FINANCIAL TIMES

FRIDAY 29 JULY 2016 | WORLD BUSINESS NEWSPAPER | EUROPE

Elites and Mrs May
The new PM's fight for fairer capitalism — PHILIP STEPHENS, PAGE 9

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The struggle facing Germany's biggest bank — BIG READ, PAGE 7

Facebook friends
Why investors keep signing up
COMPANIES, PAGE 15

Ellison scoops $3.5bn from Oracle deal

Larry Ellison, chairman of Oracle, has added $3.5bn to one of the tech industry's biggest fortunes, with the purchase by his company of NetSuite, where he is also the biggest single investor.

Mr Ellison's foresight 18 years ago in helping to found NetSuite has left him well placed now Oracle is adding to its own firepower in cloud computing.

One of the world's richest men thanks to his $48bn Oracle stake, he is estimated to have spent $100m in a successful high-tech bid to win back for the US the sailing world's top prize, the America's Cup, in 2013 — barely a fifth of the amount he made yesterday morning as NetSuite's shares jumped on the news.

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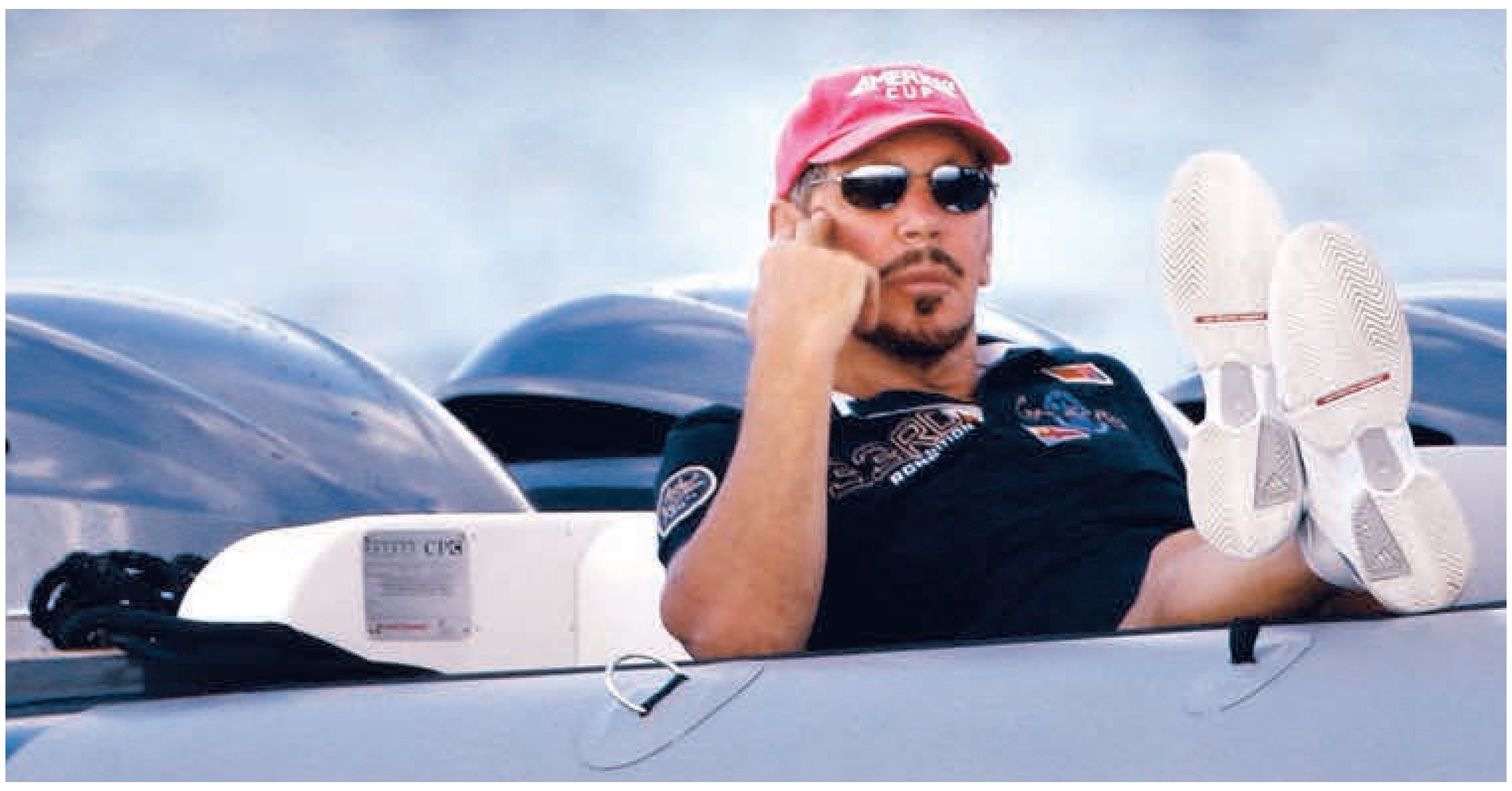
Lex page 10



Larry Ellison watches an America's Cup training race off Bermuda in 2015 — Mike Segar/Reuters

IMF accused of bowing to Brussels pressure in eurozone debt crisis

- Internal review finds commission influenced staff
- Lagarde rejects 'premise' of report

ARTHUR BEESLEY — LONDON

The IMF repeatedly succumbed to political pressure from European governments during the eurozone debt crisis, according to a damning internal report on bailout strategy that will fuel debate over whether it should continue to fund Greece.

The Independent Evaluation Office highlighted a litany of flaws in the IMF's "uneven" response, prompting calls for greater clarity over its rescue strategy.

The assessment also raises fresh questions over the failure to restructure Greek debt at the time of its first bailout in 2010. The report, released yesterday, said key decisions had already been reached in Europe by the time the fund became involved in the rescue effort.

Christine Lagarde, the IMF's managing director since 2011, backed some of the recommendations for improving internal procedures but dismissed calls from the inspectors to fortify the fund's defences against political interference.

"I support the principle that the IMF's technical analysis should remain independent," she said. "However, I do not accept the premise of the recommendation, which the IEO failed to establish in its report, and thus do not see the need to develop new procedures."

The fund's involvement in eurozone programmes had been a "qualified success" in the face of unprecedented systemic challenge, Ms Lagarde said.

Nonetheless, the report is likely to fuel suspicions of some emerging market IMF shareholders and some of its staff that it repeatedly bent its own rules to help out the eurozone.

"It highlights the concerns of many, both inside and outside the fund, that the fund's treatment of developing and emerging market economies is quite different from its treatment of advanced economies," said Eswar Prasad, economics professor at Cornell University. "Political factors seemed to play a bigger role than pure technical considerations [for] advanced economies."

> 'Political factors seemed to play a bigger role . . . [for] advanced economies'

The inspectors said the troika arrangement — in which the IMF worked alongside the European Commission and European Central Bank — potentially subjected the technical judgment of IMF staff "to political pressure" from an early stage. "The European Commission, in the area of emergency crisis lending, acted as the agent of the eurogroup, which in turn represented member states and decided whether to provide assistance.

"Interviews and some internal documents suggest that political feasibility in creditor countries was an important consideration for [European Commission] staff and that IMF staff occasionally felt pressured to accept a less-than-ideal outcome."

The inspectors said the IMF executive board was in the dark on sensitive policy questions for Greece and for Ireland, which also received a bailout in 2010. Some members had learnt more via the press throughout the crisis than from informal board meetings.

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Editorial Comment page 8

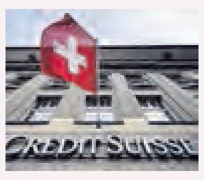
Briefing

▸ France media torn over terror reporting
The decision by French news organisations to withhold information on perpetrators of terrorist attacks has sparked a debate in France over the role of media in fuelling homegrown jihadism. — PAGE 4

▸ EU bank stress test results awaited
It is not just Europe's bankers who are nervously awaiting the publication tonight of the "stress tests" on the biggest lenders — the results could make life uncomfortable for eurozone policymakers. — PAGE 3

▸ Merkel rejects migrant policy rethink
Angela Merkel, Germany's chancellor, said she would not budge on her refugee policy, despite terrorist attacks in Würzburg and Ansbach that have sparked calls for a U-turn. — PAGE 4

▸ Credit Suisse returns to profit
Swiss lender has brushed off investors' negative expectations, reporting a return to profit in the second quarter despite the tumult of Brexit, low interest rates and volatile markets. — PAGE 12



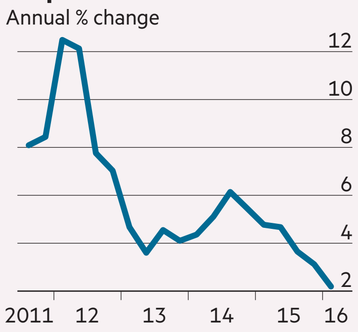
▸ Adidas profits at the double
German sportswear group Adidas raised its profit forecast for the fourth time this year after doubling profits in the second quarter to €291m, from €146m in the same period a year earlier. — PAGE 11

▸ Turkey purge ensnares stock analysts
After targeting tens of thousands of soldiers, bureaucrats and educators, Turkish President Recep Tayyip Erdogan's purge after a failed coup has now focused on stock analysts. — PAGE 2

▸ Russia urges US not to vote for Clinton
Maria Katasonova, a 21-year-old prospective candidate for Russia's Duma, began her campaign by urging the US to vote for Donald Trump. — PAGE 2

Datawatch

US private fixed investments
Annual % change



Source: Thomson Reuters Datastream

The Federal Reserve is more optimistic about the US labour market but warned 'business fixed investment has been soft'. Annual growth slowed from more than 12 per cent in 2012 to 2 per cent in the first quarter this year.

Trump's Russia faux pas helps Clinton woo insiders

Analysis ▸ PAGE 2

Chairman Mao relative builds stake in Sotheby's as China's focus on art grows

CHRISTIAN SHEPHERD — BEIJING

A Chinese life assurer headed by a relative of Mao Zedong has become the largest single shareholder in Sotheby's, taking a 13.5 per cent stake in the auction house.

Taikang Life, one of China's largest insurance groups with net assets of Rmb33bn ($5bn), revealed yesterday that it had paid $230m for 8m shares in the New York-based auction house. The shares were purchased on the open market during June and July.

Chen Dongsheng, who founded and runs the life assurer, is a grandson-in-law of Mao and the largest shareholder of China Guardian Auctions, a leading art auction house.

Several world-famous works have been sold to Chinese art buyers recently, the most high-profile of which was the sale of Modigliani's "Reclining Nude" to Liu Yiqian, a private collector, in November for $170.4m. It was the second-highest price for a work sold at auction to date.

China's insurers have a similar appetite for overseas acquisitions. Anbang Insurance became a global name in 2014 with the $2bn purchase of the Waldorf Astoria hotel in New York. In March its $14bn bid for Starwood Hotels & Resorts stalled following speculation about regulatory challenges.

Between January and June Chinese companies agreed to $121.1bn in cross-border deals, according to data from Thomson Reuters, more than the record for a full year set in 2015.

Taikang said a "positive view" of Sotheby's business was the primary reason for the purchase in a filing with the US Securities and Exchange Commission. It had "provided suggestions" for board nominations at the auction house, it said, noting that "such nomination could include persons associated with [Taikang Life]".

Tad Smith, Sotheby's president, said the group "warmly welcomed" Taikang's support of its "strategic initiatives".

Mr Chen's fame comes not just from Taikang and his wife's ancestry, but also from his prominence as an art dealer and aesthete.

In 1999 he founded the first government-run auction house to specialise in Chinese art and antiques.

Sales of Chinese ceramics and paintings have buoyed Sotheby's revenues in Asia. Last week the auction house reported 22 per cent year-on-year growth to $461.5m for the region during the first six months of the year.

Austria	€3.60	Luxembourg	€3.60
Bahrain	Din1.7	Macedonia	Den220
Belgium	€3.60	Malta	€3.50
Bulgaria	Lev7.50	Morocco	Dh43
Croatia	Kn27.50	Netherlands	€3.60
Cyprus	€3.50	Norway	NKr35
Czech Rep	Kc100	Oman	OR1.50
Denmark	DKr32	Pakistan	Rupee 280
Egypt	E£20	Poland	Zl 18
Finland	€4.10	Portugal	€3.50
France	€3.60	Qatar	QR15
Germany	€3.60	Romania	Ron17
Gibraltar	£2.70	Russia	€5.00
Greece	€3.50	Serbia	NewD420
Hungary	Ft1090	Slovak Rep	€3.60
India	Rup195	Slovenia	€3.50
Italy	€3.50	Spain	€3.50
Kazakhstan	US$5.50	Sweden	SKr37
Kenya	Kshs300	Switzerland	SFr5.90
Latvia	€6.99	Tunisia	Din7.50
Lebanon	LBP7500	Turkey	TL10
Lithuania	€4.30	UAE	Dh15.00

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World Markets

STOCK MARKETS

	Jul 28	prev	%chg
S&P 500	2163.71	2166.58	-0.13
Nasdaq Composite	5142.44	5139.81	0.05
Dow Jones Ind	18402.09	18472.17	-0.38
FTSEurofirst 300	1338.28	1351.75	-1.00
Euro Stoxx 50	2973.73	2999.48	-0.86
FTSE 100	6721.06	6750.43	-0.44
FTSE All-Share	3651.13	3663.95	-0.35
CAC 40	4420.58	4446.96	-0.59
Xetra Dax	10274.93	10319.55	-0.43
Nikkei	16476.84	16664.82	-1.13
Hang Seng	22174.34	22218.99	-0.20
FTSE All World $	272.32	272.61	-0.11

CURRENCIES

	Jul 28	prev		Jul 28	prev
$ per €	1.108	1.099	€ per $	0.902	0.910
$ per £	1.312	1.312	£ per $	0.762	0.763
£ per €	0.845	0.838	€ per £	1.184	1.193
¥ per $	104.835	105.650	¥ per €	116.194	116.104
¥ per £	137.581	138.556	£ index	79.588	79.595
€ index	88.557	88.343	$ index	101.546	101.244
SFr per €	1.088	1.092	SFr per £	1.288	1.303

COMMODITIES

	Jul 28	prev	%chg
Oil WTI $	41.10	41.92	-1.96
Oil Brent $	43.21	43.91	-1.59
Gold $	1341.75	1329.00	0.96

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.03	1.51	0.01
UK Gov 10 yr	106.39	0.84	-0.03
Ger Gov 10 yr	106.28	-0.15	0.00
Jpn Gov 10 yr	104.05	-0.29	0.00
US Gov 30 yr	105.79	2.23	0.02
Ger Gov 2 yr	103.17	-0.66	0.00
	price	prev	chg
Fed Funds Eff	0.38	0.37	0.01
US 3m Bills	0.31	0.31	0.00
Euro Libor 3m	-0.30	-0.30	0.00
UK 3m	0.51	0.51	0.00

Prices are latest for edition — Data provided by Morningstar

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INTERNATIONAL

Presidential race

Clinton woos foreign policy experts

Nominee attempts to drive wedge between Trump and elite after email outrage

GEOFF DYER — WASHINGTON

Trying to calm an uproar that is presenting a political gift to his opponent, Donald Trump said yesterday he was only joking when he appeared to encourage Russia to hack Hillary Clinton's emails.

The Republican candidate told Fox News that he was being "sarcastic" when he suggested on Wednesday that Russia should seek and hand over Mrs Clinton's emails from her private server that have been deleted.

With critics suggesting Mr Trump's comments bordered on the "treasonous", Mrs Clinton was planning to benefit from the simmering revolt among the foreign policy establishment about the Republican candidate for president — part of a longer push at the Democratic convention to drive a wedge between the Republican party and "Trumpism".

Over the past three months, the former secretary of state has been accumulating endorsements from Republicans who have held national security roles in previous administrations and who are dismayed at the positions and judgment of their own candidate. With the email comments prompting new scrutiny of Mr Trump's Russia connections, the Democrats hoped to drive the point home last night when John Allen, a retired four-star general and former commander of US forces in Afghanistan, was to be one of the warm-up acts for Mrs Clinton's convention speech.

On Wednesday, another retired military figure and former Republican, Rear Admiral John Hutson, told the convention: "Donald, you are not fit to polish John McCain's boots" — a reference to Mr Trump's questioning of the war hero status of the Republican senator.

The symbolic embrace of Mrs Clinton by large parts of the foreign policy establishment sets up one of the most intriguing dynamics of this year's presidential contest, where so many of the normal political rules have disappeared.

In previous cycles it might have been fatal for a candidate to be snubbed by those who have helped run US foreign policy in his or her party. However, in a campaign dominated by popular disdain for Washington and its ways, the Clinton campaign is gambling that elite endorsements will end up being a net benefit.

"One of the fundamental questions in this election is whether the signals being sent by the foreign policy establishment will persuade some educated, suburban Republicans to vote for Hillary. I simply do not know the answer," said William Galston, at the Brookings Institution.

He added: "Unless the American people are so desperate that they are willing to take a leap in the dark, then I suspect a patient and sustained effort to raise questions about Donald Trump's judgment will bear fruit."

Mr Trump's email remarks were only the latest occasion when the Republican candidate has espoused a worldview at odds with party orthodoxy or with the US-led liberal order promoted by much of the Washington elite. Last week, he questioned whether the US would help Nato allies attacked by Russia; a position Senate majority leader Mitch McConnell called a "rookie mistake".

He has called to tear up trade deals that were once bedrock Republican commitments and has sounded open to accommodating the interests of powers most Washington experts consider to be geopolitical rivals — Russia and China.

By contrast, Mrs Clinton proposes a vision of leadership that is mainstream in Washington but which Mr Trump, and many supporters of Bernie Sanders, Mrs Clinton's primary campaign rival, believe to be recklessly hawkish.

The insider revolt against Mr Trump erupted in March when more than 100 Republican former officials and foreign policy experts signed a letter criticising his "wildly inconsistent" swings between "isolationism and military adventurism" and pledging to work against him.

Retired US Navy Rear Admiral John Hutson speaks during the Democratic National Convention in Philadelphia on Wednesday. Below, President Barack Obama and Hillary Clinton wave to the crowd
John Locher/AP

Republican responses to Mr Trump have ranged from Robert Kagan, the neoconservative intellectual who wrote that "this is how fascism comes to America, not with jackboots and salutes but with a television huckster", to Brent Scowcroft, the former national security adviser who endorsed Mrs Clinton's "unique experiences and perspectives" but did not mention Mr Trump.

The latest establishment backing came yesterday from Michael Vickers, a former senior Pentagon official, who contrasted Mrs Clinton's "temperament, national security experience and strategic judgment" with Mr Trump's "limited grasp" of national security.

The Republican candidate has won over some party stalwarts including Dick Cheney, the former vice-president, and Donald Rumsfeld, the former defence secretary. One result of the elite backlash against the Republican candidate is that it is highly uncertain who would staff the national security jobs in a Trump administration. Most of the advisers he announced in March are unknown to former Republican officials.

The danger for the Clinton side is that it ties itself too closely to a foreign policy elite that is derided outside Washington.

Nationalist's stunt

Russia's letter to America urges voters to reject 'dangerous' Democrat

KATHRIN HILLE — MOSCOW

Maria Katasonova yesterday kicked off her campaign for a seat in Russia's Duma. But instead of addressing her own constituency, the 21-year-old nationalist published an open letter to the American people.

"You are about to choose the new US president and I hope that your choice will be correct," she wrote, adding that "voting for Hillary Clinton is wrong and dangerous."

Speaking to the Financial Times, Ms Katasonova said there was only one candidate who could end a foreign policy that had whipped up a new cold war and energised global terrorism: Donald Trump.

The young politician's stunt stands little chance of influencing the US election. Yet it could add to growing panic at the idea that Moscow is trying to involve itself in the race for the White House.

The release by WikiLeaks of embarrassing emails and call recordings from the Democratic National Committee on the eve of this week's party convention has raised suspicion among some US politicians and security analysts that getting Mr Trump elected is the latest project on the clandestine warfare agenda of Vladimir Putin, Russian president.

Russian political analysts dismissed the idea of Ms Katasonova being part of such a campaign as ridiculous. Still, her move illustrates the strange manner in which the US election is resonating in Russia.

Pro-Kremlin bloggers have been busy laying the blame for war, terrorism and regime change around the world on Mrs Clinton in her former role as secretary of state. State media have barely reported on the hacking attack against the DNC — for which many in the US blame Russia — but they have played up the resulting infighting of evidence of the US's dysfunctional democracy and Mrs Clinton's personal failings.

Clad in a T-shirt emblazoned with a photo of the Democratic candidate and the words "Crooked Hillary", Ms Katasonova, left, handed a copy of her letter to guards outside the US embassy in Moscow. "I want to show that Russia supports Trump!" she said. "Hillary means a dictatorship of strength, but Trump — that is somebody who is ready for compromise, ready to talk, ready to support a multipolar world."

Ms Katasonova is running for office on a ticket of the nationalist Rodina party.

"What she does in general and what she did today, of course, reflects to a certain extent the policy agenda of the Kremlin in its anti-liberal, anti-western drift," said Maria Lipman, an independent political analyst. "But the idea that this action is somehow backed by the Kremlin is far-fetched."

GLOBAL INSIGHT
WASHINGTON

Edward Luce

Obama transcends Philadelphia occasion to fight for his legacy

It was arguably the most fateful speech of Barack Obama's life. On previous occasions he may have been seeking office, leading a nation's mourning, accepting a Nobel Peace Prize, or pushing for a historic bill.

Never before, however, has everything he stood for teetered on the brink. It is arguable no such potential fate has hung over any outgoing president. Donald Trump would repeal Mr Obama's healthcare reform, scrap his nuclear deal with Iran, undo the progress that came from electing the country's first non-white president, abolish his Wall Street regulation, and appoint Supreme Court justices who would overturn equal gay rights — to name just a few. About the only thing Mr Trump would be unable to undo is the death of Osama bin Laden.

Mr Obama did not just rise to the occasion. He transcended it. Earlier speakers, including Michael Bloomberg, the former mayor of New York, eviscerated Mr Trump with relish. Mr Bloomberg pointed out that "the richest thing about Donald Trump is his hypocrisy". He said that Hillary Clinton understood that governing a nation was "not reality television. It is reality". The roasting was all the more devastating coming from a political independent and self-made man whose net worth is a multiple of Mr Trump's. Mr Bloomberg ended by urging Americans to vote for the "sane, competent" candidate — perhaps the first time a major public figure has questioned Mr Trump's sanity. Joe Biden, vice-president, poured scorn on Mr Trump's claim to understand the travails of blue-collar Americans. "This guy does not have a clue about the middle class," said Mr Biden.

Mr Trump earned his fair share of derision — particularly on a day when he traduced US national security concerns, and skirted the edges of US law, by calling on Russia to hack into his opponent's email account. For the most part, however, Mr Obama chose to talk up America's greatness rather than talk down the man who claimed he could win it back. As an appeal to American optimism it struck a blinding contrast to the hellscape Mr Trump sketched at his convention last week. But Mr Obama went much further than that. His larger purpose was to remind Americans, particularly younger ones, of the value of democracy. He did not do it via a standard apple-pie homage to America's verities but as a clarion call to how easily democracy could be degraded. "Democracy works," said Mr Obama, "but we've got to want it." Some people might dislike Mrs Clinton, or disagree with her on big issues. But they should understand that elections are about choices, he argued. Sometimes the choices can be fateful.

> Even by his own oratorical repertoire, his address was one of a kind

"What we heard in Cleveland last week was a deeply pessimistic vision of a country where we turn away from each other and turn away from the rest of the world," Mr Obama said. There has never been an endorsement like it. Mrs Clinton may be the most qualified person ever to run for the White House — "more than me, more than Bill", as Mr Obama claimed. But no White House nominee has ever been held up as the only thing standing between America and a demagogic strongman. Others have sought to unnerve voters by talking about what a Trump administration would mean. Mr Obama appealed to the better angels of America's nature.

Even by his own oratorical repertoire, Mr Obama's address was one of a kind. Twelve years after he shot to prominence with an electrifying address that sought to transcend America's "red state, blue state" divide, a greying Mr Obama found himself making the same case all over again. On this occasion the stakes were dramatically higher — and America's divide considerably worse. This time he spoke with the urgent poignancy of experience. "Our power doesn't come from some self-declared saviour promising that he alone can restore order," said Mr Obama. "Democracy isn't about 'yes he will'. It's about 'yes we can'."

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Coup aftermath

Turkey stock analysts swept up in Erdogan's purge

MEHUL SRIVASTAVA — ISTANBUL

After targeting tens of thousands of soldiers, bureaucrats and educators, the sweeping purge unleashed by Turkish president Recep Tayyip Erdogan following a failed coup has settled on a less obvious target: stock analysts.

Mert Ulker, the head of research at Ak Investment, the brokerage arm of Turkey's second-biggest bank, was stripped of his licence by the country's capital markets board over a research report he issued to investors in the aftermath of the July 15 attempted putsch.

Mr Ulker's report featured the standard predictions for the lira, the stock exchange and other economic indicators. It also offered his analysis of the botched coup's potential political impact and the responses factors behind the perpetrators.

In punishing Mr Ulker, who could not be reached for comment, the capital markets board said the analyst had not fulfilled his responsibilities and also cited laws that made it a crime to insult the institution of the presidency.

Other Turkish brokerage houses say they have also been asked to hand over copies of their client research in what one Turkish official said was an attempt to determine whether they had damaged the country's market credibility.

"My job is to tell people what I think about the current situation, and in this current situation I can't speak my mind any more," said an analyst at one of Turkey's biggest banks, who requested anonymity.

"This has an absolute chilling effect, and is the opposite of what Turkey needs right now."

Eight other market analysts contacted by the FT said they were either under orders from management to remain silent or were doing so out of caution for their own professional future.

The focus on stock analysts may reflect the acute sensitivity in Ankara about the vulnerability of an economy that is heavily reliant on foreign investment. Mr Erdogan and his senior appointees repeatedly attacked Standard & Poor's for downgrading Turkey's debt after the coup attempt.

Turkey's equity market suffered its sharpest fall in recent history when it reopened after the coup but has since recovered much of those losses.

The crackdown on stock analysts has been overshadowed by a broader cleansing of Turkey's institutions that has prompted expressions of concern from the US and the EU.

So far, some 114 businesses, including newspapers, radio and TV channels — ostensibly tied to Fethullah Gulen, the self-exiled cleric Mr Erdogan blames for the failed coup — have been seized by the state. Two ambassadors were detained, and arrest warrants were issued for 47 journalists. (A Turkish official said the journalists were being sought for their ties to Gulen-allied publications, rather than their work as journalists.)

Recep Tayyip Erdogan: criticised Standard & Poor's over downgrade

In total, the purge has already claimed the careers or professional licences of some 30,000 Turks in education, about 14,000 in the government and nearly 9,000 in the interior ministry and the military. Some 16,000 people have been detained since the coup, with 8,113 currently under arrest.

Turkey's universities have fast become a cautionary tale: the deans of every university in Turkey have already resigned their posts after being "invited" to do so by the government, clearing the path for Erdogan loyalists to replace them, said the just-retired dean of one major university.

"It's starting to feel like the Soviet Union under Stalin, or China under Mao," said the dean, who asked for anonymity to avoid arrest for criticising the government.

"Their goal is clear — use this opportunity to clear the ranks of anyone who isn't a fan of Mr Erdogan, and this has a long-term impact on universities and other institutions that are, by definition, only credible if they are independent."

INTERNATIONAL

IMF report questions its role in Greece

Fund criticises lack of internal debate on alternatives to a loan package without debt restructuring

ARTHUR BEESLEY — LONDON

An unsparing assessment of the International Monetary Fund's interventions in the eurozone debt emergency prompts questions over its approach to Greece, the origin of the saga and still its epicentre.

At issue is an IMF decision expected this autumn on whether to take part in a third bailout of Greece, which has been under international tutelage for six years. Germany has threatened to stop lending to Athens if the fund pulls out.

The IMF has warned repeatedly that it cannot participate in any further bailout without meaningful debt relief. Amid ructions in Turkey after a failed military coup two weeks ago, the US has stepped up pressure on European creditors of Greece to settle its finances so it can serve as a regional anchor. But this remains deeply contentious in the eurozone, where Germany leads resistance to far-reaching debt forgiveness.

The report by internal IMF inspectors makes clear that this question goes right back to the beginning of the crisis in 2010, when the fund was drawn into Europe's chaotic campaign to shore up the single currency. A succession of huge bailouts for Greece and other weaker states followed. It paints a picture of poor pre-crisis surveillance, followed by problems in the design and execution of rescue programmes.

Improvisation was the order of the day and rules were stretched, not least in the IMF, where there was doubt from the outset about the Greek rescue.

Taking issue with the lack of open discussion in the fund on an alternative strategy for the country, inspectors said staff occasionally felt pressured by European colleagues to accept a less-than-ideal outcome in light of political concerns. That assessment is disputed by Christine Lagarde, IMF managing director.

Still, the fund's decision to provide loans to Greece required a change to its internal lending criteria. The reason for this was that Greek debt could not be "deemed sustainable with a high probability". Sustainability concerns were left unaddressed, magnifying the need for fiscal adjustment. At least in part, this contributed to a big contraction in economic output and undermined public support in Greece for the rescue effort.

From the European perspective, the question of debt restructuring was already off the table by the time the IMF joined the fray in March 2010. This had its roots in fear of contagion. But IMF officials were almost evenly split on the question.

Ultimately it was Ms Lagarde's predecessor, Dominique Strauss-Kahn, who decided to take a chance on the programme and go along with European policy. On all of this the inspectors are clear: "Decision-making could have been strengthened by taking one or both of the following steps during the early months of 2010: a formal, open and early discussion of all options available to the IMF; and a more rigorous attempt to quantify likely contagion outcomes under different options."

Christine Lagarde: disputes claim that staff felt politically pressured

In summary, there was no open discussion — including with the IMF executive board — on alternatives to a loan package without debt restructuring.

The inspectors bemoan a lack of transparency in the way IMF lending rules were changed, saying the original proposal was embedded in a staff report with no advance warning to executive directors. "Few recognised the implications of the language until one of them raised the issue during the meeting. Otherwise the decision would have been approved without the board's full knowledge."

The irony here is that the very rule that was changed was originally cast to make the IMF "less vulnerable to pressure to provide exceptional access when prospects for success are quite poor". The decision to lend to Greece undermined the rule's purpose, which was to limit discretion and flexibility.

Lessons from past crises were not always taken into account, the inspectors added. One was that the IMF underestimated the likely negative response of private creditors to a high-risk programme. While the IMF also knew from the Asian crisis that a long list of structural conditions without prioritisation would be counterproductive, this was not applied to the joint EU-IMF programmes. The IMF's performance was uneven, with only patchy availability of staff with relevant experience. "Programme design and implementation was close to exemplary in Ireland but severely wanting in Greece. Financial sector work was first-rate in Spain but inadequate in Portugal."

The global political agenda may have moved on from Greece but the problems brewing since the earliest days of the debacle still fester.

Editorial Comment page 8

Energy infrastructure

France's EDF split as £18bn project for UK nuclear plant approved

KIRAN STACEY — LONDON
ROBERT WILLIAMS — PARIS

EDF has given the go-ahead for the UK's first nuclear power plant in 20 years, approving the £18bn Hinkley Point scheme in the west of England at a board meeting yesterday.

Directors approved the long-delayed project during a meeting in Paris. But opposition from within the company was underlined by the resignation in protest of a board member as the meeting started.

The board was also split for the first time in the company's history.

Pending final sign-off by the British government, which has already agreed to underwrite the project with a guaranteed price for the electricity it produces, construction could begin within weeks.

The power plant is designed to give the UK zero-carbon power for the next 60 years, to kick-start a string of new reactors across the UK and to provide continuing work for France's nuclear power industry.

EDF has said Hinkley Point in Somerset will be completed by 2025, by which time it will be able to meet 7 per cent of the UK's electricity needs with a capacity of 3.8 gigawatts.

But critics say the project could also risk the financial future of EDF, the highly indebted French utility, whose chief financial officer Thomas Piquemal quit in March, warning that its future was being put in danger by Hinkley Point.

The scheme has been subject to multiple delays and budget revisions since first being proposed in the mid-2000s as part of what Tony Blair's then Labour government promised would be a "nuclear renaissance" for the UK.

New reactors are also being planned in north Wales and in Cumbria, while EDF wants to help develop two sites after Hinkley Point — at Sizewell in Suffolk and Bradwell in Essex.

EDF had hoped to take the final investment decision earlier this year, but it was postponed amid growing opposition from board members and executives. That opposition persisted until the end, despite the company's decision to push ahead with the scheme.

As the meeting got under way, Gérard Magnin quit as a state representative on EDF's board, calling the company's nuclear strategy "highly risky".

In the end, the vote was carried by 10 to seven. It was closer than expected, with all six union representatives and one shareholder representative voting against the measure. It was also the first time the board has ever made a non-unanimous decision.

Ministers in the UK must now give their final sign-off to the scheme, having already agreed to pay £92.50 — double the current wholesale price — for each megawatt hour of electricity it produces for 35 years.

While Theresa May has not said anything about the scheme since becoming prime minister two weeks ago, her new chancellor, Philip Hammond, said earlier this month: "We must make sure the project goes ahead."

A computer generated image of the proposed Hinkley Point reactor

Eurozone. Balance sheets

Bank stress test result crucial to lending revival

Poor outcome could hit loans but signals are that markets have little to worry about

CLAIRE JONES — FRANKFURT

It is not just Europe's bankers who are nervously awaiting the publication tonight of the "stress tests" on the continent's biggest lenders.

The result could also make uncomfortable weekend reading for eurozone policymakers.

The fear is that a poor set of results for the eurozone's 37 biggest banks could damp the recent lending revival in a region already at risk from slowing growth and the fallout from Brexit.

The European Central Bank, which worked with the European Banking Authority on the exercise, has also subjected the balance sheets of another 56 smaller eurozone lenders to stress tests, although these will not be published.

The most important figures from the tests, to be published after US markets close, will be those that show how well banks' capital buffers could stand up in the event of worsening economic conditions and tougher regulation.

While there is no pass or fail mark, the risk is that markets will put pressure on lenders that perform poorly to raise capital in an environment where, with share prices low and wide concern over banks' growth prospects, this is difficult to do.

The eurozone economy is much more reliant on banks than the US, where companies have access to other sources of capital in addition to bank loans, such as much deeper debt markets.

And the ECB needs healthy banks, if they are to pass on the central bank's cheap funding to customers so growth can strengthen.

"It is essential that the banks are not just solvent but in a fit state to finance the growth of the productive new enterprises . . . rather than just warehousing legacy loans to . . . mature companies," said Richard Barwell, economist at BNP Paribas.

Recent bank lending surveys indicate credit markets have been thawing across the eurozone, including in member states with weaker economies such as Spain and Italy.

Banks in Italy, notably Monte dei Paschi di Siena, the country's oldest and third-largest lender by assets, are viewed as most at risk from the stress tests. Some German banks are also seen as vulnerable. Faced at a press conference last week with several questions on the health of the eurozone's lenders, Mario Draghi, ECB president, acknowledged that the sharp falls in bank stocks in the aftermath of the UK's decision to leave the EU posed a danger to central bank efforts to steer the region towards economic recovery.

> 'It is essential the banks are in a fit state to finance the growth of productive new enterprises'

"Bank equity prices are of some significance for policymakers, because if they drop in the way they did [and] if this is to stay, the cost of capital would increase and therefore the net return on lending would decrease," he said. This risked "more conservative lending behaviour" by banks.

However, Mr Draghi pointed out that banks in the region were in a much stronger position now than a few years ago and had raised their core capital levels from an average of 9 per cent in 2012 to about 13 per cent. The problems of the eurozone's banking sector were ones of profitability, not of solvency, he said.

The signals from the ECB and EBA so far are that the tests will uncover little that will spook the markets. Economists broadly share this view. "We don't expect any meaningful impact on credit conditions from the test or the policy response," said Dirk Schumacher, economist at Goldman Sachs.

Illuminating: the European Central Bank in Frankfurt worked with the European Banking Authority on the tests — Alamy

"Credit conditions have been easing until very recently, which is indicative that banks in the aggregate will not be impacted, otherwise we would probably have seen some [pre-emptive] change in lending behaviour."

But the tests could focus attention on existing concerns about lenders' health and, if the results are poor, prompt a policy response by banks and governments that leads to tougher rules on lenders.

The big concern is that a big public bailout of Italian banks would undermine Europe's attempts to create a regime to bail in private investors and trigger a tough response from the region's regulators.

"The stress tests should not lead to a big drop in lending across the eurozone any time soon," said Mr Barwell.

"But there is a medium-term threat from the unintended consequences of any emergency policy response to known problems that the stress tests will highlight.

"A bailout of a bank today could undermine the bail-in regime, prompting regulators to demand higher capital requirements across the board tomorrow. And that could weigh on lending."

Lenders fall short page 12

Bad debts

Padoan faces greatest challenge in effort to shore up Italy's ailing banking system

JAMES POLITI — ROME

Over dinner with reporters at a Rome hotel in November, Pier Carlo Padoan, Italy's finance minister, was asked what he would do if he had a magic wand to help the sluggish economy.

The answer was telling: he would wipe away the huge stock of non-performing loans that had accumulated on banks' balance sheets in the recession.

Nine months later, the unassuming 66-year-old labour market economist faces arguably his greatest challenge amid turmoil in Italy's banking system driven by that very problem. Saddled with €360bn of gross NPLs — including about €200bn of bad debts — the banks have been slow to boost lending to the economy even as it recovered from a lengthy recession.

Investors have targeted them as the weakest link in the European financial system, prompting sharp falls in their shares and raising concern globally.

Mr Padoan has not relished the spotlight on Italy as a source of trouble for the global economy. At the meeting of G20 finance ministers and central bank governors in China last weekend he tried to soothe markets.

"There is no risk in terms of systemic stability," he said. "There are a few critical cases which are contained and [will be] resolved through a market process."

Under Mr Padoan's direction, officials are this week looking to engineer a private-sector cash injection into Monte dei Paschi di Siena, Italy's third-largest bank by assets and the most likely to fall short of capital in Europe-wide stress tests when results are published today.

If a "market solution" does not work, Rome will have to consider the more politically perilous path of rescuing MPS with public money. High-stakes talks have taken place with Brussels over how to structure a rescue without violating tough EU rules on state aid. With few exceptions, these rules will require a hit to the bank's private investors, including junior bondholders.

Italian officials are desperate to avoid that scenario because it could further dent support for the government. Mr Padoan, a former International Monetary Fund and OECD official, was picked by Matteo Renzi, prime minister, in 2014 to be finance minister. To some observers, his low-key style and familiarity with international institutions make him ideal to manage Italy's tricky economic and financial portfolio and mediate with Brussels. "Padoan is a quiet leader. He listens to everyone, but when he talks, he talks — it's for real," said Filippo Taddei, the top economic adviser to the ruling Democratic party.

This temperament balances some of Mr Renzi's more outspoken criticisms of EU policy. "I don't think it's as co-ordinated as good cop, bad cop. I think it's in their natures," said Francesco Galietti, an analyst at Policy Sonar in Rome.

Pier Carlo Padoan: 'There is no risk in terms of systemic stability'

But other observers are less sure that Mr Padoan's skills match the moment. "[MPS] should have been tackled immediately after the first comprehensive stress tests . . . in October 2014," said Andrea Montanino, a director at the Atlantic Council in Washington. "He should have grabbed it by the horns . . . so we didn't get to this point."

A sign of mounting impatience with Mr Padoan came last week when Francesco Boccia, a senior Democratic lawmaker, said he was "not up to the task" of handling the banking woes.

Italian officials have said Mr Padoan did what he could given rigid regulatory constraints. Once it was clear that the door was shut to a Spanish or Irish-style bad bank solution, he led efforts to set up a guarantee scheme to stoke private investment in NPLs and set up a private-sector fund to recapitalise some banks.

Mr Padoan pressed ahead with reforms to improve governance and backed measures to accelerate the resolution of disputes over bad debts.

Should Italy plunge back into financial distress, his reputation could be in tatters.

But if he succeeds, his stature could be enhanced. Mr Padoan is consistently the most popular cabinet minister, according to a survey by IPR.

"His suits are awful and he can be very grumpy," said Mr Galietti. "But this is someone who cares; he's a safe pair of hands."

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INTERNATIONAL

Post-Brexit deals

UK trade secretary faces queries over post

Fox's officials surprised he will not be leading talks on future ties with the EU

GEORGE PARKER — LONDON
ANNE-SYLVAINE CHASSANY — PARIS

Liam Fox, Britain's international trade secretary, returned from a three-day US visit yesterday facing questions about his new role and his ability to quickly strike post-Brexit trade deals.

Dr Fox told his US audience that Britain wanted to break out of the EU's customs union to develop a global trade policy, only to be told that the UK prime minister has yet to decide whether that should be the case.

Now Theresa May's office has made it clear that Dr Fox will not be leading talks on Britain's future trade relations with the EU, in spite of a belief among some officials in his department that he would be.

Instead, David Davis's new Department for Exiting the EU has been tasked with establishing "the future relationship between the EU and the UK", including trade relations.

Earlier in the week, US trade representative Michael Froman sounded cautious about the possibility of an early trade deal with the UK.

In the run-up to the UK referendum on June 23, Barack Obama, US president, warned London would be "at the back of the queue".

"As a practical matter, it is not possible to meaningfully advance separate trade and investment negotiations with the UK until some of the basic issues around the future EU-UK relationship have been worked out," Mr Froman said.

Dr Fox's claim he had opened "very fruitful" trade talks with Canada was quickly followed by a clarification from Chrystia Freeland, Canada's trade minister, who said her focus was on tying up a deal with the EU.

Mrs May, who is on a tour of Europe, visiting Slovakia and Poland yesterday, wants Dr Fox to travel the world seeking trade opportunities for Britain.

But the trade secretary's job only makes sense if Britain pulls out of the EU's customs union, under which Brussels negotiates global trade deals and sets a common external tariff and trade rules for all members.

Liam Fox: 'We have nothing to fear from forging our own free-trade environment'

The UK prime minister's office said no decision had been made on whether to stay in the customs union, in spite of Dr Fox telling The Wall Street Journal that the government would seek a free-trade agreement with the EU rather than a closer "customs union".

Some of Dr Fox's colleagues thought the trade department, which is hiring negotiators from the private sector to build up the country's minimal expertise, would lead talks on an EU free-trade agreement.

But the prime minister's office insists that the trade department's remit only covers trade deals across the globe, not the detail of any new arrangements with the EU.

Dr Fox was optimistic this week about the prospects of Britain flourishing after Brexit, telling an audience in Chicago: "We have nothing to fear from forging our own free-trade environment and breaking out on our own."

Dr Fox told The Sunday Times that Britain was "scoping" about a dozen free trade deals outside the EU, although Mr Froman's comments confirmed that they cannot legally be concluded until Brexit is complete.

Although Britain cannot negotiate free trade deals until it leaves the EU, Dr Fox believes that preparatory work can be done to make sure they are ready to be agreed at the earliest opportunity.

Dr Fox's visit to New York, Chicago and Los Angeles is part of a flurry of post-Brexit diplomatic activity by Mrs May's new government. The prime minister visited Berlin and Paris last week and this week added Rome, Bratislava and Warsaw to her list, seeking help from central European countries as she prepares Brexit negotiations.

Mrs May said in Rome that she was seeking a "bespoke" British relationship with the EU, including the curtailing of free movement of people but retaining maximum possible access to the single market.

Philip Stephens page 9

Germany

Merkel rejects calls to rethink policy on refugees after terror attacks

GUY CHAZAN — BERLIN

Germany's chancellor Angela Merkel said she would not budge on her refugee policy, despite the Islamist terror attacks in Würzburg and Ansbach that have sparked urgent calls for a government U-turn on immigration.

Yesterday, Ms Merkel repeated her phrase from a year ago — "We can do this" — and insisted that Germany could cope with the 1m migrants who crossed into the country last year, while fully integrating them into German society.

She dismissed a reporter's suggestion that the phrase now seemed "thoughtless" in view of the jihadi attacks this month. "I never said it would be easy," she said. "But I'm just as much as convinced now as I was then that we will cope . . . and we will live up to this historic task."

She also put forward a nine-point plan to beef up security, including lower hurdles for deporting failed asylum seekers, an early-warning system to flag up refugees who were becoming radicalised and joint exercises between the army and police to prepare for domestic terror attacks.

Ms Merkel was speaking after a week of violence that has plunged Germany into a mood of uncertainty and fear. Her comments were made at an annual summer press conference that is normally held in August but was brought forward to address the terror incidents.

The violence has raised concerns that Germany may have compromised its security last summer by opening its borders to hundreds and thousands of refugees, many of them from Syria, Iraq and Afghanistan. Some are asking whether the authorities, who do not have the same experience battling terrorism as counterparts in France, the UK and Belgium, have a grip on security.

Horst Seehofer, the prime minister of Bavaria and a staunch opponent of Ms Merkel's refugee policy, said this week that he had been vindicated by the attacks. "All our prophecies have been proved right," he said.

The anger in Bavaria, where both terror attacks took place, threatens to create fresh tensions between Mr Seehofer's Christian Social Union and its sister party, Ms Merkel's CDU, just weeks after the two had reached a truce on the refugee issue.

The violence began on July 18 when an axe-wielding Afghan teenager injured five people on a train in Würzburg. Four days later a German-Iranian with right-wing extremist views killed nine people in a mass shooting at a shopping centre in Munich. On Sunday, a Syrian refugee killed his girlfriend in the southern town of Reutlingen and, later the same day, a 27-year-old from Aleppo wounded 15 people when he blew himself up outside a wine bar in Ansbach, in Germany's first suicide bombing.

Security officials have warned for months that militant group Isis, which claimed responsibility for both the Würzburg and Ansbach attacks, may have smuggled its operatives into Germany under the cover of being refugees.

They have also repeatedly said that young asylum seekers from Arab countries were being targeted for recruitment by local jihadi networks.

Ms Merkel described the terror incidents as "shocking, distressing, and also depressing". The chancellor said Germany was being put to the test, but it should stick to its principles.

There has been a sharp fall in the number of migrants entering Germany since the height of Europe's refugee crisis last year.

Davis v Barnier. Divorce talks

Brexit bout reunites sparring partners

Tactical battle: David Davis, left, and Michel Barnier will both fear being overruled by their respective leaders — Jack Taylor/Getty; Laurent Dubrule/Reuters

Gaullist former French foreign minister and UK Eurosceptic accused by critics of vanity

ALEX BARKER — BRUSSELS
GEORGE PARKER — LONDON

Brexit talks are set to reunite two sparring partners from a bygone European battle.

Michel Barnier's appointment as the European Commission's chief negotiator primes him for a contest with British counterpart David Davis, a similarly headstrong politician he first clashed with more than 20 years ago.

Both then served as Europe ministers, representing France and Britain respectively on a "reflection group" established to overcome entrenched differences and pave the way for a new EU treaty.

Moving between castles in Luxembourg and an ancient nunnery on the Sicilian coast, the group struggled with what Carlos Westendorp, a veteran Spanish diplomat, called "an almost impossible exercise".

Today, Brexit poses a similarly daunting challenge for Mr Barnier and Mr Davis, albeit one that will probably be fought out in far less salubrious Brussels office buildings.

For all their political differences in the 1990s, the Gaullist former French foreign minister and Thatcherite Brexit Eurosceptic share some traits that have taken them on oddly similar political journeys.

Both are proud political fighters with chequered careers, including abrupt stints in the political wilderness. Both are accused by critics of vanity and lacking attention to detail, yet have proven abilities to cut political deals. And both enter the Brexit talks, the negotiation of a lifetime, questioning whether they will have the authority they need to do the job.

In the 1990s, Mr Davis revelled in his reputation as "Monsieur Non" on that reflection group, where his efforts to stem the flow of powers to Brussels established him as a favourite of the Conservative right. At the time Elmar Brok, a federalist German MEP who served on the group, smarted over Mr Davis's dogged opposition to further EU centralisation, describing his position as: "Fog in the Channel, Continent is isolated."

Mr Davis, raised on a public housing estate by a single mother and with a career as a reservist in the elite Special Air Service, has always been up for a fight; his matchup with suave, winter sports-loving Mr Barnier will be an intriguing one.

Mr Barnier pointedly welcomed the "change in climate" after Tony Blair's victory in the 1997 general election that ousted the inflexible Mr Davis from his chair at a conference to draft what became the Amsterdam treaty.

> 'I worked with both of these men. They're both very able, affable and are people of integrity'

Snappily dressed, hyperactive and never slow to call for bold state intervention, Mr Barnier built a reputation during his time as EU commissioner for financial regulation from 2009-2014 as a scourge of the City of London.

In the wake of the financial crisis, Mr Barnier described his mission as leading a "rulemaking spring". In one meeting he so annoyed Sir Mervyn King that the then governor of the Bank of England thumped the table.

Yet for all the potential for spectacular fights between Mr Barnier and Mr Davis, the two negotiators also have, over the years, shown some pragmatism and compromise.

Mr Westendorp, the chair of the reflection group, once remarked that Mr Davis behaved quite differently behind closed doors. Inside the talks he "acted like Douglas Hurd", the pro-EU foreign secretary, while outside, "like Michael Portillo", the Eurosceptic then defence secretary.

Gay Mitchell, who represented Ireland on the reflection group, recalls little tension between Mr Barnier and Mr Davis, in spite of their divergent views. "I worked with both of these men. They're both very able, affable and are people of integrity. I would say they are two people who could work very well together."

For all the bluster, Mr Barnier too proved able to strike deals with the UK, especially towards the end of his tenure. A proposal to revamp bank structures was, for instance, tailored to British concerns, much to the chagrin of France.

Mr Barnier was always at pains to show his anglophile side. He kept up English lessons throughout his tenure at the commission, giving his valedictory interview to the Financial Times almost entirely in English.

Critical to the success of both men will be whether their political bosses will give them the space to negotiate.

While a formidable dealmaker in the European Parliament, Mr Barnier has sometimes struggled to make headway among EU finance ministers — and during Brexit talks will fear forever being overruled by EU leaders.

Just like Mr Barnier, Mr Davis has yet to fully carve out his political responsibilities in Brexit talks and will fear being constantly trumped by Theresa May's negotiations with other EU leaders.

Should that happen, the Brexit duo might share a fate similar to the Westendorp "reflection group": rather than offer a solution, its report laid out options and left others to decide.

Additional reporting by Arthur Beesley in London and Jim Brunsden in Brussels

Homegrown threat

Decision to withhold jihadis' details ignites soul-searching in France on media's role

ANNE-SYLVAINE CHASSANY — PARIS

The decision by several French news organisations to withhold information on perpetrators of terror attacks has sparked a wider debate in France over the media's role in fuelling homegrown jihadism as the nation struggles to halt a wave of deadly assaults.

BFM TV, France's largest news channel, and Le Monde, France's second-largest daily newspaper, said on Wednesday they would no longer publish photographs of Islamist terrorists. State-owned TV France 24 and RFI, a radio service, have mirrored their moves and added that they would be "extremely parsimonious" in naming terrorists.

It is customary for Paris prosecutor François Molins to provide the full name of terrorist suspects, as well as details of their lives. But Catholic magazine La Croix decided it would only reveal their first names and the initial of their last names. Europe 1, a radio station owned by Lagardère, will refrain from using names and photographs.

"Since the emergence of Isis-linked terrorism, Le Monde has several times modified its practices," Jérôme Fenoglio, its editor, wrote in an editorial. "We have decided to no longer publish images from Isis propaganda. After the Nice attack, we won't publish photographs of killers to avoid possible posthumous glorification. Other debates on our standards are ongoing."

But Le Figaro, the centre-right newspaper owned by defence group Dassault, and Libération, the leftwing daily backed by telecom tycoon Patrick Drahi, disagreed.

"Ceasing to publish photographs of terrorists? The intention is good, the result is bad," Laurent Joffrin, editor of Libération, wrote in an editorial yesterday.

The debate underlines France's soul-searching after 18 months of Islamist terror. The country is still reeling from the shock of the truck massacre that killed 84 people in Nice on Bastille Day and the murder of an 85-year old priest in a Catholic church in Normandy earlier this week.

News groups have been blamed for allowing jihadis to spread their propaganda and disrupt police work. BFM TV, a prime source of breaking news, has come under particular scrutiny for speaking to the Kouachi brothers and Amedy Coulibaly in the midst of their assaults on Charlie Hebdo cartoonists, police officers and customers of a Jewish supermarket in January 2015.

The media's conduct is particularly relevant in the fight against Isis, which has proved highly adept at using social media and video production both to lure fighters to Syria and encourage them to strike at home.

"It is a sign of the mental confusion France is in at the moment," Dominique Moïsi, special adviser to the French Institute of International Relations, said of the media row. "It shows the French society is wrestling with what to do after coming to the realisation that we might need to modify our behaviour and way of life to combat terrorism."

A newspaper headline reads 'Je Suis Nice' in the wake of the truck attack

Jihadism experts are divided, too. The glorification process takes place in Islamist websites anyway, noted David Thomson, an RFI reporter and author of *Les Français Jihadistes*. Withholding information would only fuel conspiracy theories and "have no impact on the frequency of attacks in France", he said.

The questions come as public scepticism is growing over the French government's ability to tackle homegrown terrorism. Bernard Cazeneuve, interior minister, has been accused by Libération and opposition politicians of providing misleading details of the security measures that were in place in Nice. An internal police investigation concluding that measures had "not been inappropriate" that evening has not quashed controversy.

"We can continue to do our work, inform people, tell who they are without having to name them or give their identity," Nicolas Escoulan, head of Europe 1, argued.

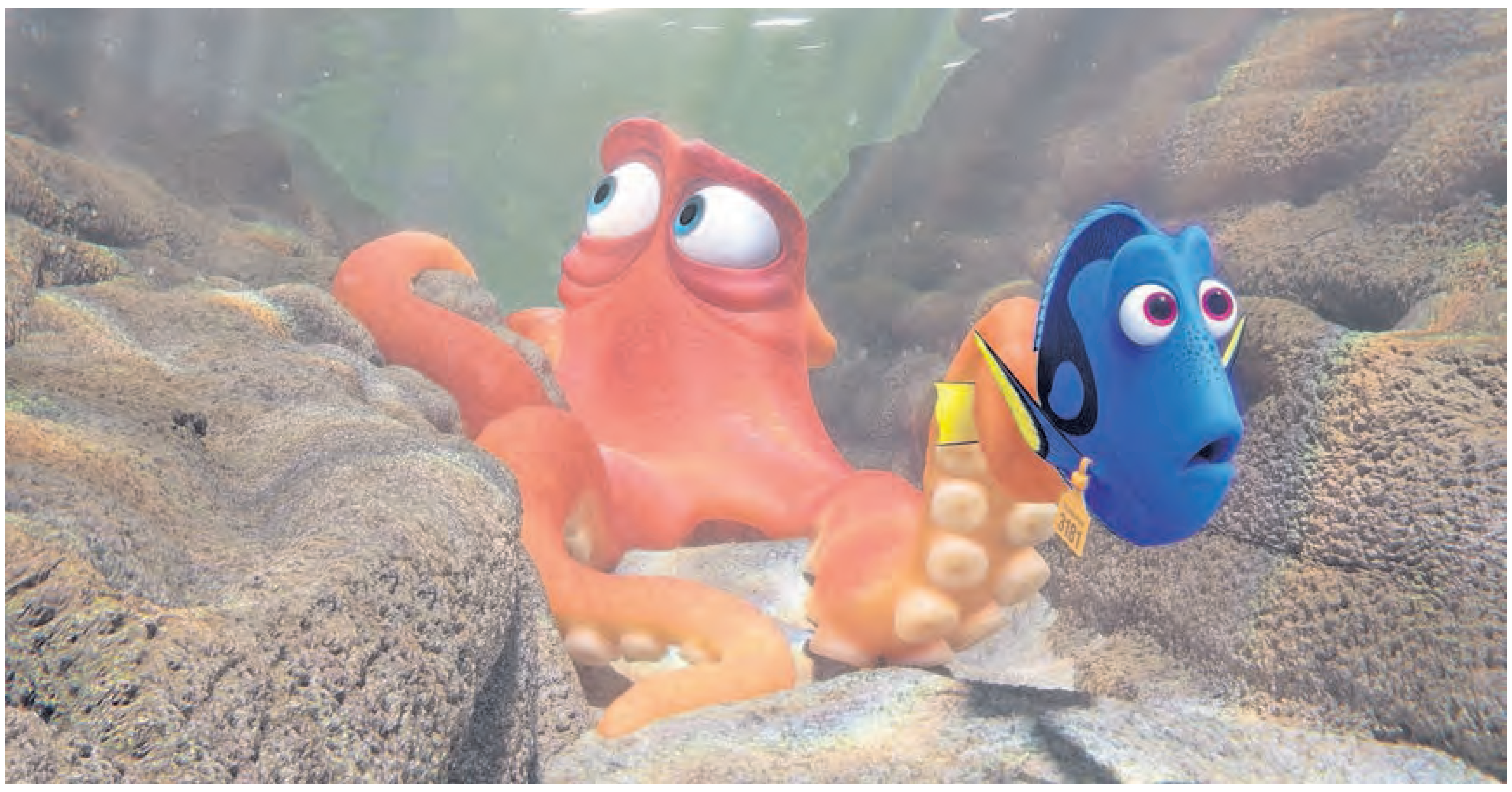
But Mr Joffrin of Libération said that "hiding the reality of terror attack and minimising their horrible effects" would have unintended consequences.

Reporters risked "underestimating danger, overlooking victims, hiding the barbaric ordeal that they inflict to our democracy," Mr Joffrin wrote. "Better, for citizens, to look the threat in the eyes, know who they are dealing with, see that the murderers who commit those awful crimes were also harmless looking youngsters."

Finny, funny – and subtly sophisticated

FILM

Nigel Andrews



Life of brine: 'Finding Dory'. Below left: Trine Dyrholm in 'The Commune'

When you create an animated superhit called *Finding Nemo*, sequelisation law requires a new fish to get lost, and found, with each new roll of the franchise. All the more amazing that Pixar's undersea saga has resisted spin-offs for 13 years. No finny life-form has lost its way until the title female of **Finding Dory**. The forgetful blue tang fish who stole a few scenes in the first film is now tasked with finding her own way home after years in the watery wilderness.

Lissom and funny-lilting of voice thanks to Ellen DeGeneres, Dory runs the gauntlet of giddy menace and the gamut of grand spectacle (multi-coloured shoals of tropical fish, choreographed armies of stingrays) and high-percentage Disney/Pixar humour. There are few dud jokes, if any, in a script directed with vaudevillian verve by Andrew Stanton, the human pilot fish behind *Nemo* and *Wall-E* who also wrote *Toy Stories* one to three and *Monsters, Inc*.

For children there is knockabout comedy – at its best with octopus Hank, a camouflage-intensive blob whose squishy extensions have a Shiva-worthy expressiveness – and non-cloying cuteness. Grown-ups get to play celebrity-spotting. Is that Idris Elba voicing the cockney sea lion protecting his rock? ("Arf! Arf!" really does sound like "Off! Off!") And is that the famous star of the *Alien* series intoning "This is Sigourney Weaver" when we're ushered into the tannoyed reverence of the giant marine park where Dory's memory leads her?

Before that, large parts of the ocean seem set aside for Jewish-style vocal shtick. But no actor does waggish woe better than Albert Brooks, re-voicing Nemo's clownfish dad Marlin. His retreat before a demonic monster of the reef encapsulates in two sentences of comedy panic – at least for metaphysical sceptics like me happily alert to agnostic mischief – the origin of world religion: "If you spare us we will worship you, we will create a monument. What kind of monument do you want?" (It's Frazer's *The Golden Bough* in a nutball nutshell.) *Finding Dory* is good on bright simplicity, sparing of trite sentimentality and in the market throughout for sparks of subtler sophistication.

"Bourne's been off the grid for some time," remarks someone in **Jason Bourne**. No, really? What else is new? Bourne's whole thing, surely, is being off the grid. In the week's second franchise sequel featuring a protagonist with memory issues, Matt Damon plays the identity-troubled spy last seen in 2007's *The Bourne Ultimatum* but still swimming around, we discover, in the opaque ocean of world espionage. *Finding Jason*?

My theory: the Bourne saga and its eternal-reappearance riffs are a big joke at the expense of William Shakespeare. "The undiscovered country from whose Bourne no traveller returns . . . " (*Hamlet*): who can recite that now with a straight face? Directed by saga veteran Paul Greengrass in his brand-recognition style – handheld and headlong – the story bounds along at high speed like a travel addict trying to accumulate air miles. Now Langley, Virginia (spooks' HQ); now Las Vegas; now London; now Greece . . .

Never mind the plot. There isn't any; beyond Tommy Lee Jones as a rogue CIA chief out to kill anyone who irks him. Just feel the pell-mell editing – at its most bravura in a car chase along the Vegas Strip – and the weary grace that Matt Damon, 45, brings to his role. Bourne used to be existential in the old and echt philosophical sense: concerned with individuality, authenticity and the generating of moral identity *ex nihilo*. He is now existential in the cheapjack modern sense: concerned with survival. Into the next second or season or sequel, whichever comes first.

The JT LeRoy Story, like Orson Welles's *F for Fake*, is a hoaxumentary that challenges the concept "hoax". Like Welles's screen essay on art forgery, Jeff Feuerzeig's study in imposture asks: "Where do you draw the line, or write or paint it, between deception and art?"

JT LeRoy was a literary hurricane who blew through late-1990s America with *Sarah* and *The Heart Is Deceitful Above All Things*, two punk-lyrical memoir-novels about a white-trash boyhood. They dealt with LeRoy's life as a truck-stop prostitute's son and one-time rent boy. They and their nominal author whisked up critical opinion, flailing every which way, as a tornado whisks up cars or cattle. LeRoy, it turned out, was non-existent. He/it was the pen name and androgynous alter ego of one Laura Albert. LeRoy was played in public appearances by Albert's blonde-wigged sister-in-law, Savannah Knoop. The masquerade was exposed by a New York Times story in 2006.

Until then cultism was contagious. This film critic remembers a Cannes Film Festival evening, in 2004, when LeRoy and Albert, posing as the author's manager "Speedie", attended the Directors' Fortnight unveiling of Italian hipster-director Asia Argento's film of *The Heart Is Deceitful* . . . The movie was awful, the pre-movie fan mania awesome. (Argento herself, who features in Feuerzeig's documentary, was rumoured to have had a romance with Leroy. If so, how come she didn't discover his gender?)

Weird. But that's what's wonderful here: marvel-inducing but also making-you-wonder. Albert herself repudiates the word "hoax" with its quasi-criminal note of fraudulence and points to the word you'd see above a library shelf containing her books: fiction. Where does fiction begin and end? And why should it do either? The imagination is deceitful above all things. Or we could more properly, affirmingly, say "creative" and "inventive".

With **The Commune** Denmark's Thomas Vinterberg sharpens another satire-drama about man as social animal. The household here is like the family gathering in *Festen*. People come together for the best of reasons, then come apart for the worst in the worst of ways.

The break-up here is more predictable than in the 1998 film. The stuffy married architect (Ulrich Thomsen) fills his inherited manor house with friends to save money and then falls for a young live-in blonde. The potential larger resonances about communal living – the heaven of togetherness versus the hell of proximity – are pushed aside by triangular love clichés. Plot development gets B for banality, though A for acting goes to Trine Dyrholm for transcending triteness, or trying, as the dumped and devastated wife.

Finding Dory
Andrew Stanton
★★★★☆

Jason Bourne
Paul Greengrass
★★★☆☆

The JT LeRoy Story
Jeff Feuerzeig
★★★★☆

The Commune
Thomas Vinterberg
★★★☆☆

Tiffany's in search of sparkle

THEATRE

Breakfast at Tiffany's
Theatre Royal, Haymarket, London
★★☆☆☆

Ian Shuttleworth

Energy: Pixie Lott in 'Breakfast at Tiffany's'

Sean Ebsworth Barnes

It was only a few years ago that the last attempt to adapt Truman Capote's 1958 novella for the stage (and pretend in vain that the real draw wasn't the recollection of Audrey Hepburn in the sanitised 1961 movie version) opened in this very theatre. Richard Greenberg's present adaptation (which ran on Broadway in 2013) is more coherent than Samuel Adamson's 2009 version in terms both of narrative and overall tone, although it isn't always easy to spot this beneath Nikolai Foster's staging. It's true that the performance I saw was the final West End preview, but the show has been touring for nearly five months now, so I hardly think that running-in provides much of an excuse.

Foster's long suit as a director is musicals, and he has rather approached this piece as if it were one. In fact, it contains four numbers, including "People Will Say We're In Love" and two renditions of "Moon River", one of which serves as a prologue just so we feel we're getting our money's worth of nostalgia.

The wacky flibbertigibbet Holly Golightly is here cast to conform to Capote's original image of her, with longish blonde hair (he wanted Monroe for the film). Singer Pixie Lott, who takes the role for its two-month mid-tour West End run, seems to think energy is all that's needed to pull off a decent characterisation. She delivers every line in a vampish sing-song that reduces her character to the two dimensions of a 1960s American TV sitcom and makes her supposed universal attractiveness incomprehensible.

This adaptation makes the homosexuality of the nameless narrator explicit, so that he begins as another seeming suitor of Holly but develops into her Gay Best Friend; however, Matt Barber plays him with all the camp of Capote but little of the mordancy.

Lott's performance may be more extreme than her fellows', but Foster's approach is consistent: everything here is a caricature. Alas, this is what neither Capote nor Greenberg wrote. Spectacle alone is not enough.

Booking to September 17
breakfastattiffanys.co.uk

THEATRE

Pigs and Dogs
Royal Court (Jerwood Downstairs), London
★★★☆☆

Sarah Hemming

Shorter than most intervals, Caryl Churchill's taut 15-minute drama has nipped on to the Royal Court stage for a brief run in the early evenings – a sort of hors d'oeuvre to the main dish of *Unreachable* at 7.30pm. Churchill uses the time it takes most of us to order a gin and tonic to deliver a sharp, far-reaching assessment of homophobia across African nations.

Prompted by the Anti-Homosexuality Act passed in Uganda in 2014, the play takes its title from a repellent observation from Zimbabwe's President Mugabe: "If dogs and pigs don't do it, why must human beings?" But just as the title inverts the relevant part of that statement, so the play turns inside out the assertion that homosexuality is alien to African culture. It contrasts the pronouncements of public figures with numerous examples, drawn substantially from an anthropological study, *Boy-Wives and Female-Husbands* by Stephen O. Murray and Will Roscoe, of people living with more fluid notions of sexual and gender identity. "Sagoda never marry and wear skirts," we are told. "Ashtime dress like women and do women's work."

Wit and warmth: Sharon D. Clarke

Directed by Dominic Cooke and delivered on a bare stage by three actors – Fisayo Akinade, Sharon D. Clarke and Alex Hassell – the piece has an almost ritualistic quality. As ever with Churchill, the role of language in shaping behaviour is acutely observed.

The three performers circle the stage, identifying speakers – 17th-century missionaries, preachers, anthropologists – building up a chorus of voices and deftly tracing the colonial role in reporting and influencing sexual practices. Through the accumulation of voices, the play suggests that institutionalised homophobia is less an assertion of independence than an internalisation of imported prejudices.

Akinade, Clarke and Hassell bring wit and warmth to their task of shifting role, voice and accent, but also give the nastier sentiments the venomous delivery that suits them. There are all sorts of ways you can spend 15 minutes; watching this brisk, revealing little piece is one of the best.

To July 30, royalcourttheatre.com

FT BIG READ. DEUTSCHE BANK

Its aim of being the only European universal bank backfired, and concerns over legal challenges and capital positions have intensified. Just a year into his job, John Cryan must make some big calls.
By James Shotter, Laura Noonan and Martin Arnold

Problems of scale

Search for direction: Deutsche Bank's Frankfurt headquarters
Michael Probst/AP Photo

It was the defining bet of Anshu Jain's reign at Deutsche Bank. In 2014, as most European banks were retrenching in the face of slackening markets and tightening regulation, the German lender's then co-chief executive took the opposite course.

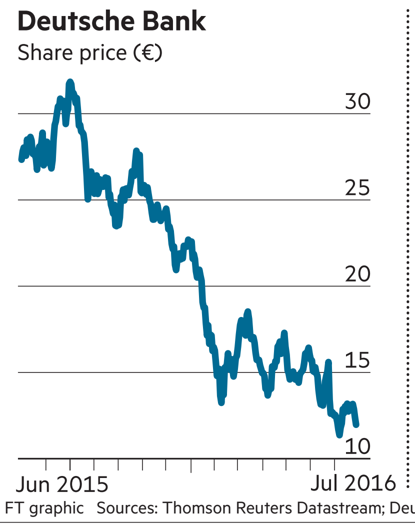
Two weeks after Barclays — Deutsche's European arch-rival — capitulated to market pressure and slashed its debt trading business, Deutsche launched a plan to raise €8bn in capital. The move was, in part, designed to give Germany's biggest bank the firepower to win market share as its rivals faltered, and to position it as the last remaining European challenger to the US titans on Wall Street. Deutsche, Mr Jain said at the time, would be the "only truly universal bank based in Europe".

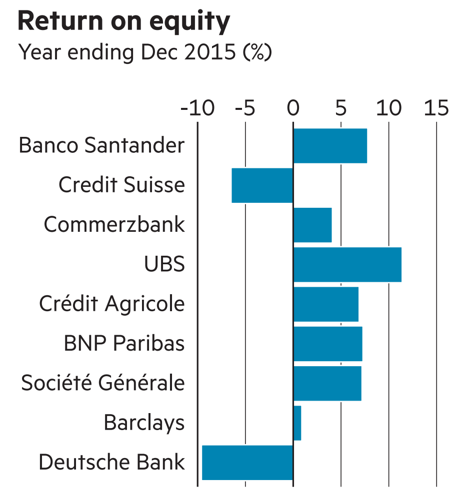
That bet failed: markets remained slack and regulation kept tightening. Two years on, Mr Jain and Jürgen Fitschen, with whom he shared the top job, have stepped down. Deutsche's investment bank has lost its top three ranking. The group's capital position is under scrutiny. And Mr Jain's successor, the former UBS banker John Cryan, has embarked on a painful curtailing of Deutsche's global ambitions.

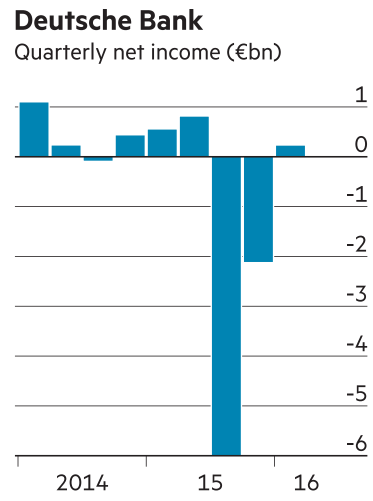
Mr Cryan faces a formidable task. Deutsche's markets business, which accounts for a third of its revenues, is struggling to cope with a world of lower trading volumes, tougher capital requirements and increasing US dominance. Its retail bank in Germany, where margins were always thin, is suffering under Europe's rock-bottom interest rates. Total costs are stubbornly high and the bank is grappling with legal challenges that could cost it billions of euros. Last year, Deutsche — a pillar of Germany's postwar economic strength, and a cog in global capital markets — made a €6.8bn loss amid a host of fines and writedowns. Analysts predict an €860m loss this year.

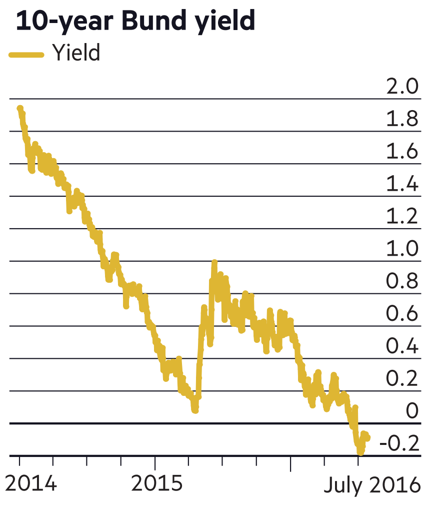
> 'There are so many moving parts. Markets have been very tough this year. Brexit has made things worse'

"The problem for John Cryan is that there are so many moving parts," says Chris Wheeler, an analyst at Atlantic Equities. "Markets have been very tough this year. Brexit has made things worse. It's constantly one step forwards, two steps back. He was probably hoping for one-and-a-quarter steps forwards, one step back."









FT graphic Sources: Thomson Reuters Datastream; Deutsche Bank; Capital IQ

Investors are so concerned about Germany's biggest bank that earlier this month its share price fell to €11.22 — a level not seen since the 1980s, and 24 per cent lower than at the depths of the financial crisis. Deutsche is not alone, bearish sentiment has afflicted its rivals, too. After the UK's shock decision to leave the EU, bank shares across the continent fell sharply. But Deutsche has become the bogeyman among global banks.

At yesterday's close, investors were implying that the biggest bank in Europe's most stable economy is worth €17.7bn, just a quarter of the book value of its assets. Its travails have turned it into a political football with Matteo Renzi, Italy's prime minister — who is keen to deflect attention from his country's banking problems — taking a swipe at Deutsche's gargantuan derivatives book last month.

When the details of the latest round of European banking stress tests are published later today, Deutsche's results, along with those of Italy's institutions, will be closely scrutinised. Analysts fear that Deutsche will fare poorly, partly because, for the first time, the tests will take conduct risks — Deutsche's Achilles heel — into account.

If the result matches the worst-case expectations, the bank could be pressed to raise capital. Even if its numbers are better than feared, as long as improved returns are elusive there will be questions over whether Mr Cryan's strategy is right — and if not, what else the bank should do.

Looking for a pivot

When UBS was looking for ways to improve its fortunes in 2012, the Swiss bank chose to make big cuts to its investment banking arm, a move that has helped it boost profits and capital. But UBS had the luxury of pivoting towards wealth management, another strong franchise. Deutsche is dominated by its investment bank and has no other businesses with the scale or profitability around which to regroup.

"Because retail banking in Germany is so tough, Deutsche doesn't have a strong home market to fall back on like Santander does in Spain, or BNP in France, or UBS in Switzerland," says a senior German banker.

The cornerstone of Deutsche's plan is its decision to offload its Postbank retail business, which analysts estimate is on the bank's books for around €5bn. The group will also reduce assets in its investment bank and cut costs by laying off 9,000 of its roughly 100,000 staff, closing operations in 10 countries from Argentina to New Zealand and shutting bank branches in Germany. If the plan works, Deutsche hopes to see a significant boost in its capital position and profitability by 2018.

It has been hard going. The bank made a €700m pre-tax loss in the final three months of last year, even excluding restructuring costs. Profits in the first quarter of 2016 were less than half the level of a year earlier while in the second quarter they all but vanished.

Deutsche's senior managers have always warned that the costs of the overhaul would be felt a long time before the fruits appeared, and that 2016 would be the year in which restructuring charges peaked. It has also been hit by sluggish markets, which have pushed down returns across the investment banking industry. Brexit has added to the uncertainty, putting a dampener on Deutsche's trading and advisory businesses, while the downward pressure on European interest rates has intensified the strain on the bank's retail operation.

With the share price slumping, questions over whether its strategy needs adjustment are becoming more intense. One concern is whether Deutsche will be able to sell Postbank as planned. No buyer is in sight and the market for European listings is comatose.

Marcus Schenck, Deutsche's chief financial officer, said on Wednesday that the bank was not under pressure to offload the unit in 2017 but, without a sale, a key part of the plan to bolster capital would have to be rethought.

Cutting out risk

The other area of focus is the investment bank. Regulation has had a huge effect on the business, with tough capital rules already prompting the bank to withdraw from activities such as high-risk weighted securitised trading and flow credit.

Deutsche's plan for the investment bank by 2018 includes reducing client numbers by half and cutting risk-weighted assets by a net €28bn. These actions are, however, far less sweeping than those of its European rivals, such as UBS and Credit Suisse, the latter of which is cutting almost $60bn of risk-weighted assets from its investment bank and coming under pressure from investors to do more.

With even tighter rules to come, many observers think Deutsche will have to cut assets in its global markets business more sharply. "This is where Deutsche Bank's structural problem is," says Daniele Brupbacher, an analyst at UBS. "It has this business with huge leverage exposure, which is not earning enough money."

Others disagree. "The problem for Deutsche is that it has got to the stage where if it continues to cut assets, it is going to lose a significant amount of revenues," says one of the bank's top 20 investors.

Kian Abouhossein, an analyst at JPMorgan, is also sceptical about the chance of a dramatic shift in approach. "Deutsche Bank is an investment bank, so from that perspective to change strategy is not possible; to do what we would like Credit Suisse to do [is not possible]," he says.

Deutsche also faces the consequences of a history of weak controls. It is facing 7,000 separate lawsuits and regulatory actions. At the front of investors' minds are a US inquiry into the mis-selling of mortgage-backed securities, and a joint US-UK probe into $10bn of potentially suspicious trades involving Deutsche's Russian business.

Mr Cryan has said he wants to resolve Deutsche's big cases as soon as possible, and the bank disclosed on Wednesday that it was in settlement talks with the US Department of Justice over the mortgage probe. What concerns investors, however, is that they have no idea what the settlements will cost and, in particular, whether it will be more than the €5.5bn Deutsche already has in litigation reserves.

A shortage of capital

The conclusion that many analysts draw from this combination of weak earnings, high restructuring costs, tightening regulation and looming legal risks is that Deutsche needs more capital. The bank's management has repeatedly said it has no plans to issue new shares. But its core tier one ratio — a key measure of financial strength — stood at 10.8 per cent at the end of June.

The ratio will get a boost later this year from the sale of a stake in a Chinese bank. But it is low in comparison with its peers and analysts reckon Deutsche is about €7bn short of its target of 12.5 per cent by 2018.

A person close to the senior management says there is no sense in raising capital before the bank resolves its larger US litigation cases. Otherwise it will end up paying much of it out in settlement costs. "In the short term, I can see that they don't want to raise capital before they have settled in the US," says the top 20 investor. "But it is clear that in the medium term, Deutsche needs more capital."

The problem for the bank is that it has too few options to improve its capital position. Given its weak profitability, some people close to the company acknowledge that the least painful way to improve its position, retaining profits, is unlikely to close the gap.

Cutting assets further would improve ratios but at the expense of longer-term earnings. Selling businesses, such as its asset management arm, have similar disadvantages. With its shares well below book value, and bank stocks hardly in vogue with investors, it is also not a good time to go to the market to raise equity.

With such limited options, there is even chatter among bankers that the state might have to stand behind a rights issue, something German officials dismiss as speculation by hedge funds keen to drive down Deutsche's share price.

It is not only speculators raising concerns. The jitters are a sign of Deutsche's significance as the biggest bank in the most important economy in Europe, and a reminder of how high the stakes are, not just for Mr Cryan. The International Monetary Fund said last month that, among globally significant banks, Deutsche "appears to be the most important net contributor to systemic risks". No one wants the fund to be proved right.

Deutsche in numbers

€6.8bn
Loss made by Deutsche Bank last year

€860m
Expected loss in 2016

€11.22
The share price low reached in July — 24 per cent lower than at the depths of the financial crisis

€17.7bn
Investors' assessment of the bank's worth, according to its share price

7,000
Separate lawsuits and regulatory actions that Deutsche Bank is facing

€5.5bn
Size of its litigation reserves

10.8%
Core tier one capital ratio at the end of June — low compared with its peers

New leaders
European bank chiefs face tougher scrutiny

Most analysts agree that John Cryan has the toughest job of the European bank chief executives who were appointed within a few months of each other last year at Deutsche, Barclays, Credit Suisse and Standard Chartered.

Underlining just what an uphill task Mr Cryan, left, faces, Deutsche shares have dropped about 60 per cent since he started last July, more than any of the other three banks over the same period. Each had a bumpy ride and reported a net loss last year. But Deutsche seems to have the fewest options, lacking Credit Suisse's large wealth management operation, the solidly profitable retail and credit card business of Barclays or the emerging markets penetration of StanChart.

News of Mr Cryan's appointment was applauded by investors, who sent shares up 8 per cent on the day after it was announced. The German press was also positive, welcoming the fact that, unlike his predecessor Anshu Jain, he speaks good German and hailing him as an "ice-cold restructurer" for his role in stabilising Swiss bank UBS.

A year on, the press has become more sceptical, with some observers questioning whether Mr Cryan has a "vision" for the bank once it has been cleaned up. Big investors, however, remain in Mr Cryan's corner. "Cryan is the right man," says one top 10 investor. "First you have to set up the bank solidly. Then you can work on visions."

Tidjane Thiam was also cheered by investors when he took over at Credit Suisse. But since then his strategy has been underwhelming and his credibility took a knock with his admission that he "didn't know" about a distressed debt position that caused a $1bn loss.

Some Barclays investors have criticised Jes Staley for slashing the dividend and for selling the bank's African operation instead of cutting deeper into the investment bank.

The top performer in share price terms has been StanChart's Bill Winters but this largely reflects the bank's relative immunity to Brexit disruption.

Speed read

Business blow Lower trading volumes have hit Deutsche's markets operation, which accounts for a third of revenues

Deflecting attention Italian PM Matteo Renzi took a swipe at Deutsche's large derivatives book earlier this month

Banks out of favour With its shares trading at a third of book value, it is not seen as a good time to raise equity

FINANCIAL TIMES
'Without fear and without favour'
FRIDAY 29 JULY 2016

Concerns over political influence at the IMF

The fund must continue to reduce the undue dominance of Europe

With the sad exception of Greece, the eurozone financial crisis has fallen down the list of problems that European leaders have to confront, with migration and Brexit rising to the top. The International Monetary Fund, which played a leading role in trying to resolve the crisis, has had to turn its attention to more familiar issues of balance of payments problems in emerging market commodity producers.

Yet the report yesterday by the IMF's watchdog, the Independent Evaluation Office, on the IMF's role in the crisis deserves attention. The study does not find conclusive evidence of political interference in the fund's processes. It does, however, provide ammunition for the view that Europe's outsized influence over the governance of the IMF must continue to decline if the institution is to retain credibility.

Several of the conclusions of the report have been accepted already by IMF management, headed by Christine Lagarde, and its executive board, which represents its shareholder countries. Taking their lead from European officials, the IMF failed to grasp that balance of payments problems could occur within a currency union. It also ignored the lesson it had supposedly drawn from earlier crises: that a prompt and orderly writedown of private and public debt is often necessary to restore confidence.

It participated, too, in a "troika" of lenders, the others being the EU and the European Central Bank, which meant that its hands were frequently tied.

As Ms Lagarde says in her response to the IEO report, its authors did not find clear evidence that IMF staff or management were unduly influenced by political pressure. But such pressure is rarely written in the record, particularly when, as the report disturbingly makes clear, key decisions seem to have taken place outside normal policy channels with no proper evidence about how they were reached.

Political influence often operates instead in intellectual and institutional capture, in an organisation dominated by one way of thinking. Whether or not direct political interference by shareholder countries exists, the fund must strive to minimise its potential.

As the crisis spread across the eurozone, for example, there was a clear conflict of interest in Dominique Strauss-Kahn being head of the IMF. The former finance minister's ambition to stand for the French presidency was well known, arousing suspicions that political considerations, particularly with regard to writing off debt to European creditors, were affecting the fund's judgment. The IMF made a marked change of direction on that issue after Mr Strauss-Kahn was replaced by Ms Lagarde, who deferred much more to the views of IMF staff economists.

The fund has undoubtedly learnt lessons from the eurozone crisis, including the effect of fiscal contractions in an economy operating below potential. But it is disturbing that European governments maintain outsize voting power, even after recent reforms. The EU has also yet to demonstrate that it has abandoned the traditional stitch-up by which it in effect appoints the head of the IMF.

Even though most of the rescues in which it participated were qualified successes — Ireland, Portugal, Cyprus — there is no doubt the eurozone crisis and particularly Greece showed up institutional weaknesses within the IMF. These may be corrected piecemeal but there remains a serious question about whether an institution that retains a lopsided influence from one part of the world can ever be seen as dispassionate and even-handed.

Britain's relations with Ireland need special care

May recognises that Brexit cannot put a hard-won peace at risk

For the best part of 40 years, Ireland's relations with the UK have been cultivated within the EU to transformational effect. Old enmities have faded along with the border that once divided north and south. Under the umbrella of the EU both states have worked to consolidate peace in Northern Ireland in ways that alone they never achieved. Trade between the two countries has flourished. And, for the most part, they have sat on the same side in Europe, championing a liberal economic agenda and guarding transatlantic relations. London and Dublin, the protagonists of a centuries long feud, are as tight as they have ever been.

Britain's decision to leave the EU comes as a jolt, complicating the task of consolidating the achievements of the 1998 Good Friday agreement, which brought an end to the troubles in Northern Ireland, and of sustaining Ireland's recovery from the 2008 financial crash.

Although barely raised during the referendum campaign, the stability of Northern Ireland and Anglo-Irish relations could both be greatly affected by the outcome of UK negotiations to exit the EU. Theresa May, UK prime minister, was wise therefore to signal this week how important it is to maintain the positive momentum by visiting Belfast and hosting Ireland's prime minister, Enda Kenny.

Both sides have much to lose. Without the support of its outsized neighbour, Dublin may now find itself more isolated in Brussels on EU issues such as tax harmonisation, which it opposes. Although Ireland's economy is less dependent on the UK than it once was, it is still heavily so. Trade between the two countries is worth more than €1bn a week and is more important to the UK than business with all of Africa. Any slackening in UK growth has knock-on effects for Ireland.

For business on both sides, the downside would be more pronounced should London leave the single market in return for controls on the freedom of movement of EU nationals. That scenario could require the reimposition of the border in Ireland, although the UK and Irish prime ministers have both pledged to avoid this.

Since the Good Friday agreement, the old dividing line imposed at Irish partition in 1922 has all but disappeared. The free movement of people and goods across it, has since become a powerful symbol of how the communities of Ireland are now at ease. Repartition risks reawakening the ghosts of Irish nationalism at a time that in Ireland, as elsewhere in Europe, the centre ground in politics is shrinking and populists are already on the march. Yet the 310-mile border will be the UK's sole land frontier with the EU. To prevent EU nationals, and smugglers, from entering the UK through the back door, immigration and customs controls might have to be reimposed.

In this, the UK must weigh the priority of preserving the union against the prerogatives of Brexit. Ireland, meanwhile, is confronted by choices it did not want to make and outcomes over which it may have little say.

Maintaining the common travel area, which allows passport-free travel between the two countries, and ensuring the border remains as invisible as possible, will be priorities. So, too, will relations within the EU. Handled carefully these constraints could act as a brake on the ambitions of the more radical Brexiters who favour a clean departure from the EU.

Brussels once bent over to ensure bureaucracy did not get in the way of the Good Friday agreement. The utmost care will be required from all sides to ensure that nothing jeopardises that rare achievement.

Letters

Email: letters.editor@ft.com or
Fax: +44 (0) 20 7979 7790
Include daytime telephone number and full address
Corrections: corrections@ft.com

Food shared with others is nourishment for the soul

Sir, No doubt on account of his age — 27 — Rob Rhinehart must be forgiven for his radical and "self-taught" opinion on food, which he would like us to swallow as efficiently as his liquid meal in a bottle ("Eggs and milk — when were those invented?", Lunch with the FT, Life & Arts, July 23).

I was horrified to read that, for him, the intake of food is basically an out-of-date, time-consuming necessity of life that has been resolved by Soylent, the ghastly liquid food he has invented. What I read made me think of a Huxleyan or Orwellian world where people no longer interact and communicate around a balanced meal, shared and enjoyed in the company of others.

Food is far more than a carburant for the body. It is also nourishment for the soul. Through the preparing and the sharing of meals, it harbours a binding social element that is part of what is known as civilisation. From time immemorial, man has partaken of meals with his community, friends and family, and indeed it is no doubt a social regression for food to be not only prepared industrially but consumed whenever and wherever it is needed.

No wonder our western populations are suffering from a new scourge, obesity, with all that this illness implies.

Our over-nourished societies need to eat less but better food, quality as opposed to quantity. Food should not be considered as a cheap and low-cost commodity. Everything we eat should be chosen with care, as what we eat will have repercussions on our health and our state of mind.

Mr Rhinehart's choice (no "foodie" he!) for his Lunch with the FT was exactly like the school lunches of my childhood: he piles it on his plate with little discernment and seems to find satisfaction in double servings, swallowed down with Coca-Cola. A typical meal for a young man of 27 — but in what possible manner is this privileged and educated young adult giving us lessons on how to feed ourselves like civilised creatures?

Mr Rhinehart claims he has whiter teeth, thicker hair and better skin through his diet. But he's only 27 and so he should be in a healthy physical state. Has he considered the consequences of a liquid-only food such as Soylent? Our teeth (no longer useful) may start falling out; mastication, which begins the digestive process, will not be necessary; the protective bacteria in our gut may disappear: humans have never based their diet on algae. And what of depression brought on by a lack of social intercourse and satisfaction of the palate?

But what I fear most is that our societies will certainly be the worse for guzzling Soylent whenever the brain (or a smartphone app) sends a message to say that food is required.

What a depressing thought for the future of our old-fashioned and still civilised world.

Arline Gaujal Kempler
Directeur Général Délégué,
Foncière Inea,
Paris, France

Legal structure for governance reform is already in place

Sir, Guy Jubb (Letters, July 27) criticises the legal duty of directors to promote the success of their company, but makes no suggestion for what to put in its place. The answer was given in the letter on the same page from Simon Howley. The Companies Act already obliges a board to have regard to the long-term consequences of any decision, which Mr Jubb rightly describes as of critical importance. In addition, it requires directors to consider the interests of employees, customers, the impact on the community and the maintenance of high standards of business conduct among other things — all factors regularly mentioned by critics as currently missing.

An appropriate legal structure is already in place. One factor that may still be lacking is the willingness of investors to flex their muscles and so ensure the directors pursue the outcomes they wish for. Since 2010, FTSE 350 directors have each year stood for re-election by shareholders. How many have been voted off the board?

Martin Webster
Partner,
Pinsent Masons,
London EC2, UK

No possibility that leaving will cut off trade with EU

Sir, Jim Gallagher, in "Sturgeon and May must balance party and country" (July 27), makes two assertions that should not go unchallenged.

He writes that the leave vote "was as much protest as proposal, and it was a cry of distress, not a commitment to the detail of constitutional change, that delivered the narrow majority" and that the government "is not required by the Brexit vote to . . . cut off trade with the UK's biggest market".

To the contrary, the leave vote was the articulation of a deep attachment to democracy and national independence, made despite the huge weight of state propaganda thrown at the campaign. A longer, cooler debate might well have delivered a larger majority for leaving.

And there is not the slightest possibility that leaving the EU customs union, as we are surely bound to, will "cut off trade" with the remainder of the EU. The common external tariff is 10 per cent on cars, which can easily be absorbed thanks to the more competitive exchange rate. It is much higher on food and textiles, and is clearly not the optimal tariff for the UK.

Dermot Glynn
London SE3, UK

The English simply won't settle for having no say

Sir, There is at least one major problem with the so-called "Norwegian model" for Brexit as proposed by Jim Gallagher in "Sturgeon and May must balance party and country" (July 27). England is not Norway. While a level of "associate" membership of the EU has been workable for the Norwegians and, for all intents and purposes, the Swiss, it would never be acceptable to the English. Not since Richard I pursued glory in Palestine has "England" been willing to take a back seat in decision-making. There is simply no way that a situation in which England was required to implement rules governing trade and immigration, while having no say in those rules, would be sustainable.

For a country that aspires to be a major world power there is no halfway house. The UK must either remain a committed member of the EU or resign itself to no longer being part of the "common market" regardless of the costs.

Alex McAuley
Prangins, Switzerland

Central banks continue down Greenspan's road

Sir, Recent concerns about pensions given low returns on bonds and gilts/Treasuries ("Brexit piles pressure on overstretched pensions", July 18) are ironic in light of the report on Treasuries by Alan Greenspan in 2001 when he was Fed chairman.

Mr Greenspan asserted that the US national debt (then at about $3.4tn) was being paid down at a remarkable rate with a dwindling supply of Treasuries available. He argued before Congress that it was a "great thing" as it would add to the national savings, keep long-term interest rates down and encourage more investment. However, he noted that circulating Treasuries allowed the Fed to stimulate the economy by buying them up, then by injecting liquidity into the market.

To deal with the problem, Mr Greenspan had in 2000 expanded a programme begun in 1999 via the Federal Open Market Committee's initiative allowing the NY Fed to accept mortgage-backed securities as collateral on loans extended to securities dealers. If that were not enough to set the fuse of an explosion ("irrational exuberance"), the FOMC had staff begin a process of using as collateral certain debt obligations of US states and foreign governments. All this, according to Mr Greenspan's testimony to Congress, so that its operations would not affect any private sector securities. The result was a vast expansion of debt, the marketing of real estate debt and the tremendous crash of the stock market that affected millions of peoples' private sector securities.

It is amazing that Mr Greenspan has escaped responsibility for the mess he promoted, and that the world's central banks continue down this road.

Dr Niccolo Caldararo
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San Francisco State University, US

Labour loyalists seek an unblinkered candidate

Sir, Janan Ganesh ("Disillusioned Corbyn backers deserve no sympathy", July 26) makes the mistake of accepting both Labour factions' narrative that ideology is the issue. But Labour's present travails stem more from amnesia about the party's nature and about its sources of success.

It has always been a wide coalition of religious people, trades unionists, Marxists, Fabians, activist state liberals and others who have understood that social progress depends on unity among these. Such unity in turn must depend on discipline, loyalty and mutual respect. Given the realities of class power it could not be otherwise. Both factions in the current dispute seem to have forgotten this. All call for discipline and respect, while few practise it. Meanwhile, party loyalists look in vain for a voice that is not blinkered by factionalism, "insiderism" or ambition.

As a member who will have to decide between the current candidates, I would have preferred a grown-up committed to solidarity, even if he or she disagreed with my ideology.

Amit A Pandya
London N3, UK

It seems Corbyn missed one or two things

Sir, Janan Ganesh's broad attack (Comment, July 26) on Jeremy Corbyn's failure to learn from the 20th century's "extended rebuttal" of his "economic and foreign policy" is more convincing than Peter Cave's narrow points of defence (Letters, July 27). Mr Corbyn missed the failure of leftwing socialism in the USSR, China and India that left 2bn people in needless poverty and murdered 50m. He did not, as far as I'm aware, support the uprisings in the Soviet empire or the free market reforms in Asia. Far from being a radical, he comes across as a reactionary who would like the world to go back to where it was in 1982 and has nothing much to say about the 21st century. He is an elderly rebel who has never run anything in his life. The only question for Labour is whether to ditch him now or leave it until an election has shown his clear failure to his supporters.

Marek Wakar
London W4, UK

Whig Supremacy II?

Sir, Henry Mance's speculations (July 27) about a new centre party taking shape in the UK may prove prophetic. The Whig party re-formed in 2014 under a liberal and intelligent leader, and membership is spiking in the wake of Brexit. Perhaps another Whig Supremacy is just around the corner.

Peter Wagstaff
Bristol, UK

The SDP casts a shadow over Labour MPs in despair

Notebook

by Robert Shrimsley

Some of my best friends were social democrats. They joined Britain's fledgling SDP in the early 1980s, fired up with dreams of "breaking the mould" of British politics.

Then, as now, there appeared to be a gap at the centre of British politics between a hardline Conservative government and an increasingly leftwing Labour opposition engaged in pursuing policies that made its own members feel good but rendered it unelectable to many voters. Then, as now, there was talk of a realignment around a progressive centre and of Labour MPs splitting to form a new party. Paddy Ashdown, a former Liberal Democrat leader, has launched a new centrist grouping called More United UK with the familiar dream of building a moderate progressive alliance. But for Labour MPs in despair at the ineffectual and hard-left leadership of Jeremy Corbyn the SDP casts a long shadow over such talk, because by conventional measures it was a failure.

For a while it was all terribly exciting. They held jolly rolling party conferences on trains. Opinion polls gave the party staggering leads and members truly believed they were about to reshape British politics. With what now looks like hubris, they talked about the new politics and plotted rebuilding the House of Commons as a circular chamber.

Within six years the gap at the centre had closed and the SDP was squeezed from existence. In 1983, it came within two percentage points of beating Labour in the share of the popular vote, though its 25 per cent support translated under the UK's voting system to a handful of seats. By 1987, almost all the Labour MP defectors to the new party had lost their seats. What remained split and scattered.

Seen this way, the SDP is a bleak warning for Labour MPs. The splitters were wiped out and saw Margaret Thatcher's Tories win two more elections with huge majorities. But viewing it through this prism is a mistake.

Of course, its leaders would like to have formed a new winning party but they always knew the odds were against them. The SDP's real goal and real success was in keeping a very leftwing Labour party out of power until it understood that the price of refusing to compete for the political centre was Conservative hegemony.

Having failed to reform Labour from within, they forced it to reform from without, creating the conditions for Tony Blair to drive it into the centre and back into power.

Today under Mr Corbyn, Labour is shaping up as a hard-left party led by a man explicitly rejected in a vote of no-confidence by 80 per cent of his own MPs. He now faces a leadership election, but with early indications suggesting members will re-elect him talk of a split has resurfaced.

The parallels are not exact. Last time, the split was led by four political heavyweights, all former cabinet ministers, at least three of whom — Roy Jenkins, Shirley Williams and David Owen — had substantial public profiles. Jenkins was a major figure, a social-reforming home secretary and former chancellor. Patently prime ministerial material, his return to London to found the party after a stint as president of the European Commission gave its creation the aura of electability. The current crop of disaffected Labour MPs boasts no one of equivalent stature.

There are also signs that the centre of political gravity is shifting leftward as voters turn their backs on the unfettered fill-your-boots capitalism of the past decades. Mr Corbyn may be a step too far but the party need not revert to Blairism to be viable.

If today's potential splitters are right that a Corbynite party is unelectable, they, too, have little to lose. It should also be said that even in defeat, life was not too awful for the SDP's leading lights. Their political death was softened by an ermined afterlife in the Elysian Fields of the House of Lords. Others, like my friends, fled to other parties, fuelling their modernisation. It turned out that they had not so much broken the mould as secured it.

But if the disaffected Labour MPs are tempted to split they must do so knowing that they will not be the beneficiaries. For, as in the 1980s, the true goal is not to replace Labour but to force it to save itself.

The SDP split was a success; but it was a successful suicide mission.

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Comment

The US student debt bubble is a study in financial dysfunction

OPINION
Rana Foroohar

One of the most memorable moments of this week's Democratic National Convention came during Bernie Sanders' speech, when young delegates wept as the former presidential candidate endorsed Hillary Clinton. No wonder they were crying. Mr Sanders brought America's $1.2tn student debt bubble into the spotlight, arguing for free college tuition so that young people entering a lacklustre US labour market would not be hamstrung by debts they could never repay.

It is an issue of concern, and not just for millennials. The majority of college graduates in the US now move back home with their parents, often for several years. The class of 2016, the most indebted in history, cannot afford homes, cars, or other trappings of a middle-class life, which is an obvious problem for an economy 70 per cent of which is accounted for by consumer spending.

In many ways, the student debt crisis chimes with Mr Sanders' other bugbear: the subprime crisis of 2008. Many of the same factors are in play: a cost bubble (the price of college has increased by over 1100 per cent in the past three decades); vulnerable borrowers paying above-market rates (student loan prices, fixed by the government, have not fallen despite near zero real interest rates); corruption (scandals involving Pell Grants, subsidies for low-income students, have been rife); conflicts of interest between educators and regulators (which are predictably understaffed and underfunded); and a victim-blaming mentality when it all goes wrong.

While too many students sign up for useless degrees in things like sports marketing, it is also true that they are aggressively pushed into it by both non-profit and for-profit institutions that spend an increasing amount of their revenue on marketing to students. Apollo, parent company of the for-profit University of Phoenix, which went public in 1994, at one point had a marketing budget larger than Apple's.

Colleges, too, often invest in luxury facilities to attract richer (full-fee paying) students, or, in the case of the for-profit sector, take big profits (margins typically run above 30 per cent). Students are regularly over-promised financial aid in complex deals that then change year on year, just like the subprime mortgages that blew up in 2008.

> A majority of graduates now move back home with their parents, often for several years

The "financialisation" of education has grown in tandem with the rise of the financial sector over the past 40 years. In many cases, universities themselves are being duped by Wall Street into bad debt deals, just as public municipalities such as Detroit were in the run-up to 2008.

The Roosevelt Institute notes that seven of the eight largest universities in the state of Michigan, for example, have got involved in risky interest rate swap deals in recent years, resulting in millions of dollars in unnecessary fees, further raising costs for students.

The very idea that a large number of American universities are now involved in interest rate swap deals that put them far out of their financial depth raises questions about how their balance sheets are being managed. But the financialisation of education and the debt bubble it has brewed raises a deeper question: who, exactly, is higher education for? Who is it helping?

While a degree does ensure a job paying more than $15 an hour for most graduates, it is no longer a ticket to social mobility for the poorest Americans, in part because so many end up in second- or third-tier colleges, and a large chunk of those who try for a degree end up dropping out, many because of financial issues.

Among those who do graduate, debt loads can equal downward mobility. A 2013 study by the think-tank Demos found the average student debt burden for a married couple with two four-year degrees ($53,000) actually led to a lifetime wealth loss of nearly $208,000.

Thanks to Mr Sanders, free tuition at in-state public colleges and universities for all Americans whose families make up to $125,000 a year is now a proposal in Mrs Clinton's campaign.

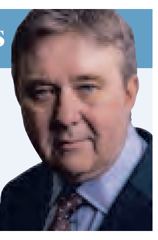
Meanwhile, the market is already disrupting the existing model. Online education has challenged the notion of physical colleges. Fintech firms, not bound by federal student loan rules, offer crowdfunded loans at lower than average rates.

Just as the most successful and enlightened companies now think of workers as assets rather than costs on a balance sheet, so the next American president should understand that future growth will depend on creating a system of higher education that does not leave students, and the country, drowning in debt.

The writer is author of 'Makers and Takers: The Rise of Finance and the Fall of American Business'

May is right about reforming capitalism

GLOBAL POLITICS
Philip Stephens



From time to time politicians mean what they say. This seems to be the case with Theresa May, Britain's new prime minister. For David Cameron the simple fact of his occupying 10 Downing Street was mostly enough. Gifted the job by the failure of Mr Cameron's Brexit gamble, Mrs May gives every appearance of having plans for her premiership.

It is unfashionable to pay much attention to political speeches. Much more interesting to spot the supposed gaffes and conflicts. But Mrs May's brief statement outside Number 10 on her first day in office bears a second glance. By my count it runs to just 650 words. What is striking is that the issue that propelled her to power, and the one that could yet see her laid low, claimed just 75 of them.

For most of the rest of it, Mrs May promised at once a kinder brand of capitalism and a government ready to intervene to iron out inequalities and take on vested interests. She highlighted the shorter lifespans and poor educational attainment of the least well off, gender and ethnic discrimination, and employment and income insecurity among what politicians like to call the hard-working classes. "When it comes to opportunity we won't entrench the advantages of the fortunate few."

The comments are worth looking at alongside the single speech delivered by Mrs May in the truncated Conservative party leadership race. This too was about domestic politics rather than the momentous decision to wrench Britain out of the EU. In it she floated a range of ideas to improve the way the economy works, including the appointment of worker and consumer representatives to company boards, binding shareholder votes on executive pay and stronger controls on foreign takeovers.

The knee-jerk response to these latter suggestions has been that governments should not interfere in the operation of markets. The critics have their heads in the sand. Things have moved on since the 1970s. Sir Philip Green's handling of the sale of the now defunct BHS — rightly and roundly condemned this week by a committee of MPs as the unacceptable face of capitalism — was at the far distant end of the scale. But a glance at the way increases in boardroom pay have outstripped by a mile improvements in corporate performance during the past decade or so is proof enough of a much deeper problem. There is too much rent-seeking and too little wealth creation.

Another glib response says all incoming prime ministers promise to govern for the country as a whole. Mrs May could hardly have stood on the steps of Downing Street and promised two-nation Toryism. There are words and words. When George Osborne, the former chancellor of the exchequer, coined the phrase "We're all in this together" to describe his approach to austerity, the sentiment was instantly belied by the Treasury's actions. Fiscal retrenchment was loaded overwhelmingly on to spending cuts rather than higher taxes, so ensuring the pain was felt disproportionately by the less well off. Mrs May, one suspects, will not repeat the mistake.

Even putting the upheaval of Brexit aside, Whitehall officials say that her move into Downing Street feels much more like a change of government than one simply of prime minister. She has returned a certain formality in place of the chumminess of Mr Cameron's Notting Hill set. More importantly, she has never shared the metropolitan liberalism of her recent predecessors. To her mind, rights come with responsibilities, for business leaders as much as for anyone else. These responsibilities reach beyond observing the letter of the law.

> Whitehall officials say this feels more like a change of government than one simply of prime minister

It would be surprising if the aggressive tax avoidance operations of digital behemoths such as Apple, Amazon and Google did not feature high on her list in this regard. These corporations — and they extend beyond the world of technology — content themselves with noting that their complex cross-border tax structures do not technically break the law. They fail to recognise that successful market economies depend on recognition of standards, norms and mutual responsibilities that extend beyond the statute book.

It is fair to say that the odds are stacked against the prime minister. It is quite possible that the process of Brexit will swamp all else. The basic mechanics of withdrawing Britain from the EU will consume vast amounts of political and administrative energy. Britain cannot even start to negotiate new trade deals before it first replaces the agricultural, environmental and regulatory frameworks at present provided by Brussels.

The structure Mrs May has created to carry out the task — split between the Foreign Office and new trade and Brexit ministries — looks inherently unstable. And this is before the prime minister confronts the arguments erupting within her party over whether the June 23 vote was for a "hard" or "soft" Brexit.

What should be obvious, though, is that Mrs May is on to something. The referendum vote was as much an expression of disenchantment with the elites and the workings of the liberal market economy as a repudiation of the works of Brussels. The same can be said of the rise of populist movements across Europe.

"Labour Isn't Working", declared the famous Tory election poster before Margaret Thatcher swept to power in 1979. The same might now be said about the present anything-goes model of capitalism. Fixing it means making it fairer.

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No, this is not the 1930s all over again

OPINION
Jacek Rostowski

The wave of populism in the western world which has given us Brexit, and may carry Donald Trump and Marine Le Pen to power in the US and France respectively, has been compared to the social forces which drove the politics of the 1930s. Increasing job insecurity or unemployment in Europe and the failure of median wages to rise for many years in the US are cited as the "root causes" of the phenomenon.

This is a "social-democratic" explanation of the current western political crisis. The suggested remedies that flow from it are also predictably social-democratic: reducing job insecurity and inequality, increasing social benefits, especially for those in work, and raising taxes. If you have no choice, reduce immigration before the populists do it for you.

However, the parallel drawn with the politics of the 1930s is overblown. Fascism in Germany and Austria and revolutionary leftism in Spain thrived as a result of truly extreme economic deprivation. Gross domestic product in Germany fell by 30 per cent after the Great Crash in 1929, and unemployment reached 6m. In Spain the Civil War was preceded by widespread hunger in the south and artillery shelling of striking miners in the north.

Today, by contrast, the economic performance of Poland and Britain, the two countries that have already succumbed to the present populist wave, is well above the average in Europe. Poland has been the EU star performer, with GDP growth of 28 per cent between 2007 and 2015. Contrary to the "social democratic narrative", inequality in Poland has fallen. The real income of the middle 60 per cent of households has increased by more than 50 per cent and unemployment is at an all-time low of 6.3 per cent on the harmonised EU definition.

The UK has also done quite well, with German-style GDP growth and unemployment at 5 per cent, whereas the next country in line for a populist insurgency may be the US, which has performed far better since the crisis than Europe.

At the other end of the scale, the countries that have suffered most are not necessarily electing populists. Three days after the Brexit vote in the UK, Spanish voters increased support for Mariano Rajoy's centre-right Popular party, in spite of a series of corruption scandals linked to it. In an even greater surprise, they gave the leadership of the left to the moderate, social-democratic Socialist party in preference to the far-left Unidos Podemos movement.

> Many of the countries that have suffered most economically are not electing populists

Yet, contrary to Britain, Spain has seen its GDP fall by a cumulative 8 per cent since 2007 and is hampered by unemployment exceeding 20 per cent (50 per cent among the young). Italy, with a similarly poor record of economic achievement has also, so far, resisted the temptation of Beppe Grillo's Five Star Movement, opting instead for the moderate left-of-centre government of Matteo Renzi. Greece is, of course, the exception that proves the rule. The 25 per cent decline in GDP it has suffered is truly on the scale of the 1930s, so maybe we should not be surprised that it elected the neo-Marxist Syriza.

So what is happening, if the present populism is not correlated with unbearable misery, as it was in 1930s Europe? The alternative to the social-democratic explanation is a conservative one: populists are doing well in countries that are doing well, because voters there do not believe that anything really bad can truly happen. Why not "give the populists a chance" to fulfil their promises? After all, maybe they can deliver.

Indeed, the leaders of the Brexit campaign have been decidedly Pollyannaish in their confidence that Britain will thrive, trading with the world once it throws off the shackles of Brussels. The Law and Justice party in Poland has beaten the same drum: its main slogan is a straight translation from Barack Obama's sunny "Yes we can" ("*Damy Radę*"). Hardly the stuff *Mein Kampf* is made of.

On the other hand, voters in countries that have suffered most from the crisis know that bad things can indeed happen. As a result, they have — so far — behaved more responsibly. Even the Greeks re-elected Syriza after it pragmatically chose austerity and reform instead of Grexit.

Unfortunately this conservative explanation is not much more hopeful than the social-democratic one in its implications for the future. We may not be reliving the dark 1930s. But the wishful thinking and irresponsibility of those in comparatively well-performing countries bears a uncanny resemblance to the way the nations of Europe, in the sunny early August of 1914 went off singing to war, convinced that "it will all be over by Christmas".

The writer is former deputy prime minister and finance minister of Poland

Weak Italian banks are a symptom of deeper problems

OPINION
William Rhodes

Negative interest rates are taking the world of finance into uncharted waters. The impact will be damaging for most economies, especially the 19 member countries of the eurozone.

The monetary union is facing a mounting crisis that combines indecisive leadership, uncertainty following Britain's vote to leave the EU and struggling banks whose problems are compounded by the failure to establish a comprehensive banking union.

This crisis is about to come into stark focus. The European Central Bank will release the results of stress tests for major banks today and this is bound to underscore the problem of low capital levels at many banks, especially in Italy.

At the centre of concerns is Europe's oldest bank, Monte dei Paschi di Siena. Placing it on a stable footing looks as if it will be more difficult politically than has been expected. A new ruling by the European Court of Justice has upheld the principle of making creditors bear the burden for investment in banks with high levels of non-performing loans and capital difficulties.

The Italian government has estimated that as much as $45bn is needed to secure Italy's banks and, given intense domestic political pressures, Matteo Renzi, the prime minister, is pushing hard for an old-style government bailout. I believe that the German chancellor Angela Merkel and French president François Hollande understand the risks to the EU of a full-scale political crisis in Italy, particularly with a constitutional vote set for October, and in the wake of the Brexit vote and the migrant crisis. They would like to see a compromise, but the European Court's decision makes this far harder.

> The failure to design and implement a banking union will soon come to haunt the eurozone

Making matters worse is the failure of eurozone leaders to design and implement a meaningful set of banking union arrangements. This failure will soon come to haunt the eurozone. There are three aspects to banking union: progress on regulation is being made by the ECB and the European Banking Authority; bank resolution rules have been determined, although they are not to be fully implemented until 2018; however, the third aspect, involving the introduction of deposit insurance, has yet to be decided.

The weaknesses of a number of European banks, not just Italian ones, are exacerbated by the global financial environment today. The current weakness, and possible further weakening, of the euro compared with the US dollar, reflects the relentless search by investors for short-term yield across the world.

A weaker euro will at best produce a marginal increase in economic growth, but which will not be sufficient to mitigate problems with the banks, high levels of youth unemployment in many countries and the widespread sense of economic stagnation. The US and Japanese economies are growing well below potential. Except for India, there are no bright spots across emerging markets. And Brexit Britain, with a weaker pound, will be competing even more forcefully against eurozone economies in the depressed global export arena.

Eurozone leaders must not only move quickly to complete the banking union and find a political compromise in order to secure Italian banks; they must also finally turn their backs on austerity economics. They cannot continue to rely on the ECB to produce growth through monetary policy. They need to allow France, Spain, Portugal and Italy to breach rigid EU fiscal deficit targets. Further, they must recognise that unless debt relief is provided to Greece there will soon be another cliffhanging crisis there too.

The eurozone faces some major policy decisions. Further efforts to fudge crucial issues will not only fuel populist anti-EU sentiment, but it could have grave global economic consequences as well.

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Lloyds Banking: say a little prayer for him

Aretha Franklin is known for her emotional insights into vexed human relationships. Lloyds Banking Group chief executive António Horta-Osório must know how the Queen of Soul feels. Yesterday, the bank reported a doubling of first-half pre-tax profits and raised the dividend by more than a tenth — yet the shares fell 4 per cent. What does a bank chief executive have to do to get some respect?

With no investment banking operations and no overseas business of note, Lloyds is by far the biggest of a group of banks that are plays on the health of the UK economy. Until the EU referendum, that was largely a good thing. Over the past five years, despite broadly flat revenues, the bank managed to steadily raise underlying pre-tax profits by cutting expenses. Loan impairments helpfully fell to historically low levels, too. True, large and regular provisions for past mis-selling sullied the picture at the reported level but that did not prevent a return to the dividend list. Last year, Lloyds paid out just over £1bn (2.75p a share) and that will rise sharply this year. Royal Bank of Scotland does not pay dividends and Barclays recently cut its payout. The shares did well too; in five years before Brexit, they beat those of other UK banks handsomely. Since Brexit, though, they have fallen by a quarter and now stand at about the same level as when Mr Horta-Osório arrived in 2011.

The first half of 2016 did not contain a big PPI provision. Instead came a warning that business might slow and a cut in the amount of core tier one capital it expects to generate this year, from 200 basis points to 160 bps — equivalent to roughly 4.5p per share. A weaker economy may result in loan impairments rising and provisions against PPI — £16bn to date — may not be over yet. Lloyds' ability to maintain a progressive dividend policy, a big part of its appeal to small investors in particular, is suddenly in doubt.

In response, Mr Horta-Osório is tugging ever harder on the only lever available to him: costs. The bank has raised its £1bn savings target by 40 per cent until the end of 2017; branches and jobs will go. But he does have a cushion; core tier one capital is strong at 13 per cent, the net interest margin looks resilient and the bank has managed an impressive double digit return on tangible equity. For those achievements at least, Mr Horta-Osório deserves a little credit.

Royal Dutch Shell: coupon cutting

When the oil price is rising, energy company executives are happy to take the credit for all the clever investment decisions they have made. When it falls, they turn their palms up and blame the commodity markets. This week European oil majors BP, Royal Dutch Shell and Total reported second-quarter results to a jaded market. All emphasised cost cutting. One day, this discipline might well deliver a fantastic return for shareholders. If it does not, dividends will have to come down.

Shell yesterday became the latest to point the finger at weak energy prices to explain surprisingly poor earnings. Second-quarter profits missed analysts' modest expectations by half. In the division that actually produces the oil and gas, (upstream) losses of \$1.3bn were twice as large as expected, leading to as much as a 4 per cent drop in the shares. The added depreciation charges from its new acquisition, BG Group, compound the effect from lower energy prices.

But Shell's costs remain too high. While its upstream production costs are over \$10 a barrel, notes Société Générale, those of French rival Total are well below that figure. The higher break-even drags on earnings. More important for dividend purposes, it reduces cash flow.

All of the majors struggle to cover their capital expenditures using the cash they generate from operations (before any asset sales), never mind paying for dividends. As a result, BP, Statoil and Total all hinted this month that their estimates for capital spending would slip further. But Shell looks especially weak. Even if one adds back a \$6.4bn increase in working capital, it did not have enough cash flow to cover its capex in the first half of the year.

Granted, one should not read too much into a single quarter or a half. But with oil prices dropping, the cash flows that finance payouts are again threatened. Dividends at Shell — the main reason many investors hold the shares — still do not look safe.

Oracle: all in the family

Oracle may have been late to the cloud computing party but its founder Larry Ellison was not. In the late 1990s he backed a software start-up, NetSuite. Yesterday, Oracle gatecrashed the joint by agreeing to buy NetSuite for \$109 a share, all in cash.

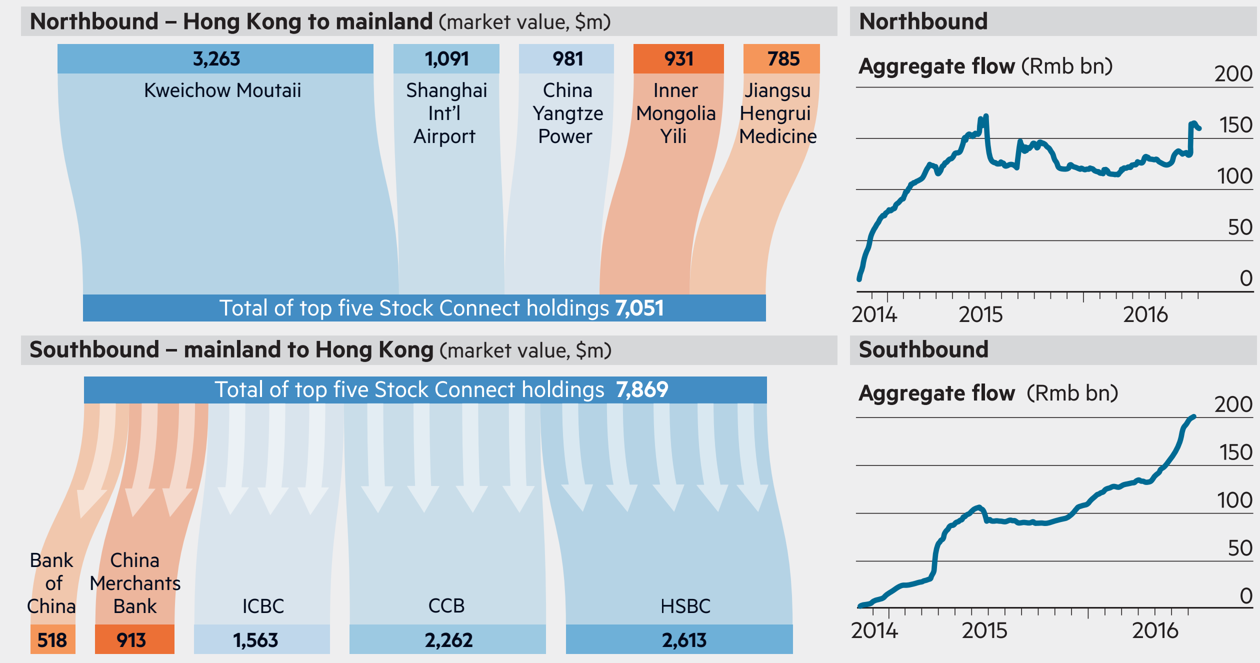
That is a tidy return for Mr Ellison; NetSuite, which proclaims itself the original cloud player, floated in 2007 at \$26 a share. But the tie-up came as no surprise, and neither should the circumstances around the deal. NetSuite financial planning software is geared towards small and medium-sized companies that rent it over the internet, while Oracle offers massive projects for Fortune 500 companies installed "on premise". They have co-operated before, for instance by making Oracle's human resources software available to NetSuite's clients.

Oracle has been touting its own rapidly growing cloud business for years. In the fiscal year ending in June, its \$2.8bn of sales accounted for a tenth of Oracle's total software revenue. NetSuite should add more than \$1bn in 2017. Mr Ellison believes Oracle can be the first software company to hit \$10bn in annual cloud revenue. That growth comes at a price. To add NetSuite, Oracle is paying 150 times the target's 2017 earnings; its own shares trade at 14 times. It has said the deal would add to earnings.

Oracle has form in buying companies controlled by Mr Ellison, too. In 2011, it acquired Pillar Systems (although not without controversy; Mr Ellison agreed to give up his gains after legal pressure from investors). But Pillar was private; Oracle's acquisition of NetSuite is pitched below its high of \$115 in 2014, and the premium to its undisturbed price is about 36 per cent — adequate but not egregious. Given Mr Ellison's stake, it is difficult to see the company attracting competing bids from the likes of SAP or Salesforce.

Mr Ellison has built a family of software companies. And as the godfather, it is perhaps inevitable that he is benefiting the most.

Hong Kong/China shares: unreliable connection



FT graphic Source: HKEX

One investor's dog stock is another's darling. In few markets is this more the case than in China, over whose economic prospects opinion is fiercely divided. On the basis that China's own citizens are closest to the action, their positioning might suggest that global investors should be more positive about its financial sector — and on Hong Kong shares.

Data on Stock Connect, a scheme that allows mainland investors to buy Hong Kong shares and foreigners to buy Shanghai-listed stocks, show that money has been flowing south. At the end of June, China-based investors held nearly \$30bn of Hong Kong-listed shares, taking up four-fifths of the aggregate quota. That proportion has grown steadily through 2016. By contrast, foreigners held a mere \$20bn in mainland stocks — about one half of the permissible amount — with little change over the past 12 months.

Mainland buyers' market positioning is quite different to that of emerging market fund managers. Last month, data from Copley Fund Research showed that the most active EM managers were avoiding Chinese banks, holding less than a quarter of the benchmark position. One of their most-loved names is Hong Kong-listed Chinese technology company, Tencent. Southbound Stock Connect investors are expressing the opposite view. Of their top six holdings, five are Chinese banks, including China Construction Bank and ICBC, while HSBC is their favourite holding. Tencent does not even appear on the list, despite being one of China's largest private enterprises with a market value of \$225bn — and having no dual listing on a mainland exchange.

One possible explanation is that Chinese banks' Hong Kong shares trade at lower multiples than their mainland listed stock, with discounts of between 7 per cent and 29 per cent. China-based investors might be choosing to buy companies they already know at cheap valuations (although the arbitrage is not closing the gap; Goldman Sachs points out that discounts have widened since Stock Connect launched). Another is that the Chinese have a less apocalyptic view of their debt problems than outsiders do.

Adidas: stars and stripes

Chelsea's players cannot wait to tear off their Adidas shirts. But the English Premier League club's preference for Nike gear (and the annual £60m for wearing it) gave Adidas some negotiating clout; yesterday the company revealed that it would extract a "mid-to-high-double-digit million euro amount" in early termination fees. The German sporting goods company can use the money to kick back at Nike by expanding further in North America (worth 39 per cent of global sports retail sales, according to Citigroup).

A marketing push in the US is already paying off, helping group revenue in the second quarter increase 13 per cent year on year. Operating margins are up, too. The partnership with Kanye West, a non-athlete, could help strengthen the trend. True, a steadier run of results is necessary to convince the market that the German company can beat Nike on its own turf. If so, it would hardly be the first time that Chelsea have ditched a winner.

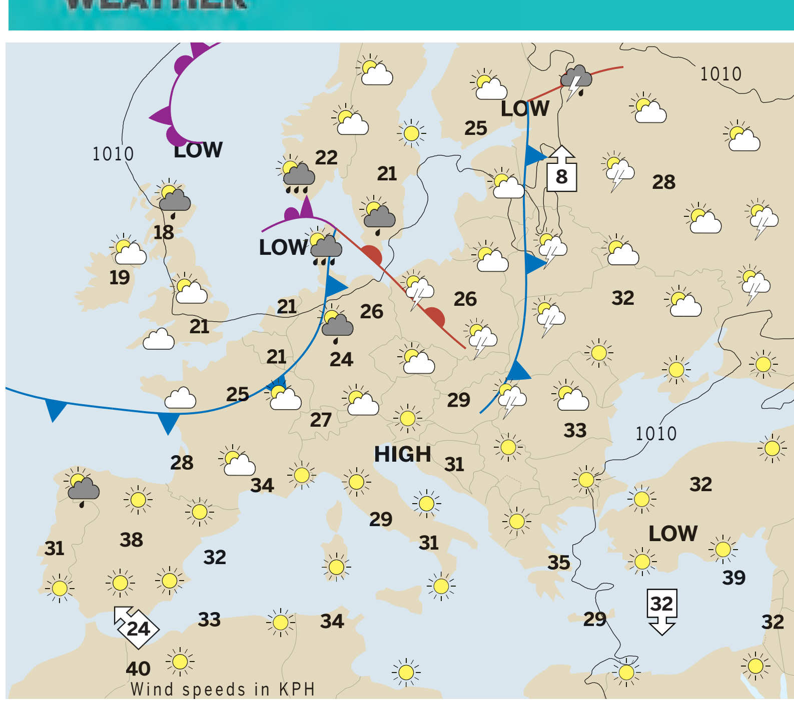
Rolls-Royce: no more CARs

The fan blades in Rolls-Royce's jet engines turn 50 times a second. Turning a profit takes longer: engine sales generate a loss, recouped years later by a stream of service revenues. Minor tremors in the latter cause what chief executive Warren East terms "accounting fog". It is a principal reason Rolls flummoxes accountants as much as it wows engineers.

Yesterday's half-year profits were down sharply but beat expectations. That older engine sales are tailing off, hitting margins, has been known for a while. The beat pushed the stock up 7 per cent at first. It later doubled this, reflecting a sense of the fog lifting. Clearer management structures help, as should accounting rules that might eliminate devices — like "contractual after market rights" or CARs — intended to smooth sales-profits mismatches. The long-term sales outlook is good. Margins must improve but a clearer view should help, too.

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

WEATHER



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

Today's temperatures Maximum for day °C

Abu Dhabi	Sun	41	Malta	Sun	29
Amsterdam	Cloudy	21	Manila	Fair	33
Ankara	Sun	32	Miami	Cloudy	33
Athens	Sun	35	Milan	Sun	32
Bahrain	Sun	38	Montreal	Fair	27
Barcelona	Sun	29	Moscow	Fair	28
Beijing	Cloudy	32	Mumbai	Thunder	29
Belfast	Cloudy	17	Munich	Fair	26
Belgrade	Fair	28	Naples	Sun	31
Berlin	Drizzle	26	New York	Thunder	27
Brussels	Cloudy	21	Nice	Sun	27
Budapest	Sun	29	Nicosia	Sun	39
Cairo	Sun	35	Oslo	Fair	22
Cardiff	Cloudy	20	Paris	Cloudy	25
Chicago	Thunder	24	Prague	Fair	25
Cologne	Rain	22	Reykjavik	Fair	16
Copenhagen	Shower	22	Riga	Cloudy	24
Delhi	Rain	31	Rio	Cloudy	22
Dubai	Sun	39	Rome	Sun	29
Dublin	Cloudy	19	San Francisco	Fair	22
Edinburgh	Fair	19	Singapore	Fair	30
Frankfurt	Cloudy	24	Stockholm	Sun	25
Geneva	Sun	29	Strasbourg	Fair	28
Hamburg	Drizzle	22	Sydney	Sun	18
Helsinki	Fair	25	Tokyo	Sun	31
Hong Kong	Sun	35	Toronto	Fair	28
Istanbul	Sun	31	Vancouver	Sun	23
Lisbon	Sun	31	Vienna	Sun	29
London	Cloudy	21	Warsaw	Thunder	26
Los Angeles	Sun	29	Washington	Thunder	30
Luxembourg	Drizzle	21	Zagreb	Sun	30
Madrid	Sun	38	Zurich	Fair	27

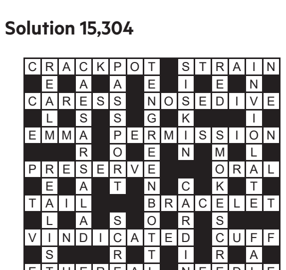
CROSSWORD
No. 15,305 Set by SKITNICA

JOTTER PAD

ACROSS
1, 19 Home team primarily cry – Moore and Hunt wave . . . . (6,7)
4, 24 . . . . Cohen and Stiles left to dance: do they have shirts on? (7-5)
9 Ball part of this? German with English, new World Cup winners? (9)
10 Captains make call in decider? (5)
11 Some open email offering treatment (5)
12 A unit of 11 torn to pieces? (9)
13 Leisurely Wilson's back goes running: that's enough! (7)
15 Ties lost (international matches) (6)
17 Right note sent back for recording device (6)
19 See 1
22 Drunk's personality wanting spirit – time before turning bad? (5,4)
24 See 4
26 Crowd missing start, Germany moved slowly (5)
27 Fantastic Hurst ultimately is an icon; he led players (9)
28 Study country and its continent with lecturer (7)
29 Ask the man, Ken, to drop pants with this problem? (6)

DOWN
1 They draw match, briefly reflecting on scores (7)
2 Stretch and tip over goal, Banks to save (5)
3 Minutes in match that's run over? (5,4)
4 See 18
5 Ancient characters try to get up – hard in the morning (5)
6 Moment of courage: overcome (9)
7 Nurse to help, not when time's short (6)
8 Stand and drink around student hour (6)
14 Desperate as each German chases balls (9)
16 Protection for players in sack – pulls out (9)
18, 4 Main feature of 24 – Charlton brothers initially playing (7,7)
19 Endlessly support, watch and smile! (6)
20 Sure a virus enters Jewish school (7)
21 One strips off, runs back out (6)
23 Peters and football people leave half cut (5)
25 No 2 to No 8 cry coming from field? (5)

Solution 15,304



Companies & Markets

FINANCIAL TIMES

A woman's place Management's top ranks still a battleground
INSIDE MEDIA, PAGE 12

Rolls-Royce	Fujifilm	Lloyds	Sterling/dollar	Brent oil	Nikkei 225	10-year UK gilt	Dollar/yen
13.52%	9.9%	5.83%	0.6%	1.7%	1.1%	2bp	0.5%
831p	¥3650	52.5p	$1.3142	$42.74	16,476	0.71%	¥104.91

Ellison sees sunny side of the cloud

Oracle chairman to make $3.5bn from NetSuite • Billionaire had criticised IT evolution

RICHARD WATERS — SAN FRANCISCO
PAN KWAN YUK AND JAMES FONTANELLA-KHAN — NEW YORK

Oracle chairman Larry Ellison, once a vocal critic of the new era of cloud computing, is set to make a personal profit of $3.5bn from his company's takeover of cloud company NetSuite.

The software group's all-cash acquisition for $9.3bn, which was announced yesterday, marks Mr Ellison's biggest deal since he bought PeopleSoft 11 years ago. The billionaire Oracle co-founder will increase his fortune as he is also the largest shareholder in NetSuite.

Despite his early involvement and near 40 per cent stake in NetSuite, Mr Ellison has publicly criticised cloud computing, dismissing it for many years as a fad, in what was seen as an attempt to defend Oracle's traditional software business. He later said he had only objected to the word "cloud".

Mr Ellison claimed credit for inventing cloud computing in 1998, when he came up with the idea for NetSuite, which was set up to run the software that controls other businesses' back-office functions over the internet. It was founded six months before Marc Benioff, a former Oracle salesman, established Salesforce.com, widely credited with pioneering cloud-based software.

The NetSuite deal follows a spate of acquisitions of other cloud software companies this year as software companies such as Oracle, SAP and Microsoft try to transform into cloud companies.

Oracle has since gone on to appropriate the cloud name for its own business as it tries to convince Wall Street that it can make up for a decline in its core database and application software products with its small but fast-growing cloud services. It is now locked in a race with Salesforce to become the first to reach $10bn in cloud software revenues.

To deal with the potential conflicts of interest, Oracle said a special committee of its independent directors had led the evaluation and negotiation of the takeover, and had approved the deal unanimously on behalf of the board. It also said that Mr Ellison would abstain from a NetSuite shareholder vote to approve the deal.

> Oracle is locked in a race with Salesforce to become the first to reach $10bn in cloud software revenues

Oracle was the target of a shareholder lawsuit after buying another company controlled by Mr Ellison, Pillar Data Systems, in 2011. The Oracle chairman later agreed to forgo the $575m he would have received if Pillar had met earnings targets as part of Oracle.

NetSuite's focus on smaller businesses represents a departure for Oracle, which targets its own products mainly at large businesses and governments.

Oracle's $109 a share offer represents a near 30 per cent premium to NetSuite's closing price on Tuesday, before rumours of a bid started to circulate.

Lex page 10

Short View

Robin Wigglesworth

Bond markets are flattening faster than a poorly made soufflé. That is worrying economists and frustrating investors, but there are about 180bn reasons why it is likely to continue.

The Federal Reserve might still be inclined to raise interest rates, but Deutsche Bank estimates that the European Central Bank and the Bank of Japan are buying approximately $180bn of securities a month. This is swamping the bond market, beating down yields and forcing investors desperate for returns to buy longer-dated debt.

This, in turn, is flattening global "yield curves"; the slope of returns offered by various bond maturities, which in most major markets are at or close to the lowest since 2008. Where once there were bond market mountains and hills, there are now gentle slopes and desolate steppes.

In the US, the difference between the two and 10-year bond yields stood at just 78 basis points yesterday. The UK and German 2-10 year spreads are 58bps and 53bps, respectively, and in Japan a measly 6bp.

This is worrying, as flattening yield curves are traditionally an accurate harbinger of economic recessions. But this usually trusty market indicator of economic distress has probably been muffled by the sheer scale of central bank bond buying.

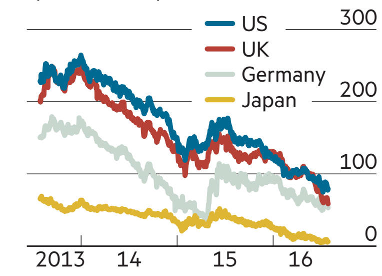
Nonetheless, it is clearly bad news for banks, whose business model depends on steeper yield curves. And for pension funds and insurers, evaporating longer-term bond yields is causing anguish.

Most investors and strategists predict that the yield curve flattening trade will endure. An inflation scare, an unexpectedly hawkish Federal Reserve or a durable economic upswing in China and Japan might disrupt it, but all of those look unlikely for the foreseeable future.

Indeed, the consensus is so overwhelming that it is tempting to believe the opposite. This has been a great year for contrarian trades, after all. But as Pimco's Joachim Fels says: "Sometimes the consensus is right."

As long as global central banks keep their collective foot to the pedal, curves are likely to flatten further.

Global yield curves deflating
10-year less 2-year government bond spread (basis points)



Source: Bloomberg

Global banks are swamping bond markets causing a flattening of yield curves that often foreshadows recessions

robin.wigglesworth@ft.com

Step change
Adidas profits jump to bolster forecasts

Adidas raised its profit forecast for the fourth time this year after doubling profits in the second quarter, **writes James Shotter in Frankfurt.**

The German sportswear group said that in the three months to the end of June, net profit from continuing operations jumped 99 per cent to €291m, from €146m in the same period a year earlier.

Adidas said the improvement was down to increasing sales — up 21 per cent to €4.4bn — and the early termination of a sponsorship deal with English Premiership football club Chelsea.

The group did not say how it had performed in different regions, but Andreas Riemann, an analyst at Commerzbank, said he believed the European football championships, held in France in June, had probably been a key driver, as well as the US and China.

In light of the strong figures, Adidas said it expected net income from continuing operations to increase 35-39 per cent this year to between €975m and €1bn. It had previously predicted a 25 per cent rise.

Shares in Adidas rose 2.6 per cent in Frankfurt to €144.25.

Lex page 10

Diageo toasts return to growth in North America

Diageo, the drinks group behind Johnnie Walker scotch and Guinness stout, was yesterday celebrating a long-sought return to growth in North America — the market in which it makes almost half of its operating profits.

Analysis ▸PAGE 13

Ford warns $1bn Brexit hit will force price rises and possible plant closures

PETER CAMPBELL — LONDON

Ford is considering closing plants in the UK and across Europe in response to Britain's vote to leave the EU, as it forecast a $1bn hit to its business over the next two years.

The US motor company, which is the biggest car brand in the UK, will also raise the price of cars sold in Britain before the end of the year. Bob Shanks, chief financial officer, said a rise was needed to claw back money lost through foreign exchange movements.

Sterling has fallen 11 per cent against the dollar since the vote, leaving companies selling into the UK facing lower revenues in the months ahead.

Ford warned of a difficult second half of the year for carmakers, with weaknesses in the US and Chinese markets adding to headwinds from Brexit and currency swings. The warning, combined with Ford missing expectations in the second quarter because of weaker sales in China and the US, sent its shares down more than 9 per cent to $12.52 in late-morning trading in New York.

Mr Shanks said a combination of sterling's devaluation and an expected hit to the UK car market would cost Ford $200m this year and another $400m to $500m each year over the next two years.

Ford's two remaining UK plants make engines that are exported to other EU countries for final assembly. Ford then re-imports many of these engines in completed vehicles for sale in the UK.

Asked if the group would shut its UK operations, Mr Shanks said: "Everything is going to be on the table across Europe."

The group is targeting a margin between 6 per cent and 8 per cent.

In the second quarter, Ford reported margins of 5.8 per cent in Europe, up from 2.3 per cent a year earlier, lifted by record European profits on the back of strong sales. But weakness in other key markets resulted in net profit falling 9 per cent to $2bn in the second quarter, below expectations.

Ford warned of "elevated economic uncertainty restraining business investment, with downside risk to global growth".

Companies / Sectors / People

Companies

Sectors

People

Oil & gas

Shell profits tumble as crude retreats

Anglo-Dutch group adds to sector gloom with 72% slide in quarterly earnings

ANDREW WARD — ENERGY EDITOR

Royal Dutch Shell appealed for investors' patience after announcing a 72 per cent drop in second-quarter earnings as continued weakness in oil and gas prices battered the Anglo-Dutch group.

The results were far worse than markets expected and added to the gloom hanging over the industry after weak numbers from BP and Statoil this week and a new dip in oil prices below $43 a barrel, the lowest for three months.

ConocoPhillips and Total also announced steep drops in earnings yesterday, although the latter's was less precipitous than analysts had feared.

"The second quarter was incredibly challenging across the board," said Iain Armstrong, an analyst at Brewin Dolphin. "If oil prices don't start improving in the third quarter the bears will start getting really aggressive again."

Shell's results were especially disappointing for investors because it was the first full quarter after completion of its £35bn takeover of BG Group. The addition of BG assets helped lift production 28 per cent to 3.5m barrels of oil equivalent per day. But this was more than offset by the weak market conditions.

On a current cost of supplies basis — the measure most closely watched by analysts — second-quarter earnings were $1.05bn, down from $3.76bn in the same period last year. Analysts' consensus forecast had been for $2.2bn.

Ben van Beurden, chief executive, admitted it was proving a difficult "transitional year" for Shell but insisted the group was making progress towards a more streamlined business that could deliver fresh growth in an era of lower oil prices.

He said the group was on track to cut costs by 20 per cent by the end of this year, compared with the combined operating costs of Shell and BG in 2014. This year's planned capital expenditure of $29bn, meanwhile, would be 38 per cent less than the pair jointly invested as standalone companies in 2014.

The decision yesterday to put on hold a multibillion-dollar liquefied national gas export facility in Lake Charles, Louisiana, was the latest example of the squeeze on spending.

A combination of low prices and the BG acquisition have caused Shell's debt to equity ratio to more than double in the past year to 28.1 per cent and Simon Henry, chief financial officer, warned it could edge closer to the group's self-declared upper limit of 30 per cent.

$1.05bn
Shell's second-quarter earnings, which were down from $3.76bn in the same period last year

$43
The price of a barrel of oil dipped below this during the week, reaching its lowest point for three months

However, he said plans to raise $30bn from asset sales were progressing well, with 17 potential transactions worth $6bn-$8bn under way.

Jon Rigby, an analyst at UBS, attributed the "disappointing" results to "much worse" than expected cash flow of $2.29bn, down from $6.1bn a year ago. Shell remained committed to defending its dividend, Mr van Beurden said, with the payout held steady at 47 cents in the second quarter.

Total reported a 30 per cent year-on-year fall in adjusted net income to $2.2bn, beating analysts' forecast for $1.89bn. ConocoPhillips reported an adjusted net loss of $985m compared with a profit of $81m a year ago.

See Lex

Banks

EU lenders still fall short on capital, say academics

LAURA NOONAN — LONDON

The listed banks in the EU's latest stress tests would have to raise close to €900bn in total to convince investors they have enough capital to withstand another crisis, a feat that would allow them to finally overcome their weak valuations, three academics have argued.

"The market has a very different view on how risky bank portfolios are as opposed to what the Basel supervisors (who make the capital rules) say," says ZEW's Sascha Steffen, one of the report's authors, emphasising that he does not expect the tests' actual outcome to be anything like as dramatic.

The European Banking Authority will tonight publish the results of stress test on 51 banks. Instead of a traditional "pass/fail" mark, the tests will show how banks' key capital ratios would respond to various shocks. Regulators can later decide if they want banks to raise cash or take other actions.

The academics — NYU Stern's Viral Acharya, University of Lausanne's Diane Pierret and University of Mannheim and ZEW's Sascha Steffen — argue the 2014 eurozone stress tests, which showed a capital need of just €25bn across 130 banks, were a failure because they did not adequately reflect the real risks in the banks.

They point out the 34 listed banks in the latest tests have lost an average of 33 per cent of their book value since those tests were carried out, suggesting investors had little confidence the banks had properly restored their balance sheets. Before the 2014 tests, Mr Acharya and Mr Steffen wrote the eurozone banks alone could need more than €770bn — 32 times the capital shortfall identified.

The academics estimate banks would have to raise €882bn to reach a 5.5 per cent common equity tier one ratio after taking into account their crisis losses, as reflected in their lower market values. The 5.5 per cent ratio was the EBA's pass mark last time round.

Together the 51 banks in the tests have €1.18tn of common equity tier one capital, including the €260bn they have raised since 2011.

France comes out of the analysis worst, with the three French banks in the 2016 tests needing the highest capital requirement, of almost €250bn, followed by the UK's four listed banks, whose requirement would be €185bn.

Banks

Credit Suisse investors shrug off return to black

RALPH ATKINS — ZURICH
LAURA NOONAN — LONDON

A second consecutive set of expectation-beating earnings was not enough to rescue Credit Suisse from a share price spiral that has marked down the value of its stock by almost 60 per cent in the past year.

Shares in the bank fell as much as 6 per cent yesterday, even though it made a return to profit during a quarter when Brexit, volatile markets and low interest rates all weighed on banks.

The bank had hoped that the performance would be welcomed, coming after a smaller than expected loss in February. Before that, Tidjane Thiam, who took over as chief executive a year ago, presided over a succession of setbacks as he fine-tuned a plan designed to pivot Credit Suisse towards wealth management and Asia and away from its riskier trading activities.

But investors' early disillusionment has proved hard to shake. Analysts pointed out that while second-quarter profits of SFr199m ($203m) were far better than the SFr232m loss consensus, the actual result was only 7 per cent better than a more recent set of forecasts. Some also homed in on Credit Suisse's cautious outlook and questioned the sources of the bank's growth as well as its ability to improve its capital.

Andrew Coombs, an analyst at Citi, said he thought yesterday's share price drop was unfounded. "We thought the results themselves were solid . . . We struggle to understand the move."

Mr Thiam told analysts he knew there was much left to do but said the bank had earned some credit: "We recognise it's only two quarters in and it's only a start but it's a good start against a very unsupportive market backdrop."

The UK referendum on exiting the EU had added to market challenges, Mr Thiam said. Credit Suisse still saw London as an important financial centre but its operations in Dublin and Luxembourg gave "optionality" if UK-based banks lost access to EU markets.

While banks on both sides of the Atlantic have recovered from a tough first quarter, Swiss banks are particularly benefiting from their increased focus on wealth managing. One of the highlights of Credit Suisse's results was net new assets at its Asia-Pacific and international wealth management units — at SFr5bn and SFr5.4bn respectively — both ahead of analysts' expectations.

Shares in Credit Suisse dropped as much as 6% yesterday despite results that outshone expectations
Chris Ratcliffe/Bloomberg

Not everyone approved of how the growth had been achieved. Chirantan Barua, banks analyst at Bernstein, said the asset growth had been fuelled by loan growth of 7 per cent. "Throwing leverage . . . to get AUMs [assets under management] . . . is an unsustainable and risky strategy for a region where wealth creation has stalled," he wrote.

Mr Thiam defended the strategy. "It's controlled lending with careful risk analysis but it's lending to people we know extremely well and with whom we have a longstanding relationship," he said.

The common equity tier one ratio — a key capital measure — beat expectations to grow 40 basis points to 11.8 per cent but the bank did not update its full-year guidance.

Pre-tax income, while ahead of expectations, was down from a profit of SFr1.7bn in the same period a year earlier, a consequence of market conditions and the withdrawal from some business lines as the bank cut back to improve its capital position.

INSIDE BUSINESS
MEDIA

Matthew Garrahan

Clinton's feat highlights the challenges faced by women at work

Hillary Clinton smashed one of the remaining glass ceilings in politics this week, when she became the first woman to secure her party's nomination for US president.

It has taken 227 years for a woman to get this far in a US election and the ascent of women on the corporate ladder has been almost as slow. There are still very few female chief executives, and women remain under-represented in senior business roles. Workplace sexism still exists.

Recent events suggest the challenges facing women are particularly acute in media and technology companies.

When Gretchen Carlson, a former Fox News Channel presenter, alleged that she had been sexually harassed by Roger Ailes, who ran the network, other women came forward alleging similar treatment by other executives. One woman told the New York Times this week that she had been afraid to complain. "There is a culture where, not that you accept it, you just deal with it," she said.

Rupert Murdoch's 21st Century Fox, which owns Fox News, parted company with Mr Ailes last week after an internal investigation. Mr Murdoch and his sons, James and Lachlan, now have two tasks: replacing Mr Ailes and reforming what appears to have been a boorish, macho culture at Fox News.

> Appointing more women to senior posts is unlikely to eradicate sexism at work

Hiring more women to senior positions would help and is something that all media and technology companies should do. The US's biggest media groups — Walt Disney, Comcast, 21st Century Fox, Time Warner, CBS and Viacom — are all led by men. It is the same story in tech: Amazon, Apple, Google and Facebook all have male chief executives.

Yahoo, in the process of being acquired by Verizon, is an exception. But Marissa Mayer, its chief executive, spoke this week of how her efforts to revive the internet group had been plagued by sexist stereotyping. "I've tried to be gender-blind and believe tech is a gender-neutral zone but think there has been gender-charged reporting," she said, referring to media coverage of her tenure at the group.

Appointing more women to senior positions is unlikely to eradicate workplace sexism. But it would be a start. Media and technology companies create products and content for both sexes. Why should women not be appointed to run them too?

Long ago, the advertising industry woke up to the fact that women were responsible for most household spending decisions, so they tailored marketing messages to them.

Yet women continue to be under-represented at advertising agencies — particularly in senior creative roles.

> Glass ceilings continue to be smashed but the pace of change is slow

A group called The 3% Conference has been attempting to change that. It takes its name from an alarming statistic from a decade ago, when just 3 per cent of creative directors at advertising companies were women. It has had some success: by 2014, that proportion had risen to 11.5 per cent.

Glass ceilings continue to be smashed but the pace of change is slow. J Walter Thompson, the 152-year-old ad agency now owned by WPP, recently appointed Tamara Ingram as chief executive — the first woman to have ever held the position.

JWT's workforce is 47 per cent female and the company has female regional chief executives in places such as Sri Lanka, Mexico and Canada. But Ms Ingram told the FT recently she would not be satisfied until half of all the company's senior leadership positions were held by women. This is the right goal to set. Would a male chief executive set such a target? Possibly. But a woman is actually doing it.

Ms Ingram succeeded Gustavo Martinez as chief executive. He resigned this year after Erin Johnson, JWT's head of communications, filed a lawsuit accusing him of an "unending stream of racist and sexist comments as well as unwanted touching and other unlawful conduct".

Mr Martinez has denied all the allegations. Still, the case has echoes of Mr Ailes's departure from Fox News. JWT has moved on from the episode by appointing someone who wants to transform the outlook for women at the agency. As they set out to replace Mr Ailes, will Mr Murdoch and his sons do the same?

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Pharmaceuticals

Fosun seals $1.1bn deal for India drugmaker

AMY KAZMIN — NEW DELHI
DON WEINLAND — HONG KONG

Shanghai Fosun Pharma has agreed to pay $1.1bn for an 86 per cent stake in Indian drugmaker Gland Pharma, in the largest Indian corporate takeover by a Chinese company.

The deal is the biggest acquisition by Hong Kong-listed Fosun since the mysterious disappearance for several days last year of Guo Guangchan, the group's chairman, in connection with an anti-corruption investigation in China.

Yesterday's deal — which values Gland at $1.35bn — also provides a lucrative exit for private equity firm KKR, which three years ago paid $200m for a 38 per cent stake in the Hyderabad-based drugmaker and is selling its full holding.

The deal comes only months after KKR's $1.2bn sale of its 90 per cent stake in India's Alliance Tire Group to Japan's Yokohama Rubber Company, that saw KKR nearly double its original $500m investment.

Sanjay Nayar, head of KKR's India business, said the sales to two large east Asian groups confirmed India's potential as a competitive manufacturer, a view New Delhi is eager to promote.

"These are private companies run by Indian entrepreneurs that are creating real value," he said.

KKR's profitable exits from the companies — coupled with successful exits by Blackstone and Apax — will buoy sentiment on India among other private equity and venture capital participants, which were the largest single source of foreign direct investment into the country in 2015.

"Private equity investors are making returns out of India after many years, and that is a huge positive as it will help attract more money," Mr Nayar said.

Gland produces anticoagulants, used in dialysis or heart bypass surgery to prevent blood-clotting, anaesthetics, and other injectable medicines, mainly for export to the US.

Mr Raju will remain chairman, and his son, Ravi Penmetsa, will remain managing director. Together they and members of the founding group will retain about 10 per cent of the company.

The sale to Fosun, which requires government approval, is the largest foreign acquisition of an Indian pharmaceutical company since New Delhi relaxed its controls on foreign purchases.

Financials

ITG lays out growth path after trading scandal

NICOLE BULLOCK — NEW YORK

ITG has unveiled a plan to return the "dark pool" trading pioneer to growth after a scandal that toppled the agency broker's top management and its stock price.

Last August, ITG agreed to pay a $20m record fine to the US Securities and Exchange Commission to settle charges that it operated a secret proprietary desk that traded against ITG clients and misused their confidential information.

The chief executive at the time, Bob Gasser, resigned, after the allegations. The stock price slumped to a low of $12.71 last September from close to $30 in the middle of 2015.

The new chief executive, Francis Troise — who joined from JPMorgan but had worked at ITG for eight years earlier in his career — has spent six months studying the company and meeting with clients to craft the strategy.

"For the most part, clients are past the SEC settlement," Mr Troise told the Financial Times. "We are going to regain and reinforce our brand identity. We are strengthening and investing to be recognised as best in class."

The problems at ITG were one in a string of improprieties that came to light at off-exchange trading venues amid heightened scrutiny after the 2010 Flash Crash and Michael Lewis's book *Flash Boys*, which claimed equity markets were "rigged".

ITG will focus on trading for its clients, mainly institutional investors, providing algorithms and high-touch (voice) broking and offering tools and analytics that help customers do things like implementing portfolio trading strategies and managing trading costs.

Citing some "confusion" on the part of its customers about the business, Mr Troise has opted to exit what he called periphery businesses: a research arm, Canadian arbitrage trading and securities lending.

The company hopes to grow by investing in the core areas, identifying ways to cross-sell its products and fine-tune its business and taking advantage of what it sees as favourable industry trends in the EU's Mifid II rules, which call for the unbundling of the sale of research and trading, as well as the shift to electronic trading.

Nearly all of ITG's clients are back since the SEC settlement, but many are not trading as much as they were before the scandal erupted last year.

COMPANIES

Diageo cheers return to US growth as long hangover lifts

Chief delivers 'turnaround' year and pledges to keep up momentum

SCHEHERAZADE DANESHKHU
CONSUMER INDUSTRIES EDITOR

There were cocktails, dance music and a party mood in London's Soho yesterday. This was no club, but the central London offices of Diageo, the world's largest distiller.

The maker of Johnnie Walker scotch and Guinness stout was celebrating its annual results, reporting a long-sought return to growth in North America — where it makes almost half of its operating profits.

Ivan Menezes, chief executive, has delivered the "turnaround" year promised to investors, who had been made tetchy by three years of slowing organic sales growth.

Organic operating profits of £2.9bn rose 3.5 per cent in the year to the end of June — a sharp improvement on the 0.7 per cent recorded in 2015 — after a strong second half in North America and higher demand in Europe.

Profit margins were 0.3 percentage points higher at 28.7 per cent, thanks in part to a £200m cost-cutting plan.

"Diageo is stronger," says Mr Menezes, adding he is confident of higher growth next year. "We're feeling good."

Diageo's lengthy hangover is dissipating — but has it fully lifted?

Since taking the helm almost exactly three years ago, Mr Menezes has faced two big problems: a slowdown in emerging markets and dispiriting demand in North America, which reached its nadir last year when both sales and operating profits fell.

> 'We can't remember when we last saw this — organic sales grew in every category'

Diageo's most important emerging market is India, the second-biggest region by sales after the US. Sales and profitability on its £1.8bn investment in United Spirits India have been held back by a tense relationship with Vijay Mallya, the mercurial entrepreneur.

But after a three-year battle, Diageo gained control of USL and in February reached a $75m settlement with Mr Mallya, who stepped down from the chairmanship of USL.

The headache was "well worth it" says Mr Menezes, citing the potential for growth in India's market.

Jeremy Cunnington, alcoholic drinks analyst at Euromonitor, says: "Having finally integrated United Spirits into its operations and stabilised its volume share in India, now is the time to see if it can [emulate] the success of its rival, Pernod Ricard."

Emerging markets' sales growth of 3 per cent in 2016 was weaker than analysts' expectations. It was dragged down by two of Diageo's biggest markets — Nigeria, where sales fell 15 per cent, and Brazil, which posted a 9 per cent drop.

Mr Menezes points to growth elsewhere — a 10 per cent rise in sales in Mexico and revenue growth of 28 per cent in Colombia. Certainly there is recovery for Johnnie Walker, for which emerging markets account for 70 per cent of revenues. Sales of the whisky rose 1 per cent in 2016, driven by demand for its premium-priced Blue, Gold and Green labels — after falling for two consecutive years.

One big change is a positive swing in exchange rates after several years of weaking emerging market currencies.

The steep fall in the pound after the UK vote to leave the EU has given Diageo a Brexit boost. Its shares have risen 19.5 per cent since the referendum, as sterling's fall benefits UK-based companies with high dollar earnings.

The company says it expects the weak pound to benefit net sales by £1.1bn and operating profits by £370m in 2017.

In North America, Diageo has faced an uphill battle in appealing to millennial consumers, whose tastes have become frustratingly eclectic instead of brand-loyal. They have been well-served by a proliferation of craft gin and vodka labels that have helped erode Diageo's market share.

And although whisky sales have been booming in North America, Diageo's portfolio is under-represented in the most popular categories of Irish whiskey, bourbon and single malt scotch.

Sales of the group's premium-priced Reserve brands rose 7 per cent — twice the rate of its biggest spirits, but Reserve only makes up 15 per cent of net sales.

Mr Menezes' strategy has been to try to react more quickly to consumer trends by making more frequent and smaller shipments of the latest flavoured vodka or spirit. Senior management in North America was also changed and sales staff given greater incentives. These initiatives appear to be working: Smirnoff and Captain Morgan swung back into growth in 2016.

James Edwardes Jones, analyst at RBC Capital Markets, says: "We can't remember when we last saw this — organic sales grew in every category. Scotch was flat, but not down at least, suggesting that Diageo's new marketing approach might be starting to pay off."

Despite the improvement, sales in North America, which rose 3 per cent in 2016, are still not growing as fast as the market average, suggesting Diageo continues to lose market share.

Trevor Stirling, analyst at Bernstein says: "The state of the global economy that has put pressure on scotch sales has been outside Mr Menezes' control. But investors could hold him responsible for having a US portfolio that has not kept up with consumer tastes. Diageo has some stars, such as Bulleit [bourbon] — but not enough of them."

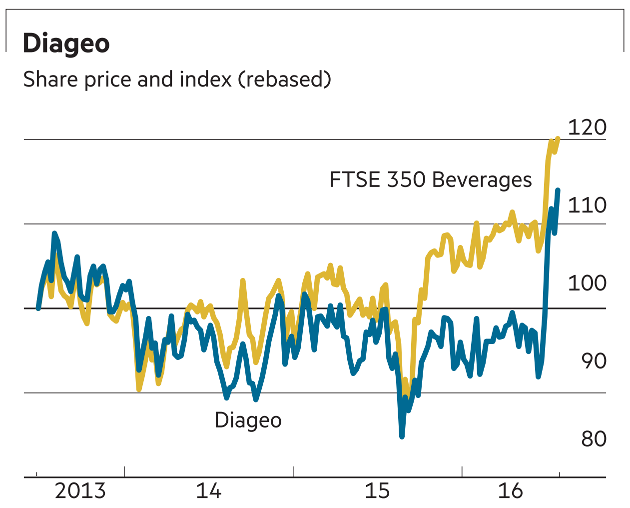
Mr Menezes disagrees. "We've got a broad portfolio which is well-positioned to perform in that market," he says. "I do think we'll do better than 3 per cent next year."

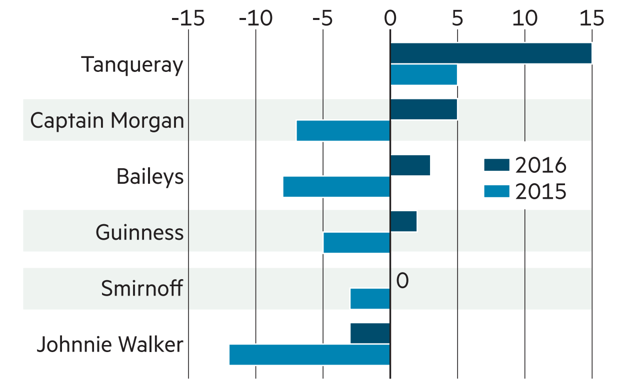
Diageo's challenge now is to keep up the momentum in the first half of 2017.

"This is a supertanker," says Mr Menezes. "It's all about steady improvement."

Johnnie walking on air

Johnnie Walker whisky sales have risen 1 per cent in 2016 after falling for two years — Nicky Loh/Bloomberg





Sources: company; Thomson Reuters Datastream

Energy

Rockefeller switches to green

ANDREW WARD — LONDON

The family foundation built on the riches of John D Rockefeller's Standard Oil has backed a $177.5m wind and solar power programme in Africa, marking its biggest move into green energy since announcing plans to stop investing in fossil fuels.

The Rockefeller Brothers Fund is part of a consortium of investors supporting a scheme led by Mainstream Renewable Power of Ireland to build 1.3 gigawatts of carbon-free generating capacity in Africa by 2018.

The agreement is the clearest sign yet of the fund making good on its 2014 promise to withdraw from fossil fuel investments and reallocate resources to green energy because of concern about climate change.

That decision drew criticism at the time from some in the oil sector who saw it as a betrayal of an industry that formed the basis of Rockefeller wealth.

But Stephen Heintz, president of the Rockefeller Brothers Fund, said this week the switch to renewable energy was in keeping with the family spirit.

He said: "John D Rockefeller was a great visionary who saw in petroleum a product that was going to change the world. If he were alive today he would see that the future is going to be in green power."

About 3.3 per cent of the $816m fund is still invested in fossil fuel assets but this is down from 7 per cent two years ago and Mr Heintz said these would continue to be sold.

The fund has committed $10m to the African renewables scheme.

The money will help finance Lekela Power, a joint-venture between Mainstream and Actis, a private equity fund spun out of the UK government in 2004 to invest in the developing world.

Lekela is planning wind and solar projects in South Africa, Egypt, Ghana and Senegal.

Technology

Beijing gives legal status to car-hailing apps

Rules boost Uber and Didi — and set precedent for other industries in China

CHARLES CLOVER AND MA FANGJING
BEIJING

The Chinese government has formally legalised online car-hailing services, including San Francisco-based Uber and Beijing's Didi Chuxing, giving a boost to an industry that has operated in a grey area.

Both groups welcomed the provisional rules, unveiled by the transport ministry yesterday, which Didi referred to as "the world's first nationwide online ride-booking regulations".

Uber said the regulations sent "a clear message of support for ride-sharing and the benefits that it offers riders, drivers and cities".

China was "a country that has consistently shown itself to be forward-thinking when it comes to business innovation", the US group added.

Car-hailing has been met with protests and bans in many countries, but Beijing has sought to co-opt the technology to promote economic growth.

The car-hailing rules set a precedent for other industries in China — such as finance and healthcare — where regulators are considering how much disruption can be tolerated from fast-moving internet companies.

Car-hailing has quickly grown from a niche sector to a large industry in China, where the ubiquity of smartphones has translated into millions of rides a day. Didi has claimed to be handling 14m rides a day across its platforms, including licensed taxis and car pooling as well as private car hailing.

In an investor presentation in June 2015 the group forecast that the Chinese ride-hailing market would be worth $50bn annually by 2020.

"The biggest good news for the industry is that it is legal," said Huang Shaoqing, a professor of applied economics at Shanghai Jiaotong university.

However, he added that loose wording in the regulations allowed local governments to interpret rules as they liked. Car-hailing platforms were allowed to set their own market-determined prices, but the rules contained the phrase "with certain exceptions", said Prof Huang. "In practice, a local government could use this language to set prices for online cars higher than municipal taxis."

Smart moves: Didi claims to handle 14m rides a day on all its platforms

Didi had lobbied for changes to draft rules last year that imposed strict limits and licensing on vehicles and drivers, and explicitly said prices could not be lower than for a licensed taxi.

Also scrapped was a proposal to force drivers to obtain an individual commercial vehicle license, requiring cars to be scrapped after eight years — deterring many part-time drivers.

Under the new rules platforms will be able to apply for ride hailing licenses on behalf of drivers.

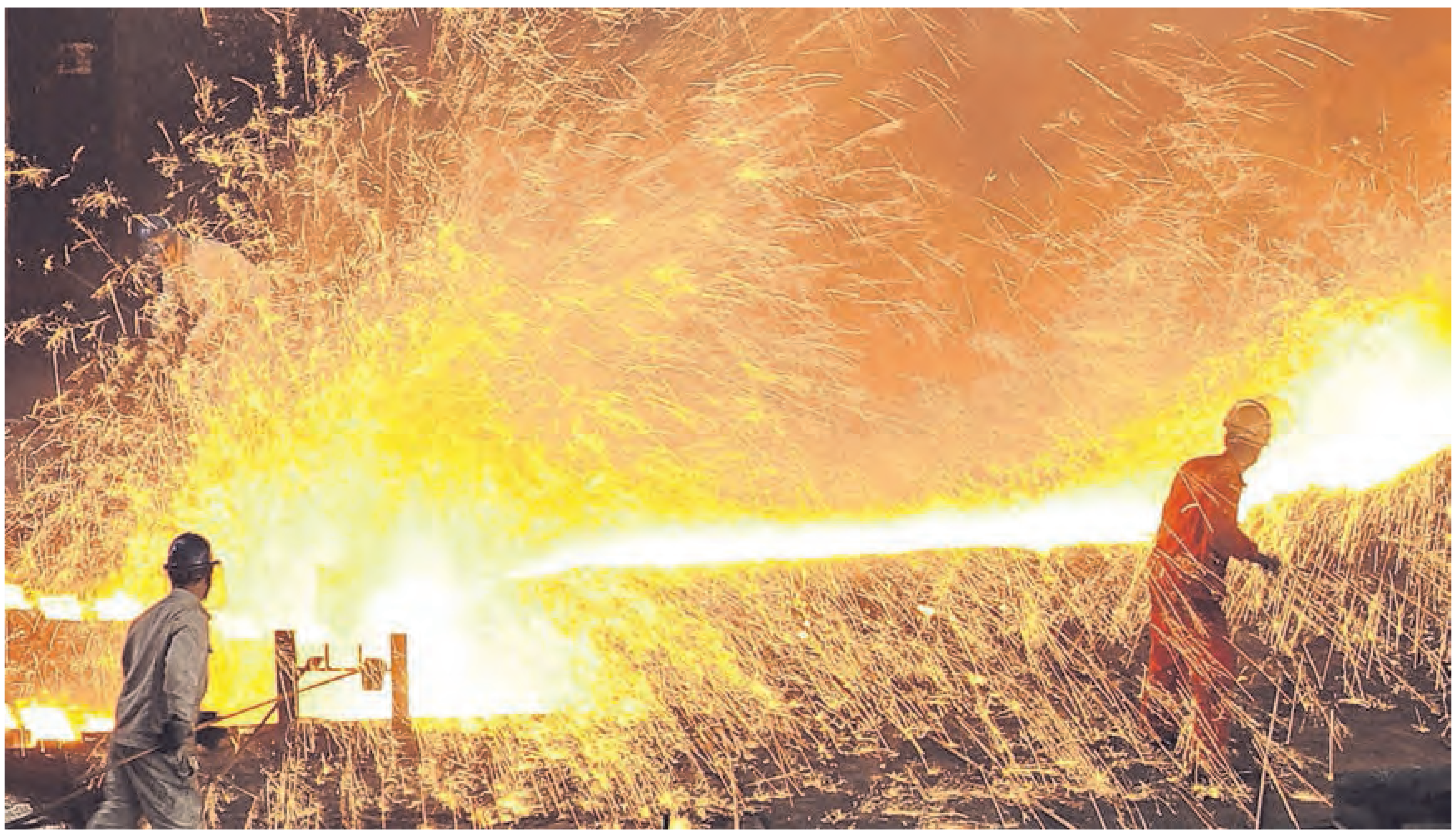
Didi said it hoped local authorities would "encourage innovation while exercising discretionary power".

Basic resources. Shifting fundamentals

Price dip raises questions over steel recovery

European producers are facing some of the toughest conditions since the financial crisis

MICHAEL POOLER — INDUSTRY REPORTER



China, which makes almost half the world's 1.6bn annual tonnes of steel, is accused of dumping excess material at lowball prices — Reuters/China Daily

At the height of every summer, Europe's manufacturers slow down, their workers go on holiday and some of their factories even close. But, this year more than any other, the continent's steelmakers are hoping the annual seasonal lull is the only reason for a dip in the metal's price.

This 4 per cent fall since June has cut short a rally in recent months and raised questions about the strength of a recovery in the sector, which is still grappling with the collapse in the commodity's value last year.

A combination of global oversupply, low raw material prices and a flood of cheap Chinese exports have created some of the toughest market conditions for steelmakers since the financial crisis. Low prices weighed heavily on European producers, such as ArcelorMittal, ThyssenKrupp and Tata Steel Europe, which put its lossmaking UK arm up for sale earlier this year.

Recently, though, there have been signs of improvement: since touching a low of €313 a tonne in February, average EU monthly prices for hot rolled coil shot to €444/t by June, according to the consultancy Meps. This month, however, this benchmark sheet steel product slipped in price to €426/t.

Nevertheless, market fundamentals have "shifted dramatically" in favour of steelmakers, according to Mike Shillaker, an analyst at Credit Suisse. He says the run-up in prices is partly down to buyers of steel refilling their warehouses after running supplies down.

"We were in a major destocking period for a good year-and-a-half, triggered by the collapse of oil and iron ore [prices] in the middle of 2014," he explains. "Inventory was depleted."

Investors will be looking for further signs of encouragement when ArcelorMittal, the world's biggest steelmaker, reports half-year results today.

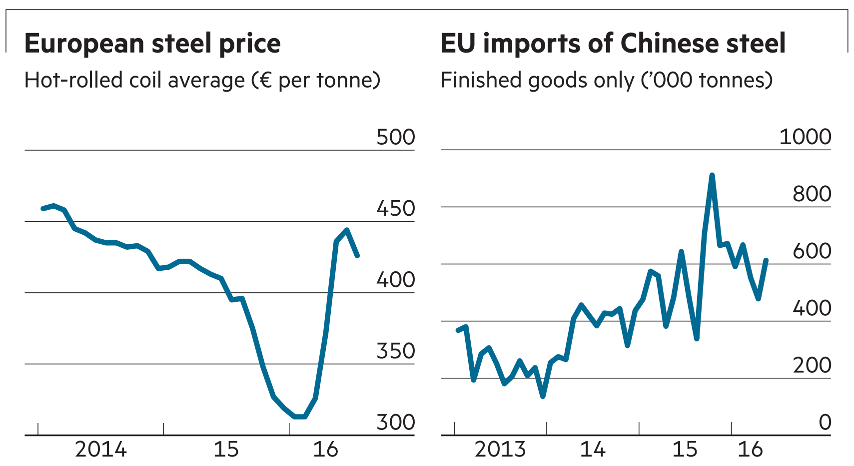
There is already some cause for optimism. Last week, SSAB of Sweden exceeded analyst expectations when it posted second-quarter earnings of SEK1,585m ($183.3m) before interest, tax, depreciation and amortisation.

However, much will depend on the behaviour of China, which makes almost half the world's 1.6bn annual tonnes of steel and is accused of dumping excess material at lowball prices as its domestic consumption cools.

Chinese shipments into the EU jumped by more than 50 per cent last year and remain "elevated", according to Eurofer, a trade association.

But China's domestic and export steel prices are now at more stable and "acceptable" levels, says Seth Rosenfeld, an analyst at Jefferies. As these imports lose their price advantage, the impact on European producers should be less harmful than seen in late 2015.

Even so, companies in the EU have continued to cede market share in their home region to players from countries such as Japan, South Korea, Iran and Russia. Total imports by EU countries increased nearly a quarter in the first three months of 2016, according to Eurofer, while apparent steel consumption grew just 3.1 per cent.



Sources: MEPS; Thomson Reuters Datastream

One hope for protection against these flows is the EU's newly found combative attitude towards unfairly traded steel.

Steelmakers have long criticised Brussels for its slower and less robust regulatory approach compared with the US. But EU authorities have expanded an investigation into Chinese hot-rolled coil shipments to a further five countries, covering about 80 per cent of all European imports of the product.

"Anti-dumping is kicking in quite strongly," says Alessandro Abate of Berenberg. "If there's further implementation of anti-dumping [measures], this can boost prices."

However, any benefit may be offset by the potential economic fallout from the UK's vote to leave the EU: it has already led Jefferies to halve its estimates for steel demand growth in the second half of this year and 2017.

A degree of self-help could yet be on the way from a possible wave of merger and acquisitions in Europe. ThyssenKrupp and Tata are in talks over a joint venture that would create the continent's second-largest steelmaker, ArcelorMittal and Marcegaglia are competing with other bidders for control of the Italy's large Ilva plant. Fewer but bigger players in Europe could lead to supply restraint and less aggressive pricing.

"In the US, proactive supply discipline in times of weaker demand has supported much higher prices. The EU has never seen that in the past, so it's compelling," says Mr Rosenfeld.

In addition, Beijing has pledged to shut down unneeded plants. Whether these factors combined will be enough to prevent another precipitous drop in European prices is likely to become more evident in late September, say analysts, once the wheels of the economy pick up speed again.

Aerospace & defence

Rolls-Royce climbs as accounting chill nears

PEGGY HOLLINGER — INDUSTRY EDITOR

Rolls-Royce has signalled that new accounting rules will hit earnings even as its shares rose nearly 14 per cent on the back of better than expected underlying interim profit, down 80 per cent on last year.

The UK group, which has had five profit warnings in two years, returned underlying pre-tax profits of £104m, against market expectations of a small loss.

Sterling's collapse after the vote last month to leave the EU left the company nursing a £2.15bn loss on an unadjusted basis, as a result of an accounting requirement to value currency hedges at the end of the reporting period.

Investors were relieved by the better than expected first half and the group's reassurance that it was not changing guidance for the full year.

However, the focus is shifting to accounting changes that could have a substantial impact on profits in future.

The shares closed up 101.5p, or 13.9 per cent, to 833.5p.

Rolls-Royce said it would no longer take revenues from lucrative maintenance contracts before its engines were taken into the shop, but would instead bill as work was done.

Previously it had brought forward profits from long-term aftersales service contracts, to make up for the fact that many aero-engines were initially sold at a loss. About 50 per cent of its civil aerospace sales are generated by aftersales service contracts.

The accounting rules come into force in 2018 and will specify how and when a company can recognise revenue from contracts. Rolls-Royce had previously said it was too early to tell how the rules would affect its business model.

> Group will have to wait 'five-plus years from delivery of the lossmaking engine to booking profits'

David Smith, finance director, said the changes would hit earnings, although the scale had yet to be quantified, but would improve transparency and align the group's cash performance more closely to profit. Rolls-Royce's accounting has long been criticised by the investment community.

Nick Cunningham of Agency Partners said the "stricter interpretation" of the rules could "mean waiting five-plus years from delivery of the lossmaking engine to booking after-market profits".

Sandy Morris at Jefferies said the changes could have a "significant impact" on earnings.

Mr Smith said some of the impact would be mitigated as the company moved to engines not linked to service contracts. The transition has contributed to a sharp fall in profitability as mature engines are replaced by an initially lossmaking new generation.

Rolls-Royce has suffered from the downturn in defence budgets, a collapse in oil and gas exploration, and an earlier than expected retirement of widebody aircraft that its engines power.

Underlying pre-tax profits fell from £439m to £104m in the six months to June. Rolls-Royce had warned in May that it would barely break even in the first half, leaving many investors expecting a marginal pre-tax loss before a recovery in the second half.

Warren East, chief executive, said the company was maintaining its guidance for the full year, with headwinds of some £650m still expected to damp profits. Rolls-Royce was well on the way to realising savings from restructuring programmes following rapid growth.

The company was expecting to lock in close to £50m in cost savings this year from a restructuring launched in 2015, and was on track to keep its promise of £150m to £200m by the end of 2017.

Out of 2,000 senior management jobs 400 had been cut, and the focus was on making the rest more effective.

See Lex

Food & beverage

Danone buoyed by dairy gains

ADAM THOMSON — PARIS

Danone, the world's biggest yoghurt maker by sales, has reported that improvement at its core dairy business helped it post first-half profits that beat analysts' forecasts.

The Paris-based maker of Actimel and Evian water said yesterday that adjusted operating profit was €1.48bn in the six months to the end of June. That was 7 per cent higher than a year earlier — and comfortably above market expectations of €1.4bn.

The group said like-for-like sales rose 4.1 per cent in the second quarter compared with a year earlier to €5.75bn, thanks to a 1 per cent rise in volumes and a 3.1 per cent increase in value.

Analysts had forecast sales growth of 3.7 per cent. In reported terms, which includes the effect of currency fluctuations, sales during the period were down 3 per cent.

Cécile Cabanis, chief financial officer, said: "We are rebalancing our model of growth to make sure that it's not just about growth at any cost but about profitable growth."

Danone shares rose 2.7 per cent in afternoon trading to €67.46 compared with a 0.14 per cent rise for France's CAC 40 index.

Ms Cabanis said, however, that the environment "is still very volatile", in particular in emerging markets such as Argentina, Brazil, China and Russia.

Danone reiterated its full-year guidance for sales growth of between 3 per cent and 5 per cent. It said it would also concentrate on increasing free cash flow — though it did not give specific targets.

The figures come after Danone this month announced its biggest deal in a decade. The French group has agreed the $12.5bn purchase of WhiteWave Foods, a US maker of premium natural drinks and health-focused foods.

The acquisition is set to double Danone's sales in the US. The market will now account for a fifth of Danone's worldwide sales, a significant shift after a series of difficulties and misadventures in emerging markets.

COMPANIES

Technology. Transformation

Facebook is Wall Street's new best friend

Social network tries to temper euphoria at results while pointing to new opportunities

RICHARD WATERS — SAN FRANCISCO

Finding new superlatives to describe Facebook's financial performance is becoming harder with each quarter.

Four years ago, at the time of its initial public offering, the social network generated less revenue than Yahoo, and its growth rate had slowed to about 30 per cent as the rise of smartphones threatened to cap its advertising business.

The extent of the transformation was clear with second-quarter earnings released late on Wednesday. Facebook's quarterly revenue has risen more than fivefold since the time of its IPO, to $6.4bn: it dwarfed the $1.4bn in net revenue that Yahoo and Twitter produced between them in the same period, making those companies look increasingly like also-rans in online advertising.

Facebook's 59 per cent growth rate in the latest period was 11 percentage points above Wall Street's estimates.

"The outperformance alone was almost as much as Twitter's entire ad revenue in the quarter," said Brian Wieser, an analyst at Pivotal Research.

David Wehner, Facebook's chief financial officer, seemed intent on attempting to damp some of the Wall Street euphoria. Even as its stock surged 6 per cent in after-market trading, extending a rally that has added about $70bn to its market value this year, Mr Wehner warned that Facebook's growth rate would slow as 2016 progressed.

A more significant, secular slowdown would set in at about this time next year as Facebook reached the peak "ad load" its service can bear, he said.

Restraining stock market enthusiasm makes sense given the difficulty of predicting how big the new markets Facebook is serving will become, said Mr Wieser: "They need to temper expectations. They don't know how high is up."

But for now, as advertisers in search of mobile audiences flock to Facebook, it is easy to believe the sky is the limit. And even as they spelt out the latest jump in revenues, Facebook executives on Wednesday highlighted areas that could yield the company's next big money-makers. The number of searches carried out on Facebook each day, for instance, has reached 2bn, raising the prospect of a new source of revenue in search advertising. This would give it a way to appeal more to the small businesses that make up the bulk of Google's advertising, Mr Wieser said.

Mark Zuckerberg, chief executive, said Facebook was not yet ready to move into this new market. However, he added that it was already seeing some powerful uses of search on its service, such as looking for media content, pointing to what could become big commercial opportunities.

The surging traffic on the company's messaging services, Messenger and WhatsApp, also highlights advertising potential. At 60bn a day, the number of messages being sent over these services is three times the peak global volume reached by SMS, Mr Zuckerberg said.

Messenger passed 1bn monthly active users in the latest quarter, a milestone already reached by WhatsApp. And Facebook said its users had 1bn "interactions" a month with businesses over Messenger — the kind of activity that could become the foundation for an advertising business, though Mr Wehner said it was "incredibly early" to think about how to make money from such interactions.

Even as Facebook waits for new sources of advertising such as this to kick in, Mr Zuckerberg is preparing for a wave of video that is likely to change the nature of many of its services.

"Ten years ago, most of what we shared and consumed online was text," the Facebook co-founder said. "Now it's photos. Soon, most of it will be video. We see a world that is video first, with video . . . the heart of all of our apps and services."

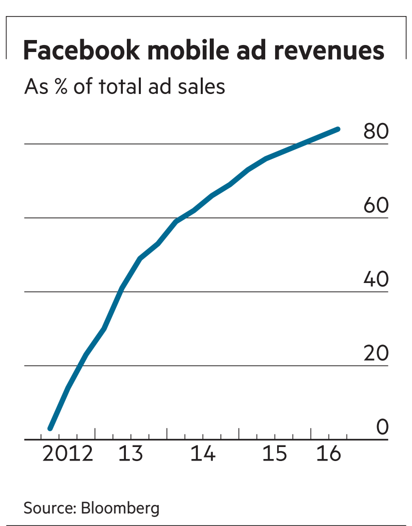
Alert to how the winds of fashion can turn in online behaviour, he also suggested that *Pokémon Go*, the mobile game that relies on a simple form of augmented reality (or AR), was more than a flash in the pan.

The biggest lesson from the game, he said, is that mobile handsets are likely to bring the first mainstream applications of AR, rather than face-mounted glasses — a prediction that leaves a question hanging over ambitious investments by Microsoft, whose HoloLens is the first headset to come to market, and Google, one of the biggest financial backers of AR start-up Magic Leap.

Mr Zuckerberg had already bet on AR. Earlier this year, Facebook acquired Masquerade, an app for recording video that overlays cartoon features on to the real faces of people being filmed.

Together, video and AR could point the way to new and more expressive ways for people to communicate and socialise, Mr Zuckerberg said. With a monthly audience of 1.7bn, it has a base of users to test out services. And, as its latest earnings show, it has the power to turn new online hits into serious money.

Thumbs up: Facebook's 59% growth rate this quarter outperformed Wall Street's estimates, with the number of daily searches carried out on the site hitting 2bn — Chris Ratcliffe/Bloomberg



Technology

Son points to SoftBank cash flow strength

KANA INAGAKI — TOKYO

Masayoshi Son, chief executive of SoftBank, sought to allay concerns over his £24.3bn takeover of UK chip designer Arm, pointing to the group's strong cash flows and improvement at US carrier Sprint.

In the first earnings release since Mr Son disclosed the biggest acquisition of a European technology group 10 days ago, the Japanese telecoms and internet group reported a 19 per cent year-on-year rise in quarterly net profit.

Mr Son said yesterday: "Both our domestic telecoms and Sprint businesses are doing well, and we have new cash at hand. The conditions to acquire Arm are now in place."

Ahead of the Arm deal, SoftBank had sold $20bn worth of its most valuable assets, including shares in Chinese ecommerce group Alibaba, Finnish game developer Supercell and Japan's GungHo Online Entertainment.

Boosted by the Alibaba proceeds, SoftBank reported a net profit of ¥254.2bn ($2.42bn) compared with ¥213.4bn a year earlier for the April to June quarter.

Revenue rose 3 per cent to ¥2.13tn due to continuing growth of its domestic telecoms business, which generates free cash flow of nearly $5bn a year.

On Monday, Sprint, the fourth-largest US wireless group that SoftBank acquired for $22bn in 2013, reported steady customer additions in the latest quarter even as its net loss expanded to $302m from $20m a year earlier.

Arm reported on Wednesday a 19 per cent increase in revenue to £544.1m in the six months to the end of June, while pre-tax profits rose 9 per cent. Shares in SoftBank have fallen 11 per cent since the Arm deal was announced on concerns about the acquisition price and its debt pile.

The deal will increase SoftBank's net debt to earnings ratio before interest, depreciation and amortisation to a level of 4.4 times compared with 3.8 times as of end of March, according to Mr Son.

The SoftBank chief said the group's net debt was ¥7.1tn as of the end of June, while the value of its investments including its remaining stake in Alibaba totalled ¥9.1tn.

Media

Pinewood Studios sets the stage for £323m sale

JUDITH EVANS — LONDON

The owner of Pinewood Studios, home to the James Bond and *Star Wars* films, is set to be sold to a real estate private equity fund for £323m.

Pinewood Group, which is listed on London's junior market, said it would recommend that shareholders accept an offer from PW Real Estate Fund III, run by the French real estate investor Leon Bressler.

A person familiar with the fund's strategy said it did not intend to separate Pinewood's real estate from its operating business, but would invest to speed up the group's existing expansion plans, with the current management remaining in place.

Buckinghamshire-based Pinewood, established in 1936, has provided the setting for some of the best-known UK films and a series of Hollywood blockbusters. It also operates studios in countries including Canada and Malaysia.

Pinewood's 60,000 sq ft 007 stage was built in 1976 for the James Bond film *The Spy Who Loved Me*, and has since been used for scenes in films from *Tomb Raider* to *Charlie and the Chocolate Factory*.

But the group has been seeking further investment for expansion — including a £200m boost to capacity at its main UK operations — and in February hired investment bank Rothschild to explore options including a takeover. Rothschild spoke to more than 180 potential buyers, according to a person close to the deal.

Ivan Dunleavy, Pinewood's chief executive, said: "Pinewood has grown in recent years into a global operation which sits at the forefront of the UK's creative industries. We believe that we have found the right partner for the business and one that shares our long-term vision for the future of the group."

London-based Aermont Capital, which runs the fund seeking to buy Pinewood, is an offshoot of US investment bank Perella Weinberg but split from its parent company in July 2015.

The €900m fund seeking to buy Pinewood has a mandate to buy property assets and "corporate operating businesses that have a real estate component". Another fund run by the same managers previously owned a portfolio of cinemas leased to the French operator UGC.

The 560p-a-share offer equates to 31 times earnings, and is a 50 per cent premium to the 375p-a-share achieved in a £30m placing in April, but comes below the 570p-to-580p range in which the shares have traded in recent weeks.

Sahill Shan, analyst at N+1 Singer, said the price was "below our fair value estimate of 600p-625p and in our view does not fully reflect the potential upside".

The Aermont fund must complete its financing for the deal in the next four weeks in order for it to proceed.

Technology

Samsung pins hopes on chips to lift margins

SONG JUNG-A — SEOUL

Samsung Electronics has presented an upbeat outlook for the second half of the year, projecting that stronger demand for components including chips and display panels will outweigh an anticipated slowing in smartphone earnings.

The world's largest smartphone maker expects mobile phone sales to remain brisk in the third quarter but said higher marketing costs were likely to put pressure on margins, with rival Apple expected to launch its new iPhone in September.

"Looking ahead to the second half of 2016, the company expects its solid performance to continue compared to the first half, mainly driven by an earnings increase in the component business," Samsung said.

The South Korean company yesterday reported its best quarterly operating profit in more than two years as its flagship Galaxy S7 devices continued to fly off store shelves. Operating profit rose 18 per cent to Won8.14tn ($7.17bn) in the April-June period, matching guidance. Net profit rose to Won5.85tn from Won5.75tn a year earlier while sales increased 5 per cent to Won50.94tn.

The mobile division was the biggest contributor to earnings with operating profit for the unit surging 57 per cent to Won4.32tn — the highest since the second quarter of 2014.

Samsung's premium smartphones have benefited from the absence of strong competition this year as sales of Apple's iPhones have sagged.

Samsung said it shipped about 90m handsets in the second quarter and expects similar shipments in the third quarter. Research firm Canalys estimated Samsung's global market share at 24 per cent in the second quarter, with Apple second at 12 per cent followed by China's Huawei with 9 per cent.

Samsung will roll out its new Galaxy Note phablet with a larger screen next week, about a month ahead of the iPhone launch. The associated marketing costs and stiffer competition would probably slow second-half earnings at its mobile business, the company said.

But Samsung expects pressure on smartphone margins to be offset by a pick-up in earnings at its component businesses as the prices of microchips and display panels show signs of a recovery.

"The company has great technology and cost competitiveness over rivals in such components, which will enable it to enjoy high margins for the time being," said Kim Young-woo, analyst at SK Securities.

Shares in Samsung fell 1.3 per cent on profit-taking yesterday, having risen 20 per cent so far this year. The broader market in Seoul, South Korea, closed down 0.2 per cent.

Samsung's Galaxy S7 handset is flying off shelves but the group says mobile marketing costs are set to rise

MARKET DATA

WORLD MARKETS AT A GLANCE

FT.COM/MARKETSDATA

Change during previous day's trading (%)

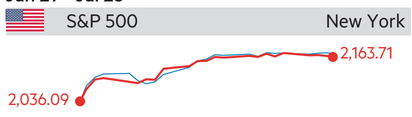
S&P 500	Nasdaq Composite	Dow Jones Ind	FTSE 100	FTSE Eurofirst 300	Nikkei	Hang Seng	FTSE All World $	$ per €	$ per £	¥ per $	£ per €	Oil Brent $ Sep	Gold $
-0.13%	0.05%	-0.38%	-0.44%	-1.00%	-1.13%	-0.20%	-0.11%	0.819%	No change	-0.771%	0.835%	0.43%	0.96%

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

AMERICAS

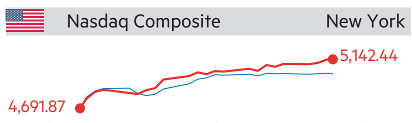
Jun 29 - Jul 28 — Index — All World

S&P 500 New York



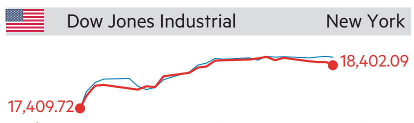
Day -0.13% Month 2.38% Year NaN%

Nasdaq Composite New York



Day 0.05% Month 11.92% Year 2.03%

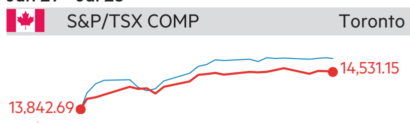
Dow Jones Industrial New York



Day -0.38% Month 7.37% Year 5.52%

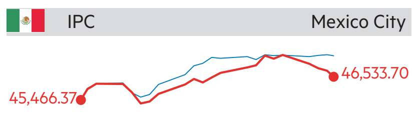
Jun 29 - Jul 28 — Index — All World

S&P/TSX COMP Toronto



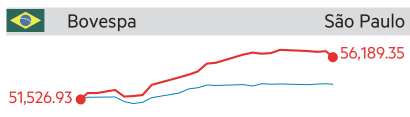
Day -0.11% Month 4.94% Year 3.19%

IPC Mexico City



Day -0.59% Month 4.10% Year 5.26%

Bovespa São Paulo

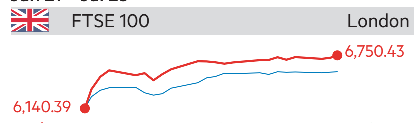


Day -1.17% Month 12.32% Year 13.24%

EUROPE

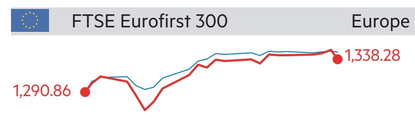
Jun 29 - Jul 28 — Index — All World

FTSE 100 London



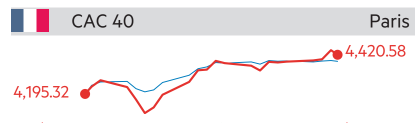
Day -0.44% Month 9.68% Year 2.74%

FTSE Eurofirst 300 Europe



Day -1.00% Month 7.06% Year -13.25%

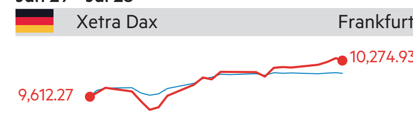
CAC 40 Paris



Day -0.59% Month 10.94% Year -10.29%

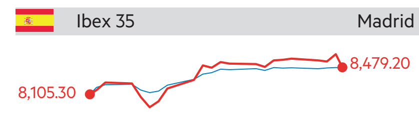
Jun 29 - Jul 28 — Index — All World

Xetra Dax Frankfurt



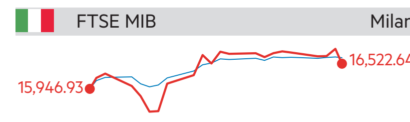
Day -0.43% Month 1.17% Year NaN%

Ibex 35 Madrid



Day -2.10% Month 10.90% Year -23.92%

FTSE MIB Milan

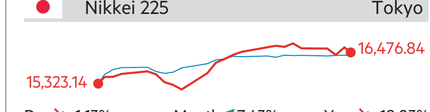


Day -2.02% Month 5.90% Year -29.17%

ASIA

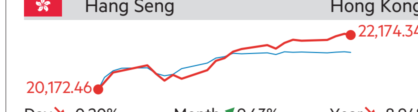
Jun 29 - Jul 28 — Index — All World

Nikkei 225 Tokyo



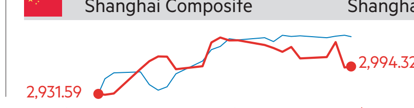
Day -1.13% Month 7.63% Year -19.03%

Hang Seng Hong Kong



Day -0.20% Month 9.63% Year -8.94%

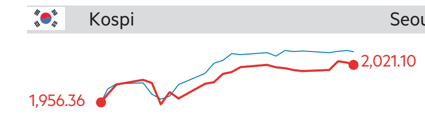
Shanghai Composite Shanghai



Day 0.08% Month 3.41% Year -19.63%

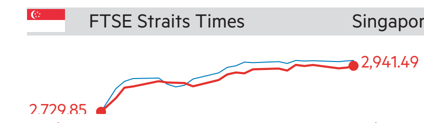
Jun 29 - Jul 28 — Index — All World

Kospi Seoul



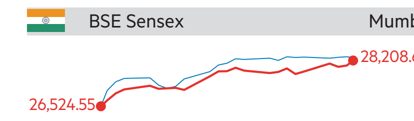
Day -0.20% Month 4.89% Year -0.87%

FTSE Straits Times Singapore



Day -0.78% Month 6.92% Year -11.92%

BSE Sensex Mumbai



Day 0.66% Month 6.84% Year 2.35%

Country	Index	Latest	Previous
Argentina	Merval	15527.95	15698.69
Australia	All Ordinaries	5636.70	5615.00
	S&P/ASX 200	5556.60	5539.70
	S&P/ASX 200 Res	2965.20	2932.30
Austria	ATX	2228.16	2242.97
Belgium	BEL 20	3418.19	3453.66
	BEL Mid	5924.01	5953.35
Brazil	Bovespa	56189.35	56852.84
Canada	S&P/TSX 60	845.82	846.40
	S&P/TSX Comp	14531.15	14546.54
	S&P/TSX Met & Min	677.47	653.60
Chile	IGPA Gen	20444.63	20483.77
China	FTSE A200	8162.73	8162.38
	FTSE B35	9414.99	9306.04
	Shanghai A	3134.53	3132.06
	Shanghai B	346.42	346.37
	Shanghai Comp	2994.32	2991.97
	Shenzhen A	2040.77	2044.03
	Shenzhen B	1143.27	1126.96
Colombia	COLCAP	1321.65	1315.69
Croatia	CROBEX	1752.37	1749.83
Cyprus	CSE M&P Gen	65.89	66.29
Czech Republic	PX	887.26	893.42
Denmark	OMXC Copenahgen 20	990.99	996.35
Egypt	EGX 30	7539.99	7517.78
Estonia	OMX Tallinn	1003.68	1014.04
Finland	OMX Helsinki General	7979.72	8001.14
France	CAC 40	4420.58	4446.96
	SBF 120	3502.82	3521.77
Germany	M-DAX	21088.49	21217.66
	TecDAX	1703.27	1716.21
	XETRA Dax	10274.93	10319.55
Greece	Athens Gen	562.84	569.16
	FTSE/ASE 20	1501.49	1532.34
Hong Kong	Hang Seng	22174.34	22218.99
	HS China Enterprise	9082.85	9115.29
	HSCC Red Chip	3786.40	3791.59
Hungary	Bux	27628.47	27781.05
India	BSE Sensex	28208.62	28024.33
	S&P CNX 500	6627.95	6634.30
Indonesia	Jakarta Comp	5299.21	5274.36
Ireland	ISEQ Overall	5804.47	5817.98
Israel	Tel Aviv 100	12.75	12.77
Italy	FTSE Italia All-Share	18187.04	18530.47
	FTSE Italia Mid Cap	30296.84	30561.27
	FTSE MIB	16522.64	16863.01
Japan	2nd Section	4211.15	4231.22
	Nikkei 225	16476.84	16664.82
	S&P Topix 150	1069.49	1082.25
	Topix	1307.00	1321.67
Jordan	Amman SE	2110.35	2099.03
Kenya	NSE 20	3475.38	3494.03
Kuwait	KSX Market Index	5461.90	5484.20
Latvia	OMX Riga	639.59	639.51
Lithuania	OMX Vilnius	547.92	547.00
Luxembourg	LuxX	1550.84	1541.85
Malaysia	FTSE Bursa KLCI	1658.50	1663.56
Mexico	IPC	46533.70	46812.07
Morocco	MASI	9928.35	9822.12
Netherlands	AEX	447.82	452.98
	AEX All Share	686.33	693.11
New Zealand	NZX 50	7306.35	7301.90
Nigeria	SE All Share	27945.02	27629.90
Norway	Oslo All Share	663.11	665.18
Pakistan	KSE 100	39468.98	39468.98
Philippines	Manila Comp	8024.98	8100.48
Poland	Wig	46721.53	46803.82
Portugal	PSI 20	4681.41	4708.62
	PSI General	2469.94	2480.78
Romania	BET Index	6695.57	6727.32
Russia	Micex Index	1946.53	1938.65
	RTX	919.76	921.67
Saudi-Arabia	TADAWUL All Share Index	6431.58	6470.82
Singapore	FTSE Straits Times	2918.62	2941.49
Slovakia	SAX	310.23	310.23
Slovenia	SBI TOP	715.27	708.55
South Africa	FTSE/JSE All Share	53282.16	53764.26
	FTSE/JSE Res 20	32211.65	31975.91
	FTSE/JSE Top 40	46390.00	46874.05
South Korea	Kospi	2021.10	2025.05
	Kospi 200	251.86	252.73
Spain	IBEX 35	8479.20	8661.40
Sri Lanka	CSE All Share	6392.15	6382.42
Sweden	OMX Stockholm 30	1345.44	1359.14
	OMX Stockholm AS	480.68	485.01
Switzerland	SMI Index	8095.07	8221.33
Taiwan	Weighted Pr	9076.64	9063.39
Thailand	Bangkok SET	1524.58	1515.40
Turkey	BIST 100	75075.70	73689.43
UAE	Abu Dhabi General Index	4596.83	4591.73
UK	FT 30	2932.20	2952.20
	FTSE 100	6721.06	6750.43
	FTSE 4Good UK	5978.13	6008.57
	FTSE All Share	3651.13	3663.95
	FTSE techMARK 100	4292.87	4319.63
USA	DJ Composite	6454.59	6470.77
	DJ Industrial	18402.09	18472.17
	DJ Transport	7843.76	7861.45
	DJ Utilities	705.55	704.80
	Nasdaq 100	4708.87	4702.88
	Nasdaq Cmp	5142.44	5139.81
	NYSE Comp	10712.79	10739.77
	S&P 500	2163.71	2166.58
	Wilshire 5000	21224.32	21238.05
Venezuela	IBC	12322.26	12230.07
Vietnam	VNI	657.14	656.11
Cross-Border	DJ Global Titans ($)	243.76	244.38
	Euro Stoxx 50 (Eur)	2973.73	2999.48
	Euronext 100 ID	869.48	877.75
	FTSE 4Good Global ($)	5395.18	5407.91
	FTSE All World	272.32	272.61
	FTSE E300	1338.28	1351.75
	FTSE Eurotop 100	2637.31	2668.09
	FTSE Global 100 ($)	1342.28	1345.49
	FTSE Gold Min ($)	1953.07	1895.39
	FTSE Latibex Top (Eur)	3023.50	3064.70
	FTSE Multinationals ($)	1542.04	1538.49
	FTSE World ($)	482.43	483.00
	FTSEurofirst 100 (Eur)	3760.78	3803.21
	FTSEurofirst 80 (Eur)	4051.97	4093.07
	MSCI ACWI Fr ($)	412.78	412.54
	MSCI All World ($)	1706.35	1705.99
	MSCI Europe (Eur)	1385.26	1379.02
	MSCI Pacific ($)	2309.00	2308.52
	S&P Euro (Eur)	1356.29	1368.81
	S&P Europe 350 (Eur)	1375.57	1388.46
	S&P Global 1200 ($)	1891.81	1897.58
	Stoxx 50 (Eur)	2861.30	2887.24

(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
Facebook	56.4	125.32	1.98
Apple	18.3	103.86	0.91
Amazon.com	16.3	747.40	10.73
Hospira	11.8	89.95	-0.01
Ford Motor	10.9	12.52	-1.32
Microsoft	9.7	55.96	-0.23
Alphabet	6.0	741.76	-0.01
Alphabet	5.8	761.77	-0.20
Allergan .	4.9	258.00	-2.24
Gilead Sciences	4.6	81.20	-0.59

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Varian Medical Systems	94.02	5.52	6.24
Xl Ltd	34.74	1.78	5.40
O'reilly Automotive	291.96	14.45	5.21
Advance Auto Parts	172.33	7.60	4.61
Zimmer Biomet Holdings	128.07	5.39	4.39
Downs			
Ford Motor	12.52	-1.32	-9.54
Whole Foods Market	30.52	-3.13	-9.29
Borgwarner	32.44	-1.77	-5.17
Extra Space Storage	85.90	-4.00	-4.45
Mosaic (the)	27.73	-1.15	-3.98

Based on the constituents of the S&P500 and the Nasdaq 100 index

LONDON

ACTIVE STOCKS	stock traded m's	close price	Day's change
Sabmiller	588.4	4324.00	-79.17
Astrazeneca	347.8	5027.00	50.98
Royal Dutch Shell	263.2	2051.50	-60.50
Lloyds Banking	238.7	52.50	-2.92
Arm Holdings	210.4	1670.00	-2.50
Royal Dutch Shell	209.0	1984.50	-66.04
Bp	200.7	426.65	-4.29
Diageo	177.3	2192.00	65.69
Glaxosmithkline	157.6	1699.50	5.01
Rolls-royce Holdings	154.0	831.00	86.40

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Countrywide	263.20	33.61	13.59
Rolls-royce Holdings	831.00	86.40	11.80
Sports Direct Int	281.10	23.56	9.15
Thomas Cook	65.25	3.98	6.63
Polymetal Int	1112.00	66.04	6.31
Downs			
Int Personal Finance	253.70	-83.30	-24.72
hcape	668.00	-41.37	-5.75
Lloyds Banking	52.50	-2.92	-5.24
Smith & Nephew	1227.00	-64.87	-4.99
Weir	1452.00	-72.29	-4.74

Based on the constituents of the FTSE 350 index

EURO MARKETS

ACTIVE STOCKS	stock traded m's	close price	Day's change
Santander	522.6	3.71	-0.15
Royal Dutch Shella	494.4	23.58	-0.92
Nestle N	397.3	71.69	0.00
Novartis N	371.4	75.27	0.00
Daimler Ag Na O.n.	363.4	61.92	0.00
Adidas Ag Na O.n.	327.0	140.55	0.00
Roche Gs	321.5	229.12	0.00
Intesa Sanpaolo	311.5	1.96	0.00
Total	311.1	42.49	-0.20
Cs N	284.0	10.62	0.00

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Deutsche Wohnen Ag	28.23	1.12	4.15
Danone	67.93	2.23	3.39
Suez	14.47	0.46	3.25
Ryanair Holdings	11.97	0.35	3.01
Cap Gemini	85.11	2.46	2.98
Downs			
Grifols Sa	14.99	-14.40	-48.99
Cnp Assurances	13.56	-0.90	-6.26
Bayerische Motoren Werke Ag	64.40	-4.15	-6.05
Carrefour	22.40	-1.30	-5.49
Grifols	19.50	-1.06	-5.13

Based on the constituents of the FTSEurofirst 300 Eurozone index

TOKYO

ACTIVE STOCKS	stock traded m's	close price	Day's change
Toyota Motor	496.7	5859.00	-7.00
Japan Tobacco .	477.1	4056.00	-54.00
Mitsubishi Ufj Fin,.	345.5	484.60	-12.70
Kao	312.6	5645.00	-73.00
Fanuc	285.7	17690.00	30.00
Softbank .	274.0	5366.00	-56.00
Mitsubishi Electric	272.1	1184.50	-100.50
Nissan Motor Co.,	233.8	1024.00	-22.50
Fujifilm Holdings	233.7	3650.00	-401.00
Alps Electric Co.,	232.1	2262.00	219.00

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Alps Electric Co.,	2262.00	219.00	10.72
Advantest	1333.00	115.00	9.44
Ntn	336.00	27.00	8.74
Sumco	783.00	30.00	3.98
Toho Z Co.,	357.00	9.00	2.59
Downs			
Fujifilm Holdings	3650.00	-401.00	-9.90
Mitsumi Electric Co.,	513.00	-53.00	-9.36
Mitsubishi Electric	1184.50	-100.50	-7.82
Minebea Co.,	826.00	-67.00	-7.50
West Japan Railway	6298.00	-389.00	-5.82

Based on the constituents of the Nikkei 225 index

UK MARKET WINNERS AND LOSERS

FTSE 100	Jul 28 price(p)	%Chg week	%Chg ytd
Winners			
Rolls-royce Holdings	831.00	10.0	42.3
Sky	904.00	8.5	-15.4
Bt	414.35	7.1	-12.2
Anglo American	842.60	6.6	180.4
Fresnillo	1902.00	6.5	173.3
3i	613.00	5.5	28.5
Crh	2281.00	4.8	16.7
Astrazeneca	5027.00	4.8	2.7
St. James's Place	920.00	4.6	-8.6
Mondi	1512.00	4.6	14.2
Diageo	2192.00	4.6	18.7
Morrison (wm) Supermarkets	184.30	4.2	25.2
Losers			
Lloyds Banking	52.50	-6.0	-27.7
Royal Dutch Shell	1984.50	-5.0	29.6
Smith & Nephew	1227.00	-4.7	2.2
Bp	426.65	-4.7	21.4
Capita	935.00	-4.3	-22.1
Easyjet	1017.00	-4.1	-41.2
Royal Dutch Shell	2051.50	-3.9	32.5
Paddy Power Betfair	8495.00	-3.3	-7.6
Sabmiller	4324.00	-2.9	5.7
Sse	1541.00	-2.9	2.4
Associated British Foods	2686.00	-2.9	-19.5
Barclays	146.50	-2.6	-32.4

FTSE 250	Jul 28 price(p)	%Chg week	%Chg ytd
Winners			
Hochschild Mining	273.00	23.8	468.1
Acacia Mining	587.50	12.7	226.3
Virgin Money Holdings (uk)	262.60	11.4	-29.8
Countrywide	263.20	11.2	-29.7
Metro Bank	2080.00	9.7	-
Rightmove	4070.00	9.5	-0.5
Vedanta Resources	566.50	8.7	105.5
Morgan Advanced Materials	275.00	8.4	11.1
Ip	159.30	8.2	-22.3
Sports Direct Int	281.10	7.2	-51.3
Polymetal Int	1112.00	7.1	90.4
Just Eat	529.00	7.1	2.9
Losers			
Int Personal Finance	253.70	-25.6	-12.2
Tullow Oil	194.80	-8.0	21.1
Vectura	147.70	-7.8	-17.6
Weir	1452.00	-7.2	45.2
Man	114.60	-7.2	-34.7
Petrofac	755.00	-6.2	-4.9
Victrex	1479.00	-5.8	-16.7
Amec Foster Wheeler	450.80	-5.7	7.2
Cairn Energy	180.30	-4.7	15.6
Dignity	2659.00	-4.4	1.8
Drax	342.10	-4.0	40.4
Jardine Lloyd Thompson	986.00	-3.8	4.1

FTSE SmallCap	Jul 28 price(p)	%Chg week	%Chg ytd
Winners			
Brammer	105.00	45.1	-42.5
Game Digital	75.50	21.8	-37.6
Premier Farnell	195.00	17.7	97.2
Fdm (holdings)	600.00	15.9	14.3
Tyman	294.00	14.3	-1.2
Helical Bar	291.50	12.6	-38.9
Nanoco	71.50	12.1	25.8
Sdl	438.75	10.4	5.2
On The Beach	241.00	9.5	0.4
Severfield	52.75	9.3	-18.8
Capital & Regional	58.75	8.8	-9.6
St. Ives	112.00	8.7	-49.7
Losers			
Enquest	23.75	-14.4	25.0
Hunting	409.50	-12.5	35.0
Premier Oil	63.25	-10.8	32.4
Soco Int	148.00	-9.3	1.6
Lsl Property Services	232.00	-6.5	-18.6
Flybe	37.25	-6.4	-58.6
Lamprell	70.75	-5.7	-28.9
Uk Mail	302.00	-5.0	20.8
Town Centre Securities	288.25	-4.4	-14.0
Lookers	103.50	-4.4	-44.1
Trinity Mirror	74.00	-3.9	-55.7
Findel	168.50	-3.7	-15.8

Industry Sectors	Jul 28 price(p)	%Chg week	%Chg ytd
Winners			
Fixed Line Telecommunication	4722.34	7.0	-11.1
Pharmaceuticals & Biotech.	14674.60	4.9	14.1
Industrial Metals	1642.77	4.6	127.6
Aerospace & Defense	4711.91	4.5	14.0
Forestry & Paper	16286.29	4.2	13.7
Software & Computer Services	1966.69	3.8	19.0
Mining	11702.80	3.6	59.8
Construction & Materials	5568.41	3.5	7.7
Media	7615.99	2.5	3.0
Mobile Telecommunications	5166.18	2.3	1.4
Real Estate Investment Trusts	2942.54	2.1	-9.5
Equity Investment Instruments	7988.95	2.0	7.0
Losers			
Oil Equipment & Services	13351.17	-5.5	2.9
Oil & Gas Producers	7321.37	-4.4	29.5
Electricity	9093.75	-3.9	3.7
Health Care Equip.& Services	7621.19	-3.8	5.3
Banks	3166.23	-1.7	-16.8
Food Producers	8004.63	-0.5	-9.5
General Industrials	4961.83	-0.4	12.8
Industrial Engineering	9165.68	-0.3	28.1
Tobacco	55866.04	-0.3	21.2
Chemicals	11950.92	-0.3	11.0
Food & Drug Retailers	2535.89	-0.2	1.6
Technology Hardware & Equip.	1997.69	-0.2	56.6

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

CURRENCIES

Jul 28	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	15.0313	0.0612	16.6599	0.2087	19.7263	0.0938
Australia	Australian Dollar	1.3311	-0.0079	1.4753	0.0038	1.7469	-0.0092
Bahrain	Bahrainin Dinar	0.3772	-0.0001	0.4180	0.0034	0.4950	0.0002
Bolivia	Bolivian Boliviano	6.9350	0.0050	7.6864	0.0707	9.1012	0.0128
Brazil	Brazilian Real	3.2765	-0.0111	3.6315	0.0187	4.2999	-0.0116
Canada	Canadian Dollar	1.3189	-0.0028	1.4618	0.0093	1.7309	-0.0026
Chile	Chilean Peso	664.9100	-0.1900	736.9547	6.0434	872.5968	0.3459
China	Chinese Yuan	6.6576	-0.0120	7.3790	0.0494	8.7371	-0.0098
Colombia	Colombian Peso	3089.3750	6.0350	3424.1169	35.6820	4054.3527	10.6810
Costa Rica	Costa Rican Colon	546.3100	0.3100	605.5041	5.4777	716.9517	0.8955
Czech Republic	Czech Koruna	24.4012	-0.1983	27.0451	0.0116	32.0229	-0.2382
Denmark	Danish Krone	6.7110	-0.0585	7.4382	-0.0012	8.8072	-0.0707
Egypt	Egyptian Pound	8.8846	0.0275	9.8472	0.1137	11.6597	0.0440
Hong Kong	Hong Kong Dollar	7.7563	-0.0012	8.5967	0.0716	10.1789	0.0054
Hungary	Hungarian Forint	281.4364	-3.7950	311.9308	-1.5241	369.3440	-4.7251
India	Indian Rupee	67.0775	-0.0775	74.3455	0.5456	88.0294	-0.0416
Indonesia	Indonesian Rupiah	13101.0000	-39.0000	14520.5320	80.3282	17193.1496	-39.4352
Israel	Israeli Shekel	3.8273	-0.0137	4.2419	0.0210	5.0227	-0.0145
Japan	Japanese Yen	104.8350	-0.8150	116.1941	0.0901	137.5805	-0.9750
..One Month		104.8349	-0.8153	116.1941	0.0901	137.5805	-0.9752
..Three Month		104.8346	-0.8158	116.1941	0.0901	137.5802	-0.9756
..One Year		104.8334	-0.8182	116.1941	0.0900	137.5805	-0.9764
Kenya	Kenyan Shilling	101.3600	0.0100	112.3426	0.9641	133.0201	0.1038
Kuwait	Kuwaiti Dinar	0.3025	0.0002	0.3352	0.0030	0.3969	0.0005
Malaysia	Malaysian Ringgit	4.0495	-0.0285	4.4883	0.0068	5.3144	-0.0338
Mexico	Mexican Peson	18.8982	0.0274	20.9458	0.2078	24.8010	0.0528
New Zealand	New Zealand Dollar	1.4153	-0.0041	1.5687	0.0088	1.8574	-0.0041
Nigeria	Nigerian Naira	316.7500	1.7500	351.0707	4.9016	415.6879	2.5785
Norway	Norwegian Krone	8.5537	-0.0439	9.4805	0.0322	11.2255	-0.0499
Pakistan	Pakistani Rupee	104.8250	-	116.1831	0.9857	137.5674	0.0938
Peru	Peruvian Nuevo Sol	3.3540	-0.0055	3.7174	0.0255	4.4016	-0.0042
Philippines	Philippine Peso	47.0750	-0.1200	52.1757	0.3108	61.7790	-0.1152
Poland	Polish Zloty	3.9356	-0.0464	4.3620	-0.0140	5.1648	-0.0573
Romania	Romanian Leu	4.0289	-0.0315	4.4654	0.0033	5.2873	-0.0377
Russia	Russian Ruble	66.6788	0.4274	73.9036	1.0967	87.5061	0.6203
Saudi Arabia	Saudi Riyal	3.7504	-	4.1567	0.0353	4.9218	0.0034
Singapore	Singapore Dollar	1.3531	-0.0041	1.4997	0.0082	1.7757	-0.0042
South Africa	South African Rand	14.2434	-0.0379	15.7867	0.0923	18.6924	-0.0369
South Korea	South Korean Won	1124.4500	-9.7500	1246.2872	-0.1414	1475.6756	-11.7804
Sweden	Swedish Krona	8.6442	-0.0346	9.5808	0.0433	11.3442	-0.0376
Switzerland	Swiss Franc	0.9817	-0.0116	1.0881	-0.0036	1.2883	-0.0144
Taiwan	New Taiwan Dollar	31.9510	-0.1080	35.4130	0.1818	41.9310	-0.1130
Thailand	Thai Baht	34.8755	-0.1045	38.6543	0.2131	45.7690	-0.1058
Tunisia	Tunisian Dinar	2.2241	-0.0141	2.4650	0.0054	2.9187	-0.0165
Turkey	Turkish Lira	3.0156	-0.0177	3.3423	0.0089	3.9575	-0.0205
United Arab Emirates	UAE Dirham	3.6731	-	4.0711	0.0345	4.8204	0.0033
United Kingdom	Pound Sterling	0.7620	-0.0005	0.8446	0.0066	-	-
..One Month		0.7621	-0.0005	0.8445	0.0066	-	-
..Three Month		0.7622	-0.0005	0.8444	0.0066	-	-
..One Year		0.7627	-0.0005	0.8437	0.0066	-	-
United States	United States Dollar	-	-	1.1084	0.0094	1.3124	0.0009
..One Month		-	-	1.1082	-0.2031	1.3124	0.0009
..Three Month		-	-	1.1079	-0.2031	1.3126	0.0009
..One Year		-	-	1.1067	-0.2031	1.3131	0.0009
Venezuela	Venezuelan Bolivar Fuerte	9.9900	0.0100	11.0724	0.1049	13.1104	0.0221
Vietnam	Vietnamese Dong	22305.0000	-	24721.8177	209.7308	29272.1195	20.0367
European Union	Euro	0.9022	-0.0077	-	-	1.1841	-0.0093
..One Month		0.9021	-0.0077	-	-	1.1840	-0.0093
..Three Month		0.9018	-0.0077	-	-	1.1839	-0.0093
..One Year		0.9006	-0.0077	-	-	1.1832	-0.0093

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 Jul 28	Day's chge%	Euro Index	£ Strlg Jul 27	£ Strlg Jul 26	Year ago	Div yield%	Cover	P/E ratio	X/D adj	Total Return
FTSE 100 (100)	6721.06	-0.44	6207.00	6750.43	6724.03	6631.00	3.72	0.71	38.04	143.82	5391.17
FTSE 250 (250)	17252.33	-0.08	15932.79	17265.91	17069.10	17512.81	2.67	1.97	19.03	276.14	12207.83
FTSE 250 ex Inv Co (209)	18529.99	-0.22	17112.73	18570.04	18326.55	19060.77	2.71	2.10	17.56	299.71	13370.37
FTSE 350 (350)	3708.47	-0.38	3424.83	3722.50	3703.39	3676.10	3.55	0.86	32.69	76.04	5988.36
FTSE 350 ex Investment Trusts (309)	3681.84	-0.40	3400.24	3696.76	3677.43	3654.65	3.57	0.86	32.58	76.00	3061.65
FTSE 350 Higher Yield (125)	3480.95	-0.48	3214.71	3497.63	3482.08	3406.36	4.93	0.40	50.18	98.07	5816.98
FTSE 350 Lower Yield (225)	3572.00	-0.26	3298.80	3581.44	3560.25	3591.59	1.98	2.16	23.43	42.21	3828.40
FTSE SmallCap (280)	4767.57	0.43	4402.92	4747.33	4698.37	4697.75	2.91	1.37	25.15	77.90	6649.93
FTSE SmallCap ex Inv Co (145)	4209.39	0.44	3887.43	4190.96	4126.95	4238.82	3.07	1.82	17.89	72.15	6167.43
FTSE All-Share (630)	3651.13	-0.35	3371.88	3663.95	3644.50	3618.45	3.52	0.88	32.36	74.36	5963.14
FTSE All-Share ex Inv Co (454)	3608.99	-0.39	3332.96	3623.07	3603.47	3583.27	3.56	0.87	32.10	74.26	3050.48
FTSE All-Share ex Multinationals (566)	1102.17	-0.50	843.63	1107.75	1094.76	1249.20	3.18	1.44	21.80	21.53	1915.27
FTSE Fledgling (104)	7944.49	0.13	7336.86	7934.15	7883.10	7978.89	2.70	1.53	24.10	116.65	14537.70
FTSE Fledgling ex Inv Co (53)	10328.60	0.18	9538.62	10310.02	10215.52	10920.44	3.09	2.00	16.16	147.83	18366.86
FTSE All-Small (384)	3305.00	0.41	3052.22	3291.47	3258.19	3259.83	2.90	1.37	25.09	53.73	5918.49
FTSE All-Small ex Inv Co Index (198)	3137.22	0.43	2897.27	3123.83	3076.94	3165.08	3.07	1.83	17.81	53.45	5823.21
FTSE AIM All-Share Index (824)	754.19	0.39	696.51	751.23	746.27	749.16	1.70	0.64	92.49	6.10	818.63
FTSE Sector Indices											
Oil & Gas (16)	7679.13	-2.42	7091.79	7869.71	7892.34	6819.96	5.79	-0.67	-25.92	228.12	6667.38
Oil & Gas Producers (9)	7357.58	-2.39	6794.84	7537.68	7564.74	6449.78	5.82	-0.69	-24.96	218.77	6607.15
Oil Equipment Services & Distribution (7)	13811.26	-3.51	12754.91	14313.28	14011.26	17882.85	4.63	0.26	83.89	394.46	10444.49
Basic Materials (27)	4115.62	0.50	3800.84	4095.10	4052.12	3932.10	3.34	0.22	133.78	53.46	4107.28
Chemicals (7)	12744.81	-0.46	11770.03	12804.22	12741.97	11953.45	2.33	2.08	20.68	239.20	11186.50
Forestry & Paper (1)	17771.34	-0.59	16412.10	17877.12	17994.66	18135.70	2.63	2.97	12.80	347.94	18873.32
Industrial Metals & Mining (2)	1646.87	1.29	1520.91	1625.87	1598.06	1091.48	0.35	2.79	103.14	0.00	1437.20
Mining (17)	11277.08	0.68	10414.56	11200.43	11064.66	10839.57	3.53	-0.05	-564.68	134.88	5890.14
Industrials (117)	4717.57	0.38	4356.75	4699.86	4653.59	4505.41	2.42	1.07	38.49	69.54	4763.02
Construction & Materials (15)	5685.40	-0.20	5250.56	5696.68	5596.14	5180.94	2.23	0.04	1076.39	86.07	5906.93
Aerospace & Defense (9)	4874.76	4.04	4501.92	4685.25	4640.31	4524.90	2.42	-0.44	-94.17	71.61	5122.18
General Industrials (6)	4041.69	-1.20	3732.57	4090.60	4090.47	3613.19	2.93	1.19	28.64	48.86	4457.95
Electronic & Electrical Equipment (10)	6137.50	-0.13	5668.07	6145.31	6021.88	5333.40	2.03	1.80	27.35	74.29	5508.64
Industrial Engineering (13)	9791.74	-1.40	9042.83	9930.87	9783.93	8746.26	2.71	1.30	28.40	165.62	11700.97
Industrial Transportation (8)	4588.93	-0.36	4237.94	4605.32	4571.86	4361.74	3.76	1.02	26.08	123.38	3972.02
Support Services (56)	6872.73	-0.22	6347.07	6887.67	6830.51	6848.68	2.28	1.78	24.59	96.41	6999.38
Consumer Goods (39)	20394.22	0.34	18834.38	20325.97	20389.77	17531.49	2.67	1.84	20.37	281.43	14602.55
Automobiles & Parts (1)	6768.13	-2.67	6250.48	6953.79	7073.64	7557.75	3.02	1.29	25.59	136.30	6354.53
Beverages (6)	17281.15	0.84	15959.40	17137.38	17281.49	14211.12	2.25	1.58	28.14	113.34	11856.26
Food Producers (8)	8117.91	-0.03	7497.01	8120.38	8081.68	8284.82	2.04	1.84	26.64	94.31	6874.44
Household Goods & Home Construction (15)	13693.58	-0.12	12646.23	13709.62	13497.66	13194.53	2.26	2.67	16.54	153.86	9419.26
Leisure Goods (1)	5137.43	0.00	4744.50	5137.43	5137.43	5400.95	3.32	1.50	20.11	129.52	4453.30
Personal Goods (6)	26523.16	-0.19	24494.54	26573.37	26667.55	23072.16	2.60	3.41	11.27	383.12	17389.35
Tobacco (2)	55866.13	0.58	51593.23	55546.08	56098.96	44362.44	3.34	1.18	25.29	1163.34	34866.02
Health Care (19)	10713.09	1.39	9893.70	10566.64	10470.18	9471.70	3.11	0.41	77.80	211.12	7996.60
Health Care Equipment & Services (8)	7696.27	-3.50	7107.62	7975.51	7980.58	6830.15	1.43	2.01	34.86	64.89	6584.39
Pharmaceuticals & Biotechnology (11)	14563.18	1.87	13449.32	14295.47	14151.08	12874.18	3.27	0.35	88.03	303.96	9671.50
Consumer Services (93)	4629.99	0.01	4275.86	4629.68	4582.69	5005.12	2.63	1.84	20.63	77.09	4248.81
Food & Drug Retailers (7)	2646.08	-0.77	2443.70	2666.52	2627.53	3262.63	1.57	2.48	25.78	29.93	3058.89
General Retailers (31)	2461.26	0.15	2273.01	2457.61	2424.44	3141.51	3.05	2.15	15.22	41.81	2741.91
Media (21)	7690.33	0.54	7102.14	7649.26	7536.95	7518.56	2.78	1.39	25.91	135.65	4624.21
Travel & Leisure (34)	8102.28	-0.33	7482.58	8128.96	8103.15	8366.23	2.58	1.99	19.42	138.05	7511.08
Telecommunications (6)	3848.21	0.19	3553.88	3840.95	3829.11	4170.17	4.35	-0.25	-93.50	85.24	4123.09
Fixed Line Telecommunications (4)	4805.31	2.86	4437.78	4671.71	4640.05	5452.24	3.29	1.87	16.23	11.68	4178.02
Mobile Telecommunications (2)	5158.36	-1.28	4763.82	5225.44	5219.96	5438.80	4.96	-1.05	-19.14	172.86	4991.66
Utilities (7)	9416.99	-0.99	8696.74	9511.21	9543.40	8238.96	4.31	1.72	13.47	303.54	10384.07
Electricity (2)	9073.10	-4.81	8379.15	9531.34	9542.90	8734.22	5.46	1.47	12.48	484.22	12748.21
Gas Water & Multiutilities (5)	8980.21	-0.04	8293.36	8983.71	9018.99	7670.38	4.04	1.80	13.73	245.09	9897.62
Financials (288)	4079.62	-1.35	3767.59	4135.36	4091.26	4907.84	4.11	1.52	16.03	106.47	3657.29
Banks (11)	3126.33	-2.56	2887.21	3208.59	3167.70	4424.54	5.27	1.00	18.95	102.10	2225.27
Nonlife Insurance (10)	3011.44	-0.46	2781.11	3025.35	3024.68	2673.44	2.74	2.29	15.98	53.63	5158.15
Life Insurance/Assurance (10)	6646.56	-1.77	6138.20	6766.11	6651.58	8034.93	4.44	1.53	14.76	201.97	6276.59
Index- Real Estate Investment & Services (20)	2463.21	0.59	2274.81	2448.86	2405.18	3250.29	2.68	3.62	10.30	38.38	6423.86
Real Estate Investment Trusts (28)	2676.20	0.13	2471.52	2672.65	2658.92	3066.64	3.52	4.36	6.53	59.18	3231.89
General Financial (33)	7525.73	-1.47	6950.13	7638.01	7536.93	8068.84	3.46	1.88	15.40	178.66	8368.49
Equity Investment Instruments (176)	8211.17	0.60	7583.14	8161.83	8139.05	7768.53	2.56	0.97	40.32	125.05	4390.89
Non Financials (342)	4463.82	-0.06	4122.41	4466.37	4449.68	4152.56	3.35	0.65	45.90	83.53	6382.56
Technology (18)	1969.06	0.50	1818.46	1959.19	1951.46	1352.43	1.11	1.64	54.60	14.65	2488.77
Software & Computer Services (12)	2167.10	1.58	2001.35	2133.35	2119.00	1671.36	1.73	1.60	36.12	26.40	2883.50
Technology Hardware & Equipment (6)	2444.20	-0.22	2257.26	2449.49	2444.37	1539.00	0.70	1.71	83.71	10.68	2825.88

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	6736.19	6746.82	6743.16	6731.72	6736.63	6735.42	6740.28	6742.02	6734.00	6761.98	6720.16
FTSE 250	17245.46	17354.44	17339.36	17299.47	17371.39	17343.58	17351.53	17325.51	17290.24	17390.22	17237.97
FTSE SmallCap	4745.23	4762.91	4762.20	4765.45	4765.15	4766.25	4768.68	4769.95	4763.76	4770.65	4744.43
FTSE All-Share	3656.96	3665.73	3663.61	3657.33	3661.89	3660.46	3662.92	3662.85	3657.98	3671.80	3650.49

Time of FTSE 100 Day's high:07:30:45 Day's Low07:05:45 FTSE 100 2010/11 High: 6750.43(27/07/2016) Low: 5536.97(11/02/2016)
Time of FTSE All-Share Day's high:07:46:00 Day's Low07:07:00 FTSE 100 2010/11 High: 3663.95(27/07/2016) Low: 3046.53(11/02/2016)

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FT 30 INDEX

	Jul 28	Jul 27	Jul 26	Jul 25	Jul 22	Yr Ago	High	Low
FT 30	2932.20	2952.20	2925.50	2935.90	2924.10	0.00	2961.50	2508.90
FT 30 Div Yield	1.57	1.57	1.57	1.57	1.58	0.00	3.93	2.74
P/E Ratio net	28.44	28.45	28.41	28.37	28.33	0.00	19.44	14.26

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

FT 30 hourly changes

8	9	10	11	12	13	14	15	16	High	Low
2952.2	2957.5	2953.5	2947.7	2951.4	2949.5	2950.6	2945.5	2940.2	2966.7	2932.2

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

FX: EFFECTIVE INDICES

	Jul 27	Jul 26	Mnth Ago		Jul 28	Jul 27	Mnth Ago
Australia	91.44	91.72	89.99	Sweden	77.88	78.12	78.96
Canada	88.51	88.50	90.28	Switzerland	158.82	158.92	160.65
Denmark	107.59	107.45	106.99	UK	79.59	79.59	81.84
Japan	146.52	147.92	150.37	USA	101.55	101.24	99.09
New Zealand	115.75	115.28	115.52	Euro	88.56	88.34	87.50
Norway	85.95	86.04	86.03				

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

FTSE GLOBAL EQUITY INDEX SERIES

Jul 28 Regions & countries	No of stocks	US $ indices	Day %	Mth %	YTD %	Total retn	YTD %	Gr Div Yield
FTSE Global All Cap	7717	467.47	0.1	8.8	3.7	650.12	5.4	2.5
FTSE Global All Cap	7079	462.39	0.3	7.3	-0.3	624.68	0.2	2.5
FTSE Global Large Cap	1425	410.80	0.1	8.5	3.0	585.09	4.9	2.7
FTSE Global Mid Cap	1642	631.73	-0.1	9.5	4.9	836.56	6.4	2.1
FTSE Global Small Cap	4650	664.14	0.1	9.6	5.9	852.78	7.2	2.0
FTSE All-World	3067	272.61	0.1	8.7	3.4	400.19	5.1	2.6
FTSE World	2542	483.00	0.1	8.7	3.3	951.74	5.0	2.6
FTSE Global All Cap ex UNITED KINGDOM In	7391	483.41	0.0	8.5	4.3	662.68	6.0	2.4
FTSE Global All Cap ex USA	5769	420.64	0.3	8.9	0.8	623.81	3.0	3.1
FTSE Global All Cap ex JAPAN	6453	478.67	0.1	9.2	4.3	671.83	6.1	2.5
FTSE Global All Cap ex Eurozone	7072	485.62	0.0	8.5	4.7	662.61	6.2	2.4
FTSE Developed	2095	438.11	0.0	8.5	2.7	613.89	4.4	2.5
FTSE Developed All Cap	5684	460.91	0.0	8.7	3.0	638.54	4.7	2.5
FTSE Developed Large Cap	899	404.06	0.1	8.4	2.3	574.23	4.1	2.6
FTSE Developed Europe Large Cap	223	314.28	0.4	10.6	-4.8	510.00	-1.9	3.7
FTSE Developed Europe Mid Cap	308	489.23	0.7	12.9	-4.6	717.17	-2.3	2.8
FTSE Dev Europe Small Cap	705	685.60	1.1	12.5	-6.3	974.93	-4.5	2.6
FTSE North America Large Cap	291	461.64	0.0	8.0	5.8	615.64	7.1	2.2
FTSE North America Mid Cap	394	698.52	-0.6	9.2	9.1	870.78	10.1	1.7
FTSE North America Small Cap	1478	704.89	-0.1	10.1	9.9	855.04	10.9	1.7
FTSE North America	685	309.84	-0.1	8.2	6.3	423.22	7.6	2.1
FTSE Developed ex North America	1410	220.67	0.3	9.1	-2.7	351.41	-0.4	3.2
FTSE Japan Large Cap	176	313.53	0.3	4.4	-4.3	396.92	-3.2	2.3
FTSE Japan Mid Cap	307	487.85	0.3	2.7	-0.8	595.38	0.3	1.9
FTSE Global wi JAPAN Small Cap	781	538.01	0.2	3.8	2.2	678.88	3.4	2.1
FTSE Japan	483	131.44	0.3	4.0	-3.6	186.89	-2.5	2.3
FTSE Asia Pacific Large Cap ex Japan	549	577.38	0.1	9.2	6.7	881.34	8.9	3.2
FTSE Asia Pacific Mid Cap ex Japan	420	793.14	0.2	8.6	6.2	1163.64	8.0	2.8
FTSE Asia Pacific Small Cap ex Japan	1443	517.43	0.0	6.6	3.6	747.28	5.2	2.6
FTSE Asia Pacific Ex Japan	969	457.99	0.1	9.1	6.7	742.77	8.8	3.1
FTSE Emerging All Cap	2033	632.57	0.4	9.5	10.7	921.26	13.1	3.0
FTSE Emerging Large Cap	526	595.73	0.4	9.7	10.6	873.78	13.1	3.0
FTSE Emerging Mid Cap	446	814.39	0.4	10.4	14.7	1177.63	16.9	2.7
FTSE Emerging Small Cap	1061	659.94	0.5	7.7	7.2	922.60	9.0	2.8
FTSE Emerging Europe	112	295.52	0.2	4.0	10.6	448.18	14.3	4.2
FTSE Latin America All Cap	236	772.99	-0.2	13.3	29.1	1158.95	31.1	3.0
FTSE Middle East and Africa All Cap	219	707.43	1.1	17.1	14.4	1072.61	16.3	2.8
FTSE Global wi UNITED KINGDOM All Cap In	326	312.87	0.5	13.0	-4.9	505.50	-2.8	3.6
FTSE Global wi USA All Cap	1948	532.45	-0.1	8.6	6.2	690.41	7.5	2.0
FTSE Europe All Cap	1423	364.27	0.5	10.9	-4.5	572.12	-1.8	3.4
FTSE Eurozone All Cap	645	339.59	0.8	11.4	-5.3	540.21	-2.6	3.4
FTSE RAFI All World 3000	3041	5590.26	0.1	9.3	3.0	7186.04	5.1	3.2
FTSE RAFI US 1000	999	9465.59	-0.4	8.4	7.0	12134.62	8.5	2.4
FTSE EDHEC-Risk Efficient All-World	3067	331.63	-0.2	8.6	5.1	452.21	6.6	2.2
FTSE EDHEC-Risk Efficient Developed Europe	531	270.83	0.5	11.9	-3.0	403.95	-0.9	2.7

Jul 28 Sectors	No of stocks	US $ indices	Day %	Mth %	YTD %	Total retn	YTD %	Gr Div Yield
Oil & Gas	151	340.27	-0.8	-0.8	11.6	531.08	13.9	3.6
Oil & Gas Producers	110	318.47	-0.7	-0.7	11.6	506.18	14.0	3.8
Oil Equipment & Services	31	313.25	-1.1	-1.1	12.9	444.94	15.0	3.2
Basic Materials	256	394.46	0.9	0.9	12.3	588.81	14.3	2.8
Chemicals	125	591.14	0.6	0.6	-0.1	887.04	2.0	2.8
Forestry & Paper	16	207.59	-0.6	-0.6	5.9	342.19	8.7	3.7
Industrial Metals & Mining	62	324.23	0.9	0.9	26.0	483.00	27.5	2.2
Mining	53	493.03	2.1	2.1	52.4	733.14	54.6	2.9
Industrials	535	319.67	0.1	0.1	6.8	450.94	8.5	2.3
Construction & Materials	111	462.39	0.7	0.7	10.3	683.70	12.2	2.0
Aerospace & Defense	26	533.37	0.6	0.6	5.3	745.25	6.8	2.3
General Industrials	55	231.51	-0.2	-0.2	6.7	351.32	8.5	2.5
Electronic & Electrical Equipment	69	324.99	0.9	0.9	2.7	421.17	3.8	1.9
Industrial Engineering	104	593.86	0.6	0.6	10.8	826.33	12.8	2.4
Industrial Transportation	95	536.25	-0.5	-0.5	8.3	755.22	10.0	2.5
Support Services	75	287.46	-0.7	-0.7	4.2	388.81	5.5	1.9
Consumer Goods	423	431.64	-0.4	-0.4	3.6	623.58	5.3	2.4
Automobiles & Parts	103	350.53	1.3	1.3	-8.2	488.42	-6.3	2.9
Beverages	48	594.03	-1.6	-1.6	3.9	867.64	5.2	2.5
Food Producers	104	606.05	-0.8	-0.8	8.5	902.69	10.4	2.1
Household Goods & Home Construction	47	421.18	-0.4	-0.4	4.9	605.09	6.6	2.3
Leisure Goods	31	153.85	-0.3	-0.3	16.7	199.02	17.2	1.3
Personal Goods	79	618.20	0.0	0.0	3.4	848.56	4.8	2.0
Tobacco	11	1340.14	-1.3	-1.3	10.1	2672.02	12.4	3.5
Health Care	177	466.53	0.2	0.2	1.8	658.73	3.2	1.9
Health Care Equipment & Services	63	721.97	-0.7	-0.7	11.1	832.87	11.8	1.0
Pharmaceuticals & Biotechnology	114	343.72	0.5	0.5	-1.2	505.60	0.4	2.2
Consumer Services	392	397.97	-0.3	-0.3	2.1	522.78	3.3	1.8
Food & Drug Retailers	54	301.39	-0.5	-0.5	0.5	412.42	1.8	1.9
General Retailers	123	551.88	-0.3	-0.3	3.6	706.22	4.5	1.6
Media	84	299.61	0.3	0.3	3.6	395.02	4.9	2.0
Travel & Leisure	131	377.86	-0.7	-0.7	-1.0	501.31	0.2	1.9
Telecommunication	91	170.44	0.2	0.2	8.2	307.92	11.1	3.9
Fixed Line Telecommuniations	42	146.99	0.6	0.6	10.9	291.44	14.3	4.3
Mobile Telecommunications	49	172.20	-0.3	-0.3	4.5	280.62	6.7	3.4
Utilities	164	265.22	-0.8	-0.8	11.8	497.63	14.5	3.6
Electricity	111	288.67	-0.9	-0.9	11.5	535.44	14.1	3.6
Gas Water & Multiutilities	53	282.73	-0.6	-0.6	12.3	544.76	15.2	3.7
Financials	690	191.51	0.2	0.2	-4.6	304.16	-2.5	3.3
Banks	246	161.63	0.3	0.3	-9.4	274.71	-7.0	3.9
Nonlife Insurance	68	209.53	0.2	0.2	-2.3	297.69	-0.3	2.6
Life Insurance	51	177.25	0.3	0.3	-10.6	275.17	-8.5	3.4
Financial Services	152	218.92	0.3	0.3	-1.6	295.55	-0.2	2.2
Technology	188	185.32	0.9	0.9	6.3	223.57	7.6	1.8
Software & Computer Services	92	328.17	0.1	0.1	5.8	379.12	6.5	1.1
Technology Hardware & Equipment	96	135.24	1.9	1.9	7.0	168.73	8.8	2.6
Alternative Energy	10	99.12	0.4	0.4	-4.1	132.84	-3.0	1.4
Real Estate Investment & Services	102	292.82	0.0	0.0	3.5	476.12	5.5	2.6

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

FTSE SECTORS: LEADERS & LAGGARDS

Year to date percentage changes

Industrial Metals &	115.10	Chemicals	11.16	FTSE SmallCap Index	0.83
Mining	54.57	Electronic & Elec Eq	10.98	Media	0.41
Tech Hardware & Eq	53.75	Forestry & Paper	10.20	Household Goods & Ho	-2.01
Basic Materials	45.67	Pharmace & Biotech	10.16	FTSE 250 Index	-2.56
Oil & Gas Producers	36.16	Health Care	10.04	Telecommunications	-4.78
Oil & Gas	35.08	Health Care Eq & Srv	8.57	Leisure Goods	-5.30
Technology	34.55	Electricity	7.96	Consumer Services	-6.83
Industrial Eng	27.71	FTSE 100 Index	7.82	Financial Services	-7.15
Tobacco	22.52	Aerospace & Defense	6.86	Automobiles & Parts	-7.72
Personal Goods	18.43	Industrials	5.93	Travel & Leisure	-8.88
Gas Water & Multi	14.47	FTSE All{HY-}Share Index	5.79	Food Producers	-9.05
Industrial Transport	14.39	Nonlife Insurance	5.71	Financials	-10.87
Utilities	13.13	Oil Equipment & Serv	5.52	Real Est Invest & Tr	-10.98
Software & Comp Serv	12.88	Equity Invest Instr	4.91	Banks	-15.88
NON FINANCIALS Index	11.81	Construct & Material	3.80	Life Insurance	-16.76
Beverages	11.68	Mobile Telecomms	3.51	Fixed Line Telecomms	-17.33
Consumer Goods	11.47	Food & Drug Retailer	2.12	General Retailers	-17.90
		Support Services	1.82	Real Est Invest & Se	-22.33

FTSE 100 SUMMARY

FTSE 100	Closing Price	Day's Change	FTSE 100	Closing Price	Day's Change
3I Group PLC	613.00	-8.00	Legal & General Group PLC	200.60	-3.20
Admiral Group PLC	2134	-10.00	Lloyds Banking Group PLC	52.50	-3.25
Anglo American PLC	842.60	43.40	London Stock Exchange Group PLC	2748	-1.00
Antofagasta PLC	503.00	9.70	Marks And Spencer Group PLC	321.00	-0.50
Arm Holdings PLC	1670	-5.00	Mediclinic International PLC	1063	-5.00
Ashtead Group PLC	1190	-19.00	Merlin Entertainments PLC	467.00	-7.00
Associated British Foods PLC	2686	-32.00	Mondi PLC	1512	-9.00
Astrazeneca PLC	5027	337.00	Morrison (Wm) Supermarkets PLC	184.30	-2.70
Aviva PLC	384.90	-7.10	National Grid PLC	1101	-
Babcock International Group PLC	968.50	-4.50	Next PLC	4968	-37.00
Bae Systems PLC	538.00	-1.50	Old Mutual PLC	205.80	-2.40
Barclays PLC	146.50	-3.25	Paddy Power Betfair PLC	8495	-5.00
Barratt Developments PLC	429.40	-3.50	Pearson PLC	970.00	-2.00
Berkeley Group Holdings (The) PLC	2686	7.00	Persimmon PLC	1683	2.00
Bhp Billiton PLC	961.00	-3.30	Provident Financial PLC	2672	-28.00
BP PLC	426.65	-7.40	Prudential PLC	1307.5	-31.50
British American Tobacco PLC	4782.5	36.00	Randgold Resources LD	8850	195.00
British Land Company PLC	662.50	-	Reckitt Benckiser Group PLC	7438	-6.00
Bt Group PLC	414.35	12.25	RELX PLC	1456	50.00
Bunzl PLC	2358	6.00	Rio Tinto PLC	2460.5	4.00
Burberry Group PLC	1320	-24.00	Rolls-Royce Holdings PLC	831.00	99.00
Capita PLC	935.00	-40.00	Royal Bank Of Scotland Group PLC	188.00	-4.10
Carnival PLC	3623	29.00	Royal Dutch Shell PLC	2051.5	-53.50
Centrica PLC	241.50	-0.50	Royal Dutch Shell PLC	1984.5	-59.00
Coca-Cola Hbc AG	1572	-3.00	Royal Mail PLC	505.00	-6.00
Compass Group PLC	1434	-32.00	Rsa Insurance Group PLC	495.30	-2.70
Crh PLC	2281	-6.00	Sabmiller PLC	4324	-56.00
Dcc PLC	6740	-5.00	Sage Group PLC	714.00	12.00
Diageo PLC	2192	54.00	Sainsbury (J) PLC	223.60	-2.30
Direct Line Insurance Group PLC	347.90	-1.20	Schroders PLC	2531	-109.00
Dixons Carphone PLC	346.10	-6.30	Severn Trent PLC	2478	-
Easyjet PLC	1017	5.00	Shire PLC	4818	-88.00
Experian PLC	1476	4.00	Sky PLC	904.00	16.50
Fresnillo PLC	1902	55.00	Smith & Nephew PLC	1227	-73.00
Gkn PLC	288.00	-7.90	Smiths Group PLC	1265	-1.00
Glaxosmithkline PLC	1699.5	3.00	Sse PLC	1541	-85.00
Glencore PLC	185.70	-4.00	St. James's Place PLC	920.00	2.50
Hammerson PLC	551.00	-1.50	Standard Chartered PLC	605.60	-24.50
Hargreaves Lansdown PLC	1272	-24.00	Standard Life PLC	292.20	-5.30
Hikma Pharmaceuticals PLC	2620	59.00	Taylor Wimpey PLC	154.20	-0.40
HSBC Holdings PLC	490.90	-6.80	Tesco PLC	156.20	-0.80
Imperial Brands PLC	3952	6.00	Travis Perkins PLC	1554	-11.00
Informa PLC	729.50	-21.50	Tui AG	962.50	25.50
Intercontinental Hotels Group PLC	3003	-14.00	Unilever PLC	3526.5	1.50
International Consolidated Airlines Group S.A.	409.30	-7.10	United Utilities Group PLC	1019	-1.00
Intertek Group PLC	3680	26.00	Vodafone Group PLC	229.75	-3.10
Intu Properties PLC	296.90	2.40	Whitbread PLC	3850	36.00
Itv PLC	195.20	-2.10	Wolseley PLC	4163	-3.00
Johnson Matthey PLC	3242	-1.00	Worldpay Group PLC	291.50	-0.60
Kingfisher PLC	334.00	2.80	WPP PLC	1695	3.00
Land Securities Group PLC	1089	-6.00			

UK STOCK MARKET TRADING DATA

	Jul 28	Jul 27	Jul 26	Jul 25	Jul 22	Yr Ago
SEAQ Bargains	5067.00	4260.00	4794.00	4332.00	4332.00	4332.00
Order Book Turnover (m)	120.62	69.73	150.94	70.92	70.92	70.92
Order Book Bargains	1026244.00	822987.00	763123.00	771023.00	771023.00	771023.00
Order Book Shares Traded (m)	1999.00	1461.00	1305.00	1296.00	1296.00	1296.00
Total Equity Turnover (£m)	4453.93	3633.60	3246.84	3288.34	3288.34	3288.34
Total Mkt Bargains	1116118.00	910701.00	838169.00	832171.00	832171.00	832171.00
Total Shares Traded (m)	5150.00	5429.00	3447.00	4523.00	4523.00	4523.00

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

UK RIGHTS OFFERS

Issue price	Amount paid up	Latest renun. date	High	Low	Stock	closing Price p	+or-
95p	Nil	23-08-16	678.00	662.28	Melrose Industries PLC	676.50	5.50

UK COMPANY RESULTS

Company		Turnover		Pre-tax		EPS(p)		Div(p)		Pay day	Total	
Anglo American	Int	9936	11558	364L	1920L	0.63L	2.34L	-	32.917	-	-	85.9
AstraZeneca	Int	11718	12364	693	1336	0.51	0.99	90	90.419	Sep 12	283	285
BAE Systems	Int	8278	8001	528	508	12.9	12.3	8.6	8.4	Nov 30	21.032	20.7
British American Tobacco	Int	6669	6398	3426	3497	143.8	142.4	51.3	49.4	Sep 28	155.332	150
BT Group	1st	5775	4360	717	632	5.9	6.1	-	-	-	-	-
Centrica	Int	13380	15451	1625	1208	22.2	21.1	3.6	3.57	Nov 24	11.984	11.97
Diageo	Pre	10485	10813	2858	2933	89.5	95	36.6	34.9	Oct 6	59.2	56.4
Informa	Int	647.7	618.8	98.9	118.9	13.8	15	6.8	6.55	Sep 9	20.276	19.45
Intu Properties	Int	285.5	281.9	64.8	265.6	3.9	20.4	4.6	4.6	Nov 22	13.651	13.7
Lloyds Banking Group	Int	18430	11805	2454	1193	2.3	1	0.85	0.75	Sep 28	2.342	1.5
Merlin Entertainments	Int	573	544	50	36	3.6	2.5	2.2	2.1	Sep 19	6.576	6.3
RELX	Int	3257	2964	733	601	26.9	21	10.25	7.4	Aug 26	32.429	26.4
Rolls-Royce Holdings	Int	6462	6370	2150L	310	96.72L	19.51	-	-	-	-	-
Royal Dutch Shell	Int	106969	138108	319	11411	0.22	1.34	47	48.622	Sep 19	189.5	191.7

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)
07/27	11.00			WideCells Group PLC	11.38	-	13.00	11.00	0.0
07/26	151.00			SEC SpA	152.00	-1.50	155.00	152.00	1857.7
07/08	161.00	AIM	DAR	Dorcaster PLC	163.50	0.00	168.00	163.00	1635.0
06/21	50.00	AIM	COM	Comptoir Group PLC	58.50	0.80	70.90	50.00	5616.0

§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.

Capital markets

Yield refugees seek a safe way into Chinese debt

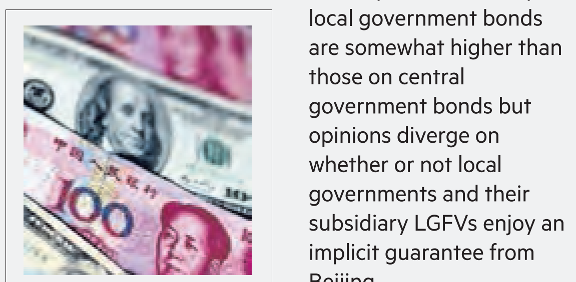
Investors fleeing the yield-parched debt markets of the developed world are being forced to explore some unfamiliar frontiers, including China's huge domestic bond market.

But how much exoticism is acceptable as a trade-off for higher yields? Chinese government bonds, backed by strong ratings from international rating agencies, are considered safe enough by some. The 10-year bond is yielding 2.82 per cent, eclipsing the welter of negative-yielding issues around the developed world.

But how about buying a piece of the $2tn in debt issued by one of the world's most indebted corporate sectors as default rates surge and domestic credit rating agencies continue to claim that everything is just fine?

Jeffrey Qi, portfolio manager at E-Fund, one of China's largest asset managers with $150bn under management, says there are attractive returns to be had for yield refugees from Europe and elsewhere as long as they play by Chinese rules.

"There have been several credit events in China this year, but our fund has not been hit by any of them," says Mr Qi. The company's RMB Bond Fund had returned an annualised 7.1 per cent since inception in 2012 and an annualised 3.5 per cent so far this year, he said. About 80 per cent of the



$2tn

Debt issued by China's corporate sector; 99.5% has been rated triple A by national agencies

fund is invested in corporate bonds.

He puts the performance down to a healthy scepticism towards China's Panglossian domestic credit rating agencies, which have awarded an investment grade rating to 99.5 per cent of all rated publicly issued debt outstanding.

"We have our own internal rating system for the companies that we invest in," Mr Qi adds. "There is a big difference between our ratings and those of the domestic ratings companies."

E-Fund's internal ratings are much less sparing of corporate egos than those of its rating agency counterparts, with many "junk" ratings awarded according to a 22-notch scale. The fund's skill lies in using on-the-ground research to assess a company's viability beyond its published financial figures, says Mr Qi.

Nevertheless, the idea of snapping up pieces of corporate Chinese debt is not proving to be an easy sell overseas. For one thing, the depreciation of the renminbi against the US dollar since mid-April has taken the shine off renminbi-denominated investments.

For another, there is concern over the lack of transparency among Chinese corporations and the failing finances of many local governments, which are prevalent owners of debt-issuing companies.

"What you are likely going to see is selective defaults over the coming years," says Peter Kinsella, head of emerging market research at Commerzbank in London. "Effectively this problem is so large that you are likely to see a zombiefication of the state-owned enterprise sector in China, with huge amounts of debt and non-performing debt."

When it comes to the idea of buying bonds issued by local government financing vehicles (LGFVs) — companies that raise debt to invest in local government projects — Mr Kinsella gives clear warnings.

"Local governments have an issue because most of their revenue streams were derived from property sales and that is going to be an issue," he adds.

The yields offered by local government bonds are somewhat higher than those on central government bonds but opinions diverge on whether or not local governments and their subsidiary LGFVs enjoy an implicit guarantee from Beijing.

Anthony Chan, Asian sovereign strategist at AllianceBernstein in Hong Kong, expects Chinese bonds to be included in international bond indices at an unspecified date, after which overseas funds may flow in.

"Mostly government bonds are attracting investors," Mr Chan says. "For corporate bonds, they need to have a more meaningful rating because now the domestic rating agencies all give triple A."

Mr Chan also says those corporate bonds that enjoy an implicit government guarantee are fairly attractive at a time when default risks are rising. Deciding which companies — beyond a phalanx of 106 centrally owned state enterprises — can claim such a guarantee is, however, a nuanced business.

Mr Qi is confident of the China bond market's performance. "We should perform a lot better than bond funds concentrated on Europe this year."

James Kynge

Capital markets

US energy junk bonds under pressure

Prices drop alongside crude's retreat and the rise in sector delinquencies

ERIC PLATT — NEW YORK

An accelerating drop in oil prices threatens a five-month rally in high-yield energy bonds, reigniting the relationship between the two asset classes as crude approaches bear market territory.

Prices for high-yield energy bonds have fallen for eight consecutive days — following a decline in the price of US oil towards $41 a barrel, its lowest level since April.

Rising stocks of gasoline, alongside an increase in the number of rigs drilling for oil has increased pressure on crude prices and lifted the risk premium investors are demanding to own junk energy debt.

Bond investors view the recent decline in high-yield as a healthy correction after the sector has returned 24 per cent this year, including a 52 per cent gain from its February trough.

"It shows the market is focused on broad fundamentals," said Henry Peabody, a portfolio manager with Eaton Vance. "The market is not terribly worried about this pullback and there is a massive reach for yield."

Chesapeake bonds maturing in 2021 have fallen from 71 cents on the dollar in mid-July to 68.5 cents yesterday, while oil-rig operator Transocean has seen its debt due in 2021 sliding to 84.7 cents from 89 cents on the dollar over the same period, according to MarketAxess.

Correlations between oil prices and the risk premium or spread on junk energy bonds — the difference in yield on a corporate bond and a similarly maturing US Treasury — have historically been negative, according to Marty Fridson, chief investment officer of Lehmann Livian Fridson Advisors. The higher the price of oil, the lower the spread an energy company must pay to sell its debt.

"The real question is at what point will you see the risk premium actually go up in energy and on the high-yield index as a whole?," Mr Fridson said. "What will it take to do that? $40 [a barrel] may be a reasonable number."

Junk debt weakness has spread beyond the energy space, with the broad market weakening for the past three days.

Delinquencies in the energy sector have climbed rapidly since the year began, but have yet to meaningfully spread to other industries. Standard & Poor's expects 5.3 per cent of the companies it rates in junk territory to default by March 2017, roughly triple the level of two years before.

24%

Returns in high-yield energy debt this year, including a 52% gain since February

5.3%

Proportion of issuers in the segment that S&P expects to default by March 2017

Portfolio managers said they also had a better view of which companies would survive $40 or $50 a barrel oil now than they did in the first quarter, when bond prices swung violently.

"When you think back to February, if you watched CNBC for eight hours at your trading desk you would see red headlines all day on oil hitting new lows," said Daniel Kelsh, a fixed-income strategist with UBS Wealth Management.

"And because of that, there has been a little bit of a breakdown in how people think about risk. It doesn't appear to be capturing the imaginations now the same way as it did."

Analysis. Commodities

Crude data being tapped to divine oil prices

Traders are tracking five indicators to analyse the market's next direction

DAVID SHEPPARD AND NEIL HUME

Since crude prices hit a year-high above $52 a barrel in June they have slipped almost 20 per cent, leaving them on the cusp of a new bear market and heaping more pressure on oil companies and major producing countries that had hoped the worst of the rout was over.

Here are five things traders are tracking to see if the slide continues — or if the sell-off is just a blip in a recovery.

Supply and demand

Two years since oil began its precipitous decline from above $100 a barrel, troughing below $30 in January, the market appears to be edging closer towards balance.

High-cost supplies are declining, demand has been boosted, and concern about the impact of investment cuts on future supplies have all helped the market recover.

But the process of moving back to a balanced market was never going to be smooth. This summer has disappointed the more bullish analysts as the two-year-old glut of crude has become a glut in products — the gasoline, diesel and jet fuel that consumers use.

Stocks of both crude and products that have built up over the past two years will need to be worked off before there can be a more sustained recovery.

Gasoline

The recent decline in oil prices has several drivers but one stands out: gasoline demand has underwhelmed and stocks of the fuel are too high.

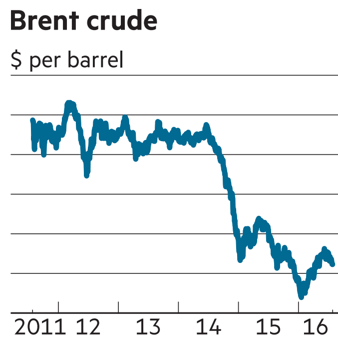
In the US — the world's most important gasoline market, accounting for almost one in every nine barrels of oil globally — a huge surplus is overhanging the market as the summer driving season draws to a close. Stocks are 12 per cent higher than a year ago.

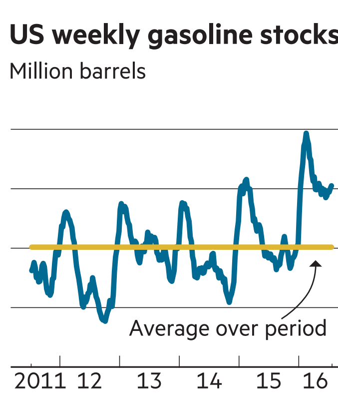
This is putting pressure on prices and refining margins. If it continues, refiners, who had been running hard for much of the past 18 months as low prices buoyed demand, may decide to buy less crude. That, many fear, is delaying the rebalancing of the market.

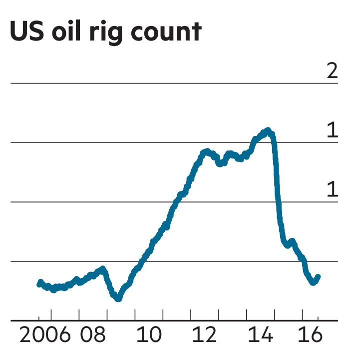
This new downstream threat has also sharpened attention on demand, which may now not be growing as quickly as many people assumed.

The US Energy Information Administration recently lowered its gasoline demand growth forecast for the remainder of the year to 130,000 barrels per day, or 1.5 per cent, from 220,000 previously.

Pricing pressures: refiners may decide to buy less crude if gasoline demand remains low
Andrey Rudakov/Bloomberg







Sources: EIA; Bloomberg; Thomson Reuters Datastream

Floating storage

The persistence of the oil glut has seen some traders storing crude oil and refined fuels such as gasoline and diesel aboard tankers at sea.

They can partially finance the storage by selling the oil forward through the futures market where it currently fetches a higher price thanks to a structure known as contango that is prevalent when the market is oversupplied.

Traders and analysts say this has largely been driven by necessity, with onshore storage already very full or locked up by rival traders in long-term deals. Indeed, outside of a few isolated geographic pockets, floating storage has declined in the past month as global supplies start to recede.

Rig counts

When Saudi Arabia took its fateful decision in December 2014 not to bolster prices by reducing production it did so with a clear aim in mind — to rebalance the market by driving out higher-cost supplies. That put US shale producers, among others, firmly in the crosshairs.

From that date, oil market participants have closely followed the weekly US rig count survey complied by Baker Hughes to assess the pace of the rebalancing process.

Since hitting a seven-year low of 316 in May, the number of rigs drilling for oil has crept higher, rising to 371. Last week's gain of 14 was the biggest increase since December. Since crude oil rose above $50 a barrel in June, drillers have put 55 rigs to work.

If maintained, the increase in drilling activity should stop the decline in US oil production. The US Energy Information Administration now thinks crude production will bottom at 8.1m barrels per day in September before edging up to 8.3m b/d in November and December. Oil majors forecast a similar trend.

Hedge fund positioning

After amassing a near-record bet on the recovery in oil prices between January and May, funds have either started taking profits or placed more bets the other way.

In early May, hedge funds held the equivalent of almost 420m barrels of Brent through futures and options contracts. Net longs — the difference between bets on higher and lower prices — have since fallen to less than 300m barrels equivalent.

In the US benchmark West Texas Intermediate there has been a similar pattern, with net longs declining by 100m barrels since late April.

"Inputs on the speculative side are certainly more bearish than bullish," say analysts at JBC Energy in Vienna.

Commodities

Auto trade steers platinum metals to year high

HENRY SANDERSON

Platinum has eclipsed gold's performance this year and palladium is close to doing so, after demand from the car industry and investor appetite sent the two precious metals on a blistering rally this month.

Palladium is set for its best monthly performance in more than eight years, leaving it just shy of the 26 per cent rise in gold this year.

Platinum and palladium, which are used in auto catalysts, are trading at their highest levels in more than a year.

This month palladium is up 16 per cent to $697.92 a troy ounce, while platinum has risen 11 per cent to $1,138 a troy ounce.

After falling out of favour with investors for years despite production deficits, the rebound has been led by an increasingly supportive backdrop for investing in precious metals, with US equities at record levels and a growing universe of bonds with negative yields.

"An environment where risk appetite is up, equities are at . . . highs and gold is holding well above $1,300 is conducive for PGMs [platinum group metals] to do well," said Joni Teves, an analyst at UBS said.

Palladium, used in petrol vehicles, has also benefited from strong car demand in China this year. Total vehicle sales in China rose 15 per cent in June from a year earlier, and UBS forecasts a 6.7 per cent volume growth for passenger cars this year.

"Higher global auto production growth this year versus 2015 should be a fundamental positive for both platinum and palladium," Ms Teves said.

At the same time, global supply of platinum and palladium has fallen in the first half of the year, with exports from South Africa lagging, according to miner Anglo American.

Recovery of platinum from end-of life automotive catalysts also continued to be weak, the miner said yesterday.

For palladium the market will probably be in a "substantial physical deficit" in 2016 for the fifth consecutive year, according to consultancy Metals Focus. It estimates a deficit of 1.3 million ounces this year.

Analysts at Commerzbank said the price increase this month "could have been mainly speculative", given that the amount investors have in exchange traded funds backed by platinum and palladium has dropped this year. "Inflows to platinum and palladium ETFs remain either sparse or non-existent," they said.

Equities

Tech Pro plunges 90% on short-seller attack

JENNIFER HUGHES — HONG KONG

Shares in Tech Pro Technology Development crashed almost 90 per cent in Hong Kong yesterday following an attack by a short seller, in one of the biggest one-day successes for such investors who stand to profit from share price falls.

The fall in the stock price wiped US$1.7bn off the value of the company, which makes LED lighting and owns French second-division football club Sochaux Montbéliard.

The stock closed at HK$0.31 after opening the trading day at HK$2.32.

Tech Pro's plunge also revived memories of Hanergy Thin Film and Goldin, whose own headline-grabbing share price slumps in Hong Kong last year underlined the volatility risk present among the city's thinly traded stocks.

California-based Glaucus Research released a report during Hong Kong morning trade claiming Tech Pro had overstated profits and inflated acquisition costs. Its shares should be worth zero, the short seller said.

Tech Pro's board "vigorously denied" the allegations in a statement to the Hong Kong Exchange during the market's lunchtime break, and described Glaucus's report as "incomplete, biasedly selected and presented and materially misleading".

While trading volumes yesterday were 6,000 times the company's normal levels, Tech Pro's shares were just 10 per cent lower until the final hour of trade, when they suddenly plunged for no apparent reason.

Traders suggested a shareholder might have suddenly dumped stock or been forced to do so, potentially to meet a margin call. The company did not respond to requests for comment on the late move.

The scale of the fall was probably made worse by its late-day timing, leaving the company or the exchange with little time in which to react.

Hong Kong rules call for a company facing allegations to rapidly issue a clarification — normally a rebuttal — or suspend trading until it can do so.

Tech Pro was a known short target before Glaucus Research's report was released.

The group last month suspended its shares for a day before "categorically denying" suggestions by GeoInvesting, another US-based group, that its business was deteriorating and it did not have sufficient financing.

Tech Pro did not, however, suspend them yesterday.

MARKETS & INVESTING

TRADING POST

Jamie Chisholm

One of the more bullish-looking commodity price charts is that of lumber. After touching a four-year low around $215 per 1,000 board feet in October, the Chicago Mercantile Exchange Lumber future has climbed more than 50 per cent.

Those of a technical bent will note that the breakout came after the chart formed an inverse "head and shoulders" pattern, with the 50-day moving average breaking above an upward sloping 200-day moving average — both trends considered by some to be a price-positive set-up.

The rally comes as surging Canadian exports to the US raise the prospect of Washington slapping a tariff on its northern neighbour's wood. But it is increasing demand that is behind the bounce in prices. And that's mainly a result of recovering US construction.

With global interest rate suppression ensuring long-term mortgage rates stay close to historic lows, demand for housing is increasing.

Last month the number of new single-family homes sold in the US climbed to the highest level in more than eight years.

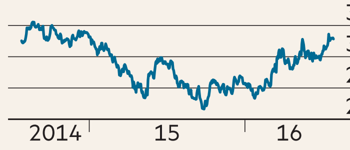
Residential real estate prices are rising and builders are expanding production to ride the market. Typical homes use about 16,000 board feet of lumber, according to Bloomberg.

Speculators' net long futures positions are at their highest since March 2013, so many in the market have already bought into this rally.

Still, a 14-day relative strength index of 64 suggests lumber is not yet in egregiously overbought territory.

jamie.chisholm@ft.com

CME lumber futures
$ per 1,000 board feet



Source: Thomson Reuters Datastream

Global overview

Oil price volatility adds to jitters ahead of BoJ decision on stimulus

Dollar's retreat offers no cheer for Brent and WTI as equities drift lower, while 10-year gilt yield touches record low

DAVE SHELLOCK

Global equity indices drifted lower as participants digested a welter of corporate earnings reports and watched with trepidation as oil prices sank to levels not seen for more than three months.

Uncertainty ahead of a policy decision from the Bank of Japan, due today, contributed to the cautious mood, particularly given expectations that Tokyo will unveil a significant fiscal stimulus package next week.

"What makes this week's BoJ meeting so significant is not the fact that market expectations are at their strongest since prime minister [Shinzo] Abe came to power, but that there is a show of greater co-operation between fiscal and monetary policy," said Divyang Shah, global strategist at IFR Markets.

"There remains uncertainty as to what the BoJ will announce, as well as the size of the net fiscal stimulus, but at least we are seeing the beginning of fiscal policy shouldering some of the burden from monetary policy."

Meanwhile the dollar continued to retreat after the Federal Reserve's policy statement on Wednesday — to the surprise of many in the markets.

"Our initial read of the statement was — and remains — dollar positive, so the broad sell-off leaves us a little perplexed," said Shaun Osborne, chief FX strategist at Scotiabank.

Elsa Lignos, senior currency strategist at RBC Capital Markets, said: "The Federal Open Market Committee statement was more upbeat than in June, although the subsequent price action suggests that more than a few investors were already positioned that way.

"The Fed is still waiting and watching the data. The forward curve is still only half-priced for a hike by year-end and fully priced for a hike by late in the second half of 2017."

The dollar index, a measure of the **currency** against a basket of peers, was down 0.5 per cent at 96.61 but off an earlier two-week low of 95.91.

Dollar/yen was 0.6 per cent lower at ¥104.79 while the euro was up 0.3 per cent at $1.1088.

But the soft US currency offered no cheer for **oil** as international Brent crude fell a further 1.3 per cent to $42.92 a barrel and US West Texas Intermediate shed 1.2 per cent to $41.43 — the lowest for both benchmarks since April 20.

The day's move left Brent nearly 19 per cent down from its 2016 high reached in June — a decline largely based on concerns about a glut of oil, which were heightened by data on Wednesday showing an unexpected increase in US crude supplies last week.

Nicholas Colas, chief market strategist at Convergex, noted the steady increase in the correlation between US equities and oil prices since the start of the year.

"Investors need to keep an eye firmly on oil prices at the moment," he said. "While US stock prices have been able to buck the correlation trend enough to make some minor new highs, WTI crude prices have slid from over $50 a barrel at the start of June to just $42 a barrel today.

"Moreover the move from above $48 a barrel to today's level took less than three weeks. Crude oil price volatility is clearly moving higher, and history says that it is a set-up for a move lower for stocks since crude prices are declining."

The S&P 500 **equity** index was down 0.2 per cent at 2,162 by midday in New York — 0.6 per cent below a record intraday high reached last week.

On top of broad declines for energy stocks, Ford was down 9.5 per cent after it warned that the second half of the year would be difficult for carmakers.

Across the Atlantic the Euro Stoxx 600 index fell 1 per cent to a one-week low, dented by disappointing trading updates from the likes of Dialog Semiconductor and Royal Dutch Shell.

In Tokyo the firmer tone of the yen ensured that stocks had a negative session, with the Nikkei 225 ending 1.1 per cent lower.

In **government bond markets**, the 10-year UK gilt yield touched a record low beneath 0.70 per cent, while sterling was down 0.6 per cent against the dollar at $1.3145, as expectations mounted that the Bank of England would take aggressive action at its policy meeting next week to counter the risks from Brexit.

"We expect a sizeable package at the BoE's August 4 meeting: a 25 basis point rate cut, £50bn of quantitative easing split between gilts and private-sector assets, and rebooting the Funding for Lending Scheme," said Robert Wood, UK economist at Bank of America Merrill Lynch.

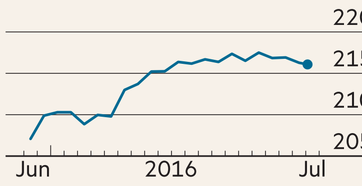
The yield on the 10-year German Bund fell 1bp to minus 0.09 per cent while that on the 10-year US Treasury was flat at 1.52 per cent.

Gold was down $5 at $1,333 an ounce.

One month on, what Brexit means: FT.com/markets
The FT's senior investment columnist John Authers judges sentiment a month after the UK voted to leave the EU

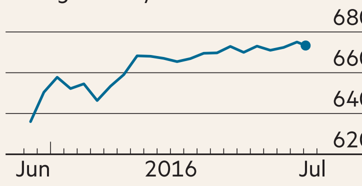
Markets update

S&P 500 index
Change on day ▼ 0.13%



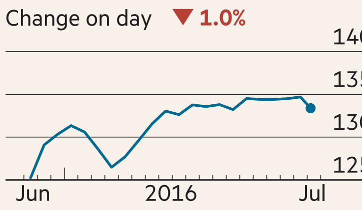
US equities A sharp fall for Ford Motor — following a worrying update from the carmaker — put the S&P 500 under pressure, although Facebook inched higher after strong results

FTSE 100 index
Change on day ▼ 0.44%



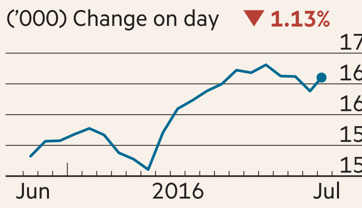
UK equities Lloyds Banking Group fell 5.8 per cent and Royal Dutch Shell shed 2.9 per cent, helping to drag the FTSE 100 further away from a one-year high struck on Wednesday

Eurofirst 300 index
Change on day ▼ 1.0%

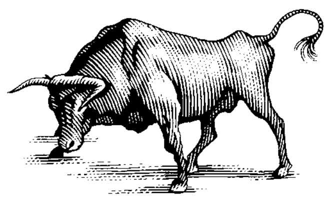


European equities The Eurofirst 300 retreated from a one-month high as participants digested a welter of big-name corporate earnings reports and awaited news from the Bank of Japan

Nikkei 225 index
('000) Change on day ▼ 1.13%



Japanese equities Strength for the yen against the dollar weighed on the Nikkei as the market braced for the Bank of Japan's policy decision



Wall Street

Whole Foods hard to swallow amid margin squeeze

Mamta Badkar and Adam Samson

Investors soured on **Whole Foods** after the upscale grocer reported a drop in gross margin and said a key sales metric continued to fall in the current quarter.

Shares in Whole Foods fell more than 9 per cent to $30.47 and were among the biggest decliners on the S&P 500, after the company said that its gross margin declined 89 basis points to 34.7 per cent in its fiscal third quarter and that like-for-like sales fell 2.6 per cent over the same period — its fourth consecutive quarterly decline, wider than analysts' expectations for a 2.3 per cent drop.

Despite Whole Foods' efforts to lower prices and boost competitiveness, the company said comparable sales were down 2.4 per cent from a year ago in the current quarter to July 24.

"While comps are sequentially improving on easier year-ago, there is no evidence of improvement in underlying sales," Mark Wiltamuth, a Jefferies analyst, said. "Despite a wave of initiatives and major gross margin sacrifice, there is still no sign of a turn."

The fall in comparable sales came alongside results that were in line with forecasts. Profits slid to $120m, or 37 cents a share per share, against $154m, or 43 cents a share, in the year-ago period. Sales rose 2 per cent to $3.7bn. Analysts were expecting earnings of 37 cents a share, on sales of $3.7bn.

The grocery sector has faced increasing competition as consumer preference has shifted towards natural and organic food, pressuring high-end specialty grocers like Whole Foods.

The company launched its more affordable Whole Foods 365 store earlier this year and said it is seeing larger basket sizes.

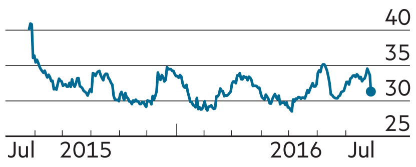
"While the new format is interesting, performance of the core 450 stores remains the key for the stock," Mr Wiltamuth said. Investors want to see if the 365 store cannibalises on its existing store format.

The sell-off in Whole Foods arrived as US stocks fluctuated between losses and gains. By midday, the S&P 500 had declined 0.2 per cent to 2,163.21, and the Dow Jones Industrial Average was down 0.4 per cent to 18,398.07. The Nasdaq Composite was flat at 5,141.05.

Elsewhere, **Facebook** rose 2.6 per cent to $126.52 after the social network revealed stronger-than-expected quarterly results. Revenues climbed by 59 per cent on a year-on-year basis to $6.4bn in the second quarter, surpassing Wall Street estimates by more than $400m. The strong results came as advertising sales rose 63 per cent. The group expanded its monthly user base to 1.71bn from 1.49bn in the same three-month period in 2015.

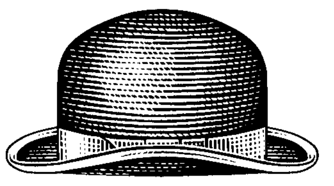
Analysts applauded Facebook's tilt toward mobile advertising. Mobile sales accounted for 84 per cent of Facebook's advertising revenue, up from 76 per cent in the second quarter of 2015.

Whole Foods
Share price ($)



Source: Thomson Reuters Datastream

Indices	Close	Day's change
S & P 500	2163.71	-2.87
DJ Industrials	18402.09	-70.08
Nasdaq Comp	5142.44	2.63
Russell 2000	1204.70	-8.35
VIX	13.24	0.41
US 10 yr Treas Bd	1.51	0.01
US 2 yr Treas Bd	0.71	0.00



London

Doorstep lender IPF falls as profits hingeing on Mexico disappoint

Thomas Hale

International Personal Finance lost nearly a quarter of its market value after its post-Brexit boost was derailed by disappointing results.

The doorstep lender, which has operations in eastern Europe and Mexico, dropped 24.7 per cent to 253.7p. Its results showed falling underlying profit before tax.

The stock had risen in the past month with analysts seeing potential benefits from a currency depreciation on the back of a weaker pound. It had gained about 13 per cent since June 23 before the results of the EU referendum.

But Shore Capital analysts, who downgraded the stock to hold, pointed to IPF's falling profits in Mexico.

"This is extremely disappointing as Mexico (alongside digital) had been viewed . . . as a potential counterweight to the problems of increased regulation and competition in eastern Europe," they wrote.

In the wider market, the FTSE 100 slipped 0.4 per cent, or 29.37 points, to 6,721.06, further retreating from the one-year high reached on Wednesday.

Anglo American was one of the FTSE 100's best performers, rising by 5.4 per cent to 842.6p after its results beat forecasts and showed a fall in net debt.

Jefferies raised its price target to 750p from 500p. Other commodity stocks also gained. Gold miner **Centamin** was one of the FTSE 250's largest risers, adding 4.9 per cent to 161p. Meanwhile, **Randgold** was up 2.3 per cent to £88.50 and **Fresnillo** was up 3 per cent to £19.02.

Sky rose sharply in early trading before losing some momentum to close up 1.9 per cent at 904p. The broadcaster reported rising revenues. Numis, which upgraded the stock to buy on a target price of £12.50, pointed to "robust results".

"We retain our view that pay TV is resilient in more challenging economic conditions and that Sky has strong momentum for new product development to drive revenue growth," Numis analysts wrote

BT Group also rose, adding 3.1 per cent to 414.4p. The stock reached its highest level since Brexit after its results surpassed first-quarter estimates.

Smith & Nephew, the maker of medical devices, lost 5.6 per cent to £12.27. Results showed weakness in China and the Gulf States, which further weighing on revenue that edged up 3 per cent in the first six months but missed analyst expectations. The fall was another example of post-Brexit gains being undone Smith & Nephew had increased more than 12 per cent since the day of the EU referendum.

Sports Direct was one of the largest risers on the FTSE 250. It added 9.2 per cent to 281.1p — its biggest one-day gain in more than four years. The retailer announced plans to spend up to £89.8m on a share buyback in a statement to the London Stock Exchange yesterday.

Markets & Investing
FINANCIAL TIMES

INSIGHT

Simon Mundy

India's next central bank governor faces tough balancing act

Five days before the UK voted to leave the EU, Indian media were abuzz with talk of "Rexit": Raghuram Rajan's sudden announcement that he would give up leadership of the Reserve Bank of India in September.

That followed months of speculation over his future, fuelled by open tensions with the government over Mr Rajan's gradual pace of monetary easing, which was seen by critics as sacrificing India's growth prospects on the altar of inflationary caution.

The speculation was often coupled with warnings of the dark message investors would take from the departure of the celebrated former IMF chief economist. Yet trading in Indian assets has shown little sign of trauma over his decision not to stay beyond his initial three-year term.

The sanguine market response reflects broad confidence in the Indian government to appoint a competent successor, even if most of the putative candidates are viewed as more dovish than Mr Rajan.

Moreover, the new governor's powers will be more restricted than those of any recent predecessor. Under a new framework, monetary policy will be set by a six-person committee. This ends the governor's one-man control — though his casting vote would still give him the final say, in the event of an even split between RBI officials and government appointees, who will number three apiece.

The committee must work to keep inflation within a target range set by the government, with the governor required to write explanatory letters to the government if it fails. This commitment to inflation targeting will be a legacy of Mr Rajan, who pushed for institutional safeguards against inflation.

> Under a new framework, monetary policy will be set by a committee

Yet successive governors have been faced with persistent government demands for monetary easing, a practice unlikely to end under the new governor. While Mr Rajan had an unusually high resistance to pressure, a new memoir from his predecessor Duvvuri Subbarao makes clear the potential for the executive to swing monetary policy through informal intervention.

In May 2012, Mr Subbarao surprised the market with a 50 basis point base rate cut — "on the assurance" of the finance minister, in a private conversation, that fiscal policy would be tighter than indicated in the budget, he writes. That promise went unfulfilled, and the rate cut helped to fuel double-digit inflation.

Inflation has returned to moderate levels since Mr Rajan arrived in 2013 and started tightening policy, ending several years of negative real interest rates. Consumer prices rose by a relatively modest 5.8 per cent in the year to June — and private-sector analysts broadly support the government's view that inflation has further to fall, pointing to a 25 basis point rate cut by the end of this year.

But that near-term outlook is coloured by anticipation of a stronger monsoon this year, bringing relief on food prices after two years of weak rains. During the new governor's term, weak harvests could push up inflation — as could a rise in world oil prices.

The new governor — as chief bank regulator — also faces a big challenge in the state-owned lenders that account for 70 per cent of banking assets, and which are labouring under huge portfolios of distressed corporate loans.

Mr Rajan took an aggressive stance on this, overseeing an asset quality review last year that forced large-scale bad loan provisioning and sent state banks' non-performing asset ratios soaring to 9.6 per cent at the end of March.

Senior Mumbai financiers say this process is far from complete and investors will be watching closely to see whether the new governor shares Mr Rajan's belief that only by cleaning up their balance sheets can the banks get back into a position to fuel economic growth.

Dissenting voices argue that the RBI's actions on the state banks have sent them into shock, casting a shadow over India's economic prospects. Such criticism has taken on a more personal tone during the term of Mr Rajan, reaching fever pitch in May when one senior ruling-party legislator accused him of being "mentally not fully Indian".

Intensified public focus on monetary policy has come with heightened scrutiny of those who set it. The new governor should be prepared for a rough ride.

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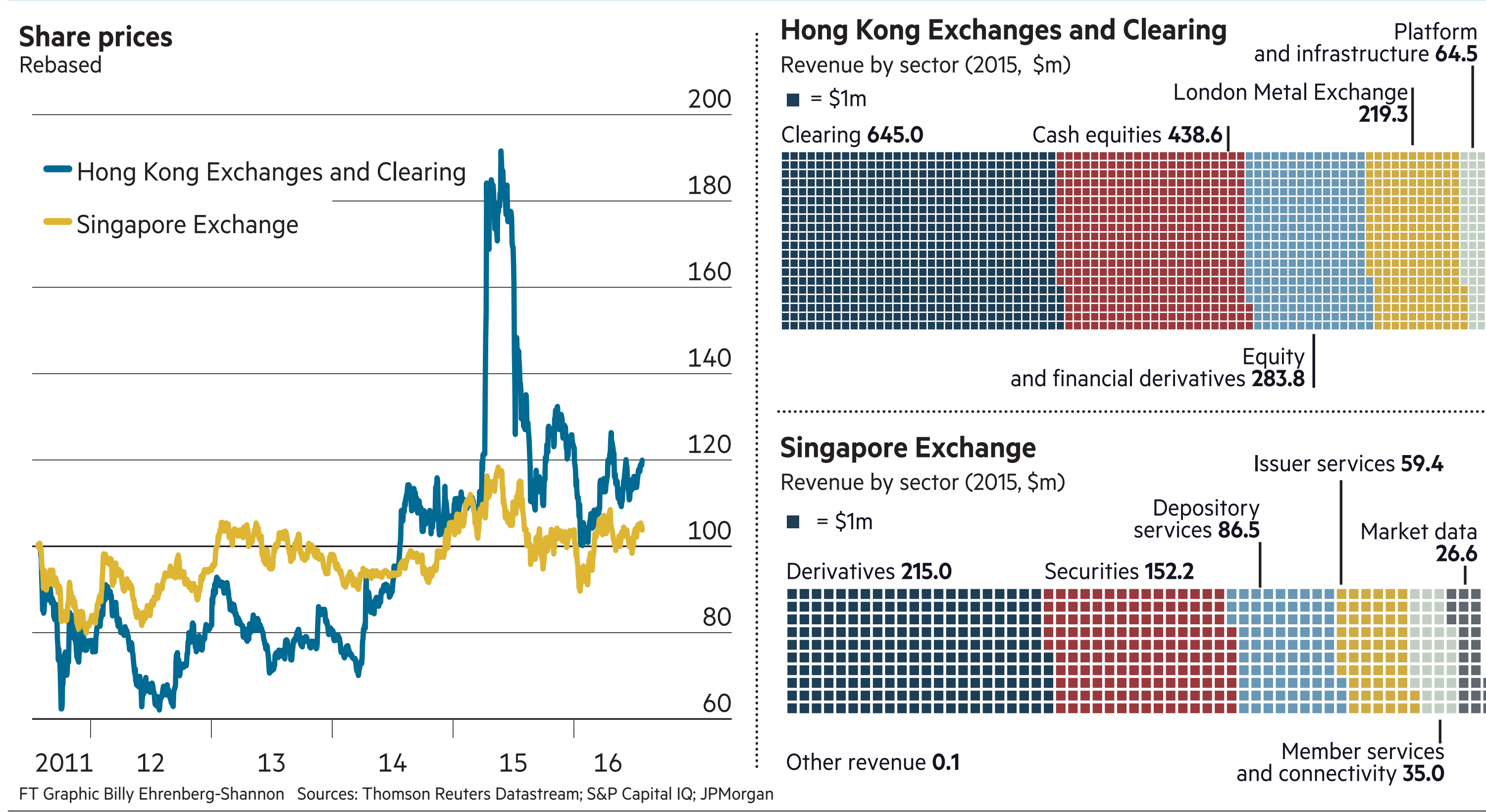
Analysis. Exchanges

Singapore-Hong Kong bourse battle heats up

Asian rivals eye derivatives and other asset classes as they seek cross-border dominance

JENNIFER HUGHES



FT Graphic Billy Ehrenberg-Shannon Sources: Thomson Reuters Datastream; S&P Capital IQ; JPMorgan

On the anniversary of his appointment as head of the Singapore Exchange this month, Loh Boon Chye might have highlighted the fact that the group's own shares were outperforming the benchmark, or the potential in its merger talks with London's Baltic Exchange. But a technical malfunction halted trading and produced the worst outage in the bourse's history.

The glitch was more embarrassing than commercially damaging. SGX not longer derives the largest part of its revenues from cash equity trading —although, as with the Hong Kong Exchange, its primary function is still what it is best known for.

What both groups are focusing on, however, is a battle to become Asia's go-to centre for cross-border dealing in as many asset classes and market segments as they can.

In Europe and the US, exchanges have merged in the past decade into ever-bigger entities. But analysts say attempts to follow suit in Asia are likely to be stymied by national pride — as was SGX's mooted $6.2bn merger with the Australian Securities Exchange five years ago.

SGX and HKEx thus have two main routes for growth: derivatives and other asset classes. "It's the art of the possible for both exchanges right now," says Harsh Wardhan Modi, head of Asean banks and exchanges equities research at JPMorgan.

"It's very difficult to revive cash trading volumes when investors aren't putting new money into stocks. There is a method to inorganic growth, and both exchanges are looking at options that make strategic sense."

> 'It's very difficult to revive cash trading volumes when investors aren't putting new money into stocks'

Singapore has had success with iron ore derivatives and index futures, not least for Tokyo's Nikkei 225 contract and India's Nifty index. Its crown jewel is the FTSE China A50 contract, the world's only offshore futures contract based on mainland stocks.

Adding Baltic Exchange — discussions continue — would give SGX freight derivatives, a natural fit for a city that hosts one of the busiest container ports. It would also mark its first foray into owning indices.

Mr Loh, presenting full-year results on Wednesday, said: "If you look at the position of Singapore as a financial centre internationally . . . being a multi-asset exchange is very real and important. There are various things we are doing that will bear fruit."

HKXx bought the London Metal Exchange for $2.2bn in 2012, opened the only direct link to trade mainland stocks in 2014, and is developing a suite of currency derivatives. Charles Li, chief executive, says the goal is to become the gateway for international investors looking at China, and a risk management centre for mainland investors.

Last week HKEx suffered its own malfunction when a four-hour outage during Asian trading hours on the LME's electronic platform left dealers scrambling to conduct business by phone.

Traders agree that the exchanges' direction makes sense, particularly because competing products have so far been avoided.

"Listing a new product is one thing," says Stephane Loiseau, head of Société Générale's cash equities business in Asia. "Having enough liquidity to make it attractive and efficient for investors is quite another.

"So instead of trying to compete directly with Singapore, it looks like Hong Kong is trying to promote itself as the main gateway for all China-related products."

Soggy equity trading is not helping either exchange. This week Singapore reported that revenue from equity and bonds trading was down 2 per cent in the past year on flat volume, while income from derivatives had jumped 10 per cent on a 14 per cent increase in trading activity.

Global trading volumes were a quarter lower in the first half of this year than in 2015. This trading collapse has affected KHEx more. But Hong Kong has one clear advantage over Singapore — its role as a capital-raising centre, where it ranked number one globally last year, raising almost $34bn through initial public offerings.

During the past decade SGX has raised about a 10th of the IPO capital of its rival, according to Dealogic data.

Currencies

Dollar dips following Fed's dovish appraisal

MICHAEL HUNTER

Dollar bulls retreated yesterday, with a broad measure of the US currency falling, after the Federal Reserve was judged to have extinguished the chance of a rate rise in September.

The assessment of the US economy from the Fed's rate-setters released after their July meeting acknowledged that the jobs market had rebounded in June, but did little to encourage bets that they would move at their next gathering.

"The Fed, in short, is doing absolutely nothing to encourage anyone to hold any bullish dollar thoughts, leaving currency markets to be driven by what happens elsewhere," Kit Juckes, a strategist at Société Générale, said.

After robust rallies in 2014 and 2015, the dollar has weakened 2 per cent this year as anxiety over weaker economic growth outside the US, and low inflation domestically, have forced the Fed to scale back projections of how quickly it will tighten monetary policy this year.

In its July assessment of the economy, the Fed's Open Market Committee said "gradual adjustments in the stance of monetary policy" would be enough to ensure "moderate" economic expansion. That judgment was sufficient to send the dollar index — which tracks the world's reserve currency against its peers — down 0.5 per cent to 96.5 in London.

Interest-rate futures markets put the probability of a rate rise in September at 26 per cent, little changed from before officials released their July statement.

Investors' expectations have oscillated wildly this year, with a strong US jobs report for June and limited fallout from Brexit helping to fan expectations that policymakers could move as soon as September.

The dollar had a bigger fall against the yen than the euro, sliding as much as 0.9 per cent to ¥104.49.

The short-term fate of the currency pair now lies with Bank of Japan officials who meet today to set policy.

Expectations about the scale of any further easing from authorities in Tokyo has waxed and waned this week, taking the Japanese currency with them.

Having introduced a negative interest rate policy at the start of the year, the BoJ is expected to ease policy again. The full details of a separate government fiscal stimulus package are forecast to be announced soon, even though there are doubts about the extent of the measures likely to be adopted.

Economists at Goldman Sachs said: "Our main conclusion is that Japan will need to work hard to deliver a package that is large enough to matter. The size of the fiscal boost is more important than the monetary measures under discussion."

Despite aggressive monetary policy from the BoJ, the yen has strengthened more than 10 per cent against the dollar so far this year, partly because of concerns that negative interest rates would be counterproductive. That has knocked Japanese equities this year, leaving the Nikkei down 13 per cent.

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