FINANCIAL TIMES

THURSDAY 25 JANUARY 2018 — WORLD BUSINESS NEWSPAPER — EUROPE

Star attraction
Cheap tech is drawing new players into the space race — BIG READ, PAGE 7

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Flurry of pharma deals prompts questions on valuation — PAGE 13

Revolution in Africa
Upheaval in Zimbabwe, Angola and South Africa — DAVID PILLING, PAGE 9

GE accounting probe deals blow to new chief Flannery

- Financial reporting fears reignited
- Group settled for $50m in 2009

ED CROOKS AND JAMES FONTANELLA-KHAN — NEW YORK

General Electric has revealed it is under investigation by the Securities and Exchange Commission over its accounting practices, renewing concerns over its financial reporting that resulted in a settlement with US authorities less than a decade ago.

The announcement yesterday dealt a blow to new chief executive John Flannery, who has been struggling to restructure the industrial conglomerate and clean up financial problems left by predecessor Jeffrey Immelt.

According to people briefed on the investigation, the SEC is looking at two issues: the company's announcement last week that it needed to pay an additional $15bn to cover legacy insurance liabilities, and the way it has accounted for revenues from long-term contracts in the power industry.

GE's power equipment and oilfield services units have been the most problematic units inherited by Mr Flannery.

Jamie Miller, chief financial officer, said GE was "co-operating fully with the investigation, which is in its very early stages". Its shares were down 3 per cent in afternoon New York trading.

The company has a history of attracting the SEC's attention over its accounting. In 2009, it agreed to pay $50m to settle charges alleging that it had misled investors by reporting "materially false and misleading results" in 2002-03.

It did not admit or deny the allegations, but agreed to pay the penalty. It also consented to an order "permanently enjoining it from violating the anti-fraud, reporting, record-keeping and internal controls provisions of the federal securities laws".

The SEC notified GE that it was looking at its accounting for long-term service contracts in the power industry in November. It then widened its investigation after the company disclosed last week the long-term cost of its insurance liabilities, which mostly relate to continuing care policies.

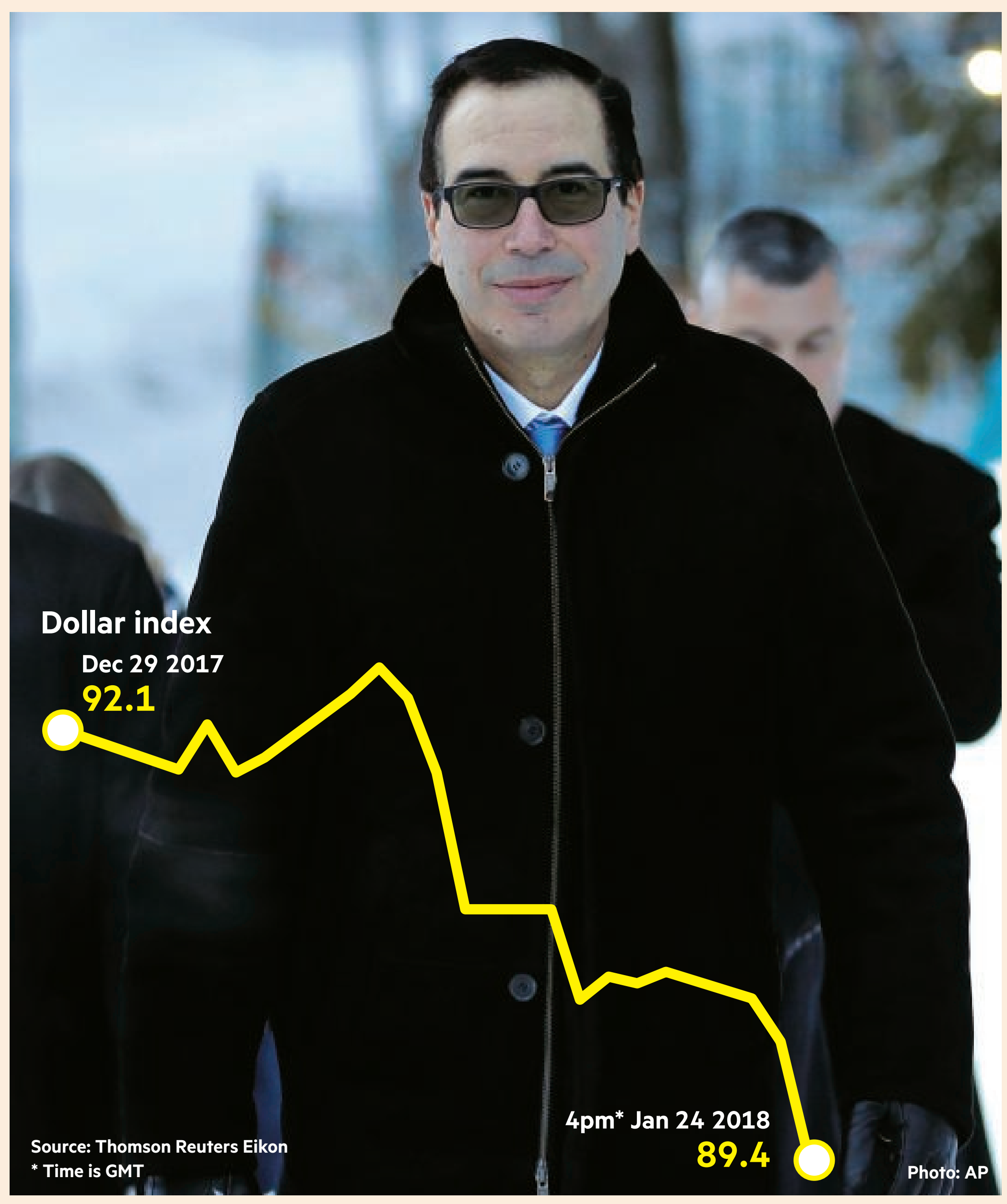
GE pulled out of insurance in 2004-06, when it spun off Genworth Financial, but retained a run-off of policies sold in the 1990s and 2000s. Rising longevity has meant that the cost of long-term care has been soaring, but GE said it had only fully appreciated the scale of its liabilities after a review launched in March last year.

GE faces at least two class-action lawsuits over allegations that it made misleading statements about its long-term care liabilities. Genworth Financial paid a $219m settlement to investors in 2016 in a similar class-action case.

GE reached the SEC investigations as it capped off a bruising year in 2017 by reporting a $9.8bn loss in the fourth quarter, hit by deepening problems in its power division.

Even excluding the charge for the insurance liabilities and other one-off charges, earnings per share were 27 cents, down 55 per cent from the equivalent period of 2016 and below the average of analysts' forecasts.

Bottom dollar US Treasury secretary claims weak currency is 'good for us'



CHRIS GILES — DAVOS
ROGER BLITZ — LONDON

The dollar hit a three-year low yesterday after the US Treasury secretary said that a weak currency was "good for us".

The comments from Steven Mnuchin, made during the opening day of the World Economic Forum in Davos, were a sharp break from recent tradition. Top American policymakers have long advocated a "strong dollar" policy in public pronouncements.

"The dollar is one of the most liquid markets. Where it is in the short term is not a concern for us at all," he said. "A weaker dollar is good for us as it relates to trade and opportunities."

In an interview with the FT, Mr Mnuchin said his comments were "completely consistent with what I've said before."

The dollar has fallen more than 16.3 per cent in the past year despite gradual interest rate increases by the US Federal Reserve. Central bank tightening usually makes currencies more scarce, sending prices higher. But the Fed moves have come as the European Central Bank has begun wrapping up its crisis-era stimulus programme, strengthening the euro, the dollar's main rival as an international reserve currency.

But its descent at a time of a strengthening US economy has puzzled some. Crédit Agricole described it as "a bit of a mystery". The index tracking the dollar against major currencies was down nearly 1 per cent after Mr Mnuchin's remarks.

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Briefing

▸ Russian debt rush ahead of US report
Big Russian companies, including Alfa-Bank and Rusal, have rushed to tap capital markets before the US releases a new list of Kremlin-connected figures that could include powerful executives.— PAGE 11

▸ EU capitals urged to speed data reforms
Brussels has called for urgent changes to national data protection laws in preparation for landmark reforms that will make it easier for consumers to control how businesses use their data.— PAGE 2

▸ China scientists closer to human cloning
Researchers have cloned two monkeys, saying they have broken a technical barrier that means they can "in principle" copy humans. The method is based on that which made Dolly the sheep in 1996.— PAGE 3

▸ Abe to go to Olympics despite dispute

The Japanese premier has said that he will attend the Winter Olympics next month despite a diplomatic dispute with South Korea over Japan's wartime use of sex slaves.— PAGE 5

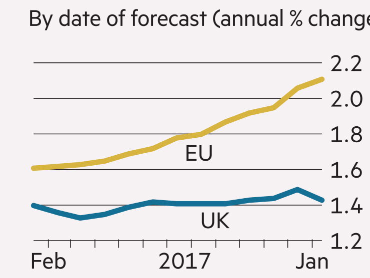
▸ Qualcomm fined €1bn over Apple deal
Brussels has hit the US chipmaking company with a €997m fine for abusing its dominant market position by paying the tech group to use its chips exclusively in its smartphones and tablets.— PAGE 11

▸ Modi invites Asean to help counter China
Tomorrow's Republic Day parade in New Delhi has taken on a strategic significance as the premier hosts 10 Asean leaders in a bid to build deeper ties and counter China's growing influence.— PAGE 5

▸ Tax shake-up risks shifting jobs offshore
Experts have said the Trump tax reforms — in part aimed at bringing patents sheltered in tax havens back to the US, leading to more research jobs at home — could have the opposite effect.— PAGE 12

Datawatch

Expectations for 2018
By date of forecast (annual % change)



Sources: Thomson Reuters Datastream, Consensus Economics

EU and UK growth expectations have never been so different. Analysts now expect the EU economy to expand at a rate of more than 2 per cent this year, 0.7 percentage points faster than the UK

Move on Kurds set to give Erdogan boost at the polls

Analysis ▸ PAGE 2

Austria	€3.70	Macedonia	Den220
Bahrain	Din1.8	Malta	€3.50
Belgium	€3.70	Morocco	Dh45
Bulgaria	Lev7.50	Netherlands	€3.70
Croatia	Kn29	Norway	NKr35
Cyprus	€3.50	Oman	OR1.60
Czech Rep	Kc105	Pakistan	Rupee320
Denmark	DKr35	Poland	Zl 20
Egypt	E£35	Portugal	€3.50
Finland	€4.50	Qatar	QR15
France	€3.70	Romania	Ron17
Germany	€3.70	Russia	€5.00
Gibraltar	£2.70	Serbia	NewD420
Greece	€3.50	Slovak Rep	€3.60
Hungary	Ft1090	Slovenia	€3.50
India	Rup210	Spain	€3.50
Italy	€3.50	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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Presidents Club disbanded and chair quits UK government role after exposé

FT REPORTERS

A charity dinner that enabled some of Britain's wealthiest men to prey on young hostesses was condemned in Parliament yesterday as powerful figures rushed to disassociate themselves and attendees took cover.

Revelations about the black-tie "men only" fundraising event hosted last week by a group known as the Presidents Club have shocked London's business and political circles, and become a focal point for public outrage over sexual harassment.

A Financial Times investigation revealed that many of the hostesses at the charity dinner were groped, sexually harassed or propositioned at the Dorchester Hotel in the city's Mayfair district. Hostesses reported men repeatedly putting their hands up the women's skirts. One said an attendee exposed his penis to her during the evening.

The repercussions were swift. David Meller, a prominent businessman and co-chair of the Presidents Club, was forced to resign from the board of the UK's Department for Education following publication of the report. Hours later, the club itself announced that it was disbanding.

Two charities — the Great Ormond Street Hospital and Evelina London Children's Hospital — both said they would return donations from the Presidents Club, while the Bank of England cancelled a tea with its governor, Mark Carney, that had been auctioned at the event without the bank's approval.

In Parliament, the event received widespread condemnation. Jess Phillips, an MP from the opposition Labour party, said: "What happened is that women were bought as bait for men who were rich men, not a mile from where we stand, as if that is an acceptable behaviour — it is totally unacceptable."

Anne Milton, minister for women, told MPs: "I think there is an association between rich, wealthy people and this sort of behaviour. We have to send a clear message that this is unacceptable."

Scandals over sexual harassment and abuse of young women that erupted in Hollywood last year quickly spread to Westminster, the centre of the UK government. The issue was revived this week with the Presidents Club report.

A spokesman for UK prime minister Theresa May said she had found it "uncomfortable" to read the FT's account, and noted that she would not have been invited "because she is a woman".

Patrick Jenkins page 9

World Markets

STOCK MARKETS

	Jan 24	prev	%chg
S&P 500	2838.10	2839.13	-0.04
Nasdaq Composite	7423.47	7460.29	-0.49
Dow Jones Ind	26273.57	26210.81	0.24
FTSEurofirst 300	1574.89	1582.91	-0.51
Euro Stoxx 50	3649.52	3672.29	-0.62
FTSE 100	7643.43	7731.83	-1.14
FTSE All-Share	4197.67	4241.58	-1.04
CAC 40	5495.16	5535.25	-0.72
Xetra Dax	13414.74	13559.60	-1.07
Nikkei	23940.78	24124.15	-0.76
Hang Seng	32958.69	32930.70	0.08
MSCI World $	2230.05	2221.01	0.41
MSCI EM $	1252.39	1238.50	1.12
MSCI ACWI $	545.17	542.50	0.49

CURRENCIES

	Jan 24	prev		Jan 24	prev
$ per €	1.238	1.229	€ per $	0.808	0.814
$ per £	1.422	1.402	£ per $	0.703	0.713
£ per €	0.871	0.877	€ per £	1.149	1.140
¥ per $	109.180	110.345	¥ per €	135.187	135.647
¥ per £	155.286	154.681	£ index	79.684	79.562
€ index	95.933	95.853	$ index	97.026	97.303
SFr per €	1.171	1.177	SFr per £	1.345	1.342

COMMODITIES

	Jan 24	prev	%chg
Oil WTI $	64.81	64.47	0.53
Oil Brent $	69.84	69.96	-0.17
Gold $	1353.70	1333.40	1.52

INTEREST RATES

	price	yield	chg
US Gov 10 yr	96.79	2.62	-0.04
UK Gov 10 yr	98.69	1.40	0.00
Ger Gov 10 yr	100.01	0.50	0.00
Jpn Gov 10 yr	100.39	0.06	-0.01
US Gov 30 yr	96.98	2.90	-0.03
Ger Gov 2 yr	101.51	-0.63	0.01

	price	prev	chg
Fed Funds Eff	1.42	1.33	0.09
US 3m Bills	1.44	1.44	0.00
Euro Libor 3m	-0.38	-0.38	0.00
UK 3m	0.52	0.52	0.00

Prices are latest for edition — Data provided by Morningstar

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Data protection

Brussels fears delay to privacy shake-up

Only two EU members have adopted changes to laws before May deadline

MEHREEN KHAN — BRUSSELS
ALIYA RAM — LONDON

Brussels has warned European governments to make urgent changes to national data protection laws in preparation for a landmark shake-up of the EU's privacy rules.

Billed as the biggest overhaul of European privacy laws in 20 years, the reforms will make it easier for consumers to control how businesses use their personal data

But the European Commission said yesterday that of the bloc's 28 member states only Austria and Germany had fully adopted changes to their legislation ahead of the new regulations, which come into force on May 25.

The General Data Protection Regulation will have an impact on everything from how long businesses can store personal information to how they delete it and report security breaches. Regulators will have the power to impose fines of up to €20m, or 4 per cent of global turnover — whichever is highest — for companies that break the law.

Individual countries must pass their own laws on issues such as the age at which children can consent to sharing data and how the legislation will be policed. With just 100 days before the GDPR comes into force, Brussels is concerned some member states are not moving fast enough to pass the 88 pages of regulations into national law.

The commission fears small businesses are unprepared for the sweeping changes and has urged national data protection authorities to ramp up their hiring and resources to help small and medium-sized enterprises understand how to handle personal data.

Vera Jourova, the EU's commissioner for justice, said smaller businesses had reported being "surprised" that the GDPR was coming into effect in a few months. "We want small and medium-sized businesses to pay attention and to be compliant," she said.

Some of the EU's 24m SMEs will be exempt from parts of the GDPR, such as the requirement to hire a data protection officer, if data processing is not a core part of their business.

In the UK, companies are delaying plans to comply with the GDPR amid concerns the law may not pass before the May deadline. "There is no point making the changes if the rules aren't going to be enforced," said the chief marketing officer of a British cloud computing company. "It is better to wait."

> 'There is no point making the changes if the rules aren't going to be enforced'
> UK company

An EU official said the UK was not at risk of missing the May deadline. The Department for Digital, Culture, Media and Sport said it was "committed to completing the passage of the data protection bill through parliament and having it in force in time for the GDPR taking effect in May 2018".

The UK must prove it is fully compliant with EU standards after Brexit as it pushes for Brussels to accept it as an "adequate" third country after 2019. An adequacy agreement will allow the free flow of personal data from the UK to Europe to continue after Brexit.

Several leading data privacy lawyers have warned that a 203-page UK bill is a "tortured mess" that may not pass into law by the May deadline.

Syria. Kurdish enclave

Afrin offensive set to buoy Erdogan

Turkish president taps into nationalist sentiment ahead of election challenge

LAURA PITEL — ANKARA

Recep Tayyip Erdogan, fifth left, attends the funeral in Ankara on Tuesday of a Turkish soldier killed during an operation in Kilis, near the border with Syria — Adem Altan/AFP/Getty

On the eve of Turkey's offensive on a Kurdish enclave in north-west Syria, a new drama aired on Turkish television. *Mehmetcik Kut'ul-Amare*, produced by state broadcaster TRT, tells the story of a famous Ottoman triumph over British troops during the first world war.

The first episode was the second-most popular programme in Turkey last week, as it tapped into a wave of nationalism ahead of the operation against a Syrian Kurdish militia. President Recep Tayyip Erdogan attended the drama's gala opening as he and most of the Turkish media beat the drum for an attack on the Kurdish-controlled region of Afrin.

The Turkish leader launched the offensive at the weekend in response to what he considers a genuine Kurdish threat to national security. But analysts say it is unlikely to be lost on the president that it could also provide him with a boost in the polls as he looks to attract nationalist votes ahead of elections scheduled for 2019.

"Mr Erdogan knows that whenever there are threats to national security, his popularity goes up," says Murat Gezici, founder of the Gezici polling company.

Ankara's Nato allies have expressed concern about the assault on Afrin. Washington, which arms and trains Syrian Kurds in the fight against Isis, has warned it could distract from the campaign against the jihadi group as it opens a new front in Syria's seven-year war.

But domestically, campaigns against Kurdish militants enjoy popular support. There is deep public hostility to the Kurdistan Workers' party (PKK), which has intimate ties with the Syrian Kurdish militias and has been waging a more than three-decade insurgency against Turkey.

Following the collapse of peace talks in 2015, a PKK offshoot wrought havoc in Turkey's biggest cities, including bombing a row of bus stops in Ankara and planting another device outside an Istanbul football ground.

Mr Erdogan's nationalist campaign also taps into a well of anti-Americanism at a time when Ankara's relations with Washington are at decades-long low.

Antagonism towards the US has long existed in Turkey, but has been fuelled by Washington's response to a July 2016 coup attempt. It has also been exacerbated by the US's reliance on Kurdish fighters that now control a quarter of Syria, including territory in the border region with Turkey.

US support for a group that Ankara considers an extension of the PKK resonates with a deeply ingrained narrative — encouraged by films and TV series such as *Mehmetcik* — that internal and external foes are working together to undermine the nation.

"Ever since world war one, Turkey has been fighting external powers," says Sumeyye, a 21-year-old university student in Ankara. "This is why we have to protect ourselves. We have to protect our borders."

With the exception of the Kurdish-dominated People's Democratic party, the campaign has the support of the main opposition parties. Mr Erdogan is also aided by a pliant media, dominated by outlets owned by friendly businessmen and companies reliant on government contracts. Opposition websites reported this week that the prime minister summoned national editors and asked them to ensure their coverage of the Afrin offensive was "patriotic".

The government brooks little dissent. The governor of Ankara announced a ban on protests in the capital for the duration of the Afrin operation. Turkish authorities have made clear that they will show zero tolerance to what they consider "terror propaganda" on social media. Since the attack was launched, about 100 people have been arrested for critical online posts.

"It's not an open atmosphere for conducting a debate about foreign policy, particularly when it concerns an intervention with great significance to Turkish national interest," says Ilter Turan, a professor of political science at Istanbul's Bilgi University.

Not everyone buys into the officially sanctioned narrative. Several people said they blamed Ankara's Syria policy for allowing a Kurdish enclave to take root, or voiced doubts about the effectiveness of the campaign. But, in political terms, they are not the ones who matter, analysts say.

At the next elections, Mr Erdogan must find a way to get the "50 per cent plus one" that he needs to win the presidency outright in the first round.

His narrow victory in a constitutional referendum in April has led him to acknowledge that the next election will be a struggle and has prompted him to form an alliance with Devlet Bahceli, the leader of the ultra-nationalist Nationalist Movement party (MHP).

Some analysts are convinced that the military campaign is the prelude to a snap poll, despite Mr Erdogan's denials. "It is very likely that we are heading for early elections," Mr Gezici says.

GLOBAL INSIGHT
EUROPE

Tony Barber

Liberalism faces next big test in Czech presidential elections

This year marks the 50th anniversary of the Prague Spring, the reform movement in communist Czechoslovakia that was crushed in August 1968 by a Soviet-led Warsaw Pact invasion. For that Czech generation, the struggle pitted freedom, democracy and national dignity against a one-party state backed by foreign tanks and troops.

The Czech presidential election tomorrow and Saturday will be an altogether different contest, but one with lessons for democracies everywhere. Much has changed, politically and socially, since the Czechs threw off communism in 1989 and joined the EU in 2004.

Milos Zeman, the incumbent, displays anti-immigrant, anti-Islam, Eurosceptic and pro-Russian tendencies similar to those of far-right and conservative nationalist politicians elsewhere in central Europe. Jiri Drahos, his opponent, is a former head of the Czech Academy of Sciences and a liberal intellectual sympathetic to the EU's internationalist values.

Mr Zeman took 38.6 per cent of the vote in the election's first round on January 12-13. He won support from older, poorer, less educated Czechs in provincial towns and rural areas. Mr Drahos, who won 26.6 per cent, topped the poll in Prague — the only place where he did so. The capital's young, well-educated voters share his liberal outlook.

These social fissures are not unique to the Czech Republic. In the run-off round of Poland's 2015 presidential election, the winner, Andrzej Duda of the conservative nationalist Law and Justice party (PiS), won in eastern and southern regions shaped by a history of economic backwardness and Russian rule. His centrist opponent, Bronislaw Komorowski, prevailed in more affluent, urban northern and western regions once part of the German and Austro-Hungarian empires.

> The Zeman-Drahos contest will offer lessons for democracies everywhere

Mayoral elections in Poland this year will test PiS's strength in cities where many voters espouse liberal values. Warsaw's mayor from 2002 to 2005 was Lech Kaczynski, brother of Jaroslaw Kaczynski, the PiS leader and strongman behind Poland's present government. Lech Kaczynski banned gay pride marches in Warsaw; but they were restored by Hanna Gronkiewicz-Waltz, the liberal-minded mayor, after her election in 2006.

Discontent with Viktor Orban, Hungary's prime minister and self-styled "illiberal democrat", is most apparent in Budapest's intellectual and student circles. In the parliamentary and local elections of 2014 the opposition achieved its best results in the capital and the southern city of Szeged. Yet Hungarian liberals are most unlikely to dislodge Mr Orban in legislative elections on April 8 — not least because his ruling Fidesz party changed the electoral system in 2012 in its favour.

The same stubborn defence of liberalism is visible in Vienna. In December 2016 more than 65 per cent of voters in Austria's cosmopolitan capital supported Alexander Van der Bellen, the liberal candidate, against Norbert Hofer of the far-right Freedom party. Provincial and rural voters backed Mr Hofer and his anti-immigrant, anti-Muslim message. But the support of young, well-educated people, especially women, in Vienna and other cities propelled Mr Van der Bellen to victory.

These four central European examples suggest that Emmanuel Macron, France's president, was on to something when he observed in 2016 that citizens of democracies nowadays "fall into two almost equal camps: supporters of an open society, and those who advocate a closed society". This division lay at the heart of the presidential ballot in which he defeated the far-right candidate, Marine Le Pen. In 2016 it influenced the UK's pro-Brexit vote and Donald Trump's victory over Hillary Clinton in the US.

The powers of the Czech president are limited; the Zeman-Drahos contest is not a civilisational clash on the scale of last year's French vote. It will nevertheless be the latest measure of illiberalism's strength in central Europe.

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ECB

Draghi pressed on go-slow approach to removing stimulus

CLAIRE JONES — FRANKFURT

Today's European Central Bank policy meeting did not look like it was going to be an exciting start to Mario Draghi's year — but a bullish account of the final vote of 2017 has changed that.

The minutes of the December meeting, published this month, signalled that the ECB president faces mounting threats to his go-slow approach to withdrawing the bank's crisis-era support, which will be under scrutiny today.

Policy hawks want Mr Draghi to use the meeting to recalibrate the bank's message to investors on its next steps — dubbed "forward guidance" — to reflect the eurozone's rapid growth.

They say the ECB should reduce the extent to which its message focuses on the €30bn worth of new bonds it is buying each month under its quantitative easing programme. They want it instead to emphasise the overall mix of measures in place — which include record-low interest rates, abundant liquidity and reinvestment of the proceeds of asset purchases. The change in tone would signal a big step towards ending bond purchases for good.

Some of the 25 members of the ECB's governing council even want the president to name an end date for QE — anathema to a man who prefers to keep his options open for as long as possible.

Gilles Moec, economist at Bank of America Merrill Lynch, said the ECB probably thought it had "bought itself some peace and quiet" in October, when the bank managed to cut the amount of bonds it buys each month from €60bn to €30bn without panicking investors. Instead, "the press conference this week will not be an easy one for Draghi. Changing one part of forward guidance opens the door to the market questioning every single bit of it," Mr Moec said.

The account of the December governing council vote underlined policymakers' increasing confidence in the eurozone economy — said no longer to be in "recovery" but in "expansion" — and confirmed that a large group of policymakers wanted the bank's message changed to reflect this.

Markets, suspecting the council's hawks were in the ascendancy, sent the euro rallying nearly 1 per cent against the dollar and German bond yields rose to near two-year highs.

The bank has promised it will keep buying bonds until September. The consensus on whether QE will end then point is shifting; having earlier forecast a December close to the programme, some are placing bets on September.

A minority believes the ECB could even raise interest rates as soon as this year, though insiders have pushed back against that view. Recent data have bolstered the hawks' case for a more aggressive message on when QE will end. Yesterday, a poll of eurozone purchasing managers showed activity was expanding at its fastest pace for 12 years.

Mario Draghi: said in October there would be no 'sudden stop' to QE

The ECB's executive board is split. While the president and Vítor Constâncio, his deputy, Peter Praet, chief economist, and Yves Mersch would prefer to keep their options open on when to end QE until there are more signs of inflationary pressures, markets specialist Benoît Cœuré and Sabine Lautenschläger want an end date now.

Jens Weidmann, Bundesbank president, and Klaas Knot, Dutch central bank chief, both demand an end date too, while François Villeroy de Galhau, Banque de France governor, and Philip Lane want the message tweaked.

Mr Draghi said in October there would be no "sudden stop" to QE and signalled that the programme would continue beyond the autumn.

Carsten Brzeski, economist at ING-DIBA, said: "The key thing to watch [is] whether Draghi confirms the October statement that there will be no sudden end to QE." On balance, most analysts think a big change in tone is more likely in March. "We expect Mr Draghi to convey a rather dovish message and tame the market's hawkish fantasies, at least for now," said Mr Brzeski.

Insight page 18

Genetics

China monkey clone breakthrough raises prospect of human copies

Macaque success follows huge rise in state funding of basic scientific research

EMILY FENG — BEIJING
CLIVE COOKSON — LONDON

Zhong Zhong and Hua Hua, cloned using the method that made Dolly the sheep — Qiang Sun and Mu-ming Poo/Chinese Academy of Sciences

Scientists in China have successfully cloned two monkeys, the latest step in the country's ambition to become a global scientific leader.

The genetically identical long-tailed macaques born in Shanghai last month, called Zhong Zhong and Hua Hua, are the first primate clones produced through the method that made Dolly the sheep in Scotland in 1996. Their names are a play on the phrase *Zhonghua*, which means Chinese nation or people.

Although the cloning method, known as somatic cell nuclear transfer (SCNT), is almost routine in mammals such as sheep, cattle and mice, it has been extremely difficult to replicate in primates. Previous efforts with monkeys often resulted in clones that did not develop properly as embryos or died shortly after birth.

Now that SCNT cloning has been achieved with primates, human cloning is possible, said authors of the study, which is published in the journal Cell.

"The technical barrier is now broken. In principle [this method] can be applied to humans," said Mu-ming Poo, a co-author, from the Chinese Academy of Sciences Centre for Excellence in Brain Science and Intelligence Technology. But, he added, "we cloned [the macaques] to produce animal models useful for medicine, for human health. There's no intention for us to apply this method to humans."

SCNT involves replacing the nucleus of an egg cell with DNA from a differentiated body cell such as skin. This reconstructed egg develops into a clone of the DNA donor.

In 1999 US researchers at the Oregon National Primate Research Center produced a live cloned rhesus monkey, named Tetra, through embryo splitting — a simpler process that occurs naturally in identical twins but cannot generate more than four clones at a time.

In principle, SCNT can produce a larger number of clones from the same donor, which could help medical research by generating genetically uniform groups of monkeys with specific characteristics.

The team at the Chinese Academy of Sciences' Institute of Neuroscience in Shanghai failed in its efforts to produce healthy clones from adult cells but succeeded with fibroblasts — connective tissue cells — from a macaque foetus.

"The researchers not only replace the DNA sequence but also make sure the sequence expression of certain genes and the amount of that expression are co-ordinated so they are in the right place at the right time," said Gang Fang at New York University Shanghai. "That's quite difficult."

Zhong Zhong, eight weeks, and Hua Hua, six weeks, are apparently developing normally. The Shanghai team expects more macaque clones to be born over the coming months.

The study raises concerns about animal ethics in China, which has less rigid testing regulations than many other countries, though the researchers followed guidelines for animal research set by the US National Institutes of Health. Dr Poo is encouraging scientists internationally to discuss the issue. "We are very aware that future research using non-human primates anywhere in the world depends on scientists following very strict ethical standards," he said.

The cloned macaques are examples of the way skyrocketing Chinese state funding of basic research is yielding significant advances in fields ranging from quantum computing to biology.

Chinese state-led funding of basic research — science that has no immediate commercial applications — increased to \$10bn in 2015. While that number is about one-quarter of US federal spending on basic research, it represents a vast increase from the \$3.9bn in total state science funding four years earlier, according to China's National Natural Science Foundation.

Infrastructure projects

Beijing fails to share its New Silk Road contracts

JAMES KYNGE — LONDON

China's pledge to the world is that it will create a "community with a shared future for mankind". But a new study shows that sharing is no more than an afterthought as it rolls out an ambitious programme to build transport infrastructure across Eurasia.

The study by the Center for Strategic and International Studies (CSIS), a Washington-based think-tank, reveals that 89 per cent of the contractors in China-funded transport infrastructure projects in 34 Asian and European countries were Chinese companies, leaving only 11 per cent for contractors from elsewhere.

The discrepancy challenges the rhetoric that Beijing has used to promote its Belt and Road Initiative (BRI), a signature policy of Xi Jinping, China's president, which seeks to build infrastructure and win friends in some 70 countries around the world.

In his speech to the 19th Party Congress late last year, Mr Xi promised that China's engagement with the world would be open and inclusive to create a "shared community".

He said: "We should stick together through thick and thin, promote trade and investment liberalisation and facilitation and make economic globalisation more open, inclusive and balanced so that its benefits are shared by all."

But Jonathan Hillman, director of the Reconnecting Asia Project at CSIS, said the study showed the gulf between rhetoric and reality. "Despite official rhetoric about the Belt and Road being open, it is first and foremost a China-centric effort," Mr Hillman said.

"It is in everyone's interest, including China's, that projects are open to fair competition. Unless there are more concrete opportunities to participate in the BRI, more countries will start to ask why they joined the BRI and those that have not joined will not."

In contrast to the overwhelming preference shown to Chinese contractors in China-funded projects, data for projects in Eurasia funded by two western multilateral development banks (MDBs) — the World Bank and the Asian Development Bank — show a more even distribution of awards.

Among MDB-funded transport infrastructure projects, a total of 41 per cent of contractors were from countries in which the infrastructure was being built, while 29 per cent were Chinese and 30 per cent were from third countries, according to the CSIS study, which covered 178 projects between 2006 and now.

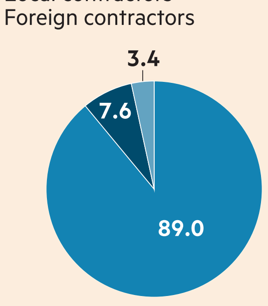
The central importance of BRI — also known as the New Silk Road — to Beijing was highlighted during Mr Xi's speech to the party congress, when he stressed its role in forging a new type of international development distinct from the western-led world order.

Raffaello Pantucci, director of the Royal United Services Institute for Defence and Security Studies in the UK, said hopes that China would open up its contract awards in the BRI to foreign contractors were based on a misreading of Beijing.

"When we hear the BRI rhetoric we think it is about China sharing the love and giving us money and contracts, but they would say they are sharing the love by helping fill the infrastructure deficit and helping under-developed countries develop," Mr Pantucci said.

Chinese companies win majority of Eurasia projects

China-funded projects (%)



Source: CSIS Reconnecting Asia Project

Davos summit

Mnuchin extols America First agenda

Trump trade programme is good for the world and US is open for business, says Treasury secretary

CHRIS GILES — DAVOS

Steven Mnuchin has insisted that the Trump administration's America First policies, which include a more protectionist attitude towards trade, are good for the US and the rest of the world.

The US Treasury secretary's uncompromising words, ahead of President Donald Trump's speech at the World Economic Forum tomorrow, marked the arrival of a huge US delegation to Davos. With 10 cabinet members, the US contingent is intended to show American strength and what Mr Mnuchin called the "success that we've had in the first year under President Trump of the economic programme".

Mr Mnuchin said: "This is about an America First agenda, but America First does mean America working with the rest of the world. What's good for the US is what's good for the rest of the world given we are one of the largest trading partners for the world, one of the largest investment opportunities . . . We are open for business."

Wilbur Ross, the US commerce secretary, who shared the platform with Mr Mnuchin yesterday, took a characteristically tough line on the trading policies of other countries, including China, the day after the US imposed higher tariffs on washing machines and solar panels.

During a panel discussion, Mr Ross pushed fellow panellists to name a "less protectionist country" than the US.

"We have the least tariffs," he said. "We don't intend to abrogate leadership, but leading is different from being a sucker.

"Trade wars are fought every single day . . . And, unfortunately, every single day there are also various parties violating the rules and trying to take unfair advantage. So trade wars have been in place for quite a little while. The difference is the US troops are now coming to the ramparts."

The commerce secretary criticised

> 'Trade wars are fought every single day . . . The difference is US troops are coming to the ramparts'

European finance ministers who have complained that aspects of the Trump administration's corporate tax plans are anti-competitive and violate international rules.

"You may have noticed that both the French and German finance ministers were raising the question about whether our new lower tax rates for corporations were actually trade barriers," he said. "That's a funny concept that someone would complain about a tax reduction is somehow impeding trade."

Mr Ross also pressed his case for a rethink of global trading practices, a changing role for the US and expressed reservations about multilateral agreements. "The world has changed," he said, adding that there was "no need" for trade to be a "total free-for-all".

"What was perfectly appropriate in 1945 is singularly inappropriate now. I don't blame the WTO . . . for that: we screwed up. There's no longer a need to subsidise China or Japan or Europe with our money."

In conciliatory remarks, Mr Mnuchin said he was working with his European counterparts to resolve disputes over some details in the tax plan but not the overall tax rates. Mr Mnuchin promised that there would be more action on trade and that decisions were pending in the fields of intellectual property, steel and aluminium.

"What has provoked a lot of the trade actions is inappropriate behaviour of our trading counterparts. Many countries are good at the rhetoric of free trade, but in fact actually practise extreme protectionism," he said.

In a swipe at Justin Trudeau, the Canadian prime minister who at Davos on Tuesday urged a successful renegotiation of Nafta, Mr Mnuchin said the US needed to ensure its opportunities were equal to those of Mexico and Canada.

He criticised Mr Trudeau for using the platform at Davos "to put a little pressure on the US in the Nafta talks".

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Greenback loses ground page 19

'Global compact'

Macron urges fightback against nationalist populism

Top billing: Emmanuel Macron, right, president of France, smiles as he arrives for a special address at the World Economic Forum in Davos, Switzerland, yesterday Markus Schreiber/AP

KATIE MARTIN — DAVOS

French president Emmanuel Macron led an international riposte in Davos to some of the policies espoused by the Trump administration, issuing a "call to all and everyone of us" to push back against protectionist and nationalist forces.

Mr Macron, who arguably takes second billing only to US president Donald Trump at this year's gathering of the World Economic Forum in the Swiss Alps, said globalisation was undergoing a "major crisis".

Noting he won last year's French presidential election against a far-right candidate, he pinned nationalist populism on persistent unemployment that seemed to offer an easy solution to the problems of those "who have been forgotten and left behind".

He urged a "global compact" to help manage its negative effects, warning of a race to the bottom on taxes and regulation, and said a stronger Europe was "absolutely key" to avoiding "fragmentation of the world".

The centrist leader deplored the unpicking of the international liberal order of trade and political integration.

"In terms of trade, we are moving back again towards greater protectionism, greater fragmentation and we are undoing what globalisation has been able to achieve.

"In terms of climate change, we are losing the battle.

"How are we going to explain to people that they are going to be more vulnerable?"

Mr Macron is one of the few European leaders to have struck a friendly rapport with Mr Trump, but that did not stop the US president from pulling out of the Paris accord on climate change.

Mr Macron did not name Mr Trump in his speech, but referred to him with a joke at the beginning of his address to delegates to the resort: "Obviously and

> 'How are we going to explain to people that they are going to be more vulnerable?'

fortunately you didn't invite anyone sceptical of global warming this year."

Mr Macron was one of a clutch of world leaders who used their slots to offer a spirited defence of globalism, in a rebuke to the nationalism of the US.

In her speech, Germany's Chancellor Angela Merkel said "rightwing populism" was a "poison that appears whenever you have unsolved problems.

"We have to advocate for our multilateral approach," she said.

"You need to have the patience to find multilateral solutions and not slip into the apparently easier solution of acting in national interests.

"Once you have a national response, at some point you lose the strand of dialogue."

Liu He, an economic adviser to Xi Jinping, Chinese president, and his country's most senior representative at this year's forum, said China was "moving economic globalisation forward with concrete actions".

He outlined economic policies designed to shift China from rapid growth towards what he called "high quality" expansion.

Mr Liu also pointed to risks in financial markets, saying that "deep-seated problems" had not been fixed since the 2008 financial crisis.

"At such a critical moment, we must focus on spillover of the monetary policies of the world's major economies and changes in the debt, equity and commodity markets."

Problems such as high debt and "asset bubbles" needed to be met with "concerted global efforts", working "hand-in-hand" with global partners.

Mr Liu said China's financial system was "basically sound", but acknowledged that "shadow banking and hidden debt for local governments are serious problems we have to deal with", giving a commitment to making the country's financial system "more adaptable".

He pledged to "open up the financial sector" and deepen integration with global trade rules.

US trade. Protectionism

Trump tariffs stoke fears of long-term job losses

President's predecessors made similar decisions but came to regret them, critics claim

SHAWN DONNAN — WASHINGTON

As he signed orders imposing new tariffs on imports of solar cells and washing machines, President Donald Trump said on Tuesday that he had one significant outcome in mind: "Our action today helps to create jobs in America for Americans."

But Mr Trump, who is widely expected to sign off on more tariffs in the weeks to come as part of a crackdown on what he has declared to be China's unfair trade practices, may not have been paying attention to the lessons of history.

Both of his immediate predecessors made similar tariff decisions early in their presidencies and came to regret them: Barack Obama with Chinese tyres and George W Bush with steel. Studies have shown they probably caused the loss of more jobs than they saved.

Both presidents also made the move only once. Rather than repeat it, they opted to follow a pattern that since the 1970s has seen US presidents become more reluctant to grant domestic companies the broad "safeguards" that Mr Trump did this week, largely because most economists say the collateral damage outweighs the benefits.

"There are always unintended consequences," said Raj Bhala, a former Federal Reserve Bank of New York attorney who teaches international trade law at the University of Kansas.

In the case of Mr Bush's 2002 move to impose tariffs on steel imports, one estimate found that the resulting higher costs led to the loss of about 200,000 jobs — more people than were employed in the US steel industry as a whole — and $4bn in lost wages at smaller manufacturers that used steel.

Mr Obama's 2009 decision to levy a tariff of up to 35 per cent on Chinese tyre imports helped save 1,200 jobs but at a cost of $900,000 each, the Peterson Institute for International Economics estimated in a 2012 study. It also caused the loss of more than 2,500 retail jobs due to higher prices, the authors found.

Those cases illustrate why Mr Trump has quickly encountered a backlash to his move to impose tariffs, particularly in the solar sector.

Solar industry groups argue that in the name of temporarily helping 1,000 workers employed by small foreign-owned but US-based manufacturers, Mr Trump is putting at risk more than 20,000 jobs in a thriving industry that has benefited from cheap imports.

But history also points to why economists are worried about the potential impact on the broader economy.

While many of the concerns about Mr Trump's promises of protectionism expressed by the International Monetary Fund and others have focused on fears that he might set off a trade war with China, economists have also begun examining what new tariffs or other moves might mean for the US itself.

Mr Trump and his supporters have argued that, by talking tough on trade, he has been encouraging US and foreign companies to invest more at home.

On Tuesday the president pointed to decisions by South Korean companies LG and Samsung to move their production of washing machines to the US as evidence for the benefits of his tariff move, though both companies had decided to do so before domestic rival Whirlpool sought Washington's help.

Mr Trump has also played down the possibility of an economic conflict with China. Administration officials have signalled that they are willing to absorb some short-term costs in return for taking on what they see as systemic and long-term concerns about the US's trade position, particularly with China.

Yet other officials have also warned that Mr Trump risks upending some of the economic gains he has delivered with tax cuts and deregulation, particularly if he follows through on his threat to leave a North American Free Trade Agreement he is now renegotiating with Canada and Mexico. Such concerns are shared by many economists.

If, as many in Washington expect, Mr Trump imposes tariffs on aluminium or steel imports in the name of US national security, it will probably lead to higher domestic costs for steel users such as the automobile sector, Oxford Economics said in a recent report. Moreover, it argued, the steel industry represents just 2 per cent of US manufacturing and any benefits — other than political — would probably be imperceptible.

Solar flare-up: Donald Trump has criticised China's trade practices

Washington

Hopes fade for deal on immigration amid rancour

BARNEY JOPSON — WASHINGTON

The chances of a new political accord on US immigration receded yesterday as a poisonous partisan atmosphere in Washington was exacerbated by bickering between President Donald Trump and Democrats.

To strike a deal, Congress must get past differences that have stopped breakthroughs on immigration for a quarter of a century — and do so amid rancour lifted to new highs by Mr Trump's anti-immigrant politics. But the two sides have gone backwards in the past day.

Chuck Schumer, the Senate Democratic leader who ended the government shutdown by accepting a Republican pledge to hold talks on immigration, withdrew an offer from Friday to support funding for Mr Trump's US-Mexico border wall. "We're going to have to start on a new basis," Mr Schumer said.

In response, the president tweeted that "Cryin' Chuck Schumer fully understands, especially after his humiliating defeat, that if there is no wall, there is no Daca", referring to a Barack Obama-era programme protecting up to 800,000 "Dreamers" brought to the US illegally as children.

The latest ructions came after the US government reopened following a near-three day shutdown, with Democrats accepting a Republican promise of a new attempt at immigration reform, including a replacement for the Daca programme Mr Trump is phasing out.

The crude outlines of a potential deal are accepted by both sides. For Democrats, it would protect "Dreamers" living under the threat of deportation. For

> '[Mr Trump] needs to embrace a bipartisan solution and sell it'
>
> Frank Sharry, America's Voice

Republicans, it would deliver the strict enforcement they want to deter more border transgressions.

Neither party is opposed in principle to the other's priority. No Democrats advocate uncontrolled borders. Most Republicans, including Mr Trump, express sympathy for Dreamers.

But the disagreements are over how much compassion and how much enforcement are too much.

Dave Brat, a conservative congressman from Virginia, said: "Most people are in favour of rational policy dealing with the Daca kids and getting a rational immigration policy we've failed [at] for 30 years."

According to a poll this week, 79 per cent of Republicans — and 87 per cent of the public overall — favour allowing Dreamers to stay in the US.

But a core part of Mr Trump's political base is opposed to any help for illegal immigrants, making Republicans nervous that if they show too much compassion they could face primary challenges from the right in congressional elections in November.

The consensus in Washington is that a deal that could pass Congress is still possible. But it would require a public split in one party.

Frank Sharry, founder of America's Voice, a pro-immigration group, said: "There is a majority in the Senate and a majority in the House of Representatives that want to vote for a decent Dreamer bill. The problem is that the majority in both chambers consists of all Democrats and some Republicans."

The rightwing Freedom Caucus in the House would oppose legislation perceived as too lenient. Mr Sharry predicted that the only circumstances in which Mitch McConnell and Paul Ryan, the Republican leaders in Congress, would advance such a bill — knowing it would pass with Democratic votes — was if Mr Trump backed it.

"He needs to embrace a bipartisan solution and sell it. He's the only one in the Republican party who can get reluctant Republicans to commit to get this done," Mr Sharry said.

The outlines of such a bill have been drafted by Democratic senator Dick Durbin and Lindsey Graham, his moderate Republican counterpart. It would allow $2.7bn for border security and provide a pathway to citizenship not just for Daca beneficiaries but for a larger group of Dreamers, who total 3.6m, according to the Migration Policy Institute.

A White House spokesman this week criticised the bill as "basically amnesty".

Ted Yoho, a member of the House Freedom Caucus from Florida, warned of the dangers of legislation that would split the party. "I think that would be a mistake for Paul Ryan to bring up a bill like that, because we have a majority in the House for a reason. The American people sent us there," he said.

Edward Luce page 9

Southeast Asia. Geopolitics

India woos Asean bloc to foil China

New Delhi fetes regional leaders as Modi looks to take on more active strategic role

AMY KAZMIN — NEW DELHI
JOHN REED — BANGKOK

India's Republic Day parade is a popular public spectacle: a display of military hardware, leavened by cheesy floats and folk-dancing troupes. It is also the annual highlight of India's diplomatic calendar, given New Delhi's decades-old tradition of inviting a strategically important foreign leader as the parade's "chief guest".

When India's missiles and tanks roll down New Delhi's Rajpath for this year's parade tomorrow morning, the VIP dais — graced in recent years by Shinzo Abe, Japan's prime minister, Barack Obama, the former US president, and François Hollande, the former French president — will be heavier than usual.

Rather than a single high-profile foreign dignitary, New Delhi is hosting 10 leaders from the Association of Southeast Asian Nations, a strategically important region with which India is seeking to deepen ties to counter China's increasing sway. "India does not want an Asia that is dominated by China," says Dhruva Jaishankar, a fellow at Brookings India, a think-tank. "And a big part of where that will be determined is Southeast Asia."

Narendra Modi: India's premier has accused China of an '18th-century expansionist mindset'

India's feelings are not unreciprocated. While China is Southeast Asia's biggest trading partner, it is also a hegemon that many regional elites privately fear or loathe for its heavy-handed military and economic clout.

The South China Sea is a particular flashpoint, given Beijing's build-up of artificial islands for potential military use. India has openly sided with Southeast Asia in the dispute, with Narendra Modi, the prime minister, criticising China's military build-up as evidence of an "18th-century expansionist mindset".

It is that sense of India's growing resolve in the face of Chinese assertiveness that has caught Asean's attention.

"What [Southeast Asian countries] are seeking — and have — in India is a partner that stands up for a rules-based international order, and that's particularly important in the maritime space," says Alyssa Ayres, a senior fellow at the Washington-based Council on Foreign Relations. "In India, they see a global giant — a huge country that is not as big a behemoth as China on trade, but one that is willing to say to Vietnam and the Philippines, 'We are with you on this question'. They are ready to stand up to China."

The idea of an "Indo-Pacific" region with India playing a more active strategic role has also been endorsed by Japan, Australia and Donald Trump, the US president, who spoke of a "new chapter for the Indo-Pacific" at a recent Pacific Rim summit.

"We are talking about a new paradigm for what used to be called the Asia-Pacific," says Thitinan Pongsudhirak, associate professor of political science at Thailand's Chulalongkorn University. "When India is included, Southeast Asian countries see it as a potential giant that could counterbalance China. They are looking for some hedging as well."

When it comes to commercial and economic ties, New Delhi's hesitant engagement with Asean over the past 25 years has been underwhelming. Bilateral trade was just $58bn a year in 2015, substantially less than Asean's trade with Hong Kong or Taiwan. In contrast, Asean is bound to China by vast networks of integrated supply chains, with bilateral trade forecast to reach $1tn in 2020.

India lacks the financial depth to match China for infrastructure funding, or underwriting bonds. But even New Delhi's more modest goals to boost connectivity — such as a trilateral highway between India, Myanmar and Thailand agreed 15 years ago — remain unrealised.

"There is a bit of angst about the gap between promises and delivery," says Vishnu Prakash, a retired Indian diplomat. "We do not have the resources China has and we cannot or should not try to compete there. But whatever we promise, at least we should be able to deliver on that."

But India is stepping up security cooperation with Southeast Asian countries, albeit in small but symbolically important steps. These include training combat pilots and submariners from several Asean countries, a new naval agreement with Singapore, growing technical co-operation and patrolling east of Malacca by the Indian navy.

Many are expecting India to pursue stronger defence partnerships with Asean countries in the coming years, possibly in conjunction with other like-minded Pacific powers, such as Australia and Japan. "On the security front there have been more developments than is often appreciated," says Mr Jaishankar. "There is no expectation that India should match China one for one. But if you can provide even part of an alternative, that is helpful."

Military manoeuvres

'India does not want an Asia that is dominated by China'

DHRUVA JAISHANKAR, BROOKINGS INDIA

'We are talking about a new paradigm for what used to be called the Asia-Pacific'

THITINAN PONGSUDHIRAK, CHULALONGKORN UNIVERSITY

Boogie time: Indian troops relax during rehearsals for tomorrow's Republic Day parade in Kolkata

Saikat Paul/Pacific Press via Zuma Wire/DPA

'Comfort women'

Abe to visit S Korea Olympics despite conflict over sex slaves

ROBIN HARDING — TOKYO
SONG JUNG-A — SEOUL

Shinzo Abe will attend the Winter Olympics next month despite a diplomatic dispute with hosts South Korea over Japan's wartime use of sex slaves.

The Japanese prime minister said yesterday that he wanted to hold a summit with Moon Jae-in, South Korea's president, and support a fellow Asian host ahead of the Tokyo Olympics in 2020.

Mr Abe's decision suggests he will not break off relations over Seoul's call for further recompense and apology to "comfort women" forced to work in military brothels during the second world war. Japan rejects those calls because the two countries signed a "final and irreversible" settlement of the issue in 2015.

Instead, Mr Abe will demand that South Korea honours its side of the 2015 deal, making it harder for Mr Moon to reignite the dispute even as he welcomes world leaders to the Olympics.

"If circumstances allow, I want to attend the opening ceremony for the Pyeongchang Olympics," Mr Abe said. "At the same time, I'd like to hold a summit with President Moon Jae-in and properly lay out Japan's position on our 'comfort women' agreement."

The 2015 agreement was thrown into doubt early this year when Mr Moon derided it as "seriously flawed". A state-appointed panel in South Korea said the previous conservative government had failed to consult victims properly before reaching the deal. Earlier this month, South Korea's foreign ministry said it would not try to renegotiate the agreement, but called on Tokyo to keep making efforts to restore honour and dignity to the victims. The South Korean government also said it would set aside $9m to help the victims in place of compensation already paid by Japan.

Many in South Korea and Japan regard those actions as tantamount to nullifying the deal. Some of Mr Abe's conservative supporters want him to retaliate by freezing relations with Seoul. But other Japanese officials think that would play into Mr Moon's hands by allowing him to claim that the 2015 agreement was dead. They want to uphold Japan's end of the deal and force Mr Moon to take the initiative.

"We welcome Japan's decision to officially announce Prime Minister Abe's visit to the Pyeongchang Winter Olympics," Seoul's presidential spokesman said, adding that the two governments would consult closely to make Mr Abe's visit a success.

Mr Abe said he also wanted to discuss North Korea with Mr Moon. Tokyo and Seoul are the two most important US allies in the region. Co-operation is important in coping with Pyongyang's military threats and the unpredictability of Donald Trump, the US president.

The "comfort women" issue has long poisoned relations between the neighbours. Many in South Korea believe Tokyo has never shown sufficient remorse. Many in Japan think Seoul uses the issue as a diplomatic weapon and no apology will ever be sufficient.

ARTS

Stop-motion story is a fabulous feat of clay

FILM
Nigel Andrews

Silly: Dug and Hognob, voiced by Eddie Redmayne and Nick Park, in 'Early Man'. Below: Matt Damon and Jason Sudeikis in 'Downsizing'

Early Man
Nick Park
★★★★☆

Last Flag Flying
Richard Linklater
★★★★☆

Downsizing
Alexander Payne
★★☆☆☆

The Nothing Factory
Pedro Pinho
★★★★☆

Start mining ore," says someone in **Early Man.** "Or what?" comes the reply. Animator Nick Park's new film, his first feature as writer-director since winning an Oscar for *The Curse of the Were-Rabbit*, suggests the English language was a pitfall of potential errors as early as the Pleistocene Age.

For instance: might they not have meant Plasticine? Every character here, human and animal, is formed of stop-motion clay. And since the film is set, according to an opening title, "Near Manchester. Around lunchtime", we can be sure these primitives are exact ancestors of Wallace and Gromit. Toothy Dug (voiced by Eddie Redmayne) and his dim-but-excitable wild boar Hognob (eloquently grunted by Park himself) may be the first instance of a mad-inventor-and-pet duo in an evolution that led, finally, to the heroes of *The Wrong Trousers*.

The film is funny, silly in the best sense and full of deadpan puns, malapropisms and wordplay. "You haven't finished your primordial soup," a diner is nagged. Park's eye for visual gags is unerring. A village zebra crossing is an actual dead zebra, stretched flat. And surely the shade of *Spartacus* hovers over the scene in which a bathtime Lord Nooth, leader of the Bronze Age invaders (voiced in spoofy French by Tom Hiddleston), is massaged by an interloping Hognob, mistaken in the shadows for his body servant. Hognob goes on to play the harp: a music experience none should miss.

Is there too much football? Perhaps. To win back the verdant natal valley they've lost to the invaders, Dug and his Stone Age friends challenge "Real Bronzio" to a match. To UK soccerphiles this will be hilarious. (Rob Brydon ventriloquises a mock John Motson commentary.) To everyone else worldwide? The action-replay puppet show joke is brilliant. But even here, don't you need to have been raised on a British beach, circa 1950, to get the puppet crocodile gag?

Never mind. Ouside the soccer stuff, *Early Man* is a joy for all. The early hunting, gathering and living scenes offer persuasive speculations on prehistoric society. (Large, sharp-pincered beetles used as pre-electric shavers.) A Stone Age rabbit hunt is a triumph of mind over mad-hatter methods. And Hognob is a comic hero worth a future feature. For his sake alone we may hope to look forward to *Early Middle Man*, *Early Late Man*, or even — to borrow the film's soccer-phile pun and if we are to have, willy-nilly, more sport — *Early Man United*.

Some directors seem unable to make

a bad film. Which doesn't mean they don't try. Richard *Boyhood* Linklater's **Last Flag Flying** might have been bloody awful — or buddy-awful — in its tale of three former Vietnam friends (Steve Carell, Bryan Cranston, Laurence Fishburne) reuniting to journey to the Arlington funeral of Carell's son. He died a hero in Iraq, or that's the official story. He will receive full military honours. Cue comradeship, tears, remembering-old-times, semi-drunken nights on the road. Cue manly togetherness, the love that passeth understanding, the love that passeth 124 minutes with only popcorn for pain relief.

But then think of *The Last Detail*. That had grit, wit and a scabrously good Jack Nicholson. With *Detail* author Darryl Ponicsan also scripting *Last Flag Flying* (with Linklater) from his own novel, redemption and salvation are at hand here. Even a kind of triumph. Another trio of gifted actors, reprising the earlier movie's ex-service chums, set alight to potential clichés, watch them burn and conjure phoenix truths from the threatened cornball. Linklater and cast find buddyism's frail absurdity. They also find the way it can torque triteness into Talking About America.

Carell is the trio's quiet centre. Fishburne, a former hellraiser, is now a Reverend, still secretly fond of the drink. It takes Cranston's heavy-bibbing bar owner — a near-burnout enjoying his last conflagrations — to smoke out his friends' lurking demons.

A reminiscence session in a jolting train carriage, modulating from sentimentality to mild uproar to a kind of crazed, reflective self-awareness, is the best scene. The film finds its gonzo heart. Set in 2003, it also makes funny play with pre-smart mobile phones: these alien gizmos, ringing the world with their no-escape ringtones, promising new intimacies for old reunited friends — even if they don't want them.

Alexander Payne's **Downsizing** is a movie with a message. It's a movie, I suspect, with half-a-dozen messages, if one bears to count. And it's as earnest and onerous as that sounds. Dare we say that this once admired indie writer-director, who made *Exhibition*, *Sideways* and *About Schmidt*, is developing a humourless streak? (After *Nebraska*, yes, we can.) The neo-Swiftian tale of an occupational therapist (Matt Damon) who, for self-therapy and humanity's interest in an overcrowded world, submits to shrinkage — the latest fad of an imagined future — should have been a sharp-teethed satire. Shouldn't it? Something surely, at least, more vivid than a sluggish seriocomedy carrying or couriering a sermon on planet care.

Kristen Wiig plays Damon's frivolous wife, in early scenes, as if *she* might be fun. But her first betrayal of his trust is her last and out she goes. Exit *Saturday Night Live*. Enter Sunday morning, which lasts till the final reel. Payne and his regular co-writer Jim Taylor invent their sci-fi details as if in a bid to punish our longing for escapist fantasy: we've given up on demonic satire. Damon, pre-shrinkage, has a full-body shave and dental MOT while we watch. It's not pretty. It doesn't even seem to have a point. In Leisureland — Payne and Taylor's Lilliput — our hero is persuaded to spurn his mansion to minister to the poor and sick in a quasi-barrio. Here he meets a girl (Hong Chau), a Vietnamese dissident refugee with a prosthetic leg . . .

The carpet-bombing of our conscience isn't done yet. Survivalism and the Scandinavian school of hair-shirt Utopianism are still to come. The last scenes are a bleeding-heart fantasia of apocalypse set amid scenic fjords — though the scale considerations of putting mini-humans in un-shrunk landscapes don't seem to be addressed at all. Surely there were better ways to morph *Gulliver's Travels* with *Fantastic Voyage*? Surely glum, plethoric preachiness isn't the way to a filmgoer's heart, never mind his funny bone. Nor to his conscience, arduously bypassing his intransigent lust for entertainment.

For the first hour of Pedro Pinho's **The Nothing Factory**, a three-hour Portuguese film about a factory strike, I thought I had died and gone to Purgatory. It's *very* slow. But this docudrama which won a Cannes International Critics' Prize should be persevered with.

The "real time" feel of the strikers' lives and actions disarms any charge of Agitprop Lite. (We don't get Ken Loach's tendency to put capering with the campaigning.) There is gathering power as we peer into lives, conflicts and labour pains, in all senses, of a new-born industrial showdown. Here it is the extended lock-out of management by workers in an elevator factory, inspired by a real and long-lasting strike at a Portuguese Otis plant.

Stay to the third hour and you get the best of the film: vignettes of deep-banked anger — a young striker's father with a startling buried treasure — and domestic tragedy/comedy. There is even a song-and-dance production number. The most striking scene, no pun meant, is a long conversation around a table about left-versus-right economics. It's a sort of high-calibre Marxmanship contest between four *chatterati*; with powder-packed views on capitalism's failure (if that's a concept you accept) and what to do about it.

SUNDANCE FILM FESTIVAL
Damon Wise reports on this year's line-up, including Bart Layton's jaw-dropping fact-based crime story, 'American Animals'
ft.com/arts

Buddies: from left, Laurence Fishburne, Bryan Cranston and Steve Carell in 'Last Flag Flying'

Fanning the flames of Wilde's comedy

THEATRE

Lady Windermere's Fan
Vaudeville Theatre, London
★★★☆☆

Ian Shuttleworth

This is only the second full-scale production of its year-long Oscar Wilde stint (along with a couple of holiday-season diversions), but already Dominic Dromgoole's Classic Spring company seems to have developed a house style. Like Dromgoole with *A Woman of No Importance* last autumn, Kathy Burke directs Wilde's first great dramatic success in a careful pastiche of the late-Victorian manner but which also includes an assortment of tweaks and nudges more in tune with a 2018 audience. The extent to which the blend succeeds is a matter of individual taste; I found myself more or less on-side at the beginning, but my sympathies paled progressively as the evening continued.

Burke has a keen directorial eye, but periodically her comic actor's instincts win out. She brings out the blood tie between the idealistic, moralistic Lady Windermere (Grace Molony) and the disgraced Mrs Erlynne (whom London society believes is Lord Windermere's mistress, and played by Samantha Spiro, who can command a stage without a shred of imperiousness) by giving them both a little snort when they laugh . . . then overdoes it in the final minutes by having them do so in unison.

As the Duchess of Berwick (a Wildean warm-up for Lady Bracknell), Jennifer Saunders begins her first proper stage appearance in 20 years with brittle precision, but is allowed to broaden her performance in Act Two. After the interval, the Duchess disappears from the action, but returns front-of-curtain to cover a scene change by singing — well, delivering — a musical number with the euphemistic refrain "Keep your hands off my fan."

Alas, Burke and Co. ratchet up the comedy just as Wilde is heightening the drama and sentiment, as the Windermeres and Mrs Erlynne each find that both happiness and morality are more complex matters than they had believed. For me, this is where the production falls on the side of contradiction rather than counterbalance. For others, though, Burke arguably meets her target: "I want to come away feeling I've been told a really good story, which I've enjoyed, that I've had a bit of a giggle and that it's opened my mind a little."

To April 7, classicspring.co.uk

Pastiche: Jennifer Saunders and Grace Molony in 'Lady Windermere's Fan'
Marc Brenner

FT BIG READ. SATELLITE TECHNOLOGY

It is expensive to launch satellites, but a US company is now offering cheap rocket technology and a launch pad in New Zealand. Governments, scientists and venture capitalists are eyeing fresh opportunities.

By Jamie Smyth

Space invaders

Speed read

Nano niche Miniature satellites have become cheap to build and easier to deploy, with the ability to mine big data

Satellite business The likes of Australia and New Zealand aim to encourage space businesses

Burning fuel and money Bank of America Merrill Lynch says few companies are making money on space

Peter Beck has always been fascinated by space. As a teenager he built his own rockets, strapping them to bicycles and other vehicles in sometimes hair-raising experiments. But his love of engineering paid off on Sunday when Rocket Lab blasted three small satellites into orbit from a private launch pad on an 8,000-acre sheep and cattle farm in rural New Zealand — a "world first" that some believe could revolutionise the space industry.

"Our rocket is one of the tools that is enabling much more access to space. It will allow some really cool things to happen that will have significant effects on humanity," says Mr Beck, a 40-year-old engineer with boundless enthusiasm. "You are seeing the democratisation of space. Space is tipping from a government dominated domain to a commercial domain."

Rocket Lab is part of a wave of innovators driving a new space race. But unlike the 20th century cold war version between the superpowers, it is focused on developing commercial rather than military technologies. Consumers have for years benefited from internet, television and GPS navigation signals from space but developments in satellite technology are unleashing a plethora of services, from tracking commercial shipping to monitoring crops, cattle and pollution.

The race is being fuelled by a new generation of miniature satellites, so-called nanosatellites or CubeSats, which are typically no larger than a shoebox, cheaper to build and easier to deploy than traditional bus-sized versions. The ability to mine big data, the falling costs of accessing space due to rocket innovation and a surge of investment by billionaires, such as Elon Musk of Tesla, Amazon's Jeff Bezos and Virgin's Richard Branson, and more recently venture capitalists, are combining to provide a boost to the industry.

$2.7tn Estimated value of space market in 2045, from $339bn now

$5m Cost of Rocket Lab launch. SpaceX's Falcon rocket costs $62bn to launch

Bank of America Merrill Lynch estimates the space market — ranging from the manufacture and use of infrastructure, to space-enabled applications such as satellite phones and weather services — is worth $339bn. It predicts this will grow eightfold due to the boom in satellite deployment, ancillary services and launch capabilities by 2045 to $2.7tn and produce "more advances in the next few decades than throughout human history". Investors funnelled $2.8bn into space start-ups in 2016, a record amount for a second consecutive year in a sector where governments and their militaries remain the big spenders.

The US, which appeared to temporarily lose interest in space after the end of its shuttle programme in 2011, appears once again to be prepared to lead. In December President Donald Trump asked Nasa to send Americans to the moon for the first time since 1972 and to prepare for trips to Mars. But experts warn the lack of a specific timeline or funding details means the announcement should be treated with caution.

Commercial opportunities are tempting new countries to join the competition. In 2016 New Zealand established a space agency and last month legislation setting out a regulatory framework aimed at encouraging space businesses came into force. Australia, one of just two OECD countries without a space agency, along with Iceland, is setting up its own in March.

"Australia can't afford to be left behind," says Brad Tucker, an astrophysicist at Australian National University. "Almost every aspect of our modern lives is dependent on satellite infrastructure and this makes us very dependent on other countries' space infrastructure."

Scaling down

At an industrial park on the outskirts of Adelaide, Italian rocket scientist Flavia Tata Nardini is hoping Fleet Space Technology, the company she co-founded with aerospace engineer Matthew Tetlow, can put Australia at the forefront of the nanosatellite industry. "When I arrived in Adelaide four years ago there were very few companies involved in space technologies. That is changing fast," she says. "Now there are 55 space start-ups which have raised A$20m [$16bn] over the past six months."

Ms Nardini worked previously at the European Space Agency and TNO, a technology organisation based in the Netherlands. Fleet plans to launch 100 nanosatellites into orbit to provide internet connectivity for millions of sensor devices based in remote locations on Earth. It is targeting the mining, oil and agricultural industries, which are beginning to deploy large numbers of sensors to collect data that can then be mined to improve efficiency.

> 'Planet and Spire always have CubeSats on the shelf. Rocket Lab could be a game changer for the small satellite industry'

"Technology has progressed to the point that nanosatellites are small, light and significantly cheaper to build than the traditional billion-dollar satellites," says Chris Willshire, an automation and robotics engineer at Fleet. "It allows us to develop them a lot faster and launch them far cheaper than we used to."

In the past satellites could only be built and launched by multibillion-dollar companies like Boeing, Lockheed Martin — one of the world's biggest defence contractors — and Orbital Sciences Corporation. Today, start-ups and even universities are developing and launching them into orbit.

In November UNSW Canberra, an Australian institution with a focus on defence, launched its first CubeSat, to help predict the orbit of space junk — disused satellites and other debris. To date, almost 900 nanosatellites have been launched into space and 560 remain in orbit, according to the Nanosats.eu online database.

Planet Labs, a San Francisco company founded in 2010 by three former Nasa scientists, owns two of the satellites blasted into space by Rocket Labs on Sunday. In February it launched 88 of its Dove nanosatellites on a single rocket — the largest constellation ever to reach orbit from a single launch.

The Californian company now has a network of 149 satellites that capture images of the Earth's surface every day. The US government and humanitarian agencies used it to map the impact of deadly hurricanes in Florida, Puerto Rico and Texas last autumn. In New Zealand, farming groups are using the technology to estimate pasture cover to better direct livestock towards grazing.

"This technology is a first for New Zealand and has not been previously commercially viable due to the frequent cloud cover over the country," says Ian Ritchey, from Planet Labs. "Planet's ability to capture images daily effectively counters this issue."

Spire, a satellite company based in San Francisco, bought a slot for one of its earth imaging devices on Sunday's launch. Rocket Lab launch charges start from about $100,000 for a nanosatellite but prices vary depending on the payloads they carry and overall weight.

"Getting into space is the biggest bottleneck we face," says Jenny Barna, director of launch at Spire. "There is always a backlog in the US CubeSat community. [But] Planet and Spire always have CubeSats on the shelf. If Rocket Lab can do what it says then it could be a game changer for the small satellite industry."

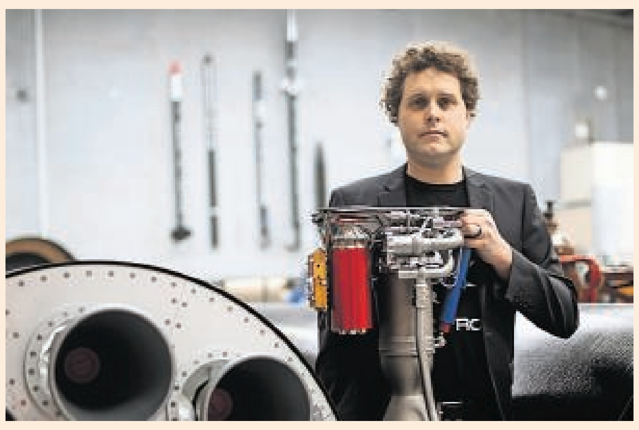
'Our own private ride'

Nanosatellites are launched into low-earth orbit — 500km-2,000km above Earth and far below the 36,000km "geostationary" altitude of larger communications satellites. This means they usually drop out of orbit and burn up in the atmosphere within two to three years, thereby requiring regular replacement and frequent launches. But blasting rockets into orbit is a complicated, expensive and risky process.

Sky high: Rocket Lab's successful launch has been described as a 'significant breakthrough' for the industry. Below, Peter Beck, the company's founder — Rocket Lab; Getty Images

The Atlas 5 rocket developed by United Launch Alliance — a joint venture of Lockheed Martin and Boeing and a mainstay for satellite deployments in recent years — cost about $109m to launch, in December 2016. It faces tough competition from Elon Musk's SpaceX, which developed the Falcon, the world's first re-usable rocket, that can now be launched for about $62m.

Yet one in 20 space launches ends in failure, according to XL Catlin, an insurance underwriter, and delays are common due to technical challenges and bad weather. This month a multibillion-dollar spy satellite built by Northrop Grumman, which was launched by SpaceX, failed to reach orbit and was assumed to have been lost. In May the first test launch of Rocket Lab's Electron rocket failed to reach orbit due to a technical fault.



Another risk factor is that companies are not making money on space, according to BofAML, which says it is difficult to achieve due to the high levels of capital expenditure required to access the industry, delays and launch failure. SpaceX is "not currently profitable and may never be", it says.

However, experts say Sunday's successful Rocket Lab launch, which cost just $5m, could mark a significant breakthrough. "For the smallsat and nanosatellite industry, this changes everything," Spire's Ms Barna says. "Now we have our own private ride if we want it — to where we want, when we want."

To keep costs down Rocket Lab uses carbon composite materials in its rockets rather than aluminium, which is a heavier and costlier material. Electric motors and lithium batteries drive the turbo pumps in the engine, rather than the more complex and expensive gas generators used in traditional rockets. The company 3D prints its engines, which dramatically reduces the time it takes to build each rocket.

"Price is an important aspect but the most important thing [for potential clients] is frequency. The US went to space 21 times last year. We are licensed to launch every 72 hours over the next 30 years," says Mr Beck.

Gaining access

New Zealand's remote location on the edge of the Pacific Ocean and lighter air traffic make it ideal for regular rocket launches, requiring fewer airspace closures than in US skies. The trajectory of a launch from the site at Mahia, on the east coast of the country's North Island, takes the Electron over open water and is well suited to putting satellites into a north-to-south orbit around the poles.

"We have the right geography and the launch angles to access space at a very high frequency," says Peter Crabtree, head of the New Zealand Space Agency. "And now we have a great regulatory regime in place, which has been developed in close co-operation with the space industry."

Mr Beck was a big driver behind the Wellington-based agency and the new regulations, which enable frequent launches. He re-registered Rocket Lab as a US company in 2013, as it began attracting significant funding from Silicon Valley. But he realised frequent launches from the US would be difficult given the busy airspace and views New Zealand as the alternative.

The decision to carry out launches from New Zealand required the government to establish a regulatory regime that conformed to US Federal Aviation Administration rules and needed Washington and Wellington to sign a bilateral treaty enabling the transfer of sensitive technologies between the two countries.

"If you write that in your business plan it's a pretty tough call. But the treaty was signed in one and a half years," says Mr Beck. He puts the success down to Wellington's willingness to lobby Washington, the country's membership of the Five Eyes intelligence network and a US government that saw the advantage in frequent low-cost launches from a partner country.

Rocket Lab has worked with the US defence department on engine projects and has attracted undisclosed funding from Lockheed Martin. The company, which is valued at NZ$1.4bn ($1bn) having raised NZ$200m, has also caught the eye of US venture capitalists eager to tap into a fast-growing sector.

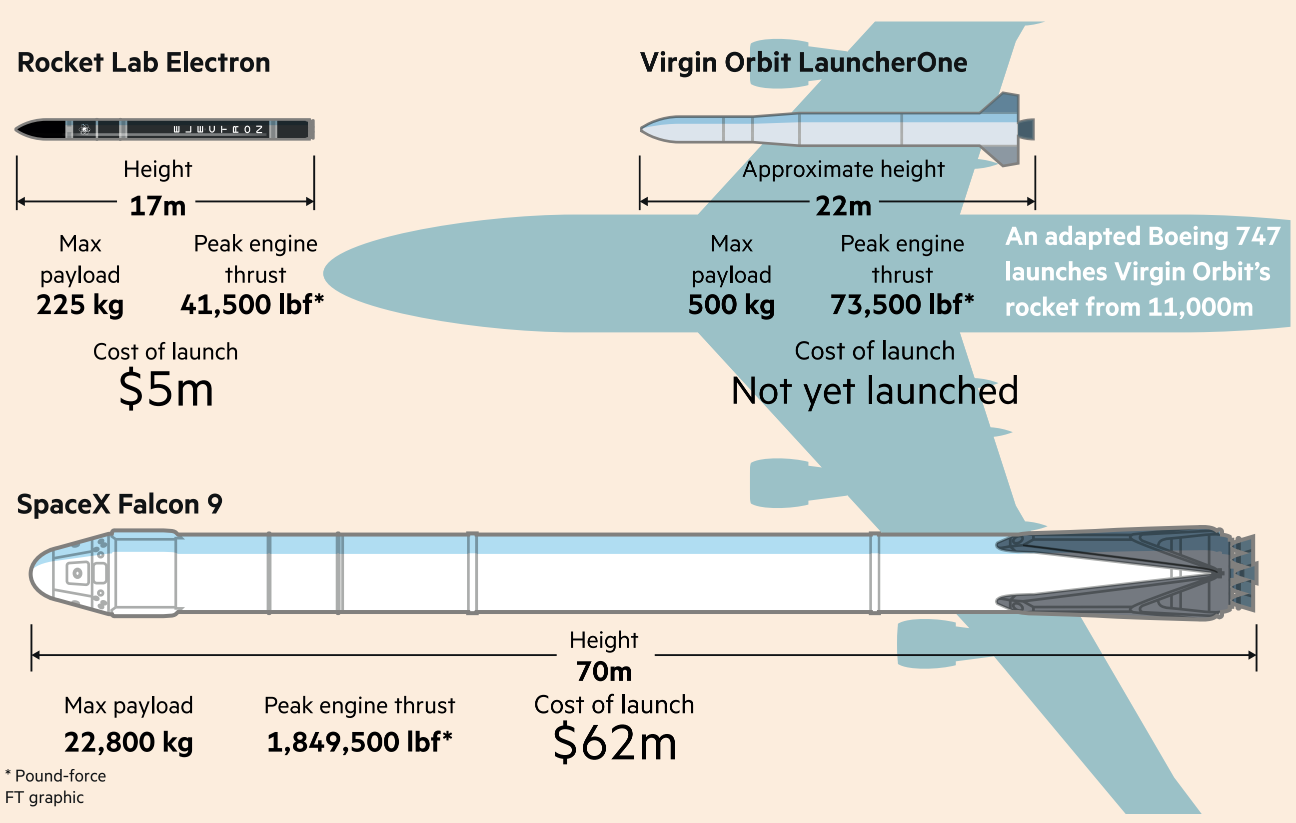
"Beck is the closest person I've seen that could be compared to Elon Musk," says David Cowan, partner at Bessemer Venture Partners, which manages $4.5bn of investments, including stakes in Rocket Lab and Spire. "Every time we have a board meeting I'm simply blown away by his inventions."

Bessemer, one of the world's oldest venture capital companies, was among the first to embrace the space industry. And also one of the first to make money from a sector that requires significant upfront investment and patience to allow companies to generate revenues. In 2014 Bessemer cashed out its investment in SkyBox, a satellite imaging company bought by Google for $500m, to focus on the potential of space.

"This was a defining moment for the industry. The exit attracted a lot of attention from the VC community and gave partners confidence in the space industry," says Mr Cowan. "Up to that point many people thought we were crazy investing in the sector."

Richard Rocket, his real name, a co-founder of research company NewSpace Global, says the main thing holding back the industry is access, rather than price. He says there are about 50 companies around the world trying to build rockets specifically for small satellites and predicts that: "You are going to see a swath of customers across the board wanting to access space."

Additional reporting by Richard Waters in San Francisco



* Pound-force
FT graphic

Online video How Rocket Lab is bringing down the cost of launching satellites
ft.com/video

FINANCIAL TIMES
'Without fear and without favour'
THURSDAY 25 JANUARY 2018

The banking reform that can help unite the EU

Agreement on a common deposit scheme is the key to deeper reform

The north-south split in the EU can be characterised in many ways, some more accurate than others: debtor-creditor, deficit-surplus, grain-grape, Germanic-Latinate. It is a messy and shifting distinction. Some argue — pointing to Ireland or Belgium — that not all the "southern" countries are even in the south.

In recent months, the division has taken the form of the conflict between "risk sharing" and "risk reduction". The argument is about how best to reduce the risk of another Eurozone debt crisis and, in particular, how to finally cut the link between bank crises and sovereign debt crisis.

The risk sharers — roughly the southern countries, led in this case by France and President Emmanuel Macron — think the solution is to give the EU more power to intervene when things go wrong. They want a common eurozone budget and envision a "common safe asset", a sort of eurobond that would make banks and nations less vulnerable to bank runs and investor flights to safety.

The risk reducers — Germany, with the Netherlands close behind — see institutional and market discipline as primary. They want to make sure the "bail in" rules for banks, already in EU law, will be followed in practice. And they want banks to be forced to hold capital against their sovereign bond holding, adding to their equity buffers and thus making sovereign debt write-downs possible.

The two sides might seem diametrically opposed. They are not, and the two approaches can be synthesised. The key to unlocking a solution is, as prosaic as it may sound, a common deposit insurance scheme.

The basic idea is just that in the case of a bank failure anywhere in the EU, depositors would be protected by an insurance scheme funded by all European banks. This would reduce the chance of pro-cyclical runs on weak banks, or on banks in fiscally weak countries.

To a hardline partisan of risk reduction, this is risk sharing at its worst: it puts the Northerners on the hook for southern mismanagement and removes market incentives. This misses a key point, though. A truly European and therefore fully credible deposit insurance scheme would make market discipline easier to enforce. If a bank's bondholders are close to being bailed in or wiped out, reliable deposit insurance could stop the depositor run that would make the situation worse, and reduce the incentive for the national government to intervene. It would allow banks to go into supervised resolution with less risk of causing a political crisis.

The risk-reducers, and Germany in particular, have long insisted that any form of risk sharing can only take place when risk reduction is complete — with completeness vaguely defined. They have much to gain by changing their view, and the political moment is ripe. Both the German and French finance ministers prioritise banking reform, aiming for an agreement by this summer. Eurogroup president Mário Centeno and European Council president Donald Tusk are supportive, too. The coalition agreement among the German political parties expresses willingness to support EU countries that are willing to undertake supply-side reforms. There is consensus among economists behind the idea, too.

An agreement will not be easy to reach. The risk sharers, Italy in particular, will have to commit to further reforms for their banks before the Germans come on board. But an agreement on deposit insurance could be a meaningful step forward for countries on both sides of the European divide.

Labour finds few foes for its public sector stance

The UK opposition party is sceptical of private-public partnerships

Labour is gaining increasing favour for its public-sector-dominated prescription for many of Britain's ills. Following its surprisingly strong performance in last year's general election, the opposition party, led by Jeremy Corbyn, is doubling down on its belief that the state sector is inherently good, and the private is not and requires taming.

Two announcements demonstrate how the party is continuing to speak to public anger about public-private partnerships. Jon Trickett, the shadow minister for the Cabinet Office, told the Financial Times this week that his party would introduce new guidelines for future contracts to tackle "risky behaviour". These cover pay ratios, equal opportunities, timely payment of suppliers, training, environmental standards and tax compliance.

There are good reasons why the government should be tougher when brokering such agreements. The collapse of the construction firm Carillion is an example of the shortcomings of private outsourcing partners. The liquidation of a business holding 450 contracts with the public sector has given further succour to Labour's position.

A future government led by Mr Corbyn would be entitled to set conditions for new deals. But a balance has to be struck. Tendering must remain enticing to private companies. Otherwise, the government will struggle to attract the necessary bids to run a competitive auction. Businesses will also be reluctant to bid if they foresee agreements being terminated due to changing politics circumstances.

The party may go further still and reassess existing contracts. At its latest party conference, John McDonnell, the shadow chancellor, raised the possibility of tearing up contracts under the controversial private finance initiative, where private firms are contracted to carry out and manage public projects. It is unclear how much it would cost or how it would work.

The second — and perhaps more troubling — development came courtesy of Labour's national executive committee. The party's ruling body called on its councillors in Haringey in north London to halt a private partnership for the redevelopment of public housing. It is unusual for the national party to order its local representatives to take specific policy decisions. Centralising policymaking decision undermines the purpose of local politicians, who are probably to be better placed to assess the needs of local residents.

The Haringey decision is rooted in internal party factions. Momentum, the grassroots organisation supporting Mr Corbyn's leadership, has won control of several positions on the NEC and gained a notional voting majority. Supporters of Corbynism are gradually taking control of the party machinery to further their radical policy agenda.

In Haringey too, Momentum is tightening its grip on candidate selection ahead of May's local elections. Since Labour will almost certainly maintain control of the council, Haringey is likely to become the most visible example to date of what to expect from Corbynism in power. So far the indications point to a knee jerk rejection to the private sector.

This agenda has been helped by the failure of the ruling Conservatives to make the real case for private involvement in delivering public services. In financing and expertise, businesses still have a role to play in ensuring the government is delivering the best possible projects.

Yet until others can rally a suitable defence of this collaboration, Labour's message will continue to receive a hearing. Especially with disgruntled voters who are ready to be seduced by stirring anti-capitalist rhetoric.

Letters

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You have work to do at home first, Mr Modi

Sir, Indian prime minister Narendra Modi's scintillating opening address at Davos showcased India as a future investment destination. He has promised that red tape will be replaced by a red carpet. This is great. However, a red carpet cannot be spread over the dilapidated roads of most Indian cities. Nor will healthy living be possible in smog-impacted cities like Delhi. The government should ensure that the performance matches the promise.

The indignation of Mr Modi against protectionism is understandable. India and China wish to welcome more investment and export goods and talent to the US. However, President Donald Trump would like to protect American jobs and encourage American production to create more jobs for locals. "America First" was Mr Trump's election platform and he will stand by it. The US and many European countries like Britain and Germany will protect the livelihoods of their own people. This has to be accepted. India also indulged in massive protection of local industry on a massive scale in the 1960s and 1970s, when all foreign investment was considered evil and colonial. Coca-Cola actually walked out of the country.

Moreover, India must also focus on decreasing the inequalities within its people. An Oxfam report states that 1 per cent of Indians garnered 73 per cent of the national wealth in 2017. Naturally, there will be anger and bitterness. Instead of seeking growth based on foreign investment alone, India should get its own home sorted first.

Rajendra Aneja
Aneja Management Consultants, Mumbai, India

'Challenge' must come from inside a company

Sir, In response to the letter from David Herbinet, global head of audit at Mazars (January 22): the first challengers of accountancy and all audit must be the audit committee in organisations where these exist, and if not an audit committee, the board as trustees. Is it not time in this country that legislation, not regulation, required efficient and effective audit committees in every listed private company to challenge not just its accountancy and audit, but also its governance? This has been recommended for too long by many. When will it happen?

Jeffrey Ridley
Visiting Professor of Corporate Governance Assurance, University of Lincoln, UK

Thorough scrutiny of UK accounting rules is due

Sir, I completely agree with the views expressed by Natasha Landell-Mills and others in their letter (January 23). Faulty accounts allowed the misstatement of Carillion's profits and capital and the actions of the auditor KPMG should indeed be investigated, as they were in connection with its auditing of the failed HBOS. Although this duty primarily rests with the Financial Reporting Council, the UK parliament through the Treasury Committee must play its part in establishing where and how things went wrong and by recommending that a thorough scrutiny of UK accounting rules is undertaken.

Paul Sanders
Leigh-on-Sea, Essex, UK

Wrong moment to limit the City's ambition

Sir, Your editorial "On the City of London and Brexit, silence is not golden" (January 23) attempts to set out the steps of the narrow rope bridge UK negotiators must tread to reach a good deal for the UK's services industries, which make up 80 per cent of our economy. Unfortunately that bridge was missing some critical steps.

The UK cannot be in a position where it is a rule taker, unable to shape the rules that dictate how its leading industries operate. This would be a slow death for London and the UK as a global financial centre. But the current "equivalence" regime is far from the solution. It doesn't allow for divergence and it would leave the UK a rule taker, with the added uncertainty of expulsion from EU markets on a political whim. Also, equivalence arrangements don't currently exist for large parts of the financial services industry. Establishing these would involve multiple legislative changes. This is a huge task, and probably a decade-long project.

Ultimately, the only viable way to cross this bridge is through a bespoke free-trade agreement that includes services and is based on mutual regulatory recognition. This model allows for both managed regulatory alignment and divergence while enabling mutual market access. While ambitious, this approach is backed by industry, has the interest of government and is being discussed in member states across the EU. Ambition is what the City's success is built upon. Let's not limit that ambition now, at one of the most important milestones in its history.

Miles Celic
Chief Executive, TheCityUK

A loaded question to put to the British people

Sir, Is it me or was Baroness Altmann's proposed question to the British people (Letters, January 23) not only naive but biased and misleading? Her question, "Now that the implications for the UK of leaving the EU are clearer, do you want to leave the EU or retain current membership?", is so obviously loaded; it did not even try to offer balance and a level playing field.

For instance, the implications are not clear, but remain open and hotly debated. And what of the clearer implications of retaining membership? These could well include continuing pressure for ever closer political union, increased budget contributions as well as giving up the rebate and accepting the euro, despite the old opt-outs.

Such an important and complex issue deserves far better.

Prof Chris Rowley
Kellogg College, University of Oxford, UK

What are we toiling for if we end up exhausted?

Sir, Spare a thought for the poor workers of Michael Moritz's portfolio companies at Sequoia Capital!

Singing the praises of Stakhanovite Chinese tech employees, who think nothing of 70- or 80-hour weeks and "working dinners followed by two or three meetings", Mr Moritz yearns for a culture in which the offices are Spartan, the tea-bags are re-used, and the weekends are for work not family ("China's work ethic threatens to leave Silicon Valley behind", January 18). Not for him the caricature of West Coast start-up life, with its beanbag chairs and beer on tap: to the Moritzian eye, even adequate heating and floor space are morally suspect.

But Mr Moritz's stern disapproval of all things unproductive goes beyond simple material comforts: he believes that the decadent western obsession with such things as politics, women's rights and work-life balance is "soul-sapping", the sign of "a society that is becoming unhinged". Alas: could there be anything more soul-sapping, dare I say unhinged, than this glorification of overwork and mere utility? What are we toiling for if we end up exhausted, in bad health, and only seeing our children "for a few minutes a day"? Mr Moritz calls this "improvement", and predicts that it will soon overtake the "antique" ways of western companies. I sincerely hope that the technology workers of China and the world will unite to prove him wrong.

David A McM Wilson
Cambridge, UK

How Blakenham restored us with a spinach soufflé

Sir, When Michael Blakenham returned to London following Rupert Murdoch's dawn raid on Pearson ("Former FT chairman who saw off Murdoch", Obituary, January 10), he called a meeting of his senior colleagues and advisers that Sunday evening at his home. After a couple of hours or so of intense debate as to the best way forward we were all feeling rather wan and in need of refreshment. No one noticed that Michael had just left the room until he returned shortly afterwards with a perfectly cooked spinach soufflé he had prepared himself and a magnum of Château Latour to restore our tissues.

That was typical of the man.

James Joll
London W2, UK
The writer was CFO of Pearson at the time

Exposé may result in less money for good causes

Sir, Your report "Men only: the elite charity dinner where hostesses are put on show" (January 24) leaves me much concerned. I can understand that, having put two of your female reporters through such an ordeal, you felt the need to give the article great prominence. However, the extent of the reporting and the naming and — in the eyes of some — the shaming of certain participants clearly manifested your distaste for the entire concept.

The result of this in-detail coverage may well be that many prominent figures will refrain in future from such events, which may then result in fewer funds being raised for the good causes you mention. While I share your obvious distaste, I cannot escape the feeling that this coverage follows the recent trend of repugnance at the far more serious abuse of women by men in power. In this case, however, the women seemed to enter into the occasion freely, having been more or less warned of what to expect.

If it is wished that such events should be banned (either by legislation or effectively by media naming and shaming), then I would say we are going too far.

Michael Davis
Antwerp, Belgium

Your article told me more than any annual report

Sir, I was considering an investment in one of the companies mentioned in the Financial Times' exposé on the Presidents Club's gala. I learnt everything I needed to know about the mindset and ethics of its senior management from Madison Marriage's journalism — more than I might have gleaned from several weeks of studying its past annual reports.

Contrary to the sentiments of some other FT readers, I would like to see more "clickbait" like this, please.

Lewis Bassett
Chairman, Bassett Enterprises, London W1, UK

The online comments point to its relevance

Sir, Your story on the Presidents Club's dinner was well off the Financial Times' usual spectrum of business stories, but its relevance should be judged by the meltdown in your comments section. I have never seen "recommended" going into the hundreds before. Well done.

Peter Krijgsman
Taunton, Somerset, UK

JONNY GOULD — AN APOLOGY

The Jonny Gould referred to in FT reports about The Presidents Club on January 24 is not the radio and TV presenter who has worked at (among others) Smooth Radio and talkRADIO, and reviews newspapers on Sky News. We apologise for the distress caused by the confusion with another man of the same name who acted as auctioneer for The Presidents Club.

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Free Lunch
The global recovery deserves our support, says **Martin Sandbu**
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Reasons why Trump decided to take the Davos stage

Notebook
by Roula Khalaf

It was supposed to be the anti-Trump week, when the liberals and globalists of the world meet in Davos to bemoan an America lost and congratulate each other on their own survival. It was fitting that the star of the World Economic Forum conference this year should be Emmanuel Macron, the liberal pro-trade, pro-Europe French president who stunted what seemed early last year like an unstoppable European populist march.

But then Donald Trump, who fancies himself the man of the people and pretends to snub the elite, decided to crash the party. Virtually all of the Trump court is decamping to the Swiss Alps, the first US president to attend the gathering in 20 years.

To the annoyance of many delegates, however, he is due to make his appearance on the last day and in the afternoon so that American television shows watch the performance. Some delegates are busy rebooking tickets and scratching plans for ski weekends in order to catch the president. Others plan to leave early.

Why does Mr Trump want to go to Davos in the first place? It is possible, but improbable, that he's ready to acknowledge that he is, after all, part of the Davos set. That would not be news to anyone but the president: the main cheerleaders of his de-regulation and tax cuts are the rich and famous who will be in attendance.

Perhaps the president has developed a sudden keenness for the liberal western order that he's been busily disrupting since his election? That, too, is unlikely, given continued attachment to building a border wall with Mexico and, let us not forget, his recent alleged depictions of African and Caribbean countries as shitholes.

His own take on his trip is that he has had a stunning first year in office and wants to promote his "America first" policy to the world. He has "tremendous" things to tell about America, he said in a recent interview.

Some investors, indeed, are attracted by Mr Trump's agenda while others will try to flatter him in Davos with promises of investment. But while he can point to a growing economy and soaring stock market, parading US leadership in front of the self-regarding elite of Davos won't do much to improve America's image around the world.

The latest Gallup poll conducted in 130 countries found that 30 per cent of the world, on average, approves of the performance of the US leadership, down from 48 per cent in 2016. The historic low puts the US on par with China's approval ratings.

I suspect Mr Trump's motivation in Davos is simpler. First, Barack Obama never went to Davos, which means it must be the right place for Mr Trump to make an appearance. Second, the president is a man who believes above all in his own greatness and wants to dominate the stage left last year to Chinese leader Xi Jinping, and this year to Mr Macron.

There is also the matter of that recently published tell-all book that cast doubt on the president's mental health (and is guaranteed to have been read by many of those attending the WEF). Michael Wolff's *Fire and Fury* so unnerved Mr Trump that he tweeted he was a "very stable genius". He's probably hoping that at Davos, the whole world can see the genius and forget the ignorant, self-obsessed character portrayed in the book.

• Last week, Rex Tillerson, the US secretary of state accompanying the president to Davos, gave a speech on Syria at the Hoover Institution. The most intriguing part of the address had nothing to do with Syria. Mr Tillerson — a chief diplomat who does not appear to value diplomacy, having gutted the state department and left many key ambassadorial posts vacant — said that he doesn't have a Twitter account and so doesn't follow the president. Instead, his aides print out Mr Trump's tweets, which he might read five minutes or an hour later.

"Now, on the one hand, you can say 'Well, that's nuts. Why don't you get a [Twitter] account?' But on the other hand, I've actually concluded that's not a bad system because it goes out and I don't know it's going to go out so there's not a whole lot I'm going to do until it's out there."

I think it is nuts and we would all sleep better at night if Mr Tillerson were to sign up to Twitter. That way, if the president ever declares war in a tweet, his secretary of state would be among the first to learn of it.

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Comment

America's journey into tribalism

AMERICA

Edward Luce

Brace yourselves for a controversial observation: many US politicians are decent people. There — I've said it. Few Americans seem to agree. The public's trust in their leaders is hitting an all-time low. Other than Brazil and Greece, no democracy has such contempt for its system. The US is at the other end of the spectrum to China, where faith in government leads the world, according to Edelman's global trust barometer. "Nobody trusts anybody round here," says Lindsey Graham, the Republican senator. "And most Americans don't trust any of us."

Can we blame them? At least partly, yes. The US government is of the people, by the people and for the people. Mistrust comes from the people too. Washington's breakdown mirrors growing divisions in society — between white and non-white, graduates and non-graduates, city and hinterland, young and old. American politics has become a winner-takes-all game. Yet the constitution is built to work only when there is compromise. President Donald Trump can go to Davos this week because Chuck Schumer, the Senate Democratic leader, agreed to reopen the US government. He could close it again when funding runs out in less than three weeks. Yet Mr Trump now taunts him as "Cryin' Chuck".

What would Mr Trump be calling him if the Democrats had not caved in? The chances are no better today for a deal than yesterday. Almost eight out of 10 Republicans think immigration is too high; fewer than three out of 10 Democrats agree. One party is overwhelmingly white. The other is majority non-white. Mr Trump says he would be happy with more incomers from Norway. But he draws the line at Africa. It is not as if the two can find common ground somewhere in between — Mexico for example. Most of the so-called Dreamers are Hispanic. These are the people from whom Mr Trump wants to "take America back". It follows that Cryin' Chuck will have no better luck at protecting them early next month than he did this week.

Evaporation of trust is corroding politics across the west. But it is most toxic in the US. No other democracy is heading towards a majority-minority future.

> Washington's breakdown mirrors divisions in society yet the constitution only works with compromise

The world has yet to see what happens to a society when its majority ceases to be one. No other country has seen such a collapse in support for public service.

Mr Trump will tomorrow sing America's virtues to the world's biggest investors in Davos. Back home he is obliterating America's ability to govern itself. In no other serious democracy is its head of government accusing the main law enforcement bodies, judiciary and the intelligence agencies of bias. Supposedly neutral appointees are required to show personal loyalty to the president.

Probably the last institution Mr Trump has not criticised is the US military. That is no accident. Alone among America's institutions, the armed forces enjoy high public trust. Almost three-quarters have confidence in the military, according to Gallup. No other comes close to winning half of America. Congress is barely at double digits. Mr Schumer should not have closed the US government unless he was prepared to hold fast. Within 72 hours he had changed his mind. In between, Mr Trump tweeted that Democrats were "holding the military hostage over their desire to have unchecked illegal immigration". Say what you like about Mr Trump, but he knows where to find the jugular. Which American, hand on heart, would prefer an illegal foreigner to a citizen soldier?

But this is a dangerous journey. In a nation of tribes, only the warriors command respect. What happens if they lose it? A few months ago, I was sitting on a flight next to a young black woman in army uniform. A middle-aged white man walked back from business class to offer his seat. She politely refused. "Thank you for your service," he said. Had she been a teacher, a lawmaker, a nurse or a central bank governor, nobody would have thanked her — let alone offered their seat.

A generation ago, the US military was the most hated institution in America because of the Vietnam war. Today people flatter the uniform.

Other public bodies should be studying how the Pentagon went from zero to hero. But the example runs both ways. If Mr Trump were to turn on the military, for example, there would be few places to hide. Likewise, if the army were to lose its confidence in elected politicians, the republic would be in trouble. We are closer to that point than many realise. The greatest bulwark between the US republic and a descent into tribalism are the men and women in uniform. We should ponder the implications of that. They are not reassuring.

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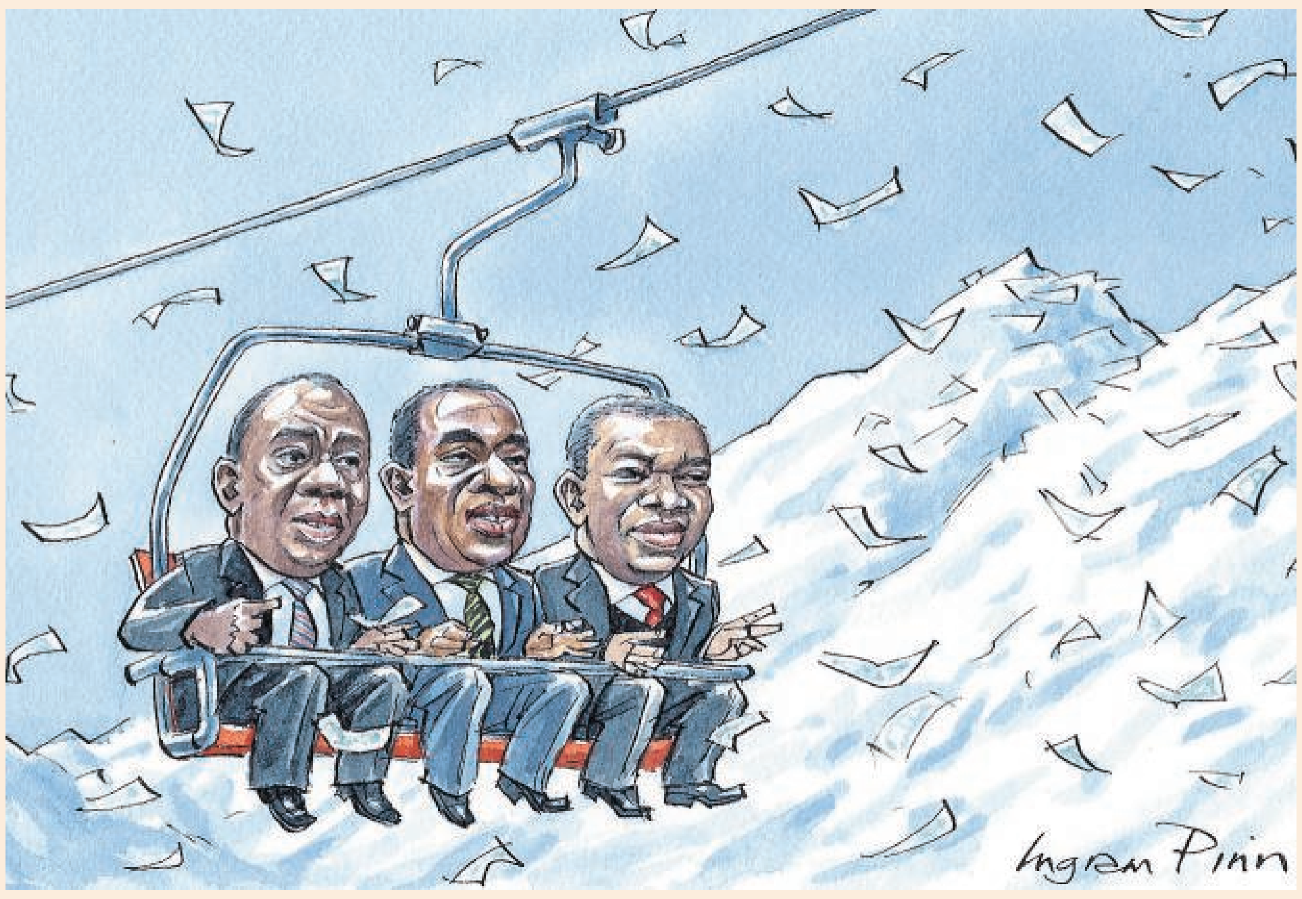
Africa must scale the Magic Mountain



AFRICA

David Pilling

There is a great upheaval, not to say a full-scale revolution, going on in southern Africa. This week, the spearheads of that change are setting out their stall in Davos. The new leaders of three of Africa's most established liberation movements — in Angola, South Africa and Zimbabwe — will use a visit to the Swiss Alps to try to persuade the assembled money-wads that their countries are back in business.

The best known of the three is Cyril Ramaphosa. Having supplanted Jacob Zuma as president of the African National Congress — though not yet as president of South Africa — expectation is high that he can reverse the rot of the Zuma years.

Mr Ramaphosa, whose party is ideologically split, has moved quickly to prod the ANC in a new direction. Sensing the shifting tide, the ANC's national executive committee is seeking to ease Mr Zuma from the state presidency. If it acts quickly enough, it could even clear the way for Mr Ramaphosa, a former union boss turned wealthy businessman, to make the state of the nation address in two weeks' time.

Mr Ramaphosa, who was Mr Zuma's deputy, has been criticised for being overly cautious. But following his narrow victory in ANC elections in December, he has moved swiftly. In his first big speech, earlier this month, he excoriated his own party for allowing corruption to eat away at its moral core. He has cleared out the board of Eskom, the state power utility, appointing a strong, competent chairman.

Meanwhile, Mr Zuma has been obliged to allow a judicial inquiry into "state capture", the alleged manipulation of his government by crony business interests. The Gupta family, who are at the centre of those allegations, have had assets seized and seen the prosecutor's noose tighten.

Perhaps the African leader who will attract most interest in Davos is Emmerson Mnangagwa, aka the Crocodile, who in November ousted Robert Mugabe as president of Zimbabwe after 37 years in the wings. So grateful is the international community to see the back of Mr Mugabe that it has been strangely reticent to point out that Mr Mnangagwa owes his position to a military coup.

The new president's task is, in some ways, easier than Mr Ramaphosa's. Zimbabwe has reached rock bottom. It has no currency, no relations with multilateral bodies and precious little foreign direct investment. Yet Zimbabwe is one of Africa's potential success stories. It has good, if dilapidated, infrastructure, a manufacturing base and a long history of agriculture at scale.

Most important, it has one of the best-educated populations on the continent. Several million of its most talented have gone abroad to seek opportunity and many are just waiting for the right signal to bring their know-how and money back home.

Mr Mnangagwa could quickly nudge things in the right direction. He needs to convince the world that elections, to be held by June, are free and fair. He will also have to establish a stable business environment.

So far, Mr Mnangagwa, no cuddly liberal under Mr Mugabe, has been more impressive rhetorically than in practice. His inaugural speech would not have sounded out of place at Davos. But subsequent cabinet appointments suggest he wants to consolidate power around Zanu-PF party and the army.

> The economic imperative means that southern Africa is now a place investors would do well to watch

Least known of the three new leaders is João Lourenço, president of Angola. So far, he has been the most daring. Mr Lourenço was the handpicked successor of José Eduardo dos Santos, who had run oil-rich Angola — Africa's third-biggest economy — like a family business for 38 years.

Mr Lourenço had been widely expected to be a dos Santos stooge. It has not turned out like that. Since he became president in September, he has removed both of Mr dos Santos's children from senior positions, including Isabel, Africa's richest businesswoman, who was head of state oil company Sonangol. Like Mr Ramaphosa, he has talked about combating corruption and extending economic development to the impoverished majority. Like Mr Mnangagwa, he has begun to woo foreign investors, particularly the oil majors.

In all three cases, there is a business element to the story. All three new leaders want to attract foreign investment. Mr Lourenço knows that existing oil wells will soon start running dry. Mr Mnangagwa needs multilateral institutions to work out an arrears deal so money can start flowing again. He also needs to convince investors that Zimbabwe is a place where it is safe to put one's money to work.

Mr Ramaphosa, too, is desperate to get his country's economy going again. Without more job-creating industry and a healthier tax base, he will have nothing to work with to satisfy the pent-up expectations of the black majority.

The economic imperative means that southern Africa is now a place investors would do well to watch closely. Yet amid all the flurry of change, one thing remains constant. The three liberation parties that brought us to this point are not going anywhere.

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Foster children's talent as a primary concern

OPINION

Anne-Marie Slaughter

Professor Klaus Schwab inaugurated the 2015 session of the World Economic Forum at Davos with an article declaring a "new era of 'talentism' — where human imagination and innovation are the driving forces behind economies, as opposed to capital or natural resources".

Let us imagine a world in which we really did value talent more than capital. It would look very different, at least in the US.

To begin with, all children would be enrolled in high-quality early education programmes from birth through to the age of eight — these are the critical years of brain development — to allow them to achieve their full potential. The budget for education, life-long but with a particular emphasis on the early years, would be as important as the defence budget. Early education providers, from daycare workers to kindergarten and elementary schoolteachers, would be trained to a high level, certified and well paid. Men would take those jobs as willingly as women, just as in the 18th century men were quite happy to be hired as tutors for well-to-do children, or at least to well-to-do boys, from the ages of six or seven up. Their 21st-century equivalents would value developing young brains as much as coaches and athletic instructors value developing sporting potential.

Businesses would push their governments to invest in early education programmes as a vital input into the economy, essential to their ability to recruit the talent they need. The US military is ahead in this regard.

In the words of one retired major-general, "military leaders like me firmly back investments in quality early childhood care and education programmes. For us," he told me, "it is an issue of military readiness and, ultimately, our nation's safety and security."

In a system of talentism, though, such verbal support would translate into tax dollars. Leading corporations such as Amazon would be canvassing the quality of early education in any community being considered for its next headquarters.

Under-represented minorities, middle-aged women returning full time to the work force after raising children, and older people seeking part-time jobs would all be viewed as untapped pools of talent. Employers would look for undiscovered human brainpower the way investors now search for undiscovered start-ups. Recruiters and hiring managers would take risks on people, just as venture capitalists do on companies, looking for the human equivalent of "unicorns" — the one in 10 or one in 100 supremely talented people.

> Schoolteachers from kindergarten onwards should be highly trained and well paid

We would all actively fight our own biases, recognising that they often block our ability to see and use talent even when it is right in front of us.

Perhaps the fullest expression of talentism would be a society-wide measure watched just as closely as today's stock market. As early education expert Lisa Guernsey puts it: "The stock market is a snapshot of the present only. It tells us nothing about whether our institutions — the foundations of our society — are investing in human intelligence and the fostering of talent." Why not have a human capital index to track the progress of such investments? It would be a better measure of the health, prosperity and power of a society.

The idea is not so far-fetched. The world has the Human Development Index, created by the UN Development Programme as an alternative to the tyranny of global gross domestic product (GDP) measurements. Its goal is "to emphasise that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone". The index is based on a compound of life expectancy, knowledge and a "decent standard of living". In the 2016 index, Norway was (predictably) first, but second (less predictably) was Australia.

The point, however, is that it is perfectly possible to develop measures of inputs to human talent development and to track them. Individual countries could easily develop their own Human Capital Indexes.

Creative, quirky, unexpected and unpredictable human talent will not be automated any time soon. All the more reason for us to find and develop it.

If all of this is what the transition from capitalism to "talentism" would require, then presumably sessions on all these topics will be eagerly attended in Davos. How to shift the foundations of the economy, transform institutions, change deeply embedded cultural norms — and all on a scale comparable with the transition from the agricultural to the industrial age? Yet for all the talk of the "fourth industrial revolution", the sessions on the technological transformation of different industries and the need for a much more skilled workforce, talentism will continue to take a back seat to capitalism on the World Economic Forum agenda.

The writer is president of New America and an FT contributing editor

The secretive seediness of The Presidents Club

FINANCE

Patrick Jenkins

It is three and a half months since The New York Times accused film producer Harvey Weinstein of a long history of sexual abuses. That, in turn, triggered a broader scandal that rocked Hollywood, inspired the #MeToo fightback against such harassment and even sparked a brief reckoning with past misdemeanours by UK members of parliament.

The City of London — that weird mix of cutting-edge high finance and caveman misogyny — was never going to be far behind. The Financial Times's exposé of sexual misconduct at The Presidents Club annual dinner hints at a persistent culture of bad behaviour among the elite of London's financial and business community. Although the event is centred on the bigwigs of the property industry, over the years it has drawn in bankers, politicians and other segments of the UK establishment.

Many aspects of this year's dinner were a throwback to the worst practices of the 1970s and 1980s: the men-only guest list, the obligatory "sexy shoes" and "tall, thin and pretty" criteria for the female-only hostesses, the casual groping and sexual harassment, the questions about prostitution. So much of it is unsavoury and all of it is an anachronistic embarrassment to Europe's leading financial centre, not to mention the five-star Dorchester Hotel which hosted the event. How can women in business hope for fair treatment on pay and working conditions if their managers exhibit such iniquitous sexism in their spare time?

> The FT's exposé hints at a persistent culture of bad behaviour among London's financial and business elite

It is particularly distasteful that The Presidents Club event mixed the dreadful behaviour it facilitated with securing sponsorship from big name brands such as WPP, raising large amounts of money for worthy children's charities, and fostering links with the establishment.

The organisers can rightly point to a proud record of charitable donations, but it is perfectly possible in this day and age to raise the money in such a way that does not degrade or exclude women. Charities including Great Ormond Street Hospital, which returned donation money to The Presidents Club following the FT's revelations, cannot have known the true nature of the event. The club has since said it is to disband.

This year's auction boasted an eclectic mix of lots, including a night out at Soho's Windmill strip club as well as a combined prize of lunch with foreign secretary Boris Johnson and afternoon tea with Bank of England governor Mark Carney (winning bid: £130,000).

For these individuals to be associated with such an unpleasant event is at the very least bad public relations. They must question how and why they became involved. The BoE, for its part, has denied offering tea with Mr Carney as a prize.

To be fair, the FT's undercover team did hear expressions of outrage from some attendees, possibly first-timers, who were shocked at the tone of proceedings and the behaviour of the guests around them. But those who felt uncomfortable should regret not speaking out. Many of the attendees expressed shock at the FT's disclosures — but even those who were unaware of the most unacceptable behaviour cannot have been totally ignorant of the style of the event and the excesses it might encourage. The near-naked dancers were a bit of a giveaway.

When the host of this year's auction welcomed diners to the "most un-PC event of the year", he got a roar of laughter from the floor. Being un-PC is seen as a badge of honour among swaths of the City, particularly veterans from its middle ranks for whom equal rights for women are inimical and the promotion of diversity is faddish. If the City is to prosper despite the looming disruption of Brexit, it will be by offering an enlightened welcome to talented financiers of all backgrounds and both genders, not by perpetuating the secretive seediness that The Presidents Club appears to represent.

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Lex.

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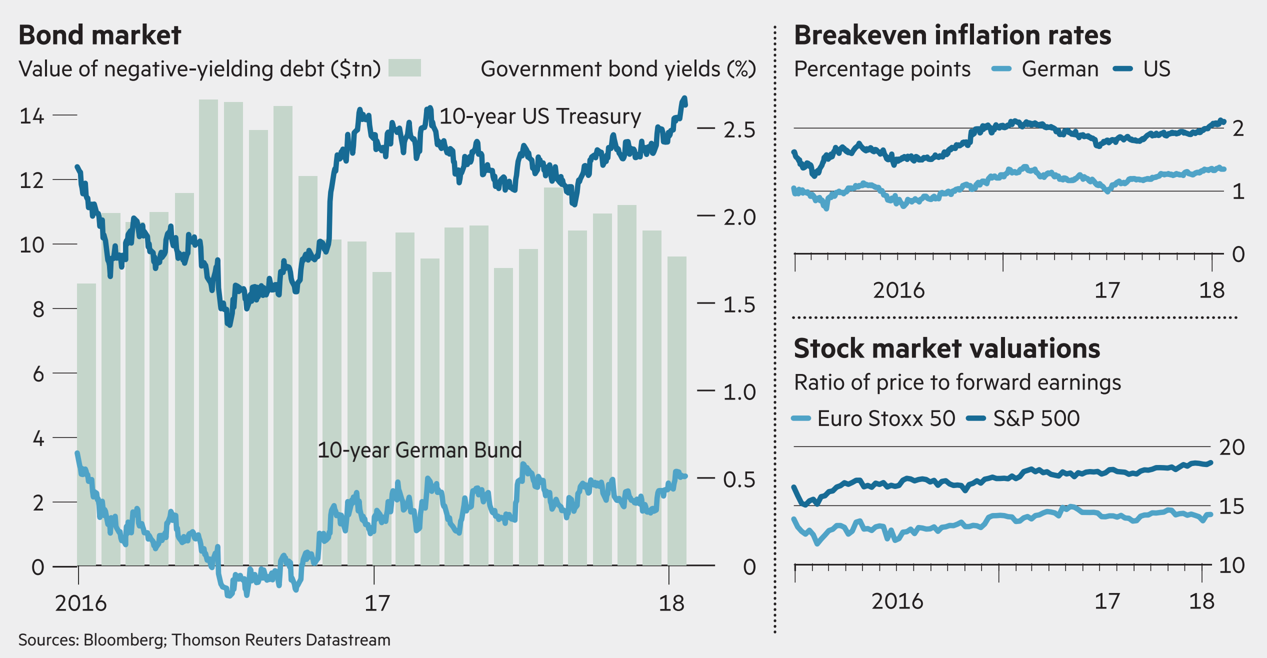
ECB/bond prices: leave no fingerprints

The tone at today's monetary policy meeting is likely to reflect an environment of steadily rising inflation. Rising bond yields support this — but do not expect any significant reversals of policy at this stage of the cycle.



Sources: Bloomberg; Thomson Reuters Datastream

Here comes European Central Bank president Mario Draghi on little cat feet, hoping to curve round the waiting press corps without giving anything away. Expect equivocation at today's rate-setting meeting: yes, the eurozone economy is doing well. No, not well enough to warrant an early tapering to the stimulus. That would vex the market.

Bond investors may insist on being vexed regardless. Yields rose earlier this month after the Bank of Japan appeared to be slowing its long-dated bond purchases. Bond king Bill Gross declared a bear market in US Treasuries. But was the shift real? Governor Haruhiko Kuroda denies the BoJ has made a policy change.

Investors are suspicious of such disavowals. Central bank governors have good reason to creep silently away from their market stimulus programmes. Panic would reverse the positive effects.

Now that the US central bank is shrinking its balance sheet, the worry is that the ECB and Bank of Japan will halt their own programmes sooner than expected. This, however, is unlikely. Global expectations for inflation are not perfectly synchronised. In the US the 10-year inflation break-even rate is above 2 per cent. In Germany it is closer to 1.3 per cent. Bond yields in Europe are unlikely to catch up with US Treasuries near-term.

There has, however, been a material shift in global yields as the era of QE winds down. Central bank stimulus resulted in $14tn of global bonds trading at a negative yield in 2016.

Now the total is less than $10tn. But the moves have been relatively steady. Some perspective is also required. The yield on 10-year Treasuries is 2.6 per cent. That may be double the record low yield in 2016 but it remains half the level it was before the financial crisis.

This all helps equities. The FTSE 100 trades at 15 times forward earnings, the S&P 500 at 19 times and the EuroStoxx50 at 14 times — all above average. Providing bond yield increases are gradual and accompanied by inflation that supports earnings, equity valuations need not be undermined.

Suez: muddying the water

For a company whose core business includes purifying water, Suez's communications with investors have been anything but crystal clear.

After the market closed on Tuesday, the French group said earnings before interest and tax for 2017 would be €1.2bn. That is just €2m below the 2016 level and slightly above most forecasts. In response, the company shed more than €1bn market value yesterday morning. The divergence from consensus forecasts for net income — about €50m, at the adjusted profit level — is more pronounced. But even this does not explain the 16 per cent drop in the price. Nor do other justifications: relatively modest costs associated with terminating contracts in Morocco and India, and moving its Spanish headquarters out of Catalonia.

Two other issues have polluted Suez's reputation. Around half its annual operating profit comes from water supply in Europe, much of it to municipalities. Many of these long-term contracts feature prices linked to inflation, which has been unusually low. Along with weak volume growth, this has made for anaemic revenue rises, a problem common to others in the sector such as compatriot Veolia.

Partly in response, Suez acquired a 70 per cent stake in GE Water last year for €2.2bn in cash. This increased its exposure to non-European corporate clients. Cross selling them other services was meant to energise revenue growth. Shareholders poured €750m into the company's coffers to help fund the deal. Yet at an investor day in December, and again in Tuesday's statement, Suez appeared to row back on its optimism for GE Water. This does little for management credibility.

At least the dividend, which has not changed since 2010 and is only thinly covered by accounting profits, does not look immediately threatened. Around €1bn of free cash flow can easily fund the €400m payout. Net debt of three times earnings (before interest, tax, depreciation and amortisation) does not yet look too onerous either.

Engie, the French power generator, holds 32 per cent of Suez. Six of its directors sit on the Suez board. It has in the past rejected the idea of a full takeover, but not a change in the size of its holding. Even if it does not snap up more Suez shares — they are below the €14 a share at which they were spun off in 2008 — it should use its influence to improve disclosure at its associate.

WH Smith/SSP: Swann to watch

Seasoned FTSE 250 boss Kate Swann clocked up a decade at UK newsagent WH Smith before moving on to SSP, the world's second-biggest concession caterer. She was right to swap books and pens for sandwiches. The two companies both published a set of tolerable results this week. But SSP has the better long-term prospects.

Both groups are good at what they do — which is charging customers steeply for food and other impulse purchases while they are trapped in railway stations and airports. WH Smith is still bearing the fruits of Ms Swann's time in the hot seat. A trading update for the near half-year to January 20 showed sales again driven by the travel side of the business that she championed.

High-street stores, meanwhile, look uncared for. This is intentional. Tight cost controls and a repositioning from newspapers to stationery have kept operating profit margins up even as sales have slowed. But this side of the business is running out of ink. Travel is the real winner and accounts for two-thirds of group operating profit.

Sales in shops at railways, hospitals, airports rose 7 per cent over the period. Most of this growth, however, came from new openings. Like-for-like sales rose 3 per cent. This business model has an obvious expiration date. The UK has a finite number of stations, airports and hospitals. WH Smith is enlarging concessions at some and adding extra stores to others. Sooner or later it will run out of new locations.

The answer is to expand overseas. But this costs money and adds risk. SSP is further along the same curve. More than half its profits come from outside the UK. Net debt is modest — equal to earnings before standard deductions. That gives scope for more acquisitions.

The catch, as always at travel concessions, is the price. SSP trades at 29 times earnings. WH Smith is at just 12 times. SSP's growth is largely priced in. But if it can combine with a large competitor, and boost its negotiating power with landlords, it would be worth even more.

Lithium stocks: salt panned

Investors are rightly taking steep projections of demand for lithium from battery makers with a pinch of salt. Australian miners of the briny stuff have seen stocks sell off an average of 12 per cent since Monday last week.

The context is that shares in Pilbara Minerals and Altura Mining have more than doubled since September, though they have yet to start selling the metal. Rival Orocobre gained two-fifths in the same period. Its share price has held up compared with rivals. Last week Toyota Tsusho, the trading arm of the Japanese conglomerate, paid a 17 per cent premium for a 15 per cent stake.

Car battery technologies rely on the material. But investors should stay clear of producers' shares at these levels. In October, Macquarie analysts projected 45 per cent demand growth until 2020, but expect it to outstrip supply two years later. They think half of lithium demand in 2022 might come from electric vehicle batteries — 10 times the share last year. Past estimates have tended to be over optimistic.

High share prices are underpinned by such bullishness. Pilbara, which mines rock deposits for the metal, is expected to become one of the largest producers along with Orocobre, which extracts the metal more cheaply from salt flats in Argentina. Toyota Tsusho already owns a quarter of this project and the new funds will be used to boost capacity to three times the 2018 target.

Orocobre's contract prices increased 3 per cent in the most recent quarter with an operating margin of two-thirds. But price rises have slowed. Supply gains must ultimately bring it down. The sector's recent volatility highlights nervousness. The miner's shares trade at 35 times forward earnings, two-fifths above Galaxy Resources, but far below Pilbara and Altura. Mineral Resources trades at half that multiple and already produces substantial tonnages.

The hype about lithium stocks will continue, despite production ramping up. Strategic investors such as Toyota Tsusho need the metal at any price. Stock market investors do not.

United Continental: flyover country

Understanding Middle America has always been a route to political success in the US. The laggard airline United Continental believes it is also the way to commercial riches. Late on Tuesday, UAL set out plans to catch up with rivals American Airlines and Delta. Investors were unenthused: the shares of all three nosedived yesterday.

UAL said that it would expand routes between its interior hubs of Chicago, Denver and Houston and smaller American cities.

The idea is that a large group of customers would opt for UAL so they could connect from those three cities to long-haul destinations.

UAL put annual forecast capacity growth, in term of available seat miles, at a whopping 4 to 6 per cent. But inefficient growth is the original sin of the airline industry. The stock price rout reflected fears of the financial damnation that can follow.

United and Continental joined forces in 2010. Similar consolidation by Delta and American was extremely lucrative. UAL's was plagued by technical and operational errors leading to much weaker profitability. Current chief executive Oscar Munoz was appointed after UAL was implicated in a political scandal in New Jersey.

Mr Munoz says that targeting midcontinent hubs is the way to regain lost ground. Spoke destinations such as Rochester, New York are more profitable than, say, flights between New York and Chicago.

These face competition from discount airlines. He claimed earnings would grow 25 per cent between 2018 and 2020.

The sell-off was hardly surprising. US airline investors recall the regular brushes with Chapter 11 that expansionary policies brought in the past. Even the harsh sell-off is hardly surprising. Delta and American followed UAL down in anticipation of a price war. Mr Munoz must execute his strategy better than predecessors executed theirs to prove sceptics wrong.

FT Lex on the web
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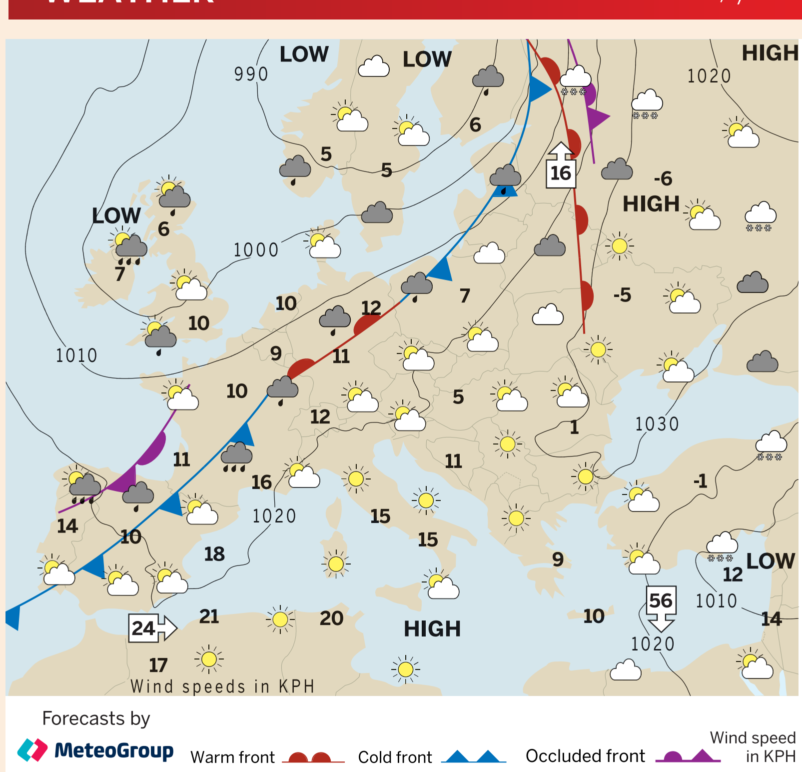
WEATHER

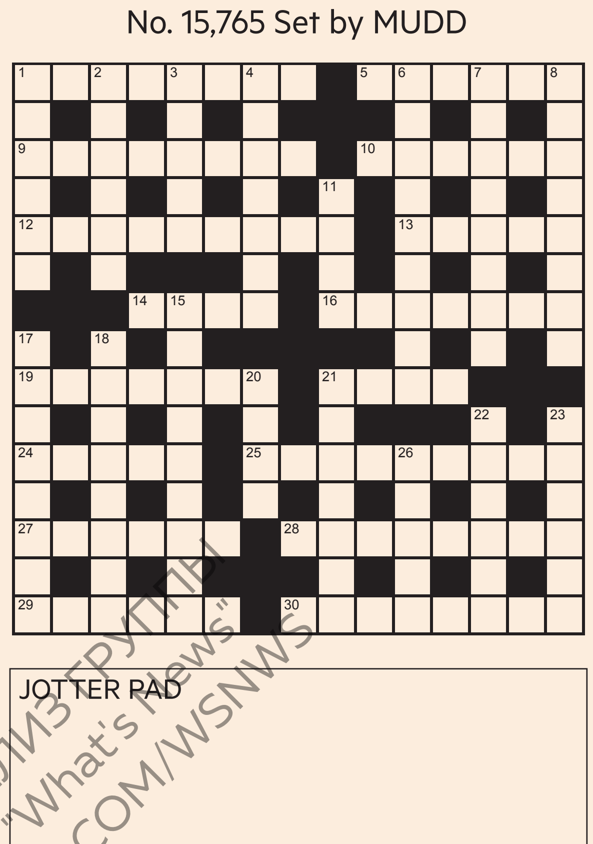


Forecasts by MeteoGroup
Warm front Cold front Occluded front Wind speed in KPH

Today's temperatures Maximum for day °C

Amsterdam	Cloudy	10	Malta	Sun	15
Ankara	Cloudy	-1	Manila	Fair	31
Athens	Sun	10	Miami	Fair	23
Bahrain	Sun	24	Milan	Cloudy	7
Barcelona	Fair	16	Montreal	Sun	-11
Beijing	Sun	-3	Moscow	Fair	-6
Belfast	Shower	7	Mumbai	Sun	30
Belgrade	Sun	9	Munich	Sun	12
Berlin	Rain	12	Naples	Sun	15
Brussels	Shower	9	New York	Sun	1
Budapest	Fair	6	Nice	Cloudy	13
Cairo	Cloudy	16	Nicosia	Shower	12
Cardiff	Shower	9	Oslo	Fair	5
Chicago	Sun	9	Paris	Rain	10
Cologne	Rain	10	Prague	Cloudy	9
Copenhagen	Cloudy	7	Reykjavik	Sun	-1
Delhi	Sun	21	Riga	Rain	6
Doha	Sun	25	Rio	Fair	33
Dubai	Sun	24	Rome	Sun	15
Dublin	Shower	7	San Francisco	Shower	12
Edinburgh	Shower	7	Singapore	Fair	30
Frankfurt	Rain	11	Stockholm	Fair	7
Geneva	Cloudy	12	Strasbourg	Cloudy	13
Hamburg	Cloudy	10	Sydney	Fair	29
Helsinki	Cloudy	6	Tokyo	Sun	3
Hong Kong	Fair	19	Toronto	Sun	-4
Istanbul	Fair	6	Vancouver	Shower	7
Lisbon	Rain	14	Vienna	Fair	5
London	Fair	10	Warsaw	Cloudy	7
Los Angeles	Sun	19	Washington	Sun	7
Luxembourg	Rain	9	Zagreb	Fair	13
Madrid	Shower	10	Zurich	Fair	12

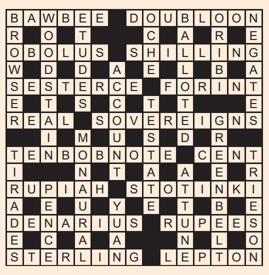
CROSSWORD
No. 15,765 Set by MUDD



ACROSS
1 Stairs concealing an opening over a door (8)
5 Controller of fluid the swine fed to drunkard (6)
9 Article in newspaper that's refreshing (8)
10 Vehicle rounds bend before a shock (6)
12 30 perhaps put on, weapon outside (9)
13 Energy member invested in exclamation of wonder (5)
14 Avoid meat (4)
16 Black cloud follows close to itinerant, one going on foot (7)
19 Hoarding bread, state accumulated wealth (7)
21 Bleat as cow? (4)
24 Harrow's principal in lovely, comfortable job (5)
25 Cold packed in ice, dates awfully dry (9)
27 Home rule initially welcomed by former PM (6)
28 Musician squeezing one box that hisses (3,5)
29 Over ebbing river, spot fleet (6)
30 By the sound of it, more than one thief curses (8)

DOWN
1 Shape of sky assuming line that's familiar (6)
2 Nine, perhaps, a shade under ten, ultimately (6)
3 Close lead of champion forsaken (5)
4 Fish dined on the waterfront (7)
6 Somebody manufacturing green soap (9)
7 Food lover, chap into fruit (8)
8 Educators see Sr Guevara crying? (8)
11 Change somewhat overrated, I think (4)
15 Unfortunately less hot, the tuna red raw (9)
17 Vessel like this supporting a plant (8)
18 Modern resort with English in prison (5,3)
20 Pool top, snooker's third (4)
21 Baton is used in defence (7)
22 Publication with something to digest in flier (6)
23 Suit – Scottish footballing outfit? (6)
26 City that may rise and fall (5)

Solution 15,764



★
Companies & Markets
FINANCIAL TIMES

Business case CBI needs more support from Europe on trade
INSIDE BUSINESS, PAGE 12

Sage Group	Mitie	Inmarsat	Gold	Dollar index	Xetra Dax	10yr Treasury	Dollar/yen
6.5%	5.6%	4%	$12	0.9%	1.1%	3bp	1%
768.2p	174.7p	498.7p	$1353	89.30	13414	2.65%	¥109.18

Russian groups rush to issue debt

- Borrowing costs lowest since 2014
- Looming US Treasury list could stymie fundraising

HENRY FOY — MOSCOW
ROBERT SMITH — LONDON

Some large Russian companies are scrambling to tap international capital markets before Washington releases a new list of Kremlin-connected figures that could include powerful executives.

The companies are seeking to benefit from borrowing costs that have fallen to levels unseen since Moscow's annexation of Crimea in 2014 and the first wave of EU and US sanctions levied in response.

Amid strong demand for emerging market assets and Russia's emergence from a brief recession caused by the fall in oil prices, companies including PhosAgro and Polyus have found no shortage of buyers for recent debt issues.

This week, Polyus, the country's largest gold producer, plans to sell a $500m bond, and Rusal, the aluminium producer, and Alfa-Bank are marketing new issues. The four companies are not subject to US or EU sanctions but are owned or controlled by Russian billionaires or their families.

Analysts say many are worried that their presence on the list that the US Treasury is preparing for release by the end of the month could create difficulties for fundraising in the west.

"I think it's very unlikely we're going to see any specific sanctions, and yet the Russian elite seem to be very worried that being named in the oligarch report could limit their access to western financing," said Tim Ash, emerging markets senior sovereign strategist at BlueBay Asset Management.

But demand for PhosAgro's recent $500m sale of paper suggests that western investors are not particularly concerned about Russia's wider risk profile.

Europe's largest phosphate fertiliser company sold a eurobond with a maturity of five and a quarter years at 3.949 per cent, its lowest coupon, to refinance a 2013 eurobond priced at 4.2 per cent.

Of the buyers, 7 per cent were from Russia, 41 per cent the US, 23 per cent the UK and 29 per cent continental Europe, said a person familiar with the deal.

> 'Being named in the oligarch report could limit their access to western financing'

"This was the first eurobond by a Russian corporate in 2018," said the person, who could not be named. "This had the highest level of international demand of any eurobond PhosAgro has placed."

Controlled by the Guriev family, 19.35 per cent of the company is owned by Vladimir Litvinenko, Vladimir Putin's campaign manager for the 2000 and 2004 elections.

Cabin pressure
US airlines tumble on price war fears

The spectre of a fresh price war sent stocks in leading US airlines tumbling yesterday after United Continental said it would boost seat capacity and tackle low-cost competitors on price, **write Pan Kwan Yuk in New York and Patti Waldmeir in Chicago.**

United shares fell more than 10 per cent amid fears over the effect the moves would have on profit margins, and the broad sell-off wiped close to $10bn off the value of the US's four largest carriers by lunchtime trading in New York.

United said on Tuesday that it planned to lift capacity at a faster than expected rate of 4 to 6 per cent a year for the next three years. Scott Kirby, United's president, said "the best way to compete with a low-cost carrier is to master prices". He added: "Half our revenue comes from customers that are mostly shopping on price and we cannot ignore half of our revenue and we can't let our low-cost carriers have price advantages in our hubs."

Shares in Delta Air Lines were down more than 6 per cent, while Southwest Airlines fell nearly 5 per cent. American Airlines lost more than 8 per cent.
Lex page 10

Timothy Fadek/Bloomberg

Short View

Miles Johnson

One interesting footnote to the seismic events in the US and UK in the past two years is that the price action of certain markets has become increasingly politicised.

Donald Trump has taken to Twitter several times to celebrate the strong performance of the US stock market as a barometer for his performance as president. Meanwhile in the UK, the value of the pound against the dollar and euro has been used by both supporters and critics of Brexit to support their views that the British economy is either falling apart or destined for greatness.

This week, the pound hit its highest level against the US dollar since the Brexit vote. While this would appear to indicate that deeply pessimistic investor sentiment towards the UK has begun to turn, the increase has perversely been terrible news for holders of large UK-listed shares.

The FTSE 100 is now down since the start of the year, in spite of a barnstorming start for many other equity markets. That is because its constituents' US dollar earnings have lost value when translated back into pounds.

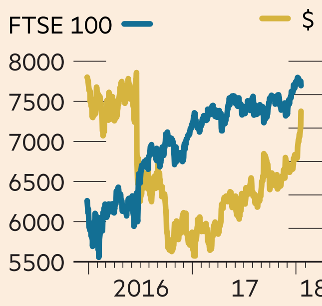
The FTSE 100's reliance on US dollars has been widely noted but less attention has been paid to just how little UK-based business matters to the country's benchmark stock index. Nobody should try to politicise the performance of the FTSE 100 as it is barely a UK index at all.

Terry Smith, the British fund manager, recently observed that the FTSE 100 is "dominated by what I would regard as uninvestable companies", such as struggling utilities and resource groups, and also noted how irrelevant UK sales are to most of these British "national champions".

Drugmaker GlaxoSmithKline, the FTSE 100's sixth-most valuable member, makes just 3.8 per cent of its sales in the UK, while Japan is a larger market than Britain for rival AstraZeneca. Vodafone makes 14.5 per cent of its sales in Britain, less than in Germany.

As such, it is not just the value of the US dollar that drives the FTSE 100. Anyone deciding to hold the index should become less preoccupied by what happens in the UK, which accounts for about 3 per cent of global gross domestic product, and accept they are taking a bet on the rest of the world.

UK stocks and sterling



Source: Thomson Reuters Datastream

This week the pound hit its highest level against the US dollar since the Brexit vote but the rise has been bad news for holders of large UK-listed shares

miles.johnson@ft.com

Tax havens retain allure for large US tech groups

The US tax reforms will not prompt big American tech groups to drop their reliance on overseas tax avoidance strategies or create more jobs in the US, say tax experts. They believe parts of the legislation could lead to some companies shifting assets offshore.
Analysis ▸ PAGE 12

Chipmaker Qualcomm fined €997m by EU for exclusive-use payments to Apple

JIM BRUNSDEN AND ROCHELLE TOPLENSKY — BRUSSELS

Brussels has hit the US chipmaking giant Qualcomm with a €997m fine for abusing its dominant market position by paying Apple to use its chips exclusively in its smartphones and tablets.

Margrethe Vestager, European competition commissioner, said that Qualcomm's arrangement with Apple amounted to illegal foreclosing of the market that had held back innovation and contributed to the company's rise.

The case concerns billions of euros in payments to Apple, but Ms Vestager said that Apple was not seen as being involved in wrongdoing and that the focus in the case was exclusively on Qualcomm. "No rival could effectively challenge Qualcomm in this market, no matter how good their products were," she said.

Qualcomm said it "strongly disagrees" with the decision and would appeal in the European courts.

The EU investigation is one of several antitrust inquiries that the company has faced in different countries. The fine related to payments made by Qualcomm to Apple in exchange for buying all of its "baseband chipsets" from the company between 2011 and 2016. The chipsets are essential to the functioning of smartphones and other devices.

The fine imposed yesterday amounts to 4.9 per cent of Qualcomm's turnover in 2017.

Apple is also pursuing court cases against Qualcomm around the world, accusing the chipmaker of "exclusionary tactics and excessive royalties" that it alleges have cost it billions of dollars.

Ms Vestager said that Intel had been one victim of Qualcomm's payments to Apple. Intel "really wanted to challenge Qualcomm, and this was made, for this very important customer, impossible", she said, adding that the arrangement had "definitely" contributed to Qualcomm's dominance.

Don Rosenberg, executive vice-president of Qualcomm, said the company was confident that the payments to Apple "did not violate EU competition rules or adversely affect market competition or European consumers".

Companies / Sectors / People

Financials

UK blue-chips lose the gift of giving

Donations from Britain's biggest companies drop, despite efforts by bosses

SARAH GORDON — LONDON

Charitable giving by the UK's largest listed businesses has continued to fall, despite growing calls for more corporate social responsibility from a number of corporate bosses.

Research by the Charities Aid Foundation found that total donations, in absolute terms, by FTSE 100 companies fell more than a quarter between 2013 and 2016, to £1.9bn. Donations have fallen 11 per cent since 2014.

Larry Fink, chief executive of BlackRock, which has $6.3tn under management, told companies this month that the time had come for a new model of shareholder engagement. "To prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society," he wrote in a letter to large companies predominantly in the US, UK, France and Germany.

Klara Kozlov, head of corporate clients at CAF, said she believed corporate giving helped increase trust between business and society. "It is vital that civil society can work with businesses to show how partnership between charities and business can benefit both, as well as greatly enriching society," she said. "Unfortunately the downward trajectory for corporate giving continues, with fewer companies replenishing a depleted pool of money donated to charitable causes."

The decrease in charitable giving between 2015 and 2016 was seen across six of the 10 industries represented in the FTSE 100 index, and the number of companies donating at least 1 per cent of their pre-tax profits also fell, with only 26 companies donating at least this amount in 2016.

CAF said that, in the eight years it had been evaluating annual report data on charitable giving by the FTSE 100, aggregate revenues had increased 14 per cent while donations had increased 1 per cent.

Six companies had made charitable donations in spite of a pre-tax loss. Although revenues have declined for both the financial and telecommunications sectors, the decline in donations was greater than the fall in revenues.

But the combined percentage of pre-tax profit donated across the index rose, due to a handful of companies giving more, with the top 10 donors accounting for 68 per cent of total donations in 2016, led by pharmaceutical companies.

26
Number of UK groups that gave 1% of pre-tax profits in 2016

68%
Percentage of total donations coming from the top 10 donors

Josh Hardie, deputy director-general of the CBI business lobby, said the fact that the combined percentage of profit donated had risen showed businesses were committed to charitable giving.

"[Our] members are increasingly investing in sustainable partnerships that involve not just money and goods, but expertise and time too," he said. "While this can be harder to measure, it's more valuable to the many charities these firms work with."

CAF analysed the annual corporate responsibility reports from 2009 to 2017 of each FTSE 100 company as of September 12, 2017. Donations of money, time, management services and in-kind donations were included but in some cases the type of donation was not specified.

Industrials

UTC expects to repatriate at least $3bn in earnings

PATTI WALDMEIR — CHICAGO

United Technologies Corp expects to repatriate at least $3bn in overseas earnings and use it to pay down debt from its acquisition of Rockwell Collins because of the US tax changes enacted last month, Greg Hayes, the chief executive, said yesterday.

The deal to buy the aviation systems and cabin equipment maker Rockwell Collins for $30bn was announced last September and included about $7bn in net debt. But tax reform also hit UTC earnings for the fourth quarter of 2017, with the company taking a $690m one-off charge due to the impact of the bill.

Adjusted earnings per share came in ahead of market expectation for the quarter ended December 31 at $1.60, up 2 per cent on the period a year earlier. But earnings per share fell to $0.50 on an unadjusted basis largely due to a $0.90 per share charge due to tax reform.

UTC also said it will make a cumulative net cash payment through 2026 of $1.5bn on previously earned foreign income as a result of the new tax law.

General Dynamics also said yesterday that it took a $119m one-off hit in the fourth quarter because the cut to the US corporate tax rate included in the new law made its deductions from old losses less valuable. That amounted to 40 cents per share, leading to an adjusted earnings per share of $2.50.

Phebe Novakovic, General Dynamics' chief executive, said on an earnings call that the company's US tax rate was now equal to or slightly lower to the rates that the company paid overseas.

She said the additional cash would not significantly change the company's direction. "I don't see a particular change in the strategy . . . but tax reform provides us additional free tax flow. A happy event," she said.

At UTC, Mr Hayes stressed the positive benefits of tax reform. "We now see a line of sight to bring back at least $3bn, maybe a tiny bit more, and a lot more than $1bn a year for the next couple of years so we'll be able to pay off the Rockwell debt a lot faster," he told analysts.

"And the deal looks a lot better . . . because of the lower tax rate, Rockwell is primarily US domestic income" so the cut in the US corporate tax rate from 35 to 21 per cent "looks pretty darned good", he said. He also set 2018 earnings per share guidance at $6.85 to $7.10 which he said included the effects of tax reform.

Regulation. Silicon Valley

Tax havens retain allure for US tech

Apple's one-off payment and investment at home unlikely to end overseas arrangements

RICHARD WATERS — SAN FRANCISCO

The US tax overhaul will not prompt the country's big tech companies to drop their reliance on overseas tax avoidance strategies or create more jobs at home, according to experts.

The legislation, passed late last month, includes a set of provisions designed to limit avoidance and end the incentive to use tax havens to shelter profits. It was also meant to encourage US companies to bring patents and other intellectual property sheltered in havens back to the US, in turn leading to more research and development jobs at home.

Last week, Apple said it would make a $38bn one-off tax payment and invest more than $30bn to expand its US operations in the wake of the rule changes. The iPhone maker said the investments would be part of a $350bn "direct contribution" to the US economy over the next five years.

Apple has been a high-profile target of Donald Trump, who has publicly criticised the company and other big US tech businesses for relying on overseas manufacturing. Mr Trump claimed credit for the move even as Tim Cook, Apple chief executive, said the new tax regime was only partly responsible.

With many of Silicon Valley's biggest companies reporting on quarterly earnings next week, including Alphabet, Microsoft and Amazon, greater clarity on their plans might be forthcoming.

But experts say some parts of the legislation could end up having the opposite effect, leading companies to shift more of their assets and jobs offshore.

"The bill is biased in favour of offshore real investment, which is a completely perverse result when the intention was to bring jobs back to the US," says Ed Kleinbard, a law professor at the University of Southern California.

Referring to the anger stirred up by the way many US tech companies have moved profits to tax havens, he says: "Europe in particular is fed up with their stateless income gaming — but that will still be going on."

The tax law includes provisions to discourage US companies from trying to shift profits out of the country — something they might be tempted to do now that foreign profits are largely outside the reach of the US Treasury, says David Yasukochi, a tax partner at BDO, the accountancy firm.

These include a levy on any foreign profits above a fixed, tax-free return that companies will be allowed to earn on their tangible assets, such as plant and equipment. Known as the GILTI tax, this is meant to reflect excess profits earned from a company's "intangibles", such as the patents and other IP of tech and pharmaceuticals groups.

Brendan Smialowski/AFP/Getty Images

Some of the games 'may make the double Irish Dutch sandwich look like child's play'

Chris Sanchirico, University of Pennsylvania

$38bn
One-off tax payment to be made by Apple

$30bn
Sum Apple is to invest to expand US operations

But the levy rate is only half the new US corporation tax rate, and companies can credit taxes they pay overseas against this US liability. Mr Kleinbard says this will encourage them to keep as much of their profits in tax havens as they can, lowering their overall foreign taxes to a level where they can fully offset the minimal GILTI tax, but no more.

The tax could also lead tech groups to ship more jobs overseas, according to Chris Sanchirico, a law professor at the University of Pennsylvania. That is because they will have an incentive to add to their offshore facilities such as factories — and the jobs associated with them — since this will boost their "tangible" assets outside the US and shelter more of their profits from tax.

Along with other features of the act, this will "greatly complicate what is an already astoundingly complex corner of US tax law", Mr Sanchirico says. Referring to two notorious structures for avoiding tax, he says: "I think there is little doubt that the new law will open up a host of new complicated games, some of which may make the double Irish Dutch sandwich look like child's play."

A second feature of the legislation is designed to encourage companies to return their patents and other intangibles to the US, by charging the same low tax rate on exports that they would pay on the GILTI tax.

This "foreign derived intangible income" has stirred up opposition from other countries. They argue it is an unfair export subsidy for US businesses, since they will face a lower tax on exports than they do selling the same products at home.

Tax experts say US companies would not bring intangibles home as a result of the FDII, since they would still benefit from keeping them in tax havens to lower their offshore profits.

"I don't see any great movement of intangible assets back to the US," says Bob Willens, an accounting expert in New York. "People will stay the course."

Mr Kleinbard says: "Trillions of dollars of IP remains trapped outside the US."

He and others believe this also means no jobs related to creating new IP will return to the US from overseas, though some say most of the work already happens in the US, regardless of where the IP is officially housed.

"You can't come back, if you never left," says Mr Sanchirico.

INSIDE BUSINESS
EUROPE

Sarah Gordon

Businesses across EU would do well to back CBI on customs union

On Monday, the UK's CBI business group made an impassioned plea for Britain to remain in the customs union after Brexit. Staying in an arrangement where there is a single set of tariffs for goods imported from outside the EU, and tariff-free trade within it, would be a "practical, real-world answer" towards solving some of the complex challenges in phase two of the negotiations, including the Irish border question, argued director-general Carolyn Fairbairn.

It is debatable whether remaining in the customs union would, in fact, mean a "soft" border could be retained between Northern Ireland and the Republic of Ireland, since there would still need to be checks on the movement of people if the UK left the single market. But it was a brave call, nevertheless.

The vast majority of British companies have made it crystal clear that, as far as possible, they want business as usual in their trade with the rest of Europe after the country leaves the EU, even if that means a high degree of alignment with the bloc's rules. But despite doing what is her job — representing the views of CBI members — Ms Fairbairn was subjected to the usual barrage of criticism from those who regard continued membership in either the customs union or the single market as a betrayal of those who voted for Brexit.

The CBI, like many other organisations that continue to believe in the benefits of EU membership, is not arguing for a reversal of the referendum vote. But it is trying to insert the voice of exporters, in particular, into the debate. Business voices across the continent should be raised in its support. Staying in the customs union, while no panacea, would go a considerable way to preserving trading relationships, and with them jobs and investment, in a post-Brexit Europe.

Advisers to the government have presented case studies of how EU manufacturers, retailers and others would be affected by tariffs and product controls at borders. During the manufacturing process, a modern car and its 30,000 or so component parts often travel across borders multiple times. Indeed, slowing down supply chains by disrupting border processes would be likely to have almost as big an impact on other countries trading with the UK as on the UK itself.

Added costs will end up being felt by customers or employees

This is because, for the vast majority of industries in Europe, the additional economic activity generated within those chains is larger than the direct output it supports. A visit to the Airbus military aircraft factory in Spain, which uses wings imported from the UK, clearly demonstrates the importance of the ecosystem of manufacturers, academics and recruiters clustered around the facility.

Recent research by Oxford Economics suggests that the impact of a hard Brexit on Europe's non-UK supply chains could amount to as much as €62bn in gross output lost in 2020. It calculates that the biggest effects would be felt in Ireland and the Czech Republic, but Hungary, the Netherlands and Denmark could also take a 1 percentage point hit.

More than one-fifth of the UK's supply chain is in the rest of the EU. Outside a customs union, suppliers will face higher costs getting goods in and out of the UK, not just because of tariff barriers, but because of what, for many, is a bigger worry — the increased paperwork, and therefore cost, of border controls.

The CBI is not the only voice in the UK warning on this. Business advisers to the government have already provided telling examples. One leading UK retailer, which imports 200,000 different products from the EU a year, currently files no customs declarations. The company believes it would be subject to a five- to tenfold increase in border documentation in the event of a hard Brexit where Britain leaves the customs union. Others, including one industrial manufacturer, are weighing whether it would make sense to pay any new tariffs rather than attempt to track and certify origin in the hope of accessing any preferential rates under a future trade agreement.

Companies face difficult choices but their added costs will end up being felt by customers, in the form of higher prices, or employees, whose jobs will be relocated or lost. Given the risks, more business voices across Europe should be backing the CBI and publicly arguing the case for as much of the trading *status quo ante* to be maintained as possible.

sarah.gordon@ft.com

Technology

'Constructech' start-up Katerra raises $865m

RICHARD WATERS — SAN FRANCISCO

A US company that is trying to revolutionise homebuilding by applying lessons learned in the electronics world has raised $865m in an investment round led by SoftBank's Vision Fund.

The two-year-old start-up, called Katerra, aims to take over all aspects of supply-chain management and construction for home developers, much as Taiwanese manufacturer Foxconn assembles the iPhone for Apple.

"It's a huge industry and there's nobody in it like us," said Michael Marks, chairman and co-founder. The company, which operates from a factory in Arizona, already has $1.3bn of orders and hopes to build another four or five facilities by the end of next year, he said.

Mr Marks was one of the founders of the outsourced manufacturing model underpinning the modern electronics industry, having spent 13 years as head of contract manufacturer Flextronics before leaving to become an investor a decade ago. Others directors include Jim Davidson, one of the founders of tech buyout firm Silver Lake, and John Hui, head of strategy at Foxconn.

The construction industry has been one of the least influenced by IT-related productivity improvements. That has led to the emergence of a wave of so-called "constructech" companies using software to try to streamline operations, as well as attempts to standardise construction using modular techniques.

By trying to take on all aspects of a huge industry it puts at $12tn globally, Katerra has bitten off far more. The services it claims to offer extend from handling the architecture and engineering process at the start of a new development to manufacturing standardised parts such as door frames and other components in its own factory before assembling them on site. Mr Marks said this meant the company could integrate the entire process, resulting in efficiencies not otherwise available.

Katerra hopes to drive down costs by ordering materials for multiple developments at once, giving it negotiating leverage over suppliers.

The comparisons with the outsourced electronics industry only run so far, however. Buildings must be designed to fit a particular site and meet local requirements, Mr Marks conceded.

Pharmaceuticals

Canada cannabis group pays C$1.1bn for rival

ANNA NICOLAOU — NEW YORK

Aurora Cannabis has agreed to buy rival marijuana grower CanniMed Therapeutics for C$1.1bn (US$880m) — the largest deal yet in Canada's budding industry ahead of the country's expected legalisation in the country this year.

Aurora, which produces cannabis in the Rocky Mountains of Alberta, has been building up a stake in CanniMed, after the company rejected its unsolicited takeover offer last year.

The combination will "establish a best-in-class cannabis company with operations across Canada and around the world", said Terry Booth, Aurora's chief executive.

The deal comes as shares in Canadian marijuana producers have soared on the back of the country's move towards legalising recreational cannabis this year — which would make it the first G7 country to do so and the second in the world after Uruguay.

Aurora's stock has more than quadrupled in the past six months, from $2.70 in July to $14.89 yesterday. Shares in rival Canopy Growth have climbed more than 300 per cent in the same time, to $35.88 a share.

Aurora, founded in 2006, has been producing marijuana to be sold for medical purposes. Like other Canadian growers, the federal government's plans to legalise recreational marijuana have boosted its prospects.

The Canadian Imperial Bank of Commerce estimates that the marijuana industry could achieve $10bn in annual sales in the country, while federal and provincial governments would reap up to $5bn in taxes.

CanniMed had previously agreed to buy another grower, Newstrike Resources, which is backed by Canadian rock band Tragically Hip. CanniMed has terminated the agreement and will pay Newstrike a $9.5m break fee.

Justin Trudeau, prime minister, advocated the legalisation of marijuana throughout his election campaign in 2015.

His Liberal party has aimed to do so by summer, with the pitch that legalising, taxing and regulating the drug would make it safer and crack down on the black market, which Statistics Canada values at $6bn.

Drugmakers on hunt for deals after tax tonic

Pharma groups prepare for round of tie-ups fuelled by US sector's cheaper access to overseas cash

DAVID CROW AND JAMES FONTANELLA-KHAN — NEW YORK

For more than 36 years, pharmaceuticals executives have descended on San Francisco in January for the JPMorgan healthcare conference, known as the Davos of the pharmaceuticals world, using the event as an opportunity to meet rivals and cook up deals.

This year, the pace of those discussions was more frenetic than it has been for a decade, according to lawyers and bankers who attended the meeting — and many are predicting the tentative talks will morph into a bumper crop of mergers and acquisitions in 2018.

"It's as active a period as I can remember in many, many years, probably since before 2008," says Mike Silver, a corporate lawyer at Hogan Lovells, who has been advising healthcare companies on deals for almost four decades.

Large drugmakers are "flush with cash", he says, and have a renewed sense of optimism following President Donald Trump's tax reforms, which have made it cheaper to access billions of dollars of cash that was parked overseas.

> 'There is a set of players that seems to be willing to pay very outsize valuations'

Mr Silver advised Celgene, the US biotech group, on its $9bn acquisition of cell therapy company Juno, which was announced this week.

"A lot pops up after the JPMorgan conference . . . and then gets announced a few weeks after. So you should expect more soon," he says.

This year has got off to the strongest start for healthcare and M&A since at least 2007: almost $30bn of deals have been announced since the start of January, according to Thomson Reuters.

But executives at large drugmakers warn that over-exuberance — which has ruined many good parties — could damp deal activity. Specifically, they say that valuations for the innovative biotech companies they would like to buy are too high.

This opinion is supported by the data: buyers of healthcare companies have agreed to pay an average premium of 81 per cent, according to data provider Dealogic — well above the 42 per cent typically paid in 2017.

"The smaller companies that have yet to generate sales or revenues are still very expensive relative to companies that have approved [drugs]," says Robert Bradway, chief executive of Amgen, the world's largest biotech group.

Mr Bradway's company is expected to repatriate as much as $39bn in overseas cash, but he urges caution about splurging it on expensive deals — especially when potential target companies can secure higher valuations from private investors.

"A large number of the venture-backed companies are able to attract capital at valuations in private financings that exceed what I would ascribe the M&A value to be," he says. "The terms of trade for innovative companies is still relatively favourable."

Jeff Stute, co-head of global healthcare investment banking at JPMorgan, says many innovative biotechs that have gone public have had "strong stock performances" and that "whenever they've needed to raise capital the equity markets have been quite receptive". "So there is no real pressure for any of these companies to sell," he adds.

Not all executives at large drugmakers agree that potential targets are too expensive.

Michel Vounatsos, chief executive of Biogen, a large biotech company focused on neuroscience, says the valuations reflect what has been a "stellar" year for biology, citing advances in treating Huntington's disease, migraine, multiple sclerosis and spinal muscular atrophy.

"At this stage, I don't think valuations are too high," he says.

"We are screening different targets all the time, be they pre-clinical or small-to-mid-sized companies, and we did not reach the point of saying 'no' because of the valuation."

Some industry executives say a buyer's willingness to overpay depends in large part on how desperately they need to replenish their drug pipelines.

Celgene, which has announced deals worth up to $16bn so far this year, is often identified as something of a "distressed buyer" given that it is barrelling towards a big patent cliff.

Revlimid, its top cancer medicine, accounts for almost two-thirds of revenues, but will face competition from cheaper generic rivals from 2022 at the latest.

The New Jersey-based group paid a premium of about 90 per cent for Juno, while its purchase of privately held Impact Biomedicines raised eyebrows given that its main asset, fedratinib, has had a chequered history.

"There is a set of players that seems to be willing to pay very outsize valuations," says one executive at a large pharma group.

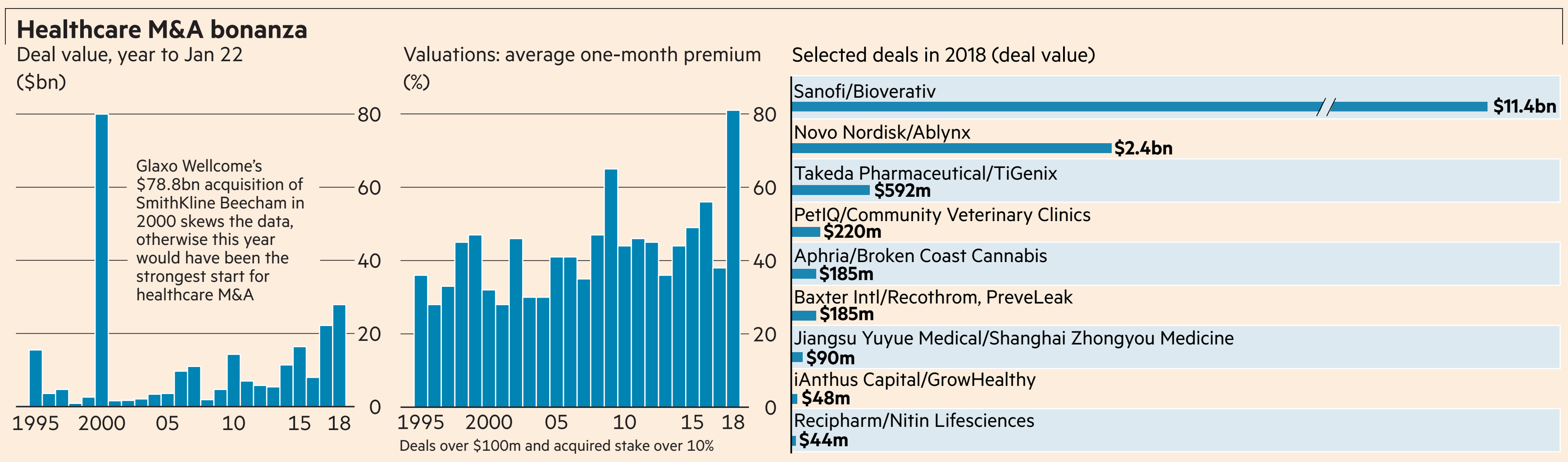
"A couple of deals Celgene has done seem to be quite expensive. It's hard to believe they're justifiable."

$16bn Value of deals announced by Celgene so far this year

$39bn Overseas cash that Amgen is expected to repatriate

In the M&A lab

Qilai Shen/Bloomberg



Sources: Thomson Reuters; Dealogic; Bloomberg

Global leverage

Big Pharma's pitch to potential sellers

So why would small and mid-sized biotech groups sell themselves to Big Pharma if they are able to raise oodles of cash from private investors and public markets?

One reason is that many such companies are good at developing medicines, but struggle when tasked with building sales forces to commercialise their products.

"I suspect there are a few public companies today that have had to go to market with their medicines that didn't necessarily anticipate having to market medicines," says Darren Carroll at Eli Lilly, who acts as the company's chief dealmaker.

Mr Carroll declined to name the companies, although investors sometimes point to a trio of cancer biotechs — Tesaro, Clovis and Puma — as examples of single-product groups that are still independent despite being widely tipped as takeover targets. All three have brought their drugs to market independently, but there have been doubts about the strength of their launches, while reliance on a single product has led to a choppy ride for shareholders in recent months.

Jeff Stute at JPMorgan, argues that it often makes sense for smaller biotechs to sell to larger drugmakers. "Most smaller biotech companies are worth significantly more inside a Big Pharma structure, because they have . . . the sales and distribution capability that would be quite difficult and expensive for a biotech company to build."

Thomas Sheehan at Bank of America Merrill Lynch says for the founders of smaller biotech companies — and the venture capitalists who have backed them from the start — it can be a tough call to decide when to sell.

"You can either market the drug on your own or sell it," he says. "The former is very challenging, but can be incredibly rewarding economically. The latter option can help you to bring your drug to market rapidly by leveraging the global capabilities of a large biotech or pharma company."

Pharmaceuticals

Novartis forecasts five years of growth as profits rise

RALPH ATKINS — BASEL
SARAH NEVILLE — LONDON

Novartis has entered a five-year growth phase following two years of declining sales, the incoming chief executive of the Swiss pharmaceuticals company has declared after reporting a stronger than expected turnround in 2017.

The drugmaker has been hit by patent expiries on some of its best-selling medicines, including its Gleevec cancer drug. But Vas Narasimhan said that 12 "major" product launches by 2020 would "fuel the next growth phase for the next five years".

His comments came as Novartis beat analysts' expectations with net sales of $12.9bn in the final three months of 2017 — 2 per cent higher than the same period a year earlier, at constant currencies. For the full year, sales of $49.1bn were also up 2 per cent — reversing falls in 2015 and 2016.

The impact of Gleevec's patent expiry was more than offset by the "strong performance" of new growth drivers such as Cosentyx, for psoriasis, and Entresto, for heart failure, Novartis said.

Upcoming launches included Lutathera, a cancer treatment that was acquired with last year's purchase of the French nuclear medicines business Advanced Accelerator Applications.

Core operating income rose 5 per cent in constant currencies to $3.2bn in the fourth quarter, but was flat for the full year at $12.85bn.

Mr Narasimhan, 41, previously head of drugs development at the group, takes over on February 1 from Joe Jimenez, who has been chief executive for eight years. Mr Jimenez restructured and streamlined the Basel-based drugmaker following its rapid global expansion through mergers and acquisitions under his predecessor Daniel Vasella.

Novartis also reported a return to growth at Alcon, its underperforming eyecare business, where sales rose 4 per cent last year. Novartis hopes to spin off and list Alcon, which could be worth more than $25bn, but has delayed any move until 2019.

Novartis expected sales in 2018 to grow at a "low to mid-single digit" rate, with core operating income rising at "mid to high" single digits. Jeffrey Holford, an analyst at Jefferies, said the guidance was "strong versus consensus expectations". Novartis's share price was up 2.7 per cent at SFr85.86 by lunchtime in Europe.

Mr Narasimhan said Novartis was reassessing the future of its generics and biosimilars unit, Sandoz, whose generic pills business has come under heavy pricing pressures in the US. He said Sandoz, a division with $10bn sales globally, had seen double-digit growth in biosimilars — copycat biologic drugs — and was a leader in differentiated products.

But he added: "In the US we are reassessing what is the best path going forward, which you would expect of us given the significant price decreases we have had." While it had not decided what this review would mean, the company was "committed to the Sandoz portfolio, particularly in biosimilars and differentiated generics, where we believe Sandoz is uniquely positioned to add value".

Mr Narasimhan said Novartis would continue its strategy of bolt-on acquisitions, especially of innovative medicines companies. But he indicated that the Swiss group had no plans to sell its 36.5 per cent stake in a consumer joint venture with GlaxoSmithKline or its 6 per cent stake in its rival Roche.

Vas Narasimhan: Novartis to press on with strategy of bolt-on acquisitions

COMPANIES

Utilities

Suez shares take a tumble after profit warning

French water and waste group struggles for growth in European market

DAVID KEOHANE — PARIS

Shares in the French utility Suez suffered a fall of nearly 17 per cent in Paris yesterday after the company warned that its 2017 profits would come in much lower than expected and admitted that its European water business was not growing.

The water and waste group had said after markets closed on Tuesday that full-year earnings before interest and tax would come in at €1.28bn, down 2 per cent compared with the previous year and below estimates.

Net income is expected to be €300m, more than 10 per cent below what analysts had been forecasting.

Suez also cut its 2018 forecasts, citing issues in its international businesses.

Jean-Louis Chaussade, Suez chief executive, said he was "surprised by the reaction of the market" and that it did not "value enough that the group is growing".

Suez said the fourth-quarter profit fall was because of €45m of "specific expenses" stemming from political turmoil in Spain and "with the decision to terminate two services contracts, in Morocco and India, due to operational difficulties".

Suez added that, excluding those costs, "annual organic growth in ebit would have been in line with the 1.4 per cent trend" reported at the end of September.

In March last year, Suez agreed to buy General Electric's water unit for $3.4bn and analysts at Barclays said that "2017 can be characterised as a transition year for the group".

On Tuesday, Suez also forecast ebit growth of 10 per cent and organic ebit growth of 3 per cent in 2018, again below consensus expectations in part because of a weaker outlook for revenue growth from the international division.

Suez said "that revenue growth from the international division should be weaker than previously anticipated, likely being closer to 4-6 per cent rather than the 6-8 per cent previously guided for mainly due to weaker construction activities", said Barclays.

Mr Chaussade said: "We are talking about a company that will grow.

"In 2018, we of course will grow organically and thanks to the acquisition of GE water. The growth of 10 per cent at ebit level and of 3 per cent at organic ebit level is not too bad in the business we are in."

"I think the growth we have at international level we have to boost but it is already good. We can do better, especially if we see a recovery and there are parts of the world where we see a recovery."

> 'People are being a little bit dramatic. I think I have been quite rapid to disclose to the market the reality'

Analysts remained sceptical. "Given the scale of Suez's profit warning and just a month after its [investor day concerning GE Water] in December, we expect management credibility to deteriorate," said Ahmed Farman at Jefferies.

Mr Chaussade said: "In my view people are being a little bit dramatic. I think I have been quite rapid to disclose to the market the reality."

Suez will report its full-year numbers on March 1.

Separately, Suez's French competitor Veolia said "operational difficulties announced by Suez have no relation to the group's activities" and that it "fully confirms the guidances previously communicated to the market".

Veolia stock closed 3.8 per cent lower.

See Lex

Technology. Surveillance

China face scan start-ups capture a lead

SenseTime and rivals race ahead helped by vast data sets and state disregard for privacy

BEN BLAND — HONG KONG

The police department in Chongqing, a sprawling metropolis of more than 30m people in south-west China, had long struggled to make use of its many CCTV cameras, catching just a handful of suspects a year using human efforts.

But when it deployed the facial recognition software produced by SenseTime, one of China's leading artificial intelligence start-ups, it was able to nab 69 suspects in just one month, according to the company.

"It's impossible for people to monitor all the cameras in China," says Xu Li, the chief executive and co-founder of SenseTime.

"But by turning the original video into structured data, it makes it much easier to store and search so you can find, for example, a woman in a white T-shirt with a blue bag with a BMW next to her," he adds.

Building on its large and growing business with the government in the world's most technologically advanced police state, SenseTime has raised $450m from investors including venture capitalist IDG Capital and chipmaker Qualcomm and claims a valuation of more than $2bn.

SenseTime, which is talking to investors about its next funding round and contemplating an eventual initial public offering, is one of a crop of artificial intelligence companies that have grown rapidly in China thanks to strong government backing, the large data sets created by the vast population and minimal concerns about privacy.

The nascent industry is being driven by a combination of pure-play AI companies such as SenseTime, its highly valued rival Face++ and voice recognition company iFlytek, as well as the three giants of the Chinese internet, Alibaba, Baidu and Tencent.

"SenseTime and its competitors can grow so fast compared to elsewhere in the world because video surveillance is a big deal in China, the government controls the budget and there's a huge budget for it so they can manage society," says Justin Niu, a partner at IDG, which was one of SenseTime's early investors.

Mr Xu says China's scale gives its AI companies a big advantage over their rivals elsewhere. "Size means everything," he says. "We have processed 500m identities for facial recognition. US companies can't test on so many customers."

SenseTime helped one customer alone, China Mobile, carry out facial verification for 300m customers.

SenseTime is rolling out its computer vision capabilities in a number of other sectors from virtual reality mobile apps to fully automated retail stores, where cameras will record the products customers pick up and charge their electronic wallets using facial recognition.

The company, which is incorporated in Hong Kong but does the bulk of its business in mainland China, is also moving into autonomous driving, partnering with Honda last month.

Mr Xu says SenseTime has an advantage in employing more than 100 PhD holders in computer vision, including himself.

The company's strategy is to match this academic capability with the power of its business partners, from Chinese police departments like that in Guangzhou, with which it operates a joint research laboratory, to mobile phonemakers such as Oppo and Vivo and payment companies like UnionPay.

> 'We have processed 500m identities for facial recognition. US companies can't test on so many'

Currently just 13 per cent of its revenue comes from outside China but Mr Xu wants to expand the international business, with a subsidiary in Japan and plans to open an office in Singapore as well as a research and development centre in the US.

But Paul Haswell, a lawyer at Pinsent Masons in Hong Kong who specialises in technology, warns that the adoption of facial recognition will be much slower outside of China because of worries about privacy and data security.

"Outside China there is justifiable concern as to how data will be collected and what happens to it," he says. "Many consumers in the west would be nervous of having their face, identity and personal data stored together on a server in China."

Mr Xu argues that SenseTime's algorithms can be used to collect data securely, but adds that his bigger concern is identifying new industries where the company can replace or improve on labour intensive processes traditionally done by humans.

"If you don't surpass humans, there's no way forward."

Additional reporting by Nicolle Liu

'Smile to pay': a customer uses a face-recognition payment terminal at a KFC-owned restaurant in Hangzhou — Reuters

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 $
-0.04%	-0.49%	0.24%	-1.14%	-0.51%	-0.76%	0.08%	0.10%	0.732%	1.427%	-1.056%	-0.684%	-0.09%	1.52%

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

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

CURRENCIES

Currency	Dollar Closing Mid	Day's Change	Euro Closing Mid	Day's Change	Pound Closing Mid	Day's Change
Kenyan Shilling	102.3000	-0.1500	126.6685	0.7265	145.5006	1.8865
Kuwaiti Dinar	0.3000	-0.0005	0.3715	0.0021	0.4267	0.0055
Malaysian Ringgit	3.9125	-0.0130	4.8445	0.0189	5.5647	0.0620
Mexican Peson	18.5025	-0.2712	22.9099	-0.1687	26.3160	-0.0010
New Zealand Dollar	1.3474	-0.0112	1.6683	-0.0017	1.9163	0.0120
Nigerian Naira	360.5000	-0.5000	446.3733	2.5954	512.7366	6.6879
Norwegian Krone	7.7611	-0.0665	9.6099	-0.0126	11.0386	0.0659
Pakistani Rupee	110.5050	-	136.8280	0.9840	157.1705	2.2649
Peruvian Nuevo Sol	3.2112	-0.0055	3.9761	0.0218	4.5673	0.0581
Philippine Peso	50.9700	-0.1400	63.1114	0.2818	72.4943	0.8484

Country	Currency	Dollar Closing Mid	Day's Change	Euro Closing Mid
Saudi Arabia	Saudi Riyal	3.7501	-0.0003	4.6434
Singapore	Singapore Dollar	1.3089	-0.0094	1.6207
South Africa	South African Rand	11.9125	-0.1575	14.7501
South Korea	South Korean Won	1070.1500	-0.1000	1325.0663
Sweden	Swedish Krona	7.9364	-0.0863	9.8270
Switzerland	Swiss Franc	0.9458	-0.0118	1.1711
Taiwan	New Taiwan Dollar	29.2395	-0.0030	36.2045
Thailand	Thai Baht	31.6415	-0.1985	39.1787
Tunisia	Tunisian Dinar	2.3955	-0.0385	2.9661
Turkey	Turkish Lira	3.7342	-0.0379	4.6237
United Arab Emirates	UAE Dirham	3.6731	0.0003	4.5481
United Kingdom	Pound Sterling	0.7031	-0.0103	0.8706
..One Month		0.7032	-0.0103	0.8705

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

FTSE ACTUARIES SHARE INDICES

www.ft.com/equities

Produced in conjunction with the Institute and Faculty of Actuaries

FT 30 INDEX

	Jan 24	Jan 23	Jan 22	Jan 19	Jan 18	Yr Ago	High	Low
FT 30	3296.10	3325.30	3314.30	3335.60	3328.80	0.00	3377.70	3271.40
FT 30 Div Yield	1.81	1.78	1.79	1.78	1.80	0.00	3.93	2.74
P/E Ratio net	24.64	25.02	24.87	25.01	24.79	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
3325.3	3312.6	3313.8	3322.3	3315.7	3315.4	3318.9	3314.6	3308.7	3325.3	3296.1

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

FX: EFFECTIVE INDICES

	Jan 23	Jan 22	Mnth Ago		Jan 24	Jan 23	Mnth Ago
Australia	95.87	96.42	94.95	Sweden	77.67	77.79	77.00
Canada	93.30	93.27	91.74	Switzerland	151.10	151.08	151.20
Denmark	110.45	110.41	110.47	UK	79.68	79.56	78.15

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

Year to date percentage changes

Automobiles & Parts	35.10	FTSE SmallCap Index	1.42
Industrial Metals &	12.22	Construct & Material	1.36
Electronic & Elec Eq	6.52	Financial Services	1.15
Industrial Eng	5.36	Food & Drug Retailer	0.87
Oil Equipment & Serv	4.12	FTSE 100 Index	0.56
Mining	4.08	Oil & Gas	0.54
Basic Materials	3.94	Oil & Gas Producers	0.46
Aerospace & Defense	3.79	FTSE All{HY-}Share Index	0.44
Life Insurance	3.48	NON FINANCIALS Index	-0.05
Banks	2.88	Tobacco	-0.29
Industrial Transport	2.77	FTSE 250 Index	-0.35
Industrials	2.58	Travel & Leisure	-0.63
Chemicals	2.21	Consumer Services	-0.69
Forestry & Paper	2.10	Media	-0.78
Financials	1.80	Consumer Goods	-1.02

FTSE 100 SUMMARY

FTSE GLOBAL EQUITY INDEX SERIES

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 MARKET TRADING DATA

(c) Market closed.

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For all queries e-mail ft.reader.enquiries@morningstar.com

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

UK RIGHTS OFFERS

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

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

UK COMPANY RESULTS

Company		Turnover		Pre-tax		EPS(p)		Div(p)		Pay day	Total	
Crest Nicholson Holdings	Pre	**1043.200**	997.000	**207.000**	195.000	**66.100**	62.000	**21.80000**	18.50000	Apr 6	**33.000**	27.600
Ediston Property Investment Company	Pre	**12.154**	11.323	**8.200**	7.568	**6.340**	5.900	**0.45870**	0.45870	Oct 31	**0.917**	0.917
Staffline Group	Pre	**957.800**	882.400	**24.100**	18.900	**71.400**	62.300	**0.00000**	15.30000	-	**11.000**	25.800

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)
01/16	55.00		WPY	Worldpay Inc	5635.00	-31.00	5800.00	262.00	1759198.7
01/09	8.00		AIQ	AIQ Ltd	125.00	88.50	60.90	8.90	6250.0
12/22	100.00	AIM	CIP	CIP Merchant Capital Ltd	99.00	0.95	103.00	99.50	5445.0
12/21	25.00	AIM	ERIS	Erris Resources PLC	25.30	-0.43	28.00	24.10	786.1
12/21	20.00	AIM	PAT	Panthera Resources PLC	19.50	0.00	26.50	19.00	1318.3
12/21	25.00		PPP	PennPetro Energy PLC	65.00	0.00	100.00	28.00	4608.5
12/21	100.00	AIM	SUMO	Sumo Group PLC	110.50	5.00	119.00	106.00	16022.5
12/20	1.20		ALGW	Alpha Growth PLC	1.35	-0.13	1.73	1.00	143.6
12/19	62.00	AIM	MIRI	Mirriad Advertising PLC	57.50	2.25	67.00	55.00	5859.1
12/19	62.50	AIM	PTRO	Pelatro PLC	79.00	2.00	92.00	62.00	1920.7
12/18	82.00	AIM	FAB	Fusion Antibodies PLC	141.50	-15.00	224.90	85.00	3125.9

§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

Stock	Price	Day Chg	52 Week High	52 Week Low	Yld	P/E	MCap m
Australia (A$)							
ANZ	28.80	0.07	32.95	27.19	8.18	13.26	68316.69
BHPBilltn	30.68	-0.11	32.16	22.06	3.45	20.49	79532.07
CmwBkAu	78.65	-0.60	87.74	73.20	7.96	13.52	111267.04
CSL	147.83	1.33	149.30	111.00	1.21	37.28	53965.23
NatAusBk	29.23	0.04	34.09	29.00	10.05	11.61	64155.14
Telstra	3.57	-	5.23	3.34	12.91	10.56	34270.78
Wesfarmers	43.72	-0.14	45.60	39.52	6.73	16.53	40011.54
Westpc	31.01	0.12	35.39	29.40	8.93	13.12	85205.27
Woolworths	27.19	-0.07	27.75	24.45	3.66	23.66	28634.52
Belgium (€)							
AnBshInBv	92.03	-1.18	110.10	92.03	3.73	53.64	192948.52
KBC Grp	76.20	-0.34	77.48	56.22	3.72	11.20	39495.22
Brazil (R$)							
Ambev	21.80	-0.02	22.70	16.75	2.99	36.49	107638
Bradesco■	36.72	1.00	37.14	25.09	1.75	12.76	35234.05
Cielo♦	27.43	0.17	28.25	20.15	2.80	17.35	23410.36
ItauHldFin	41.91	1.19	42.05	30.28	4.65	10.56	43709.08
Petrobras	20.25	0.91	20.26	12.47	-	33.34	47343.83
Vale♦	41.67	0.74	43.75	25.00	2.69	9.43	37045.47
Canada (C$)							
BCE	57.21	-0.52	63.00	57.20	5.19	16.92	41743.52
BkMontrl	103.88	-0.40	105.55	88.63	3.52	12.79	54503.19
BkNvaS♦	81.71	-0.35	85.50	73.31	3.83	12.27	79385.36
Brookfield	52.28	-0.25	57.04	44.45	1.38	86.83	41911.25
CanadPcR♦	228.36	-0.72	234.97	189.57	0.97	17.72	26805.71
CanImp♦	121.62	-0.77	124.37	103.84	4.29	10.55	43537.96
CanNatRs	44.63	-0.17	47.00	35.90	2.52	19.21	44029.62
CanNatRy	98.90	-1.23	108.64	89.29	1.71	18.53	59643.61
Enbridge	48.67	-0.41	58.28	43.91	5.02	23.97	66502.38
GtWesLif	35.32	-0.19	37.79	33.01	4.29	13.73	28282.39
ImpOil	39.92	-0.54	44.30	35.15	1.63	15.63	26874.42
Manulife	26.98	-0.03	27.77	22.39	3.10	14.16	43304.27
Potash♦	25.78	-0.05	26.62	20.68	4.91	15.37	17321.83
RylBkC	106.02	-1.34	108.52	90.13	3.37	13.67	124780.22
Suncor En	46.20	-0.56	47.69	36.09	2.75	26.90	61405.65
ThmReut	53.50	-0.23	62.83	53.38	3.36	27.62	30733.07
TntoDom♦	73.86	-0.60	75.21	61.50	3.26	13.09	110213.46
TrnCan♦	59.05	-0.41	65.24	58.74	4.32	28.93	42098.14
ValeantPh	24.94	-2.77	30.56	11.20	-	4.87	7034.31
China (HK$)							
AgricBkCh	4.80	0.19	4.80	3.21	4.40	6.75	18875.17
Bk China	4.70	0.14	4.70	3.49	4.44	6.61	50277.89
BkofComm	6.78	0.06	6.80	5.47	4.99	6.11	30367.19
BOE Tech	1.73	-	1.89	1.22	1.27	18.14	44.03
Ch Coms Cons	9.54	0.09	11.74	8.45	2.50	7.65	5403.41
Ch Evrbrght	4.54	0.01	4.60	3.46	2.69	5.97	7363.68
Ch Rail Cons	9.67	0.16	11.98	8.90	2.04	7.11	2568.48
Ch Rail Gp	6.15	0.02	7.71	5.60	1.76	8.51	3310.16
ChConstBk	8.73	-0.04	8.80	5.69	3.97	7.44	268498.06
China Vanke	41.20	-0.70	42.85	19.00	2.38	15.31	6930.55
ChinaCitic	6.58	0.08	6.59	4.69	4.07	6.43	12527.21
ChinaLife	26.95	0.50	28.20	20.95	1.10	19.12	25654.27
ChinaMBank	38.60	0.05	39.50	19.00	2.39	11.33	22669.69
ChinaMob	82.80	1.20	91.30	75.80	3.63	12.12	216882.46
ChinaPcIns	41.45	-0.40	42.40	26.90	2.10	21.16	14716.17
ChMinsheng	8.76	-0.03	9.48	7.16	4.06	5.24	7769.98
ChMrchSecs RMB	20.64	1.25	22.35	15.57	0.93	25.63	15844.88
China Utd Coms RMB	6.95	-0.01	9.29	6.25	-	147.97	23062.53
ChShenEgy	23.55	0.40	23.55	15.32	2.43	9.15	10238.77
ChShpbldng RMB	6.37	0.13	8.14	5.87	-	130.08	18310.8
ChStConEng RMB	10.46	-0.10	10.96	8.53	2.09	10.47	48684.91
ChUncHK	11.34	0.10	13.24	8.84	-	68.36	44388.09
CNNC Intl RMB	7.61	0.03	8.11	7.01	1.47	24.24	5038.99
CSR	8.32	0.26	8.82	6.81	3.15	18.02	4652.34
Daqin RMB	10.12	-	10.28	6.76	2.52	11.15	23553.31
Gree Elec Apl	0.07	0.00	0.23	0.04	-	-2.07	118.64
GuosenSec RMB	13.55	0.09	15.93	10.43	1.50	27.13	4656.29
HaitongSecs	13.50	0.56	15.14	11.08	2.02	15.91	5888.36
Hngzh HikVDT RMB	41.00	-1.20	43.79	25.25	0.99	42.34	46583.89
Hunng Pwr	5.13	-	6.25	4.81	7.14	23.91	3084.67
IM Baotou Stl RMB	2.49	-	3.17	2.03	-	88.70	8590.96
In&CmBkCh	7.28	-0.05	7.41	4.68	3.99	7.48	80831.29
IndstrlBk RMB	18.68	0.40	19.08	14.99	3.33	6.59	55716.08
Kweichow RMB	764.46	-9.32	799.06	341.30	0.91	38.86	150337.86
Midea	1.68	0.09	1.87	1.50	6.91	20.39	46.22
New Ch Life Ins	52.85	-0.95	57.85	35.35	1.12	25.37	6991.5
PetroChina	6.21	0.31	6.34	4.72	0.98	41.50	16761.39
PingAnIns	94.00	-2.40	98.85	39.10	1.38	18.65	89557.63
PngAnBnk RMB	14.64	-0.01	15.24	8.54	1.10	11.13	38774.34
Pwr Cons Corp RMB	7.71	0.01	9.00	7.03	1.13	16.00	11587.3
SaicMtr RMB	33.96	-0.01	34.48	24.04	4.95	11.37	58617.1
ShenwanHong	0.21	0.00	0.35	0.20	-	-2.41	240.43
ShgPdgBk RMB	13.57	0.67	14.02	11.16	1.16	7.16	59703.64
Sinopec Corp	6.85	0.30	6.95	5.40	4.88	11.96	22357.43
Sinopec Oil RMB	2.94	0.05	4.09	2.63	-	-3.86	5542.76
Denmark (kr)							
DanskeBk	245.50	-	259.50	222.70	3.71	10.83	38247.09
MollerMrsk	11600	355.00	14260	10060	1.18	-19.15	19407.25
NovoB	347.65	-4.30	354.80	225.60	2.21	22.16	113462.71
Finland (€)							
Nokia	3.97	-0.04	5.96	3.81	0.44	-56.03	28704.64
SampoA	48.22	-0.28	48.92	41.60	4.83	11.37	33363.88
France (€)							
Airbus Grpe	90.50	-1.60	94.00	62.46	1.51	66.73	86794.93
AirLiquide	107.55	-1.05	111.60	90.27	2.44	22.30	57049.3
AXA	27.08	-0.19	27.69	21.81	4.32	10.97	81304.65
BNP Parib	67.18	-0.40	69.17	53.96	4.07	11.16	103883.47
ChristianDior	299.70	-3.10	312.30	190.95	1.05	36.13	66984.6
Cred Agr	15.30	-0.03	15.68	11.06	3.97	12.35	53918.17
Danone	70.22	-0.78	72.13	57.99	2.44	23.76	58316.14
EDF	11.24	0.05	12.48	7.33	8.08	11.98	40742.45
Engie SA	14.18	-0.24	15.16	10.77	7.12	-61.11	42743.08
Esslr Intl	112.80	-0.55	122.15	100.60	1.34	31.42	30605.17
Hermes Intl	444.00	-2.70	468.30	392.45	0.85	39.95	58038.21
LOreal	184.10	-2.15	197.15	167.75	1.81	28.04	127772.42
LVMH	241.20	-3.40	260.55	181.95	1.67	27.49	151430.96
Orange	14.68	-0.07	15.80	13.50	4.12	145.49	48335.01
PernodRic	128.40	-2.95	133.60	106.70	1.51	24.25	42198.23
Renault	90.48	-0.34	91.97	73.71	3.51	5.72	33130.62
Safran	90.02	-0.48	92.36	61.51	1.70	14.23	46483.5
Sanofi	72.00	0.82	92.97	69.79	4.15	19.25	111796.93
Sant Gbn	47.15	-0.84	52.40	43.40	2.58	20.46	32317.45
Schneider	75.66	-0.62	76.34	63.36	2.72	21.49	55920.71
SFR Group	34.50	-	34.56	21.87	-	-23.02	17905.81
SocGen	46.00	-0.11	52.26	40.66	4.84	14.25	46016.96
Total	47.55	0.10	49.34	42.23	4.90	17.52	149315.88
UnibailR	206.80	-0.50	238.15	202.00	4.97	8.30	25569.4
Vinci	86.96	-0.70	88.80	64.74	2.44	18.46	63658.93
Vivendi	23.59	-0.13	24.87	15.96	1.72	71.05	37856.95
Germany (€)							
Allianz	204.80	-0.95	206.85	154.25	3.74	12.31	111640.53
BASF	96.22	-1.05	98.80	78.97	3.16	16.74	109427.73
Bayer	107.82	-1.40	123.90	100.70	2.53	22.38	110400.33
BMW	94.35	-0.93	97.50	77.07	3.75	8.08	70327.93
Continental	246.10	-1.00	257.40	180.70	1.75	16.17	60946.33
Daimler	75.42	-0.27	76.48	59.01	4.36	8.42	99907.3
Deut Bank	15.88	0.00	17.69	13.11	1.21	-32.36	40643.49
Deut Tlkm	14.70	-0.13	18.15	14.36	4.13	-1452.60	86666.31
DeutsPost	39.98	-0.27	41.36	30.52	2.66	18.12	60079.41
E.ON	8.80	-0.27	10.81	6.70	2.41	86.98	23994.55
Fresenius Med	91.00	-1.02	92.50	74.43	1.07	21.41	34616.75
Fresenius SE	68.40	-0.70	80.07	60.15	0.92	21.05	46965.54
HenkelKgaA	102.70	-1.30	114.60	95.23	1.58	20.29	33036.62
Linde	182.95	-3.40	199.40	145.60	2.05	29.58	42074.1
MuenchRkv	191.75	-1.05	199.00	166.60	4.54	88.53	36807.66
SAP	92.27	-0.64	100.70	81.92	1.37	29.60	140355.72
Siemens	123.02	-2.12	133.50	108.00	2.96	16.81	129475.49
Volkswgn	184.50	-1.30	191.80	128.05	1.10	13.18	67412.98
Hong Kong (HK$)							
AIA	66.90	-0.15	69.15	46.40	1.42	18.50	103337.18
BOC Hold	41.90	0.35	42.15	30.35	3.06	14.92	56671.26
Ch OSLnd&Inv	30.55	-0.45	31.50	21.50	2.76	7.20	42818.48
ChngKng	74.60	-0.40	75.00	50.20	2.25	10.25	35286.34
Citic Ltd	12.62	0.52	12.70	10.66	2.87	8.28	46964.19
Citic Secs	22.90	2.45	22.95	15.44	1.91	21.60	6674.38
CK Hutchison	104.60	2.00	108.90	90.65	2.81	10.83	51619.95
CNOOC	12.82	0.38	12.86	8.45	2.99	18.80	73222.72
HangSeng	186.90	-1.10	195.30	153.00	3.54	19.40	45711.07
HK Exc&Clr	301.40	-2.00	306.00	183.60	1.62	51.46	47803.3
MTR	44.80	-0.10	50.00	38.90	2.62	19.18	34431.17
SandsCh	48.15	-0.40	49.35	31.25	4.55	33.61	49735.59
SHK Props	134.00	-0.20	136.90	105.80	3.19	8.47	49656.45
Tencent	469.00	-5.60	474.60	199.20	0.14	65.60	569919.1
India (Rs)							
Bhartiartl	459.50	-32.60	564.80	305.00	0.23	126.25	28847.12
HDFC Bk	1957.65	6.35	1988	1249.25	0.59	30.07	79633.38
Hind Unilevr	1365.9	-2.45	1406.9	837.50	1.35	59.07	46431.4
HsngDevFin	1911.2	26.55	1924.35	1260	0.97	26.32	47952.72
ICICI Bk	352.75	-9.55	364.45	232.36	0.69	20.51	35579.12
Infosys	1185.8	8.70	1220.9	860.00	2.42	16.40	40671.83
ITC	281.45	4.85	354.80	250.00	1.72	29.86	53884.14
L&T	1401.2	-9.50	1415	932.00	2.07	28.98	30828.65
OilNatGas	210.85	3.50	212.00	155.20	3.92	11.84	42496.1
RelianceIn	966.35	-16.90	990.95	508.08	0.60	15.73	96126.67
SBI NewA	329.90	11.80	351.30	241.15	0.81	67.79	44723.53
SunPhrmInds	586.55	7.20	729.05	432.70	0.62	42.68	22101.96
Tata Cons♦	3174.6	72.60	3258.9	2153	1.59	22.86	95441.17
Indonesia (Rp)							
Bk Cent Asia	22575	-75.00	22750	14950	0.93	23.80	41386.5
Israel (ILS)							
TevaPha	70.99	0.01	140.20	38.20	5.55	-3.34	21133.92
Italy (€)							
Enel	5.18	-0.06	5.59	3.82	3.52	21.32	65208.17
ENI	14.91	-0.05	15.49	12.94	5.43	31.34	67093.06
Generali	16.19	0.16	16.48	13.21	4.98	11.98	31308.88
IntSPaolo	3.08	-0.05	3.17	2.06	5.85	8.70	60523.32
Luxottica	50.80	-0.65	55.60	45.32	1.83	25.83	30507.93
Unicred	17.69	0.02	18.38	11.93	-	-1.70	48751.29
SmsungEl	2467000	9000	2876000	1854000	1.95	9.54	297608.73
Spain (€)							
BBVA	7.48	-0.01	7.93	5.92	4.07	12.53	61756.5
BcoSantdr	5.98	-0.03	6.25	4.85	3.59	13.74	119519.68
CaixaBnk	4.31	-0.05	4.51	3.17	2.35	16.13	31935.74
Iberdrola♦	6.75	0.02	7.30	5.76	4.66	15.17	52832.37
Inditex	29.00	-	36.90	28.21	1.74	27.37	111912.68
Repsol	15.82	-	16.30	13.28	4.87	12.47	29919.28
Telefonica	8.42	-0.05	10.63	8.10	6.49	18.09	54150.87
Alphabet	1175.15	-1.02	1187.05	812.05	-	37.09	350523.99
Altria	71.67	0.22	77.79	60.01	3.68	8.47	136759.95
Amazon	1360.34	-2.20	1388.16	803.00	-	326.52	655509.42
AmerAir	53.92	-4.37	59.08	39.21	0.79	12.85	25802.82
AmerExpr♦	99.15	1.17	102.39	75.51	1.40	18.02	86061.83
AmerIntGrp	63.56	1.22	67.30	57.85	2.13	-28.28	57137.86
AmerTower	141.55	0.35	155.28	102.73	1.87	50.77	60704.62
Amgen	191.14	-0.85	196.03	150.38	2.47	16.29	138750.62
Anadarko	60.90	-0.04	71.98	39.96	0.35	-16.37	33321.9
Anthem	253.54	3.04	253.87	148.81	1.17	21.62	65099.06
Aon Cp	138.08	0.66	152.78	109.82	1.06	36.90	34505.88
Apple	174.99	-2.05	180.10	119.50	1.45	17.92	890183.93
ArcherDan	42.65	0.04	47.44	38.59	3.13	18.89	23852.03
Intel	45.34	-0.73	47.64	33.23	2.49	15.01	212167.8
Intuit	167.10	-1.36	169.79	111.90	0.90	41.38	42719.1
John&John	142.30	0.47	148.32	110.76	2.44	23.34	382291.8
JohnsonCn	40.23	-0.25	44.70	34.51	2.64	21.68	37252.59
JPMrgnCh♦	115.40	1.19	115.83	81.64	1.87	15.71	400406.33
Kimb-Clark	118.64	0.80	136.21	109.67	3.49	18.09	41732.49
KinderM	19.23	-0.22	23.01	16.68	2.76	32.39	42945.2
Kraft Heinz	79.93	-0.34	97.77	75.21	3.22	23.56	97392.13
Kroger	29.46	0.15	34.75	19.69	1.76	16.37	25960.51
L Brands	52.84	-0.37	63.10	35.00	4.87	15.04	14913.48
LasVegasSd	77.60	-0.06	78.57	51.35	4.24	29.66	61341.09
LibertyGbl	37.28	0.12	37.94	28.17	-	40.42	8242.26
Lilly (E)	84.66	0.24	89.09	74.00	2.59	38.03	93218.68
Venezuela (VEF)							
Bco de Vnzla	2450	-	2450	200.00	31.23	-	2674.63
Bco Provncl	240000.01	10000.01	240000.01	3500	-	201.07	7746.18
Mrcntl Srvcs	135000	-755000.00	890000	11250	0.01	209.42	2460.15

Closing prices and highs & lows are in traded currency (with variations for that country indicated by stock), market capitalisation is in USD. Highs & lows are based on intraday trading over a rolling 52 week period.
♦ ex-dividend
■ ex-capital redistribution
price at time of suspension

FT 500: TOP 20

	Close price	Prev price	Day change	Day change %	Week change	Week change %	Month change %
Citic Secs	22.90	20.45	2.45	11.98	4.86	26.9	42.41
GuosenSec	13.55	13.46	0.09	0.67	2.39	21.4	24.31
Ch Evrbrght	4.54	4.53	0.01	0.22	0.70	18.2	24.73
Netflix	254.97	250.29	4.68	1.87	37.47	17.2	34.42
ChinaCitic	6.58	6.50	0.08	1.23	0.96	17.1	34.84
AgricBkCh	4.80	4.61	0.19	4.12	0.62	14.8	31.87
ChMrchSecs	20.64	19.39	1.25	6.45	2.63	14.6	18.76
Cielo	27.99	27.26	0.73	2.68	3.51	14.3	20.80
Gree Elec Apl	0.07	0.07	0.00	-2.86	0.01	11.5	17.24
SBI NewA	329.90	318.10	11.80	3.71	33.75	11.4	3.14
Tata Cons	3174.60	3102.00	72.60	2.34	323.75	11.4	19.94
HaitongSecs	13.50	12.94	0.56	4.33	1.34	11.0	19.05
Bk China	4.70	4.56	0.14	3.07	0.46	10.8	23.68
ChStConEng	10.46	10.56	-0.10	-0.95	0.94	9.9	11.87
Firstrand	70.47	69.13	1.34	1.94	6.22	9.7	10.71
Bradesco	36.61	35.72	0.89	2.49	2.98	8.9	15.95
Rosneft	344.50	335.00	9.50	2.84	27.00	8.5	17.28
Citic Ltd	12.62	12.10	0.52	4.30	0.98	8.4	13.90
Midea	1.68	1.59	0.09	5.66	0.13	8.4	7.69
Altice	9.28	9.52	-0.24	-2.52	0.71	8.3	8.46

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 %
ValeantPh	25.78	27.71	-1.93	-6.96	-2.82	-9.9	-5.87
Fanuc	30730.00	31900.00	-1170.00	-3.67	-2720.00	-8.1	11.87
Bhartiartl	459.50	492.10	-32.60	-6.62	-37.75	-7.6	-13.06
AmerAir	53.92	58.29	-4.37	-7.49	-4.24	-7.3	2.50
TexasInstr	111.07	119.89	-8.82	-7.36	-8.09	-6.8	6.96
Delta	56.08	59.93	-3.85	-6.43	-3.64	-6.1	0.25
New Ch Life Ins	52.85	53.80	-0.95	-1.77	-3.00	-5.4	0.96
GenElectric	16.44	16.89	-0.46	-2.69	-0.92	-5.3	-5.86
Imperial Brands	2920.00	2981.00	-61.00	-2.05	-152.50	-5.0	-99.07
WPP	1302.50	1330.00	-27.50	-2.07	-61.00	-4.5	-99.03
Natl Grid	805.90	820.50	-14.60	-1.78	-37.70	-4.5	-99.06
RollsRoyce	861.60	876.80	-15.20	-1.73	-38.40	-4.3	-98.99
Boeing	336.23	335.59	0.64	0.19	-14.78	-4.2	13.99
Delphi	56.93	56.03	0.90	1.60	-2.31	-3.9	7.33
Allstate	99.95	101.25	-1.30	-1.28	-3.99	-3.8	-3.90
Enel	5.18	5.24	-0.06	-1.15	-0.21	-3.8	-1.99
Hngzh HikVDT	41.00	42.20	-1.20	-2.84	-1.59	-3.7	2.58
MitsbCp	3190.00	3179.00	11.00	0.35	-120.00	-3.6	3.74
ProctGmbl	88.04	89.05	-1.01	-1.13	-3.16	-3.5	-4.43
RELX	1586.00	1607.00	-21.00	-1.31	-54.00	-3.3	-99.08

Based on the FT Global 500 companies in local currency

BONDS: HIGH YIELD & EMERGING MARKET

Jan 24	Red date	Coupon	Ratings S*	Ratings M*	Ratings F*	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Spread vs US
High Yield US$										
Qwest Capital Funding, Inc.	08/21	7.63	BB	WR	BB	102.88	6.69	0.00	-0.14	-
High Yield Euro										
Astaldi S.p.A	12/20	7.13	B-	-	B	86.60	12.88	-0.01	-3.21	-
Emerging US$										
Peru	03/19	7.13	BBB+	A3	BBB+	105.60	2.29	0.07	0.65	0.25
Brazil	01/22	12.50	BB	Ba2	BB	112.86	8.58	0.03	-0.01	6.17
Mexico	03/22	3.63	BBB+	A3	BBB+	102.90	2.88	-0.01	0.24	0.47
Poland	03/23	3.00	BBB+	A2	A-	100.45	2.91	-0.03	0.25	0.50
Turkey	03/23	3.25	-	Ba1	BB+	94.59	4.43	-0.03	0.02	2.02
Colombia	03/23	2.63	BBB	Baa2	BBB	97.25	3.21	0.00	0.04	0.80
Turkey	03/27	6.00	-	Ba1	BB+	105.26	5.27	-0.04	0.10	2.65
Peru	08/27	4.13	BBB+	A3	BBB+	108.25	3.12	-0.03	0.04	0.50
Russia	06/28	12.75	BB+	Ba1	BBB-	172.80	4.09	-0.02	0.01	1.47
Brazil	02/47	5.63	BB	Ba2	BB	100.20	5.61	-0.03	0.13	-
Emerging Euro										
Mexico	02/20	5.50	BBB+	A3	BBB+	111.05	0.13	-0.02	0.09	-1.91
Brazil	04/21	2.88	BB	Ba2	BB	106.65	0.75	0.01	-0.05	-
Mexico	04/23	2.75	BBB+	A3	BBB+	109.20	0.94	0.00	0.15	-1.47
Bulgaria	03/28	3.00	BB+	Baa2	BBB	113.80	1.52	-0.01	0.13	-1.10

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

Jan 24	Red date	Coupon	Ratings S*	Ratings M*	Ratings F*	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Spread vs US
US$										
FleetBoston Financial Corp.	01/28	6.88	BBB	Baa2	A-	120.18	4.36	-0.11	0.33	1.74
SunTrust Banks Inc.	01/28	6.00	BBB+	Baa1	A-	110.98	4.61	-0.04	0.15	1.99
SunTrust Banks Inc.	01/28	6.00	BBB+	Baa1	A-	110.98	4.61	-0.04	0.15	1.99
FleetBoston Financial Corp.	01/28	6.88	BBB	Baa2	A-	120.18	4.36	-0.11	0.33	1.74
Barclays Bank plc	01/29	4.50	A-	A1	A	99.00	4.62	-0.04	0.14	2.00
Barclays Bank plc	01/29	4.50	A-	A1	A	99.00	4.62	-0.04	0.14	2.00
Euro										
Barclays plc	08/29	2.29	BBB	Baa2	A	93.88	2.92	-0.02	0.05	0.30
AT&T Inc.	12/29	2.60	BBB+	Baa1	A-	105.84	2.03	-0.02	-0.13	-0.59
AT&T Inc.	12/29	2.60	BBB+	Baa1	A-	105.84	2.03	-0.02	-0.13	-0.59
Electricite de France (EDF)	04/30	4.63	A-	A3	A-	129.86	1.87	-0.01	0.04	-0.75
Yen										
Poland	11/27	2.50	-	A2	A-	109.47	1.46	-0.01	0.02	-1.17
£ Sterling										
Centrica plc	03/29	4.38	BBB+	Baa1	A-	115.09	2.78	0.00	-0.04	0.16
innogy Fin B.V.	06/30	6.25	BBB-	Baa2	A-	136.13	2.76	-0.02	-0.02	0.14

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

Jan 24	Rate	Current	Since	Last	Mnth Ago	Year Ago
US	Fed Funds	1.00-1.25	15-06-2017	1.00	1.00-1.25	0.25-0.50
US	Prime	4.50	15-06-2017	3.75	4.25	3.50
US	Discount	0.75	15-06-2017	0.75	1.75	1.00
Euro	Repo	0.00	16-03-2016	0.05	0.00	0.00
UK	Repo	0.50	04-08-2016	0.25	0.25	0.25
Japan	O'night Call	0.00-0.00	01-02-2016	0.00	0.00--0.10	0.00--0.10
Switzerland	Libor Target	0.00-0.25	15-01-2015	0.00-0.75	-1.25--0.25	-1.25--0.25

INTEREST RATES: MARKET

Jan 24 (Libor: Jan 23)	Over night	Change Day	Change Week	Change Month	One month	Three month	Six month	One year
US$ Libor	1.43750	0.000	0.000	-0.001	1.56014	1.74130	1.92550	2.22781
Euro Libor	-0.43843	0.003	0.000	0.000	-0.40471	-0.38143	-0.33700	-0.26043
£ Libor	0.47506	0.001	-0.001	-0.001	0.49700	0.52294	0.58124	0.78325
Swiss Fr Libor				0.000	-0.80125	-0.74200	-0.64260	-0.52800
Yen Libor				-0.004	-0.04259	-0.03783	0.01867	0.11083
Euro Euribor				0.000	-0.36900	-0.32800	-0.27600	-0.19100
Sterling CDs				0.000	0.47000	0.52000	0.61500	
US$ CDs				0.000	1.21000	1.34000	1.51000	
Euro CDs				0.000	-0.44500	-0.40500	-0.33500	

Jan 24	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	-0.41	-0.26	-0.42	-0.17
Sterling			0.42	0.52	0.42	0.52	0.47	0.57	0.54	0.69	0.70	0.85
Swiss Franc	-	-	-	-	-	-	-	-	-	-	-	-
Canadian Dollar	-	-	-	-	-	-	-	-	-	-	-	-
US Dollar	1.46	1.56	1.50	1.60	1.57	1.67	1.72	1.82	1.91	2.01	2.21	2.31
Japanese Yen	-0.20	0.10	-0.25	0.05	-0.45	0.05	-0.40	0.10	-0.35	0.15	-0.30	0.20

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	192.80	0.11	1.25	1.25	1.95	9.08
Corporates(£)	346.72	0.12	0.01	0.01	0.53	5.79
Corporates($)	276.76	-0.12	-1.03	-1.03	-1.03	-1.03
Corporates(€)	227.02	0.05	0.21	0.21	0.17	2.97
Eurozone Sov(€)	233.33	0.10	0.20	0.20	-0.23	1.55
Gilts(£)	319.59	0.05	-1.17	-1.17	-0.49	2.47
Global Inflation-Lkd	271.19	0.30	0.88	0.88	2.03	9.88
Markit iBoxx £ Non-Gilts	339.80	0.10	-0.20	-0.20	0.28	4.94
Overall ($)	237.29	-0.10	-1.08	-1.08	-1.08	-1.08
Overall(£)	322.48	0.06	-0.88	-0.88	-0.26	3.19
Overall(€)	229.52	0.07	0.07	0.07	-0.20	1.57
Treasuries ($)	221.98	-0.11	-1.19	-1.19	-1.19	-1.19
FTSE						
Sterling Corporate (£)	115.49	-0.42	-	-	-0.48	-0.59
Euro Corporate (€)	106.86	-0.15	-	-	-0.28	-0.23
Euro Emerging Mkts (€)	678.75	7.58	-	-	-1.82	-12.69
Eurozone Govt Bond	111.28	-0.28	-	-	-0.70	-0.90

CREDIT INDICES	Index	Day's change	Week's change	Month's change	Series high	Series low
Markit iTraxx						
Crossover 5Y	231.75	2.78	-0.68	1.10	259.96	221.09
Europe 5Y	43.81	0.22	-0.43	-1.58	59.12	43.31
Japan 5Y	42.79	0.15	-0.17	-2.69	50.80	42.43
Senior Financials 5Y	42.43	0.24	-0.31	-1.83	60.79	41.70
Markit CDX						
Emerging Markets 5Y	114.96	2.20	4.80	-5.83	126.19	109.50
Nth Amer High Yld 5Y	293.35	-2.87	-6.39	-14.86	337.70	291.49
Nth Amer Inv Grade 5Y	46.16	-0.87	-1.87	-3.02	60.00	45.44

Websites: markit.com, ftse.com. All indices shown are unhedged. Currencies are shown in brackets after the index names.

VOLATILITY INDICES

	Jan 24	Day Chng	Prev	52 wk high	52 wk low
VIX	11.50	0.40	11.10	17.28	8.56
VXD	12.91	0.14	12.77	27.74	3.93
VXN	18.06	1.30	16.76	21.03	9.75
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

	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	10/19	2.75	101.40	1.92	-0.02	-0.02	-0.08	-0.04
	11/28	2.75	98.95	2.86	-0.03	0.05	0.08	-
Austria	10/19	0.25	101.34	-0.52	0.00	-0.02	0.01	0.01
	04/27	0.50	98.49	0.67	0.01	0.02	0.10	-
Belgium	09/19	3.00	105.91	-0.51	0.00	-0.02	0.02	-0.01
	06/27	0.80	100.87	0.70	0.00	0.00	0.11	-0.16
Canada	02/20	1.25	98.91	1.80	0.00	0.02	0.11	-
	06/28	2.00	97.62	2.26	-0.01	0.06	0.20	-
Denmark	11/19	4.00	108.24	-0.53	0.00	-0.03	0.03	-0.02
	11/27	0.50	99.21	0.58	-0.01	0.01	0.12	-
Finland	04/20	3.38	108.51	-0.43	-0.01	-0.01	0.06	0.05
	09/27	0.50	98.33	0.68	0.00	0.01	0.10	-
France	05/19	1.00	102.07	-0.55	0.00	-0.02	0.06	-0.04
	05/23	1.75	108.92	0.07	0.01	0.00	0.12	-0.08
	05/28	0.75	99.10	0.84	0.00	0.01	0.10	-
Germany	10/19	0.25	101.51	-0.63	0.01	-0.02	0.05	0.06
	08/23	2.00	111.17	-0.01	0.00	0.00	0.09	0.19
	08/27	0.50	100.01	0.50	0.00	0.00	0.08	-
	08/48	1.25	98.74	1.21	-0.01	0.00	0.07	-
Greece	04/19	4.75	104.31	1.18	-0.09	-0.25	-0.53	-5.77
	01/28	3.75	99.98	3.75	-0.09	0.00	-0.35	-
Ireland	10/19	5.90	111.10	-0.48	-0.01	-0.03	0.02	-0.14
	05/30	2.40	114.66	1.12	-0.01	0.02	0.08	-0.34
Italy	06/20	0.35	100.90	-0.03	-0.02	-0.03	0.01	-
	08/22	0.90	101.34	0.60	-0.03	-0.05	-0.01	-
	08/27	2.05	101.47	1.88	-0.03	-0.07	-0.02	-
	03/47	2.70	94.09	3.01	-0.04	-0.09	-0.06	-0.17
Japan	11/19	0.10	100.43	-0.14	0.00	0.00	0.01	-
	09/22	0.10	100.90	-0.09	-0.01	-0.01	0.02	-
	09/27	0.10	100.39	0.06	-0.01	-0.01	0.02	-
	09/47	0.80	99.63	0.81	-0.01	-0.01	0.00	-
Netherlands	01/20	0.25	101.63	-0.57	0.00	-0.03	0.05	0.02
	07/27	0.75	101.33	0.61	0.00	0.01	0.09	-
New Zealand	04/20	3.00	102.05	2.05	-0.01	0.05	0.14	-0.47
	04/27	4.50	112.09	2.99	-0.01	0.09	0.22	-0.28
Norway	05/19	4.50	105.20	0.55	0.04	0.06	0.14	-0.14
	02/27	1.75	100.45	1.70	0.00	0.05	0.15	-
Portugal	06/20	4.80	111.80	-0.13	-0.03	-0.02	-0.07	-1.42
	04/27	4.13	120.75	1.68	-0.03	-0.11	-0.16	-2.43
Spain	01/19	0.25	100.65	-0.39	0.00	-0.02	-0.04	-0.19
	10/27	1.45	100.82	1.36	-0.04	-0.14	-0.10	-
Sweden	03/19	4.25	105.72	-0.76	0.00	0.00	0.03	-0.20
	11/26	1.00	103.03	0.65	-0.03	0.03	0.13	-0.03
Switzerland	07/20	2.25	107.57	-0.80	0.00	-0.03	-0.06	-0.02
	06/27	3.25	130.91	-0.03	0.01	0.02	0.11	0.08
United Kingdom	07/20	2.00	103.36	0.64	0.00	0.01	0.14	0.19
	07/23	0.75	98.58	1.02	0.00	0.04	0.12	-
	07/27	1.25	98.69	1.40	0.00	0.05	0.13	-
	07/47	1.50	91.91	1.86	-0.01	0.04	0.04	-0.12
United States	11/19	1.75	99.48	2.04	-0.03	0.02	0.14	-
	10/22	2.00	98.18	2.41	-0.04	0.07	0.16	-
	11/27	2.25	96.79	2.62	-0.04	0.08	0.13	-
	11/47	2.75	96.98	2.90	-0.03	0.06	0.06	-

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company.

GILTS: UK CASH MARKET

Jan 24	Price £	Red Yield	Change in Yield Day	Change in Yield Week	Change in Yield Month	Change in Yield Year	52 Week High	52 Week Low	Amnt £m
	-	-	-	-	-	-	-	-	-
Tr 5pc '18	100.54	0.25	-7.41	-21.88	4.17	66.67	105.34	100.54	35.24
Tr 4.5pc '19	104.37	0.56	3.70	3.70	33.33	250.00	109.14	104.37	36.35
Tr 4.75pc '20	108.64	0.63	6.78	10.53	40.00	103.23	113.97	108.64	33.31
Tr 1.5pc '21	102.21	0.75	5.63	11.94	31.58	38.89	104.73	102.21	32.46
Tr 4pc '22	112.79	0.83	6.41	10.67	25.76	29.69	118.04	112.79	37.95
Tr 5pc '25	126.04	1.17	4.46	10.38	17.00	2.63	132.93	126.04	35.08
Tr 1.25pc '27	98.25	1.45	4.32	8.21	12.40	-2.03	131.42	98.24	23.45
Tr 4.25pc '32	132.59	1.69	3.05	6.29	6.96	-3.43	139.13	132.06	35.44
Tr 4.25pc '36	137.52	1.81	2.26	5.23	4.62	-4.74	144.09	135.73	29.76
Tr 4.5pc '42	151.22	1.90	1.60	4.40	2.70	-3.55	159.30	148.51	26.64
Tr 3.75pc '52	149.72	1.81	2.26	5.23	2.84	-4.23	159.09	144.96	23.59
Tr 4pc '60	168.37	1.71	1.79	4.91	1.79	-5.52	179.15	161.03	23.61

Gilts benchmarks & non-rump undated stocks. Closing mid-price in pounds per £100 nominal of stock.

GILTS: UK FTSE ACTUARIES INDICES

Price Indices Fixed Coupon	Jan 24	Day's chg %	Total Return	Return 1 month	Return 1 year	Yield
1 Up to 5 Years	93.92	-0.09	2409.00	-0.48	-0.43	0.76
2 5 - 10 Years	180.16	-0.36	3437.48	-1.56	0.59	1.25
3 10 - 15 Years	209.48	-0.51	4177.04	-1.98	2.08	1.62
4 5 - 15 Years	186.76	-0.41	3618.72	-1.70	1.04	1.41
5 Over 15 Years	329.41	-0.71	5070.17	-2.34	3.39	1.82
7 All stocks	177.36	-0.43	3532.68	-1.56	1.65	1.67

Index Linked	Jan 24	Day's chg %	Month chg %	Year's chg %	Total Return	Return 1 month	Return 1 year
1 Up to 5 Years	309.32	-0.21	-0.57	-1.81	2447.36	-0.57	-0.36
2 Over 5 years	699.17	-0.94	-2.92	0.45	5223.87	-2.83	0.98
3 5-15 years	472.18	-0.61	-1.88	-0.35	3677.48	-1.60	0.69
4 Over 15 years	896.14	-1.05	-3.28	0.69	6543.41	-3.25	1.05
5 All stocks	632.60	-0.87	-2.71	0.26	4798.10	-2.63	0.86

Yield Indices	Jan 24	Jan 23	Yr ago		Jan 24	Jan 23	Yr ago
5 Yrs	0.92	0.87	0.64	20 Yrs	1.92	1.88	2.00
10 Yrs	1.47	1.42	1.42	45 Yrs	1.68	1.65	1.81
15 Yrs	1.80	1.75	1.85				

Real yield	inflation 0% Jan 24	inflation 0% Dur yrs	inflation 0% Previous	inflation 0% Yr ago	inflation 5% Jan 24	inflation 5% Dur yrs	inflation 5% Previous	inflation 5% Yr ago
Up to 5 yrs	-1.66	3.17	-1.72	-2.35	-2.09	3.19	-2.16	-3.01
Over 5 yrs	-1.52	24.58	-1.56	-1.58	-1.55	24.67	-1.59	-1.61
5-15 yrs	-1.56	9.40	-1.62	-1.78	-1.68	9.42	-1.74	-1.91
Over 15 yrs	-1.51	29.82	-1.55	-1.56	-1.53	29.87	-1.57	-1.58
All stocks	-1.52	22.62	-1.56	-1.59	-1.55	22.74	-1.59	-1.62

See FTSE website for more details www.ftse.com/products/indices/gilts
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COMMODITIES

www.ft.com/commodities

Energy		Price*	Change	Agricultural & Cattle Futures		Price*	Change
Crude Oil†	Feb	64.65	-0.06	Corn♦	Mar	353.25	1.75
Brent Crude Oil‡		69.84	0.04	Wheat♦	Mar	424.50	2.75
RBOB Gasoline†	Jan	1.91	-0.01	Soybeans♦	Mar	986.50	0.75
Heating Oil†	Feb	1.60	0.00	Soybeans Meal♦	Mar	338.50	-0.90
Natural Gas†	Jan	3.60	0.05	Cocoa (ICE Liffe)✠	Mar	1355.00	-8.00
Ethanol♦		-	-	Cocoa (ICE US)♥	Mar	1922.00	-13.00
Uranium†	Feb	18.10	0.00	Coffee(Robusta)✠	Mar	1773.00	-3.00
Carbon Emissions‡		-	-	Coffee (Arabica)♥	Mar	121.95	1.00
Diesel†		-	-	White Sugar✠		350.90	-0.80
Unleaded (95R)		-	-	Sugar 11♥		13.09	-0.09
Base Metals (♠ LME 3 Months)				Cotton♥	Mar	81.69	-0.47
Aluminium		2247.00	19.00	Orange Juice♥	Mar	144.70	-3.35
Aluminium Alloy		1835.00	5.00	Palm Oil♣		-	-
Copper		7147.00	246.00	Live Cattle♣	Feb	124.90	0.00
Lead		2635.00	27.00	Feeder Cattle♣	Mar	147.70	1.78
Nickel		13540.00	720.00	Lean Hogs♣	Feb	72.28	0.00
Tin		21060.00	305.00				
Zinc		3442.50	32.50		Jan 23	% Chg Month	% Chg Year
Precious Metals (PM London Fix)							
Gold		1353.70	20.30	S&P GSCI Spt	458.44	6.76	14.95
Silver (US cents)		1719.00	21.00	DJ UBS Spot	90.22	5.18	1.79
Platinum		998.00	-19.00	R/J CRB TR	201.94	5.82	3.16
Palladium		1087.00	-5.00	M Lynch MLCX Ex. Rtn	231.14	-9.84	-33.05
Bulk Commodities				UBS Bberg CMCI TR	15.61	4.24	-
Iron Ore (Platts)		74.25	0.55	LEBA EUA Carbon	7.21	-5.63	44.49
Iron Ore (The Steel Index)		74.25	0.55	LEBA CER Carbon	0.17	0.00	-39.29
GlobalCOAL RB Index		99.00	0.80	LEBA UK Power	3240.00	57.28	-0.31
Baltic Dry Index		1200.00	43.00				

Sources: † NYMEX, ‡ ECX/ICE, ♦ CBOT, ✠ ICE Liffe, ♥ ICE Futures, ♣ CME, ♠ LME/London Metal Exchange.* Latest prices, $ unless otherwise stated.

BONDS: INDEX-LINKED

	Price Jan 23	Yield Jan 23	Yield Prev	Month return	Value stock	Market	No of stocks
Can 4.25%' 21	115.10	0.300	-	0.11	5.18	73539.78	7
Fr 2.25%' 20	110.31	-1.750	-	0.00	20.31	231120.14	15
Swe 0.25%' 22	113.94	-1.850	-	-0.71	29.18	243780.54	8
UK 2.5%' 20	363.37	-2.235	-	-0.26	6.58	647166.00	28
UK 2.5%' 24	362.74	-2.355	-	-0.49	6.82	647166.00	28
UK 2%' 35	268.59	-1.636	-	-0.90	9.08	647166.00	28
US 0.625%' 21	101.65	0.149	-	-0.23	35.84	1279763.39	38
US 3.625%' 28	129.86	0.608	-	-0.85	16.78	1279763.39	38

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	2.86	2.36	0.24	Italy	1.88	1.38	-0.74
Austria	0.67	0.17	-1.95	Japan	0.06	-0.44	-2.56
Belgium	0.70	0.21	-1.92	Netherlands	0.61	0.11	-2.02
Canada	2.26	1.76	-0.36	Norway	1.70	1.20	-0.92
Denmark	0.58	0.08	-2.04	Portugal	1.68	1.18	-0.94
Finland	0.68	0.18	-1.94	Spain	1.36	0.86	-1.26
France	0.84	0.34	-1.78	Switzerland	-0.03	-0.53	-2.65
Germany	0.50	0.00	-2.12	United Kingdom	1.40	0.90	-1.22
Greece	3.75	3.25	1.13	United States	2.62	2.12	0.00
Ireland	1.12	0.62	-1.50				

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company.

MANAGED FUNDS SERVICE

Fund	Bid	Offer	D+/-	Yield
[illegible]				

Algebris Investments (IRL)
Regulated

The Antares European Fund Limited
Other International Funds

Arisaig Partners
Other International Funds

Artisan Partners Global Funds PLC (IRL)
Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland
FCA Recognised

Ashmore Sicav (LUX)
2 rue Albert Borschette L-1246 Luxembourg
FCA Recognised

Aspect Capital Ltd (UK)
Other International Funds

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Regulated

Barclays Investment Funds (CI) Ltd (JER)
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CCLA Investment Management Ltd (UK)
Senator House 85 Queen Victoria Street London EC4V 4ET
Authorised Inv Funds

CG Asset Management Limited (IRL)
25 Moorgate, London, EC2R 6AY
FCA Recognised

Cedar Rock Capital Limited (IRL)
Regulated

Charles Schwab Worldwide Funds Plc (IRL)
Regulated

Chartered Asset Management Pte Ltd
Other International Funds

Cheyne Capital Management (UK) LLP (IRL)
Regulated

Cheyne Capital Management (UK) LLP (IRL)
Other International Funds

DAVIS Funds SICAV (LUX)
Regulated

Dodge & Cox Worldwide Funds (IRL)
6 Duke Street, St.James, London SW1Y 6BN
www.dodgeandcox.worldwide.com 020 3713 7664
FCA Recognised

Dodge & Cox Worldwide Funds plc-Global Stock Fund

Dragon Capital Group
1501 Me Linh Point, 2 Ngo Duc Ke, District 1, Ho Chi Minh City, Vietnam

DSM Capital Partners Funds (LUX)
www.dsmcap.com
Regulated

Edinburgh Partners Limited (IRL)
27-31 Melville Street, Edinburgh EH3 7JF
FCA Recognised

Ennismore Smaller Cos Plc (IRL)
5 Kensington Church St, London W8 4LD 020 7368 4220
FCA Recognised

Ennismore European Smlr Cos Hedge Fd
Other International Funds

Equinox Fund Mgmt (Guernsey) Limited (GSY)
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Euronova Asset Management UK LLP (CYM)
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Eurobank Fund Management Company (Luxembourg) S.A.
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130, Tonbridge Rd, Tonbridge TN11 9DZ
Broker Dealings: 0800 414 181
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30 Herbert Street, Dublin 2, Ireland Tel: 020 7968 4900
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5th Floor, Barwa Bank Building, Grand Hamad Street
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Foord Asset Management
Website: www.foord.com - Email: info@foord.com
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Regulated

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Other International Funds
Franklin Templeton Investment Funds

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Other International Funds

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Other International Funds

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Dealing: 0800 085 8571
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Invesco Perpetual Funds (No Trail)

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Kames Capital VCIC (IRL)
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Investment Adviser - Morant Wright Management Limited

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Lloyds Gilt Fund Limited

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Milltrust International Managed Investments ICAV (IRL)
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Authorised Funds

New Capital UCITS Funds PLC (IRL)
Leconfield House, Curzon Street, London, W1J 5JB
www.newcapitalfunds.com
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Northwest Investment Management (HK) Ltd
Other International Funds

Oasis Crescent Management Company Ltd
Other International Funds

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Odey Wealth Management (CI) Ltd (IRL)
www.odey.com/prices
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Optima Fund Management
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Other International Funds

Pictet Asset Management (Europe) SA (LUX)
15, Avenue J.F. Kennedy L-1855 Luxembourg
Tel: 0041 58 323 3000
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Robeco Asset Management (LUX)
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www.robeco.com/contact
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www.slaterinvestments.com; Tel: 0207 220 9460
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Standard Life Wealth
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www.ubs.com/retailfunds
Authorised Inv Funds

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Regulated

Value Partners Hong Kong Limited (IRL)
www.valuepartners-group.com, fis@vp.com.hk
Regulated

Waverton Investment Funds Plc (1600)F (IRL)
waverton.investments@citi.com
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WA Fixed Income Fund Plc (IRL)
Regulated

Yapi Kredi Asset Management (TUR)
www.yapikrediportfoy.com.tr Tel: + 90 (212) 385 48 48
Other International Funds

Yuki International Limited (IRL)
Tel +44-20-7269-0207 www.yukifunds.com
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Yuki Mizuho Umbrella Fund
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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.

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MARKETS & INVESTING

INSIGHT

Alberto Gallo

Brussels needs a clear reform plan to keep euro-phoria on track

The European crisis is over. Five long years after the 2011 double-dip recession and Mario Draghi's "whatever it takes" pledge, the eurozone recovery is finally real. The euro area will grow at nearly 2 per cent in 2018, according to IMF forecasts — and this time the periphery is joining the expansion. More surprising than macroeconomic data has been the change in investor sentiment.

Just a year ago, Eurosceptics were discussing how, not if, the eurozone would break up. Today, investors are piling into Spanish, Portuguese, Italian and Greek debt. Rating agencies are distributing upgrades. Greek government bond yields have fallen from more than 10 per cent in 2016, the same as Ecuador and Ghana at the time, to less than 4 per cent today. Is this euro-phoria justified?

Negotiations in Germany could soon deliver a grand coalition, with the SPD opposition finally opening up the government to more fiscal stimulus and co-operation. Unlike in the UK and the US, where inequality fuelled protest votes, populists lost in France, Spain, the Netherlands and Germany. Chances for the anti-euro Five Star Movement to form a government following Italy's March elections are below 5 per cent, according to our estimates. With stable politics and improving economics, the bulls say, the stars appear aligned for a stronger EU.

Beyond the optimism, however, lies a crucial crossroads for Europe. Its leaders have a short window of time to reform and strengthen the union. They must not waste it. Like every year, policymakers are meeting in Davos to discuss themes ranging from sustainable capitalism, and inequality to how to predict the next financial crisis. This time around, however, there are at least three reasons why the agenda should carry a much higher sense of urgency.

First, the global recovery is nearly 10 years long. While Europe is trailing, the cylinders of growth may start overheating in the US and other major economies, bringing in monetary tightening. Second, the ECB will probably start removing accommodation this year as its president and key members of its governing council approach the end of their mandates. Third, absent any rebalancing, growing divides between rich and poor mean that the anti-euro vote may win at the next electoral cycle.

> The first task is to strengthen umbrella institutions before the storm

Like a football team trying to defend a fragile one-nil first-half lead, Europe needs concrete solutions to maintain low tail risk and sustain growth momentum. The most urgent task is to strengthen its umbrella institutions before the next storm. Turning the European Stability Mechanism into a monetary fund able to act independently in an emergency would be a first step to reduce tail risk. A common deposit guarantee fund is also necessary as a firewall to cement the banking union.

After that, Europe needs to play offence. Absent population growth and with high costs to absorb immigration, improving productivity and social mobility are the only ways to make debt sustainable in the currency union. For too long, prolonged monetary easing by the ECB has been a substitute for investment in education, infrastructure and defence. The current plan by European Commission president Jean-Claude Juncker remains one of rhetoric backed by little capital: €20bn, or 0.18 per cent of eurozone GDP. To move the needle of growth, one would have put on the table at least three times the money.

Finally, after a decade of crisis that left one in two young citizens without a job, Greece needs a break from the creditors' straitjacket with a debt restructuring and an investment programme to kick-start growth. Italy, which holds elections on March 4, requires deeper reforms. The most important are unclogging the justice system, consolidating mid-tier banks and reducing oversized entitlements in the public pension system. With a clear reform road map, Europe's policymakers would live up to investor optimism and even bring further upside to the euro and European equities. These remain about 3-5 per cent undervalued against fundamentals, according to our models.

In the Odyssey, Ulysses ties himself to the mast and orders his sailors to put wax in their ears to keep his ship on course and hear the sirens' songs without falling into temptation. Unlike Ulysses, EU policymakers have enjoyed the ECB QE music over the past few years, but deviated from the reform course to focus on their respective electoral cycles. It is now for them to steer the ship more towards Europe, or crash into the rocks at the next storm.

Alberto Gallo is head of macro strategies at Algebris Investments and portfolio manager for the Algebris Macro Credit Fund

Commodities

Brexit delays Hong Kong-LME tie-up

European regulator has dragged its feet over deal, says exchange chief

EMMA DUNKLEY — HONG KONG

Brexit has stalled plans for an exchange tie-up between Hong Kong and London as the European regulator has dragged its feet on approving the deal, says the head of the Hong Kong stock exchange.

Charles Li, chief executive of Hong Kong Exchanges and Clearing, said he "cannot even have a conversation" with regulators about London-HK Connect "because of Britain's exit from Europe".

Mi Li said the problem lay in the links that it wanted to create between the clearing houses it owned in London and Hong Kong.

"The London regulator has no issue. The European regulator says, 'Why do I want to spend time reviewing your application because . . . the UK will leave the EU in about a year's time, so what's the point for me to approve it, and then you no longer need me?'

"So we have to sort of put this on the shelf because of Brexit . . . I think sometime this year we'll begin to talk with the Bank of England."

The HKEX said that LME Clear, the clearing body for the London Metal Exchange, was regulated by the Bank of England, and at the European level by the European Securities and Markets Authority.

Esma declined to comment.

Mr Li said that if Brexit occurred in an "orderly" fashion, he hoped to finish negotiations with the BoE this year, so that the deal was ready by March 2019 when "we only have one regulator".

The connect plans were unveiled in 2015. The scheme is meant to allow investors to trade, clear and settle products listed on the LME, the centre for industrial metals trading, in Hong Kong.

HKEX, which bought the LME in 2012 for £1.4bn, is attempting to forge a closer link between the metals exchange and China, the biggest importer of commodities, where companies need to hedge their risks via the futures market.

> HKEX wants to forge a closer link between the metals bourse and China, the biggest importer of commodities

The connect plans were put on hold in 2016 because of uncertainty over Brexit following the UK's vote. But HKEX is facing another delay as regulators in London and Europe are at odds as a result of the UK's impending withdrawal from the EU.

The latest challenge raises questions over other plans for connections between London and China.

Last year Philip Hammond, the UK chancellor, visited China, where both sides agreed to finalise the London-Shanghai Stock Connect soon.

The plan to link the British and Chinese stock markets will enable investors to buy Shanghai-listed groups through the London exchange and vice versa.

HKEX has launched stock and bond connects with exchanges in China, allowing international and Chinese investors to trade securities in each other's markets.

One person close to the Hong Kong exchange said London-Hong Kong Connect was a "long-term goal" and other matters had taken priority in the past couple of years.

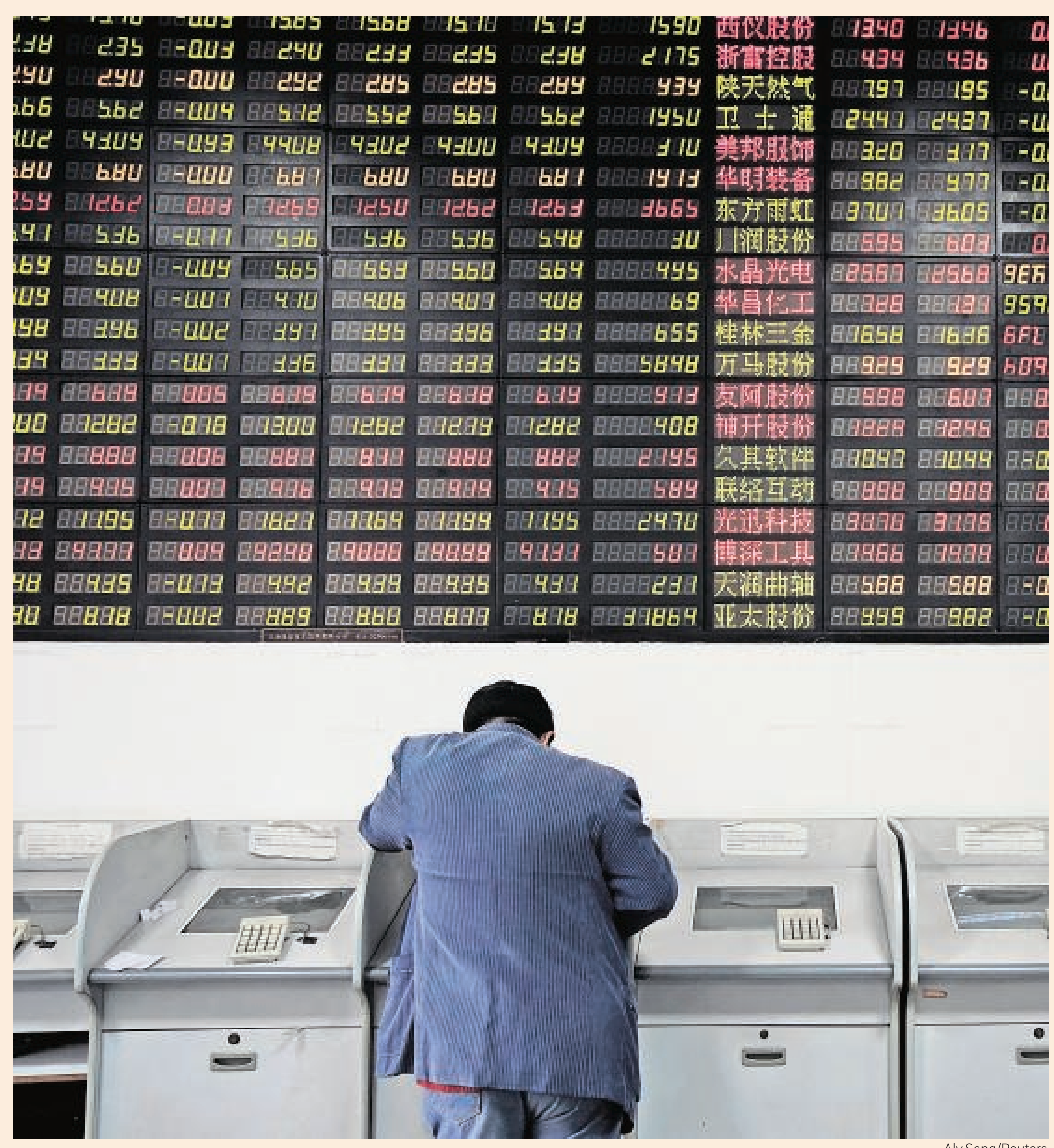
HKEX has been focusing on changing its listing rules to entice more companies to list on its exchange, as competition to win blockbuster initial public offerings heats up.

Equities. Outlook

China stocks face threats after banner year

Selected opportunities remain but a rising tide will no longer lift all boats

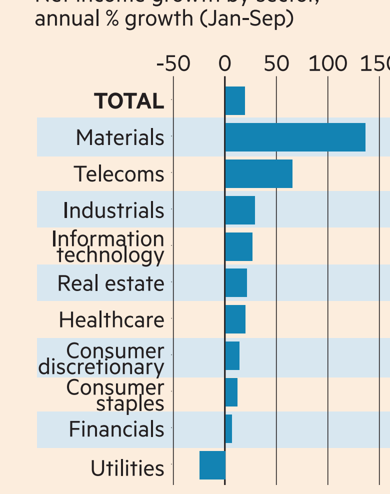
GABRIEL WILDAU — SHANGHAI
EMMA DUNKLEY — HONG KONG



Aly Song/Reuters

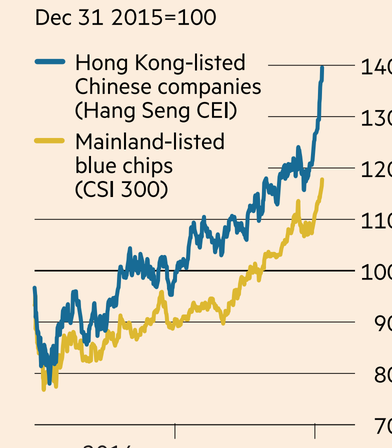
China listed-company profits jumped in 2017

Net income growth by sector, annual % growth (Jan-Sep)



China stocks on the rise

Dec 31 2015=100



Sources: Wind Info; Thomson Reuters Eikon

Maybe it was just a dream — or a nightmare.

As the Chinese stock market's 2015 boom and bust fades from memory, investors are in a mood to buy. China stocks both on the mainland and in Hong Kong outperformed the S&P 500 last year, as Chinese growth accelerated for the first time since 2010.

The Shanghai Composite on Tuesday surpassed its level at the end of 2015, just before China's regulator implemented a circuit breaker that magnified a rout in the opening week of 2016.

The agency's chairman — who failed to curb the 2015 bubble and championed the circuit breaker — has been sacked, and the "national team" of state investors that he deployed to rescue the market has quietly retreated. It is almost possible to pretend that the whole thing never happened.

But investors warn that benchmark indices are unlikely to repeat last year's performance, as corporate profit growth slows and valuations leave less room for such outsized share gains.

China's "old economy", especially real estate and infrastructure spending, has powered growth since early 2016. But both are expected to slow this year, as policymakers seek to restrain runaway house prices and excessive borrowing by local governments.

"Property earned explosive profits in the last two years, but we're cautious right now," said Liang Rui'an, general manager at DJ Capital, a Shanghai-based hedge fund.

"These are cyclical sectors that are very sensitive to policy and liquidity. We also think the golden period for commodities has passed."

To be sure, the year got off to a fast start.

The Shanghai Composite has suffered only one losing day so far in 2018 and closed at a fresh two-year high yesterday. The Hang Seng China Enterprises index, which tracks China groups traded in Hong Kong, closed at a 30-month high.

Last year's "regulatory windstorm" by the banking regulator has hammered the bond market by discouraging the use of borrowed money for bond investment. That makes stocks more attractive by comparison.

The latest shadow bank rules focus on eliminating implicit guarantees on wealth management products that banks market to depositors as a higher-yielding alternative to traditional deposits. Regulators are concerned about systemic risk from products that promise fixed returns, regardless of how their underlying assets perform.

> 'Valuations don't have the same room to rise as last year. In 2018, the driver will be profits'
>
> Gao Lianjun, Yize Investment

Some investors say that the end of implicit guarantees on WMPs — which are mostly made up of credit assets — will reduce their competitiveness relative to equity products. Some truly risk-free WMPs will stay, but yields will fall.

Tao Yu, partner at Brilliance Asset, a Beijing-based hedge fund, said: "From a certain perspective, the rules are beneficial to equity products because the risk-free rate will decline, so equity assets will be more appealing to investors."

Moreover, valuations for mainland and Hong Kong-traded shares are still reasonable, though no longer cheap. Trailing 12-month price/earnings ratios are 10.6 and 16.1 respectively for the HSCE and Shanghai Composite versus 24.8 for the S&P 500, according to Thomson Reuters data.

But one-off factors from last year are largely priced in, investors say.

An aggressive campaign by state planners to shutter excess manufacturing capacity and promote industry consolidation fuelled last year's commodities rally, underpinning a broader reflation. Net income at mainland-listed companies in the materials sector rose 136 per cent, according to Wind Info.

Such profit growth is not likely to continue this year.

Alex Wolf, senior emerging markets economist at Aberdeen Standard Investments, said: "The slowdown — if and when it materialises — will probably affect the industries that saw the most resurgence last year and those that are impacted by slowing fiscal stimulus and credit growth.

"How this affects equities is not entirely straightforward, because some listed companies can win from industry consolidation and those that are hurt might not be listed."

136% Rise in net income last year for mainland-listed materials groups

16.1 Trailing 12-month price/earnings ratio for Shanghai Composite

Gao Lianjun, general manager at Yize Investment, a Shanghai-based hedge fund, said: "Valuations don't have the same room to rise as last year. In 2018, the driver will be profits."

Mr Gao favours financials this year, as well as consumption sectors including online retail, education, and pharma.

Monetary policy and financial regulation will also create headwinds this year. Rules to control shadow banking are expected to squeeze liquidity and hamper credit growth. After a years-long cat-and-mouse game between regulators and shadow bankers, the latest rules are seen as the toughest yet.

Last, the highly momentum- and retail-driven nature of China's stock market means that animal spirits play an outsized role.

"After such an outperformance year-to-date, it would be natural to see Chinese equities taking a breather during early 2018," said Caroline Yu Maurer, head of greater China equities at BNP Paribas Asset Management in Hong Kong.

Additional reporting by Yizhen Jia in Shanghai

Equities

Goldman warns of Italian political risk

NICHOLAS MEGAW

Goldman Sachs warned yesterday that investors in eurozone markets had grown too complacent about political risks in Italy, the currency area's third-largest economy.

Italy goes to the polls on March 4, with the outcome unpredictable and potentially messy.

Goldman thinks the most likely outcome is a "hung parliament and a broad coalition government of left, right and centre parties", but analyst Silvia Ardagna noted that "the road to such an outcome could be quite bumpy".

Despite the uncertainty, Italian stocks have been some of the biggest risers amid an upswing in markets this month. The FTSE MIB has been the best-performing benchmark in Europe in January, up more than 8 per cent, led by shares in Fiat Chrysler, up 30 per cent.

Bond markets have been similarly unshaken by the impending vote.

The premium investors demand to hold Italian government debt over Bunds briefly climbed after the election date was revealed in December, but it has since reverted to its downward trend.

The spread between yields on Italy's 10-year bonds and equivalent German debt has fallen to its lowest level since October 2016 at around 1.3 percentage points. The measure began the year at 1.63 percentage points.

Ms Ardagna said that "it seems to us that the market is complacent" about the risks of an anti-European or right-wing coalition that could "undo some of the reforms that have improved the outlook for public finances".

Last year's presidential election in France had a greater impact on markets in the months before the vote.

However, Ms Ardagna noted that the biggest moves came in the two to three weeks before the election, suggesting that "there is scope for a repricing of Italian assets in the coming month".

Commodities

Gold price rallies on weaker US dollar

HENRY SANDERSON

The price of gold was on track to close at its highest level since August 2016 yesterday after statements from the US Treasury secretary, Steven Mnuchin that a weaker dollar is "good for trade".

Gold rose as high as $1,355 a troy ounce in London trading — a rise of more than 1 per cent — as the dollar index slumped to its lowest level in three years. "Gold is in thrall to the dollar, full stop," said David Govett, head of precious metals at brokerage Marex Spectron.

The metal has rallied 9 per cent since mid-December on the back of a weaker dollar, which makes gold more attractive for overseas buyers. Earlier this month the precious metal notched up its longest winning streak since the end of the gold standard in 1971 — admittedly on the strength of a fairly shallow rally — building on a 13 per cent gain during last year.

The dollar fell sharply yesterday after Mr Mnuchin spoke, with the euro climbing to a high of $1.24, while the pound broke through $1.42.

"The greenback will remain a key driver of sentiment for traders of the yellow metal ahead of President Trump's visit to the World Economic Forum in Davos on Friday," analysts at Accendo Markets said. Gold's price rise has been supported by buyers of the metal exchange traded funds. Holdings of gold ETFs have risen to their highest level since May 2013, according to data compiled by Bloomberg.

Other precious metals have also benefited from dollar weakness this year. Platinum, which is used in jewellery and catalytic converters for cars, is up 9 per cent in the year to date to trade at $1,011.83 a troy ounce.

Silver, however, has been left behind due to concerns about the impact of President Donald Trump's decision to put tariffs on imports of solar cells. Silver paste is a key ingredient in solar photovoltaic cells.

Global overview

Greenback loses further ground while US stocks run out of steam

DAVE SHELLOCK

What you need to know

- Dollar index slides to three-year low
- US Treasury secretary speaks favourably of weaker US currency
- Wall Street looking tired after record-setting run
- Currency effects weigh on European bourses
- WTI crude breaches $65 a barrel

Hot topic

The recent sell-off in the dollar shifted up a gear as comments from Steven Mnuchin, the US Treasury secretary, added to concerns about President Donald Trump's protectionist trade policies.

Mr Mnuchin broke with tradition as he backed the trend for a weak dollar, saying it was good for US trade in the short term. "This is about an America First agenda, but America First does mean America working with the rest of the world," Mr Mnuchin said.

Neil Wilson, senior market analyst at ETX Capital, made the point that the "strong dollar" doctrine was one that markets were used to. "To a degree we are entering relatively uncharted waters when the US government is not at least paying lip service to that."

Mr Mnuchin's remarks — at the World Economic Forum in Davos — came just a day after the US imposed tariffs on imported washing machines and solar cells, a move that heightened worries over trade tensions with China, in particular.

"Market participants will be closely scrutinising upcoming comments from President Trump at Davos, and in his State of the Union address, to assess if trade will be a more important policy focus this year ahead of the midterm elections," said Lee Hardman, currency analyst at MUFG.

"The US dollar sell off has been relentless since the middle of last month, and there appears no clear catalyst on the horizon to turn the tide in the near-term.

"It is notable that the US dollar has continued to weaken over the last month or so even as US yields have moved higher. It highlights that the US dollar has become less sensitive to Federal Reserve rate hike expectations and the performance of the US economy."

The dollar index was down 0.9 per cent and below the 90 level for the first time since late 2014.

The US currency was down 1.2 per cent against the yen at a four-month low of ¥109.01 while sterling — up a hefty 1.6 per cent — was above $1.42 for the first time since the UK's referendum on EU membership in 2016.

The euro was up 0.8 per cent versus the dollar at $1.2395.

In the fixed income arena, the yield on the 10-year US Treasury was up 3 basis points at 2.66 per cent, not far from its recent three-and-a-half-year high above 2.67 per cent. The two-year yield was 2bp higher at a decade-peak of 2.08 per cent. The German 10-year Bund yield rose 2bp to 0.58 per cent.

The eurozone economy came under the spotlight as the latest purchasing managers' report indicated an exceptionally strong start to 2018.

"January's Composite PMI hit a near 12-year high, rising to 58.6 from 58.1 and pointing to annualised GDP growth of almost 4 per cent," said Edoardo Campanella, economist at UniCredit. "All in all, today's survey corroborates the view that the output gap is closing at a sustained pace, leaving the European Central Bank on track for its process of monetary policy normalisation."

The ECB will announce its latest policy decision today following a scheduled policy meeting.

Equities

In spite of the renewed signs of vigour in the eurozone economy, the big rise for euro/dollar helped ensure that the pan-European Stoxx 600 equity index slipped 0.5 per cent, while the Xetra Dax in Frankfurt fell more than 1 per cent from Tuesday's record high.

It was a similar tale in the UK as sterling continued to rally, where the FTSE 100 shed 1.1 per cent.

Wall Street showed signs of fatigue after scaling all-time peaks in early trade. The S&P 500 rose as high as 2,852.97 before going into reverse to trade at 2,836 at midday in New York, down 0.1 per cent from Tuesday's record close — its 12th of 2018. The index has risen more than 6 per cent since the start of the year.

The tech-heavy Nasdaq Composite was 0.6 per cent lower yesterday, but the Dow Jones Industrial Average managed a gain of 0.2 per cent.

Commodities

West Texas Intermediate, the main US crude oil contract, was up 0.7 per cent at $64.90 a barrel, after earlier breaking above $65 for the first time since 2014 when data showed a sharp drop in inventories at its delivery point in Cushing, Oklahoma. Brent struck a three-year high of $70.43 before easing to $69.76, down 0.3 per cent.

Gold jumped $12 to $1,353 an ounce, off an earlier four-month intraday high of $1,355.

Additional reporting by Michael Hunter in London and Hudson Lockett in Hong Kong

Kiyoshi Ota/Bloomberg

AI and robotics challenge businesses: FT.com/video
The FT's Rana Foroohar points to the challenges that AI and robotics pose to businesses in terms of ethics and privacy

TRADING POST

Michael Hunter

How will UK stocks fare in 2018?

London's stock market faces a resurgent pound, whose almost 5 per cent gain against the dollar this year makes it the second-best performer against the US currency. It is a rebound that erodes the advantage that UK-listed companies earning revenue in foreign currency have enjoyed during the pound's broad weakness since the Brexit vote in 2016.

The FTSE 100 blue-chip index has so far lagged behind its global peers.

By contrast, hopes that negotiations on the UK's exit from the EU will deliver a friendlier outcome for the economy have been supportive of those stocks more dependent on the UK economy.

Analysts at Liberum forecast "continued strength in the labour market, a halt in the mortgage approvals decline, and more encouraging signs for growth in the first half of 2018."

As far as sectors of the stock market go, the broker is "bullish on banks, housebuilders and real estate".

Its "top picks" list for the year includes Land Securities, the commercial landlord; OneSavingsBank, the mid-cap lender, and Galliford Try, the residential developer.

Commercial broadcaster ITV and pub operator Greene King are also included. James Ashley, an analyst at Liberum, argues that traditional defensive sectors, and consumer staples in particular, will struggle.

"We see little reason for the retail sector to trade above its long-term average valuation," he says.

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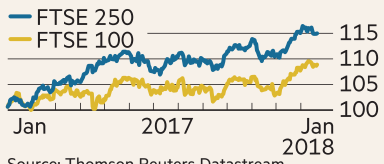
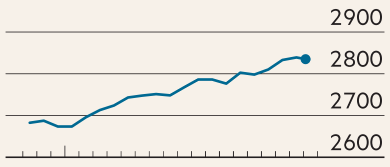
UK stocks
Indices rebased



Source: Thomson Reuters Datastream

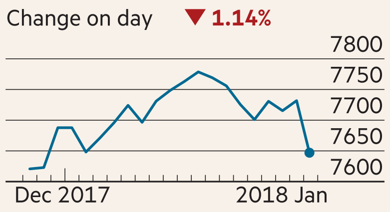
Markets update

S&P 500 index
Change on week ▼0.04%



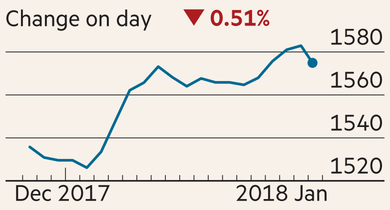
US equities Wall Street proved unable to sustain its early upward momentum, that was in part driven by the sliding dollar, with the technology and energy sectors leading the retreat

FTSE 100 index
Change on day ▼1.14%



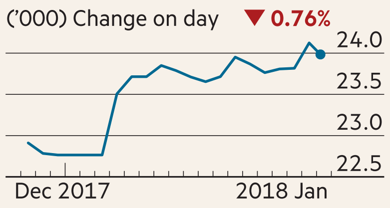
UK equities Renewed strength for the pound against the dollar — and to a lesser extent the euro — helped drive the FTSE 100 to its lowest level for three weeks

Eurofirst 300 index
Change on day ▼0.51%

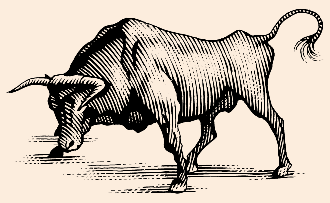


European equities Technology was the day's worst-performing sector in the Eurofirst 300, with utilities not far behind after a profit warning from Suez drove its shares down 16 per cent

Nikkei 225 index
('000) Change on day ▼0.76%



Japanese equities The Nikkei eased back from a 26-year high as the yen's persistent strength against the dollar unsettled exporters' shares



Wall Street

Barrick Gold and Coca-Cola buck downward trend

Nicole Bullock

Gold miners were among Wall Street's outperformers yesterday amid prospects of the US targeting a weaker dollar, accounting trouble at General Electric and rising yields on US Treasury bonds.

Among the day's big news, US Treasury Secretary Steven Mnuchin told the World Economic Forum in Davos that a weak dollar was good for American trade.

The news should be ostensibly supportive for the benchmark S&P 500 index of multinational companies, many of which do significant business outside the US, but word of faulty accounting at GE and comments from US commerce secretary Wilbur Ross indicating a tough stance on international trade weighed on sentiment.

At midday in New York, the S&P 500 was down 0.1 per cent at 2.837.14, while the Dow Jones Industrial Average was up 0.3 per cent. The tech-heavy Nasdaq Composite was off 0.5 per cent.

Barrick Gold and **Goldcorp** were bucking the downdraft to add 1.9 per cent to $15.11 and 1.4 per cent to $14.99, respectively. **Freeport-McMoRan** was up 0.3 per cent but has rallied 3.5 per cent since the start of the year.

"A continuation of a soft dollar will help things like emerging markets, energy as well as materials, both industrial metals and precious metals," said Michael Underhill, chief investment officer at Capital Innovations.

A weak dollar is also a headwind to small companies that tend to be more domestically focused. The Russell 2000 index of small-caps was underperforming with a decline of 0.6 per cent at midday.

The dollar index dropped nearly 10 per cent last year and was down nearly 1 per cent yesterday.

Some large, well-known US multinationals were able to stay in the black. **Coca-Cola** was up 0.4 per cent at $47.65 while **Cisco Systems** was also 0.4 per cent higher at $42.26.

Financial stocks were also among the day's gainers, with a rise of 0.4 per cent as yields on US Treasuries pushed higher. Rising rates enable banks to charge more on their loans.

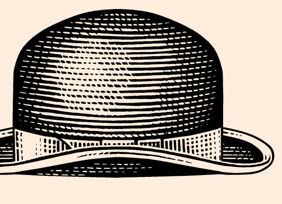
Earnings growth in the fourth quarter was also tailwind for the overall market in spite of some tax reform-related charges that investors were generally dismissing as one-time items. A blended rate of forecast and actual earnings calculated by FactSet showed earnings rose 11.6 per cent a share year on year in the fourth quarter, taking the full-year number to just shy of 10 per cent for companies in the S&P 500.

GE was off nearly 3 per cent to $16.41 after announcing an inquiry into accounting practices that evoked bitter memories of the bookkeeping scandals at the start of the last decade.

Freeport McMoRan
Share price ($)

Source: Thomson Reuters Datastream

Indices	Close	Day's change
S & P 500	2838.10	-1.03
DJ Industrials	26273.57	62.76
Nasdaq Comp	7423.47	-36.82
Russell 2000	1204.70	-8.35
VIX	11.50	0.40
US 10 yr Treas Bd	2.62	-0.04
US 2 yr Treas Bd	2.04	-0.03



London

ITV lifted by hopes of upgrade to advertising outlook

Bryce Elder

ITV outperformed a sagging London market yesterday amid hopes of an upgrade to advertising forecasts.

A survey of UK media buyers by Credit Suisse found unexpected optimism about the outlook for 2018.

Momentum from the fourth quarter had carried into the new year, with the football World Cup underpinning confidence of a first-half recovery, it said. The broker's poll found that, while the outlook for the second half remains uncertain, buyers expect ITV's net advertising revenue to grow 2 per cent in 2018 compared with a market consensus of no growth.

It repeated a 210p price target on ITV shares ahead of full-year results next month from the broadcaster, which will be the first for new chief executive Carolyn McCall.

Alphavalue analysts were also positive on ITV, largely on the value of its Studios business. "While the domestic ad market remains a shambles (our model factors in a further 3.2 per cent decline for 2018), the group's studio capabilities are worth a bundle and should be increasingly attractive for a potential bidder," they said.

ITV closed 2.3 per cent higher at 168p.

Sterling strength hurt the broader market as the FTSE 100 lost 1.1 per cent, down 88.40 points to 7,643.43. **Sage**, down 6.5 per cent to 768.2p, was the day's sharpest blue-chip faller after a trading update disappointed.

"Recurring revenue looks to have delivered its weakest performance for five years," which "raises the ongoing question of why we are seeing no overall top-line impact from what is now nearly three years of sales and marketing investment", said Numis, which downgraded Sage to "hold".

IQE lost 5 per cent to 115p on reports of very weak demand for Apple's flagship Phone X, whose 3D camera sensor uses wafers supplied by the Welsh group. Short sellers including Marshall Wace and Coltrane Asset Management have targeted IQE, with nearly 16 per cent of its free float loaned out, Markit data showed.

A revival of takeover speculation lifted **London Stock Exchange** 5 per cent to £39.88. Christopher Hohn at TCI, the activist hedge fund that last year failed to oust LSE chairman Donald Brydon, told investors last week that sector consolidation was inevitable and the exchange is a probable target for either CME Group or Intercontinental Exchange, Sky News reported.

Depth-sensing cameras are here to stay, but Apple will probably make sure its future models are cheaper than the $999 iPhone X by relying on multiple suppliers, said Mirabaud. "Until such time as Apple reports numbers and we get a reset of the supply-chain estimates, to try and add to positions in any of the 3D chain feels like trying to catch the proverbial knife," the broker said.

Markets & Investing

FINANCIAL TIMES

SMART MONEY

John Authers

Fears over LatAm populism overdone as stocks play catch-up

The world economy is enjoying a synchronised advance, and markets are enjoying the ride. But one region is missing out: Latin America.

This could be a pivotal year for the entire region. Brazil, Mexico, Colombia, Costa Rica and Paraguay all have elections for head of state this year, as does Venezuela (although there has to be some doubt over whether that one will take place). Even Cuba will have a new head of state, whose surname will not be Castro.

This could be significant as foreign investors have a long and undistinguished history of over-reacting to Latin American political developments. The arrival of a populist autocrat in power often leads to a collapse in confidence (and the sad history of Venezuela over the past 20 years shows why that might be).

Most of the time, however, angry-sounding populists tend to behave more sensibly once they are in power. The most spectacular example by far was the rally for Brazil after Luiz Inácio Lula da Silva (Lula) was first elected in late 2002. Treated in advance as an Armageddon scenario, it turned out that Lula was pragmatic in power, while the commodities boom took shares in Brazil to the moon. From November of 2002, when Lula wrapped up the presidency, to December 2007, the MSCI Brazil index gained more than 1,000 per cent. This was triple the rise in the emerging markets as a whole.

> In the five years to December 2007, the MSCI Brazil index gained 1,000%

What are the chances that the continent's continuing love-hate relationship with populist *caudillos* creates a buying opportunity like that this year?

It cannot be ruled out, although something as dramatic as the Lula rally of 2002 is hard to imagine. Latin America is not compellingly cheap at present, trading at a trailing price/earnings multiple of 17.7, according to MSCI. The p/e for emerging markets as a whole is 15.1. Brazil is through the worst of the horrendous political mess that saw the impeachment of former president Dilma Rousseff and has started an economic recovery, but this has been greeted over-exuberantly in markets. Buying in early 2016 would have led to a profit of 160 per cent by now.

Countries south of the Panama Canal are almost all exposed to China, so continued growth there will help perceptions of Brazil and the Andean economies, and another slowdown would be harmful. Mexico remains acutely exposed, in more ways than one, to the US — particularly at present to the risk that the US could decide to withdraw from Nafta, the free-trade agreement. Moves in the biggest building blocks of the world economy could drown out any political excitement in the region itself.

But the region is still palpably missing out on the excitement elsewhere. Since the election of Enrique Peña Nieto in Mexico in July 2012 ignited the last wave of optimism, Mexico and Brazil are down 11 and 14 per cent respectively, while emerging markets are up 32 per cent.

There is room for them to move forward a long way in a hurry, and room for plenty of confusion and volatility in the coming months as the two most important elections are impossible to call at this point. Mexico has a single-round election, so presidents can and do win election with less than half of the electorate. The frontrunner is Amlo — Andrés Manuel López Obrador, twice narrowly defeated before, a former mayor of Mexico City and the champion of the left. He is charismatic and messianic, and a victory for him would alarm the markets.

> The two most important elections are impossible to call at this point

He is up against the unpopular incumbent and formerly hegemonic PRI party, which has an experienced technocrat in the race, José Antonio Meade, while in a weird development forced by the electoral system, the traditional parties of right and left have jointly nominated the 38-year-old Ricardo Anaya Cortés. All three candidates are capable of winning a third of the vote, and therefore all three might win.

Mexico has been a model of fiscal and monetary probity since its last major financial crisis in 1994, so an Amlo victory could scare the markets.

However, he does have a track record in government, having been the mayor of Mexico City for six years, and showed himself to be competent and pragmatic in the job; and the situation he now faces looks very similar to 2006, when he appeared to be a long way ahead and eventually lost narrowly after he made the election about him. He may well not win, but if he does he would not be as frightening as many assume.

Meanwhile, Brazil's election is wide open, as its corruption scandal has claimed the scalps of many potential candidates. The frontrunners are Lula himself, providing he can quash a prison conviction for corruption, and Jair Bolsonaro, who has risen to the top of the polls with aggressive hard-right rhetoric. This is not healthy. But again, the chances look decent that Brazil will emerge with a viable president, with some kind of a mandate to act (thanks to the two-round system), which has been almost wholly lacking for the last four years of political turmoil.

World markets are producing lots of excitement but few bargains at present. For those with a strong constitution and a preparedness to be opportunistic, a dramatic year in Latin American politics might well offer this year's closest approach to a bargain.

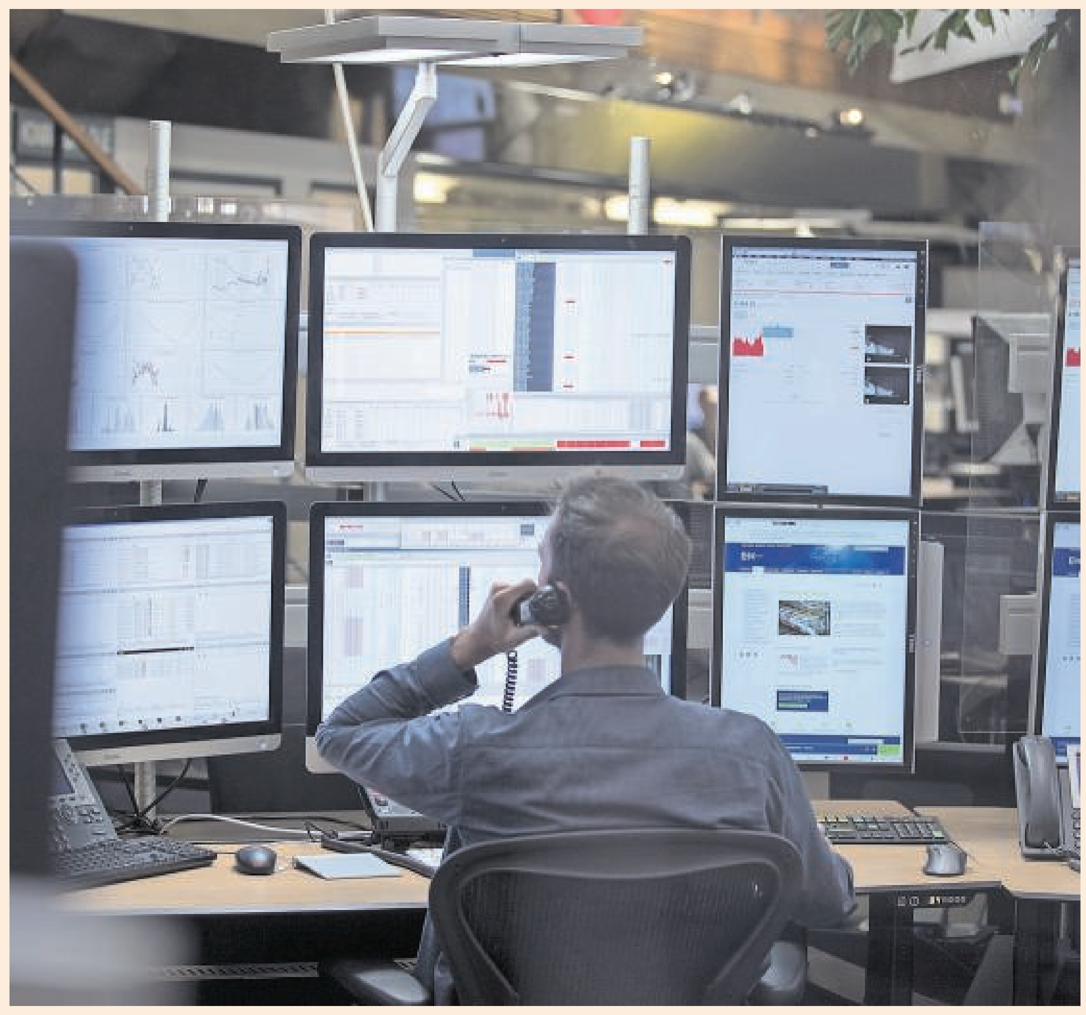
john.authers@ft.com

Analysis. Equities

Mifid II poised to hasten slow death of analysts

Overhaul is likely to see sellside jobs axed but new data offer potential opportunities

MILES JOHNSON



The slow death of the investment banking analyst has been predicted for years, with critics arguing that investment houses would increasingly refuse to pay for large amounts of so-called sellside research into listed companies.

Now that European regulations are expected to hasten this process, not everyone is unhappy about it. Bankers have bemoaned the likely job losses that the reforms, part of a wider regulatory overhaul known as Mifid II, will trigger within the armies of sellside analysts who have been subsidised by trading revenues generated when clients act on their buy and sell recommendations.

One of the aspects of Mifid II that has garnered the most attention has been the "unbundling" of research costs from trading ones, which mean that asset managers must make specific payments for company analysis to show they are not being incentivised to trade.

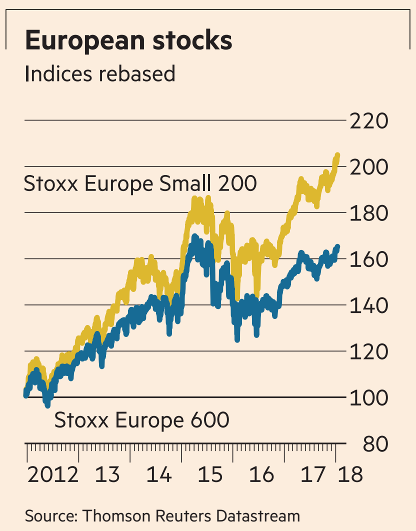
But a rising number of stockpickers anticipate Mifid II reforms will provide them with an edge in unearthing undervalued investments. Others expect to be able to use data sets that Mifid II requires trading platforms to release each quarter to build up information on wider market positioning and liquidity in fixed income markets that was previously impossible to acquire.

Jacobo Llanza, chief executive of Alantra Asset Management and manager of its small and medium company-focused pan-European EQMC Fund, argues the likely reduction of analysts' coverage of companies will provide ample opportunities for investors like himself. "It will take several years to know what the consequences of Mifid will be but we think it is likely that brokers in Europe will abandon coverage of many more small and mid-cap companies," he says. "This is an opportunity for investors that are looking at these companies."

A rising number of stockpickers anticipate Mifid II reforms will provide them with an edge in unearthing undervalued investments

Mr Llanza, who is based in Spain, has specialised in taking concentrated positions in smaller European companies that he believes are high quality, but mispriced and largely left untouched by sellside analysts. This approach has seen his EQMC fund compound its returns at an annual rate of just under 20 per cent, making it one of the best performing funds of its type in Europe.

Many of the EQMC fund's holdings are in the UK, where Mr Llanza has ploughed a rich seam of highly profitable companies which were indiscriminately sold off following the Brexit vote.



Source: Thomson Reuters Datastream

Others are making the same argument, noting that less analysis should result in less efficient markets which provide an advantage to investors who conduct high-quality research on their own.

James Hanbury, a fund manager at Odey Asset Management, told clients in an update that Mifid II would benefit his fund. "Having moved into a Mifid II world this year, we feel that as a house and a franchise we are very well positioned," he noted. "It is highly probable that capacity is reduced on the sellside this year creating a less efficient equity market . . . We feel this new Mifid II world plays to our strengths."

Chris Huggins, head of multi-strategy credit at Man GLG, has in the year preceding the introduction of the European rules been preparing for how his company can benefit from the data that Mifid II-related disclosures will provide. Soon, quarterly data will show vast amounts of new information on how individual bonds and credit default swaps are traded and priced in Europe.

He estimates that more than 180bn new data points on fixed income markets will be published every year as a result. "Fixed income markets have always been that much more opaque than equity markets, meaning that understanding and measuring liquidity risk has been more problematic," he says. "This data may provide a way to recalibrate those models".

Man is also exploring ways that this information could potentially be used in its computer-driven AHL funds' trading strategies. These sorts of funds have previously struggled with the limited amounts of data available on individual bonds to use as inputs into models.

"Historically it has been harder in single name credit to construct those models as there has not been the quality of data to construct these — this may change that," says Mr Huggins. "We want to turn that data set into tradable signals. We have experience turning large data sets like this into systematized trading programmes and that is something we are actively looking at."

Capital markets

US bull run creates first $300bn ETF

JOHN AUTHERS AND JOE RENNISON — NEW YORK
ROBIN WIGGLESWORTH
HOLLYWOOD, FLORIDA

The bull market in US stocks has created the first $300bn exchange-traded fund. Assets at State Street Global Advisors' SPDR S&P 500 fund passed the milestone on Monday, almost exactly 25 years after it started trading.

Almost universally known by its ticker symbol of SPY, the fund was the first ETF to be launched, and owes the landmark to the enduring popularity of the S&P 500 as a benchmark, as well as to the current strong performance of the US market and the shift to passive investing.

"It's a pretty special number," said Jim Ross, the chairman of State Street's SPDR business. "We have a growing market, even an accelerating one, and we've seen inflows. I look forward to it hitting $400bn and $500bn."

Nick Good, co-head of State Street's global SPDR business, said: "SPY continues to be relevant. It continues to be the most heavily traded security in the world."

Even though there are now more than 3m stock market indices that could be used as the basis for ETFs, the S&P 500 alone accounts for $500bn in assets.

The second and fourth largest ETFs, with market caps of $153.7bn and $90.3bn and offered by BlackRock's iShares division and Vanguard, respectively, also track the S&P 500.

SPY gathered $6.2bn in new inflows in 2017. The competing BlackRock and Vanguard ETFs attracted inflows of $30.3bn and $15bn, respectively, according to ETFGI, a London consultancy.

These ETFs both carry total expense ratios of 4 basis points, which compares with the 9bp annual charge for SPY.

SPY's inflows for the month so far have reached $12bn, and the fund has been propelled to its landmark by a 6 per cent gain in the index since the start of the year.

It is also a prime beneficiary of the so-called Trump rally: its assets under management passed $200bn on election day in 2016 and has grown at an annual equivalent rate of 42 per cent since.

SPY's domination of the market trading volume is even greater than its share of assets, in part because institutions tend to use it more than they use the other S&P 500 ETFs.

Mr Good said the fund was increasingly being used instead of futures contracts on the index; State Street claims that it accounts for 25 per cent of daily trading volume in all ETFs, equivalent to the volumes of the next 18 largest ETFs combined. It is sufficiently liquid that an average of 3,250 shares change hands each second.

State Street pointed out that the fund had reached the $300bn landmark a matter of days before the anniversary of its first trade, on January 29 1993.

Since then ETFs, which track an index but can be traded minute by minute through the day on a stock exchange, have proved far more successful than traditional closed-end mutual funds in attracting flows of funds from investors.