FINANCIAL TIMES

FRIDAY 21 APRIL 2023 ASIA

Linking India’s masses to its digital markets
BIG READ, PAGE 15

How to stop social media fuelling bank runs
GILLIAN TETT, PAGE 17

Positive spin
SpaceX gets up but not away

SpaceX/AFP

SpaceX’s Starship lifts off for a flight test from Starbase in Boca Chica, Texas, yesterday, less than four minutes before the most powerful rocket ever built exploded some 40km above Earth.

Despite the setback, Elon Musk, speaking after the explosion, called the launch of his company’s spacecraft “an exciting test”. The unmanned rocket aims eventually to fly to Mars, with the formidable task of turning humanity into a multi-planetary species.

The first fully reusable rocket had been due to reach orbit as part of a 90-minute flight that would have ended in splashdown off Hawaii.

But Musk had spent the days before the launch talking down expectations for the 120 metre tall rocket, warning that it was unlikely to complete all of the phases for its first attempted space flight.

Starship explodes page 2

US decoupling from China would be ‘disastrous’ for both, Yellen warns

- Washington tries to mend frayed ties
- No desire to stifle economy
- ‘Unfair’ policies remain a target

DEMETRI SEVASTOPULO — WASHINGTON

US Treasury secretary Janet Yellen has warned that any effort to decouple from China would be “disastrous”, saying national security measures targeted at Beijing were not designed to “stifle” the Chinese economy.

In a set-piece speech yesterday, Yellen called for a “constructive and fair” economic relationship between China and the US, as Washington seeks to repair badly fraying relations between the two economic powers.

“The US will assert ourselves when our vital interests are at stake,” the Treasury secretary said. “But we do not seek to ‘decouple’ our economy from China’s. A full separation of our economies would be disastrous for both countries. It would be destabilising for the rest of the world.”

Relations between the two powers are in their worst state in decades after efforts to ease tensions were derailed two months ago when a suspected Chinese spy balloon flew over the US.

Beijing maintains Washington is trying to contain its rise by limiting its ability to develop a high-end semiconductor industry. It also claims the US is helping Taiwan to resist its long-term plan to bring the island under control.

> ‘We can find a way forward if China is also willing to play its part’
> Janet Yellen, Treasury secretary

Chinese officials are privately frustrated that their US counterparts weave critical language into speeches ostensibly about improving relations. But Yellen said both countries needed to be able to discuss “difficult issues” frankly.

“Negotiating the contours of engagement between great powers is difficult,” she said. “But we can find a way forward if China is also willing to play its part.”

But while the Treasury secretary called for a “healthy economic relationship” and co-operation on macroeconomics and climate change, she said the US would continue to work with allies to resist Beijing’s “unfair” economic policies. She said China’s decision in recent years to pivot from market reforms to a more state-driven approach had “undercut its neighbours and countries across the world”.

“Even as our targeted actions may have economic impacts, they are motivated solely by our concerns about our security and values,” she added, maintaining that the US was not trying to undermine China.

The Chinese government did not respond to a request for comment.

In a reference to US chip export controls, Yellen said safeguarding certain technologies from the Chinese military was of “vital” interest but not designed “to stifle China’s economic and technological modernisation”.

She also signalled the US was preparing more measures likely to anger Beijing. She said the administration was considering a programme to “restrict certain US outbound investment in specific sensitive technologies with significant national security implications”.

Tensions have risen sharply as Washington becomes more concerned by assertive Chinese military activity.

When Joe Biden and Xi Jinping met at the G20 in November, the two presidents agreed to try to set a “floor” under the relationship and discussed a series of high-level exchanges that would start with Antony Blinken, secretary of state, visiting Beijing in February. That plan was knocked off course when the spy balloon appeared over the US and Blinken abruptly cancelled the visit.

Despite her critical comments, Yellen said she planned to travel to China “at the appropriate time”.

Edward Luce page 4

Briefing

▸ Blackstone boss warns investors on rate-cut odds
Jonathan Gray, president of the alternative asset manager, has warned against overestimating the speed of any fall in US interest rates.— PAGE 6; LEX, PAGE 18

▸ Inflation heads ECB fears
Minutes of the March 16 meeting have shown that most rate-setters pushed for concern about bank turmoil to be separated from the effort to tame inflation.— PAGE 4

▸ Yemen stampede tragedy
At least 78 people have been killed at a school in capital Sana’a, where a large crowd had gathered to receive aid for the holy Muslim month of Ramadan.— PAGE 2

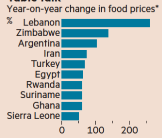
▸ Russian’s exit irks Rome
Italy’s rightwing government has blamed the nation’s courts for the embarrassing escape of Artem Uss, who is wanted in the US for sanctions evasion.— PAGE 3

▸ Credit Suisse suit for Bern
Some 80 of the bank’s investors in Singapore have begun talks to sue the Swiss government over its writedown of $17bn of bonds as it broke a trade pact.— PAGE 10

▸ BMW ice cream apology
The German carmaker has been forced to apologise after being accused of discrimination at the Shanghai motor show when giving out free ice cream.— PAGE 6

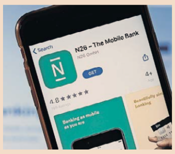
Datawatch

Table talk
Year-on-year change in food prices*



*Latest month, Dec 2022-Mar 2023
Source: World Bank

Food inflation remains highest in low- and middle-income countries. Lebanon’s 261 per cent is nearly double the rate of Zimbabwe, with Argentina completing a trio in which the rise in the food element of the CPI exceeds 100 per cent



N26’s bid to be Spotify of banking hits a bum note
Analysis ▸ PAGE 9

Beijing turned down Wagner’s appeal for weapons, says US intelligence leak

MEHUL SRIVASTAVA — LONDON
MAX SEDDON — RIGA
FELICIA SCHWARTZ — WASHINGTON

Russian paramilitary group Wagner, notorious for its brutal role in Vladimir Putin’s invasion of Ukraine, unsuccessfully asked China for supplies of weapons this year, according to a leaked US intelligence report.

Representatives from Wagner, controlled by close Putin ally Yevgeny Prigozhin, “sought munitions and equipment” from China in “early 2023”, according to the previously unreported document. Wagner’s direct request to China indicates it had some confidence Beijing would be open to arming Moscow, going beyond other non-lethal forms of support for the military campaign provided by Chinese companies.

But as of early January, China “had not sent [Wagner] any weapons, not even for testing, and had no contact with [Wagner] regarding weapons deliveries”, according to the report.

The US has publicly claimed China is considering supplying Russia with lethal arms to replace crucial stocks of ammunition, artillery and missiles, but there is no evidence Beijing has provided such assistance.

Top officials in charge of Russia’s armaments industry, however, were prominent at Xi Jinping’s state visit to Moscow last month, while China’s defence minister lavishly praised Putin at a rare meeting in the Kremlin this week.

The meetings have raised concerns among western officials that China, which has already given Russia an economic lifeline to weather western sanctions, may be closer to helping Russia’s war effort directly.

The Kremlin declined to comment. Beijing did not comment on the US claims that Wagner had approached it for arms but has repeatedly denied that it has plans to supply weapons to Russia.

US intelligence listed Wagner’s appeal to China alongside successful attempts to buy arms from Russia’s two closest allies, Belarus and Syria. The US report said Belarus had “already delivered 50 per cent of unspecified weapons promised” by early January.

The US report is part of more than 100 highly classified documents alleged to have been posted online by 21-year-old Jack Teixeira, a member of the Massachusetts Air National Guard who was working as a systems administrator in an intelligence unit.

The CIA and National Security Council declined to comment.

Ukraine news & analysis page 3

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World Markets

STOCK MARKETS

	Apr 20	Prev	%chg
S&P 500	4134.73	4154.52	-0.48
Nasdaq Composite	12105.47	12157.23	-0.43
Dow Jones Ind	33797.70	33897.01	-0.29
FTSEurofirst 300	1850.76	1852.16	-0.08
Euro Stoxx 50	4383.40	4393.57	-0.23
FTSE 100	7902.61	7898.77	0.05
FTSE All-Share	4289.09	4289.38	-0.01
CAC 40	7538.71	7549.44	-0.14
Xetra Dax	15795.97	15895.20	-0.62
Nikkei	28657.57	28606.76	0.18
Hang Seng	20396.97	20367.76	0.14
MSCI World $	2833.39	2835.89	-0.09
MSCI EM $	990.37	1000.54	-1.02
MSCI ACWI $	655.43	656.67	-0.19
FT Wilshire 2500	5376.53	5376.25	0.01
FT Wilshire 5000	41925.16	41920.64	0.01

CURRENCIES

Pair	Apr 20	Prev	Pair	Apr 20	Prev
$/€	1.098	1.096	€/$	0.911	0.913
$/£	1.246	1.245	£/$	0.803	0.803
£/€	0.881	0.880	€/£	1.135	1.136
¥/$	134.055	134.615	¥/€	147.173	147.518
¥/£	166.972	167.596	£ index	79.339	79.141
SFr/€	0.981	0.985	SFr/£	1.113	1.119

CRYPTO

	Apr 20	Prev	%chg
Bitcoin ($)	28572.10	28818.80	-0.86
Ethereum	1948.04	1936.04	0.62

COMMODITIES

	Apr 20	Prev	%chg
Oil WTI $	77.26	79.24	-2.50
Oil Brent $	81.07	83.12	-2.47
Gold $	1990.55	1999.40	-0.44

GOVERNMENT BONDS

Yield (%)	Apr 20	Prev	Chg
US 2 yr	4.17	4.28	-0.11
US 10 yr	3.53	3.63	-0.09
US 30 yr	3.74	3.83	-0.09
UK 2 yr	3.70	3.80	-0.10
UK 10 yr	3.90	3.99	-0.09
UK 30 yr	4.06	4.14	-0.08
JPN 2 yr	-0.05	-0.04	-0.01
JPN 10 yr	0.47	0.47	-0.01
JPN 30 yr	1.34	1.32	0.03
GER 2 yr	2.89	2.96	-0.07
GER 10 yr	2.44	2.51	-0.07
GER 30 yr	2.50	2.55	-0.04

Prices are latest for edition
Data provided by Morningstar

Unmanned flight

SpaceX rocket explodes after first launch

Failure to separate from booster leads to setback for Musk-led company

RICHARD WATERS — SAN FRANCISCO

SpaceX's giant Starship rocket exploded after its first launch yesterday in a setback for Elon Musk's company and its effort to build a spacecraft capable of flying to Mars.

The near 400ft-tall rocket, the most powerful ever launched, left its base along the Gulf coast in south Texas at about 8.30am. It rose on a ball of flame from its 33 Raptor engines and reached an altitude of nearly 40km before tumbling back towards Earth and exploding. "As if the flight test was not exciting enough, Starship experienced a rapid unscheduled disassembly before stage separation," said SpaceX, adding: "Today's test will help us improve Starship's reliability as SpaceX seeks to make life multi-planetary."

Musk, who was at the SpaceX control centre for the launch, had spent the days before talking down expectations for the huge rocket and warning that it was unlikely to complete all the phases of its first attempted space flight.

The unmanned rocket had been due to reach orbit as part of a 90-minute flight that would have seen it splash down off the coast of Hawaii. The flight appeared to be going to plan for the first three and a half minutes until the planned separation of the first stage booster. After the rocket flipped over, part of a planned manoeuvre to prepare for a return of the reusable booster to Earth, the first stage failed to separate and Starship tumbled back before exploding.

> 'The most important part was that it launched . . . quite the accomplishment for a new rocket'

"Congrats @SpaceX team on an exciting test launch of Starship! Learned a lot for next test launch in a few months," wrote Musk on Twitter.

"It was a partial success, it was not a large setback," said Laura Forczyk, a former Nasa official and now a space consultant at Astralytical. "The most important part was that it launched — that is quite the accomplishment for a new rocket, particularly one as complex as Starship."

In an interview with the Financial Times during the development of the rocket, Musk called it "a staggeringly difficult technical problem", adding: "I sometimes wonder, is it actually within the ability of humans to do this?"

The massive scale of the Starship and a design intended to make it the first fully reusable rocket — essential to bringing down its cost — added to the complexity.

The rocket failed performing a manoeuvre that had never been attempted before, said Forczyk, adding that information gathered from the failed flight was likely to contribute to a successful orbital test of the Starship within the next year or two.

Though designed to fulfil Musk's goal of reaching Mars and turning humanity into a multi-planetary species, the Starship rocket could transform the economics of space flight far sooner and much closer to home.

Capable of carrying payloads as heavy as 100 tonnes into low Earth orbit, Starship could greatly reduce the cost of satellite launches. It is also scheduled to take part in Nasa's missions to return astronauts to the Moon this decade.

East Africa. Battle for supremacy

Sudan's rival strongmen signal fight to the end

The generals, who are former allies, are involved in an existential conflict, say analysts

ANDRES SCHIPANI — NAIROBI
DAVID PILLING — LONDON

Sudan's battling generals branded each other "criminals" responsible for civilian deaths, as they escalated a war of words that suggested there was little room for compromise in their fight for Africa's third-largest country.

Mohamed Hamdan Dagalo, Sudan's vice-president and commander of the paramilitary Rapid Support Forces, cast his rival as the leader of a "radical Islamist gang" seeking to entrench a military dictatorship, as he accused the country's armed forces of targeting hospitals and non-military targets.

"We're ready for him to hit us but not the civilians," Dagalo, better known as Hemeti, told the Financial Times from Khartoum. "We ask God that we gain control and arrest him to hand him over to justice."

Asked if his forces would prevail, Hemeti replied: "We have the readiness and now we're in the battlefield. The battlefield will define everything."

In a separate interview, his opponent, Abdel Fattah al-Burhan, head of the Sudanese Armed Forces and the country's de facto president, accused RSF forces of indiscriminate violence.

"A large part of [Hemeti's] forces is out of control," he said, adding that they were responsible for looting in Khartoum and the western Darfur region.

Burhan blamed Hemeti for sparking a diplomatic incident by "kidnapping" a group of Egyptian soldiers, whom he said had been in Sudan on official business as part of joint armed forces training. Yesterday the 27 soldiers were handed by the RSF to the International Committee of the Red Cross and remain at Egypt's embassy in Khartoum waiting to be evacuated.

Burhan also said the RSF had killed staff from the World Food Programme and attacked a US embassy convoy, claims that could not be independently verified. Hemeti insisted it was Burhan who had "spread fear among the people, guests and diplomats".

"This is an existential conflict for both these generals," said Kholood Khair, a Khartoum-based analyst who saw little prospect for international efforts to halt the conflict. "They will want to see it through to the end."

Destroyed: military vehicles are badly damaged after an exchange of fire in Khartoum yesterday
Marwan Ali/AP

> 'We ask God that we gain control and arrest him to hand him over to justice'
> Mohamed Hamdan Dagalo

> 'The army is committed to transferring power to a civilian-led government'
> Abdel Fattah al-Burhan

Chidi Odinkalu of the Fletcher School of Law and Diplomacy at Tufts University, said neither man would stop short of outright victory. "One of those two people will not continue in power."

Since fighting erupted on Saturday, attempts at calling a ceasefire to bring in humanitarian aid have failed with each side accusing the other of bad faith. More than 330 people have died and nearly 3,200 injured, the World Health Organization said yesterday, as the latest attempt at a ceasefire faltered, with residents saying fighting continued in parts of Khartoum.

Burhan and Hemeti are one-time allies who joined forces in 2019 to oust Omar al-Bashir, who had ruled the country for 30 years. Since then — and especially after a 2021 putsch they led to remove Prime Minister Abdalla Hamdok — they have formed an uneasy alliance, with both participating in on-off negotiations with civilian leaders ostensibly aimed at steering the country towards democracy.

"The army and the RSF were equally complicit in the country's most recent political crime: the 2021 coup," said Amjed Farid, a former Hamdok adviser. "Their current conflict is a battle over the spoils."

A rift began to look inevitable in recent months as Burhan looked to absorb the RSF into the regular armed forces as part of the civilian deal, a move that threatened to neutralise Hemeti's independent power base.

Hemeti said he was not opposed in principle to folding the RSF into the regular armed forces. "The RSF has a specific role and the RSF has not declined the merger," he said, accusing Burhan of being unwilling to implement the so-called framework agreement that was due to pave the way to civilian rule.

Despite their military backgrounds and resort to violent struggle, both Burhan said Hemeti have sought to present themselves as democrats, insisting the transition to civilian rule can be put back on track once they have gained victory.

Burhan said people supported the army over the RSF and that, once Hemeti had been defeated, the transition to democracy could resume. "The army is committed to completing the political process according to the framework agreement and transferring power to a civilian-led government," he said.

Hemeti, who has lent rhetorical support for a transfer of power to civilians, accused Burhan of being aligned with radical Islamists bent on restoring a Bashir-style dictatorship. "Burhan and his gang of Islamists came into power and are not willing to let go," he said.

He dismissed suggestions that mercenaries from Russia's Wagner group might be roped in to the fight on his side, calling such concerns a "phobia". Although Wagner helped train the RSF before 2019, he said, he had cut dealings since the US Treasury branded the group a criminal organisation this year.

"I used to have a good relationship with them but once they were sanctioned, I have personally told Burhan to deal only with the Russian Federation."

Middle East

Scores killed in Yemen stampede as cash handed out at school

SAMER AL-ATRUSH — RIYADH
SIMEON KERR — DUBAI

At least 78 people have been killed in a stampede at a school in Yemeni capital Sana'a, where a large crowd had gathered to receive aid for Ramadan, according to the country's media.

Footage of the aftermath released by the al-Masirah television station showed piles of bodies and discarded shoes strewn over a staircase outside the school building.

Social media images showed hundreds of people crammed into a narrow street before the stampede, and bodies laid out in what appeared to be a morgue. The Financial Times could not verify the authenticity of the images.

The Houthi rebel government, which controls Sana'a, said the stampede was the fault of local businessmen who had pledged to distribute cash handouts at the school.

Some Yemeni Twitter users said people in the crowd were to receive YR5,000 ($20) each.

Dozens more were injured in the crush, which happened in the final days of the Muslim holy month.

The stampede is the latest tragedy to hit Yemen, where hundreds of thousands of people have died in an eight-year conflict that began after a Houthi offensive sparked a Saudi-led military intervention in 2015.

The civil war mutated into a proxy conflict pitting Iran-allied Houthi forces against the internationally recognised government backed by Saudi Arabia and its allies.

The warring sides agreed a truce last year and are close to reaching a peace agreement, according to diplomats.

A Chinese-brokered pact between Saudi Arabia and Iran last month to restore diplomatic relations broken in 2016 has generated optimism for an end to the conflict.

Prisoner exchanges between both sides in Yemen this month have laid further groundwork for a lasting solution.

Hans Grundberg, UN envoy for Yemen, has described the current situation as an unprecedented opportunity for resolution but has urged both sides to "take bolder steps towards peace".

Hopes for an end to the conflict come amid continued concerns over the dismal humanitarian situation and fears that funding gaps could exacerbate hunger across the impoverished nation. The UN estimates that two-thirds of the population requires humanitarian aid and protection.

The World Food Programme last month warned that a funding squeeze was threatening its ability to provide enough sustenance for the country's most needy citizens.

The WFP helps feed 13mn people in Yemen, almost a third of the population, but can provide them with only about 65 per cent of standard provisions.

The aid organisation would need $3bn this year to meet their full requirements, including food rations, other assistance programmes and operational expenses.

An international donor conference in February managed to raise pledges of just $1.2bn out of a $4.3bn target set to fund UN programmes in the country.

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Rise Mzansi

South African political party hopes to seize on anger with ANC

JOSEPH COTTERILL — JOHANNESBURG

A new political movement has been launched in South Africa to capitalise on voters' discontent with the stagnant economy and rolling blackouts that have engulfed the country under the African National Congress.

Rise Mzansi, led by a former newspaper editor and bank executive, said it would contest elections next year when the ANC's share of the vote could fall below 50 per cent for the first time since it won the first post-apartheid vote in 1994.

ANC backing has collapsed to as little as 40 per cent in some surveys but established opposition groups have struggled to expand support, prompting the emergence of several new parties to contest next year's vote in Africa's most industrialised nation.

Rise Mzansi's leader, Songezo Zibi, a former executive at South African bank Absa, said "2024 is our 1994".

Nearly 30 years into the post-apartheid democracy, the growing fragmentation of politics in the wake of the ANC's problems reflects disaffection with established politicians over ingrained issues such as rising crime, rampant corruption and severe blackouts known as load-shedding.

"The rise of these new political parties seems to reflect a general sense of discontentment with the traditional parties," Khaya Sithole, an independent analyst, said.

In response to this political fracturing, the main opposition Democratic Alliance proposed a "moonshot pact" this month for the rising number of anti-ANC parties to work together to unseat the once-dominant liberation movement.

"Let us cast aside our petty differences and stand together as one pact, united in our diversity, and work towards our shared goal of unseating the ANC," John Steenhuisen, the DA's leader, said this week.

At the same time, the DA has ruled out working with the third-largest party, the radical leftist Economic Freedom Fighters, who are seen as the likeliest coalition partner for the ANC if its support does fall below 50 per cent next year.

The ANC won about 57 per cent of the vote in 2019 general elections after Cyril Ramaphosa revived the party's fortunes by replacing Jacob Zuma, who had presided over years of misrule and corruption.

Named after an alternative term for South Africa, Rise Mzansi is seeking alliances with civil society groups to galvanise voters on a centrist platform.

"South Africa needs a reset . . . Rise Mzansi's vision is to build an equal, safe, united and prosperous South Africa in one generation," Zibi said at the launch event at Constitution Hill, Johannesburg, home of the country's highest court and an old apartheid prison.

Songezo Zibi: former bank executive and editor says '2024 is our 1994'

The party has won backing from professionals and civic activists in a sign of the politicisation of the middle class in the face of collapsing infrastructure, such as record power cuts being imposed by the broken Eskom electricity monopoly, and unhappiness with the opposition.

"It's not load-shedding that demoralises us, it's the sense that we've lost the ability to deal with it," Zibi said. "Millions of [ANC] supporters deserve a better political home, one that takes their valid dreams seriously instead of using them as fodder for personal enrichment and power."

He signalled that Rise Mzansi's policies would include reviving foreign investment in the mining sector, which has faltered in recent years, and ending a perceived authoritarian drift in foreign relations. The ANC has refused to condemn Russia's invasion of Ukraine.

"We export far less than we should because we have killed mining investment," he said.

"Our foreign policy has gone from non-aligned to complete misalignment with our constitutional values."

Ukraine races to prepare newly enlisted troops for counterattack against Russia

Washington pessimistic Kyiv can achieve its goals after losing so many experienced soldiers

Combat zone: 108th brigade troops join an exercise in southern Ukraine this month. Below, a military cemetery on the outskirts of Kharkiv
Christopher Miller/FT

CHRISTOPHER MILLER
ZAPORIZHZHIA PROVINCE, SOUTHERN UKRAINE

Ukrainian infantrymen charged across a boggy field, Kalashnikovs raised, unleashing a flurry of bullets. "Move! Move! Move!" came the order. Concealed by the cloud from a smoke bomb, one soldier raised a rocket-propelled grenade launcher and fired at a target 50 metres away — and missed. The group's trainer ordered them to run the drill again.

A little more than a year ago, most of these troops were civilians. Then Russia launched its invasion and they volunteered to join the fight, becoming soldiers of the Dnipropetrovsk 108th Separate Territorial Defence Brigade.

Aged from their 20s to their 60s, the former lawyers, interpreters, programmers and retired factory workers are part of Ukraine's big push to train less experienced and completely new troops for its counter-offensive against Russia's occupying forces.

"The average combat experience of the guys in this brigade is seven to 10 months," said Roman, a press officer for the brigade who provided only a first name, or call sign, in keeping with Ukrainian military protocol.

"Some of them have seen real fighting but many have not . . . They all must be prepared for a tough battle ahead."

After 14 months of all-out war, including grinding, months-long battles in the eastern cities of Bakhmut and Avdiivka, Ukraine's military has been worn down. It has lost a large portion of its experienced soldiers, who made up the most effective units, and expended massive amounts of weaponry and artillery.

A few days before the training, Oleksiy, a soldier in a Kyiv Territorial defence brigade who was a linguist and teacher before the invasion, told the Financial Times that of his platoon of 21 troops only three, including himself, had not been wounded or killed after a single day in Bakhmut.

"It was real hell. Like the first or second world war," Oleksiy said. "We were shelled by mortars, tanks and planes. Drones dropped bombs on us. I had to evacuate a severely wounded guy and a dead body from the trenches . . . It all happened in 24 hours."

Ukraine and Russia both keep their official casualty figures secret. But the US has estimated Ukraine's casualties to be about 100,000, possibly as high as 120,000, including between 16,000 and 17,500 soldiers killed in action. Washington estimates that Russia's casualties since its invasion in February 2022 are about 200,000, including between 35,500 and 43,500 troops killed.

The combat readiness of Ukraine's military is vital if it is to achieve its ambitions of crushing Russian forces on the battlefield, recapturing occupied territory and swinging momentum in its favour.

After the training exercise, a soldier and father of three in his 50s who goes by the call sign Discus said he and his comrades might not be the most experienced soldiers but they were highly motivated. "We are fighting for our existence." Discus retired from the Ukrainian armed forces in 2010, only to come out of retirement last year. "What was I going to do, sit on my ass?" he said. "How could I look my children in the eyes if I didn't help?"

Yet leaked US intelligence documents reviewed by the FT suggest Washington is pessimistic that Kyiv can achieve its counteroffensive goals, even as western military aid pours into Ukraine. One document predicted that the war in the eastern Donbas region would remain a "stalemate" throughout 2023.

Ukraine launched a big recruitment drive in winter. Several assault units are being formed under the Ministry of the Interior. The government expects about 40,000 soldiers to fill out their ranks. But officials fear that will not be enough.

The stakes for Ukraine in the coming months could not be higher, senior officials in Kyiv said. They are worried that a counteroffensive that fails or does not win back a large amount of Ukrainian territory could lead western supporters to push Kyiv to open negotiations with Moscow.

Andriy Sybiha, deputy head of President Volodymyr Zelenskyy's office, said this month that there was no room for mistakes. "We are in a decisive moment now. We need to show successes."

The Russian army in Ukraine has faced its own challenges in recent months. An offensive launched in January has largely failed; Russian troops have managed to capture — but not completely control — only a few square miles of ground in Bakhmut.

Moscow's military struggles were underscored by an intercepted phone call by a Russian soldier to his mother back home on March 18 that was provided to the FT by a Ukrainian intelligence service. In the call, Yegor tells his mother in Arkhangelsk, a city in Russia's far north-west, that his comrades in and around Bakhmut are sustaining big losses and only a few men from his motorised rifle brigade remain alive.

He states that they lack ammunition and are forced to carry out risky offensive operations without proper artillery support, leading to steep casualties. They are not even paid on time. Newly mobilised Russian servicemen arrive at the front line untrained and scared, and "run away" when they are fired on, he added.

> 'The average combat experience of the guys in this brigade is seven to 10 months'
>
> Ukrainian brigade press officer

He blames President Vladimir Putin and top commanders for the battlefield failures. "The main thing for them is to do well for themselves. They don't care about anything else," Yegor says.

The FT could not independently authenticate the call.

While Russian forces have struggled to seize Ukrainian territory, they have dug in on land under their control, intent on holding areas Putin claimed to have annexed into Russia in September. Kyiv and much of the international community condemned the move.

Satellite imagery has shown newly dug, miles-long trenches and anti-tank "dragon's teeth" obstacles in Zaporizhzhia and Kherson provinces, as well as in Crimea.

Moscow's focus on those areas is clear. Kyiv is expected to launch its counteroffensive somewhere near the flat, wide-open terrain where the FT met the 108th Separate Territorial Defence Brigade on April 12, driving in a military truck to a pasture less than 2 miles from the southern front line in Zaporizhzhia province.

Ukraine wants to push south and retake the strategic city of Melitopol, a logistics hub for Russian forces with a prewar population of about 150,000 that serves as a key section of the land bridge linking Russia to occupied Crimea.

Liberating the city would undermine Moscow's ability to reinforce its army and deal a humiliating blow to the Kremlin. It would also slice the territory under Russia's control in two.

Coyote, a soldier in his 50s who drove over two landmines while fighting in eastern Ukraine and survived with minor injuries, brushed off doctors' orders and left hospital early to get back to the battlefield. "We need every man," he said.

Drones see Lex

Sanctions

Rome blames courts after businessman flees before US extradition

AMY KAZMIN AND GIULIANA RICOZZI
ROME

Italy's rightwing government has blamed the country's courts for the embarrassing escape from house arrest of a Russian businessman wanted in the US for sanctions evasion.

In parliament yesterday, Carlo Nordio, justice minister, criticised Milan judges for their favourable treatment of Artem Uss, who had been cleared to be extradited to the US where he has been charged with crimes including sanctions evasion and money-laundering.

Uss's escape from a luxury apartment on the outskirts of Milan has been a huge embarrassment for Giorgia Meloni. The prime minister is both an ardent supporter of Ukraine's struggle against Russia's invasion and eager to show that her government is a reliable ally to the US and Nato.

"When something like this happens, there can be two explanations — incompetence or malice," said Stefano Stefanini, Italy's former ambassador to Nato. "All in all, in a matter like this, incompetence is better."

US authorities claim the fugitive — whose father is on the board of Russian state oil champion Rosneft, and also on the US sanctions list — was co-owner of a trading company that helped Russian entities under sanctions to obtain sensitive military technologies. People familiar with the matter say the younger Uss could potentially have been exchanged with US nationals in Russian custody.

> 'When something like this happens, there can be two explanations — incompetence or malice'

Uss broke his electronic tag and escaped just a day after Milan courts approved his extradition to the US. Two weeks later he re-emerged in Russia where he expressed gratitude for "strong and reliable people [who] were by my side".

Nordio blamed Milan's appeals court for allowing Uss to leave jail and return to a luxury apartment with an electronic tag six weeks after he was captured at a Milan airport in October.

"The judicial authorities had been inundated by observations concerning the dangers and the risk of escape of this gentleman," Nordio said.

After Uss was freed on December 2, the US Department of Justice "exhorted" Rome to act urgently to get Uss back in jail, given his high flight risk, Nordio said. Washington even urged Italian authorities to file an appeal with the country's Supreme Court, he added.

The US Department of Justice did not respond to a request for comment.

But Nordio told parliament his ministry was powerless to "interfere, appeal or ask for stricter measures" or override the lower court ruling, given the "principle of autonomy and independence of the magistrates".

Nordio has since imposed disciplinary action on several judges in connection with their handling of the case.

However, Italy's legal community has attacked Nordio for his own handling of the matter, arguing that prosecutors should have appealed against the court ruling rather than punishing the judges.

The National Association of Magistrates accused Nordio of undermining the "autonomy and independence" of judges by disciplining them.

Additional reporting by Silvia Sciorilli Borrelli in Milan and Max Seddon in Riga

Defence alliance

Stoltenberg pledges Nato will stand with Kyiv for 'as long as it takes' on visit to capital

ROMAN OLEARCHYK — KYIV
HENRY FOY — BRUSSELS

Jens Stoltenberg vowed that Nato would stand with Kyiv "for as long as it takes" in its defence against Russian aggression, during his first trip to Ukraine since the full-scale war began 14 months ago.

The western alliance's secretary-general's visit comes at a crucial time in the conflict as Kyiv pleads for more western weaponry to push on with a spring counter-offensive.

Ukraine has also stepped up its demands for Nato to offer concrete security guarantees and a tangible pathway to join the alliance, despite reluctance from Washington to do so.

Nato has long stressed that it is not a party to the war, rebutting Russian president Vladimir Putin's claims that the conflict is part of a wider confrontation between Moscow and the west.

Speaking alongside Ukraine president Volodymyr Zelenskyy in Kyiv yesterday, Stoltenberg said the alliance "stand[s] by you today, in your heroic fight against the Russian invaders and in defence of your country. Nato stands with you today, tomorrow and for as long as it takes."

The visit came on the eve of a meeting of Ukraine's western allies in Germany to co-ordinate military support for Kyiv. The Nato chief is expected to use the gathering to urge allies to accelerate shipments of weapons.

"This visit of Jens Stoltenberg is the first since the full-scale war. We interpret it as a sign that the alliance is ready to start a new chapter in relations with Ukraine, a chapter of ambitious decisions," Zelenskyy said.

"Foot-dragging of appropriate decisions is time lost for peace and the lives of our soldiers, who have not yet received the vitally necessary number of defence tools," he added.

Stoltenberg's visit was in part to shore up Zelenskyy's commitment to attend the Nato leaders' summit in July.

The Ukrainian president has suggested he would only attend if he was offered concrete commitments of progress towards Ukraine's future membership.

At a meeting of Nato foreign ministers last month, officials from countries such as the Baltic nations, Poland and the UK pressed allies to step up their support for Kyiv to join the alliance, and called on Nato as an organisation to offer Kyiv a tangible pathway to that goal.

But Stoltenberg must also balance the views of countries such as the US and Germany, which are far less enthusiastic about Ukraine's membership in the short term and believe talk of accession is distracting from the core priority of helping to repel Russia's invasion.

"I also expect that Nato allies, at the Vilnius summit with the presence of President Zelenskyy, will agree to further strengthen Nato's package for Ukraine with even more support," Stoltenberg said yesterday.

> 'We interpret it as a sign that the alliance is ready to start a new chapter in relations with Ukraine'

"Then, of course, I also recognise that President Zelenskyy will raise the issue of membership, of security guarantees, and this will be high on the agenda of the meeting."

Stoltenberg also said he expected "Nato allies and partners will make new announcements of concrete military support to Ukraine" at the Ramstein meeting today, without providing specific details

The Nato chief paid respects to fallen Ukrainian soldiers at a war memorial in downtown Kyiv during his trip, which was not pre-announced for security reasons.

Asked about the visit, Dmitry Peskov, Putin's spokesman, told reporters that stopping Ukraine from joining Nato was "unconditionally" one of the goals of Russia's invasion.

"Otherwise there would be a serious, substantial threat to our country and its security," Peskov added.

Separately yesterday, Ukraine defence minister Oleksiy Reznikov thanked Nato countries for recently supplied weaponry, including MiG-29 fighter jets from Poland and Slovakia, as well as the arrival of the first Patriot air defence systems.

But he also repeated demands for Nato-grade fighter jets and larger supplies of previously supplied air defence systems, including shorter-range American-Norwegian Nasams and German Iris-Ts. "Our top priority is to quickly build a multilevel air defence/anti-missile defence system," Reznikov said in a post on Twitter.

"Patriots, Iris-T, Nasams and MiG-29 are the most recent, but not the final, steps towards this goal. Given the Kremlin's barbaric tactics, we need Nato-style fighter jets," he added.

Additional reporting by Max Seddon in Riga

See Opinion

Meeting minutes

Inflation trumps banking fears for ECB

Price growth remains of paramount importance among rate-setters

MARTIN ARNOLD — FRANKFURT

Most rate-setters at the European Central Bank pushed for it to separate concern about turmoil in the banking sector from efforts to tame inflation by raising rates when they met last month.

The outcome of March's ECB meeting, which came less than a week after the collapse of Silicon Valley Bank and only a couple of days before Credit Suisse was pushed into the arms of rival UBS, underlined how concern about high inflation remained paramount among rate-setters.

Some ECB policymakers cited the "separation principle" to argue that monetary policy should be assessed independently of financial stability risks before they pressed ahead with a widely expected half-percentage point rate rise, according to the account of the March 16 meeting published yesterday.

"Unless the situation deteriorated significantly, the financial market tensions were unlikely to fundamentally change the governing council's assessment of the inflation outlook," the ECB said. "In light of the risk of persistent inflation dynamics, the ECB's monetary policy had to be persistent as well."

Since then, several members of the ECB's rate-setting governing council have said they expect it to keep raising rates at its next meeting on May 4, while adding it could slow the pace to a quarter-percentage point rise depending on data due in the next two weeks.

There was also scepticism among several council members at last month's meeting that its forecasts for inflation to fall steadily over the next few years were too optimistic. Some said its forecast for price growth to drop from an average of 5.3 per cent this year to 2.1 per cent in 2025 "gave the impression of an 'immaculate disinflation'".

The doubters pointed to above-forecast inflation figures in February and said "the strengthening of wage growth was consistent with second-round effects having already started".

They cited several "risk factors" that could keep inflation high, including generous fiscal policy by eurozone member states, which bolstered the case for more rate rises.

After last month's meeting, ECB president Christine Lagarde said there was "no trade-off" between its objectives of maintaining financial stability and raising rates to bring down inflation. She also said rates were likely to move higher if the ECB's baseline inflation forecast remained unaffected by the upheaval in the banking sector.

> 'In light of the risk of persistent inflation dynamics, the ECB's monetary policy had to be persistent as well'

There were a handful of dissenters among the council's 26 members, who called for a pause in rate rises to assess the impact of banking's problems.

They argued that "the risks from not raising rates, if the tensions turned out to be shortlived, were assessed to be much less severe than the risks associated with raising rates into a persistent crisis". But they were outnumbered.

Andrew Kenningham, an economist at research group Capital Economics, said the ECB's account of the meeting "confirms that it was only the banking sector turbulence that deterred policymakers from signalling further rate hikes to come". He added that as banking failures "have now subsided", it would keep lifting rates.

Isabel Schnabel, an ECB executive board member, said on Wednesday extra complexity created by banking tumult made it impossible for her to say what it would do at future meetings.

Gillian Tett see Opinion

US politics. Age debate

Veteran senator's absence vexes Democrats

Extended leave of 89-year-old Feinstein prompts some in party to call for her to resign

LAUREN FEDOR — WASHINGTON

Less than six months after Democrats defied expectations and expanded their majority in the US Senate after midterm elections, the prolonged absence on health grounds of Dianne Feinstein, the 89-year-old senator from California, has left the party scrambling for votes.

At the same time, Feinstein's absence from Capitol Hill has raised uncomfortable questions about the age of many lawmakers and exposed fissures in the Democratic party that cut across generational and ideological lines.

"She has had an outstanding career but, as far as I am concerned, it is time for her to step down. It is not fair to her constituents and it is not fair to her colleagues," said Jim Manley, a veteran political operative who was a longtime aide to Democratic senators Harry Reid and Ted Kennedy.

"Not only is her absence having an impact in the judiciary committee," he added, referring to the group of senators that vets President Joe Biden's judicial picks, "it is also having an impact . . . on the Senate floor and the ability of Democrats to get stuff done."

With the Senate in full attendance, Democrats have a razor-thin majority (51-49) in the 100-member chamber. But Feinstein's absence cuts into their already narrow margins and sets the stage for several nail-biter votes, especially if moderate senators cross the political aisle, such as West Virginia's Joe Manchin or Kyrsten Sinema, who now sits as an independent but caucuses with the Democrats.

One such high-stakes vote will be over the confirmation of Julie Su, Biden's choice for secretary of labour. "When you have got a 51-49 margin, you need every vote you can get, especially for the big ones," said Larry Sabato of the University of Virginia Center for Politics.

Feinstein announced in early March that she had been hospitalised for shingles. More than six weeks later she remains in California, and a small but growing number of Democratic lawmakers have called for her to resign.

The longtime senator — who has also faced questions in recent years about whether her cognitive abilities have declined with age — said in February she would not run for re-election in 2024, setting the stage for a hotly contested primary next year. Three Democratic members of the House of Representatives — Barbara Lee, Katie Porter and Adam Schiff — have already declared they are in the running to replace her.

In the limelight: Dianne Feinstein has announced she will not seek re-election to the Senate next year Chip Somodevilla/Getty Images

Ro Khanna, a Democratic congressman from California who has backed Lee's bid for Feinstein's seat, was the first member of Congress to call for Feinstein to step down. "We need to put the country ahead of personal loyalty. While she has had a lifetime of public service, it is obvious she can no longer fulfil her duties," he said in a tweet last week. "Not speaking out undermines our credibility as elected representatives of the people."

Despite attracting ire from many in his party — including former House Speaker Nancy Pelosi, 83, who suggested Khanna's comments were rooted in sexism — the congressman has not wavered. He has been backed by several other relatively young progressive members of the House, including Alexandria Ocasio-Cortez, Jamaal Bowman and Dean Phillips.

Critics have questioned whether Khanna is calling for Feinstein's resignation only to pave the way for Lee to take her place. If Feinstein were to step down, California governor Gavin Newsom would need to appoint a replacement.

In 2021, Newsom vowed to pick a black woman if Feinstein did not complete her six-year term and Lee is the only black woman in the contest. Newsom has shied away from commenting.

Feinstein, who was mayor of San Francisco in the 1970s and 1980s before being elected to the Senate in 1992, said after Khanna's tweet that her return to Washington had been "delayed due to continued complications relating to my diagnosis". She added she intended to come back to the Senate "as soon as possible once my medical team advises that it's safe for me to travel".

Feinstein said she had asked Chuck Schumer, Democratic Senate majority leader, to appoint another Democrat to temporarily serve on the judiciary committee. Schumer tried this week but Republicans blocked his efforts.

Mitch McConnell, the 81-year-old Senate minority leader who returned to the Senate this week after an absence following a fall that led to a concussion and fractured ribs, accused Democrats of playing partisan politics. "Senate Republicans will not take part in sidelining a temporarily absent colleague off a committee just so Democrats can force through their very worst nominees."

The White House, meanwhile, accused Republicans of seeking "partisan advantage" from Feinstein's absence. White House press secretary Karine Jean-Pierre said it was a "decision for [Feinstein] to make" as to whether she stayed on in the job.

But many in Washington say calls for the California senator to step aside are unlikely to abate — nor are debates about the age of many political leaders.

While Feinstein is the oldest sitting member of the Senate, several others are also octogenarians, while Biden himself, at 80, is the oldest serving president in US history.

That has led many to question whether few on Capitol Hill are willing to back Khanna's plea. "To be frank about it, a fair number of members of the Senate and House would love to stay there forever too," said Sabato.

GLOBAL INSIGHT

WASHINGTON

Edward Luce

Yellen offers economic olive branch to China amid bilateral tension

Janet Yellen's China speech has been a long time in coming. It has been almost a year since Antony Blinken, US secretary of state, said the country was "the most serious long-term threat" to world order. Yellen's phrasing was more emollient.

The US Treasury secretary spelt out that Joe Biden's administration had no intention of decoupling from China, which would be "disastrous for both economies". Though she emphasised that where US national security collided with economics, the former would always take priority, her address ought to be seen as an olive branch to Beijing. Whether China will see it that way — having rebuffed Washington's overtures since the US shot down an apparently rogue Chinese spy balloon in February — is another question. Yellen cannot be accused of not trying.

In an interview before her speech, Yellen made clear she wanted to visit China as soon as Xi Jinping had appointed her counterparts to their jobs. If Yellen's trip goes ahead, she would be the most senior US official to visit China since Biden took office. Blinken cancelled his planned trip earlier this year after the Chinese balloon furore. Yellen's goal would be to revive dialogue, at least on economic matters.

During the cold war, periods of detente were bolstered by commercial interaction. "I see myself as carrying on the agenda that Biden and Xi established at the G20 meeting in Bali [in November]," Yellen said. "There was a clear understanding that economic relations are not a zero-sum game and that we need to step up our interaction."

In October, the US announced a ban on high-end semiconductor trade with China, which is being seen in Beijing as an act of economic aggression to curb the country's development. Yellen was at pains to rebut China's interpretation. Restrictions would be confined to trade that helped its military modernisation, she said. This included a new set of controls on outbound US investment to China that will be announced soon.

> 'Economic relations are not a zero-sum game and we need to step up our interaction'

"We've tried to provide guidelines so far for the export controls that we've put in place," Yellen said. "If the Chinese perceive these actions we have taken as harming their national competitiveness, that's a reason for us to step up our interaction and explain what our motivation is."

Most of America's trading partners in the Indo-Pacific, such as Singapore and Australia, want to see more US engagement on trade and investment, even if Biden has ruled out rejoining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (the renamed TPP, which China has applied to join). Other than the recently launched Indo-Pacific Economic Framework, which critics have dismissed as a talking shop, and the equally young US-EU trade and technology council, nothing else is in the pipeline, according to Yellen.

"Big trade deals are not being actively planned," she said. Instead, the US would push its "friends" to join Yellen's so-called friend-shoring initiative. These include Indonesia, India and Vietnam. She said she was considering a trip to Vietnam. "We need to diversify our supply chains to avoid extreme dependence on countries who could use those against us, like Russia has with energy."

Whether Yellen's efforts to revive the economic side of US-China dialogue bear fruit is open to doubt. Xi has been meeting leaders from all over the world yet has resisted scheduling a call with Biden. Yellen is the most senior serving official who was part of the US-China Strategic and Economic Dialogue — an annual talking shop — that was set up by George W Bush and continued under Barack Obama. Donald Trump shut it down. During the 2008 financial crisis, Hank Paulson, Yellen's predecessor as Treasury secretary, was in frequent co-ordination with his Chinese counterparts. Such co-operation is hard to imagine today.

As a significant holder of US public debt, China has a material interest in the outcome to the looming battle between the White House and the Republican-controlled House of Representatives over lifting the debt ceiling. An American default could badly undermine the dollar's reserve currency position. If anything could topple the US dollar, it would be the self-inflicted wound of a US sovereign default. Growing rivalry from the Chinese renminbi would be the least of Washington's worries.

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International forum

Biden pledges extra $1bn to UN climate fund

AIME WILLIAMS

Joe Biden pledged $1bn in new US funding to help developing countries cope with climate change at a virtual gathering of leaders of the world's biggest industrialised nations that included China's climate envoy.

At the meeting of the Major Economies Forum on energy and climate yesterday, the US president announced the plan to contribute the money to the UN-led Green Climate Fund, which finances clean energy and climate resilience projects in developing countries.

Separately, he promised $500mn over five years for a fund to tackle deforestation in the Amazon, watched by Brazil's President Luiz Inácio Lula da Silva. But the pledge for the Amazon Fund would require approval from the US Congress. Republican lawmakers have opposed Biden's previous efforts to boost US international climate funding.

Alongside offering the US funding, Biden stepped up pressure on incoming World Bank president Ajay Banga, the US nominee for the role, by calling on all multilateral development banks to scale up their lending to tackle climate change, adding that doing so would also accelerate the fight against poverty.

The US recently put forward the former Mastercard chief executive as its candidate to lead the World Bank after David Malpass resigned from the post almost a year early amid criticism of his perceived lack of conviction on climate change.

The bank has come under attack for failing to adequately address the scale of the global climate crisis while maintaining its mission to reduce poverty.

According to the White House, the more than 25 countries taking part in the fourth Biden energy and climate forum account for 80 per cent of the world's greenhouse gas emissions.

China's climate envoy, Xie Zhenhua, was in attendance, the White House confirmed, despite increasing geopolitical tension between the two countries.

"We have to step up our ambitions," said Biden, speaking from the White House before the meeting. "We're going to have to stand together and meet great challenges . . . we will preserve our planet in the future."

He called on the gathered nations to "show up" at the UN COP28 summit in the United Arab Emirates this year with improved 2030 climate targets.

The US has committed to reducing its greenhouse gas emissions by 50 per cent to 52 per cent below 2005 levels by 2030.

UN secretary-general António Guterres said present policies would make the world 2.8C hotter by the end of the century, representing "a death sentence", but could be limited to 1.5C with a leap in action.

Monetary policy

Australia to reform under-fire central bank

NIC FILDES — SYDNEY

Australia's treasurer has announced the biggest shake-up of the country's central bank in its 63-year history, proposing the establishment of an interest rate-setting board and an overhaul of its culture.

The reforms follow a review of the Reserve Bank of Australia amid criticism of its interest rate guidance and slow response to rising inflation.

Philip Lowe, RBA governor, had indicated in 2020 that the bank did not expect to raise rates until 2024 before it did so for 10 consecutive months starting in May, pausing only last month.

The about-face left thousands of mortgage holders with sharply rising payments after rates jumped from 0.1 per cent to 3.6 per cent in a year and prompted Lowe to apologise for a lack of clarity in his forward guidance.

The review, initiated by the Labor government elected shortly after the first rate rise, found that the RBA had played a critical role in Australia's economic strength over the past three decades, when the country's resilience to financial shocks deterred reform of the central bank. But the review also criticised the bank's communication and structure, portraying a hierarchical culture of deference to senior staff, as exemplified by its response to the coronavirus pandemic.

Philip Lowe: had to apologise for a lack of clarity in his forward guidance after rate rises hit mortgage payers

Jim Chalmers, Australia's treasurer, accepted in principle all the recommendations of the review, including a move to divide the bank's board that would allow a panel of experts to set monetary policy, replicating structures adopted by the UK and Canadian central banks.

Isaac Gross, an economics lecturer at Monash University, said splitting the board would break a "cosy arrangement" whereby non-experts sitting on the RBA panel deferred to the advice of senior bank staff. "There's no one to hold them accountable," he said.

Lowe said yesterday that the RBA had "learnt some lessons about how to communicate" since the pandemic started and broadly welcomed the review recommendations. However, he pushed back on some of the review's findings, such as those over the board's structure, which he said were "not quite lined up with the reality that I know".

His comments suggested a risk that the proposals might not be fully implemented, analysts warned. "You can only force the RBA to do so much if they're not on board," Gross said.


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Timid on Tokyo Key policy shift and prospect of end to deflation fuel hopes of inflows, but few investors commit cash ➔ MARKETS

Companies & Markets

Blackstone warns against overestimating rate-cut odds

- Fed focused on inflationary pressures
- Asset manager's profits drop sharply

ANTOINE GARA — NEW YORK

The head of Blackstone, the world's largest alternative asset manager, has warned that investors are overestimating how quickly the US Federal Reserve will cut interest rates.

Blackstone president Jonathan Gray said that while the Fed would probably hold off from further rate rises because of cooler inflation, financial markets had overpriced the odds of the central bank reducing the cost of borrowing.

"The Fed is likely to pause or maybe go 25 basis points higher from here, but I think they're unlikely to pivot as quickly as the market is expecting," he said.

He added that the Fed would "hold rates at an elevated level for an extended period of time" to stamp out remaining inflationary pressures.

> 'I think [the Fed] is unlikely to pivot as quickly as the market is expecting'
>
> Jonathan Gray, Blackstone

Gray, who was speaking as Blackstone reported first-quarter earnings yesterday, is the latest senior Wall Street executive to warn investors to expect higher rates to persist.

JPMorgan Chase boss Jamie Dimon and BlackRock's Larry Fink both argued last week that the collapse of Silicon Valley Bank and struggles among regional US banks would not be enough to deter the Fed from keeping rates high.

Investors still expect a final quarter-point rate rise in May or June, but for the Fed to then begin lowering rates, with two cuts forecast by the end of the year.

"I think inflation is definitely cooling. It is increasingly in the rear-view mirror and we see it in our portfolio companies," Gray said. US inflation has eased to its lowest level in nearly two years, with the consumer price index for March up 5 per cent year on year.

Gray warned that high rates might create additional problems in the banking industry as savers run down deposits at some lenders. But he said that he was not concerned about a sector-wide collapse: "It's possible we could see further incidents, but I don't think there's a systemic problem because we don't have a systemic credit problem."

Gray was speaking after the group reported that profits fell sharply in the first quarter and its fundraising slowed as investors grappled with fears over the health of the commercial property market and a slump in dealmaking activity.

Blackstone attracted $40bn in new investor capital in the first quarter, a more than 5 per cent decline from the previous quarter, as investors made fewer new commitments to the group's real estate and private equity funds.

The slowdown left Blackstone with $991bn in assets under management, just shy of the $1tn milestone it had hoped to achieve. Those plans were thwarted by a negative turn in financial markets that caused investors to pull money from two funds Blackstone built for wealthy individual investors.

The fundraising challenges, and markdowns in some of its largest real estate funds, caused the New York-based group's fee revenues and profits to decline sharply from this time last year.

Blackstone's fee-related earnings, a proxy for the base management fees it collects, were $1bn, a 9 per cent fall from this time a year ago, while its distributable earnings — a metric favoured by analysts as a proxy for overall cash flows — fell 36 per cent to $1.25bn. The fee revenues slightly missed estimates from analysts' polled by Bloomberg, while profits slightly exceeded expectations.

See Lex

Flat-pack foray Ikea makes biggest investment in a single country with €2bn US expansion

Unboxed: Ikea has 50 US stores, such as this one in Fort Lauderdale — Jeffrey Greenberg/Education Images/Universal Images/Getty Images

RICHARD MILNE
NORDIC AND BALTIC CORRESPONDENT

Ikea is seeking to take advantage of the economic downturn to take market share as the world's largest furniture retailer unveils a €2bn push into the US, its biggest investment in a single country.

The group plans to open eight new large stores and nine smaller planning studios and order points in the US as part of the three-year investment drive. It expects the US to overtake Germany as its largest country in terms of sales in the coming years.

"Not being on the stock market gives us a big opportunity to accelerate when maybe others are slowing down. In times of economic turmoil when there are challenges in the economy, we usually see the opportunities that this brings," Tolga Öncü, head of Ikea Retail, told the Financial Times.

Ikea had annual sales of €5.5bn in the US in its financial year to the end of August 2022, while it had €5.7bn in Germany, its current biggest market. Öncü said the US was getting "closer and closer" and he expected it to overtake Germany "in the next years".

Ikea, which was founded in Sweden 80 years ago but now has its headquarters in the Netherlands, is privately owned by a foundation, set up to allow the flat-pack furniture pioneer to resist the pressure to list as well as for tax advantages. Its founder, Ingvar Kamprad, who died in 2018, also frowned on taking on bank debt.

"Over the years, we have had a very conservative financial policy. We only spend the money we make. In the beginning, it meant we took it slow to expand. It means we always have money set aside for rainy days," said Öncü, an executive at Ingka, the main Ikea retailer.

He added that Ingka, by far the largest retailer in the Ikea system, saw "endless opportunities" in the US. Ikea would use its €2bn investment over three years to refit its existing stores to enable them to process more online orders as it increasingly uses its shops as ecommerce warehouses.

The new stores would create 2,000 jobs, Ikea said, and would come on top of two new shops opening this summer in San Francisco and Arlington, Virginia. Ikea at present has 50 stores, two planning studios and 15 order points in the US.

Öncü said Ikea had no "head-on competitor spanning the entire US" but rather smaller, local rivals in single states or across several of them.

"Despite [our four] decades in the US, we are just in the beginning. We see ourselves as just a toddler trying to get to the next stage of life. We need to go from crawl to walk, and walk to run. We still have such potential in the US that it's not the moment to worry about what others are doing."

BMW sorry for ice cream meltdown at Shanghai show

GLORIA LI — HONG KONG

BMW has been forced to apologise in China after being accused of discrimination at the Shanghai motor show when giving out free ice creams.

A video on China's YouTube-like platform Bilibili showed the German carmaker's Mini booth at the show offering free ice cream to foreign visitors but turning away Chinese customers.

The ice-cream campaign "was intended to offer a sweet dessert to adults and kids visiting the show", the Mini China account said in a post later on Chinese microblogging site Weibo. "But our sloppy internal management and our staff's failure of duty have caused you unpleasantness. We offer our sincere apology for that."

A later statement from Mini globally said the business "condemns racism and intolerance in any form" and that it would ensure it did not happen again.

The hashtag "BMW Mini booth accused of discrimination" had amassed more than 190mn views on Weibo by yesterday afternoon.

The biennial motor show is one of the largest motoring events in the Chinese calendar and a chance for international carmakers to show off their latest products in a highly competitive market.

For years China was the global industry's main profit driver as local consumers sought the prestige of driving international brands. But a marked improvement in the quality of vehicles from domestic brands has meant fiercer competition, especially in electric vehicles.

The Mini apology is not the first time that global brands have suffered public relations backlashes in the market.

Mercedes-Benz had to apologise in 2018 to Chinese consumers for an Instagram post that featured a quote from the Dalai Lama, the Tibetan spiritual leader, who is considered a dangerous radical by Beijing.

Tesla was also criticised by Chinese state media after a consumer protest on its stand at the 2021 Shanghai auto show by owners alleging problems with their vehicles. The US carmaker subsequently apologised for not dealing better with customer complaints.

Overseas car brands have been rapidly losing market share to Chinese rivals, with domestic carmakers on track to sell more passenger vehicles than foreign rivals this year.

Additional reporting by Peter Campbell in London

Smaller players search for crumbs from Big Tech's feast on AI

INSIDE BUSINESS
TECHNOLOGY
Richard Waters

How much of the booming generative AI market will disappear into the maws of the biggest tech companies? And what will be left over for the many other companies that are hoping to cash in on the tech world's latest craze?

It may be less than five months since the launch of ChatGPT, but those questions already loom large as the biggest tech companies race to stake out large parts of the territory for themselves.

Amazon has been the latest to set out its generative AI stall, through its Amazon Web Services cloud computing arm. Along with its own large AI models, named Titan, AWS last week said it would offer access to several others on its platform, including the large language model from AI start-up Anthropic and the open-source Stable Diffusion image-generating system.

Hosting and delivering independent AI services such as these is all part of an attempt by AWS to put its cloud at the centre of the new generative AI market. AWS also supplies all the tools developers need to build, train and deploy their own generative AI models, and for good measure designs its own specialised chips for both training and running large machine-learning systems.

It is not alone. This month, Google boasted that supercomputers built with the latest generation of its own chips, called TPUs, have achieved breakthrough levels of performance in training large AI models. Microsoft has also joined the stampede among the biggest tech companies to develop its own specialised chips for AI, according to one senior figure its plans were first reported by The Information).

Moves such as these show just how far the Big Tech companies are going in their attempts to control all parts of AI's new computing "stack" — that is, the layers of technology required to support and run demanding new computing workloads and turn them into useful services for customers.

At the bottom of this stack are chips designed to process the vast amounts of data needed to train large AI models. Other layers include the algorithms and other software required to train and deploy the systems; the large-scale language and vision models themselves, known as "foundation models" because they act as a base level of intelligence; and, finally, the many applications and services that run on top of these models to shape the technology for specific markets and uses.

> Amazon, Microsoft and Google are already staking their claim to most of the lower levels of this hierarchy of technology

Amazon, Microsoft and Google are already staking their claim to most of the lower levels of this hierarchy of technology, making it hard for others to break into a market where operating at huge scale with the lowest unit costs will be essential.

Even Elon Musk, who claims his nascent AI company will be a "third force" in AI against Google and the Microsoft/OpenAI partnership, faces a steep climb. Tesla, his electric car company, has already built an AI computer to handle vision recognition. This week the irrepressible Musk claimed selling this technology to others could one day be worth "hundreds of billions". But catching up with the tech giants that have spent years fine tuning their technology for the world's largest language and image models will not be easy.

The question now is how much further up the "stack" the cloud companies try to move, in the process claiming more of the value from the new technology for themselves.

For those who don't already have it, control of their own large AI models (or, in Microsoft's case, a close alliance with OpenAI) seems a likely goal. Foundation models cost a huge amount to develop and can be put to work on a wide range of applications, making them a natural first step for any Big Tech company with AI ambitions.

The centrality of these large models to their wider strategic goals means the companies are not likely to view them as profit centres in their own right. That is certainly how Emad Mostaque, head of Stability AI, the company behind Stable Diffusion, sees it. He warns of a "race to the bottom" in pricing as Big Tech companies battle to establish their AI systems, leaving little room for anyone else.

Mostaque is instead counting on two things. One is that Amazon will always be happy to make money hosting rival AI models in its cloud and not try to supplant them with its own. The second is that there will still be room for differentiation between AI models, and that not all customers will want to rely on giant, opaque systems run by a handful of dominant tech companies. If he is wrong, generative AI's early, competitive phase could prove very shortlived.

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COMPANIES & MARKETS

Technology

Google to deploy generative AI in ads

US group plans to 'unlock world of creativity' using ideas supplied by clients

CRISTINA CRIDDLE — LONDON
HANNAH MURPHY — SAN FRANCISCO

Google plans to introduce generative artificial intelligence into its advertising business over the coming months, as big tech groups rush to incorporate the groundbreaking technology into their products.

According to an internal presentation to advertisers seen by the Financial Times, the Alphabet-owned company intends to begin using the AI to create novel advertisements based on materials produced by human marketers.

"Generative AI is unlocking a world of creativity," the company said in the presentation, titled "AI-powered ads 2023".

Google already uses AI in its advertising business to create simple prompts that encourage users to buy products. However, the integration of its latest generative AI, which also powers its Bard chatbot, means it will be able to produce far more sophisticated campaigns resembling those created by marketing agencies.

According to the presentation, advertisers can supply "creative" content such as imagery, video and text relating to a particular campaign. The AI will then "remix" this material to make ads based on the audience it aims to reach, as well as goals such as sales targets.

One person familiar with Google's presentation said they were worried the tool could spread misinformation, because text produced by AI chatbots can confidently state falsehoods. "It is optimised to convert new customers and has no idea what the truth is," the person said.

> The systems will 'remix' the material to make ads based on the audience and goals such as sales targets

Google told the FT it planned to put firm guardrails in place to prevent such errors, known as "hallucinations", when it rolls out its new generative AI features in the coming months.

The ads move comes as Big Tech companies race to capitalise on generative AI, which has swept to prominence in recent months by creating highly sophisticated material such as text and images created in response to human inputs.

Google last month launched Bard in a bid to take on Microsoft-backed OpenAI's ChatGPT, which can write convincingly humanlike responses to questions and prompts.

It has also recently integrated generative AI into its widely used productivity applications, such as Google Workspace, Google Docs and Gmail.

The new technology will be embedded into Performance Max, a program Google has offered since 2020 that uses an algorithm to determine where ads should run and how marketing budgets should be spent, as well as producing simple ad copy.

The advertising industry is facing significant headwinds, with businesses seeking to control costs and increased restrictions on using personal data for marketing purposes.

Google's advertising revenue slipped 4 per cent in the final quarter of last year, leaving its parent, Alphabet, with overall revenue growth of just 1 per cent. The largest social media platforms, which rely on advertising for the majority of their revenues, are seeking to use the latest automation technologies to draw in clients.

Meta, which owns Facebook and Instagram, launched a similar offering to Performance Max last year called Advantage+. It also plans to use generative AI in its ads systems by the end of the year.

See Opinion

Technology

Dominion 'irreparably damaged' by Fox claims, says investor

JOE MILLER AND ANTOINE GARA
NEW YORK

Dominion was "irreparably damaged" by Fox's airing of false claims that its voting machines helped steal the 2020 US election, the company's main investor said, after landing a historic $787.5mn settlement from the conservative broadcaster.

Three acquisitions set to go ahead before the news network began airing claims that Dominion's devices were responsible for Donald Trump's loss will no longer be pursued, said Hootan Yaghoobzadeh, co-founder of Staple Street Capital, the private equity group.

"There's just no point . . . the brand has been irreparably damaged and harmed," said Yaghoobzadeh, whose firm bought a majority stake in 2018. "If you're an election official and in a state . . . even where 10 per cent or 20 per cent of your constituents believe these lies about Dominion . . . it's a more difficult option to pick."

Staple Street, founded by Yaghoobzadeh and Stephen Owens in 2010, originally paid about $40mn and raised more than $30mn of debt to finance its controlling stake in Dominion, which was at the time a Denver-based business with just $10mn in operating profits. In the two years preceding the 2020 election, Dominion had expanded earnings by four-and-a-half times, Yaghoobzadeh said, and had a "real line of sight to significantly expand the business and experience explosive growth".

> In the two years preceding the election, Dominion had 'a real line of sight to . . . explosive growth'

Chief executive John Poulos, who had started Dominion two decades earlier, had been working with Staple Street to diversify it from selling clunky voting machines. Their plan was to expand its software services and maintenance contracts, Yaghoobzadeh said.

Although Dominion was bringing in up to $45mn a year by 2020, it put a string of planned acquisitions on hold until after the election in November.

Its systems were used in 28 states during the 2020 vote, which put it in the crosshairs of Trump and his allies when they began claiming the vote was rigged.

After the election, Fox and other conservative networks aired dozens of defamatory statements about the company, Dominion alleged, including conspiracy theories claiming it was bribing election officials and worked for Hugo Chávez, Venezuela's late leader.

Yaghoobzadeh said he and Dominion decided to sue Fox as it was "easy to figure out we didn't rig the election" and it was obvious the network had at least "disregarded the truth", which is the minimum standard for proving defamation under US law.

Fox had denied it defamed the company and would only concede that the court found "certain claims about Dominion to be false".

Yaghoobzadeh said he was "saddened" when pre-trial discovery unearthed communications that showed key Fox figures never believed the election was stolen, but feared they would lose viewers if they said so on air.

He declined to comment on whether the company would be wound down or rebranded. "The future of the business was extremely bright," he added, "and this defamation campaign stole this."

Automobiles

Ford to sell Lightning electric truck in Norway

PETER CAMPBELL — LONDON

Ford is to begin selling the electric F-150 Lightning in Norway, the first time the US carmaker has sold a version of its flagship pick-up truck outside North America.

The company has earmarked a handful of the models for Norway, the world's leading electric-vehicle market, where four out of every five vehicles sold run on batteries.

The move is likely to help Ford hit its European carbon emissions targets, both by adding another fully electric vehicle to its line-up and because the heavy truck may alter the weight-based CO_2 targets it has to meet. It wants all its cars in Europe to be electric by the end of the decade, while all European vans will be zero-emission by 2035.

While pick-up trucks are popular across North America, the three big US sellers — Ford, General Motors' Chevrolet and the Stellantis Ram brand — have not so far launched them in Europe, in part because the vehicles are much larger than European models and unsuitable for local roads and cities.

However, Norway's roads are typically wider than those elsewhere in Europe, while the outdoor lifestyle of its consumers means the vehicle is considered suitable for the market, said Per Gunnar Berg, managing director of Ford's Norwegian business.

He added that the company decided to bring the vehicle over after a significant number of customers went to dealerships to try to reserve a model following its US launch last year.

"I've had customers literally banging on my door and pleading for us to bring the electric pick-up to Norway," he said.

Ford is able to ship outside North America in part because it has expanded the capacity of its Rouge plant in Michigan that makes the vehicle, bringing it up to 150,000 a year.

Norway is Europe's most significant market for electric cars, partly because of high taxes levied on petrol and diesel models. Norway accounts for almost a quarter of the electric Mustang Mach-e models Ford sold in the region last year.

The US carmaker is not planning to sell the Lightning more widely in Europe in its current life cycle, though it may consider a global market for future electric pick-ups.

Car alarm

Renault rails at Tesla cuts

Renault is worried about the residual value of models such as its SA Zoe — Rolf Schulten/Bloomberg

Renault has blasted Tesla for cutting electric-car prices, warning that the US group would "kill" second-hand vehicle values and send itself into a "spiral".

The comments by Thierry Piéton, the French carmaker's finance boss, came hours after Elon Musk, the Tesla chief, vowed to keep cutting prices to drive sales higher.

Renault shares fell as much as 7 per cent even as it posted higher first-quarter revenues yesterday, with analysts citing worries about pricing pressures across the industry, despite the French carmaker's insistence that it would not slash its own prices.

Renault said its main aim was to keep customers' monthly lease payments as low as possible, something that requires it to protect the "residual value" of a car.

Most new cars are bought on finance deals in which motorists finance the depreciation of a vehicle over a lease period, rather than its overall value.

The more value a car is expected to lose over the three years, the higher monthly payments typically are.

About 80 per cent of the French carmaker's EVs are sold on finance.

"When you cut prices significantly, residual value takes a hit," Piéton said.

"There is no big incentive to go cut the prices and kill the residuals and go into a spiral that some of the competition has done," he said. "If it results short term in slightly lower volume, so be it."

Piéton's comments were aimed directly at Tesla, which has cut prices by up to a fifth since the start of the year, leading to fears of a price war across the industry.

Renault's share tumble came in spite of its recent turnround efforts after steep losses during the coronavirus pandemic.

Philippe Houchois, an analyst at Jefferies, said the French carmaker was often seen as a "weak link" in the industry, with lower margins than many of its peers.

"The market is worried about pricing coming off after Tesla," Houchois said.

Renault yesterday posted a 30 per cent rise in first-quarter revenues from a year earlier to €11.5bn, slightly above analyst expectations, and maintained its target to improve operating margins from 5.6 per cent last year to at least 6 per cent in 2023.

Despite the French carmaker's comments, some analysts said that the group may still have to reconsider its prices to remain competitive, and find savings elsewhere to keep margins growing.

"Renault may be forced to lower its prices and find new efficiencies via its new manufacturing plants in northern France," said Orwa Mohamad, a Third Bridge analyst.

Renault's comments come hours after Musk on Wednesday evening indicated that Tesla would keep lowering prices to pursue its target of expanding market share.

The electric-car maker has an unofficial target of selling 20mn vehicles a year by 2030, which would make it larger than Toyota and Volkswagen, the industry leaders, combined.

"This is a good time to increase our lead further, and we'll continue to invest in growth as fast as possible," Musk told investors.

The residual value of Tesla vehicles has fallen significantly since it started cutting prices this year, the Financial Times reported last month, potentially making its cars more expensive to lease.

Peter Campbell in London and Sarah White in Paris

Media

BuzzFeed shuts news division and cuts jobs

DANIEL THOMAS — LONDON

BuzzFeed will shut its news division and cut its workforce by 15 per cent as the digital media group seeks to slash costs and focus on profitable parts of its operations.

The decision to close its award-winning news operation is the latest attempt to reverse the decline in the business, which was once lauded as the future of digital media thanks to its catchy use of memes, emoji and listicles.

About 180 employees will lose their jobs, including those in the business, content, technology and administrative teams, according to a memo sent to staff from Jonah Peretti, chief executive.

BuzzFeed, which employs 1,200 people, is also planning to cut jobs in some international markets.

Shares dropped sharply on opening in New York, and were down almost 25 per cent in mid-morning trading, leaving it with a market value of just £98.6mn.

In 2021 BuzzFeed went public in a deal with a blank-cheque company that gave it an implied valuation of $1.5bn. At the time the group was seeking to build an online media brand to compete with tech giants such as Facebook.

The company said it was focusing on parts of the business that could add to profits. BuzzFeed and HuffPost will offer some roles to journalists in areas where they want to expand coverage.

Peretti blamed himself in the memo for overinvesting in BuzzFeed News "because I love their work and mission so much". This has made him "slow to accept that the big platforms wouldn't provide the distribution or financial support required to support premium, free journalism purpose-built for social media," he said. He also took responsibility for not holding the "company to higher standards for profitability".

While Peretti said some of the changes to its commercial teams reflected BuzzFeed "beginning to bring AI enhancements to every aspect of our sales process", the company later said no jobs would be replaced by AI.

BuzzFeed bought Complex Networks, a digital publisher focused on streetwear and pop culture, from Verizon and Hearst for $200mn in cash and $100mn of equity in 2021. In the memo, Peretti also blamed the slow integration of BuzzFeed and Complex, saying "we had the potential to generate much more revenue than we delivered over the past 12 months".

Edgar Hernandez, chief revenue officer, and Christian Baesler, chief operating officer, will leave the company, with Marcela Martin, president, taking on responsibility for revenue-making operations.

Financials

Customer sues Credit Suisse after DoJ probe

JANE CROFT

Credit Suisse was accused of "dishonest conduct" in London's High Court by a Jersey-based investor that claims the Swiss bank mis-sold it a complex product before the global financial crisis.

Loreley Financing made the claim on the opening day of a trial that comes less than a month after Credit Suisse was rescued by rival UBS in a deal orchestrated by Swiss regulators.

The trial concerns Loreley's purchase in July 2007 of notes that it says left it with losses of $100mn. Loreley claims Credit Suisse made false and dishonest representations that induced it to buy the notes, which were linked to residential mortgage-backed securities (RMBS).

Credit Suisse denies wrongdoing and is defending the case.

Tim Lord KC, representing Loreley, told the High Court yesterday that the investor was suing because the alleged misconduct came to light in 2017 after an investigation by the US Department of Justice into Credit Suisse's securitisation of RMBS between 2005 and 2007.

The investigation led to a 2017 settlement in which Credit Suisse paid a $2.48bn penalty to resolve the claims and $2.8bn in relief to consumers.

Lord attacked what he claimed was the bank's "dishonest conduct" and said admissions in the DoJ case were "the foundation for the investor complaint by Loreley".

The DoJ settlement was like the "elephant in the room" for the bank, Lord said, adding that "when one reads this statement of facts and looks at the Credit Suisse defence, one is in a parallel universe. One is literally in an *Alice in Wonderland* world."

Credit Suisse, which denies the claims, said in its written arguments that the DoJ's statement of facts "makes no reference to dishonesty, fraud, knowing misrepresentation or anything of that kind".

It added that Loreley's claims "will not withstand careful and methodical analysis" and "fail at every level".

The case is one of several unresolved legal cases in which Credit Suisse is embroiled. Together they could leave the bank with $5bn of litigation charges over the next four years, analysts have estimated.

UBS has tried to shield itself by negotiating a loss guarantee of up to SFr9bn ($10bn) from the Swiss government as part of its takeover of Credit Suisse

In the case against Loreley, Credit Suisse is also arguing that the investor's claims are time-barred. However, Loreley claims it could only file a lawsuit after the DoJ's findings in 2017.

The trial continues.

Banks disrupter N26 faces challenges of its own in the struggle for maturity

German fintech's aborted takeover of broker spotlights leadership, governance and regulatory woes

OLAF STORBECK — BERLIN

In February, N26 was closing in on an acquisition that would finally allow it to offer equities trading to its 8mn clients.

For Germany's most valuable fintech, buying Dutch online broker Bux for €200mn in shares would be the next step in delivering its ambition to "do for finance what Spotify did for music".

But after N26 pushed for new terms and a lower price Bux walked away, people with direct knowledge of the matter told the Financial Times.

Some pinned the blame on N26 co-founder and co-chief executive Valentin Stalf, saying he had tried to exploit Bux's appetite for a deal after a delayed funding round. "Valentin tried to be opportunistic," one person said, adding that he "left scorched earth".

Others disagreed, arguing N26 had become concerned about how much revenue Bux generated from controversial contract-for-difference trading, which left retail investors exposed to large losses.

As recriminations over the aborted deal fly, the episode has done little to allay concerns over N26's strategic planning, its leadership and governance just as fintechs face rising interest rates threatening their supply of ready cash.

With Allianz, one of its largest shareholders, seeking an exit at a steep discount, persistent losses and a regulatory crackdown stymying growth, N26's ambition to disrupt the established banking order in Europe faces its greatest threat since Max Tayenthal and Stalf founded the company a decade ago.

N26, Stalf and Bux declined to comment on any potential merger talks. N26 stressed that each M&A decision involved the executive and supervisory boards: "Individual decisions by any N26 employee — including the CEO — are therefore not possible."

N26's slick smartphone app has convinced many of its clients to pay up to €16.90 a month for premium services, including a swanky metal credit card and travel insurance.

The bank operates in 24 countries across Europe, including Germany, France, Spain and Italy. Its goal is to woo young professionals in the hope that they will buy more products as they get richer, challenging established retail banking giants such as Deutsche Bank, BNP Paribas and Santander.

N26 counts Peter Thiel's Valar Ventures and Li Ka-shing's Horizons Ventures among investors that have vouchsafed it near $1.8bn, including $900mn in its last funding round in October 2021 when it was valued at $9bn.

But despite its award-winning app, N26 has struggled to offer some relatively basic products. It still does not provide equities trading and a year after the ECB started to hike rates, N26 does not have the tech in place to pay interest on overnight deposits. The bank said in a statement that it would be "launching interest-bearing savings this quarter" and an "N26 trading product" would go live "within the next 12 months".

Insiders say the delays are not a long-term setback as the latest retail trading boom will not be the last one and N26 clients are highly loyal. It also started offering crypto trading this year.

Asked about the delays, Tayenthal told the FT: "Am I always happy [with] how we are progressing? I am not. But I'm still proud of what we have achieved." N26 also abruptly exited the UK and US in 2020 and 2021 and has missed its own targets — saying in its latest available annual report that in 2021 it "performed below plan". Tayenthal admitted that in the past year it had expanded too quickly.

More recently, Allianz has been offering its roughly 5 per cent stake for sale at a valuation of $3bn, the FT has reported.

The scale of the company's ambition made growing pains inevitable. But some say they have been exacerbated by poor governance and decisions by the founders.

In February 2022, six executives accused Stalf and Tayenthal of "behavioural problems" including establishing a "culture of fear and blaming".

"Valentin is the biggest problem," one former senior manager told the FT. Another claimed Stalf had a habit of "constantly overriding other people's decisions".

"He built N26 from scratch, but he does not understand that his role has to change," this person said, pointing to the size and complexity of N26. Three of the six executives who signed the memo stating their complaints have left over the past year, with a fourth having announced his intention to go as well. N26 told the FT that the departures have been for "very different reasons".

Stalf and Tayenthal declined to comment on the matter. N26 told the FT that it ensured "N26 employees feel heard and valued". The group also said that it reduced staff turnover to between 10 and 15 per cent per year, below the industry average of 20 to 35 per cent.

Stalf and Tayenthal took the criticism seriously, say insiders, and sped up efforts to address the issues. Others argue that the real issue is "weak internal governance that fails to balance" the influence of the co-founders.

One person familiar with the internal workings of N26 said investors and the board should take more responsibility for strengthening governance.

N26 said it had achieved "several significant milestones around corporate governance, resourcing and internal structures in the last 12 months".

The bank last year introduced a supervisory board led by Marcus Mosen — a payments industry veteran and early N26 investor. "Marcus is a smart guy, but he does admire Valentin and Max," said one insider, adding that this, combined with potential conflicts of interest from his role as a shareholder, may weaken his clout.

Mosen told the FT that while he had "great respect for founders in general, this respect should not be confused with what my role entails", including challenging Stalf and Tayenthal. He denied any potential conflict of interest.

However, it may be an escalating battle with Germany's financial regulator that presents N26's biggest problem.

Starting in 2018, BaFin has been rounding on N26's internal organisation and money-laundering controls. In 2021 it imposed a €4.25mn fine, parachuted in a special monitor and, in an unprecedented move, ruled the bank could only accept 50,000 new clients per month, compared with 170,000 previously.

"The growth cap is really hurting," said one early N26 investor, adding that the bank had been persistently over-optimistic about how long this would stay in place. Initially hoping to get a relaxation within six months, it now looks increasingly likely the measure will remain at least until the end of the third quarter this year, say insiders. BaFin declined to comment.

Despite some blunders, N26 did get a key issue right: its 2021 funding. The bank had to woo investors with a guaranteed minimum return of 25 per cent, but the round was big and well-timed, right at the peak of tech mania.

However, that equity buffer cannot last for ever and the bank's promise to break even before it needs to raise new funds is looking increasingly hard to keep. Annual net losses, which the most recent available data gave as €172mn in 2021, were north of €180mn in 2022.

In the business plans, profitability is only envisaged in the second half of next year, according to people familiar with the matter. By then, most of the equity raised in 2021 will have been burnt through or tied up in additional regulatory capital, these people warned.

N26 told the FT that it would have "several hundred million euros in equity left from the last funding round" by the time it hits profitability, compared with €700mn at the end of 2021.

The bank recently shelved plans to issue €110mn in hybrid bonds to beef up its regulatory equity and improve its capital structure, the people familiar with the matter said.

N26 declined to comment on its 2022 financial performance and its capital plans. It told the FT that it was "well-financed, independent of external capital and . . . able to reach profitability without additional funding", adding that it had been profitable for several years on a per-customer basis.

Tayenthal told the FT that the bank's plans remained on track. "At some point in 2024, we will be operationally profitable," he said.

"We have good unit economics and we have just a fraction of the cost of other banks [per client]. Right now, some of the new products we launched and the rise in interest rates has helped as well."

The early N26 investor also remains optimistic, despite plans for an initial public offering being put on the back burner. Should N26 eventually pursue an IPO, its pitch will depend on how it handles this year's multiple challenges: "What story do you want to tell to investors next time?" said someone close to the company.

N26 co-founders Max Tayenthal, left, and Valentin Stalf hope to attract the long-term loyalty of young professionals with their digital bank, whose offering includes an award-winning app and a metal credit card, below — FT montage/Getty Images for TechCrunch/Thiago Prudencio/SOPA Images/Sipa USA via Reuters

'Am I always happy [with] how we are progressing? I am not. But I'm still proud of what we have achieved'

Insurance

BofA rattled by Lloyd's rule change in cyber-risk coverage

IAN SMITH — LONDON

Bank of America raised concerns with Lloyd's of London about a move to exempt big "state-backed" cyber attacks from standard insurance policies, underscoring the concern among financial institutions about changes to a crucial safety net.

The US lender expressed unease over the new rule in one of a series of discussions of the matter in recent weeks between Lloyd's and big clients, according to people familiar with the meetings, as the insurance market seeks to protect itself from systemic risk.

Anxiety is growing among large corporations about the threat from state-sponsored cyber groups, including over whether the cost of attacks will be covered by their insurers.

A senior UK official warned on Wednesday of the threat from "ideologically motivated, rather than financially motivated" hackers allied to Moscow.

Lloyd's, a centuries-old marketplace where dozens of insurers negotiate with hundreds of brokers over the terms and price of cover, has played a leading role in cyber insurance and takes in about a fifth of global premiums.

But the corporation running the market has faced a backlash over the new requirement that standard cyber policies contain an exclusion for state-backed attacks that create a "significant impairment to state infrastructure".

Lloyd's says it does not want 'a blanket exclusion [for state-backed attacks] but a segregation of risks'

Lloyd's and its supporters have said it is a move to bring clarity, given that insurance policies typically exclude war. But the decision has stoked fears among financial and healthcare groups, as well as infrastructure providers, that any big attack against them could be deemed exempt, meaning a claim would not be paid.

BofA is one of the groups said to have raised its concerns directly with Lloyd's. Marsh, the world's biggest broker, has arranged direct meetings for its clients with Lloyd's to share concerns, according to people familiar with the matter.

BofA and Marsh declined to comment.

Paul Benda, senior vice-president for operational risk and cyber security at the American Bankers Association, said any changes to cyber protections were troubling for banks, which were already subject to "the most stringent regulatory requirements".

He added: "The US banking industry takes its commitment to cyber security very seriously. [That] includes a layered approach to managing operational risks, and cyber-risk insurance is one of those layers. Any changes in those protections [are] understandably a cause for concern."

Lloyd's said it was not demanding "a blanket exclusion but a segregation of risks in a fast maturing area of insurance". There were a "number of teams of underwriters" that were developing add-on policies that could cover state-backed attacks, it added.

But critics say a separate market for insuring against state-backed cyber attacks was some way off.

Technology

Instagram plans New York move for UK staff

CRISTINA CRIDDLE — LONDON
HANNAH MURPHY — SAN FRANCISCO

Instagram is relocating most of its staff, including the social media platform's head Adam Mosseri, from London to New York as part of a widespread restructuring at parent company Meta.

The photo app had been building a new hub in the UK, where its engineering and product teams are based, but is now asking workers to move to the US, according to three people aware of the plans. Mosseri moved from California to London less than eight months ago.

Instagram will instead be primarily based in New York, according to two people familiar with the plans, where it already has large teams who work on engaging with its content creators.

London was Instagram's first international office, established in 2013. Last year the city was Meta's largest international engineering base outside the US, with about 4,000 staff.

Since then the social media company has announced it would be axing more than 20,000 jobs as part of a cost-cutting exercise that includes closing offices worldwide. Cuts were announced in November and March and further lay-offs are expected next month, according to two people familiar with the restructuring.

Meta declined to comment beyond saying a formal consultation process for the restructuring was continuing. The company's moves were first reported by Bloomberg.

Instagram's first international office was established in London in 2013

The retreat from London signals a desire for Meta's chief executive Mark Zuckerberg to bring Instagram back under centralised control.

Mosseri joined the company in 2008 and led the team that developed Facebook's news feed. He was made head of Instagram in 2018 when the app's original co-founders quit the company.

His ambitions for London, where he anticipated building a large team with several layers of seniority in the city, have been crushed by Meta's cost-cutting, according to two people with knowledge of the operation.

As Zuckerberg slashed jobs, explicitly targeting "middle managers . . . to make decisions faster", the Instagram team was sporadically restructured and often reported back to the US for instructions, one person added.

The news comes as Meta prepares to report its first-quarter earnings. After its full-year results in March, the company recovered $88bn of the previous $89bn drop in its market value. Analysts predict its outlook will improve.

Pharmaceuticals

Activist presses incoming Bayer boss for split

HANNAH KUCHLER — LONDON
OLAF STORBECK — FRANKFURT

Activist investor Bluebell Capital Partners is pushing for the break-up of Bayer and a supervisory board reshuffle, increasing the pressure on the incoming chief executive ahead of the conglomerate's annual meeting.

In a presentation sent to Bayer this week, the small activist investor, which says it holds an undisclosed stake, welcomed Bayer's appointment of Bill Anderson, former head of Roche's pharmaceutical business, who will formally become chief executive in June.

But Bluebell said Bayer needs to go further, committing now to ensuring that the four supervisory board members whose term expires next year will not seek re-election. It argues that this would send a "strong signal of discontinuity" for the underperforming company, which should be split into its crop science and pharmaceutical divisions.

The investor's intervention comes at a critical moment for Bayer as chief executive Werner Baumann will leave next month. Shares in Bayer have risen more than 20 per cent this year but are still trading more than a third lower than they were five years ago.

Anderson acknowledged this month that the group was facing "unique challenges", saying he would consider all options including a potential break-up. However, he stressed that a split was not a foregone conclusion.

Bluebell argued in its presentation that there were 'no synergies' between the two divisions

Baumann is resigning a year early after persistent investor pressure over the ill-fated Monsanto takeover that included a vote of no confidence in management in 2019. Bayer shares have underperformed because of billions in litigation costs from the 2016 acquisition of the US agrichemical group.

Bluebell argued in its presentation that there were "no synergies" between the two divisions and estimated that a separation could generate about €15bn to €30bn, which it suggested should be used to pay down debt and reinvest in pharmaceuticals.

Marco Taricco, founding partner of Bluebell, said he had heard from other shareholders with similar concerns.

"If you appoint a new chief executive when the supervisory board is the same monolith, they don't want to do anything, then the CEO is not going to have an easy job," he said.

Jeff Ubben, managing partner of Inclusive Capital Partners and founder of the hedge fund ValueAct Capital, has also taken a stake in Bayer to lobby for change, including raising questions about whether it should be split in two.

Bluebell said that its stake in Bayer was the biggest it held but did not disclose its size.

Bayer said it was aware of Bluebell's letter and presentation and was "always open for a constructive dialogue".

Equities. Unloved status

Wary foreign investors take fresh look at Tokyo stocks

At the crossroads: investor decisions are complicated because Tokyo's rallies have repeatedly ended up being shortlived
Behrouz Mehri/AFP/Getty

Policy shifts and prospect of end to deflation create hopes of inflows but doubts persist

LEO LEWIS — TOKYO

Japan's stock market could be set for the best returns in a generation, analysts bullish about the prospect of an end to decades of deflation and growing levels of shareholder activism say.

But their optimism has yet to persuade many overseas investors to part with their cash.

Since the start of 2023, Tokyo brokers have hosted waves of investors from around the world attracted by the possibility that an equity market they have ignored since 2018 may now represent an opportunity they cannot afford to miss.

The recent visit to Tokyo of Warren Buffett came with the revelation that he was interested in expanding his Japan portfolio.

The hedge fund business of Ken Griffin's Citadel is planning to reopen its Tokyo office after an absence of almost 15 years.

However, so far, most visitors are leaving without increasing their positions. Bank of America's most recent Global Fund Manager Survey found that respondents' allocation to Japanese equities fell in the first two weeks of April, decreasing five percentage points from the previous month to a net 10 per cent underweight positioning.

Investors remain wary of another false dawn for a market whose rallies have repeatedly proved shortlived.

Although Japan's Topix index has outpaced rivals in Europe over the past decade, it has lagged behind Wall Street. And for foreign investors who don't hedge their exposure to currency fluctuations, a falling yen has blunted returns.

In the first years of the "Abenomics" era between early 2013 and late 2015, which held the promise of serious market reform led by the late prime minister, Shinzo Abe, foreign investors poured roughly $250bn into Japanese equities.

But in the years that followed, they have been relentlessly negative and sold almost exactly that same amount.

However, strategists and economists are starting to argue that the tide is set to turn. The evidence presented, more than a dozen visiting portfolio managers told the Financial Times, is more compelling than for years.

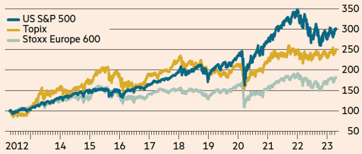
"For the mass market of global investors, people who haven't been focused on Japan, there is a force of habit to stick with what you know," said Drew Edwards, a Japan-focused portfolio manager at GMO Usonian.

"Japan has been seen as a pain. But that means they are not seeing the truly interesting things that are happening. This is a generational shift. People need to stop asking, 'What will it take for Japan to change?' It is changing."

The combination of a new Bank of Japan governor and rising prices is driving speculation that Japan's days of ultra-loose monetary conditions may be numbered and that the country's two-decade fight against deflation may finally be over. That should be good news for equities, which typically struggle in an environment of falling prices across the economy.

Japanese stocks have eclipsed Europe but lagged behind Wall St

Equity indices (rebased)



Source: Bloomberg

Japanese stocks should benefit from their unloved status among foreign fund managers, which leaves little potential for a further exodus, according to Alain Bokobza, global head of asset allocation at Société Générale.

"You cannot sell what you don't own," Bokobza said, adding that resilient earnings, rising inflation and the prospect of a new wave of share buybacks were making Japanese equities newly "relevant" to global investors.

There are also signs that Japanese companies are becoming more responsive to investors' interests as activist shareholders like Elliott Management, ValueAct and an increasing cohort of domestic funds force companies to change their behaviour.

Shares in Honda surged in February after the company announced plans to buy back $500mn worth of its own stock.

Shares in Dai Nippon Printing rose by almost 40 per cent in January after it was revealed that Elliott had become one of its largest shareholders.

Japan, according to Man GLG portfolio manager Stephen Harget, is now a unique example of a developed market where it was possible for investors to make large returns "by simply making an AGM proposal that requests a dividend hike or share buybacks".

However, the reasons for remaining underweight Japan, said fund managers, remain persuasive. It is a difficult market in which to pick stocks without having significant expertise and an easy market for global investment committees to dismiss.

The recent volatility of the yen, which fell rapidly last year, has provided managers with a reason to hold off from investing for now.

The potentially biggest catalyst for a revaluation of Japan, though, may be a surprise policy shift at the Tokyo Stock Exchange.

Late last year and with the subsequent support of the financial regulator, the bourse said companies with a price-to-book ratio that falls consistently below one should be required to lay out specific plans to improve that situation and show greater awareness of their cost of capital.

'Japan has been seen as a pain. But that means they are not seeing the truly interesting things'

"The naming and shaming framework could be very effective because underperforming Japanese companies have never been called out like this before," said Man GLG portfolio manager Stephen Harget. "The reason we are confident that this will make a difference is that the changes being introduced by the TSE have the backing of the government this time."

Foreign funds do not have large holdings of cheap Japanese stocks with low price-to-book ratios, said one Hong Kong based fund manager at a large global asset manager.

"But that is where we've seen some activists getting huge wins and it puts pressure on long-only funds to follow them in to make sure we don't miss out," the fund manager said. "There's a sense of this market being a coiled spring."

Fixed income

Singaporean Credit Suisse bondholders prepare to sue Switzerland

MERCEDES RUEHL — SINGAPORE

At least 80 Credit Suisse investors in Singapore are in talks to sue the Swiss government over its decision to write down $17bn of Credit Suisse bonds on the grounds that it violated a free-trade pact.

The bondholders are preparing to argue that the move breached protections against unfair state actions under the Singapore-European Free Trade Association signed with Switzerland in 2003, according to law firm WilmerHale, which is in talks with investors.

The potential suit in Singapore would open a new front in the legal battles against Switzerland for its decision to wipe out the bonds as part of the bank's state-sponsored takeover by UBS.

Law firms WilmerHale and Engelin Teh Practice are in talks with a group of family offices and wealthy retail investors in the Asian city state whose additional tier 1, or AT1 bonds, were written off as part of the deal.

Risky AT1 debt is popular in the region among retail investors. AT1s are a class of debt designed to take losses when institutions run into trouble but are generally believed to rank ahead of equity on the balance sheet.

The investors so far had collectively invested close to $70mn in AT1s, enough to attract the interest of four global litigation funds, said two people familiar with the discussions, adding that the number of investors was likely to grow.

'I'm not optimistic but it is better than doing nothing. I want a front-row seat to this debacle'

The Singapore discussions could also lead to similar actions by investors in other parts of Asia where a large number of wealth managers, private banks and rich individuals had bought the Credit Suisse debt instruments.

At least $750mn of the bonds were denominated in Singapore dollars, 91 per cent of which came from Singapore and 7 per cent from elsewhere in Asia.

Switzerland angered bond investors when the government used an emergency ordinance to write down the bonds to zero, even as it orchestrated a deal where UBS will pay $3.25bn to shareholders.

Quinn Emanuel Urquhart & Sullivan and Pallas Partners are among the law firms representing US bondholders who plan to fight the decision.

One investor, who runs a family healthcare business in Singapore, invested $500,000 of his savings in Credit Suisse AT1 bonds at the beginning of the year.

He wants the lawsuit to go ahead. "I'm not optimistic but it is better than doing nothing. I want a front-row seat to this debacle and hopefully I can learn something," he said.

Crypto

Deribit sets up exchange war with push into free trading for digital currencies

NIKOU ASGARI

Crypto derivatives exchange Deribit is launching free trading of bitcoin and other tokens, setting up a fresh price war among digital asset exchanges as they seek to re-emerge after a bruising year for the industry.

The Panama-based group, the world's biggest crypto options exchange, will begin direct trading in three of the most popular cryptocurrency pairs from next week and waive the fees.

Its move underscores how competition is heating up among crypto exchanges as they try to entice institutional investors keen to get into a rising market after the crash in digital asset prices last year and the failure of industry bellwether FTX.

About 90 per cent of Deribit's customers are institutional clients.

Popular coins such as bitcoin and ether have outperformed assets such as stocks and commodities this year, rising 50 per cent and 65 per cent, respectively.

It also comes a month after Binance, the world's largest marketplace for crypto trading, ended a six-month foray into zero-fee trading, a move that accelerated its market share. Luuk Strijers, chief commercial officer at Deribit, said that the exchange's move into spot trading was driven by customer demand.

"You would have to buy ether on Binance instead of Deribit," he said, adding: "If you want to convert $5mn [into bitcoin], for example, we would have to tell you to go elsewhere, which is terrible customer service."

He added: "In order to have a proper derivatives offering you also need to have spot."

Panama-based Deribit is the world's largest crypto options exchange

Big-name money managers have continued to explore digital assets and monetise investor interest in the past year, even as the industry suffered a confidence crisis and many companies failed.

"Serious institutional players remain committed and, in fact, see the open space after the demise of multiple crypto-native players as an opportunity," Bernstein analysts wrote this week.

Deribit will offer free trading in pairs of ether and bitcoin, and ether and bitcoin against the stablecoin USDC, which is operated by Circle.

US-listed Coinbase charges up to 0.6 per cent for a trade, for example.

Strijers added that trading on the pairs would remain free to trade "for the foreseeable future" and that future tokens that might be added would have a charge.

The market share of Binance soared by a fifth after launching fee-free trading in 13 coins and reached nearly two-thirds of total volume on the exchange, according to data provider Kaiko.

However, the exchange's lead fell back after it reintroduced charges.

Fixed income

Expectations jump for UK rate rises after robust jobs and inflation figures

MARY MCDOUGALL AND CHRIS GILES
LONDON

Investor expectations for UK interest rate rises have shot up this week following stronger than expected jobs and inflation data, putting the markets increasingly at odds with the Bank of England's own messaging that it is close to the end of its hiking cycle.

Traders are now pricing in three more rate increases to a peak of about 5 per cent in September, a sharp increase from last week's expectations of 4.6 per cent before figures showing stubbornly high inflation took the market by surprise this week.

Annual consumer price rises in the UK failed to dip below double digits in March at 10.1 per cent and core inflation — which excludes volatile food and energy prices — remained unchanged at 6.2 per cent.

"Inflation is higher than the market was expecting and, when you look at the labour market in particular, which is not a source of inflation now but it will be in the future, it also seems to be stronger than previously anticipated," said Peter Schaffrik, economist at RBC Capital Markets, which increased its forecast for BoE rate increases this week.

On top of high inflation, average earnings excluding bonuses rose 6.6 per cent year on year, according to figures from the Office for National Statistics this week, ahead of a 6.2 per cent increase forecast by economists.

RBC had expected the central bank to hold rates at its next meeting but has increased its forecast to a 0.25 percentage-point increase in May.

'Inflation is higher than the market was expecting and the labour market also seems to be stronger'

Schaffrik said a terminal rate of 5 per cent was "not impossible" as jobs data had also been strong in the US and Europe and banking fears had faded.

The yield on 10-year government debt has also surged in recent weeks, from 3.4 per cent at the beginning of the month to 3.8 per cent yesterday, reflecting expectations of higher rates.

Price moves have come despite recent suggestions from BoE policymakers that they are nearing the end of their monetary tightening now that interest rates are 4.25 per cent.

In a speech in early March, bank governor Andrew Bailey signalled that he thought financial markets were wrong to believe there was a pressing need for many more rate rises, saying the BoE was now in wait-and-see mode.

It had shifted from a previous stance that "further increases in the [benchmark] bank rate would be needed".

Huw Pill, BoE chief economist, said it needed to exercise "judgment" and should not consider stronger activity to be necessarily inflationary because the reversal of natural gas price rises meant better economic data was not "something inherently inflationary".

While he indicated that there was still a need to demonstrate that the BoE had done enough to defeat inflation, none of his comments suggested an inclination to raise rates to 5 per cent.

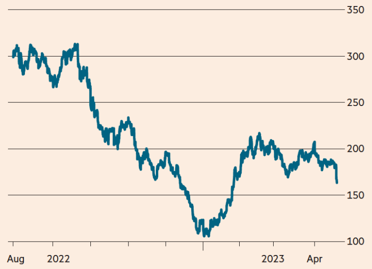
While market expectations for rate increases heightened this week, the expected timing of rate cuts has not shifted much with markets pricing drops around the end of this year.

The day in the markets

What you need to know

- Wall Street and European stocks fall as investors turn sour on outlook
- Tesla slides after Musk signals move to sacrifice margins
- US government debt rallies but dollar weakens

Tesla shares slump after first-quarter earnings
$ per share



Source: Bloomberg

US stocks dipped yesterday and European shares closed lower as traders grew more doubtful over the durability of the rally in shares.

Wall Street's benchmark S&P 500 slid 0.5 per cent by midday in New York with all sectors bar consumer non-cyclicals in negative territory. The tech-heavy Nasdaq Composite also fell 0.5 per cent.

Across the Atlantic, the region-wide Stoxx Europe 600 slipped 0.2 per cent, Frankfurt's Xetra Dax lost 0.6 per cent and London's FTSE 100 rose less than 0.1 per cent.

Those moves came after Tesla's Elon Musk indicated that he was prepared to sacrifice short-term profits to take greater market share, dragging the company's shares down.

The S&P 500 has risen 7 per cent and the Nasdaq 15 per cent this year, even as interest rates have continued to rise and three midsized lenders collapsed in March, sparking concerns of a looming credit crunch.

US inflation may have eased last month to its lowest level in almost two years but analysts at Morgan Stanley argued that the outlook for stocks was weak because, as inflation falls, "pricing power declines but inventory and other costs have already been incurred when prices were higher".

The bank added: "These challenges for earnings lead us to believe a sizeable correction is in store for US equities," noting that its current preference was for "high-grade bonds" over stocks.

JPMorgan's Regional Banks index — closely watched by investors since the collapse of Silicon Valley Bank — dipped 2.5 per cent while the KBW Bank index of larger lenders fell 2.3 per cent.

Elsewhere, new applications for US unemployment aid edged up slightly more than expected to 245,000 in the week to April 15, ahead of the 240,000 forecast by economists.

A week earlier, new unemployment claims jumped to 239,000, the highest level in more than a year.

US government debt rallied with yields on two-year Treasuries down 10 basis points to 4.15 per cent and those on benchmark 10-year debt 7bp lower to 3.53 per cent.

The US Dollar index, a basket measuring strength against six other leading currencies, weakened 0.2 per cent.

Asian stocks were mixed with Hong Kong's Hang Seng rising 0.1 per cent and China's CSI 300 index of Shanghai and Shenzhen stocks down 0.3 per cent. Tokyo's Topix was steady. **George Steer**

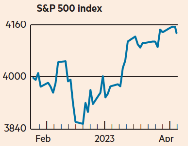
Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	4134.73	1850.76	28657.57	7902.61	3367.03	104180.77
% change on day	-0.48	-0.08	0.18	0.05	-0.09	0.26
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	102.070	1.098	134.055	1.246	6.880	5.044
% change on day	0.100	0.182	-0.416	0.080	-0.257	0.166
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	3.535	2.442	0.465	3.904	2.851	12.204
Basis point change on day	-9.440	-7.000	-0.780	-8.700	0.100	-2.300
World index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	431.21	81.07	77.26	1990.55	24.75	4069.10
% change on day	-0.28	-2.47	-2.50	-0.44	-1.36	-0.61

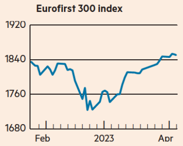
Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets

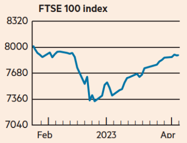
S&P 500 index



Eurofirst 300 index



FTSE 100 index



Biggest movers

%	US		Eurozone		UK	
Ups	Snap-on	9.12	Wartsila	2.99	Segro	3.55
	Lam Research	7.80	Schindler	1.85	Haleon	2.90
	Steel Dynamics	7.80	Saipem	1.49	Beazley	2.51
	Dr Horton	7.10	L'oreal	1.40	Smith & Nephew	1.88
	Nucor	6.29	Hermes Intl	1.33	Croda Int	1.86
Downs	At&t	-9.79	Oci	-13.60	Smith (ds)	-2.64
	Tesla	-9.30	Renault	-7.61	Antofagasta	-2.51
	Citizens Fin	-5.25	Michelin	-4.29	Smurfit Kappa	-2.43
	Bio-rad Laboratories class A	-4.95	Continental	-3.79	Mondi	-2.14
	Zions Ban Na	-4.80	Porsche	-3.59	Persimmon	-1.89

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

Rallying to the top of the S&P 500 was toolmaker **Snap-On**, which reported a 15 per cent year-on-year jump in earnings per share to $4.60, almost 11 per cent ahead of Wall Street estimates.

At the opposite end of the blue-chip benchmark was telecoms group **AT&T**, which reported free cash flow of $1bn in the first quarter, way below the $3bn analysts were expecting.

The addition of 424,000 regular monthly phone subscribers also underwhelmed, falling short of the 691,000 added a year earlier for the same quarter.

AT&T's lacklustre performance, which pointed to a slowdown in consumer spending, weighed on rivals **Verizon** and **T-Mobile**.

AT&T was joined by electric-car maker **Tesla** at the tail end of the S&P 500.

Elon Musk's company posted a gross profit margin of 19.3 per cent in the first quarter, well below Bank of America's 21.1 per cent forecast.

The squeeze to margins was the result of numerous price cuts designed to gain market share, said Musk during an earnings call.

Online media group **BuzzFeed** dived after announcing that it would be cutting its workforce by 15 per cent and begin the process of closing its news unit.
Ray Douglas

Europe

Chipmaker **Nordic Semiconductor** dived after reporting a 21 per cent year-on-year drop in first-quarter revenue to $145mn, more than 3 per cent below expectations.

Svenn-Tore Larsen, chief executive, said he had seen a broad slowdown in demand, adding that "tier-1 customers" were now adjusting their inventories.

Another big faller was Germany's **Sartorius**, which also delivered disappointing quarterly results.

The lab equipment supplier posted revenue and core profits of €903mn and €272mn, respectively, which was 13 per cent and 22 per cent below analysts' expectations. Its full-year outlook was, however, maintained.

Weaker profitability than expected weighed on **Nokia**, the Finnish telecom group, which reported a 300 basis point year-on-year decline in gross margin to 37.7 per cent in the first quarter, much softer than the 39.5 per cent Jefferies had forecast.

Nokia Technologies, its consumer products and licensing division, was a particular drag on performance, with net sales sliding 22 per cent.

Sweden's **Husqvarna**, home to outdoor power products such as Flymo lawnmowers, rallied after posting operating income of SKr2.36bn ($229mn) in the first quarter, more than 17 per cent ahead of expectations. *Ray Douglas*

London

At the top of the FTSE 100 index was warehousing group **Segro**, which issued a trading update showing "no drop off in growth trends", said RBC Europe.

The company contracted £24mn of rent in the first quarter, up from £22mn in the previous period and down only slightly from £25mn a year earlier.

Joining Segro near the top of the blue-chip benchmark were the UK-listed shares of **Haleon**, the spin-off of GSK's consumer healthcare division.

Haleon said its "strong start" to the year meant its organic revenue growth would now be towards the upper end of its 4 to 6 per cent range.

Respiratory health sales were particularly strong owing to a severe cold and flu season and some restocking across the globe.

Fashion group **Mulberry** rallied after revealing that revenue for its financial year ended April 1 was "slightly ahead" of the previous year.

The company, best known for its Bayswater bag, said retail sales had been "driven by a good performance in the UK and an improving environment in China".

A more bullish outlook lifted gambling company **Rank Group**, which expected underlying operating profit for the year ending June 30 would be at the "upper end or slightly ahead" of previous guidance. *Ray Douglas*

ETFs offer a route to greater bond liquidity

Henry Timmons

Markets Insight

Providing more liquid means to facilitate transactions is the primary function of financial markets. Before stock markets, the only way to participate in company ownership was to own a piece of the business.

Before the futures market, one would have had to sell pork bellies and cotton in a physical marketplace. Markets trade instruments that are more liquid than their underlying assets.

Fixed income ETFs may be a route to much-needed bond market liquidity in the same way that commodity futures provided liquidity to physical markets and stocks facilitated easy transfer of corporate ownership.

Despite well developed and liquid markets for many asset classes, bond markets remain notoriously illiquid.

Capital requirements at large banks have become more stringent since the global financial crisis. Dealer balance sheets hold a fraction of the inventory of corporate bonds as they previously did.

Adding to the liquidity woes, central banks around the world have bought astounding quantities of government and mortgage debt, in effect cornering the market and removing a huge amount of the "float" in what should be the most liquid securities in the world.

The US Federal Reserve at one time owned more than 50 per cent of the 10- to 20-year Treasury bond market. With such market share held by a single entity, it is no wonder that bond liquidity has dried up and volatility has risen.

Fixed income ETFs could provide a solution as multiple paths to liquidity allow investors greater flexibility.

First, ETFs trade on an exchange and do not need a dealer to provide a bid or offer. This alone creates advantages as there is real-time price discovery for fixed income ETFs that does not exist for individual bonds.

Investors may not fully appreciate the fixed income ETF market has replaced the underlying bond market for setting price discovery for many fixed income assets. Price discovery is always set by the pricing of the most liquid market yet some argue an ETF is not functioning properly when an ETF trades at a discount to the underlying assets.

However, the underlying bonds are not trading and therefore cannot be priced accurately. If the underlying instruments were to trade, they would likely transact at prices significantly different from their last actual trade, whenever that was. This is like the fallacy of private equity and debt investments being less volatile to similar public investments. You cannot get accurate price discovery when an asset does not trade or is not marked to market.

> You cannot get accurate price discovery when an asset does not trade or is not marked to market

Second, ETFs can be created and redeemed through the most liquid baskets of securities that do not incur a forced sale in the open market.

Ironically, the liquidity in these bonds has resulted in the rest of the bond market becoming less liquid.

Improved liquidity has not arisen without its doubters. Some have suggested that more liquid fixed income ETFs which incorporate illiquid underlying securities (bonds) risk financial disaster. But countries, municipalities, corporations, even our own mortgages rely on the fixed income market and its investors to ensure our economies do not devolve into financial ruin. Yet this cornerstone of finance barely trades, making price discovery difficult, inefficient and costly to all. ETFs seem part of the solution rather than the problem.

Bond investors may be woefully unprepared for managing a changing macro landscape where higher inflation could necessitate more tactical decisions on asset allocation than what was needed for the past 40 years. The bond market's inherent illiquidity will hamper active management and the role of fixed income ETFs will likely expand.

Already during periods of volatility, capital floods to fixed income ETFs, driving greater price transparency and liquidity. For example, during broader market turmoil in March 2020, the largest corporate bond ETF, the iShares iBoxx $ Investment Grade Corporate Bond ETF, known by its ticker LQD, traded daily with significantly more volume before or since.

At the time, individual bond transactions were barely existent due to significantly wider trading spreads. Bond ETFs weathered the storm, serving as the only way to reasonably trade risk.

Investors will need to be cognisant of how their bond portfolios need to change. Given the macro liquidity, economic and profit landscape, bond ETFs, not individual bonds, give the best chance for survival and opportunity.

Henry Timmons is director of ETFs at Richard Bernstein Advisers; Michael Contopoulos, RBA director of fixed income, contributed to this article. RBA does not currently hold LQD in any of its portfolios

MARKET DATA

WORLD MARKETS AT A GLANCE

FT.COM/MARKETSDATA

Change during previous day's trading (%)

S&P 500	Nasdaq Composite	Dow Jones Ind	FTSE 100	FTSE Eurofirst 300	Nikkei	Hang Seng	FTSE All World $	$ per €	$ per £	¥ per $	£ per €	Oil Brent $ Sep	Gold $
-0.48%	-0.43%	-0.29%	0.05%	-0.08%	0.18%	0.14%	-0.28%	0.182%	0.080%	-0.416%	0.114%	-1.56%	-0.44%

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

AMERICAS · EUROPE · ASIA

[illegible]

Country	Index	Latest	Previous
	Shanghai A	3529.54	3532.78
	Shanghai B	295.40	296.01
	Shanghai Comp	3367.03	3370.13
	Shenzhen A	2215.77	2224.74
	Shenzhen B	1172.07	1173.48
Colombia	COLCAP	1261.61	1260.21
Croatia	CROBEX	2013.05	2011.29
	HS China Enterprise	6895.29	6889.01
	HSCC Red Chip	4080.54	4111.32
Hungary	Bux	43538.96	43263.82
India	BSE Sensex	59632.35	59567.80
	Nifty 500	14861.75	14856.90
Indonesia	Jakarta Comp	6821.81	6787.58
Ireland	ISEQ Overall	8510.68	8543.03
Israel	Tel Aviv 125	1724.69	1717.88
Mexico	IPC	54601.64	54308.09
Morocco	MASI	10477.73	10477.34
Netherlands	AEX	761.10	760.22
	AEX All Share	1028.31	1029.16
New Zealand	NZX 50	11879.68	11917.82
Nigeria	SE All Share	51138.92	51127.38
Norway	Oslo All Share	1017.37	1006.88
Pakistan	KSE 100	41007.82	40499.34
South Korea	Kospi	2563.11	2575.08
	Kospi 200	332.66	333.77
Spain	IBEX 35	9450.90	9494.80
Sri Lanka	CSE All Share	9279.19	9291.42
Sweden	OMX Stockholm 30	2248.82	2249.68
	OMX Stockholm AS	849.05	853.57
Switzerland	SMI Index	11390.64	11366.22
	Nasdaq Cmp	12105.47	12157.23
	NYSE Comp	15571.48	15653.62
	S&P 500	4134.73	4154.52
	Wilshire 5000	40854.77	41064.58
Venezuela	IBC	28377.87	28289.42
Vietnam	VNI	1049.25	1055.02
	MSCI ACWI Fr ($)	655.43	656.67
	MSCI All World ($)	2833.39	2835.89
	MSCI Europe (Eur)	1902.51	1904.74
	MSCI Pacific ($)	2752.95	2763.77
	S&P Euro (Eur)	1939.48	1945.49
	S&P Europe 350 (Eur)	1897.44	1899.26
	S&P Global 1200 ($)	3124.71	3132.91
	Stoxx 50 (Eur)	4052.61	4047.08

(c) Closed. (u) Unavaliable. † 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

ACTIVE STOCKS	stock traded m's	close price	Day's change
Tesla	189.1	163.80	-16.79
Nvidia	48.8	276.54	-2.77
Apple	33.7	167.29	-0.34
Amazon.com	25.4	104.20	-0.10
Microsoft	25.1	287.29	-1.16
Advanced Micro Devices	20.6	90.99	1.05
Netflix	15.0	327.22	4.10
Meta Platforms	12.9	215.29	-0.41
At&t	12.4	17.77	-1.93
Alphabet	10.3	105.25	1.07

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Snap-on	261.63	21.86	9.12
Lam Research	529.32	38.30	7.80
Steel Dynamics	114.50	8.28	7.80
Dr Horton	109.09	7.23	7.10
Nucor	156.90	9.29	6.29
Downs			
At&t	17.77	-1.93	-9.79
Tesla	163.80	-16.79	-9.30
Citizens Fin	28.90	-1.60	-5.25
Bio-rad Laboratories class A	462.34	-24.06	-4.95
Zions Ban Na	31.15	-1.57	-4.80

Based on the constituents of the S&P500

LONDON

ACTIVE STOCKS	stock traded m's	close price	Day's change
Melrose Industries	304.8	413.45	251.50
Bp	155.9	530.70	-4.70
Rio Tinto	149.8	5442.00	-88.00
Glencore	144.7	501.90	7.55
Shell	125.2	2449.50	-8.00
Astrazeneca	122.1	12010.00	18.00
British American Tobacco	116.9	2914.50	-16.00
National Grid	107.2	1130.50	7.00
Relx	99.6	2689.00	46.00
Unilever	94.0	4362.00	20.50

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Melrose Industries	413.45	251.50	155.29
Oxford Instruments	2725.00	115.00	4.41
Segro	799.20	27.40	3.55
Haleon	353.55	9.95	2.90
Aj Bell	336.20	8.80	2.69
Downs			
Vistry	782.00	-53.50	-6.40
Crest Nicholson Holdings	253.00	-14.60	-5.46
Twentyfour ome Fund	98.80	-5.40	-5.18
Kainos	1213.00	-61.00	-4.79
Tui Ag	510.60	-22.00	-4.13

Based on the constituents of the FTSE 350 index

EURO MARKETS

ACTIVE STOCKS	stock traded m's	close price	Day's change
Unicredit	386.0	19.43	-0.35
Roche Gs	362.0	282.92	2.45
Novartis N	323.4	89.84	-0.09
Nestle N	289.4	116.94	0.45
Inditex	275.8	31.28	-0.22
Asml Holding	262.5	572.80	5.90
Zurich Insurance N	239.3	441.40	6.11
Santander	238.6	3.58	-0.06
Novo Nordisk B A/s	212.4	150.06	-0.51
Intesa Sanpaolo	209.2	2.49	-0.01

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Siemens Health.ag Na O.n.	54.78	1.32	2.47
Zurich Insurance N	441.40	6.11	1.40
L''oreal	428.20	5.90	1.40
Hermes Intl	1990.40	26.20	1.33
Swiss Re N	91.91	1.12	1.23
Downs			
Sartorius Ag Vzo O.n.	344.10	-41.10	-10.67
Sartorius Sted Bio	258.40	-20.60	-7.38
Infineon Tech.ag Na O.n.	34.27	-1.71	-4.75
Vonovia Se Na O.n.	18.66	-0.67	-3.47
Bay.motoren Werke Ag St	100.24	-3.54	-3.41

Based on the constituents of the FTSEurofirst 300 Eurozone index

TOKYO

ACTIVE STOCKS	stock traded m's	close price	Day's change
Mitsubishi Ufj Fin,.	622.6	886.40	-3.30
Tokyo Electron	608.9	15395.00	265.00
Softbank .	411.0	5094.00	-85.00
Fast Retailing Co.,	406.9	32550.00	450.00
Toyota Motor	398.5	1813.50	-9.50
Keyence	390.2	62530.00	1040.00
Sumitomo Mitsui Fin,.	378.2	5728.00	8.00
Sony	292.0	12325.00	15.00
Nippon Yusen Kabushiki Kaisha	256.7	3409.00	-38.00
Advantest	232.6	11620.00	250.00

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Takashimaya ,	2068.00	74.00	3.71
J.front Retailing Co.,	1423.00	46.00	3.34
Nikon	1324.00	38.00	2.95
Sumitomo Osaka Cement Co.,	3725.00	90.00	2.48
Sapporo Holdings	3695.00	80.00	2.21
Downs			
Osaka Gas Co.,	2166.00	-38.00	-1.72
Softbank .	5094.00	-85.00	-1.64
Konami	6360.00	-100.00	-1.55
Chugai Pharmaceutical Co.,	3268.00	-51.00	-1.54
Nissan Chemical Industries,	5990.00	-90.00	-1.48

Based on the constituents of the Nikkei 225 index

UK MARKET WINNERS AND LOSERS

FTSE 100	Apr 20 price(p)	%Chg week	%Chg ytd
Winners			
Melrose Industries	413.45	143.0	-
Entain	1394.00	7.1	5.6
Imperial Brands	1939.50	4.5	-6.1
Smith & Nephew	1246.00	4.4	12.1
Rs	879.60	4.4	-1.8
Standard Chartered	644.60	4.2	3.7
Rolls-royce Holdings	155.00	3.9	66.3
Flutter Entertainment	15620.00	3.8	38.3
Weir	1922.50	3.7	15.6
Informa	708.60	3.6	14.3
British American Tobacco	2914.50	3.6	-
Segro	799.20	3.4	4.8
Losers			
Gsk	1470.80	-3.4	2.2
Antofagasta	1574.00	-3.0	1.4
Vodafone	89.81	-2.2	6.9
Scottish Mortgage Investment Trust	644.00	-2.0	-
Dcc	4806.00	-1.9	17.8
Rio Tinto	5442.00	-1.7	-5.9
Bp	530.70	-1.5	11.6
Fresnillo	786.00	-1.5	-
United Utilities	1075.00	-1.4	8.0
Abrdn	202.00	-1.4	7.0
Unite	935.00	-1.3	2.7
Mondi	1281.00	-1.2	-9.2

FTSE 250	Apr 20 price(p)	%Chg week	%Chg ytd
Winners			
Dechra Pharmaceuticals	3766.00	35.7	44.0
Network Int Holdings	360.00	20.0	20.8
Dr. Martens	162.00	14.6	-
Mitie	91.00	11.4	21.8
Int Distributions Services	246.10	8.1	15.5
Asos	757.80	7.9	48.4
Integrafin Holdings	278.00	7.8	-8.0
Qinetiq	368.40	7.3	3.1
Ncc	100.20	6.9	-49.6
Wood (john)	224.00	6.6	65.7
Redde Northgate	375.00	6.5	-7.8
Discoverie	786.00	6.1	8.3
Losers			
Harbour Energy	239.40	-13.3	-
Tui Ag	510.60	-13.1	38.1
Liontrust Asset Management	840.50	-12.9	-
Kainos	1213.00	-11.9	-
Tullow Oil	28.74	-8.1	-
Centamin	105.30	-7.5	-6.7
Videndum	801.00	-6.4	-
Puretech Health	205.50	-5.7	-
Supermarket ome Reit	83.50	-5.6	-
Hunting	234.00	-5.6	-
Ti Fluid Systems	99.80	-5.3	-
Balanced Commercial Property Trust	83.90	-5.3	-5.2

FTSE SmallCap	Apr 20 price(p)	%Chg week	%Chg ytd
Winners			
888 Holdings	76.85	24.4	-11.2
Pod Point Holdings	96.05	20.1	56.9
Kin And Carta	75.00	13.6	-
Schroder Uk Public Private Trust	14.73	13.3	-
Halfords	195.30	12.2	-6.6
Xp Power	2110.00	12.2	3.7
Reach	84.30	11.2	-
Moonpig	128.50	11.2	16.5
Chrysalis Investments	63.10	10.9	-
Life Science Reit	67.00	9.8	-7.3
Treatt	683.00	8.1	9.3
Ao World	72.85	7.7	40.1
Losers			
Superdry	86.40	-19.1	-32.5
Hochschild Mining	80.00	-15.7	13.5
Capita	33.26	-9.3	36.0
Pensionbee	86.40	-8.5	60.3
Nanoco	18.50	-8.2	-
Xaar	182.00	-7.6	-6.2
Enquest	17.67	-5.8	-
Saga	125.40	-5.7	-0.3
On The Beach	136.40	-5.7	-
Ten Entertainment	269.00	-5.6	6.3
Fisher (james) & Sons	277.00	-5.5	-
Wickes	135.00	-4.9	-7.7

Industry Sectors	Apr 20 price(p)	%Chg week	%Chg ytd
Winners			
Tobacco	32017.34	3.8	-
Chemicals	11930.96	3.0	1.8
Personal Goods	36200.42	2.8	17.6
Travel & Leisure	7496.75	2.8	20.8
Food Producers	6759.81	2.2	19.1
Support Services	10351.88	2.0	4.1
Food & Drug Retailers	4451.77	1.7	8.1
Construction & Materials	8116.45	1.7	18.3
Aerospace & Defense	6498.78	1.7	27.0
Media	10292.85	1.4	13.1
Banks	3518.49	1.3	6.9
Electronic & Electrical Equip.	9749.12	1.1	12.5
Losers			
Automobiles & Parts	1683.80	-2.4	13.4
Mining	11964.59	-1.9	7.1
Mobile Telecommunications	2410.28	-1.3	13.1
Gas Water & Multiutilities index	6347.58	-1.3	11.9
Electricity	11112.11	-1.3	4.0
Oil & Gas Producers	8699.87	-0.7	7.1
Equity Investment Instruments	11029.03	-0.5	-2.1
General Financial	12721.38	-0.4	10.2
Real Estate Investment Trusts	2262.07	-0.2	1.4
Nonlife Insurance	3184.90	0.0	-5.0
Software & Computer Services	1896.06	0.2	7.1
Real Estate & Investment Servic	2303.95	0.2	8.9

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

CURRENCIES

Apr 20	Currency	DOLLAR Closing Mid	DOLLAR Day's Change	EURO Closing Mid	EURO Day's Change	POUND Closing Mid	POUND Day's Change
Argentina	Argentine Peso	218.0420	0.5509	239.3777	1.0392	271.5816	0.8042
Australia	Australian Dollar	1.4779	-0.0097	1.6225	-0.0076	1.8408	-0.0112
Bahrain	Bahrainin Dinar	0.3770	-0.0001	0.4138	0.0007	0.4695	0.0001
Bolivia	Bolivian Boliviano	6.9100	-	7.5862	0.0138	8.6067	0.0038
Brazil	Brazilian Real	5.0441	0.0083	5.5377	0.0192	6.2827	0.0131
Canada	Canadian Dollar	1.3452	0.0016	1.4768	0.0044	1.6754	0.0027
Chile	Chilean Peso	790.9550	-4.8450	868.3512	-3.7298	985.1718	-5.6028
China	Chinese Yuan	6.8797	-0.0177	7.5529	-0.0057	8.5690	-0.0184
Colombia	Colombian Peso	4531.7400	13.1550	4975.1788	23.4655	5644.4972	18.8365
Costa Rica	Costa Rican Colon	534.6900	-0.9550	587.0102	0.0213	665.9816	-0.8988
Czech Republic	Czech Koruna	21.4055	0.0403	23.5001	0.0869	26.6616	0.0618
Denmark	Danish Krone	6.7887	-0.0114	7.4530	0.0011	8.4556	-0.0105
Egypt	Egyptian Pound	30.8990	0.0288	33.9225	0.0933	38.4862	0.0526
Hong Kong	Hong Kong Dollar	7.8497	-0.0001	8.6178	0.0156	9.7772	0.0041
Hungary	Hungarian Forint	343.1252	-2.5426	376.7005	-2.1010	427.3786	-2.9793
India	Indian Rupee	82.1513	-0.0775	90.1899	0.0791	102.3233	-0.0519
Indonesia	Indonesian Rupiah	14845.0000	-	16297.6073	29.6414	18490.1669	8.0650
Israel	Israeli Shekel	3.6506	0.0025	4.0078	0.0100	4.5469	0.0051
Japan	Japanese Yen	134.0550	-0.5600	147.1725	-0.3460	166.9718	-0.6244
..One Month		134.0544	-0.5612	147.1721	-0.3468	166.9712	-0.6257
..Three Month		134.0532	-0.5637	147.1712	-0.3485	166.9698	-0.6284
..One Year		134.0480	-0.5741	147.1669	-0.3571	166.9712	-0.6336
Kenya	Kenyan Shilling	135.3500	0.1500	148.5942	0.4347	168.5848	0.2602
Kuwait	Kuwaiti Dinar	0.3065	-0.0001	0.3364	0.0005	0.3817	0.0000
Malaysia	Malaysian Ringgit	4.4375	-0.0045	4.8717	0.0039	5.5271	-0.0032
Mexico	Mexican Peso	18.0053	-0.0380	19.7671	-0.0057	22.4264	-0.0375
New Zealand	New Zealand Dollar	1.6137	0.0047	1.7716	0.0083	2.0099	0.0067
Nigeria	Nigerian Naira	460.7500	-	505.8351	0.9202	573.8859	0.2501
Norway	Norwegian Krone	10.5739	0.0163	11.6085	0.0389	13.1702	0.0260
Pakistan	Pakistani Rupee	283.8500	-0.0250	311.6252	0.5395	353.5486	0.1229
Peru	Peruvian Nuevo Sol	3.7661	-0.0136	4.1346	-0.0074	4.6909	-0.0149
Philippines	Philippine Peso	56.0050	-0.2150	61.4852	-0.1238	69.7569	-0.2373
Poland	Polish Zloty	4.1873	-0.0283	4.5970	-0.0227	5.2155	-0.0330
Romania	Romanian Leu	4.4932	-0.0052	4.9328	0.0033	5.5964	-0.0040
Russia	Russian Ruble	81.3750	-0.4000	89.3377	-0.2758	101.3564	-0.4538
Saudi Arabia	Saudi Riyal	3.7505	0.0002	4.1175	0.0077	4.6714	0.0023
Singapore	Singapore Dollar	1.3313	-0.0027	1.4616	-0.0003	1.6582	-0.0026
South Africa	South African Rand	18.0025	-0.1125	19.7641	-0.0873	22.4230	-0.1303
South Korea	South Korean Won	1322.9500	-2.8000	1452.4027	-0.4264	1647.7966	-2.7682
Sweden	Swedish Krona	10.3034	-0.0279	11.3115	-0.0100	12.8333	-0.0291
Switzerland	Swiss Franc	0.8937	-0.0047	0.9812	-0.0034	1.1132	-0.0054
Taiwan	New Taiwan Dollar	30.6120	0.0430	33.6074	0.1083	38.1287	0.0701
Thailand	Thai Baht	34.3800	-0.0950	37.7441	-0.0354	42.8219	-0.0996
Tunisia	Tunisian Dinar	3.0505	0.0017	3.3490	0.0079	3.7995	0.0037
Turkey	Turkish Lira	19.4023	0.0063	21.3008	0.0456	24.1664	0.0183
United Arab Emirates	UAE Dirham	3.6722	-0.0002	4.0315	0.0071	4.5739	0.0017
United Kingdom	Pound Sterling	0.8029	-0.0004	0.8814	0.0012	-	-
..One Month		0.8029	-0.0004	0.8813	0.0012	-	-
..Three Month		0.8031	-0.0004	0.8811	0.0012	-	-
..One Year		0.8031	-0.0004	0.8803	0.0012	-	-
United States	United States Dollar	-	-	1.0979	0.0020	1.2455	0.0005
..One Month		-	-	1.0977	-0.1471	1.2456	0.0005
..Three Month		-	-	1.0973	-0.1471	1.2458	0.0005
..One Year		-	-	1.0962	-0.1471	1.2458	0.0005
Vietnam	Vietnamese Dong	23490.0000	-11.5000	25788.5494	34.2709	29257.9882	-1.5409
European Union	Euro	0.9109	-0.0017	-	-	1.1345	-0.0016
..One Month		0.9107	-0.0017	-	-	1.1344	-0.0016
..Three Month		0.9103	-0.0017	-	-	1.1343	-0.0016
..One Year		0.9092	-0.0016	-	-	1.1334	-0.0016

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

	£ Strlg Apr 20	Day's chge%	Euro Index	£ Strlg Apr 19	£ Strlg Apr 18	Year ago	Div yield%	Cover	P/E ratio	X/D adj	Total Return
FTSE 100 (101)	7902.61	0.05	6989.83	7898.77	7909.44	7629.22	3.51	2.37	12.03	100.92	8226.66
FTSE 250 (250)	19135.87	-0.34	16925.60	19200.85	19296.32	21084.00	3.25	0.87	35.37	194.42	16101.06
FTSE 250 ex Inv Co (170)	19791.09	-0.39	17505.14	19868.66	19985.42	21736.24	3.35	1.29	23.13	206.88	16997.23
FTSE 350 (351)	4336.04	0.00	3835.21	4336.25	4344.28	4268.50	3.48	2.17	13.23	53.84	8953.98
FTSE 350 ex Investment Trusts (268)	4290.30	0.01	3794.75	4290.07	4297.55	4191.72	3.52	2.35	12.08	54.15	4579.76
FTSE 350 Higher Yield (135)	3696.90	-0.35	3269.89	3709.76	3713.71	3636.72	4.84	2.40	8.62	60.94	8651.13

[illegible]

FTSE Sector Indices

Non Financials (325)	5261.76	0.02	4654.00	5260.54	5273.56	5166.30	3.34	2.37	12.64	54.01	9635.24

Hourly movements	8.00	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High/day	Low/day
FTSE 100	7849.68	7861.28	7863.29	7871.11	7878.34	7891.33	7888.97	7899.04	7879.84	7903.89	7849.68
FTSE 250	19089.98	19241.90	19261.81	19292.10	19298.72	19323.32	19300.08	19306.18	19262.48	19336.07	19089.98
FTSE SmallCap	6183.78	6194.31	6196.13	6199.95	6206.72	6215.90	6219.99	6224.93	6213.97	6225.83	6182.05
FTSE All-Share	4263.41	4273.47	4275.02	4279.57	4283.18	4290.01	4288.29	4293.16	4282.89	4295.41	4263.41

Time of FTSE 100 Day's high:13:50:15 Day's Low07:03:00 FTSE 100 2010/11 High: 8014.31(20/02/2023) Low: 7335.40(17/03/2023)
Time of FTSE All-Share Day's high:13:53:00 Day's Low07:03:00 FTSE 100 2010/11 High: 4377.36(16/02/2023) Low: 4007.66(17/03/2023)

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FT 30 INDEX

	Apr 19	Apr 18	Apr 17	Apr 14	Apr 13	Yr Ago	High	Low
FT 30	2774.20	2782.40	2783.00	2773.70	2761.60	0.00	2793.50	2454.10
FT 30 Div Yield	-	-	-	-	-	0.00	3.93	2.74
P/E Ratio net	-	-	-	-	-	0.00	19.44	14.26

FT 30 hourly changes

8	9	10	11	12	13	14	15	16	High	Low
2782.4	2774.5	2777.8	2776.5	2776.4	2779.7	2777.2	2776.8	2777.3	2782.4	2767.5

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

FT WILSHIRE 5000 INDEX SERIES

[illegible]

FTSE GLOBAL EQUITY INDEX SERIES

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FTSE SECTORS: LEADERS & LAGGARDS

Year to date percentage changes

Fixed Line Telecomms	30.50	Utilities	9.91	Consumer Goods	2.65
Aerospace & Defense	26.65	Industrial Eng	9.56	Support Services	2.65
Oil Equipment & Serv	26.10	Financial Services	8.24	Beverages	2.40
Construct & Material	17.91	Oil & Gas	7.06	Software & Comp Serv	2.29
Food Producers	17.89	Banks	6.95	Chemicals	1.99
Food & Drug Retailer	17.47	Oil & Gas Producers	6.93	FTSE 250 Index	1.50
General Retailers	16.53	Real Est Invest & Se	6.72	Life Insurance	0.51
Travel & Leisure	15.54	Health Care Eq & Srv	6.14	Real Est Invest & Tr	0.50

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FTSE 100 SUMMARY

FTSE 100	Closing Price	Day's Change	FTSE 100	Closing Price	Day's Change
3I Group PLC	1697.5	-	Jd Sports Fashion PLC	164.25	0.65
Abrdn PLC	202.00	-1.10	Johnson Matthey PLC	1974.5	1.00
Admiral Group PLC	2272	-	Kingfisher PLC	257.20	-0.90
Airtel Africa PLC	107.50	-1.60	Land Securities Group PLC	637.20	-0.20
Anglo American PLC	2714	-47.50	Legal & General Group PLC	253.80	0.50
Antofagasta PLC	1574	-40.50	Lloyds Banking Group PLC	49.01	-0.25
Ashtead Group PLC	4640	-70.00	London Stock Exchange Group PLC	7952	22.00

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UK STOCK MARKET TRADING DATA

[illegible]

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

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POWERED BY MORNINGSTAR

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	
Arecor Therapeutics	Pre	2.403	1.014	10.542L	6.945L	32.000L	27.000L	0.00000	0.00000	-	0.000	0.000
Clean Power Hydrogen	Pre	0.000	0.028	3.618L	3.465L	135.000L	0.000	0.00000	0.00000	-	0.000	0.000
Deltic Energy	Pre	0.000	0.000	2.989L	1.935L	0.200L	0.140L	0.00000	0.00000	-	0.000	0.000
Dianomi	Pre	35.915	35.782	1.147	0.618L	1.620	1.770L	0.00000	0.00000	-	0.000	0.000
Hochschild Mining	Pre	735.643	811.387	25.766	137.331	0.010	0.150	0.00000	2.53200	-	2.000	4.500
Intelligent Ultrasound Group	Pre	10.100	7.596	3.702L	4.368L	1.080L	1.340L	0.00000	0.00000	-	0.000	0.000
R E A Holdings	Pre	208.783	191.913	42.046	29.198	0.431	0.034L	0.00000	0.00000	-	0.000	0.000
WH Smith	Int	859.000	608.000	45.000	18.000	24.600	9.200	0.00000	0.00000	-	9.100	0.000

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

UK RECENT EQUITY ISSUES

Issue date	Issue price(p)	Sector	Stock code	Stock	Close price(p)	+/-	High	Low	Mkt Cap (£m)
04/11	2.50		SCSP	Seed Capital Solutions PLC	0.88	-	0.00	0.00	162.2
04/06	144.00	AIM	FADL	Fadel Partners Inc	147.00	0.00	150.00	144.00	2935.3
04/06	6.25		CHSS	World Chess PLC	9.50	-1.12	11.50	6.55	6335.6
04/04	16.00	AIM	OHT	Ocean Harvest Technology Group PLC	24.50	0.20	27.00	16.00	3083.5
03/30	100.00	AIM	ONWD	Onward Opportunities Ltd	105.50	0.50	107.03	98.00	1345.1

§Placing price. *Intoduction. ‡When issued. Annual report/prospectus available at www.ft.com/ir
For a full explanation of all the other symbols please refer to London Share Service notes.

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

FT 500: TOP 20

	Close price	Prev price	Day change	Day change %	Week change	Week change %	Month change %
ShenwanHong	0.11	0.11	0.00	3.64	0.01	15.2	28.74
ChinaLife	14.42	13.98	0.44	3.15	0.86	9.9	9.24
FastRetail	32550.00	32100.00	450.00	1.40	2465.00	9.8	16.10
LasVegasSd	62.79	59.36	3.43	5.78	1.83	9.1	14.41
JPMrgnCh	140.46	141.22	-0.76	-0.54	12.23	8.9	10.55
Ch Rail Gp	5.82	5.56	0.26	4.68	0.21	8.8	8.15
Ch Rail Cons	6.58	6.30	0.28	4.44	0.24	8.6	8.42
AbbottLb	111.04	112.29	-1.25	-1.11	8.68	7.2	13.49
SHOP	65.25	66.01	-0.76	-1.15	5.12	7.2	8.88
CharlesSch	54.99	55.55	-0.57	-1.02	4.06	6.8	-1.92
Pwr Cons Corp	7.81	7.67	0.14	1.83	0.34	6.5	0.51
ShgPdgBk	7.68	7.53	0.15	1.99	0.32	6.5	8.02
PingAnIns	54.90	54.25	0.65	1.20	2.45	6.0	6.30
Mizuho Fin	2055.50	2028.50	27.00	1.33	88.50	6.0	10.03
SandsCh	29.90	28.75	1.15	4.00	0.50	5.8	11.19
ChinaPcIns	24.20	23.80	0.40	1.68	0.90	5.7	10.30
MorganStly	90.52	90.45	0.07	0.08	4.76	5.6	5.87
ChinaMBank	41.40	41.65	-0.25	-0.60	2.45	5.6	2.48
GenElectric	99.51	99.03	0.48	0.48	4.73	5.5	10.67
CaixaBnk	3.64	3.66	-0.02	-0.49	0.21	5.5	3.76

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 %
Infosys	1223.40	1232.20	-8.80	-0.71	-196.10	-14.3	-13.89
Nokia	3.90	4.27	-0.37	-8.66	-0.22	-13.1	-8.27
Tesla Mtrs	163.80	180.59	-16.79	-9.30	-5.31	-11.9	-10.20
MediaTek	673.00	675.00	-2.00	-0.30	-83.00	-11.2	-12.94
AT&T	17.77	19.70	-1.93	-9.79	-0.26	-11.0	-3.65
Renault	33.84	36.62	-2.79	-7.61	-1.16	-10.4	-4.26
Ericsson	54.94	56.30	-1.36	-2.42	-4.98	-10.3	-1.44
Hngzh HikVDT	41.62	43.16	-1.54	-3.57	-3.21	-10.2	3.15
HumanaInc	488.44	492.90	-4.46	-0.90	-42.36	-8.7	-1.17
ValeroEngy	121.62	124.40	-2.78	-2.23	-8.73	-8.6	-5.53
UtdHlthcre	486.89	486.20	0.69	0.14	-40.03	-7.5	2.11
Cisco	47.29	48.04	-0.75	-1.56	-2.76	-6.9	-7.13
ConocPhil	102.42	105.26	-2.84	-2.70	-3.78	-6.1	6.63
PublStor	286.41	289.13	-2.72	-0.94	-15.38	-5.9	-4.24
Suncor En	41.25	41.55	-0.30	-0.72	-2.28	-5.9	1.45
FordMtr	11.76	12.22	-0.47	-3.81	-0.24	-5.7	5.28
Netflix	327.22	323.12	4.10	1.27	-23.07	-5.5	7.26
Vale	76.20	76.25	-0.05	-0.07	-4.35	-5.5	-8.61
Zoom	66.41	67.75	-1.34	-1.98	-2.43	-5.4	-4.11
Verizon	37.22	38.60	-1.38	-3.58	-0.72	-5.3	-0.49

Based on the FT Global 500 companies in local currency

BONDS: HIGH YIELD & EMERGING MARKET

BONDS: GLOBAL INVESTMENT GRADE

INTEREST RATES: OFFICIAL

Apr 20	Rate	Current	Since	Last
US	Fed Funds	4.75-5.00	22-03-2023	4.75-4.50
US	Prime	7.75	23-02-2023	7.75
US	Discount	4.75	02-02-2023	4.75
Euro	Repo	2.396	21-03-2023	2.396
UK	Repo	4.25	23-03-2023	4.25
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

Apr 20 (Libor: Apr 19)	Over night	Change Day	Change Week	Change Month	One month	Three month	Six month	One year
US$ Libor	4.80671	-0.002	-0.010	0.030	4.98229	5.26143	5.45057	5.48171
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	4.20130	4.60160	4.74470	0.81363
Swiss Fr Libor				-0.002	-0.77540	-0.75300	-0.70280	-0.55320
Yen Libor				0.000	-0.06005	-0.02617	0.07165	0.04867
Euro Euribor				0.019	2.98700	3.20500	3.58700	3.82500
Sterling CDs				0.000	0.50000	0.63000	0.78500	
US$ CDs				0.020	5.03000	5.24000	5.36000	
Euro CDs				0.040	3.01000	3.25000	3.53000	

Apr 20	Short term		7 Days notice		One month		Three month		Six month		One year	
Euro	2.64	2.94	2.54	2.84	2.86	3.16	3.10	3.40	3.38	3.68	3.54	3.84
Sterling					0.45	0.55	0.58	0.68	0.71	0.86	0.90	1.05
US Dollar	4.63	4.83	4.59	4.79	4.93	5.13	5.14	5.34	5.26	5.46	5.18	5.38
Japanese Yen	-0.15	0.05	-0.20	0.00	-0.15	0.05	-0.10	0.10	-0.05	0.15	0.00	0.20

Libor rates come from ICE (see www.theice.com) and are fixed at 11am UK time. Other data sources: US $, Euro & CDs: Tullett Prebon; SDR, US Discount: IMF; EONIA: ECB; Swiss Libor: SNB; EURONIA, RONIA & SONIA: WMBA.

BOND INDICES

VOLATILITY INDICES

BONDS: BENCHMARK GOVERNMENT

GILTS: UK CASH MARKET

Apr 20	Price £	Red Yield	Change in Yield Day	Week	Month	Year	52 Week High	52 Week Low	Amnt £m
	-	-	-	-	-	-	-	-	-
Tr 0.75pc '23	99.13	4.22	-1.86	-1.17	11.94	191.03	99.56	97.34	34.36
Tr 0.125pc '24	96.84	4.29	-1.38	5.41	20.17	168.13	98.11	94.34	35.55
Tr 2pc '25	95.79	3.87	-2.03	6.91	17.27	140.37	102.39	93.15	39.93
Tr 0.125pc '26	90.63	3.71	-2.11	7.54	16.30	129.01	95.84	86.33	35.32
Tr 1.25pc '27	90.53	3.68	-1.87	7.92	15.36	123.03	99.59	85.65	40.99
Tr 0.5pc '29	83.23	3.76	-1.57	6.52	14.29	112.43	95.60	78.21	28.92
Tr 1pc '32	79.76	3.72	-2.11	5.98	13.76	94.76	123.55	78.92	35.96
Tr 4.25pc '36	103.36	3.91	-2.01	6.25	13.01	87.98	128.23	94.91	31.68
Tr 4.5pc '42	105.40	4.10	-1.68	5.13	9.04	93.40	142.73	93.79	28.35
Tr 3.75pc '52	94.13	4.10	-1.44	5.13	8.18	100.00	142.86	82.51	25.11
Tr 4pc '60	100.26	3.99	-1.24	5.56	7.84	105.67	161.77	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	Apr 20	Day's chg %	Total Return	Return 1 month	Return 1 year	Yield
1 Up to 5 Years	81.19	0.18	2350.60	-0.93	-2.31	3.85
2 5 - 10 Years	147.20	0.48	3141.47	-2.79	-9.27	3.67
3 10 - 15 Years	155.49	0.75	3622.50	-4.24	-14.61	3.92
4 5 - 15 Years	148.10	0.57	3255.33	-3.25	-10.83	3.78
5 Over 15 Years	209.47	1.07	3642.52	-4.97	-28.70	4.04
7 All stocks	134.01	0.59	3015.85	-3.00	-15.47	3.96

Index Linked	Apr 20	Day's chg %	Month chg %	Year's chg %	Total Return	Return 1 month	Return 1 year
1 Up to 5 Years	326.54	0.25	0.63	1.69	2770.50	0.63	2.88
2 Over 5 years	540.37	1.38	-2.62	-29.51	4125.74	-2.62	-29.14
3 5-15 years	457.14	0.79	-1.22	-10.82	3707.73	-1.22	-10.08
4 Over 15 years	601.84	1.80	-3.58	-38.27	4457.72	-3.58	-38.05
5 All stocks	513.15	1.19	-2.09	-25.76	3998.11	-2.09	-25.30

Yield Indices	Apr 20	Apr 19	Yr ago		Apr 20	Apr 19	Yr ago
5 Yrs	3.64	3.71	1.63	20 Yrs	4.10	4.17	2.14
10 Yrs	3.79	3.86	1.93	45 Yrs	3.89	3.94	1.88

COMMODITIES

BONDS: INDEX-LINKED

BONDS: TEN YEAR GOVT SPREADS

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

This week's film releases reviewed by Jonathan Romney and Leslie Felperin

Seduced by a South Seas enigma

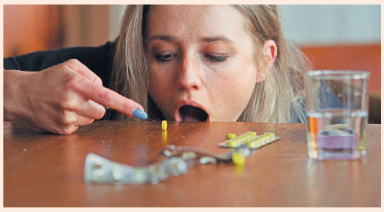
The operative term in Albert Serra's **Pacifiction** is "fiction". The film was shot — and is presumably set — on Tahiti, and appears ostensibly to be a geopolitical thriller involving colonial power, indigenous militancy and the shadow of French nuclear testing. But despite being liberally dusted with what used to be called "local colour", it is surely as credible a depiction of Polynesian realities as Rodgers and Hammerstein's *South Pacific*.

Whether or not the film has anything politically serious to say — and there is always the teasing suggestion that it might — *Pacifiction* is an intoxicating pleasure. It's also a striking shift of tone for Catalan writer-director Serra, whose previous work has explored an austere but mischievous line in "slow cinema" — for example, the languorous, claustrophobic *The Death of Louis XIV*.

Serra is the last director you'd expect to go glossy, yet that's what happens in *Pacifiction*, with its play on clichés of South Seas exoticism. Artur Tort's gorgeous photography uses a vivid palette somewhere between Gauguin's Polynesian canvases and the skyscape postcards you might find in the lobby of the Honolulu Holiday Inn.

The protagonist is Monsieur de Roller (Benoît Magimel) — supposedly the French High Commissioner, although he doesn't seem overburdened with duties. At one point he meets with islanders troubled about reports of renewed nuclear tests, reassuring them with the woolly, condescending bonhomie that is his default mode. Otherwise, he's a general glad-hander and *flâneur* — hanging around a nightclub that specialises in atmospheric soft-porn chic, or kibitzing at the rehearsals of a supposedly traditional dance troupe.

He also practices a little wary espionage, enlisting the aid of hotel worker Shannah — Pahoa Mahagafanau, exuding regal, slyly mocking glamour — who may or may not become his lover. But mostly, de Roller swans around grandly in the double-breasted ice-cream suit that he wears even when riding a jet ski on monumental waves — a genuinely breathtaking sequence, and one reason why *Pacifiction* demands to be seen on the big screen.



Top: Benoît Magimel is a flâneur in 'Pacifiction'. Above: Kristine Kujath Thorp in the caustic, comic 'Sick of Myself'

Luxuriously visual and sonically rich (birdsong, retro "exotica music", the narcotised throb of nightclub electronica), *Pacifiction* is an enigmatic, sultry experience. At the centre of it is de Roller; shifting gradually from lofty insouciance to agonised paranoia, he's played with imposing casualness by Magimel, who won the Best Actor award for the role in France's Césars. Once known for youthful raffishness, notably as Isabelle Huppert's lover in *The Piano Teacher*, Magimel, now 48, has acquired a heft in physique and manner that is a perfect fit for de Roller's tarnished-roué demeanour.

He's matched by Marc Susini as the dapper, sinister French admiral seen at the nightclub making feline flirtation with the half-naked staff and his crew alike. His bizarre, stately shimmy to 1960s soul number "I Like Your Style" ranks high among art cinema's most memorable dancefloor moments.

Pacifiction may ultimately be a piece of conceptual art about the idea of a post-colonial political thriller rather than actually being one for real — but that makes it all the more transfixingly seductive. **JR**
In UK cinemas now

Norwegian feature **Sick of Myself** is, as the title might suggest, a film in queasily bad taste: it comes as no surprise that it has had the thumbs-up from cinema's "Pope of Trash", John Waters. The film is breathtakingly mean-spirited — but in a way that you often wish social satires would have the nerve to be. And Kristoffer Borgli's horror comedy of manners certainly has no shortage of nerve.

Kristine Kujath Thorp plays Signe, a young café worker with no apparent talent, and seemingly little redeeming character, but who is desperate for attention. She is in a competitive look-at-me relationship with Thomas (Eirik Saether), a smugly clueless conceptual artist (mixed media: rampant ego, stolen furniture). When Thomas gets a solo show, Signe wants in on the attention, and steals the show by feigning a nut allergy — which launches her on a career of spectacularly self-destructive acting-out. After reading a report (on Mail Online, where else) about a Russian drug with a side effect of causing people's faces to erupt horribly, she begins a concerted campaign of overdosing.

As Signe achieves the desired result — and more — the jokes turn increasingly cruel: with her face resembling a treasure map etched in blood and loose flesh, Signe is signed up by a model agency specialising in disability chic (there's an overworked running gag about the boss's blind assistant). Eventually, the film hovers on the verge of an *Ab Fab* episode guest-directed by David Cronenberg, but it's all done with steely cool and a cleverly dislocated structure that integrates glimpses of Signe's deluded imaginings.

The depiction of pathological narcissistic fabulation rings relevant in the age of Instagram and trumped-up misery memoirs, although some may consider *Sick of Myself* objectionably flippant or callous about such real-world malaises as Munchausen syndrome or histrionic personality disorder. But that's the point: Borgli is suggesting that in the age of the 24-hour online persona, western society in general has assumed the characteristics of what were once marginal pathological states.

If the film succeeds in being so caustic and teeth-grindingly comic, it's partly because of Kristine Kujath Thorp's Signe — at once gauche, arrogant and oddly innocent. She is never remotely likeable, yet the performance makes us empathise even as we cringe. Signe may not be all of us — but she is more of us than is remotely comfortable. **JR**
In UK cinemas now

A piercingly intimate domestic story about a mother and son is at the heart of this Sundance Film Festival award-winner. But **A Thousand and One** also keeps looking out of the window at a changing New York City, where gentrification and shifts in police and social work policies have direct consequences for the protagonists. It may be set in a very specific place at a particular time, but the film's portrait of desperation, poverty, poor decision-making and enduring love is as universal and timeless as it gets, from the work of Émile Zola to recent stories in the news cycle.

It starts in 1994, with 22-year-old Inez (Teyana Taylor, whose intensity burns up the screen), just out of Rikers Island prison and hustling for legit work as a hairdresser in Brooklyn. When she spots her six-year-old son Terry, who has been in foster care since she was inside, Inez decides to make amends in her own way by snatching Terry and running away to Harlem to raise him herself.

The abduction makes the news, prompting a name change and false documents to get the child into school. As Terry grows up (played by Aaron Kingsley Adetola, then Aven Courtney, then Josiah Cross, all terrific), he matures into a sweet, smart young man with an old, cautious soul. Inez makes plenty of mistakes, including leaving six-year-old Terry alone for hours in an apartment with only a TV and full fridge for company. She too eventually grows up, later getting a parenting assist from boyfriend Lucky (Will Catlett), another ex-con trying to go straight. But secrets have a way of getting exposed, and the one revealed in the last act changes everything.

Writer-director AV Rockwell sometimes tries to cram too much plot and social commentary into her debut feature, which tips into melodrama in its final act. But the delicately pitched performances, luminous cinematography and quiet, jazzy score counteract that excess, creating a stately feel that's rare in stories of contemporary urban suffering. Comparisons to *Precious* and *Moonlight* have inevitably been made, but *A Thousand and One* has its own unique pitch and timbre. **LF**
In UK cinemas now

Pacifiction
Albert Serra
★★★★★

Sick of Myself
Kristoffer Borgli
★★★★☆

A Thousand and One
AV Rockwell
★★★★☆

Evil Dead Rise
Lee Cronin
★★☆☆☆

The makers of horror movie sagas want no rest for their wicked creations — and from *Halloween* and *A Nightmare on Elm Street* to *Child's Play* and *Scream* their numbers are legion. The owners of the *Evil Dead* franchise are no different. But where the aforementioned scary story cycles usually revolve around recurring characters — sometimes heroes, mostly baddies that refuse to die — the common denominator for *Evil Dead* movies isn't so much a specific being but a prop, that cursed Book of the Dead. With its creepy descriptions of bodily mutations, sombre incantations and ability to manifest in the oddest of places throughout history, it resembles a satanic version of the *Adrian Mole* diaries.

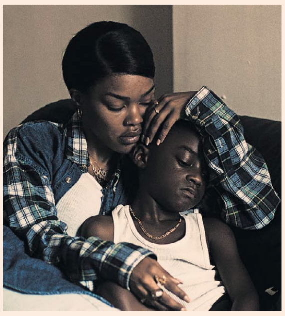
The latest instalment, **Evil Dead Rise**, directed by Lee Cronin (his debut feature *The Hole in the Ground* was a cracker), at least breaks with tradition by unfolding mostly in a Los Angeles apartment building instead of a cabin in the woods, the book's usual favourite place to corner and kill people. In a building about to be condemned, tattoo artist and cool mom Ellie (Alyssa Sutherland) and her three children welcomes a visit from Ellie's sister Beth (Lily Sullivan), a rock-band guitar tech. The two teenage kids, Danny (Morgan Davies) and Bridget (Gabrielle Echols), find the evil-incarnate tome in a bank vault below the building, uncovered after a medium-intensity earthquake, along with a 78rpm record that Danny, an aspiring DJ, foolishly slips on to his turntable.

Whether or not 'Pacifiction' has anything politically serious to say, the film is an intoxicating pleasure

Soon, Ellie is taken over by the book's evil spirit and goes on a murderous rampage, attempting to kill not just everyone in her family but also the hapless neighbours and, most heinously, a fluffy cat.

There will be not just blood by the bucketload but lots of eyeball gore, severed limbs and lashings of the slapstick theatre of cruelty that is the franchise's signature, including a cheese grater applied to human flesh and a climactic deployment of a wood chipper.

Fans will devour it all regardless, but for viewers less invested in the series this gets repetitive. Worse is the absence of good one-liners, a far cry from the first three films, written and directed by Sam Raimi (still acting as a producer here), which had wit and invention as well as puréed brains. **LF**
In cinemas now



Left: Teyana Taylor and Aaron Kingsley Adetola in the mother-and-son film 'A Thousand and One'. Below: Alyssa Sutherland on the rampage in 'Evil Dead Rise'

FT BIG READ. INNOVATION

New Delhi has pioneered a new approach to online infrastructure in its drive to connect 1.4bn people. But there are privacy concerns in a country where civil liberties groups have accused the state of over-reach.
By Benjamin Parkin, John Reed and Jyotsna Singh

India Stack to bridge digital divide

Above: India's government and companies are collecting unprecedented quantities of data without a data protection law; left: a woman takes an iris scan to link to her Aadhaar card; right: a phone shop in Bangalore advertises the Walmart-owned PhonePe payment system
FT montage/Reuters; David Talukdar/AFP/Getty Images; Samyukta Lakshmi/Bloomberg

A decade ago, Tej Pal signed up for India's Aadhaar biometric identity scheme, acquiring his first national ID card.

A few years later the 44-year-old, who sells fruit near Delhi, used it to open his first bank account. Last year he took a loan to buy his first smartphone to sign up for the Unified Payments Interface (UPI), India's digital money system.

Now Pal, who grew up in a north Indian village without banks or landlines, takes payments for bananas or mangos directly into his bank account via apps such as Google Pay or Walmart-owned PhonePe. "Earlier, when I used to go home to my village, I had to hide all the cash — literally all my savings for months — in my socks, so as to not be robbed on the train," he says. Life has become "much easier".

Pal's story has been replicated millions of times in recent years in India as the authorities launched an unprecedented drive to bring its 1.4bn population online.

At the heart of this effort is the so-called India Stack: government-backed APIs, or application programming interfaces, upon which third parties can build software with access to government IDs, payment networks and data.

This digital infrastructure is interoperable and "stacked" together — meaning that private companies can build apps integrated with state services to provide consumers with seamless access to everything from welfare payments to loan applications.

Supporters argue that India has found a world-beating solution for building out and regulating the online commons that is more equitable than the US's laissez-faire approach, more innovative than the EU's regulation-heavy model and more transparent than China's totalitarian template.

Now, as New Delhi hosts this year's G20 presidency and surpasses China as the world's most populous country, India's public digital infrastructure has become a core part of Prime Minister Narendra Modi's efforts to present India as a nascent economic superpower, alternative investment destination to China and voice of the global south.

At panels and events featuring global government and business leaders, Modi's government has launched a digital diplomacy drive to promote its digital infrastructure template as a new model for development around the world, with some success. Countries including the Philippines and Bhutan have adopted elements of Indian-designed infrastructure.

"This kind of public-private partnership approach is neither there in the west nor in the east," says Ashwini Vaishnaw, India's minister of information technology. "We believe this is a great contribution from our side to the world — so that's why we have offered it to the world."

However, as the scope and ambition of India's digital push have grown, so too have the concerns. India's government and companies are collecting unprecedented quantities of data without a data protection law, creating ample opportunities for surveillance and abuse in a country where civil liberties groups have accused the state of over-reach in snooping on citizens.

And while boosters describe digitisation as a great leveller for India's poorest, critics say the growth of digital services is not enough to compensate for the inequality of skills and internet access that leave hundreds of millions on the wrong side of the country's digital divide. "Technology cannot substitute fundamental existing gaps, such as inadequate service delivery and low digital literacy," says Prateek Waghre, policy director with the Internet Freedom Foundation.

'A huge bet on IT'

India's government argues that bringing the world's poor online is one of the fastest means to the end of global development. Around 850mn people globally don't have legal ID and 1.4bn are unbanked, according to the World Bank.

Digital infrastructure is not unique to India. The IMF says 99 per cent of digital pioneer Estonia's population has ID while nearly 80 per cent of adult Kenyans have used digital payments, thanks to the country's mobile money network. But analysts say the scale and interconnectivity of India's digital infrastructure has little parallel.

India's model "is very innovative. It's different to what you see in most other countries in the world," says Luis Breuer, the IMF's senior resident representative to India. "India as a country has made a huge bet on IT."

The India Stack started with the Aadhaar digital ID scheme, which was launched in 2009 and — though controversial with privacy advocates — now covers nearly the entire adult population. Atop this "identity layer" sits a "payments layer," which includes the UPI digital money system, and a "data layer" where citizens can, for example, store official documents virtually.

Though backed by Modi's government, Aadhaar started when the opposition Indian National Congress was in power, and the private sector also helped develop India's digital infrastructure. Apps and services have proliferated on top of it, from paperless Covid-19 vaccination certificates to a one-roof system for paying utility bills to a platform for sharing school curricula digitally.

Supporters say this digitisation saves time and money. The authorities made $66bn of benefit payments online in the year ended 2021, for example, compared with $1.2bn in 2014, helping to cut waste and leakage. And the cost to banks of verifying customer identities using Aadhaar can fall from Rs1,000 ($12) to Rs5 each, according to one estimate in an IMF report. This helped banks to open hundreds of millions of new accounts over the past decade, leading to gains in financial inclusion.

Several countries have already begun working with India on their own programmes. The Philippines and Morocco use made-in-India digital identity schemes, while Jamaica used the country's technology for its Covid-19 vaccination certificates. Singapore recently connected its digital payments system to India's to allow instant cross-border remittances from its 400,000 residents of Indian origin.

"I can bet nowhere in the world does this exist at this speed, at this price point," says Sopnendu Mohanty, chief fintech officer at the Monetary Authority of Singapore. "A poor immigrant worker can now send money at small values — $10, $20 — instantly . . . This creates a massive impact at the bottom of the pyramid."

The UN Development Programme estimated last year that digital public infrastructure could add as much as 1.4 per cent growth to lower- and middle-income countries by 2030, allowing them to accelerate financial inclusion and "leapfrog" other countries.

Many in India "have a common belief that digital public infrastructure is a way to transform a country", says Nandan Nilekani, the co-founder of IT multinational Infosys who is helping lead India's digital infrastructure push. "Now we have evidence on the ground."

A new model for digital business?

India has made some of the tech behind its digital infrastructure public for others to use.

Officials say this guards against both excess state control and market capture by Big Tech giants such as Amazon and Google in advanced economies like the US. This has indeed proved a powerful tool for businesses to innovate. UPI's interoperability, for example, means that customers use to transact with whichever bank or app they choose.

Companies such as Google and PhonePe in turn built successful payments apps on top of it, helping the service take off — with more than 8bn transactions a month.

Ambarish Kenghe, vice-president at Google Pay, says that as digital payments grow "a bunch of opportunities become available", from allowing customers to pay bills through the app to taking loans. "You'll see us enabling commerce, enabling services on top of payments. That's my hope," he says.

>80% Google Pay and PhonePe's share of UPI transactions

$66bn Government benefit payments made online in the year ended 2021

The Indian authorities are now experimenting with even more ambitious initiatives. Among them is the Open Network for Digital Commerce, an interoperable ecommerce scheme that the authorities began testing in India's tech hub Bangalore last year.

While platforms such as Amazon manage everything from the seller to the customer, through ONDC a buyer can order groceries using digital payments service Paytm from a shop registered to a different app, such as Bitsila. A third app, like Dunzo, can deliver the order.

India argues that opening up the infrastructure behind ecommerce in this way will help check the power of Big Tech by limiting its ability to dictate terms, helping lower costs and grow the market. The traditional ecommerce model is "very one sided", says Nitin Nair, an ONDC executive in Bangalore. ONDC will "make this a slightly more democratic process".

An open-source ride-sharing app, Namma Yatri, also launched using ONDC in the city last year to connect drivers directly to customers without commissions.

"If things go to plan, it will be the next online revolution," says Niyas MK, whose 100-year-old Bangalore-based grocery chain MK Retail recently started trialling ONDC. "I didn't have much trust. But now I think it's going to be the next big thing."

Some critics are sceptical about India's claims to be crafting a new model for digital business, however. Despite claiming to undermine monopolies, a few big names have managed to assert commanding positions in the digital sphere: PhonePe and Google Pay account for over 80 per cent share of UPI transactions between them, according to official data.

"If you look at UPI, the idea was this would prevent monopolies," says the IFF's Waghre. "But in terms of dominant apps, it's a duopoly between Google Pay and PhonePe."

Critics also argue that the success of these services is not simply the result of organic growth but of India using its regulatory clout to tilt the playing field in their favour. For example, the government subsidises merchants using UPI to promote its growth, which has eroded demand for cards from companies such as Visa and Mastercard. The value of debit card transactions fell more than 15 per cent in March from a year earlier, according to data from the Reserve Bank of India.

UPI's "biggest impact comes when private players are able to leverage the stack on a non-discriminatory basis to deliver their services so consumers can choose the product that best suits their preferences," says Alexander Slater, managing director of the US-India Business Council.

Access and privacy issues

Dileep Kumar's shop in the rural area of Haidergarh, in India's northern state Uttar Pradesh, is both a symbol of digital India's reach and of its limitations.

From his small storefront, the 27-year-old earns Rs300 to Rs400 a day helping Indians without smartphones navigate the maze of online services that have become so central to their lives. "Whether it's a birth certificate or a death certificate, applying for jobs, or a soft copy of a photograph required for an online form, people come in for this," Kumar says, as a female customer applies her thumbprint to a scanner to secure a payout from her bank account.

'You'll see us enabling commerce, enabling services on top of payments. That's my hope'

Kumar's shop highlights how, even as digital services take off, poor internet access and skills mean that much of the population — particularly rural dwellers and women — is at risk of being left behind. Fewer than half of India's people are able to use the internet, according to the IMF, while only 15 per cent of rural households and 42 per cent of urban households have internet access. Of women who own a mobile phone, a third are not able to read text messages.

"The problem is that people are not educated. They don't know how to do these things themselves," says Kumar's friend Pintu Singh, a 25-year-old farmer. "Everything is online so they have to do it. And if they can't do it themselves, they have to get help, and they have to pay for it."

The IMF's Breuer says: "The big challenge here is dissemination of technology . . . To the extent that [digital public infrastructure] leads to productivity gains, you might have some inequality issues become even more exacerbated."

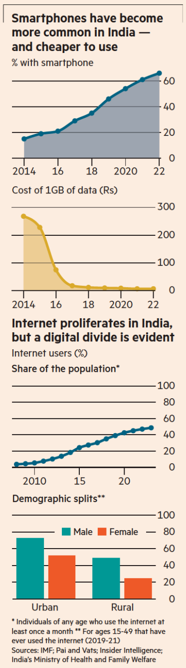
Gaps in digital literacy were laid bare during the Covid-19 pandemic, when fraudsters sold online loan schemes to Indians who had lost their jobs.

And regulatory oversight has also not kept up with the speed of India's digital push. Tens of millions of Aadhaar records, for example, have allegedly been exposed in a string of data breaches. "The importance of privacy and security is very much an afterthought, rather than something that's built into these projects," says Udbhav Tiwari, head of global product policy at the Mozilla Foundation.

While the country has some data regulation, it lacks a comprehensive data protection bill despite years of discussion. A pending draft of the bill includes sweeping carve-outs for the authorities to snoop on citizens that critics warn risk turning India into a surveillance state. "It's about digitising our entire society," says Srinivas Kodali, a digital rights activist who has petitioned India's Supreme Court on cases related to Aadhaar. "And when your digital society's entire basis is built on identity, you will not have privacy."

For Pal, the fruit seller, adjusting to "Digital India" has not been easy, whatever the benefits. He is still paying off the debt he took out to buy his smartphone and is yet to fully grasp the UPI payments network, given that he struggles to read and write.

"It is a hassle for me to figure out the payment system, but I have no choice," he says. "It works for me because I can't afford to lose customers. You have to move with the times."



* Individuals of any age who use the internet at least once a month ** For ages 15-49 that have ever used the internet (2019-21)
Sources: IMF; Pai and Vats; Insider Intelligence; India's Ministry of Health and Family Welfare

The FT View

FINANCIAL TIMES
'Without fear and without favour'

ft.com/opinion

India's democratic backsliding

Decline of political freedoms under Modi is tragic for the country

India will soon officially be the world's most populous country. Its claim to be the largest democracy, however, is wearing thin. On Thursday a court in Gujarat, the home state of Prime Minister Narendra Modi, rejected an appeal by India's most prominent opposition politician, Rahul Gandhi, seeking a stay on a dubious defamation conviction that prompted parliament to eject him from his seat. He could face a two-year jail sentence and disqualification from next year's election. Gandhi's legal troubles are one of the most extreme examples of widespread democratic decline in Modi's India. That is bad news not only for its 1.4bn people, but also for the world.

With democratic values under pressure globally and economic fragmentation afoot, India's vibrant, tech-savvy population and rapidly growing economy are precious assets. A robust, inclusive and truly democratic India that might serve as a counterweight to China and as a global role model matters for everyone. But it is ever clearer that Modi's Bharatiya Janata party is ready to use all tools at its disposal to bend India's democratic institutions to its own ends.

Since the BJP defeated Gandhi's Indian National Congress party in 2014 on a Hindu nationalist platform, Modi's backers have stifled free expression across media, civil society, and politics, and have stoked inter-religious tensions with Muslims. Fear of speaking out against Modi is common in public life. Freedom House, a US NGO, has downgraded the country from "free" in 2021 to "partly free" now while the Sweden-based V-Dem Institute considers India an "electoral autocracy", alongside the likes of Russia and Turkey.

Journalists deemed critical of the BJP frequently experience online harassment and sometimes legal repercussions. The government exerts enormous influence on media outlets through its ties with owners, and editors are pressured to toe the government line. Foreign media are not immune. In February tax inspectors raided the BBC, shortly after the broadcaster aired a documentary critical of Modi. Academics, think-tanks and foreign non-profit groups are under pressure too.

The undermining of political opponents also goes beyond the Congress party. A senior figure in the Aam Aadmi party, India's second-biggest opposition party, is in detention over alleged excise fraud and its leader and Delhi's chief minister Arvind Kejriwal was also questioned on Sunday.

With the crackdown on dissent, India is damaging its own prospects. The country needs robust and open public debate to help it address challenges that are holding it back from reaching its full potential. These include chronic unemployment, high illiteracy, and crony capitalism. An investigation by US short selling group Hindenburg Research into companies owned by Gautam Adani, a tycoon with ties to Modi, has also raised important questions.

> Western leaders need to be more outspoken in condemning the government's attacks on civil society and free speech

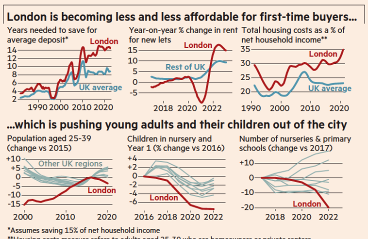
The west sees India as a democratic and economic counterweight to China. But disillusionment with Xi Jinping has prompted western leaders to turn a blind eye to Modi's actions. Businesses and investors see opportunities in India for growth and diversification away from China. But the weakening rule of law will make them think twice.

India's democracy has never been perfect, but it has achieved impressive results. It has supported the country's rise to the fifth-largest economy in the world and cultivated a burgeoning middle class. For India's sake, western leaders need to be more outspoken in condemning the Indian government's attacks on civil society and free speech. If Modi fails to reverse course, his vision of India as a superpower will remain only a fantasy.

Opinion Data Points

Young families flee parasitical housing market in London

John Burn-Murdoch



*Assumes saving 15% of net household income
**Housing costs measure refers to adults aged 25-39 who are homeowners or private renters
Source: Zoopla; FT analysis of Department for Education data, ONS house price indices, UK Household Longitudinal Study and DWP Stat Xplore

London has always been a demographic conveyor belt. Every year, it pulls in tens of thousands of recent graduates. They spend a decade or so climbing the professional ladder in the hope of making enough money to get on to the housing one, and then in their thirties many of them bid the capital farewell as they discover they'll have to look farther afield to afford a place big enough to start a family.

Over the past few years, ever-tighter housing supply has accelerated that conveyor belt and the effects are becoming startlingly clear. The number of new housing starts in London has been on a steady downward trend since late 2015, and a fresh 30 per cent year-on-year drop in the first quarter of this year took it to its lowest level in a decade apart from in the depths of the pandemic. Prices and rents have, unsurprisingly, rocketed.

> When you lose first-time buyers, you lose what often follows those first home purchases — children

Older readers or those from elsewhere in the UK may be wondering what all the fuss is about. Surely London graduate salaries can pay for London graduate housing? But this stereotype has not been true for some time.

If we only look at incomes, London households make about 15 per cent more than the rest of the country — but subtract housing costs, and a household in the capital is no better off than the national average. This is especially true for those headed by people aged 25-39, for whom housing costs amount to 36 per cent of net household incomes, almost double the burden for the same age group 30 years earlier.

Would-be buyers and renters are both in difficulties. The house-price-to-earnings ratio gets a lot of attention, but while many graduates are doing fairly well on incomes, it is wealth — specifically deposits — that they struggle with, especially now that the days of 95 per cent LTVs are largely a distant memory. By my calculations, it takes the average London first-time buyer 15 years to save for their deposit (unless they are helped by a particularly well-capitalised bank of mum and dad). It took their parents' generation just four.

For renters, there are 40 per cent fewer properties available for new tenants in London compared with five years ago, according to Zoopla. The crunch has been especially vicious in the last year, as the brief pandemic-induced bump in supply rapidly swung back. Prospective tenants are facing 15 per cent year-on-year increases in rent, compared with 9 per cent in the rest of the country.

This has had a dramatic impact on the age group that would have historically bought or rented many of these properties. While London's total population has grown by about 3 per cent since housebuilding went into reverse, the number of people aged 25 to 39 in the capital has dropped by almost 4 per cent — or 82,000 — after rising steadily for decades.

The number of 25- to 39-year-olds, who represent the first-time buyer demographic, has not declined in any other UK nation or region. London's 4 per cent decline is made up of those who would historically have managed to stay in London, but have been forced to move elsewhere.

When you lose first-time buyers, you lose what often follows those first house purchases — children. In the five years between 2016 and 2022, the number of kids in nursery or Year 1 in London dropped by 8 per cent, almost twice as steep a decline as seen anywhere else in the country.

As a result, the city's school closure statistics now echo those of rural Japan. Twenty state-funded nurseries or primary schools were closed or merged in the capital between 2017 and 2022, including five in the borough of Tower Hamlets alone.

As a result of all this, London has aged more rapidly than any other part of the UK since 2015, its median age rising three times faster than the UK average.

Like a parasite, the undersupplied and overheated housing market is consuming the fruits of Londoners' labours before they can ever be enjoyed, and pushing away multiple generations of talent from the nation's most productive city. It is already too late for thousands of these lost families — but without a huge leap in housebuilding, Britain's capital risks losing more of the youthful dynamism that made it great.

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UK export performance will puzzle Brexiters and Remainers

Valentina Romei quotes an economist at the Resolution Foundation think-tank who labels Britain's trade performance with the EU since Brexit as a "disaster" ("Goods exports lag behind G7 peers", Report, April 13).

UK exports to the EU have indeed performed very poorly in recent years, but imports have also been hard hit. What matters for overall UK output is net exports.

For years prior to the Brexit vote, the UK's real goods trade deficit with the EU increased, reaching over 5 per cent of gross domestic product and subtracting from growth. Since the Brexit vote, the real trade deficit with the EU has shrunk by 1 per cent of GDP, actually adding to growth.

Meanwhile, since 2020, the UK's real goods deficit with non-EU countries has risen, with export performance also miserable, which should puzzle Brexiters and Remainers alike. Both of these groups believe, though observing from different standpoints, that trade relations with Europe will transform the UK's economic prospects.

If only it were so simple. The UK's relative economic decline set in before EU membership, continued right through it and is set to stretch far into the future.

What ails Britain is deeply embedded in the domestic economy. The UK's miserable export performance is a symptom of a far more entrenched and troubling malaise, not the cause of it. Unless Britain and its government wakes up and makes far-reaching and radical reforms, the inexorable slide into mediocrity will continue.

The failure to appreciate that is the true disaster.

Paul Mortimer-Lee
Research Fellow, National Institute of Economic and Social Research (UK)
Purchase, NY, US

US is textbook case of how anchoring inflation works

Martin Wolf ("The future of interest rates is a riddle", Opinion, April 19) writes that "the inflation genie is now out of the bottle. Putting it back in will hurt."

This may have been true in the past but it no longer makes sense because the inflation process has become "anchored" to the targets of central banks. This means that inflation rates will probably fall of their own accord without the need for excess unemployment.

This does not mean that rates will fall instantly — with the degree of anchoring estimated by the econometricians, it may take several years to get close to the 2 per cent target. But, in a textbook example of how anchoring works, they have already fallen in the US despite a strong jobs market.

Central bank credibility is a lot like a good credit rating — worth achieving only if you put it to good use when needed, in this case precisely to avoid pain.

Thomas R Michl
Emeritus Professor of Economics
Colgate University, Hamilton, NY, US

Britain has role in ending Brazil's 'blood gold' trade

Your interview with Sônia Guajajara, Brazil's first ever indigenous affairs minister, rightly highlighted the Brazilian government's call for more support from foreign governments and industry in tackling illegal gold mining, including punishing the companies who buy this gold ("Brazil calls for international clampdown on illegal gold trade", Interview, April 17).

Cafod, an aid agency for the Roman Catholic Church in England and Wales that has worked with partners in Brazil for decades, recently published a report — Gold Mining in Yanomami Indigenous Territory — showing the destructive impact of the "blood gold" trade in Brazil on indigenous communities.

The Yanomami and Ye'kwana people shared their stories of devastation from disease, violence, displacement and even murder, all brought about by "wildcat" miners on their land. Forest the size of more than 7,000 football pitches has been destroyed by gold mining in the Yanomami Indigenous Territory between 2018 and 2022 alone.

The gold illegally mined on the back of this devastation is found around the world, with half of all Brazilian exports of gold estimated to be illegal.

The Brazilian government is taking steps to tackle this issue, but for lasting change, the demand side of this devastating trade must be tackled.

The UK is among the three biggest importers of gold from Brazil; London is a global centre for gold trading. It's in products we use every day, from jewellery to electronics. This means it's very much a problem we have a responsibility to tackle.

The UK government must take immediate steps to stop the trade in Brazilian blood gold by tightening regulation of the gold supply chain and strengthening traceability requirements for gold imports, so that people can make informed and responsible choices, otherwise this lethal trade will continue.

The future of indigenous peoples and the Amazon rainforest in Brazil depends on it.

Christine Allen
Director, Catholic Agency for Overseas Development (Cafod), London SE1, UK

If headhunters can do it, why can't the Pentagon?

In "Pentagon investigates how a low-level recruit was given access to top secrets" (Report, April 20), your article about the leak of confidential documents by Jack Teixeira, you put the focus on why a low-level staff member had access to highly classified documents. In my opinion this is the wrong question; even classified documents need to be accessed by some people, and one can never be absolutely sure of people's integrity, regardless of seniority.

The real question is how Teixeira was able to leak the information. Simple security measures can prevent printing, copying, emailing or any other ways of transferring documents, and even taking screenshots. This leaves taking a photograph of the screen the only way of copying information, which of course can be prevented by not permitting phones or cameras in the rooms where such information is accessible.

I know headhunters — a business surely less critical than the US Army — that use all these measures to protect their candidate databases from being copied by staff who move to competitors. And such measures are pretty much unbreakable without the right administrative access.

Jem Eskenazi
London N3, UK

Why France's president may yet be proved right

However unpopular Emmanuel Macron is at the moment, history may prove him right ("Macron at odds with the world", The Big Read, April 15).

To use a word the French president used in his controversial remarks about Sino-US-EU relations, Europe today does appear to be a "vassal" of America's in its reliance on the US to supply the bulk of the military aid to Ukraine, as it seeks to repel Russia's invasion.

We should never forget that France did not enter into the Iraq war. The French were right then and Macron may be right now.

American influence is only working to extend and escalate the Ukraine conflict.

Meanwhile, there is a feeling America's confrontational stance with China has much to do with its loss of global influence.

However bold or threatening the statements made by the US or the EU, a war with China over Taiwan is not one the west can win. It's a war no one should imagine sending young men to die for.

Macron makes unpopular decisions and says things weak leaders are afraid to say. He may be isolated, but history may prove he was not wrong.

Joan Hopkins
Montreal, QC, Canada

De Gaulle was flawed titan who embodied grandeur

Alan Beattie is right ("The perils of Emmanuel Macron's strategic assertiveness", Trade Secrets, FT.com, April 13), French president Emmanuel Macron's emphasis on strategic autonomy is not good.

Indeed, in his speech at The Hague, Macron appeared to channel Charles de Gaulle's insistence that France should create a third force in world affairs. Sadly, the comparison ends there.

In De Gaulle, allies saw a decorated war hero, wounded at Verdun, who rejected amnesty with Nazi Germany and, through his leadership of Free France, preserved his nation's honour and integrity.

De Gaulle wrote the constitution of the Fifth Republic, made France the world's fourth nuclear power and opposed the development of a supranational Europe.

Macron is a former investment banker facing turmoil on the streets of France and the collapse of his pension reforms who imagines the EU as a potential superpower.

De Gaulle was a flawed titan who embodied *grandeur*.

Macron is an unproven president using foreign policy to distract from his domestic difficulties.

Professor Tim Luckhurst
Principal, South College
Durham University
Durham, County Durham, UK

If we could only recreate the Open University spirit

Minouche Shafik, president and vice-chancellor of the London School of Economics, is right — there are precedents for what works ("How to fix the UK's higher and further education finance system", Opinion, April 9). However, she fails to recognise that tertiary education needs increasingly to be life-long.

Passing reference is made to the life-long loan entitlement, without pointing out that while other countries invest in life-long learning opportunities, in the UK this entitlement is about taking on loans and getting into debt — hardly an incentive. The loan terms are said to be good, but what if the terms change? The UK government has form. And these "entitlement" proposals lack the necessary advice and support for learners.

There are precedents in terms of the scale of the problem, and its solution. The Ministry for Reconstruction's 1919 report on adult education argued that what today we call life-long learning is a "permanent national necessity", which must be funded.

This was because of the great social issues that required national debate — the need for an educated electorate, new industries and technologies on the horizon and the need for a workforce with the capabilities to deal with those new technologies as they emerged.

That report called on universities to provide life-long learning, and all responded, culminating in the world leading Open University in the late 1960s.

Since then, regression — particularly since 2010 with austerity and the rise in fees which the universities minister David Willetts acknowledges had a particularly detrimental effect on life-long learning.

There have been several reviews over the past few years, with strong calls for investment to be restored to life-long learning, with a life-long entitlement to education rather than just loans.

But that consensus needs to be acted upon.

Professor Jonathan Michie
President, Kellogg College
University of Oxford, UK

The satirical headline that greeted Obama's election

Reading Stephen Bush's reflections ("We cannot 'unsee' race, but we can view it in context", Opinion, April 18) on the significance of Rishi Sunak, "the UK's first British-Indian prime minister" and Scotland's first minister, Humza Yousaf, "the first Muslim politician to become a national leader in western Europe", I was reminded of the headline on a piece in The Onion, a once-brilliant satirical newspaper, which celebrated Barack Obama's 2008 victory with the words: "Black Man Given Nation's Worst Job".

Peter Overholser
McKinleyville, CA, US

Opinion

Keeping ultra-intelligent machines docile is the challenge of our age

TECHNOLOGY

John Thornhill

The British mathematician IJ Good was among the first to speculate about what would happen when computers outsmarted humans. One day, he wrote, we would build an ultra-intelligent machine that could design an even more intelligent machine by itself, triggering an "intelligence explosion". "Thus the first ultra-intelligent machine is the *last* invention that man need ever make, provided that the machine is docile enough to tell us how to keep it under control."

Good's speculations seemed fantastical when they appeared in 1964. They do not seem so fantastical today. Recent advances in artificial intelligence, highlighted by powerful generative AI models such as OpenAI's GPT-4 and Google's Bard, have dazzled millions. We may still be a few conceptual breakthroughs away from the creation of Good's ultra-intelligent machines, the founder of one leading AI company tells me. But it is no longer "absolutely crazy" to believe that we might achieve artificial general intelligence, as it is called, by 2030.

The companies developing AI technology rightly highlight its potential to raise economic productivity, enhance human creativity and open up exciting new avenues for scientific research. But they also accept that generative AI models have serious flaws. "The downside is, at some point, that humanity loses control of the technology it's developing," Sundar Pichai, Google's chief executive, bluntly told CBS News.

More than 27,000 people, including several leading AI researchers, have signed an open letter from the Future of Life Institute calling for a six-month moratorium on developing leading-edge models. Others have gone further in calling for all research into AGI to be shut down. Eliezer Yudkowsky, research lead at the Machine Intelligence Research Institute, has argued that, if nothing changes, the most likely result of building "superhumanly smart AI" is that "literally everyone on Earth will die". We should strictly monitor the use of the advanced computer chips used for AI and even consider air strikes against rogue data centres that flouted a ban, he wrote in Time.

Such hyperventilating talk incenses some other researchers, who argue that

> Every regulator should consider how AI might affect their field, and enforce existing rules

AGI may forever remain a fantasy and discussion of it only obscures the technology's here-and-now harms. For years, researchers such as Timnit Gebru, Margaret Mitchell, Angelina McMillan-Major and Emily Bender have been warning that powerful machine-learning models risk further concentrating corporate power, exacerbating societal inequalities and polluting public information. It is dangerous to distract ourselves with "a fantasised AI-enabled utopia or apocalypse", they claim. "Instead, we should focus on the very real and very present exploitative practices of the companies claiming to build them," they wrote in response to the FLI's letter.

One can only pity the policymaker trying to respond to these clashing concerns. How should they prioritise their regulatory efforts? The short answer is they need to take both sets of concerns seriously, differentiating between the immediate and longer-term risks.

It is certainly not helpful, as John Tasioulas, director of the Institute for Ethics in AI at Oxford university, observes, that the AI safety crowd and the AI ethics crowd, as he calls them, appear to be "engaged in internecine warfare". But he suggests they are mostly arguing about different things. The safety crowd tends to see the source of the problem as the technology itself, demanding a technical solution. The ethics crowd argue AI must be viewed in a broader social and economic context.

On the immediate challenges, every regulator should be considering how AI might affect their field, enforce existing human rights, privacy, data and competition rules and consider how they might be updated. On the longer-term, we should be debating more radical approaches.

In a recent article, investor Ian Hogarth urged legislators to grill the leaders of the AI research labs under oath about safety risks. He also called for the creation of a collaborative international agency, modelled on the Cern particle physics laboratory, to research AGI. This would nullify the dangerous dynamics of a private-sector race to develop the technology.

It is a smart idea, even if it is hard to imagine how such an international agency could be rapidly created. It is madness to believe that profit-driven private companies alone will safeguard society's interests when pursuing the possibility, however remote, of AGI. Keeping machines docile enough for humans to control, as Good hoped for, will be the governance challenge of our age.

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Wake up to the danger of digital bank runs

Efi Chalikopoulou

FINANCE

Gillian Tett

Last month, just after Silicon Valley Bank collapsed, a team of American economists embarked on the daunting task of crunching 5.4mn tweets.

The reason? When SVB failed it was dubbed the world's first "Twitter-fuelled bank run" by Patrick McHenry, House Financial Services Committee chair. So, the economists — Anthony Cookson, Corbin Fox, Javier Gil-Bazo, Juan Imbet and Christoph Schiller — wanted to test if this was true, or not.

The results are striking: after perusing all tweets mentioning bank stocks since 2020, they conclude that "social media exposure led to bank run risk rather than simply reflecting it".

More specifically, "at the hourly frequency, we show that negative returns [for banks' share prices] emerge after periods of intense Twitter conversation," they added. They also noted that "banks with a large pre-existing exposure to social media performed much worse during the recent SVB bank run," since the granular pattern of tweets suggests that "investor conversations spilled over into depositor conversations".

In other words, and to borrow a distinction made by financial sociologist Donald MacKenzie, social media is not merely a "camera" of events, but an "engine" driving them as well when combined with 24-7 mobile banking. Hence why some $42bn (or almost a quarter of all deposits) left SVB in a few hours on March 9 — and another $100bn was poised to flee on March 10, before the bank was shut down.

So what should regulators and investors do?

Some might think (or hope) that SVB was an anomaly. After all, what made it so vulnerable was not just its mismanagement of interest rate bets, but the concentrated — uninsured — nature of its depositor base. And as the economists' study shows, many depositors congregated online in a tribal echo chamber, fuelling feedback loops.

But while SVB was an extreme case, it also revealed a bigger pattern: neither banks nor governments are prepared to deal with a social media-infused world that operates at warp speed.

One problem exposed in March, for example, was that the Federal Reserve's discount window, which is where troubled banks can get liquidity in a crunch, closes at 7pm Eastern time, even though social media and mobile banking operates 24-7. Another was that the staff of the Federal Deposit Insurance Corporation have hitherto assumed that they will have enough warning before a bank collapses to scrutinise its books, prior to a sale. Not so at SVB.

A third problem is that the Basel III regulatory framework only asks banks to hold enough liquidity to protect themselves from a scenario in which they lose 5 per cent of their deposits each day, for 30 days, or a quarter of their deposits; SVB lost that in a few hours.

Then there is a more generic issue: information moves so fast in cyber space that it is hard to detect what is accurate and what is not. And while this leaves some beleaguered bankers eager to muzzle social media, this seems almost impossible to do right now — particularly given that the owner of Twitter, Elon Musk, is a self-described "free speech absolutist."

So is there anything that governments can actually do? We should hear some answers when the Fed releases its own report into SVB on May 1. But even

> Governments and lenders are not ready to deal with a social media-infused world operating at warp speed

before this, there are some obvious steps that Washington (and others) should take. First, the Fed urgently needs to ensure that its discount window can operate 24-7.

Second, regulators must improve how they track signals of impending stress, not just in markets but on social media as well. The obvious way to do this in America is to give more resources and status to the Office of Financial Research, a monitoring entity created after the 2008 banking crisis that was subsequently (foolishly) undermined by the administration of Donald Trump.

Third, regulators should change their liquidity coverage rules to prepare for faster bank runs (although that would not necessarily have protected SVB). Fourth, banks should explore the idea of introducing measures to restrict the speed of deposit outflows in a crisis.

It would be a terrible idea to do this ad hoc during a crisis, since this could fuel contagion. But it might not be so crazy to stipulate that, in the future, when new accounts are opened that exceed the $250,000 threshold for FDIC insurance, these could be gated for a few days in a shock.

However, the unpalatable fact is that even if all of these steps are implemented, it might still not be enough to stop the contagion arising from social media panics. So the final move that needs to be made is for governments to recognise that the only truly effective option to quell a cyber panic in a hurry is to backstop the system themselves, by protecting depositors.

The SVB drama suggests that governments will indeed do this — if needed. But that raises two more big questions: if the only way to quell a Twitter panic is for governments to backstop depositors, does that mean banks must become utilities? And, most crucially, will governments also backstop non-banks such as money market funds if they fall prey to a Twitter run?

Right now the answers to these questions seem completely unclear. Maybe Musk should test the market mood in a new Twitter poll.

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Eye-popping executive pay rewards luck, not managerial wizardry

BUSINESS

John Plender

Thanks to last year's war-driven energy price hikes, recent performance related pay awards for chief executives in the oil sector have been beyond extraordinary. Profits have ballooned, causing boardroom pay to rocket.

Leading the field is ExxonMobil chief executive Darren Woods, whose $36mn pay last year was up 52 per cent from 2021. Then there is BP's chief executive Bernard Looney whose package more than doubled to £10mn last year. Not far behind: Shell's former chief executive Ben van Beurden who received total pay of £9.7mn, up 53 per cent from the year before — all in the first year of the cost of living crisis.

Big Oil would have us believe that these payouts are a just reward for managerial wizardry. But however talented (or otherwise) these CEOs may be, do not doubt that luck played a substantial part. And escalating inflation also causes random distortions because metrics used in performance-related pay are based on historic costs unadjusted for inflation. They do not reflect the escalating replacement cost of inventory, plant and machinery or the falling value of money.

The result is eye-popping inequality between the boardroom and the factory floor. According to a survey of 350 of the largest US quoted companies by the Economic Policy Institute, realised CEO pay, including proceeds from equity shares and stock options, rose 1,460 per cent from 1978 to 2021. This compares with 18 per cent growth in typical worker's pay over the same period.

The same survey shows that the CEO-to-worker pay gap rose from 20 times in 1965 to 399 in 2021. Awards in the UK are less elevated but spectacular nonetheless. A joint High Pay Centre and TUC survey estimates that median FTSE 100 CEO pay in 2021 was 109 times that of the median full time worker, up from 79 times in 2020 and 107 times in 2019.

This inequality is demoralising for workforces and fosters the impression more widely that a tiny elite is grabbing a disproportionate share of the spoils of capitalism — a recipe for ever-increasing populism in politics. How did it come to this? Seminal in the creation of the bonus culture in the US and UK was a 1970s paper by American economists

> CEO remuneration in the US rose 1,460 per cent from 1978-2021, compared with 18 per cent for workers

Michael Jensen and William Meckling. They highlighted the lack of management accountability arising from the separation of ownership and control in quoted companies.

The Jensen and Meckling solution to this principal-agent problem was to align managers' interests with those of shareholders (principals) by giving managers (agents) a significant equity stake. Yet the beguiling notion of alignment reflects an absurdly over-simplistic view of boardroom motivation and of the structure of the equity market.

Every chief executive has a personal balance sheet with different levels of indebtedness. This, along with their varying expectations about their likely tenure, has a profound impact on their risk appetite. CEOs' moral compasses, and thus their readiness to feather their nests at shareholders' expense, vary widely. None of this is disclosed, so ignorance prevails over the executives' interests that agency theorists wish to align with shareholder interests.

As for shareholders they have different time horizons and risk appetites. They are certainly not the residual risk takers of the capitalist system as agency theory posits. Institutional ownership means that bankruptcy risk is diversified across huge portfolios. Yet managers' risk cannot be so easily diversified.

Equally problematic is that performance related pay metrics are flawed. Those in which the share price is a key driver rarely distinguish between company specific share performance and the movement of the overall market. Those that rely on earnings per share can be easily manipulated, notably through share buybacks which boost earnings per share while weakening balance sheets.

That helps explain why the value of big oil companies' buybacks and dividend payouts now vastly exceeds their investment in renewables. And as the British economist Andrew Smithers has convincingly shown, the bonus culture largely explains the decline in investment in the US and UK along with low productivity growth.

In a sane world CEO pay would be primarily in cash with equity used only for truly exceptional performance. Smithers argues for a more investment friendly tax system and for bonuses to be conditional on improved productivity. But this will not happen because CEOs love rewards for luck and have lobbying power. The astonishing failure of corporate governance and investor stewardship over executive pay will not be remedied any time soon.

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A Nato bank is the best way to fund defence in uncertain times

Robert Murray

Nearly a decade since Russia's invasion of Crimea prompted Nato allies to reaffirm their commitment to defence spending, progress remains lacklustre. Since their meeting in Newport, Wales, only seven of the current 31 members have so far achieved the target — a minimum defence investment of 2 per cent of gross domestic product. At this sluggish pace, we might reach the objective by 2073.

Russia's invasion of Ukraine, its disinformation campaigns and cyber attacks require far more urgent action. Meanwhile, China's Belt and Road Initiative and its ambitions to mould the security order have left Nato allies increasingly vulnerable. Despite these threats, the politics of boosting defence coffers seem intractable. While alliance members agree on the 2 per cent policy goal, voters in Europe are steadfast in prioritising domestic spending.

Defence spending is primarily a political problem, not an economic one. Nato's current strategy of pleading and arm-twisting allies to spend more is painfully inadequate. However, there is a better way: by creating an Allied Multilateral Lending Institution — in other words, a Nato Bank. Properly capitalised, this could be a game-changer.

The bank would save nations millions on essential equipment purchases and offer tantalisingly low interest rates on loans to alliance members, breaking the investment deadlock. It could also introduce a new line of financing with longer repayment timeframes than those enabled by standard government

> The moment for cajoling and coercing countries to spend more has long passed

borrowing. This would actively encourage strategic investments rather than those limited by short-term domestic tax and spend policies.

Four years ago, while in Nato's defence investment team, I worked with officials and investment bank experts to devise a feasible model. We proposed that the bank could generate additional resources through interest earned on paid-in subscription capital, funding not only Nato but also spin-off projects such as a defence technology venture capital fund. We modelled the bank's balance sheet at about $300bn, based on the gulf between existing spending and the 2 per cent target.

When we floated the idea in 2019, it piqued interest among some allies and the secretary-general's office. However, it also sparked political opposition due to concerns about collective debt and the belief that low interest rates made it unnecessary. Since then, the European Commission has raised collective debt for its post-Covid recovery funds, and inflation has boomed.

Given the onset of a new war in Europe, the bank makes more sense than ever. Capitalised by allies, it would offer lower rates for defence investment and allow for long-term stable financing. It would almost certainly attain a triple A credit status, benefiting the approximately three-quarters of Nato members that fall below this rating. Existing triple A nations would gain increased orders to their domestic defence industries. This would stimulate new markets for defence technologies, promoting innovation and competitiveness. The first step — an agreement on structure and operations — requires concerted political negotiations at the highest levels supported by national security and finance ministry professionals. The implementation process would involve drafting and ratifying a legal framework, including articles of agreement, to establish the bank's governance and functionality.

In an era of rising geopolitical tension and global uncertainty, Nato allies must confront the reality that military deterrence requires innovation. The time for halfhearted cajoling and coercion has long passed. As presidents and prime ministers prepare for this summer's Nato summit in Vilnius, the bank proposal should be on the agenda. Our collective security and the stability of the world order depend on it.

The writer is a senior lecturer on strategy and leadership at Johns Hopkins University and was head of innovation at Nato

Lex.

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Blackstone: taking credit

Blackstone may already be your landlord. It would like to be your loan officer next. Yesterday, the world's largest alternative assets manager, best-known for its real estate business, reported first-quarter results.

Profits were as desultory as expected amid depressed public and private market valuations. Overall assets under management grew by less than $20bn in the first three months of the year, leaving Blackstone just shy of the mythic $1tn mark. Cash earnings fell 37 per cent year on year. It slashed the quarterly dividend by roughly the same amount.

Firms are trying to deploy cash fast to take advantage of bargains. Blackstone brass assured the market that its vast property portfolio has little exposure to empty office towers. Intriguingly, they later described the turmoil in the regional banking industry as a "golden moment".

Private credit — lending that comes from dedicated funds rather than banks — poses a key opportunity. Regional financial institutions are watching deposits flee. Blackstone's credit group already manages nearly $300bn. It thinks it can expand.

Blackstone noted that regional banks were important intermediaries for autos, home improvement and equipment, and potential sources of funds. Capital could come from life insurers and other institutions willing to shift allocations away from public to private fixed income products.

The group also emphasised that it merely manages third-party insurance assets, and is itself an insurer. This is an attempt to draw a sharp contrast with rivals Apollo and KKR.

Both Wall Street and Washington now ponder whether banks that take deposits are really the best allocators of capital given the inherent mismatch between long-term assets and short-term liabilities. Blackstone and firms like it may be eager to get into credit intermediation, but their higher cost of capital requirements would have implications for economic growth.

Regardless, the era of the nearly free bank deposit may be over. This seismic change creates enormous credit opportunities for fund-based groups — money markets, mutual funds and private capital general partnerships.

As Blackstone crosses the $1tn AUM threshold and charges straight towards $2tn it will be judged less on its fundraising prowess and more on how it finds opportunities for excess return.

Drones: flying too high

Black-market drones have been used in military attacks for years. Drones have been heavily used in the Ukraine war too, prompting speculation that China was involved.

The government has regularly refuted reports that Chinese drones have been provided to Russia. Beijing says it has strict control of drone exports to prevent them from being used in conflicts and vowed to strengthen export controls for drones.

China's civilian models dominate. The world's biggest drone-maker DJI — also known as Da Jiang Innovations — accounts for about 70 per cent of the global market. When combined with local peers such as Guangzhou EHang Intelligent Technology and Avic Xi'an Aircraft Industry Group that share goes up to well above 80 per cent.

So it is not surprising that DJI has been one of many companies that has found its products used in the war in Ukraine. These are controlled using modified drone firmware from a vast black market. One of the most popular seems to be the Mavic 3, DJI's $1,500 flagship camera drone, along with its drone-detection platform. DJI has said its drones are for civilian use, and do not meet military specifications.

Demand for drones, which are already used widely for filmmaking, firefighting, and deliveries, is growing rapidly. The global commercial drone market should double to about $60bn in the next three years.

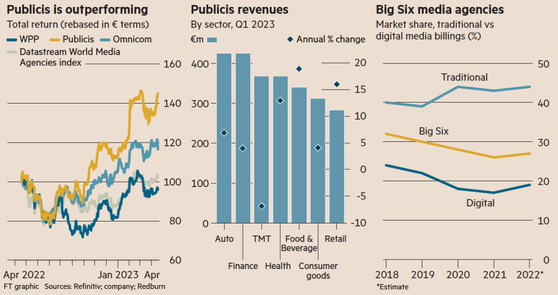
The Nasdaq-listed shares of Guangzhou EHang have tripled in the past six months. Its market value remains small at $649mn. Despite US efforts to blacklist the company, DJI's private valuation is estimated to have surpassed the $15bn mark five years ago during a funding round then.

As the list of US and European sanctions on Russia grows, the latter has become increasingly dependent on Chinese technologies and companies.

But when it comes to civilian drones, that reliance is just as big for the rest of the world. In the current environment that looks unsustainable.

Publicis: call my agency

Publicis's share price has outrun those of Britain's WPP and US rival Omnicom over the past year. The French media group had a stronger-than-expected start to the year. After a period in which traditional agencies lost market share to digital disrupters, traditional business has returned to growth.



FT graphic Sources: Refinitiv; company; Redburn

*Estimate

Advertising agencies should be having a miserable time. Structurally, the shift to digital ads — via the likes of Google — has weighed on top-line growth. Cyclically, the agencies should feel the chill early from an expected recession.

An update from French media giant Publicis provided a cheerier jingle. Organic revenue growth in the first quarter was a consensus-beating 7.1 per cent. Full-year sales should touch the top end of its guidance of between 3 and 5 per cent growth.

Operating margins for this year should come in at 17.5-18 per cent — broadly in line with last year's peak performance. That beats the mid-teens the group was achieving prior to the digital disruption. These numbers suggest that Publicis has sorted out its business model — at least until AI-generated ads take off.

It is no longer cut out of fees by clients flocking to advertise directly on digital platforms.

Its bet on technology has helped, but it has taken time. In 2014 it bought Sapient, which provides Accenture-like IT consultancy services, and five years later Epsilon, a data business.

These now contribute a third of revenues, growing at a double-digit pace, and enable Publicis to push back against aforementioned structural headwinds.

That has enabled Publicis to leapfrog UK rival WPP in terms of market capitalisation. It is now worth more than €19bn — two-thirds more than its UK peer. The French group's share price has outrun those of WPP and US rival Omnicom over the past year.

Publicis hopes that revenues from data-driven businesses are less cyclical. That matters because ad agencies do only as well as their clients' marketing budgets.

So far, these are proving remarkably resilient. Witness L'Oréal, which posted like-for-like sales growth of 13 per cent for the first quarter without margin erosion.

The French agency appears to have found a business model that works.

Barclays estimates that this should enable it to achieve 8-9 per cent EPS growth — not a bad advertisement for a stock that's trading on less than 12 times forward earnings.

Melrose/Dowlais: auto maths

Listed buyout group Melrose is no stranger to engineering. Recently its has dabbled in the financial kind. Its plans formally to split into automotive and aerospace businesses snapped into place yesterday.

Trading in the shares of its new automotive component pure play Dowlais put its market value at £1.6bn.

Together with the remaining Melrose aerospace unit, the combined value of the two rose 5 per cent on the day. Its decision to spin off Dowlais was a change of direction.

Melrose has yet to employ a spin-off method. Previous targets of its "buy, improve, sell" strategy have usually ended up as trade sales.

Dowlais is well placed for the sector's biggest overhang — the accelerating shift to electric-vehicle manufacturing. The company specialises in drivetrains, the part of the car that gets power to the wheels. These are just as necessary in EVs as combustion-engine vehicles.

With public automotive parts valuations near decade lows, Melrose felt that its typical exit method last year would have been costly. A rally in the sector should offer an opportunity for Dowlais to close the discount in its shares. Already, the European car-parts sector earnings valuation has increased by about a fifth since last summer.

Dowlais thinks operating margins of 10 per cent are possible if car unit sales return to 2019 levels. This should happen in 2025, thinks S&P. On those expectations the current enterprise value of £3bn is 5.5 times the 2025 estimated ebit. Dowlais then looks decent value. France's Faurecia and Spain's Gestamp trade on 6.2 times and 6.3 times their 2025 ebit estimates, respectively.

Meanwhile, Melrose itself, having spun out its lowly rated automotive unit, has some scope to bolster its 11 times 2025 ebit multiple to closer to the 12-13 times of pure aerospace peers. An atypical deal engineered by Melrose should provide a decent return for its shareholders.

US regional banks: funding frosts

For US regional banks, surviving the turmoil that followed in the wake of Silicon Valley Bank's collapse may be the easy bit. The hard part is charting a path to sustained profit growth in the midst of rising funding costs, cracks in the commercial real estate market and possible tougher regulatory oversight.

First-quarter earnings released by a range of US regionals have been better than feared. Most reported lower deposit levels as customers rushed to "too big to fail" institutions and money market funds. But the pace of the outflow — which ranged from 1-11 per cent — was well below that which recently felled SVB and Signature Bank.

Among the 12 banks that have reported earnings, the bulk delivered year-on-year growth in quarterly net income. Western Alliance was the notable outlier, with a 40 per cent fall.

Net interest margins have probably peaked. Banks will face tougher comparatives in the coming quarters as the pace of tightening slows.

The fight for deposits will also intensify. Deposit beta, or the share of Fed rate rises that banks pass along to depositors, will rise. Expect even higher funding costs from banks like Zions, which tap more expensive short term borrowings from the Federal Home Loan Banks system.

Repricing of loans will not help much. Yes, there is plenty of demand from the commercial real estate market. Of the $4.4tn in outstanding CRE loans, some $730bn, or 16 per cent, are set to mature in 2023.

But concerns about deteriorating credit quality, as reflected in higher provisions from some regionals this quarter, suggest that banks might think twice about lending more.

The largest banks, those with assets of $250bn and above, and the smallest community banks with assets of $10bn and below, look best placed. The former benefit from their size and scale and the latter from the loyalty of local customers. The banks left in the middle must monitor their customers' credit health more carefully than ever.

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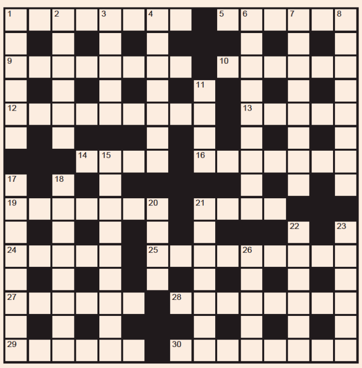
CROSSWORD

No 17,393 Set by MUDD



ACROSS

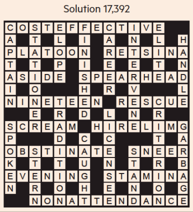
1 Primate in rage performing strip (5,3)
5 A piece of timber on ship (6)
9 Oil processor with crude in ferry bearing east (8)
10 Only half of limb covered by short dress — that's playful (6)
12 A cloister built from various parts (9)
13 What's regularly found in eclair? The cream! (5)
14 Colours in flower (4)
16 Flat hat I designed, Asian fare (3,4)
19 Complex procedure in familiar state (7)
21 Heart stolen by sceptic, or evangelist (4)
24 Fowl gangster doesn't finish off (5)
25 Plug user upset with leakage ultimately — might this solution help? (9)
27 Language always incredibly coarse initially, around left-leaning pub (6)
28 Beer bottles with top name (8)
29 More apprehensive, I agreed, having knocked out a drunk (6)
30 Easily heard, factory safeguarding information (8)

DOWN

1 Loud snatch of Elgar is heavenly (6)
2 Result extra flukey, Fulham enjoying cup triumph, first of all (6)
3 Zest and love in Argentinian performance (5)
4 Average leader entering space (7)
6 Server finding purpose in trade (9)
7 Without error? Fair enough (3,5)
8 Model pierced, bust finally falling to pieces (8)
11 Toss — lose it (4)
15 Eastern Mediterranean column, inside which very neat cracks (9)
17 Present style of movement welcomed by scholar (5-3)
18 Exactly two strikes (8)
20 Lovely bloom came up (4)
21 Male for example, excellent (7)
22 Niche where chicks originally protected by a duck (6)
23 Leave fragment: finish off parts (4,2)
26 Encounter wreck crossing bottom of ocean (3-2)*

JOTTER PAD

Solution 17,392



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