FINANCIAL TIMES

THURSDAY 22 DECEMBER 2022 | INTERNATIONAL NEWSPAPER OF THE YEAR | ASIA

Lessons for pensions from the gilts crisis
BIG READ, PAGE 13

The unease behind Argentina's celebrations
LUCINDA ELLIOTT, PAGE 14

In Washington
Zelenskyy travels abroad

Reuters

Volodymyr Zelenskyy walks alongside Rufus Gifford, chief of protocol of the US, as he arrives in Washington yesterday on his first trip outside Ukraine since Russia invaded his country more than 300 days ago.

The Ukraine president was set to meet Joe Biden, his US counterpart, before addressing a joint session of Congress last night.

Zelenskyy landed at a critical moment in the fight against Russia's war as officials in Kyiv warned Moscow was preparing for a winter offensive.

The Ukraine leader wrote in a Telegram post: "I am in Washington today to thank the American people, the president and the Congress for their much-needed support."

Shortly before his arrival, the Biden administration announced $1.85bn in new lethal assistance for Ukraine.

Zelenskyy boosted page 2

US tech retreat from European offices piles pressure on continent's landlords

- Rapid expansion halts ● Bid to cut space in London and Dublin ● Homeworking spurs pullback

GEORGE HAMMOND AND CRISTINA CRIDDLE — LONDON

Big Tech groups are ditching offices that are part of their European headquarters as a cooling economy brings the sector's years of rapid expansion to a halt.

Google's parent Alphabet, Facebook parent Meta and enterprise software giant Salesforce are among the US groups seeking to abandon leased office space in London and Dublin, according to people familiar with the plans.

The moves come as the companies respond to the downturn in tech stocks with cost cuts, including by shedding jobs. The pullback is a new setback for landlords already facing their biggest challenge since the 2008 financial crisis. Office values are tumbling on both sides of the Atlantic because of rising interest rates, an increasingly bleak economic outlook and increased homeworking.

Meanwhile, demands from staff to work remotely during the coronavirus pandemic have turned some tech companies into accidental landlords that are now jostling to sublet surplus space in a challenged property market.

"Walk round any of those [Big Tech] offices and there is a huge amount of space given over to non-fee generating functions which look very generous," said Chris Lewis, who advises office occupiers at property company DeVono Cresa. "The amount of space taken was taken by a really ambitious view of headcount."

> Alphabet, Meta and business software giant Salesforce are seeking to ditch leased office space

Google plans to leave at least one of its London offices — in Belgrave House, Victoria — next year, according to three people familiar with the matter.

Belgrave House is its former London headquarters but Google's lease across several floors on the building was drawing to an end, these people said.

That move is part of a broader shake-up, with the company intending to move most staff into its £1bn office in King's Cross, now under construction.

The closure has been accelerated because one in 10 of Google staff has chosen to work from home permanently, according to a person familiar with the operations.

Google is also exploring subletting or abandoning more of its existing rented office space across London, according to people familiar with the company's plans. Google declined to comment.

Meta signed a lease on a 310,000-square foot office in Fitzrovia in central London last year but is now trying to sublet the block without ever having moved in, according to people with knowledge of the deal. The company is also looking for new tenants for hundreds of thousands of square feet in Dublin which it had intended to occupy.

Chief executive Mark Zuckerberg said the company's "real estate footprint" would be "shrunk" to cut costs, with hybrid workers asked to share desks.

Such moves mirror efforts in the US, where the company is trying to find tenants for its building in Fremont, California. It has also paused a plan to expand in Austin, Texas, and is instead subletting. Meta has also terminated leases on two of its three offices in Manhattan, New York.

Salesforce, which owns workplace messaging platform Slack, confirmed that it will sublet part of a floor in its tower in the City of London.

Amazon Web Services and Microsoft intended to expand in London before the pandemic but have put the plans on hold, according to one office leasing agent in the capital.

Amazon and Microsoft did not immediately respond to requests for comment.

Briefing

▸ Musk defends 'cutting costs like crazy' at Twitter
Elon Musk has argued that the social media platform would have negative cash flow of $3bn a year were it not for his actions.— PAGE 5; TESLA SLIDE, PAGE 6; LEX, PAGE 16

▸ Putin bolsters war chest
Russia's president has hit back at claims the Kremlin has left its forces without key equipment, saying the Ukraine war could be financed without "limits".— PAGE 2

▸ Trump taxes unveiled
A summary of returns has shown Donald Trump paid $1.8mn in federal income tax between 2015 and 2020, as well as vigorous use of losses and deductions.— PAGE 2

▸ Chinese deficit hits record
Beijing's budget shortfall has hit a record high as a meltdown in the property sector and Xi Jinping's recently eased zero-Covid policy weighed on the economy.— PAGE 4

▸ Brussels scandal deepens
The EU commission has said it will ask ex-member Dimitris Avramopoulos to explain his role for a campaign group at the heart of a Qatar-linked scandal.— PAGE 2

▸ FTX founder set for US
Sam Bankman-Fried has told a Bahamas court he will consent to US extradition, paving the way for him to face charges over the failed crypto exchange.— PAGE 6

Datawatch

Festive fretting
% who say price rises make this Christmas more stressful

Source: Ipsos (Nov 2022)

Price rises are causing extra stress in the run-up to Christmas, according to a poll of 12 countries. On average, 55 per cent say they are more anxious about prices than last year. Romanians are the most stressed, Brazilians are the least worried

Buyout firms barge into the US emergency room

Analysis ▸ PAGE 7

Wood's Ark fund sheds nearly $50bn in assets since 2021 peak after tech sell-off

HARRIET AGNEW — LONDON

Cathie Wood's Ark Investment Management has lost almost $50bn in assets from its stable of exchange traded funds since its 2021 peak, highlighting the scale of this year's losses in speculative tech stocks.

Total assets across Ark's nine ETFs have slumped to $11.4bn from a peak of $60.3bn in February last year, according to Morningstar.

This was led by steep declines in its flagship Ark Disruptive Innovation ETF, known by its ticker ARKK, which has lost about two-thirds of its value this year and is on track for its worst-ever annual performance.

"Ark Innovation's results have been horrendous this year and very disappointing for investors," said Robby Greengold, a strategist at Morningstar, which in April downgraded the ETF to "negative".

The steep fall highlights how growth investors such as Wood have been wrongfooted this year as the US Federal Reserve and other central banks globally called time on a decade-long period of cheap money with a series of interest rate hikes to combat inflation.

This has prompted a sell-off in tech stocks, notably fast-growing and loss-making companies, which are seen as susceptible to rises in interest rates that diminish their potential future returns. Investors have rotated into value stocks that look cheap compared with metrics such as book value and profits.

ARKK is the largest of a group of strategies that combine an ETF structure with an ability to pick stocks. Wood seeks to identify the handful of companies that can make exponential gains by shaping the future, covering areas ranging from space exploration and fintech, to robotics and the genomic revolution.

The flagship ARKK's shares are down roughly 65 per cent this year, lingering at a five-year low and underperforming the tech-heavy Nasdaq, which is down 32 per cent in the same period.

"A huge driver of the underperformance has been stylistic in nature . . . globally, growth stocks have suffered and value stocks have been more resilient," said Greengold.

ARKK's three largest positions are video platform Zoom, a Covid-19 winner that has given up its pandemic-era gains; Exact Sciences, a provider of molecular cancer screening and prognostic testing, and electric-vehicle maker Tesla, whose shares are down more than 60 per cent this year.

Ark declined to comment.

World Markets

STOCK MARKETS

	Dec 21	Prev	%chg
S&P 500	3876.03	3821.62	1.42
Nasdaq Composite	10706.09	10547.11	1.51
Dow Jones Ind	33349.89	32849.74	1.52
FTSEurofirst 300	1704.68	1677.27	1.63
Euro Stoxx 50	3870.62	3802.49	1.79
FTSE 100	7497.32	7370.62	1.72
FTSE All-Share	4095.42	4026.91	1.70
CAC 40	6580.24	6450.43	2.01
Xetra Dax	14097.82	13884.66	1.54
Nikkei	26387.72	26568.03	-0.68

CURRENCIES

Pair	Dec 21	Prev	Pair	Dec 21	Prev
$/€	1.061	1.064	€/$	0.942	0.940
$/£	1.211	1.214	£/$	0.826	0.824
£/€	0.877	0.877	€/£	1.141	1.141
¥/$	131.995	131.415	¥/€	140.106	139.820
¥/£	159.847	159.525	£ index	78.485	78.813
SFr/€	0.983	0.985	SFr/£	1.122	1.124

CRYPTO

	Dec 21	Prev	%chg
Bitcoin ($)	16832.63	16903.72	-0.42
Ethereum	1213.75	1216.69	-0.24

GOVERNMENT BONDS

Yield (%)	Dec 21	Prev	Chg
US 2 yr	4.24	4.27	-0.03
US 10 yr	3.68	3.68	-0.01
US 30 yr	3.75	3.74	0.01
UK 2 yr	3.71	3.74	-0.03
UK 10 yr	3.57	3.59	-0.02
UK 30 yr	3.85	3.89	-0.04
JPN 2 yr	-0.02	0.01	-0.03
JPN 10 yr	0.47	0.41	0.06
JPN 30 yr	1.54	1.57	-0.03
GER 2 yr	2.51	2.50	0.02

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

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US trip

Zelenskyy boosted by Biden missile pledge

White House announces $1.85bn of new weapons, including Patriot system

FELICIA SCHWARTZ — WASHINGTON

Volodymyr Zelenskyy arrived in Washington yesterday for a brief, high-stakes visit, on his first trip outside Ukraine since Russia invaded more than 300 days ago.

The Ukraine president was set to meet his US counterpart, Joe Biden, before addressing a joint session of Congress last night.

Shortly before his arrival, the Biden administration announced $1.85bn in new lethal assistance for Ukraine, including the long-coveted advanced Patriot missile defence system.

Zelenskyy arrived in Washington at a critical moment in the fight against the Russian invasion. Officials in Kyiv have warned Moscow is gearing up for a winter offensive as Ukraine fends off Russian attacks on two fronts: the east and south, where grinding combat between the militaries is under way; and in the skies, where Moscow has pummeled Ukraine's critical energy infrastructure.

The Ukraine leader wrote in a Telegram post: "I am in Washington today to thank the American people, the president and the Congress for their much-needed support. And also to continue co-operation to bring our victory closer."

The White House wants the visit to showcase US support for Ukraine as the country heads into a tough winter.

Western weaponry will be critical for Ukraine. Kyiv has long sought the Patriot system, which analysts say will be a powerful addition to the country's air defences, although it will not offer immediate respite from the mass Russian missile and drone attacks smashing Ukraine's power infrastructure.

In addition to the Patriot system, the US will for the first time transfer Joint Direct Attack Munitions, which convert unguided aerial munitions into "smart bombs", allowing Ukrainian forces to more precisely target Russian military positions.

'I am in Washington today to thank the American people, the president and Congress for their support'

The US will train Ukrainian troops on the Patriot system, probably in Germany, for weeks before it arrives in Ukraine. It is expected to take some time before the system is operational on the battlefield. The US has committed tens of billions of dollars in military, economic and humanitarian assistance to Ukraine since Russia invaded Ukraine in February.

Congress is set to vote this week on a spending bill that includes $45bn in additional funds for Kyiv. The Biden administration has vowed to continue supporting Ukraine, with officials making preparations for a conflict that could stretch into beyond next year.

However, Republican leaders in the House of Representatives have intimated that passing additional aid for Kyiv will be more challenging next year when they take control of the lower chamber of Congress.

The US administration, Ukrainian officials and other western allies have had quiet conversations about what a diplomatic solution could ultimately look like, though Washington officials stress the time is not ripe for any moves in that direction.

"Biden is not going to pressure or push Zelenskyy to the negotiating table but rather, he is going to work with Congress and with our allies to put Ukraine in the best possible position on the battlefield so that when the time is ripe, they are in the best possible position at the negotiating table," a senior administration official said before Zelenskyy's visit.

The Kremlin said yesterday that it did not expect any positive developments or changes in Kyiv's position on peace talks after Zelenskyy's visit to Washington.

"The weapons supply to Ukraine continues and their range is expanding. It leads to the conflict aggravation and does not bode Ukraine any good," said spokesperson Dmitry Peskov.

Additional reporting by Anastasia Stognei in Riga and Christopher Miller

Capitol Hill

Trump paid $1.8mn in tax as losses hit $53mn over presidency

JAMES POLITI — WASHINGTON
SUJEET INDAP — NEW YORK

Donald Trump paid $1.8mn in federal income tax for the six years between 2015 and 2020, as he declared $53mn in net losses over the period spanning his 2016 campaign for the White House and the bulk of his term as president.

The details of Trump's tax payments came in a summary of his returns released by the Democratic-led US House of Representatives ways and means committee this week after four years of legal wrangling. The panel is expected to publish full redacted versions of Trump's tax returns in the coming days.

The summary, compiled by Congress's non-partisan joint committee on taxation (JCT), showed Trump declared no taxable income for 2015, 2016, 2017 and 2020, years in which he racked up $82mn in combined losses. The two years for which he reported taxable income were 2018 and 2019, with adjusted gross income of nearly $29mn.

The documents show the extent to which Trump aggressively used tax deductions and reported losses in order to lower his tax bill at the height of his political career.

The JCT said it had "no opinion" on whether the former president should have paid more or less tax but did note a series of items on Trump's tax returns.

Among them were interest income from related-party loans made to some of Trump's children, including Ivanka, Eric and Donald Trump Jr. The JCT said these raised "the question of whether the loans were bona fide arm's length transactions or whether the transfers were disguised gifts that could trigger gift tax and a disallowance of interest deductions by the related borrowers".

Like many property developers, Trump's business is structured through tax-exempt "pass-through" vehicles, where ultimate tax is paid on his personal returns submitted to the Internal Revenue Service.

The report noted the majority of the Trump vehicles in some years reported "either no gross income (ie only expenses) or gross income and expenses that were entirely offset, raising the questions of whether these were valid trade or business activities, or whether these schedules contained costs derived from personal activities or hobbies".

Richard Neal, Democratic chair of the ways and means committee, has justified his pursuit and release of Trump's tax returns on the grounds that the IRS failed to perform a mandatory audit of the former president's tax returns while he was in the White House.

"For four years, the committee has been reviewing how the IRS enforces the federal tax laws against, and ensures compliance by, a president," he said. "A president is no ordinary taxpayer. They hold power and influence unlike any other American. And with great power comes even greater responsibility."

Republicans have attacked the publication of the tax returns as politically motivated. "I am deeply concerned by recent erosions of taxpayer confidentiality and the dangerous precedent today's release sets," Mike Crapo, the senior Republican on the Senate finance committee, said yesterday.

Invasion

Russia's war chest for Ukraine campaign unlimited, says Putin

ANASTASIA STOGNEI — RIGA
POLINA IVANOVA — BERLIN

Vladimir Putin dismissed claims the Kremlin has left Russia's armed forces without key equipment, saying the war in Ukraine could be financed without "limits" and ordering the military to be open to criticism as his invasion of the country nears the 10-month mark.

"The military operation has highlighted issues that we need to work on specifically, [including] communications [and] automatisation," the Russian president said yesterday.

Speaking to the defence ministry, which has faced unprecedented Kremlin-sanctioned criticism for struggling to supply the front lines and retreating from the south-eastern regions of Ukraine annexed by Moscow, Putin said Russia had "no limits" on financing the war effort.

'[The nuclear triad] is the main guarantee of our sovereignty and balance of power in the world'

Putin's comments are likely to be the most important prepared remarks the Russian president makes until the new year.

The Kremlin confirmed yesterday that the president would not make his annual state of the union address, despite being required by the constitution to do so within the calendar year.

Civilian officials, such as Viacheslav Volodin, chair of the lower house of parliament, as well as the Russian Orthodox Church's Patriarch Kirill, attended yesterday's speech — a highly unusual step intended to mark its significance.

Putin played down the war's impact on Russia's economy, which is set to contract 3.5 per cent, a far shallower fall than expected when western sanctions were introduced.

He said Russia would not "militarise" its economy because "there is no need" for it, insisting he did not want to "repeat the mistakes of the past", when "we destroyed our economy for defence purposes".

Despite the west's efforts to deplete Putin's war chest, Russia's budget deficit in 2022 will be just 2 per cent, according to the ministry of finance. This is something it can cover easily with state borrowing and increased spending from its $187bn sovereign wealth fund.

In an attempt to respond to criticism of the supply efforts, which have seen soldiers forced to buy their own basic equipment, such as socks and boots, Putin insisted "the country provides everything, everything the army needs", including "everything a soldier needs to be modern, comfortable and reliable". Putin urged the defence ministry to "listen to the criticism and respond to it".

While Russia in March made "discrediting the armed forces" a crime punishable with up to 15 years in prison, the Kremlin has tacitly approved criticism of the military. Lawmakers, state television pundits and prominent bloggers embedded on the front lines have attacked the army for supply, logistical and strategic failures.

While talking about the need to modernise the army, Putin said Russia "knows everything about Nato's resources and abilities and needs to study it thoroughly and use it to increase its military capacity".

He vowed to maintain the combat readiness of Russia's nuclear triad, which can fire missiles from land-based launchers, submarines and strategic aircraft. "This is the main guarantee of our sovereignty and balance of power in the world," added Putin.

Speaking after Putin, Russia defence minister Sergei Shoigu said Russia's nuclear force had successfully conducted a special exercise on carrying out a large-scale nuclear strike "in response to the use of weapons of mass destruction by the enemy".

Chain of command: Vladimir Putin and defence minister Sergei Shoigu in Moscow yesterday — Mikhail Klimentyev/Sputnik/Kremlin/AP

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Lobbying rules

Brussels to question former commissioner over Qatar scandal

ANDY BOUNDS — BRUSSELS
ELENI VARVITSIOTI — ATHENS
JOSEPH COTTERILL — JOHANNESBURG

Brussels is to ask a former European commissioner to explain his paid role for the campaign group at the centre of a corruption scandal after it emerged he had held multiple meetings with senior serving EU officials.

Dimitris Avramopoulos left office on November 30, 2019 and accepted a €60,000 fee to work for Fight Impunity, a non-governmental organisation, in February 2021.

Fight Impunity founder Pier Antonio Panzeri was this month charged with corruption and money laundering in an investigation into alleged influence buying by Qatar. Brussels said yesterday it would write to the former home affairs and migration commissioner about

Mamer said it had carried out "internal checks" about the meetings. The nine encounters between November 15-17 2021 were for what he termed "short courtesy meetings". "In none of these meetings from what we understand was he representing the NGO . . . nor were any such issues discussed."

He also met two commissioners in 2022 in "short private encounters".

Even so, "the commission is writing to . . . Avramopoulos to obtain further information into how he respected the conditions set out in his post mandate activity and provide further information on how he represented this NGO."

Anyone breaching the code of conduct could be reprimanded and, in extreme circumstances, taken to the European Court of Justice, Brussels added.

In September 2020, Avramopoulos asked Brussels for permission before

The meetings were first reported by the EUobserver website. In July, Avramopoloulos tweeted a photo on holiday in Greece with budget commissioner Johannes Hahn and in October one with Věra Jourová, transparency commissioner.

The other meetings were in Brussels with commission vice-presidents Frans Timmermans, Margrethe Vestager, Maroš Šefčovič, Věra Jourová, Margaritis Schinas and commissioners Stella Kyriakides, Mariya Gabriel, Ylva Johansson and Hahn.

Avramopoulos said he had written to Brussels yesterday clarifying his position. "As the commission confirmed, all my meetings were courtesy meetings: public, registered and we never referred to Fight Impunity," he said. "They are my good friends and colleagues from my tenure as commissioner."

Avramopoulos has also shed light on the funding of Fight Impunity. In his letter seeking permission he said it received money from the Sekunjalo Development Foundation, a South African charity part of the Sekunjalo group, which owns media, fishing, investment and other businesses. The charity yesterday said founder Iqbal Survé was approached by a representative of Fight Impunity at the World Economic Forum in Davos.

"A sum of R4.5mn [€250,000] was donated to Fight Impunity between July to September of 2020," the statement added, saying it had never received money from "any Qatari organisations".

Europe's energy crisis burdens companies with difficult choices

Sustained high gas prices have become an existential threat to key industries

VALENTINA ROMEI AND PATRICIA NILSSON

The pain of high gas prices has become ubiquitous across Europe this year. But for some companies the added costs are more than a management headache and a crusher of profit margins. They are an existential threat.

At the continent's energy-intensive manufacturers, temperature control involves not lowering the office thermostat but burning natural gas to generate the heat that is a non-negotiable part of their production lines. For them, the energy crisis has meant shutdowns, firing workers or even filing for bankruptcy. But the worst may not be over.

Glassmakers have crafted incandescent vases, chandeliers and other trinkets on the tiny Italian island of Murano, next to Venice, for eight centuries. The sector is now facing a make-or-break moment: finding the means to fund the soaring price of the gas used to keep the furnaces burning at more than 1,000C around the clock.

Running a furnace cost €7,000 a month before Russia's full-scale invasion of Ukraine this year sparked a surge in gas prices. It now costs up to €110,000 — a situation that is "impossible to manage", said Andrea Perotta, co-founder of New Murano Gallery.

"This is definitely the worst crisis our business has faced," said Francesco Scarpa, his co-founder. Harking back to 1966, when the premises of his father — also a glassmaker — were flooded, sending the business into bankruptcy, he added: "Back then we bought new furnaces and we were back in 10 days. Now there is no end in sight."

> 'Germany could have managed it much better — we risk losing big parts of our industry'

Henrik Follmann is the third generation of his family to run chemicals company Follmann Chemie, an enterprise that epitomises the German Mittelstand. These small, often family-run businesses form the foundation of Europe's largest economy. Follmann said the business survived the energy crisis of the 1970s, which was so severe the government banned Sunday driving. "Every generation has its obstacles. How we respond defines who we are."

But he worries about the fate of Germany's chemical industry, which eats up about a third of the gas consumed by the country's manufacturing base.

The pandemic was hard enough, with "tremendous" price increases in raw materials, which Follmann largely passed on to customers. The question now, he said, was how much customers of the German chemical industry would be willing to shoulder for higher energy costs before they started looking for new suppliers in Asia or North America.

New Murano Gallery is surviving because of government help — since October, Italy's businesses have been able to access tax credits for up to 40 per cent of their energy bills. The gallery has also been forced to make drastic decisions about the design of its products.

"If we produce a collection with eight colours, we will have to have eight furnaces on," said Perotta, as each oven produces one colour. "We decided to reduce the use of the ovens, which means that we are working with one or two colours."

It also switched to higher-margin works. "Instead of producing 300 glasses, we produced three glass sculptures," said Scarpa. The price of one glass starts at €50, while a centrepiece sculpture could be €700 to €2,000.

The gallery produced a piece for Vera Molnár, a Hungarian artist, which was exhibited at the Venice Biennale. More collaborations with her are planned for shows in Paris and New York. "The crisis has been a great lesson in this respect," said Perotta, with the company forced to rethink its business model.

Putting more than half of New Murano Glass's 11 furnaces out of action has had an impact on its team of master glassmakers. But it viewed that as a better alternative to leaving its highly specialised workers, who practise centuries-old techniques, without employment. "They are like pianists. If they don't play for months, it will take time for them to get back to it."

Despite all the cost-saving measures, the business was only "just surviving", said Perotta. "We are living day by day. We have no certainty."

Follmann Chemie's sprawling plant in the town of Minden, North Rhine-Westphalia, features reactors that churn chemicals into various products, state of the art packing terminals where workers blast out heavy metal, and one new addition — an oil tank. The tank was bought to prepare for possible gas rationing this winter. It would, said Follmann, "last us two days". If the company had no gas for longer, "then we have much bigger problems".

The business has stopped producing at weekends and, aside from the oil tank, Follmann has replaced two gas engines with ones that can run on oil. The engines cost the company about €400,000. Staff remain on full salaries despite the reduced working hours.

"Energy costs used to be 2 per cent of our turnover — now it is 6 per cent, and I have no idea what it will be next year," Follmann said. Follmann Chemie, which makes just over €260mn in annual revenue, has spent nearly €10mn more on energy this year compared with before the war in Ukraine.

"If the price of gas will return to 12 to 16 cents per kilowatt hour, it will be tough but we will survive," he said. If prices were to go back up to 40 or 50 cents — as they were earlier this year — "then no, we won't survive".

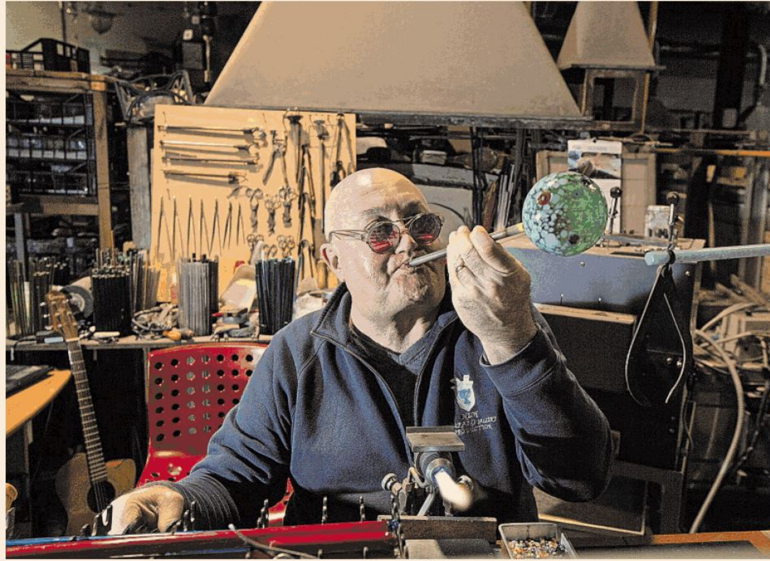
While Perotta insists New Murano Gallery is "very grateful" for government subsidies, he said more radical solutions were needed for long-term survival. That included glassmakers weaning themselves off gas.

Referring to the trigger behind the soaring price of the fuel — Russian president Vladimir Putin's decision to invade Ukraine — Perrotta said: "Our survival can't be at the mercy of one or two people in the world who in one moment can change our fate."

"We want renewable energy; we want solar panels; we want to be able to produce with much lower costs," added Scarpa. Yet panels are banned on the island, under regulation aimed at preserving the historical landscape. "We don't want this millenarian tradition to die," said Perotta.

The crisis has left Follmann frustrated: "Germany could have managed it much better — we risk losing big parts of our industry. When it's gone, it's gone." He laments the decision to abandon nuclear power and the failure to build liquid gas terminals until now was "so arrogant". The crisis was, he said, an accident waiting to happen.

Berlin has promised to deploy a €200bn "protective shield" over its citizens and key industries, including a subsidy of industrial gas prices from early 2023. But details were only announced in mid-December. Follmann said it had taken too long for the government to provide certainty. "Customers are asking: 'What will prices be next year?' And I can't answer them."



> 'Every generation has its obstacles. How we respond defines who we are'
> Henrik Follmann

Under pressure: glassmaker Andrea Giubelli at the New Murano Gallery, Italy. Below, German company Follmann Chemie, which fears losing business

Linda Scuizzato/FT; Daniel Pilar/FT

Budget woes

China's fiscal deficit reaches record high

Zero-Covid drive, tax cuts and property meltdown take toll on finances

SUN YU — SHANGHAI

A broad measure of China's budget deficit hit a record high in the first 11 months of this year as a property meltdown and President Xi Jinping's zero-Covid policy weighed on the world's second-largest economy.

Total fiscal spending by all levels of government exceeded revenue by Rmb7.8tn ($1.1tn) from January through November, according to the Ministry of Finance. The figure was more than double the Rmb3.7tn during the same period of last year.

The rise in the government deficit highlights the economic damage from Xi's signature Covid-19 elimination policy — which entailed relentless contact tracing, testing and lockdowns to root out coronavirus — as well as a crackdown on housing speculation.

Beijing abruptly abandoned the zero-Covid policy this month after growing case numbers, a slowing economy and mounting popular resistance. "This is the worst [in recent years] for China's public finances," said Larry Hu, a Hong Kong-based economist at Macquarie Group.

A sharp fall in land sales, a big source of government income, was one of the main reasons for the higher deficit. China's local authorities made Rmb5.1bn from selling land in the first 11 months of this year, down almost a quarter from a year before.

The decline came as debt-laden developers, led by the private sector, stopped growing their land banks after regulators tightened their access to credit and home sales sank.

Tax cuts, a critical part of Beijing's efforts to stimulate the sluggish economy, have dealt a further blow to fiscal income. Official data show China's value added tax collection, one of the biggest sources of budgetary income, fell more than a quarter in the first 11 months of this year after Beijing cut VAT rates and offered rebates to revive growth.

Revenue from taxes on car purchases fell by almost a third during the same period as Beijing cut taxes to boost big ticket consumer items.

The government's fiscal outlay, meanwhile, led by healthcare and social welfare spending continued to grow as Beijing struggled to curb the pandemic and provide a safety net for a fast-growing population of jobless adults.

Ministry of Finance data showed government healthcare spending surged by 15 per cent in the first 11 months of this year as the authority invested heavily in PCR testing and centralised quarantine facilities to eradicate the pandemic.

As government financial woes deepen, authorities are coming under pressure to cut back on expenditure.

Zhong Zhengsheng, chief economist at Ping An Securities in Beijing, said China's fiscal outlay would fall 12 per cent in December after many months of increases.

"Since the deficit target stays unchanged, the authorities have to reduce spending to offset the drop in revenue," Zhong said.

Zhong added that public finances might improve next year as China exited zero-Covid and relaxed control over the private sector, which has been battered by regulatory campaigns over issues such as data security.

Pandemic

Beijing alters definition of virus deaths amid doubts over numbers

WILLIAM LANGLEY — HONG KONG

Beijing has sharply narrowed its definition of a Covid-19 death, as the official toll from one of China's worst outbreaks since the pandemic began diverges from anecdotal evidence, the experience in other jurisdictions and analysts' modelling.

The National Health Commission confirmed the change this week in response to questions about the low official counts compared with reports of funeral homes working overtime. This week, financial news outlet Caixin reported that China had adjusted how it classified Covid deaths.

Wang Guiqiang, a doctor speaking at an NHC press conference, said people who were considered to have died of other conditions while positive for the virus would not be counted in the official Covid death toll. Wang said the NHC would only count those who had died of respiratory failure or pneumonia after testing positive for the virus.

China has embarked on a stunning retreat from its zero-Covid playbook in recent weeks, lifting lockdowns, slashing testing and quarantine requirements and retiring contact-tracing systems after nearly three years of strict protocols.

Chongqing, a megacity of more than 30mn residents in the south-west, this week said Covid patients with mild or no symptoms could go to work "as normal".

Experts have questioned China's death toll since it officially dismantled its zero-Covid controls early this month. It has risen by seven since then, though the NHC revised that number down by one yesterday. That compares with Hong Kong, a city of more than 7mn, where the daily death toll is in the double digits. It reported 39 deaths on Monday and 33 on Tuesday.

China's change to the death classification follows a move this month to stop counting asymptomatic infections, which previously made up the majority of cases. Case numbers have since plunged dramatically, from a peak of nearly 40,000 daily cases last month to about 2,000 most days this week.

Leo Poon, head of the division of public health laboratory sciences at the University of Hong Kong, said accurate figures were "essential" for China to tailor its response, saying the country's previously low levels of infection left much of the population "naive" to the virus.

"I think we need to have this number to try to reallocate our resources . . . to the right regions or right cities to try to minimise the impact of the virus," he said. "Like do we have enough clinicians, do we have enough healthcare support?"

Several models, including one partly funded by the Chinese Center for Disease Control, have predicted that China could suffer as many as 1mn deaths during its reopening phase if Beijing continues to dismantle curbs.

The definition of a Covid death varies in different countries. The UK compiles one tally of fatalities that mention Covid as a cause of death on death certificates and a separate count of those who die within 28 days of testing positive.

The US counts any mortality where coronavirus is recorded to have contributed to the cause of death.

Medicines. Health woes

Infections growth stokes global lack of antibiotics

Supply pressures and rules make it hard for companies to scale up and ease shortages

DONATO PAOLO MANCINI AND HANNAH KUCHLER — LONDON

A surge in bacterial infections after countries lifted their pandemic restrictions has led to shortages of antibiotic drugs such as penicillin and amoxicillin, highlighting the precarious state of global supply chains.

Of the 35 countries whose data are collected by the World Health Organization, 80 per cent had an acute shortage of penicillin-related antibiotics, said Lisa Hedman, WHO group lead for supply and access to medicines. The UK introduced "serious shortage protocols" last week allowing pharmacists to prescribe alternative formulations of antibiotics after a rise of infections such as Group A streptococcus.

During the pandemic, lower demand for antibiotics and severe strain on supply chains led drugmakers to lower production. But as many countries experience their first winter with no curbs in two years, health experts said supply pressures and regulatory requirements were making it hard for companies to scale up and ease the shortages. They had also occurred as "countries didn't anticipate that respiratory infections were going to hit us [so hard] in the first year without masks", Hedman said.

Shortfall: a dearth of drugs was common at Covid's peak, highlighting pressure on supply chains. The Ukraine war has further disrupted the supply of antibiotic ingredients
FT montage: Getty Images/Dreamstime

Where have shortages been found?

Shortages of amoxicillin have been reported in the US and Canada while in the EU, 25 out of 27 members have reported scarce supplies of some antibiotics to the European Medicines Agency.

The impact in poorer or smaller countries is less well known, but Hedman said they could be disproportionately affected, especially if their currencies had depreciated and they needed to procure drugs on the open market.

Although the volumes may be small compared with use in developed countries, they are far from inconsequential. Dušan Jasovský, a pharmacist at aid group Médecins Sans Frontières, said about 5.7mn died annually from a lack of access to antimicrobials, which include antibiotics, antifungals and antivirals. The fear of pushing prices higher acted as a "disincentive" to report shortages and notify the WHO, added Hedman.

Some US and European pharmacists have also reported shortages of common pain relief drugs as a wave of flu, respiratory syncytial virus and Covid-19 cases fuels demand. Ilaria Passarani, secretary-general of the Pharmaceutical Group of the European Union, said drugs for infections such as tuberculosis and skin infections had also been hit.

What's causing the shortfall?

Shortages of drugs, from cancer medicines to anaesthetics, were common at the peak of Covid-19, highlighting pressure on supply chains. The Ukraine war has further disrupted the supply of antibiotic ingredients, while rising energy costs have reduced factory margins.

Adrian van den Hoven, director-general of generic drugmakers association Medicines for Europe, said that after lockdowns it would have been hard for antibiotics makers to accurately predict the spike in demand for treatments such as liquid antibiotic solutions for children. "You can predict a higher infectious season, but you cannot predict the very high rate in children," he said.

MSF's Jasovský said depleted stocks of antibiotics were "minor symptoms" of a wider "systemic challenge" affecting the whole supply chain. Most of the world's pharmaceutical ingredients now came from India and China rather than Europe, he said, and there was little transparency on these materials as production processes globally were viewed as proprietary information only visible to regulators. That "makes it difficult to perform a true risk assessment to determine areas of greatest vulnerability".

The antibiotic supply chain can take between four and six months from production to distribution. But Rajiv Shah, executive director of UK-based wholesaler Sigma Pharmaceuticals, said extra regulatory checks meant it took longer for drugmakers to reopen lines.

Can the shortages be fixed?

Sandoz, one of the largest generic antibiotics makers, said it had increased output of drugs by a double-digit percentage in 2022, hiring 140 people since September. Next year it plans to do the same, opening a factory in Austria.

But the Novartis-owned company is being squeezed by rising costs, which are harder to pass on in European markets that cap drugs prices. It said its Asian rivals had access to cheaper fuel for the process. Costs had also soared for other essential ingredients such as sugar for fermentation.

'You can't just throw a few extra cakes into the oven. [Shortages] can take months to correct'

"You can't just throw a few extra cakes into the oven," warned Hedman. "When you make an antibiotic you have to shut down and revalidate your equipment before you make another . . . [shortages] can take months to correct."

Passarani said solutions included forcing drugmakers seeking European authorisation to market their drugs in all member states. Jasovský said pooling mechanisms between countries, companies and organisations should be introduced and more done to diversify manufacturing capacity and improve transparency, data sharing and forecasting.

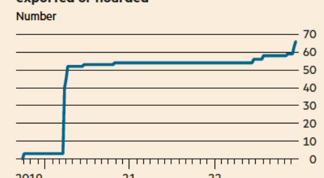
Is increased resistance a risk?

Doctors often prescribe "narrow-acting" antibiotics to avert the emergence of superbugs that resist treatment. But the shortage of some antibiotics means prescribers are being allowed to dispense other antibiotics with a broader range, usually reserved for infections not cured by first-line antibiotics.

Additional reporting by Jamie Smyth

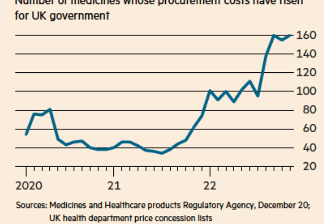
UK extends list of medicines that cannot be exported or hoarded

Number



Rise in drug prices suggests more shortages

Number of medicines whose procurement costs have risen for UK government



Sources: Medicines and Healthcare products Regulatory Agency, December 20; UK health department price concession lists

Covid cases

WHO urges China to step up vaccinations

DONATO PAOLO MANCINI — LONDON

The World Health Organization said it was "very concerned" about a rise in severe Covid-19 cases in China as it called on Beijing to step up vaccinations, especially for vulnerable groups.

Many cities in China are grappling with the rapid spread of coronavirus following the lifting of most Covid-19 restrictions after China aggressively pursued a zero-Covid policy for more than two years.

Speaking at the organisation's end-of-year press conference yesterday, Tedros Adhanom Ghebreyesus, WHO director-general, said the agency wanted more data to be made available on disease severity, hospital admissions and occupancy rates at intensive care units in China.

yesterday reiterating a call for the raw data on the virus's origins to be made available.

China is struggling to cope with an "exit wave" of infections sparked by the lifting of restrictions.

"What's being reported is relatively low numbers of cases in hospitals and ICUs but, anecdotally, there are reports that those ICUs are filling up," said Mike Ryan, head of the WHO's emergencies programme. "They're behind the curve," he added, suggesting the discrepancy in numbers might be down to a delay in reporting, as has been seen with other countries that have experienced massive surges in caseloads.

Ryan said Beijing "lags behind" in its vaccination rates, especially for elderly age groups, who are most at risk of severe disease but who have remained stubbornly out of reach of health authorities in the past few months. China's rates of uptake for booster shots are also relatively low.

However, he said China had made significant progress in building up its inoculation programme despite the protection it affords being "not adequate" for a country its size.

"The question remains whether or not enough vaccination can be done in the coming week, two weeks, that will actually blunt the impact of the Omicron wave," he added.

Ryan also said the WHO "would

Gulf tension

Iran holds 'friendly talks' with Saudi Arabia

ANDREW ENGLAND — LONDON

Iran's foreign minister said yesterday he had held talks with his Saudi counterpart in a sign that Tehran is seeking to ease tensions with its rival as it cracks down on months of protests in the Islamic republic.

Hossein Amir-Abdollahian said he had "friendly talks" with Prince Faisal bin Farhan at this week's regional gathering in Jordan, in what is believed to be the first meeting between Iranian and Saudi foreign ministers since 2017.

The conference was attended by officials from across the region as well as French president Emmanuel Macron. The Saudi foreign ministry did not respond to a request for comment.

Tensions between the mainly Shia republic and the Sunni kingdom have

"That attack likely did not occur because of the close security co-operation between Saudi Arabia and the United States," Brett McGurk, the White House's co-ordinator for the Middle East, said last month.

The Iranian protests erupted after Mahsa Amini, a 22 year-old woman, died under the custody of Iran's morality police in Tehran after being accused of not wearing her hijab properly.

The Saudi foreign minister 'assured me of his country's readiness to continue the dialogue with Iran'

The unrest swept across the republic with calls for regime change. Official fig-

the last talks taking place in April.

Amirabdollahian wrote on social media that the Saudi foreign minister "assured me of his country's readiness to continue the dialogue with Iran".

Riyadh and Tehran severed diplomatic ties in 2016 after the kingdom's embassy in Iran was ransacked during protests triggered by the execution of a senior Shia cleric in Saudi Arabia.

Hostilities between the two increased after Riyadh supported former US president Donald Trump's "maximum pressure" campaign against Iran.

In September 2019, US and Saudi officials blamed Tehran for a missile and drone attack on the kingdom's oil infrastructure, which temporarily knocked out half its crude output.

Moves to cool tensions between the rivals began last year after Iraq hosted

Rate rise fears Japanese bonds sustain fresh blow in wake of central bank's change to core tenet of monetary policy ➔ PAGE 8

Companies & Markets

Musk claims Twitter risked negative cash flow of $3bn

- Chief defends his cost-cutting effort
- Financial snapshot of platform given

HANNAH MURPHY — LONDON

Elon Musk has defended his financial stewardship of Twitter, arguing that the platform would have faced a "negative cash flow situation of $3bn a year" were it not for his cost-cutting efforts.

The entrepreneur, who bought the social network for $44bn in October after previously attempting to pull out of the deal, gave a snapshot of its dire finances during a Twitter Spaces online forum yesterday.

He said: "We have an emergency fire drill on our hands . . . This company is like you're in a plane that is headed towards the ground at high speed with the engines on fire and the controls don't work. That's the reason for my actions that may seem sometimes spurious."

> 'You're in a plane that is headed towards the ground at high speed with the engines on fire'

He said the platform had been on course to spend about $5bn in 2023. Costs at Twitter in 2021, the last annual period it reported before being taken private, were $5.6bn, during which time it made a net loss of $221mn.

Musk projected that Twitter's net cash outflow, "if you didn't make any changes", would be about $6bn to $6.5bn next year.

This was partly because the company had been loaded with $12.5bn of debt to help fund his acquisition, which required about $1.5bn a year in annual debt servicing payments amid rising interest rates, he said. "Not good since Twitter has $1bn in cash," he said. "So that's why I spent the last five weeks cutting costs like crazy."

His remarks suggested the company was on track to make about $3bn in annual revenues next year. That would suggest Twitter was on course for revenues as much as $2bn lower in 2023 than the $5bn it achieved in 2021 — which came mainly from advertising. Many marketers have pulled out of the platform since Musk's takeover because of moderation concerns.

The picture of Twitter's finances comes after Musk fired about half of its 7,500-strong workforce and stripped employees' benefits, prompting concerns about whether the company is sufficiently staffed in areas such as content moderation and compliance.

On Sunday, Musk said in a tweet that Twitter had been "in the fast lane to bankruptcy since May". But Musk said yesterday that the changes he had made would mean the company would "roughly" hit cash flow break-even.

He said: "With the changes we are making here on massively reducing the burn rate, and building subscriber revenue, I now think that Twitter will, in fact, be OK next year."

He had spoken to advertisers, who were urging him to show how Twitter could provide a return on their investment.

The Tesla and SpaceX chief executive has indicated that he plans to transform Twitter into an "everything app".

Late on Tuesday, Musk said he would resign as Twitter's chief as soon as he found someone "foolish enough to take the job", bowing to the result of a poll of users he held at the weekend.

He also indicated that he would continue to run the group's "software and server teams" after stepping down, suggesting he will remain closely involved in operations.

Additional reporting by Richard Waters in San Francisco

See FT View and Lex

Just did it Nike's improved sales forecast lifts sportswear peers after rush for discount stock

Nike results demonstrate resilient consumer demand, according to analysts — Jakub Porzycki/NurPhoto

ALISTAIR GRAY AND SARAH PROVAN
LONDON

Nike has given the global sporting goods sector a much-needed boost after consumers snapped up discounted footwear, clothes and equipment ahead of Christmas, prompting it to upgrade sales forecasts.

While promotions to clear inventory hit margins, investors were reassured by a 17 per cent rise in revenues to $13.3bn in the three months to the end of November.

Nike said it now expected annual revenues to increase by a "low teens" percentage after the effects of currency fluctuations were stripped out, an improvement from its previous forecast of a "low double-digit" increase, although it said that foreign exchange rates would be a headwind.

The better than expected results after the New York closing bell on Tuesday sent the shares up 13 per cent in out-of-hours trading and spurred a rally in European competitors. Puma and Adidas both rose roughly 6 per cent in Frankfurt, while JD Sports jumped 8 per cent in London.

"Nike's results show that consumer demand remains very strong for the brand, which is positive for the wider athleisure market given its scale," said Kate Calvert, an analyst at Investec.

North America performed particularly strongly for Nike. Sales of footwear rose 39 per cent, equipment 26 per cent and clothing 14 per cent. The Europe, Middle East and Africa region was not as strong, although revenues there still rose 11 per cent.

The double-digit growth helped offset weak demand in China, where sales have been hit by Covid-19 curbs.

The figures suggested that customer demand was "holding up better than expected" in the US, said Emily Salter, an analyst at consultancy GlobalData, even if they also showed that the company had resorted to higher discounts to sell off stock. However, she added that much of the improvement was "very specific to Nike".

Like other sports retailers, Nike has struggled to manage stock levels during the pandemic because of supply chain disruptions and fluctuating demand. Shares in the company have dropped almost 40 per cent this year.

Analysts noted that stock levels — valued at $9.3bn as of the end of the quarter — remained high, but chief executive John Donahoe said the "inventory peak is behind us".

Nike was also well placed to capitalise on the popularity of more casual styles in the wake of the pandemic and its brand recognition, which supported online sales, Salter added.

Diluted earnings rose 2 per cent to 85 cents a share. That beat an average estimate of 64 cents in a Refinitiv poll. Net income was flat at $1.3bn.

See Lex

EU sets tough conditions on Berlin bailout for Uniper

GUY CHAZAN — BERLIN

The European Commission approved the German government's bailout of stricken gas importer Uniper, but imposed onerous conditions that include forcing it to sell one of Germany's most modern power plants.

Uniper will have to divest the Datteln 4 coal-fired power station in the Ruhr industrial region, which came on line only in 2020 and is considered one of the most advanced facilities of its kind. It will also have to sell a gas-fired power plant in the Hungarian city of Gönyű.

The commission's decision opens the way for the German government to buy 99 per cent of the company's shares. Some 70 per cent will be acquired from its previous majority owner, Finnish state-owned energy group Fortum, and the rest from smaller shareholders.

Fortum said yesterday it had concluded the sale of its Uniper stake to the German state. But under the deal approved by Brussels, Berlin will also have to reduce its stake in Uniper to little more than 25 per cent by 2028.

Harald Seegatz, head of Uniper's works council and deputy board chair of the supervisory board, described the commission's demands as "hard cuts". The proposed divestitures of Datteln 4 and of Uniper's district heating business were "particularly painful for the colleagues affected in Germany, just a few days before Christmas".

Uniper said the conditions from Brussels were painful but "don't impair the company's future".

As Europe's largest buyer of Russian gas, Uniper was one of the main corporate casualties of Russia's invasion of Ukraine. It began to lose tens of millions of euros a day after Gazprom drastically reduced supplies to Germany through the Nord Stream 1 pipeline in mid-June.

To fulfil its contracts, it was forced to buy gas on the spot market, often at much higher prices.

The company was taken into public ownership in September, conditional on approval from Brussels, and two months later reported a €40bn loss for the first nine months of the year.

Brussels announced late on Tuesday that it was approving the bailout, which includes a cash injection of €8bn and could reach up to €34.5bn in total, under EU state aid rules, saying the aid "does not exceed the minimum needed to ensure the viability of Uniper".

See Lex

Porsche a rare success during German stock market's decline

INSIDE BUSINESS
EUROPE
Olaf Storbeck

When German sports car maker Porsche listed on the Frankfurt Stock Exchange in a €75bn initial public offering in September, Deutsche Börse chief executive Theo Weimer raved about a "historic day". Weimer was right — but in a different sense than he had in mind.

Europe's largest listing by market capitalisation will go down as a rare hurrah amid the decline of the German stock market in recent years. Less than a month after the Porsche IPO, largest Dax member by value Linde announced in October that it would delist from the Frankfurt exchange. Linde will instead focus on the New York Stock Exchange, arguing that its German listing had been a drag on its valuation.

Germany's most striking corporate success story, Mainz-based biotech group BioNTech, didn't even bother to list in Frankfurt. The inventor of one of the two leading Covid vaccines chose Nasdaq for its 2019 listing. The decision was highly rational as US companies

market long on historic corporate names, shorter on dynamism and innovation. Of the 40 blue-chip companies listed in the country's leading Dax index, 23 can trace their corporate roots back to the 1800s or before. Only two Dax companies — real estate group Vonovia and online retailer Zalando — were founded this century.

While the enlargement of the Dax from 30 to 40 companies in the wake of the Wirecard scandal suggests greater variety, the index is still dominated by a few large industrial conglomerates and their spin-offs: Siemens (four companies), Volkswagen/Porsche (three), Mercedes (two), Fresenius (two) and Bayer (two).

The Dax's history of underperforming global equities markets started long before the German industry lost its access to cheap Russian gas this year. Over the past five years, the Dax has risen 6 per cent, while the MSCI World index has gained 18 per cent over the same period. In the US, the S&P 500 index is up 42 per cent in that time. Another telling benchmark: at €1.6tn, the combined market cap of Germany's 40 largest listed corporations is a fifth below that of Apple, which is valued at $2.1tn.

> It is not hard to wonder whether an instinctive reliance on defending old business models might have stymied fresh ideas

There are many reasons for the relative decline. One is a shortfall of innovation, despite Germany's engineering

business models might have stymied the development of many a fresh idea. Take Germany's automotive industry, which accounts for a fifth of all the Dax's stock market value. These companies were slow to react to the shift to electric vehicles and lobbied against tighter emission rules. VW — and, allegedly, Mercedes — even rigged emissions data as they struggled to meet regulations.

Another problem is Germany's two-tier corporate governance system — a management board that runs operations and a supervisory board that oversees the executives. Half of supervisory board members under German law are workers' representatives. This can lead to a more consensus-driven approach to decision making in areas that might affect employment. In many companies, the chair of the supervisory board also is a former chief executive, who might be loyal to existing corporate strategies rather than new approaches.

And, in general, CEOs who underperform can resist shareholder pressure to quit or change strategy. Take Bayer, which was able to embark on its ill-fated $63bn acquisition of Monsanto in 2016 despite fierce shareholder opposition, and without putting the deal to a vote at its annual meeting. In 2019, Bayer chief Werner Baumann kept his job despite 55 per cent of the shareholders voting against ratifying the actions of management. He is still there, despite shares in the company falling 43 per cent since the deal was announced. The €48bn market value of Bayer is still far less

FT Weekend
Italian lemons the size of adult hands hang abundantly
The real poetry of property is what we find within its walls
So beloved is Tiramisu that it has its own World Cup

2022/12/22 20:20 All pages from Financial Times (Asia), Thursday, December 22, 2022

Automobiles

Tesla value drops back below Exxon

Big Oil returns to favour as Musk's Twitter foray shakes EV group investors

DEREK BROWER — NEW YORK
RICHARD WATERS — SAN FRANCISCO

Tesla has fallen below ExxonMobil in stock market value for the first time since 2020 as investors flock back to Big Oil and flee Elon Musk's electric-car maker.

Exxon's shares ended trading on Tuesday with a market capitalisation of more than $439bn, up 1 per cent on the day and about 67 per cent higher than at the start of the year, according to S&P Global Market Intelligence. Tesla's market value was $435bn, down 8 per cent on the day and more than 60 per cent below its level in late October, when chief executive Elon Musk completed his $44bn takeover of social media platform Twitter.

Shares in Exxon were up a further 1.24 per cent at lunchtime in New York yesterday, while Tesla's were up 0.22 per cent.

Musk, who recently lost his position as the world's richest man, has raised the prospect of standing down as Twitter chief executive, bringing some relief to Tesla investors worried that he was becoming distracted. But analysts continued to warn this week that his involvement in Twitter could cause further damage to Tesla's share price.

Analysts said the contrasting share performances of the two companies marked a wider stock market rotation away from growth stocks such as Tesla to value-oriented companies such as commodity producers, which often draw investors during downturns.

"As investors shift back to value from growth, the firms that have been around for over 100 years, providing the security we've come to take for granted, are once again on top of the market," said Andrew Gillick, a market strategist at energy consultancy Enverus. "This isn't a blip."

Exxon, once the world's biggest company by market capitalisation, endured a brutal 2020 as oil prices crashed in the early months of the pandemic and fossil fuel producers fell out of favour with environmental, social and governance-focused investors.

The oil supermajor recorded its first-ever annual loss and was removed from the Dow Jones Industrial Average. A year later, Exxon's management was defeated in a shareholder battle with Engine No. 1, an activist hedge fund.

But rising crude prices following Russia's invasion of Ukraine this year have buoyed oil producers. Exxon in October announced record quarterly profits.

Worries about weakening demand for Tesla's vehicles have also been gathering strength. The concern deepened in October when it cut prices in China, its second-biggest market and the source of nearly a quarter of its revenue. Shortening waiting lists for its vehicles in the US have added to the worries.

Musk's significant sales of Tesla stock to pay for his takeover of Twitter and provide extra cash after the acquisition have also weighed on the company's shares.

A $3.6bn sale last week — the second in a month — took the Tesla chief's total share sales to nearly $40bn since late last year when he started to sell after a Twitter poll asking whether he should sell in order to pay more tax.

See Lex

Financials

Key witness in Wirecard trial denies deleting data before he talked to police

OLAF STORBECK — MUNICH

The chief witness in the Wirecard trial has rejected allegations that he destroyed incriminating data before reporting himself to the police.

Oliver Bellenhaus, the former head of a Dubai-based subsidiary at the centre of a fraud that caused the collapse of the payments group, told judges yesterday that the lawyer of the former Wirecard chief executive Markus Braun was trying to undermine him by distorting facts that were taken out of context. "There are desperate attempts to cast a doubt about my credibility," he said.

Alfred Dierlamm, Braun's lead lawyer, last week accused Bellenhaus of deleting key data on servers based in Dubai. Dierlamm argued that the data would have proved the existence of Wirecard's outsourced business in Asia, which on paper generated half of the payment group's revenue and €1.9bn in cash. He also argued that the alleged destruction of evidence showed Bellenhaus was not a trustworthy witness but was presenting a "pack of lies".

Braun, Bellenhaus and Wirecard's former head of accounting Stephan von Erffa were charged with fraud, embezzlement, and market and accounting manipulation in a Munich court earlier this month. If found guilty, they face up to 15 years in jail. The case to a large extent hinges on Bellenhaus's testimony and credibility.

> 'What I did was shutting down the servers once the auditors were done with their work'

Bellenhaus told the judges on Wednesday that he did not delete any data on local servers in Dubai.

"What I did was shutting down the servers once the auditors were done with their work," he said, claiming that a reference to his alleged deletion of files, in a report by Wirecard's compliance team written after the business collapsed, was based on a "misunderstanding" of a statement by one of his colleagues. That person "only told [Wirecard's compliance] that the servers were shut down," Bellenhaus insisted.

He had told the court on Monday that he built shadow IT infrastructure in Dubai to make Wirecard's auditor EY think the outsourced operations were real. He said that he shipped old Wirecard servers from Munich to Dubai for this purpose and bought some used servers on eBay, but the infrastructure lacked the IT certificates necessary to perform payment-related tasks.

Later, he and some colleagues manually forged data from 200mn credit card transactions to deceive KPMG during a forensic audit. Bellenhaus said that it would have been unnecessary to fabricate that data if the outsourced business had been real.

Bellenhaus, in line with Wirecard's administrator and the public prosecutors, argued that the so-called third-party acquiring (TPA) business did not exist and was invented to deceive auditors, investors and creditors.

Dierlamm asserted that the TPA operations were real and accused Bellenhaus and Wirecard's fugitive second-in-command Jan Marsalek of having embezzled the proceeds without Braun's knowledge.

The trial will restart in January.

Financials. Asset management

State Street's ex-chief warns on consolidation

Former leader says trying to be 'all things to all people' can lead to a loss of focus

MADISON DARBYSHIRE — NEW YORK

The former head of the fourth-largest US asset manager has warned that a wave of consolidation in the sector risks blunting the edge firms have in an increasingly competitive market.

Asset managers have raced to broaden their offerings through mergers and acquisitions but an attempt "to be all things to all people" is misguided, said Cyrus Taraporevala, who this month stepped down as chief executive of State Street Global Advisors, which has $3.3tn in assets.

"We have never been a believer in that trend," Taraporevala told the Financial Times. "You've got to be distinctive in what you're offering."

Asset management has experienced record levels of dealmaking in the past few years, with more than 2,200 transactions completed since the start of 2021, according to Refinitiv. The rise of passive indexing has put pressure on management fees, while technology has accelerated change in the sector.

Traditional asset managers have raced to build scale as well as diversify their offerings through M&A. Alternatives providers, who help investors access illiquid investments such as private equity or credit, have been popular acquisition targets, as have groups that offer customised investment products.

But asset managers that have strayed outside their wheelhouse and added new capabilities without "discipline" on price or utility could struggle. "I'm not saying you just have to focus on one edge or that you can't expand your edge," said Taraporevala, who took over at State Street Global Advisors in 2017. "But bits and bobs are not an edge."

Mergers in the asset management industry are known for being difficult to execute. While some deals have had happy endings, he said, "there's at least as long a list that haven't been successful". In November, State Street called off a deal to acquire Brown Brothers Harriman's investor services business, citing regulatory hurdles.

Those who will be successful "are able to answer the question: is it really adding an additional edge?" he said. "Just because you've acquired some capability, unless it's distinctive, it's not like the client doesn't have other choices where they can get exposure to that asset class or that style or that strategy."

Meeting the challenge: Cyrus Taraporevala nearly doubled the size of State Street's funds during his tenure. Below, new chief Yie-Hsin Hung
Michael Cohen/Getty Images for the New York Times; Victor J. Blue/Bloomberg

State Street Global Advisors, the asset management group within State Street Corp, is focused on lower-cost index products that helped the manager achieve massive scale. Taraporevala nearly doubled the size of State Street funds during his tenure, according to Morningstar data.

But markets have taken a beating this year, as rising inflation and interest rates have hit growth stocks. Investment companies have also struggled, with State Street Corp's share price down 17 per cent since January. State Street's largest investment fund tracks the S&P 500 index with more than $375bn. At the end of November, total net assets for the firm were down $30bn since the start of the year, to $1.3tn, but the group absorbed $25bn in net inflows over the same period, according to Morningstar data.

Taraporevala, who was succeeded as chief executive by former New York Life chief executive Yie-Hsin Hung, said sentiment in the market had been challenging, oscillating between "high risk" and "crisis" all year. "It's been quite extraordinary. We only put some risk back on a few weeks ago," he said.

"In our tactical portfolios — and tactical is the operative word here — we have been more risk-off and overweight cash as well as commodities," Taraporevala said. The asset manager also underweight fixed income in these short-term portfolios.

He said that, depending on an investor's perspective, the US is either at the end of an extraordinary bull market or several years into a "darn good" bull market that has seen a correction. "And, unfortunately, part of the phenomenon of the late bull market is taking risks, saying things like: 'This time it is different,'" Taraporevala said.

> 'We have an entire generation of portfolio managers who have never actually experienced inflation'

Part of the challenge facing the rapidly expanding asset management industry, he said, is that many money managers and executives have never experienced such choppy markets or such pervasive inflation.

"We have an entire generation of portfolio managers who have never actually experienced inflation . . . You'd have to find me somebody who was working in the early 1970s before I could start bringing in talent who've lived with inflation."

Some managers who have grown up outside the US do have familiarity with the perils of inflation, said Taraporevala, who grew up in India.

"I experienced inflation by the accident of where I was born . . . These are real issues many people haven't dealt with in their professional careers . . . that people will need to wrap their heads around."

Travel & leisure

Ishbia to buy Phoenix basketball teams

SARA GERMANO — NEW YORK
ORTENCA ALIAJ — LONDON
JAMES FONTANELLA-KHAN — MILAN

US mortgage lending billionaire Mat Ishbia has agreed a deal to acquire the Phoenix Suns and Mercury teams at a valuation of $4bn, in what would be a record transaction for a National Basketball Association franchise.

An agreement between Ishbia — with his brother Justin — and the teams' current owner, Robert Sarver, will give the brothers more than 50 per cent ownership of the two teams. The deal is still subject to due diligence and approval by the NBA's board of governors.

News of the Suns and Mercury sale was earlier reported by ESPN.

A sale of the teams would conclude years of tumult under Sarver's administration. He agreed to sell them both in September soon after the NBA suspended him for using racist and bullying language and behaviour throughout the front office.

The Phoenix transaction would be the latest in a string of record sales of professional sports teams this year. The National Football League's Denver Broncos sold for $4.6bn in June, a record price for a professional team, to a consortium led by Walmart heir Rob Walton. In football, Chelsea FC and AC Milan [...] blank-cheque companies was taking off. The deal with Gores Holdings IV valued the mortgage lender at $16bn and made Ishbia a billionaire on paper. However, shares in the company have declined by more than half since it made its public market debut.

Ishbia is known to be a big basketball fan and played for Michigan State University. He helped the Spartans to the 2000 National Collegiate Athletic Association championship and has donated millions to his alma mater's athletic programme.

"Basketball is at the core of my life," Ishbia said in a statement late on Tuesday. He said he had spent the past two decades building United Wholesale [...]

Financials

Bankman-Fried consents to US extradition

JOSHUA OLIVER — LONDON
JOE MILLER — NEW YORK

Sam Bankman-Fried told a court in the Bahamas that he will consent to extradition to the US, a move that could result in the founder of FTX arriving in New York as soon as late yesterday to face charges over the collapsed cryptocurrency exchange.

Bankman-Fried arrived at a Nassau courthouse around 11am local time yesterday under heavy police guard. He signed preliminary documents to clear the way for his return to his home country on Tuesday night, according to a person familiar with the matter.

The hearing concluded about 10 min[...] American history" by misappropriating customer assets from FTX to his private trading firm, Alameda Research. He was arrested last week in the Bahamas, where he lives.

Bahamas magistrate Shaka Serville will contact the country's minister of foreign affairs to sign off the extradition, local TV reported yesterday.

US embassy officials entered the courthouse in Nassau shortly before Bankman-Fried, according to Reuters.

Personnel from the FBI and US Marshals Service had also arrived on the island, the news agency reported.

Under US law, Bankman-Fried must be brought before a magistrate in Manhattan within two days of landing in New York for an initial hearing at which the charges against him will be read out.

A decision will also be made on whether to grant the FTX founder bail until a trial begins. The former billionaire's request last week to be released on bail in the Bahamas had been denied.

Should he arrive in New York after court hours, Bankman-Fried is likely to be held in custody overnight. Were he to be denied bail, Bankman-Fried would [...]

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2022/12/22 20:20 All pages from Financial Times (Asia), Thursday, December 22, 2022

COMPANIES & MARKETS

Emergency medicine goes under buyout knife

For private equity, a slice of US healthcare spending appears to be just what the doctor ordered — but backlash is growing

MARK VANDEVELDE — NEW YORK

Katie Porter did not go to the nearest hospital when, in the middle of her 2018 campaign for election to Congress, she began suffering pain in her abdomen.

"I knew enough to choose to go to an in-network emergency room when my appendix burst," said Porter. In agony, she insisted on being taken to a hospital that was covered by her health insurance, though it was further away. "But my surgeon was out of network." Soon after, she received a demand from the doctor for about $3,000.

Porter learnt the hard way that her hospital, like many in the US, did not employ the doctors who work there.

It is a feature of the fragmented US healthcare system that the private equity industry has seized on. Over the past five years, some of the country's biggest buyout firms have snapped up the companies that employ emergency room doctors, capturing some of the 18 per cent of gross domestic product that the US spends on medical care.

Critics have said the result is an increasingly concentrated market in which a handful of Wall Street-backed companies have the power to control how emergency medicine is practised and paid for.

The buyout firms and some in the healthcare industry dismiss this fear, saying scale is necessary for doctors to hold their own in daily negotiations on bills with powerful insurers.

Texas provides a striking example of the inroads private equity has made. Three groups employ physicians that staff about a quarter of the state's 384 emergency rooms, an FT review of job postings and regulatory records has found. This pattern is repeated across the country. A single company, TeamHealth, reported in 2017 that it provided emergency staffing to 17 per cent of the hospitals in its target market.

TeamHealth was sold to Blackstone for $6.1bn in 2017, at about the same time rival American Physician Partners was taken over by Brown Brothers Harriman. The biggest physician staffing company, Envision, was acquired by KKR for $9.9bn the following year.

As the Biden administration toughens competition policy after years of leniency, antitrust enforcers are increasingly receptive to arguments that private equity money is distorting the provision of healthcare.

> 'Consolidation is inherent to the model, and one huge outcome is prices go up'
>
> Mark Miller, Arnold Ventures

The Federal Trade Commission, whose chair Lina Khan has vowed to take a "muscular" approach to policing private equity deals that have "life-and-death" consequences, hosted a listening session to probe the consequences of healthcare mergers earlier this year.

Lawsuits filed in the past two years by employees, doctors' groups and insurance companies sketch a picture of those consequences, alleging that some of the biggest firms have tampered with clinical standards to cut costs or raise bills, or that in some cases they have engaged in systematic fraud.

Such disputes, together with a potential regulatory crackdown, threaten not only private equity's profits but the financial stability of a life-saving industry that is saddled with billions of dollars of debt following the buyout deals.

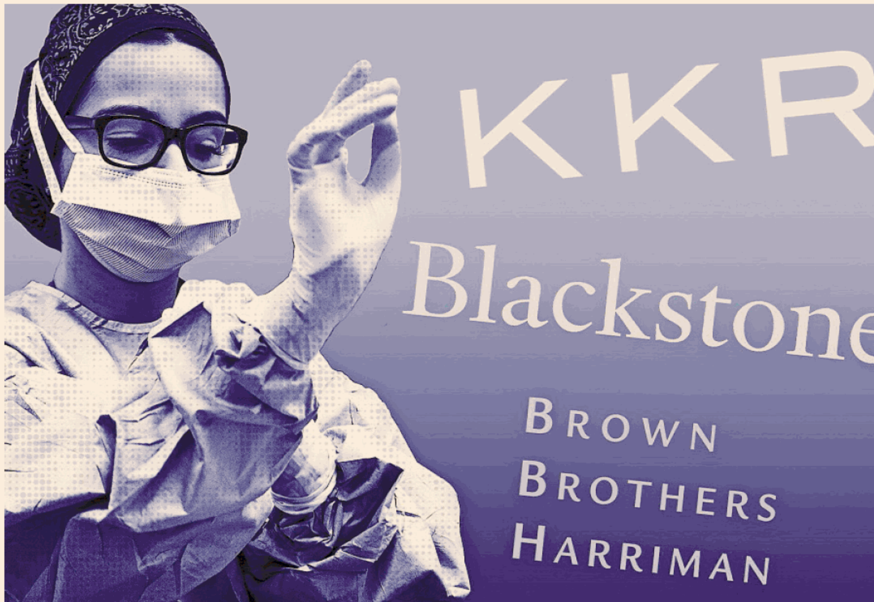
"I call it a monopolisation," said a Texas doctor who has worked for two of the three biggest private-equity-backed staffing companies and laments the decision of some medics to sell the businesses they have built. "It's like our colleagues are selling the future generation of medicine."

Even before private equity became involved, hospitals had compelling reason to outsource staffing of emergency rooms, often relying on small groups owned by the doctors themselves.

Some hospitals did not want the administrative overhead of organising rotas or negotiating with insurers. Others run in states where for-profit hospitals are barred from employing doctors to practise medicine, a measure that is intended to prevent the profit motive from intruding on treatment decisions.

Those incentives created an inherent tension between doctors both running companies and providing care, and opened the door for private equity.

Chris Newton had only just finished his medical residency in Michigan when in 2002 he joined Emergency Physicians Medical Group, which ran the



Lucrative operations: KKR acquired physician staffing business Envision and Blackstone snapped up TeamHealth, while Brown Brothers Harriman took over American Physician Partners
FT montage/Getty Images

coming to a head. In response, he hired an investment banker to work out whether they should sell to a bigger rival or to a private equity firm.

"We'd grown, we'd built our infrastructure, but we needed to be bigger," said Newton.

Many executives believe that emergency medics have become vulnerable to insurers trying to squeeze payouts because they are required by law to treat all comers.

In 2016, Newton sold the doctor's group he had joined as a young medic to Envision, the biggest provider of staffing for hospital emergency rooms. Two years later, KKR bought the enlarged group, making Newton one of the most senior executives at a company that hoped, under private equity ownership, that it would have the financial heft to stand up to the biggest insurers.

For a private equity industry that has made billions of dollars and created empires by assembling car washes, dentists' offices and local businesses of every conceivable kind into efficiently run national chains, a "roll-up" of hospital emergency rooms seemed like a sound plan.

But private equity firms had not reckoned on a legislative backlash that made it harder to collect payment for medical care that they are required by law to provide. Two years after her election, Porter, a Democrat, joined a bipartisan majority in Congress that passed the No Surprises Act, which bans medical providers from billing patients for charges that have been rejected by their insurance companies.

Envision and Blackstone-owned TeamHealth both campaigned against an early version of the law, which they argued would have enabled big insurance companies to set rates unilaterally. TeamHealth said it had long eschewed so-called surprise billing as a matter of policy, and Envision ended the practice after a new chief executive, Jim Rechtin, joined in 2020.

With patients safe from surprise bills, Rechtin said, insurers were free to press the negotiating advantage created by a 1986 law that required hospitals to treat emergency cases regardless of ability to pay. "A subset of health plans began to say in effect, 'Hey, if you have to see my patients, regardless of whether I pay you, why should I pay you?'"

However, insurers claim that doctors' groups exploit the absence of an upfront negotiation to charge unreasonable prices for emergency care.

The stand-off has spawned an expanding legal battle that casts an unflattering light on insurance companies and physician staffing groups alike.

FTC's Lina Khan: tough line on deals with 'life-and-death' consequences

The biggest US health insurer, UnitedHealthcare, has filed lawsuits against Envision and TeamHealth, alleging that both companies drastically overcharged for routine encounters by submitting bills indicating that patients would have risked death or permanent impairment unless they had received immediate, complex care.

In one case cited in a lawsuit filed in Tennessee last year, TeamHealth allegedly demanded $1,712 for treating a 23-year-old man who walked into a hospital at midnight complaining of epigastric pain after eating a chilli dog. Court documents state that the patient was given an antacid and sent home.

UnitedHealthcare alleges fraud in about 60 per cent of the highest-cost medical bills submitted by the two private-equity-owned companies, with the insurer saying it has made $100mn in overpayments to TeamHealth alone.

Similar allegations have appeared in testimony from doctors who have worked in private-equity-run emergency rooms.

Caleb Hernandez, a physician who worked at various hospitals in Colorado, claimed in a lawsuit that he had been required to falsify records to show that he had participated in the care of patients who were treated by less-qualified staff, so that TeamHealth could claim reimbursement at a higher rate. The case was settled; terms have not been disclosed.

But TeamHealth and Envision argue that they are the real victims of a long-running campaign by UnitedHealthcare to avoid paying legitimate medical bills. Their arguments have met with some success. Last year a Nevada jury ordered UnitedHealthcare to pay a TeamHealth subsidiary $60mn in compensation and punitive damages connected to one such claim.

18%
Share of gross domestic product spent on medical care in the US

$1,712
Alleged bill to see a man with gastric pain after he ate a hot dog. He was given an antacid

TeamHealth said such episodes showed that it had "the resources and scale to fight back against giant insurance companies that are exploiting their huge size to slash payments to doctors". UnitedHealthcare said crucial evidence was withheld from the jury and is appealing.

"I don't think anybody's a saint here," said Mark Miller, who advocates healthcare reform at Arnold Ventures, a philanthropic fund set up by energy trader John Arnold. "It's true that the insurers engage in claims denial, basic hassle and all kinds of other activities that from a physician's point of view could be very unfair. But consolidation is inherent to the private equity business model, and one huge outcome of consolidation is prices go up."

Doctors at Texoma Medical Center in Denison, Texas did not understand how private equity was going to change the way they worked until six months after the takeover.

"They came in saying that nothing would change," said a Texas doctor at an emergency department that was acquired by APP. "They didn't do anything for six months and then they put the model to work."

That model is spelt out in a presentation given by APP executives as they sought a cash infusion of $580mn, a copy of which has been seen by the FT. "Any potential negative impact resulting from the No Surprises Act" would be repaired — the presentation assured potential lenders — by cutting doctor wages, linking earnings to "productivity", replacing doctors with less qualified personnel, and reducing staffing.

APP staffs at least a dozen emergency rooms in the Houston area, according to job advertisements published on the company's website. Medics in the city are suing to extricate themselves from non-compete agreements similar to the one presented to doctors at Texoma, contending that APP's efforts to cut costs and boost profits ended up blighting the emergency rooms with infighting and mismanagement.

One Houston doctor is accused of diverting performance payments that were due to his colleagues by billing insurance groups for more hours than he worked, according to a complaint filed in Harris County against several APP subsidiaries.

> 'The acquisition felt more like a hostile takeover and had a devastating impact'
>
> Rebel doctors' letter to chief

Another doctor allegedly told colleagues to work while unwell, appearing to circumvent Covid protocols by communicating "his four Ms: Motrin [ibuprofen], mask, man up, must not test", the complaint said.

The APP subsidiaries named in the lawsuit have denied the allegations. APP and Brown Brothers Harriman declined to comment.

The escalating fights over doctor pay and working conditions may partly reflect an industry hit by rising costs, tougher reimbursement negotiations, and a shortage of patients, as the risk of infection made many people wary of setting foot in a hospital.

APP's effort to raise new debt failed, forcing the company to negotiate a restructuring.

After a lengthy negotiation, Envision this year used a complicated legal manoeuvre to present creditors with a choice between a haircut on its debt or being pushed to the bottom of the priority queue for repayment. In October, a downgrade from Moody's pushed TeamHealth deeper into junk territory.

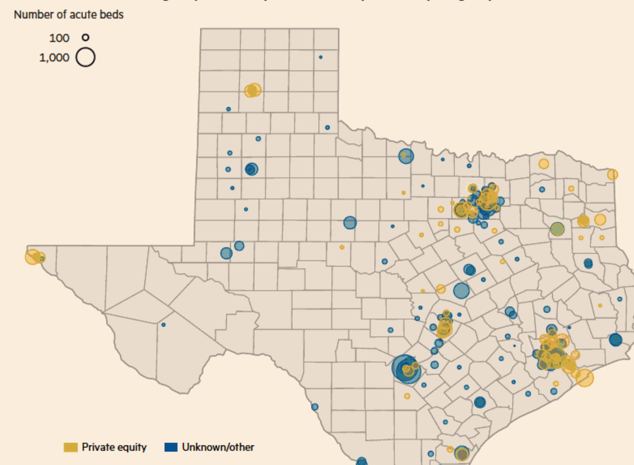
Back at Texoma, the medics plotted a rebellion. Unwilling to embrace management that they felt worsened patient care, yet reluctant to risk a costly lawsuit, they wrote to the hospital's chief executive, asking him to help them take back control of their emergency room.

"The acquisition felt more like a hostile takeover and had a devastating impact not only on our morale but in patient care and quality metrics as well," said the letter, signed by five doctors last December and seen by the FT.

The rebellion bore fruit. Texoma said it "no longer contracted with APP for ER physician services". APP's removal paved the way for the doctors to set up their own staffing group at the hospital.

Such outcomes are rare. According to APP's presentation to lenders, issued in

One in four Texas emergency room hospitals staffed by three buyout groups*



Fixed income. Debt sell-off

Japanese bonds sustain fresh blow in test of BoJ resolve

Yields still soaring as investors spot path to higher interest rates after policy adjustment

KANA INAGAKI AND ERI SUGIURA
TOKYO

Japanese government bond prices have lurched lower for the second straight day as markets forcefully challenged the central bank's assertion that it was not planning to raise interest rates.

Yields on typically sleepy Japanese government bonds blasted higher on Tuesday, sending shockwaves across global debt markets, after Bank of Japan governor Haruhiko Kuroda stunned investors in his final months in office with a tweak to the way the central bank keeps a lid on long-term borrowing costs.

"This measure is not a rate hike," Kuroda said. "Adjusting the [yield curve control] does not signal . . . an exit strategy."

But in yesterday's trading, yields kept on cranking higher, with benchmark 10-year yields reaching 0.5 per cent — low by global standards but a significant doubling from the start of this week and the highest point since mid-2015.

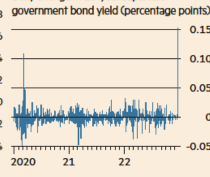
Pressure on the debt suggests that investors believe they can see the beginning of an end to Japan's six-year experiment with negative interest rates and yield targeting.

"We all know this is a step in that direction," said Mark Dowding, chief investment officer at BlueBay Asset Management, whose long-running negative bet on Japanese government bonds this week delivered large returns. "The genie is out of the bottle to markets that further changes in policy are more likely."

Japanese bond yields shoot higher
10-year yield (%)

Source: Refinitiv

BoJ shakes bond market out of its slumber
Daily change in 10-year Japanese government bond yield (percentage points)



On Tuesday, the central bank said it would allow 10-year bond yields to fluctuate by 0.5 percentage points above or below its target of zero, replacing the previous band of 0.25 percentage points.

Japan has kept long-term yields pinned down since 2016 and the previous range had been in place since 2021 in an effort to rekindle long-dormant inflation.

Kuroda, who is stepping down as governor in April, denied the adjustment represented a tightening of monetary policy, saying the BoJ was determined to ease further if needed to achieve its 2 per cent inflation target.

But that message is not cracking through, especially as core inflation — which excludes volatile food prices — recently exceeded the BoJ's target for the seventh month in a row, hitting a 40-year high of 3.6 per cent in October.

"The bond market is already starting to price in that the BoJ will steadily head towards the end of its monetary easing programme with the change in governor [in April]," said Takeshi Yamaguchi, chief Japan economist at Morgan Stanley. "No matter how much Kuroda says this is not a rate hike and that easing measures are being strengthened, no one believes him. It's a credibility issue."

The central bank has sought to match its words about sticking to an easy monetary path with action.

In addition to widening the 10-year yield band, it also boosted monthly JGB purchases from ¥7.3tn to ¥9tn ($68bn) and offered an even broader range of unlimited bond buying. Some analysts say this sends the right message.

"This is not a turning point in BoJ policy," said Kazuo Momma, the former head of monetary policy at the BoJ who is now executive economist at Mizuho Research Institute. "If the market function improves, this will be a one-off measure."

Momma said the BoJ's decision was based in part on a bond market survey conducted in November that showed market conditions were deteriorating to the worst level in 15 years.

Take a hike: the Bank of Japan has stressed that the latest yield curve control adjustment is not a rate rise
Philip Fong/AFP/Getty

'The genie is out of the bottle to markets that further changes in policy are more likely'

The central bank now owns more than half of outstanding bonds. On some days, no bond trades take place at all — a sharp contrast with other major bond markets in the US and Europe where billions change hands every day.

Traders have long complained about this frozen liquidity. But they say the timing of Kuroda's effort to lubricate market functioning, at a point when inflation is accelerating and other central banks are pulling interest rates rapidly higher, points to a bigger shift.

They are likely to test the central bank's ability to stick to its new limits on volatility, analysts said.

"The BoJ may be forced to take [further] measures if market players, particularly outside of Japan, do not believe Kuroda's remarks and continue shorting Japanese government bonds," said Kiichi Murashima, economist at Citigroup. "An important task for the new governor is to restore the BoJ's reduced credibility and rebuild communication with markets," he added.

Mizuho's Momma and Morgan Stanley's Yamaguchi said the BoJ could scrap yield curve controls under the new governor next year but the hurdle to increasing interest rates would be higher then due to global economic strains.

"The next policy decision the BoJ takes will likely be a major one — such as changing long- or short-term policy rate targets or terminating YCC altogether, and this will depend on the risk of global economic slowdown in 2023," said Naohiko Baba, chief Japan economist at Goldman Sachs, suggesting that the central bank could abandon its negative interest rate policy.

Additional reporting by Katie Martin

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Crypto

US bitcoin miner Core Scientific files for bankruptcy

JOSHUA OLIVER

One of the largest US-listed bitcoin miners has filed for bankruptcy as companies battle falling token prices and rising costs for the energy-intensive business of churning out cryptocurrencies.

Core Scientific filed yesterday for Chapter 11 bankruptcy protection in Texas, where it is based. The company said it planned to keep operating and producing bitcoin while it hammered out a restructuring deal with its lenders and creditors.

The Nasdaq-listed crypto miner is a constituent of the Russell 2000 Index, a widely held benchmark of smaller US companies, meaning its bankruptcy will hit the portfolios of many investors and deepen the woes of the crypto industry.

Its market value reached almost $3bn in April but has since fallen to less than $100mn, according to FactSet data.

It operated facilities in five US states where computers churn through complex equations in a race against other bitcoin network participants to create new units of the cryptocurrency.

The company is one of several listed crypto miners whose stock has been hit as their profits are squeezed between tumbling prices for crypto tokens and rising global prices for the vast amounts of energy burnt in the mining process.

The bankruptcy filing 'was necessitated by a decline in the company's operating performance'

Core Scientific began trading in January following a deal with a special purpose acquisition company backed by BlackRock. Its stock is down 98 per cent this year.

The company said the bankruptcy filing "was necessitated by a decline in the company's operating performance and liquidity suffering from the prolonged decrease in the price of bitcoin, the increase in electricity costs . . . and the failure by certain of its hosting customers to honour their payment obligations".

Core also suffered from the bankruptcy of crypto lender Celsius Network, which collapsed in the summer.

The two companies have been locked in a dispute over hosting services that Core provided to Celsius, which added to the miner's financial strains.

The price of bitcoin, the largest cryptocurrency, has fallen more than 65 per cent this year against the dollar, hitting two-year lows.

London-listed miner Argo Blockchain has shed 97 per cent this year. Valkyrie Bitcoin Miners ETF, which tracks a portfolio of listed miners, has fallen about 80 per cent since it launched in February.

Core has up to 5,000 creditors and between $1bn and $10bn in assets and liabilities, according to court filings.

The company owes about $73mn to its 30 largest unsecured creditors, including unpaid taxes and energy suppliers. Its largest unsecured claim is $42mn owed to financial group B Riley, a lender to the crypto miner.

Financials

South Korea's Mirae builds presence in European ETF sector with GHCO deal

STEVE JOHNSON

The South Korean financial group Mirae has expanded its presence in Europe by buying its third-largest market maker in exchange traded funds.

Mirae is snapping up London-based GHCO, a challenger to the near-duopoly of Flow Traders and Jane Street in off-exchange trading of ETFs in Europe.

The move continues a flurry of activity in the fast-growing ETF market by Seoul-based Mirae Asset Financial Group, which has divisions encompassing asset management, life insurance and brokerage services.

In June it bought ETF Securities, one of the pioneers of Australia's ETF sector. This built on its acquisition of Global X, a New York-based issuer also active in Europe and Asia, in 2018, and its purchase of Canada's Horizons ETFs in

Asian bank trying to meaningfully expand in Europe and in doing so they are genuinely inclined to invest to build a third alternative in what is otherwise a duopoly in market making in ETFs," said Dan Izzo, chief executive of GHCO, who will stay on in his role.

The deal could raise concerns over a potential conflict of interest, given that GHCO is lead market maker on more than 40 per cent of European ETF listings, according to Izzo, and will now be owned by a parent that is a direct competitor to rival issuers. GHCO claims to be the largest market maker for on-exchange ETF trading in Europe, with monthly trading volumes of $3bn, according to Mirae.

However it is a very small player on "over-the-counter" off-exchange platforms such as Tradeweb and Bloomberg, where the vast majority of trading takes place. Market participants said that should assuage concerns.

"Market making has only a few players and having another one that is better capitalised is a good thing for all players in the ETF market from the issuers to the investors," said Hector McNeil, co-founder and co-chief executive of ETF issuer HANetf.

MJ Lytle, chief executive of Tabula Investment Management, a bond ETF specialist, said the separation in operations between Mirae and Global X also

Crypto

FTX customers to vie for priority payouts in US bankruptcy case

JOSHUA OLIVER

A group of FTX customers will try to secure quicker repayment for people who have money trapped with the defunct exchange by convincing a US court that clients' crypto assets remain their own property.

Lawyers representing a group of FTX clients who had a total of $1.6bn stuck on the exchange when it collapsed last month say they plan to argue that those funds are held by FTX as "custody" assets, meaning they should be paid back swiftly rather than rolled into the sprawling bankruptcy proceedings for Sam Bankman-Fried's crypto empire.

The status of customer deposits has emerged as a key legal question in the spate of bankruptcies of cryptocurrency firms this year, including the collapse of lenders Celsius Network and Voyager

Chapter 11 bankruptcy proceedings in Delaware, including customers, suppliers and lenders, who will have to vie with each other for priority to receive repayment out of the company's remaining assets.

The action by FTX clients is intended to avoid customers being last in line.

"If the assets belong to the customer, there is no line — it's just their assets," said Erin Broderick, counsel to law firm Eversheds Sutherland, which is representing the group of FTX clients.

'If the assets belong to the customer, there is no line – it's just their assets'

FTX, founded by Bankman-Fried,

new year at the latest to recognise the customers' status.

FTX did not respond to a request for comment.

A judge overseeing the US bankruptcy of collapsed crypto lender Celsius this month ordered that a small number of clients should be paid back assets that were never mingled with other cash at the company. The judge in the case is still weighing the question of how to treat other customers' funds.

Celsius has asked the court to treat client funds that were held in custody as being owned by the customers while viewing assets pledged to receive high interest payments in the lender's "earn" programme as the company's property.

The road to recovery for FTX customers is further complicated by allegations that up to $10bn of the roughly $16bn that the exchange held

The day in the markets

What you need to know

- **US stocks rise as markets digest Bank of Japan policy change**
- **Bonds steady after investors sense BoJ is softening policy stance**
- **Yen marginally weaker against dollar after previous session's surge**

Stocks climbed yesterday and global bond markets steadied following a heavy sell-off sparked by the Bank of Japan's unexpected decision to relax its policy of pinning yields close to zero.

On Wall Street, the S&P 500 and the tech-heavy Nasdaq 100 both advanced 1.4 per cent.

Equities across the Atlantic also rose with the Stoxx Europe 600 index closing 1.7 per cent higher.

The gains came as stability returned to government bonds, which on Tuesday were rocked by the BoJ's announcement that it would allow 10-year Japanese yields to climb as high as 0.5 per cent compared with 0.25 per cent previously.

The US 10-year Treasury yield was little changed at 3.68 per cent, having earlier touched a three-week high of 3.71 per cent, despite a continued sell-off in Japanese government debt. UK and German bond yields were also steady.

While BoJ governor Haruhiko Kuroda stressed that Tuesday's move was not a shift away from Japan's ultra-loose monetary policy, investors sensed a crack in the central bank's resolve to stand apart from the global dash to higher interest rates.

"The BoJ has taken a first step toward tighter monetary policy," said Ulrich Leuchtmann, currency strategist at Commerzbank.

US stocks bounce higher

S&P 500 index

3,900 / 3,880 / 3,860 / 3,840 / 3,820 / 3,800 / 3,780

Mon Tue Wed

Source: Refinitiv

The yen was marginally weaker yesterday at ¥132.40 to the dollar following an increase of almost 4 per cent on Tuesday.

The currency was likely to rise further as Japanese investors sold dollar holdings to buy Japanese debt, drawn by the rise in yields, said George Saravelos, strategist at Deutsche Bank.

"The BoJ policy shift (despite Governor Kuroda's claims to the contrary) should start to put the Japanese wall of money to work," Saravelos said. "There is a lot to move."

The BoJ's decision came after US Federal Reserve chair Jay Powell said there was "more work to do" in taming US inflation after increasing interest rates last week while Christine Lagarde, president of the European Central Bank, said it was "not done" raising rates.

"The Fed, ECB and BoJ have all delivered hawkish surprises over the past week," said Steve Englander, head of G10 FX research at Standard Chartered, pointing out that moves by the most influential central banks had added a "risk-off flavour" to markets heading into the Christmas period.

Tommy Stubbington

Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	3876.03	1704.68	26387.72	7497.32	3068.41	107165.49
% change on day	1.42	1.63	-0.68	1.72	-0.17	0.28
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	103.935	1.061	131.995	1.211	6.971	5.201
% change on day	-0.029	-0.282	0.441	-0.247	0.001	0.271
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	3.678	2.308	0.474	3.571	2.886	12.656
Basis point change on day	-0.660	0.900	6.190	-2.100	-0.100	-10.800
World index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	402.54	82.00	78.08	1813.90	23.74	3950.20
% change on day	1.05	2.76	3.58	1.29	2.15	1.13

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

Main equity markets

S&P 500 index — 4160 / 4000 / 3840 / 3680; Oct 2022 Dec

Eurofirst 300 index — 1760 / 1680 / 1600 / 1520; Oct 2022 Dec

FTSE 100 index — 7680 / 7360 / 7040 / 6720; Oct 2022 Dec

Biggest movers

%	US		Eurozone		UK	
Ups	Nike	13.70	Adidas	6.17	Jd Sports Fashion	6.09
	Carnival	5.31	Philips	5.72	Ocado	4.83
	Fedex	4.82	Grifols	5.07	Anglo American	4.02
	American Airlines	4.47	A.p. Moller - Maersk B	4.34	Persimmon	3.59
	Apa	4.26	Eni	3.55	St. James's Place	3.31
Downs	Host Hotels & Resorts	-4.14	Bayer	-1.16	Bunzl	-0.96
	Walgreens Boots Alliance	-2.52	Oci	-1.10	Halma	-0.39
	Generac Holdings	-2.05	Volkswagen	-0.62	Severn Trent	0.08
	Hilton Worldwide Holdings	-1.88	Commerzbank	-0.60	Aveva	0.16
	First Solar	-1.24	Casino Guichard	-0.49	Homeserve	0.25

Prices taken at 17:00 GMT. Based on the constituents of the FTSE Eurofirst 300 Eurozone. All data provided by Morningstar unless otherwise noted.

Wall Street

Sportswear group **Nike** topped the S&P 500 index after delivering forecast-beating results for its fiscal second quarter.

A 17 per cent year-on-year rise in revenue to $13.3bn topped the $12.6bn estimated by analysts, although gross margins were squeezed owing to promotional activity and price-cutting aimed at clearing inventory.

The performance prompted UBS to lift its price target for Nike.

The news also spurred a rally in peers such as **Under Armour** and **Lululemon Athletica** and retailer **Dick's Sporting Goods**.

Six Flags jumped following a presentation by Land & Buildings, a shareholder with a 3 per cent stake in the theme parks operator.

The activist investor said Six Flags' real estate was "likely valued at more than the company's entire current equity market capitalisation of approximately $1.8bn".

L&B therefore proposed a real estate investment trust conversion or property

Europe

A gloomy update sent Norway's **XXL** tumbling with the sports goods retailer warning that trading during this current quarter remained "challenging".

The market was characterised by high inventory levels, "resulting in aggressive pricing and excessive campaign activities", it said.

Core profits for the quarter were expected to land between NKr50mn ($5.1mn) and NKr100mn, down from NKr403mn a year earlier, as heavy discounting contributed to "significantly lower gross margins", said XXL.

Also in the sports sector, Germany's **Adidas** and **Puma** rallied after Nike beat Wall Street expectations overnight.

Aerospace group **Avio** sank following the "premature termination" of one of its rocket missions, it said.

The Italian company said around two and a half minutes "after the lift-off of the Vega C launcher, an anomaly occurred", adding that mission data was being analysed to clarify what happened.

French fragrance group **Interparfums**

London

Theatre chain **Cineworld** fell following news that US peer AMC was no longer in talks to acquire "certain strategic . . . assets" of the bankrupt group.

In a regulatory filing, AMC revealed that "at this time, negotiations are not continuing" regarding discussions over the US and European assets of the world's second-largest cinema chain.

Cineworld filed for bankruptcy protection in September after warning in August that ticket sales were still "below expectations".

Intellectual property group **Tekcapital** jumped on news that a company within its portfolio had struck a stateside deal.

US supermarket chain Hannaford Brothers agreed to stock the table-top shakers of MicroSalt, a developer of a proprietary low-sodium salt in which Tekcapital owns a majority stake.

The trimming of its production schedule left **Scotgold Resources** lower with the precious metals producer forecasting 2,000 ounces of gold in the fourth quarter, falling below a previous

Tough decisions lie ahead on supervising crypto exchanges

Matthew Elderfield

Markets Insight

Regulate crypto or let it burn? While debate rages in the US (and across the pixels of the Financial Times), it is already over in the EU — and soon will be in the UK.

The Financial Services and Markets Bill is winding its way through parliament. It now includes a broad definition of crypto assets that will be subject to regulation. A UK Treasury consultation will fill in the details shortly. And in the EU, the Markets in Crypto Assets Regulation (Mica) was agreed this summer and will come in force by 2024.

With the aftershocks from the collapse of the crypto exchange FTX reverberating, a new question comes into focus: how to supervise a crypto exchange?

Mica sets admirably tough standards for crypto asset service providers, covering exchanges. Exchanges will now need a licence from one country in order to gain a passport to do business across the EU. Two big changes are coming.

First, corporate structure. The service providers will need to have robust corporate governance and controls, an EU legal entity and, crucially, a corporate structure with jurisdictions that do not prevent effective supervision.

FTX's failure highlights the importance of these standards. But it is hard to give the other exchanges good marks. The largest, Binance, will still not say where it is headquartered, for example.

As the Bank of England's Jon Cunliffe says, part of the problem is that these are not really "exchanges" but rather provide multiple, bundled services that would be separated in traditional finance for conflict of interest, prudential and consumer protection reasons.

Mica unhelpfully appears to allow such bundling of multiple services in a single legal entity. Some guardrails will be needed in detailed rules set during the run-up to implementation.

Second, Mica will impose client asset protection rules on service providers. FTX's alleged use of client assets to fund its trading arm means creditors are waiting to hear about their losses. These creditors are thought to number at least 100,000 and could be more than 1mn.

This has left other exchanges scrambling to demonstrate the validity of their proof of reserves — the assets that back customer positions — with Binance commissioning a report from accounting firm Mazars. But the report is limited in scope on the crypto assets it covers, unconvincing about how customer liabilities are calculated and lacks comment on the effectiveness of internal controls. Mazars announced at the end of last week that it had stopped providing proof of reserve reports entirely and painstakingly qualified past ones as not being an assurance exercise.

> Supervisors need the resources and political cover to refuse licences until problems are sorted

Client asset segregation was a big non-crypto problem in the failure of Lehman Brothers and the broker dealer MF Global. This led to a crackdown in the UK and elsewhere with big fines, detailed new regulation and increased personal senior manager liability. Tough rules, bespoke to crypto, will need to be developed and adopted at speed.

Supervisors are going to have some difficult decisions to make on granting licences if exchanges aren't ready in time for the new EU and UK rules.

The exchanges will need big changes to their business models before they submit licence applications. Mica has a raft of other challenging requirements that also need to be sorted quickly.

Exchanges will have to vet each crypto asset's suitability for customer trading based on the "reliability of the solutions used" and the potential association with financial crime. They will need to disclose the adverse environmental and climate-related impact of the mining required for crypto assets. Liability for losses from hacking of customer wallets will kick in. Tougher risk warnings for crypto investments will come into force in both the EU and UK.

Supervisors have tight deadlines to make licensing decisions under Mica. The risk is that the race to be the crypto hub of Europe will sway decisions — likewise the new UK imperatives for supervisors to consider competitiveness.

Binance, by far the largest exchange, is the key test case. French regulator the Autorité des Marchés Financiers raised eyebrows by registering Binance under pre-Mica rules despite Binance being fined by Dutch supervisors and the UK's Financial Conduct Authority saying it was unsupervisable. What will happen in the (re) licensing process?

Supervisors need the resources and political cover to refuse licences until corporate structure and client asset problems are sorted.

The best way to supervise crypto exchanges? Start by not licensing them until they have got their act together.

Matthew Elderfield is a former financial regulator

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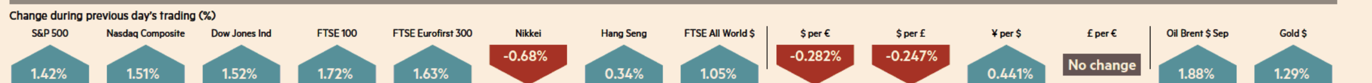
FT BOARD DIRECTOR PROGRAMME

MARKET DATA

WORLD MARKETS AT A GLANCE

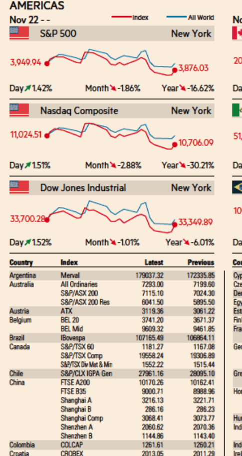
FT.COM/MARKETSDATA

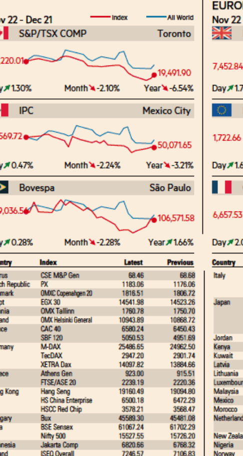
Change during previous day's trading (%)



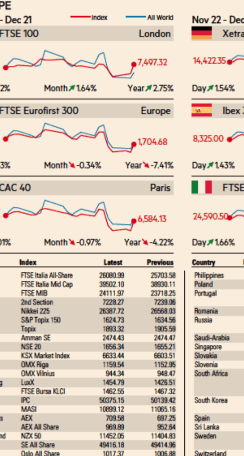
Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison

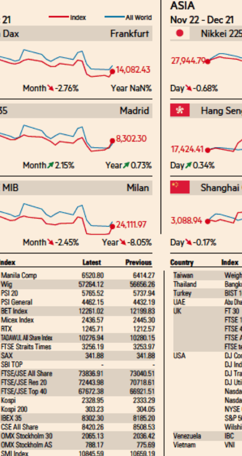
AMERICAS



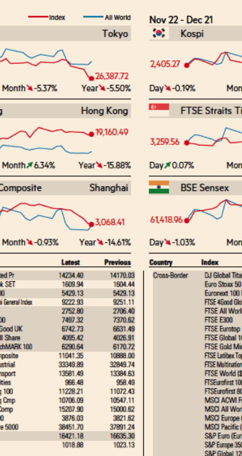


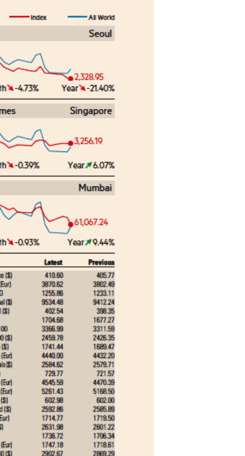
EUROPE





ASIA





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

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

STOCK MARKET: BIGGEST MOVERS

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

UK MARKET WINNERS AND LOSERS

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

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

CURRENCIES

Dec 21	Currency	DOLLAR Closing Mid	Day's Change	EURO Closing Mid	Day's Change	POUND Closing Mid	Day's Change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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

FTSE ACTUARIES SHARE INDICES

UK SERIES www.ft.com/equities

Produced in conjunction with the Institute and Faculty of Actuaries

	£ Stlg Dec 21	Day's chge%	Euro Index	£ Stlg Dec 20	£ Stlg Dec 19	Year ago	Div yield%	Cover	P/E ratio	X/D adj	Total Return
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT 30 INDEX

	Dec 21	Dec 20	Dec 17	Dec 16	Dec 15	Yr Ago	High	Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT WILSHIRE 5000 INDEX SERIES

	Dec 20		Dec 20
[illegible]	[illegible]	[illegible]	[illegible]

FTSE GLOBAL EQUITY INDEX SERIES

Dec 21 Regions & countries	No of stocks	US $ indices	Day %	Mth %	YTD %	Total retn	YTD %	Gr Div Yield	Sectors	No of stocks	US $ indices	Day %	Mth %	YTD %	Total retn	YTD %	Gr Div Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE SECTORS: LEADERS & LAGGARDS

Year to date percentage changes

[illegible]	[illegible]	[illegible]	[illegible]

FTSE 100 SUMMARY

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

UK STOCK MARKET TRADING DATA

	Dec 21	Dec 20	Dec 19	Dec 16	Dec 15	Yr Ago
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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

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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
4Global	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aberdeen Diversified Income and Growth Trust	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AstraZeneca	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital Metals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Carnival	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Coca-Cola Europacific Partners	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK RECENT EQUITY ISSUES

Issue date	Issue price(p)	Sector	Stock code	Stock	Close price(p)	+/-	High	Low	Mkt Cap (£m)
[illegible]	[illegible]	[illegible]	[illegible]	Stockdock247 Group PLC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	Hellenic Dynamics PLC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

Stock	Price	Day Chg	52 Week High	52 Week Low	Yld	P/E	MCap m
PingAnIns	49.65	0.75	69.40	31.30	4.98	7.97	47647.74
PngAnBnk	12.89	0.13	17.64	10.39	1.37	7.62	35884.35
Pwr Cons Corp	7.05	-0.06	9.81	6.65	1.27	14.50	11116.48
SaicMtr	14.69	-0.03	21.13	13.77	4.09	7.28	24621.84
ShenwanHong	0.10	0.00	0.18	0.05	-	2.98	113.02
ShgPdgBk	7.19	0.05	8.80	6.64	6.47	4.55	30275.89
Sinopec Corp	3.70	0.03	4.28	3.06	3.73	4.49	12089.47
Sinopec Oil	1.95	-0.01	2.37	1.70	-	641.67	3795.9
Denmark (kr)							
DanskeBk	134.15	2.90	134.20	91.28	1.43	9.59	16508.18
MollerMrsk	15500	645.00	24070	13185	2.10	2.64	18522.8
NovoB	925.00	-	940.00	604.40	0.97	46.56	230058.68
TevaPha	29.97	-0.18	37.23	23.83	-	25.39	9602.79
Italy (€)							
Enel	5.13	0.08	7.07	3.96	6.84	24.91	55359.81
ENI	13.46	0.46	14.85	10.43	4.80	5.92	51521.07
Generali	16.98	0.25	21.55	13.67	8.29	9.96	28496.2
IntSPaolo	2.10	0.03	2.92	1.58	1.67	67.96	43321.58
Unicred	13.40	0.20	15.93	7.75	0.86	20.77	31821.45
Japan (¥)							
AstellasPh	2048.5	-23.00	2205	1782	2.30	30.82	28491.55
Bridgestne	4771	-68.00	5509	4042	3.56	10.85	25796.84
Canon	2911	-78.00	3516	2538.5	3.44	14.08	29414.65
CntJpRwy	15975	-35.00	17920	14660	0.83	-29.94	24931.63
Investor	190.80	2.88	228.75	158.22	1.88	8.05	33401.6
Nordea Bk	110.48	0.92	113.78	85.25	13.59	12.65	39154.78
SEB	119.50	1.30	126.35	91.64	8.68	9.80	24739.11
SvnskaHn	103.70	0.05	107.45	80.88	4.95	9.99	19377.8
Swedbank	176.50	2.70	185.70	124.50	8.47	9.25	19197.7
Telia Co	26.70	0.48	41.70	26.04	7.70	9.24	10491.83
Volvo	191.00	2.28	218.65	148.24	3.50	12.21	29151.88
Switzerland (SFr)							
ABB	28.24	0.34	33.86	23.84	2.68	14.16	59886.02
CredSuisse	2.82	0.09	8.77	2.65	3.22	-4.63	8068.11
Nestle	108.46	1.52	128.90	103.42	2.31	19.69	321926.61
Novartis	84.71	1.13	88.42	73.32	3.24	9.62	219772.5
AutomData	246.31	2.40	274.92	192.26	1.39	42.64	102176.23
AutoZone	2401.58	17.43	2610.05	1703.32	-	24.27	45585.41
Avago Tech	559.40	15.38	677.76	415.07	2.40	35.33	233765.51
BakerHu	29.07	0.15	39.78	20.42	2.28	75.24	29107.65
Bank of NY	44.81	0.52	64.63	36.22	2.59	12.11	36219.02
BankAm	32.71	0.52	50.11	29.31	2.13	10.25	262373.65
Baxter	50.16	0.23	89.70	49.00	1.93	22.17	25286.7
BectonDick	252.88	3.64	277.29	215.90	1.19	48.93	71885.32
BerkshHat	466697.51	9297.51	544389.26	393012.25	-	8.78	278537.21
Biogen	287.69	0.18	311.88	187.16	-	30.94	41427.76
BlackRock	713.06	21.50	929.06	503.12	2.07	20.87	107098.46
Boeing	196.22	7.93	223.23	113.02	-	-30.69	116518.87
Intuit	393.66	6.58	658.84	339.36	0.58	55.14	110589.07
John&John	177.67	2.00	186.69	155.72	2.11	25.44	464515.3
JohnsonCn	64.42	1.17	81.69	45.52	1.60	32.90	44234.03
JPMrgnCh	132.42	1.73	160.24	101.28	2.57	9.64	388414.99
Kimb-Clark	136.78	1.40	144.53	108.74	3.08	28.71	46162.17
KinderM	17.86	0.25	20.20	15.36	5.56	43.15	40144.67
KLA Corp	395.88	9.97	442.44	250.20	0.88	22.79	56103.45
Kraft Heinz	40.21	0.42	44.87	32.73	3.56	54.85	49254.44
Kroger	44.69	0.11	62.78	41.82	1.58	22.82	31990.08
LasVegasSd	46.94	0.56	49.73	28.88	-	-34.77	35869.96
LibertyGbl	19.02	0.54	29.08	15.22	-	0.91	3269.58
Lilly (E)	369.20	9.56	375.25	231.87	0.82	67.47	350805.68
Venezuela (VEF)							
Bco de Vnzla	2.10	-	2.30	0.32	151.41	-	478.03
Bco Provncl	4.20	-	4.39	1.70	-	0.00	98.30

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 %
MitUFJFin	850.50	818.40	32.10	3.92	92.50	12.2	19.24
Cielo	4.83	4.87	-0.04	-0.82	0.52	12.1	-7.82
SumitomoF	5179.00	4974.00	205.00	4.12	522.00	11.2	12.52
CaixaBnk	3.65	3.62	0.03	0.94	0.28	8.3	7.42
Deut Bank	10.71	10.51	0.20	1.88	0.74	7.4	4.47
Bradesco	13.06	13.06	0.00	0.00	0.86	7.0	-0.76
Mizuho Fin	1806.00	1767.00	39.00	2.21	117.00	6.9	10.50
ItauHldFin	21.34	21.32	0.02	0.09	1.25	6.2	-5.99
KoreaElePwr	21850.00	21400.00	450.00	2.10	1150.00	5.6	10.91
MollerMrsk	15500.00	14855.00	645.00	4.34	785.00	5.3	3.20
Nike	117.35	103.21	14.14	13.70	5.90	5.3	10.65
Schlmbrg	52.99	51.76	1.23	2.38	2.56	5.1	-3.37
CharlesSch	81.17	79.56	1.61	2.02	3.85	5.0	3.65
Unicred	13.40	13.20	0.20	1.55	0.63	4.9	2.27
Halliburton	38.33	37.42	0.91	2.42	1.78	4.9	-1.08
WalMrtMex	72.03	71.99	0.04	0.06	3.16	4.6	1.07
Boeing	196.22	188.29	7.93	4.21	7.97	4.2	10.61
Allstate	135.25	133.68	1.57	1.17	5.35	4.1	2.50
Anglo American	3249.50	3124.00	125.50	4.02	117.00	3.7	5.24
SocGen	23.56	22.90	0.66	2.88	0.84	3.7	-2.06

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 %
BOE Tech	0.64	0.79	-0.15	-18.99	-0.16	-20.0	-15.07
Volkswgn	151.70	152.65	-0.95	-0.62	-28.25	-15.7	-12.67
FordMtr	11.68	11.47	0.21	1.84	-1.80	-13.3	-19.41
Tesla Mtrs	138.81	137.80	1.01	0.73	-17.99	-11.5	-29.38
Nissan Mt	413.40	428.00	-14.60	-3.41	-49.10	-10.6	-17.09
Bausch Hlth	9.37	9.24	0.13	1.41	-1.09	-10.4	-0.11
Fuji Hvy Ind	2048.50	2127.00	-78.50	-3.69	-215.50	-9.5	-9.68
VF Cp	25.48	25.17	0.31	1.21	-2.57	-9.1	-23.58
MitsuiFud	859.87	872.46	-12.59	-1.44	-84.85	-9.0	-8.74
Ericsson	61.23	60.66	0.57	0.94	-5.69	-8.5	-5.68
Chna Utd Coms	4.53	4.52	0.01	0.22	-0.41	-8.3	19.84
Denso	6692.00	6905.00	-213.00	-3.08	-600.00	-8.2	-11.69
Toyota	1808.00	1845.00	-37.00	-2.01	-160.50	-8.2	-9.01
Keyence	52050.00	53370.00	-1320.00	-2.47	-4580.00	-8.1	-11.35
HondaMtr	3038.00	3120.00	-82.00	-2.63	-262.00	-7.9	-8.67
Accenture	268.50	261.90	6.60	2.52	-22.96	-7.9	-7.37
MediaTek	654.00	646.00	8.00	1.24	-55.00	-7.8	-9.42
SHOP	48.48	49.01	-0.53	-1.08	-4.07	-7.7	1.88
Bayer	48.80	49.37	-0.58	-1.16	-4.01	-7.6	-6.99
CapOne	89.52	88.39	1.13	1.28	-7.08	-7.3	-22.99

Based on the FT Global 500 companies in local currency

BONDS: HIGH YIELD & EMERGING MARKET

Dec 21	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$										
HCA Inc.	04/24	8.36	BB-	Ba2	BB	113.75	4.24	0.00	0.12	-
High Yield Euro										
Aldesa Financial Services S.A.	04/21	7.25	-	-	B	71.10	28.23	0.00	0.64	25.98
Emerging US$										
Peru	03/19	7.13	BBB+	A3	BBB+	104.40	2.60	-	-	0.34
Colombia	01/26	4.50	-	Baa2	BBB-	109.50	2.33	0.16	0.52	1.28
Brazil	04/26	6.00	-	Ba2	BB-	115.15	2.78	-0.01	0.65	1.73
Poland	04/26	3.25	-	A2	A-	111.22	0.98	0.03	0.16	-0.07
Mexico	05/26	11.50	-	Baa1	BBB-	149.00	1.61	0.00	-0.12	0.56
Turkey	03/27	6.00	-	Ba2	BB+	101.26	5.82	0.00	0.17	3.07
Turkey	03/27	6.00	-	B2	BB-	102.88	5.43	0.14	0.83	4.38
Peru	08/27	4.13	BBB+	A3	BBB+	103.50	3.66	0.01	-0.02	0.80
Russia	06/28	12.75	-	Baa3	BBB	168.12	2.48	0.07	0.05	-
Brazil	02/47	5.63	-	Ba2	BB-	101.48	5.52	0.08	0.80	-
Emerging Euro										
Brazil	04/21	2.88	BB-	Ba2	BB-	103.09	0.05	0.01	-0.09	-1.19
Mexico	04/23	2.75	BBB+	A3	BBB+	107.76	0.76	0.00	-0.07	-1.56
Mexico	04/23	2.75	-	Baa1	BBB-	106.48	-0.26	-	-	-0.36
Bulgaria	03/28	3.00	BBB-	Baa2	BBB	117.04	1.00	0.02	-0.15	-1.42

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

Dec 21	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+	Baa1	A-	129.00	2.54	-0.01	-0.05	-
The Goldman Sachs Group, Inc.	02/28	5.00	BBB+	A3	A	117.21	2.47	0.00	0.32	-
NationsBank Corp.	03/28	6.80	BBB+	Baa1	A-	127.69	2.72	-0.01	0.06	-
GTE LLC	04/28	6.94	BBB+	Baa2	A-	128.27	2.80	0.00	-0.11	-
United Utilities PLC	08/28	6.88	BBB	Baa1	A-	130.43	2.62	-0.07	-0.22	-
Barclays Bank plc	01/29	4.50	A	A1	A+	96.46	5.02	0.00	0.02	-
Euro										
Electricite de France (EDF)	04/30	4.63	A-	A3	A-	137.45	0.82	-0.01	0.10	-
The Goldman Sachs Group, Inc.	02/31	3.00	BBB+	A3	A	124.42	0.68	0.00	-0.11	-
The Goldman Sachs Group, Inc.	02/31	3.00	BBB+	A3	A	121.70	0.93	0.00	0.02	-
Finland	04/31	0.75	AA+	Aa1	AA+	111.08	-0.27	0.00	-0.05	-0.87
Yen										
Mexico	06/26	1.09	-	Baa1	BBB-	98.73	1.34	-0.02	-0.14	0.27
£ Sterling										
innogy Fin B.V.	06/30	6.25	BBB	Baa2	A-	137.45	2.19	-0.03	0.02	-
innogy Fin B.V.	06/30	6.25	BBB	Baa2	A-	128.68	3.20	0.00	-0.01	0.40

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

Dec 21	Rate	Current	Since	Last
US	Fed Funds	4.25-4.50	15-12-2022	3.00-3.25
US	Prime	6.25	22-09-2022	5.50
US	Discount	3.25	22-09-2022	2.50
Euro	Repo	0.53	01-11-2022	0.374
UK	Repo	3.50	15-12-2022	3.00
Japan	O'night Call	0.00-0.10	01-02-2016	0.00
Switzerland	Libor Target	-1.25-0.25	15-01-2015	-0.75--0.25

INTEREST RATES: MARKET

Dec 21 (Libor: Dec 20)	Over night	Change Day	Change Week	Change Month	One month	Three month	Six month	One year
US$ Libor	4.31543	-0.005	0.504	0.007	4.36129	4.75257	5.17671	5.45871
Euro Libor	-0.64957	-0.064	0.000	0.001	-0.61943	-0.58057	-0.55600	-0.48571
£ Libor	0.18063	-0.005	0.000	0.001	3.46070	3.79450	4.32370	0.81363
Swiss Fr Libor				-0.002	-0.77540	-0.75300	-0.70280	-0.55320
Yen Libor				0.000	-0.06005	-0.03973	0.03836	0.04867
Euro Euribor				0.101	1.89800	2.08100	2.62500	3.11800
Sterling CDs				0.000	0.50000	0.63000	0.78500	
US$ CDs				0.000	4.31000	4.64000	5.01000	
Euro CDs				0.010	1.73000	2.06000	2.52000	

Dec 21	Short term		7 Days notice		One month		Three month		Six month		One year	
Euro	1.64	1.94	1.65	1.95	1.58	1.88	1.91	2.21	2.37	2.67	2.80	3.10
Sterling					0.45	0.55	0.58	0.68	0.71	0.86	0.90	1.05
US Dollar	4.13	4.33	4.15	4.35	4.21	4.41	4.54	4.74	4.91	5.11	5.08	5.28
Japanese Yen	-0.15	0.05	-0.20	0.00	-0.20	0.00	-0.15	0.05	-0.10	0.20	-0.05	0.25

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	202.56	0.00	2.65	-7.84	3.94	-7.67
Corporates(£)	323.13	-0.82	-1.66	-18.36	-0.96	-19.38
Corporates(€)	208.98	-0.43	-0.95	-13.48	-0.10	-14.14
Eurozone Sov(€)	211.13	-0.78	-2.91	-17.02	-2.27	-18.47
Gilts(£)	270.20	-0.90	-4.16	-24.83	-4.34	-26.45
Overall(£)	278.97	-0.85	-3.48	-22.93	-3.47	-24.41
Overall(€)	207.16	-0.68	-2.23	-16.02	-1.56	-17.23
FTSE						
Sterling Corporate (£)	-	-	-	-	-	-
Euro Corporate (€)	104.47	-0.05	-	-	0.54	-1.73
Euro Emerging Mkts (€)	741.85	7.86	-	-	18.20	-2.18
Eurozone Govt Bond	110.04	-0.19	-	-	-0.34	-0.64

CREDIT INDICES	Index	Day's change	Week's change	Month's change	Series high	Series low
Markit iTraxx						
Crossover 5Y	477.49	-29.07	39.64	2.70	688.92	426.04
Europe 5Y	94.31	-4.56	10.93	-0.50	142.08	81.55
Japan 5Y	89.56	0.83	13.14	5.91	119.29	75.61
Senior Financials 5Y	103.71	-4.70	11.38	-0.17	155.06	89.99
Markit CDX						
Emerging Markets 5Y	247.23	-0.52	24.55	3.89	335.29	222.68
Nth Amer High Yld 5Y	502.70	6.27	52.55	33.61	625.47	450.15
Nth Amer Inv Grade 5Y	86.43	1.43	10.48	6.64	110.98	75.62

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

VOLATILITY INDICES

	Dec 21	Day Chng	Prev	52 wk high	52 wk low
VIX	20.24	-1.24	21.48	38.93	16.62
VXD	18.13	-0.33	18.46	45.37	3.27
VXN	25.26	-1.39	26.65	44.05	9.94
VDAX	19.39	-1.68	21.07	93.30	-

† 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	-	-	-	-	-	-	-	-
	05/32	1.25	80.53	3.72	0.19	0.32	0.20	-
	02/50	1.00	96.82	1.62	0.18	0.46	0.19	1.56
Austria	02/29	0.50	87.10	2.81	0.13	0.48	0.46	3.09
	02/47	1.50	77.08	2.82	0.10	0.42	0.31	2.48
Belgium	06/27	0.80	92.51	2.58	0.10	0.42	0.38	3.04
	06/47	1.60	74.53	3.10	0.13	0.45	0.38	2.46
Canada	03/25	1.25	95.12	3.59	0.05	-0.04	-0.23	2.48
	06/30	1.25	88.72	2.95	0.11	0.12	-0.03	1.65
	12/48	2.75	94.28	3.07	0.08	0.19	0.01	1.34
Denmark	11/29	0.50	87.35	2.52	0.09	0.40	0.37	2.75
	11/52	0.25	57.80	2.19	0.12	0.42	0.34	2.03
Finland	09/24	0.00	95.76	2.53	0.04	0.35	0.30	3.23
	09/29	0.50	86.19	2.78	0.10	0.40	0.37	3.07
France	05/28	0.75	90.63	2.63	0.10	0.45	0.40	2.98
	05/48	2.00	81.75	3.04	0.13	0.47	0.40	2.46
Germany	08/29	0.00	86.15	2.27	0.10	0.41	0.38	2.77
	08/50	0.00	56.20	2.11	0.12	0.45	0.36	2.14
Greece	01/23	3.50	100.19	1.66	0.13	0.14	0.29	1.95
	01/28	3.75	100.08	3.73	0.09	0.53	0.41	3.13
Ireland	-	-	-	-	-	-	-	-
	05/26	1.00	95.33	2.45	0.07	0.41	0.33	2.92
	02/45	2.00	83.18	3.06	0.14	0.46	0.40	2.55
Italy	02/25	0.35	94.19	3.22	0.05	0.56	0.49	3.32
	05/30	0.40	87.84	2.19	0.07	0.77	0.79	2.95
	03/48	3.45	84.92	4.45	0.09	0.60	0.59	2.76
Japan	04/25	0.05	99.85	0.11	0.03	0.03	0.03	0.05
	12/29	0.10	98.42	0.33	0.09	0.10	0.11	0.40
	12/49	0.40	76.97	1.43	0.02	0.10	0.02	0.79
Netherlands	07/27	0.75	92.73	2.45	0.09	0.42	0.39	2.98
	01/47	2.75	105.26	2.46	0.12	0.46	0.41	2.46
New Zealand	05/31	1.50	80.51	4.29	0.04	0.13	0.15	2.06
	09/40	2.50	122.47	2.21	0.07	0.13	-0.05	1.56
Norway	08/30	1.38	88.91	3.02	0.08	0.23	-0.14	1.54
Poland	01/23	2.50	99.58	7.12	-0.37	0.32	-0.17	4.05
	07/27	2.50	83.22	6.88	-0.05	0.27	0.02	3.39
	04/47	4.00	67.56	6.75	0.00	-0.45	-0.80	3.23
Portugal	04/27	4.13	105.46	2.76	0.09	0.50	0.45	3.04
Spain	-	-	-	-	-	-	-	-
	10/29	0.60	84.89	3.08	0.10	0.48	0.44	2.98
	10/46	2.90	89.78	3.54	0.11	0.44	0.37	2.53
Sweden	06/30	0.13	117.36	-0.26	0.00	0.00	0.00	1.90
	03/39	3.50	120.61	2.00	0.10	0.40	0.19	1.64
Switzerland	04/28	4.00	113.80	1.29	0.11	0.25	0.30	1.73
	06/29	0.00	91.72	1.34	0.11	0.28	0.34	1.72
United Kingdom	07/23	0.75	98.48	3.38	0.08	0.11	0.19	2.99
	07/27	1.25	90.18	3.59	0.13	0.26	0.31	3.02
	07/47	1.50	61.45	3.97	0.10	0.21	0.46	2.96
United States	-	-	-	-	-	-	-	-
	03/25	0.50	92.19	4.13	0.01	0.04	-0.10	3.16
	02/30	1.50	86.33	3.69	0.09	0.17	-0.01	2.35
	02/50	0.25	70.20	1.61	0.03	0.22	-0.03	-

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

GILTS: UK CASH MARKET

Dec 21	Price £	Red Yield	Change in Yield Day	Week	Month	Year	52 Week High	52 Week Low	Amnt £m
	-	-	-	-	-	-	-	-	-
Tr 0.75pc '23	98.55	3.27	-0.91	2.51	6.86	610.87	100.41	97.34	34.36
Tr 0.125pc '24	96.14	3.71	-0.80	6.00	15.22	508.20	98.93	94.34	35.55
Tr 2pc '25	96.07	3.54	-0.84	5.99	14.19	461.90	104.89	93.15	39.93
Tr 0.125pc '26	90.26	3.46	-0.86	8.13	11.97	449.21	97.82	86.33	35.32
Tr 1.25pc '27	90.31	3.56	-0.56	8.21	9.20	439.39	103.12	85.65	40.99
Tr 0.875pc '29	84.22	3.49	-1.13	7.38	9.40	359.21	100.77	78.21	43.62
Tr 4.25pc '32	105.49	3.56	-1.39	6.91	11.95	300.00	133.22	98.13	40.33
Tr 4.25pc '36	104.72	3.79	-1.04	5.87	11.14	267.96	142.32	94.91	31.68
Tr 4.5pc '42	107.69	3.94	-1.50	4.51	13.22	258.18	163.25	93.79	28.35
Tr 3.75pc '52	98.17	3.85	-1.79	3.22	16.31	259.81	169.37	82.51	25.11
Tr 4pc '60	106.37	3.68	-1.87	2.79	19.48	283.33	196.16	87.32	25.13

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	Dec 21	Day's chg %	Total Return	Return 1 month	Return 1 year	Yield
1 Up to 5 Years	81.33	0.08	2339.47	-0.58	-4.76	3.57
2 5 - 10 Years	147.14	0.29	3131.43	-2.01	-15.19	3.54
3 10 - 15 Years	157.67	0.44	3622.56	-3.77	-22.93	3.79
4 5 - 15 Years	148.71	0.33	3248.37	-2.54	-17.63	3.64
5 Over 15 Years	217.70	1.13	3748.24	-8.97	-39.85	3.81
7 All stocks	136.03	0.51	3038.29	-4.18	-23.89	3.74

Index Linked	Dec 21	Day's chg %	Month chg %	Year's chg %	Total Return	Return 1 month	Return 1 year
1 Up to 5 Years	322.89	0.12	-0.80	1.36	2730.30	-0.80	2.52
2 Over 5 years	543.77	0.24	-9.31	-38.86	4144.75	-9.31	-38.58
3 5-15 years	446.15	0.22	-4.11	-17.84	3608.33	-4.11	-17.21
4 Over 15 years	618.75	0.25	-12.50	-47.39	4578.68	-12.50	-47.23
5 All stocks	514.89	0.22	-8.00	-34.66	4003.74	-8.00	-34.31

Yield Indices	Dec 21	Dec 20	Yr ago		Dec 21	Dec 20	Yr ago
5 Yrs	3.47	3.50	0.63	20 Yrs	3.92	3.98	1.14
10 Yrs	3.67	3.72	0.89	45 Yrs	3.59	3.66	0.86
15 Yrs	3.87	3.92	1.08				

Real yield	inflation 0% Dec 21	Dur yrs	Previous	Yr ago	inflation 5% Dec 21	Dur yrs	Previous	Yr ago
Up to 5 yrs	0.26	2.74	0.30	-3.72	-0.15	2.76	-0.11	-4.20
Over 5 yrs	0.43	19.80	0.44	-2.38	0.40	19.86	0.41	-2.41
5-15 yrs	0.36	9.64	0.38	-2.95	0.25	9.66	0.28	-3.06
Over 15 yrs	0.45	26.55	0.46	-2.31	0.43	26.57	0.44	-2.33
All stocks	0.43	16.98	0.44	-2.40	0.38	17.08	0.39	-2.43

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	77.66	1.43	Corn♦	Mar	653.00	1.00
Brent Crude Oil‡		82.00	2.20	Wheat♦	Mar	756.50	6.00
RBOB Gasoline†	Jan	2.25	0.02	Soybeans♦	Jan	1485.00	6.50
Natural Gas†	Jan	5.51	0.18	Soybeans Meal♦	Jan	454.30	1.90
Base Metals (♠ LME 3 Months)				Cocoa (ICE Liffe)⊕	Mar	2007.00	32.00
Aluminium		2400.00	28.50	Cocoa (ICE US)♥	Mar	2503.00	4.00
Aluminium Alloy		2000.00	325.00	Coffee(Robusta)⊕	Jan	1978.00	33.00
Copper		8371.50	-1.50	Coffee (Arabica)♥	Mar	168.50	4.20
Lead		2185.50	-2.00	White Sugar⊕		564.30	11.10
Nickel		29110.00	980.00	Sugar 11♥		20.66	0.52
Tin		24050.00	115.00	Cotton♥	Mar	88.70	4.62
Zinc		3033.00	-57.00	Orange Juice♥	Jan	210.75	2.75
Precious Metals (PM London Fix)				Live Cattle♣	Dec	154.98	-0.30
Gold		1813.90	23.10	Feeder Cattle♣	May	134.88	-
Silver (US cents)		2374.00	50.00	Lean Hogs♣	Feb	84.28	-1.43
Platinum		991.00	-1.00				
Palladium		1675.00	-51.00		Dec 20	% Chg Month	% Chg Year
Bulk Commodities							
Iron Ore		109.86	0.30	S&P GSCI Spt	598.90	-3.07	9.96
Baltic Dry Index		1723.00	127.00	DJ UBS Spot	113.23	-1.80	16.58
Richards Bay ICE Futures		210.00	-3.60	TR/CC CRB TR	295.03	-1.12	25.11
				LEBA EUA Carbon	58.91	-1.98	129.94
				LEBA UK Power	1048.00	-37.43	-39.60

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

BONDS: INDEX-LINKED

	Price Dec 20	Yield Dec 20	Yield Prev	Month return	Value stock	Market	No of stocks
Can 4.25%' 26	111.54	1.240	1.152	1.03	5.25	73556.23	8
Fr 0.25%' 24	101.25	-0.532	-0.599	-0.74	17.92	249392.84	17
Swe 1.00%' 25	125.77	-0.212	-0.212	0.13	35.38	220116.85	6
UK 0.125%' 24	102.22	-1.579	-1.748	-0.20	15.24	566689.07	31
UK 2.50%' 24	375.34	-0.118	-0.352	-0.47	6.82	566689.07	31
UK 2.00%' 35	241.29	0.391	0.245	-4.79	9.08	566689.07	31
US 0.625%' 24	97.77	2.759	2.799	0.03	40.98	1626907.89	47
US 3.625%' 28	109.85	1.680	1.673	-0.38	16.78	1626907.89	47

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	3.72	1.45	0.03	Netherlands	2.45	0.19	-1.24
Austria	2.81	0.54	-0.88	New Zealand	4.29	2.02	0.60
Canada	2.95	0.68	-0.74	Norway	3.02	0.75	-0.67
Denmark	2.52	0.25	-1.17	Portugal	2.76	0.49	-0.93
Finland	2.78	0.51	-0.91	Spain	3.08	0.81	-0.61
Germany	2.27	0.00	-1.42	Sweden	-0.26	-2.52	-3.95
Italy	2.19	-0.08	-1.50	Switzerland	1.34	-0.93	-2.35
Japan	0.33	-1.94	-3.36	United States	3.69	1.42	0.00

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

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Make confident investment decisions powered by our independent global insights and a consistent methodology across our qualitative and quantitative universes.

There's nothing like McKellen's pantomime dame

THEATRE

Sarah Hemming

Mother Goose
Duke of York's Theatre, London
★★★★☆

Dolly Parton's Smoky Mountain Christmas Carol
Queen Elizabeth Hall, London
★★★☆☆

Generally it is a sprinkle of magic or a swashbuckling fight that saves the day in a Christmas pantomime. Not when Ian McKellen is at the helm. His pantomime dame in **Mother Goose** wields the words of Shakespeare. Resplendent in a ridiculous fur hat, with a beatific smile on his face and a handbag draped over his arm in the manner of the late Queen, he launches into Portia's gravely beautiful "quality of mercy" speech from *The Merchant of Venice* — and so vanquishes evil. The raucous pantomime audience — which had been booing the baddie minutes earlier — bursts into delighted applause.

It's a wonderful moment — and typical, in a sense, of McKellen. Loved by many as a great Shakespearean actor, and by many more as Gandalf, he's always had a soft spot for vaudeville. During his 80th-birthday one-man show, he recalled standing in the wings of a variety show as a young boy, entranced by the way garishly painted performers transformed into magical creatures in front of the footlights. That he can quote a subtle Shakespearean speech in favour of clemency amid the slapstick and silliness of a pantomime is testament to his deep understanding of live theatre.

And it's something of that redoubtable music-hall spirit that he brings to the role of dame. His Mother Goose is a benign, unflappable northern matron with a twinkle in her eye — part Ena Sharples, part Victoria Wood.

He first toddles on in Cal McCrystal's production with his hair in rollers and the gait of a lady who's not quite certain that her girdle is going to stay the course — but the demands of the plot will have soon have him tap-dancing, slinking across the stage in (ultra-brief) pink baby-doll pyjamas, and bouncing around in a teeny-weeny miniskirt hurling footballs at the audience.

Above, from left, Oscar Conlon-Morrey, Ian McKellen and John Bishop in 'Mother Goose'. Below: 'Dolly Parton's Smoky Mountain Christmas Carol' — Manuel Harlan

In Jonathan Harvey's telling of the tale, Mother Goose runs an animal sanctuary along with her long-suffering husband Vic (comedian John Bishop, gleefully breaking the fourth wall at every opportunity). Times are hard — the biggest boos of the evening are reserved for "the energy company" — but Mother Goose won't close her doors to any waif or stray and so, when a discombobulated goose, Cilla Quack, falls out of the sky, she takes her in.

Cilla returns the favour by laying golden eggs. In most fairy tales, that turn of fortune would be the end, but Mother Goose has a more interesting moral message. Wealth and fame begin to corrupt Mother Goose and she has to learn the hard way that celebrity isn't everything.

Harvey's script is wreathed with the obligatory double-entendres and political jokes — references to partygate, Liz Truss's shortlived premiership, Elon Musk — and has an underlying message about acceptance and inclusivity. But it doesn't do to dwell too long on the logic of the plot in any panto: misrule is the order of the day. So it is that we have a ridiculous, messy cake-baking scene, a random ghost appearance and a singalong to football favourite "Sweet Caroline". Some scenes feel a bit tepid (the cake-baking could be wilder; the jeopardy could be dialled up more in the rescue), but there's such an appealing, good-natured feel to the show that it's hard to mind.

There are winning performances from Anna-Jane Casey as the golden-voiced Cilla (who announces her arrival by doing the splits), Genevieve Nicole as Camilla, Queen Consort, struggling to navigate doorways in an absurdly huge hat, and Richard Leeming as a nerdy bat.

At the centre of it all is the infectious delight of McKellen, an 83-year-old knight of the realm, hurling sweets around the auditorium and beaming as if he were still his eight-year-old self at his first pantomime. Irresistible.

In London to January 29, then touring, mothergooseshow.co.uk

The London fog makes way for the Smoky Mountains in one of this season's more unexpected festive shows: **Dolly Parton's Smoky Mountain Christmas Carol**. Charles Dickens's popular novel is a December regular on the UK stage, but this year enthusiasm has snowballed — perhaps there is something about Dickens's rage at social inequality and the plight of vulnerable children that strikes a chord right now.

It's particularly novel, however, to find the old grump sulking and scrimping not in Victorian London but in 1930s east Tennessee. Yet that's where he pops up in Dolly Parton's musical, which spirits him into a Depression-hit mining community where Scrooge and his former partner, Jacob Marley, have bought up and squeezed dry every institution in town. The mention of Christmas, we are told, makes him "madder than a mule eating bumblebees" — not a line that features in the original, but we get the picture.

This is not a version that will challenge either Jack Thorne's beautiful adaptation at the Old Vic or Simon Russell Beale's touching performance at the Bridge Theatre for depth of psychological understanding. The storytelling seems rather tame and Robert Bathurst's Scrooge feels a bit short-changed (not something his miserly early self would stand for). We should surely feel the cold hand of mortality on his heart, but his spooky experiences don't feel chilling enough to warrant his smitten conscience and change of heart. Meanwhile Alison Pollard's production feels somewhat cramped by the space.

But there are some smart ideas in this adaptation (by David H Bell, Paul T Couch and Curt Wollan). The shift of location brings a new slant to the story

> He toddles on with the gait of a lady who's not quite certain that her girdle is going to stay the course

and there are references to pit accidents, teenage pregnancies, industrial unrest and the need for unionised labour. Young Scrooge in this version gets his kind-hearted employer arrested for (unwittingly) selling moonshine-laced syrup during prohibition and one touching song has the impoverished locals dreaming about what they might buy from the Sears Roebuck catalogue. The Ghost of Christmas Future is played, ingeniously, by Corey Wickens's excellent violinist who communicates only in music.

And it is, unsurprisingly, the songs that drive the story, many of which are gorgeous. Old Marley rises from beyond the grave in a hell-raisin' country rock number; there's a gentle, richly harmonised ensemble number "Appalachian Snowfall"; a wistful duet between young Scrooge and his loving sister, "Three Candles" (delicately sung by Sarah O'Connor and Danny Whitehead); there's bluegrass, hoedown and a skiffle band. They raise the rafters and lift the spirits.

And, in the end, there is a warmth and joy to the show that melts away many objections — in keeping with its story of a frozen heart thawed.

To January 8, southbankcentre.co.uk

What's Next for Outdoor?

POAD

Courtroom drama replays an own goal

TELEVISION

Vardy v Rooney: A Courtroom Drama
Channel 4
★★★☆☆

Dan Einav

Michael Sheen stars in a drama about an infamous confrontation between a high-profile figure with a probing mind and another who used underhanded methods to further their own interests. Is it *Frost/Nixon*? No, this is *Vardy v Rooney: A Courtroom Drama*, Channel 4's re-enactment of the celebrity libel case dubbed the Wagatha Christie trial.

The show's title is pretty self-explanatory, but for those who somehow had better things to do than follow the feud between two footballers' wives, further context might be required. The story revolves around an unsuccessful lawsuit brought by Rebekah Vardy (wife of Leicester City striker Jamie Vardy) against Coleen Rooney (married to former England captain Wayne), after the latter publicly accused her in 2019 of leaking private Instagram posts to the press.

Rooney did so after setting an ingenious trap whereby fake updates published on her personal account were

of lowbrow scandal and High Court gravitas — has inspired an actual West End play and now a TV adaptation based almost entirely on condensed court transcripts.

Sheen plays David Sherborne, a celebrity barrister (in both senses) who represents the self-made sleuth Rooney (Chanel Cresswell) and presents Vardy (Natalia Tena) as someone who sought to profit from any sordid story she came across. As Vardy desperately tries to explain away texts to her agent about proposed leaks as jokes or misunderstandings — or, worse still, acts of public service — it becomes clear that the trial is a disastrous own goal.

Those who find the whole matter egregiously trivial might still enjoy the spectacle of watching a top lawyer tie someone in knots. The role of Sherborne demands little more than fluency, rhetorical flair and a touch of smug bravado — all of which Sheen supplies effortlessly. Others may feel sympathy for the two women whose self-absorption and self-promotion may be unedifying, but hardly more so than the widespread and seemingly class-based sneering it elicits — not least from the barristers.

The show doesn't sensationalise events further with speculative out-of-court scenes. But the more we watch people parsing WhatsApp messages and scrutinising emojis, the more aware we are that this doesn't quite have the same dramatic weight as, say, the OJ Simpson trial. Still, as an alternative to festive programming it's . . . a reasonably entertaining account.

Episode one now available on All4
Episode two tonight on Channel 4 at 9pm

FT BIG READ. PENSIONS INDUSTRY

Lessons from the gilts crisis

The meltdown following the 'mini' Budget was a warning about radical changes to the structure of the financial system. Are regulators fully abreast of these seismic shifts and are pension funds fit for purpose?

By John Plender

The retreat by the developed world's big central banks from ultra-loose monetary policy is imposing a severe stress test on the global financial system. That much is clear from the lack of liquidity in markets — liquidity being the ability to buy and sell without causing big moves in prices.

Signs of financial instability have recurred since the seizure in the British gilt-edged market in late September which stemmed from pension funds' so-called liability-driven investment strategies.

The Bank of England's decisive move to act as a buyer of last resort succeeded in restoring order to the gilt market after the Truss government's disastrous "mini" Budget on September 23.

But the episode provided early warning of what the future might hold as a result of radical changes in the structure of the financial system since the crisis of 2007-09. It seems questionable whether regulators are fully abreast of these seismic shifts. The gilt market debacle also raises wider questions about whether pension systems are fit for purpose.

Defined benefit pension schemes — employer-backed funds that promise retirement benefits related to pay and length of service — have traditionally been a stabilising force in the financial system. A classic case in point was the financial crisis of the mid-1970s when pension funds helped bail out the UK banking system by buying risky properties that were weighing on bank balance sheets. Because they were "immature", meaning that their income from investments and pension contributions far exceeded their pension outgoings, their capacity to absorb risk and shoulder losses was considerable.

21.7% UK pension funds' share of ownership of UK-quoted equities in 1998

1.8% UK pension funds' share of ownership of UK-quoted equities in 2020

With the ageing of advanced country populations, maturity has arrived and pension funds have a much reduced buffer of safety. In the UK, most sponsoring companies have sought to limit their exposure to pension fund liabilities by closing their defined benefit funds to new members and establishing defined contribution funds, in which pensions vary with investment returns.

Part bank, part hedge fund

Under pressure from the Pensions Regulator, pension fund trustees are no longer primarily focused on maximising returns in defined benefit schemes. Instead, they concentrate on hedging against inflation and interest rate risk, while matching the future timing of pension outgoings as they fall due with bonds of appropriate maturities.

This is liability-driven investment, or LDI. The strategy, carried out for the pension funds by independent fund managers, has the notable advantage of reducing the volatility of pension fund assets and liabilities. But there is a snag, in the form of leverage, whereby pension funds borrow against the collateral in their gilt portfolios to establish the hedges.

Con Keating of consultants Brighton Rock Group and Iain Clacher of Leeds University Business School pointed out to the work and pensions committee of the House of Commons last month that, as a result of leveraged LDI, many pension funds had gone from being long-term savings institutions with an ability to withstand short-term market fluctuations, to institutions where "the immediate and short term are all important" and their ability to bear risk is "significantly impaired".

In other words, these pension funds now resemble a cross between a hedge fund and a bank. They are vulnerable to the equivalent of bank runs when they face margin calls from their LDI managers.

Why did this happen? Essentially, the LDI build-up was a reaction to market developments after the financial crisis. Pension funds calculate the net present value of their liabilities using a discount rate related to gilt yields. Trustees then assess whether there are sufficient assets to meet future pension obligations and whether the level of contributions needs changing.

It is worth noting that the use of gilt yields is a much harsher discipline than using higher corporate bond yields, as company pension funds do in the US. Legislation in the US also allows

Above: Liz Truss and her chancellor Kwasi Kwarteng's 'mini' Budget in September caused havoc in the gilt market, in part due to pension funds' liability-driven investment, or LDI

FT montage: Bloomberg; Charlie Bibby/FT

pension liabilities is that the UK's pensions regulator has a statutory obligation to protect the Pension Protection Fund, the official body that steps in to pay pensions when a sponsoring employer goes bust and the pension fund is in deficit. The regulator thus has an incentive to demand valuations that are as stringent as possible. Well-funded or over-funded schemes take the regulator off an uncomfortable hook.

To complete the story, when bond yields fell and the value of liabilities rose after the 2007-09 financial crisis, LDI portfolios were generating only threadbare income from which to pay pensions. The strategy was thus expensive, potentially requiring big increases in contributions from employers and scheme members.

Spiral of value destruction

Actuarial consultants responded to this problem by advising trustees to take on leverage by obtaining exposure to bonds through derivatives such as interest rate swaps and repurchase agreements, or repos. That way they could reduce the volatility of the fund's assets and secure the inflation and interest rate hedges they needed.

The cash released through leverage could then be used to buy higher yielding assets such as equities, property and infrastructure. For funds with a deficit of assets against liabilities, investing in riskier assets held out the hope of closing the funding gap. Yet in the end the strategy boils down to one more example of the manic, high-risk search for yield that prevailed in markets in the period of ultra-low interest rates.

John Ralfe, an independent consultant who pioneered liability-matching strategies while he was head of corporate finance at the retailer Boots, is a vociferous opponent of leveraged LDI and argues that it amounts to pure speculation. Most of the swaps, repos and other derivative instruments used to facilitate leveraged LDI are, he says, opaque, complex and expensive. But, he claims, they are lucrative for the consulting arms of actuarial firms whose business models benefit from complexity to make a living. He also believes trustees and even some consultants did not understand what they were doing.

Certainly many trustees were wrongfooted when the LDI funds in which they invested came under severe pressure as long-dated gilt yields rose with unprecedented scale and speed in September, causing capital values to fall. This triggered calls for additional collateral from the pension funds, some of which either could not or would not stump up.

There followed what Clacher and Keating call a self-reinforcing death spiral of value destruction, exacerbated by banks' reduced ability to deal in securities on their own account, which was a product in part of the regulatory capital requirements introduced after the financial crisis.

The damage was particularly acute in LDI pooled funds which are managed for mainly smaller pension funds. The speed and scale of the moves in gilt yields outpaced the ability of smaller pooled fund investors to provide new money when confronted with margin calls. Many had difficulty in processing the calls.

Sarah Breeden, executive director for financial stability at the BoE, observed in a recent speech that the self-reinforcing spiral meant that about £200bn of pooled LDI funds threatened the whole £1.4tn traded gilt market that acts as the foundation of the UK financial system, underlying around £2tn of lending to the real economy through the wider credit markets. This potential systemic threat to financial stability caused the central bank to step in with £19.3bn of temporary support. It was worried, among other things, about an excessive and sudden tightening of financial conditions for households and businesses.

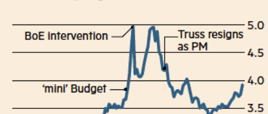
Breeden's verdict is that the root cause of this crisis was poorly managed leverage.

Other countries, most notably the US and the Netherlands, have large defined benefit pension systems that have not been wrongfooted by rising rates. The question is why. Sirio Aramonte and Phurichai Rungcharoenkitkul, writing in the Bank for International Settlements' latest quarterly review, point out that US pension funds seldom use leverage, while Dutch funds hedge less than 60 per cent of their interest rate risks on average. The UK regulatory authorities appear to have adopted a much more relaxed attitude to leverage than their counterparts elsewhere.

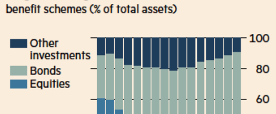
In fairness to the regulators, the pension funds were victims of a liquidity crisis, not a solvency crisis. Data from the Pension Protection Fund show that, while the value of defined benefit pension assets fell by 20 per cent in the year to the end of September, the value of the liabilities fell by a much greater 36 per cent because of the impact of rising gilt yields on discount rates. This caused pension fund deficits to narrow or move into surplus. LDI advocates also point out that the strategy provided considerable protection in early 2020

'The problem with LDI is that if everyone employs it, it makes the market overall less safe because

September mayhem in UK gilts
Yield on 20-year gilt (%)



Pension funds' shift into bonds
Weighted average asset allocation in UK defined benefit schemes (% of total assets)



out to be erroneous. So it is possible that the improvement in funding may prove less solid than it appears.

Collateral risks of reform

The regulatory authorities in Ireland and Luxembourg, where most LDI funds are domiciled, are urging funds to build resilience through bigger liquidity buffers against extreme market fluctuations. But that still leaves structural problems in the wider financial system, not least those that arise from the lack of diversity in the portfolios of defined benefit pension schemes.

John Nugée, a former chief manager of the reserves at the BoE who now runs advisory firm Laburnum Consulting, says: "The problem with LDI is not that it makes any one pension fund safer or less safe, but that if everyone employs it, it makes the market overall less safe because when it moves, it all moves in the same direction." He warns of a monoculture in which pension funds following official advice to employ LDI erode the market's resilience to shocks.

Nugée adds that an approach that concentrates too hard on making one financial sector secure will often cause risk to migrate to other parts of the financial ecosystem. That was clearly true in the aftermath of the financial crisis. Regulators have succeeded in strengthening the banks but at the cost of reducing their willingness to take risk on to their own books, which reduces market liquidity as mentioned earlier. So risk has shifted to less regulated and less well-capitalised parts of the non-bank financial sector. That includes pension funds, which are very heavily regulated in the UK but not in relation to leverage.

Another post-crisis reform with unintended consequences was a more widespread collateralisation of derivatives, a move aimed at reducing counterparty risk. Breeden of the BoE argues that this has contributed to volatility while amplifying shocks in a falling market.

The Bank of England's decisive move to act as a buyer of last resort succeeded in restoring order

With defined benefit schemes shrinking as part of overall work-based pensions relative to defined contribution schemes, the LDI problem will wane over time. Yet an important legacy is a dramatic change in the capital market landscape, once again most notably in the UK. Since the early 2000s, UK pension funds have been consistent sellers of equities as they bought what now amounts to about a quarter of outstanding gilts. Their ownership of UK-quoted equities, meantime, has fallen from 21.7 per cent at the end of 1998 to just 1.8 per cent at the end of 2020.

Whether that matters, given the globalisation of capital flows, is moot. Foreign ownership has more than filled the gap, rising from 30.7 per cent to 56.3 per cent over the same period. And UK pension funds support the domestic corporate sector by other means via the credit, bond, infrastructure and private equity markets.

With retail price inflation in double figures, there is a real question as to whether work-based pensions can maintain pensioners' living standards in real terms. In most UK defined benefit pension funds, inflation proofing is capped, often at 3 or 5 per cent.

Part of the logic of leveraged LDI is to build up the return-seeking part of pension fund portfolios from which the trustees can pay discretionary pension increases to address problems such as inflationary shocks. Yet in practice, trustees are often constrained where trust deeds stipulate that discretionary increases must be agreed by the employer.

Against the background of the pandemic, energy price increases, rising wage pressure and a squeeze on supply chains, few employers are in a mood to sanction generous discretionary increases. So many pensioners will be condemned to falling living standards this year and probably next year as well.

The position of members in defined contribution schemes is worse. More than 90 per cent are in arrangements whereby their investment pot switches from risky equities to supposedly safer bonds as they approach retirement. This so-called de-risking has in fact been highly risky for pre-retirement members. In what has been the greatest bond bubble in history, they have been put into exceptionally expensive gov-

2022/12/22 20:20 All pages from Financial Times (Asia), Thursday, December 22, 2022

The FT View

FINANCIAL TIMES
'Without fear and without favour'

ft.com/opinion

Wanted: a CEO for Twitter

Ideal candidates will like pain and not be put off by bankruptcy risk, says Musk

Vox populi, vox dei: Elon Musk, professional loudmouth, the world's second richest man and — for now at least — Twitter's chief executive, invoked the Latin phrase last month when polling the platform's users over whether he should reinstate Donald Trump's account. A slim majority voted in favour and Musk bowed to their decision. Another week, and another Musk poll on consequential decisions for Twitter: should he step down as CEO? The people spoke, and 57.5 per cent agreed he should. He said on Tuesday he would honour the poll, in which 17.5mn people voted. It is the right decision — for Musk, for his businesses and for Twitter's 238mn "monetizable" daily users.

For Musk, relinquishing some day-to-day control of Twitter would free up much-needed time for him to concentrate on the rest of his significant corporate portfolio. If the mercurial businessman can spend more time and attention on perfecting electric vehicles, commercial space flight and brain implants, and less on tweets, this is surely a net gain for humanity.

SpaceX is preparing for its first orbital test launch of its Starship rocket system that Musk hopes could one day travel to Mars. Meanwhile, restive Tesla shareholders have already sued Musk over concerns that the company has enriched him to the tune of $56bn in share options at their expense. He has promised to spend more time on the electric car maker, which has suffered since he bought Twitter; its share price has plummeted 60 per cent since late October, when Musk closed his $44bn takeover. He sold another $3.6bn worth of his Tesla shares last week, the fourth tranche since he announced his Twitter bid in April.

That sale could be used to buy back some of Twitter debt (which has ballooned to $12.5bn since his takeover), easing the strain of interest payments on the company and protecting his equity investment. The self-styled "chief twit" is also trying to raise equity in Twitter — another demand on his time and attention — hoping to achieve the same $54.20 per share that he paid to take the company private. Having publicly admitted that he overpaid for Twitter, asking others to do likewise is a tall order. But Musk should not be written off: he is after all one of the world's most successful fundraisers.

There is of course a risk for Twitter in replacing a capricious billionaire CEO with a CEO who must second-guess the whims of a capricious billionaire who remains its owner. Ideally, Musk will give his successor autonomy. But even if he does not (as seems likely), a new CEO will at least provide a buffer between Musk and Twitter's employees and users. The former have been brutally reduced since he took over, while

> If the mercurial businessman can spend more time perfecting electric vehicles, commercial space flight and brain implants, and less on tweets, this is surely a net gain for humanity

the latter have been subject to his tweets that flip-flop on company policy, his lamentable spats with journalists over free speech and his amplification of conspiracy theories and hateful clickbait. All of this has spooked advertisers.

In truth, Musk indicated before last weekend's poll that he would step down. On Tuesday, he confirmed this would be as soon as "I find someone foolish enough to take the job". That is akin to Cinderella being promised she can go to the ball once all her chores are completed. Who would want to accept the poisoned chalice of being CEO of a company with significant financial woes, facing regulatory headwinds, working under a demanding owner who is also one of Twitter's most prolific and popular users? The job spec, as laid out by Musk, is nothing if not a process of elimination: "You must like pain a lot. One catch: you have to invest your life savings in Twitter and it has been in the fast lane to bankruptcy since May. Still want the job?" Applications are now open.

Opinion Technology

What this year in crypto has taught us

Ben Hickey

Jemima Kelly

At various points over 2022 — particularly since the collapse of the terra/luna ecosystem in May, and then the FTX exchange in November — people have suggested I take some sort of virtual victory lap for calling out, over several years, the steaming pile of horse manure that is crypto.

And I guess I do feel a certain sense of vindication at seeing the market start to implode, having stood my ground against crypto bros telling me to "have fun staying poor". But I have been reluctant to write an "I told you so", because I'm not sure I really did.

In April, I explained why I was still refusing to take crypto seriously despite many supposedly serious people doing so. (The market has more than halved since then.) In May, I made the moral case against crypto, arguing that it was not just "harmless fun" for the many who couldn't afford it. (FTX has lost some $8bn, ruining many of its customers' lives.) And last year, I argued that NFTs were not the future of art or of asset ownership but just the latest crypto get-rich-quick scheme. (These days the only person who seems to find them cool is Donald Trump.)

> It has proved itself more shameless and dishonest than even its strongest critics imagined

But I never called the top in the market — given the whole thing is underpinned by sheer belief, that's always seemed a fool's errand — and I certainly didn't forecast exactly how it would start to unravel. In many ways, I have been shocked myself at what has happened in the world of crypto over the past year. It has proved itself more shameless, dishonest, interconnected and fantasy-based than even its strongest critics could have imagined.

So what, in particular, have we learnt from all this?

First, the whole ecosystem was propped up by a lot more leverage than anyone had realised — and this leverage — were simply wiped out after billion-dollar holes appeared on their balance sheets. You need real assets to cover real liabilities, it turns out (OK yes, this part we did know).

Second, the idea that the crypto world is decentralised was laid to rest once and for all this year. We already knew that the vast majority of crypto activity takes place on highly centralised exchanges, and that power and wealth in crypto is even more concentrated than in traditional finance. But 2022 was the year that we found out the extent to which Big Crypto is a real thing: a cartel of interconnected players from exchanges, stablecoin companies and crypto networks who work together via group chats — one Signal chat was reportedly called "exchange co-ordination" and included executives from FTX, Binance and Tether.

Third, the economics of the crypto market might be pyramid or Ponzi-like in structure, but they are also circular. Not only have crypto companies counted their own worthless tokens as money, but those of others, too. As Martin Walker of the Center For Evidence-Based Management and a long-time crypto critic puts it to me, "their books are filled with their and their friends' nonsense tokens", and when one of these implodes, "whole chunks of industry can very rapidly disappear".

Fourth, the collapse of so many crypto exchanges and platforms has allowed us to see up close for the first time the utter lawlessness that fuels crypto. Free from the burdensome yoke of regulation that the non-crypto world has to deal with, the likes of FTX have been free to do as they please, allegedly misappropriating billions of dollars of customers' funds and committing fraud on a vast scale. "My big takeaway from this year is that we got to see inside the black boxes, and it was even scarier . . . than we expected," software engineer and crypto critic Stephen Diehl tells me.

During an interview for an FT event last month, I asked Charles Hoskinson, founder of crypto token Cardano, whether it was possible for crypto to collapse to zero. No, he said — hardly surprisingly, but his reason stunned me: "It's basically a religion at this point." He, a crypto prophet, seemed to be saying the quiet part out loud.

This is the final thing that I have learnt about crypto this year: it has a strange resilience. The market and many of the biggest platforms might have collapsed, and the prophets and core tenets of this quasi-religion might

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Letters

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Unpaid carers are Britain's hidden workforce

There is a section of the UK workforce that are so invisible that few people even consider them workers ("The mystery of Britain's missing workers", FT View, December 1).

These people don't have a union that represents them. They don't have any employment legislation that protects them. They don't have days off, or paid holidays. They rarely have any opportunity for respite from their work. They can't go on strike.

These workers come from all different backgrounds and careers. They all do the same job now. This invisible workforce live in poverty. They are paid £69.70 per week as a replacement for the income that person lost, in having to give up their career, in order to care for a family member who has become sick or disabled. There are an estimated 10.6mn carers in the UK today.

If carers strike, then the person they care for has nobody to look after them. Nobody to give vital medication, nobody to make meals, nobody to carry out personal care. The only people that suffer are those loved ones. This section of the workforce is disenfranchised. No rights. No workplace protections. No unions. No way to protest pay. No right to strike.

Carers save the government £132bn a year, by doing unpaid care work, that would otherwise fall to social care. The government have us trapped. They know we can't strike. They know we can't protest. They are content that we remain out of sight. Out of mind. Hidden.

So I ask you. How do we protest for our rights? How do we get help?

Rachel Curtis
Morpeth, Northumberland, UK

Federal powers exist to thwart America's Nimbies

Edward Luce ("The progressive left's chronic Nimby problem", Opinion, December 15) rightly identifies wealthy landowners' aversion to development near their homes as an obstacle to clean energy buildout.

But sometimes it is developers themselves that frustrate the economic transition, including by embracing shareholder primacy doctrines that give priority to short-term profit and stock buybacks over long-term economic resilience, and by siting projects in so-called "right to work" states that frustrate the stabilising force of union representation.

Luckily, as I show in a recent report for the Roosevelt Institute, written with Joel Dodge, Joel Michaels and Lenore Palladino, the US federal government has tools like the Defense Production Act that allow pre-emption of federal, state and local law that wealthy interests use to slow down inclusive economic progress.

While standalone permitting bill reform faces headwinds in Congress, the already passed Inflation Reduction Act expands tools like the DPA that can achieve much the same ends.

Todd Tucker
Director of Industrial Policy & Trade
Roosevelt Institute
Washington, DC, US

"I'M WORRIED ABOUT YOUR BLOOD PRESSURE"

The EU still has a problem with its state aid rules

Your article "EU eyes urgent loosening of state aid rules" (Report, December 15) identifies a fundamental, perhaps the fundamental economic question facing the EU, and a key issue for the UK in leaving the EU. European Commission president Ursula von der Leyen is reported as saying "we need complementary European financing . . . to move all together in the same direction", while officials are said to fear fiscally stronger EU countries gaining an advantage over weaker ones.

The obvious implication is that without fiscal transfers all shall move at the pace of the slowest. This is the price strong EU countries pay for being in the EU.

It is an unresolved issue for the EU and the source of much disagreement both between EU nations and with the commission.

Michael Wickens
Professor of Economics, Cardiff Business School
Professor Emeritus, University of York, UK

Alzheimer's breakthrough is not the end of the story

Lecanemab has been seen as a game-changer in the treatment of Alzheimer's disease (FT View, December 3) as it removes beta-amyloid and reduces cognitive decline in early disease. Although scientifically interesting I'm sorry to be pessimistic about its impact in real life. Most individuals with progressing memory disease, including Alzheimer's, are older adults and in them the disease is caused by multiple factors, with an important vascular contribution.

While Lecanemab may well slow down disease in "pure" Alzheimer's — possibly in a quarter of cases — the impact in the majority may be negligible. Even in Alzheimer's disease, problems with recognising suitable patients, price, administration by infusion and duration of treatment are important questions.

I'm much more optimistic about prevention. The vascular aspects of memory diseases offer existing, safe and nowadays also inexpensive possibilities. Besides physical activity, healthy diet and weight control, antihypertensive medication is probably the only proven method to prevent clinical memory disease. I'm confident that reducing the suboptimal adherence to prevention would be the most cost-effective way to fight memory diseases.

Timo Strandberg
Professor of Geriatrics (Emeritus)
Helsinki University Hospital, Finland

Correction

- The UN COP15 biodiversity summit pledged to end at least $500bn a year in government subsidies to businesses such as agriculture and fishing, not $500mn as wrongly stated in an article on December 20.

OUTLOOK

BUENOS AIRES

Messi and his squad's victory cannot dispel Argentina's troubles

If they devalued the currency, "no one on this day would take any notice", one of the hundreds of thousands of Argentines waiting to greet their footballing heroes tells me in downtown Buenos Aires.

Argentina has been euphoric since its third World Cup victory on Sunday. People have flooded the streets of the capital in a carnival-like celebration to mark the most important win in a generation, and welcome the star players home.

Revellers climbed traffic lights. Giant football shirts adorned office buildings. Cars with replica golden trophies strapped to their roofs tooted their horns and the unofficial tournament song "*Muchachos*" or "*Boys*", rang out spontaneously from strangers standing at bus stops and road junctures.

Argentina's triumph comes amid political turmoil and a battered economy. Inflation is expected to reach 100 per cent in the year to December. Poverty is high and inching higher. The local peso has collapsed against the US dollar on the widely used black market exchange rate, shattering people's purchasing power.

Politics isn't much brighter. Vice-president Cristina Fernández de Kirchner was found guilty of

the country of 46mn from years of economic underperformance and knocks to their national pride.

"This is our one single moment of greatness, in 36 years!" father of three Hector Fose claims as he joins the crowds with his children to watch the squad parade past in an open-top double-decker bus. Fose was eight in 1986 when Argentina last brought the trophy home.

Among the sea of supporters dressed in sky blue and white was an elderly blind man being guided by his equally elderly wife. They had followed the television commentary tracking the plane live from Doha, as families set up barbecues along the highway from the airport to catch a glimpse of Messi before dawn.

As a Brit, the closest event I could compare the scenes this week to would be the crowds at a royal jubilee — only with Messi as their king.

A moment "suspended in time" is what the victory represents, according to Argentine sociologist Pablo Alabarces. "This is an explosion of emotion," Alabarces tells the FT. "This is just a big night out on the razzle" — and the hangover will inevitably follow.

Challenges could return with a vengeance. Many remain sceptical

of football, given that the team caravan was exclusively touring Buenos Aires, a reminder of the divisions outside sport.

Messi refused an invitation from the presidential palace to replicate a photo of the late Diego Maradona, who as captain decades before had kissed the trophy from the pink balcony of Evita Perón fame. Instead, the team encouraged fans to follow their bus to the Obelisk monument where up to 1mn people had gathered immediately after Gonzalo Montiel fired the winning kick.

Security failures meant the bus never reached the monument. The squad were helicoptered out to the disappointment of millions, who directly blamed the president.

Seventy-four-year-old Miguel Angel Guerrero, who runs my local kiosk, estimates that the euphoria will wear off within a week. Miguel has started reducing his stock in what is usually a profitable festive month, sensing that customers won't have much money to spend this Christmas.

"A great proportion of people aren't going to be able to buy a meal, let alone gifts," he says. Prices for the sweets and tobacco he sells have been rising roughly 5 per cent on average each month since the start of the year.

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Opinion

Yen is the least of corporate Japan's worries

ASIA

Leo Lewis

In theory, the Bank of Japan's yuletide ambush of financial markets on Tuesday should have caused havoc across the nation's corporate boardrooms. Or at the very least, spoilt a few year-end parties.

BoJ governor Haruhiko Kuroda's surprise tweak to its yield curve control policy may have been comparatively minor, but its implications for future interest rate tightening (as guessed at by the markets) were not. The central bank's move messed decisively with a dollar-yen exchange rate whose fluctuations affect the decision-making of tens of thousands of Japanese companies. But significantly less so than in the past.

The inflationary hit from the recently anaemic yen is no joke: all companies, especially those that have benefited from that cheapness, are under greater pressure to raise wages into an expected global recession. If the yen turns resurgent, as some suspect it will, that will make Japanese exports less competitive. Despite these headaches, suggests a new report, the strategic bandwidth of corporate Japanese management is diverted to much greater concerns than the currency. Geopolitics and demographics are foremost among those.

Early in the new year, Japan will have an exact reckoning of just how few babies the country produced in 2022 and therefore how rapidly the population is shrinking. Last year's number — 811,622 — was the lowest since records began in 1899. If, as seems likely, the tally dropped below 800,000 this year, that will be symbolically alarming. In its last major forecast five years ago, the National Institute of Population and Social Security Research's projections did not imagine that line being breached until the end of this decade.

But many Japanese companies already understand perfectly well what is coming. For all the recent noise around the "reshoring" of manufacturing and supply chains, corporate Japan's ambitions are necessarily limited by a suite of human capital issues — too few people, too few of the necessary skills and a diminishing ability to entice those from overseas. Even when the yen started pushing past multi-decade lows earlier this year, Japanese manufacturers only increased their desire to expand production overseas to where both workers and customers are available.

> Investment plans appear to chart a course through a world where US-China divisions are sharpening

In its annual report on the subject, which dates back to 1989 and is based on a survey of almost 950 manufacturers with at least three foreign subsidiaries, the Japan Bank for International Cooperation (JBIC) predicted that corporate Japan's overseas production ratio would continue rising from the previous year to reach 35 per cent by the end of fiscal 2022. In 2025, JBIC forecasts, the ratio will be 36.3 per cent. In other words, says Mizuho Securities' chief equity strategist Masatoshi Kikuchi, the weak yen has not been a significant factor in the decisions of many companies to press ahead with building out their foreign production.

Their reasons for doing so, according to the responses given to JBIC, also reflect an increasingly clear strategic focus outside Japan: companies say they are chasing participation in the global supply chain for electric vehicles and in building local production for local consumption in growing markets (particularly among the Association of South-east Asian Nations).

At the same time, Japanese companies are also confronting incrementally trickier geopolitics around China, and recalculating how far it will realistically meet the production and demand profile Japan wants is after. While JBIC's report showed a majority of Japanese companies surveyed were not engaged in any particular talks about US-China decoupling, their responses to other questions suggest they know they are navigating a rapidly changing environment. India, JBIC found, had overtaken China in the top position of countries deemed "most promising" for medium-term investment by Japanese companies.

However sincerely companies say they are not discussing decoupling, their investment plans appear to chart a course through a world where the divisions between the US and China are continuously sharpening. A majority of Japanese companies, when asked if they planned to bolster operations in either the US or China, told JBIC that they would do both. But while 23 per cent said they would focus their efforts mainly on the US, fewer than half that planned to direct more investment to their China operations.

Corporate Japan is investing overseas for a future where its own country is smaller than it expected, sooner than it expected and at a time when investment must be more fragmented to ensure success. The yen, known on Japanese trading floors as "the paymaster", may have to spend some time as a lesser priority.

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The true meaning of DeSantis

AMERICA

Edward Luce

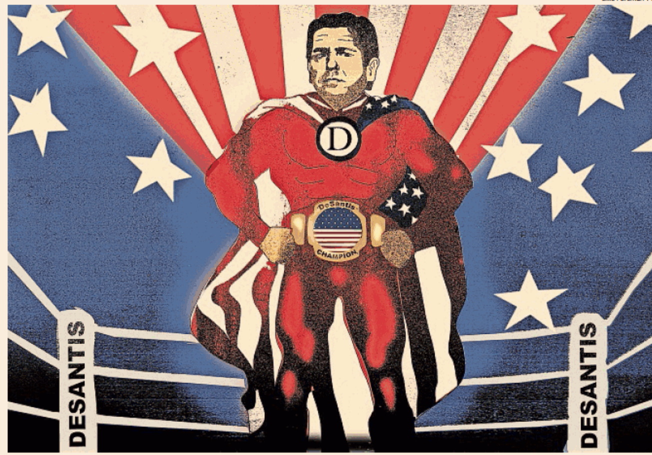
An enduring debate about Donald Trump is whether he stands for a clear ideology or just for Donald Trump. The latter was never in doubt. But it has taken Ron DeSantis, Florida's governor and the former US president's chief rival, to fashion a worldview from Trump's gut instincts, whether you agree with them or not. The irony is that it is Trump's likeliest nemesis, other than himself, who is doing the most to build Trumpism into a lasting force. Little wonder that Rupert Murdoch's media empire now prefers "DeFuture", as the New York Post recently dubbed DeSantis.

The future is not what it used to be for Trump. Last week he stoked expectations of an impending "major announcement", which turned out to be the sale of $99 non-fungible tokens (digital images) of Trump as a superhero, cowboy and in various other fantasy poses. The proceeds — $4.45mn — did not even go into his campaign: they went straight into his pocket. It was a timely reminder that the difference between Trumpism and Trump is that the latter is always looking to make a buck.

Even Trump's loyalists were turned off: "I can't believe I'm going to jail for an nft salesman," tweeted the account of Anthime Joseph Gionet, a white supremacist who pleaded guilty to his role in the January 6 storming of Capitol Hill last year. Trump's bizarre turn came after two polls showing Republican voters favour DeSantis by large margins for the 2024 nomination. It is unlikely the list of criminal referrals that Congress recommended on Monday for Trump's attempted coup will save his deflating brand.

Yet, thanks to DeSantis, Trumpism is thriving. The two men could hardly be less alike. Trump, 76, is an ageing reality TV star on his third marriage who has only ever won one election — and even then not the popular vote. He was born into great wealth. DeSantis, 44, a former military lawyer and Harvard Law School graduate, has won five elections, three to Congress and two as Florida's governor, the last time by a landslide. He comes from a blue-collar background and seems happily married.

Trump is charismatic and often funny, sometimes intentionally. He draws energy and ideas from big crowds and hates to read. DeSantis has little patience for the contact sport of retail politics. He is a voracious reader and is comfortable uttering complex sentences. Judged by personality, DeSantis is Trump's heir unapparent — the two are worlds apart. But Trumpism badly needs DeSantis's discipline and focus to outlast Trump. That is why many of the right's biggest donors, including Peter



Ellie Foreman-Peck

Thiel, the Koch family and Ken Griffin, are backing DeSantis.

Those who hope the Republican party will revert to its pre-Trump character after he has gone are missing the plot. In some ways, DeSantis is even further removed than Trump from the party of Ronald Reagan. The days when Republicans acted as the political arm of big business are gone. DeSantis has shown that he can take on large corporations, such as Disney, the cruise liner industry and the pharmaceutical sector, and still rake in campaign contributions. He has also proved that doing battle with Fortune 500 companies — so-called woke capitalism — is a vote winner.

His method is to convert resentment of corporate and educational elites into a governing programme. Unlike Trump,

> Trumpism badly needs the Florida governor's discipline and focus to outlast Trump

who trolled liberals on Twitter while craving the establishment's approval, DeSantis basks in their hatred. Where Trump is capricious, DeSantis is systematic. Last week he urged an investigation into Big Pharma, Pfizer and Moderna, for "wrongdoing" in overstating the efficacy of their vaccines.

His war on what he calls the "biomedical security state" began early in the pandemic. DeSantis is willing to use government's coercive powers to quash private sector autonomy. Thus, he banned businesses from requiring proof of vaccination for customers entering their premises. This included cruise ships that provide such good tourist revenues for Florida and which were early Petri dishes of Covid-19.

His actions horrified the scientific mainstream which pointed to tens of thousands of avoidable Covid deaths in Florida. But they were popular with blue-collar workers in whose name DeSantis said he was acting: unlike the professional classes, they could not do their jobs remotely. He depicts himself as a sword of vengeance against America's "Faucian dystopia" after Anthony Fauci, the outgoing face of the medical establishment. Ditto in his contempt for supposed corporate virtue signalling on clean energy.

There is nothing libertarian about wielding government powers so casually. DeSantis has also used the state's reach to deprive school districts of autonomy, which Republicans used reflexively to defend. Parents now have the right to sue schools for breaking Florida's "don't say gay" law, which forbids teachers from mentioning sexual orientation with children aged nine or below. He also banned schools from imposing mask or vaccine mandates.

If Trump did not exist, you might describe DeSantis's philosophy as fossil fuel Christian nationalism. Its enemies are amoral tech oligarchs, Big Pharma, ESG-endorsing finance, the corporate media and elite universities. Since Trump does exist, we call it Trumpism. The difference lies in the competence of its execution.

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Other democracies should beware taking pleasure in the UK's travails

POLITICS

Bronwen Maddox

I can barely think of a meeting I've had since September that didn't begin with jokes about Britain's newfound instability. I started a job a few days before Liz Truss became prime minister, and the "lasted longer than the lettuce" one has been inescapable. "Three prime ministers in a year!" (Ambassadors from European countries still incredulous at Brexit particularly like this one.) Now, there are the strikes — although the meltdown

"If you don't have a political system that can make short-term sacrifices for the long-term good of the country, how can you expect your system of government to survive?" asked one senior Chinese official of a distinguished British former minister.

It's a good question. In Britain, the NHS is a symbol of these problems above all others. The stand-off with the government by nurses and ambulance workers is of course about worker pay, but is also about how much the government wants to pay for the health service at all.

Much of the problem stems from the demands of an ageing population, and that is something that many older democracies share. Even if other countries may no longer envy the NHS, they share some of the same

know what to do, we just don't know how to get re-elected once we have done it."

Those sceptical of democracy have prophesied that this is how it consumes itself. It is easier to make promises than to keep them, so the temptation is for politicians to make extravagant commitments to get into office, and then try somehow to stay there. Following

> Even if many countries may no longer envy the NHS, they share some of the same woes

this recipe, democracy decays into populism and then autocracy.

All the same, that is what is needed. The pandemic does offer some encouragement, showing that people are prepared to give up an extraordinary amount if persuaded it is necessary. But there are also more practical things that governments could do to help.

First, they need to make the case for growth and the steps required to bring it about. Truss was not wrong in her ambition, just in recklessly ignoring the constraints on any country seeking to borrow money. For Britain, that means closer relations with Europe. A US trade deal is not coming any time soon; the only alternative of a large market is China, and Rishi Sunak's government has chosen not to lean that way. It also means telling people that more legal immigration is needed. It means

Brown has pointed out. He is right that regions need more representation, too. And first past the post is increasingly hard to defend in a country of many different kinds of people and views.

Third, is to stand up for the values that underpin liberal democracy but not try to couple them with all the other deals on the world stage. Insisting on a human rights agenda in every diplomatic relationship can jeopardise the pursuit of environmental and security accords that are desperately needed on their own account. It can lead to accusations of double standards — as shown by the controversy over Qatar's hosting of the World Cup despite its treatment of LGBTQ people.

It is right, though, to pursue those liberal principles, while acknowledging that not all countries share them. They

Downgrade counter-terror efforts at your peril

Raffaello Pantucci

The growing consensus among the UK national security establishment is that terrorism is no longer the biggest threat. As migration, Russia's war in Ukraine and Chinese military expansion increasingly top the list of concerns within Whitehall, terrorism has fallen out of vogue.

To some degree this is a positive thing. Al-Qaeda's September 11 attacks warped the global security apparatus, and the exaggerated response to this event, including the invasions of Afghanistan and Iraq, created their own security problems. But it is alarming how quickly the terror threat has been downgraded: capability and resources are now being reallocated towards state-based threats. For the security agencies, China, Russia and Iran are the priorities, and more attention is being paid to them. Generally this resource is reallocated (often from counter-terrorism) rather than created.

Terrorism has been a feature of human society for generations. Back in the early 2000s, the scholar David Rapoport posited the idea of this threat operating in 40-year "waves". He traced an "Anarchist wave" (1880s to 1920), an "Anti-Colonial wave" (1920s to early 1960s), a "New Left wave" (mid-1960s to 1990s), and the current "Religious wave" that began with the siege of Mecca in Saudi Arabia, the fall of the shah of Iran and the Russian invasion of Afghanistan in 1979.

By his calculations, the religious wave is now receding. The UK and Australia have both recently lowered their terror

> While it is unlikely another 9/11 is around the corner, even small-scale attacks can be deadly and scar societies

threat levels. The question is where, and when, the next wave will emerge. Polarised politics, stratified societies, growing anti-establishment sentiment, public concern about climate change or other large-scale injustices and numerous global conflicts are all potential fissures.

Tracking potential new risks while keeping an eye on existing ones requires a monitoring mechanism. The signs are there if you are alert to them. Al-Qaeda loudly and repeatedly telegraphed its intention prior to its attacks in Africa, Yemen and the US. The emergence of the al-Qaeda-linked insurgency in Iraq and the consequent expansion of terrorist threats globally was clearly signalled in reporting prior to the invasion. The over-optimistic early responses to the Arab Spring masked the clear growth of threats in Africa as Libya's weapons stockpiles were drained.

Meanwhile, the flame of conflict was ignited in Syria. The emergence of Isis may have been a surprise to some, but not to those who had been watching ISI, its precursor organisation in Iraq, in the wake of the 2009 US withdrawal.

Elsewhere, the growth of the extreme right in Europe was relatively predictable given the increasing disquiet about immigration and Muslim extremism. The 2011 attack in Norway by far-right terrorist Anders Behring Breivik was an early indicator which has subsequently proven to have inspired a wider neo-fascist community. Breivik's attack was directly referenced by the 2019 Christchurch attacker Brenton Tarrant.

These things tend not to come out of the blue. But trying to divine where the next hazards may emerge requires careful observation, assessment and attention. While there was clearly a need to adjust the terrorist threat response given the growing state-based threats, the concern now is whether we are going too far the other way — especially when the picture is so confusing.

The UK Home Office has created a category of threat called "mixed, unstable and unclear", referring to extremists with no clear ideology, or those citing multiple, and sometimes conflicting, influences. And while it is unlikely that another epoch-changing event on the scale of September 11 is around the corner, even smaller-scale terrorist events

2022/12/22 20:20 All pages from Financial Times (Asia), Thursday, December 22, 2022

Lex.

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Elon Musk: flipping the bird

If Elon Musk's off-the-cuff financial statements are accurate, Twitter's creditors should brace for a potential default. On Tuesday, the billionaire entrepreneur made an appearance on the platform's live audio service to say the situation was "not good".

Musk cast himself as austerity saviour, saying before his cost cuts Twitter's outflows were set to reach $6.5bn next year, including interest payments. His forecast of $3bn in revenue and $1bn in cash gave Twitter less than a year before it must raise more funds or risk missing payments.

Job cuts lower outflows, albeit that redundancy payments will eat into savings. Musk has removed half the workforce. Others have left voluntarily and workers are under orders to find $1bn in infrastructure savings. If he can halve costs, Musk can push the crunch point forward to early 2024.

Of course, costs may rise, eroding that advantage. Twitter has $12.5bn of debt as the result of Musk's leveraged buyout, creating $1.5bn of annual debt servicing costs. Twitter is, by extrapolation, paying an eye-watering interest rate of about 12 per cent. This is partly due to rising rates but it is also a marker of the high risks perceived by lenders. Intangibles and short-term investments make up a large proportion of Twitter's assets. Most of the debt is unsecured.

Banks still appear to have underestimated the problems ahead. The company has not reported an annual profit since 2019. But at least revenue was growing before Musk arrived. Now it is forecast to drop 40 per cent from 2021, the last full year of results before the takeover. The fall reflects a worse exodus of advertisers than rivals have experienced. S&P Global expects peer Snap to report 23 per cent revenue growth over the same period.

This is Musk's fault. Advertisers are unhappy his relaxation of moderation has increased the risk of adverts appearing alongside abhorrent content.

Investors, including Musk, could lose their equity. Filing for Chapter 11 would allow the company to reorganise and even raise new funds to support ambitious Super App plans. But creditors would have to agree. They could also take control of the company.

Musk may opt to buy the debt himself. But if banks offload it elsewhere, Twitter may end up in the hands of distressed debt funds. From frying pan to fire in one easy flip.

Uniper bailout: Faust loss policy

By September 2021, European gas prices had doubled in a year. The German economy ministry downplayed state intervention bets in the energy market. The denials did not last long. This week, the EU approved German plans worth up to €34.5bn to nationalise power utility Uniper, including a €8bn capital increase.

Uniper is the biggest bailout triggered by Europe's energy crisis. It stands as a milestone to Germany's retreat from its ill-advised dependence on Russian hydrocarbons. This has cost the German government €264bn, according to consultants Bruegel.

When 200 terawatt hours of long-term supply contracts with Russia evaporated, Uniper could no longer cover its commitments. Uniper's Finnish owner, conglomerate Fortum, watched its equity vanish.

Fortum took over as majority owner in 2017. This irked Uniper bosses, who hoped for complete independence. These days, they must feel relieved.

Germany will pay Fortum €498mn — €1.7 a share — for its 78 per cent stake.

The erstwhile owner's average holding price was more than €23, according to Bloomberg data. Germany will eventually pay off Fortum's €4bn in loans to Uniper. The relatively beneficial terms of the separation have caused Fortum's five-year credit default swaps to fall by two-thirds in price to 99 basis points.

The EU asked for remedies before agreeing to the bailout. Uniper must sell some assets by 2027. The government must cut its stake in Uniper to 25 per cent or under by 2028.

All that suggests Uniper will be dressed up for sale in the years ahead. In the meantime, remaining Uniper minority investors should consider selling into future price rallies.

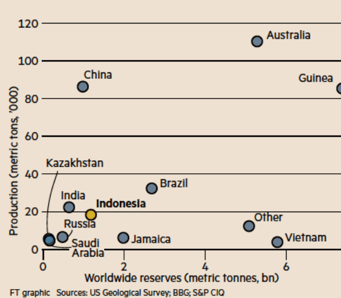
The bailout may be overpriced if it is predicated on energy costs higher than their current trajectory implies. The benchmark price for European natural gas was under €100 yesterday. But the value of ending Germany's Faustian pact with Russia is immeasurable.

Bauxite ban/Indonesia: beyond a Joko

The south-east Asian nation's bauxite production and reserves are nicely balanced. Weak demand has depressed the aluminium price this year, weighing heavily on the shares of some miners, including Aluminum Corporation of China and US producer Alcoa

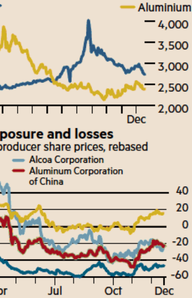
On their mettle

World aluminium reserves and production



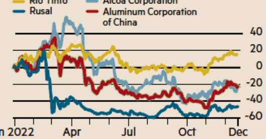
Tale of two commodities

Electricity (index) vs aluminium ($/tonne)



Heavy exposure and losses

Aluminium producer share prices, rebased



FT graphic Sources: US Geological Survey; BBG; S&P CIQ

President Joko Widodo will soon run out of commodities to ban from export. Bauxite is his latest target. Indonesia has in the past threatened or imposed partial or full blocks on palm oil, coal and nickel. The moves win applause at home but erode credibility overseas.

The populism of the bauxite move was underscored by a Netflix-style teaser hours before the official announcement. Exports of an ore used to make aluminium and thus present in products from cars to cans are to stop from June.

Indonesia has the fifth-biggest reserve of bauxite. The ban would put short-term upward pressure on the price of aluminium. This peaked at almost $4,000 a tonne in March and remains elevated at about $2,400. But the longer-term outlook is weak, reflecting a faltering world economy. Struggling China is the largest user.

Widodo is playing a dangerous game. Indonesia claimed palm oil export curbs ensured domestic supply. This policy at least had a direct and immediate goal. In the case of nickel, Widodo hopes the ban will force foreign companies to set up domestic processing plants, creating local jobs.

The investment proposition is unappealing. Indonesia lacks infrastructure and reliable legal protections for foreign owners. Financing factories would be costly.

The ban is more likely to benefit producers elsewhere, notably Rio Tinto and Alcoa, the largest bauxite miners.

China's reliance on Indonesian bauxite was far higher eight years ago, accounting for up to two-thirds of total imports. But a similar export ban prompted China to find alternative suppliers. Today, only a tenth of imports are from Indonesia.

There will be other consequences, judging from recent history. The rupiah plunged following Indonesia's ban on palm oil exports and only started recovering when it was lifted. The World Trade Organization has ruled Indonesia's ban on nickel ore exports violated international rules.

There is an equilibrium of benefits in the relationship between a resource-rich nation and customers. Indonesia's repeated attempts to skew this are counterproductive.

3M: a melancholy heir

Industrial titans are lucky if the only spreadsheet deduction needed to get to residual equity value is financial debt. Manufacturers often have operations from decades ago whose products and practices do not look so pretty under a modern lens. Legacy liabilities of that kind are piling up at 3M.

On Tuesday, the Minnesota company said it would stop making "forever chemicals" known by the "PFAS" abbreviation. These have historically featured in such famed 3M products as Scotchgard fabric protector.

PFAS molecules accumulate in the environment and sometimes in human bodies. 3M said the shutdown would cost $1.3bn in annual revenue and a couple of hundred million dollars in cash flow. It also said it would take a non-cash charge of roughly $2bn.

The extra billions 3M might owe in legal settlements and remediation costs remains an open question.

Subsidiary Aearo has filed for bankruptcy over defective military earplugs that allegedly harmed users. 3M has allocated $1bn so far for future settlements but that figure may be light. In a third product liability matter, the company faces allegations that its face masks hurt miners.

In the past five years, 3M shares have fallen nearly 50 per cent. The company still has annual revenue of $35bn and a market capitalisation of $70bn. But nebulous legal liabilities make it difficult for investors to value its shares. That deepens their pessimism.

In the instance of Aearo, 3M is trying a strategy to ringfence the potential liability even as it pledges to fund the entire cost of settlements. This is supposed to make 3M easier to evaluate. Making a clean break from PFAS is a similar effort for clarity. 3M is meanwhile spinning out its crown jewel healthcare business.

What ultimately matters is the cost of settling with alleged victims represented by aggressive lawyers. Laying legacy issues to rest will be pricey, no matter how cleverly 3M segments liabilities.

Nike: the mother of inventory

Nike has cleared some tough hurdles in its latest quarter. The sportswear group reported solid revenue growth and raised its sales outlook for the year. Shares rose more than 13 per cent in response.

But as any long-distance runner will attest, the challenge is keeping the pace going. There are still plenty of obstacles Nike could trip over. They include an outsize inventory, exposure to China and currency headwinds.

Bargain hunters have helped Nike chip away at its inventory glut. It held $9.3bn worth of goods at the end of November, down from the $9.7bn reported in the previous quarter. However, that is 43 per cent higher than last year. Nike claims the comparison is distorted. Inventory last year was abnormally low because of factory closures in Vietnam. That could be. But the number still looks bloated. Over the past five years, average inventory is about $5bn.

Moreover, to move the excess goods, Nike had to step up sales and promotions. That, along with the strong dollar, hit gross margin. This fell 300 basis points to 42.9 per cent during the quarter and will remain under pressure in the near term.

Then there is China. The country is one of Nike's most profitable markets, generating almost half of group earnings before interest and taxes in 2020. Beijing's zero-Covid policy hurt sales and supply chains. The abrupt ending of these policies has injected uncertainty. Many people in China are voluntarily staying at home amid rapidly rising Covid-19 case counts. Nike may hail the 10 per cent drop in Chinese sales, an advance on the previous quarter, as a sign of things improving. Nike shares, down 29 per cent this year, trade at 30 times forward earnings.

That is in line with its three-year average and a discount to arch-rival Adidas. Nike's growing direct-to-consumer business is a bright spot. But to close the valuation gap, it will need to reduce its reliance on discounting.

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NIKKEI Asia The voice of the Asian century

CROSSWORD

No 17,284 Set by ROSA KLEBB

ACROSS

1 Back-up cop's first to stop fight in tour of boozers (3,5)
5 Set off in boat after Anglo-Saxon attack (6)
9 One swam dubiously around a mermaid (8)
10 Ultimately con one in a hundred people (6)
12 Temperature satisfactory for wine (5)
13 Finger and foot briefly make contact (5,4)
14 10 politicians we'd enjoy locking up (6)
16 Defeated United 1-0 to move into first place (7)
19 Flattering Henry, wealthy but not married (7)
21 One pillaging cases of Rioja imported by monarch (6)
23 Minor offender nibbled Cockney's ear, says Spooner (9)
25 Danger for every single Liberal (5)
26 Skin problem? Give us a ring! (6)
27 Seats intemperate old chap next to son (8)
28 Adage remaining timeless (6)
29 Bishop and setter have a go at brigandage (8)

DOWN

1 Plebs regularly consumed revolting old Spanish bread (6)
2 British pasty shortage's rising, something quite unpredictable (5,4)
3 Voluminous jumper belonging to me (5)
4 US novelist who pens things creative and new (7)
6 Scoff rudely at the pigs (9)
7 Adult and juvenile cat start to attack dog (5)
8 I slipped out of underwear - duke was reluctant to leave (8)
11 Origins of lacrosse, unpleasantly dangerous ball game (4)
15 Chewed nut, dreary fare (3,6)
17 Respond too strongly with regard to damaged crate (9)
18 Drinking cups reach Alice Springs stores (8)
20 Leaving university, coming out in negative financial state (4)
21 Great eccentric cheers boat race (7)
22 Sentimental drunk embraced by society's outsiders (6)
24 Head of Tech and associate are in agreement (5)
25 Haughty professional nude discarding clothes (5)

JOTTER PAD

Solution 17,283

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