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## NATIONAL

## Brexit aftermath

## Canada plans down trade accord hopes

US, EU and China bigger priorities than historical ties, says finance minister

CHRIS GILES — LONDON

Canada's finance minister has dashed hopes of rekindling a close trading relationship across the countries of the Commonwealth, including Britain once Brexit has been completed.

Bill Morneau said that while Canada would want to strike a trade deal with Britain after it left the EU because "affinity" between the two countries was high, this was far from the top of his priorities.

"We're not talking as much about

Brexit as you are in the UK," Mr Morneau said. While he nodded to the traditional closeness between the two countries, saying that Canadians held "pretty dear" the relationship, he was clear that a UK trade deal was not heading his agenda.

From our perspective, clearly the NAFTA [North American Free Trade Agreement] relationship [with the US] is of huge importance. That's our biggest relationship by a very big margin, so that's that important too.

"And then the Ceta relationship [with the EU] opens up a very significant market. Our opening of exploratory talks with China... we do see as important and as the UK figures its next steps, that will be important too."

He said he had not thought enough about the concept of a Commonwealth trading bloc to give any answer on the subject.

His comments align with the view of economists who believe that distance and the time of trading partners matter more than historical links in determining trading relationships between countries.

Mr Morneau said that Canada had not yet had discussions with president-elect Donald Trump about NAFTA, but Canada thought the UK had a significant interest in maintaining the current arrangements with its northern neighbour.

"Nine million Americans are reliant on trade with Canada, [there is] more than \$2bn a day of back and forth

trade and also some of the states which were supportive of the new administration around the Great Lakes region have very strong trading relationships with Canada," he said.

Mr Morneau added that Canada was always open to consider how to improve its trading relationship with the UK, but was very supportive of NAFTA.

"Our view is that NAFTA has had enormous impact on the US, for medical data and for Mexico."

"We also recognise that the anxieties that fuelled the decision in the US are real. They're also real in Canada."

He said that the way to deal with the anxieties was to show benefits for the middle classes with lower taxes and childcare benefits at the same time

as tax increases for the top 1 per cent.

The finance minister said Canada would continue to welcome immigrants, saying the country's experience had been positive and Canada would seek to welcome another 500,000 next year, almost 1 per cent of the country's population.

But in a nod to global concerns about immigration, he added: "It's not incumbent on us to think about how we ensure we are successful in bringing people in, settling them and integrating them into our economy."

"We're not perfect at it by any stretch of the imagination, so we can always do better."

**TOP WOLF** has no meaning? page 6

**Martin Wolf** page 13

## Strasbourg

## Davis fuels confusion with remarks on single market

GEORGE PARKER — LONDON  
ARTHUR BEESELEY — BRISGELS

British secretary David Davis seemed confused about whether the government would seek to remain in the single market, after he briefed MEPs in Strasbourg on his approach to EU with-drawal.

Manfred Weber, chairman of the centre-right European People's party, claimed Mr Davis told him that Britain wanted to remain in the single market, an assertion that would be contradicted by business but is fiercely opposed by Eurosceptic Tory MPs.

But Downing Street insisted that the minister had not changed its opaque position that it wanted "a trading relationship that allows UK companies to trade both with and within the single market".

Mr Weber may have been confused by Mr Davis's circumspection on the subject, which is intended to keep Britain's EU negotiating partners guessing about exactly what line the UK will take.

"Today I have been told that the British government, as far as the economy is concerned, wants to stay in the single market," said Mr Weber.

"What we expect are clear proposals. Today in my talk with David Davis, unfortunately I have not heard anything new. I have not received any new information quite the opposite is true."

Prime minister Theresa May claims membership of the single market is not a "binary choice", suggesting she hopes to negotiate — as with the customs union — some kind of associate membership.

Mr Davis also said Guy Verhofstadt, the European Parliament's chief Brexit negotiator, and said he had got off to a "good start" with the former Belgian prime minister, who enjoys racing British classic cars.

Mr Davis had to reassure him that a jokey "Get those behind me, Satan" remark at a House of Commons committee had been aimed at the committee chairman, not at Verhofstadt.

Mr Verhofstadt and the minister agreed that a deal on British exit should be concluded before European Parliament election in the summer of 2019. Mr Davis confirmed he hoped the two-year Article 50 exit process would begin in March 2017.

Mr Davis also insisted that the timetable would not be delayed by the legal challenge — now before the Supreme Court — that could force the government to seek parliamentary consent before activating Article 50.

Mr Davis believes that a short bill can be passed through the Commons and Lords before next March, if the government loses its appeal.

"The European Parliament will play an important role in the months and years ahead," a spokesman for Mr Davis said. However, Mr Verhofstadt said the timetable for reaching a Brexit deal and winning European parliamentary approval would be tight.

Mr Davis said: "We are approaching the negotiation to come in a spirit of good will. We are determined to deliver

"In my talk with David Davis, I have not received any new information. In fact, the opposite is true"

the right deal for Britain, and we want the EU to remain a strong and successful partner."

On Monday Mr Davis met Michel Barnier, the European Commission's chief Brexit negotiator, renewing an acquaintance that reached 20 years ago when both were framing a new EU treaty.

Mr Barnier made it known that Mr Davis had sought the meeting and said that there could be "no negotiation before notification".

Mr Davis agreed that formal talks could not begin until the British government offered notification of the activation of Article 50.

Meanwhile, Bob Kerslake, former head of the civil service, said that Whitehall would struggle to implement Brexit while carrying out its other responsibilities.

The peer, speaking at the Commons public administration committee, said ministers needed to carry out an immediate review of civil service numbers and capabilities ahead of the "huge, complex" process of leaving the EU.

"It's not possible to do that [Brexit] at a point when the civil service is at its lowest numbers since the second world war and continuing to fall," he said.



Happier times: Des Gunewardena, left, and Sir Terence Conran, pictured in 2011 — Credit: © Reuters/Corbis Images

Justice is served  
Conran wins court challenge

Sir Terence Conran has successfully defeated a High Court claim brought by restaurant tycoon Des Gunewardena, who was seeking £5m to allow billions of pounds of development funding to be channelled into the government's private equity arm.

The proposals come as Priti Patel, the international development secretary who is a longstanding critic of aid, seeks to place more emphasis on the private sector to fund the expansion of multilateral agencies.

The Department for International Development is proposing to quadruple the limit on support the UK government can give to CDC Group, its overseas private equity arm, from £1.5bn to £6bn. The plans, included in a draft bill, would also allow the international development secretary to increase that cap further — to £12bn — with parliamentary approval.

Nick Dearden, director of campaign group Global Justice Now, said the move was "simply astounding" given the "astounding criticism that CDC has faced from development experts".

He added: "CDC managers have

design guru's company in 2013. Mr Gunewardena was then chief executive of Conran Group, the restaurant arm of Sir Terence's Conran Holdings, since 1995. He claimed he was ousted from the board 18 months after he completed a £50m buyout of the group in 2013, after which his shares were then "unjustifiably compulsorily acquired... for a derisory £1,254".

He had claimed the shares were valued on the basis of outdated articles of association linked to the profits of the company. At the time, it was losing-making. He argued he should have been paid the value as determined by an auditor — around £5m.

But High Court judge Mr Justice Mann dismissed the claim yesterday.

and said Mr Gunewardena's "wider thinking" the judge added: "At best he has convinced himself that things had happened, or did not happen, and that that is necessary for his case. In some instances I hear he was saying things that he knew to be untrue."

Mr Justice Mann added that Sir Terence was "physically frail but certainly not mentally frail" and that his ability to remember details was "no worse than the failure of many younger witnesses".

Mr Gunewardena is considering an appeal. "Des stands by the case he brought and the evidence he gave," said a spokesperson for the restaurant. Paul McLean

## Development funding

## Private equity arm faces boost in aid budget reform

repeatedly been accused of being more interested in maximising returns than the development impact of the projects they were financing.

Explaining its draft bill, the DfID said the plan would "accelerate CDC's growth over the current spending round".

A spokeswoman played down the potential policy shift, saying the bill did "not commit us to increases in

financial support. We will only invest in CDC when it is needed to meet demand, achieve value for money and continue delivering life-changing results and clear development impact."

CDC's existing limit of £1.5bn, which was set in 1995, was reached last year.

The initial proposed increase of £4.5bn would be equivalent to one-tenth of the development budget over the remainder of the current parliament.

Stephen Doughty, a Labour MP and member of the Commons international development committee, said the proposals were tantamount to the privatisation of the aid budget. He also said that CDC had been "inbred controversy".

CDC, previously known as the Commonwealth Development Corporation, has been criticised for its executive claims on expenses for the use of luxury hotels and restaurants and for its use of companies established in tax havens in order to make investments.

Charities have linked its investments to environmental and labour violations in the Democratic Republic of Congo.

## Patient records

## Fears raised over Google's DeepMind deal to use NHS data

MAHMOUD HUSSEIN

A British artificial intelligence company has signed a five-year partnership with a National Health Service trust to process medical data of its 1.6m patients via a mobile app, a move that academics and privacy advocates describe as worrying.

DeepMind, owned by Google, will stream data from the Royal Free NHS Trust in early 2017. The app will trigger mobile alerts when a patient's vital signs or blood results are flagged as abnormal. "10,000 people a year are dying from acute kidney injury, these are entirely preventable deaths," said Mustafa Suleyman, head of DeepMind Health and the company's co-founder. "We can trigger an alert that allows nurses or doctors to take preventive action, like giving intravenous antibiotics when your kidneys are dehydrated, to prevent escalation to the ICU."

"We get a modest service fee to supply the software," Mr Suleyman said, indicating it was "almost nothing", although he would not reveal its value. "Ultimately, we could get reimbursed [by the NHS] for improved outcomes, that's the economic model we foresee."

The app would be for healthcare professionals. It is a replacement for writing notes on paper or padding out forms. Streams can also be applied to other life-threatening conditions such as sepsis and liver dysfunction.

The deal has provoked a backlash from academics. Julia Powles, who works on technology law and policy at the University of Cambridge, has spent six months on a four-page article about "DeepMind Health and its dubious access to the highly sensitive patient records of millions of unwitting Londoners".

"DeepMind/Google are getting a free pass for swift and broad access into the NHS, on the back of persuasive but unproven promises of efficiency and innovation," said Ms Powles.

"We do not know — and have no power to find out — what Google and DeepMind are really doing with NHS patient data, nor the extent of Royal Free's meaningful control over what DeepMind is doing."

The partnership, and DeepMind's use of confidential medical records, is under investigation by the UK Information Commissioner's Office. The investigation into the sharing of patient information between the Royal Free NHS Trust and DeepMind is ongoing, the ICO said.

"We are working with the National Data Guardian to ensure the project complies with the Data Protection Act. We've been in contact with the Royal Free and NHS about the data and the investigation about the development of the Streams app."

The company has tried to address some of the criticisms of its project by announcing that all data access will be logged, and subject to review by the Royal Free as well as DeepMind Health's internal ethics and data governance officers, including Mike Bracken, the former chief digital officer of the UK government and Richard Horton, editor of the medical journal *Lancet*.

DeepMind pointed out it had published all its data processing agreements on its website with minimal redactions.

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## INTERNATIONAL

## Diplomatic relations

## Trump faces UK rift after backing Farage

Downing Street rejects US president-elect's proposed candidate for ambassador

HENRY MARCE AND JOHN MURRAY BROWN — LONDON

Donald Trump has ruffled feathers in one of the US's staunchest allies, tweeting that Theresa May should appoint a political rival as ambassador to Washington — just as the British prime minister seeks to force personal ties with the president-elect.

Little more than a day after the UK government floated the idea of inviting Mr Trump on a state visit — featuring a Downing Street was instead rejecting out of hand his intervention on behalf of Nigel

Farage, the outspoken leader of the UK independence party. "We have an excellent ambassador to the United States [Sir Kim Darroch] and he will continue in his work," a government spokesman said. "We appoint our ambassadors."

Mr Trump had tweeted on Monday night that many people would like to see the role taken up by Mr Farage, who campaigned with him in the US election at a time when UK ministers kept their distance. Mr Trump added: "He would do a great job."

Ms May had hoped to build a partnership with Mr Trump based on the cooperation between Margaret Thatcher and Ronald Reagan.

Britain has been one of the more vocal countries towards the incoming president and hopes to progress on

trade talks with the US as it looks to a future outside the EU.

But the government, while declining to criticise Mr Trump directly, had already made clear that it saw no scope for Mr Farage to act as an intermediary.

The role of UK ambassador to the US is seen as Britain's top diplomatic post, and is almost always reserved for a career diplomat. Sir Kim, formerly the UK's national security adviser and permanent representative to the EU, took over in January this year, and is expected to serve a four-year term.

Mr Farage, whose term as an MEP lasts until 2019, appeared to rule himself out of the job last week, saying he lacked diplomatic instincts. After Mr Trump's intervention, he changed course. "I have known several of the Trump team for years and I am in a good

position with the president-elect's support to help," he said on Twitter. "The world has changed. It's time that Downing Street did too."

Boris Johnson, the foreign secretary, told MPs that the UK had three priorities in its relationship with the US: Nato, free trade and shared values.

Mr Trump has questioned Nato's collective defence guarantee, campaigned against "unfair" trade deals, and has been criticised by many for his views on Islam and women. Nonetheless, Mr Johnson warned against taking a "pre-emptive" hostile attitude to the incoming administration, saying it "could be damaging to the interests of this country."

Mr Farage is more aligned with Mr Trump on key issues. He was the first foreign politician to meet him after his election victory.

Yesterday, MPs were quick to pour scorn on handing Mr Farage any kind of official role.

Bernard Jenkin, a vocal supporter of Brexit and chairman of the public administration select committee, which oversees the civil service, said the idea was "ridiculous and should not be taken at all seriously".

Liberal Democrat leader Tim Farron tweeted: "Farage as ambassador is a frankly stupid idea. I have more diplomacy in my little finger."

Graham Brady, chairman of the Tories' influential 1922 committee, said: "Do I think it's a bad thing if Nigel Farage is spending time in Washington encouraging them to be pro-British? No I don't. I am quite relaxed about it. I don't see a formal role."

Editorial Comment page 12

## TPP

## Trade deal 'has no meaning' without US, says Abe

ROBIN HARDING — TOKYO

The Trans-Pacific Partnership "has no meaning" without the US, Shinzo Abe said, as fellow members of the trade deal reacted with concern and frustration to Monday's vote of US withdrawal by president-elect Donald Trump.

The Japanese prime minister's comments pour cold water on proposals for 11 members of TPP to ahead without the US, leaving the field clear for China to forge an alternative trade pact in the Asia-Pacific region.

But comments by Mr Abe and fellow leaders such as Australian prime minister Malcolm Turnbull suggest they have not yet given up on TPP, either viewing Mr Trump's move as a negotiating ploy or hoping he will come round with time.

Speaking in Buenos Aires, Mr Abe declared renegotiating an 11-member TPP was impossible. He argued that US absence "destroys the basic balance of gains" from the deal. But he added: "At the meeting of TPP leaders, all the participating countries once again shared their determination to complete this challenge." Leaders of the 12 TPP countries had met at the Asia-Pacific summit in Peru before Mr Trump's statement.

The US president-elect set out his intention on Monday in a video pre-viewing his first day in office. "I am going to issue our notification of intent to withdraw from the Trans-Pacific Partnership, a potential disaster for our country, instead, we will negotiate a fair, bilateral trade deal that brings jobs and industry back to American shores."

Mr Turnbull said he hopes Mr Trump will have a change of heart. "There is very strong support among the other 11 parties to the TPP to ratify it and to seek to bring it into force," he said. Mr Abe met Mr Trump last week but it is not known whether the two men discussed the trade deal.

John Key, New Zealand prime minister, was disappointed but not surprised by Mr Trump's decision, given the depth of TPP opposition during the US election campaign. "The US is not an island, it cannot just sit there and say it is not going to trade with the rest of the world," he said. "At some point the US would want to think about how it accesses those very fast-growing markets in Asia, and what role it wants to have in Asia."

New Zealand and Australia are strong proponents of the TPP. The two nations have signalled they could support a rival push for a free-trade agreement of the Asia-Pacific, which is led by China.

The TPP, an extensive trade deal covering 40 per cent of the world's population, took roughly a decade to negotiate.

"China is a big winner here. The US is not only losing economic but also political leadership in Asia from withdrawal from the TPP," said Frederic Naudin, head of Asian economic research at HSBC in Hong Kong. "China can now use its international market as a bargaining chip and bring other economies closer into its orbit."

Additional reporting by Jamie Smyth in Tokyo, Louise Lacey and Ewa Jagalska in Tokyo, and Yuan Ting in Beijing  
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Martin Wolf page 13

## Commercial ties. Dealings

# Potential conflicts of interest dog transition to power

Trump risks governments using his overseas businesses as leverage or to curry favour

COURTNEY WEAVER — WASHINGTON  
BENEDICT HENDERSON — BUENOS AIRES  
HENRY MARCE — LONDON

Donald Trump's transition to power is being dogged by questions over potential conflicts of interest related to his global business interests, as scrutiny grows over the dealings of Argentina, Saudi Arabia and the UK.

In Argentina, a project to build a 35-storey Trump Tower in Buenos Aires appears set to move forward after stalling under the previous Argentine government.

In Saudi Arabia, Mr Trump registered eight new companies in August this year, according to Federal Election Commission disclosures first reported by the Washington Post.

And in his first post-election meeting with a foreign politician, Mr Trump told Nigel Farage that he opposed offshore wind farms in the UK because they spoiled the view of one of his Scottish golf courses, according to a friend of the UK independence party's interim leader.

With just six weeks until he assumes the presidency, Mr Trump finds himself in a nearly unprecedented position in US presidential history, with a dozen countries spanning more than a dozen continents and no announced plan for how he will deal with conflicts of interest, perceived or otherwise.

On Twitter, Mr Trump defended his foreign business holdings. "Prior to the election it was well known that I have interests in properties all over the world. Only the crooked media makes this a big deal," he wrote on Monday.

It is a dramatic departure from 10 months ago when Mr Trump announced he would put aside his business interests if he made it to the White House. "If I become president, I couldn't care less about my company. It's peanuts," Mr Trump declared during a

Republican primary debate in January. "I wouldn't ever be involved, because I wouldn't care about anything but our country."

Yet now Mr Trump is US president-elect, it is unclear how he intends to keep his vast arm's-length in a bind, trust, and whether they will still be managed by his children, who hold executive positions on Mr Trump's transition team.

More pressing are questions about how Mr Trump will prevent foreign governments from using his overseas business holdings as leverage against his administration or to curry favour.

On Sunday, Jorge Lanata, a prominent Argentine journalist, reported that Mr Trump had asked Mauricio Macri, Argentina's president, to approve his plans for a \$100m Trump Tower in Buenos Aires, when Mr Macri called on November 14 to congratulate the candidate on his election victory.

YY Development Group, the Argentine real estate company in charge of the project, denied the report. Ivan Pavlovsky, Mr Macri's spokesman, insisted Mr Trump's Argentine business interests had not come up "at any point" during the phone call between Mr Trump and Mr Macri.

Still, there are questions about the optics of the deal if it is approved by the City of Buenos Aires, whose mayor is a close aide of Mr Macri. One of the partners of YY Development Group, Felipe Yarrara, counts himself as a friend of Eric Trump, Mr Trump's son, and was at Donald Trump's birthday on the night of his election. He reportedly served as the initial point of contact between the US president-elect and Mr Macri, who openly backed Hillary Clinton.

The planned tower in downtown Buenos Aires, which Mr Yarrara hopes will start construction by June 2017, according to La Nación, would be located just blocks away from the emblematic clock on the Avenida de Mayo, one of the widest streets in the world.

Mr Trump touched upon another commercial concern, his opposition to



A Trump hotel in Washington, where the UK leader came to visit the president-elect at Manhattan's Trump Tower last week, said Andy Wigmore, a media specialist present at the meeting. Mr Trump "kept returning to the issue of wind farms, and urged Mr Farage and himself to campaign against them," said Mr Wigmore.

His reported comments follow a prolonged legal battle in which he failed to prevent the Scottish government from approving offshore wind farms near his

golf resort in Aberdeenshire. Mr Wigmore said he and another of Mr Trump's friends, insurance millionaire Aron Banks, would campaign against wind farms "spoiling the countryside".

The Trump group is partnering with emerging assets of the legacy of the Trump business across the Gulf. There, the Trump brand's brash style has dovetailed with glittery Dubai, a place that Mr Trump's daughter Ivanka called a "top priority" for Trump International in a trade magazine published last year.

The Trump group is partnering with Dubai's Damac Properties for the Trump International Golf Club, set to open next year when the clubhouse is finished. Trump-branded villas and a nearby Trump World Golf Club are both set to open in 2018, while Damac's chairman Hussain Sajwani remains a vocal supporter of Mr Trump, travelling to Washington to take part in the opening of a Trump hotel in September.

Additional reporting: Simon Kerr in Dubai



## Senior roles

## Mullen raises fears over 'militarisation of the government'

DEMETRI SEVASTOPOL AND GEOFF DRYER — WASHINGTON

Mike Mullen, former chairman of the joint chiefs of staff, has raised concern about the role to be played by the military in the US government, as Donald Trump steps up consideration of high-profile military personnel for top administration posts.

The president-elect has already chosen retired Lieutenant General Michael Flynn, as national security adviser, enthusiastically tweeted that he is considering retired General James Mattis, former head of US Central Command, for secretary of defence, and met Admiral Mike Rogers, currently head of the National Security Agency, over the role of Director of National Intelligence.

Asked if he was worried about the potential militarisation of the new administration, Mr Mullen said he worried more broadly about the "militarisation of the government".

He added: "There are very few senior military officers that understand politics. I do worry about that aspect, can former senior military officers handle the politics of the environment that they

are going into. I don't care what any of them say, they don't know what they are getting into."

Mr Mullen also expressed doubts about the temperament of Mr Flynn, who served as his top intelligence officer at the Pentagon. Speaking at the Aspen Institute, Mr Mullen said Mr Flynn had been "highly regarded" in the military, but that he was less impressed by the rhetoric Mr Flynn employed when campaigning for Mr Trump. Mr Flynn attracted controversy for leading chants of "lock her up" about Hillary Clinton at rallies and in a prominent speech at the Republican convention.

Asked whether Mr Flynn had the temperament for national security adviser, Mr Mullen responded: "I think based on the rhetoric, certainly the question is a valid question."

"When I knew him, he clearly had the temperament. If it is the 'lock her up' temperament, that is not who I would want to advise me from a national security perspective."

Mr Flynn, and potentially other nominees for top positions, are expected to wield more influence than predecessors because Mr Trump has no foreign policy

experience. Mr Mullen said he hoped Mr Flynn would adopt a model that ensured the president heard competing views.

Mr Mullen himself entered the political theatre earlier this year when Michael Bloomberg, the billionaire founder of the eponymous financial

information company, chose him as his running mate for a potential independent run. But the former New York mayor ultimately decided not to launch a campaign.

Mr Flynn was fired as head of the Defense Intelligence Agency in 2014 over concerns about his leadership style.

Since stepping down and retiring from the army, he has been a vocal critic of the Obama administration for not going after his more aggressively. Other military figures have also had

difficult relations with the outgoing administration.

The White House has been considering whether to fire Adam Rogers — a recommendation made before the election by Ashton Carter, defence secretary, and James Clapper, director of the NSA.

The move reflected complaints within the Pentagon that Mr Rogers, who had been slow to conduct cyber operations against Isis, as well as concerns about new James Clapper, director of the NSA.

Mr Mattis, whose time at Central Command ended ahead of schedule, also had tense relations with the Obama White House. In response to his possible nomination for the Pentagon, Mr Mullen suggested that appointing a retired officer as secretary of defence would protect continuity.

The move would require a congressional waiver to circumvent rules aimed at ensuring civilian control of the military. Mr Mullen said he would like to see someone with the "breadth and depth, the strategic reach, the global consequences" to occupy the position.

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FT Weekend



## INTERNATIONAL

## Autumn warmth

## High Arctic temperatures worry experts

Scientists surprised by levels 20°C above normal and blame climate change

PHILIP CLARK — LONDON

Scientists are struggling to understand why a burst of "sunny" warming at the North Pole has pushed Arctic temperatures nearly 20°C higher than normal for this time of year.

Experts in the US and Europe say they have been shocked by the soaring temperatures recorded in November, when much of the region is plunged into freezing winter darkness. Temperatures this week have been as high as nearly 5°C for every time he emerges to get a signal. "We've been processing this data since 1958 and we haven't really seen anything like this in this time of year,"

said Rasmus Tonboe, a sea ice expert at the Danish Meteorological Institute. "We are watching the situation and trying to analyse what is going on but it's very surprising."

The unusual warmth has come as officials at the UN's World Meteorological Organisation said they were 95 per cent sure that 2016 would be the hottest year since records began in the 19th century. It would mean that 16 of the 17 warmest years on record have been this century.

The 17th year was in 1998 when there was a powerful El Niño weather event, as there was in 2015 and 2016. But some scientists said climate change seemed to be more responsible for the unusual warming at the North Pole this month than the impact of the latest El Niño.

"I don't think that's a huge factor," said Jennifer Francis, a Rutgers University climate scientist, explaining that a

near-record fall in the extent of sea ice in the Arctic this summer had led to a warmer autumn. This had reduced the temperature difference between the Arctic and more southerly regions, causing a "wavier" jet stream — a great river of fast moving air about 10km above the earth that acts as a barrier separating the North Pole from warmer latitudes.

The changes in the jet stream had allowed more warm air to penetrate further north, which explained a lot of the "ridiculously" high Arctic temperatures, Ms Francis said.

"That is scary because it is showing us how rapidly the climate system is changing... We expected for a long time to see the ice disappear and the Arctic warm up and perhaps the jet stream doing bizarre things, but it's happening much faster than I think anyone

'It really is a wake-up call that the earth is warming and it's warming substantially in the Arctic'

expected. Hopefully some people who didn't believe this was a problem before might look at this and say 'Wow, this is really serious'."

Donald Trump, the incoming US president, has frequently played down the dangers of climate change, which he once described as a hoax invented by China to damage US industry. He has also threatened to "cancel" the Paris climate change accord that virtually every country struck last December. It aims to cut fossil fuel pollution enough to stop temperatures rising 2°C from pre-industrial times, or 1.5°C if possible.

Arctic researcher Jeremy Wilkinson, of the British Antarctic Survey, said of the latest bout of warming at the North Pole: "It really is a wake-up call that the earth is warming and it's warming substantially in the Arctic. We really have to look at ways to control emissions."

## Civil war. Regime strategy

## Syrians suffer 'surrender or starve' tactics

As many as 1.25m people in dozens of locations are under government-sanctioned siege

HEBA SALEH — DAMASCUS

In a small flat on the outskirts of Damascus, Jamila Kurdi, 22, sits on a mattress playing with Gardenia, the baby she was pregnant with when a missile fired by Islamist rebels damaged her home in a village in northwestern Syria, killing four relatives and leaving her blind.

"The doctors patched me up and removed my eye with little anaesthetics," she says. "It was very painful."

A resident of Foua, one of two neighbouring Shia villages in Idlib province, Ms Kurdi was among 554 sick and injured evacuated to the capital in December under an arrangement known as the "four towns agreement".

Her husband, however, remains in the village — at risk, she says, from sniper fire and shelling by Islamist rebels. She is one of more than 11m Syrians trapped in towns and villages by the means of fighting in the four civil war.

It is Islamist groups opposed to President Bashar al-Assad's regime who are laying siege to Kurdish villages. But the majority of areas are being blockaded by government forces and their allies — part of a regime tactic dubbed by observers as "surrender or starve".

The sieges are often accompanied by intense bombardments to force negotiated "reconciliation agreements" under which rebels and their families are allowed safe passage to opposition-held Idlib province in the north-west. The government then retakes the previously rebel-held towns and villages.

It is a tactic that it now appears to be pursuing, backed by Russia, in Aleppo, the divided northern city where 275,000 are trapped in rebel areas and which is the critical battleground of the conflict.

"The Syrian government has been enforcing sieges as an essential component of its military strategy since late 2012," said Valerie Stahls, executive director of the Syria Institute, a US-based non-profit research organisation.



AN INJURED woman is helped through the remains of buildings on the outskirts of Idlib following air strikes by Syrian and Russian warplanes yesterday.

"Starve and surrender has been working [as a tactic]. Where it wasn't working they have used Russian support to intensify bombing in order to push besieged communities to surrender."

Seige Watch, a monitoring project jointly run by the Syria Institute and Pax & Dutch peace-building non-governmental agency, estimates that there are some 1.25m Syrians in up to 40 locations that are under sieges of varying severity.

The two Shia villages in Idlib, blockaded by Islamist groups including Jabhat Fateh al-Sham, the al-Qaeda affiliate, have a population of 20,000. It is also blockading government-held parts of the city of Dair Ezzor in the east.

The four towns agreement between the Syrian government and armed groups, under which Ms Kurdi was freed, made it possible for humanitarian supplies to enter the Shia villages and for the sick to be escorted out. It also applied to rebel-held towns Madaia and Zabadani, near the Lebanese border — still under a blockade imposed by the government.

and allied Lebanese Shia militia. In Madaia, the regime is hoping to defeat rebels by using a similar strategy that it used with Dair Ezzor, a suburb where some of the first peaceful protests against Mr Assad erupted in 2011. Hundreds of rebels and families in Madaia accepted safe passage to Idlib in August after years of siege and bombardment. Madaia last received a consignment of international aid in September.

But reports had emerged earlier this year that people were dying of starvation. Seige Watch says negotiations on further measures under the "four towns agreement" have been halted and that conditions are worsening in the town of 40,000. It cites reports from its sources saying that the last clinic in the town closed in October and that four infants, including two stillborn due to maternal malnutrition, died in recent days.

Syrian officials call their "reconciliation policies" a success, but critics say they are essentially a forced surrender. Now the government, feeling confident after making gains around Damascus, as

well as the prospect of it regaining control over rebel-held parts of Aleppo, may be less inclined to loosen its sieges around places like Madaia.

After rebel fighters left Dair Ezzor, the authorities stopped remaining residents, some 1,500, from staying and evacuated them to a shelter in a rural area near Damascus pending security clearance. At least 250 have been allowed to leave after vetting, officials said.

In a shelter where doctors, healthcare and educational services are provided, Khaled al-Qarah, a Daraa resident, said, in the obligatory presence of a government-appointed official, that he had to take up arms with the rebels in order to be given food for his family. When given the choice, he decided not to go with the rebels to Idlib, preferring to benefit from a government amnesty.

"We lived four years under mutual shelter, except for a three-month truce, after which it resumed," he said. "Barrel bombs were falling on us and it intensified towards the end. Some days 100 bombs fell, some days 50."

## GLOBAL INSIGHT

## CHINA

Tom Mitchell

## Why Beijing is loath to pursue US probe into JPMorgan hiring

he Chinese Communist party's corruption watchdog has a tricky problem that the US Securities and Exchange Commission, of all organisations, may be able to help solve.

The Central Commission for Discipline Inspection has been a victim of its own success when it comes to finding "big" Chinese government, military and state-owned enterprise officials with vice-minister rank or higher. When you have bagged, on average, more than 50 tigers a year over three years, the public expects the skins to keep coming. But that is easier said than done, even in a country where corruption flourish as much as it did before the launch of President Xi Jinping's unprecedented anti-corruption campaign in 2013.

This is where the SEC could come in. All the CDDI needs is to start pulling on some of the threads recently unravelled by the US securities regulator. Last week the US regulator accepted a \$254m settlement offer from JPMorgan, which admitted running a sophisticated jobs-for-mandates scheme, Chinese "princelings", the progeny of some of China's most senior government officials and executives at state-owned enterprises (SOEs), were granted jobs or internships in return for which some of the same officials and executives gave business to the US investment bank.

According to the SEC, at least 100 "referral hires" on behalf of Chinese officials at more than 20 SOEs and 10 government agencies yielded JPMorgan tens of millions of dollars in investment banking revenues. It constituted a blatant violation of the US Foreign Corrupt Practices Act. The SEC's 26-page summary of JPMorgan's "Sons & Daughters" programme would be amusing were it not so outrageous. Some of the referral hires were incompetent they were referred to internally at JPMorgan as "photocopiers".

Some hires were so incompetent they were referred to at JPMorgan as 'photocopiers'

hires would not show up on end-of-year headcount tallies and were renewed only if the mandate kept coming. Chinese officials have been given very long leadout times for less. Two years ago, Liu Tienan, a former vice-minister at China's powerful economic planning agency, the National Development and Reform Commission, was sentenced to life in prison after he and his son were charged with accepting bribes totalling Rmb36m, currently \$5.2m.

The bribes included a shareholding in a car dealership for Liu Junbo. The arrangement was facilitated by a state auto executive whose company was regulated by the NDRC, just \$5.2m in alleged bribes? What amateurs. The last week's settlement with JPMorgan, the SEC documented more than \$100m in investment banking revenues attributable to jobs-for-mandates scheme.

The CDDI could easily increase its tiger count if it asked another question. The government officials who made the jobs who directed more than \$100m in state funds JPMorgan's way so their sons and daughters could work or take internships there. But there are reasons why corruption investigations, a government official was able to get his son an internship in JPMorgan's Hong Kong office but not a Chinese analyst position in New York. So the official asked for help from an executive at a Chinese SOE, who joined the investigation.

The whole sorry saga does, however, highlight one big judicial difference. When Chinese officials find themselves in the CDDI's crosshairs, they often spend the rest of their lives in prison. When international bankers are targeted by Uncle Sam, their employers just pay a fine.

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## Public backlash

## Turkey rows back on underage sex pardon

MEHMET SRIVASTAVA — ISTANBUL

Turkey's ruling party has withdrawn a bill that would have pardoned men convicted of having sex with underage girls if they married them, after the proposal sparked a public outcry.

The bill was seen as an attempt by the governing Justice and Development party (AKP), which has Islamist roots, to give its more conservative members who have also demanded a watering down of the death penalty and a watering down of Turkey's secular constitution. But it drew widespread criticism, even from AKP members, and triggered street protests by women's groups and human rights activists.

The decision to how to pressure and withdraw the bill marked a rare instance where the AKP misjudged its ability to get controversial laws through parliament. President Recep Tayyip Erdogan has wielded broad powers since he imposed a state of emergency after a failed coup that made him the most powerful legislator in Turkey via decree.

"It might be that the government misjudged the reaction, from women and

also within their ranks — they thought it was something easy to get through. But it wasn't," said Ilker Turan, a professor of social science at Istanbul's Bilgi University.

Prime Minister Binali Yildirim said the bill would be reviewed. "If there is a proposal, we will review and amend it," Mr Yildirim said. "If not, we will solve the issue by taking into

consideration the recommendations from the people and NGOs." Opposition parties called for the bill to be dropped completely. Devlet Bahçeli, leader of the Nationalist Movement party, said: "No matter what everyone else says, this proposal remains an amnesty for rapists."

AKP officials had defended the bill as one intended to resolve the legal problems faced by families that agreed to an underage marriage, which remains

widely spread in Turkey. About 5,000 men are in prison for having sex with underage girls and two AKP MPs said the issue caused the break-up of families and left mothers to raise children on their own.

The bill will certainly not bring amnesty to rapists, Bekir Bozdag, justice minister, said. "This is a step taken to solve a problem in some parts of our country."

In Turkey, child marriage is condoned under a religious, not civil, ceremony and remains common, especially in rural areas. Former president Abdullah Gül married his wife when he was 15 at a time when he was aged at least 50.

About 500,000 teenage girls have given birth to children since 2002, with 16,000 of them becoming mothers before the age of 15, while about 440,000 underage girls were married, according to partial figures available from the justice ministry.

The bill was a test of the "ability of the government to bring about change to conform to an ideology it supports," said Prof Turan, referring to conservative social policies that Mr Erdogan and his allies have publicly supported.

Street protests at women jobs a rally in Ankara yesterday after the bill to pardon men who have sex with girls



## International image

## China broadens UN peacekeeping operations

LUCKY MORRIS — BEIJING

China is expanding its role in UN peacekeeping operations overseas at a time when the US is rethinking its global duties.

Greater participation in peacekeeping gives more clout at the UN, where western countries often control prominent departmental posts. Some Chinese strategists even believe it will give China a voice in any eventual settlement to the conflict in Syria, where Beijing has so far stayed on the sidelines.

Among the five permanent Security Council members, China is now the largest contributor to peacekeeping forces, deploying about 2,600 of the total 86,000 "blue berets".

Beijing pledged last year to raise that number to 8,000. It is in contention to head the UN's Department of Peacekeeping Operations, which has been dominated by France for many years, according to Foreign Policy magazine.

Beijing sees the sponsoring of peacekeeping missions as "both a responsibility and a chance to lift its international image", said Xian Dingli, head of the Center for American Studies at Pusan

University in Shanghai. It "boosts China's global status and is potentially helpful in attaining military and political goals on the side. China, so it is helpful to protect China's investment and people abroad."

Taking the lead could position China for a greater voice in Africa, where it hosts nine of the UN's 16 peacekeeping missions — and, at some point, the Middle East. Beijing has watched in dismay as violence erupted in a region on which it relies for oil supplies.

"If eventually peacekeeping needs to be dispatched, we might see [UN] soldiers in Syria or Yemen," said Wang Gao, a commentator on China's foreign policy. "The US believes Pac America is responsible for world stability but we believe the international security order is assured by the UN."

China has pledged money into upgrading its defence technology, investing in fighter jets and ships, and making efforts to recruit tech-savvy graduates as it trims its ranks of uneducated soldiers. But its military remains relatively untested, with no formal international combat since a border war with Vietnam in 1979.

Beijing first sent peacekeeping units

to a conflict zone in 2013, dispatching troops to Mali. Last year it beefed up its global military presence by sending peacekeepers to guard Chinese-invested oil installations in South Sudan under the UN peacekeeping command. As part of its military expansion, China has not participated in UN-led actions in Afghanistan, Iraq or elsewhere.

In July, 20 Chinese peacekeepers were killed during a helicopter crash in South Sudan's oilfields. China's defence ministry has denied reports that Chinese troops were dismissed or failed to protect aid workers that were attacked and raped.

A UN report found they had left their posts, and that there was a disgraced chain of command.

China has an opportunity to lead internationally in peacekeeping in part because of its "unique" role in international contributing peacekeeping troops despite footing the largest share of the peacekeeping budget, according to a report last month by the Center of China-American Defence Relations at the PLA's Academy of Military Science.



## INTERNATIONAL

# Lula trial threatens to widen divisions in Brazilian society

## Corruption case to test legacy of former leader seen either as a hero or villain

JOE LEAHY – SÃO PAULO

Brazilian lawyers Cristiano and Valéria Zanin Martins discovered just how polarised the political climate in their country had become when they received a surprise midnight call from someone at their child's school recently.

A group of conservative mothers, angry over the couple's defence of former leftist president Lula da Silva, had called them to demand that the couple be removed from the school. The couple, who were planning to hold protests against them at their child's school assembly the next day, the caller warned.

"It has gotten surreal," said Ms Martins. "To expose our children to this?" In what has already been a tumultuous year marked by the impeachment of former president Dilma Rousseff, Brazilians are bracing themselves for what promises to be Latin America's trial of the century: the start of corruption hearings against her predecessor and mentor, the once wildly popular Mr Lula da Silva.

A guilty verdict against the leader of the Workers' Party, or PT, could unleash political protests at a time when the new government of Michel Temer, Mr Rousseff's former vice-president, is trying to restore confidence by passing sensitive fiscal reform through Congress.

"Imagine the mere fact that Lula could go to prison? He is an ex-president, he was president twice. That this could cause problems, I have no doubt," Mr Temer said.

The trial, in which witnesses began giving testimony this week, will mark the culmination of more than two years of investigations into Brazil's biggest corruption scheme, a bribery scandal at oil company Petrobras.

It will call into question the legacy of the man whose supporters consider a hero for reducing poverty during his eight years in power between 2003 and 2010, but whose detractors view as a populist who was loose with public money and helped usher in Brazil's worst recession in a century.

Mr Lula da Silva has survived corruption scandals before. The former inner-circle of the leftist PT was jailed in 2013 for vote-buying schemes.

This time, however, prosecutors believe they have enough proof to convict the leader. Mr Lula da Silva is accused of accepting favours from construction companies in return for contracts at Petrobras. These include a beachside apartment and a rural getaway he is alleged to have owned in all but name. They have also alleged that he helped Brazilian luxury construction company Odebrecht win contracts in Angola with funding from Brazil's state-owned development bank, BNDES.

Defending Mr Lula da Silva is the family law firm led by Ms Martins' father and Lula friend, Roberto Teixeira. From their office in a leafy residential area of São Paulo, the Martins argue that Mr Lula da Silva is the victim of "lawfare" – systematic legal harassment.

"From a legal point of view, what we see is that prosecutors have opened a wide front of investigations and penal actions that are based on suspicions and accusations that are fragile and that would say are frivolous," said Mr Martins.

Mr Lula da Silva's name was not on the title of either the apartment or the rural getaway, neither did the former president have influence at BNDES, he said.



Demonstrators in São Paulo demand Luiz Inácio Lula da Silva's detention this week. Below, Mr Lula da Silva and his wife, Marisa Letícia (Photo: Reuters)

Mr Martins also argued that Sérgio Moro, the anti-corruption judge presiding over the Petrobras case, and prosecutors had violated Mr Lula da Silva's right to privacy and the presumption of innocence in their pursuit of the case. Judge Moro in March released politically sensitive recordings of Mr Lula da Silva speaking privately to Ms Rousseff and others, including his lawyer. The Supreme Court later banned the use of the recordings as evidence.

The Martins' concerns about some of the practices being employed by investigators in the Petrobras case, such as the release of the recordings and holding people under arrest without trial, are

"Imagine the mere idea that Lula could go to prison? He is an ex-president. That this could cause problems, I have no doubt"

Michel Temer, former president



shared by some academics.

"If this becomes standard in Brazil, the authorities will be free to persecute any citizen in this way," said Professor Thiago Bottino of FGV Direito RJ, a law school.

He said he suspected the idea of the Lula case was to remove the former president as a contender for the 2018 presidential elections.

The prosecutors contend that such arrests involve only the minority of suspects who, they fear, might tamper with evidence or flee.

Judge Moro also denies any political bias. "These cases have nothing to do with party politics," he told newspaper Estado de São Paulo in a recent interview.

The Martins are trying to turn Mr Lula da Silva's case into an international cause célèbre, enlisting the help of human rights activists, barrister Geoffrey Robertson QC, and taking it to the UN Human Rights Commission.

No matter what happens, the trial is expected to be highly controversial, with the results bound to divide Brazilians.

"I have been feeling bubbly about the other mothers at the school, they are staying away from me," [saying] that as a defender of a 'criminal', I must be a criminal too," said Ms Martins.

## Financial oversight

## EU regulatory reforms to put City of London at risk

ALEX BARBER – BRUSSELS  
CAROLINE BINHAM – LONDON

Europe's financial rules are shifting under the feet of Brexit negotiations, as the EU moves to harden its regulatory regime in ways that would potentially shut out the City of London after the UK leaves the union.

Brussels will today release its first batch of financial proposals since Britain's EU referendum, giving an insight into how the bloc's regulatory landscape may evolve without the UK.

All the signs point towards more fragmentation in the oversight of global financial activities, as the EU and other jurisdictions strengthen their external frontiers and increase the sunk costs for foreign companies operating in their market. For Brexit Britain, that means potential higher entry barriers.

One example of a more protectionist policy drift will come when the European Commission proposes fit-for-fit bank measures against the US, which would force foreign lenders to have additional capital in the EU to their subsidiaries can better withstand a crisis.

If non-EU banks need to create a separately capitalised holding company in the eurozone, London potentially loses a less attractive headquarters for European operations.

Separately, officials are re-evaluating how Brussels grants EU market access to overseas financial companies, potentially making it harder for the City to use the bloc's "equivalence" arrangements as a Brexit fallback option.

Charles Grant, director of the Centre for European Reform, said commission officials insist that this tightening is unrelated to Brexit, but "Brexit is driving this hard line on financial services and nobody is resisting," he added.

A third leg to the consolidation could come through more explicit regulatory policies, restricting where EU-related financial activities can take place. Next week, for instance, the commission will issue proposals on the recovery and resolution of clearing houses. This includes no additional territorial restrictions affecting the lucrative clearing of euro trades in London, but France, Germany and many MEPs support the relocation

of euro-clearing to the eurozone; proposed amendments to this project are likely as the legislation is debated.

EU officials insist Brexit is not a consideration in any reorientation of policy, but the shifting position highlights an underlying clash of interests.

"In some ways this is a reminder that there is a basic asymmetry in the EU-UK relationship. It is their market and they will set the terms for accessing it," said Stephen Adams, partner at Global Counsel, the advisory group.

British policymakers are trying to solve the problem partly by looking upwards. Ways of becoming "rule takers" as a price of access to the EU single market, London wants to build more flexible equivalence arrangements, co-ordinated under the G20 umbrella. But this comes at a time of growing transatlantic tensions over financial regulation. Part of Britain's success as a

"This is a reminder there is a basic asymmetry in the EU-UK relationship"

Stephen Adams, Global Counsel

financial centre has been from straddling the regulatory regimes of Europe and the US. "The problem for the UK is keeping one leg in each boot as they say, for another leg," said Simon Gleadow, a financial services lawyer at Clifford Chance.

The EU and US are taking increasingly divergent positions. For instance, over reforms to global bank rules risk to place after the financial crisis. Valdis Dombrovskis, the EU's top financial regulator, has said the EU is ready to walk away from proposals to curb the use of internal bank models that would disproportionately hit European lenders.

London sees some officials hope the EU's position will soften once the collective costs of retrenchment become clear. The risk is that both Britain and the EU lose out as barriers go up. Global banks that use London as a base to access the rest of Europe are already having to weigh their strategies because of

Editorial Comment page 12

## French presidency

## Juppé attacks Fillon's economy stance in bid to regain ground

AINE-SYLVIA CHASSANT – PARIS

Alain Juppé has lashed out at François Fillon's economic "brutality" and criticised his opponent's "conservative, backward-looking vision" as he attempts to claw back the initiative in the race for the French centre-right presidential nomination.

Mr Juppé, the longtime favourite, is trying to make up lost ground after Mr Fillon surged to a large lead in first-round voting. His comments show him attempting to sharpen his appeal to centrist and more liberal voters, pitting them against more traditional rightwing supporters of Mr Fillon's socially conservative, free-market platform.

With centre-right voters due to choose one of the men as their presidential candidate on Sunday, Mr Juppé turned his fire on his rival's economic policies, saying they were too radical and unfair to more vulnerable workers. He also sought to rally women's support and highlight differences with Mr Fillon by demanding that his rival "clarify his position" on abortion rights.

"Change must not consist in tearing down house because the house is fragile," Mr Juppé said. "We must implement reforms ... Mine are a bold, but they are realistic and credible."

Mr Fillon's plans to cut 500,000 civil service jobs in five years, increase weekly working hours for civil servants from 35 to 39 as early as 2017, and raise an extra €16bn from value added tax would cause "great social brutality" and "some [measures] are not enforceable," Mr Juppé said on television on Monday.

Mr Juppé, a former prime minister, faces a struggle to overhaul Mr Fillon, who took a 16 percentage-point lead in

the first round of France's first polls for president.

Mr Juppé lagged behind in the polls for months before gathering support in the final stretch of the campaign, overtaking his opponent's lead over incumbent Nicolas Sarkozy out of the race.

With no leftwing candidate – including Socialist president François Hollande – expected to have enough support to emerge from the first round of the presidential election in April, the centre-right nominee is expected to face a right-left duo, Marine Le Pen in the second round in May.

On abortion, Mr Juppé said on Europe 1 radio yesterday that Mr Fillon "first said that it was a fundamental right for women, then he came back on this statement. What's his position? ... It's a difference between us."

Mr Juppé was referring to comments made by Mr Fillon in June. "Philosophically and given my personal faith, I cannot approve of abortion," Mr Fillon said. Among other jobs at Mr Fillon, Mr Juppé said his opponent had been Mr Sarkozy's premier for five years, sharing responsibility for the former president's defeat to Mr Hollande in 2012. Mr Juppé added he would be a stronger candidate against Mr Le Pen.

Current Socialist premier, a professor at Versailles University, said Mr Juppé's criticism might backfire, forcing him to be seen to lean to the centre just as voters seemed eager for a more rightwing leader.

Juppé's strategy is to depict Fillon as a brutal man. But this will make Juppé appear too soft and more from the left than from the right, which is exactly what voters said they didn't want."

Le Pen has an opponent to fear page 13



Head to head: Alain Juppé, left, and his centre-right rival François Fillon

## Book award Greenspan biography wins business title of the year

ANDREW HILL – LONDON

A colourful and exhaustive biography of Alan Greenspan, the former chairman of the US Federal Reserve, is this year's Financial Times and McKinsey Business Book of the Year.

The Man Who Knew, by Sebastian Mallaby, is the 12th winner of the £50,000 award, which goes to the "most compelling and enjoyable" title of the year.

It is the first biography to win the prize, although Mr Greenspan's autobiography, The Age of Turbulence, was shortlisted in 2007, the year before the



financial crisis raised serious questions about the central banker's legacy.

"The Man Who Knew is an impressive work of scholarship," said Lionel Barber, editor of the FT and chair of the book award judges. "It's a masterpiece of political and economic and, above all, it's a great and enjoyable read."

Mr Mallaby's 800-page book was published in October by Bloomberg and Penguin Press, and was hailed as "exceptional" in an FT review.

It came up against strong competition from five other shortlisted books tackling the world's critical economic and management challenges – from the US productivity gap to persistent gender imbalances.

Another of the judges praised the winning book for "meticulous depth, which reveals all of [Mr Greenspan's] human qualities and professional accomplishments in a huck way."

Mr Mallaby was due to accept the award at a dinner in London last night, where the guest speaker was Dido Harding, chief executive of TalkTalk, the UK telecoms group.

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INTERNATIONAL

# Renzi reforms fail to resonate in Italy's south

Polls suggest struggling Mezzogiorno will snub PM's plan in referendum

JAMES POLITI — NAPLES

sitting on a bench outside a butcher's shop in Bagnoli, a gritty Naples suburb, Emanuele Fusco can speak only scathingly of Matteo Renzi and his referendum to change Italy's constitution, which goes to a vote on December 4.

The 25-year-old barman says the prime minister's government has been no different from others that have failed to regenerate the area after the demise of a steel plant that once dominated the local economy.

Bagnoli's working-class voters — both on the left, such as himself, and on the right — will hand Mr Renzi a stinging defeat, he predicts.

"A yes vote is just a way to fool people," Mr Fusco says angrily. "We should send this government packing and let everyone know how much they've screwed us."

Such resentment is probably natural in a struggling corner of the eurozone's third-largest economy. It points to one of the biggest challenges facing Mr Renzi in his battle to win a referendum that, if unsuccessful, could bring a premature end to his term in office.

There is broad scepticism that the 41-year-old former Florence mayor has correctly identified the answer to Italy's problems — and the Mezzogiorno, or impoverished south, is the weakest geographical link in his campaign.

Luca Comodo, director at Ipsos, the pollster, says a view has taken hold across Italy that a rejection of Mr Renzi's plan is a vote for change. This is particularly true in the Mezzogiorno because of the disproportionate economic damage inflicted by the deep recession that fol-

lowed the global financial crisis. "The south is where protest and rage are amplified," says Mr Comodo.

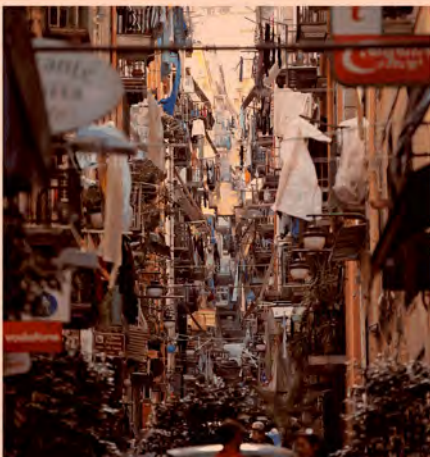
According to a Demos poll published on Friday, the reforms will be rejected by a margin of 11 percentage points in the south and by 7 points nationally.

Mr Renzi's response has been to ramp up efforts to win over southern voters, including recent campaign visits to Sicily, Sardinia, Puglia and Campania, the region that includes Naples. He has proposed tax breaks for companies that create jobs in the south, to respond to the twin problems of lack of investment and high unemployment, especially among the young.

Plans were stepped up for regional infrastructure projects, such as upgrading the Salerno-Reggio Calabria motorway and reviving proposals to build a bridge connecting Sicily to the mainland. The prime minister has also chosen the Sicilian resort of Taormina to host next year's G7 summit and persuaded Apple, the technology giant, to open a training academy in Naples to teach coding to 200 pupils.

But critics say he has little chance of success. "There's suffering here, and everyone can see it," says Armando Cesaro, head of the Naples office of Forza Italia, the centre-right party led by Silvio Berlusconi, who is urging a No vote. "People in the south vote with their gut."

Venanzio Carpentieri, leader of Mr Renzi's Democratic party in the Naples area, insists that support for the referendum is building, not waning. Constitutional reform should be seen as an "extraordinary opportunity" for the Mezzogiorno, he says, because it



Central Naples: voters in the densely populated city are expected to vote heavily against prime minister Matteo Renzi, right, in the referendum



## Senate and centralising moves aim to ease gridlock

Matteo Renzi has staked his tenure as Italian prime minister on a reform of the constitution, which will be put to a nationwide referendum on December 4.

At the heart of his proposals is a big change in the role of the Senate, the upper chamber of parliament. Currently its 315 elected members play an equal role to the lower chamber in crafting legislation. Under Mr Renzi's plan, the Senate would be reduced to 100 unelected members of regional assemblies and mayors.

On most legislative matters — except

constitutional change, the election of president and certain EU laws — the Senate would have a consultative role, its say no longer binding. The aim is to reduce legislative gridlock and make governing easier. But opponents say it gives too much power to the executive.

The second main element is revision of Title V of the constitution, which sets out the relationship between the 20 regions and central government. Responsibilities have over time shifted away from Rome, which critics say has brought overspending and more bureaucracy. Mr Renzi wants take some of that power back, in part so infrastructure projects can be centrally overseen.

Business groups are happy with the proposed change, but critics say centralisation is the last thing Italy needs, especially given its wide geographic disparities.

will reduce the powers of the Senate in Rome and of the regional governments, freeing a gridlocked national political system.

"Even more than the rest of Italy, the south needs to move on a path to modernisation," Mr Carpentieri says. "The idea that the southern vote would be for the status quo is a perspective that would be frankly disappointing."

Salvatore Sarnataro, a 75-year-old butcher in Bagnoli, agrees. He is backing Mr Renzi's reform for a simple reason: the current system has failed spectacularly. "Are we doing well now, with all these laws, this bureaucracy? I say no, so I will vote Yes," he says.

But voting patterns in parts of the Mezzogiorno are unpredictable, dictated by opaque networks in which local officials, sometimes with links to organised crime, can sway voters by promising personal gain in exchange for their support.

Another of Mr Renzi's problems in Naples is that he faces some powerful opposition in the shape of Luigi de Magistris, the recently re-elected city mayor who has clashed with the prime minister on several fronts, including the clean-up and repurposing of Bagnoli's steelworks.

After Mr Renzi decided that the central government should run the project, Mr de Magistris attacked him for undermining local authorities. Many in the region sided with the mayor, in a sign that local people are sceptical of a return to centralisation.

Mr Sarnataro, however, is willing to try something new, insisting the constitution can be changed. "It is not the bible," he says. Opponents of Mr Renzi's referendum should not be so precious, he says. "I've seen the fascists, the monarchy, democracy, the centre-right and the centre-left, and I'm still a butcher."

Enel eyes stock buyback page 16

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## ARTS

# Chanting along to a man called Chance

POP

**Chance the Rapper**  
*Travis: American Idol*  
 \*\*\*\*\*

*Ladovics Hunter-Tilly*

Hip-hop has reached peak ego. Kanye West's onstage meltdown during his US tour last week mark the tipping point, boogieing out as he declared his support for Donald Trump amid rambling speeches, with one show curtailed after three songs.

On the night he cancelled a concert in Los Angeles, a prelude to the cancellation of the entire tour, a younger act from West's home city of Chicago pointed a way forward. Chance the Rapper, 25, may have Kanye as a mentor (the pair have spoken of making an album together) but he does not share the older man's rampant narcissism. The thousands chanting along to every word of his verses in a sold-out Brixton Academy underlined the shift in emphasis.

Chance, real name Chancellor Bennett, was backed by drummer Greg Landgraf Jr, trumpeter Nino Segal and keyboardist Peter Cottontale; the four call themselves the Social Experiment. In contrast to the focus on the individual star at most rap gigs, here the performance had an organic, collaborative quality.

Cottontale's organ licks and Segal's trumpet solos provided a mellow, jazzy backdrop for lyrics that went from addressing Chicago's gun violence ("Angels") to jokey nonsense rhymes ("Brain Cods"). Landgraf Jr's drumming and laptop-generated beats triggered by Cottontale came to the fore in livelier tracks such as "All Night" or "Juke Jam", beeping up tonight from sultry R&B to party tune.

Despite a swells and to his voice, Chance's rapping flowed easily, varying in volume with the mellow and ebbs of his bandmates' work. An anti-Trump

speech – his father is a Chicago Democrat who once worked for Barack Obama – ended with him claiming music as vital sustenance in black US culture. The sentiment was made literal by the gospel influences in his own songs, a strain of religiosity neatly woven into the secular rap setting.

"Sunday Candy" was a warm, soulful tribute to family churching. "Finish Line/Drown" had the sampled backing voices of a gospel choir, while the final number, "Blessings", found him entering testifying mode with arms raised, chanting about being transported to the promised land. Post-peak-ego rap is about summoning a greater force, not becoming it.

[chancetrapper.com](http://chancetrapper.com)

DANCE

**Cloud Gate 2**  
*Sadler's Wells, London*  
 \*\*\*\*\*

*Louise Lester*

Cloud Gate Dance Theatre majors in ravishing, designed spectacles. For *Wind Shadow* the stage is deluged with black silk and the songs of the *Windmills*, the Taiwanese troupe's signature piece, three tonnes of fireproof yellow rice cascades from the flies. *Cloud Gate 2* eschews such frilleries.

Founded by Lin Hwai-min in 1999, the team exists to encourage and promote the work of young Taiwanese choreographers. Some of the troupe's back catalogue calls for props and scenery but the trio of generic-looking pieces selected for their UK debut at Sadler's Wells on Monday was mostly danced in regular clothes on a bare stage under emergency lighting.

The first half kicked off with Huang Yi's *Wicked Fish*, a hyperactive 15-minute work set to an ear-splitting track of Iannis Xenakis's 1983 *Shahr*. The



angsty, jerrard Herrmann-like strings give a general air of panic to the movement, compounded by Huang's insistence on a step or gesture for every note. The frantic ensembles are intended to mimic the eerie group-think of a school of fish but, although precision-drilled, the lines and flourishes had a mechanistic, count-down-the-breath quality.

Wall, artistic director Cheng Tsung-Lung and set to Michael Gordon's *Weather One*, is similarly hyperactive. The dancers trudge on bloc, shochter-style, about the dimly lit stage until, one by one, they relinquish their black uniforms for off-white casuals and their bodies open up accordingly. The ensuing solos and duets allow the well-trained dancers to showcase their skills: nervous balances, arcing backbends and fleet, soft-footed jumps.

A few shillings in the electricity meter and a bright, pencil-box palette lightened the mood for *Beckoning*, Cheng's second offering. The 10-min, 2015 work is apparently inspired by Taoist temple

Organs:  
 Chance the  
 Rapper at  
 Brixton  
 Academy.  
 Below: Cloud  
 Gate 2's  
 "Beckoning"  
 (Sara Chang/Photo  
 by Lin Hwai-min)

dances and seeks to explore the way humans avoid identity. Sadly, this interesting theme never really takes flight and the piece rambles on for 40 minutes, leavened only by a sprinkling of solos. The quicksilver soliloquy by crimson-clad Luo Shiwei hints at what these dancers can do once they peel away from the herd.

To November 23, [sadlerswells.com](http://sadlerswells.com)



THEATRE

**Une chambre en Inde**  
*Théâtre du Soleil, Paris*  
 \*\*\*\*\*

*Laura Cappelle*

Fifty-two years after it was born, France's Théâtre du Soleil often feels like a holdout from another era. In 2016, it may be the last venue without an online ticketing system, and its ambitious productions are few and far between. Still, the collective draws a devoted audience with its utopian ethos, housed in the 1960s: all members are paid the same salary, while founder and director Ariane Mnouchkine, 77, still checks tickets at the door.

Her new production, *Une chambre en Inde*, shows the company reckoning with a new world order. Over the course of four hours, it touches on the terror attacks in France, women's rights, climate change, India, and Islamic State. It is a sprawling affair, by turns dynamic and chaotic, naive and stirring, torn between fraternal ideals and a growing sense of powerlessness.

The storyline is an exercise in meta-theatre. A troupe of actors are stranded in India, where they're supposed to create a new production, after their artistic director, Mr Lear, vanishes. His hapless assistant Cornelia finds herself in charge, and spends the rest of the play flailing, unable to answer the funders' demands or to come up with a "vision". Indian actors feature prominently: the troupe goes on a quest to understand an Indian form of folk theatre called *tharu koshu*, with scenes from the *Malabar* played in traditional costumes. Other forms of cultural politics are less successful. Mnouchkine's parody of Islamic extremism, from dim-witted suicide bombers to burkas and an old film featuring underground fighters waiting for their death, is somewhat clumsy given the tense French context.

The last word is a rousing speech for a Charlie Chaplin-like character who exclaims: "Let us all unite!" It's a well-meaning conclusion, but the piece seems more attuned to the times when it voices general anxiety. "We don't understand anything about the Middle East," Cornelia muses at one point. "What do we do, theatrically speaking?"

To December 29, [theatre-du-soleil.fr](http://theatre-du-soleil.fr)

## As things fall apart, the musical centre holds

OPERA

**Eugene Onegin**  
*Oper Frankfurt*  
 \*\*\*\*\*

*Shirley Aphor*

So much has been said about *Eugene Onegin*; and yet, as with all the great operas, there will always be more to say. In an age where the big houses, reluctant to take risk, fall over one another to give the same big names yet more work, Frankfurt's opera is to be commended for taking the risk of hiring Jim Lucas, an ambitious young Dutch director whose *Rusalka* had already hosted.

Things did not go as planned. Lucas was taken ill, and the production handed over to his assistant, Dorothea Kirschbaum, who had neither the time to develop her own concept nor the means to fully realise Lucas's.

We can only guess how the evening might have looked had all gone well. Katja Hüb's exquisite sets place the action roughly in 1910s Soviet Russia. Joachim Kleins lighting, creating searing beauty from the shadows of metal security gates, is poetry in its own right. The Larina family lives in a grand mansion that houses a large haking concern. In the first act, lavish detail in the characterisation of individual roles blends with solid singing and after

assured musical direction to make a satisfying whole. There is nothing revolutionary in this *Onegin*, but it is coherent: we see who these individuals are, and we feel with them.

As the evening progresses, musical excellence remains a constant. Sebastian Weigle's conducting is organic, clear, strong and yet profoundly human; we are swept along on Tchaikovsky's musical tide. The cast is well matched, from Sara Jakab's poised, assured Tatiana to Daniel Schmutzhard's authoritative Onegin. Mario Chang's Lenski is a mellow, lyrical take on the role.

Unfortunately, the singers are

increasingly left to their own theatrical devices, which means hysterical gesturing from Onegin and Ice-queen rigidity from Tatiana, as the production steadily loses coherence. Charming mermaids enact obscure subplots, the stage revolves meaninglessly, the chorus performs militaristic routines in a politically illiterate context, and the evening's main consolation remains that it looks beautiful and sounds wonderful.

Under such circumstances, no production could ever be anything other than this one somehow holds together at all is a reasonable accomplishment.

To January 1, [oper-frankfurt.de](http://oper-frankfurt.de)



Profoundly Musical: Oper Frankfurt's *Eugene Onegin* — Barbara Hammer

## ARTS: VIDEO, PODCAST AND COLLECTING SUPPLEMENT

**Video: London's new Design Museum**

The institution has gained a huge new home in Kensington, designed by the minimalist architect John Pawson. But how will it fill the space? And what stories should be telling about the objects that fill our lives? Ahead of tomorrow's opening, Griselda Murray Brown explores the museum with FT design critic Edwin Heathcote.

[ft.com/design-museum](http://ft.com/design-museum)

**Podcast: The Life of a Song**



"A cry of despair from the forgotten, rural heartlands of America, beaten down by years of economic depression," Helen Brown tells the story of "Over the Rainbow", written by Harold Arlen and Edgar "Yip" Harburg and made famous by Judy Garland. From its beginnings in *The Wizard of Oz* it has become known as "America's song", if not its anthem.

[ft.com/life-of-a-song](http://ft.com/life-of-a-song)

**Collecting: Art in the Americas**

With Art Basel Miami Beach opening next week, FT writers survey the art scene in Miami and beyond: from the city's growing status as an architectural attraction, to the exuberant rich of Mexico's modernists, the museum where minimalism meets folk art, and more.

See Saturday's FT Weekend supplement and [ft.com/collecting](http://ft.com/collecting)



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## FT BIG READ. US ECONOMY

Manufacturing output has hit record highs, but employment in the sector is in long-term decline as businesses rely on automation. Donald Trump's pledge to restore jobs to faded regions will be hard to fulfil.

By Ed Crooks

In a workshop in downtown Buffalo, New York, a robot brings order from chaos. Jumbled metal components – halves of hinges for truck doors – are picked out of a basket a few at a time, and scattered haphazardly on a conveyor belt.

One by one, the robotic arm picks them up, waits a split second as its soft wear decides what to do, then places the component precisely into position on a bracket, right every time.

"These jobs are very hard for robots, but easy for humans. Random bin picking is a tough challenge," says Michael Ulbrich, head of Buffalo Manufacturing Works, the group that owns the robot and the workshop.

Its mission, backed by New York state, is to help local manufacturers develop new products and processes that can help them win business in fiercely competitive global markets.

The automated hinge-sorter uses high-resolution cameras and sophisticated software to do a job that has until now needed human intervention. The robot will replace workers at the truck component manufacturer that will use it, but it will also help the company stay in business.

"Robots are now much more accessible to smaller companies and can deliver a much quicker return on investment," Mr Ulbrich says. "Automation allows these companies to grow and be profitable, and to employ more people."

Industrial decline was a central issue in the US presidential election campaign. Donald Trump's claims that "horrible" trade deals had allowed jobs to slip away to Mexico and China helped him to victory in the rust-belt states of Wisconsin, Michigan, Ohio and Pennsylvania. In a video released on Monday discussing his plans for his first 100 days as president, Mr Trump said he wanted

"Work rules just strangled manufacturing. We wanted to our guys. 'We are committed to manufacturing here. But you need to change'"

"The next generation of production and innovation to happen right here, in our great homeland, America."

The appeal of his message is obvious. US manufacturing has lost about 5m jobs, or 30 per cent of its workforce, since 2000. But those numbers tell only half the story. Manufacturing has provided a declining share of gross domestic product, but factory output has kept growing, and hit record highs this year. In the third quarter it was up 3.2 per cent from its low point during the US recession of 2007-09, official figures show.

"Ten years ago, people said the US was going to lose its grip on manufacturing completely. Now we're saying: 'I'll be damned, it hasn't worked out that way,'" says Craig Giffi, a vice chairman at Deloitte, the consulting giant. "And as manufacturing becomes more sophisticated, it becomes possible to move more production back to developed economies."

Declining productivity in US manufacturing has been very slow in recent years, implying that the industry's technology is stagnating. But manufacturers suggest that there is more progress going than the data show.

"Slow productivity growth is what happens when you have a 1 per cent growth rate in the economy," says Hal Sirkin, managing director at Boston Consulting Group. "I don't think US manufacturing is going to make a comeback."

Make in America  
In places like Buffalo there is evidence that US manufacturing has a bright future. It has not made a dent in a future that will include millions of new jobs.

The city, home to 260,000 people, was a manufacturing powerhouse in the 19th century until the middle of the 20th. Curtis Wright, the Buffalo-based company, was once the world's largest aircraft manufacturer, but failed to rise to the challenge of the jet age. Other sectors were hit by global competition and technological change that battered the rest of US industry. In 1980, manufacturing in the Buffalo area employed more than 180,000 people.

Though it is still has a vibrant sector employing about 50,000 people, direct losses on the city's rundown east side bear witness to the destructive impact of industrial jobs losses.

Like other fading industrial regions, the Buffalo area voted for Mr Trump. Although New York state overall went for Hillary Clinton, his Democratic rival, the area around Buffalo backed Mr Trump by 50 per cent to 46 per cent.

Alongside the visible marks of decay, however, some Buffalo manufacturers are thriving. Near a factory on a site it has occupied for more than a century, family-owned Eastman Machine employs 122 people making cutting



# Cut out of the factory revival

Robots weld SUVs at a GM plant in Arlington, Texas. After job losses, GM's Buffalo plant has won business and raised staff levels. Right: a Curtiss-Wright aircraft assembly line in 1941 – *Matthew Seibert/Bloomberg/Steve Delaney/Alamy*

Picture: Getty Images



## A 70-year decline China shock less powerful than technological change

In the long-running argument over whether it was trade or technology that wiped out so many millions of US manufacturing jobs, recent research generally points to the same conclusion: it was both.

Over the long term, however, technology has had the greater impact. Michael Hicks, a professor of economics at Ball State University in Indiana, last year concluded that just 13 per cent of the 5.6m job losses from US manufacturing during 2000-10

were caused by international trade, while the rest came from rising productivity. Labour-intensive services were hit much harder by international trade. About 40 per cent of the job losses in the furniture industry and 45 per cent in clothing were caused by shifts in trade, he estimated.

MIT economist David Autor argues that earlier estimates have underestimated the damage done by trade, because they have not properly accounted for its impact on a community where factory jobs disappear, and the difficulties faced by the unemployed in finding work.

Prof Autor and his co-authors argued in a paper published last year that the boom in China's exports from 1999 to 2011 cost the US 2m-2.4m jobs, contributing to

a "sag" in total employment. While trade is beneficial to the world as a whole, he says, "when it happens that quickly at that scale, it can be extremely disruptive and cause long-lasting labour market scars".

The gains to the winners from trade are not much comfort to the losers, especially when the mechanisms for cushioning the blow are as weak as they are in the US.

"Maybe we can't match their wage rates. But we can narrow the gap with productivity and innovation," Mr Finch says. "That is our strategic advantage."

China's competitive advantage has been eroded by rapid pay growth, which has prompted a surge of investment in automation. "China is getting more expensive," Mr Sirkin says. "And while manufacturers can move to Vietnam and other places, the infrastructure there is extremely rudimentary."

Even so, the companies that need low-cost labour will find it outside the US. The Reshoring Initiative, which advises companies on relocating production to the US, estimates that such moves have created 265,000 jobs since the start of 2010; about 5 per cent of the number the US has lost since 2000. The key feature of a manufacturing process that makes it suitable for reshoring – a low labour requirement – means it will not create many jobs in the US.

No mass employers  
That paradox is vividly illustrated by the flagship project for Buffalo's manufacturing comeback: a new grey and white factory on the site of an old steel-works that will be used by SolarCity – the rooftop solar power business just acquired by Elon Musk's Tesla Motors.

Making solar panels in the US has been hard going, in the face of competition from Chinese companies that dominate world markets. Last week, First Solar, the largest panel manufacturer in the US, said it was suspending production and cutting 450 jobs at its plant in Toledo, Ohio. If Mr Musk can make his Buffalo plant a success, it will be an impressive achievement.

But SolarCity's plan depends on automation. It has promised to employ 1,460 in the city, but only about 500 of those are expected to be production workers.

Like Tesla's battery "gigafactory" being built in Nevada, the project is also the beneficiary of federal government support. SolarCity will lease the factory from New York state, which committed \$750m to the \$900m plant. "These are the kind of companies that can really

change the trajectory of the economy here," says Howard Zemsky, chief executive of Empire State Development, the state agency. "The more automated they are, the more technologically advanced the processes are, and the tighter the manufacturing tolerances are, the more clearly they are aligned with America's strengths."

Government intervention can create manufacturing jobs anywhere, at a cost. If Mr Trump were to live up to his campaign promises of imposing punitive duties on companies that move production out of the US, he could force more domestic job creation, but such moves could provoke legal challenges and retaliatory measures overseas.

Mr Stevenson does not expect Mr Trump to start a trade war, but believes some of his other proposals, including corporate tax cuts, could accelerate the US manufacturing revival.

The question for the president-elect will be whether such measures can come close to realising his promises of spectacular job creation.

Buffalo has recently enjoyed a renaissance, with a revamped waterfront, new restaurants and rising house prices. But while employment in leisure and hospitality has risen by 6,400 in the past five years according to the Bureau of Labor Statistics, employment in manufacturing is broadly unchanged.

Manufacturing remains economically important, says David Autor, an economist at the Massachusetts Institute of Technology. It accounts for about 70 per cent of all private sector research and development, and there are many jobs in design, engineering and other functions that are sustained by manufacturing facilities. But the role it plays in the labour market has changed.

"More manufacturing is going to be done here. But it won't involve many people. It's not going to employ those less-educated, dexterous workers who have been eliminated from the labour force over the past 15 years," Mr Autor says. "That's largely over."

Speed read  
Factory floor The Buffalo area once employed more than 180,000 people in manufacturing. Today it is about 50,000

Rust-belt savings Donald Trump's pledges helped him win Michigan, Ohio, Pennsylvania and Wisconsin

Revs of hope SolarCity's proposed plant in Buffalo depends on a high level of automation – and state support

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## FINANCIAL TIMES

'Without fear and without favour'

WEDNESDAY 23 NOVEMBER 2016

## Rhetoric, reality and the challenge of the alt-right

How to respond to provocation in Trump's new media age

In his brief excursion into politics, Donald Trump has broken every rule in the book and come out the winner. This week, he said that the provocations and personal invective will not stop even as he has assumed the mantle of US president-elect. The ramifications for the future of the business of politics are profound.

Mr Trump's special talent is berating and belittling his opponents, with the result that they behave precisely as he would like as outraged defenders of a decaying, politically correct establishment. Traditional media, which was happy to give the unconventional candidate generous airtime during the campaign, now finds itself under attack as purveyors of fake news and order.

The author of the Trump strategy is Stephen Bannon, chairman of Breitbart News, the conservative web site. Mr Bannon has elevated internet "trolling" into a political art form, hurling opponents into a mud wrestling ring where facts count for nothing and emotion is everything.

Breitbart News does not explicitly support the worst of the "alt right" — ethno-nationalist rebranded for the internet age — does, however, like some provocatively close ("The Confederate flag proclaims a glorious history," runs a representative headline, over a piece concluding that "Every thing that America deplores in Washington today is what the Confederacy glorified.")

Across the Atlantic, the trolls notched up a victory this week. Milo Yiannopoulos, a Breitbart News journalist, was invited to speak at his former grammar school in Kent, England. The Department for Education's counter-extremism unit called the school to express concern about demonstrations and the safety of students. The school called off the event, but the invitation was ill-considered. Perhaps

the intervention of the government was a mistake. Cancelling the event gave Mr Yiannopoulos all the proof he needed to show that "The establishment" is out to silence dissent.

Mr Yiannopoulos then flipped from an opponent of the politics of victimhood to a wistful defender of the already almost non-existent negotiations, among other measures such as cutting press-accession funds. Such a resolution, even if without

Where rhetoric and power intersect, the consequences are not just verbal. What was once reprehensible inches towards the mainstream. This week, in a government building a few blocks from the White House, a white supremacist group held a meeting.

"Hail Trump, hail our people, hail victory," said the leader, Richard Spencer, who has been praised by Mr Yiannopoulos as a leading "intellectual" of the alt right. The final salutes that followed were captured on video.

Defenders of an open, multi-ethnic, religiously diverse America are right to worry. They must, however, be very wary of being misled. Mr Trump's campaign promises are honourable, the body of civil rights in the US will be challenged, but the alt right, and the enforcement of standing law is going to change. This will give Mr Trump's opponents a chance to engage him where Mr Bannon's media strategy will be less effective, policy. Responding angrily to Trumpist rhetoric alone, rather than to his choices in government, plays to Mr Bannon's script, in which the will of the people is thwarted by establishment dirty tricks.

Mr Trump and his fellow populists — namely Nigel Farage, his favoured candidate for UK ambassador in Washington — have torn down the status quo. Building anger will prove a lot harder. The populists would lose a culture war. Their opponents must insist on fighting a policy war instead.

## Turkey and the EU must seek a way forward

Sir, Regarding your editorial "Crunch time approaches for EU-Turkey relations" (November 22): let me remind you that this relationship has gone through several tumultuous periods. Nevertheless, we have always found a way to avoid a total clash. Yet, what worries me is the stance of the European Parliament, in that it intends to propose a half-suspension/freeze for the already almost non-existent negotiations, among other measures such as cutting press-accession funds. Such a resolution, even if without

All too many Americans suffered and a tipping point was reached

Sir, Robert Kagan ("An end to the indispensable nation," November 21) tells us that, "because of their wealth and power, Americans will be the last nation to suffer the consequences of their own failures." How odd, especially since a major component of Donald Trump's election victory was that too many Americans have personally felt the effects of poorly considered policies from the past.

Long-term FT readers may recall that when manufacturing jobs began migrating away from the US in earnest, we were told that the workers in developed economies would be retrained and move up the value-added chain to better-paying jobs. We now know how well that worked out. "Whither" or not a decision was ever consciously made to trade the jobs of US manufacturing workers for cheap imports from China, the result is as bleak as it had been. This year the tipping point was reached between those who benefited and those who paid the price for this policy, and Mr Trump was elected. Surely there would be no one who would say that this does not have profound consequences. Guy Woodward, Denver, CO, US

To heck with usefulness

Sir, "An end to the indispensable nation" (November 21). Robert Kagan praises pre-Trump America's "abominably useless" and "enlightened perspective" in stationing troops in Europe and Asia for the past 70 years "with little obvious purpose" in order to "protect its allies." A boy from Tennessee, or my son, is to fight, bleed and die for "little obvious purpose" to our country, for nations who do not meaningfully prepare to protect themselves, then to heck with "enlightenment" and "abnormal usefulness." P Colby, Alexandria, VA, US

Random walk versus return predictability

Sir, Positive long-term equity returns are driven by a combination of dividend distributions and an appreciation in the capitalised stream of future dividends. The value of the capitalised stream of future dividends, the share price, is determined by investors' estimations for growth and risk. As humans are fallible, these estimations often depend on what. Therein lies the opportunity for an

Enjoy reply-all email gaffes while you can

Notebook

by Lisa Pollack

legisl value as it is up to the number station to halt negotiations, is a political statement that will have negative connotations towards the overall relationship. It is true that we may have had difficulty explaining the scope and depth of the failed coup of July 15 and the reasons for the measures taken in its aftermath. It is also true that the EU did not show Turkey, a candidate country, any empathy during this traumatic experience.

Even as we are coping with this dramatic situation, Turkey is still

working on finding a way to address all the benchmarks for free trade travel. We are also continuing to uphold our commitments to the migration deal.

At a time when both sides need more dialogue and understanding, the European Parliament should demonstrate that it is willing to hold off its prejudices and preconceived ideas and extend a hand to seek a better way forward.

Selma Demir  
Turkish ambassador to the EU



active investor to improve upon the long-term upward drift of the "random walk" (Letters, November 14 and 16).

The ability to identify situations where the market's estimation of growth is too low, and for the estimated risk of the investment differentiates success from failure in active management. What I have found to be the case is that, over time, a moderately leveraged and valued dividend-paying stock with a definable franchise of some magnitude grows faster in less risk than the market expects. These estimates, leading to market-beating returns.

Typical failures of active managers include overpaying for growth, le-faddish, non-dividend-paying "growth" stocks, and underpricing risk, as has been the case historically in banking and mining. Avoid the sectors, focus on stable cash flows, and you will receive a premium return to the long-term trend.

Daniel Moore  
Portfolio Manager,  
Patrick Maure Investment Adviser, Inc.,  
Chicago, IL, US

Highly unlikely that Agee was controlled by the KGB

Sir, I was shocked to see Sam Jones's assertion, in "Weaponised Information" (The Big Read, August 20) that ex-CIA officer Philip Agee's revelations against his former employers were under "careful KGB direction." This is a claim, not a fact, if it is true, it is still alive and well.

I interviewed Agee for BBC TV in the course of a documentary series, two-and-a-half years in the making, on the history of the CIA in the early 1990s, read his book and have friends who know him much better than I. I have consulted with him and he confirms the belief I formed then that what Agee

did, however destructive, was out of personal political conviction alone.

Agee held, however mistakenly, that the wrong done by the CIA deserved extreme tactics to return. I am glad that Mr Jones has written in detail about Russia's provocative and dangerous cyber warfare, but the analogy with Agee's career is not valid, I believe, just because he acted in ways that could have benefited Soviet interests does not necessarily mean he was under KGB direction.

Over the years I heard a lot of speculation, from Agee's friends as well as enemies, about why he left the CIA and to cause it so much damage. A mental breakdown, a messy divorce, professional jealousies within the CIA, severe alcoholism, professional failure, and others, the least convincing of them is the idea that he was controlled by the KGB.

Andrew Wain  
London SW2, UK

Any openings at the FT for a burnt-out teacher?

Sir, It is with disappointment that I note that Kelly Kallaway intends to leave her joyous classroom to pursue the ranks of my profession ("It is almost goodbye from me and I want you to join me," November 21).

As a teacher, I have seen the value of corporate life. It permits me to entertain the notion that were I earning multiples of my salary by working in the City it would be in a perplexing and absurd world. On the other hand, if her scheme works perhaps it will open up nice jobs in glamorous institutions such as the City for her to burn out teachers. My CV is available at your request.

Jeremy Terry  
Dingle, Co Kerry, Ireland

Go Kerry invited a Kellaway demolition job

Sir, On the day we find we are to lose Kelly Kallaway's singular talent for the demolition of meaningless prose you publish an exquisite example of your art by Theresa May ("The new role for business in a fairer Britain"). How ironic, and how sad.

Cave Irving  
Sax Harford, US

Fake news? It follows

Sir, Further to your report "Mark Zuckerberg responds to criticism over fake news on Facebook" (FT.com, November 15): should it really surprise anyone that people with "friends" in the thousands might be reading fake "news"? Mark Zuckerberg is a broken San Francisco, CA, US

Pittsburgh is one of the world's most livable cities

Sir, Henry D Fetter (Letters, November 21) misrepresents the true situation in Pittsburgh. Pittsburgh is not a shining example of how a cosmopolitan city can recover from the loss of manufacturing. He quotes a decline in population from 1,000,000 in 1980 to 305,000 at present as evidence.

The Pittsburgh metropolitan area has a population of 2,560,862. This is because the multiplicity of townships in the area have never incorporated with the city and therefore retain desirable small town identity and grant-free administrative efficiency. This is one reason Pittsburgh has been ranked as America's first or second most livable city for five of the past 10 years and one of the 11 most livable cities in the world. It hosts Google, Apple, Facebook, and IBM, to name a few of the industries that have replaced the 300 steel companies that have closed down or moved out.

With strong ties to universities, including the technology-leading Carnegie Mellon University, Pittsburgh is not at all a dead-end town. The influx of young population has spread into the surrounding counties, where the regeneration of former coal mines and steel industry cities has reduced the nature of the landscape. The population have moved from downtown slums to new leafy suburbs, hardly evidence of

Craig Sams  
Hastings, E Sussex, UK

US has reached the limit of what capital alone can do

Sir, Further to the letter (November 21) from Dr Edward Peters: there is a solution even more fundamental than "tax holidays and enterprise zones" for the malaise that has gripped the US. Naturally the current focus is on political cash but revenues for the largest 500 corporations have been dropping for years. Without revenue growth earnings cannot sustain even if financial engineering is deployed to the fullest. There is not enough to fund that capital and labour have to work together. The US already reached the limits of what capital alone can do. The only way to break the cycle is not even make it past Paul Ryan, the speaker of the House of Representatives. And even if it does, there is not enough to fund 40 years of wage repression. The multiplier on a nationwide 5 per cent pay rise is higher than the likely multiplier on a 5 per cent tax cut. The US needs pay rises. The alternatives do not bear thinking about.

William S. O'Brien, Switzerland

Burke made his speech after he'd been elected

Sir, The reference to Edmund Burke's address to his electors (Letters, November 15) is going to be repeated ad nauseam in Brexit debates. That Patrick Moreau omits to say is that Burke kept to himself the views expressed in that address (that his judgment took precedence over their opinion) until after he had been elected — it was his victory address.

Richmond, Surrey, UK

## Tnt-for-taxbanking rules are a retrograde step

The EU risks giving US institutions an excuse to scale back operations

Mervyn King, the former bank of England governor, observed that global banks tend to be "international in life but national in death". In the immediate aftermath of the financial crisis, the answer appeared to be in global cooperation, not national regulation. Increasingly inclined to assert control — even at the risk of duplicating international requirements.

The latest example of this is a proposal by the European Commission that would force large foreign banks with subsidiaries in the EU to hold additional capital and liquidity. If adopted, it would significantly increase the costs of EU-based business for American investment banks, such as Goldman Sachs and JPMorgan. The measure is a retaliation against similar US rules, forcing foreign lenders with US operations to increase capital there, in order to protect US taxpayers from the costs of any future bailout.

On the face of it, this move to level the playing field is understandable. The whole point of the post-crisis drive for international standards was to ensure that banks held enough capital in central bank reserves to meet the regulator. There was no overt justification for the US rules, which imposed higher capital on Deutsche Bank in particular. Their imposition of a pragmatic of the continued fragility of the global financial system — which has contributed to a breakdown in trust between regulators.

The threat of fit-for-fat regulations is part of a broader transatlantic disagreement over the so-called Basel IV rules to the international banking capital. These are intended to stop banks gaming the system — limiting their ability to rely on their own internal models to measure their risks, and so their capital needs. European banks complain that the new approach would unfairly penalise them, because

it fails to take into account differences between European and US banking markets. The EU's financial stability chief, Valdis Dombrovskis, has threatened to disregard new Basel rules if they force the EU's embattled banks to raise more capital.

The US has repeatedly been guilty of imposing its own standards and dictating international rules that it does not always feel bound to operate. The Basel rules may not take enough account of the big national variations in banks' business models, especially when it comes to the differences between the US and European mortgage markets and small business lending.

If it acts on its threat, the commission's approach is retrograde and short-sighted. The best way to guard against regulatory arbitrage is to agree on rules from one country to another to improve global co-operation, not to impose costly overpaying requirements. The US has repeatedly been guilty of imposing its own standards and dictating international rules that it does not always feel bound to operate. The Basel rules may not take enough account of the big national variations in banks' business models, especially when it comes to the differences between the US and European mortgage markets and small business lending.

Enjoy reply-all email gaffes while you can

Notebook

by Lisa Pollack

Did you have a rough day? Then take comfort. It probably wasn't as bad as the day an IT contractor recently had. He always liked to send a test email to 840,000 staffers at the National Health Service in England. Banks who preceded him were never reply-all magicians. You know the refrain: "please remove me from this list." But the contractor was not a "seriously, stop replying all." Some even received a read receipt.

At 840,000 recipients per little plea, NHS email systems were bombarded with traffic. This slowed the arrival of regular out-bound and inbound mail for hours. As one headline noted, the health service had effectively launched a denial of service attack on its own email servers. Boasting them with traffic that overwhelmed the system. Move over, Internet of Things.

Now, I'm harmed, that provided no is the confession. I do enjoy a good email crash. And judging by the coverage the NHS incident received, I am not alone. Rubbing salt at a wrongly addressed message is one of the less healthy pleasures of the office. On a birthday cake, leaving cake and oh-IT-Thursdays-again cake. Watching such things unfold from the comfort of your desk is indistinguishable from the normal daily in-boxes driven draggery so no one will judge you for

It starting too long can cause a pile-up of messages and tasks behind it, sure, but let's not rush this. Pass the popcorn. Or the cake.

Another reason to savour these blunders now is that they may not be with much longer. At the very least, working age adults in the country are getting older and less likely to be messy and less frequent in their reply. Younger generations have grown up using multiple messaging platforms and managing preferences on their own. Platforms are improving, allowing mistakes to be avoided or corrected. With the rise of social media, there is about naive and reckless speed. There has been a gradual pull in the other direction, with the addition of useful amounts of friction on out-bound messages. Would you like to undo send? Did you mean to add an attachment? Are you sure you want to send this to someone outside your organisation?

In a way, it's impressive that people still inadvertently reply all. Maybe we are at that awkward point where it's too late to say anything. We have all allowed the presenter to be midway through their hour-long talk and not care we told them about the bird on the food stack to the side of their mouth. (Perhaps a similar thing is happening with using large, bold text or deleted curves (aka the "del" key) when composing messages. It's the email equivalent of that odd aunt or uncle who, while eccentric, isn't doing any harm to anyone else, so we're not going to say anything.)

Better configurations by

administrators should save blazes. According to NHS Digital, the underlying cause of last week's gaffe was a failure in the NHS's dynamic distribution list for the IT contractor (it included all "NHSmail" users, a list of a local group).

The reply-all messages to the erroneous list are, however, what took the initial mistake to another level. The senders, NHS Digital says, "may not have been aware of the address that they were using nationally, given that only a small number of recipient addresses were visible in the list." Are you sure you want to send this to 850 people? Some organisations add features like this via plug-ins. It can't be long until they are.

And as email car crashes move towards the endangered list, I'm prepping old tech horror stories to send as a link in the next year or so. You see, if you sent an email, it was gone! No editing like on Slack, no undo send like Gmail, no deleted curves (aka the "del" key) when composing messages. It's the email equivalent of that odd aunt or uncle who, while eccentric, isn't doing any harm to anyone else, so we're not going to say anything.)

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# Comment

## In Fillon, Le Pen has an opponent to fear

OPINION  
Peter Westmacott

**F**rançois Fillon in early October was fourth, with 12 per cent, in opinion polls among the seven candidates seeking the centre-right nomination for next year's French presidential election. Yet on Sunday, in the first round of primary voting, Mr Fillon secured almost half the votes, a feat that put him 16 percentage points ahead of frontrunner Alain Juppé and 24 points ahead of Nicolas Sarkozy, the former president.

What happened? Mr Fillon had always distrusted the polls. The right had never held a primary before and no one knew how many people would pay

c2 to vote. He was confident that, although "militant" members of the Republicans would vote for Mr Sarkozy, until August the party's leader, many others would turn out. He was right; the 4m votes cast exceeded all expectations. Mr Fillon was equally sure Mr Juppé would much of his success to being the anti-Sarkozy candidate and that his support would fall once voters saw that there was another credible centre-right candidate.

Mr Fillon's prospects were transformed when he emerged as a clear winner in the three candidates' debates. His polling numbers surged, helped by Mr Sarkozy's attack on Mr Juppé, whom he saw — wrongly — as his greatest threat.

Mr Fillon had previously struggled to escape his image as Mr Sarkozy's number two — a man who stayed on as prime minister for a full term, but whose friends were advising him to resign. He lost loyalty first but remained his own

man, announcing on one occasion that he was the prime minister of a bankrupt country.

Since leaving office, he has campaigned across the country, going to places other candidates ignored. He heard everywhere that, despite the support of the party apparatus for Mr

*He has been careful to underline his credentials as a Catholic social conservative*

Sarkozy, France did not want another five years of the former president. But the country did want change, as President François Hollande's historically low approval ratings have shown. Mr Fillon was careful to underline his credentials as a free-market reformer

and as a social conservative deeply attached to his Catholic faith. He is opposed to abortion as a fundamental right, though he has no intention of revisiting existing laws. He is personally opposed to same-sex marriage and adoption but again has no intention of changing the law. And he wants France to take a tougher line on radical Islam.

Above all, in each of the debates he showed a mastery of detail and a plan for the country that began to persuade people that he was not only up to the job but also that he could beat Marine Le Pen, leader of the far-right National Front. She is expected to make it to the second round of the presidential election in May.

With Mr Sarkozy's endorsement, there is every chance that Mr Fillon will win the nomination in the run-off against Mr Juppé on Sunday. At his side will be Penelope, his Welsh wife, raising the prospect of France for the first time

having a president with a British wife. But we should not see Mr Fillon as a passionate Anglophile. He regrets Britain's vote to leave the EU because he thinks Europe is weaker without the UK. He also thinks the prospect of British exiting the bloc undermines the case for keeping UK immigration controls on French territory.

Mr Fillon, a strong supporter of Nato, has a different vision of how to manage relations with Moscow. He has long opposed economic sanctions in response to the occupation of Crimea. He sees the Russian military presence in Syria as potentially helpful in bringing the conflict to an end — not that different from the view of US President-elect Donald Trump. If France chooses Mr Fillon as its next president, quite a lot could change, at home and abroad.

The writer is a former UK ambassador to France and the US

## The web's true cost points to a perestroika moment

TECHNOLOGY  
Izabella Kaminska

**I**n the past few weeks something we always knew to be true, but which we preferred to overlook for convenience's sake, is proving harder to ignore. The fact is that digital services are not free, they never were and that any entity from Silicon Valley that once claimed they could do so only because it suited their agenda or that someone else

Think of all the free digital services you use every day without paying a penny: email, travel apps, social media, YouTube, search, Wikipedia. If you had to pay for all of them, how many would you use?

This revelation is not the result of a crash in the share prices of companies providing free internet services. Nor is it because a plethora of app companies has run out of financing options for their loss-making operations. It has hit us because the "fake news" scandal has led us to question whether the news and information we have been consuming online for nothing was ever being generated in our interests.

However, the outrage that has followed this realisation — with free services such as Google and Facebook being urged to censor and filter the news — misdiagnoses the situation. The right diagnosis is this: over the past 20 years we have normalised a digital economy that funds itself either by appealing to the sort of investors who will tolerate long-term cash burn if the ultimate payoff is its monopoly control or by creating business models that profit from morally ambiguous situations.

Where traditional media institutions feared to tread with advertising-funded models because of a belief in editorial responsibility, balance and context, social media platforms — free from any industry codes of conduct — moved right in. The lines between editorial,

The digital economy has normalised a business model that seeks profit in morally ambiguous situations

advertising, entertainment and political propaganda became entirely blurred in the process for clicks.

That blurred a complex web of complex has normalised this further, with cross-subsidisation models that gouge wealthier customer segments for the benefits of non-paying ones referred to euphemistically as "ecosystems". An ecosystem, in case you do not know, is a state of mutual co-dependence between organisms, often where one organism has to submit to the other in order to achieve balance.

None of this is new. The last time a country normalised a complex web of interdependencies, it was called Gogolism. Just like today's internet economy, this Soviet system was based on the idea that a technocratic and scientific planning process could justly punish some to the benefit of others.

That failed. The idea that scientific progress could cultivate a cornucopia of free resources with no associated costs or losses of freedom.

That failed ended abruptly in 1985. A spate of economic crises, consumer shortages and regional instabilities, including the re-emergence of nationalist sentiments, revealed that the centralised, state-subsidised economy of the Soviet Union was bankrupt and had to be reformed.

What followed was the era of perestroika and glasnost, meaning "restructuring" and "openness" respectively. The new era was not so late to save the Soviet system. Its internal imbalances had become too large. In 1991, the USSR collapsed under the weight of its own falling economy.

Yet, in the wake of that collapse, something else happened. The removal of subsidies from those who had grown up in the Soviet Union, it was not that they could not fend for themselves outside it led to a backlash. Many yearned for the return of the old system, no more its totalitarianism or political freedoms, it turned out, was in some cases just too costly.

Imagine that the outcome would be if the digital economy experienced a similar adjustment.

The writer is a former UK ambassador to France and the US

## Trump faces the reality of world trade

ECONOMICS  
Martin Wolf

**M**ight China rescue the globalisation of trade from its rejection by the US, under President Donald Trump? Could the threat of Chinese leadership, or pressure from US business, persuade Mr Trump to take another look at trade deals, even President Barack Obama's Trans-Pacific Partnership?

The answer to the first question is only up to a point. China could not replace an engaged and outward-looking US, even if it wanted to — but it could help. As to Mr Trump's intentions, are they fixed or negotiable?

President Xi Jinping this weekend promised a brave new Beijing-led order marked by openness to trade and investment. Mr Obama's TPP was designed to exclude China. Now Mr Trump has announced the US will pull out of the deal when he takes office. This leaves the way open for China to push ahead with its alternative: the Regional Comprehensive Economic Partnership. Seven of the 12 putative members of TPP are potential members of RCEP. Mr Xi also offers Latin American countries access to China's "One Belt One Road" initiative.

Yet there are limits to how far China might replace the US, let alone the west, in world trade. If we look at shares of global gross domestic product at market prices, a crude measure of actual purchasing power, China's share jumped from 4 per cent in 2000 to 15 per cent in 2016. The share of Asia (including Japan) is 31 per cent. Meanwhile, the US and the EU together account for 47 per

cent of global GDP. Similarly, despite growing rapidly, China's share in global imports was only 12 per cent in 2015, while that of Asia was 36 per cent. The US and EU (excluding intra-EU trade) still accounted for 53 per cent of world imports.

Moreover, this understates the role of high-income economies in world trade, in two significant respects. First, much of the world's final demand still comes from these economies: at market prices, Chinese consumption was roughly a third of that of the US and EU combined in 2015. Second and far more important, the knowledge driving much of contemporary trade comes from companies of high-income economies. Chinese companies have no such comparable depth of know-how to offer.

In the Great Challenge, Richard Baldwin of the Graduate School in Geneva sheds a bright light on the nature of trade in today's era — the "second globalisation" since the industrial revolution.

His core point is that trade is always limited by the costs of distance. The relevant costs being those of transportation, communication and face-to-face contact. In the first globalisation, in the late 19th century, the rapid growth of world trade was driven by the fall in the costs of transport of goods. This made it possible to create a global exchange of manufactured goods against the natural resources and agricultural products from mainly the Americas and Australia.

In that era, however, it was impossible to unbundle the manufacturing process. To compete in a country had to master all the necessary skills. As a result manufacturing, and with it the gains from economies of scale and learning-by-doing, were concentrated in high-income economies.

Furthermore, modestly skilled workers in these countries shared much of the gains. These gains — achieving, as a result, unprecedented incomes and political



Source: IMF

influence. This happened because they had privileged access to the fruits of the knowledge developed within their economies.

Only about a quarter of a century ago, the world was to break into this charmed circle was to develop competitive industries of one's own. This was difficult, few countries managed it. But, in the second globalisation, costs of communication fell so far that it became possible to unbundle (or fragment) the production process, with the production of components and final assembly scattered across the world, under the control of manufacturers or buyers with the relevant knowledge. As Mr Baldwin puts it,

*China cannot maintain the dynamism of globalisation on its own. But it might not have to do so*

workers in South Carolina "are not competing with Mexican labour, Mexican capital and Mexican technology as they did in the 1970s. They are competing with a nearly unbeatable combination of US know-how and Mexican wages."

National capitalism became global. This also applied to some service activities. Most developing economies failed to take advantage of these opportunities, but some did — notably China.

Trade of manufacturers for raw materials continues too, notably between China and its suppliers. But it is the new dynamic of trade that drove the protectionists that brought Mr Trump to power. The political struggle is now over who benefits from the know-how developed by the companies of high-income countries. That struggle raises an important normative question: who ought to win? It also raises a positive one: who will win? Mr Trump favours US workers over the owners and managers of US companies?

It is not possible for Asia as a whole, let alone China, to maintain the dynamism of world trade on its own. The west matters far too much, not least for China.

Fortunately, the forces in favour of global trade remain quite strong. Even Mr Trump might lack the ability or the will to thwart them altogether.



Source: IMF

Or will he merely pretend he does so, offering token gestures — rejecting TPP, renegotiating the North American Free Trade Agreement or threatening China with tariffs while leaving most world trade much as it is? Might he not concede, in fact, giving China a chance to organise world trade in a way that might be at a disadvantage and might move even more of their activities to more welcoming regions?

It is not possible for Asia as a whole, let alone China, to maintain the dynamism of world trade on its own. The west matters far too much, not least for China.

Fortunately, the forces in favour of global trade remain quite strong. Even Mr Trump might lack the ability or the will to thwart them altogether.

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## How to beat the money launderers

OPINION  
David Fein

**W**hen it comes to money laundering, the criminals are winning. More than \$1tn of illicit financing moves through the financial system each year. Only 0.2 per cent of those proceeds are seized by authorities, making the financial crime industry the largest and most profitable in the world.

Since money laundering enables pernicious crimes such as bribery and corruption, human trafficking and terrorist financing, it is essential for banks to improve their detection and reporting of suspicious activity to law enforce-

ment. Such efforts are under way but they require broad public and private support to transform the financial system into a hostile environment for criminal trade and revenue.

At the centre of the problem — and the solution — are "suspicious activity reports", which are filed with the government when a bank suspects that funds are the proceeds of criminal activity. Various factors have had the unintended consequence of banks promoting the quantity of SAR filings over their quality.

The UK and US have experienced huge increases in SAR filings in the past decade. These may reflect banks from regulatory sanctions that carry massive fines and costly remediation programmes but they do not help fight financial crime as law enforcement struggles to find the signal in the noise.

This defensive approach has caused many banks to end relationships with

groups groups of customers who, as broad but not individuals, might be considered more risky — simply because of their location, for example. The result is felt by those most exposed to deals with its impact: innocent citizens in parts of the world with low or unstable incomes whose future depends

*The financial crime industry is the largest and most profitable in the world*

on access to mainstream financial services. The International Monetary Fund made the withdrawal of banks from emerging markets a major issue at its annual meeting in October.

To focus financial crime compliance efforts more effectively on the most

serious suspicious activity, the SAR framework needs to be transformed into a technologically based, cost-effective model for the 21st century. Fundamental to this change is a paradigm shift that aligns banks, bank regulators, law enforcement and the public.

Several global banks are working with US authorities to develop a new model for discovering and disrupting financial crime built on three core principles. First, banks will be far more effective at identifying and reporting suspected financial crime if they share information rather than acting on their own as they do now. We know that money launderers take advantage of these also by using different banks for different parts of their schemes.

Second, by partnering with technology companies, banks can more efficiently and effectively identify suspicious activity. Third, financial intelligence is most robust when information

flows between the public and private sectors. In the case of human trafficking, for example, presentations by leading non-governmental organisations and government enforcement agencies have improved the banks' ability to detect potentially related financial transactions. In turn, they have helped law enforcement disrupt trafficking networks.

In pilots, this model has demonstrated that combined identification and reporting of financial crime is more likely to be used by law enforcement and more likely to lead to the disruption of criminal enterprises. The financial industry, regulators and law enforcement should work together. After all, we share the same goal: to stop financial crime from being the most profitable industry in the world.

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## COMPANIES

## Automobiles

# KKR in \$4.5bn Japanese car parts deal

Nissan tenders 41% of supplier Calsonic Kansei as part of takeover

ROBIN HARDING — TOKYO

KKR yesterday agreed to pay ¥498bn (\$4.5bn) for Calsonic Kansei, a leading automotive component supplier, in a move that breaks the Japanese company's longstanding and close ties with Nissan.

Nissan has agreed to tender its 41 per cent stake in Calsonic as part of the KKR takeover, and the deal will give the Japanese carmaker greater flexibility to work with new suppliers and thereby improve its competitiveness in the fast-developing markets for electric and self-driving vehicles.

Calsonic, meanwhile, will be able

to restructure and reduce its reliance on the Nissan-Renault alliance for sales.

"Nissan is hoping to further increase the competitiveness of Calsonic Kansei, one of our most important partners," said Yasuhiro Yamashita, chief executive officer at the carmaker. "This is also the best choice for Calsonic Kansei and its shareholders."

The deal is KKR's biggest transaction in Japan and is the largest takeover of a Japanese industrial company by private equity. KKR is offering ¥1,660 (\$16.727) for each Calsonic share, inclusive of an anticipated special dividend of ¥170 – a 40 per cent premium to the target company's share price on Monday.

The deal ascribes an equity value to Calsonic that equates to 20 times its earnings forecast for 2016, or 2.5 times the stated book value of its assets.

Although the valuation is high, Cal-

sonic is widely regarded as an attractive break-up opportunity, with industrial buyers likely to be interested in its product lines from compressors in air conditioning and exhaust systems.

The company holds a near 41 per cent stake in Tokyo Radiator Manufacturing, another automotive supplier whose share price has doubled during the past few months, as investors realise that Calsonic's new owners will be able to buy out other shareholders.

"Calsonic Kansei is a best-in-class auto-parts manufacturer that supplies high-quality products to the world's largest automotive brands," said Hiro Hirano, the head of KKR Japan.

Calsonic secures about 16 per cent of its annual sales with the Nissan-Renault alliance, but those links are coming under pressure as the electrification and automation of vehicles picks up speed.

86%

How much of Calsonic's sales are with the Nissan-Renault alliance

\$17m

What KKR paid in 2013 for a majority stake in Panasonic Healthcare

Suppliers established around the internal combustion engine, such as Calsonic, are not necessarily used to supplying the technologies that Nissan needs.

Nissan had conducted an auction among private equity bidders, made possible in part because of Renault's large stake in the Japanese carmaker.

Some bidders said Calsonic would struggle to increase its sales beyond Nissan, but Mr Hirano said KKR would assist in achieving growth ambitions.

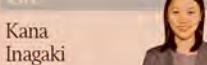
KKR has pulled off some unusual deals in Japan, where selling to a private equity firm retains a stigma because of the imperative to protect workers who were promised lifetime employment.

In 2013, KKR paid \$17m for a majority stake in Panasonic Healthcare, while in 2014 it bought the turntables and mixers division of Pioneer for \$550m.

See inside Business

## INSIDE BUSINESS

BY KANA INAGAKI



## Carmakers pause before charging into electric market

Toyota and Mazda – the two Japanese automotive groups that are most sceptical about electric vehicle technology – have finally revealed plans to mass-produce battery-powered cars. They are late to a game that most of the world's carmakers – including Volkswagen, Daimler, General Motors and Jaguar Land Rover – are already playing as they confront the rise of Tesla, the US electric vehicle start-up.

However, while many people see a golden age of electric vehicles just around the corner, some Japanese car executives privately express unease at the industry's drive towards electrification.

In announcing their intentions, Toyota and Mazda stressed that they had no choice but to prepare an electric offering to meet stringent regulations on carbon dioxide emissions in China and the US. Their decisions were passive, rather than reflecting an active move to capture the electric vehicle market.

Neither group indicated that it had produced a significant breakthrough in battery technology – or expressed any confidence in making money from the electric vehicle market.

A week before Mazda revealed its plan to launch an electric vehicle in 2019, Kiyoshi Fujiwara, head of research and development, conceded that selling electric vehicles was not rewarding in purely economic terms. "Battery prices have not come down enough," he said. "The more carmakers compete to extend the driving range, the more their profits will decline."

There was no indication that the two companies had overcome their scepticism towards electric cars, over the limitations on range, refuelling time and power relating to lithium ion batteries.

Mazda – known for its dogged focus on petrol and diesel engines – has focused on advances in conventional technologies, such as improved powertrains, to meet emission regulations without turning to petrol, hybrid or hybrids. Even as it prepares an electric vehicle and plug-in hybrid, the carmaker is pushing ahead with plans to release diesel cars in the US.

Toyota, the manufacturer of the Prius petrol-electric hybrid, meanwhile continues to push for hydrogen fuel cell vehicles, which has argued provide a driving range and refuelling time comparable to petrol-powered cars. Its hope is that producing plug-in hybrids will help it negotiate the delay until the hydrogen infrastructure is in place. An in-house venture set up to develop electric vehicles – and to underscore its commitment – consists of only four people.

Caution on the technology has served the two companies well as high batteries have stopped affordable electric cars from becoming a reality. However, battery costs are set to fall faster during the next decade, and Goldman Sachs has estimated that sales will rise from 250,000 units in 2015 to 1m by 2025.

If that makes an entry into the electric vehicle market inevitable, then a carmaker as big as Toyota, with nearly \$100bn in annual R&D spending, can at least afford to offer a competitive product. However, for a company such as Mazda, with a 10th of Toyota's R&D budget, the stretch of resources could be more risky – especially if carmakers still do not know how to make electric vehicles profitable.

VW, Europe's biggest carmaker, has announced plans to reduce its workforce by 5 per cent in an attempt to reduce costs and invest in electric vehicles.

With so many carmakers offering consumers the option of an electric car, there remains the question of how each can distinguish its product. Given the limited number of sources of batteries – including Panasonic, Samsung and LG – it is difficult to see that aspect of the technology setting cars apart. Toyota, VW and others may also find it difficult to replicate Tesla's success in creating a strong brand.

Analysts warn that electric vehicles face another turning point in 2020 when global supply could surpass demand. Regulatory obligations may push companies to enter the electric vehicle market, but that will not be enough to convince consumers to purchase their products. That leaves all carmakers with a big challenge – and one that is much harder to meet if they themselves are unconvinced of the electric car's long-term potential.

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## Utilities. Revamp

# Enel eyes €2bn stock buyback and payout boost

Effort to ward off concerns over Renzi risk as chief pushes €4.7bn digitalisation

JAMES POLITY — ROME

Enel is proposing a share buyback of up to €2bn and a boost to its dividend as the Italian utility wins investors and seeks to fend off concerns about the impact of a potential collapse of Matteo Renzi's government in less than two weeks.

A buyback has emerged as a key demand from the company's investors, and if successful, would be the first in the company's publicly listed history.

Enel shares rose more than 3 per cent after the announcement yesterday morning.

Francesco Starace, Enel chief executive, said the buyback and the dividend rise reflected a desire to have "shareholders benefit from the improved performance" of the company, which has been the subject of organisational restructuring over the past two years.

"The quality of the earnings improved a lot, so either that can become better growth, or better dividends, or both. And will show that there is both."

Enel said that its dividend payouts would rise to 65 per cent of net



Francesco Starace is shaking up Enel to reduce costs, and the discount at which it trades to investors

ordinary income in 2017, from 60 per cent in 2016, and to 70 per cent of net ordinary income in 2018, from 65 per cent.

In terms of investment, Mr Starace said the company would spend €4.7bn over the next three years on digitalisation, not just of the company's electricity grid through the installation of smart meters, but by retrofitting existing power plants with new technology.

"All our machinery, all our plants, all our structures, if digitalised, will become more efficient, will produce more and will work better," Mr Starace said.

Since becoming chief executive in 2014, Mr Starace has sought to rework Enel in an attempt to reduce the share price discount at which the company trades compared with some of its peers in the European utility sector.

But even Mr Starace acknowledges that for all his efforts, Enel suffers because it is listed in Italy, which has had a lacklustre economic recovery, serious banking sector woes and a his-

Inside a cooling tower at the power station at Montedotone in Tuscany

Source: Thomson Reuters Datastream

Enel

Share price (€)



Source: Thomson Reuters Datastream

tory of political instability. On December 1, Italians will go to vote to endorse, in a referendum on the constitutional reform pushed by Mr Renzi, which would shrink the powers and size of the senate and make it harder for regional governments to block infrastructure projects.

If the measures are defeated the prime minister has vowed to resign, triggering a political crisis in the eurozone's third-largest economy.

Mr Starace said: "The important thing is the perception of Italy. If Italy decides to reform the legislative system to make it faster and leaner, so it can do more reforms, then the risk of Italy diminishes and our position better."

However, if Mr Renzi lost, "it's a missed opportunity, but not the end of the world".

Mr Starace's own future might be riding on the result of the vote, as his term as chief executive needs to be renewed next year, with the government – which holds a large stake in the company – playing a role in the decision.

Under Mr Johnson, who was named chief executive in 2015, Enel's strategy towards renewable energy, and says the company's plan for decarbonisation by 2050 – including shutting down coal-fired plants – is running ahead of schedule.

Enel has committed to no new invest-

ments in coal, nuclear or large hydro-electricity, and has focused on re-focus on smaller and easier-to-complete green energy projects.

But the other plank of Enel's strategy is digitalisation, which is viewed as a potential source of growth in the utility sector.

The company was considered an early adopter of smart grid technology, but Mr Starace says this was no longer enough.

"It's a very targeted, global and pervasive effort," he said. "We won't say that some businesses don't have to digitalise, or can digitalise after. It can be done right away."

However, Mr Starace also said that the rate of digitalisation across different business lines and plants would be closely tracked, and senior management emerged as one of the weakest links in that regard.

"This is a serious problem, because change being pushed by management cannot be digital if they don't understand what it is to be digital."

## Technology

## Warning on brain drain threat to AI research

RICHARD WATERS — SAN FRANCISCO

A brain drain of artificial intelligence talent to the biggest tech companies threatens to set back academic research in the field, according to one of the three experts credited with breaking through a decade ago that lie behind today's biggest advances in AI.

Yoshua Bengio, professor at Montreal University, was one of the pioneers of deep learning, a technique modelled on the human brain works that has led to advances in language understanding and image recognition by computers.

Prof Bengio said: "Industry has been recruiting a lot of talent. There's a shortage in academia. It's fine for those companies, but it's not great for academia."

Prof Bengio's two counterparts have

made the move into high-paying tech industry jobs, with Geoff Hinton from Toronto university joining Google and Yann LeCun, a student of Mr Hinton who moved to New York university, joining Facebook.

Another early deep learning expert, Andrew Ng from Stanford university, is chief scientist at Chinese search company Baidu.

Prof Bengio, whose brother, Samy, is a deep learning researcher at Google, said he had chosen to stay in academia to gain wider impact for his work.

"I can contribute to all of humanity and not just the pockets of a single company."

Google announced on Monday that it had made a \$4.5m donation to support AI research in Montreal, cementing the

city's standing as a centre in AI research. Montreal university and the city's McGill university claim 1,500 researchers in the field.

Other universities have lost some of their AI talent as the biggest US tech companies race to build expertise.

A year ago, after poached a team of researchers from Carnegie Mellon university, one of the leading centres for AI and robotics research.

The car landing group set up a research lab in Pittsburgh to work on developing driverless cars.

Google said it would establish a deep learning research centre in Montreal. It has assembled one of the biggest groups of AI researchers, much of it from academia, and last week added Fei-Fei Li, the head of Stanford's AI lab.

## Financials

## Fidelity chairman hands power to daughter

STEPHEN FOLEY — NEW YORK

Fidelity chairman Ned Johnson, who has run the Boston-based financial group for 39 years, is turning over to his last remaining responsibilities to his daughter Abigail, putting her in full control of the family-owned company.

Ms Johnson will add the title of chairman to that of chief executive, which she took in 2014 when she assumed responsibility for the group's day-to-day operations.

Fidelity faces an increasingly competitive landscape for retirement savings with challenges continuing in its historic asset management division.

The group oversees \$5.5tn through retirement plans and brokerage accounts, and \$2.1tn in its own invest-

ment products such as mutual funds. "While we have enjoyed much success, evolving customer preferences and new regulatory requirements are transforming the investment management industry," Mr Johnson wrote to staff.

"This expansion of responsibilities is a natural progression of Abby's 28-year career at Fidelity."

Mr Johnson's retirement as chairman is the final act in a long and choreographed transfer of power. Mr Johnson began her career as an equity research analyst at the company and worked her way up through executive roles including head of asset management and chair of international operations.

Jim Lowell, editor of Fidelity Investor, an investment newsletter, said the move was as significant as "Jack Jackle

stepping down from Vanguard", the investment manager. "Abby has been running the place for many years, but this is the end of an era."

Under Mr Johnson, whose father founded Fidelity in 1949, the business popularised the use of mutual funds by retail investors, particularly those run by star managers.

Inflows were restored at Fidelity's asset management operations in 2015, but its actively managed funds continue to lose share to passive vehicles.

Fidelity, the largest manager of retirement savings in the US, argued against the Obama administration's "fiduciary rule", which aims to prioritise customers' interests. Donald Trump's advisers have said the measure should be delayed and modified or scrapped.



## COMPANIES

# Brands start putting AI into retail to bag sales

Sellers deploy online technology to win over consumers as Christmas approaches and competition intensifies

LESLIE HOOK — SAN FRANCISCO  
LINDSAY WHIPP — CHICAGO

In recent years, online retail has followed a formula: prettier websites, smoother checkout and easier access to credit card info. But this holiday shopping season a growing number of retailers are deploying a new tactic to boost sales: artificial intelligence.

As AI has become more sophisticated, it can help online shoppers in three main ways: personalised recommendations based on their tastes, chatbots to help navigate digitally and in stores, and websites that draw on customer behaviour to make the sites more appealing.

"This technology is maturing right at the moment when traditional retailers are struggling to remain relevant and many e-commerce companies are struggling to find a winning formula. A number of high-profile failures this year among Silicon Valley's hottest online start-ups, including Fab and One Kings Lane, has left retailers wondering afresh how they can entice customers to buy online.

As competition from Amazon grows ever tougher, more retailers are pinning their hopes on intelligent apps and websites. From discount chain Target to apparel brands The North Face and Skechers, companies are hoping that AI can become an effective weapon in the battle for sales.

"E-commerce has not really evolved for the past decade and conversion rates have stagnated," says Andy Narayanan, vice-president of consumer at Sentient, an artificial intelligence start-up. "We let the AI pull [up] the product that the shoppers want, and if we do that it's a level of personalisation we have not seen for a very long time."

One example of how this works is at Cosabella, an Italian lingerie company. Working with Sentient, it uses evolutionary algorithms to rapidly test alternative options for its website design — a process that would have been time-consuming using traditional A/B testing. Courtney Connell, marketing director at Cosabella, says it immediately resulted in a 55 per cent boost in sales.

Ms Connell says the company is now planning to use AI in other aspects of its website and marketing. "A lot of people view AI as this cold and almost too robotic future. For me, I see it as the next step — I see it as the consumer experience becoming almost magical," she says. The algorithms save her team time, she adds, allowing them to focus more on the creative side of marketing. Two of the most common uses of AI are around visual search — offering shoppers items that are similar to a picture they like and have uploaded — and personalised recommendations. Ultimately, retailers hope that AI engines will be able to serve consumers just like an experienced shop assistant — by subtly deducing which features are important to customers and which are not.

At Skechers.com, for instance, shoppers can click on a product, and AI-powered engines by Sentient will analyse the catalogue in real time to identify and serve up similar styles. "This helps to make the shopping experience more enjoyable and stress-free," says Lara Diab, of Skechers.

Visual search, which allows users to paste images instead of keywords into a search box, is also becoming more popular as retailers try to make the browsing process easier.

At Nieman Marcus, the department store, customers can take pictures of a friend's shoes, for example, and the store's app will display similar items.

"In five years, we are all going to take for granted that whenever we find a product that we like, all we need is a picture of it," says Matt Bencik, chief executive of Spare5, a start-up that uses pro-

## Stepping up



US online retail sales



ple to train artificial intelligence engines.

In other areas, however, AI has been rather slow to deliver the experiences that were hoped for. Intelligent chatbots, long touted as one of the next big uses for AI, have not developed as quickly as expected. Technologists say this will change — and eventually AI chatbots will be useful not only in websites, but even in physical stores.

Tim Tuttle, founder of MindMeld, acknowledges that the era of the "intelligent assistant" is relatively new. MindMeld, based in San Francisco, provides

"A lot of people view AI as this cold future. I see it as the consumer experience becoming almost magical"

AI-powered conversational tools for companies including Uniqlo, the Japanese fashion brand.

"Just about every major retailer is beginning to investigate and invest in the technology," Mr Tuttle says. "It will become [fairly standard to walk into a retail store, pull out your phone and ask it any question]."

In future, a shopper in a branch of Uniqlo could use their phone to ask Siri whether, for example, a particular light-blue jacket was in stock — rather than talking to a store assistant.

An intelligent chatbot or digital assistant could make the in-store experience

not only more efficient, but possibly provide more in-depth answers than a person. As a result, AI has the potential to reduce the need for human shop assistants, reducing overall labour costs.

In online shopping, tech companies expect these kind of searches to become the norm. "More and more sites will have dialogue as the primary way [for consumers to find products], rather than parametric search," says Tom Nawara, digital strategist at IBM, which developed the question-answering system Watson and is heavily investing in the area this month. It bought retail AI service platform Expert Personal Shopper for an undisclosed sum.

There is also a hope that AI will be able to draw consumers back into brick-and-mortar stores. Michael Klein, head of industry strategy for Adobe Marketing Cloud, says "merchandising needs to become entertainment", pointing to digitally enabled experiences such as virtual makeovers or home furnishing demos.

Retailers are also investigating applications of AI that are not yet fully developed. This year, Adobe Digital showcased a digital mirror that photographs and records a customer's body size and shape, recommends clothes suited to his or her form and then matches them with existing inventory.

The more information a customer provides, the more specific the recommendations become. The product is not yet in stores, but hints at one way that artificial intelligence is becoming more like your personal shopper.

Mr Ecclestone, who remains chief executive after the Liberty deal, told a German magazine that Singapore no longer wanted the event.

"Yes, the Grand Prix can cost Singapore once its contract ends in 2018. Malaysia's tourism minister Mohamed Nazri Abdul Aziz said on Monday, blaming a decline in interest from fans and a struggle to cover the \$68m annual cost of hosting the event.

Singapore is negotiating with Liberty Media over an extension to its agreement, which expires after the 2017 season, with the city-state's government calling for "mutually acceptable" terms. The race — the first night-time Grand Prix — costs Singapore \$8150m (US\$105m) a year to organise, with the government funding 60 per cent of costs.

The tense state of negotiations became clear at the weekend when Mr

Shoe brand Skechers is using AI online to help shoppers compare styles and make buying more enjoyable. Right: voice-controlled home AI is evolving

Graphic: Matt Worthington



## Crowdsourcing

Human recruits teach machines how to shop

Artificial intelligence engines are only as good as the minds that train them — a task that falls to a growing army of humans who train AI systems behind the scenes.

One of those trainers is Julie Slower from Portland who snatches every moment she can to answer questions on the Spare5 app, which uses people for "human insight" tasks to train artificial intelligence. These tasks could be as simple as matching shoes or dresses — which can help train AI recommendation engines for e-commerce — or as complex as reading phrases into the phone, which can help voice processing.

"I have really been hooked on it," Ms Slower says, adding that she earns several hundred dollars a month. "It's kind of addictive. I'm getting to where I can't stand in line if I'm not doing stuff."

One of the more common tasks on Spare5 is matching clothing, says Jeff Lew, an office worker. In the "Fashion Scavenger Hunt", workers have to match items such as shoes. "It is a pretty fun and easy task," he says.

Other crowdsourcing platforms such as Mechanical Turk, owned by Amazon, are also becoming popular for machine training.

"As I get more of our customers and their customers are learning how to use AI to improve the online shopping experience," says Matt Bencik, chief executive of Spare5. "E-commerce is one of the fastest-growing parts of what we do." "The computers will be our friends as long as we train them," he adds.

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## Travel & leisure

# F1 at risk of spinning out of SE Asia

JEVAN VASAGAR — SINGAPORE  
MURAD AHMED — LONDON

The future of Formula One in South-east Asia has been cast into doubt after Bernie Ecclestone, the sport's longtime chief executive, revealed friction with F1 Singapore organisers and Malaysia's declined to continue hosting a race.

The precarious future of F1 in the region comes amid complaints from fans that the sport is growing increasingly dull and predictable — Mercedes duo Nico Rosberg and Lewis Hamilton have dominated the past three seasons — while the global economic slowdown has put pressure on corporate travel and hospitality budgets.

John Makin, controlling shareholder of Liberty Media, struck a deal to take over the competition in September, with plans to extend its reach from its traditional television base into digital

streaming and to boost interest in the US — a market where F1 has struggled to attract attention. The deal gave F1 an overall enterprise value of \$1.6bn.

Malaysia will cease hosting the sport once its contract ends in 2018. Malaysian tourism minister Mohamed Nazri Abdul Aziz said on Monday, blaming a decline in interest from fans and a struggle to cover the \$68m annual cost of hosting the event.

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## UK COMPANIES

## Lombard

## Spreadsheet Phil realises an Autumn Statement of the deeply obvious

Jonathan Guthrie



Brace yourselves for the Autumn Statement of the blindingly obvious. Its main finding will be that public finances are deteriorating because of Brexit uncertainty. Philip Hammond, the chancellor, will have little choice but to relax budgetary rules. Stimulatory measures are likely to be mandated, internal controls or money. The government is however, "pre-budged", according to Theresa May. There are key measures to look out for: Helping the Jams? Not to be confused with "kicking out the jams", the war cry of Detroit proto punks The M.C.s, or "making jam", an activity popular among suburban voters who support Mrs May because she resembles a jar of jam from their golf. The "jams" in question are on lower incomes and "just about managing". The group

hovering above the lowest income decile has in the past been hurt by Tories and helped by Labour. Spreadsheet Phil aims to stone for that. Mooted measures include a cut to air passenger duty, which would reduce the cost of holidays made dearer by weak sterling, and much-needed spending on new rental properties. Industrial strategy. The task of ministers here is not so much to fuel the white heat of British industry as to coax a red glow from its dying embers. An industrial challenge fund (challenge: locate some industry) may be more useful when the UK quits the EU, whose rules impede investment. High-tech Britain. The government will put up an extra £2bn for research and development. Policy: puzzles puzzling over how to spend it should note that UK tech entrepreneurs are not only less successful than US counterparts, but also less likely to wear hoodies and date supermodels. They might perform better if provided with non-morose wardrobes and entry to London Fashion Week after parties. Infrastructure. Does a mooted promise to spend £1.5bn on bypasses and

roundabouts remind you of Sir John Major's unwilling of a "cones hotline" as an important policy initiative? And isn't Mrs May rather like that other grey-haired Bugman who wrestled with a devaluation of the pound? Corporation tax. Mr Hammond is expected to stick to a plan to cut this to 17 per cent in 2020. He may go to 15 per cent if Donald Trump does. But one doubts the wisdom of playing chicken with a rival capable of standing in the fast lane yelling at juggernauts.

## Eligible spatula

Richard Cousins, Compass chief executive, understates the status of the group, which has raised full-year underlying operating profits 5.6 per cent to £1.4bn, in describing it "as just a humble chef". The Granada spin-off is the world's biggest contract caterer, boasting a capitalisation of almost £25bn. It has trended at a steady climb, riding on the coat tails of globalisation. If that trend is in trouble, might Compass be too? The shares are close to historic highs at more than 21 times

forward earnings. The rating would be lower without the magic ingredient of dollar earnings. While the US remains buoyant, territories such as Australia have faltered as resource companies cut capex on mines and plants. These no longer need so many canteens to feed the dungaree-wearing hungry.

The outlook for 2017 is little better in this sector. A rebound in 2018 depends on trade wars falling to break out. But Compass remains a low-risk multinational. It operates as a local in many markets, has a straightforward business model and pays tax dutifully. The group meets its premium to smaller rivals Soda of France and Aramark of the US. A 4 per cent drop in the shares yesterday, triggered by a flat margin, was too small to represent a buying opportunity. Better should materialise next year, given political and economic volatility.

## Consultant heal thyself

"Managing and communicating executive pay has never been more sensitive. As... its programmes come

under closer scrutiny, organisations face ever greater challenges."

Wise words there from the executive compensation team at Willis Towers Watson. Unfortunately a parting pay-off of up to \$21m to deputy chief executive Dominic Cussey (illustrates them rather too aptly). The 2015 defensive merger of insurance broker Willis and benefits consultant Towers Watson was supposed to help both compete better, but the shares have lagged behind rivals. Disclosure of Mr Cussey's expected leaving present has been woefully opaque, meanwhile.

Mr Cussey's parachute has popped into view during a week when the UK government is investigating anti-corporate short-termism. You may ask "So what?" WTW isn't really British. It is listed in the US, where it also has headquarters. But the group isn't really American either – it is registered in Dublin and has another HQ in London.

Theresa May's application of the phrase "citizen of nowhere" to globe-trotting corporates would therefore seem to apply accurately.

Jonathan.guthrie@ft.com

## Briefs

## M&amp;B

## Profits lose their fizz

Michells & Butlers, the pub and restaurant operator, reported a 25 per cent fall in pre-tax profit in the past year as it battled increased competition for dining customers and rising cost pressures.

M&B said yesterday that a wave of restaurant openings had put pressure on its own outlets. It estimated that 1,700 hotel eateries began trading in the year to June 2015, roughly equivalent to the size of its own estate. It said this new competition hit its mid-market brands, such as Harvester, in particular, as many new restaurants were trading near to its sites.



M&B, which controls Toby Carvery, Harvester and All Bar One among its brands, had also warned in September that its profit margin would be hit by increased investment and a rise in the minimum wage, saying that higher labour costs would continue to cause "headwinds".

Group pre-tax profit fell a quarter to £54m in the year to September 24, as revenues declined 0.7 per cent to £2.1bn. However, much of this fall was because of downward property revaluations. Stripping out one-off impairment charges, operating profit fell 3 per cent to £30m.

Shares have fallen about 20 per cent in the past year. Paul McClean

## AO World

## Losses trimmed

AO World reduced its losses in the first half of the year as early signs that its big bet on the online electricals market in Germany and the Netherlands is paying off.

The UK-based retailer reported total revenues of £24.7m in the six months to the end of September, an increase of 22.9 per cent compared with the same period last year. Revenues in the UK were up 18.7 per cent to £29.5m, while revenues in Europe increased by 64.9 per cent, to £36.2m. Operating losses were £2.8m, compared with £8.6m last year, as the company continued to invest in European acquisition. John Robson, chief executive, said the results marked a "great start to the year" as the group "made progress" in its "mission to become the leading electrical retailer in Europe". Lauren Feder and Mehran Khan

## Cobham

## Chairman set to leave

Aerospace and defence company Cobham, fresh from a string of profit warnings, says its chairman, John Devenney, is to leave at the end of the year after the appointment of a new CEO and CFO.

David Lockwood takes over as chief executive in mid-December while David Meade starts in the new year. Independent director Michael Wareing will take over as chairman – a role he is expected to hold until the 2017 general meeting.

The group was forced to launch a £50m rescue rights issue after the April profit warning. Paul T

## Banks

## Clydesdale in the running for Williams &amp; Glynn

Goal is gaining the scale to compete in retail and small business arena

EMMA DUNKLEY

Clydesdale and Yorkshire Banking Group has confirmed that it is in "ongoing" talks to acquire Williams & Glynn from Royal Bank of Scotland with the aim of boosting scale to compete in the retail and small business banking market.

David Duffy, chief executive of the banking group, said he believed Clydesdale was "the only true SME and

because we've had discussions with the regulators, and financing is very straightforward."

Clydesdale's SME business was twice the size of its own before the financial crisis. However, the bank had about 65bn of exposure to commercial real estate that "went wrong", according to Ian Smith, chief financial officer, the lender subsequently offloaded.

RBS said earlier this year that it would strike a "binding agreement" with Williams & Glynn by the end of 2016. Under EU rules, it must fully divest the challenge bank by the end of next year for receiving a £450m taxpayer bailout during the financial crisis.

Clydesdale reported its first annual pre-tax profit for five years yesterday, achieving £77m for the 12 months to the end of September, reversing a loss of £28.5m from the previous year. Clydesdale emerged from National Bank of Australia earlier this year and listed on the London Stock Exchange.

The bank's profit was fuelled by a 6.5 per cent increase in mortgage lending, taking its mortgage book to £21.8bn. Lending to SMEs increased by 6.1 per cent to £6.4bn.

Clydesdale said while lending was still sensitive to economic shocks, "broader-based negative effects from Brexit have yet to be observed, and prolonged economic stability underpinned by low interest rates and higher employment has supported customer confidence."

Costs amounted to £72bn, some 8 per cent ahead of guidance given at the time of the flotation. Clydesdale unveiled fresh cost-cutting measures in September, targeting more than £100m of reductions by the end of 2019.

See Lex



Entertainment One invested heavily in blockbuster films such as *The BFG*

Giant decline  
Entertainment  
One profits  
drop 80%

Shares in Entertainment One, the film and television business that owns the rights to *Peppa Pig*, fell more than 10 per cent yesterday, after it announced a sharp drop in pre-tax profits.

Despite a 19 per cent rise in revenues to £451m, investment in promoting films such as *The BFG* and *Girl on the Train* in its first half to September 30 drove down pre-tax profits to £3.7m – a drop of 80 per cent year on year.

The company also announced the departure of Giles Willis, chief executive officer, who has been replaced on an interim basis by Joe Sparaco, former finance boss at DMAX.

Alex De Groote, an analyst at Peel Hunt, attributed the fall in the share price to the departure of Mr Willis and

the steep drop in profits.

However, Darren Throp, the media group's chief executive, insisted revenues and profits would bounce back in the second half as it cashed in on other big cinema releases and the proceeds from sales on demand and DVD sales.

In August, TV withdrew a £13m takeover approach after Entertainment One rejected the bid as too low. "Our library evaluation alone is \$1.9bn," said Mr Throp. Revenues in the "family" division showed healthy growth, with a 16 per cent increase to £35m in the last six months, thanks largely to *Peppa Pig*. David Bond and Nicholas Megaw See Lex

## Insurance

## FCA warns over use of big data to weed out customers

OLIVER BALPH

INSURANCE CORRESPONDENT

The head of the UK Financial Conduct Authority has warned insurers they should be limits to their use of big data so groups of customers are not unfairly penalised.

Speaking to the Association of British Insurers, Andrew Bailey said there had been a "revolution in our ability to capture and use information", but added that there had to be boundaries on the way that information was used.

Big data is an increasingly contentious area as insurers seek to use information to make more accurate pricing decisions. This month Facebook blocked Admiral, the car insurer, from using posts people had made on the social

media site to make decisions about pricing. Admiral had hoped that the language used in the posts would provide clues about a person's driving style.

Mr Bailey said the use of big data could allow the industry to base its decisions on individual behaviour rather than assumptions about different groups of people. This could be useful in car insurance, he said, because it could encourage better driving.

But he added that it was important that there were dangers – for example in using data about which customers were likely to shop around for policies.

"Big data could be used to identify customers more likely to be inert, and insurers could use that information to differentiate pricing between those who shop around and those who do not. The

latter pay more and thereby can cross-subsidise those who shop around," he said. "We are... asked to exercise judgment on whether as a society we should or should not allow this type of behaviour. To simplify, our view is that we should not."

Mr Bailey also weighed in on the debate surrounding the use of genetic data to influence pricing for life insurance. He is potentially profound – now, maybe the reaction to improved information is to say "It's what it is" and we accept the implications for purchasing life insurance. Or, maybe we say that it creates unacceptable divisions within society – outcomes that are not acceptable for society in terms of access to

insurance," he said. He added that the solution to the issue was something for the government, rather than just regulators, to decide.

Jamie Monck-Mason, an executive director at Willis Towers Watson, welcomed Mr Bailey's comments.

"It is encouraging to see that the FCA is open to – and indeed positive about – the use of big data by insurers, albeit in the context of wider public policy principles," he said.

"The use of big data opens up a world of commercial opportunities for the insurance sector – and it is clear that Mr Bailey welcomes those opportunities for the sector of policyholders. But it is refreshing to see the FCA inviting insurers to look at the longer term and the bigger picture."

## Feeling tired?

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VITABOTICS



## UK COMPANIES

## Retail

# BHS probe chief eyes seizure of Green's yachts

Committee asks regulator whether assets could be used to plug pensions gap

PAUL McCLEAN AND JOSEPHINE CUNBO

The chair of a committee probing the collapse of BHS has asked the regulator whether it can seize Sir Philip Green's assets – which include multimillion-pound yachts – to plug a pensions shortfall.

In a letter to Lesley Titcomb, chief executive of the Pensions Regulator, MP Frank Field asked if the regulator could acquire "assets other than cash" from "a person or company from which payment is being sought".

After the letter was published Mr Field said: "There is now nothing beyond limits as we understand it. Of course (Sir Philip's) yacht could be targeted." A spokesperson for Sir Philip declined to comment.

Mr Field also asked the Pensions Regulator whether it could use its powers against individuals who are resident overseas or a company registered offshore. Lady Green, Sir Philip's wife who is resident in Monaco, is the controlling partner of Taveta, the family investment company, which owns the Arcadia retail group.

Ms Titcomb will appear before the work and pensions committee today to answer questions on how her regulatory powers "can and should be used" to avoid another BHS saga.

This month the regulator threatened legal action against Sir Philip as it sought to fill the BHS pension deficit of £571m, issuing warning notices to him and companies controlled by his wife.

Separately, the regulator confirmed yesterday that it had used its powers to probe more deeply into Sir Philip's retail

empire by demanding information on the pension scheme of Arcadia Group, which owns retail brands including Topshop.

In another letter published by a parliamentary committee, Ms Titcomb said notices had been issued to unnamed parties, requiring them to provide information on the funding position of the Arcadia pension plan.

In the letter she said the regulator had "regularly engaged" with Arcadia Group and its pension scheme trustees over the past few years on a "range of issues" including the 2012 sale of a 25 per cent stake of Topshop/Topman to Leonard Green and Partners.

The regulator revealed that more recently it had asked Arcadia Group and pension trustees to engage in discussions ahead of the scheme's forthcoming triennial valuation.

"We continue to monitor the Arcadia schemes on an ongoing basis," said Ms Titcomb in the letter.

Meanwhile, the administrator to BHS has blasted the pension lifboat fund for saying it should begin liquidating the company later this week. In a progress report seen by the Financial Times, and earlier reported by Sky News, administrators Duff & Phelps said that returns to creditors would be reduced if the process was rushed.

The report, which is due to be published this week, revealed that non-preferential creditors could expect to receive a return of just up to 1p in every pound.

Malcolm Weir, head of restructuring and insolvency at the Pension Protection Fund, said: "We believe a liquidator will be able to progress all remaining issues at least as quickly as the current administrators, including the remaining leases and the ongoing investigatory work."

## Retail



The revival of the Safeway brand is part of Morrisons' broader strategy to return to the convenience sector – Chris Bruff

## Safeway return gives Morrisons convenient solution

LAUREN PEDOR

Wm Morrison, the UK grocer, is reviving the Safeway brand, more than a decade after it bought the supermarket group of the same name for more than £3bn.

Morrisons, Britain's fourth-biggest supermarket group by sales, said yesterday that it was "developing a range of hundreds of convenience products" that would be Safeway-branded and sold by independent retailers from next year.

The revival of the Safeway brand is part of Morrisons' broader strategy to return to the convenience sector that includes trialling a new chain of convenience stores, initially at 10 petrol stations across the UK in the next two

months. The move comes barely a year after Morrisons sold its loss-making M Local chain to Greybull Capital for £25m.

Morrisons said that the relaunch of the Safeway brand would enable it to use its supply chain and own food manufacturing operations to offer wholesale products to independent retailers. It has not said which retailers will carry Safeway goods, or whether it will be working with a third-party distributor.

The group bought Safeway for £2.55bn in March 2004, in an acquisition that nearly doubled the size of the chain and elevated Morrisons from a regional operator to one of Britain's biggest grocers. Most Safeway stores were sold off or rebranded as Morrisons after

the acquisition, virtually ending the brand in the UK.

David Potts, chief executive of Morrisons, said: "These are two capital-light ways of growing in the convenience food market. By working with well-established partners and reviving the Safeway brand, we are making our products more accessible to more customers."

Clive Black, an analyst at Shore Capital, said resurrecting the Safeway brand was an "unusually sensible move" that "reflected the warm heritage and feel that this much-loved label had in days gone by".

He added that the plans for new convenience stores marked "materially better thinking" than the M Local chain.

"If traction is gained through these combined routes to market, then more volume will be going through Morrisons' factories and distribution centres in a capital-light manner," he said.

Yesterday's announcement came a week after Morrisons said it was extending its relationship with Amazon to include same-day delivery of its products. The grocer first signed a deal in February to supply thousands of products, including fresh food, for the US online behemoth to sell on its UK website.

This month, it reported its fourth consecutive quarter of like-for-like sales growth in the three months to October.

The shares rose more than 1 per cent, to 218.9p yesterday.

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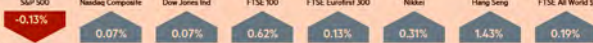
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## MARKET DATA

## WORLD MARKETS AT A GLANCE

Change during previous day's trading (%)



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

## AMERICAS

Oct 23 - Nov 22

New York

S&amp;P 500

135.59

Day % 0.15%

Month % 2.00%

Year % 14.0%

Needles Composite

5,500.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Dow Jones Industrial

18,270.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Canada

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Brazil

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Mexico

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Argentina

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Chile

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Colombia

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Peru

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Venezuela

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Ecuador

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Bolivia

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Paraguay

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Uruguay

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Costa Rica

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

Panama

15,000.00

Day % 0.07%

Month % 2.15%

Year % 24.5%

## EUROPE

Oct 23 - Nov 22

London

FTSE 100

5,500.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

FTSE Eurofirst 300

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Germany

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

France

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Italy

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Spain

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Netherlands

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Belgium

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Austria

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Sweden

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Denmark

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Finland

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Ireland

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Portugal

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Greece

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Cyprus

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

Malta

15,000.00

Day % 0.62%

Month % 2.00%

Year % 7.41%

## ASIA

Oct 23 - Nov 22

Tokyo

Nikkei 225

18,270.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Hong Kong

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Shanghai

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Beijing

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Singapore

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Kuala Lumpur

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Bangkok

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Manila

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Jakarta

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Seoul

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Taipei

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Osaka

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Sydney

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Auckland

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Wellington

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Christchurch

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Dunedin

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

## AFRICA

Oct 23 - Nov 22

Cairo

EGX 30

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Nairobi

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Lagos

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Accra

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Addis Ababa

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Dar es Salaam

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Kampala

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Nairobi

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Lagos

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Accra

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Addis Ababa

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Dar es Salaam

15,000.00

Day % 0.37%

Month % 1.60%

Year % 4.4%

Kampala

15,000.00

Day % 0.37%



## MARKETS &amp; INVESTING

## FT explainer

## Post-election factors driving US benchmarks to fresh highs

Investors love a story, and Wall Street has seized on a new one with the election of Donald Trump.

A long-running narrative of lofty equity valuations supported by a midswing US economy and low interest rates has been, almost overnight, ousted by one of more than a relaxation of regulation.

An almost euphoric reaction in the stock market helped drive all four main US benchmarks to record closing highs on Monday. That kind of grand-statement performance was last seen in 1999.

Treasury bond yields and the dollar have both risen sharply since polling day but, for now, equity investors are downplaying those headwinds. The Dow Jones Industrial Average, the oldest US equity gauge, and the Russell 2000 index of smaller companies, have hit new highs since the election. The technology-focused Nasdaq Composite and the S&P 500, the most widely tracked index, took more time to reach their highs but have done so.

The latest leg of the US bull market, which began in March 2009 during the depths of the previous American recession, has been led by small companies, with sectors such as energy, financials, industrials and biotech also performing strongly.

**Why small is beautiful**  
The Russell 2000 index of small-cap shares has surged 10.8 per cent, touching a record peak for the first time in 17 months. It is benefitting as investors make a big bet that domestically focused companies will be insulated from the stronger buck, outperforming larger multinationals on the S&P 500.

Looking at the S&P's new main sectors, six are posting double-digit gains during the past 10 trading days. Energy, materials and processing, producer durables, healthcare, financial services and consumer discretionary sectors have risen more than 10 per cent.

An exchange traded fund tracking the Russell 2000 has averaged \$16b since November 8, according to EFT.com.

**US stock markets since released**

Source: Thomson Reuters Datastream

## So what's driving the Dow?

It is all about the prior shock associated with the performance of the venerable Dow, which is distanced by companies with the highest stock prices. While the 30-member DJIA was up 35 per cent since the election, that showing rests on heavy lifting from a handful of companies. Goldman Sachs, the most expensively priced share on the Dow, has rallied 16 per cent to \$211. Meanwhile, JPMorgan at \$78 and Caterpillar at about \$93, have risen about 10 per cent. United Healthcare, trading at \$150, has also appreciated nearly 7 per cent.

**A new record for the S&P led by financials**  
The S&P 500 matters greatly for institutional investors because it is the dominant benchmark for many portfolios. Its gain of 2.6 per cent since the election has been led by outsized gains from financials, up 11 per cent. Next off the rank is technology, with a 5.8 per cent advance. Energy, with a 3.4 per cent increase, is catching up as optimism over an Opec production cut at the end of the month has propelled crude sharply higher. After lagging behind in 2014 and 2015, energy is on track to be the best performer this year with an 17.7 per cent rise so far.

**Big tech getting defanged**  
It is smaller and domestic focused companies that have led the way for the Nasdaq Composite, while the broad index is up more than 3.5 per cent since polling day. The Nasdaq 100 index, made up of the largest and most active non-financial companies listed on the exchange, has only managed a 1.4 per cent rise.

Investors have cooled on the likes of Alphabet – the parent company of Google – Apple and Amazon, which have been under pressure given their reliance on global supply chains that Mr Trump's administration rhetoric could potentially disrupt.

In contrast, the Nasdaq Biotech index of 180 companies has risen 7 per cent.

**Michael Mackenzie and Nicole Bullock**

## Trading room

## Virtu urges watchdog to probe ETF risk

## Group calls for SEC to examine operational issues in sector review

NICHOLE BULLOCK – NEW YORK

Virtu Financial, the high-speed middle man, has urged the US Securities and Exchange Commission to examine operational issues associated with exchange-traded funds, according to a letter filed with the regulator.

Calling it an "area that deserves a closer look", Virtu's letter comes as the SEC is preparing a broad review of the rapidly growing ETF industry, reflecting concerns that flows into the sector might exacerbate market volatility. The SEC, which has a working group studying the area, is expected to examine every aspect of the industry.

Virtu expressed concern about the risk it needs to assume when trading ETFs into the 4pm close of business. US exchanges. Market makers in the funds as Virtu must submit orders to the fund sponsors to redeem or create shares depending on demand.

Market makers earn the spread between the bid and offer on ETFs and on the difference between the price of the ETF and its underlying components. "As a leading market maker in ETFs, we are obligated to make a two-sided market in the ETFs right until the close, while also buying and selling the underlying securities," Virtu said. "As such, we cannot control the number of executions as we go into the close nor can we anticipate nor apportion orders ahead of time with a great deal of accuracy."

It said that the risk is compounded if it cannot submit create and redeem

orders as close to the market close as possible. These risk factors are passed on to investors in the form of higher spreads.

Virtu also said that "electronicification" of ETFs has been slow especially when compared to its explosive growth. Faster and more accurate transaction processing would benefit market makers to continue trade closer to the close of business.

"In many cases, interactions for creations and redemptions are still conducted via email, through dedicated portals, and in some cases, via the phone," Virtu said.

It expressed concern about human error in processing transactions as well as accuracy in reporting from fund providers regarding the basket components of ETFs and their net asset values, areas that are crucial to market making.

"We cannot control the number of executions as we go into the close"

"Improvements in these areas are especially important to end users because the resulting lower risk translates to narrower spreads and lower costs," Virtu said.

The SEC has already proposed to limit funds' use of derivatives in an effort to protect investors against amplified losses. Virtu argued that the SEC should focus on the liquidity and risk of the derivatives and their effect on the market that use them rather than adopt one threshold for all funds. The proposal calls for a limit of aggregate derivatives exposure to 150 per cent of the fund's total assets or 300 per cent if the use of derivatives serves to limit losses arising from market moves.

Virtu said that derivatives have had no impact on its market making or ability to hedge for leveraged funds, specifically.

## Analysis. Commodities

## Hurdles loom for Trump's oil output push

## Regulatory moves unlikely to unlash supply, for all the talk of US 'energy independence'

GREGORY MEYER – NEW YORK

Donald Trump posted a video describing plans for his first 100 days as US president on Monday. "On energy, I will cancel job killing restrictions on the production of American energy," he said.

The US president-elect plans to open more federal lands and waters to oil and gas leasing, streamline permits for energy projects and rescind executive actions of President Barack Obama. Deregulation forms the core of his pledge to make the US "energy independent", an elusive idea that has been invoked since the 1970s.

Should the oil market expect a job of US crude? Not soon, for four main reasons: oil prices, the dollar and interest rates, the limited impact of current regulations and shifting US relations with exporters such as Russia and Iran.

US West Texas Intermediate was up 0.4 per cent at \$48.65 a barrel early yesterday. The price, although up 80 per cent from the depths of last winter, is still too low for many producers to make a profit.

US crude production has declined about 1m barrels per day from its April 2015 peak of 9.6m bpd after drillers responded to falling prices by idling rigs.

"While the menu of options is going to expand, at the end of the day prices are going to drive development," says Michael Cohen, oil analyst at Barclays. "If that's the case, unless we go to \$80 next year it is hard to see anything changing in the supply picture."

The dollar has surged since Mr Trump's election victory. On balance a stronger US currency tends to weigh on the price of oil, which is sold in dollars, and to dampen drilling.

Interest rates have also climbed. While this may reflect expected inflation – generally a positive for commodity prices – it could raise the cost of financing for producers already damaged by the oil bust.

"If the availability of credit diminishes and interest rates start rising, the ability of producers to spend and raise domestic production would fall, with high yields repaying a swelling on the bottom line," says Energy Aspects, a consultancy.

Allowing more drilling on federal land is unlikely to move the supply needle,



WTI crude has risen 80 per cent from the depths of last winter but is still too low for many US producers to make a profit.

John Robitaille, vice-president of the Petroleum Association of Wyoming, says new federal rules are a "burden" but does not cite access to federal land as a concern.

"With the exception of being in a city park or something like that, there really are no parcels that are off limits [for leasing]," he says.

The Obama administration has limited offshore drilling, leaving Arctic seas of the list when it scheduled the next five years of offshore lease sales last Friday. Alaska's congressional delegation blasted the plan, calling it a sop to environmentalists.

However, oil exploration in the US Arctic had stalled after oil prices collapsed and Royal Dutch Shell failed to find significant reserves with a well drilled in 2015.

"The market is going to control the spigot much more than a Trump administration, at least in the near term," says Kevin Book, managing director of ClearView Energy Partners, a consultancy. "Liberalising production on federal lands is not going to produce a lot of incremental supply. And liberalising production in offshore could produce a lot of incremental supply, but not for many years."

A Trump administration could attempt to roll back rules such as one limiting methane emissions from new oil and natural gas facilities. Last week the department of the interior issued a rule to cut the flaring of waste gas on federal lands.

However, abolishing these rules

## US crude on uncertain path since election indices released



would be "no simple thing," says Mark Brownstein of the Environmental Defense Fund. It is unclear how much new supply would follow. In an impact analysis of the methane rule, the Environmental Protection Agency projected that crude oil production in 2020 and 2025 would be the same with or without the regulation.

Bigger questions proceed from abroad. The prospect of thawing relations with Russia, an oil exporter that is currently under US sanctions, could increase supplies. However, the hard-line stance Mr Trump has suggested towards Iran raises the possibility of renewed sanctions on oil sales by the Opec member.

Oil futures markets have charted an uncertain path. Since election day, WTI crude futures for delivery in December 2020 – the last full month of Mr Trump's coming term – have risen only about \$1.

## Trading room

## Ex-Soros CIO wins bet on infrastructure spending as China's appetite for commodities rises

LINDSAY FORTADO AND NICKY HENDERSON

Impala Asset Management, the \$2.3b hedge fund run by George Soros's former chief investment officer, is benefitting from bets that an overhaul of the US infrastructure and sustained demand from China will boost appetite for commodities.

Robert Bishop, who founded Impala in 2004, decided infrastructure would benefit whoever won the US election, but doubly so in the case of Donald Trump's red-elephant victory.

"Donald Trump builds things," Mr Bishop said. "That's what he's done for a living."

The Connecticut-based Impala fund, which bets on stocks based on macro themes, has been one of the best performing hedge funds of 2016, return-

ing 18.6 per cent as the end of October in his main fund. Its long-only fund was up more than 30 per cent. By contrast, Hedge Fund Research's equity hedge index is up 3.71 per cent.

Mr Trump's victory, alongside Republicans keeping control of Congress, has helped send US stocks to new highs while battering the bond market.

Investors have so far focused on the president-elect's plans to stimulate the US economy rather than his threats to rip up trade deals and impose tariffs.

The fund's performance has also been driven by bets on mining companies, buoyed by a rise in metal and other commodity prices this year, on the back of robust demand from China. Commodities, infrastructure and China represent about 40 per cent of the fund's equity exposure.

Mr Bishop, who also has experience as

a principal at Maverick Capital and a managing director of Tiger Management, says China hit a hard landing in the fourth quarter of last year but has since recovered, with strong spending on power grids and property.

"The world kind of accepts that China has got better this year, other emerging markets have been getting better; but of that bodies very low for commodity prices," he said. "There's also very little new capacity coming on in commodities."

The world's demand for commodities is in sharp contrast to those who fear that China's growing corporate debt pile – some of which sits on the balance sheets of unprofitable state-owned enterprises – will prove a significant drag on the economy.

China has cut more capacity than expected in previously unprofitable sectors such as steel this year, while there

## Copper price LME 3-month (3 cent per tonne)



was still growth for demand in lower-tier cities in the country, Mr Bishop said. Historically, multiyear drops in steel demand have been followed by rebounds, he added.

Capital spending in the metals and mining sector compared with depreciation will hit its lowest level in 62 years by the first quarter of next year, he said.

Copper could rise close to \$4 by the end of 2018 from \$2.50 now, said Mr Bishop, while iron ore could hit \$95 a tonne.

"We're seeing real demand for commodities starting to improve; it's not only speculation," Jacques Bouthillier, a senior analyst at Impala, said.

Cement prices have increased despite the fact it does not trade on an exchange, he said.

That is a sentiment reflected by analysts, with Goldman Sachs saying this

week that it recommended investors go long commodities.

The country is also finding new markets for construction through President Xi Jinping's "One Belt, One Road" policy, Mr Bouthillier added.

While China's property markets in the tier one and tier two cities are likely to continue to slow, there is still room for growth in lower-tier cities as they expand their urban transport, he said.

At the end of the third quarter, Impala's largest holding was Teck Resources, which was up about 15 per cent in the period.

It has been a "very good stock for us this year," Mr Bishop said.

It also held NVX, a homebuilding and mortgage company in the US, Rio Tinto, Swift Transportation, Floor Corp, Harley Davidson and Newmont Mining Corp, according to portfolio filings.



## MARKETS &amp; INVESTING

## TRADING POST

Jamie Chisholm

One-hundred per cent that — according to Bloomberg calculations — is the probability futures markets are placing on the Federal Reserve raising interest rates by 25 basis points on December 16.

It's pretty obvious that Fed chair Janet Yellen and colleagues prefer the market to be pricing in any of their policy tweaks. So the surprise would be if the Fed did not raise borrowing costs next month.

Consequently, that means the minutes of the November Fed meeting, out today, will have to come across as especially dovish for investors to shift monetary policy expectations. The issue for more short-term traders is that, with rate rise probabilities so certain, where will further success come from their recently successful "fundamental" strategies?

Details and the Capital Hill agreement of president-elect Trump's proposed infrastructure spending are way in the distance.

The coming batch of monthly US economic data may be expected to show pre-election uncertainty.

This could leave some trades vulnerable. We have noted before how the dollar's rally looks overextended. Already hard hit peers such as the pound and Mexican peso may be particularly well-placed to take advantage of the backslide should it faller.

The latest international Monetary Market report on futures positioning shows speculators' net short sterling futures are elevated.

That could leave the pound further at risk, the more those shorts may fret.

jamie.chisholm@ft.com

## Mexican peso

Against the dollar (peso per \$)



Source: Thomson Reuters Datastream

London  
Miners lead FTSE  
gainers as De Beers  
chief lifts Anglo

Bryce Elder

Mining stocks were the top performers yesterday with Anglo American leading the FTSE 100 risers on fresh optimism about its De Beers business.

Day two of the Anglo's analyst tour of Africa took in its flagship juwaning diamond mine and its hub in Botswana. Management at De Beers diamonds business were "cautiously optimistic" about Christmas, having successfully cleared an inventory glut by allowing politicians to cancel orders, JPMorgan Chase noted clients.

On demand, De Beers management guided for a return to "modest" growth in 2017 in spite of China remaining tough and India uncertain due to the withdrawal of high-value banknotes.

Wall Street  
Signet Jewelers  
advances as sales  
outlook brightens

Mamta Badkar  
and Jessica Dye

Signet Jewelers jumped after the chain behind Kay Jewelers and Zales lifted its full-year forecast and said the decline in quarterly sales was not as steep as feared as fashion demand and gold jewellery performed well. The shares rose as much as 14 per cent to \$101.46, before paring those gains, after the Ohio-based company said it expected to earn between \$7.58 and

## Global overview

# Oil reversal stems equity gains as S&P 500 passes 2,200 mark

Traders see stock consolidation ahead as US indices come off highs and Brent falls after surging towards \$50 a barrel

JAMIE CHISHOLM

A record open for Wall Street was showing signs of fatigue at midday in New York yesterday as a reversal in oil prices weighed on global investor sentiment.

A steeper dollar, lower Treasury yields and a surge in Brent crude towards \$50 a barrel underpinned global equities for much of the day, but a late reversal for oil tempered gains.

Wall Street was mixed after opening in record territory, with the Dow Jones Industrial Average hitting 20,000 and the S&P 500 breaching 2,200 for the first time. A period of consolidation in equity markets, after their strong run since the US election, looked this week, said traders.

Attention in the UK will focus on the chancellor's Autumn Statement today and in the case for 'Thanksgiving' tomorrow.

The broader trend remains bullish for equities as the expense of bonds as investors anticipate a boost to the US economy from fiscal stimulus under the incoming administration.

"We believe the jump in benchmark US Treasury yields after Donald Trump's surprise win, and the accompanying move toward cyclical and away from bond-like equities, represent an important regime shift for financial markets and highlight risks to traditional portfolio diversification," said Richard Thumell, global chief investment strategist at BlackRock.

Indeed the muted lift to US economic growth from Mr Trump's plans was seen as contributing to the rally on Wall Street. Four of the most closely



## Japan's risk-averse investors: FT.com/video

Shareholder rights have not had top billing in Japan in the past but, according to the FT's Leo Lewis, that may be changing

watched US gauges, the broad S&P 500, the blue-chip Dow, the technology-

focused Nasdaq Composite and the small-cap Russell 2000, closed at record highs today. It is the first time that the fed will raise borrowing costs 25 basis points since the US election, which tracks the

currency against a basket of its peers,

was flat at 101.02, just shy of the 13-year

intraday high of 101.48 touched at the

end of last week. Investors were pricing

a 100 per cent probability that the fed

will raise borrowing costs 25 basis points

on December 14.

In government bonds, the yield,

which moves inversely to the price, on

its policy-sensitive US two-year gov-

ernment bond was 1.06 per cent, near its

highest in more than six years, having

risen from 0.72 per cent after Mr

Trump's election victory.

The more inflation-focused 10-year

yield eased 2bp to 2.50 per cent, inching

down from its highest in 12 months,

while equivalent maturity German

bunds dropped 2bp to 0.25 per cent.

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# Markets & Investing

FINANCIAL TIMES

Autumn Statement. Capital markets

## Spending and Brexit dominate UK expectations

INSIGHT

Leo Lewis

### Tokyo gets to know its neighbours five years after they move in

Most trading days, just after the morning session finishes, a few familiar faces pile into Seattle's Best Coffee next to the Tokyo Stock Exchange. They linger over espressos before returning to an office about 10 metres from the bourse.

Regulars are fairly certain they are high-frequency traders, the securities regulator and the TSE are suddenly very keen to know for sure and, more critically, to see how and what they are trading.

Japan's plan to establish a system for mandatory HFT registration coincides with the TSE's acknowledgment that 60 per cent (and rising) of the orders it handles come via "co-located" servers in offices close to the exchange. Not all of those orders represent the doings of HFTs, but more than enough for the TSE and the Securities and Exchange Surveillance Commission to spot that they are not in Kansas any more.

The TSE's admission of how much it does not know is sobering. Discovering by means of real-time information on HFT trades, how far the Tokyo market has strayed from its former self could be painful. But not necessarily for the HFTs.

When more about these activities is known, according to gloomier observers in the "old" market, traditional brokers and investors might conclude that they understand the market even better than they thought, and that forecasts are even less of a value-add. Add that to the surging presence of exchange traded funds, and those big national blocs of investors (foreign macro funds, domestic pension funds, hedge funds, life insurers, day traders and "Mrs Watanabe"), whose behaviour has been used to provide narrative to the fluctuation of Japanese stocks, no longer seem such plausible storylines.

The Japanese authorities' outward interest in HFTs has come in fits and starts, playing into the accusation that, once again, Tokyo is lagging behind the regulatory curve. Algorithmic trading was mentioned as an issue for the first time in the securities regulator's annual administration report in 2015. This year brokers were asked to fill in a gentle survey assessing the behaviour and client perception of HFTs.

HFT activity in Tokyo ranks among the highest in the world, and it is the speed of its rise that is particularly striking. The four vital ingredients for HFTs to flourish – fast infrastructure, low trading costs, significant large-cap equity and friendly regulation – are in place. Many saw the TSE's groundbreaking systems upgrade five years ago as a welcome mat to HFTs and all that juicy volume.

The complaints about the HFTs, which are treated gingerly by the Japanese authorities, are familiar to regulators in other markets, and are loudest from big investors. Far from adding liquidity to markets, runs the usual gripe, the HFTs take it away. If a fund starts to buy a big position in a stock, the volume dries up as the HFTs get involved.

But, as the more philosophical brokers quietly admit, there is a bigger threat to their business models from HFTs, algorithms and whatever else is lurking in that opaque 60 per cent swirl of daily trading volume.

Analysis of the Japanese equity market has evolved around many things: its exceptional depth, the predictable eccentricities of various big investors, unique metrics, arcane chart-readings and the fact that every last corner of the Japanese economy is represented.

HFTs are the opposite of that. They are not looking at compelling fundamentals or charts, but at the sort of momentum that comes and goes in less than the time it takes to swipe an espresso. In some cases, they actually are momentum.

The interpretations with which the Japan brokers have traditionally gone into battle already risk having their relevance deeply dented by the HFTs and their growing dominance of total trading. Those analyses may become quickly useful for purposes as the nuts and bolts of the HFTs' activities are forced further into the light through regulation and reveal a scene utterly lacking in a satisfying narrative. The complaints may be legitimate, but the old guard should be careful what it wishes for.

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Investors prepare to study

Hammond's debut for hints about fiscal expansion

ELAINE MOORE AND ROGER BLITZ

The UK's Autumn Statement arrives with investors waiting to see whether the government will make good on its heavy-handed hints about fiscal expansion.

Past Treasury updates have tended to be a damp squib for global financial markets – political posturing and fiddling with tobacco taxes rarely catch the interest of international money.

This year, however, Philip Hammond, chancellor, has an opportunity to outline the UK's priorities on tax and spending for the first time since the vote for Brexit – and investors are all ears.

Is the UK about to borrow more?

The economy has been in better shape than expected since the vote to leave the EU, but a period of lower growth and weaker tax revenues is on the cards.

Add the government's failure to set off Lloyd's and RBS shares, and the official forecast shows a £300bn hole in UK finances by 2020.

RBC forecasts that net government borrowing will be revised up by £20bn for 2016-17 to £65.5bn. Bank of America Merrill Lynch expects an extra £35bn.

Credit analysts say the country's cost of borrowing – at 1.39 per cent, up from a post-Brexit vote low of 0.51 per cent – will probably rise for 10 years.

"If the chancellor announces a surprisingly big increase in future borrowing that will send yields higher," says John Wrath, head of rates at UBS. "Even though the new supply dynamic that implies won't happen immediately."

However, overseas demand proved robust in September, offering hope that international markets will soak up any extra gilt supply.

The increase in borrowing could be funded elsewhere. Possible alternatives include an increase in ultra short-term Treasury bills or National Savings and Investment inflows, which could leave gilt yields around current levels.

What about the pound?

Since the Brexit vote, sterling has risen more than usual on strong data, mainly because forecasts about the economic impact of a No vote were so dire.

But that was before the High Court ruling on Article 10 made investors factor in the legal quandary of pulling the trigger. And it was before Donald Trump's victory in the US election. Both of these, says Kamal Sharma, FX strategist at BofA, are perceived by some as

change market dusting off predictions of that it will fall to match the value of the dollar. Strategists at Société Générale said partly could happen before the next presidential elections in April.

Nervousness about the political outlook and potential for yet another populist surprise will keep the euro under pressure," the French bank said.

Some analysts put sterling's rise on Monday down to the promise by Theresa May, UK prime minister, to lower corporate tax, while yesterday's fall might have been a result of investors reining themselves in ahead of today's Autumn Statement on economic policy.

Brexit development, though sparse in recent weeks, are continuing to shape sterling. With the gap between bond yields widening against the US as the Treasury market sells off, Simon Derrick, a strategist at BNY Mellon, warned that "any negative political news could trigger a relatively sharp move lower" for the pound.

That was echoed by Thia Lan Nguyen, FX strategist at Comerzbank, who said the UK's departure from the EU remained a quandary for the government and "the potential for a reversal in sterling thus remains high".

In the longer term some analysts are optimistic about sterling. In its outlook for next year US Wealth Management said it regarded the pound as an undervalued currency.

"The pound will be vulnerable during Brexit negotiations but should trade stronger once greater clarity emerges," the report said.

Sideways shift?

Pound and gilts

5 per £



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giving the UK "a stronger bargaining edge against Europe".

Sterling, while still volatile, has been edging higher against the dollar and strengthening against the euro – at \$1.248 and £1.17 respectively.

"It looks like sterling is going to trade sideways, until we get more into the politics of Brexit," says Mr Sharma.

Will there be an infrastructure bond?

Market moves since Mr Trump's talk of spending more on roads, bridges, airports and hospitals have made infrastructure the current buzzword.

In the UK, public sector investment on rail and road improvements is seen as the most likely stimulus, according to Sam Hill, senior UK economist at RBC.

But while Theresa May's government is reported to be considering Treasury-backed bonds to finance projects, no

one is sure how these would work. One gilt investor calls the idea a "hilarious marketing exercise" because the rate of borrowing would probably be higher than for other government debt, but the pool of potential investors smaller.

Any post-Brexit sweetheart deal?

Last month Greg Clark, business secretary, said the government was trying to protect the car industry from the impact of Brexit – leading other industries to call for similar help.

Assurances to Nissan persuaded the Japanese carmaker to stay and commit to building two models in the UK.

But last week, amid the biggest weekly inflow for US stocks since late 2014, the UK market did not receive the same treatment. "Investors here may be more cautious than in the US," says Armin Peter at UBS.

Currencies

### Sterling swings as it slowly marches higher

ROGER BLITZ

A second straight day of sudden moves in the pound underlined why investors and traders are wary about betting on a trend for the currency until there is clarity over the shape Brexit will take.

Sterling traded half a per cent lower against the US dollar yesterday, triggered by a sell-off that unfolded in less than a minute and took sterling to just above the \$1.24 mark.

In a minute's trading on Monday the pound jumped 1 per cent to just below \$1.25, leaving the dollar at its lowest since 85p for the first time since mid-September.

Even though the pound is roughly where it stood at its pre-Brexit crash level on October 7, intraday moves have frequently been volatile. The overall direction of the month has been upwards, with sterling the only big currency to register an advance against a resurgent dollar since the US election. It has climbed 1.6 per cent against the dollar this month.

Several factors have propelled the rise. Adam Cole, a currency strategist at RBC Capital Markets, said the dollar rally that had followed Donald Trump's victory was positive for sterling because of the UK's financial links to the US. "Cyclically, sterling behaves like a mini-dollar," he said.

Sterling has also gained against the single currency in November, rallying more than 5 per cent, but market attention turns towards political risks in Europe.

The euro is also sharply down versus the dollar, with some in the foreign ex-

change market dusting off predictions of that it will fall to match the value of the dollar. Strategists at Société Générale said partly could happen before the next presidential elections in April.

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