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Newspaper of the Year

FINANCIAL TIMES

TUESDAY 15 MAY 2018 | WORLD BUSINESS NEWSPAPER | EUROPE

Downfall How the high-flying boss of China's Anbang fell foul of the ruling party — BIG READ, PAGE 7

Dozens die on Gaza border as US and Israel mark embassy opening

Dozens of Palestinians were killed and more than a thousand wounded by Israeli forces on the Gaza border yesterday in protests against the inauguration of the US embassy in Jerusalem. Palestinian officials said at least 52 people had died in the worst violence in a single day since a series of protests led by Gaza's Hamas regime began in March. The clashes came as US President Donald Trump's daughter Ivanka joined Israeli premier Benjamin Netanyahu at celebrations for the embassy's opening on Israel's 70th anniversary.

Full report, page 3

Ivanka Trump at the opening of the US Jerusalem embassy

Ibraheem Abu Mustafa/Reuters

US judges clear way to sports gambling

● Bookmaker shares jump as ban overturned ● Prized market set to open up ● Sector valued at $150bn

KADHIM SHUBBER — WASHINGTON
MURAD AHMED — LONDON

The Supreme Court paved the way for legalised sports gambling across the US yesterday after it struck down a federal law that banned such wagering in almost all American states.

The decision could open up the US to betting companies that have long sought access to its lucrative underground sports gambling market, which the American Gaming Association estimates involves $150bn in illegal and offshore wagering.

Shares in gambling stocks jumped after the decision was handed down by Justice Samuel Alito, who wrote that a 1992 law banning sports gambling violated states' rights.

UK bookmaker William Hill closed up 10.7 per cent and Paddy Power Betfair, another UK bookie, rose 12.2 per cent.

"This is a historic moment," said David Jennings, a gambling analyst at Davy, the Irish stockbroker. "A lot of individual states will see this as an opportunity to raise taxes and regulate it legally for the first time."

The case was originally brought by New Jersey, home to Atlantic City's struggling casinos, which have sought to regain some of their lustre and profitability by copying Las Vegas's legendary sports books. Nevada was allowed to retain legalised sports betting, having been grandfathered by the 1992 law.

A lower court blocked New Jersey's effort to legalise the practice in 2014, but Mr Alito disagreed with that ruling, writing the federal prohibition "unequivocally dictates what a state legislature may and may not do" in violation of constitutional provisions that allow states power over laws not specifically given to Congress. "Congress cannot issue direct orders to state legislatures," Mr Alito wrote for the 7-2 majority.

Several gambling groups said they were preparing to take advantage of the ruling immediately. Joe Asher, chief executive of William Hill US, said he was gearing up to begin business in New Jersey. "We are excited, not just for ourselves but for sports fans across the country," Mr Asher said.

Draft Kings, a Boston-based fantasy sports provider, said it would enter sports betting following the decision.

Among US gambling stocks, Churchill Downs, which owns racetracks and casinos, rose 5.5 per cent in afternoon trading while casino group Caesars Entertainment was up more than 8 per cent.

The decision will have implications for gambling companies globally, particularly in Europe, where companies have built a significant lead on US rivals.

The New Jersey effort to overturn the federal law had been opposed by many sports leagues, particularly the National Collegiate Athletic Association, which has been beset by "point shaving" scandals in college basketball, with athletes bribed to keep scoring down.

College basketball is one of the most heavily wagered sports in Las Vegas and in underground wagering. Its season-end tournament is the second most lucrative American sporting event for sports books next to the Super Bowl.

Donald Remy, the NCAA's chief legal official, said that while the league was still "reviewing the decision", the association would "adjust" its policies to abide by the ruling.

Briefing

▸ Italian populists seek more time to seal deal
The anti-establishment Five Star Movement and far-right League have pleaded for a "few more days" to seal their alliance, after failing to agree on a premier.— PAGE 2; EDITORIAL COMMENT, PAGE 8

▸ Musk to shake up Tesla management
Elon Musk has said he is working on a management revamp, seeking to put a more orderly gloss on a spate of departures that led critics to claim senior ranks were in turmoil.— PAGE 11

▸ Retreat on ZTE paves way for China trade visit
Beijing has said vice-premier Liu He will travel to the US today after Donald Trump's surprise reprieve for ZTE paved the way for talks to avert a trade war.— PAGE 4; EDITORIAL COMMENT, PAGE 8

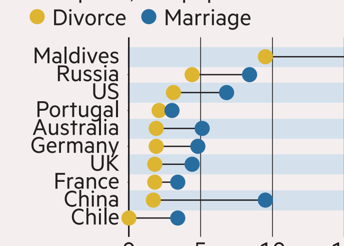
▸ Firebrand cleric Sadr leads in Iraq election
The bloc led by Muqtada al-Sadr, the Shia cleric whose loyalists once fought US troops, has taken an early lead, in a setback to premier Haider al-Abadi's bid for a second term.— PAGE 3

▸ Pledge and warning from EU on security after Brexit
EU Brexit negotiator Michel Barnier has pledged to build a "close partnership" with Britain on security but warned the UK will lose some rights.— PAGE 5

Datawatch

Divorce caught

Rate per 1,000 population*



* Latest figures available between 2010-15
Sources: OECD; Eurostat; Statistics Maldives

The Maldives' divorce rate contrasts with Chile, the last western nation to legalise it. Portugal's high divorce-marriage ratio is largely explained by a low marriage rate

Xerox and Fujifilm draw line under $6bn struggle

Analysis ▸ PAGE 13

CBS in court bid to block Redstones from forcing merger with Viacom

JAMES FONTANELLA-KHAN AND SUJEET INDAP — NEW YORK

CBS has moved to block Shari Redstone from merging the US broadcaster with rival Viacom, launching a lawsuit against its controlling shareholder to prevent her from "harming the company and its public stockholders".

CBS said it was seeking to prevent National Amusements, the Redstone family's investment vehicle, from interfering with a special meeting of its board this week to vote on diluting the controlling shareholder's voting rights.

The Redstone family controls 80 per cent of the votes at CBS and Viacom, despite owning only about 10 per cent of the shares. That has raised concerns that its actions to negotiate a merger may not be in the best interest of CBS's other investors.

CBS's special committee wants to stop Ms Redstone from taking control of its board as she has at Viacom and forcing a merger. CBS's board also rejected a planned deal with Viacom over the weekend, according to the court filing in the Delaware Court of Chancery.

"Ms Redstone, through her recently-obtained domination and control of National Amusements, has taken actions over the past two years that have led the special committee to conclude that she presents a significant threat of irreparable and irreversible harm to the company and its stockholders," CBS said in the lawsuit filed against the holding company, Ms Redstone and her father Sumner.

CBS seeks to dilute National Amusements' voting interest to 17 per cent by issuing a special dividend to remaining shareholders, a move that would give other investors more voting power.

"The special committee has taken this step because it believes it is in the interests of all CBS stockholders," CBS said.

CBS made an offer to buy Viacom earlier this year that valued its rival below its stock market capitalisation. The offer was swiftly rejected by Viacom, which demanded nearly $3bn more than CBS was prepared to pay.

Les Moonves, chief executive of CBS, is opposed to doing a deal that gives Viacom a premium, arguing that this would equate to bailing out its rival.

National Amusements defended its position, describing the lawsuit as precipitous and outrageous, alleging it was tied to the company raising concerns over the behaviour of a CBS director.

"Ensuring the long-term success of CBS continues to be NAI's sole interest," it said.

World Markets

STOCK MARKETS

	May 14	prev	%chg
S&P 500	2735.92	2727.72	0.30
Nasdaq Composite	7433.90	7402.88	0.42
Dow Jones Ind	24950.05	24831.17	0.48
FTSEurofirst 300	1538.32	1538.88	-0.04
Euro Stoxx 50	3566.23	3565.52	0.02
FTSE 100	7710.98	7724.55	-0.18
FTSE All-Share	4236.83	4242.04	-0.12
CAC 40	5540.68	5541.93	-0.02
Xetra Dax	12977.71	13001.24	-0.18
Nikkei	22865.86	22758.48	0.47
Hang Seng	31541.08	31122.06	1.35
MSCI World $	2131.96	2123.53	0.40
MSCI EM $	1164.49	1156.55	0.69
MSCI ACWI $	519.46	517.23	0.43

CURRENCIES

	May 14	prev		May 14	prev
$ per €	1.197	1.194	€ per $	0.836	0.837
$ per £	1.360	1.355	£ per $	0.736	0.738
£ per €	0.880	0.881	€ per £	1.136	1.135
¥ per $	109.550	109.375	¥ per €	131.114	130.638
¥ per £	148.934	148.231	£ index	78.750	78.523
€ index	95.320	95.170	$ index	98.879	99.251
SFr per €	1.194	1.194	SFr per £	1.357	1.355

COMMODITIES

	May 14	prev	%chg
Oil WTI $	70.90	70.70	0.28
Oil Brent $	77.99	77.12	1.13
Gold $	1324.35	1318.80	0.42

INTEREST RATES

	price	yield	chg
US Gov 10 yr	93.95	2.99	0.02
UK Gov 10 yr	98.00	1.47	0.03
Ger Gov 10 yr	100.05	0.61	0.05
Jpn Gov 10 yr	100.72	0.05	0.01
US Gov 30 yr	93.01	3.12	0.02
Ger Gov 2 yr	101.85	-0.57	0.02

	price	prev	chg
Fed Funds Eff	1.70	1.69	0.01
US 3m Bills	1.92	1.90	0.02
Euro Libor 3m	-0.35	-0.35	0.00
UK 3m	0.65	0.67	-0.03

Prices are latest for edition — Data provided by Morningstar

Austria	€3.70	Macedonia	Den220
Bahrain	Din1.8	Malta	€3.60
Belgium	€3.70	Morocco	Dh45
Bulgaria	Lev7.50	Netherlands	€3.70
Croatia	Kn29	Norway	NKr35
Cyprus	€3.60	Oman	OR1.60
Czech Rep	Kc105	Pakistan	Rupee320
Denmark	DKr35	Poland	Zl 20
Egypt	E£35	Portugal	€3.60
Finland	€4.50	Qatar	QR15
France	€3.70	Romania	Ron17
Germany	€3.70	Russia	€5.00
Gibraltar	£2.70	Serbia	NewD420
Greece	€3.60	Slovak Rep	€3.60
Hungary	Ft1090	Slovenia	€3.50
India	Rup210	Spain	€3.60
Italy	€3.60	Sweden	SKr39
Latvia	€6.99	Switzerland	SFr6.00
Lebanon	LBP7500	Tunisia	Din7.50
Lithuania	€4.30	Turkey	TL12.50
Luxembourg	€3.70	UAE	Dh17.00

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Leadership talks

Italy's populist parties plead for more time

Five Star and League struggle to find candidate to serve as prime minister

JAMES POLITI — ROME

Italy's anti-establishment Five Star Movement and the far-right League have pleaded for a "few more days" to seal their alliance to govern the eurozone's third-largest economy, after failing to agree on a prime minister to lead their populist coalition.

Luigi Di Maio, the Five Star leader, and Matteo Salvini, the head of the League, who both stunned Italy's political establishment by scoring huge gains in March's general election, had reached a tentative agreement on a joint policy agenda following five days of negotiations in Milan and Rome. But progress in the negotiations stalled yesterday after Mr Di Maio and Mr Salvini struggled to find a compromise candidate to serve in the top job.

"We are very conscious of the international deadlines that this new government will have to face immediately, both in Europe and outside Europe . . . We agree that we need to hurry up," Mr Di Maio said yesterday evening. "But we are writing a government programme that will last for the next five years, so it is very important for us to conclude it in the best of ways."

Mr Di Maio was speaking outside the offices of Sergio Mattarella, the Italian president, at the Quirinal Palace, where he and Mr Salvini were summoned separately to report on the talks. Mr Mattarella is the ultimate referee of Italian politics, shepherding talks to form the government and holding the power to appoint the prime minister and approve important cabinet positions.

The choice of prime minister emerged as the main sticking point between Five Star and the League at the weekend, as the parties thrashed out a tentative deal on a common agenda merging campaign promises to cut taxes, boost spending and crack down on immigration.

> 'We are writing a government programme that will last for the next five years'

Mr Di Maio and Mr Salvini had agreed not to name possible candidates to lead their populist alliance, but rumours have been swirling nonetheless. Il Corriere della Sera, Italy's leading daily, reported it was a two-way race between Giulio Sapelli, an economic historian and a former board member at Eni, Italy's largest oil and gas group, and Giuseppe Conte, a jurist from Puglia and an expert in public administration.

Mr Sapelli's star seemed to be on the rise after he said that he had been contacted by the parties and had offered his availability for the job, with Domenico Siniscalco, the former finance minister, returning to his old job. But Five Star officials then said Mr Sapelli would not be selected as prime minister. Five Star and the League have primarily considered an external figure to lead the coalition, but have not ruled out a senior politician from either party as the leader.

Despite the latest delay, Mr Di Maio and Mr Salvini are still expected to reach an agreement and launch their government, which could have profound implications for the EU.

Once Mr Di Maio and Mr Salvini do agree on a joint prime minister, a few more steps will be needed before the new populist government in Rome can be fully installed. Every minister would have to be selected, and sworn in, before a confidence vote in Italy's two houses of parliament. Five Star has also pledged to put its "contract" with the League to an online vote among its members, introducing some uncertainty about the latest accord.

Five Star and the League have vowed to upend Italy's traditional political class and transform its relationship with the EU. There is mounting Euroscepticism in Italy, which has struggled to keep pace with the eurozone recovery and manage the migration crisis.

Editorial Comment page 8

Rome. Shake-up

Political odd couple threaten Brussels rift

Salvini and Di Maio have cast aside differences to home in on delivering lavish promises

JAMES POLITI

Matteo Salvini is a 45-year-old former communist firebrand from Milan with a light beard who likes to rail against Europe; Luigi Di Maio is a well-dressed, baby-faced 31-year-old Neapolitan who speaks in moderate, earnest tones.

As rivals, Mr Salvini, the leader of the far-right League, and Mr Di Maio, the head of the anti-establishment Five Star Movement, engineered Italy's biggest political upheaval in a generation when their parties scored big gains in March's general election.

Now, more than two months later, this odd couple of youthful Italian populists are close to forging a coalition government that threatens to create the widest rift between Rome and Brussels for decades. Such an outcome was not a foregone conclusion after the vote, which was followed by a lengthy political stalemate.

But in more than two months of on-and-off talks, Mr Salvini and Mr Di Maio gradually cast aside their differences and homed in on a joint mission to deliver on lavish campaign promises — and the transformation demanded by disenchanted Italian voters.

"They believe they are on the same wavelength so they have to coexist," said Francesco Galietti, an analyst at Policy Sonar in Rome. "They embody discontinuity and change."

Yesterday afternoon, the two men still had to propose a cabinet for the coalition, including the thorny issue of picking a prime minister, so the talks remained in danger of falling apart.

But on a personal level, Mr Di Maio and Mr Salvini have developed a good relationship in a series of direct talks held both in Rome and Milan.

Both chose to plunge straight into politics — Mr Salvini as a city councillor in Milan, and Mr Di Maio as a local Five Star activist — rather than finish university degrees or start careers in the private sector.

They came of age when Italian politics was dominated by Silvio Berlusconi, the three-time prime minister and media mogul. But their rise to the top of Italian politics was completed in the aftermath of the recession, financial crisis and a migration surge just as traditional political allegiances and ways of communicating began to fray.

Seat of power: Italian president Sergio Mattarella, third left, listens to Matteo Salvini yesterday at the presidential palace in Rome
Quirinale Press Office/EPA

"Both are compulsive tweeters, and in a permanent relationship with the people — bypassing institutional mediation. They are in plebiscitary mode," said Nadia Urbinati, a professor of political science at Columbia University.

In the past week, Mr Salvini posted a picture of himself in a dark T-shirt smiling in front of a bulldozer. The photo was a reference to his campaign to destroy Roma camps in Italian cities that he considers a hotbed of criminality. "We're working for you," he wrote.

Yesterday, Mr Salvini tweeted: "I only slept an hour last night, I'm fuelled by coffee and maybe I picked the wrong moment to stop smoking. But I am proud to give it my all to keep promises and give a better future to Italy and our kids."

But even if they are cut from similar cloth, Mr Di Maio and Mr Salvini face big challenges as they head into government. From a policy perspective, their common vision is that Italy can be rebooted through a mix of fiscal expansion — in defiance of EU budget rules — and lighter regulation from Brussels on everything from banking to competition. They are both resistant to international trade deals negotiated by the EU and sceptical of globalisation.

But they have different visions on how to go about implementing change, which could be hard to reconcile. "The big problems will be about what to do with money, resources [and] the relationship with EU constraints," said Giovanni Orsina, a professor of political science at Luiss University in Rome. "These could be very serious."

> 'The big problems will be about what to do with money, resources [and] the relationship with EU constraints'

Mr Salvini's flagship economic proposal is a flat income tax set at 15 per cent, which is popular among his base of small-business owners in northern Italy. Mr Di Maio's proposal is a guaranteed income for the poor — a tantalising campaign pledge for his base in the south.

Mr Salvini and the League have been more overtly hostile towards the EU and euro, while Mr Di Maio and Five Star have been more conciliatory. Mr Salvini also wants a tougher crackdown on immigration compared with Mr Di Maio. Each of these could cause strains.

Any sense that one side or the other is gaining politically from the combination could also trigger tension and possibly a break-up of the coalition, especially since its majority in parliament will be relatively small.

With European elections next year, neither Mr Salvini nor Mr Di Maio will want to be caught off guard by making too many concessions to their partner.

But for now, the new populist duo of Italian politics is savouring the taste of power.

Governance overhaul

Warsaw hits at Brussels 'power grab' over rule of law proposal

MICHAEL PEEL AND MEHREEN KHAN
BRUSSELS
JAMES SHOTTER — WARSAW

Poland has attacked a plan to link EU budget payments to countries' respect for the rule of law as a "massive power grab", as Warsaw and Brussels remain at odds over governance standards.

The European Commission warned it could not "continue indefinitely" with long-running talks with Poland over a legal system overhaul that Brussels says is a threat to judicial independence and contrary to EU rules and values.

The sparring highlights the rising pressures within the bloc over the rule of law at a time when a number of the EU's eastern members are weakening democratic checks and balances.

Konrad Szymanski, Poland's EU affairs minister, made Warsaw's strongest criticism yet of the budget plan floated by Brussels last month to make EU development funding conditional on governments' compliance with the rule of law. Brussels has denied it is targeting capitals such as Warsaw, but the plan has been attacked by Poland's Eurosceptic Law and Justice government.

"The proposed measures linking the rule of law seems to be a massive power grab by the European Commission with too high a discretion in its hands," Mr Szymanski said at a ministerial meeting in Brussels. "The proposals should be based on solid legal fundamentals without discretionary mechanisms that can be used to exercise political pressure."

Brussels and Warsaw have been at loggerheads since an unprecedented rebuke by the former in December over proposed changes to the Polish legal system and the risk they pose to the rule of law. While Warsaw has since tweaked its plans, the sides still appear to be far apart. The commission will now decide whether to escalate the issue.

Frans Timmermans, commission vice-president, said that dialogue needed to "lead to tangible and robust results". He hoped Brussels and the Polish government could "use the next couple of weeks to further find solutions". The commission is soon due to propose the criteria for distributing EU development funding, of which Poland is the biggest recipient.

Poland could face stiff sanctions, including suspension of its EU voting rights, if it does not satisfy the commission and fellow members. But Hungary has already said it will vote against sanctions, which require unanimity.

Poland's Law and Justice party has used its term in office to give politicians greater power over the judiciary as part of what it says are needed post-communist reforms. Polish officials admit talks with Brussels have become more difficult, but they argue they have made changes to meet the main criticisms.

Amendments include equalising the retirement ages of judges; publishing three rulings of the constitutional tribunal from 2016 that the government had suppressed; and limiting the justice minister's ability to remove heads of courts without consultation.

A second set of changes are going through parliament on reopening old cases, giving the president rather than the justice minister the right to appoint junior judges.

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Spanish politics

Catalan parliament elects pro-separatist Torra as leader

MICHAEL STOTHARD — MADRID

The Catalan parliament has elected committed separatist Joaquim Torra as head of the regional government, ending a five-month political deadlock in the region and setting the stage for further confrontation between Barcelona and Madrid.

Mr Torra was sworn in yesterday as the seventh Catalan leader since Spain returned to democracy in the 1970s thanks to the support of the pro-independence parties, which have a slim majority in the regional parliament.

His election ends Madrid's direct rule over the region, in place since last October after the Catalan government made a failed bid for independence. It also smooths the path for Mariano Rajoy, Spanish prime minister, to pass his much-delayed budget, which the main Basque party had held up until direct rule on Catalonia was lifted.

But the appointment of a diehard, pro-independence activist threatens to reignite tensions with the central government. In a fiery speech yesterday, Mr Torra attacked the Spanish state, which he said had "drowned our future year after year", and repeatedly called for the creation of a new "Catalan republic".

He added that he would work under the leadership of his predecessor, Carles Puigdemont, who fled Spanish justice last year after the failed secession attempt and is in Germany awaiting extradition to Spain.

Mr Torra said the new Catalan government would create a "state council in exile" with Mr Puigdemont as "the legitimate president" of Catalonia. It would also start a discussion on creating a new Catalan constitution.

However, he sought to strike an inclusive tone, saying the Catalan republic would be good for everyone in the region, not just the separatists. "Everybody will win rights with the republic," he said. "Nobody will lose rights; the republic is for everybody, no matter how they vote."

If Mr Torra's plans to create a Catalan republic and write a new constitution remain long-term political goals, he may avoid another clash with Madrid.

But concrete attempts to win independence, such as putting a new constitution to a vote in parliament, could prompt a confrontation of a kind like last year, which became the greatest political crisis in Spain for a generation.

"There are two possible scenarios," said Antonio Barroso, an analyst at Teneo Intelligence. "The most likely is that there will be a lot of rhetoric and attempts to keep tensions [with Madrid] high, but nothing so brazen as the independence declaration last year."

Joaquim Torra: appointment threatens to reignite tensions between Madrid and Barcelona

The other scenario, in which the new regional administration tries a more direct and open conflict with Madrid, was less likely but possible, he said. The power wielded by the radical and the more moderate wings of the independence movement remain finely balanced, he added.

Today Mr Rajoy will meet Pedro Sánchez, leader of the opposition Socialist party, to discuss the situation in Catalonia. Mr Rajoy said at the weekend that Madrid would apply direct rule again if the new administration overstepped the law, but that Mr Torra would be judged on his actions, not his words.

Mr Torra yesterday said he was willing to start a new dialogue with Madrid.

But he drew fresh criticism for a series of controversial tweets sent between 2010 and 2014, in which he appeared to display a distaste for Spain and the Spanish. One comment highlighted by his opponents yesterday stated: "The fascism of Spaniards living in Catalonia is infinitely pathetic."

Mr Torra only entered politics in December, when he was elected to the regional parliament as part of Mr Puigdemont's Junts per Catalunya party. Before this he worked in the insurance industry for 20 years, leaving Winterthur in 2007. He then founded a publishing company called A Contra Vent, publishing books, including many about Catalan history. He also wrote books, including one in 2016 called *The Last 100 Metres — The Road Map to Winning the Catalan Republic*.

A well-known intellectual, he managed a cultural centre in Barcelona and headed Òmnium Cultural, a grassroots pro-independence association.

US embassy opening

Israeli security forces shoot dead at least 52 Gaza protesters

Thousands join rally against inauguration of building in Jerusalem

MEHUL SRIVASTAVA — JERUSALEM

Israeli forces shot and killed at least 52 people along its border fence with Gaza yesterday, the Palestinian authorities said, as tens of thousands protested against the inauguration of the US embassy in Jerusalem.

More than 1,200 people were wounded, the Gaza health ministry said, as Israel deployed two extra brigades to join at least 100 snipers and other troops along the frontier with the strip.

Protesters burnt tyres, sending huge plumes of black smoke to the sky, and threw stones and brandished knives at Israeli soldiers, including snipers perched on earthen berms. Some groups of young men sought to breach the border fence.

Yesterday's death toll was the biggest in a single day since the Hamas-led protests began in March in the build-up to this week's 70th anniversary of the founding of the state of Israel.

Lt Colonel Jonathan Conricus, spokesperson for the Israel Defense Forces, said the army had witnessed an "unprecedented " level of violence directed at the fence. He described three "terror" squads trying to plant explosives near the border. He added that militants belonging to Hamas, which controls the hemmed-in, impoverished strip, blended into the crowd and attempted to infiltrate the frontier.

The Israeli air force flew at least two sorties inside Gaza, and attacked military targets unrelated to the protests, he said. He rejected the suggestion that those shot were demonstrators. "These are masses that are full of hatred and incitement that are launching themselves at the fence," he said.

At the Jerusalem embassy opening, US officials, including Donald Trump's daughter, Ivanka, and her husband Jared Kushner, mingled with Israeli prime minister Benjamin Netanyahu and other dignitaries as a musician sang a Hebrew version of "Hallelujah". In a recorded video clip peppered with biblical references, Mr Trump said: "Israel is a sovereign nation, with the right, like every other sovereign nation, to determine it own capital."

He added: "The plain reality is that Israel's capital is Jerusalem. Today we follow through on this recognition and open our embassy on this sacred land of Jerusalem."

A triumphant Mr Netanyahu thanked the US president.

"We are in Jerusalem and we are here to stay," the Israeli leader said. "What a glorious day, remember this day. This is history."

Mr Trump's decision to recognise Jerusalem as the capital of Israel reversed decades of US policy and drew criticism from Europe and Washington's main Arab allies.

The status of the holy city is one of the most contested issues in the Israeli-Palestinian peace process, and critics of Mr Trump say it undermines the US's role as the Middle East's broker and dashes hopes of a two-state solution.

His administration decided to open the new US embassy in Jerusalem on the day of Israel's 70th anniversary despite warnings that it would inflame Palestinian anger at the contentious move.

The Palestinian leadership had called for a boycott of the embassy opening and the severing of all official contact with Washington.

The opening of the embassy coincided with the annual commemoration of what Palestinians call the Nakba — the catastrophe — which led to tens of thousands of Arab residents of the British Mandate of Palestine losing their homes in 1948.

More than 40 Palestinians had been killed in the demonstrations in Gaza before yesterday's escalation.

Saeb Erekat, the Palestinian chief negotiator for the moribund peace process, said the US decision promoted "international anarchy."

"This infamous hostile act against international law and against the people of Palestine places the US on the side of the occupying power, Israel."

Israel's Benjamin Netanyahu, left, with Jared Kushner, Ivanka Trump, Israeli president Reuven Rivlin and US Treasury secretary Steven Mnuchin at the opening of the US embassy in Jerusalem. Above, an injured man is carried to safety in Gaza — Menahem Kahana and Mahmud Hams/AFP/Getty Images

Middle East

Iraqi PM suffers setback as bloc headed by Sadr takes poll lead

ANDREW ENGLAND — LONDON

The political bloc led by Muqtada al-Sadr, the Shia cleric whose loyalists once fought US troops, took an early lead in Iraq's elections, in a setback to Prime Minister Haider al-Abadi's bid to secure a second term.

Mr Sadr, whose Sairoon bloc brought in new candidates allied with communists and secularists as he sought to tap into anger over corruption and disillusionment with politicians, was ahead yesterday after results were released in 10 of Iraq's 18 provinces.

The Fatah, or Conquest list, which is considered pro-Iranian and led by Hadi al-Ameri, a former paramilitary leader, was running second. Mr Abadi's Nasr, or Victory, bloc appeared to be in third place in a poll marked by a record low turnout of less than 45 per cent.

Mr Sadr's alliance performed particularly well in Saturday's election in Baghdad, winning the most seats in the capital, where he has a strong base. Three million people live in Sadr City, a working-class district named after the cleric's late father. He and Mr Ameri won in four of the 10 provinces where preliminary results were released.

A defeat for Mr Abadi, who is also a member of the country's Shia majority, could complicate Baghdad's relations with Washington and Tehran as the nation seeks to rebuild after its four-year war with Isis. The 66-year-old was considered the west's preferred candidate and was credited with successfully balancing Baghdad's relations with the US and Iran, the two foreign powers that vie for influence in the country.

Mr Sadr — whose militia, the Mahdi Army, fought against the US occupation after the 2003 invasion that toppled Saddam Hussein — has no official contacts with American or British officials.

Once considered close to Iran, he has also railed against Tehran's influence in Iraq as he has styled himself as a staunch nationalist. Last year, he made surprising visits to Saudi Arabia and the United Arab Emirates, the Gulf's Sunni powers and Iran's main regional rivals.

Dhiaa al-Asadi, an MP close to Mr Sadr, told the Financial Times that Sairoon wanted "balanced" relations with its neighbours and the international community. He added that it did not want "occupying forces", in a reference to US soldiers based in Iraq. He claimed the troops' presence and the US's threatening policy towards Iran gave Tehran the justification to interfere in Iraq.

"This is the big reason Iran uses for its . . . influence in Iraq," Mr Asadi said. "We are against any interference in Iraq, whether it's Iran, the US or Saudi Arabia."

Mr Sadr is not standing as a candidate and is not seeking to become prime minister, a Sadrist official said. If his Sairoon alliance wins the most seats in the 329-member parliament, it would have to negotiate with other blocs to form a government given Iraq's fragmented political system, which operates on party-list proportional representation.

No group is expected to get close to a majority, and the system typically leads to months of coalition building before a government is formed.

There is a possibility Mr Abadi's and Mr Sadr's two blocs could co-operate in forming the next government. The PM yesterday called on all political blocs to respect the result and said he was willing to work with the winning alliance to form a strong government. "We are ready to work and co-operate in forming the strongest government for Iraq, free of corruption," he said.

Mr Asadi said Sairoon wanted a prime minister who "is accepted by all parties, whether he is Sadrist or not is not important". The alliance hoped to form a better functioning government, in which posts are not allocated on the basis of religion, ethnicity or which party they belonged to, he added.

Trump climbdown on ZTE sanctions smooths path for China trade talks

Vice-premier to visit Washington after White House orders help for Shenzhen telecoms company

TOM MITCHELL AND SHERRY FEI JU
BEIJING
SHAWN DONNAN — WASHINGTON

Donald Trump's surprise reprieve for ZTE Corp has paved the way for a Chinese delegation's arrival in Washington this week for at least three days of talks aimed at averting a trade war, say people briefed on the discussions.

China's foreign ministry confirmed yesterday that Liu He, vice-premier, would travel to Washington today, less than 24 hours after the US president ordered his commerce department to help the Chinese telecommunications company "get back into business, fast".

Shenzhen-based ZTE said last week it would cease operations after the Trump administration hit it with crippling sanctions for allegedly violating the terms of an earlier settlement over its business operations in Iran.

"We greatly appreciate the positive attitude from the US side towards the issue relating to ZTE," said Lu Kang, chief spokesman for China's foreign ministry. He said the vice-premier would meet a US delegation led by Steven Mnuchin, Treasury secretary, who is believed to be more amenable to a trade settlement than "China hawks" in the administration such as trade representative Robert Lighthizer and White House trade adviser Peter Navarro.

China appeared to offer its own olive branch to the US yesterday, resuming its review of chipmaker Qualcomm's acquisition of Dutch semiconductor company NXP, Bloomberg reported.

But the decision by Mr Trump also drew a sceptical reaction in Washington, with both Republicans and Democrats criticising the president's move and pointing to long-running national security concerns about ZTE. "Problem with ZTE isn't jobs & trade, it's national security & espionage," Marco Rubio, the Republican senator, said in a series of tweets. "I hope this isn't the beginning of backing down to China."

Chuck Schumer, leader of the Democrats in the Senate, said Mr Trump's move was "designed to achieve one goal: make China great again", adding: "The toughest thing we could do, the thing that will move China the most, is taking tough action against actors like ZTE. But before it is even implemented, the president backs off . . . That's a bad deal if there ever was one."

One person close to the talks echoed fears in the US business community that Mr Trump might be tempted to accept a deal that reduced China's $337bn trade surplus with the US but did not address more structural issues, such as market access and technology transfers to Chinese joint venture partners. "The capitulation has begun," the person said.

The dispute began in April after Washington and Beijing threatened to impose punitive tariffs on $100bn worth of bilateral trade.

Two other people briefed on the Sino-US trade talks said Mr Trump's ZTE climbdown would give China president Xi Jinping room to offer trade concessions while avoiding a US dispute with Beijing before the American president's summit in June with North Korean leader Kim Jong Un. One of the people said: "China gets to save face. They are willing to make progress [on the trade talks] as long as they don't have to capitulate completely."

Mr Trump's tweet on ZTE, which added that "too many jobs in China [would be] lost", was all the more surprising given the stringent demands made by US trade negotiators in Beijing this month. While Washington's position was spelt out in a leaked document, people briefed on an unpublished annex said Mr Trump's team also demanded Beijing allow foreign investment in computing companies and repeal a cyber security law.

Chinese analysts welcomed Mr Trump's comments, which they said showed the two sides could negotiate a compromise despite initial demands that Beijing would never agree to, such as abandoning its Made in China 2025 industrial development policy.

"Trump clearly knows China will never agree to US demands that concern its core interests," said Wang Chong, an expert in Sino-US relations with the Charhar Institute, a Beijing-based think-tank. "It's more of a bargaining and negotiation strategy [by Mr Trump]. Liu He is going to Washington to tell the US what he can offer."

Jonas Short, head of policy research at financial services institution Everbright Sun Hung Kai in Beijing, said: "We think cooler heads will prevail in preventing the situation getting out of control."

Additional reporting by Xinning Liu

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Sceptical reaction: the US president's reprieve for ZTE has been criticised by Republicans and Democrats Ng Han Guan/AP

Ban bites
Xi move underlines Beijing's tech ambitions

ZTE Corp, which has emerged as a bargaining chip in the US-China trade war, is a telecoms goliath employing 75,000 people globally and is a big buyer of parts from US companies such as Qualcomm and SanDisk.

The personal intervention of China president Xi Jinping, who approached Donald Trump after ZTE was banned from trading with US companies for seven years, highlights the company's importance to Beijing's tech ambitions.

ZTE had been China's biggest publicly listed telecoms equipment manufacturer, with a market capitalisation of about $20bn, before it suspended its shares from trading last month.

It employs nearly two-fifths of its staff in research and development, and in 2016 submitted more than 4,000 corporate patents, beating rival Chinese tech company Huawei and all other companies globally.

Last week, as the US ban started to bite, and having exhausted the usual one month's worth of inventory, ZTE announced a halt to its operations. At its spacious headquarters in Shenzhen, workers were idle, milling around smoking and chatting. At nearby restaurants bosses grumbled that custom had halved.

The US ban was imposed following ZTE's failure to honour the penalties meted out for its sanction-busting sales to Iran and North Korea. But the timing of Washington's action prompted many to interpret the move as part of a wider dispute amid escalating trade wars and US allegations of Chinese theft of intellectual property and government snooping.

ZTE counts among its direct and indirect shareholders two military-linked defence conglomerates which together account for China's entire strategic missile industry. These include the China Aerospace Science and Technology Corporation, which manufactures most of China's intercontinental ballistic missiles, and a subsidiary of China Aerospace Science and Industry Corporation, which supplies short and medium-range ballistic missiles and cruise missiles to the army.

ZTE and Huawei have kitted up much of Africa, where governments have welcomed the equipment and the accompanying vendor finance from Chinese state banks.

Louise Lucas and Emily Feng

Intervention: Xi Jinping with Donald Trump in Beijing last year — Nicolas Asfouri/AFP/Getty

Congress party

Leading India opposition MP charged over death of former wife

KIRAN STACEY — NEW DELHI

Shashi Tharoor, one of India's highest-profile opposition politicians, has been charged with crimes in relation to the death of Sunanda Pushkar, his former wife, in 2014.

Police in New Delhi have charged Mr Tharoor, a Congress party MP and former UN diplomat, with cruelty to a wife and abetment of suicide, according to a charge sheet filed yesterday.

The move means police are no longer treating Pushkar's death as murder, but it does have the potential to tie up a senior opposition politician with a year to go until the next general election.

It comes a week after tax officials filed charges against certain family members of P Chidambaram, one of the Congress party's most outspoken politicians and a high-profile government critic.

Mr Tharoor called the charges "preposterous", saying he did not believe his former wife committed suicide. He tweeted: "If this is conclusion arrived at after 4+ yrs of investigation, it does not speak well of the methods or motivations of the Delhi police." His friends have said Pushkar suffered from lupus, an autoimmune disease.

Neither Mr Tharoor nor his spokesman commented further. Salman Soz, Congress party spokesman, said: "Along with the case against Chidambaram, this all seems very suspicious and politically motivated."

> 'This all seems very suspicious and politically motivated'
> Congress party spokesman

Mr Tharoor is one of India's best-known politicians, having achieved recognition first through his role as an under-secretary-general at the UN, and for his book *An Era of Darkness*, which spelt out the ways British rule damaged India. He has attracted a devoted following since becoming an MP in India for his eloquent speeches, often delivered in clipped tones and with a formidable grasp of English vocabulary.

But he has been dealing with the fall-out from Pushkar's death since 2014. The businesswoman died in the bedroom of a five-star hotel, two days after publishing a series of what she said were intimate tweets between Mr Tharoor and Pakistani journalist Mehr Tarar.

Delhi police registered the case as suspected murder a year after her death. Yesterday's charges are the first they have brought relating to the death.

Mr Chidambaram, a former finance minister, has been at the centre of multiple investigations relating to alleged financial wrongdoing, which he denies.

The income tax department last week filed charges against Mr Chidambaram's wife, son and daughter-in-law for allegedly not disclosing foreign assets. The family has called the accusations "baseless", while the Congress party has accused the ruling Bharatiya Janata party of "launching a fishing expedition" against the politician.

Gideon Rachman page 9

Transatlantic tension. Commercial links

EU faces dilemma over response to US curbs on Iran

> Threatened measures throw into doubt more than €20bn of annual trade and contracts

MICHAEL PEEL — BRUSSELS
SAM FLEMING — WASHINGTON

The EU faces a tough call on whether to hit back against a US squeeze on European companies' dealings with Iran. But history offers the bloc only small comfort that it can prevail.

John Bolton, Donald Trump's national security adviser, warned at the weekend that European companies could be hit by US sanctions if they defy Washington's call to sever commercial links with Tehran.

European diplomats and analysts say that the 28-member bloc could deploy a mixture of retaliatory sanctions, a World Trade Organization complaint, and euro-denominated credit lines to limit exposure to financial curbs imposed by the US.

The stakes are much higher than the fortunes of a few European multinationals and the growing but still modest trade between Iran and the EU.

"It's not just about Iran and it's not just about the business interests of some European companies," Cornelius Adebahr, an Iran policy expert at the Carnegie Europe think-tank, said.

"It's about what the transatlantic relationship stands for."

As Europe seeks to thrash out a response to US actions on Iran, the French, German and British foreign ministers were due to meet Mohammad Javad Zarif, their Iranian counterpart, today, with EU leaders holding an evening summit in Sofia tomorrow night.

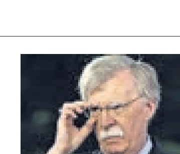
The threatened US measures jeopardise more than €20bn of annual EU-Iran trade and big contracts for companies including Total and Renault. Even more importantly, they put at risk the economic benefits to Tehran that Europe sees as essential to keep alive the multilateral 2015 nuclear deal that Mr Trump abandoned last week.

The Trump administration's tough line on Europe is all the more noteworthy because of the US president's U-turn on Iran-related sanctions on China, a crucial US interlocutor in talks on trade and on North Korea.

On Sunday, Mr Trump ordered the US commerce department to assist ZTE Corp, a Chinese telecoms group on which it imposed punitive measures last month because of equipment sales to Iran and North Korea.

The threat of blocking sanctions and a WTO complaint helped the EU prevail in previous 1990s battles over extraterritorial Washington sanctions intended to deter trade with and investment in Cuba, Iran and Libya.

But times have changed. The links between European multinationals and the US financial system are much deeper today and Mr Trump's administration has been reluctant to give Europe many special favours.



John Bolton: the US national security adviser has warned European groups not to defy calls to cut Tehran ties

The blocking sanctions under EU consideration would allow European courts to ignore US judgments and could even allow European businesses to launch countersuits. But European companies could still face big fines, asset seizures and even criminal charges in the US.

Complaints at the WTO also face obstacles, since cases at the body are time-consuming and many diplomats fear that Mr Trump is seeking to undermine the organisation, which he has attacked as "unfair" to the US.

Another problem facing the EU is sanctions that Washington has developed to target transactions in dollars, taking advantage of the greenback's status as the world's reserve currency.

Over the past decade, the US has hugely stepped up efforts to prevent sanction-hit groups from accessing dollar financing.

European diplomats are considering setting up official credit lines in euros to circumvent the dollar finance restrictions and to avoid relying on big European private sector banks that are already reluctant to do Iran-related business.

They have identified the European Investment Bank as a possible source of funding, although one European official said it was "way too early" to say whether the necessary approvals and capital for Iran business could be secured. While Iran was added in March to a list of regions and countries potentially eligible for EIB activity, officials say that any commitments would need sign-off from the EU's main decision-making institutions.

Malaysia

Mahathir steps up 1MDB probe

HARRY JACQUES — KUALA LUMPUR

The head of Malaysia's anti-corruption watchdog resigned and the country's attorney-general was placed on leave yesterday as new prime minister Mahathir Mohamad moved to step up the investigation into allegations of corruption at the multibillion-dollar 1MDB fund.

The government yesterday accepted the resignation of Dzulkifli Ahmad as head of the Malaysian Anti-Corruption Commission, while Mohamed Apandi Ali, attorney-general, was put on leave.

"There have been a lot of complaints against the AG but no formal report," said Mr Mahathir. "On that basis we give him a holiday."Mr Mahathir's PH coalition last week registered a stunning poll victory over his rival, Najib Razak, partly on a platform of probing how billions of dollars were lost from 1Malaysia Development Berhad, the south-east Asian nation's sovereign wealth fund.

The US Department of Justice has said that more than $4.5bn was misappropriated from the fund.

Mr Dzulkifli had been appointed by Mr Najib as head of the anti-corruption commission in 2016 after the previous incumbent quit.

Mr Apandi had the same year cleared Mr Najib of wrongdoing in relation to 1MDB.

Mr Dzulkifli issued a statement confirming his resignation. Mr Apandi could not be reached for comment.

Almost $700m was paid to Mr Najib's bank account, cash that the former prime minister said was a gift from Saudi royalty. Mr Najib has denied any wrongdoing in relation to 1MDB.

On Saturday Mr Najib was banned from leaving the country, and Mr Mahathir reiterated he would launch a new investigation in relation to 1MDB.

Senior PH figures have said a task force or special tsar could be established to probe corruption in the country.

"Mahathir is a man in a hurry and he has promised the electorate he will reform as soon as he can," said Chua Tian Chang, vice-president of the People's Justice party, part of the PH coalition. "I think within weeks you will see new appointments. But institutional reform including amendments to the laws to bring in checks and balances will probably take a bit of time."

"I have to get proper reports before I act," Mr Mahathir said yesterday.

"I can't just suspend any officer I like. I have to do things according to the rules and procedures."

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EU divorce

Barnier promises close UK security ties after Brexit

Britain warned it faces loss of decision-making rights enjoyed by member states

JIM BRUNSDEN — BRUSSELS
TOBIAS BUCK — BERLIN

The EU's chief Brexit negotiator has pledged to build a "close partnership" with Britain on foreign and security policy after Brexit, even as he warned that the UK would have to accept losing decision-making rights and other privileges that it enjoyed as a member.

Michel Barnier told an audience in Brussels that there "should be no uncertainty about our commitment" to security co-operation, echoing calls from Theresa May, UK premier, for the fight against terrorism, cyber attacks and other threats to be a fundamental part of the two sides' future relationship.

But he stopped short of embracing proposals made by the UK this month for a detailed treaty that would seek to preserve many existing forms of operational co-operation between the EU and UK, saying that Britain's exit from EU institutions and agencies meant that "it cannot be business as usual".

Mr Barnier said that proposals published by the UK government this month on "internal security" issues, such as justice co-operation, read like a document from a country "that just begins the process" to join the EU, rather than leave it.

He added that the plans, which include continued use of instruments such as the European arrest warrant, and close links to Europol and other EU agencies, even touched on areas where the UK was wary of involvement during its time as an EU member.

> 'We must not risk the loss of mutual capability or weakening of collective effort'
> UK domestic security service chief

The comments are the latest sign of how the EU is trying to balance its desire for continued security co-operation with its concerns about setting any precedent that a country can leave while picking and choosing EU bodies and initiatives it wants to remain part of.

Britain and Brussels are already at loggerheads over whether UK companies can compete for contracts to roll out the EU's €10bn satellite navigation project, known as Galileo, with resistance in the European Commission to continued British involvement.

Brussels has argued that it cannot share the security-relevant proprietary information that underpins the project with non-EU countries — a stance Mr Barnier reiterated yesterday.

While insisting that the UK would be shut out of EU decision-making processes, Mr Barnier set out "five dimensions" of potential foreign and security policy co-operation, including "close and regular consultations" on sanctions and other key decisions, UK military involvement in EU-led operations, and an agreement on the exchanging of classified information.

Mr Barnier's comments came on the same day that the director-general of the UK's domestic security service, Andrew Parker, made a rare public intervention stressing the importance of EU-UK security co-operation after Brexit. Mr Parker told an audience of security chiefs in Berlin that the threat posed by Islamist terrorism and Russia meant that "we must not risk the loss of mutual capability or weakening of collective effort across Europe".

Others in the security community have stressed that, in reality, the nature of the common threat means that EU-UK co-operation will inevitably remain close.

Hans-Georg Maassen, head of the German domestic intelligence service, said yesterday that he had "no concerns" over post-Brexit co-operation.

Speaking at a press conference with Mr Parker, Mr Maassen said: "What is positive is that intelligence co-operation between German and European security services takes place outside the EU."

He went on: "That means that the level we have reached now in terms of close and trusting co-operation will continue independently of Brexit."

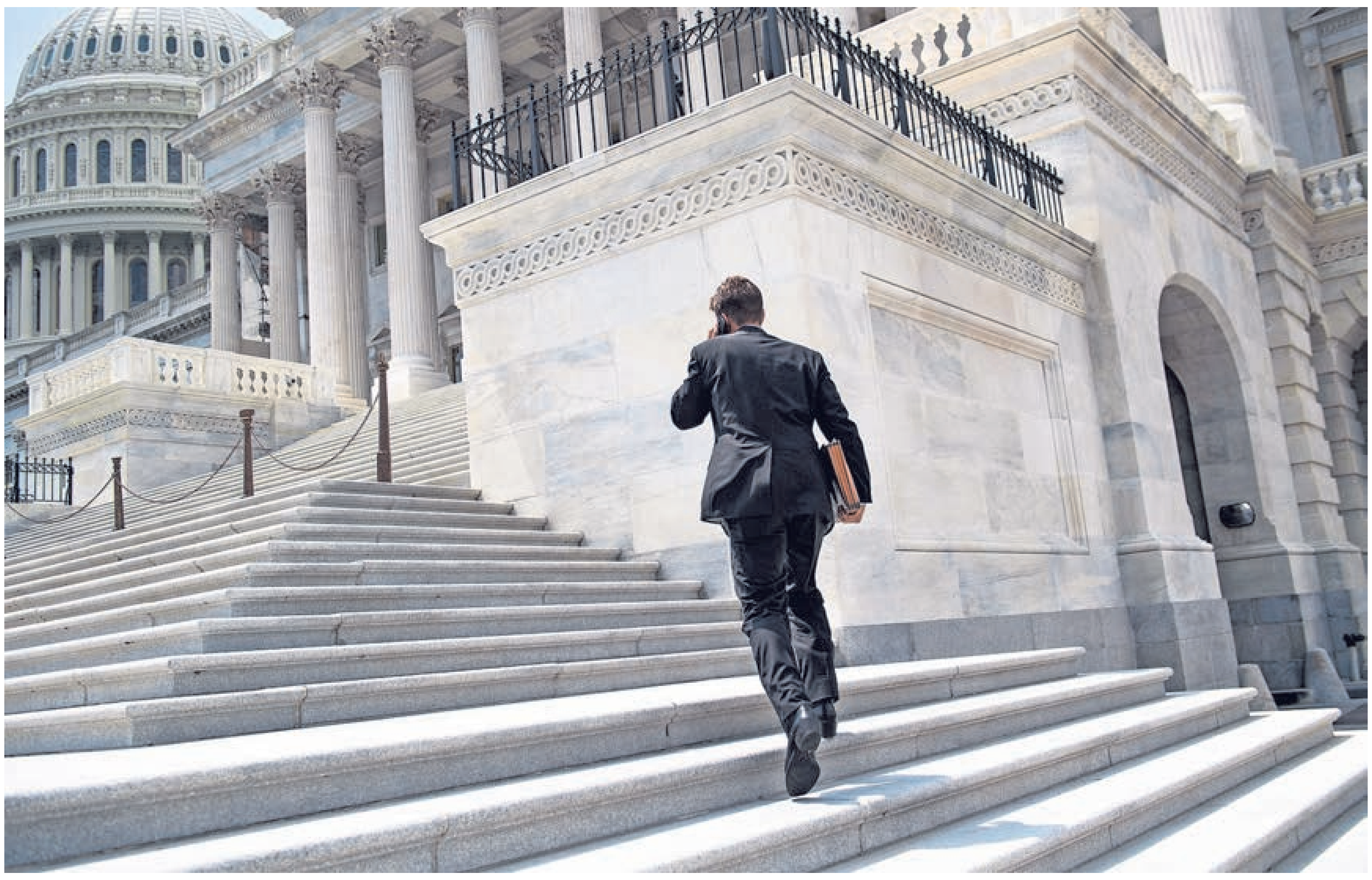
Janan Ganesh page 9

White House. Transparency

Cohen case puts spotlight on 'shadow lobbying'

Unregistered consultants play growing role in business of seeking to sway those in power

BARNEY JOPSON — WASHINGTON
ANDREW EDGECLIFFE-JOHNSON
NEW YORK



Capitol Building: Donald Trump has vowed to end influence peddling. Below, Michael Cohen
Tom Williams/CQ Roll Call

After news broke last week that AT&T and Novartis had paid $600,000 and $1.2m respectively to Michael Cohen, both companies' chief executives told their employees that hiring Donald Trump's personal lawyer had been a "mistake" they now regretted.

The sums corporate clients paid for insight into the president and his administration shocked many staff, investors and commentators, but they highlight how lobbying is thriving in Mr Trump's Washington despite his vow to "drain the swamp" of moneyed interests.

The Cohen story has turned the spotlight on "shadow lobbyists", the unregistered consultants playing a growing role in the lucrative business of seeking to sway those in power.

Precise figures are hard to come by, but Paul Miller of industry body the National Institute for Lobbying and Ethics has complained of an "epidemic" of shadow activity and called for greater transparency after the Cohen revelations.

Mr Cohen had no previous political experience. But his proximity to Mr Trump appears to have held out the hope of something more: insights about the president and his administration's policies.

In one part of official Washington, lobbyists register with the government under the 1995 Lobbying Disclosure Act and file quarterly public reports on who they work for, what issues they are lobbying on and what they are paid.

But according to the Center for Responsive Politics, the ranks of official lobbyists have thinned by a third to 9,443 over the past decade, even as their revenues have remained fairly stable, at almost $3.4bn last year.

Former president Barack Obama played a part in curbing their activities by introducing measures such as a ban preventing former administration officials from contacting their erstwhile employers for two years after leaving.

But Mr Cohen was operating in the parallel, and entirely legal, world where influence can be sought and sold without tripping over the lines that define formal lobbying. Even some denizens of K Street, home to many Washington lobbyists, are not required to register if they spend less than 20 per cent of their time working for a particular client — another reason why much activity goes unrecorded.

James Thurber, a professor at the American University, estimates that using the broadest definition, encompassing think-tanks, shadow lobbyists and other door-openers, Washington's advocacy industry probably employs about 100,000.

On the campaign trail during the 2016 presidential election, Mr Trump sought to present himself as the candidate who would end influence-peddling, pushing for more reforms to restrict former officials from lobbying and reclassify those describing themselves as consultants and advisers "when we all know they are lobbyists".

In office, he has kept up his swamp-draining rhetoric, saying on Friday that "the drug lobby is making an absolute fortune at the expense of American consumers".

But some ethics lawyers have accused Mr Trump of loosening, not tightening, Obama-era restrictions. ProPublica found in March that at least 187 political appointees had been federal lobbyists before joining his administration.

One veteran Washington lobbyist pointed out that there was nothing new in businesses scrambling to understand an incoming administration by hiring people close to its leaders. "There has always been an element of former campaign people who didn't lobby but provided perspective, insight," he said.

In turn, figures from past administrations such as Doug Band, a former chief adviser to Bill Clinton and founder of Teneo Holdings, have been able to turn their White House experience into thriving consultancies.

The US president has, however, presented other challenges to those looking to petition his government, prompting efforts to find alternative ways to reach the Oval Office. First, few in the industry expected Mr Trump to win, so much of the pre-emptive relationship-building during the campaign was with Hillary Clinton's aides. "It was a great disruption to the entire lobbying field when Trump surprisingly won," Prof Thurber said.

> 'When the president is attacking his own leadership and behaving in a somewhat random way, it is very hard to come up with a strategy for lobbying'

Second, every president comes into office with an inner circle that big business hopes to access, and the lobbying industry could expect the private sector veterans hired by Mr Trump to be open to corporate overtures. But attempts to sway them have been complicated by the newcomers' unfamiliarity with the machinery of policymaking.

But perhaps the thorniest problem has been Mr Trump's off-the-cuff unpredictability. With reports frequently emerging of his closest advisers and Republicans on Capitol Hill seemingly not knowing what he is about to do, the value of anyone's insights is questionable.

"When the president is attacking his own leadership and behaving in a somewhat random way," said Prof Thurber, "it is very hard to come up with a strategy for lobbying."

Additional reporting by Kadhim Shubber in Washington

Trump lawyer

Swiss public prosecutors hold talks over Novartis payments

RALPH ATKINS — ZURICH

Swiss public prosecutors have acknowledged possible concerns over $1.2m in payments that Novartis made to an entity owned by Donald Trump's personal lawyer in the year following his 2017 inauguration, adding to the pressure on the pharmaceuticals group over the deal.

The Swiss attorney-general's office in Bern said yesterday it had "taken note" of reports about the deal Novartis had agreed and was "in contact" with prosecutors in Basel, where Novartis has its headquarters. But its statement added that "the federal prosecutor has not currently opened any criminal proceedings in this connection".

Officials said they could not discuss the case any further.

Novartis last week admitted paying $100,000 in monthly instalments for a year to Michael Cohen's Essential Consultants. The deal was meant to help Joe Jimenez, the Swiss group's then chief executive, understand the new administration's healthcare agenda after an election campaign in which Mr Trump had vowed to scrap his predecessor's Obamacare reforms.

After a first meeting with Mr Cohen in March last year, Novartis decided that Essential Consultants would not be able to provide the anticipated service, but the agreement could not be terminated until it expired in February this year.

Although other companies such as AT&T and Korea Aerospace have also been caught in the controversy, the revelations are particularly embarrassing for Novartis, because the size of its payments made it Essential Consultants' largest client and they provoked controversy about whether multinationals sought improper access to the new US president's inner circle.

Novartis said it not been contacted by the Swiss attorney-general's office and so could not comment further.

Essential Consultants was set up by Mr Cohen in 2016 and was used to pay porn star Stormy Daniels (whose legal name is Stephanie Clifford) $130,000 before the US election in return for her silence about an alleged 2006 affair with Mr Trump. The president has denied the affair.

Novartis has also revealed that in November 2017, Robert Mueller, the special counsel investigating the Trump campaign's ties to Russia, contacted Novartis about its agreement with Essential Consultants. Novartis said it had co-operated fully and "provided all the information requested".

Vas Narasimhan, who took over from Mr Jimenez as chief executive in February, has described the contract as a "mistake".

In an internal memo to staff last week, he expressed frustration at the criticism Novartis has faced from "a world that expects more from us". But Mr Narasimhan said he "was not involved with any aspect of this situation".

A giant Novartis sign tops a building at the company's Basel campus

Childhood arrivals

Moderate Republicans vow to force 'Dreamers' vote as migration dispute grows

COURTNEY WEAVER — WASHINGTON

A group of moderate Republican lawmakers is threatening to side with Democrats to force a vote on "Dreamers" as tensions rise over immigration, particularly a policy that separates children from their parents.

The 18 House Republicans are defying their party's leadership in an attempt to resolve the Deferred Action for Childhood Arrivals (Daca) programme — the Obama-era amnesty for young undocumented immigrants that President Donald Trump suspended last year.

The group's move comes as the White House formalises a policy of splitting up families detained at the border, with parents facing possible criminal prosecution as their children's cases are handed over to child services.

For a vote to be brought to the floor, it would need the support of at least 25 Republicans if all 193 Democrats in the House support the measures.

Paul Ryan, House majority leader, has rejected calls for the vote, accusing the Republican members behind it of "grandstanding". However, lawmakers are refusing to back down, deepening divisions in the party over the administration's immigration policies.

"Every time the immigration issue comes up, Congress — and if not Congress, the House — responds with paralysis. And we're tired of that," Carlos Curbelo, one of the Republican lawmakers leading the petition, told MSNBC on Sunday evening.

The lawmaker rejected Mr Ryan's claim that he and other centrists were looking for attention. "No one here is interested in a spectacle. We are interested in having a debate," said Mr Curbelo, who is from Florida.

A number of the 18 House Republicans who back Daca face tough re-election races in November, or come from states that Hillary Clinton carried in the 2016 presidential election.

A Daca bill would decide the fate of almost 800,000 Dreamers, who came to the US as small children and whose legal status has been in limbo since Mr Trump ended the programme. While Daca was restarted by a district court judge in January, lawmakers have yet to find a permanent solution to the issue.

'Dreamers' join an anti-Trump protest in Los Angeles in February

A White House-backed bill that would have granted amnesty to Dreamers but would also have provided funding for Mr Trump's wall on the Mexico border and ended the US visa lottery, failed to win enough votes in Congress this year.

Under the White House's new immigration policy, all undocumented adults, even those travelling with children, face criminal prosecution while their children are referred separately to Health and Human Services.

Jennifer Podkul, director of policy at the non-profit Kids in Need of Defense, noted that the new policy came at a time when both conservatives and liberals were concerned about the big backlog of immigration court cases.

According to Syracuse University's TRAC data centre, there are more than 690,000 pending immigration cases. Separating families into different proceedings means that the courts would be hearing two or more cases — instead of just one. Separation would also cost taxpayers more money.

"This policy, I think, has taken everyone off guard just because of the cruelty of it and the sensitive nature," Ms Podkul said. "I think people who are very conservative on immigration issues don't think it's OK to take a baby from a mother."

Mark Krikorian, executive director of the rightwing Center for Immigration Studies, said conservatives who supported Mr Trump's immigration reforms would back the new policy — even if it still cost more upfront or delayed cases further.

"You don't get a free pass into the United States as an illegal immigrant just because you brought a kid with you," Mr Krikorian said. "If it costs more to break that cycle, so be it."

A subtly radical transformation

Architect David Chipperfield's expansion of London's venerable Royal Academy creates a new public space. By Edwin Heathcote

The cast hall of the Royal Academy Schools is a space of classical fragments. Under its long vaulted ceiling, dusty copies of Greek, Roman and Renaissance sculptures punctuate what is the spine of a working art school. It was always hidden from public view yet at the heart of the Academy. Now visitors will cross that corridor as they walk through the Academy's £56m expansion and, for the first time, they will get a glimpse of the institution that always formed its invisible core.

The corridor is also a useful metaphor for the new project, a major addition and reconfiguring which has bonded two buildings together in a mostly successful attempt to create a coherent collection of spaces running through a deep, difficult and dense city block.

The Royal Academy is an independent charitable organisation run by its academicians. It revolves around the remains of a 17th-century house reconfigured by dilettante architect Lord Burlington in the early 18th century. The new wing is known as Burlington Gardens, which is exactly what was here — Burlington's gardens, at the rear of the site. The site's current occupant was opened in 1870, a monumental Victorian heap designed as the headquarters of the University of London. It has had a chequered history, including stints as the Civil Service Commission and the Museum of Mankind. It is a rather pompous Victorian place with a memorable staircase and, until now, not much else.

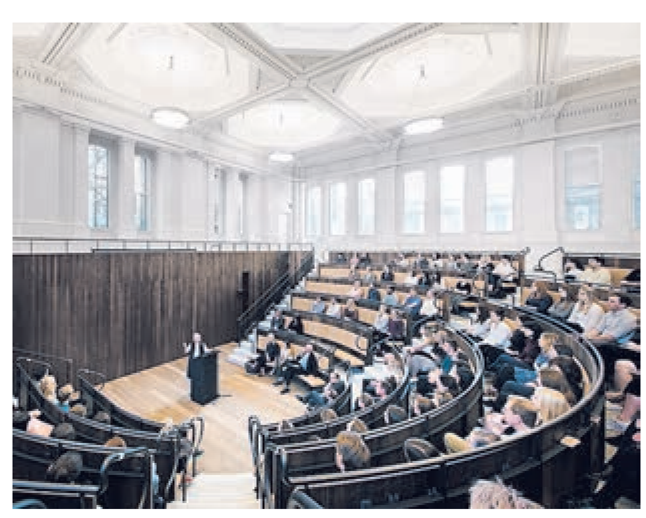
Fortunately, the two buildings, back to back, are almost symmetrical along a central axis, their entrances almost directly aligned. Unfortunately, to get from one to the other, the visitor needs to go upstairs, downstairs, over a bridge, through the schools and an old storage vault before arriving in front of an understairs cupboard in the old RA.

This is, in its own way, a curious counterpart to Burlington Arcade, the other, parallel route through the block. If Burlington Arcade is the slick, commercial, covered cut-through of luxury consumables, the Royal Academy's route is a wander through the history of London's classical architecture, from its Palladian emergence through over-stuffed Victorian, Georgian stately home, Italianate gallery and courtyard and grand Edwardian.

The architect of the expansion, David Chipperfield, has somehow had to join these two discrete buildings and the historical narrative and create a coherent interior. Mostly, he has succeeded.

The most obvious additions are the impressive new galleries. The Royal Academy was previously a place of temporary exhibitions with little reason to visit in between. Now it has a Collections Gallery housing its hugely impressive works, including a contemporary copy of Leonardo's "Last Supper" (painted in 1506 by a student in the studio). Beside these, in the long, lovely top-lit rooms which were once the University of London's laboratories, are the Gabrielle Jungels-Winkler Galleries. These are very fine art spaces, with real character and power of their own. For the impressive opening show, Tacita Dean has chosen to screen the rooflights but this will surely become one of London's most desirable art spaces.

Architecture also finds, for the first time, a permanent presence in the institution. Architecture has always seemed rather repressed in the Academy. Chipperfield makes the point that when architects used to draw, their works could be hung beside those of the artists, but now the disciplines have diverged so much they need to justify their presence in the Academy. If this can be done, it will be done in the (rather diminutive) Architecture Studio looking out over Old Burlington Street. Beside this, a grand new bar and café is intended to draw life up into the building. There is a major new auditorium (The Benjamin West Lecture Theatre), something the old RA lacked.



Above: the vaults have been excavated to make them larger and loftier. Left: the new Benjamin West Lecture Theatre Simon Menges

Perhaps the most important aspect of the changes is that visitors will be able to move through the Academy free of charge, visiting galleries as they go without ticketing. It is a remarkable opening up of a major building and the creation of a very significant new public space in what would be one of the world's most valuable slices of real estate.

The architecture is more repair than statement. It is a threading through of routes between contesting functions and the compromises it makes are, in a way, where the architecture emerges. The pivotal point is the concrete-encased Weston Bridge which spans the gap between Burlington Gardens and the Academy School. With its combination of stairs and window, it has something of a Bridge of Sighs about it, yet remains invisible from the outside as it looks down on the still-private yard of the art school.

The interventions otherwise have their volume knobs turned right down. There is tasteful terrazzo and pale, smooth concrete, almost indistinguishable shades of light grey. The meticulous retention and restoration of even the most worn original surfaces imparts a sensuous texture to the spaces, a sense of time and the traces of long inhabitation. In fact it is deceptive. The grand brick vaults which now house the rather gruesome remnants of historic anatomical studies appeared, only a couple of years ago, like the spaces beneath a railway, encrusted in dirt and cabling; they have now been partly (and expensively) excavated to make them larger and loftier.

> 'In a few years,' says Chipperfield, 'you'd really want it to look as if it had always been this way'

Bricks that were once grimy are now caked in a creamy layer of foundation, richly grained in beige and beautifully lit so they appear theatrical and seductive.

Visitors are also brought through the delightfully ad hoc spaces of the schools, including more north-lit galleries displaying the students' work. Heavily engineered in riveted steel, with metal roofs, plates and beams, these odd, cobbled-together spaces, which were never meant to be seen except by students and staff, are now among the most memorable moments.

"In a few years," Chipperfield says, "you'd really want it to look as if it had always been this way, so that people wouldn't remember if this space or that door had always been there or not."

This is a grown-up, careful and clever integration of the fragments of some wonderful, and some rather less wonderful architecture. It embodies a series of paradoxes, an invisible transformation, an informal ceremonial route and a redesign that is as subtle as it is radical.

royalacademy.org.uk

Energy and flair of the UK's jazz resurgence

JAZZ

Nerija
Pizza Express Jazz Club, London
★★★★☆

Mike Hobart

The British collective Nerija investigate the abrasive contours and tough edges that marked jazz at the end of the 1960s, when swing fractured into the rhythms of funk, and modal harmony was brought into play. With this as foundation, the seven-piece band add the sonorous harmonies of four fine-tuned brass players and mix African and Caribbean beats into hip-hop and broken-beat swing.

The evening opened with patters of deadened drums lifted by rhythmic figured bass and sweet horn sonorities that grew in scale. Drummer Lizy Exel kicked in a funky fusion beat, trombone and trumpet were answered by resonant reeds, then a final line cued the first soloist of the night, Rachel Cohen, a guest on warm and closely articulated alto sax. Midway through the composition, a nod from bassist Rio Kai cued a change of pace, and guitarist Shirley Tetteh mixed township vibes with pensive bursts of speed. Kai's curtain-raiser "Naissance" was well named.

The set continued with the jagged riff of Grachan Moncur III's 1967 track "Hipnosis", introduced by snaky Tetteh guitar, and "Red Clay", a 1970 Freddie Hubbard classic, here featuring a chromatic climax from Nubya Garcia's tenor sax.

Both themes were clearly stated and well-shaped solos peaked as rhythms changed underneath. The first half ended with the township lilt and funky bridge of Rosie Turton's "The Fisherman", an evocative highlight from the band's first EP and a feature for the composer's swaggering, edge-of-seat trombone.

The all-original second half presented new material that was being worked up for the band's next album. "Love Straw" opened with call-and-response brass and developed over tense chords with drums tugging at the pulse, while "E.U." — short for "emotionally unavailable" — delivered solid minor-key horns and a hip-hop beat. Soft rhythms followed, a momentary lull brought to life by Tetteh's understated fluency on guitar. The finale, Turton's "Unbound", was a thrilling interplay of brass over a tough bass vamp.

Nerija have just signed to the Domino label, joining the likes of Super Furry Animals and Hot Chip. This performance was brimming with a technical flair and confident energy that held the audience throughout. More than that, Nerija have collective discipline and substantial jazz roots — a sign, perhaps, that this particular contribution to the UK's jazz resurgence may last the course.

pizzaexpress.co.uk

Discipline: Sheila Maurice-Grey, left, and Nubya Garcia with Nerija — Roger Thomas

CLASSICAL MUSIC

London Festival of Baroque Music
St John's, Smith Square, London
★★★★☆

Richard Fairman

From ancient Greece to the present day, the myth of Orpheus has been an enduring symbol of the power of music. It was there at the very birth of opera, thanks to Peri and Monteverdi at the start of the 17th century, and has continued to inspire opera composers as diverse as Birtwistle and Glass.

At St John's, Smith Square, they must be hoping that some of its mythic power rubs off. After nearly 50 years of continuous operation as a concert hall, the venue is finding it hard to make ends meet and a fundraising campaign has been launched with the aim of securing its long-term future.

The risk feels especially acute at this time of year, when the London Festival of Baroque Music rolls into town. The festival is now in its 35th year (it may be more familiar under its original name of the Lufthansa Baroque Festival) and has retained St John's as its primary home throughout. This year's theme is "Treasures of the Grand Siècle", culminating in a four-day focus on the French Baroque under Louis XIV at the end of the week.

Away from that, the biggest event of the opening weekend was this concert performance of Gluck's *Orfeo ed Euridice*. Gluck's lofty aim was to emulate Greek drama and the noble purity he brought to *opera seria* is clearest to see in his original 1762 version of the opera for Vienna. Essentially, that was what David Bates and La Nuova Musica performed here.

Over the opera's 250-year history the role of Orfeo has been sung variously, according to which version, by castratos and tenors, and by mezzos and baritones. Countertenor Iestyn Davies took the title role here, singing with the plangency that is his trademark and also impressive authority. Sophie Bevan was his warm-toned Euridice and Rebecca Bottone an unaffected, not over-cute Amor. Bates takes a very expressive view of Gluck's music, which meant much sustained, thoughtful phrasing and some pulling-about of the tempo. The choir of La Nuova Musica was exceptionally fine, the orchestra marginally less so, with occasional flecks of untidy ensemble in what was otherwise a well-played performance.

Festival runs to May 19, lfbm.org.uk

FT BIG READ. ANBANG

Within a year, Wu Xiaohui has gone from being one of China's most high-profile businessmen to facing an 18-year jail sentence. His fall from grace comes as the Communist party tightens its grip on business.
By Henny Sender and Don Weinland

Downfall of a global dealmaker

The Wu Xiaohui who appeared in a Shanghai court in late March on fraud and embezzlement charges was a far cry from the man who rapidly turned a modest provincial car insurance business into an investment conglomerate with Rmb2tn ($316bn) in assets.

Tie-less and wearing a rumpled suit, the founder of Anbang "expressed deep self-reflection, understanding of and regret for the crimes and expressed deep remorse", according to a post on the court's social media account. But to no avail. On Thursday, he was sentenced to 18 years in prison.

The contrast could not have been more striking with the confident magnate who received visitors long into the night in the Royal Suite of New York's Waldorf Astoria hotel, which Anbang bought in 2014. Wearing bespoke suits and designer ties, he would peel off gifts from a gilt tray to present to petitioners and then jet away in his private plane to give a speech at Harvard or inspect a potential acquisition in Europe.

At the time of his detention in February, Anbang controlled 58 companies directly or indirectly. As well as New York hotels, its holdings included rescue financings of troubled European financial institutions, control of a South Korean insurer and substantial equity stakes in about 20 major listed companies in China. Wu, who married into the family of Deng Xiaoping, the country's former leader, also boasted political contacts outside China including Jared Kushner, Donald Trump's son-in-law, who he met shortly after the 2016 US presidential election.

When police arrived at his head office in Beijing almost a year ago to detain him, Wu initially tried to resist arrest, according to a senior employee of the group. That act of defiance belied the fact that the writing was already on the wall for the owner of a group that had grown so fast in such a short period of time. For months regulators had referred to Wu as a criminal in meetings and conference calls with Anbang staff. More importantly, the businessman had also incurred the enmity of the Communist party of China itself.

'These companies are under a much tighter political leash now. They serve and obey or they get punished'

Amid the anti-graft campaign that President Xi Jinping has conducted over the past five years, it is Wu who has become the face of corruption. While other high-profile companies have been discouraged from doing overseas deals, such as Dalian Wanda and HNA Group, none has received the punishment facing Wu. Regulators seized control of the Anbang group in February and many of the businesses that he acquired now stand in disarray.

At a time when the ruling Communist party is re-inserting itself into more areas of the Chinese economy, the downfall of Wu is the most striking tale of a private company that grew too big and challenged powerful vested interests. His public humiliation is a cautionary tale, an illustration of the party's determination to impose its will, especially on companies it fears might threaten the stability of the financial system with aggressive risk-taking.

"When you had freewheeling growth like you did under [former president] Hu Jintao, then the atmosphere was commercially relaxed and non-state and state companies just grew, handed out goodies to their patronage network and never worried much about non-compliance and cutting corners," says Kerry Brown, the director of the Lau China Institute at King's College in London and a former British diplomat.

"The Xi era is tighter — tighter in terms of lower growth, tighter politics . . . and there is simply less space for these companies to do as they please. They are under a much tighter political leash now. They serve and obey or they get punished."

Fall from grace

At the time Wu was assembling his business empire, he could consider himself one of the most politically connected businesspeople in China. His third marriage was to the granddaughter of Deng Xiaoping and he also had the backing of another prominent princeling, Chen Xiaolu, the son of Marshal Chen Yi, a Communist hero in the civil war, who was an early member of the Anbang board. "Bad people did bad things precisely because of their perceived backing," says the head of one investment firm and prominent party member.

However, that protection gradually disappeared. The Deng family had long distanced itself from Wu, considering him unfaithful to his wife, according to bankers and officials with close ties to the Dengs. Chen Xiaolu died the same week as the charges against Wu were announced.

He also had powerful enemies, including Wang Qishan, the powerful anti-corruption head and close associate of Mr Xi, who was recently appointed vice-president. The news that regulators were looking into Anbang was first reported in 2016 in Caixin, a Beijing-based magazine whose founder Hu Shuli is considered to be close to Mr Wang. At that time, Wu told the Financial Times that Ms Hu's "biggest backer is my biggest enemy".

The charges that Wu was convicted of relate to the way the finances of the group were managed, including the shifting of billions of dollars of funds between different entities that he allegedly oversaw. Wu's sister, who was officially head of Anbang Hong Kong, has also been detained.

Prosecutors accused Wu of using "false material" in 2011 to get regulatory approval to sell insurance products. They also said that he had oversold Rmb724bn of insurance products and had diverted Rmb65bn to another company he controlled, which he had partly used for "lavish personal spending".

In addition, Wu was accused of using the proceeds from insurance sales to inject capital back into Anbang in order to give the impression that the company was more financially stable than it was.

Tsunami warning

Analysts say Anbang was bound to attract the attention of Chinese regulators because of the nature of its business model. The group relied on issuing wealth management products for its funding. These risky investments were sold to ordinary people seeking higher returns than they could get from bank deposits. Given the nature of the investors, the Chinese authorities worried that any failure to pay out on the products could lead to social friction.

At the time, the group was also taking huge risks on how it invested the funds. Two months before Wu was detained, the company had 19 per cent of its long-term investments in stocks, presenting a high level of risk should the market be hit by a downturn. Most insurance companies in China have less than 5 per cent of their assets invested in the stock market. Another 19 per cent was invested in redeemable short-term loans provided through trusts, an opaque area of shadow banking in China in which risk is almost impossible to assess.

"Not only is this a systemic risk but it's a significant one," says Sam Radwan, co-founder of Enhance International, a consultant to China's big insurers. "[Anbang] is comparable in size to Ping An and China Life but they grew to this size in just a few years. This has the potential to be a tsunami if it's not handled well."

For Anbang's insurance business, a short-term solution has been devised: it will receive a Rmb61bn capital injection from an insurance-industry rescue fund until the company can find new long-term funding — including, possibly, foreign investors.

However, much of the rest of the empire remains a mess. Regulators implicitly acknowledge that they have yet to come up with a neat resolution for the assets it controls.

"During the takeover, the working group will actively introduce high-quality social capital to Anbang, restructure its shareholding and will keep Anbang as a private company," according to a February 23 statement from the insurance regulator.

Yet according to one person with knowledge of the situation at Fidea, an Anbang-controlled Belgian insurer, there is little leadership, management or communication with the local staff — a description that could apply to many other Anbang holdings as well.

Waldorf woes

The deal that catapulted Wu to international fame, the 2014 purchase of the Waldorf Astoria hotel in New York for $1.95bn, and a 100-year management contract to Hilton, its former owner, is in trouble.

He loved to boast about the hotel. "If you become an employee of Anbang, you will be entitled to a free dinner and a free room night when you get married," Wu said in a 2015 speech at a Harvard recruitment event. "If a male Anbang employee plans to check into the Waldorf in the future, I might even assign him the room once occupied by Angelina Jolie."

Wu embarked last year on a renovation of the Park Avenue landmark, planning to transform the bulk of the property into luxury condominiums to be marketed to wealthy compatriots.

But having spent between $200m and $300m on the initial stages of the project, the company has to come up with up a further $1.5bn to complete the redesign — money it does not have, according to Anbang staff. Meanwhile prices of luxury condominiums in New York have dropped about 20 per cent, according to real estate investors.

Similarly, Strategic Hotels & Resorts, which Anbang bought from Blackstone for $6.5bn in 2016 — just months after the US private equity group had bought the chain for about $6bn — is also in disarray. On March 20, David Hogin, the chief operating officer of the hotel group, wrote a letter, seen by the FT, to Anbang's New York staff pleading that they approve the hotel company's budget and compensation, for fear that staff would leave.

"We understand that given the unusual recent developments within Anbang, it has been difficult to obtain approval," Mr Hogin added, noting that the company would record a loss of about $27m for the year.

Insiders worry that the health of the rest of Anbang's assets will continue to deteriorate. Employees say that there is a dearth of good managers because Wu trusted only a handful of his employees beyond his family, preferring to surround himself with "unimpressive people who would just follow his orders and not question them," according to one employee. "He did not trust anyone."

Private equity firms including Apollo, Blackstone, Cerberus, JC Flowers and KKR are poring over Anbang's assets, especially its holdings of offshore banks, insurers and properties to see if any can be bought at bargain prices.

"When I joined this company, I was told the chairman is the type of person who burns the bridge after crossing the river," says a senior Anbang executive. "That is wrong. He actually burnt the bridge before he even finished crossing it. It is a shame for all Chinese."

China's CCTV shows Wu Xiaohui speaking during his trial in Shanghai in March. Below, the Waldorf Astoria Hotel, and, right, Wang Qishan, China's vice-president — AP

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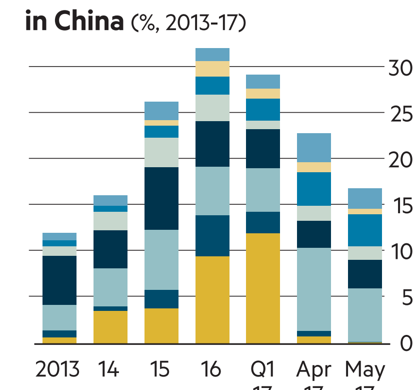
Speed read

Dramatic fall Anbang founder Wu Xiaohui has been sentenced to 18 years in prison for fraud

Party control The charges against Wu are part of a crackdown on private business considered too risky

Deals in disarray Many of the companies Anbang acquired, including the Waldorf Astoria, are now in trouble

Anbang and other platform insurers lose market share in China (%, 2013-17)



Source: UBS

Scattergun empire
Anbang's overseas assets face uncertain future

The fate of the financial institutions Anbang controls in Belgium, Portugal and South Korea remains uncertain. When the investments were initially announced, European regulators thought of Chinese buyers as their saviours.

"They believed you couldn't say no to China," says a former senior executive in the industry. "That proved a big mistake. Today these companies are rudderless."

Anbang signed deals to buy the 270-year-old Banque Nagelmackers in Brussels and Fidea in Antwerp over a span of just three months in 2015. When Anbang bought Fidea, Wu Xiaohui paid 40 per cent more than the second most generous bidder, says one person involved in the sale.

The situation is similar in South Korea, where Anbang controls two insurance companies, Tongyang and the South Korean operations of Allianz, making Anbang one of the five top insurers in that country. Tongyang also has about 4 per cent of Woori Bank, one of the country's most important lenders.

The authorities are still debating what to do about Wu's personal stake in Anbang, according to a regulatory official and several investors — although no one knows exactly how big that stake is or how much it is worth. Indeed, many Anbang executives doubt the shares have any value. "All the cash flow came from selling wealth management products," says one executive. "If the issuance of these products came to a stop, the company would be dead."

Meanwhile even as the Chinese authorities ponder what to do about the assets Anbang controls, they have already moved to take over other assets belonging to Wu personally. These include a mansion in Port Chester Long Island, near New York, that still has mortgage payments due to East West Bank.

FINANCIAL TIMES
'Without fear and without favour'
TUESDAY 15 MAY 2018

Trump's bizarre U-turn on sanctions against ZTE

The US president's addiction to dealmaking has led him far astray

It is not just that Donald Trump's policies on trade are an economically illiterate brand of extreme mercantilism which trample casually over international law and threaten to leave trails of destroyed supply chains in their wake. That would, at least, be predictable. It is also that policy shifts back and forth almost at random, today's bright idea flatly contradicting last week's firmly-held conviction.

Soon after pulling out of the nuclear deal with Iran, the US president has signalled a reprieve for ZTE Corp, the Chinese company which had been banned from sourcing vital components from US companies. The ban followed findings that it had illicitly sold products to Iran and North Korea.

The move is not just surprising, given Mr Trump's hostility towards Chinese manufacturers and their alleged theft of jobs and production from the US. It also directly contradicts the strong views of many top officials in US intelligence and law enforcement, who have repeatedly warned ZTE products could be employed to spy on American users and are a threat to national security.

It apparently took Mr Trump less than a week to forget that punishing companies for doing business with Iran was one of the main current aims of US foreign policy. It is common for trade and security interests to be in conflict. It is rarer to see an American president suddenly reverse years of established US policy and implement a decision that appears to damage both.

Mr Trump's remarkable conversion — he not only lifted the restrictions on ZTE but actively wished for the company's revival — appears to be entirely due to exchanges with Xi Jinping, China's president, ahead of a visit from a Chinese delegation to Washington for talks about trade.

In this context, the move fits in all too well with two of Mr Trump's huge weaknesses as a president. First, he is addicted to making deals with other powerful leaders on the spur of the moment and with barely any thought of the consequences either to the goal he is pursuing, or indeed other interests of the US. Second, he has contempt for the normal functioning of government, and particularly the interagency process that painstakingly works out policy in the US's complex and multi-faceted administration.

The restrictions on ZTE that had brought it to the brink of collapse were not an arbitrary exercise of power. They were the culmination of due process following evidence that the company was violating the terms of an agreement made with the justice department during Barack Obama's administration. When Wilbur Ross, the commerce secretary, announced the ban in April, he said the company's behaviour was "egregious" and "could not be ignored". But that firm judgment apparently has not managed to survive an unknown deal offered to his mercurial boss.

What makes this even worse is the narrowness of Mr Trump's obsession: the bilateral deficit in goods trade with China, which he appears to think is amenable to manipulation by trade policy without creating other imbalances elsewhere. If Mr Trump has bargained away a serious threat to US national security for some short-term gimmicks from Mr Xi such as ordering Chinese state-owned companies to buy more American exports, it is one of the worst deals he has ever struck.

It is entirely possible that Mr Trump will quickly U-turn on his U-turn, particularly if he does not quickly get what he wants on trade from Mr Xi. In the meantime this is more evidence, as if it were needed, that grown-up policymaking is in desperately short supply in his White House.

Rome opens its gates to the modern barbarians

Economic proposals of Five Star and the League are cause for concern

Italy is on the brink of installing the most unconventional, inexperienced government to rule a western European democracy since the EU's founding Treaty of Rome in 1957. It would consist of the anti-establishment Five Star Movement and the far-right, anti-immigrant League. These parties regard Italy's modern political system as a rotten failure and the EU's governance and policies as riddled with flaws.

Before Italy's March 4 parliamentary elections, the received wisdom in other EU capitals and financial markets was that a Five Star-League government would be the most disturbing of all possible outcomes. Now the barbarians are not merely massing at the gates of Rome. They are inside the city walls.

Yet Rome in 2018 is not Rome in 410, and neither Five Star's Luigi Di Maio nor the League's Matteo Salvini is King Alaric of the Visigoths. The two parties enjoy unquestionable democratic legitimacy, having won the elections. It is right that they should have an opportunity to govern Italy. Excluding election winners from power is not a step worthy of a mature democracy, if — as is the case in Italy — the victors have achieved their success fair and square.

Mainstream Italian parties have only themselves to blame for the fact that Five Star and the League occupy the commanding political heights. For at least 20 years, Italy's national story has been a one of economic stagnation, halfhearted reforms and at times woeful misgovernment. Should Five Star and the League come to power, they must show they can govern Italy more responsibly than their opponents give them credit for. If they fail, voters will have the chance to punish them in future elections.

All this said, the policies in their so-called "contract for the government of change" give many reasons for concern. The two parties are excessively Russophile, opposing EU sanctions imposed on Moscow after its annexation of Crimea and military support of separatists in eastern Ukraine. The League favours large-scale deportations of illegal immigrants and seems hardly to care whether such measures would contravene Italian law and the country's international obligations.

The most serious doubts relate to the parties' economic proposals. Their programme includes Five Star's flagship idea of a guaranteed €780 monthly income for the poor and the League's demand for drastic income tax cuts in a simplified tax system. It also foresees a revision of the pension system reform that Mario Monti's government passed in 2011 to calm markets when the eurozone crisis was set to engulf Italy.

The cost of these initiatives would run into tens of billions of euros. Five Star and the League propose to pay for them by cutting public expenditure, selling off state-owned property, passing an amnesty for tax offenders, cracking down on tax evasion and boosting economic growth. For two parties that purport to represent something new, it is striking how stale most of these ideas are. Previous Italian governments, especially those led by Silvio Berlusconi, tried them. They were never more than partially effective.

As a result, a Five Star-League government might find itself at odds with the fiscal orthodoxies of other EU governments and the European Commission. The EU would be justified in standing its ground. Still, it should recognise that Italy's chief problem over the past two decades has not been budget deficits but a lack of economic growth and insufficient institutional reform. These are areas where the EU can and should work constructively with Italy's next government — even if it means humouring the iconoclastic rhetoric of Five Star and the League.

Letters

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Trump finds a partner in the Kremlin's cold pragmatist

As events unfold in the Middle East, a superficially dangerous situation may offer more grounds for optimism than most commentators allow (FT View, May 14). The US's withdrawal from the Iran nuclear deal has attracted much criticism, not least from the UK government. And it is true that Iran's decision to flout the opportunity provided by the nuclear agreement to begin to shed its pariah status has been a disappointment.

Instead, it has upped the ante by piling troops and armaments into Syria to threaten Israel. Under the pre-deal sanctions, Iranian pips may have been squeaking, but it seems they were not squeaking enough to change its ways.

President Donald Trump could not have foreseen how Iran would react when he first attacked the idea of the nuclear deal, which he did long before it was signed. But he has drawn the right conclusions in pulling out. It is not unreasonable to think that, under the pressure of America's intensified sanctions, Iran could well come back to the table. In any case, even if it felt inclined otherwise, it may be running out of support. Lately, Russia's President Vladimir Putin has been playing an impressive hand in the Middle East. Mr Trump's "strike" on Syria was obviously carefully choreographed with Russia; and now Benjamin Netanyahu has pre-cleared his own strikes on Iranian positions in Syria with Mr Putin.

Mr Putin focuses, as Palmerston would have understood, only on Russia's interests: his passing "friendships" and "alliances" with such as Syrian president Bashar al-Assad, or Iran, are certainly impermanent. And like Palmerston's imperial Britain, he is willing, when necessary, to be ruthless. On this form, and weighing the attitude of his new friend Mr Netanyahu, the chances must be Mr Putin would encourage Iran to avoid any genuinely destabilising behaviour.

Mr Trump may have the right combination of low cunning, sheer meanness, and, actually, a certain largeness of spirit, to bring some order to that part of the world. And his ideal partner, it might be argued, is the cold pragmatist in the Kremlin.

Gordon Bonnyman
Frant, E Sussex, UK

The US president's Iran move is simple power play

The rules-based international order lauded by Philip Stephens ("How Europe should react to Trump", May 11) is a myth. International politics is a structure of power with elements of order that great powers such as the US support when it suits them and disrupt when it does not.

Donald Trump's repudiation of the Iran nuclear deal is just the latest example of the US trampling of the rules in pursuit of its perceived self-interest. The irony is that European resistance to Mr Trump's destabilisation of the Middle East requires the collaboration of two other bêtes noires of Mr Stephens — China and Russia — which he sees as challengers to his coveted rules, too.

As Mr Stephens recalls, during the Suez crisis of 1956 Washington and Moscow denounced the Anglo-French-Israeli attack on Egypt — American-Soviet solidarity that had nothing to do with upholding the so-called rules of international order. Should something similar happen in relation to Iran, its driving force will be the same self-serving dynamic of power politics that prevailed during the cold war.

Geoffrey Roberts
Emeritus Professor of History, University College Cork, National University of Ireland, Irish Republic

'We're hoping for a trade deal in prison equipment'

Lloyd's must guard its syndicates from coal risks

Increasing public scrutiny and regulation pose a significant financial risk for insurers engaged in business that is high on the political agenda. This risk sometimes comes home to roost, as we saw with the $1.3m fine against Illinois Union for underwriting the US National Rifle Association-branded Carry Guard programme.

It seems that Lloyd's of London wants to protect itself from the same fate by banning syndicates from writing business for the NRA ("Lloyd's of London bans syndicates from writing business for NRA", May 9). However, syndicates are exposed to similar reputational and legal risks on other fronts as well.

For example, the building of new coal plants jeopardises the objectives of the Paris climate agreement. As a result, many underwriters have announced they will cease underwriting and investing in coal. The question now is whether Lloyd's will also take meaningful steps to guard its syndicates from risky coal business.

Stephanie Morton
Lawyer, ClientEarth, London E8, UK

Regulators can safeguard the $10tn CDS market

In "Time to end the absurd credit default swap market" (FTfm, May 14), John Dizard argues we should wind down a multi-trillion-dollar market that provides firms with access to a key instrument for managing risk. Although there has been an increase in questionable players and confusion in the CDS market, it is nothing compared with what was seen a decade ago.

The fact that CDS contracts are traded on Wall Street does not mean they lack utility on Main Street. Countless lenders buy CDS protection linked to loans because it is akin to insurance in the event that borrowers legitimately default. If creditors cannot efficiently hedge risks, that will ultimately boomerang back on companies that are no longer able easily to access affordable capital.

This said, regulators can improve the integrity of the market. The International Swaps and Derivatives Association, a self-regulatory body for dealers and traders, should begin this month when it reviews the legitimacy of a default engineered by Blackstone's GSO Capital at Hovnanian Enterprises. The solvent company agreed to miss a small bond payment on May 1 in exchange for the promise of favourable refinancing terms from GSO, which holds more than $300m in CDS contracts that could pay out if the default is deemed valid.

My experience as a derivatives regulator has taught me that halting nefarious trading practices goes a long way to eliminating confusion and restoring confidence. If that is done, this $10tn market will emerge stronger.

Bart Chilton
Former CFTC commissioner, Washington DC, US

Big ideas are needed to fix intergenerational conflict

From the title of your editorial "Fixing intergenerational unfairness in Britain" (May 12) I was expecting a lot more than the "tweaks" you are proposing.

Charging interest of RPI plus 3 per cent on their student loans is not "unreasonable", it is scandalous.

The problem with housing is not that "there are not enough houses where jobs are located", but that people cannot afford the houses that are built in these locations. This is partly due to the fact that developers are allowed to reduce affordable housing quotas if costs of the development rise above their initial budget.

I would propose reducing interest on student loans to zero while imposing a fixed and non-negotiable percentage of affordable housing on all new housing developments. This could be followed up with higher tax on non-main residence property acquisitions to finance higher healthcare costs and reduce the future burden on the younger generation.

Toby Hamblin
Nyon, Switzerland

The Post Office delivers on gender equality

I was disappointed to see your article ("Public bodies accused over 'jobs for the boys'", May 10) did not fully reflect the story of women at the Post Office.

We may have a male chair but I — as chief executive and with responsibility for leading the business — am a woman. Our retail chief executive, in charge of 11,500 branches across the UK, is also a woman, as is our group general counsel.

I am passionate about ensuring the Post Office is diverse and inclusive: from a business perspective, we know these qualities foster talent, encourage innovation and mean we truly represent the customers we serve. We have already made huge strides as a business, with the number of women in senior management roles rising from 35 per cent in 2015 to 39 per cent now. But we are not complacent and we know there is more to do.

That is why we are already taking action to ensure that women receive all the support they need to progress. This includes a greater focus on gender-balanced shortlists in our recruitment process, with the aim of filling 50 per cent of senior manager roles with women; continuing to offer female colleagues tailored mentoring to support their career progression; and greater flexibility in working arrangements.

With these plans in place, I feel excited about the opportunities for all as we build a sustainable and relevant business.

Paula Vennells
Group CEO, Post Office, London EC2, UK

Workers with learning disabilities are a benefit

We are grateful for the Financial Times's extensive report on workplace disability (Special Reports, May 10), and in particular for its focus on people with invisible disabilities, such as many people with a learning disability.

At Royal Mencap Society, we are determined to help people with a learning disability in the UK have a greater chance of experiencing the pride, joy and economic independence that comes from having a paid job. However, the only available figures suggest that less than 6 per cent of people with a learning disability known to social services are in paid work — and this figure has been in decline.

To change this, more employers need to be aware of the small adjustments that are required to make a workplace accessible. Research proves that there can be significant commercial and cultural benefits from taking on staff with a learning disability. The government needs to put more emphasis on ensuring that these positive messages reach employers across the country.

Jan Tregelles
Chief Executive, Royal Mencap Society, London EC1, UK

Liechtenstein Brexit fix is a castle in the air

Another way the UK might emulate Liechtenstein ("UK eyes Liechtenstein for solutions to Brexit problems", May 11) would be for it to reduce its national debt to nil.

Robert Hopkins
Editor, The Zug Post, Müstair, Switzerland

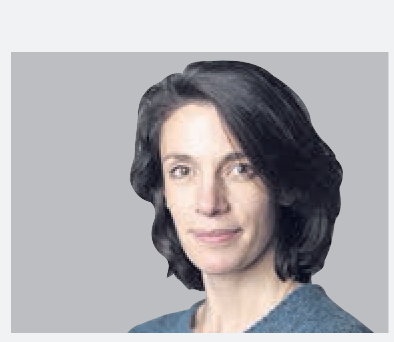
Corrections

- Pharmacy chain CVS is buying insurer Aetna, and is not being bought by Aetna as incorrectly stated in a column on May 14.
- The six-day Arab-Israeli war took place in 1967, not in 1973 as incorrectly stated in an editorial on May 14.

COMMENT ON FT.COM
Gavyn Davies
The state of the UK economy is precarious and the Bank of England is right to be cautious
www.ft.com/gavyn-davies

Rail workers' fight with Macron recalls a rural revolution

Paris Notebook
by Anne-Sylvaine Chassany



A month into rolling strikes in the rail sector, travelling in Emmanuel Macron's France is a tricky affair. This week, train service is "severely disrupted", according to SNCF, the state operator. Soon, the horrors await me on my way to the south for a family meeting I cannot reschedule.

I should be angry with the *cheminots* — the rail workers who are resisting an overhaul of the indebted SNCF before the opening up of its markets to competition. They oppose plans to end their century-old special job status that includes life-long employment, free train travel for the family and early retirement. It is fashionable to resent them as they cling to what the president portrays as undue and outdated privilege.

Yet, even as I agree — as two-thirds of the French do — that the SNCF needs reforming, I am mostly filled with nostalgia and grappling with unanswered questions. It happens that I know quite a few *cheminots*.

Marcel, Didier and Pascal, whose late father Michel was also in the job, are distant cousins on my father's side. They remind me of another side to the story: of a state company that has helped generations of farmers from the rural region of Lozère, on the southern rim of Massif Central, escape extreme poverty. Mr Macron seems intent on closing this chapter of history, yet I wonder: what is next for this fragile corner of France?

Regional cohesion is an issue Mr Macron is increasingly pressed to address. His liberalising policies and tax breaks for entrepreneurs and the wealthy have earned him the sobriquet "president of the rich".

If you come by my grandmother's village Chasseradès, on the path of Robert-Louis Stevenson's *Travels with a donkey in the Cévennes*, it is likely to be in the summer and you may marvel at the rough beauty of its brown gorges, its pastures circled by yellow broom blossom and beech forests, and the harsh sun that gives residents a darker tan than those on the Mediterranean.

The rest of the year is a different matter. At my father's insistence, my childhood was full of complicated drives to and fro, disrupted by blizzards, icy roads or sudden mists. Once the army rescued us after our car got stuck in a snowstorm. The legendary man-eating Beast of the Gévaudan (probably a wolf) is said to have struck here in the 18th century.

After the war, the SNCF — and other state-run companies such as Postes, Télégraphes et Téléphones, or PTT, that led to the creation of Orange and La Poste — took the region out of its isolation with new infrastructure and provided jobs to the young men who did not inherit farms. This was the case of Michel and Marcel, who became *cheminots* after their elder brother, René, took over from their father breeding cattle and producing milk. Marcel moved to Avignon and retired in his early fifties. Michel's son, Pascal, has also become a *cheminot*. So has one of René's sons, Didier, whose children are now studying to become doctors in Montpellier. They all come back regularly to help with the farm.

My grandfather, also a Lozérien, went for the competitive Post and Telecommunications exam and moved to Paris for his first job, allowing my father to attend a good lycée and a Grande Ecole.

These state companies boosted social mobility after the war. But in the past two decades, they have retrenched. In Chasseradès, the post office has closed. The railway station has been sold. At the nearest one, 10km away, there are no employees and most trains have been replaced by buses. Internet and mobile phone signal is patchy. Youngsters tend to move to urban centres.

Mr Macron's reforms are met with resignation and scepticism among my relatives. *Cheminots* have disliked the 40-year-old leader, whose grandfather was a rail worker, since he liberalised intercity coach services while economy minister. They believe Mr Macron is unfairly targeting the working class, while cajoling the wealthy. They feel out of sync with his "start-up nation" and refuse to take the blame for SNCF's financial woes.

"Macron, he's not going to give in," reckons Loulou, another relative and son of *cheminot*. "But the Macron coaches are not going to come our way. It's not profitable enough."

Yesterday, residents woke up to 20cm of snow, he said. "That's unusual in May. But, you know, it's Chasseradès."

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Opinion

Leavers are preparing their Brexit betrayal narrative

POLITICS

Janan Ganesh

So nostalgic and moleskin-trousered by stereotype, Britain's Eurosceptic right is actually mesmerised by technology. In the referendum campaign, Leavers espoused the power of digital communication to collapse geographic distance, and make India as viable an export market as France.

Now, faced with the riddle of how to leave the customs union without compromising supply chains or peace along the Irish border, they bank on unspecified inventions to finesse the problem over time.

This vein of techno-optimism does not run through Brussels, where "maximum facilitation" has few supporters, or even London, where Theresa May, the prime minister, tries to sell colleagues on a simpler customs partnership with the EU. Such is the minutiae behind an intra-Conservative party war fought in increasingly public view.

The mystery is why, with a hard-ish Brexit so close, Leavers would choose to die in this particular ditch. The customs partnership would not prevent an independent British trade policy. Britain would have to collect tariffs on behalf of the EU, but this seems a small nuisance next to the prize of exit. And if the technology really does emerge, partnership can be swapped for max fac later on.

Yet Boris Johnson, whose survival as foreign secretary is a daily reproach to Mrs May's judgment, calls her idea "crazy". Jacob Rees-Mogg MP goes with "completely cretinous". Ministers whom she has asked to war-game the policy will do so with clothes pegs on their noses and expressions of distaste.

There is something forced, almost thespian, about their complaints. After all, their dream is near. Why imperil it? Leavers did not just win the referendum, but the interpretation of the result, too. Britain is leaving the customs union and the single market, despite the closeness of the vote and the ambiguity of its meaning. We have lived through the gradual normalisation of a type of exit that was held to be "hard" in the days after the referendum.

Mrs May has been a gift to the Leavers. As a rookie prime minister, hemmed in by advisers who failed to last the course, it was she who drew the red lines that left little to negotiate with the EU. "Trust me," she wrote in The Sunday Times last weekend, but they should trust her implicitly by now.

> Neither temperament nor experience prepares them for life as defenders of a flawed but liveable reality

Why, then, this struggle among Leavers to take yes for an answer? Perhaps it is sincere, and they read into the difference between max fac and customs partnership a significance that is worth delaying an exit deal for. But with various pressures against them — time, the House of Lords' enthusiasm for the single market — a passionate Leaver would surely compromise at this stage.

Which is why we must entertain a more cynical theory. A good number of Leavers do not want to be associated with the exit deal that Britain eventually strikes with the EU, whatever its content. To that end, they are inventing grievances. Disavowal of the agreement allows them to escape blame if economic life deteriorates after its implementation, or voters feel no compensating thrill of self-government. "If only we had left properly," would serve as the Leavers' defence against popular anger.

The betrayal narrative writes itself. A cabinet resignation or two would help it along. Mr Johnson's behaviour is consistent with that of a man who wants to be fired. Having won the referendum as rebels, endorsement of the official deal would turn the Leavers into apologists for a new status quo overnight, with all its imperfections and disappointments. Not just MPs, but newspapers too, would have to explain away the non-materialisation of Shangri-La on British soil. Neither temperament nor experience equips them for life as pragmatic defenders of a flawed but liveable reality. They will do what they can to prevent the change in role.

And if their vexatious complaints prevent any deal being agreed, then, for some of them at least, so much the better. A certain kind of Leaver has always loathed the idea of exit talks, as though European permission were needed, and hates even more the prospect of entanglement in budget payments, regulatory agencies and the like.

If all this seems implausibly calculated, then remember what the alternative explanation is. You have to believe that people who have devoted their adult lives to the cause of EU exit would, on the brink of their dream's orderly enactment, become immovable on the details of customs regimes that merited no mention before. I do not believe it. Even their language ("crazy", "cretinous") suggests the histrionics of a ham actor. Leavers demand everything from a Brexit deal except their names on the paper.

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How Modi will shape the world

FOREIGN AFFAIRS

Gideon Rachman

The global trend towards strongman leadership is now well-established. It runs from east to west, and from democracies to autocracies. The key figures are Xi Jinping in China, Donald Trump in the US and Vladimir Putin in Russia — with Recep Tayyip Erdogan in Turkey and Rodrigo Duterte in the Philippines occupying smaller places in this unappealing tableau.

But does India's prime minister, Narendra Modi, belong in that list? The answer to that question matters a lot. India, with a population of more than 1.3bn people, may be about to surpass China as the most populous nation in the world. The country is now the third-largest economy in the world, ranked by purchasing power, and its economy is growing at over 7 per cent a year. As James Crabtree writes in *The Billionaire Raj*, a forthcoming book: "As democracy falters in the west, so its future in India has never been more critical."

India's significance is increased by the fact that Mr Modi's position on the autocracy-democracy spectrum is ambiguous. The Indian prime minister is a serious economic reformer with a real popular touch. His style is not as thuggish as Mr Putin or Mr Erdogan's; nor as wild as Mr Trump or Mr Duterte's. And he is subject to far more checks and balances than Mr Xi.

Yet conversations I had in India last week were reminiscent of similar discussions I have had during the past year in the US, China and Turkey. There was the same anxiety among liberals about threats to press freedom and the independence of the courts. And there were familiar concerns that their country's leader is deliberately polarising society to fire up his political base.

The comparisons between Mr Modi and Mr Trump are probably most suggestive. Both leaders operate in established democracies and rose to power by campaigning as the champions of a silent majority — and against corrupt elites and allegedly pampered minorities. Both men are associated with an increasingly extreme political discourse, on television and social media. Both have used identity politics to rally support, and identified Muslims as the "out group" they can campaign against.

That is playing with fire in India, which is home to about 180m Muslims — the largest such minority in any nation in the world. Mr Modi's political party, Bharatiya Janata, is often described as "Hindu nationalist". There was not a single Muslim among the 282 BJP members elected to parliament in the latest Indian election. Each week seems to bring some fresh controversy that stirs up communal tensions.

In one recent appalling case, an eight-year-old Muslim girl was gang-raped and murdered in northern India. Some local BJP leaders took part in marches and rallies in support of the accused killers, who were Hindus. Yet Mr Modi was slow to speak out. The case prompted 49 senior retired civil servants to write an open letter to the prime minister, accusing him of fomenting a "frightening climate of hate, fear and viciousness in India", adding that in "post-independence India, this is our darkest hour".

This kind of open condemnation of the prime minister requires some courage. Mr Modi's critics are hounded on social media and can be put under heavy official pressure. The prime minister himself is careful about what he says publicly. But, as one Delhi journalist puts it: "Modi doesn't say the worst stuff. He just poses for selfies with those who do."

> The Indian prime minister's position on the autocracy-democracy spectrum is ambiguous

Yet Mr Modi's defenders also have a strong case to make. They argue that there will inevitably be some horror stories in a nation of more than a billion people. However, the fears of nationwide violence that accompanied Mr Modi's ascent to office in 2014 have not been borne out. Indeed, India saw much worse examples of inter-communal violence in the pre-Modi era, such as the anti-Sikh riots and killings in 1984.

Mr Modi's allies argue that his real agenda is about development and economics, not cultural issues. Many of his supporters in the business community were motivated by the prime minister's reputation as an effective economic reformer as chief minister of Gujarat.

On the national stage, Mr Modi's performance has been mixed. Some actions, such as the 2016 "demonetisation" — the overnight cancellation of 86 per cent of the country's cash to combat the black economy — probably did more harm than good. But other Modi reforms — such as the creation of a nationwide goods and services tax — will improve India's long-term economic prospects. The GST is over-complicated. Even so, it has helped to break down barriers to trade between India's states, and widened the country's tax base.

A combination of strong economic growth, Mr Modi's personal popularity and relative social peace have helped to burnish the prime minister's reputation, turning him from a near pariah, who was once banned from entering the US for allegedly supporting communal violence in Gujarat, into a respected international figure.

A second general election victory in 2019 would cement Mr Modi's position as one of the leading political figures in the world. But it would not end the anxieties about his political project. As the cases of Messrs Putin and Erdogan have demonstrated, strongman leaders have a tendency to become steadily more autocratic the longer they stay in office.

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Silicon Valley is slowly learning how to speak human

TECHNOLOGY

John Thornhill

Silicon Valley is beta testing a new service: speaking human. Like any early iteration of a tech product, it is imperfect. But if the initial tests are promising, it may yet lead to rapid reiteration and a full rollout.

What strikes the occasional visitor to Silicon Valley is the change of rhetoric that has swept across the tech industry over the past year. A new word cloud seems to be hovering over Palo Alto including the terms: responsibility, privacy, inequality and bias.

It would be alarming if that were not the case, given the public bashing that big tech has recently received. Sexual harassment, democracy distortion, algorithmic discrimination and privacy erosion are just some of the charges that have been levelled against Silicon Valley of late.

At the Google developers' conference last week, the company's chief executive, Sundar Pichai, was the latest tech leader to try out some human, even if it did seem somewhat perfunctory. Acknowledging the industry could not remain "wide-eyed" about "the very real and important" social impact of its inventions, he stressed: "We feel a deep sense of responsibility about how to get this right."

The question is whether this change of tone is just a tactical genuflection to shifting public opinion or the signal of a more fundamental rethink. The evidence gathered from a week of interviews is necessarily patchy and anecdotal. But the impression I gained is: probably both.

Tim O'Reilly, the tech entrepreneur and author, says that industry leaders at Facebook and elsewhere have been stung by the recent controversies, even if they remain unsure how to respond.

"I guarantee that they are wrestling very deeply with how do we get this right," he says. "We have built a rocket ship that has gone so fast that it has crushed the humans. We optimised for the wrong things. We need a better feedback loop with society."

Silicon Valley also appears to have got society's memo that it needs to become more diverse, both in terms of gender and race.

"There is a recognition that things will have to change but that it will be a real slog to change," says Jessica Lessin, editor of the technology website The Information.

> The latest intake of the geek elite at Stanford seems to be developing a greater sense of social awareness

The latest intake of the geek elite at Stanford University seems to be developing a greater sense of social awareness, too. According to one computer science professor, his best students are now more interested in tackling "wicked problems", such as algorithmic bias and healthcare, rather than perfecting ways of selling ads for Google or Facebook.

Yet even if Silicon Valley is finally registering society's input, there is no guaranteeing what the output will be. As one investor explains, the mentality of many Silicon Valley founders is to believe that they are blessed with unique insight and are best placed to devise their own solutions.

"These founders believe that everyone else is crazy, otherwise they wouldn't be doing what they do," the investor said. More cynically, he suggests that the thought process may be the following: "We have to understand people better in order to manipulate them better."

On this view, the industry trend to speak human is as authentic as the Duplex AI-enabled technology that Google unveiled last week, capable of engaging in simple conversation and making a restaurant reservation. Silicon Valley may give the appearance of humanity without truly understanding its needs or internalising its values.

One leading tech entrepreneur, though, remains convinced the industry is changing for the better as it broadens its own social base. "The level of human is going up," he says. "You are getting more of humanity coming into tech and that naturally leads to people speaking more human."

The most likely conclusion is that Silicon Valley, like the chat bots it creates, will become ever more sophisticated at speaking human. Society is an important new factor that will increasingly be incorporated into the algorithm.

The tech entrepreneur predicts that the level of "human" in the industry may rise from 5 per cent human to 20 per cent, with the rest chat bot. "But 80 per cent chat bot might not be a terrible outcome," he suggests, so long as it has the same functionality.

The next step will be for Silicon Valley to act more human. Both as consumers and citizens, we can encourage that process by providing the most robust feedback. Reward the industry for good behaviour, punish it for bad, and keep prodding it in the right direction.

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Economics trails the sciences in attracting a mix of students

Mary Daly

When I gave my first big economic presentation at the head office of the US Federal Reserve in 1997, people came up to congratulate me afterwards. A senior bank leader slapped me on the back, saying: "That was amazing. I didn't expect that. You're such a tiny little woman, who knew?" I don't think he realised what he was implying. Though I and others did; we laughed it off.

Some things have changed in 20 years, but too many have not. I have given numerous presentations since and I still hear: "Wow, you surprised me." People notice when a woman delivers a meaningful presentation on the economy because we are still a relative rarity. In 1997, 28 per cent of US economics PhDs were awarded to women; today, that number is just 31 per cent. The change has lagged far behind other traditionally male subjects — 55 per cent of US graduates in science, technology, engineering and mathematics fields are now female.

Last year, Alice Wu analysed gender stereotyping in academia by applying machine learning to messages posted by participants on a well-known online economics jobs board. She found that discussions on the Economics Job Market Rumours website about women used sexualised and objectifying vocabulary that focused on their physical appearance. Discussions about men used vocabulary related to their intellect and career paths.

When the research was released I took the female economists in my department out for lunch to ask them what we needed to do to change attitudes in the profession. One told me that when she arrived at an Ivy League college, the computer science department had a huge banner inviting women to learn what they had to offer. The other Stem subjects had women's and minorities organisations. The economics department had nothing.

> We must send the message that we want more women and minorities to join the male-dominated profession

When she went there she simply gave her a list of classes and told her to come back when she had taken them — not the warm welcome she was hoping for. This is hugely concerning because we are competing for the same minds.

It is not enough to eradicate the sexism seen on websites such as econjobrumors: we must change the culture to send a message that we want people who do not fit the current mould to join the profession. Princeton economist Anne Case said recently that, unlike economics, in other disciplines "the tenor of the seminars tends to be a lot less about scoring points and . . . trying to nail the speaker to the blackboard".

This rings true to me. To combat this, my department has imposed a rule to make presenting less stressful: no one is allowed to interrupt a presenter for the first five minutes.

Some disciplines and employers have realised that they need to be attractive to women. Campus events, social media campaigns like #IAmAnEngineer and boot camps for diverse coders are chipping away at gender and race gaps.

Economists should learn from their approach. We are trying to do that at the San Francisco Fed. It is easy to use the dearth of female graduates to excuse the profession's lack of diversity. But that will not lead to change. When we investigated why female candidates turned down our offers of research assistant jobs, we learnt their impression of the department was one of an old boys' club.

So we rolled out a campaign to tell economics faculty and students about our inclusive work culture. We sent letters to hundreds of universities. And then I called every person we made an offer to and talked to them about the job. At the end of the cycle, the gender balance of new hires was 50/50.

It has been 21 years since my first head office presentation. The economics profession still struggles to be inclusive. But my hope is that one day, when a woman (of whatever height) presents her research, no one will be surprised when she does a stellar job.

The writer is director of research at the Federal Reserve Bank of San Francisco

Lex.

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WPP: a Sorrell state

Like Ada Doom in *Cold Comfort Farm*, the board of WPP appears to have seen "something nasty in the woodshed" it is too prim to disclose. Founder Martin Sorrell's abrupt resignation last month remains cloaked in secrecy. We only know it followed an investigation into alleged "personal misconduct". The attempt by the UK-based advertising group to play down the departure fuels curiosity — and justifies disapproval.

Investors should vote against the re-appointment of chairman Roberto Quarta next month, according to Glass Lewis. The proxy adviser believes WPP should have published findings of the investigation. It has a point. Without details, it is hard to know whether WPP's board fell down on the job or how much faith to put in its ability to find a replacement chief executive. Certainly, Sir Martin's exit was strange. The 73-year-old says he did nothing wrong. If so, he should not have left.

WPP refers to this as "retirement". There is no suggestion of clawing back any of last year's £14m in pay. He remains eligible to get up to 1.65m shares if WPP hits certain targets. Sir Martin is unlikely to get the equivalent £21m payout, given WPP's recent poor performance.

This is still a terrible deal for investors. Sir Martin's forceful personality drove the creation of the world's biggest ads group. His loss increases the risk of clients and employees deserting. His contract does not even include a non-compete clause.

If the board is gagged for legal reasons beyond its control, it should say so. Otherwise, it should be more forthcoming. The board says allegations against Sir Martin did not involve material amounts. For a group with a market worth of £16.5bn this is unhelpfully vague. Staying friends with Sir Martin might be useful for WPP during the transition. But his plan to operate in the same industry nixes long-term co-operation.

WPP talks up an 18 per cent share price rise since Sir Martin left. But the lift comes after a five-year low and hangs on the idea of a break-up that may not happen. WPP trades at just 11 times forward earnings — a discount of about a third to the long-term average.

The group needs to focus on persuading big clients to stay. Revlon, Ford, GlaxoSmithKline, Mercedes, HSBC and Shell all have accounts up for review. Advertising agencies are not famous for their candour. But more of it is sorely needed from WPP.

HSBC/blockchain: missing links

Sixty years ago, the humble shipping container started a boom in global trade. Now enthusiasts think blockchain could have a similar effect.

Yesterday HSBC trumpeted the world's first commercially viable trade finance transaction using the technology. This could boost trade by hundreds of billions of dollars by slashing costs, thinks HSBC.

Such breathless talk invites scepticism. Crypto-phobes note that several blockchain projects adopted by big financial institutions have already been shelved. They can also point to reputational risks. Blockchains are pieces of software originally built to handle transactions of controversial virtual currencies such as bitcoin.

The reality is both more prosaic and more promising. The distributed ledger technology used in the HSBC transaction was not, strictly speaking, blockchain. True, it uses independent computers to record, share and synchronise transactions. But there are some important differences. It uses less computer power and can be more easily scaled up than blockchain. It is not truly open. Users are required to authenticate themselves.

Perhaps the technology's biggest benefit is that everyone with access to a ledger can see the same, up-to-date version. It took 24 hours for HSBC to process documents needed for a shipment of soyabeans. The process normally takes at least five days. As well as being speedier, the digital system will cut costs.

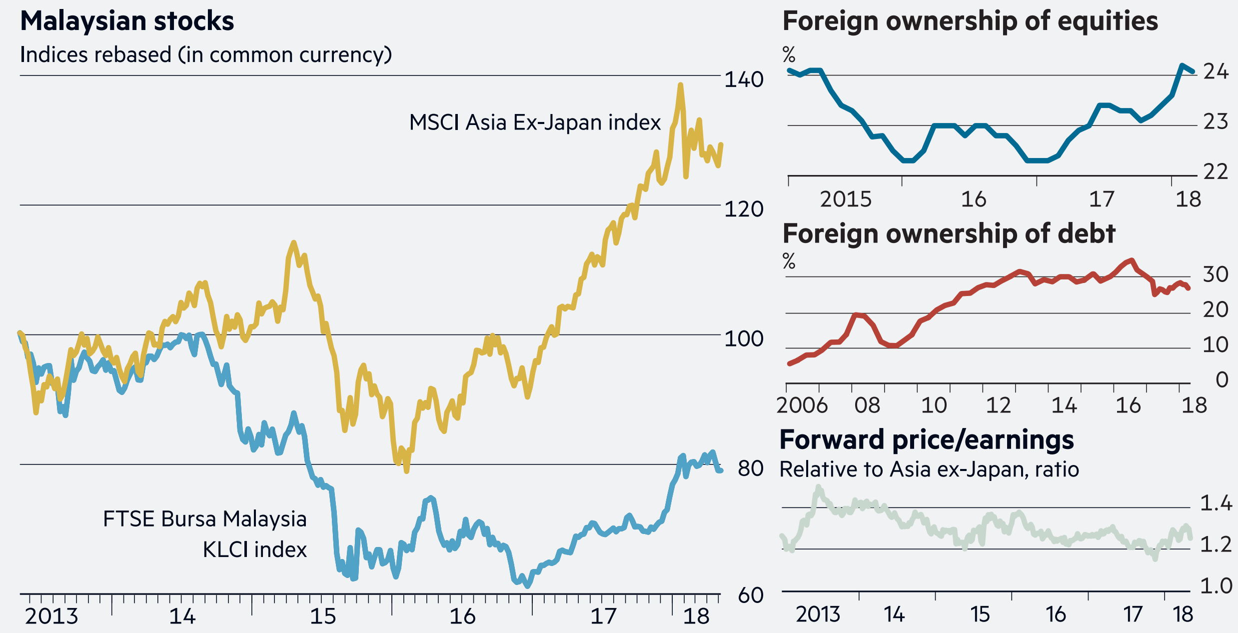
For blockchain to realise its potential, banks, companies and regulators have to embrace common platforms and standards; this may take years but it should not be a deterrent.

In the case of the shipping container, the main breakthrough was overcoming social obstacles to adoption. Those modernising finance can also expect barriers.

But the promised benefits make it worthwhile. HSBC has provided a small proof point for another thesis. A boundary has inched forward.

Malaysian securities: a senior's moment

Despite the country's stocks and bonds becoming more popular among foreign investors, the headline Bursa Malaysia index has underperformed regional peers in recent years. A relatively high valuation based on forward earnings goes some way to explaining this.



FT graphic Sources: Thomson Reuters; Bloomberg; BNM

A recent study of nonagenarians found that they all had common traits of stubbornness and resilience. Tell that to Najib Razak, Malaysia's erstwhile prime minister. His former boss, the 92-year-old Mahathir Mohamad, has risen from the easy chair of retirement to oust Mr Najib from office in elections.

Mr Mahathir was once a conservative political strongman who fought off liberal reform from within and hedge fund attacks on the country's currency from without. According to some, he has now become a liberal himself.

Midlife crises have arrived late for both men. Mr Najib, 65, has been banned from leaving the country. He has denied any connection with a scandal regarding 1MDB, a sovereign wealth fund from which billions of public money went missing. But Mr Mahathir has promised to dig deep into the case. Yesterday he fired the country's attorney-general. Malaysia's ringgit jumped more than 2 per cent against the US dollar.

The currency still looks cheap on a purchasing power basis. This compares the relative inflation rates of countries to see if local money reflects these differences. The ringgit has bounced in the past six months, boosting shares in Malaysia relative to Asian peers.

That would explain why foreign investment in both shares and Malaysian government securities has risen for the past year. Malaysian yield spreads versus US equivalents have fallen since the middle of last year, and hardly budged since February.

Malaysian bonds yield a bit over 4 per cent, not so much more than 12 months back. Also, foreign interest has helped to support a stock market valuation of 16 times estimated earnings, a quarter above Asian (ex-Japan) peers. Having said that, this premium has fallen since 2013.

Optimists on Malaysia, such as Credit Suisse, believe political reform will lift the bourse even higher.

No rocking chair, then, for Mr Mahathir. Instead, he will be shaking a leg trying to reinvigorate a moribund political reform movement. Big news at home, less so for those investors keen on finding value in emerging markets.

Telstra: Penn not stellar

Andy Penn, chief executive of Australian telecoms group Telstra, sounded like Mark Zuckerberg in a market update yesterday. He wants to "empower people to connect." Telstra itself is struggling to make the right connections. Notably, the business has failed to hang on to infrastructure as successfully as counterpart BT Group.

The Australian government, less of a pushover than UK authorities, is taking over the country's fixed broadband lines intending to rent them back to the industry. That will reduce Telstra's earnings by as much as A$3bn. Shares fell 5 per cent as profit projections for the year of around A$10.1bn ($7.6bn) disappointed investors.

Concerns were already deepening in February. The group's half-year ebitda declined by 8 per cent to A$5bn, even though cost cuts ran ahead of schedule.

Telstra remains the market leader. But the coverage of rival Optus is edging closer. While average user revenues are declining at Telstra, Optus has gained users more quickly without tightening its belt. Telstra's woes will deepen when rival TPG enters the mobile market as a fourth participant this year. A new unlimited data plan is one answer to such added competition.

Telstra points out that revenues of global "over the top" media groups, such as Facebook, Google and Alibaba, increased eightfold in the nine years to 2016, compared with a rise of a fifth for telecoms. Tie-ups are one way to claw back some of the gap. Telstra has a pay-TV joint venture with News Corp. The advent of 5G technology and the internet of things is supposed to boost services revenue. However, telecoms groups are likely to fritter price gains in a race to the bottom on charges.

Mr Penn promised dividends would be paid as planned — after a cut last year. Reductions look likely in the medium term.

Most telecoms companies are in a tough place as bandwidth becomes commodified. Telstra faces the additional problem of losing the fight over infrastructure ownership.

Xerox: re-fuji status

For Xerox, there are no permanent allies, just permanent confusion. On Sunday, the copier company announced a second settlement with dissident shareholders. They had challenged both its $6bn January merger with its Asian affiliate, Fuji Xerox, and the continuing tenure of management.

A previous attempt to reach a settlement collapsed this month. That plan sought to ensure the dissidents, Carl Icahn and Darwin Deason, took control of the Xerox board but final terms could not be agreed.

The Xerox board had been steadfast in supporting the Fuji merger until Sunday, when it both terminated the deal and handed over control of the board. Fujifilm, the 75 per cent owner of the Asian business, naturally did not appreciate the merger termination. It said it would challenge it in court.

Xerox previously had maintained, over the objections of Mr Deason and Mr Icahn, that all shareholders should vote on the deal to determine its virtue. Ironically, such a vote would have been the cleanest way for the two activists to achieve their goals.

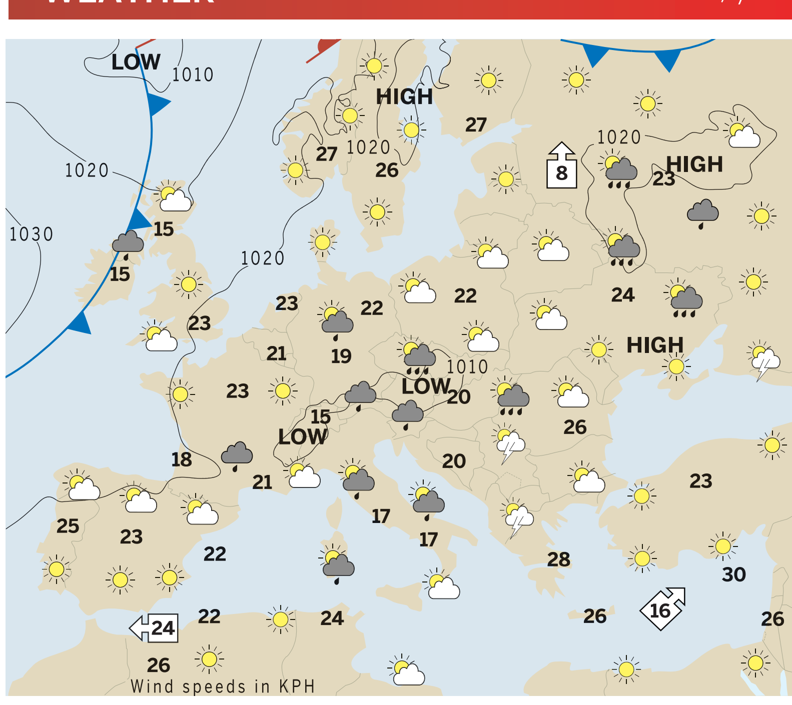
On Sunday, Xerox said it could not complete the Fuji deal because the accounting scandal at the joint venture prevented the delivery of audited financial statements for the joint venture. Whether that can be a legal pretext for termination remains to be seen. Fuji will argue that Xerox has simply acquired buyer's remorse.

The broad grievance of Mr Icahn, Mr Deason and other shareholders is that the overall terms of the Fuji Xerox joint venture are tilted towards Fuji, preventing Xerox from running an auction process. Essentially, Fuji held a right of first refusal against outside bids for Xerox. However, those terms were struck years ago.

Mr Icahn and Mr Deason have a Trump-like tendency to believe they can unilaterally tear up deals. A better tack would have been to allow the shareholder vote to proceed. A likely victory there would have avoided the chaos and created negotiating leverage.

FT Lex on the web
For notes on today's breaking stories go to www.ft.com/lex

WEATHER

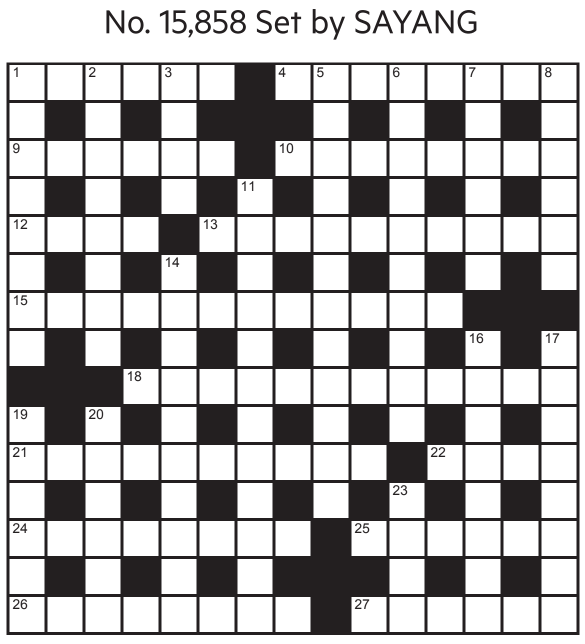


Forecasts by MeteoGroup Warm front Cold front Occluded front Wind speed in KPH

Today's temperatures Maximum for day °C

City	Weather	°C	City	Weather	°C
Amsterdam	Sun	23	Malta	Shower	22
Ankara	Sun	23	Manila	Thunder	34
Athens	Sun	28	Miami	Thunder	28
Bahrain	Sun	33	Milan	Cloudy	17
Barcelona	Sun	22	Montreal	Fair	21
Beijing	Thunder	30	Moscow	Shower	23
Belfast	Rain	15	Mumbai	Sun	34
Belgrade	Shower	23	Munich	Shower	16
Berlin	Shower	22	Naples	Shower	17
Brussels	Sun	24	New York	Thunder	29
Budapest	Shower	20	Nice	Fair	18
Cairo	Sun	30	Nicosia	Sun	30
Cardiff	Sun	20	Oslo	Sun	27
Chicago	Thunder	20	Paris	Fair	23
Cologne	Sun	24	Prague	Shower	18
Copenhagen	Sun	23	Reykjavik	Shower	7
Delhi	Sun	40	Riga	Shower	20
Doha	Sun	35	Rio	Sun	30
Dubai	Sun	39	Rome	Shower	17
Dublin	Rain	16	San Francisco	Cloudy	19
Edinburgh	Cloudy	18	Singapore	Fair	31
Frankfurt	Shower	21	Stockholm	Sun	27
Geneva	Thunder	18	Strasbourg	Fair	23
Hamburg	Sun	23	Sydney	Fair	20
Helsinki	Sun	27	Tokyo	Sun	27
Hong Kong	Sun	30	Toronto	Shower	22
Istanbul	Sun	26	Vancouver	Sun	19
Lisbon	Sun	25	Vienna	Shower	15
London	Sun	23	Warsaw	Fair	22
Los Angeles	Sun	20	Washington	Thunder	33
Luxembourg	Sun	21	Zagreb	Fair	21
Madrid	Sun	23	Zurich	Thunder	15

CROSSWORD
No. 15,858 Set by SAYANG

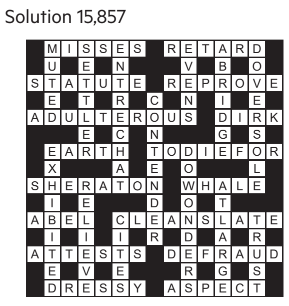


JOTTER PAD

ACROSS
1 Highly polished magazine (6)
4 Set sail, May, to a tropical country (8)
9 Stroke oddly not curable – it's true (6)
10 Show popular street game to class teachers initially (8)
12 Sweet Charlie (4)
13 Worker with time for a quote for solid fuel (10)
15 State of serenity in the lunar sea (12)
18 Socratic path disastrous and tragic (12)
21 Unravelled racier plot for clone producer (10)
22 Release without charge (4)
24 Dies of cold here (3,5)
25 Sorting out side in empty basement, a very basic accommodation (6)
26, 27 As Turner sailed abroad for classic adventure with Hawkins (8,6)

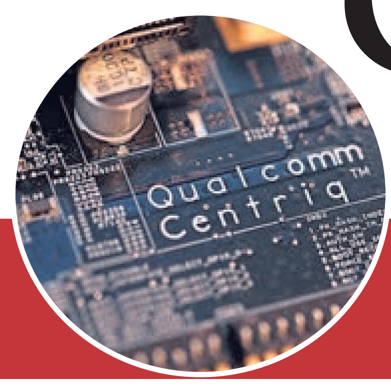
DOWN
1, 19 His writing's on the wall (8,6)
2 Voluntary work Latino vandalised (8)
3 Rascal's not out but is in captain's cabin (4)
5 Abolition of national Hindi programme initially drafted out (12)
6 Crowd puller – transformation of cat into rat (10)
7 Rhodesian rebellion came to nothing after Smith's tentative openers in workshop (6)
8 The Judi Dench character behind a song (6)
11 Protection against smeared mascaras (12)
14 Soma, unique restorative for calm (10)
16 Is a charm magical and spiritual power given by God? (8)
17 Did swallow mushroom that's approved (8)
19 See 1
20 Odds on present being solidly round (6)
23 Make a hash of dining room (4)

Solution 15,857



Companies & Markets

FINANCIAL TIMES



To boldly LBO Can Paul Jacobs raise $117bn to buy out Qualcomm? — PAGE 15

Still struggling Why Italy's banks remain under pressure — PATRICK JENKINS, PAGE 12

Musk revamps Tesla management

- Chief puts gloss on recent departures
- Carmaker races to hit Model 3 production target

RICHARD WATERS — SAN FRANCISCO

Elon Musk said yesterday he had been working on a revamp of Tesla's management, putting a more orderly gloss on a spate of departures that led critics to claim that the company's senior ranks were in turmoil.

In an email to staff, the electric car company's chief executive said that he had been "undertaking a thorough reorganisation" to prepare the company for the future.

"As part of the reorg, we are flattening the management structure to improve communication, combining functions where sensible and trimming activities that are not vital to the success of our mission," he wrote.

Mr Musk's message followed news that Doug Field, senior vice-president of engineering, had stepped back from his job, as Tesla races to hit a key manufacturing target by the end of June. The company is trying to boost weekly production of its new Model 3 to 5,000 a week, an increase of roughly 150 per cent from the level at the end of March.

Tesla said Mr Field was "taking some time off to recharge and spend time with his family". Tesla gave no indication of when he would return or whether he would have the same job.

Even before Mr Field's absence, Mr Musk had already taken the weight of Tesla's Model 3 problems on his own shoulders, in an attempt to lift the group through what he has described as "production hell". He took over production responsibility from Mr Field this year.

However, Mr Musk's own lack of experience in volume-car production has contributed to the problems in ramping up Model 3 production.

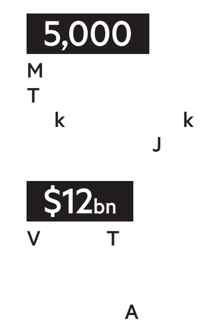
He was forced to admit this year that Tesla had automated too much of its production line, making it harder to adapt when trying to remove bottlenecks and forcing it to backtrack and add more manual operations.

Mr Field was one of five top executives at the company at the start of this year. Another, Jon McNeill, president of global sales and service, left in February.

Other departures have included Matthew Schwall, the company's main technical contact with safety regulators, who left to join rival Waymo this month, amid a series of federal investigations into accidents involving Tesla vehicles.

Signs of management upheaval as Tesla tries to iron out its production problems have emboldened the group's army of Wall Street critics. Short sellers had sold $12bn worth of the company's shares as of the end of April, making it the most heavily shorted stock.

Brussels on the road page 12



Smart Money

John Authers

Can corporate profit margins possibly be sustained? S&P 500 companies' profits are up 26 per cent year on year, while US average hourly earnings are up 2.6 per cent. The fact that the percentage rise in profits was 10 times the increase in wages is disquieting and implies unsustainable profits. After all, employees are also consumers: if their earnings are going to stagnate, how can revenues grow?

The key to rallying earnings is growing margins. As measured by Deutsche, margins are in unprecedented territory, having leapt to 12 per cent in the first quarter. Tax cuts helped; but this happened amid concern on rising costs. Pre-crisis, S&P margins peaked at about 9 per cent.

This looks unsustainable to many, which explains why the S&P has stayed well below its January high despite the great results. If we are worried about inflation, then cost pressure can be expected to continue. The good week that US stocks have enjoyed has much to do with a succession of surprisingly low readings on inflation indicators — for average earnings, producer prices, consumer prices and import prices — over that period. This in turn capped US 10-year rates just as they had risen once again past 3 per cent, and also helped to stop the rise of the dollar.

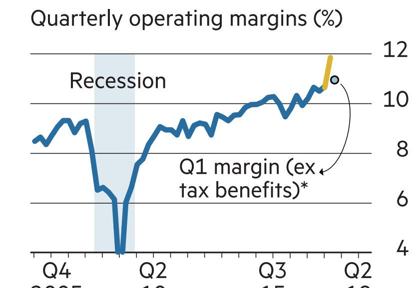
But Deutsche's Bankim Chadha suggest that margins can widen further, as the economic cycle has further to run. Cost pressures do not happen in isolation, he points out, and higher wages tend to boost sales. Historically, higher wage pressure has been matched with higher S&P 500 margins. Higher price inflation also helps margins, as it gives companies more pricing power. There is also an overlap between pricing power and growth.

Thus margins could widen even if workers at last translate their anger at inequality into higher wages, and even if price inflation rises. Providing growth continues — and there is little to no sign of imminent recession in the US — profits can fatten. Tight labour markets and strong demand could even drive an overdue rise in productivity.

The risks, though, are considerable. The top of the cycle could arrive sooner, rather than later. And there is always politics. Such an ugly juxtaposition between growth in wages and profits can only strengthen populist politicians' efforts to intervene to keep profits under control.

S&P 500

Quarterly operating margins (%)



* Assumes companies that are about to report beat earnings at historic beat rate of 3.4% and sales at 0.3%

Sources: Bloomberg; Factset; Deutsche Bank

Surging margins look unsustainable, which is why the S&P has stayed below its January high in spite of great results

john.authers@ft.com

Bounce back Resurgent oil price boosts energy groups' shares

Shares in oil and gas companies have surged this quarter, boosted by rising oil prices, improving earnings and promises of hefty cash returns to shareholders.

This represents a significant reversal of fortunes for the energy sector, as the price of oil surges towards $80 a barrel, up 15 per cent since the end of March.

The decision by US president Donald Trump to withdraw from the Iran nuclear deal has helped drive prices, as investors anticipate the potential loss of 1m barrels of oil per day from the market.

Iran exports about 2.3m barrels of oil per day.

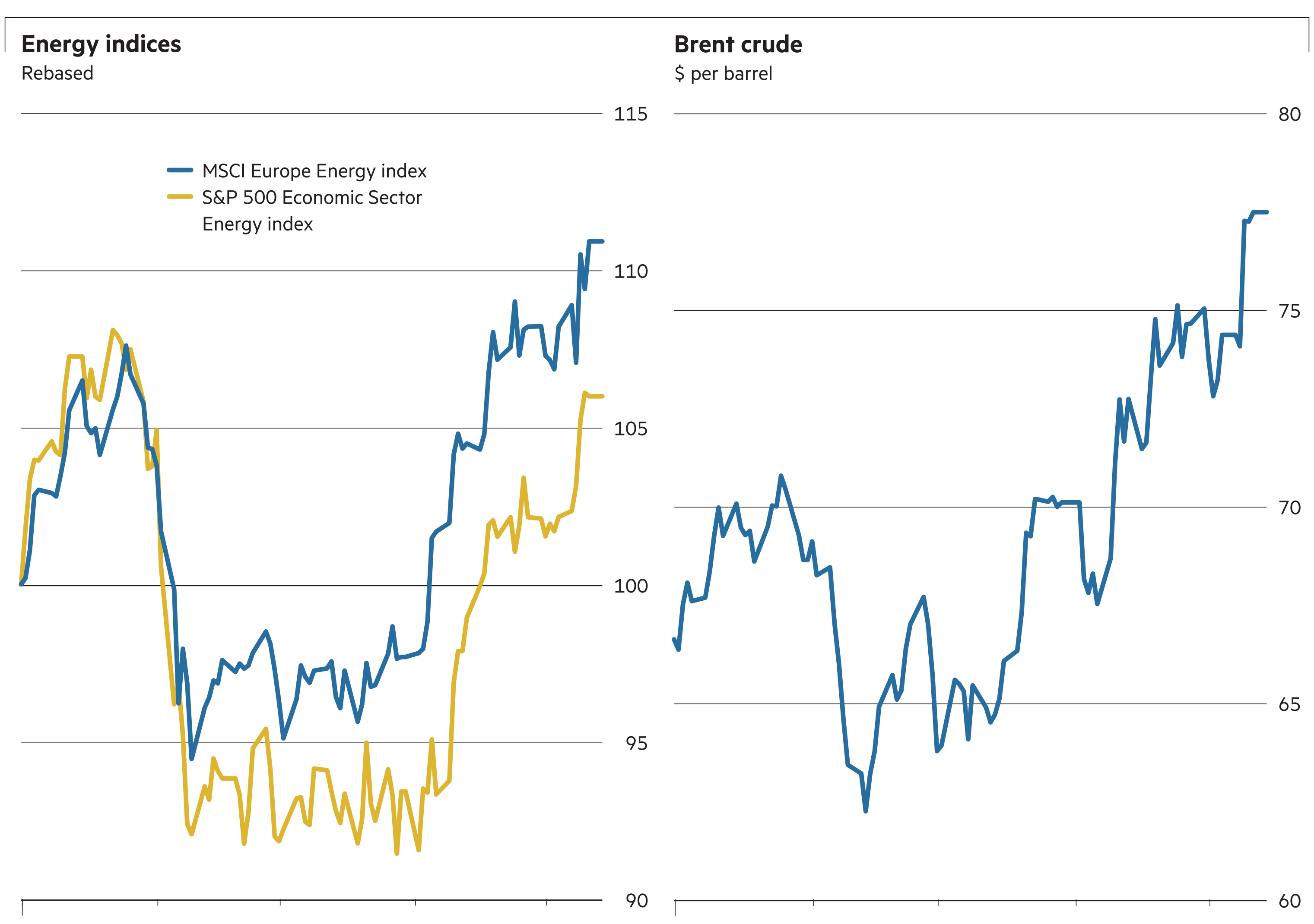
The MSCI European Energy index is up 16 per cent from the end of March to now. In comparison, the broader Euro Stoxx 50 has gained just 6 per cent.

Meanwhile, the S&P 500 Energy index has gained 14 per cent, outperforming the S&P 500, which is 3.5 per cent higher.

Equity investors have returned to the oil sector as groups benefit from having cut costs and restructured operations.

Ritu Vohora, equities investment director at M&G Investments, said a dramatic cut in costs by oil producers meant "some companies are earning more at $60 a barrel than when oil was at $100 . . . they are budgeting and making sure they survive for $50 oil".

Several oil companies have also revived share buybacks. After abandoning such programmes in 2015 and 2016, BP said it bought $343m worth of shares in 2017 and $173m so far this year, according to its website last week. *Chloe Cornish*



Source: Thomson Reuters

Goldman begins consumer banking push into Europe

Goldman Sachs has picked Germany as the next market for its Europe consumer banking push after the launch of its Marcus brand in the UK. Richard Gnodde, above, international chief executive, said the bank would launch a UK savings product in June.

Interview ► PAGE 14

Aurora lights up Canada's marijuana scene with $2.5bn deal for MedReleaf

ERIC PLATT, JAMES FONTANELLA-KHAN AND GREGORY MEYER — NEW YORK

Canada's soon-to-be legalised marijuana industry has seen the largest takeover in its young history with a $2.5bn deal that signified accelerating consolidation as companies race to assert dominance.

Aurora Cannabis's takeover of MedReleaf, a rival medical marijuana group, came five months after the Canadian group bought CanniMed Therapeutics and weeks after it invested in the public listing of the Green Organic Dutchman.

The deal gives Aurora a larger production footprint at a time when more governments around the globe are legalising recreational cannabis use. Terry Booth, chief executive of the company, said the takeover "strengthens our capacity to service the rapidly expanding global medical cannabis markets".

Cannabis has been legalised in 21 countries for medical use, including Australia, Colombia and Germany, while a number of national governments are debating whether to legalise or decriminalise recreational use. Medical cannabis has been legal in Canada since 2013 and the legalisation of recreational marijuana is due in July.

In the US, medicinal marijuana has been legalised in more than half the country. Nearly two-thirds of Americans now support its legalisation, according to Gallup, although it is still illegal under US federal law.

Roy Bingham, chief executive of BDS Analytics, a cannabis research company, said Canada's opening to recreational use was a factor in the deal between Aurora and MedReleaf.

"There is a mentality right now that if it's not winner takes all, it's going to be an oligopoly in Canada. There are going to be a handful of major players at the very most." Highly regulated markets such as Canada tend to favour a few large participants, he added.

Consolidation in the cannabis industry has been quickening, with dealmaking so far in 2018 already more than double last year's entire volume. Takeovers worth nearly $4bn have been agreed this year, according to Dealogic.

Companies / Sectors / People

Technology

Facebook drops 200 apps in data probe

Experts trawl for evidence of third-party access and misuse of information

HANNAH KUCHLER — SAN FRANCISCO
FEDERICA COCCO — LONDON

Facebook has kicked about 200 apps off the platform as part of its investigation into third-party apps with access to user data after the Cambridge Analytica privacy breach highlighted the extensive access developers had to individuals' information.

The technology company said yesterday it had looked into thousands of apps as part of a probe into developers that were able to tap into Facebook's vast data reserves before a change in 2015 restricted what they could access.

Ime Archibong, vice-president of product partnerships at Facebook, said the company had suspended "around 200" apps "pending a thorough investigation into whether they did in fact misuse any data" since the audit was launched by chief executive Mark Zuckerberg in March.

The investigation is split into two parts: identifying suspicious behaviour such as large downloads of data; and looking to see whether the data itself was misused.

Mr Archibong said Facebook had "large teams" of internal and external experts working on the probe.

"Where we find evidence that these or other apps did misuse data, we will ban them and notify people," he wrote in a blog post.

Facebook has been making more changes to restrict developers' access to data, from reducing the amount of user information that is available through its "Facebook login" product — which allows users to sign in to websites using their Facebook ID — to stopping data flowing to apps that a user has not opened in three months.

The social network temporarily stopped all new apps from accessing the platform in the wake of revelations that Cambridge Analytica, a UK-based data analytics firm that worked for Donald Trump's presidential election campaign, may have had improper access to records of up to 87m Facebook users.

The company is focusing on investigating apps that were on the platform before 2015 because that is when it made a change to stop developers being able to access data on all of a user's Facebook friends. It was this feature that enabled Aleksandr Kogan, the academic who sold the user data to Cambridge Analytica, to access data on millions of users even though only about 200,000 used his survey app.

Facebook has not yet been able to investigate whether Cambridge Analytica deleted the data as it had promised it would in late 2015.

The social network attempted to launch its own audit into Cambridge Analytica but was asked to step back by the UK Information Commissioner's Office, which is now probing the company's servers.

Cambridge Analytica shut down earlier this month, blaming a "media siege" but concerns have been raised that it could reopen as part of a newer company called Emerdata.

'Where we find evidence that apps did misuse data, we will ban them and notify people'

Automobiles

Didi Chuxing cleared for autonomous California test

TIM BRADSHAW — LOS ANGELES

Chinese ride-hailing group Didi Chuxing has been given the go-ahead to start testing self-driving cars in California, as it aims to catch up with its Silicon Valley rivals' earlier start in autonomous systems.

The move comes at a time when its main US competitor Uber has been forced to suspend its driverless car programme across North America, following a collision in which a pedestrian was killed in Tempe, Arizona, in March.

Didi is the 53rd company to receive a permit to test autonomous vehicles in California, under the state's Department of Motor Vehicles regulations.

The permit was revealed in an update to the DMV's website last week. Didi declined to comment further on its US plans.

The company opened its first Silicon Valley offices last year, focusing on artificial intelligence and security. The research facility employs about 100 people and is in Mountain View, close to the headquarters of Alphabet, the parent company of Google.

This year it emerged that Didi had been quietly testing autonomous vehicles in China for several months. It faces competition there from Baidu, Tencent and Alibaba, all of which are investing heavily in the technology.

Didi is developing its driverless fleet in partnership with a group of carmakers and suppliers that it calls the Didi Auto Alliance. Foreign partners in that alliance are brands such as Renault-Nissan-Mitsubishi, and the China units of Toyota and Volkswagen.

Didi's AI lab in California is led by Gong Fengmin, a high-profile cyber security industry executive. The company also poached Zhaoyin Jia, a former engineer at Alphabet's Waymo, to lead its "smart driving" project.

However, with dozens of automakers, tech groups and start-ups together investing billions of dollars to launch driverless taxi and delivery services, the battle for talent in the field has become intense — especially in Silicon Valley.

In March 2017 Didi hired Charlie Miller, a former National Security Agency hacker who previously worked on autonomous vehicle security at Uber, but he left after six months to join rival General Motors-owned Cruise Automation, according to his LinkedIn profile.

Self-driving systems promise to improve safety and efficiency for ride-hailing services such as Uber and Didi.

Additional reporting by Yuan Yang in Beijing

See John Thornhill

Technology. FT summit

Brussels on road to drawing up rules for self-driving cars

Uber vehicles line up to demonstrate the technology in Pittsburgh
Gene J. Puskar/AP

Transport chief set to outline measures allowing Europe to catch up with US and China

PETER CAMPBELL
MOTOR INDUSTRY CORRESPONDENT

The EU will draw up rules to govern self-driving cars in an effort to catch up with China and the US, according to the commission's transport chief.

Violeta Bulc, the transport commissioner, will tell the Financial Times's Future of the Car Summit in London today that a new suite of announcements aims "to make Europe a world leader for autonomous mobility systems".

She will say that the measures, to be unveiled on Thursday, will include €450m of investment into road and telecoms networks needed to support driverless cars, and a new collaboration between Brussels, member countries and industry to draw up rules.

The EU will also create a team of experts to devise answers to some of the ethical questions facing autonomous vehicle programmers, such as how cars should behave in an accident.

The two-day FT conference will also include speeches from UK business secretary Greg Clark, BMW executive Ian Robertson and Volvo Cars chief executive Hakan Samuelsson.

Governments across the world are drawing up rules that will govern how self-driving vehicles operate, in anticipation of the technology that is expected to disrupt businesses and transport over the coming decades.

Car manufacturers such as General Motors, Volkswagen and Ford and technology groups such as Waymo plan to have their self-driving technology on the roads within the coming years.

GM wants to have a fleet of robo-taxis ready as early as next year, while Waymo has promised its own driverless service will begin full operation in the coming months.

Both China and the US are planning rules that will allow driverless cars to operate across their countries, moving freely between provinces or states.

Despite several EU nations such as Germany and the UK moving to introduce rules to allow self-driving cars on the roads, there is currently no EU-wide framework on rules for autonomous vehicles.

Rules allowing vehicles to travel across borders autonomously are crucial for deploying the technology into sectors such as haulage that depend on long road journeys through several countries.

Ms Bulc will announce a "new partnership involving industry, member states and the commission to ensure a consolidated approach towards research and pre-deployment". The move is an important step towards drawing up rules that apply to all members of the bloc.

She will talk about the safety benefits of self-driving cars, which are intended to reduce accidents by eliminating human error, but says that developers of the technology must not "sacrifice [lives] to faulty algorithms" while they are being created.

"In order for automated mobility to gain human acceptance only the highest safety and security standards will suffice," she will say. The comments are partly a response to recent accidents, such as a self-driving Uber that killed a pedestrian crossing the road in Arizona.

The EU oversaw testing of partial-autonomous truck technology two years ago, with convoys of self-braking trucks driving across several nations from a group of competing manufacturers.

The €450m comes on top of the €440m already set aside for investment, which has been used across 18 countries.

'In order for automated mobility to gain human acceptance only the highest standards will suffice'

INSIDE BUSINESS
FINANCE

Patrick Jenkins

Italian bank optimism cannot mask sector's continuing troubles

The political turmoil that has gripped Rome in recent days is all too familiar for Italians. Since the second world war, the country has had a new government almost every year on average.

Italy's banks have been gripped by perennial crisis for a good while, too. They may have been relatively unaffected by the global meltdown 10 years ago — they are principally retail and corporate lenders, with modest investment banking arms, so had put little money into the toxic US mortgage-backed securities that wreaked so much damage on European rivals. But there have been back-to-back crises ever since.

Hot on the heels of the 2008 financial crisis came the eurozone crash of 2011. The resultant Italian recession triggered mass corporate loan defaults across the banking sector. Then during 2016-17, a dozen or so troubled institutions, most notably Monte dei Paschi, the Siena-based zombie lender, collapsed and were rescued or closed.

And now there is another crisis. Thanks to the distractions of the preceding periods, the banks were slow to admit their shortage of capital, and have lagged behind in technology investment. The European Central Bank's ultra-accommodative monetary policy has compounded the pressure by squeezing net interest margins.

"The business model of 99 per cent of incumbent Italian banks is not sustainable any more," said one banking veteran. The average return on equity in the sector has barely exceeded 2 per cent for years, a long way adrift from the typical US or Asian bank and among the weakest in Europe.

Undaunted, investors seem upbeat. The Italian stock market has outperformed most others in the world so far this year. The 11 per cent jump in Italian bank shares over the past year has beaten many rivals. When UniCredit, Italy's biggest bank by assets, reported first-quarter results last week, its shares popped 3 per cent, even amid broader market jitters over the Italian political situation.

The main reason for nascent optimism is the progress the banks have made reducing their vast stock of non-performing loans. UniCredit's NPLs have fallen sharply from a peak of nearly €80bn in 2016 to €45bn now. A giant €13bn capital raising a year ago gave the bank a vital cushion to absorb losses on sales of the loans.

Even for the relatively healthy banks, there are tough times ahead

UniCredit's willingness to sell an €18bn portfolio to bond group Pimco and distressed debt specialist Fortress, at just 13 per cent of face value, kick-started interest from investors in Italian NPLs as a whole. Corrado Passera, the former chief of leading lender Intesa Sanpaolo, has even set about building a new kind of bank specialising in bad-loan workouts.

All the competition has helped drive up NPL prices to levels that are increasingly palatable to the banks. Most lenders have accelerated their planned sales as a result, hopeful of recouping 30 cents in the euro or more. Total NPLs peaked in 2015 at about €360bn. Excluding the less severe NPLs, classed as "unlikely to pay" loans, the core "bad loan" tally has dropped from more than €200bn a year ago to €164bn now.

Italian bank bulls also hail the progress that has been made in boosting the sector's efficiency. Four hundred co-operative banks are currently merging to create two. And over recent years, across the private sector, the number of banks in the system has shrunk from many hundreds to just 115.

But there is plenty left to fix. The biggest unanswered question is what happens to Monte dei Paschi. Having sold off most of its decent units — asset management, insurance and consumer credit — in a bid to raise capital, it looks barely viable. Many Milan financiers expect the bank to fail at some point over the next year, forcing full nationalisation or some other form of rescue or break-up.

Even for the relatively healthy banks, there are tough times ahead. The worst of the legacy bad debts will take years to work out — notwithstanding reforms to Italy's bankruptcy laws, seizing collateral from borrowers remains notoriously hard. Ongoing business is tough, too. As long as ECB rates stay low, profitability will be constrained even for the strongest banks. And uncertainty over the new government is a nagging hindrance, both as a likely brake on economic investment, but directly as well, amid suggestions that it could impose a bank levy as has happened in other countries such as the UK.

Italy has always been a glass half-full country. But given the banks' remaining headaches, investors may regret toasting the sector quite so soon.

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Media

WPP pressed to explain Sorrell departure

ATTRACTA MOONEY
INVESTMENT CORRESPONDENT

Advertising giant WPP faces a fraught annual meeting next month as investors and shareholder advisers grow increasingly frustrated over the lack of information about the abrupt departure of founder Martin Sorrell.

Sir Martin quit in April, just weeks after the board launched an investigation into an allegation of personal misconduct, which he denies. WPP has not provided details of the investigation, other than to say it did "not involve amounts which are material to WPP". Despite disappointing results and share price falls in the past 18 months, WPP said it would treat his exit as a retirement and pay Sir Martin almost £14m for 2017.

Glass Lewis, the advisory company, has urged shareholders to vote against WPP's pay report, saying: "Absent further information regarding Sir Martin's retirement, we believe shareholders are unable to determine the extent to which he should be treated as a good leaver.

"The results of the investigation, or indeed the exact nature of the allegations, to date remain unknown. Many, including Glass Lewis, believe that transparency in these matters is key."

Glass Lewis also recommended shareholders not support the re-election of chairman Roberto Quarta because of succession planning concerns: Sir Martin is leaving after three decades and a successor has not yet been named.

Several large shareholders have also voiced concerns about the board's lack of disclosure of the investigation.

WPP said it followed "due process on receipt of the misconduct allegation by appointing counsel to conduct an independent investigation". It added that because Sir Martin resigned on conclusion of the investigation, he was entitled to his proportion of the long-term incentive scheme up until his retirement date in April, under the terms of his contract.

See Lex

Aerospace & defence

Wilhelm to join exodus of Airbus executives

PEGGY HOLLINGER — INDUSTRY EDITOR

The changing of the guard continues at Airbus with its long-serving finance director Harald Wilhelm announcing plans to quit the European aircraft maker next spring, following in the footsteps of chief executive Tom Enders.

Mr Wilhelm becomes the latest in a number of senior executives to leave or to announce plans to quit during a difficult time for the group.

Airbus is struggling to overcome supplier issues with the engine powering the popular A320 single-aisle aircraft, which have led to delays in deliveries. The group is also dealing with a Franco-British probe into alleged bribery and corruption, and an Austrian investigation into the sale of Eurofighters.

After Mr Wilhelm's departure, more than half the executive team will have been changed since 2017.

Earlier this year Fabrice Brégier, Airbus's chief operating officer and a rival of Mr Enders, quit the group after an internal power struggle. John Leahy, the group's outspoken chief salesman, has also retired, along with chief engineer Charles Champion.

Other well-known Airbus veterans expected to announce their retirements in the coming months include Tom Williams, chief operating officer of the commercial aircraft arm, and Didier Evrard, head of programmes at the same unit.

The changes are likely to spark fears of a management vacuum, according to one analyst.

However, Mr Enders sought to play down Mr Wilhelm's departure. "There is no change of company strategy or equity story. Airbus will remain committed to financial performance and value creation," he said in a statement.

Meanwhile, speculation continues over Mr Enders' successor. Guillaume Faury, who replaced Mr Brégier as head of the commercial aircraft unit, remains the favourite internally.

Fujifilm scrambles to salvage Xerox deal

US copier maker's sale to Japanese rival hangs in balance after being sunk in fight with activist investors

KANA INAGAKI — TOKYO
JAMES FONTANELLA-KHAN AND LINDSAY FORTADO — NEW YORK

When Shigetaka Komori revealed Fujifilm Holdings's $6.1bn bid for control of Xerox, the 78-year-old chief executive was ready to delay retirement to ensure the takeover's success.

But the transaction is on the verge of collapse after a battle pitting the US company against activist investor Carl Icahn and businessman Darwin Deason.

The deal announced in January would have united a company founded in the 1930s as Japan's answer to Kodak in photographic film with the 112-year-old US copier maker whose products were once so ubiquitous its name became a verb. It would also have cemented one of the oldest US-Japan corporate partnerships — the Fuji Xerox joint venture, which has grown to generate almost half of Fuji's revenues, dates back to 1962.

Since Xerox abruptly scrapped the deal late on Sunday, just four days after promising investors it would seek improved terms, Fuji executives have been scrambling to save it, according to people close to the company.

"Mr Komori hates losing," one of the people said. "He will not give up easily."

People involved in the talks said both Xerox and Fuji had anticipated some shareholder pushback due to the complex and unusual structure that would have allowed the Japanese group to execute the deal without using its own cash. But neither company was prepared for the turmoil that followed.

"There were so many twists and turns that were completely unforeseen," said another person close to Fuji. "There is not a single person who can give a simple rationale for what happened in the last four months."

Had the deal had gone through, Xerox would have merged its business with the companies' joint venture, giving the Japanese company a 50.1 per cent stake in the combined group. Xerox investors would have received a $2.5bn cash dividend as part of the deal and the merger promises $1.7bn in annual cost savings over the next several years.

The two companies had been discussing a merger since March last year but a full takeover was never considered by Fuji, which hoped to invest its cash in other growth areas, according to court documents and company officials. After talks stalled following an accounting scandal at Fuji Xerox, Xerox proposed the new scheme to Fuji in the autumn.

A messy stand-off was already brewing. A week before Fuji's January announcement, Mr Icahn and Mr Deason, then the largest and third-largest shareholders who still hold more than 10 per cent of outstanding Xerox shares, had joined forces to lobby Xerox to put itself up for sale. Mr Deason has been a shareholder for more than a decade but spoke publicly about the company for the first time in January. In a letter to the board, he demanded Xerox disclose details of its joint venture and hire independent advisers to explore its options.

The duo then called for the exit of Xerox chief executive Jeff Jacobson, whom they described as "neither qualified nor capable of running this company" — an accusation Xerox rejected, saying at the time that it was "confident with the strategic direction in which the company is heading". And as soon as the deal with Fuji was unveiled, they slammed it as undervaluing Xerox. Mr Jacobson declined to comment.

> 'There were so many twists and turns that were completely unforeseen'

The debate then shifted from the deal's valuation to focusing on whether Mr Jacobson had conspired with Fuji to push through a deal to save his job. In mid-February Mr Deason sued Xerox in New York State court, alleging the deal was a "fraudulent scheme" to give away the US company "for virtually nothing".

Late last month the court sided with Mr Deason and temporarily blocked the sale, ruling that Mr Jacobson was "hopelessly conflicted" in negotiating the deal. It found that Mr Jacobson was advised in November by Xerox's chairman that he was likely to be replaced, and to stop all discussions with Fuji about a transaction. Days later the chairman allowed him to resume talks and the judge alleged Mr Jacobson then rushed to complete a deal.

People close to the Xerox chief acknowledged he had made mistakes during his tenure but insisted that accusations he acted in bad faith were false.

Xerox said Mr Jacobson was authorised to engage in talks with Fuji and Fuji Xerox, while Fuji said no promise had been made to Mr Jacobson that he would remain as chief of the new group.

The Xerox board ultimately reached a unanimous decision to approve the Fuji deal, and both companies had argued Xerox shareholders should be able to decide the deal's merits for themselves.

Four days after the court ruling, Mr Jacobson agreed to step down in a settlement with Mr Icahn and Mr Deason as Xerox sought to avoid a protracted legal fight. But Xerox reversed the decision two days later, saying its management team would stay since its agreement with the shareholders had expired after Mr Deason failed to drop his lawsuit.

In a letter to shareholders, Xerox said it had changed its mind after it became convinced its long-term investors were opposed to a settlement with Mr Icahn and Mr Deason. On news of the settlement, its share price fell 12 per cent. People involved in the talks said the two companies had been discussing a rise in the cash dividend of about $5 a share.

More broadly, Xerox executives were convinced the shareholder revolt was limited to Mr Icahn and Mr Deason, as other investors had communicated their support for the deal. "Frankly, we'd rather see this deal go through than Icahn wrecking the business and trying to make a quick buck," said a long-term investor who asked not to be named.

Mr Icahn and Mr Deason could not immediately be reached for comment.

On Sunday came another Xerox U-turn when it fired Mr Jacobson as part of its decision to terminate the deal and blamed Fuji for not providing an assurance to launch new negotiations.

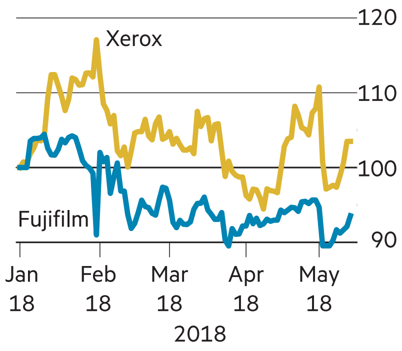
Despite a new slate of Xerox directors that will give Mr Icahn greater power, people close to Fuji said the company was open to talks with the new board.

Still, even as Mr Komori races to salvage the deal, investors will be asking whether it is worth fighting for. "In the current situation, the best-case scenario would be that rationality among all parties prevails," CLSA analyst Claudio Aritomi said. "Fuji and Xerox need each other. This is not a point where they should be trying to sweeten the deal."

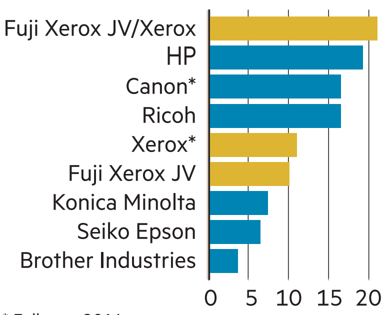
See Lex

A complex structure would have allowed Fuji to execute the deal without using its own cash — Kazuhiro Nogi/AFP/Getty Images

Fujifilm stock has fallen since the deal was announced
Share prices (rebased)



Fuji Xerox JV and Xerox would have been the largest printer/photocopier maker worldwide
Fiscal year sales, Mar 2017 ($bn)



* Full-year 2016
FT graphic Sources: company: Thomson Reuters Datastream; Fuji Xerox JV

Banks

Two Goldman securities heads to step down

Moves reflect turmoil in division that was once the biggest growth engine

BEN MCLANNAHAN — NEW YORK

Two of Goldman Sachs' three securities division heads are to stand down, capping a period of unusual turmoil for a division that was once the bank's biggest and most powerful growth engine.

In a memo to employees yesterday seen by the Financial Times, Goldman announced that Pablo Salame, a vice-chairman of the firm as well global co-head of securities, will retire next month, along with Isabelle Ealet, another global co-head of securities. The departures leave Ashok Varadhan in sole charge of the division.

A person familiar with the reshuffle said Goldman had no immediate plans to appoint new co-heads to sit alongside Mr Varadhan, who joined the bank in 1998 as a swaps trader.

The person added that both Mr Salame and Ms Ealet had reached decisions to retire independently, and that David Solomon, heir apparent to Lloyd Blankfein as chairman and chief executive of the firm, had asked both to stay.

The departures of two senior people in their 50s — Mr Salame is 52 and Ms Ealet is 55 — underscore the pressure bubbling up from below, as younger traders compete for their share of shrinking profit pools.

US banks have generally performed better in trading than big European banks over the past decade, taking tougher actions to raise capital, cut headcount and revamp trading systems.

> Departures underscore the pressure from younger traders competing for share of shrinking profits

The aim has been to emphasise returns on equity, liquidity and efficiency, rather than revenues.

But Goldman's trading division has struggled more than its peers such as JPMorgan Chase, Citigroup and Bank of America, which enjoy enormous amounts of "flow" business — interest rate swaps and foreign-exchange swaps, for example — from multinational companies.

Last year, the bank said it, too, wanted to do more simple transactions for companies and big long-only asset managers, rather than trying to engineer complex structured trades for flighty hedge funds. Mike Mayo, analyst at Wells Fargo Securities, summarised the move as a "transition from FICC to 'FACC' — financings, asset management, cash securities and corporates".

At its peak in 2009, Goldman's fixed-income, currencies and commodities business produced more than $23bn of revenue, more than the rest of the bank combined. But it has dwindled dramatically in recent years. Last year the FICC unit produced revenues of $5.3bn, down 30 per cent from a year earlier, to just 17 per cent of the total.

Including equities, where revenues were down a more modest 4 per cent to $6.6bn, Goldman's trading revenues last year fell 18 per cent.

Mr Blankfein warmly thanked them for their "extraordinary contributions". Both will continue to serve as senior directors, a kind of informal consulting role for ex-partners.

Banks. Consumer finance

Lender looks to rise above bricks-and-mortar rivals

Goldman's international chief says lack of legacy systems will help the Marcus unit take off

LAURA NOONAN AND PATRICK JENKINS
LONDON

Goldman Sachs plans to extend its Marcus consumer bank across Europe and has picked Germany as the market to follow its imminent UK launch, the chief executive of the bank's London-based international arm told the Financial Times.

Richard Gnodde outlined the international strategy for Marcus in a wide-ranging interview where he also revealed how many staff the bank has moved from London ahead of Brexit, and warned of looming market risks — from a likely "downdraft" in private equity to the danger that Argentina's problems herald wider problems for emerging markets.

Goldman Sachs launched its digital consumer finance operation in late 2016, marking a radical departure from the group's almost 150-year history serving the elite of the investment banking, markets and corporate world.

The appeal of the more mundane side of banking is multi-faceted — a 20 per cent contribution to a plan to boost Goldmans' revenues by $5bn in the three years to 2020, a more diversified funding stream, and a bigger cushion against volatile markets and investment banking earnings.

Marcus has gathered $20bn of deposits and $3bn of loans; so far only a small percentage of Goldman's $72bn lending book. "Over time you can grow very significant businesses in this space," Mr Gnodde said. "We are doing this because we wanted to be meaningful over time."

Mr Gnodde said Goldman was on course to launch a UK savings product in June, but would wait until 2019 or later before launching UK consumer loans. Germany would be next in its global push for deposits.

The native country of the bank's founder, Marcus Goldman, Germany has become a famously competitive consumer banking landscape, with profits hard to generate given the large market shares of state-owned and not-for-profit rivals. Some foreign groups, including ING and Santander, have nonetheless made a success of their businesses in the country.

Mr Gnodde argued that Marcus would succeed because it lacked the "legacy bricks-and-mortar systems and processes" that existing players have and dismissed suggestions that the peak of a credit cycle was a bad time to launch.

Speaking just after Argentina's shock triple increase of interest rates in a week, Mr Gnodde said emerging markets such as China and India should prove resilient. But he said that for any developing country with significant twin deficits — relating to fiscal and current account imbalances — the risks were significant.

"Lower quality credits and emerging markets were the beneficiaries of lower rates," he said. "And the reverse will also be true." Argentina had shown what could happen when there is a "very quick turnround of currency values".

Mr Gnodde acknowledged that one of the drivers of Goldman's growth in recent years — the thriving private equity market and other parts of its investment and lending division — may suffer, too, as interest rates rise. "We will go through downdrafts," he said. "Asset prices are high."

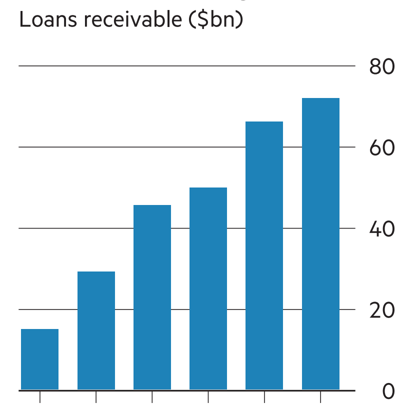
Bitcoin — the cryptocurrency that Goldman Sachs has recently begun making markets in for clients — is also prone to high asset prices, and the bank's decision to venture into such a volatile space raised some eyebrows.

Mr Gnodde said trading volumes were in the millions of dollars, not in the tens of millions. "This is not a material issue in terms of our risk profile," he said, adding the bank agreed to get into bitcoin market making because "market making is a core strength of the firm" and clients wanted to deal in bitcoin.

"I don't think anyone [at Goldman] is necessarily expressing a point of view as to whether bitcoin will be the winner or not . . . The question is we're on a journey and where do we go."

Richard Gnodde of Goldman Sachs International is launching the Marcus digital bank in the UK and beyond — Charlie Bibby

Goldman's lending book
Loans receivable ($bn)



Source: S&P Global

Brexit changes
Transfer of client-facing staff well advanced

Goldman Sachs has moved more than half the investment bankers and finance experts it will transfer from the City because of Brexit.

"We have already moved a good number of people," said Richard Gnodde, the bank's most senior executive in Europe. "We've moved client-facing people across a number of our businesses to Milan, to Frankfurt, to Paris . . . we've also moved some additional product capability so that we can build a more rounded ecosystem in terms of delivering services and solutions to our clients."

All in, 60 per cent of the transfers Goldman intends to make from its investment banking and finance groups have taken place, Mr Gnodde said, accounting for between 50 and 100 front-office people. It had just under 6,000 staff in London at the end of last year.

He said that no one had turned down a Brexit-inspired transfer. Asked about the biggest issues remaining for Brexit, he said: "What uncertainties have been taken off the table? Nothing yet."

Banks

India charges 22 over alleged $2bn fraud at Punjab National Bank

SIMON MUNDY — MUMBAI

Indian investigators probing an alleged $2bn fraud at Punjab National Bank have filed charges against 22 people including a former chief executive of the bank, amid a scandal that has sparked fears about governance at the country's huge state-owned lenders.

The Central Bureau of Investigation launched its probe on January 31 after a complaint from PNB about a major fraud using improperly obtained bank guarantees. In a claim that has added to huge public interest in the case, PNB alleged that the scheme involved the celebrity jeweller Nirav Modi, whose lawyer has denied involvement.

Yesterday, the CBI said its first charge sheet filed in the case included two partners of three private companies, including two diamond firms, and seven of their employees. It said it had also levelled charges against 12 PNB employees, including two executive directors and a former chief executive.

The CBI did not name any of those charged. But Rajiv Kumar, the government's financial services secretary, said that the finance ministry had asked the board of Allahabad Bank to remove the operational powers of its chief executive Usha Ananthasubramanian, who held that role at PNB from 2015 to 2017. Allahabad Bank did not immediately respond to a request for comment.

The CBI said PNB officials, acting in concert with the owners of the companies involved, had fraudulently issued many letters of undertaking. These are a form of bank guarantee commonly used by Indian importers, which have been banned since the scandal erupted. The letters, issued between 2011 and 2017, were allegedly used by the groups to obtain buyer's credit from other banks.

The CBI said the guarantees had not been logged in the bank's central system, and that PNB officials had "misrepresented the factual situation" to the central bank.

PNB's shares have fallen 45 per cent since the alleged fraud became public on February 13. This has prompted concerns that the scandal could undermine investor appetite for Indian state banks' equity, as the government pursues a recapitalisation that had been expected to draw significant private investment.

The situation has also created tensions between the government and the Reserve Bank of India, whose governor Urjit Patel complained of its inadequate oversight powers over state-controlled banks.

The CBI said it was continuing its investigation, which has so far entailed searches of 42 premises and 15 arrests.

Additional reporting by Jyotsna Singh in New Delhi

Pharmaceuticals

Gene editing pioneers launch US start-up to tackle disease

CLIVE COOKSON — SCIENCE EDITOR

A US start-up has joined the race to commercialise Crispr, the gene editing tool that is transforming biotechnology. Pioneers of the field at Harvard University and Massachusetts Institute of Technology have launched Beam Therapeutics with $87m initial venture capital funding.

Beam is the first business to use "base editing", a technique developed by the company's co-founders, David Liu and Feng Zhang, to treat disease. The series A financing is led by F-Prime Capital Partners and Arch Venture Partners.

Crispr previously required scientists to cut DNA, delete or insert genes and then repair the break. The new technology can change individual bases, the chemical "letters" of genetic code, without cutting. It is like moving from scissors-and-paste to editing text with a sharp pencil.

In addition to licensing base editing technology from Prof Liu's lab at Harvard for human therapeutics, Beam will exploit a separate discovery by Dr Zhang and colleagues at the Broad Institute, a joint research centre of Harvard and MIT.

This extends base editing from DNA, which permanently stores genetic information, to RNA, the related molecule that puts the genome to work by translating its genetic information into protein. RNA editing is like correcting text with temporary ink that soon disappears rather than making indelible marks.

> Beam has 15 full-time researchers and expects to grow quickly when it moves into permanent premises

"The two technologies are complementary," said Prof Liu. "For some acute applications [such as severe inflammation] you might want to make transient changes and then RNA editing would be appropriate. For others, such as correcting an inherited disease, you might want a permanent change through DNA base editing."

Tens of thousands of "point mutations" — changes in just one of the 3bn DNA letters that make up the human genome — are known to be associated with disease. These could in principle be corrected through base editing. They include neurodegenerative and metabolic diseases, blood disorders and vision or hearing loss.

Beam has launched with 15 full-time researchers in a temporary lab in Cambridge, Massachusetts, and expects to expand quickly when it moves into permanent premises.

"It is too early for us to disclose the specific diseases on which we are working or to comment on our timeline to the clinic," said Prof Liu.

Several other gene editing companies and university groups hope to begin clinical trials in patients this year, working with other versions of Crispr. One is Editas Medicine, set up in 2013 with Dr Zhang and Prof Liu as co-founders; it has a licensing and option agreement with Beam.

The founders of Beam and Editas recently set up yet another gene editing company, Pairwise Plants, which announced a $25m series A funding in March. It will apply Crispr to agricultural crops, in collaboration with agrochemical company Monsanto.

Overshadowing Crispr commercialisation is a long-running and still unresolved dispute over patent rights to the underlying technology, which pits the Broad Institute against the University of California, Berkeley.

While declining to comment on the case, Prof Liu said: "The level of collegiality among researchers in the genome editing field is much greater than you might imagine from reports [of the patent dispute]."

Legal Notices

NATWEST MARKETS PLC
Company Number: SC090312

Notice is hereby given that, on 9 May 2018, a Petition was presented to the Court of Session in Edinburgh (the "**Court**") by NatWest Markets Plc (formerly The Royal Bank of Scotland plc), a public company registered in Scotland, under the company number SC090312 and with its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB (the "**Company**"), seeking an order confirming a reduction of its share capital and the cancellation of its share premium account and cancellation of its capital redemption reserve (the "**Reduction**"), which was approved by a special resolution of the Company passed on 3 May 2018.

On 9 May 2018, the Court ordered (i) that the Petition be advertised once in each of The London Gazette, The Edinburgh Gazette, The Belfast Gazette, The Scotsman and the Financial Times (UK and international editions), and (ii) that any person claiming an interest in the Reduction lodge Answers to the Petition, if so advised, at the offices of the Court, 2 Parliament Square, Edinburgh EH1 1RQ within 21 days of the publication of the last of those advertisements. As the last of those advertisements is expected to be published on Friday 18 May 2018, the deadline for lodging Answers to the Petition is expected to be Friday 8 June 2018.

Any such person may wish to seek independent legal advice. In accordance with its practice, the Court is also likely to consider any other objections which are made to it, in writing or in person, at the hearing of the Petition to confirm the Reduction. That hearing is expected to take place at the Court on Friday 29 June 2018.

Should that date change, the new date will be advertised on the website of The Royal Bank of Scotland Group plc at http://investors.rbs.com/

A copy of this advertisement will also be available on that same web page.

CMS Cameron McKenna Nabarro Olswang LLP
Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN
Solicitors to NatWest Markets Plc

In the matter of REG Holding Limited
and
In the matter of the Cyprus Companies Law Cap 113

Notice is hereby given that the creditors of the above-named company which is being voluntarily wound up are required on or before the 29th day of May 2018 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Charalambos Kouzalis of Arch Makarios III Ave. 1-7, Mitsi Building 3, Office 306, 1065 Nicosia, the liquidator of the said company, and if so required by notice in writing from the said liquidator, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 15th day of May 2018

Charalambos Kouzalis
Liquidator of REG Holding Limited

COMPANIES

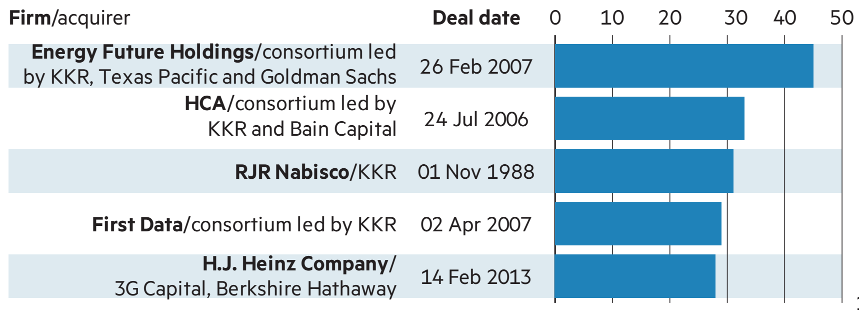
Jacobs sets sights on record bid for Qualcomm

Chipmaker's former chairman wants backers to stump up $100bn to engineer the largest leveraged buyout in history

ERIC PLATT, ANDREW EDGECLIFFE-JOHNSON AND JAMES FONTANELLA-KHAN — NEW YORK

Largest private equity-backed buyouts

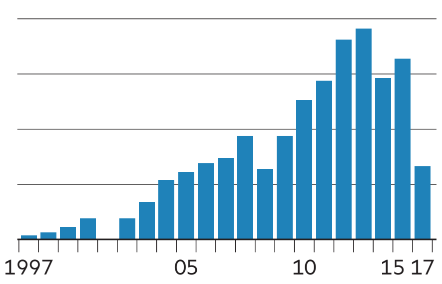
Public to private deals only, deal value ($bn)



Sources: Preqin; Bloomberg

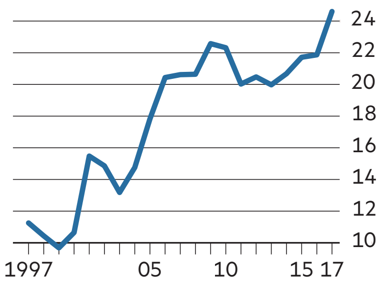
Qualcomm's earnings have been hit ...

Operating income ($bn)



... as its R&D spend has steadily risen

Trailing 12-month as % of sales



America's top dealmakers were sitting in the Waldorf Astoria in New Orleans in March when word surfaced that Paul Jacobs was considering a bid to take Qualcomm private. The idea raised a chuckle among the bankers and lawyers in attendance there for the Tulane Corporate Law Institute conference.

Mr Jacobs is the former chairman and chief executive of Qualcomm, son of its founder and an electrical engineer with dozens of patents to his name, giving him credibility in a company that has played a critical if backstage role in the smartphone revolution.

But the deal in question would be the largest leveraged buyout in history, requiring perhaps three times the $48bn raised by KKR, Goldman Sachs and TPG to take over Texas utility TXU before the financial crisis.

Mr Jacobs was pushed out of the chairmanship this year as Qualcomm dealt with a $142bn hostile bid from rival chipmaker Broadcom, which was scuttled by Donald Trump on national security grounds in March. Since then, Mr Jacobs has hired two investment banks to cobble together lending commitments of up to $100bn to back a bid, say people familiar with the matter. Although he has yet to make a formal proposal, some of those dealmakers appear to have warmed to Mr Jacobs' chutzpah — but have a few questions.

What price will he have to pay?

Broadcom's failed bid, pitched at $79 a share, indicated the price at which investors would entertain an offer. Qualcomm's board held out for $90 but shareholders were voting overwhelmingly for the alternative directors Broadcom had nominated for election, according to reports at the time.

That signalled a transaction could be had at a lower price — and is likely to encourage Mr Jacobs, not least because a bid from him should entail less regulatory risk and could be pitched lower. Shares in Qualcomm have not traded above $70 this year; the average Wall Street analyst is targeting a price of $62, according to Sentieo data.

Premiums private equity investors have paid on US leveraged buyouts this year are the lowest since 2007, Dealogic data show. Using the 2018 average — a 15 per cent premium to the stock price over the month before a deal — a buyout might be pitched at $60.50 a share.

Even at that low end, Mr Jacobs would need $90bn in new debt and equity, and be able to support Qualcomm's $23bn debt load. To match Broadcom's $79 a share, he would need $117bn.

Can the debt market manage?

Broadcom convinced 12 lenders including Bank of America Merrill Lynch, Citigroup, JPMorgan Chase and Morgan Stanley to commit $100bn to its takeover effort. Mr Jacobs' bankers have begun to test the market's appetite for its own financing package, which would be converted in bonds and loans.

A syndicated bond sale for a Qualcomm buyout could near the record $49bn Verizon raised in 2013 to fund its acquisition of the part of Verizon Wireless it did not already own.

A shortage of new debt issuance and generally upbeat economic conditions mean the near $9tn market for corporate bonds is at least open to large deals. This year, US drugstore chain CVS Health borrowed $40bn through a debt offering, the third-largest corporate bond deal in history.

"A Qualcomm leveraged buyout could be financed today," said Christopher Kilpatrick, a portfolio manager with Western Asset. But he added: "It would have to be structured correctly and would require a large equity check. It's not our base case."

Henry Peabody, a portfolio manager with Eaton Vance, said of a possible blockbuster bond sale: "A deal of this size would cause major indigestion. The [high yield] market would focus on nothing but that for a couple of weeks."

Can Qualcomm handle the debt?

Much depends on whether Qualcomm's $44bn bid for the Dutch chipmaker NXP is approved by Chinese regulators because it determines how much Mr Jacobs would offer, as well as how much debt the company could support.

Qualcomm earned more than $6.5bn before interest, tax, depreciation and amortisation in its last fiscal year, which ran to November 29. NXP reported ebitda of $4.3bn in 2017. Investors and bankers are debating how much debt almost $11bn of earnings can support.

If Mr Jacobs decided to fund the transaction with 70 per cent debt, banks would need to commit more than $80bn to come close to Broadcom's offer. With Qualcomm and NXP's outstanding debts, that could push leverage to about 10 times the combined company's recent ebitda.

That would be a red flag for lenders' regulators and a level that would probably cost the US chipmaker its investment grade ratings.

Royalty disputes have knocked Qualcomm's earnings, however, and long-term demand for chips is not in doubt.

"They do have a cash flow and there is a long-term view of that cash flow," said Mr Kilpatrick of Western Asset. "Several 'unicorn' issuers that have revenue growth, big market caps, and much less certain cash flows are being easily financed at attractive rates in the corporate bond markets today."

Peter Andersen, founder of Andersen Capital Management, said that if you "forgot the scale of the thing . . . the numbers would work. The ability for it to carry that debt is possible."

Who will fund the equity?

The test will be securing the $30bn or more in equity financing that could be necessary to clinch the deal. Mr Jacobs is targeting sovereign wealth funds, individual investors and companies that are among the few that could cut the $5bn-$10bn cheques he needs, says one person familiar with his thinking.

He could follow Broadcom's Hock Tan, who courted private equity funds including Silver Lake, but such firms have caps on how much a single fund can invest in a deal, making a $5bn-plus equity investment challenging for most.

Mr Jacobs is said to have received signs of interest from deep-pocketed investors. Among his friends is Masayoshi Son, chief executive of SoftBank, but it is not clear the Japanese company or Mr Son's $100bn Vision Fund, backed by Saudi Arabia, are among them.

There is another hurdle: more than half of the equity investment will need to come from US investors to avoid the intense scrutiny from the Committee on Foreign Investment in the US that sank Broadcom's bid, several lawyers said.

If the tussle with Broadcom revealed anything, it was that regulators and senior officials in Washington viewed the San Diego-based Qualcomm as a national champion. It is not just dealmakers who are watching Mr Jacobs' prospects with a quizzical eye.

Personal & household goods

Craftory seeks next consumer upstarts

SCHEHERAZADE DANESHKHU
CONSUMER INDUSTRIES EDITOR

Upstart consumer brands such as Dollar Shave Club razors and Halo-Top ice cream have been eating into the business of big consumer companies.

An investment group launching this week aims to nurture more of what it calls these "disruptive challengers toppling lumbering giants" by pumping $300m of private capital into the growth of new consumer goods companies.

The Craftory is co-founded by Elio Leoni-Sceti, a brand specialist and former chief executive of Iglo, the frozen-foods group. He has held senior roles at consumer group Reckitt Benckiser and was appointed chief executive of Coty, the cosmetics group, in 2015 but did not take up the role.

Co-founder Ernesto Schmitt is a digital entrepreneur who met Mr Leoni-Sceti when both worked at EMI, the music group, a decade ago.

Mr Leoni-Sceti said that traditional big-brand names had lost relevance for many often younger, digitally savvy consumers. "The tide of history has turned. For these consumers it's about honesty, provenance, quality and sustainable use of our planet's resources," he said. The Craftory aims to invest in up to 10 challenger companies with annual revenues of more than $10m, in consumer sectors including beauty, health, food, tea and coffee, alcohol and household products. It already has a list of 100 potential investments, focused mainly in Europe and the US.

Mr Schmitt said: "The traditional fast-moving consumer goods model of engaging the consumer just doesn't work any more for a certain type of consumer."

The Craftory said it wanted to codify a new model for challenger brands, involving owner-entrepreneurs running their businesses instead of "a revolving door management team"; replacing traditional advertising with storytelling and digital marketing; and scaling-up brands without entrepreneurs having to sell out on their promises.

Elio Leoni-Sceti: 'tide of history has turned' on traditional big brands

"You do not help a brand by going wide in distribution — getting on the Tesco shelf will probably be the death of a challenger brand," argued Mr Schmitt.

Many large consumer groups have in recent years set up their own venture capital funds as a way of spotting and investing in new trends, including food groups Mars, Kellogg's, and Danone, the distiller Diageo and Unilever, the personal care and food company.

But The Craftory, whose logo is a wolf with laser-like eyes looking out for her investment cubs, sees itself as just as much of a challenger as the companies in which it hopes to invest. "Think of the endless number of investment funds, with readily replaceable individuals and offices. We are trying consciously to be different," said Mr Schmitt.

Mr Leoni-Sceti said The Craftory's focus was on amplifying sales rather than maximising profits and that, unlike a fund, there was no time horizon for its investments. He said possible ways investors would get back their money included dividends from successful companies; founders wishing to sell their businesses or an eventual float of The Craftory.

Financials

TPG's Rise Fund bets on Africa fintech group

JOHN AGLIONBY — NAIROBI

The Rise Fund, the impact fund run by private equity group TPG Growth, has made its first investment in Africa, leading a $47.5m deal to buy a stake in payments provider Cellulant.

The deal, which also included Endeavour Catalyst and Satya Capital, is the largest involving a fintech company that does business only in Africa, according to the Rise Fund.

"Much of the [fintech investment] activity in recent times in Africa has been specifically in the consumer lending space," said Yemi Lalude, TPG's managing partner for Africa. "This is different from that. What Cellulant has is a payment platform that enables people who have not had access to financial payments to get access in a way that is transparent."

Cellulant was founded in 2004 with operations in Kenya and Nigeria. It now works in 11 countries with 94 banks and seven mobile money platforms that have a combined potential customer base of 130m. It focuses on facilitating mobile payments and ecommerce.

Ken Njoroge, Cellulant co-founder and chief executive, said the new capital would be used to scale up the company's operations and expand into two more countries this year.

"The payment market on the continent is [worth] anywhere between $20bn and $40bn over the next couple of years while all of the fintech players in the market [currently] collectively generate a little shy of $2bn," he said.

Mr Lalude said TPG's investments were "usually up to seven years, and this would be similar to that".

TPG formed the Rise Fund last year, attracting some $2bn in capital. It aims to be "committed to achieving measurable, positive social and environmental outcomes" while delivering "competitive financial returns". Its board members include entrepreneur Richard Branson, singer Bono and Jeffrey Skoll, the first president of auction site eBay.

Mr Lalude said one of the attractions of Cellulant for the Rise Fund was that many of its 40m customers had no access to formal financial services before they started using Cellulant products and services.

Aly-Khan Satchu, a Nairobi-based investment adviser, said he was not surprised Cellulant had attracted the attention of a major private equity group, noting that Mr Njoroge had "built a successful business, grown it organically and delivered for big corporates across the continent".

MARKET DATA

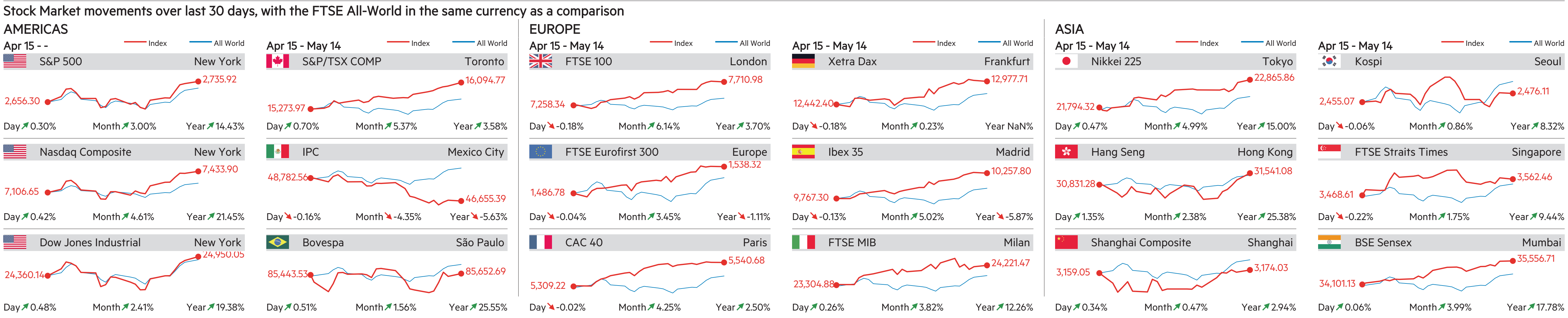
WORLD MARKETS AT A GLANCE

FT.COM/MARKETSDATA

Change during previous day's trading (%)

S&P 500	Nasdaq Composite	Dow Jones Ind	FTSE 100	FTSE Eurofirst 300	Nikkei	Hang Seng	FTSE All World $	$ per €	$ per £	¥ per $	£ per €	Oil Brent $ Sep	Gold $
0.30%	0.42%	0.48%	-0.18%	-0.04%	0.47%	1.35%	0.32%	0.251%	0.369%	0.160%	-0.114%	0.31%	0.42%

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



STOCK MARKET: BIGGEST MOVERS

UK MARKET WINNERS AND LOSERS

CURRENCIES

FTSE ACTUARIES SHARE INDICES

FT 30 INDEX

	May 14	May 11	May 10	May 09	May 08	Yr Ago	High	Low
FT 30	3292.20	3309.60	3299.00	3273.30	3263.50	0.00	3377.70	2974.50
FT 30 Div Yield	1.92	1.91	1.91	1.92	1.93	0.00	3.93	2.74
P/E Ratio net	23.23	23.34	23.35	23.24	23.14	0.00	19.44	14.26

FT 30 since compilation: 4198.4 high: 19/07/1999; low49.4 26/06/1940Base Date: 1/7/35

FT 30 hourly changes

8	9	10	11	12	13	14	15	16	High	Low
3309.6	3303.9	3300	3300.9	3297	3295.5	3292.3	3286.9	3292.5	3310.6	3284.1

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

FX: EFFECTIVE INDICES

	May 11	May 10	Month Ago		May 14	May 11	Month Ago
Australia	91.63	91.31	91.97	Sweden	74.30	73.90	74.61
Canada	91.04	90.91	91.70	Switzerland	148.36	148.43	150.54
Denmark	110.63	110.87	110.87	UK	78.75	78.52	80.42
Japan	137.43	137.51	138.06	USA	98.88	99.25	96.39
New Zealand	113.37	113.33	117.30	Euro	95.32	95.17	95.91
Norway	88.11	88.21	87.38				

Source: Bank of England. New Sterling ERI base Jan 2005 = 100. Other indices base average 1990 = 100. Index rebased 1/2/95. for further information about ERIs see www.bankofengland.co.uk

FTSE SECTORS: LEADERS & LAGGARDS

FTSE 100 SUMMARY

FTSE 100	Closing Price	Day's Change	FTSE 100	Closing Price	Day's Change
Imperial Brands PLC	2765	-0.50	St. James's Place PLC	1174.5	-12.00
Informa PLC	756.60	-3.40	Standard Chartered PLC	761.80	-7.10
Intercontinental Hotels Group PLC	4727	-41.00	Standard Life Aberdeen PLC	368.80	-2.00
International Consolidated Airlines Group S.A.	691.80	-6.20	Taylor Wimpey PLC	195.10	-0.20
Intertek Group PLC	5056	-50.00	Tesco PLC	245.80	-0.80
Itv PLC	168.10	-3.90	Tui AG	1765.5	-
Johnson Matthey PLC	3443	-22.00	Unilever PLC	4137.5	-2.00
Just Eat PLC	814.40	10.60	United Utilities Group PLC	763.60	-2.80
Kingfisher PLC	291.40	-5.90	Vodafone Group PLC	207.20	-2.90
Land Securities Group PLC	968.70	-9.00	Whitbread PLC	4207	-21.00
Legal & General Group PLC	277.80	-1.70	Wpp PLC	1297.5	-13.50
Lloyds Banking Group PLC	66.67	-0.41			

UK STOCK MARKET TRADING DATA

	May 14	May 11	May 10	May 09	May 08	Yr Ago
	-	-	-	-	-	-
Order Book Turnover (m)	241.36	300.98	300.98	1563.48	113.10	49.41
Order Book Bargains	890771.00	981110.00	981110.00	1004438.00	1117883.00	1034707.00
Order Book Shares Traded (m)	1639.00	1716.00	1716.00	1928.00	1813.00	1828.00
Total Equity Turnover (£m)	10662.55	6424.11	6424.11	10658.98	7460.59	5934.95
Total Mkt Bargains	1003497.00	1110788.00	1110788.00	1134134.00	1209739.00	1164886.00
Total Shares Traded (m)	4451.00	4547.00	4547.00	4647.00	3848.00	4481.00

† Excluding intra-market and overseas turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover. (u) Unavaliable. (c) Market closed.

All data provided by Morningstar unless otherwise noted. All elements listed are indicative and believed accurate at the time of publication. No offer is made by Morningstar or the FT. The FT does not warrant nor guarantee that the information is reliable or complete. The FT does not accept responsibility and will not be liable for any loss arising from the reliance on or use of the listed information.
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Data provided by Morningstar | www.morningstar.co.uk

POWERED BY MORNINGSTAR

FTSE GLOBAL EQUITY INDEX SERIES

									Regions & countries	No of stocks	US $ indices	Day %	Mth %	YTD %	Total retn	YTD %	Gr Div Yield
FTSE EDHEC-Risk Efficient Developed Europe	562	345.55	0.8	1.5	2.1	538.99	3.5	2.7	Software & Computer Services	96	501.56	0.0	0.0	8.3	589.11	8.6	0.8
Oil & Gas	148	418.66	0.4	6.9	7.0	695.46	8.3	3.3	Technology Hardware & Equipment	99	219.79	-0.3	-0.3	8.9	285.02	9.7	1.9
									Alternative Energy	9	105.25	-0.2	-0.2	9.3	144.09	10.2	1.6
									Real Estate Investment & Services	109	372.86	1.0	1.0	1.3	634.39	2.3	2.5

The FTSE Global Equity Series, launched in 2003, contains the FTSE Global Small Cap Indices and broader FTSE Global All Cap Indices (large/mid/small cap) as well as the enhanced FTSE All-World index Series (large/mid cap) - please see www.ftse.com/geis. The trade names Fundamental Index® and RAFI® are registered trademarks and the patented and patent-pending proprietary intellectual property of Research Affiliates, LLC (US Patent Nos. 7,620,577; 7,747,502; 7,778,905; 7,792,719; Patent Pending Publ. Nos. US-2006-0149645-A1, US-2007-0055598-A1, US-2008-0288416-A1, US-2010- 0063942-A1, WO 2005/076812, WO 2007/078399 A2, WO 2008/118372, EPN 1733352, and HK1099110). "EDHEC™" is a trade mark of EDHEC Business School As of January 2nd 2006, FTSE is basing its sector indices on the Industrial Classification Benchmark - please see www.ftse.com/icb. For constituent changes and other information about FTSE, please see www.ftse.com. © FTSE International Limited. 2013. All Rights reserved. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence.

UK RIGHTS OFFERS

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

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

UK COMPANY RESULTS

Company		Turnover		Pre-tax		EPS(p)		Div(p)		Pay day	Total	
Angling Direct	Pre	**30.241**	-	**0.159**	-	**0.100**	-	**0.00000**	-	-	**0.000**	-
Caspian Sunrise	Pre	**7.575**	1.571	**3.349L**	4.249L	**0.003L**	0.004L	**0.00000**	0.00000	-	**0.000**	0.000
Cerillion	Int	**8.386**	7.544	**0.472**	0.725	**1.470**	2.450	**0.00000**	1.40000	-	**2.800**	4.000
Diploma	Int	**234.900**	217.300	**35.400**	32.900	**23.000**	21.000	**0.00000**	7.00000	-	**16.000**	20.800
Equatorial Palm Oil	Int	**0.090**	0.081	**1.989L**	1.115L	**0.006L**	0.003L	**0.00000**	0.00000	-	**0.000**	0.000
Hardide	Int	**2.158**	1.511	**0.317L**	0.684L	**0.018L**	0.044L	**0.00000**	0.00000	-	**0.000**	0.000
Lonmin	Int	**561.000**	486.000	**51.000L**	199.000L	**0.233L**	0.644L	**0.00000**	0.00000	-	**0.000**	0.000
Norman Broadbent	Pre	**6.523**	5.661	**1.602L**	1.277L	**3.520L**	5.360L	**0.00000**	0.00000	-	**0.000**	0.000
North Atlantic Smaller Companies Inv Trust	Pre			**70.828**	32.049	**490.910**	221.920	**0.00000**	0.00000	-	**0.000**	0.000
Scottish Mortgage Investment Trust	Pre			**1211.271**	1301.960	**87.000**	98.380	**0.00000**	1.61000	-	**1.390**	3.000
Victrex	Int	**166.600**	130.900	**63.300**	50.100	**64.700**	46.400	**0.00000**	12.20000	-	**41.600**	47.290

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

UK RECENT EQUITY ISSUES

Issue date	Issue price(p)	Sector	Stock code	Stock	Close price(p)	+/-	High	Low	Mkt Cap (£m)
05/09	100.00	AIM	UEX	Urban Exposure PLC	105.00	-0.30	107.00	104.10	17325.0
05/08	95.00	AIM	RBGP	Rosenblatt Group PLC	115.00	1.00	118.40	95.00	9210.6
04/30	100.00	AIM	KRM	KRM22 PLC	148.50	-3.00	159.88	100.00	1829.6
04/16	2.99	AIM	CAS	Crusader Resources Ltd	3.00	0.10	3.20	2.65	1381.8
04/04	170.00	AIM	SBIZ	SimplyBiz Group (The) PLC	176.05	-1.54	180.00	155.00	13462.6

§Placing price. *Intoduction. ‡When issued. Annual report/prospectus available at www.ft.com/ir
For a full explanation of all the other symbols please refer to London Share Service notes.

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

[illegible]

FT 500: TOP 20

	Close price	Prev price	Day change	Day change %	Week change	Week change %	Month change %
Petrobras	30.34	28.95	1.39	4.80	5.60	22.6	27.86
ValeantPh	26.89	26.64	0.25	0.94	3.43	14.6	24.35
ChShenEgy	21.00	20.45	0.55	2.69	2.36	12.7	5.53
Kweichow	742.41	718.02	24.39	3.40	79.54	12.0	8.09
MitsuiFud	3064.00	2807.00	257.00	9.16	298.50	10.8	12.61
HonHaiPrc	89.00	85.00	4.00	4.71	8.60	10.7	2.30
NXP	108.53	99.01	9.52	9.62	10.07	10.2	-4.24
New Ch Life Ins	39.00	38.05	0.95	2.50	3.60	10.2	3.17
PetroChina	6.12	6.03	0.09	1.49	0.56	10.1	7.37
Vale	54.19	52.63	1.56	2.96	4.95	10.1	20.50
Occid Pet	84.97	84.97	0.00	0.00	7.69	10.0	15.37
ICICI Bk	310.10	310.95	-0.85	-0.27	27.25	9.6	7.58
ChinaPcIns	37.00	36.55	0.45	1.23	3.20	9.5	6.47
AIA	74.35	72.80	1.55	2.13	6.35	9.3	5.46
Devon Energy	41.30	40.95	0.35	0.84	3.41	9.0	22.89
Sinopec Corp	8.22	8.13	0.09	1.11	0.65	8.6	11.08
ChinaMBank	35.35	35.00	0.35	1.00	2.75	8.4	4.43
Murata Mfg	15540.00	15110.00	430.00	2.85	1200.00	8.4	7.88
Citic Secs	20.10	18.98	1.12	5.90	1.48	7.9	5.90
Delphi	50.59	49.97	0.62	1.24	3.66	7.8	3.43

Based on the FT Global 500 companies in local currency

FT 500: BOTTOM 20

	Close price	Prev price	Day change	Day change %	Week change	Week change %	Month change %
BT	211.80	217.00	-5.20	-2.40	-23.10	-9.8	-99.12
SunPhrmInds	473.80	472.05	1.75	0.37	-44.15	-8.5	-7.64
Mnstr Bvrg	49.04	49.27	-0.24	-0.48	-4.28	-8.0	-13.53
LibertyGbl	30.36	29.61	0.75	2.53	-2.55	-7.7	-1.56
DeutsPost	34.36	34.43	-0.07	-0.20	-2.79	-7.5	-7.51
Viacom	28.46	30.22	-1.77	-5.84	-2.25	-7.3	-7.31
Telstra	3.04	3.20	-0.16	-5.00	-0.20	-6.2	-1.94
Allianz	190.44	191.54	-1.10	-0.57	-10.56	-5.3	-5.25
Enel	5.11	5.07	0.04	0.75	-0.28	-5.2	-0.12
Fuji Hvy Ind	3568.00	3607.00	-39.00	-1.08	-149.00	-4.0	-0.13
H & M	139.08	138.84	0.24	0.17	-5.64	-3.9	2.90
Perrigo	74.46	77.52	-3.06	-3.95	-2.78	-3.6	-7.87
OCBC	13.16	13.14	0.02	0.15	-0.49	-3.6	0.61
PPG Inds	102.48	100.43	2.05	2.04	-3.73	-3.5	-6.82
SmsungEl	50100.00	51300.00	-1200.00	-2.34	-1800.00	-3.5	0.60
Bhartiartl	383.15	386.60	-3.45	-0.89	-13.60	-3.4	1.39
Sempra Energy	106.92	107.08	-0.16	-0.15	-3.76	-3.4	-3.35
Airbus Grpe	97.08	99.45	-2.37	-2.38	-3.34	-3.3	6.10
ING	13.51	13.39	0.13	0.94	-0.46	-3.3	-4.43
WalMrtMex	49.74	50.07	-0.33	-0.66	-1.40	-2.7	-1.58

Based on the FT Global 500 companies in local currency

BONDS: HIGH YIELD & EMERGING MARKET

[illegible]

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company. US $ denominated bonds NY close; all other London close. *S - Standard & Poor's, M - Moody's, F - Fitch.

BONDS: GLOBAL INVESTMENT GRADE

[illegible]

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company. US $ denominated bonds NY close; all other London close. *S - Standard & Poor's, M - Moody's, F - Fitch.

INTEREST RATES: OFFICIAL

May 14	Rate	Current	Since	Last	Mnth Ago	Year Ago
US	Fed Funds	1.50-1.75	22-03-2018	1.00	1.25-1.50	0.75-1.50
US	Prime	4.75	22-03-2018	4.75	4.5	4
US	Discount	2.25	22-03-2018	0.75	2	1.50
Euro	Repo	0.00	16-03-2016	0.05	0.00	0.00
UK	Repo	0.50	02-11-2017	0.25	0.50	0.25
Japan	O'night Call	0.00-0.10	01-02-2016	0.00	0.00--0.10	0.00--0.10
Switzerland	Libor Target	-1.25-0.25	15-01-2015	-0.75--0.25	-1.25--0.25	-1.25--0.25

INTEREST RATES: MARKET

May 14 (Libor: May 11)	Over night	Change Day	Change Week	Change Month	One month	Three month	Six month	One year
US$ Libor	1.70625	0.001	0.002	0.000	1.91871	2.34250	2.51500	2.76579
Euro Libor	-0.43986	-0.002	-0.002	0.000	-0.39871	-0.35086	-0.31500	-0.24114
£ Libor	0.47394	0.000	0.000	-0.013	0.49831	0.64612	0.75625	0.92844
Swiss Fr Libor				0.000	-0.78230	-0.71960	-0.64520	-0.51700
Yen Libor				0.000	-0.04767	-0.03717	0.02173	0.11200
Euro Euribor				0.000	-0.37100	-0.32700	-0.27100	-0.18900
Sterling CDs				0.000	0.50000	0.63000	0.73500	
US$ CDs				0.000	1.95000	2.29000	2.43500	
Euro CDs				0.000	-0.44500	-0.40500	-0.34500	

May 14	Short term		7 Days notice		One month		Three month		Six month		One year	
Euro	-0.50	-0.35	-0.50	-0.35	-0.62	-0.37	-0.48	-0.33	-0.42	-0.27	-0.43	-0.18
Sterling			0.45	0.55	0.45	0.55	0.58	0.68	0.66	0.81	0.83	0.98
Swiss Franc	-	-	-	-	-	-	-	-	-	-	-	-
Canadian Dollar	-	-	-	-	-	-	-	-	-	-	-	-
US Dollar	1.74	1.84	1.75	1.85	1.95	2.05	2.32	2.42	2.51	2.61	2.75	2.85
Japanese Yen	-0.35	-0.05	-0.40	-0.10	-0.05	0.25	-0.05	0.25	-0.05	0.25	-0.05	0.35

Libor rates come from ICE (see www.theice.com) and are fixed at 11am UK time. Other data sources: US $, Euro & CDs: Tullett Prebon; SDR, US Discount: IMF; EONIA: ECB; Swiss Libor: SNB; EURONIA, RONIA & SONIA: WMBA.

BOND INDICES

	Index	Day's change	Month's change	Year change	Return 1 month	Return 1 year
Markit IBoxx						
ABF Pan-Asia unhedged	191.59	0.34	-0.67	0.61	-1.67	7.05
Corporates(£)	340.49	-0.10	-0.36	-1.79	-0.14	0.53
Corporates($)	270.32	0.27	-0.27	-3.34	-0.27	-3.34
Corporates(€)	225.55	-0.04	-0.06	-0.44	-0.11	1.19
Eurozone Sov(€)	234.83	0.04	-0.19	0.84	-0.44	2.43
Gilts(£)	319.14	-0.28	-0.47	-1.31	-0.99	-0.35
Global Inflation-Lkd	265.56	0.39	-0.92	-1.21	-2.72	4.54
Markit iBoxx £ Non-Gilts	335.19	-0.12	-0.32	-1.56	-0.19	0.43
Overall ($)	233.72	0.20	-0.19	-2.56	-0.19	-2.56
Overall(£)	320.87	-0.23	-0.43	-1.38	-0.75	-0.12
Overall(€)	230.15	0.00	-0.13	0.35	-0.35	1.78
Treasuries ($)	219.78	0.14	-0.15	-2.18	-0.15	-2.18
FTSE						
Sterling Corporate (£)	112.71	-0.13	-	-	-0.23	-4.45
Euro Corporate (€)	105.67	-0.21	-	-	-0.47	-1.37
Euro Emerging Mkts (€)	584.55	10.85	-	-	-0.17	-25.69
Eurozone Govt Bond	111.11	-0.27	-	-	-0.80	-0.36

CREDIT INDICES	Index	Day's change	Week's change	Month's change	Series high	Series low
Markit iTraxx						
Crossover 5Y	267.94	-0.16	-5.74	-8.10	295.64	267.17
Europe 5Y	54.26	-0.13	-1.71	-0.82	62.10	52.58
Japan 5Y	50.96	-0.12	-0.05	1.01	52.96	49.41
Senior Financials 5Y	57.13	-0.21	-2.97	-0.32	68.89	55.32
Markit CDX						
Emerging Markets 5Y	154.32	4.32	4.90	14.25	162.34	132.91
Nth Amer High Yld 5Y	331.46	0.80	-9.65	-8.14	370.10	330.66
Nth Amer Inv Grade 5Y	59.29	-0.23	-2.37	-2.05	69.04	59.27

Websites: markit.com, ftse.com. All indices shown are unhedged. Currencies are shown in brackets after the index names.

VOLATILITY INDICES

	May 14	Day Chg	Prev	52 wk high	52 wk low
VIX	12.99	0.34	12.65	50.30	8.56
VXD	14.20	-0.25	14.62	40.09	3.93
VXN	16.37	0.18	16.19	38.11	11.36
VDAX					

† CBOE. VIX: S&P 500 index Options Volatility, VXD: DJIA Index Options Volatility, VXN: NASDAQ Index Options Volatility. ‡ Deutsche Borse. VDAX: DAX Index Options Volatility.

BONDS: BENCHMARK GOVERNMENT

[illegible]

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company.

GILTS: UK CASH MARKET

[illegible]

Gilts benchmarks & non-rump undated stocks. Closing mid-price in pounds per £100 nominal of stock.

GILTS: UK FTSE ACTUARIES INDICES

[illegible]

See FTSE website for more details www.ftse.com/products/indices/gilts

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COMMODITIES

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Energy		Price*	Change	Agricultural & Cattle Futures		Price*	Change
Crude Oil†	May	70.79	0.22	Corn♦	Jul	395.00	-1.75
Brent Crude Oil‡		77.99	0.95	Wheat♦	Jul	493.50	-4.00
RBOB Gasoline†	May	2.19	0.01	Soybeans♦	Jul	1006.50	4.50
Heating Oil†	May	1.62	0.00	Soybeans Meal♦	Jul	379.60	0.50
Natural Gas†	May	2.83	0.01	Cocoa (ICE Liffe)✠	Jul	1917.00	-32.00
Ethanol♦		-	-	Cocoa (ICE US)♥	Jul	2808.00	4.00
Uranium†	May	18.10	0.00	Coffee(Robusta)✠	May	1733.00	-9.00
Carbon Emissions‡		-	-	Coffee (Arabica)♥	Jul	118.60	-0.70
Diesel†		-	-	White Sugar✠		320.80	0.30
Unleaded (95R)		-	-	Sugar 11♥		11.59	0.02
Base Metals (♠ LME 3 Months)				Cotton♥	Jul	84.04	-0.42
Aluminium		2314.50	39.00	Orange Juice♥	Jul	169.00	-0.55
Aluminium Alloy		1925.00	-30.00	Palm Oil♣		-	-
Copper		6904.00	-17.50	Live Cattle♣	Jun	107.75	0.00
Lead		2385.50	37.50	Feeder Cattle♣	May	138.50	-0.25
Nickel		14310.00	280.00	Lean Hogs♣	Jun	74.95	0.00
Tin		20890.00	-110.00				
Zinc		3068.00	-25.00		May 11	% Chg Month	% Chg Year
Precious Metals (PM London Fix)							
Gold		1324.35	5.55	S&P GSCI Spt	487.09	4.00	28.34
Silver (US cents)		1676.00	16.00	DJ UBS Spot	90.39	1.23	8.25
Platinum		926.00	3.00	TR/CC CRB TR	208.47	2.27	-
Palladium		1004.00	13.00	M Lynch MLCX Ex. Rtn	231.14	-9.84	-33.05
Bulk Commodities				UBS Bberg CMCI TR	16.02	2.10	-
Iron Ore (Platts)		68.25	0.45	LEBA EUA Carbon	14.04	27.29	178.57
Iron Ore (The Steel Index)		76.55	-1.30	LEBA CER Carbon	0.20	5.26	-20.00
GlobalCOAL RB Index		102.70	-2.80	LEBA UK Power	1925.00	-66.65	33.68
Baltic Dry Index		1476.00	4.00				

Sources: † NYMEX, ‡ ECX/ICE, ♦ CBOT, ✠ ICE Liffe, ♥ ICE Futures, ♣ CME, ♠ LME/London Metal Exchange.* Latest prices, $ unless otherwise stated.

BONDS: INDEX-LINKED

	Price May 11	Yield May 11	Yield Prev	Month return	Value stock	Market	No of stocks
Can 4.25%' 21	113.61	0.389	0.391	-0.14	5.18	76178.26	8
Fr 2.25%' 20	109.88	-2.084	-2.100	0.02	20.31	251284.29	16
Swe 0.25%' 22	114.77	-2.057	-2.033	0.02	32.73	245496.75	8
UK 2.5%' 20	361.70	-2.281	-2.305	0.03	6.58	644291.27	28
UK 2.5%' 24	359.61	-1.786	-1.802	0.16	6.82	644291.27	28
UK 2%' 35	263.83	-1.519	-1.540	-0.42	9.08	644291.27	28
US 0.625%' 21	100.46	0.478	0.478	-0.01	35.84	1264724.92	39
US 3.625%' 28	126.52	0.835	0.478	-0.36	16.78	1264724.92	39

Representative stocks from each major market Source: Merill Lynch Global Bond Indices † Local currencies. ‡ Total market value. In line with market convention, for UK Gilts inflation factor is applied to price, for other markets it is applied to par amount.

BONDS: TEN YEAR GOVT SPREADS

	Bid Yield	Spread vs Bund	Spread vs T-Bonds		Bid Yield	Spread vs Bund	Spread vs T-Bonds
Australia	2.81	2.31	-0.18	Italy	1.79	1.30	-1.20
Austria	0.61	0.11	-2.39	Japan	0.02	-0.47	-2.97
Belgium	0.70	0.21	-2.29	Netherlands	0.59	0.09	-2.40
Canada	2.38	1.89	-0.61	Norway	-	-	-
Denmark	0.58	0.09	-2.41	Portugal	-	-	-
Finland	0.67	0.18	-2.32	Spain	1.21	0.72	-1.78
France	0.79	0.30	-2.20	Switzerland	0.00	-0.50	-2.99
Germany	0.49	0.00	-2.50	United Kingdom	1.48	0.99	-1.51
Greece	4.02	3.53	1.03	United States	2.99	2.50	0.00
Ireland	1.13	0.63	-1.86				

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company.

MANAGED FUNDS SERVICE

Fund Bid Offer D+/- Yield

Algebris Investments (IRL)
[illegible]

The Antares European Fund Limited
[illegible]

Arisaig Partners
[illegible]

Ashmore Investment Management Limited (LUX)
[illegible]

Aspect Capital Ltd (UK)
[illegible]

Atlantas Sicav (LUX)
[illegible]

Bank of America Cap Mgmt (Ireland) Ltd (IRL)
[illegible]

Barclays Investment Funds (CI) Ltd (JER)
[illegible]

CCLA Investment Management Ltd (UK)
[illegible]

CG Asset Management Limited (IRL)
[illegible]

Charles Schwab Worldwide Funds Plc (LUX)
[illegible]

Chartered Asset Management Pte Ltd
[illegible]

Cheyne Capital Management (UK) LLP
[illegible]

DAVIS Funds SICAV (LUX)
[illegible]

Dodge & Cox Worldwide Funds (IRL)
[illegible]

Dragon Capital Group
[illegible]

DSM Capital Partners Funds (LUX)
[illegible]

E.I. Sturdza Strategic Management Limited (GSY)
[illegible]

E.I. Sturdza Funds PLC (IRL)
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Edinburgh Partners Limited (IRL)
[illegible]

Ennismore Smaller Cos Plc (IRL)
[illegible]

Ennismore European Smlr Cos Hedge Fd
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Equinox Fund Mgmt (Guernsey) Limited (GSY)
[illegible]

Euronova Asset Management UK LLP (CYM)
[illegible]

Eurobank Fund Management Company (Luxembourg) S.A. (LUX)
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FIL Investment Services (UK) Limited (1200)F (UK)
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Findlay Park Funds Plc (IRL)
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Foord Asset Management
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Franklin Templeton International Services Sarl (IRL)
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GAM
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GYS Investment Management Ltd (GSY)
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Genesis Asset Managers LLP
[illegible]

Global Investment House
[illegible]

HPB Assurance Ltd
[illegible]

Hausmann
[illegible]

Hermes Investment Funds Plc (IRL)
[illegible]

INDIA VALUE INVESTMENTS LIMITED (INVIL)
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Intrinsic Value Investors (IVI) LLP (IRL)
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Invesco Global Asset Management Ltd (IRL)
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Kames Capital VCIC (IRL)
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Link Asset Services (UK)
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Lloyds Investment Fund Managers Limited (1000)F (JER)
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MMIP Investment Management Limited (GSY)
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Marwyn Asset Management Limited (CYM)
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Emerging Markets Managed Accounts PLC (IRL)
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Milltrust International Managed Investments ICAV (IRL)
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Mirabaud Asset Management (LUX)
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Morgan Stanley Investment Funds (LUX)
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Morgens Waterfall Vintiadis co Inc
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Natixis International Funds (LUX) I SICAV (LUX)
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Natixis Investment Funds (UK)
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New Capital Fund Management Ltd (IRL)
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New Capital UCITS Fund PLC (IRL)
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Northwest Investment Management (HK) Ltd
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Oasis Crescent Management Company Ltd
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Oasis Global Mgmt Co (Ireland) Ltd (IRL)
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Odey Asset Management LLP (CYM)
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Odey Wealth Management (CI) Ltd (IRL)
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Omnia Fund Ltd
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Optima Fund Management
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Oryx International Growth Fund Ltd
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Pictet Asset Management (Europe) SA (LUX)
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Platinum Capital Management Ltd
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Polar Capital Funds Plc (IRL)
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Private Fund Mgrs (Guernsey) Ltd (GSY)
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Purisima Investment Fds (CI) Ltd (JER)
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Ram Active Investments SA
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Robeco Asset Management (LUX)
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Ruffer LLP (1000)F
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S W Mitchell Capital LLP (IRL)
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RobecoSAM (LUX)
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Rubrics Global UCITS Funds Plc (IRL)
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Slater Investments Ltd
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Standard Life Wealth (JER)
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Stenham Asset Management Inc
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Superfund Asset Management GmbH
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Toscafund Asset Management LLP (UK)
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TreeTop Asset Management S.A. (LUX)
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Troy Asset Mgt (1200) (UK)
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UBS Asset Management (UK)
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Unicapital Investments (LUX)
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Value Partners Hong Kong Limited (IRL)
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Waverton Investment Funds Plc (1600)F (IRL)
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WA Fixed Income Fund Plc (IRL)
[illegible]

Yapi Kredi Asset Management (TUR)
[illegible]

Yuki International Limited (IRL)
[illegible]

Zadig Gestion (Memnon Fund) (LUX)
[illegible]

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Guide to pricing of Authorised Investment Funds: (compiled with the assistance of the IMA. The Investment Management Association, 65 Kingsway, London WC2B 6TD. Tel: +44 (0)20 7831 0898.)

OEIC: Open-Ended Investment Company. Similar to a unit trust but using a company rather than a trust structure.

Different share classes are issued to reflect a different currency, charging structure or type of holder.

Selling price: Also called bid price. The price at which units in a unit trust are sold by investors.

Buying price: Also called offer price. The price at which units in a unit trust are bought by investors. Includes manager's initial charge.

Single price: Based on a mid-market valuation of the underlying investments. The buying and selling price for shares of an OEIC and units of a single priced unit trust are the same.

Treatment of manager's periodic capital charge: The letter C denotes that the trust deducts all or part of the manager's/operator's periodic charge from capital, contact the manager/operator for full details of the effect of this course of action.

Exit Charges: The letter E denotes that an exit charge may be made when you sell units, contact the manager/operator for full details.

Time: Some funds give information about the timing of price quotes. The time shown alongside the fund manager's/operator's name is the valuation point for their unit trusts/OEICs, unless another time is indicated by the symbol alongside the individual unit trust/OEIC name.

The symbols are as follows: ✠ 0001 to 1100 hours; ♦ 1101 to 1400 hours; ▲ 1401 to 1700 hours; # 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available. Historic pricing: The letter H denotes that the managers/operators will normally deal on the price set at the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers/operators must deal at a forward price on request, and may move to forward pricing at any time. Forward pricing: The letter F denotes that that managers/operators deal at the price to be set at the next valuation.

Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers/operators. Scheme particulars, prospectus, key features and reports: The most recent particulars and documents may be obtained free of charge from fund managers/operators. * Indicates funds which do not price on Fridays.

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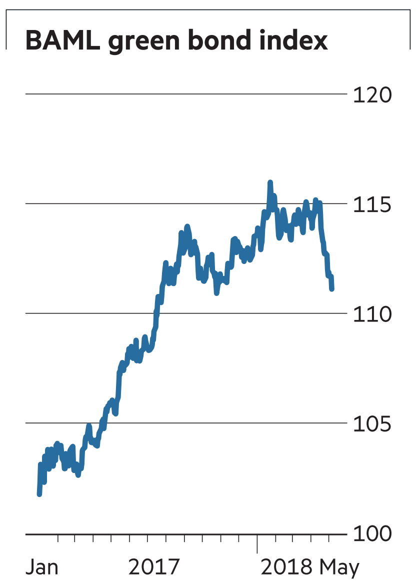
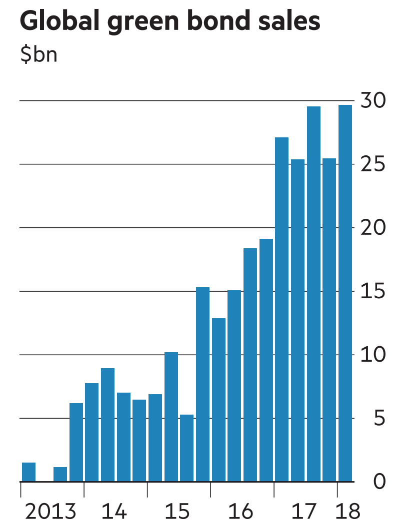
Analysis. Capital markets

‘Green’ ratings of environmental bonds come under scrutiny





Sources: Bloomberg; Linklaters; Thomson Reuters

Indonesia’s largest solar-power plant, at Oelpuah. The country sold its first green bond in February but the verifier did not assess whether Indonesia would deliver environmental improvements Antara Foto/Reuters

Calls grow for more regulation of evaluators’ credentials as the market expands rapidly

KATE ALLEN

The growing influence of a new kind of credit rating aimed at green bonds has prompted calls for greater regulation of how a borrower’s environmental credentials are judged in the rapidly expanding market.

Sales of green bonds rose 9.4 per cent year on year in the first quarter of 2018 to $29.6bn, according to data from law firm Linklaters, fuelling concern that more scrutiny is needed of the companies that judge how green the bonds are. Some observers argue that these third-party verifiers should be subject to regulation in the way that credit rating agencies are in established debt markets.

Third-party verifiers include credit rating agencies and accounting firms, but independent environmental consultancies and research institutes have also become involved.

Although some of these organisations’ broader activities are regulated, third-party verifiers of green bonds do not have to abide by any particular rules in the environmental finance market.

Some investors were “relying more and more” on these opinions, said Suzanne Buchta, global head of green bonds at Bank of America Merrill Lynch. “Therefore it would make sense for there to be some regulation around who can write such opinions in the same way that there is regulation of the agencies that write credit opinions.”

In February, Indonesia — the world’s second-largest exporter of coal — sold its first green bond. Running its eye over what the country had pledged to spend the proceeds on was Norwegian climate research institute Cicero. However, Cicero did not assess whether Indonesia would deliver any actual environmental improvements. Its assessment even noted: “There is a possibility that some [of Indonesia’s] eligible green projects include an element of deforestation.” Nevertheless, that level of assurance was enough for some investors: Indonesia raised $1.25bn.

Sean Kidney, chief executive of the Climate Bonds Initiative, a UK-based non-profit organisation, pointed to a concern for investors in such situations: “Because the [assessment] fees are paid by the issuer of the bond, you have the same potential conflict of interest [with third-party verifiers] as we had with the credit rating agencies before the financial crisis.”

But Christa Clapp, director of research at Cicero, said that its status as a primarily academic non-profit organisation meant it did not have “financial or other conflicting interests”, and could be trusted to rate bonds fairly. The fees system does not create a conflict of interest, she believes.

On Cicero’s decision to give Indonesia a “medium green” rating — the second highest on its four-point scale — Ms Clapp said: “We are trying to encompass all the different stages of [environmental] progress, so we want to be inclusive of short-term decisions that are an improvement but are not necessarily the long-term changes that will be needed [in the future].”

However, she noted, “there are really different interpretations” of international guidelines such as the Green Bond Principles among external reviewers “and I find some of the approaches a little disturbing”, so “there could be more scrutiny” of third-party assessors.

Although third-party assessors have grown in importance in recent years, relying on them is “a pretty weak way to manage clients’ money”, said Vishal Khanduja, green bond fund portfolio manager at Calvert Research and Management, a subsidiary of US asset manager Eaton Vance. Instead, investors should do their own environmental due diligence, he believes.

Borrowers who wish to offer investors a third-party verification of their environmental plans have several options. The first, as Cicero did for Indonesia, is to check before the bond is sold that it meets international standards such as the Green Bond Principles.

Issuers can also be audited some time after the deal is concluded, to check what the money was spent on. The most stringent option is a report assessing what measurable outputs the borrower has delivered — a reduction in carbon emissions or water use. Some industry insiders estimate that fewer than 10 per cent of the green bonds sold so far will give investors this level of information.

> ‘A lot of clients are asking us now what we actually achieved’
>
> Vishal Khanduja, green bond fund manager

Indonesia has pledged to report annually on both the spending and impact of its bonds, and to have that report independently audited.

In an effort to ensure minimum quality standards for such reports, China is introducing a licensing scheme for organisations offering verdicts on how borrowers use they money they raise. The European Commission is also considering introducing accreditation.

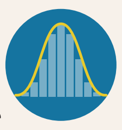
The demands for accountability over environmental achievements would only grow, said Mr Khanduja: “A lot of clients are asking us now what we actually achieved. We are going to need to answer those questions for our clients quantitatively, including what we did for the environment.”

Regulation can be costly, however, cautions Ms Buchta. “If investors would really like to see impact reporting on bonds, this should not be restricted to green bonds; it should be a request across all bonds . . . If you force intensive impact reporting only on to the green bond market then you crush that market before it has really got going.”

Tail risk

Strong dollar poses risk for frontier states and creditors

CHLOE CORNISH



Lebanon, Egypt, Pakistan, Bahrain and Mongolia are the sovereign debtors most at risk of interest rate shocks, an analysis by Moody’s has concluded.

Countries that have shorter-dated bonds and lower credit ratings will fare worst under slow and steady rising rates or a severe shock, according to the rating agency, which reckons Sri Lanka and Jordan are also exposed. Large emerging markets generally have longer-dated bonds, and are therefore better shielded from interest rate shocks.

But the strong dollar, whose rally since mid-April stalled last week, is arguably a more pressing fiscal worry for frontier states, and their creditors, than interest rates.

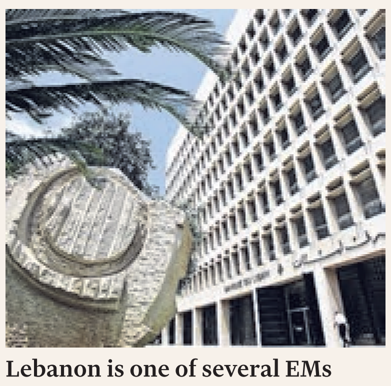
Asset managers Invesco and Pictet are the biggest holders of Lebanon’s US dollar-denominated 2037 maturity sovereign bond, which pays a 7.25 per cent coupon, and is trading at just 83 cents in the dollar. That’s lower than its drop to 88 cents in November, when Lebanon’s prime minister unexpectedly declared he was stepping down. (He later reversed the resignation.)

The bond’s price has been falling since the start of April, during which time Lebanon has held parliamentary elections that brought further political gains to Lebanese Hizbollah, which is backed by Iran.

But at the same time the US dollar was rallying, making it pricier for the Lebanese government to redeem the bond’s coupon. For a country that spends around half of its government revenue on paying interest, according to the World Bank, any dollar swing upwards has an outsize impact. (For comparison, the UK’s debt-servicing cost is about 7 per cent.)

The Banque du Liban “will need to increase interest rates or use its sizeable gross reserves to meet the funding needs of the economy”, said the IMF in a February report. Lebanon has about $44bn in foreign currency reserves, per World Bank data. But those reserves are also firepower for protecting the Lebanese pound’s peg with the US dollar.

An interest rate rise seems less imminent than it was, as US inflation and wages have failed to break out. So unless US growth data reveal the world’s biggest economy is pulling away from the eurozone, the likelihood of serious interest rate rises by the Fed seems to be dimming.



Lebanon is one of several EMs braced for interest rates to rise

Capital markets

US groups cut securities stockpile and reassess cash plans after tax overhaul

ALEXANDRA SCAGGS — NEW YORK

US companies’ pile of bond investments is shrinking as they prepare to change radically the way they spend their excess cash.

The biggest 30 corporate stockpiles of securities shrank 10 per cent, or $61bn, in the first quarter to $524bn, according to a Financial Times analysis of public filings.

At the same time, the aggregate growth in companies’ holdings of cash and equivalents rose 17 per cent, or $34bn to $239bn, as senior executives assess new ways to deploy their capital.

Until this year, US companies faced a 35 per cent corporate tax rate at home, but did not need to pay tax on foreign profits until those earnings were repatriated.

That prompted groups such as Microsoft, Apple and Cisco in the past decade to invest hundreds of billions of dollars of spare cash offshore, mainly in bonds and other securities, to earn a return.

But Congress’s approval of a new tax law that required companies to pay 8 per cent to 15.5 per cent tax on all profits held offshore, has pushed managements to start planning to deploy that cash on buybacks, dividends, debt retirement, deals or increased capital expenditures.

Companies’ specific plans for cash largely depend on idiosyncratic factors but in advance they have been selling their bonds and moving that money in cash or cash equivalents such as money-market funds.

The largest portfolio declines occurred at drugmakers Allergan and Celgene, and semiconductor maker Lam Research, which reduced their securities holdings by 78 per cent, 62 per cent and 58 per cent, respectively.

Part of Allergan’s reduction was caused by a divestment of its stake in Teva, an Israeli drugmaker, but it also retired more than $4bn of its debt, moved a planned $2bn share buyback into the first quarter and raised its dividend payout by nearly $7m. Celgene, for its part, increased the size of its share buyback programme by $5bn.

Drugmaker Allergan had one of the largest reductions in its portfolio

Lam Research said it was “essentially liquidating” its overseas holdings of bonds, and experienced a $47m loss as a result. With the cash raised, it said it would increase its buybacks by $2bn and more than double its dividend.

Of the companies with the largest cash stockpiles, two have still not told investors how, or whether, they plan to repatriate or spend that money.

Microsoft only shrank its portfolio of Treasuries by 2 per cent, as it said it would carry out its shareholder capital return programme according to plans. Alphabet, which owns Google, only reduced the size of its portfolio by 1 per cent.

Apple, which has by far the largest bond hoard, plans to reduce its net cash level to zero. The company approved a $100bn share buyback and a 16 per cent increase in its dividend.

Its holdings of marketable securities fell $22bn, or 9 per cent of its total holdings. But since it had just recently approved those payments, its cash level rose $20bn.

Currencies

Argentine peso slides 7.4% on eve of central bank’s short-term notes sale

ROGER BLITZ, PAN KWAN YUK AND BENEDICT MANDER

The Argentine peso fell 7.4 per cent yesterday despite efforts by the government and the IMF to prop up the country’s financial position.

The currency dropped sharply at the opening of trading to just below 25 pesos to the dollar, taking the decline in the past 12 days to 18 per cent.

Argentine bonds and stocks were also under pressure, with the 100-year bond trading back below 87 cents on the dollar and Argentina-related electronically traded funds down more than 1 per cent. The sharpness of the fall again underlines the poor liquidity in the peso, one of the least traded of emerging market currencies. The daily average turnover in over-the-counter foreign exchange in Argentina amounts to only $1bn on a net-gross basis, according to the Bank for International Settlements.

The government approached the IMF last week about a line of credit after the central bank’s raid on reserves and a 40 per cent rise in interest rates failed to arrest the peso’s decline.

Analysts say the move should help reassure foreign investors but Mauricio Macri, the president, risks alienating Argentines and damaging their faith in the peso. The IMF is unpopular in Argentina because of the impact of its measures on the economy in the early 2000s.

Argentines are concerned the IMF will demand the peso be allowed to float freely as a condition for lending money. Many observers argue that the peso is overvalued but after its devaluation during the past two weeks, economists are beginning to suggest it is reaching its market value.

Mr Macri said he had discussed the start of the IMF talks with Donald Trump. The US has the biggest voting strength among IMF member countries.

> ‘Our shared goal is to reach a rapid conclusion of these discussions’
>
> IMF on talks with Buenos Aires

The IMF said talks with Buenos Aires were continuing. “Our shared goal is to reach a rapid conclusion of these discussions,” it said. An informal IMF board meeting on Argentina has been scheduled for Friday.

Analysts attributed much of yesterday’s pressure on the peso to the test faced by the central bank tomorrow when it holds its monthly auction of short-term securities, known as Lebacs, with notes worth 639bn pesos maturing on Wednesday, or about $26bn.

There were concerns those Lebacs not rolled over would free up pesos to buy dollars, putting further pressure on the currency. But analysts pointed out that up to 60 per cent of the stock of Lebacs maturing were owned by the public sector, while interest rates above 40 per cent meant many investors might choose to continue holding Lebacs.

The IMF needed to provide a quick timeframe for the release of aid to “calm down domestic sentiment” towards the peso, said Simon Quijano-Evans, EM strategist at Legal & General Asset Management, “or the central bank needs to hike rates yet again”.

But the question was whether that would work, “which would raise the spectre of capital controls”, he added.

Brown Brothers Harriman thought another rates rise was plausible. “The plunging peso warns of a further spike in inflation, and so the bank will likely need to hike rates again,” it said.

Ilya Gofshteyn, LatAm forex strategist at Standard Chartered Bank, said: “Traders feel like there are still some people caught the wrong way who haven’t liquidated positioning yet.”

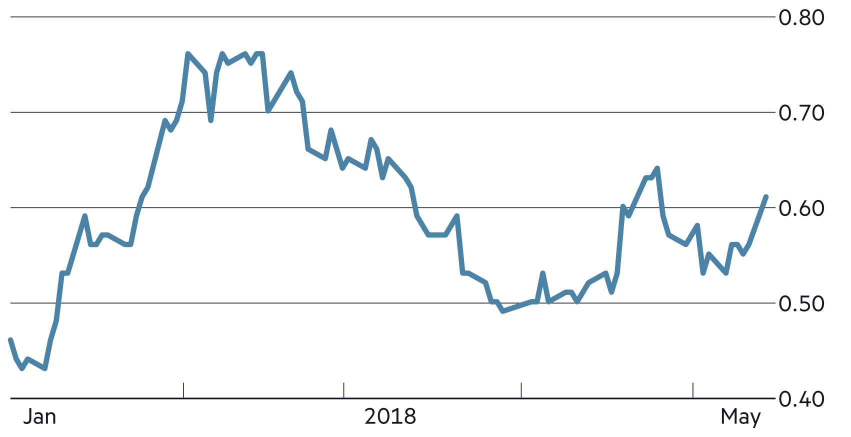
Markets & Investing
FINANCIAL TIMES

The day in the markets

What you need to know

- Wall Street gains as US-China trade war worries recede
- Eurozone bonds fall after Villeroy comments
- Italian assets outperform
- Argentine peso hits fresh record low

Hawkish tone from ECB official lifts eurozone bond yields
German 10-year Bund yield (%)



Source: Thomson Reuters Datastream

An apparent easing of US-China trade tensions helped put the S&P 500 on track for its highest close in two months although European equities struggled in the face of rising bond yields following relatively hawkish comments from a senior European Central Bank official.

In a significant U-turn, President Donald Trump at the weekend ordered the US commerce department to help Chinese telecoms group ZTE "get back into business, fast". The company said last week that it would cease operations after the Trump administration hit it with crippling sanctions.

"There are multiple interpretations as to the motivation behind Mr Trump's words but, almost irrespective of why the president has decided to offer this concession, the implication appears to be a reduction of trade tensions between the world's two largest economies," said Jane Foley, senior FX strategist at Rabobank.

Meanwhile, François Villeroy de Galhau, the governor of the Bank of France, said that the ECB's first rate rise would come "some quarters, but not years" after the end of its asset-purchase programme.

"Mr Villeroy is generally known as a dove, though over the last year or so his comments put him on the more hawkish end of the [ECB] governing council spectrum," said Nick Kounis at ABN Amro.

"Bond markets seem to have interpreted his comments as implying a faster rate hike cycle when it eventually does come, rather than implying very early rate hikes."

Indeed, the 10-year German Bund yield rose to its highest level for more than two weeks, although there was only a muted rise for the euro against the dollar. The Italian-German yield spread narrowed slightly — and shares in Milan outperformed — as the markets awaited fresh political developments from Rome.

"It appears that the two populist parties will cobble together a ruling coalition that the market somehow sees as putting zero existential strain on the single currency," said John Hardy, head of FX strategy at Saxo Bank.

Elsewhere, the Argentine peso tumbled more than 7 per cent against the dollar to a fresh record low, taking its decline over the past 12 days to 18 per cent.
Dave Shellock

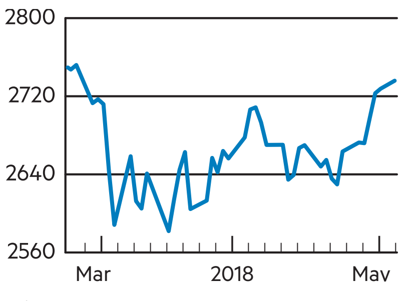
Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	2735.92	1538.32	22865.86	7710.98	3174.03	85652.69
% change on day	0.30	-0.04	0.47	-0.18	0.34	0.51
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	92.309	1.197	109.550	1.360	6.337	3.619
% change on day	-0.246	0.251	0.160	0.369	0.035	0.999
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	2.991	0.608	0.047	1.470	3.693	10.003
Basis point change on day	2.370	5.000	0.580	3.000	-0.900	10.400
World index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	344.47	77.99	70.90	1324.35	16.76	3343.80
% change on day	0.32	1.23	0.44	0.42	0.96	-0.12

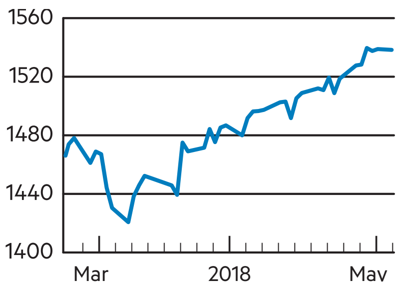
Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets

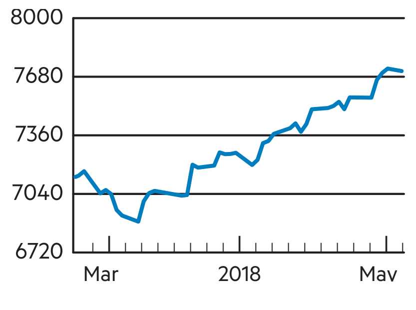
S&P 500 index



Eurofirst 300 index



FTSE 100 index



Biggest movers

%	US		Eurozone		UK	
Ups	Symantec	9.58	Edp	9.32	Paddy Power Betfair	12.24
	L Brands	4.45	Oci	5.33	Coca-cola Hbc Ag	2.02
	Western Digital	4.07	Novo Nordisk	4.10	Mediclinic Int	1.94
	Cbs	4.00	Ses	3.31	Shire	1.83
	Target	3.89	Merck	2.06	Centrica	1.36
Downs	Xerox	-7.61	A.p. Moller - Maersk B	-3.08	G4s	-2.77
	Viacom	-5.84	Airbus	-2.38	Royal Mail	-2.73
	Perrigo	-3.95	Ferrovial	-1.84	Bt	-2.40
	Darden Restaurants	-3.30	Commerzbank	-1.83	Itv	-2.27
	Mattel	-3.16	Talanx	-1.78	Direct Line Insurance	-2.02

Prices taken at 17:00 GMT. Based on the constituents of the FTSE Eurofirst 300 Eurozone. All data provided by Morningstar unless otherwise noted.

Wall Street

Xerox was the biggest faller on the benchmark S&P 500 after pulling out of a $6.1bn deal to acquire Japan's Fujifilm.

The move was seen as a victory for activist investors Carl Icahn and Darwin Deason and has cost Xerox chief executive Jeff Jacobson his job. Its shares had retreated nearly 8 per cent by mid-session.

The easing of US-China trade war fears was credited with Beijing restarting its review process of chipmaker **Qualcomm**'s proposed $44bn purchase of Dutch group **NXP Semiconductor**. Nasdaq-listed NXP climbed nearly 10 per cent while Qualcomm rose more than 3 per cent.

Churchill Downs, which owns five racetracks and six casinos, was among the US gambling stocks boosted by a landmark Supreme Court ruling that could result in legalised sports gambling. The stock had risen by 5.6 per cent to $294 by mid-day.

Las Vegas-centric operators were the main outliers, however, given that the ruling is expected to break the city's hold on sports betting.

Wynn Resorts fell 1.8 per cent to $192.33, while **Las Vegas Sands** dropped 0.7 per cent to $77.55.
Pan Kwan Yuk

Eurozone

ABN Amro fell 7 per cent after the Dutch lender reported a sharp increase in loan impairments in the first quarter. Losses on bad loans more than tripled year on year, jumping from €63m to €208m.

The bank suffered from weakness in oil and gas-related industries, where businesses such as shipping and offshore services have been slow to recover after years of low oil prices, and in the diamonds and jewellery industry.

Johan Ekblom, UBS analyst, said the large increase in bad loans "feels at odds with trends at other European banks that have largely seen stable or improving asset quality trends", and that it may raise "questions about the asset quality outlook".

Nokia was prominent among the Euro Stoxx 50 fallers, sliding nearly 3 per cent at one point, after US president Donald Trump on Sunday pledged to help a rival Chinese telecommunications group.

ZTE Corp stopped operations last week following a ban by the US commerce department on purchasing US-made technologies over accusations that it unlawfully breached sanctions on Iran and North Korea. Nokia had previously jumped 5 per cent on April 17 when the US cancelled ZTE's export rights.
Nicholas Megaw and Chloe Cornish

London

UK bookmaker **Paddy Power Betfair** surged to the top of the FTSE 100 while peers **William Hill** and **GVC Holdings** also jumped after a landmark Supreme Court ruling that could pave the way for legalised US sports gambling.

Paddy Power's shares climbed 12.2 per cent in London after the highest US court backed New Jersey by overruling a federal statute that had stopped the state legalising sports betting on college sports at horseracing tracks and casinos.

William Hill, which is a market leader in the US with a 55 per cent share in Nevada casinos, rose 10.7 per cent while GVC Holdings, which owns the betting shop chain Ladbrokes Coral and online gambling sites, was up 7.4 per cent.

Hope for a bidding war for **IWG**, the serviced office provider, sent its shares striding to the top of the FTSE 250.

The shares surged almost 23 per cent to 309p after its announcement following Friday's close of three separate bid approaches for IWG, which operates the Regus brand among others.

After news of the cancellation of the blockbuster US series *Designated Survivor* by the ABC network, shares in its maker Entertainment One were down 4.1 per cent by the close.
Stephen Smith and Michael Hunter

Obstacles stand in way of a sustained dollar recovery

Steve Englander
Markets Insight

The current appetite for the dollar is driven by the belief that US economic growth is rebounding and Europe is doing the opposite. The first may be true — but the second is almost certainly not.

Yet it's a view that has pushed the dollar index up 3 per cent from the levels of a month ago, though the currency remains 7 per cent weaker than it was at the beginning of 2017.

The dollar may have a little further to climb in the short term, given investors spent more than a year selling it. But for this to be the beginning of a major dollar recovery that returns it to 2015 or 2016 levels, investors must convince themselves that US real rates, or those adjusted for inflation, are structurally higher than most thought. If this emerges — and it is not overwhelmed by political risks — the US will deliver what global investors want: sustainably higher real rates of return.

In practice, this means faster productivity growth, an extended investment boom and people joining the workforce to increase labour supply and keep wage costs low. There is some reason to be optimistic but the earliest we will know that such major shifts are occurring is late this year. Our supply side data on the economy are poor at best.

By contrast, there is reason to be sceptical that the dollar would benefit much from an inflation surge that prompted the Federal Reserve to accelerate the pace of rate hikes. The expectation of a Fed-induced slump would almost certainly weaken equity prices and lower long-term real interest rates. The positive dollar story is one based around an extended expansion — not cycle-ending rate hikes.

The major negative for the euro is the perception of an acute downturn in economic activity. The Citi economic surprise index for the eurozone has dropped 158 points over four months. You have to go back to the autumn of 2008 to find such a precipitous fall. When activity looks to be dropping this fast, any talk of normalising monetary policy isn't convincing. What makes it worse is that the options for any further stimulus from the European Central Bank are poor, given how extended monetary policy already is.

The good news is that the appearance of economic weakness very probably reflects a bad winter for the eurozone.

> The US and its trading partners are like the scorpion crossing a river on the back of a frog

Extreme pessimism about the eurozone is now trotted out very casually, meaning only a modest improvement in data will be enough to shake that view. However, if I am wrong on my optimism about a eurozone economic bounce, the euro's prospects are dire.

A turnaround for the euro may not help emerging market currencies much. The major negative for emerging markets is that there isn't a positive story to offset concern about rising borrowing costs. There is neither a compelling growth nor reform story out there. However, Asian and other current account surplus currencies will probably improve when the current risk scare passes. While emerging market currencies may draw some benefit from an improvement in risk sentiment, they will have to drop further to provide the heightened risk-adjusted return investors demand.

The comfort for EM and non-US dollar G10 currencies lies with two big negatives that will doom the reserve currency — barring a significant improvement in the supply side of the economy. First, reserve managers have more dollars than they want. Reserve accumulation only occurs when the dollar is under pressure and reserve managers want to maintain competitiveness.

The second big negative is the truckload of dollar liabilities being put into the market by the US Treasury. When there is so much government bond supply, you have to pay up. One means of doing so and enticing foreign buyers is through a weaker currency.

Trade and tariff concerns will persist but they are second tier relative to the factors discussed above. The US and its trading partners are like the scorpion crossing a river on the back of a frog. There is an uncomfortable simultaneous mixture of complete distrust and mutual dependence. The White House sees talking the dollar down as a policy tool in trade negotiations. The currency will drop sharply when they exercise this option and recover slowly when nothing much else happens.

Position swings are far more material in foreign exchange markets than economists and policymakers admit. It feels as if there had been an accumulation of dollar shorts that have been sharply cut back over the past month. It's a dynamic that gives the appearance of a wave of dollar buying. But the reality is that persuading investors to actually buy into a dollar-positive story is harder than getting them to unwind a negative one.

Steve Englander is head of research and strategy at Rafiki Capital Management

Brazil

Tuesday May 15 2018

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Frail economy and crime stir populist voices ahead of poll

Traditional party candidates for October's presidential election are struggling, says *Joe Leahy*

At a recent conference in London, Luís Roberto Barroso, one of Brazil's increasingly outspoken new crop of supreme court justices, seemed to summarise the age-old problems afflicting Latin America's biggest country.

"We still live in a country in which, perhaps as a result of slavery, there is a belief that there exist inferiors and superiors," Justice Barroso told the Brazil Forum UK. "Since there are not rights for everyone, each goes in search of their own privileges."

Yet this is changing. The judge was speaking in the same week that he and his colleagues on the Supreme Court took a key step towards removing the so called *foro privilegiado*, which in effect has granted many politicians immunity from prosecution.

The ruling comes in a year when the country, perhaps more than at any other time since the end of the military dictatorship in the mid-1980s, finds itself at a political crossroads. In October, Brazil is scheduled to elect a president who, for the first time, could come from outside the established parties that have ruled since the early 1990s.

This is the first election, notes Chris Garman, analyst with the Eurasia Group political consultancy, where none of the leading candidates "who have the advantages of television time, money and party support" are really hitting home as far as the demands of voters are concerned. In short, the result remains up in the air.

Former president Luiz Inácio Lula da Silva, founder of the Workers' party, which has led Brazil for 13 of the past 15 years, has been ahead in the polls but was jailed in April on corruption charges. There remains a slim chance that he may still decide to run, though this will not be clear until the candidates finally declare in mid-August.

Snap to it: ex-military man Jair Bolsonaro is a frontrunner — Paulo Lopes/ZUMA Wire/dpa

If Lula opts not to run — or is blocked by the electoral authorities because of his criminal conviction as seems likely — his still immense popularity could make any endorsement he gives critical.

In Lula's absence, the frontrunner appears to be the far-right congressman and former army captain Jair Bolsonaro. Until quite recently, his taste for guns and authoritarianism made him something of a political pariah, though his campaign appears to be capitalising on Brazilians' fear of crime.

With about 60,000 people murdered in Brazil last year, the Brazilian Forum of Public Security and the Instituto Igarapé, two security think-tanks, report a prevailing dread among Brazilians that they will be the victims of homicide. As such, Mr Bolsonaro's pledge to change the law to make it easier for citizens to bear arms is striking a popular chord.

Next in line is environmentalist and former minister Marina Silva, who comes from a rubber-tapper family, while Ciro Gomes, a veteran but maverick politician from the left, is polling quite well.

Apparently trailing are a number of more traditional candidates. Geraldo Alckmin is the former São Paulo governor and head of the centre-right Brazilian Social Democracy party (PSDB). Others include the current president Michel Temer and former finance minister Henrique Meirelles.

Just where such contenders stand in the running should become clearer when the official campaign begins in August. Meanwhile, the electoral fate of Manuela D'Ávila, who runs for the Communist party, may depend on what Lula decides to do (see story on page 3).

Against the backdrop of uncertainty, "this election is going to be a real test case for what factors drive presidential elections," says Mr Garman. The

Continued on page 7

Inside

Bountiful returns: agriculture minister Blairo Maggi, above, finds himself in charge of a sector whose performance, much driven by exports to China, has helped push inflation down to historical lows — Reuters/Ueslei Marcelino

Grains of recovery whet appetite for reform

Economy Rapid implementation of changes in areas like pensions are crucial, writes *Joe Leahy*

In Três Lagoas in Mato Grosso do Sul state, the site of the world's largest single-line pulp mill — owned by Brazilian company Fibria Celulose — forestry manager Tomás Balistiero shows off the prowess of those who cut down trees to feed the plant.

A chart shows the record output for a single operator during a nine-hour night shift: 1,702 eucalyptus trees felled, a rate of 19 seconds per tree.

Another operator demonstrates how it is done, by way of a PlayStation-like console in the cockpit of one of the monster harvesters. The machine grasps a eucalyptus tree in its jaws, saws it off at the base and peels its bark and limbs as smoothly as a banana. In seconds, it slices the tree into 6.5m lengths, piling them like matchsticks. "Here there are very few people and a lot of land," says Mr Balistiero. "Productivity is very high."

Fibria, the largest eucalyptus pulp company in the world is about to become even bigger after a planned merger with Suzano, the country's number two producer. Its operations provide an example of how Brazil has survived its worst recession in history over the past few years.

Brazil's GDP grew 1 per cent last year, a nascent recovery from the previous two years when it shrank by a combined 7 per cent. By contrast, agriculture, which includes forestry, grains and animal husbandry activities such as ranching, grew 13 per cent in 2017.

A bountiful harvest helped push inflation down to historical lows. Brazil's official IPCA inflation index registered a 2.7 per cent rise in prices in the year to March, its lowest level since 1999.

Agriculture's performance, much of it driven by exports to China, and the decline in inflation have been accompanied by record low benchmark interest rates of 6.5 per cent.

Economic growth rates are forecast at 2.75 per cent this year and 3 per cent next year, according to a central bank survey.

The recovery could be yet more spectacular should the candidate who wins the presidential elections in October quickly implement economic reforms. Most important is a much-needed overhaul of the state pension system, which is considered to be unsustainable, with many public servants in particular retiring in their mid-50s.

"The window of opportunity is here," says Marco Abrahão, head of private banking at investment house Credit Suisse Hedging-Griffo, which manages R$115bn in assets.

"If someone enters now with a reform agenda, that would be the first time this has happened in Brazil at a moment when we also have low interest rates and inflation."

The problem, say analysts, is that while the market sees the need for fiscal reform, no clear leader likely to enforce it has yet emerged in the electoral race.

Most candidates from the centre-left to the far-right, for example, seem willing to implement pension reform but the uncertainty lies in how quickly and effectively they might want to do so. The current president, Michel Temer, has been unable to persuade congress to pass the constitutional amendment needed for pension reform, in spite of having been head of the lower house three times.

> 'The uncertainty is delaying decisions on whether to consume or invest'

"There is uncertainty, especially with fiscal policy, over what will be the approach adopted by the new government," says Mario Mesquita, chief economist at Itaú Unibanco. The uncertainty "is delaying people's decisions", he adds, on whether their spending will be geared towards "private consumption or investment".

Some of the uncertainty is already reflected in economic performance. Industrial production in the first quarter of 2018 was minus 0.1 per cent, compared with market expectations for positive growth of 0.6 per cent.

Alberto Ramos, a Goldman Sachs economist, has said that while he still expects low interest rates and external demand to drive up industrial production this year, other factors could come into play, such as a recent slide in the currency of Argentina, one of Brazil's most important trading partners.

In a recent report, Mr Ramos noted that Brazilian industry "could face headwinds" if Argentina's financial turbulence undercuts growth in the key auto market for Brazilian exports.

Brazil could also face problems from the fallout in emerging markets from rising US interest rates, say analysts, with yields on US treasuries increasing as Brazilian benchmark rates are hitting record lows — encouraging a currency sell-off. Brazil's real has already depreciated to its lowest levels since 2016.

Significantly, the central bank announced it would increase its sale of dollar swaps — bets against the dollar that have the effect of supporting the real — saying these were necessary to smooth out foreign exchange market movements. Some economists argue, however, that the fallout for Brazil from the US interest rate cycle should be bearable.

"Brazil has very favourable external fundamentals, such as a low current account deficit, modest external debt and high foreign exchange reserves," states a note from Santander, the Spanish bank.

Car Wash scandal puts pressure on companies to obey clean up rules

Compliance

Majority may still fail to see benefits of good governance, reports *Andres Schipani*

As Brazil's investigation into its Car Wash (*Lava Jato*) corruption scandal enters its fifth year, Eduardo Staino, the head of compliance at Andrade Gutierrez, one of the country's largest construction companies, recalls how the scandal took a toll on him.

"I am not going to say *Lava Jato* is the only reason for my marriage's failure," says Mr Staino, who divorced last year. "[But] I had my head in the job," he adds, referring to the work hours and stress that he attributes to the scandal.

The continuing criminal investigation into bribery at Petrobas, the state-controlled oil producer, which came to light in 2014, has implicated a sizeable part of Brazil's business and political establishment. Following the arrest and jailing of some Andrade Gutierrez executives and the imposition of a R$1bn ($290m) fine on the company, Mr Staino was put in charge of strengthening its compliance rules.

In common with managers in a similar position at other companies caught in the Car Wash deluge, much was left to him to protect the organisation from further legal exposure and to repair a sullied reputation. "We cannot make such a mistake again," says Mr Staino. "We can see clearly today that if we do something wrong again we are finished."

Such efforts as Mr Staino's may, in the long term, help clean up the image of Brazil's politics and business. In the meantime, the probe into graft at Petrobras, which revealed that a considerable number of companies received public contracts in exchange for bribes, has fuelled a regulatory compliance boom in Brazil.

As a result, companies have been compelled to develop codes of conduct and ethics. Such procedures as hotlines for complaints to limit opportunities for illicit payments have also become a feature of the business landscape.

The basis of a stronger legal framework came in the form of Brazil's Clean Companies Act, in force from 2014. This has forced many companies to take compliance more seriously, not least because those found guilty of graft face potential fines of up to 20 per cent of their previous year's gross income.

This was followed by a 2016 law that set governance and compliance rules for Brazil's state companies, or those in which the state has a controlling interest such as Petrobras. Government ministers and members of political parties are banned from being appointed to such companies' boards of directors.

> 'We can see clearly that if we do something wrong again we are finished'

Lava Jato has turned corruption into a "huge worry for everyone", says Marcello Hallake, partner at Jones Day, international lawyers. In Brazil, compliance officers, heads of compliance and legal aides for compliance, he adds, are "much in demand these days".

Mr Staino notes that it is not easy to develop and oversee compliance schemes. "This is not something you learn at school," he says, and is "super challenging and complex". A good compliance programme "is not something you can simply buy at a supermarket".

At Andrade Gutierrez, robots have been brought in to help. Before the company makes a payment to a supplier, Mr Staino explains, a software robot can go through a database to check what links that supplier might have to politicians.

Where once Brazilian companies boasted about profits, now they may be as likely to emphasise how they stick to compliance rules. Fábio Januário, chief executive of construction company Odebrecht, which found itself very much part of the *Lava Jato* drama, says: "The company is going through a profound moment of transformation, perhaps like no other."

A 2018 study by Berlin-based Transparency International, a non-governmental organisation, suggests a trend towards anti-corruption compliance and ethics in Brazil.

The 110 companies assessed on the strength and transparency of their anti-corruption programmes scored an average 65 out of 100, compared with 55 two years ago.

Katja Bechtel, Transparency International's head of business integrity, warns that it is too early to say if "Brazil's compliance hype" is part of a serious commitment to change things. "Cultural change does not happen overnight, but needs continuous efforts," she adds.

Adopting anti-corruption and ethics schemes is a necessary but not sufficient measure, suggests Wagner Giovanini, former compliance chief for Latin America for German conglomerate Siemens and now a director of São Paulo-based consultancy Compliance Total.

"The vast majority" of companies in Brazil, says Mr Giovanini, have not yet realised the benefits to their business of having "a well-established compliance system". Having a complaints hotline as part of a compliance scheme "is not enough to make things right", he adds.

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Gender Misogyny and violence against women have shaped the presidential campaigns of two female activists, report *Andres Schipani* and *Lucinda Elliott*

Women bring fight against sexism on to the political agenda

'Protesters in Sao Paulo march in honour of Marielle Franco, a female councillor murdered earlier this year — Cris Faga/NurPhoto via Getty Images

When a leftwing female congresswoman was described as too ugly to be raped, Manuela D'Avila's stomach turned. The speaker was Jair Bolsonaro, the Brazilian far rightwing congressman and presidential candidate.

That feeling only worsened after the execution-style murder in March of Marielle Franco, a Rio de Janeiro councillor, a crime that many attribute to the fact that she was a black lesbian activist.

"This is the political violence we women are subjected to," says Ms D'Avila, a journalist and presidential candidate for the Communist party in this October's elections. Ms D'Avila, a legislator in the southern state of Rio Grande do Sul, aims to change things by boosting the presence of women in the sexist world of Brazilian politics.

"Gender inequality is brutal in Brazil," says Ms D'Avila. Her T-shirt proclaims "Fight like a girl", a campaign slogan of hers and reference to Brazilian women having to battle for many things in life, not least the right to be spared chauvinist attitudes.

The fact that she is running for the presidency at the age of 36 and with a two-year-old daughter gives her a glimpse of hope that "politics can be changed". If she were to be elected, she adds, it would be a sign of something "truly rebellious".

The campaign for the presidency is one of the most unpredictable in years and is noteworthy for the apparent rejection of the country's established political elites.

Politics and society remain no less male-dominated, however. Although women make up 52 per cent of Brazil's electorate, their place in politics has "continued its downward trend", Ms D'Avila says. Female representation in ministerial posts dropped from a 25.6 per cent in 2014 to 4 per cent last year, according to a report by the Inter-Parliamentary Union and the United Nations.

In the same study, Brazil ranked 153rd out of 193 countries in terms of the number of women in the legislature, with only one in 10 congressional seats. Affirmative action quotas state that at least 30 per cent of each party's candidates should be women, but politics remains a "very misogynistic process", says Danusa Marques, a professor of gender and politics at the university of Brasília.

All the presidential women: candidates Marina Silva (below) and Manuela D'Avila (right)

She believes this was the case with Dilma Rousseff, Brazil's first female president, who took office in 2011 but was impeached in 2016. It is "never easy" for a woman to get the presidency, she says, let alone hold on to it.

Even if Brazilians are fed up with their political class, out of the current 17 people in the running for the presidency only three are women. Ms D'Avila, as determined as she may be to take on the establishment, is backed by only 2 per cent of the electorate, according to soundings taken of voters' intentions.

The frontrunner, leading most opinion polls by a wide margin, is the popular former president Luis Inácio Lula da Silva. Recently sent to prison on corruption charges, however, his hopes of running in the election have taken a hit, which could provide an unexpected boost for Ms D'Avila.

Some political observers believe that she stands a chance in the presidential race if she is presented by Mr da Silva as a unifying candidate for the left. Ms D'Avila has been seen in public with Mr da Silva and has described the sentence against him as unfair.

Others pin hopes for a female president on centre-left environmentalist Marina Silva, who is taking part in her third presidential campaign and won 22m votes four years ago. Were Lula to be out of the race, she would be second in the polls behind former army captain Mr Bolsonaro.

As both a woman and black, the softly spoken Ms Silva stands for two groups that are poorly represented in politics. Still unable to read and write when she worked as a rubber-tapper in the Amazon until the age of 16, she rose to become a senator and environment minister, before breaking with Mr da Silva and challenging Ms Rousseff in two presidential elections.

"Most women suffer in terms of getting proper recognition for their work," Ms Silva has said. Women's earnings are about three-quarters of those of men, according to Brazil's national statistics institute, and over the years she has become to many a voice of hope in Brazilian politics.

An evangelical Christian who has married twice and had four children, she began her political career in the 1980s working alongside Chico Mendes, the Brazilian environmentalist who helped rubber-tappers fight ranchers aiming to clear the forests and who was murdered for his pains.

Among political issues, "there is nothing more sensitive than the deforestation of the Amazon," she says. With little party infrastructure to support her and scant access to television advertising time, Ms Silva will again face a difficult battle with Brazil's established political party machines.

But she hits back at those who say she is too much of a "weak woman" to run. "I know what is it to get malaria five times, hepatitis three times and leishmaniasis," she says.

"I know what is like to work as a maid and as a seamstress.

"I am the politician who has lived the fragility of the fragile people."

War on graft supplants costly gifts as the new soft power

OPINION

John Paul Rathbone

There are few better symbols of Brazil's influence in Latin America — what it was, is and may become — than Lima's 37m-high statue of Christ the Redeemer.

Seven years ago, Brazilian construction company Odebrecht donated $800,000 to install the Peruvian version of Rio de Janeiro's famed statue. Hewn from white stone, and with outstretched arms, it marked a high point of Brazil's regional influence, global ambition and colour-blind approach to international relations.

This married Brazil's "soft power" of soccer and samba with hard infrastructure funded by cheap loans from BNDES, the development bank and financial handmaid of Brazilian foreign policy. Diplomatically, this was backed up by Unasur, the union of South American nations that sought to isolate Mexico to the north, sidestep the US and unite South America under Brazilian leadership. Books with titles such as *Brazil on the Rise*, *Brazil as an Economic Superpower* and *Brazil is the new America* proliferated. Brazil, traditionally so inward looking, seemed to bestride the region.

Today, the statue, officially called the "Christ of the Pacific", is known locally as the "Christ of Theft". Odebrecht is in disgrace for being at the centre of a web of corruption — the *Lava Jato*, or "Car Wash" scandal — that the US Department of Justice has called the world's biggest bribery scheme. Unasur has all but dissolved. Brazil's worst recession and arguably worst political crisis have cast further doubt on its leadership.

At home, the hidden cost of Brazil's rainbow policy has also been revealed. Former president Luiz Inácio Lula da Silva is, controversially, in jail on corruption charges. BNDES is stuck with $4bn of bad loans. These include $800m owed by Venezuela and must, reportedly, be incorporated into the budget, implying that Brazilians will ultimately foot the bill.

A remarkable rise and a tragic fall. That said, it would be wrong to think that it marks a dimming of Brazilian influence — the country's size and $2tn economy see to that. Nevertheless, Brazil's projection of soft diplomacy may also be expanding. Many hope this remains true whoever is president next and whatever the state of the economy.

That may sound paradoxical, especially as no one knows who will lead the world's fifth-largest country after October's presidential vote.

It is already an election like no other. After more than 20 years of power alternating between the Brazilian Social Democracy party and the Workers' party, it is outsiders who lead the polls. The next president could be Jair Bolsonaro, a far-right congressman who makes Donald Trump seem mild; Marina Silva, a leftist environmentalist with market-friendly policies; or somebody in-between. According to online betting markets PredictIt and Betfair, Geraldo Alckmin, former governor of São Paulo state, has a 35 per cent chance of winning.

Whoever becomes president must contend with the shifting coalitions of Brazil's fragmented congress. At present, it contains more than two dozen parties, with the largest controlling less than 12 per cent of the seats. That said, "winning the polls might prove to be a lot easier than actually governing the country", suggests consultancy Stratfor, and against such a backdrop it is near impossible to anticipate what Brazilian foreign policy will be.

There are some constants amid the uncertainties. One of the most important is the constitutionally guaranteed independence of Brazil's judiciary and prosecutors. These are the men and women who have pursued corruption probes, such as *Lava Jato*, that have led to the conviction of multiple business leaders and politicians. The investigations have shown that Latin America is not defenceless in the face of corruption, something that Sérgio Moro, the probe's leading judge, has also emphasised.

While not perfect, the investigations have set a benchmark for fighting corruption — the emerging world's biggest scourge. The World Bank estimates $1tn of bribes are paid every year, while the World Economic Forum believes that the annual cost of corruption is equivalent to 5 per cent of global economic output, or $2.6tn.

No other Bric country comes close to Brazil's response. It has been propelled by pressure from civil society and led by an independent judiciary, unlike politically motivated purges in China, Russia or Saudi Arabia. It has also shown up countries that fail to tackle corruption in similarly systematic ways. Many in the region, especially Mexico, rue that such investigations have not happened there.

The approach has also been matched by other measures, especially in politics. Corporate donations are no longer allowed in Brazilian electoral campaigns and politicians are being stripped of their legal immunity. In short, Brazil's anti-corruption drive is likely to continue.

Such leadership by example, as Marcos Troyjo, a Brazilian academic at Columbia University, has said, is the "very essence of soft power".

Exporting the rule of law, rather than corruption, is also timely. As Brazil steps back from financing regional infrastructure as part of its foreign policy, China — not known for its transparency — may be stepping in instead.

"A monument should be built to those valiant [Brazilian] judges!" Nobel-prize winning author Mario Vargas Llosa recently told the Financial Times.

Inclusion Black Brazilians are beginning to be seen and heard, writes *Andres Schipani*

Racial diversity is 'turning to a new page'

Fábio dos Santos is a 21-year-old black student of business administration and a trainee at a bank. Recently running a little late for work, he called a cab from a ride-hailing app.

"Do they let you in at the bank with those curls?" said the driver of his Afro hairstyle. Mr dos Santos ignored him. That evening, in suit and tie, he rushed to university. As he left the metro, a white man stopped him: "A black man in a suit and a tie?"

Mr dos Santos ignored that, too. Such episodes are frequent, he says, but are in no way curtailing his ambition: "After my degree I want to read for an MBA and then work my way up at JPMorgan."

According to Brazil's institute of geography and statistics, black Brazilians earn 44 per cent less than whites. A 2016 study by the Instituto Ethos and the Inter-American Development Bank showed that black people, despite comprising the majority of the population, occupy only 6.3 per cent of management positions and 4.7 per cent of executive posts in Brazil's 500 largest companies.

"That is a stunningly small number," says Pedro Jaime, a sociologist and author of *Black Executives: Racism and Diversity in the Corporate World*. As for black people in executive positions, he adds that Brazil's figures are worse than those of the US or South Africa.

Some attribute this to Brazil being the last country in the Americas to abolish slavery, 130 years ago. Estimates point to between 3.6m and 4.7m Africans being brought to the country as slaves. Today, 56 per cent of Brazil's almost 208m people define themselves as "black", making for the world's second largest black population after Nigeria.

But few black Brazilians occupy top positions. "Brazil is a country where the blacks are invisible, meaning they are not properly represented in a democratic way in all sectors of national life," says Kabengele Munanga, a Congolese professor of anthropology at the University of São Paulo.

In 1930s, the Brazilian sociologist Gilberto Freyre argued that Brazil's mixed breeding between white masters and black slaves produced a sort of ethnic democracy. Yet Brazil's race question has always been vexatious, with darker-skinned people consistently tending to be poorer than whites.

Things have started to change in recent years. While affirmative action has been controversial in the US, such measures have found fertile ground in Brazil. State institutions and public universities have established quotas for black workers and students.

Additionally, differing skin colour is a growing source of pride. Brazilians sometimes refer to varying skin tones with an array of terms, like "cinnamon" or "chocolate". More and more biracial people also identify themselves as "browns". Some companies are starting to catch up with these trends. Itaú, the Brazilian bank, John Deere, the agricultural machinery company, and consultants McKinsey, for example, have diversity programmes.

Fábio dos Santos (left) aims to work his way up at JPMorgan and help to bring change

"Diversity is not just the right thing to do," says Patrícia Santos of EmpregueAfro, an executive search agency for black professionals. "It is the smart thing to do."

A 2018 McKinsey study shows companies with the most ethnically and culturally diverse executive teams are 33 per cent "more likely" to outperform others on profitability. But, as an example, with just 20 black people among its 540 employees in Brazil, McKinsey itself still has much to do, says its local head, Nicola Calicchio.

The market system itself, he adds, will not fix this. "The invisible hand did not work, so we need to have a visible hand."

That role is played by Flávia Garcia, a black woman and the firm's diversity and inclusion manager for Latin America.

Similar to Mr dos Santos, she has stories of prejudice to tell. While working as the only black consultant at McKinsey in Brazil, she once tried to walk into a meeting with executives at a client's headquarters but was stopped by a security guard on grounds of her colour and directed to a different entrance.

Because the percentage of black people at Brazilian universities is quite low, a key problem she faces is finding well-trained professionals and retaining those who feel out of place.

Ms Garcia recalls that, as a business student at a private university in São Paulo in 2000, she felt "very much alone" as one of only two black students.

Rachel Maia is a trained accountant who rose through the ranks of the luxury goods market to become Brazil chief of two global jewellers, Tiffany and Pandora. She is now coaching promising black workers "who want to understand how to achieve seniority".

"There is still a need to stop and look in order to understand that we are no longer in the period of slavery," she says. She senses that she is part of a process of "turning to a new page that will be written by the coming generations".

Mr dos Santos, meanwhile, is set on becoming part of that. His banking work by day helps him gain experience and pay for his business degree studies at night. His determination sees off the racist slurs.

"I have to have a vision and acquire knowledge," he says. "I am not going to lower myself to the level of someone who insults."

Shifting the balance: José Vicente, chancellor of Zumbi dos Palmares. The university aims to correct racial inequality in Brazil — Ricardo Lisboa

Education The college that is offering black Brazilians affordable business degrees

Pictures and slogans of Rosa Parks, Martin Luther King Jr and Nelson Mandela line the walls, but this is not the US of 1964 or South Africa 30 years later. It is today's Brazil, at the campus of Zumbi dos Palmares university, which has a black student intake of about 80 per cent.

Named after a 17th century Brazilian resistance leader, it aims to correct the racial inequality of Latin America's largest country, which is home to more people of African origin than any nation outside Africa. The university was founded in 2003.

Its chancellor, José Vicente, says that back then, black Brazilians comprised just 3 per cent of students at Brazil's universities. Today, he adds, that number has reached 17 per cent, which makes for "a qualified critical mass of students that is competent, conscious and with a fantastic capacity for asserting their rights".

With an initial investment of R$2m ($600,000 at today's exchange rate) the university started with 200 students studying for business administration degrees. The university now offers 10 degree courses, undergraduate and postgraduate, to 1,600 students from a low income background.

Thanks to a monthly cost of R$548 ($155) for a four-year bachelor's business administration degree course, "Zumbi" has become an affordable choice for many people. In comparison, the fee at Fundação Getúlio Vargas, the leading school of business administration in São Paulo, is R$4,350 ($1,240).

The Zumbi campus, located in a former São Paulo sports club, bustles during evening classes. Most of the students work during the day. "I very much like the way we are treated here," says Brenda Brito, a 20-year-old law student who by day works as a cleaner. "You do not feel the racism one generally feels in Brazil."

Mr Vicente says Zumbi has secured traineeships and internships for many students at some of Brazil's biggest companies, such as Bradesco bank.

Price Nalutaaya, a 36-year-old law student, arrived four years ago from Pretoria, speaking no Portuguese. "Brazilians and South Africans are equally racist," she says. But thanks to this university, "I feel I have a future here. There are opportunities." **AS**

Top corruption buster prompts wildly opposing views

Interview

Joe Leahy and *Andres Schipani* speak to Brazil's no-nonsense judge Sérgio Moro

Sérgio Moro, the Brazilian judge whose name strikes fear into the country's most crooked politicians and business-people, allows himself a brief moment of levity.

The lawman leading the country's biggest corruption investigation, *Lava Jato*, or Car Wash, is responding to a question about what he thinks of society's wildly opposing views of him. His supporters praise him with bumper stickers that declare: "We are all Sérgio Moro". People on the political left portray him as something more akin to the devil for his decision in April to jail ex-President Luiz Inácio Lula da Silva.

"I prefer the first one," Judge Moro says with a chuckle during an interview in his paper-filled office at the federal court in Curitiba, southern Brazil. He quickly acknowledges the important role of other judges, prosecutors and the federal police in Car Wash. "Often people tend to do this type of personalisation, which in a certain sense is inappropriate because at heart this is really an institutional endeavour," he says.

Few people doubt how much this lower court judge from one of Brazil's smaller state capitals has helped to change the country's history and sent ripples throughout Latin America. Starting off as an investigation into black market money dealers, *Lava Jato* grew to expose a bribery scheme in which Brazil's main political parties siphoned money from state-owned oil company Petrobras and its contractors to fund and enrich themselves.

Over the past four years, more than 100 people have been given a total of about 1,600 years in prison, according to the public prosecutors' office. All Brazil's current and past living presidents are implicated, along with a large swath of Congress.

The investigation grew when Odebrecht, Brazil's biggest construction company and which had important business relationships with Petrobras, revealed it had spent nearly $800m on bribes in 12 countries. In March this year, the investigation triggered the resignation of the president of Peru, Pedro Pablo Kuczynski.

Mr Moro is affable but careful to avoid family or political questions. He speaks with a country twang from his upbringing in the southern agricultural state of Paraná, where he received most of his education apart from a stint at Harvard Law School in the US.

He is known for his quick, no-nonsense judgments. Last month he ordered Mr Lula da Silva to begin serving his 12-year jail term within hours of him losing a Supreme Court appeal. In 2016, he jailed Marcelo Odebrecht, the powerful scion of the construction company family, for 19 years.

Mr Moro's view on that is to the point: no matter how powerful the people, "when responsibility is proven, they are punished". This is "something normal in a democracy, no one is above the law", he adds, though in Brazil "it is something that did not happen in the past."

While he says *Lava Jato* has broken Brazil's cycle of impunity for the powerful, he regrets the lack of stronger political and legal reforms to entrench what advances Brazil has made. He cites the need to remove political influence completely from state-owned companies. A law was passed recently to prevent politicians occupying roles in such bodies, but they continue to exercise influence over them.

"The practice persists of what in English is called patronage," he says, at the federal government, state and municipal levels. "This is the root of the problems that were at Petrobras."

Another problem is the *foro privilegiado*, a practice which under the constitution grants almost 56,000 sitting politicians, judges, mayors, army officers and a host of others the right to be judged only by the slow-moving higher courts. In practice, this often means they escape judgment. Steps have been taken partially to remove it but "the ideal" would be "to eliminate that once and for all".

Lula's party has alleged Mr Moro persecuted the former president to stop him contesting elections this October. The judge responds that the courts have treated former politicians from other parties equally.

He likens arguments of bias in his investigations to a drug dealer from one faction arguing he should not be imprisoned because the system had not yet convicted everyone from rival factions.

The cases remain open to scrutiny, he adds: "The evidence is public, you can examine them and form your own conclusions. No one is being tried, in my opinion, for their political views."

His wish is that in 10 years' time, due punishment to those found guilty of corruption, whether powerful business-people or senior politicians, will become a normal part of Brazilian democracy, not the exception. What is important, he says, is "to break the norm of impunity", such that cases like this in the future "are treated as something almost trivial". If a person is involved in crime, Mr Moro says, "he will be held responsible for that and the economic and political life of the country will continue normally".

Judge Moro: 'no one is above the law'

Art comes into the conservative line of fire

Culture Brazil's lurch to the political right and increased use of social media feed attacks on artists, discovers *Lucinda Elliott*

Vast blown-up images of swollen hands, sweaty brows and firm handshakes fill Sofia Borges' studio. Her latest exhibition, "Corpo a Corpo", centres on a congressional session in Brasília, the Brazilian capital, when, camera in hand, she captured her country's leading politicians in action.

"My work is usually very philosophical," says the award-winning visual artist. "But recently I was invited to explore the actual scenario of national politics."

Ms Borges, 34, grew up in the interior of the state of São Paulo and divides her time between its sprawling financial metropolis and Paris, the French capital, to create large-scale canvases.

In February 2017, she was invited to visit the national congress, having been commissioned alongside five fellow artists by the Moreira Salles Institute (IMS), a non-profit philanthropic arts institution in Brazil, to create works that explored social conflicts for the opening of a new space.

The art installations went on show to the public from September to December 2017. The exhibition has since moved to Rio de Janeiro.

Describing the parliamentary sitting where a virtually all-male, all-white set of MPs jostled last year to elect new senate leader Eunício Oliveira, Ms Borges calls it "horrible theatre" and an example of where power in Brazil now lies. To be a traditionalist is back in vogue and Brazil's lurch to the right is a hot topic of discussion in the already turbulent political debate in the country.

Art is one area coming under scrutiny and attack. Last September, rightwing activists gathered outside an exhibition titled "Queermuseu", or Queer Museum, in southern Brazil, demanding that warning signs be placed outside the display of 270 artworks saying they "promoted paedophilia" and "pornography".

> 'Education and culture once again seem to be an easy target'
>
> Jochen Volz, director of the Pinacoteca

The exhibit was sponsored by the art institution Santander Cultural, funded by Santander, the Spanish bank. A public campaign to close the exhibition was launched and, in the city of Curitiba, bank branches were vandalised.

São Paulo events were to excite further controversy, with a production of *The Gospel According to Jesus, Queen of Heaven*, by British writer Jo Clifford, staged in the city's leafy, and liberal, neighbourhood of Pinheiros. The character of Christ was performed as, and by, a transgender woman.

The critics also came out in force last month in Brazil's northern city of Belem. A painting, by visual artist Gidalti Moura Jr, depicting alleged police brutality against street children — a recurring theme of discussion in Brazilian social affairs — and on display in a shopping centre, was removed following a Facebook protest led by rightwing groups. They included members of the military police.

"We're living in a time of perhaps the greatest social polarisation in recent Brazilian history," says Fernanda Feitosa, founder of SP-Arte, São Paulo's annual international art fair, and wife of Heitor Martins, president of São Paulo Museum of Art — better known as Masp.

Ms Feitosa believes that small but increasingly vocal groups such as the libertarian Movimento Brasil Livre, or Free Brazil Movement, are using a time of national political fragility to divide the country, spurred by the popularity of social media.

Masp's recent exhibition on the history of sexuality had a record number of visitors. Nothing untoward happened, Ms Feitosa says, adding that Brazil's constitution gives parents the right to decide whether a cultural activity is suitable for their child.

So far, R$1m (£204,000) has been collected to reinstate "Queermuseu", the biggest online voluntary fund raised in Brazil through crowdfunding.

Jochen Volz, director of the Pinacoteca, one of São Paulo's most prominent art museums, says the recent conservative wave is "not about art", but is using art and culture. "Education and culture once again seem to be an easy target; museums and schools are held responsible by far-right groups for a so-called moral collapse," he adds.

Fabio Cypriano, an art critic for nearly two decades for the daily Folha de São Paulo newspaper, sees the backlash as a result of the dismantled legacy of the Socialist Workers party (PT). The left-leaning PT government's monumental downfall in 2016 has encouraged Brazilian traditionalists to express their criticisms, he says.

Under 13 years of PT rule from 2003, Brazil experienced an unprecedented period of economic and social improvement that caused rightwing views to fall out of fashion. But a decade in, as economic growth stagnated, wealthier people, long disgruntled by the better conditions for the poor, began speaking out.

In the grittier centre of São Paulo, artist Jota Mombaça is preparing to give a presentation at Sesc 24 de Maio, the newly refurbished 13-storey arts centre.

Ms Mombaça, 27, a black performance artist who was born and brought up in the relatively poor north-eastern coastal city of Natal, has become a leading critic of the far-right. One way to confront the rightwing groups, she says, is "to write about them" and "better inform people".

Ms Borges concurs. Collective groups, artists and others need to mobilise, she says. She will be among a group of artists who will curate part of October's São Paulo art biennial, the second oldest in the world after Venice.

The decision to allow artists to curate is a first for the exhibition in Brazil and perhaps, she feels, a reaction to the recent conservative wave.

'Corpo a Corpo': Sofia Borges' exhibition captures leading politicians in action
Leonardo Wen

Roundtable Leading dealmakers debating the future of capital markets brush off political worries saying a cyclical recovery is under way, writes *Joe Leahy*

In perspective: one factor concerning investors is the volatility in emerging markets caused by rising US yields — Reuters

Even strident populists must face fiscal reality

The overall market capitalisation of companies listed on Latin America's largest bourse, BM&FBovespa — recently rebranded as B3 — grew 27 per cent in dollar terms over the year to March, nearly double its low point in 2016.

Mergers and acquisitions have returned. The country's biggest ever deal, the $14.5bn merger of Brazilian pulp producers, Fibria and Suzano, helped put 2018 on track to be one of the best years for M&A since 2012. This would mark a firm recovery from the country's deep recession in 2015 and 2016. Equity issuance has also recovered.

Stacked against the markets is the political uncertainty ahead of the presidential elections in October and volatility in emerging markets caused by rising US yields.

Yet leading dealmakers invited to debate the outlook for Brazil's capital markets brush off such concerns, saying a cyclical recovery in the economy is under way and Brazil's precarious fiscal straits would impose reform even on the most strident populist.

The FT's partner in staging the event, consultants FGV Projetos, hosted the roundtable at its offices in São Paulo, Brazil's business capital.

It was chaired by the FT's Brazil bureau chief **Joe Leahy** and hosted by **Cesar Cunha Campos**, director of **FGV Projetos**, and **Carlos Langoni**, senior adviser of **FGV Projetos** and a former central bank president.

Engaged in the debate were **Bruno Amaral**, head of M&A at investment bank **BTG Pactual**; **Juca Andrade**, vice-president of products and clients at **B3**; **Ana Cabral-Gardner**, managing partner at advisers **A: 10 Investimentos e Assessoria**; **Patrice Etlin**, managing partner at private equity firm **Advent**; **Bruno Fontana**, head of investment banking and capital markets for **Brazil at Credit Suisse**; and **Roderick Greenlees**, global head of investment banking at **Itaú BBA**.

A resurgent market

For Latin American private equity operators, last year saw record activity — with a total of $4.1bn invested in Brazil, accounting for 49 per cent of such investment in the region, according to the Latin American Private Equity & Venture Capital Association.

Patrice Etlin (Advent): Last year for us was the best ever in the region in the 21 years that we have been operating here. We saw a reopening and active IPO market. We saw Chinese buyers pretty aggressive in the [M&A] market and we saw local M&A going on between large [domestic] players.

There is tremendous liquidity in the world chasing interesting opportunities and Brazil is one. The [Brazilian] recession opened tremendous opportunities. Companies that suddenly got into trouble were forced to sell assets to look for liquidity. Then you had parallel to that the Car Wash investigation [Brazil's biggest corruption probe, principally into bribery at state-owned oil company Petrobras] which forced major construction companies, Petrobras and others to sell assets.

Roderick Greenlees (Itaú BBA): That trend has changed this year, right, because although we did see a lot of the M&A activity driven over the last couple of years by potentially distressed conglomerates, what we have seen this year is more [normal] consolidation . . . companies in the same sector gaining scale to generate synergies. That was the case of Fibria and Suzano, and this week Somos and Kroton [two Brazilian education companies] and M. Dias Branco and Piraque [consumer goods companies].

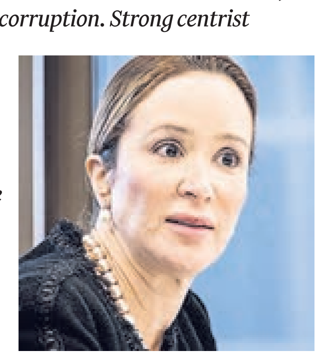
Ana Cabral-Gardner (A10): The big thing this year was the emergence of the domestic buyer. Once these guys go shopping, they can't be beaten. Because with due diligence, they can go faster, there's a lot of tax complexity in Brazil . . . and the domestic player knows that because he's been doing this for 30-40 years.

Bruno Amaral (BTG Pactual): The market is returning to normal instead of being driven by the recession. So coupled with the low interest rates that we have seen, it's making players make bets that they wouldn't have made a year ago.

Bruno Fontana (Credit Suisse): Investors are sitting on a pool of liquidity. They still need to find stories in which to invest, they will be looking for specific trends in the financial sector, they are looking at technology disruption — not only in the financial sector but maybe in education, in insurance, agribusiness etc. So we are cautiously optimistic.

But what about the election?

Brazil has a dizzying array of candidates running for election, from the far-right promising to shoot criminals to leftists struggling to fill the space occupied by former president Luiz Inácio Lula da Silva, who has been sentenced to jail for corruption. Strong centrist candidates are lacking. But Brazil's huge budget deficits, driven by what many see as an over-generous state pension scheme, mean whoever becomes president will have to confront the need for fiscal reform.



Carlos Langoni (FGV Projetos): My bet is that the next months are going to be difficult for the markets. We have upcoming presidential elections, we have an incomplete internal [budgetary] adjustment. [Michel] Temer [the current centre-right president] did a lot but he was unable to approve the social security [pension] reform.

BA: I think the cyclical economic recovery is unstoppable because the base is so low [because of the recession]. The real question is whether that cyclical recovery is going to be combined with a structural recovery [one driven by reforms implemented by the next president]. If that happens then we are going to see something [a boom] that probably we haven't seen in years.

RG: In the equity capital markets, I think it will die down towards the elections. But on the M&A front I think we'll still have a very strong year.

PE: Even if a leftist candidate comes into power starting on January 1, the big difference now is that the country has run out of money. At the end of the day, they are going to have to pay the public sector employees and social security. Some kind of reform will be almost imposed on the agenda.

CL: Pragmatism will prevail over ideology because the state is broke.

The unwinding of Brazil's carry trade

Brazilian interest rates are at record lows following the end of its recession last year. Meanwhile, US Treasury yields are rising. Foreigners are abandoning a long-running carry trade in Brazil's currency, in which they brought money into the country to benefit from the high interest rates. The Brazilian real has been weakening against the dollar. Domestic investors, too, are being forced to look for alternatives to government treasuries because of the falling rates. Can Brazil continue to attract the foreign capital it needs for economic growth?

Juca Andrade (B3): Hopefully, we will have a scenario where lower rates stay. A lot of people are going to turn to other asset classes [away from government treasuries].

ACG: The world's changed. It's no longer just about US rates moving. Now there's a semi-ideological component mainly in China — you see this capital mainly going [from China] to emerging economies.

BA: Not underestimating the impact of higher rates in the US, it's not a surprise, it's not a shock — people have been able to plan for that. Second, it's been counter-balanced: the Asia factor; interest from [foreign] companies in [Brazilian] assets.

RG: The equity capital markets have benefited from the lower interest rates, better economic prospects. In the past year, we had maybe 25 or 26 equity offerings priced in Brazil and 12 IPOs. In the three years before, we had one IPO a year.

BF: At the end of the day, investors will continue to look for yield, for ROI [return on investment]. If we are able to bring to the market companies with stories that follow that rationale, there will be interest from investors not only locally but also globally.

PE: What investors are buying now is growth. When that growth is not there, the penalisation is huge, so we are seeing a lot of volatility and stocks going down 10-15 per cent over a missed quarter.

Legal certainty and risk capital

Brazil needs to do more to establish legal certainty in sectors such as mining and energy and make it more attractive for smaller companies to come to market to encourage start-ups and the tech sector. If a populist government comes to power, there are fears that there could be sudden nasty surprises, such as occurred in 2012 in the energy sector when former leftist president Dilma Rousseff sought to impose price reductions on producers.

ACG: Left or right, I don't have any views but whoever [is president] there has to be legal certainty. China is a leftwing country yet there's a lot of legal certainty in the sectors where they want investors. Sometimes our ideologists miss that because they live in a time machine. They think about communism circa 1949. But we are in 2018, so everyone got upgraded. There's communism 4.0 going on in China right now.

JA: The average medium price of IPOs in Brazil was close to $500m last year and when you look at the US, for example, it is about $110m. That means that we have some work to do to bring smaller companies to the exchange as well.

BF: One thing that sets apart Brazilian companies is the quality of management and entrepreneurs that we have. At the end of the day, even though investors do look at the macro and micro challenges, they are looking at whether a company has a proper management team with the key attributes to take it forward.

Table talk: (column one) Patrice Etlin; (column two) Roderick Greenlees (top) and Ana Cabral-Gardner; (column three) Bruno Amaral; (column four) Bruno Fontana (top) and Carlos Langoni

Brics, Venezuela and the fight against crime fill presidential in-tray

COMMENT

Oliver Stuenkel

After 16 years of unprecedented foreign policy activism under Presidents Fernando Cardoso and Luiz Inácio Lula da Silva, Brazil's visibility on the international stage declined markedly under Dilma Rousseff (2011-2016) and Michel Temer, her successor. To some extent, the swings might be explained by a leader's personal preferences. Mr Cardoso and Lula enjoyed presidential diplomacy and travelled frequently. Ms Rousseff disliked air travel and had little patience for diplomatic intricacies.

Yet a closer look reveals that the factor that shapes Brazil's foreign policy is more one of global dynamics that the president cannot control. Lula, in particular, enjoyed favourable macroeconomic conditions: low global interest rates and high commodity prices boosted growth and led to high approval ratings at home, allowing him to pursue an activist foreign policy.

Remarkably, Brazil was the world's second biggest contributor to global growth in the first decade of the 21st century. When the global financial crisis of 2008 began and a global leadership vacuum emerged, Lula and his ambitious foreign minister Celso Amorim saw an opportunity to consolidate Brazil's more prominent role — such as by co-founding the Brics grouping and taking the lead in several hotspots around the world, be it the UN peacekeeping mission in Haiti or negotiating a nuclear deal with Iran.

Lula's successor, Ms Rousseff, faced less benign global circumstances, mostly because of lower commodity prices, made worse by disastrous interventionist policies at home, that led to economic collapse, public discontent and political instability after 2013. With approval ratings in the single digits and a lagging economic recovery, Michel Temer's scandal-ridden presidency, mostly focused on day-to-day survival, has provided little space for an assertive foreign policy.

For the next government, the global outlook is far from ideal. The spectre of rising US interest rates limits Brazil's growth prospects and commodity prices are unlikely to return to their 2011 peak soon. What seems like the return of great power politics poses a severe threat. Lacking hard power, Brazil is highly dependent on functioning and predictable global rules and norms. A China and US trade war may offer a few sector-specific opportunities but they will not offset the systemic cost generated by higher uncertainty.

Past example: Lula, in particular, enjoyed favourable conditions that enabled an activist foreign policy

And yet, provided that a moderate candidate moves into Planalto Palace on January 1 2019, chances exist for a more innovative foreign policy. Equipped with greater legitimacy, a full four-year mandate and higher approval ratings than the Temer government, its successor has a chance to use foreign affairs to help Brazil face its most urgent domestic problems.

First, a wave of new governments in the region will provide Brazil's new president with an opportunity to lead — together with Argentina, Colombia and Chile — an urgent debate about the future of South America. The region's failure to articulate a clear vision and to co-operate more effectively on a host of issues — ranging from the fight against corruption, organised crime, anti-drug policies, the environment and how to respond to the rise of China in the region — leaves national governments unable to tackle the majority of domestic problems. Organised crime thinks and acts globally and is generally able to outfox Latin American governments that often remain remarkably disconnected from each other. Since Brazil represents half of South America's territory, population and economy, without a more open-minded and assertive government no real progress is likely towards deeper continental integration.

Secondly, the country should seek to reclaim the leading role in the international community's response to the humanitarian catastrophe in Venezuela. Its collapse was partly made possible by Brazil's unwillingness to take a more critical stance early on, mainly because it did not want to endanger the profits of its companies operating there. Brazil's next president should lead a global effort to force the government in Caracas to accept large-scale humanitarian aid and create a regional fund to help Venezuelan migrants integrate and prosper in their host societies.

> 'The next president can use foreign affairs to help Brazil face urgent domestic problems'

Finally, Mr Temer's successor should emphasise Brazil's OECD accession process, while also deepening its engagement in the Brics grouping [with Russia, India, China and South Africa], making it the only country to be part of both OECD and the Brics — a powerful symbol of the country's role in the emerging multipolar order.

Given its growing dependence on Asia, the Brics status has never been more valuable to Brazil. The next president will assume the pro tempore presidency of the grouping — which involves organising the 11th Brics Summit in 2019 — and play host to the heads of government of the other Brics nations as well as a number of presidents from the region.

It will be a unique chance for Brazil to present to the international community a new narrative and lay out a clear plan of how to recover from one of the worst economic crises of the country's history.

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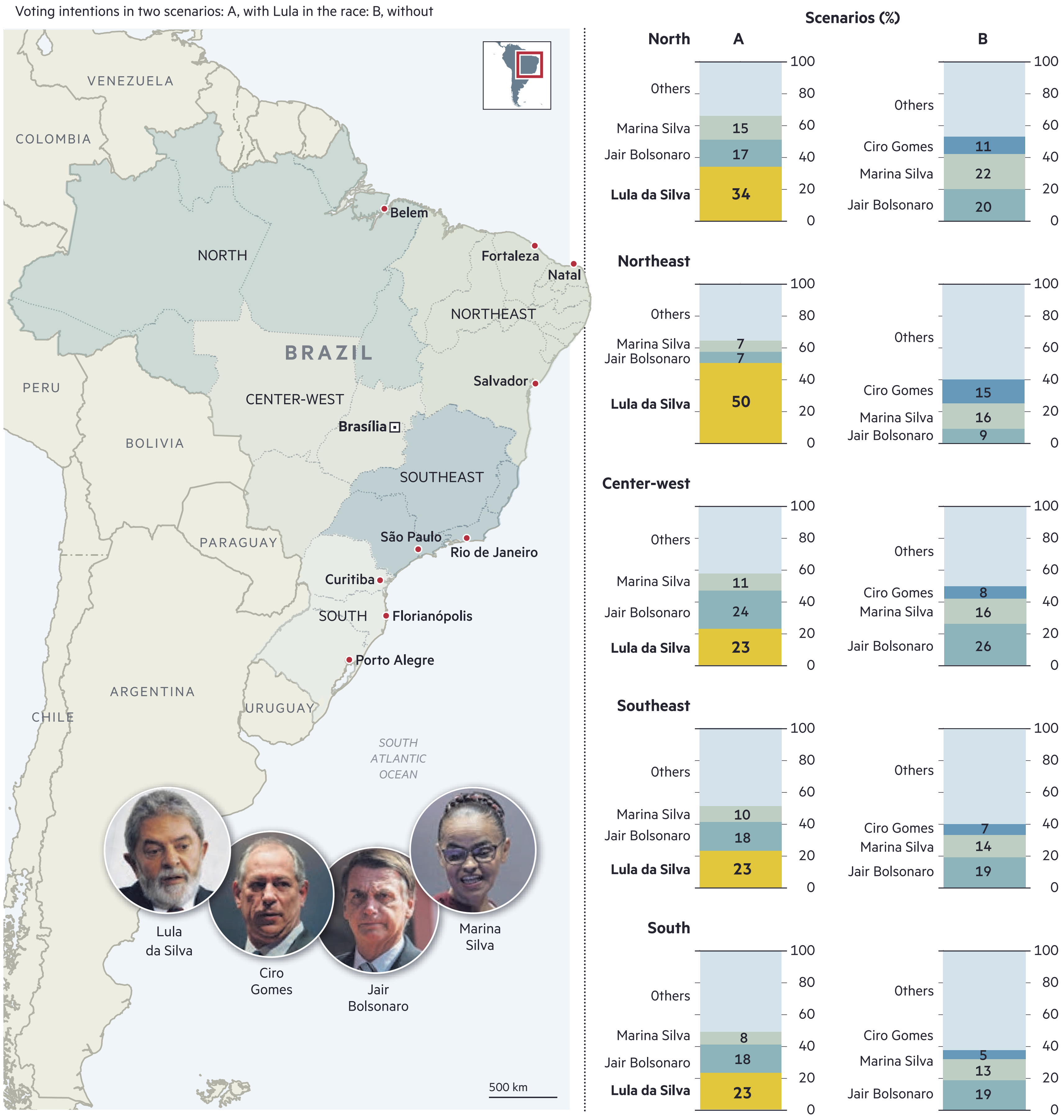
РЕЛИЗ ПОДГОТОВИЛА ГРУППА "What's News" VK.COM/WSNWS

The uncertain Brazilian presidential elections in October

Voting intentions in two scenarios: A, with Lula in the race: B, without



Sources: Datafolha; Reuters; AFP

Frail economy and crime stir populism ahead of poll

Incumbent: President Michel Temer

Continued from page 1

economy is clearly expected to be one. After suffering its worst recession on record, Brazil has undergone a brutal currency depreciation, rising unemployment and cuts in government spending. As a result, inflation has declined to levels not seen in 19 years and interest rates are at record lows.

"Thanks to a classical adjustment", says Walter Molano of BCP Securities in a research note, Brazil has transformed itself "from the sick man of Latin America to the picture of good health".

Agribusiness, arguably Brazil's most globally competitive industry, thrives thanks to China's seemingly insatiable appetite for food.

"As fast as [Chinese] demand for meat will grow, demand for grain will grow even faster," says Gersan Zurita, senior vice-president at Moody's Investors Service in São Paulo.

Still, the story of Brazil in 2018 remains more one of as yet unrealised potential. Industries such as mining continue to struggle. "We have a huge availability of natural resource that we should be able to exploit more," says Tito Martins, chief executive of zinc miner Nexa Resources.

The October presidential election is key to the revival of Brazil's economy, say analysts. One important question is whether the winner will be able to implement important fiscal reforms, such as overhauling the pension system, to rein in a fast-growing budget deficit.

This has become even more important given rising US interest rates, which are set to tighten monetary conditions in emerging markets, including Brazil.

The establishment centre-right parties including the Brazilian Democratic Movement of President Temer and Mr Alckmin's PSDB are seen by markets as the more reliable economic managers.

But they have been discredited by *Lava Jato*, or Car Wash, Brazil's sweeping anti-corruption investigation, that has implicated past and present living presidents and a chunk of congress.

People abroad "tend to see Brazil in a negative way because of the multiplication of these corruption scandals", says Sérgio Moro, a judge and one of the leading figures in the investigation. "But in my opinion the correct way to see it is exactly the contrary," he adds. "Brazil is dealing seriously with the problem of corruption."

The elections are fraught with economic risks, say some analysts, among them that a populist might win. Mr Bolsonaro, for example, admits little knowledge of the economy. He has promised to rely on advisers, among them respected hedge fund manager Paulo Guedes, but has scant record of pushing through legislation in Brazil's fractious and pork-barrel loving congress.

Mr Bolsonaro is in a group referred to by Mr Garman as the "quasi-reformers", which also includes Ms Silva. They appeal to voters' desire for clean candidates seen as likely to be tough on corruption, but their lack of congressional support in and unproven negotiating skills could make it difficult for them to pass reforms. Ms Silva has economic advisers from the centre-right but she has lacked punch in previous elections and analysts doubt her ability to negotiate with congress.

> The establishment centre-right parties are seen by markets as more reliable economic managers

Markets anticipate a "pessimistic" electoral outcome, says investment bank Nomura in a research report, with the result likely to be a government ill-prepared to push through reform. For the man or woman who becomes Brazil's next president, therefore, growing an electoral base is only the first challenge.

BRAZIL'S FINANCIAL TRAILBLAZER

In 1985, when Sonia Villalobos, CFA, opted for a career in finance, the omens didn't look particularly good. Her native Brazil was struggling under the weight of rapidly escalating debt, and annual inflation was running at more than 200 percent. Adding to the upheaval, South America's biggest economy had only just embraced democracy after more than 20 years of military rule.

"Finance wasn't a very attractive field to go into," she recalls of her decision. "But I was optimistic about Brazil and I wanted to help reform the industry I had chosen."

Three decades later, Villalobos has witnessed her country progress from a crisis-plagued, emerging market into one of the world's largest economies, with low inflation and public-debt ratios that are below those of many leading developed nations.

She has also played a pivotal role in a parallel transformation: the growing expertise of the country's financial analysts and fund managers as they acquire the training and knowledge needed to close skill gaps with their US and European counterparts.

When Villalobos began studying for her CFA® exams in 1989, few Brazilians had even heard of the qualification. In fact, in 1994 she became the first Brazilian, as well as the first person in South America, to obtain the global credential. Today, there are about a thousand CFA® charterholders in Brazil. Around 700 work in São Paulo, the country's financial hub.

There were plenty of other knowledge gaps. Villalobos recalls a time when a US client of Banco Garantia, the São Paulo-based investment bank she had joined in 1989 as a sellside analyst, sent her office a list of questions about ratios of earnings before interest, taxes, depreciation and amortisation (EBITDA). "We had to call them and say, 'What's that?'"

Ethical issues were also rife. For example, Brazilian investment banks made no distinction between the industry's sellside and buyside. "Analysts would work for both, giving advice to portfolio managers of their firm as well as to the firm's clients—even though these had been separated in the US for a long time," says Villalobos. "There was a huge conflict of interest."

Villalobos understood early on that closing the knowledge gap between Brazilian analysts and their US counterparts was an indispensable ingredient that would help to fuel growth. International investors were aware of the potential opportunities emerging markets offered, yet knew little about them. This also coincided with Banco Garantia's ambition to form a relationship with—and model itself on—Goldman Sachs, one of the big US investment banks.

> "We needed ethical standards, international financial knowledge, and people who were fluent in English."

As head of the bank's equity team, Villalobos therefore put training and knowledge at the forefront of her department, insisting that her analysts learn English in addition to adopting a mindset of financial discipline and becoming fluent in the tools that form the bedrock of the industry abroad.

"I knew that we needed ethical standards, international financial knowledge, and people who were fluent in English," she says. "Emerging markets can seem scary to international investors because of their volatility and also because they are often far away, so one thing that makes them feel more comfortable is having people who speak the same language and understand the same concepts."

The strategy paid off. Under her leadership, Banco Garantia grew to have the largest sellside equity team in Latin America and, for three consecutive years starting in 1992, *Institutional Investor* magazine named it Brazil's best equity research team.

During her 30 years in the industry, Villalobos, who is also a mother of three grown children, has occupied a variety of different positions, from equities analyst to portfolio manager. She's one of the few women in Latin America to have managed a hedge fund.

Today, Villalobos continues to set standards in Brazilian investments through her teaching of financial reporting and analysis at Insper, one of the country's leading business schools.

One of her missions is to create greater diversity in Brazilian investment circles. In particular, she wants to encourage women to join the traditionally male-dominated industry by reminding them of the breadth of jobs available. "I always tell people that finance is not just about the trading desks you see in Hollywood movies," she says.

By continuing to teach, Villalobos can continue passing her knowledge and experience on to the next generation of analysts and money managers in Brazil. "When graduate students come to you and say, 'I am putting into practice what I'm learning here and it's changing the way we work', well, that's the biggest reward there is."

This article is part of a series of profiles of CFA charterholders who embody the highest standards in the investment industry.

To view the full series visit
cfainstitute.ft.com