in sectors where labour shortages have led employers to hire from a wider pool.

The health and social care sector is the biggest employer of workers over the age of 65, but the ONS noted that the sharpest quarterly increases had been in the hospitality and leisure

sectors, as well as in education.

Emily Andrews, deputy director for work at the Centre for Ageing Better, a charity, last month said that the fact some older people were returning to employment was "hardly surprising, given the severity of the cost of living crisis which may have forced some to re-evaluate their financial position".

But she also pointed to more positive drivers of the trend, noting that employers such as McDonald's, the fast-food chain, were now actively recruiting older people, while others that faced acute labour shortages were doing more to rethink their offer and introduce policies on flexible working.

Tuesday 13 September 2022

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FINANCIAL TIMES

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## COMPANIES & MARKETS

# EY's break-up challenge is only just beginning

Big Four firm's bosses sign off on historic split of audit and advisory arms but must now convince thousands of partners

MICHAEL O'DWYER — LONDON  
STEPHEN FOLEY — NEW YORK

A year since EY's global chief executive Carmine Di Sibio began plotting a potential break-up of the Big Four firm, its 13,000 partners will finally get to have their say on the plan.

Partners will begin voting in November on whether to split EY's advisory and audit arms, a bold gamble that the businesses can forge a brighter future on their own but one also laden with risks.

The blueprint for the break-up was signed off by the group's top bosses last week after a fraught summer in which EY's member firms dithered over the possible structure of a split and battled to minimise potential mammoth tax liabilities from a deal designed to free the businesses from restrictions created by conflicts of interest.

But selling the deal to partners and keeping more than 300,000 employees happy will be just as difficult as winning the backing of the firm's leaders proved, industry veterans say.

The demerger "is the most complex transaction ever undertaken in the world of professional service firms", said Paul Raleigh, former global head of advisory at Grant Thornton.

Reaching the point at which it can even be put to partners involved tackling thorny obstacles, including eliminating a potential \$13bn tax liability that EY initially believed would be triggered by the split but has been seen off by additional work, according to people familiar with the matter.

The possibility of an alternative restructuring plan was also discussed among EY's global executive team and bosses of some of its largest member firms after EY's US leaders initially resisted signing off on the deal over the summer, said people with knowledge of the talks.

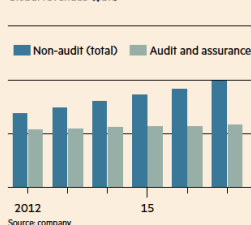
The plan agreed by EY's bosses last week would result in the audit business remaining in a partnership structure while most other service lines, including consulting, deal advisory, managed services and most of the tax operations, would be spun out and publicly listed, almost certainly in New York.



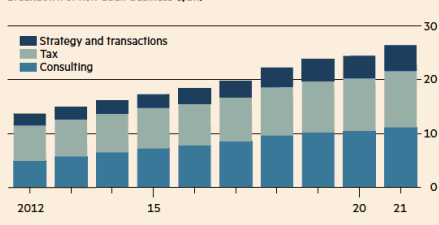
A new path: EY's offices on the Thames in London. Bosses have already had to work hard to agree a deal to put to partners across the world — Jack Taylor/Getty Images

## EY's non-audit businesses have grown rapidly over the past decade

Global revenues (\$bn)



Breakdown of non-audit business (\$bn)



a strategy that echoes EY's rebuilding of its consulting business after the \$11bn sale of its IT consulting unit to French group Capgemini in 2000.

But EY is betting that the advisory business it intends to spin off will fare better than the one it sold to Capgemini, which struggled to integrate the unit.

Unlike that disposal, the current separation plans were not a trade sale, avoiding the risk of culture clash if the consulting business were sold to another organisation, said Di Sibio. He insisted that his plan also differed from other troubled spin-offs, such as KPMG's flotation in 2001 of its consulting business BearingPoint, which ended in bankruptcy in 2009. "Our size and scale is very different than BearingPoint," said Di Sibio.

The mathematics of a split also threatens to pit generations of EY employees against each other or push senior staff below partner level to consider their options.

"You might be thinking 'I am two years away from partner' or 'I am on the partner track' but that track looks different now," said Kevin McCarty, chief executive of West Monroe, a 2,200-person consulting firm in Chicago.

EY's plan to recruit 740 external partners in the next 15 months will do little to reassure consultants who fear their career path will be less attractive when the advisory business is listed. A person briefed on the matter said the figure was not significantly higher than the number of partners hired externally last year.

Di Sibio argues that the aggressive growth targets of the newly separated businesses will create unparalleled opportunities for promotions.

But even if EY comes close to delivering its ambitious revenue targets — 21.5 per cent annual growth in advisory for three years and 7 to 8 per cent in the audit-dominated business — Raleigh suggested doubts might remain on both sides about whether a better deal could have been done. "As in most divorce settlements there is usually some lingering resentment that your former partner did better than you did," he said.



The transaction has thrown up a series of challenges for the 2,000 internal and external executives and advisers working on it.

The difficulty of managing the split across the roughly 150 countries where EY operates means only the biggest 70 to 75 member firms will be included, according to people with knowledge of the plan. Consultants and auditors in the smaller firms, accounting for just a fraction of total global revenues, will remain in their existing national partnerships and will be tied to the audit-dominated business globally.

As well as the technical complexity, Di Sibio is having to manage competing interests within EY. Like its Big Four rivals – Deloitte, KPMG and PwC – EY is made up of a network of national member firms in about 150 countries.

"Unlike the parent company in a corporate group that can mandate its subsidiaries to do as it desires, EY [global] cannot order the member firms to do what it wants," said Raleigh.

Getting "hundreds of leaders on board... took a few months longer than we anticipated", Di Sibio admitted.

Forging a consensus became so taxing over the summer that EY global executives and bosses of several national member firms explored whether they could press ahead with a break-up even if EY US, its largest member firm, refused to back the split, according to three people close to the talks.

Engineering a separation without the backing of EY US, responsible for about

40 per cent of the group's \$45bn in annual revenues, was unthinkable to many. But as leaders at the US firm delayed signing off because of concern over how the break-up would address billions of dollars of unfunded pension liabilities, the prospect of an alternative restructuring loomed into view.

According to two people familiar with the talks, the fact that other member firms were prepared to examine a different structure helped to focus the minds of EY's US leaders because it made clear the appetite for sweeping change. European member firms, which have faced

**'[It] is the most complex transaction ever undertaken in the world of professional service firms'**

more pressure to change their structure after a series of audit scandals at the Big Four, felt more urgency to devise a radical overhaul, said another person with knowledge of the talks.

While US regulators are looking at potential conflicts of interest arising from the Big Four auditing companies that their consulting arms have also advised, the idea of breaking them up has not featured on the political agenda in the way it has in Europe.

"If you look at the last 10 years, there have not been any highly publicised failures in the US," said Jeffrey Johans, a

former PwC partner who teaches auditing at the University of Texas at Austin. "They have occurred in China, in the UK and in Germany with Wirecard."

As EY's leaders now seek to sell the split, they will need to convince both audit and consulting partners that it makes sense to rip up a structure that has just helped to deliver a record \$45bn in annual revenues.

"Normally you drive change when you're in the shit, and we're not," said one person with knowledge of the plans, adding that "people don't like change".

Audit partners are being asked to accept cash windfall payments of two to four times their annual earnings in return for the likelihood of becoming the only large audit firm with limited consulting expertise. The audit-focused firm would have about 6,200 partners and 120,000 staff globally, according to figures presented to partners last week.

At the same time, consulting partners will get shares in the new advisory business and take a hefty cut to their annual pay, which will be more severe for more senior partners. Whether they ultimately benefit financially from a split will depend on how shares in the business have performed by the time they are allowed to sell down their stakes in five years.

Under the plan, the standalone audit business will retain some tax and advisory capabilities, which will initially generate about one-third of its revenues. The aim is to quickly grow the advisory capacity of the audit business,

**FT FINANCIAL TIMES**

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### Technology

## Wall St benefits from Silicon Valley lay-offs

NICHOLAS MEGAW — NEW YORK

After years of fighting to attract computer engineers who would rather work for big tech groups or crypto start-ups, Wall Street firms say they are recovering lost ground in the talent war as lay-offs and hiring freezes spread through Silicon Valley.

With exchanges, banks and market makers continuing to expand through the recent market downturn, executives say their relative stability has made them more appealing destinations.

"We definitely have seen an influx in candidates coming from big tech, crypto, and top-tier start-ups," said Josh Woods, head of systematic trading technology at Citadel Securities, where applications for tech roles have jumped more than 50 per cent quarter on quarter. "Candidates are looking at the job market more realistically now, similar to how investors in downturns really look at value and fundamentals."

Tumbling stock and cryptocurrency prices, rising interest rates and fears of a recession have brought a reversal in fortunes since the start of the year for the previously booming technology sector. More than 75,000 job cuts have been announced so far in 2022, according to tracking site Layoffs.fyi, and even companies such as Apple and Alphabet have paused or slowed down hiring.

In contrast, market volatility has



Applications for tech roles are up 50% quarter on quarter at Citadel

fueled trading volumes at companies such as Intercontinental Exchange, which owns the New York Stock Exchange, and Cboe Global Markets, which has increased the size of its tech teams by more than a quarter this year.

ICE said its "stability through many downturns resonates with [candidates]. For those who've had more experiences at start-ups and crypto companies, they're appreciating the 'all-weather' nature of our business."

As traditional financial firms have become increasingly reliant on technology, intense competition for skilled employees has driven up costs. A senior executive at a large bank said the challenge became particularly acute because of the spread of remote work during the pandemic. One industry executive said salaries for new recruits were not yet in decline, but said the recent rapid rises were decelerating.

Additional reporting by Joshua Franklin in New York

### COMPANIES & MARKETS

Commodities. Bullish bets

## Uranium rallies as energy crisis puts nuclear power in focus



Price surges but fuel source still vulnerable to squeeze on supply

Uranium prices push higher on bullish outlook for nuclear power

Running hot: shares in Canada's Cameco, the

The country only accounts for 5 per cent of global uranium production but is responsible for more than two-fifths of active worldwide enrichment capacity,

### Currencies

## Renminbi on course for record annual decline against the dollar

HUDSON LOCKETT — HONG KONG

The renminbi is on course for its largest annual fall on record against the dollar despite Beijing taking its strongest steps to stem the currency's decline as growing monetary policy divergence between China and the US piles pressure on exchange rate stability.

The sharp weakening of the renminbi comes at a pivotal moment for China's Communist party, which is gearing up for a leadership summit in October where President Xi Jinping is expected to secure an unprecedented third term in office.

The drop of 8.7 per cent against the dollar this year to Rmb6.96 puts the renminbi on track for its biggest annual fall since China abandoned its long-standing currency peg and moved to a managed floating exchange rate in 2005.

Policymakers have begun responding more vocally to the sell-off this year, which began when Xi's harsh Covid-zero policy plunged the financial hub of Shanghai into a two-month lockdown in April, and accelerated in recent weeks as the dollar gained against a number of global peers.

Analysts and economists warned that further depreciation was probable as

**'I don't think authorities are going to mount any**



## BY RUSSIA AND SAFETY CONCERNS

## HARRY DEMPSEY

Uranium prices have surged to their highest level since Russia's invasion of Ukraine sent convulsions through commodities markets as the European energy crisis fuels bullish bets on the future of nuclear power.

The material known as "yellowcake" has jumped 7 per cent since mid-August to breach \$50 a pound, a price last seen when many commodities were propelled higher by supply fears in spring.

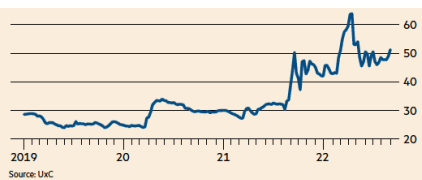
Many market participants expect uranium to rise even further with Bank of America predicting that it will hit \$70 a pound next year.

Looking past the sharp spike triggered by the war in Ukraine, uranium last traded at such levels a decade ago, according to UxC, a nuclear fuel market research and analysis firm.

Uranium has been lifted in recent weeks by a flurry of positive news around nuclear power as utility companies move to shore up supplies against the backdrop of a worsening energy crunch in Europe and improving sentiment towards the divisive fuel in other regions.

Late last month, Japan signalled its plans to accelerate the restart of reactors and explore the construction of new plants for the first time since the Fukushima nuclear disaster in 2011.

California declined in early September to extend the life of its last operating nuclear plant and days later Germany put its plants on standby to keep running if needed beyond the end of this year.



"Germany and California have been two of the most negative jurisdictions in the world on nuclear and both of them are coming around," said Per Jander, director of nuclear and renewables at WMC Energy, a commodity merchant. "I would say hell would freeze over before that would happen. It will have an immediate impact on the market."

Uranium was on a tear last year, rising more than 30 per cent as investors wagered on nuclear energy becoming a central feature of the shift away from fossil fuels and the electrification of the global economy.

Nuclear energy generates consistent baseload power without producing carbon emissions, leading the EU to classify it as "green" earlier this year.

That rapid price surge in 2021 marked a significant turnaround after the uranium mining industry was plagued by oversupply post-Fukushima.

Industry executives have also pointed to other factors bolstering the long-term prospects of nuclear, which will take longer to feed through into uranium prices.

The US Inflation Reduction Act

included tax credits for existing reactors, which are likely to lead to extensions to the lifetime of the country's fleet.

In South Korea, nuclear energy policy underwent a U-turn under the new Yoon Suk-yeol administration, which took power in May and wants to expand the industry instead of phasing it out.

Publicly listed uranium mining companies have also ridden the wave of investor optimism.

Shares in Canada's Cameco, the world's second-largest uranium producer, are close to a record high after rising almost 30 per cent since the middle of August.

"We're on pace to have the biggest contracting year since Fukushima," said Grant Isaac, senior vice-president of Cameco. "We're seeing this balanced energy policy translating into legislative action. It's no longer just words."

But even as the uranium price surges on improving sentiment, the commodity remains vulnerable to a squeeze on supplies from Russia, which is the largest builder of new nuclear plants globally.

world's second-largest uranium producer, are close to a record high

according to research house Berenberg. To create effective nuclear fuel, mined uranium must be converted and then enriched.

"The removal of Russia from the global nuclear fuel chain has the potential to be a source of disruption and price volatility," Berenberg analysts wrote in a report.

In August, the world's biggest uranium miner, Kazatomprom, raised its 2024 output target on expectations of greater demand for nuclear fuel as utilities seek to diversify energy supplies away from Moscow.

Askar Batyrbayev, chief commercial officer at the Kazakhstan-based company, said that a decision by western powers to sanction Russian nuclear fuel would trigger great upheaval in the uranium market.

"If we need to replace the entire Russian supply, then it might require an additional 10,000 tonnes to be supplied. This is half of our annual production in Kazakhstan," he said. "It's quite a challenge but it could be achievable if we have these requests in advance."

Nuclear industry executives also fear that the ballooning momentum behind atomic energy could be punctured once again if its safety credentials are called into question. Ukraine houses 15 reactors.

"Should there be a nuclear accident, then all of this will be wiped out," said Patrick Fragan, chief executive of Westinghouse, a US nuclear power company, speaking at the World Nuclear Symposium in London. "Public opinions will go back to the dark ages and be an open avenue for coal."

'Germany and California have been two of the most negative... on nuclear and both of them are coming around'

## strong, line-in-the-sand type of defence'

the US Federal Reserve continues to raise interest rates at the same time that China's central bank maintains loose policies to help steady a reeling economy.

"I don't think authorities are going to mount any strong, line-in-the-sand type of defence of the renminbi but they don't want to see undue volatility," said Mansoor Mohi-uddin, chief economist at Bank of Singapore.

Last week, authorities took the strongest steps this year to stem the renminbi's decline with the People's Bank of China setting the midpoint for the renminbi's dollar trading band at the weakest level in two years.

It also cut the level of foreign currency holdings banks must maintain, making it slightly more attractive to bet against the dollar.

Such cuts are typically deployed when Beijing wishes to discourage widespread wagers against the renminbi without launching a direct intervention.

During previous stretches of weakening, Beijing has occasionally used a variety of indirect measures to boost the exchange rate, making it difficult to profit from the renminbi's fall.

Liu Guoqiang, vice-governor of the PBOC, told reporters at a briefing in Beijing last week that the renminbi's "exact exchange rate is hard to predict and I would advise you all against gambling on it".

Additional reporting by Cheng Leng in Hong Kong

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## Fixed Income

## US inflation expectations ease in boost for Fed's policy tightening campaign

LYDIA TOMKIEW - NEW YORK

US consumers' inflation expectations are easing in a welcome sign for US Federal Reserve policymakers who have been sharply raising borrowing costs to cool the country's most intense bout of price growth in 40 years.

Inflation is expected to clock in at 5.7 per cent a year from now compared with expectations of 6.2 per cent the previous month, according to a survey by the New York branch of the Fed.

The figure would mark a significant pullback from July's consumer price index reading of 8.5 per cent.

Expectations around house price growth also fell to the lowest reading since July 2020 with forecasts for median price rises easing by 1.4 percentage points to 2.1 per cent.

Home prices soared during the height of the pandemic as a lack of inventory and low interest rates fuelled strong demand.

High prices, as well as the Fed's monetary policy tightening pushing mortgage rates to their highest level since 2008, have since tempered demand from potential homebuyers.

The decline in inflation expectations highlights how the Fed's increases this year in borrowing costs and other factors such as declines in petrol prices at the pump are beginning to feed through to consumers.

Market-based measures of inflation expectations also suggest investors are now pencilling lower rates of inflation.



Fed monetary policy tightening helped push up mortgage rates

The 10-year break-even rate, which is derived from trading in inflation-protected US government bonds, registered about 2.4 per cent yesterday from a high above 3 per cent in April.

The Fed has boosted interest rates to a range of 2.25 to 2.5 per cent from 0 to 0.25 per cent at the start of this year in its effort to combat inflation.

The central bank targets an inflation rate of 2 per cent over the long-run.

Policymakers are forecast to raise the federal funds rate to a high of about 4 per cent early in 2023, according to trading in the futures market.

The central bank is widely expected to raise its main interest rate 0.75 percentage points alone at its September meeting.

Investors say inflation data, due to be released today, will help provide direction on how aggressively the Fed will need to lift rates in coming months.

Wall Street economists expect the US consumer prices to have declined 0.1 per cent in August from the previous month, pushing the annual inflation rate down to 8.1 per cent, according to a Refinitiv poll.

## Equities

## Busson's LumRisk suffers exodus of senior staff as it attempts fundraising

LAURENCE FLETCHER

A risk analytics company chaired by multi-millionaire financier Arki Busson has lost a number of senior managers as it tries to raise capital and repay bondholders including Louis Bacon's investment firm, Moore Capital.

LumRisk, a small Switzerland-based fintech that offers risk analysis to global institutional investors, has lost four top staff including its head of risk and operations, its head of IT and a board member in recent months, according to people familiar with the details and internal email seen by the Financial Times.

LumRisk is a subsidiary of LumX, an investment firm run by Busson, who was a hedge fund industry pioneer.

In an internal email sent to LumRisk staff in May, Busson wrote that the pandemic, inflation and Russia's invasion of Ukraine had affected its business and meant that growth, while "continuing to progress, did so at a slower pace than we had projected".

"In this context, some of our colleagues, due to their high talents and work ethic, have been offered other positions," he added.

The email mentioned the departures this summer of head of risk and operations Jens Janke, head of IT Regino Alonso and head of data Lucas Buenahora.

Another recent departure was board member and senior managing director Marc Fisher.

In addition, Eric Bissonnier this summer relinquished the role of head of

'Some of our colleagues, due to their high talents and work ethic, have been offered other positions'

multi asset product, although he remains an external consultant.

Of the 23 people shown as working for LumRisk or being on its board in an internal document from last year seen by the FT, at least nine have left.

"Like any business, LumRisk has some staff turnover," the company said. "But the overall number of employees at the firm continues to grow... from 19 in 2019 to 23 today and we are actively recruiting an additional five staff who

will join us by the end of the year. All key positions in the company are filled."

It added that its client base had doubled since 2020, prompting it to open offices and recruit in Madrid.

The departures come as the firm looks to raise additional financing through an equity fundraising, according to people with knowledge of the details, having unsuccessfully tried to raise money last year.

In 2019, LumRisk raised SFr7.5mn (\$7.9mn) from investors in convertible debt, which matures this year. LumRisk's total debts are approximately SFr15mn.

While the identity of the debt investors has not previously been disclosed, one of them is investment firm Moore Capital, said people familiar with the fundraising. Moore boss Louis Bacon is one of the most successful macro traders of all time and a friend of Busson. Moore declined to comment.

Janke, Buenahora and Fisher also declined to comment. Bissonnier said he is now chief executive of another fintech but still works independently for LumRisk. Alonso did not respond to a request for comment.

Tuesday 13 September 2022



FINANCIAL TIMES

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## COMPANIES &amp; MARKETS

## The day in the markets

## What you need to know

- Dollar slips ahead of closely watched US inflation report
- Euro rises as traders assess monetary policy outlook
- Stocks boosted with gains for both Wall Street and European indices

The dollar kicked off the week on a downbeat note and stock markets rose as traders priced in a narrowing of policy divergence between the US Federal Reserve and other big central banks.

An index measuring the dollar against six peers slid 0.6 per cent, trimming steeper declines earlier in the session.

The euro rose 1 per cent to trade above parity with the US currency at \$1.013. The pound also climbed by 1 per cent to \$1.17.

The US Dollar Index is up about 15 per cent this year, propelled higher by aggressive interest rate rises and hawkish messaging from the Fed about the future path of monetary policy.

The European Central Bank last week lifted borrowing costs by 0.75 percentage points to 0.75 per cent, and pointed to further increases to come — signalling a more assertive approach to tackling inflation in the common currency region.

The catalyst for the decline of the dollar, which also edged lower on Friday, "seems to be the ongoing hawkishness of the ECB and the rebound in risk appetite," wrote Jonathan Petersen, a senior markets economist at Capital Economics. The dollar has historically been seen as

## Euro climbs back above parity

Against the dollar (\$ per €)



at Toscafund Asset Management Hong Kong. "That means there are a lot of people who are nervous about the dollar turning."

Wall Street shares advanced by the afternoon in New York with the broad S&P 500 and tech-heavy Nasdaq Composite both gaining about 1 per cent. "You have a strong negative correlation between the dollar and the US stock

Across the Atlantic, the pan-regional Stoxx Europe 600 index closed up 1.8 per cent.

Meanwhile, Frankfurt's Dax index finished the day up 2.4 per cent and London's FTSE 100 added 1.7 per cent. Investors will scrutinise fresh US inflation data due today for clues about the future path of rate rises in the world's largest economy.

## A painful era of 'spend but don't tax' faces investors

Philip Coggan

## Markets Insight

It is now clearer than ever that we have entered a new era of financial and economic policy. In this new period, governments are far less willing to incur the unpopularity of

raising taxes, or cutting spending, in order to keep their budgets in check. There could be no better symbol of this change than the sight of a British prime minister, who campaigned for a smaller state, announcing a massive intervention in the energy market to cap prices at a cost that may reach £150bn.

By the same token, western governments adopted a "shock and awe" approach to fiscal policy in the face of the Covid pandemic.

Budget deficits passed 10 per cent of gross domestic product in several countries, including the US and the UK. Governments felt free to borrow this much because, in most cases, the markets placed no apparent constraint on their deficits — interest rates and

In 1980, the average OECD country spent 14.5 per cent of its GDP on social spending. By 2019, this average had increased to 20 per cent, with the US and Britain matching the global trend.

The more striking thing about the past 40 years has been the dominance of monetary policy and the low levels of inflation and interest rates. This era was, by and large, very good for risky assets and those who trade them.

When the 2008 crisis hit, central banks felt obliged to break an old taboo, using newly created money to buy government bonds — so-called quantitative easing. The experience of

If politicians are relying on central banks to keep supporting them, they may be disappointed

now, after more than a decade, are central banks starting to unwind their accumulated bond portfolios. Politicians have got used to cheap finance and have come to believe that deficits don't matter — a view that seemed all the more pertinent since 2016 when the election of Donald Trump as US president seemed to show that voters were tired of "orthodox" economic policy.

Conservative politicians may mouth the mantra that cutting tax rates will lead to increased revenues. But look what happened after the Trump tax cuts of 2017, which focused on business and the wealthy. In 2016, under Barack Obama, the US budget deficit was \$587bn or 3.2 per cent of GDP. By 2019, before the pandemic, the deficit had risen to \$946bn or 4.6 per cent of GDP. The Republican party stopped talking about balancing the budget.

Rightwing politicians criticise their leftwing rivals for "tax and spend" policies but their alternative seems to be





a have asset during times of economic stress. "We have a lot of traditional investors hiding in dollar assets, the stronger it becomes, the more they hide," said Mark Tinker, chief investment officer

market with lots of multinationals having lower earnings when the dollar appreciates," said Bastien Drut, chief macro strategist at CPR Asset Management.

Analysts polled by Reuters expect August's consumer price index to register a reading of 8.1 per cent year on year, down from 8.5 per cent in July. **Jan Johnston and Hudson Lockett**

bond yields stayed very low.

The response to the 2008 financial crisis was rather different. True, there was a brief period of Keynesian fiscal stimulus in the immediate aftermath of the crisis.

But austerity programmes followed when deficits grew so large that politicians became nervous, especially when the bond markets' willingness to finance Greece's deficit evaporated in 2010.

Central banks bore the brunt of supporting the economy in the 2010s, just as they had in much of the period since 1980. This was the dominant trend in what was often dubbed the "neoliberal" era.

In theory, neoliberalism was about open markets and a smaller state. In practice, states didn't shrink that much.

monetary financing of government spending in Germany in the 1920s was so calamitous that it had become anathema until that point. When the rules of the euro were set up in the 1990s, the German authorities tried hard to rule out monetary financing.

QE did not involve the direct financing of governments by the central bank; the bonds were bought in the secondary market. But the distinction was fairly technical especially once central banks started returning the interest on their accumulated bond piles to their respective Treasuries.

Hyperinflation did not occur, as some feared, and QE appeared to be the only means of keeping the developed economies from a deflationary slump. But the habit was hard to break. Only

"spend but don't tax". There is no appetite for renewed austerity and any political leaders who shift in that direction may soon find themselves out of office.

But if politicians are relying on central banks to keep supporting them, they may be disappointed. Inflation is now well above target and central banks are tightening policy quickly. Nor are central banks likely to return to QE.

So instead of tight fiscal policy and loose monetary policy, financial markets may face an era of the reverse. This may mean higher interest rates and lower valuations for risky assets. The adjustment may be extremely painful.

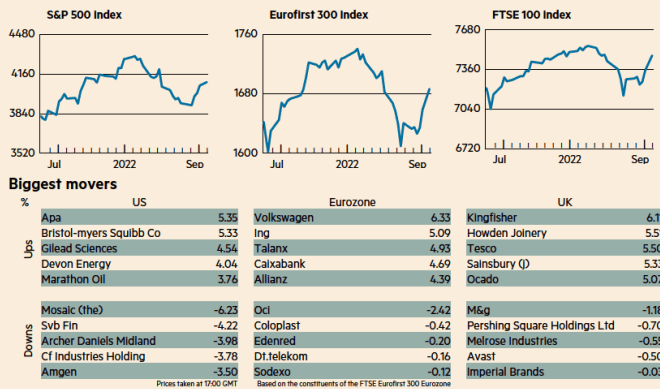
*Philip Coggan is a financial journalist and author of Surviving the Daily Grind: Bartleby's Guide to Work*

## Markets update

	US	Eurozone	Japan	UK	China	Brazil
<b>Stocks</b>	<b>S&amp;P 500</b>	<b>Eurofirst 300</b>	<b>Nikkei 225</b>	<b>FTSE100</b>	<b>Shanghai Comp</b>	<b>Bovespa</b>
Level	4094.50	1686.54	28542.11	7473.03	3262.05	113585.93
% change on day	0.67	1.70	1.16	1.66	0.82	1.14
<b>Currency</b>	<b>\$ index (DXY)</b>	<b>\$ per €</b>	<b>Yen per \$</b>	<b>\$ per £</b>	<b>Rmb per \$</b>	<b>Real per \$</b>
Level	108.111	1.015	142.375	1.171	6.918	5.124
% change on day	-0.818	0.896	-0.053	1.123	0.000	-0.488
<b>Govt. bonds</b>	<b>10-year Treasury</b>	<b>10-year Bund</b>	<b>10-year JGB</b>	<b>10-year Gilt</b>	<b>10-year bond</b>	<b>10-year bond</b>
Yield	3.301	1.650	0.246	3.080	2.643	12.301
5-year point change on day	0.070	-4.300	-1.100	0.000	-4.600	-
<b>World index, Commods</b>	<b>FTSE All-World</b>	<b>Oil - Brent</b>	<b>Oil - WTI</b>	<b>Gold</b>	<b>Silver</b>	<b>Metals (LME)</b>
Level	414.80	95.00	88.72	1713.40	18.77	3702.10
% change on day	1.04	3.68	3.19	0.24	0.75	1.02

Yesterday's close apart from Currencies: 1600 GMT: S&P, Bovespa, All World, Oil - 1700 GMT: Gold, Silver - London pm fix. Bond data supplied by Tullett Prebon.

## Main equity markets



## Wall Street

Some promising regulatory developments lifted **Bristol Myers Squibb**, the biopharma behemoth.

It said the US Food and Drug Administration had approved Sotyktu, its treatment for adults suffering from psoriasis, a skin rash condition.

More importantly, said UBS, "the much-debated label had no black-boxed warning," a high safety-related marker that FDA-approved medicines can have.

News of this green light pushed rival **Amgen** lower because its psoriasis medication, Otezla, would face added competition from Sotyktu.

Semiconductor group **Magnachip** climbed on news that it would be returning more money to investors by boosting its stock buyback programme from \$75m to \$87.5m.

The announcement of another stock repurchase buoyed **Yum Brands**, home to KFC and Pizza Hut, which said it would be buying back up to \$2bn worth of stock through to June 2024.

**Twitter** slid after rebutting Elon Musk's claims that his agreement to buy the social network had been violated because he had not been informed about the \$775m settlement with its former security chief.

Peter Zafko alleges Twitter misled regulators over its security precautions and fake accounts. *Ray Douglas*

## Europe

There were contrasting fortunes for consumer-focused stocks as **Thule**, the maker of bike racks, roof racks and strollers, was among the biggest fallers, while retail group Inditex enjoyed a bump in its share price.

The gloom at Sweden's Thule was down to a profit warning released on Sunday evening.

The company said there had been a build-up of inventory at bike retailers around the world so they were cutting back on their purchases.

Chief executive Magnus Welanders predicted that it would be "a temporary slowdown in the bike retail sector's purchases".

A build-up of stock at retailers was also partly behind a profit warning from Thule's compatriot, **Electrolux**, although its shares did not react so badly.

After falling more than 6 per cent at the open, the appliance manufacturer had trimmed losses by later trading.

**Inditex** had a better day as shares in the Spanish fashion retailer jumped ahead of first-half results, which are due tomorrow.

In June, the company reported a "sharp recovery in store footfall" but investors will be watching this week's statement for any sign that inflation is denting consumer willingness to spend.

*Oliver Ralph*

## London

**Serco** shares retreated after the FTSE 250 outsource said Rupert Soames would retire as chief executive at the year-end.

His replacement is Mark Irwin, head of Serco's UK and Europe division.

Soames, 63, joined the company eight years ago when it was teetering on the brink of collapse following a series of scandals.

Entrain Group was in the spotlight as Australia's financial crime watchdog said it was investigating whether the betting company had complied with anti-money laundering and counter-terrorism financing rules.

The Australian Transaction Reports and Analysis Centre said the probe into Entrain, which owns sports betting brands Ladbrokes and Coral, followed "an extensive" examination of bookmakers.

Entrain Australia said it was "co-operating with the investigation". Entrain Group shares edged lower.

Supermarket chains and DIY retailers saw their shares jump as inflation and pressure on households' disposable incomes were expected to ease following last week's government intervention on gas prices.

**Marks and Spencer**, **Tesco**, **Kingfisher** and **J Sainsbury** were among the sector names to benefit during yesterday's trading. *Mark Wembridge*

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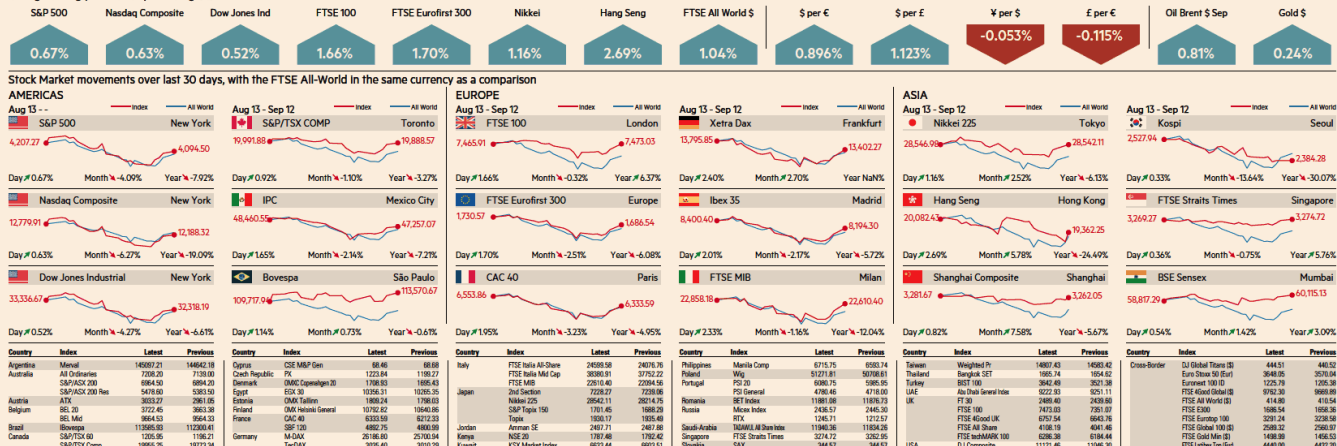
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## MARKET DATA

### WORLD MARKETS AT A GLANCE

Change during previous day's trading (%)





## UK MARKET WINNERS AND LOSERS

<sup>†</sup> Based on test week's performance. <sup>‡</sup> Prior to suspension.

## SUMMARY

Real Estate Investment Trusts	101	491.11	1.0	-3
FTSE Global Large Cap	1869	614.37	0.7	-4

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COMMODITIES

Energy	Prices	Change	Agriculture & Cattle	Prices	Change
Crude Oil	87.48	0.01	Grain	888.25	-4.75
Heating Oil	2.44	0.01	Grain	901.00	-0.75
Gasoline	2.44	0.01	Grain	913.75	1.50
Aluminum (LME 3 Months)	2,076.10	-0.01	Grain	913.75	1.50
Aluminum (LME 1 Month)	2,076.10	-0.01	Grain	913.75	1.50
Aluminum (LME 3 Months)	2,076.10	-0.01	Grain	913.75	1.50
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graph, his wide-brimmed hat worn jauntily sideways. A year later, the Baptist pastor led an uprising against British rule in Malawi that, while defeated, has gone down in history as a symbol of the African nation's liberation struggle.

From later this autumn, that photograph will be restaged in bronze on Trafalgar Square's Fourth Plinth in a work by Malawian artist Samson Kambalu. It will mark a figure who "can be described as the father of Malawian modernity", Kambalu says, but will also encompass the complexity of the colonial past in art. The other three stone plinths in the central London square are filled with statues of British notables; the fourth was left empty and has been occupied by rotating artworks in a scheme run by the mayor of London since 2005.

Kambalu received the plinth commission last year. "I had the photograph of Chilembwe on my phone when the mayor's office got in touch with me," says Kambalu, an associate professor at Oxford university's Ruskin School of Art. "There was something numinous about it."

Chilembwe, who was killed as troops suppressed his rebellion in 1915, will appear larger than life on the plinth. But he will share the space with John Choro, his missionary friend, in what Kambalu, speaking on Zoom from Oxford, calls a "tango for recognition" between two sides of the colonial encounter.

Britain is in the midst of a fierce debate about colonial legacies in the nation's public art, with campaigns to take down statues that are seen as whitewashing imperial history versus government policy to keep them up.

But Chilembwe's story reflects that "colonialism was a series of negotiations, tricks and concessions on both sides", says Kambalu. "It's not just conquerors versus victims."

Chilembwe worked with missionaries to study as a Baptist in an American seminary and to develop his own



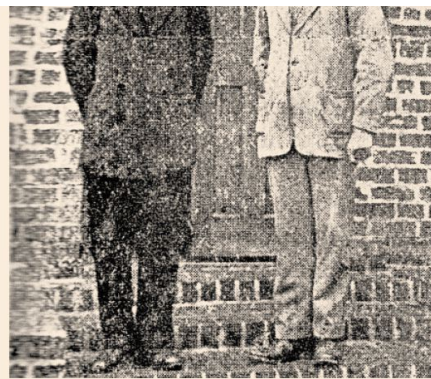
## From Malawi to Fourth Plinth

church, the Providence Industrial Mission, on his return. His rebellion was also focused on British exploitation of a farm labour system known as *thangata*, with the mission becoming a locus for the rebellion. In Malawi Chilembwe adorns banknotes and is honoured with an annual public holiday that often involves pilgrimages to Sanjika Rock, a place where he studied and meditated. His body was never found, though, and there is no designated burial site, nor a public memorial in Mkwaila, his home village, where his mother and sister are buried and his descendants live.

The Trafalgar Square sculpture is "great news – we welcome it warmly", says Daniel Mutowacha, Chilembwe's 77-



Artist Samson Kambalu — Jeremy Hibbert



size as figures on the square's other plinths, Chilembwe, at about five metres, will rival Nelson on his column. Trafalgar and the Napoleonic wars might seem a long way from Chilembwe's liberation struggle, but Britain's acquisition of the Cape Colony during those wars opened up southern Africa to colonisation over the next century. Malawi came under a British protectorate in the 1890s.

Even Chilembwe's orientation on the plinth will play a visual pun on the square. The "antelope" will stare down Sir Edwin Landseer's bronze lions and gaze on the figures of Sir Henry Havelock and Sir Charles Napier, Victorian

'Old Africa, the new Africa, the west – these are the three worlds I have to contend with'

commanders of the empire's wars and occupants of other plinths in Trafalgar Square. "I wanted detail, rather than an anonymous, clever sculpture," Kambalu says.

These subversive allusions and ambiguity go against the grain of many official attitudes to colonial monuments in the UK today.

Faced with both campaigns to take statues down and "retain and explain" legislation by the Conservative government, many museums and other bodies are choosing to "recontextualise" works, such as by placing notes nearby that counter their version of the past, sometimes awkwardly.

But "if you have to prop up a sculpture with a note, it has already fallen", Kambalu says. "I am not against monuments, so long as the artist is allowed to bring art to them. The art that is made for propaganda perishes with politics."

london.gov.uk

year-old grand-nephew, when we meet in Mkwaila. "He did not fight for a family or a village, he fought for the whole nation. He deserves recognition."

The plinth sculpture will combine Malawian tradition and modernity by reflecting Kambalu's engagement over his career with the Nyanu masked dances of the country's Chewa culture, which have satirised chiefs, colonial administrators and the modern face of capitalism in one of the world's poorest countries.

Kambalu evokes the Nyanu masquerade by calling the bronze "Antelope", the animal that is a vital figure in the satirical art form – and which is also the meaning of Chilembwe's name in Chich-

ewa, Malawi's most widely spoken language. "Old Africa, the new Africa, the west – these are the three worlds I have to contend with and that inspire me," Kambalu says.

Kambalu believes that Chilembwe himself drew on Nyanu traditions of subversion – such as donning his hat in the 1914 photograph alongside a European, in defiance of a colonial taboo. "I knew this sculpture had to have a focus on the hats [and] these two men had to be on the plinth," Kambalu says. "I saw Chilembwe rise up, becoming bigger... It just looked right. There was a truth in it."

The proportions will have particular resonance in the context of Trafalgar

## John Adams unites with Shakespeare

### OPERA

**Antony and Cleopatra**  
War Memorial Opera House, San Francisco  
★★★★

John Rockwell

The San Francisco Opera opened its centenary season Saturday night with the world premiere of John Adams's *Antony and Cleopatra*. The text, credited to the composer with "libretto consultation" from the stage director Elkhannah Pulitzer and the dramatist Lucia Schechner, is a credible adaptation of Shakespeare's play.

This is well-travelled ground, already the source of countless operas. Yet in tossing aside subsidiary characters, eliminating Pompey and reducing Octavian's role, the concentration on the title characters' love is dramatically effective. Some scenes are shuffled or invented but mostly this is Shakespeare in his own words.

The production by Pulitzer is smart, with a striking set by Mimi Lien of black sliding panels opening up to various apertures and serving as backdrop for projections. Mostly these are from the 1934 film *Cleopatra*, with its hints of Italian fascism cleverly blended with

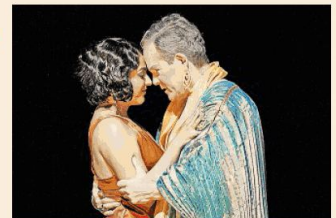
footage of the opera's singers. Constance Hoffman's costumes mix time periods from ancient Egypt to the 1930s.

The cast is top-notch. Gerald Finley (Oppenheimer in *Doctor Atomic*) as Antony offers a fine blend of fading nobility and lovesick weakness. The pregnant Julia Bullock, for whom the role of Cleopatra was conceived, had to withdraw, but her replacement, the young Amina Edris, does superbly: a bright, tireless soprano. Paul Appleby's Octavian sounded a little underpowered but came into his own later on. All the lesser roles are well handled, especially Alfred Walker as Enobarbus, Antony's lieutenant, who has telling monologues. Eun Sun Kim, the company's music

director, shapes the score persuasively.

Adams's music improves in the second of the two 80-minute acts as it becomes softer. The first act has too much stuttering, punchy parlando. There is a nice love duet in the first act, and the final death scenes are moving. But one misses the musical evocativeness of the third act of Adams's *Nixon in China* and John Donne's "Batter My Heart" in *Doctor Atomic*. As Adams said in a recent interview, when a successful composer reaches a certain age (he is 75), one stops being compared with predecessors and starts being compared with oneself.

To October 5, sfopera.com



Lovesick weakness:  
Amina Edris and Gerald Finley in the title roles of John Adams' 'Antony and Cleopatra' — Cory Weaver/San Francisco Opera

### POP

**Arcade Fire**  
O2 Arena, London  
★★★★

Ludovic Hunter-Tilley

What an odd tour this is proving to be for Arcade Fire. Just before it began, Pitchfork, the online bible of US indie music, published testimony from three women and a gender-fluid person alleging episodes of sexual misconduct on the part of the band's lead vocalist, Win Butler. Their support act, the singer-songwriter Feist, quit amid calls for the tour's abandonment. The Canadian-US ensemble have ploughed on – only to find themselves taking to the stage in London's O2 Arena hours after the announcement of the Queen's death.

The show began with a hastily assembled tribute: a recording of a funeral march by Louis Armstrong followed by a moment's silence. The 20,000-capacity venue wasn't sold out: Arcade Fire's popularity has waned since 2010, when they played two nights at the O2. But the arena was sufficiently populated to cast

doubt on notions of a boycott following the Pitchfork report, whose claims are disputed by Butler.

He made no reference to the controversy during the show. But the band's initial grouping, standing in a tight huddle on an island stage in the auditorium, emphasised the nine musicians' togetherness. They opened with the first two songs from their debut album *Funeral*. It was a statement of continuity with their earlier selves, the youthful idealists who emerged from Montreal in the early 2000s with ardent vocals and a righteous blaze of instrumentation.



Singer Win Butler — Burak Cingi/Redferns

Following this, the band decamped to the arena's main stage. Butler stood out front, joined as a focus by multi-instrumentalist and vocalist Régine Chassagne, who co-founded the band with Butler and is married to him. They shifted to the present with tracks from their latest album *WE*. It seeks to recapture their classic sound, but the songs do so in fits and starts. "Age of Anxiety II (Rabbit Hole)" built into a gripping anthem, with Butler making an excursion into the audience with his microphone. "Unconditional I (Lookout Kid)" recapitulated themes of childhood that run through their work while "End of the Empire I-III" was a pompous plodder.

Around the new numbers were well-performed reminders of how forceful those powers once were; the dance-rock of *Reflektor*'s title track was a highlight. They finished with a signature anthem, *Funeral*'s "Wake Up". Chants rang out as the band filed off the stage and up one side of the arena's raked seating. Butler's back was slapped heartily by audience members as he passed by. Arcade Fire are a once formidable band suffering a slow puncture, not cancellation.

arcadefire.com

## THE LEADERSHIP BRIEF

A newsletter featuring conversations with the world's top CEOs, managers, and founders.

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Ethereum's switch to a greener system is seen by enthusiasts as a historic moment that will take crypto mainstream. To critics, it represents a betrayal of the network's fundamental characteristics.

By Scott Chipolina

At the Blockchain Futurist Conference in Toronto in early August, the Ethereum co-founder Vitalik Buterin stood before an excited audience to deliver some big news. "The Merge is coming," he told the crowd, "this effort that we have been working on for basically the last eight years... Ethereum will finally become a proof-of-stake system... Yay!" The audience cheered.

If there is one thing the crypto community has in good supply, it's promises. In the relatively short history of digital assets — starting with bitcoin in 2009 — evangelists have trailed a list of innovations that, they say, could solve inflation, revolutionise business, or provide a financial lifeline to people living under authoritarian regimes. In response, critics of the largely unregulated industry have highlighted its links to criminal activity and huge carbon footprint, not to mention the financial ruin it has brought to many vulnerable people.

The faithful now have an opportunity to prove their critics wrong. On the horizon is arguably crypto's most ambitious project yet, known as "the Merge". The term describes the moment when the Ethereum blockchain will merge with a system called the Beacon Chain. Ethereum is the most popular platform for parts of the Web3 — or "new internet" — world that have tried to enter the mainstream, such as NFTs and decentralised finance.

When the Merge happens, probably sometime this week, the stage will be set for years' worth of potential innovations intended to address some of the harshest attacks on the industry. These are high stakes for a project that most people outside the crypto world have never heard of — and that many who have only vaguely understand. If the fusion goes off without a hitch, Ethereum will shift from a "proof-of-work" system to one known as "proof of stake".

Proof-of-work systems such as the bitcoin and Ethereum blockchains are kept secure by powerful computers. These "nodes" race against each other 24/7 to solve complex mathematical calculations to validate each new block of transactions added to the chain. The system defends against individual nodes being able to corrupt the blockchain, but it also demands an immense amount of energy to run. That translates to a carbon footprint too big for many to stomach.

In a proof-of-stake system, such as the one Ethereum is moving to, the blockchain doesn't need powerful computers for its security. Instead, individuals or companies act as the validators, staking their own ether tokens (the native currency of the Ethereum blockchain) as collateral against bad behaviour. They are incentivised to do so by rewards, including the chance to earn fresh ether.

Some see the Merge as a historic moment that will take crypto mainstream by drastically reducing the industry's levels of energy consumption — the Ethereum blockchain's annual level is at present estimated to be as high as that of Finland. "This is a pretty critical step for the infrastructure to actually scale, in order for Ethereum to become what it can become — a 24/7, global permissionless capital market," says Avichal Garg, partner at the early stage venture firm Electric Capital.

Noam Hurwitz, a software engineer at the Web3 development platform Alchemy, describes it as "the biggest milestone to date of proof (the developers) can execute on their map".

But to others, the shift represents a betrayal of the blockchain's fundamental characteristics — to be an open, transparent and decentralised network, self-policing by design and controlled by no group of individuals. The Merge will not revolutionise the whole Web3 world, and it will not directly solve many of the biggest problems facing Ethereum, such as high transaction fees and slow transaction speeds.

Still, after years of talk, a successful Merge at least sets the scene for future innovation, particularly by allowing the Ethereum blockchain to scale and handle heavier workloads. This is good news for the applications that build their businesses on the blockchain, such as the NFT marketplace OpenSea, or decentralised crypto exchanges like Uniswap. Charles Storry, head of growth at the crypto index platform Phuture, who works in decentralised finance and Web3 tech, is full of optimism.

It "is massive for Ethereum and the wider crypto community, because it unlocks new applications which wouldn't be possible in the existing system, increases scalability and radically improves Ethereum energy efficiency," he says. "We're just getting started."

#### Gas guzzlers

Despite the hype, whether the Merge really heralds the mainstreaming of crypto projects is a matter of serious doubt. This year's turmoil in crypto markets has tainted the mood: a crash



## The Merge: blockchain revolution or more hype?

Vitalik Buterin, above, co-founded Ethereum and says the Merge shift has been years in the making; if it goes as planned, Merge will put pressure on bitcoin, whose blockchain mining activities, below, have been criticised for high energy consumption

FT Montage: Getty Images/Dynamilis; Lars Hagberg/AFIP/Getty

in coin prices wiped about \$2tn off the total value of cryptocurrencies and blockchain-based ventures have been caught in its wake. Some of the biggest companies in the sector declared bankruptcy, including hedge fund Three Arrows Capital and lending platform Celsius. Tumbling valuations in the tech world have also threatened to reach deeper into crypto and fintech.

Ethereum is not the only blockchain in town. Others — such as the bitcoin blockchain — will still use proof-of-work systems after the Merge. Estimates by Cambridge university show the bitcoin blockchain consumes so much energy that if it were a country, it would rank in the world's top 35 energy consumers.

So why does the Merge matter if other blockchains are still guzzling energy and harming the environment? Alex de Vries, founder of the website Digiconomist, claims the Merge could shed about 99 per cent of Ethereum's energy consumption.

Even if bitcoin's dirty climate record is set to continue, de Vries argues any progress towards greening the industry is better than none. "You can't say we have cleaned up cryptocurrency when the biggest polluter is still out there... but I would say this is a massive step forward at the very least... the outside world also needs to see that this is possible."

Many of the "second layer" projects that are built on the Ethereum blockchain (such as NFTs and decentralised finance platforms) will also be affected. "It makes Ethereum greener, which is important because that has actually

been a stumbling block to adoption," says Alkesh Shah, crypto and digital asset strategist at Bank of America. "Many people [who would] use digital assets don't because of the energy use and the negatives for the environment."

"It's going to dramatically reduce the carbon footprint for the whole industry," says Ian Solot, a partner at venture capital firm Tagus Capital.

Should the Merge successfully inculcate Ethereum against criticism, pressure will grow on its main rival, bitcoin. If one of the two most prominent blockchains can ditch its dirty reputation, why not the other?

Ethereum's core developer Preston Van Loon, who co-founded Prismatic Labs, a team of software engineers dedicated to building the Ethereum blockchain, says the Merge cannot come soon enough. "Proof of stake has been coming soon since 2016... it's almost a meme at this point," he says.

#### Changing engines mid-flight

The carbon footprint problem has been a persistent hurdle to efforts to push blockchain technology to mainstream users, says Ryan Wyatt, former head of gaming at YouTube who now runs the blockchain gaming company Polygon Studios. The Merge "really does away with that in its entirety," he says. "You can then focus on what the other points of friction are for onboarding the next billion users into Web3."

Others in the industry say Ethereum's problems with slow transactions and high fees will continue to disqualify the blockchain from driving any kind of Web3 revolution. "I don't understand this insistence of using something [Ethereum] that at its core, doesn't work very well," says Lars Seier Christensen, co-founder of Saxo Bank who now runs a proof-of-stake blockchain called Concordium.

What is more, there is no guarantee the Merge will work from a technical perspective. The process has already been set in motion and will happen once a pre-determined target on the blockchain is reached — expected to happen as early as Tuesday. The Merge will be gradual, more like the sun coming up than switching on a light.

"It's almost like changing the engines on a plane whilst flying it... a signifi-

cant engineering feat," says Edward Machin, a senior lawyer in Ropes & Gray's data, privacy and cyber security practice.

Even if the big moment does come off without a hitch, there are plenty of risks that lie in wait. The first is a theoretical one: dubbed the "51 per cent attack". Post-Merge, the Ethereum blockchain will be secured by a group of individuals by virtue of the ether tokens they have staked. That means, in theory, that any group or individual who gains control of 51 per cent or more of the staked ether on the blockchain would effectively control the system.

It is an unlikely scenario — not least because it would probably be prohibitively expensive to own over half the staked ether on the blockchain. But also because an attacker would lose their staked holdings if they tried to meddle with the chain.

Still, the danger is there and crypto sceptics have witnessed enough hacks and collapses not to dismiss it. "It's a high stakes test... The hackers aren't going to come out until it's live," says crypto critic and angel investor Liron Shapira. Another critic, software engineer Stephen Diehl, says it is dangerous as these that make people who are considering investing in crypto markets think twice, because "there is this underlying platform risk where, unlike [with] physical commodities, crypto assets can simply cease to exist due to technical black swan events."

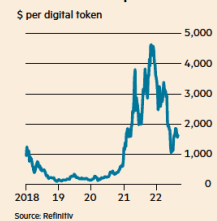
A more immediate problem is the tail risk of a whole series of market mechanisms that have yet to be tested in the wild. "Humans are pretty bad at pricing tail risk. I think most people are probably not thinking about [it], and there are a lot of risks here," says Garg of Electric Capital.

#### Existential angst

The most urgent concern for many Ethereum backers is the existential question that proof of stake presents to "decentralisation" — a sacred tenet among advocates of blockchains.

According to DeFi Llama, a popular analytics website, the Ethereum blockchain holds over 50 per cent of the total value of the decentralised finance industry, which champions direct peer-to-peer transactions and is meant to

Ether has recovered slightly from recent sharp falls



remove all need for third-party intermediaries such as banks or brokers. Like other blockchains, Ethereum is meant to be censorship-resistant. Its design is supposed to hold out against powerful individuals or entities seeking to exert control over other participants. But in its new guise, safeguarded by a collection of individuals or companies, Ethereum loses that autonomy. "You have what is a shining beacon of decentralisation but in a new model it will be more centralised than people think," says Machin.

This problem has become clearer since the US Treasury's Office of Foreign Assets Control last month imposed sanctions against Tornado Cash, an Ethereum-based platform that the government accused of facilitating billions-worth of laundered crypto. The staunchest of crypto's libertarian army had said the heavy hand of government would prove ineffective against the kinds of "smart contracts" — computer software designed to automate transactions — that run on decentralised platforms. Yet, sanctions have proved effective after all. In the weeks since Tornado Cash was targeted, transactions on the platform nosedived.

That worry is bound to cross the minds of Ethereum's future guardians, including the exchanges Binance and Coinbase, and staking platform Lido Finance. According to Nansen data, these companies are already some of the biggest Ethereum staking players around, and thus will be trusted to secure the network post-Merge. Last month, Coinbase chief executive Brian Armstrong said his exchange was likely to quit the staking business before censoring the network.

As guardians of the Ethereum network, these entities will have to decide whether or not to validate and process blocks of transactions that may contain transactions coming from entities under sanctions such as Tornado Cash. That hardly sounds like the censorship-resistant utopia envisioned by the idealists — although critics of bitcoin point out that the concentration of miners (who are overwhelmingly based in certain countries such as the US and Russia) in that blockchain also amounts to a centralised system.

If the Merge does usher in a new era of centralisation, those idealists may have to pack their bags and leave. "If people are worried... OK, great, go somewhere else," says Jeff Dorman, chief investment officer at the asset management firm Arca.

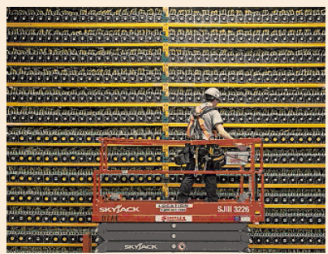
There is another reason for optimism: since July, the price of ether — as well as of other popular cryptocurrencies — has partly rebounded, giving investors some respite following such a turbulent few months. When BlackRock, the world's largest asset management firm, launched a bitcoin private trust last month, it signalled that the beleaguered industry might already be repositioning itself for the next bull market cycle.

If the price of digital assets — and, more specifically, ether — should revive, then it is likely that the post-Merge Ethereum blockchain will be one of the biggest beneficiaries of another crypto bull run. "I like to call it the lazy man's ETH," says Dorman. "By owning ether, you now have exposure to a turbulent few months. When BlackRock, the world's largest asset management firm, launched a bitcoin private trust last month, it signalled that the beleaguered industry might already be repositioning itself for the next bull market cycle."

Even so, Dorman is not convinced that wider interest in decentralised finance will necessarily follow from the Merge. That, he feels, is "a separate conversation." "Do [people] want to take loans through [DeFi] rather than walking into a bank? Do people want to trade digital collectibles rather than traditional baseball cards or stamps? All those factors, user growth, transaction growth, volume growth, those are independent of the Merge," he says.

Ultimately, answers to these questions will become clear once the Merge happens. Plenty of dry-run merges have taken place on "testnets" — essentially non-live blockchains — the most recent just last month. But there's nothing quite like the real thing.

Additional reporting by Richard Waters in San Francisco and Joshua Oliver in London





## The FT View



## FINANCIAL TIMES

"Without fear and without favour"

ft.com/opinion

## Kyiv's troops turn the tables in north-east Ukraine

*Putin is under pressure over what the Kremlin calls a 'regrouping'*

Breakthroughs in conflict can come when least expected. Just when Russia and Ukraine seemed locked into a grinding war of attrition, Ukrainian forces' rout of the invaders around north-eastern Kharkiv constitutes their most striking success since Russia withdrew from around Kyiv in March. It does not mean a swift end to the conflict is in prospect, even if it is not impossible; most likely the two sides will still be facing off come the European spring. Yet it shows that Ukrainian forces have the capability to drive the Russians back. The ramifications for both sides are far-reaching.

Ukraine's advance sends important messages about the strengths and morale of the two armed forces. It shows Kyiv's army has the capacity for intelligent planning, as well as flexibility,

devolving more decision-making to lower levels. Moscow's more hierarchical forces, where decisions are pushed up the line, struggle to handle events happening in multiple places at once.

Despite its far bigger population and overall armed forces, Moscow faces serious troubles over manpower and motivation. The forces it now has in eastern and southern Ukraine appear too thinly spread to defend a 1,500km frontline. Ukraine has in effect mobilised its entire country to fight an existential war its forces cannot afford to lose. Russian soldiers are in a conflict foisted on them by the Kremlin that many would rather have nothing to do with. Reports from Kharkiv suggest many Russian troops fled as Ukrainians advanced, dumping their equipment.

Kyiv's forces have demonstrated, too, the difference western weapons can make, and their ability to operate and integrate them into strategy. High-precision arms are helping to remove Russia's advantage in artillery – allowing

Ukrainian forces to get into close combat for which, as has been clear in past days, the Russians have little appetite.

Far from simply prolonging a war Ukraine can never win – as the Kremlin has repeatedly tried to claim – high-tech arms have been shown capable of tipping the balance. This bolsters arguments for accelerating what has been promised – only half of the \$16bn of physical weapons pledged have been delivered – and for sending more.

Too much of the aid provided so far, moreover, has been based on what happened to be available. Supplies should be better tailored to Kyiv's strategy. Ukraine has provided a success that western leaders can point to as they steel their populations for the privations of the coming winter, when President Vladimir Putin clearly hopes that sending energy prices spiralling by turning off the gas taps will sap resolve.

Caution is still merited. Kyiv has to take care not to allow its supply lines in the Kharkiv region to become over-

*Moscow's more hierarchical forces, where decisions are pushed up the line, struggle to handle events happening in multiple places at once*

stretched. Its forces' counteroffensive in Kherson to the south – vital to secure access to the Black Sea – is making much slower progress, even if it drew Russian troops away from Kharkiv. Russians are better dug in here, where irrigation channels make ready-made trenches, and the quality of the forces backing up its conscript front lines is much higher.

Moscow has displayed a readiness to wreak vengeance in weekend strikes around Kharkiv aimed at depriving the civilian population of water and heat. The situation around the Russian-held Zaporizhzhia nuclear power station remains ominous. Putin is under pressure from nationalist bloggers, and even pro-Kremlin TV pundits, to get a grip after what Moscow has euphemistically called a "regrouping".

The danger that he might seek to lash out or up the ante is one western capitals must be alert to, and prepared for. But it should not deter them from continuing a support strategy to Ukraine that is showing signs of bearing fruit.

## Opinion Society

## 'Success sequence' must be treated with caution

Ewan White



Stephen Bush

**W**ant to get ahead in life? In the rich world, there are three supposedly foolproof steps: graduate from secondary school, get a full-time job and get married before you have children. The "success sequence", a term popularised by Clinton-era American official Isabel Sawhill and her co-author Ron Haskins in their book, *Creating an Opportunity Society*, has become the watchword of much of the thinking right in the US.

Their thesis appears to be statistically robust: if you control for education and social class, you are more likely to be better off if you complete the success sequence, whether getting your secondary school qualification is the last thing you do before entering work or you go on to collect a slew of tertiary qualifications too.

*Not all social outcomes can or should be reduced to whether a household is financially better off*

But just because a correlation is robust, it doesn't follow that it is meaningful. One of the most reliable and consistent findings in public science is that university graduates are more liberal than people who have not gone on to higher education. But a series of studies, most recently a fascinating study of sibling outcomes from the University of Southampton, has found that it is not that going to university makes you more liberal – it is that being liberal makes you more likely to go to university.

The same may well be true of the success sequence. I, for instance, have "completed" it: I finished secondary school, I work full-time and I'm married. My partner and I tied the knot for a lot of reasons, but one of them is that I am morbid. I'm the kind of person who thinks a lot about end-of-life scenarios and my partner's ability to make medical decisions for me. Although the evidence on whether morbidity is a helpful or unhelpful way to build resilience is patchy, it's

hard to say with confidence that completing it is all that important. That said, the finding does feel a lot like basic common sense. As the economist Bryan Caplan puts it, saying "dropping out, idleness, and single parenthood make you poor" is on a par with asserting that "burning money makes you poor".

There are a couple of other problems with the theory, however – not least the issue of who, exactly, is the "you" we are talking about here. Is someone who raises a child in a loveless marriage really better off because they have more money than if they raised a child happily alone? Is a child born into a single-parent family really worse off than a child who isn't born at all?

While it is trivially true that you are better off financially raising a child in a long-term two-parent household, it is far from clear that you are better off financially or socially raising a child with a partner who doesn't want to stick around than if you are alone. Not all social outcomes can or should be reduced to the question of whether or not a household is better off, financially speaking. A self-interested household would never have children – but not everyone is happy that way and in the long term it wouldn't work out for anyone.

Nor is it clear what the actual policy implications of the success sequence should be. A man who impregnates a woman and then disappears into the sunset to focus on his career may well be better off, economically speaking, than if he stuck around and took a job that allowed him to focus on childcare. Supporters of the success sequence are divided on whether the correct policy approach is to "encourage marriage" or increase access to reproductive healthcare. But part of the problem with the idea is that its implications for policymaking are rather arid. States are in general pretty bad at setting cultural expectations or mores; where they shine is in their ability to solve collective difficulties or to hand out cash.

Of course, one reason why some people on the American right like the success sequence is that it is an excuse for governments not to spend money. What's the point of welfare spending when the best thing for outcomes is education, work and marriage?

But the hard truth for libertarians is that in most democracies they have failed to win the argument for reduced state spending. A much better starting point, whether or not you support

## Letters

## What the Queen can teach business leaders

As an executive headhunter, reflecting on the Queen's incredible reign, it is hard to think of a better embodiment of the leadership values all business leaders should aspire to: consistency, reliability and a constant presence all could depend on ("The grace, humanity and fortitude of Elizabeth II", FT View, September 9).

She had a prodigious work ethic and brought the same enthusiasm and verve to the daily grind of reviewing dispatch boxes and opening leisure centres as she did to prestigious events such as hosting world leaders.

Her Majesty was thoughtful in her communication and cared deeply about the impact of her words on others; she was a reassuring and uplifting voice in good times and bad.

As a long reigning monarch, she deftly managed the evolution of her organisation within an ever-changing cultural context.

She embraced modernity and technology while staying authentic to the royal brand.

The Queen recognised that, however difficult to envisage, succession must always be planned for and should be as

seamless as possible – it could come at an unexpected moment when already in the midst of a crisis.

As we celebrate her life and immeasurable contribution to the world, I hope other leaders can take inspiration from the timeless leadership qualities.

We look forward to King Charles III leading by the incredible example he has been set.

Rest in eternal peace Queen Elizabeth and God save the King!  
Sam Gordon  
London E9, UK

## Don't forget Scotland's role in preserving the Crown

Gideon Rachman says "the British empire and the union with Scotland are just episodes, in the much longer history of England" ("Elizabeth II was Global Britain personified", Opinion, September 10). Confusing the British empire with the history of the relationship of Scotland and England is misleading, the issue of the Crown being a prime example.

Rachman forgets the Crown has been entwined with Scotland since its medieval origins and that were it not for Scotland the Crown might have disappeared.

It was Scotland's James VI who unified the Scottish and English Crowns in 1603, becoming James I. And it was Scotland that kept the monarchy alive for more than a decade during the period of England's Commonwealth (1649-1660), after James's son, Charles I, was executed.

His son, Charles II, was proclaimed King in Scotland the year Oliver Cromwell took over in 1649. His coronation at Westminster Abbey on



April 23 1661 was simply a recapitulation of an event that had originally been performed in Scotland 10 years previously at Scone Abbey on January 1 1651.  
Kate Robinson  
Glasgow, UK

## A Commonwealth official applauds her contribution

Her Majesty Queen Elizabeth II oversaw the transition from a British empire to a multicultural Commonwealth of 56 equal states.

As a Commonwealth official for almost 40 years, I witnessed the crucial role she played behind the scenes, especially in her support for a free, non-racial South Africa, including in conflict with the then-British prime minister, Margaret Thatcher.

The outpouring of tributes from around the world, not only from Commonwealth countries, but those like Germany and Norway who, like the UK, interrupted and changed their regular TV and radio schedules in her honour, bears evidence to this.

The late Queen was a remarkable and dedicated British monarch; she was also a truly inspirational head of the Commonwealth and a much loved and respected global leader.

Carl Wright  
Secretary-General Emeritus,  
Commonwealth Local Government Forum  
Canterbury, Kent, UK

## Person half her age would have balked at the request

Very few members of the public will know of an amazing act of selflessness shown by Her Majesty in November 2010 when she was already into her eighties.

The director of the Sheffield Institute for Translational Neuroscience, Professor Dame Pamela Shaw, invited our honorary patron, the Duke of Devonshire, to open our new building. The Duke said that he had a much better idea – Her Majesty. And so it happened.

Her Majesty and the Duke of Edinburgh endured the doubtful comfort of an overnight journey to Sheffield in the Royal Train, spent the whole day at SITraN, including a formal lunch, and at AMRC (Advanced Metals Research Centre), another branch of Sheffield University. Such a demanding visit would have fazed many half her age, but she showed the fortitude for which she became renowned and was in excellent humour throughout – amazing!  
Jonathan Stone  
Fountain Park, SITraN, Sheffield, UK

## Elizabeth II was a Daoist, but without knowing it

In all the commentary on our late Queen, one point has been missed: she was a Daoist, without knowing it ("The grace, humanity and fortitude of Elizabeth II", FT View, September 9).

The way she lived proved the truth of a central teaching of the *Dao De Jing*, the Chinese classic text written around 400BC and traditionally credited to the sage Lao Tzu: "The Way never acts, yet nothing is left undone." In other words: "By doing nothing, you do everything," or even: "By saying nothing, you say everything."

Roger Garside  
London SW16, UK

## OUTLOOK

## TURKEY

## My flight home with an 'Isis Beagle'

It was when I saw the tattoo that the penny dropped. The man sitting two rows behind me on my Ankara to London flight last month, flanked by two plainclothes officers, had the letters A-I-N-E running vertically down his left arm.

It's Aine Davis, I thought. I'm sharing my Sun Express flight with an alleged member of an Isis jihadi cell known as the "Beagles".

My suspicions were first raised when my husband saw a man in handcuffs being led on to the plane as we waited to board. When we took our seats, I discovered we were two rows in front of the detainees: a bald 50-something bearded man who was wearing a white Puma T-shirt.

After take-off, I walked past him a few times under the guise of entertaining my 17-month-old daughter. I angled for information from the cabin crew.

My husband rolled his eyes and wished I would just sit down. Then I saw the tattoo.

Davis is suspected of having been a member of an Isis cell that captured and killed western hostages in Syria. The Beagles nickname was given to them by captives: a black humourous reference to the men's British accents,

said that his time in custody, some of it in solitary confinement, had been "very hard".

Davis, who had picked up excellent Turkish and a muscular physique during his seven-and-a-half-year jail sentence, said he wanted to "just live a normal life" back in the UK.

When I asked if he was expecting to be arrested, he replied: "I've no idea, after the things they've written about me in the media."

Up to this point, the Turkish guards accompanying Davis had paid little attention to me. On seeing the stain-ridden "human highchair" look I sport when travelling with a toddler, they must have assumed I was harmless. After discovering I was a journalist, they panicked and shooed me away before I got the chance to ask Davis anything more.

But for the rest of the flight, I had the strange experience of playing with my daughter within touching distance of a man accused of terrorism offences. Our fellow passengers were completely oblivious.

In some ways, this was the final chapter of a story that began a decade ago. After the 2011 Syrian uprising, it was common to see young men flying from Britain to Turkey, intending to cross into the war-torn country. Some

free-for-all. But the revelation that Shanima Begum – the British schoolgirl who joined Isis in 2015 – was smuggled across the border by a man who was also working for Canadian intelligence, shows how murky this whole period was.

The sensitivities involved in repatriating people like Davis is one of the reasons the UK is eager to maintain good relations with President Recep Tayyip Erdoğan's government.

Turkey has deported 9,000 alleged foreign terrorist fighters since 2011, the interior ministry has confirmed. Though the pace of deportations has slowed in recent years, 20 people were sent back to EU countries in the first seven months of 2022.

An estimated 360 Britons who joined extremist groups in Syria and Iraq were "still somewhere in the region", according to a UK government estimate in 2019.

Britain has subsequently stripped some of them of their citizenship to prevent their return. But Ankara has said, quite rightly, that it will not serve as a "hotel" for foreign terrorist suspects. Davis needed to be sent home.

After our plane landed at Luton, my family and I walked down the steps on





certainly possible that what makes me better off is not that I have completed the success sequence, but that I plan ahead and am fairly good at dealing with bad situations, because I think about them ahead of time.

The absence of useful sibling studies about the success sequence makes it

state spending, is to focus on things states can reliably achieve, rather than things they can't. Once someone leaves school, the success sequence is firmly on the list of things over which states can't have any influence.

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by Laura Pitol

and a way of telling them apart.

The 38-year-old Davis had been detained in prison in Ankara — I knew he was due to be deported home to the UK.

Still, I wanted to be sure, so I asked him. He confirmed his identity and

had genuinely good intentions. Others

less so, especially after Isis captured large parts of Syria and Iraq in 2014. The porousness of the Turkish-Syrian border in those years is still a

bone of contention between Turkey and the west. It was undoubtedly a

to the tarmac and made our way through the airport to be greeted warmly by my in-laws. Davis's welcome party consisted of three British policemen.

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## Opinion

### The term 'quiet quitting' is worse than nonsense

#### EMPLOYMENT

Sarah O'Connor



Employers have been trying to get inside their employees' heads for more than a century. In 1920, Whiting Williams, a former personnel director in a steel company, even went undercover as a labourer before penning a book called *What's on the worker's mind: by one who put on overalls to find out*.

This year, a popular video on TikTok about 'quiet quitting' has sent employee motivation experts into overdrive. According to Gallup, about half of Americans are 'quiet quitters', which it defines as people who are 'not going above and beyond at work and just meeting their job description'. HR specialists and consultants have been quick to jump in with advice on how to fix the

problem. An article in Harvard Business Review urged managers to ask themselves: 'Is this a problem with my direct reports, or is this a problem with me and my leadership abilities?'

I don't think it's a problem at all. First, the Gallup survey data suggests this is neither new nor a trend. Just under a third of US workers were 'engaged' and almost a fifth were 'actively disengaged' in the second quarter of this year (Gallup defines 'quiet quitters' as the group which is neither). The proportions have wobbled a little over time but are completely in line with the average since 2000.

Second, I would suggest that if your staff turn up every day and do exactly what you ask of them, they aren't 'quiet quitting', they're 'working'. Some people will always be driven by ambition, enjoyment, perfectionism or insecurity to do more than is asked of them, but if you expect everyone to do that, by definition it isn't 'above and beyond' any more.

Indeed, companies which have built their business model on people constantly going 'above and beyond' their

job descriptions are on dangerous ground. Some of the rail disruption in the UK this summer was a case in point: operators like Avanti relied for years on staff voluntarily working extra shifts on their days off; when staff withdrew their goodwill, the service fell over.

Similarly, many companies in the video games industry have relied on 'crunch' (a period of very long working

*If your staff turn up every day and do exactly what you ask of them, they're 'working'*

hours) to meet deadlines. Some in the industry say this has evolved into a permanent 'crunch culture'. According to a survey by the International Game Developers Association in 2019, 42 per cent of developers said crunch time was expected at their workplace and only 8 per cent were paid for overtime. Shaun Rutland, chief executive of games company Hutch, says there can

be camaraderie in extreme hours when you're young, but it also damages people's health and relationships to the ultimate detriment of the firm. He remembers having to work from 8am to 8pm for months as a youngster. 'I was so grateful to get the job working in games, I was like: "this is it, I'm going to do everything I can", but it made me ill.'

Now it is productive to overwork people. A study by Erin Reed, a management professor at McMaster University in Canada, found managers could not tell the difference between those who worked 80-hour weeks, and those who just pretended to. Implicit in the corporate panic over 'quiet quitting' is something deeper as well: the idea these people are 'psychologically unattached' to their employers because their 'engagement needs are not being fully met', as Gallup puts it. Rescue. Russia's gross announcement. What if someone loves their work, but not the organisation they do it for, or vice versa? What if 'purpose' matters for some people but not for others? What if some only do their job for money but they're still really good at it?

My advice to employers is to get out of employees' heads, stop worrying about whether they love you or not, and focus on their output. Are they doing a good job, or aren't they? That's not to say there is no point in asking workers how they feel. But if you must do 'engagement' surveys, my experience of speaking to workers over more than a decade would suggest you only need to ask three questions. Do you think your work is harming your health? Do you have a decent line manager? And do you think you're paid fairly?

At its heart, the 'quiet quitting' kerfuffle speaks to an unhealthy understanding of the relationship between companies and their staff. Employees don't need to cater to employees' every psychological need, and employees don't need to be passionate about their employers. How about a simple contractual relationship of mutual respect and clearly defined obligations? I'm going to call it 'work for grown-ups'. Now I just need to make a TikTok video about it.

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### King and PM face challenge of upholding Britishness

#### POLITICS

Sebastian Payne



The celebrations of Queen Elizabeth II's life are chiefly focused on her place as a symbol of apolitical duty. But there is another value that the monarch imbued above all others: Britishness. The Queen's long life of public service was devoted to, and intertwined with, the bonds of the United Kingdom.

Her death at Balmoral, the Highlands home cited as her happiest place, and the subsequent stages of mourning symbolise how she spanned the divide between Scotland and England. From the tractors lining the Aberdeenshire countryside to the vast crowds greeting the arrival of her coffin in Edinburgh, there have been abundant signs of what she meant to many Scots.

Scottish nationalists will argue that Elizabeth was the Queen of Scotland too; that in the case of independence, she would remain head of state. But that is to overlook how keenly she felt about the presence of Northern Ireland, Wales and Scotland, as well as England, in the UK.

During the 2014 referendum on Scottish independence, the Queen took what may have been the greatest political risk of her life when she urged bystanders outside a church service to 'think very carefully about the future'. It was a carefully choreographed intervention, planned for months, and carried more weight than any politician's. Without doubt, she helped save the union.

*Saving Scotland's place in the UK will be more difficult than most politicians like to admit*

But the threat of a break-up has not gone away. The governing Scottish National party may be struggling in the polls, but its march towards another referendum goes on, with an impending court challenge on the holding of a vote. King Charles will not wish to be the monarch who sees his country fall apart, yet the matter will probably arise again within three years.

The Westminster political situation has exacerbated tensions. Brexit highlighted the diverging politics of the four nations. And Boris Johnson was an especially unpopular prime minister in Scotland. Before the end of his premiership, his net unpopularity was -71, compared to +12 for Scotland's first minister Nicola Sturgeon. Under his leadership, the Scottish Tory party slumped to third place in opinion polls.

Even without Johnson, Truss and the King must grapple with the long trend towards independence. Scotland's demographics heavily lean towards secession, which is favoured among younger voters. Aided from its parliament to its police force, a de jure independent Scottish state is being formed before a de facto vote enshrines it. Demographic changes are also straining the bonds of Britishness. Since Elizabeth II acceded to the throne, Scotland's population has risen by about 7 per cent. During the same period, England's has risen by 37 per cent.

All Britons are facing whiplash. This time last week Elizabeth II and Johnson led the UK. Now, it is Charles III and Liz Truss. The new prime minister is scarcely more popular in Scotland than her predecessor, but she arrives with less baggage. Her diligent governing style may find more favour than Johnson's chaos. At the very least, she must highlight the shortcomings of the SNP's record.

## Russia's war has reached a turning point

#### GLOBAL AFFAIRS

Gideon Rachman



The sight of Russian troops in headlong retreat in Ukraine is stunning — but it should not be surprising.

This war has gone badly for Russia from the outset. Vladimir Putin failed to achieve the lightning victory that he was aiming for on February 24. By April, the Russians had been forced into a humiliating retreat after making incursions towards Kyiv.

The limited gains Russia has made over the past six months have come at a terrible cost. The original invasion force mustered by the Kremlin was around 200,000 troops. The US estimated last month that 70,000-80,000 of them had been killed or wounded since the beginning of the invasion.

Unwilling to acknowledge that Russia is at war, Putin has refused to institute conscription. By contrast, Ukraine has mobilised its entire adult male population. As a result, Ukraine now probably has more troops on the battlefield than Russia.

The Ukrainians also have the advantage in morale and munitions. They are fighting to defend their own country. The supply of advanced weaponry from the US and Europe — in particular, accurate

long-range missiles — means they are now better equipped than the Russians.

The prospect of Russian defeat is real and exhilarating. But Ukraine's advances also open a new and dangerous phase in the conflict.

The pictures of weeping civilians embracing Ukrainian soldiers as they liberate towns and villages from the Russians underline what this war is all about. Permanent Russian occupation would snuff out political freedom and would be enforced with killings, torture and deportations.

An easy Russian victory in Ukraine would also have opened the door to further aggression against its neighbours — including Moldova and perhaps even Nato members Estonia, Latvia and Lithuania. That prospect was alarming enough to persuade Finland and Sweden to apply for Nato membership.

If Russia is defeated, the invasion threat hovering over the rest of Europe will recede. The global political atmosphere will also change. Russian defeat will go down badly in Beijing and Mar-a-Lago. In the weeks before the invasion, China announced a friendship 'without limits' with Russia. Donald Trump chortled that Vladimir Putin was a 'genius'. That judgment now looks not just immoral, but stupid.

But some caution is in order. Almost a fifth of Ukraine is still occupied. The Russians will try to regroup and the Ukrainians could over-reach.

The really complex question is what happens if Russia is facing a humiliating defeat — perhaps including the loss of



Crimea, which was occupied in 2014 amid much rejoicing in Moscow?

Rather than accept defeat, Putin may try to escalate. His options, however, look limited and unappealing. The refusal to call a general mobilisation must reflect nervousness about the opposition that could stir in Russian society. Calling up troops, training and equipping them will take many weeks — and the war is moving fast.

From the beginning of the conflict, Putin has hinted that Russia might use nuclear weapons. The White House has always viewed this possibility seriously. As the war has dragged on and gone badly for Russia, fears that Putin might resort to nuclear weapons have receded a little, but they have not gone away. As one senior western policymaker put it to

*The prospect of Moscow's defeat is real. But Kyiv's advances open a dangerous phase in the conflict*

me last week: 'We have to remember that almost every Russian military exercise we've observed has involved the use of nuclear weapons.'

Using nuclear weapons in Ukraine would, however, create the obvious danger that Russia itself would be contaminated by the fallout. The global political reaction would be very negative and a western military response, probably non-nuclear, would be all but inevitable.

Like Russian leaders in the past, Putin is hoping that winter will come to his rescue. Russia's gross announcement that it will stop almost all gas supplies to Europe is clearly intended to freeze the western supporters of Ukraine into submission.

But Putin needs a lot of go right for the gas gambit to work. A very cold winter or a surge in political protests in the west would help. Neither can be relied upon. The German government says the country 'is now better prepared for a halt to Russian supplies' and that the total gas storage level is almost 87 per cent. Energy price subsidies are being rolled out across Europe.

So the Russian leader's position looks perilous. From the start some western leaders have quietly hoped that Putin would lose power as a result of the war. President Joe Biden even blurted it out.

But if Putin is deposed, perhaps by a palace coup, his replacement is more likely to be a hardline nationalist than a liberal. The most vocal dissent being expressed in Russia is from militarists and nationalists — calling for escalation of the war. One theory doing the rounds in western intelligence circles is that the murder of Daria Dugina, a nationalist journalist, was organised by the Russian security services as a warning to Putin's ultra-right circles.

A defeated Russia would not disappear off the map. And it would still possess large numbers of nuclear weapons, as well as a replenished stock of grievances. So many dangers clearly lie ahead. But sometimes good news has to be recognised for what it is. In what has been a bleak year, the Ukrainian military victories of the past week are certainly that.

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### Ukraine's economy urgently needs more international support

Kyrylo Shevchenko

Six months ago, Ukraine woke up to the reality of a full-scale war being waged against it.

expanded by 6.5 per cent or nearly \$1bn.

In addition, we have avoided monetary destabilisation. In August, year-on-year inflation in Ukraine stood at 23.8 per cent. Other countries have had far worse inflation during or immediately after a war. Think of Germany after the first world war, South Korea in the early 1950s or Serbia in the early 1990s. Taking into account the global trend of

ing reforms in monetary policy and finance, Ukraine faces a huge wartime budget deficit. This is inevitable for a country fighting a defensive war. To cover the gap, the government needs at least \$5bn a month in funding, according to the finance ministry. By the end of 2022, the deficit may reach 25 per cent of gross domestic product, excluding international grants. History suggests

Modern European history is full of lessons of the dire political consequences that can follow.

As an EU membership candidate, Ukraine knows that such action would hobble its prospects. The EU's founding treaty expressly prohibits national central banks from financing their governments. Ukraine needs other sources of financial support for its economy.

in aid. We expect another \$12bn by the year's end.

The launch of a new co-operation programme with the IMF will send an important signal to creditors. The IMF has always stood by Ukraine in times of crisis. A four-year programme worth \$17.5bn was set up in 2015 after the Russian occupation of part of Ukraine. This IMF support was part of a package of



We have been forced to fight the enemy on two fronts at once – in the battle zones and in finance – so that we can secure the resources to fight until we win.

Survival and victory require Ukraine to have a strong economic backbone and a reliable financial system. Thanks to tremendous efforts, we have managed to ensure the stable operation of the banking system. Customer payments are being made without interruption. We have prevented deposit outflows. In fact, hryvnia retail deposits have risen by 31.7 per cent, equivalent to almost \$3.7bn, since the outbreak of hostilities. Lending to strategically important sectors continues. The hryvnia corporate loan portfolio has

accelerating initiation. Ukraine's rate of price growth can be considered an achievement.

Yet it is too early to relax. Ukraine has benefited from a safety margin accumulated before the war. However, international reserves have shrunk by almost 18 per cent since the beginning of the year. These have allowed us to bolster the economy, but they will not last long if we continue to burn through them.

As winter draws near, it is time for the state's economic policy priorities to shift in a way that can accommodate a protracted war effort. This requires effective redistribution of domestic resources and strong financial support from abroad. After years of pursuing a balanced fiscal policy and implement-

## A simple solution would be to print money yet history shows dire political consequences can follow

there are limited ways to finance state expenditure in a war. National economic stability depends on how successfully the authorities combine these limited methods.

A simple solution would be for the central bank to issue money. But this would erode household savings, deepen crisis trends in the economy, fuel inflation and undermine social stability.

What are they? First, Ukraine should revitalise domestic borrowing by issuing government debt on market-driven terms. The purpose is to shift the burden of financing the deficit to postwar times. However, this process should be structured so as to prevent public debt from continuing to rise in peacetime. Second, Ukraine should curtail the deficit by slashing non-priority expenditures and raising taxes. And third, international financial support for Ukraine should increase.

Russia's strategic goal is to undermine Ukraine's economic resilience. Financial assistance from our partners is therefore almost as important as military support. They have already provided Ukraine with more than \$17bn

about \$40bn in international financial aid for Ukraine.

Coupled with powerful sanctions against Russia, a similar assistance programme will help Ukraine endure and thwart the aggressor's ability to bankroll its war machine. What is more, we believe the free world's weak response to Russia's annexation of Crimea and military aggression against Ukraine in 2014-2015 encouraged this year's full-scale invasion. Had the global community introduced an adequate sanctions package in 2015, this war might never have broken out and our current and future losses would not be so huge.

The writer is governor of the National Bank of Ukraine

New national and political leadership is an opportunity for renewal. Saving Scotland's place in the UK will be harder than most politicians like to admit. It requires a positive message of domestic reform and a coherent case that the challenges nations face are best met as part of a bigger entity.

With the death of the Queen, there is a risk that Britishness goes with her. No other event in modern times has brought Scotland and England closer. But there is a glimmer of hope that new bonds of unionism could emerge, and that Scots may prove receptive to the offer of something new. The onus is now on the Truss government to find it.

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## Reinsurance: cover story

Participants in the world's reinsurance industry are meeting in Monte Carlo. In the pricey principality, the talk is of higher premiums. Hannover Re said it would seek double-digit rate increases in 2023. Swiss Re and Munich Re have also forecast higher rates.

That is good news for the industry but bad for businesses and consumers. Reinsurers provide crucial financial protection to insurance companies, which are likely to pass on the increased cost in their premiums. The hardening of the market partly reflects surging demand. The natural catastrophe reinsurance market is forecast to grow 37 per cent to \$48bn over the next four years, Swiss Re said yesterday. Soaring inflation is driving up costs and the value of assets insured.

Price rises also point to declining capacity. Some reinsurers, including Axis Capital, Axa and Scor, have dropped or scaled back their exposure to natural catastrophes. That shows how badly reinsurers have been affected by such claims and the impact of Covid-19. Over the past five years, the average combined ratio of reinsurers – claims and costs as a percentage of premiums – was about 101 per cent. That denotes an underwriting loss, says Moody's.

Rising interest rates have also affected capacity. Higher bond yields have reduced investor appetite for insurance-linked securities. The fall in the market value of bonds is crimping reinsurers' capital. Investment losses are the main reason this fell by 11 per cent to \$647bn in the first half of the year, according to broker Gallagher Re. That said, in the medium term higher rates should benefit reinsurers, partly by increasing investment returns.

Unlike US and Bermuda reinsurers, the European sector has continued to struggle in the first half of this year. It has heavier exposure to Australian floods, European windstorms and the war in Ukraine. Shares have lost ground. They trade on multiples close to their 10-year average.

Reinsurers are at the sharp end of disasters. But unless catastrophe losses are unexpectedly bad, profitability should rise on the back of improved investment yields and higher prices.

The prospect of less capital chasing business is set to restore much needed pricing power. That should cheer finance directors at reinsurers as they pay chief executives' hefty expense claims for jaunts to Monte Carlo.

## De La Rue: accession lesson

Charles III became king of Great Britain and Northern Ireland at the weekend following the sad death of his mother. His likeness will in time replace hers on UK banknotes. Shares in currency printer De La Rue have risen sharply in anticipation. But it will take more than this to revive the fortunes of a business with a deep structural problem.

The royal image is found on 4.7bn British banknotes and on legal tender across the Commonwealth. New notes featuring Charles III will appear within months. But these will probably enter circulation as old notes wear out.

The run-up in the shares therefore seems misplaced. The group's market value is just £200m compared with £1bn 10 years ago. This reflects several failed turnaround attempts. A profit warning in May signposted further trouble ahead. Inflation is pushing up costs and postponing profitability.

The efforts of chief executive Clive Vacher have borne fruit operationally. He has been streamlining a business already diminished by the loss of the contract to print UK passports and the sale of an identity division. He has cut the number of sites but higher input prices and supply shortages have offset much of the benefit.

As previously, De La Rue hopes to benefit from higher margin services and sales of banknote polymers. Banknotes may be losing ground as a medium of exchange but production volumes are still growing. What investors really want to know is when this literal money-printing operation will spit out something for them. Having suspended the dividend in 2019, a return next year is possible. Free cash flow should turn positive again in the year starting next March to the tune of £19m, according to consensus, equivalent to a 10 per cent yield.

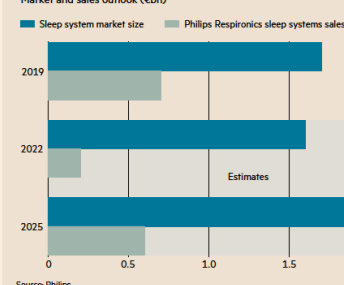
However, De La Rue would need to pay regular dividends to regain its lost status as a UK mid-cap. It competes in an industry dominated by central bank

## Philips: suspect device

The Dutch company has lost ground in treatments for sleep apnoea after a product recall. Market share will not recover until next year at the earliest. But potential litigation costs are the main reason that the shares trade at a wide discount. For the moment, free cash flow is healthy

### Philips' market share has suffered...

Market and sales outlook (Ebn)



Dutch company Philips had a lightbulb moment years ago when it decided to move away from consumer electronics towards precision medical devices. Until recently, the move worked a treat. But a big recall of a product to battle sleep disorders has knocked its share price badly.

The architect of the healthcare strategy, Frans van Houten, left Philips last month. Litigation from afflicted US patients looms. A letter from Dutch shareholder group VEB yesterday threatens more lawsuits.

Medical claim liabilities can be hard for companies to grasp. Hopeful early estimates by Aflac over its Dalkon Shield contraceptive intrauterine devices and Purdue Pharma over opioid sales later

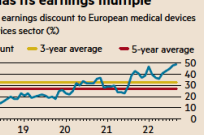
exploded, bankrupting those groups. Philips' problem involves its medical devices that deal with sleep apnoea, a disorder that can mean sufferers simply stop breathing at night.

Philips recalled its devices, worn over the face, in April 2021 in the US after years of complaints. In November, the US Food and Drug Administration issued a report blaming Philips. Its shares have lost more than 60 per cent since the recall, worth about €30bn.

Its sleep apnoea business cannot take all the blame. Before the recall, these devices generated only about 4 per cent of group revenues, as one of its most profitable units, according to Barclays. Covid-19 lockdowns in China shut factories that provide important parts, a fifth of its supplies. Group

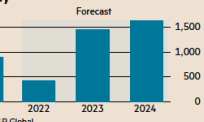
### ...as has its earnings multiple

Forward earnings discount to European medical devices and services sector (X)



### ...but at least free cash flow looks healthy

€m



printers willing to sell at cost price or below. That is an intractable difficulty, whoever features on its notes.

## Hedge funds/Daniel Och: the unlikely activist

Carl Icahn softened his image as a ruthless corporate raider to challenge McDonald's on animal welfare. Following his lead, hedge fund magnate Daniel Och has also been trying activism for size. Last month he accused the chief executive of the fund manager he founded, Sculptor Capital, of extracting "ever-escalating pay packages" despite what he called "less than mediocre performance". Dabbling in shareholder activism is

all the rage. Investment bank Lazard recorded 126 new activist campaigns in the first half of 2022, a 34 per cent increase from the same period last year. A deteriorating macroeconomic backdrop has drawn out a historic number of first-time activists.

Och, who holds a 14.4 per cent stake in Sculptor, has requested access to records relating to the board's decision to award Sculptor CEO James Levin \$145.8m in 2021, in a lawsuit filed at Delaware Chancery Court. Sculptor called the filing "misleading and full of falsehoods that present a grossly distorted view of board governance at the company". It is ironic that Och is claiming Levin's pay has become excessive. Och used his own money to award Levin a \$280m pay package in 2017, setting a precedent for years of

lofty remuneration to follow. Sculptor's share price has tumbled 25 per cent since Levin took the helm, shedding more than half their value this year. Assets, which once exceeded \$50bn, have fallen to \$36.9bn. Levin blamed underperformance on a list of inflation, rising interest rates, supply chain disruptions and the war in Ukraine in a call with investors this month. Levin's pay is a symptom of a broader malaise. He does not stand out among hedge fund managers for taking home about four times as much as the bosses of Goldman Sachs and JPMorgan Chase last year.

Och is an unlikely advocate for pay restraint. He may not be a lone voice for long. The hedge fund industry is headed for one of its worst years in recent history.

## Serco/Rupert Soames: good steer

Highland cattle are tough. Perhaps that was why Rupert Soames displayed a portrait of a namesake bull behind him in Zoom calls during a bumpy pandemic. Critics lambasted Serco, of which he is chief executive, for its handling of a UK government test-and-trace contract. When Mark Irwin succeeds Soames in the new year, he will need to be just as robust.

The reason is that Soames has stabilised and simplified Serco, in part by specialising in public sector jobs. These include managing aspects of the UK and Australian immigration services. That brings economic protection, recognised by buoyant shares. But it does so with special risks attached. Governments are critics even tougher than outsourcing, which tend to come off badly in any dispute.

Soames' previous business, portable power group Aggreko, was a stellar success. His move to basket case Serco puzzled observers. His achievement there may perhaps be represented counterfactually by the absence of a Carillion-style bankruptcy. Inflated contract values merited big write-offs.

Total shareholder return from Soames' 2014 start date is a negative 38 per cent, or a positive 57 per cent from the date of a rescue rights issue.

The stock had rallied around a third this year, before dipping 6 per cent in salute to the outgoing chief executive yesterday morning. The public sector focus protects Serco from a consumer spending downturn. A proportion of contracts have inflation proofing. Healthy US earnings benefit Serco via the strong dollar.

The shares trade at about 14 times forward earnings, in line with US rivals, according to S&P CIO. This is impressive, given structural weakness in the yield-driven UK market.

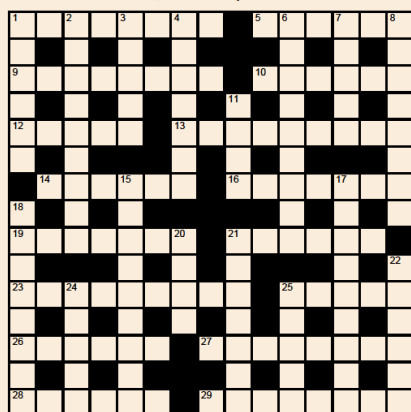
Irwin's task is to keep that advantage. Controversies have engulfed every big UK outsourcing. Public sector contracts are particularly exposed, as indicated by the mauling G4S got over Olympic security. Irwin should acquire his own shaggy cattle picture as a talisman.

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## CROSSWORD

No 17,198 Set by FLIMSY



- ACROSS
- South American writers beginning to exhibit anxiety (8)
  - Caught working with radical novelist (6)
  - This displays data about deer going after food (3,5)
  - Meal in the open air breeze (6)
  - Regret accepting front of last Republican leader (5)
  - A trip never recovered missing navy vessel (9)
  - Bouncy, loud and hairy (6)
  - Oddly cool after vehicle reversed on animal (7)
  - A trifle tight in thigh (7)
  - Saw remaining blunt, ultimately discarded (6)
  - Tailor can fall in business (9)
  - Male wearing formal attire for ages (5)
  - Tense after religious leader's talk (6)
  - Opening grip (8)
  - Worries about eating English puddings (6)
  - Abandon aircraft with relative after it returns (8)
- DOWN
- Gorgeous drink he grabs on a regular basis (6)
  - Alarms let criminal suspect something (5,1,3)

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Solution 17,197

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3 Air base in that location ultimately dismissed (5)

4 Turkey, drenched outside, getting cantankerous (7)

6 Charily go off political system (9)

7 Group of mountains – get someone's goat right to the top (5)

8 Medic almost attempts to restrict northern school of thought (8)

11 Coastal feature that is appearing in press release (4)

15 Insect – it's prepared for entomologists? (9)

17 Baubles or stars around tops of Norwegian trees (9)

18 Clothing documents for students? (8)

20 Benefit from adult swallowing alcohol? On the contrary (4)

21 Priest's upset with new church, still (7)

22 A small bird's behind (6)

24 Peer inside piano, blearily (5)

25 Sailor over limit on credit card (5)

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