FINANCIAL TIMES

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BREXIT CRISIS

Political turmoil and isolation: UK confronts new reality

Britain's man in Brussels quits
The City of London has lost its voice, says Lord Hill

Boris Johnson on brink of declaring candidacy
Cameron allies seek alternatives to block Brexit leader

Labour cabinet stages mutiny against leader
Jeremy Corbyn under siege as he loses 11 shadow ministers

ALEX BARKER — BRUSSELS
GEORGE PARKER AND JIM PICKARD — LONDON

Britain faced the stark reality of crumbling influence on the world stage yesterday as turmoil triggered by the vote to exit the EU plunged the UK into domestic political instability.

EU leaders were setting a timetable for the UK to leave the bloc by the start of 2019 in the accelerating fallout from Thursday's referendum, which shook the postwar European order, rocked financial markets and claimed the scalp of UK prime minister David Cameron.

Mr Cameron will address parliament for the first time since the vote today, with both his Conservative party and the Labour opposition in the throes of bitter leadership battles.

John Kerry, the US secretary of state, will visit Brussels and London to discuss the crisis as Washington reassesses its relations with London. "The US must face the fact that the UK will likely be less of an effective and reliable partner in global affairs," said Jim Stavridis, former Nato supreme commander.

London was facing imminent loss of its power over European rulemaking for financial services, a vital sector for the UK economy, the outgoing top British official in the European Commission warned in an interview with the Financial Times.

Jonathan Hill, who resigned at the weekend as EU commissioner for financial services, said Britain now faced being forced to abide by European banking rules shaped in Berlin, Paris and Frankfurt on priorities dominated by the eurozone.

"The voices that would be present at the table without Britain there — the voice of the French financial services industry, German industry, Dutch, Irish — will clearly be heard," Lord Hill said.

Erik Nielsen, chief economist at UniCredit, said the resignation of the commissioner meant that "whatever influence the UK had in the EU is completely gone as of this weekend".

Lord Hill warned that it was unlikely British-based banks would be able to preserve "passport" rights allowing them to serve clients across the bloc, not least because these required acceptance by the UK of free movement of people from the EU. "I can't see that flying given the weight of immigration as an issue in the referendum debate," he said.

Several big banks, including HSBC, JPMorgan Chase and Goldman Sachs, have already begun preparations for a potential shift of some operations to Dublin, Paris and Frankfurt.

The domestic political chaos set off by the shock referendum result deepened yesterday. Jeremy Corbyn, the hard-left Labour veteran who was elected party leader last year, was under growing pressure to step down after he sacked Hilary Benn, his shadow foreign secretary and alleged coup plotter, prompting the rapid resignation of 10 other shadow cabinet members.

Alarmed by the large chunk of Labour's electorate that voted Leave on Thursday, moderates in the party were angered by Mr Corbyn's lukewarm support for the Remain cause and wanted him replaced before a potential early general election.

> 'Whatever influence the UK had in the EU is completely gone'
> Erik Nielsen, UniCredit economist

Mr Cameron's resignation on Friday meanwhile triggered intense manoeuvring over who would replace him as Tory leader in time for the party conference in October. The candidacy of Boris Johnson, the former mayor of London and early favourite to replace Mr Cameron, gained momentum with the reported backing of justice secretary Michael Gove. The two former journalists led the main Leave campaign.

Mr Johnson is likely to face a challenge from the pro-Remain home secretary Theresa May. But moves were also under way by allies of Mr Cameron and George Osborne, the chancellor, to find a third "anyone but Boris" candidate.

Against this background, Mr Cameron will meet his 27 fellow EU leaders tomorrow in Brussels for a tense session to try to work out a timetable for negotiations on Britain's departure. German chancellor Angela Merkel, François Hollande, the French president, and Matteo Renzi, Italy's prime minister, will hold talks in Berlin today to prepare for the meeting.

Officials in Brussels said plans were being laid for formal negotiations to start on January 1 next year. Under Article 50 of the EU treaty, talks must be completed in time for an outgoing member to leave two years later.

But under those rules, Britain has to invoke Article 50 on its own. Mr Cameron has said he will leave the decision to his successor. Mr Johnson and other senior Leave campaigners have indicated they are in no hurry to set the ball rolling on exit talks.

Leading figures in Brussels and some EU foreign ministers have called for the UK to act quickly. But Ms Merkel said she would not push for an immediate withdrawal. "There is no reason to be particularly nasty," she said.

In an article for the FT, Chris Grayling, the pro-Brexit cabinet minister, said all sides needed time. "So Article 50 will not be triggered until a considerable amount of informal preparatory work has been done, here and in discussions with EU partners," he wrote.

Further complicating the outlook, Nicola Sturgeon, Scotland's first minister, raised the prospect of a Scottish veto on Britain's departure. Scotland voted with a 62 per cent majority in favour of Remain and Ms Sturgeon has emphasised the country's determination to stay in the EU.

Global financial markets are braced for further volatility after Friday's turbulence, when the pound plunged to its lowest level in 30 years and European bank shares sank 18 per cent. As the initial shock is replaced by concern over how deep a shadow the decision will cast over the world economy, the pound and bank stocks will remain under scrutiny.

Jaime Caruana, head of the Bank for International Settlements, the central bankers' bank, warned yesterday of further instability but said financial systems were "more resilient" to shocks than during the financial crisis of 2008.

Additional reporting by Richard Blackden in London

Inside

EU leaders grope for route out of post-Brexit crisis

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World Markets

STOCK MARKETS

	Jun 24	Jun 17	%Week
S&P 500	2037.30	2071.22	-1.64
Nasdaq Composite	4707.98	4800.34	-1.92
Dow Jones Ind	17399.86	17675.16	-1.56
FTSEurofirst 300	1269.50	1280.11	-0.83
Euro Stoxx 50	2776.09	2849.17	-2.56
FTSE 100	6138.69	6021.09	1.95
FTSE All-Share	3348.58	3309.39	1.18
CAC 40	4106.73	4193.83	-2.08
Xetra Dax	9557.16	9631.36	-0.77
Nikkei	14952.02	15434.14	-3.12
Hang Seng	20259.13	20038.42	1.10
FTSE All World $	256.50	260.44	-1.51

CURRENCIES

	Jun 24	Jun 17		Jun 24	Jun 17
$ per €	1.112	1.125	€ per $	0.900	0.889
$ per £	1.363	1.430	£ per $	0.734	0.700
£ per €	0.816	0.787	€ per £	1.226	1.271
¥ per $	102.170	104.285	¥ per €	113.568	117.305
¥ per £	139.217	149.074	£ index	87.763	84.837
€ index	87.062	87.596	$ index	98.392	99.457
SFr per €	1.075	1.081	SFr per £	1.318	1.374

COMMODITIES

	Jun 24	Jun 17	%Week
Oil WTI $	47.55	48.14	-1.23
Oil Brent $	48.41	49.27	-1.75
Gold $	1315.50	1290.70	1.92

INTEREST RATES

	price	yield	chg
US Gov 10 yr	100.55	1.57	-0.18
UK Gov 10 yr	102.72	1.22	-0.29
Ger Gov 10 yr	105.29	-0.04	0.00
Jpn Gov 10 yr	102.48	-0.13	0.00
US Gov 30 yr	102.01	2.41	-0.10
Ger Gov 2 yr	103.21	-0.63	0.00
	price	**prev**	**chg**
Fed Funds Eff	0.37	0.37	0.00
US 3m Bills	0.31	0.27	0.04
Euro Libor 3m	-0.29	-0.29	0.00
UK 3m	0.59	0.58	0.00

Prices are latest for edition — Data provided by Morningstar

A Nikkei Company

Johnson holds talks with allies over plan to run for No 10

Home secretary expected to enter the race as potential 'stop Boris' candidate

GEORGE PARKER — POLITICAL EDITOR

Boris Johnson held talks with allies at his Oxfordshire home yesterday to prepare a bid to become prime minister while his enemies held urgent talks to identify a viable "ABB" candidate: Anybody But Boris.

Mr Johnson emerged as the clear frontrunner to succeed David Cameron after last week's Brexit vote but his advance has opened deep divisions in the Conservative party.

This week Theresa May, home secretary, will declare she will fight Mr Johnson for the leadership. A number of other Tory MPs spent the weekend trying to gather support to run their own bid.

Stephen Crabb, work and pensions secretary, is seen as another potential "stop Boris" candidate while Andrea Leadsom, a pro-Brexit former banker and Treasury minister, is gauging support.

The rules of the contest will be agreed today by the Conservatives' 1922 Committee, made up of backbench Tory MPs, and put to the party's board the following day.

The party is expected to use the two-stage process used to select Mr Cameron in 2005, with a result declared before the Tory conference in Birmingham starting on October 2.

Pro-Remain Conservative MPs loyal to Mr Cameron and George Osborne, the UK chancellor, spent the weekend discussing whether they could stop Mr Johnson at the first stage, in which MPs whittle down the candidates to a shortlist of two.

Mr Johnson, who has spent the past few months assiduously courting Conservative MPs at a series of "curry evenings", would expect to make the shortlist because of his popularity with voters, exemplified by his referendum win.

Supporters of Mr Osborne have suggested that the rules be changed to ensure that one candidate on the two-person shortlist is a woman — a move that would tilt the contest against Mr Johnson.

But Graham Brady, chairman of the 1922 Committee, is expected to oppose the proposal, which might have seen "stop Boris" MPs switch their support from Ms May to another candidate.

Cameron loyalists are also considering who would be best placed to beat Mr Johnson in the second phase of the contest, when a choice between the two final candidates would be made by 150,000 Tory members in the autumn.

Guto Harri, a former City Hall spokesman for Mr Johnson when he was the mayor of London, said Mr Johnson would have the "moral authority for better or worse" from having led a Brexit campaign that won more than 17m votes.

Mr Johnson's popularity with Eurosceptic Tory activists makes him the favourite, although Ms May, who played a low-key role in the Remain campaign, is regarded as tough and capable.

Mr Crabb's appeal is that while he was in the Remain camp he played very little part in the campaign. He grew up on a Welsh council estate and could help the Tories connect with disillusioned working class voters.

"He's a 'clean skin'," said one ally of Mr Osborne. "He didn't take part in the referendum, he has an interesting back story and he's not disliked. The only problem is that he's not very experienced."

Mr Johnson's path to victory could be complicated if the pro-Brexit camp throws up a number of candidates, although Michael Gove, justice secretary, is expected to co-chair his campaign alongside a pro-Remain MP.

Ms Leadsom, who took part in the televised debates for the Brexit side and reminds some Tories of Margaret Thatcher, may stand. Mr Johnson could to try to buy her off with the offer of a big job, possibly even chancellor.

Liam Fox and David Davis, two heavyweights of the Tory right, are considering running, reprising their campaigns against Mr Cameron in 2005. Nicky Morgan, education secretary, is expected to join the fray.

Sajid Javid, business secretary, was once considered a possible candidate, but he was damaged by unenthusiastically backing Remain. Some Tory MPs think he will back Mr Crabb.

Mr Cameron and Mr Osborne will do all they can to stop Mr Johnson, at least until, or if, it becomes obvious that he is unstoppable. At which case Tory MPs expect an accommodation to begin.

In the meantime, Mr Cameron's allies say Mr Johnson looked "embarrassed" at winning the EU referendum last weekend, claiming that he only backed the Brexit campaign to help him win the Tory leadership.

Even Mr Johnson's friends agree that the former mayor looked "shocked by what happened", especially when Mr Cameron quit and it dawned on him that he might have to implement Brexit.

"That wasn't part of the plan," said one.

Boris Johnson: his advance has opened rifts in the Tory party

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Chancellor

Osborne silence sparks theories over his next move

GEORGE PARKER — POLITICAL EDITOR

British chancellor George Osborne, once dubbed "the submarine" of UK politics, has stayed submerged since the Brexit vote — his powers depleted, but still an enigmatic and important influence on whatever happens next.

Brexit may have destroyed Mr Osborne's hopes of becoming prime minister and it threatens his economic legacy. A course that he described as "economically illiterate" has come to pass.

"I've had better mornings," Mr Osborne told allies on Friday, as the pound collapsed and his friend David Cameron announced he would step down as prime minister. But since then he has said nothing and his silence has spawned a dozen theories about what he is planning.

Mr Osborne's closest friends say he will not quit for now as chancellor and he sees it as his duty to stay at the Treasury at a time of severe market turmoil. He is expected to make a statement today. The chancellor spent the weekend ringing G7 finance ministers and central bank governors, attempting to reassure them that Brexit would not wreck the economy and that the "UK's fundamentals are strong", a spokesman for the chancellor said.

Liam Fox, a former defence secretary, told the BBC yesterday that Mr Cameron should carry out "a limited cabinet reshuffle" now, but Mr Osborne appears set on staying on at the Treasury until the prime minister leaves office in October.

The finance bill, which implements what could be the chancellor's last Budget, is back in the House of Commons today. Tory MPs speculate that he may take the chance to address MPs about the economic impact of Brexit.

Although Mr Osborne's allies insist he is thinking only about the UK's economic stability, his network of supporters at Westminster are busy trying to work out his political future.

"George's team have been ringing around taking soundings on the level of support for him," said one member of the "Friends of George" Tory cadre, a powerful group that includes many ministers.

The feedback has been that Mr Osborne is unlikely to have the support needed to make a run for the leadership,

> Friends say a move to the Foreign Office would be the only other job that would appeal

although the chancellor is said not to have taken a final decision.

His threat of an emergency "Brexit Budget" before the referendum incurred the wrath of 65 Tory MPs, who said he was talking down the economy and that they would bar such a measure.

Mr Osborne's team, communicating via a pro-Remain WhatsApp group, are therefore considering whether the chancellor's machine should be deployed in favour of an "anyone but Boris" candidate for the Tory leadership, in order to prevent a win for former London mayor Boris Johnson.

Stephen Crabb, the work and pensions secretary, is one option, while Mr Osborne might decide to endorse the more obvious candidature of Theresa May, home secretary, with whom he has scratchy relations.

Mr Osborne would expect to be rewarded for such a move. His friends say a move to the Foreign Office would be the only other job that would appeal to a politician obsessed with history and global affairs, including the rise of China.

Such a move would keep Mr Osborne, still aged only 45, at the top table of politics and potentially in the game for a future run at the leadership, with his reputation as a sound steward of the economy still on his CV.

Osbornite Tory MPs are also keeping open informal channels with Mr Johnson's team, as an insurance policy in case he is deemed unstoppable in his bid to succeed Mr Cameron.

Opposition chaos

Labour embroiled in worst civil war for years

JIM PICKARD AND GEORGE PARKER
LONDON

The opposition Labour party is embroiled in its bloodiest civil war for decades after the departure of at least 10 members of the shadow cabinet, with another 20 resignations from the front benches expected today.

Jeremy Corbyn sacked Hilary Benn, his shadow foreign secretary, at 1.30am yesterday morning, initiating a deadly battle with most of his MPs at Westminster. By last night there had been a wave of resignations from the Labour leader's top table, prompting fears about the very future of the party.

The tally of resignations included: Charlie Falconer, Lucy Powell, Vernon Coaker, Ian Murray, Kerry McCarthy, Seema Malhotra, Lilian Greenwood, Heidi Alexander and Gloria De Piero.

Mr Corbyn's team insisted he would cling on to power and try to carry out a reshuffle last night from the depleted ranks of those still willing to work under him. He received backing from Len McCluskey, head of Unite the Union, the party's biggest donor. But with an estimated 20 more MPs expected to walk out today, he faces an uphill struggle to maintain his already tenuous grip on the helm of Britain's opposition party.

Tomorrow, Mr Corbyn will face a vote of no-confidence from his MPs. Although he has the backing of the majority of party members in the country, Labour MPs hope the party leader will conclude he cannot carry on with his Westminster team in a state of open revolt. Yet he may still surprise them by trying to ride out the storm, opening the way for a bruising three-month leadership contest.

Ostensibly the challenge has come as a result of Mr Corbyn's failure to galvanise core Labour voters behind the Remain cause in last week's EU referendum. But the crisis is also the result of a growing lack of confidence among Labour politicians that Mr Corbyn can prove himself a competent, electorally popular leader of the opposition.

What is most damaging for Mr Corbyn is that many of the resignations are from MPs outside the old "Blairite" or "Brownite" cliques in Westminster — for example, the left-leaning Ms Greenwood and Ms McCarthy — and who thus cannot be easily brushed off as embittered centrists.

After returning to London from the Glastonbury music festival, Mr Watson, the party's deputy leader — who was instrumental in removing Tony Blair as leader nearly a decade ago — was disappointed by the sacking of Mr Benn. The shadow foreign secretary was removed after sounding out MPs about their willingness to move against the Labour leader. Mr Watson, who is unsackable, having been elected last summer on the same day as Mr Corbyn, said he was also "saddened" by the shadow cabinet resignations, saying his focus was to hold the Labour party together.

Hilary Benn after his sacking as shadow foreign secretary yesterday
Chris J Ratcliffe/Getty

His spokesman has denied he has played any role in the attempted coup.

The rebellion sets most of the parliamentary Labour party, who claim to have a mandate from 9m voters from the last election, against the 400,000 Labour members who support Mr Corbyn's leftwing politics. Mr Benn, son of Tony Benn — Mr Corbyn's political hero — said the next general election was coming earlier than expected and the party needed a stronger leader. "There is no confidence in our ability to win the next election, which may come much sooner than expected, if Jeremy continues as leader," he said.

The former shadow foreign secretary was nearly sacked in the new year after voting against his own leader over air strikes in Syria last autumn and making an impassioned House of Commons speech backing the government.

Tristram Hunt, former shadow education secretary, said unless Mr Corbyn quit he would not be able to fill his front bench or have a serious "government-in-waiting". Mr Hunt compared the situation to 1931, when Labour — which had governed during the Great Depression — slumped to just 52 seats. "If there is a snap election we could be in 1931 territory," said Mr Hunt. "We are facing a historic wipeout in the Labour party."

Yesterday Mr Corbyn's spokesman promised a late-night reshuffle, saying: "Jeremy is the leader and here to stay."

Emily Thornberry, shadow defence secretary, defended Mr Corbyn: "The country is calling out for the Labour party to step up . . . we must do that in a unified way. Now is not the time for internecine conflict." Andy Burnham, shadow home secretary, also refused to join the rebellion, saying it was not the time for a "civil war" in the party.

Corbyn aides point out that — according to survey data — just 37 per cent of Labour voters backed Brexit, against about 58 per cent of Tories. The Labour leader's team believe he can hold on to his job with the backing of grass roots members. But this could precipitate perhaps the biggest crisis in the party's history, with MPs and members at odds.

Open hostilities

Latest rebellion is the real thing

Yesterday will be remembered as the day when the cold war between Jeremy Corbyn and his MPs finally ended and hostilities erupted into the open.

Since Mr Corbyn improbably became leader of the opposition Labour party last September he has endured several rocky moments. Sixty-six MPs defied him over the vote in December to bomb jihadis in Syria. There have also been sporadic resignations by well-regarded MPs including Michael Dugher, Pat McFadden, Jonathan Reynolds and Stephen Doughty. The latest rebellion, however, is the real thing: there is now no doubting the depth of the uprising against the mild-mannered 66-year-old.

The coup was supposed to begin with a secret ballot of MPs tomorrow, triggered by a letter from two MPs, Margaret Hodge and Ann Coffey. That was intended to demonstrate the depth of resistance within the Parliamentary Labour party — prompting a subsequent series of resignations by members of the shadow cabinet.

Instead, the plot was brought forward after Mr Corbyn discovered Hilary Benn, the shadow foreign secretary, was sounding out colleagues about their intentions. He was sacked on Saturday. Yesterday a string of senior Labour figures resigned from Mr Corbyn's shadow cabinet. Strikingly, they included Lilian Greenwood and Kerry McCarthy, two "soft left" members of the shadow cabinet with no links to either the Blairite or Brownite tribes.

The exercise was designed to prompt Mr Corbyn into walking out of a job he never sought in the first place: he had stood for the Labour leadership as a "token" hard left candidate. But since winning, Mr Corbyn has taken energy from the almost evangelical nature of his support in Labour's 400,000-strong membership. His spokesman has maintained that he is going nowhere.

If Mr Corbyn clings on, it would mean Labour having to go through a formal leadership race, forcing the party to turn in on itself once again just as the Conservative party is undergoing upheaval. The intentions of Tom Watson, deputy leader and the ring-leader of the 2006 coup that deposed Tony Blair, are still far from clear.

Presuming he did make it on to the ballot sheet — and even if he does not — there could be a lengthy contest which would not be concluded until the party conference in September.
Jim Pickard, London

BREXIT: FINANCIAL SERVICES

Interview. Jonathan Hill

City of London to be hit by loss of British voice

Eurozone priorities, dominated by Berlin and Paris, will be felt, says outgoing commissioner

ALEX BARKER — BRUSSELS

The City of London should brace itself for a new era where its rule book reflects Franco-German interests unchecked by "the British voice", according to Britain's outgoing EU commissioner in charge of financial services.

In an FT interview after his resignation on Saturday, Jonathan Hill laid out the imminent shift in power on European rulemaking, which could leave British financial institutions bending to eurozone-dominated priorities, even if London is outside the single market.

While it is hard to predict the form or speed of any turn against the City, Lord Hill said longstanding efforts to bring financial operations back to the euro area may be resurrected, including the European Central Bank's plan — annulled by the EU's top court — to locate clearing services in the single currency zone. "You know the history and sometimes history does repeat itself," he said.

His departure is the most tangible sign of British political influence in Brussels evaporating after its referendum vote to leave the EU, with power draining away from the British in EU institutions and the European Parliament. No new British commissioner was nominated, in part because a confirmation hearing in the European Parliament was seen as a lost cause.

Underlining the abrupt shift in influence, Lord Hill's powerful portfolio — initially offered to Britain as an olive branch — has been taken over by Valdis Dombrovskis, the commission vice-president responsible for the euro.

The move is a sign that the EU is shifting its policy goals towards aligning Europe's 28-country strong single market for finance with the interests of the smaller eurozone and its banking union, rather than allowing them to permanently coexist. It is an outcome Britain had spent 25 years fighting to avoid.

Lord Hill's point is that British banks and financial institutions will not escape this EU-27 rulemaking, whatever arrangements are found post-Brexit. Should Britain's single market access continue, with prized "passporting" rights to serve EU clients in London, the rules are likely to have to be adopted wholesale.

In any event, negotiating such access may be impossible. "Most approaches that offer access come with free movement of people and I can't see that flying given the weight of immigration as an issue in the referendum debate," he said.

Other senior EU officials believe the UK's passporting rights are effectively "dead" post-Brexit because other countries led by France will ensure any future form of passport will offer far less privileged access to a eurozone market with more protectionist rules. Banks have already begun to take action to shift operations out of the UK, approaching euro area regulators to secure licences.

If Britain seeks a deal outside the single market — based on EU and UK rules being deemed as "equivalent" and offering limited mutual access in return — many of those eurozone dominated rules will still need to be followed.

"Rulemaking will continue at a global level and at a European level . . . who is in the room and who has the critical heft is extremely important in how rules end up," he said. "The nature of the rules you have to be equivalent to, or passporting into, are going to shift," he added.

With Britain outside the bloc, a number of EU and ECB reform ideas it had thwarted could regain momentum, including a single capital markets authority, a more interventionist policy on markets in general and new bank capital rules better tailored to the interests of French, German and Italian lenders. Lord Hill's plans for a capital markets union may roll on, but over time take a more ambitious, eurozone-centred shape.

"The voices that would be present at the table without Britain there — the voice of the French financial services industry, German industry, Dutch, Irish — will clearly be heard," said Lord Hill.

"The nature and the shape of the financial services industry in France or in Germany — from the banking and any other point of view — is pretty different from what it is in the UK. So the direction of how policy will evolve will reflect those different voices, without the British voice in there to balance."

Clearly rocked by a tumultuous 48 hours since the referendum, Lord Hill spoke of his tremendous sadness at the result.

"The only sensible thing is to get everyone to put their effort into how you make things work as well as possible for the UK and the rest of Europe," he said. "I don't think you do that by everyone diving into the trenches and digging into conflictual positions."

City view: Lord Hill, inset, says British banks and financial institutions will not escape EU-27 rulemaking
Simon Dawson/Bloomberg

'The voice of the French financial services industry, German industry, Dutch, Irish, will clearly be heard'

Top table
European Parliament flexes its veto muscle

The European Parliament is demanding a seat at the top table when talks begin over Brexit, using its veto over any deal to muscle in on talks from their outset.

Long pilloried by Brexiters as a talking shop, MEPs are mobilising to ensure the assembly exerts more influence than ever over the UK's destiny. Veteran federalists who have clashed with British Eurosceptics, potentially including Guy Verhofstadt, a former Belgian premier, and Elmar Brok, a German centre-right MEP, could be included in the negotiating team. Both were involved during David Cameron's renegotiation of Britain's EU membership before the vote.

The parliament has the power to accept or reject whatever deal Britain agrees with the EU regarding the terms and trading arrangements. The deal must also be approved by a weighted majority of EU nations.

The heads of the parliament's four largest political groups have demanded they be "fully involved at all stages of the various procedures concerning the withdrawal agreement and any future relationship". Manfred Weber, leader of the parliament's largest group and an ally of German chancellor Angela Merkel, told the FT that MEPs "will be firm in the exercise of our watchdog role in the negotiations". "The European Parliament represents the interests of the 440m citizens of the remaining 27 member states," said Mr Weber, who leads the centre-right European People's party group. "We will not give our approval to a withdrawal agreement that is detrimental to the interests of the continent."

Mr Brok, head of the parliament's foreign affairs committee, said the role of MEPs would be "even stronger" than when Mr Cameron sought to renegotiate the terms of Britain's EU membership. The UK prime minister had to woo Martin Schulz, the parliament's German social democrat president, and others, to win limited support for migrant benefit curbs. Mr Brok laid into Mr Cameron, who will quit as prime minister, and Boris Johnson, the man most likely to succeed him, accusing them of playing "a great game by Eton lads that has taken place at the cost of their own country and at the cost of Europe". Eton is the exclusive private school attended by both of them.

Since Friday's referendum result the parliament has been at the forefront of those calling for talks to begin immediately and for Britain to activate Article 50 of the EU treaties, which would start a two-year timetable. Mr Brok gave a bleak assessment for Britain's bargaining power, warning any bid to secure full access to the single market would come with stringent conditions. Mr Verhofstadt, leader of the parliament's liberal group, said: "The negotiations are about more than merely settling a divorce with the UK. They are about the future of Europe."

Jim Brunsden, Brussels

Investment banks

Operations shift begins as doubts over 'passport' rights grow

MARTIN ARNOLD AND LAURA NOONAN
LONDON

Banks have already begun to take action to shift operations out of the UK, but most of their staff will have to wait several months to find out how many thousands of them will be asked to move to fledgling financial hotspots like Paris, Dublin and Frankfurt.

Investment banks, who donated heavily to the Remain campaign, have reacted immediately to Britain's referendum result, with some of London's largest institutions approaching regulators to secure licences, and lining up executives to relocate.

The big US banks — JPMorgan Chase, Goldman Sachs, Bank of America, Citigroup and Morgan Stanley — have large operations employing tens of thousands of people in the UK. They have historically set up their regulated businesses in Britain and then used its right to "passport" into the rest of the bloc. But lawyers are warning that after Brexit, they would probably need a new legal home base, so they are preparing to shift at least some work to cities such as Dublin, Paris and Frankfurt.

UK banks were also re-evaluating what to do with their businesses that trade EU — as opposed to UK — securities, because many analysts assume that clearing of those products will move to the continent. HSBC said before the vote that it could move as many as 1,000 trading jobs to Paris. But because the bank already has a Paris office, it could defer any decision until right before the UK's exit comes into effect.

The US banks are already preparing for the contingency that the right to sell financial products and services from Britain to EU clients could be partially or entirely abolished. "We'll get on with it," said a senior executive at one large US bank. "We've started to think about how we put people in our existing offices and entities in Europe. We are already rebalancing our footprint."

"Some stuff will move quickly — we'll travel at the pace of the slowest link," said the executive. "Regulatory approvals and permissions can take time; we will look ahead at all the circumstances," the executive added.

Damian Carolan of Allen & Overy said it would typically take banks two to three months to put a licence application together. They would then have to wait for about six months for approval for an investment bank or brokerage, or nine months for a retail bank. But he warned that those timetables could be extended, saying, "In these times, you will have a number of onshore regulators getting numerous questions."

Many of the US banks have been quietly bulking up European entities, but most of them still lack sufficient licences to carry out many of the operations they run out of London at present.

JPMorgan had warned before the referendum that as many as 4,000 jobs could be shifted out of London, but investment bank boss Daniel Pinto — whose unit employs most of JPMorgan's 16,000 staff in Britain — said the US group hoped to keep most of its UK investment bank intact.

Jonathan Lewis, head of Japan's Nomura International, which employs about 2,600 staff in London, said he was assuming the UK would be left at a disadvantage. "I don't see how anyone can say with any certainty that passporting will continue. Switzerland doesn't have passporting, neither does the US, so we cannot assume we will," he said.

Licence to leave Global banks weigh up whether they should stay or quit the Square Mile

MARTIN ARNOLD AND LAURA NOONAN
LONDON

There was sabre-rattling by banks ahead of the vote, with the likes of JPMorgan Chase and HSBC warning thousands of jobs would be moved out of London because they would no longer be able to run their European businesses from the UK. Up to now, most lenders have set up regulated businesses in the UK and used their right to "passport" into the 28-member bloc. London also serves as a centre for clearing and settling trades involving EU securities.

François Villeroy de Galhau, France's central bank governor, made clear that is no longer going to work: "If tomorrow Britain is not part of the single market, the City [of London] cannot keep this European passport, and clearing houses cannot be located in London either."

Are banks going to quit the UK?

The Financial Times has heard that some banks, particularly large US ones, are already activating contingency plans and sounding out regulators on licences required outside the UK. Executives are being prepared for an eventual move to other countries. But no moves are likely to be made in haste. Relocating investment banking operations and people is costly and complex. London still boasts many advantages — language, the legal system and the talent pool have been a boon, as well as more intangible draws such as housing, schools and cultural delights. Many traders will be thinking: do I really want to live in Frankfurt or Dublin?

How could the UK keep the banks?

The UK could opt for the so-called "Norwegian option", which would mean becoming a member of the European Economic Area and gaining access to the single market without being a full EU member. But there are two drawbacks: Britain would have to adopt relevant EU legislation — with no power to influence it — and it would have to accept the free movement of people, which is unlikely, given that immigration played a key role in the Brexit campaign.

Another option is the Swiss model of negotiating access by sector, but this excludes financial services. In any event, experts believe that it is unlikely to be offered. Equally, Britain could seek a Canada-style deal. But, that also excludes financial services. Finally, the UK could rely on the World Trade Organisation to lower trade barriers for goods but this would be likely to leave big ones on financial services.

Could a bank obtain a passport by setting up a holding company in an EU state and send a few staff there?

Almost certainly not. Lawyers and regulatory experts agree that to get a passport, banks would have to create a licensed bank and do business there. "There has to be some substance around it so it can be properly supervised," one regulator told the FT, adding that banks would get a "lot of pushback" if they tried to set up a tiny entity and use that as a base for their EU operations.

Roger Matthews, of law firm Dechert, said a licensed entity has to prove it is "actually going to carry out its business" in the state it is setting up in. The precise test for proving an entity is "real" and not just a brass plate varies from country to country, but the principle is that there needs to be local management, and a significant number of staff.

The entity also needs its own capital, so it will be able to meet the demands of the EU's bank recovery rules. "Ireland, Luxembourg and Malta are likely to be more user-friendly in this regard than some of the other EU states and the EU may itself seek to influence the approach taken by the local regulators," said Dick Frase of Dechert.

Even banks which already have licences are not guaranteed an easy ride because they are business-specific. "Whenever a regulated entity wants to change materially its business plan that will generally involve regulatory engagement," said Damian Carolan, a banking lawyer with Allen & Overy. "You don't just have this magic box into which you can drop new bits of business into and carry on as usual."

Are banking jobs going to move to states handing out EU passports?

Probably not. Mr Carolan said senior managers and front office staff including traders have to be in the same location as the new licensed entities — but there is more flexibility around other roles. "There has always been material scope within regulated entities to outsource or delegate transactions," he said.

Back and middle office jobs — essentially the pipes and plumbing behind trading businesses — could stay in the UK. But these are the kinds of functions that banks have been moving away from high cost centres like London for decades. Still, there is reason for optimism about some of the banks' operations in lower cost British cities like Birmingham, Bournemouth and Manchester.

What about EU banks in the UK?

The passporting system works both ways and several EU banks have large arms of their investment banking operations in the City. Once Brexit happens, EU banks from France and Germany may come under pressure from their regulators to move jobs home.

At the same time, the UK regulator may push the biggest ones to set up a full UK subsidiary so that it can have closer oversight of their activity and force them to hold more capital. The US has already done something similar, forcing big foreign-owned banks to set up separately capitalised holding companies. But this could backfire, driving more jobs and operations elsewhere.

European message

Begin divorce process to trigger talks, say leaders

Stand-off looms between bloc and London over timing of exit clause

ALEX BARKER — BRUSSELS
GEORGE PARKER — LONDON

European leaders are this week preparing to lay down strict rules of engagement with Brexit Britain, insisting no talks will take place until London starts a formal divorce process.

For the first time on Wednesday, 27 EU leaders will meet without Britain and issue a joint-statement that diplomats expect will stress negotiations begin only once a new British prime minister activates Article 50, the so-called exit clause in EU treaties.

It sets the stage for a protracted stand-off with London. Chris Grayling, a British cabinet minister and Brexiter, writes in the FT that the article "will not be triggered" until a "considerable amount of informal preparatory work has been done" in talks with the EU.

For France, Germany and Donald Tusk, the European Council president, the joint EU message is intended as a warning to David Cameron's successor as prime minister, making clear they will not entertain novel tactics or pick-and-choose demands on the single market. German chancellor Angela Merkel has said the talks need not turn "nasty".

Most EU member states backed that approach at a meeting of diplomats yesterday, with only Belgium and Italy pressing more haste, according to two diplomats present. There was little support for the tougher line taken by Jean-Claude Juncker, European Commission president, and European Parliament president Martin Schulz, who want London to start the divorce "immediately" before the Conservative party picks a new leader this autumn.

Preliminary work on the divorce plans in Brussels, Paris and Berlin is sketching out a timeline where Britain agrees to trigger article 50 in the second half of this year, while the formal notification could come on January 1 2017, according to senior officials involved.

This would start the clock on a two-year process ending in 2019 with Britain's formal exit from the union — a deadline European leaders are not inclined to extend for fear of Brexit talks dominating EU business for years to come. At a meeting of the 27 yesterday, French diplomats asked if it would be possible to complete the talks in less than two years but EU officials doubt that would be technically possible.

Mr Cameron will today hold a cabinet meeting where he will come face to face with some of the ministers — including his old friend Michael Gove — who engineered the Brexit defeat that has cost him his job. Later Mr Cameron will give a statement to the House of Commons, stressing his determination to stay in Number 10 until the autumn to try to offer "stability" for the country through a period of expected political and economic turmoil.

"He wants to create a stable and calming environment," said one ally of the prime minister. "He doesn't want to appear a bitter figure. He won't do anything that will put the country in jeopardy."

> 'They will lose this game of poker. We are bigger, it is as simple as that'
> Senior EU official

Mr Cameron wants to vacate Number 10 before the Tory party conference in Birmingham, starting on October 2. In the meantime he will tell MPs about plans for the civil service machine to start doing preliminary work on options for Brexit.

Sir Jeremy Heywood, head of the civil service, has written to Whitehall officials — many of them passionate Remainers in private — telling them it is their "clear duty" to support the government as it "sets a new direction for the country".

The precise direction will be a matter for the next prime minister and candidates for the Tory leadership are expected to make the terms of Brexit — for example whether Britain should stay in the EU single market — a key part of their campaigns.

Once Article 50 is triggered, EU officials are willing to see trade talks begin at the same time, the complexity of which will depend on UK demands.

While any trade deal would take longer than the divorce, EU officials note Article 50 makes clear the divorce should take account of the "framework" for future relations. Diplomats explored transition options to bridge the gap between divorce and trade deals. If Britain opts for a traditional trade deal, outside the single market, one option is for both sides to agree not to raise tariffs on goods until a final agreement is ratified.

There is growing alarm in Brussels and Whitehall over a protracted stand-off on Article 50. While triggering the clause is ultimately up to the UK, the EU side is banking on a Brexit government choking on the continuing price of EU membership, rising at more than £500m a month in net contributions.

Mr Grayling writes that the EU has "as much to lose from getting this wrong", adding: "On Friday the biggest market falls were not in London, but elsewhere in Europe." A senior EU official said: "They will lose this game of poker. We are bigger, it is as simple as that."

Chris Grayling see Comment

Way back. Options

Election of pro-EU government only way to halt Brexit

Few MPs would be prepared to defy result and petition for second plebiscite will not do

PHILIP STEPHENS — LONDON

Four days after Brexit, is there any way back? A petition calling on MPs to overturn last week's vote to leave the EU is up to 3.3m and counting. Young people, three quarters of whom voted to stay, have turned to social media to voice anger and dismay that their future has been decided by retired baby-boomers.

Former prime minister Tony Blair has suggested a second referendum is possible and, with financial markets shaky and Brussels already closing doors on Britain, buyer's remorse may well spread. So could the nation change its mind? Well anything is possible but, as things stand, one can make only two statements with confidence. And no, they are not consistent.

The first is that the Brexiters are about to discover that unravelling Britain's relationship with the EU will be costly and hugely disruptive. Politically, legally and constitutionally it will be immeasurably harder than imagined in the bluff statements of outers such as Boris Johnson and Michael Gove.

The second is that something truly extraordinary would have to happen before parliament — which remains the sovereign decision maker on the matter — decided to overturn the will of the 17.4m people who voted for Brexit in the referendum. A few million signatures on a petition will not do it. The absolutely minimum requirement would be a general election victory for a party that had promised explicitly to think again.

After the party . . .

Leading Brexiters have been celebrating what Nigel Farage, UK Independence party leader, has called "independence day" and Mr Johnson is planning his bid for 10 Downing Street.

Now the hangover looms. The more thoughtful among the Outs have realised that tearing up four decades of foreign and economic policy will not be as easy as they thought. The obstacles are formidable, even if you put aside the determination of some EU states to make things as difficult as possible. Back in Britain the leavers have yet to agree even on when to trigger Article 50 of the EU treaty, which would start the clock ticking on a two-year process of withdrawal.

More fundamentally, two-thirds of the MPs who must put the decision into law were on the Remain side of the argument. Few would be prepared to defy last week's vote but the referendum said nothing about what should replace full membership. A majority would probably back some form of association agreement keeping Britain in the single market. But this is explicitly at odds with the leadership of the Leave campaign. The result could be political paralysis. Parliament must approve any eventual settlement.

The differences do not stop there. One argument deployed by the leavers is that money would be freed up to spend on the NHS and other public services. But the Outs also include a large group of rightwing market liberals who want to cut public spending and reduce taxes. Someone is going to be disappointed.

It is hard to see how these conflicts will be resolved, particularly if Tory party activists send Mr Johnson to Downing Street. The former London mayor is loathed by a significant segment of Tory MPs and would struggle to command loyalty in the Commons.

The problems do not stop at Westminster. EU membership is embedded in the devolution settlements for Scotland and Northern Ireland. Disabling EU law in those jurisdictions would require the consent of the Scottish parliament and Northern Ireland assembly. Nicola Sturgeon, Scotland's first minister and Scottish National party leader, has made it plain the SNP-dominated parliament will refuse. A constitutional crisis looks inevitable as does a second referendum that, this time, could see Scotland leave the UK.

Second thoughts?

So if it is all so difficult why not think again? Well, most obviously when parliament legislated for a referendum it made clear that it would respect the outcome. The vote was won by the Brexit side and discarding the votes of the majority by any stretch would be an extraordinary constitutional act. Sure, other European nations have reversed themselves on EU issues but they have different constitutions and there was far less at stake.

The Conservative Outs are not about to change their minds, so any reconsideration would require the election of a new government with a clear mandate to negotiate a new arrangement with the EU-27 and put the outcome to a second referendum.

In other circumstances this might be imaginable — just. But the Labour party is at present led by Jeremy Corbyn, a politician widely regarded as unelectable and anyway at best lukewarm about the EU. The weekend mass resignations of members of his shadow cabinet might lead eventually to Mr Corbyn's departure, but it a huge leap from there to imagine a new leader of the opposition sweeping to victory in a general election.

Even this assumes that the other 27 members would be willing to stand by for another couple of years while Britain argued with itself as the expense of gridlock in Brussels. Yes, even at this late stage, Germany's Angela Merkel would probably like Britain to stay. And a change of heart would be possible even after Britain had invoked Article 50. It is the politics that gets in the way.

> It is far from fanciful to imagine . . . the creation of a new, centrist, pro-European party

Anything is possible

So pro-Europeans should give up? No. So as long as a British government does not trigger Article 50, Britain remains an EU member. The political forces unleashed by this referendum are unprecedented and unpredictable. It is far from fanciful to imagine that the next two years or so will see the complete recasting of the nation's politics, quite possibly with the creation of a new, centrist, pro-European party. So those who want Britain to stay close to its own continent could think the unthinkable and work to make it thinkable.

Voicing their disapproval: young people, three quarters of whom voted to stay in the EU, have turned to social media and protests to voice their anger at the referendum result — Peter Macdiarmid/LNP

Migration

East European states ready to dig in over migrant rights

HENRY FOY — WARSAW

Britain will face a determined and defensive eastern Europe in negotiations to exit the EU — as countries such as Poland and Slovakia prepare to dig in over the rights of European migrants in the UK.

Officials across the region say maintaining benefits and privileges for their citizens living and working in the UK would be one of their priorities in exit negotiations. They also warned that they would veto any proposals for Britain to regain trade benefits without full freedom of movement.

British voters' demands to control immigration more tightly was one of the main drivers of the Leave vote and possibly one of London's most significant obstacles to reaching a post-Brexit market access deal with the EU.

Eastern states last year doggedly opposed Prime Minister David Cameron's attempts to curtail benefit rights of EU migrant workers, but reluctantly agreed to allow some curbs as part of a "new settlement" that ultimately fell flat with voters in the EU referendum.

"The [benefit] promises were valid only if [the UK] voted Remain," said Tomas Prouza, Europe minister for the Czech Republic. "Nobody will want to negotiate a new arrangement for the UK right now. . . The danger is that others pick up the anti-free movement line and we'll see a further east-west divide."

Beata Szydlo, Polish prime minister, said: "For the Polish government, the most important issue will be the fate of Polish citizens who live in Great Britain. We will try to negotiate that they maintain the privileges they got on their arrival."

Diplomats from Poland, Slovakia, Czech Republic and Hungary would be likely to negotiate with Britain as a bloc, officials said on Friday. More than 1.2m people from those four countries are estimated to be living in the UK. Viktor Orban, Hungarian prime minister, said he expected an agreement between London and Brussels to guarantee their status.

Additional reporting by Alex Barker in Brussels

Germany

Merkel seeks to calm EU crisis fears ahead of summit as concerns rise over populism

STEFAN WAGSTYL — BERLIN

Behind the funereal calm of chancellor Angela Merkel's response to the UK's shock Brexit vote is a desperate attempt to contain the havoc that it might wreak on Britain, Germany and the whole EU.

Europe's most powerful leader faces mounting demands from Jean-Claude Juncker, European Commission president, and others in Brussels for a rapid EU response to Britain's decision — and for David Cameron, UK prime minister, to be pressed to launch exit procedures as soon as tomorrow's EU summit.

The calls extend to her own coalition government, where Frank-Walter Steinmeier, her foreign minister, and his Social Democrats want urgent action.

She is also fending off calls for early EU-wide reforms amid fears that inaction could create space for populists.

Ms Merkel is trying to balance her conviction that Germany's valuable economic ties with the UK should not be shredded with two broader EU concerns. The first is a concern that accommodating a Brexit might encourage other exits. The second is her commitment to solve EU-wide problems, such as the refugee crisis, with EU-wide answers acceptable to an increasingly sceptical public.

The chancellor insisted on Saturday that while the Brexit process should not be "indefinite" she would not "push for an immediate withdrawal". Nor should the EU be harsh on London. "There is no reason to be particularly nasty," she said. Ms Merkel's caution is not based on any dream of a miraculous British U-turn. She dealt with "facts" not "hopes", she said.

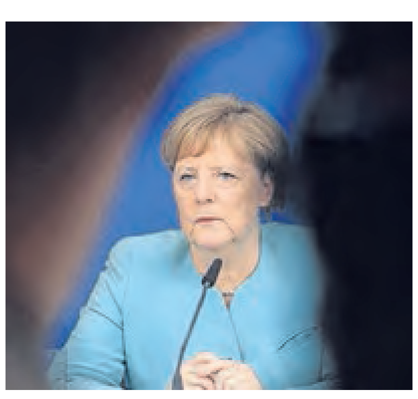
The 61-year-old veteran is the EU's longest-serving leader, and brings to the latest crisis her own preference to take things slowly and divide seemingly intractable problems into manageable slices. Her first priority is to not make a bad situation worse and stoke populism elsewhere, most immediately in Spain.

Voters there went to the polls yesterday to try to unlock the result of a vote six months ago that failed to create a stable government. France, the Netherlands, and the Czech Republic have all seen demands for exit referendums.

Next she is determined to avoid a free-for-all in post-Brexit EU reform plans, which could create chances for radicals to advance agendas. Jaroslaw Kaczynski, the leader of Poland's Eurosceptic ruling party, and former French president Nicolas Sarkozy have already proposed EU treaty changes. The same applies for future ties with Britain, Germany's third largest export market, after the US and France.

While her own finance minister, Wolfgang Schäuble, has floated plans for an "associate partnership" status for the UK, Ms Merkel argues it is too early to start such discussions and the debate is still a live one within Germany.

German industry is arguing against using exit talks to punish the British and set a precedent for other EU members. But others believe exiting has to carry a cost. Detlef Seif, a parliamentarian in Ms Merkel's CDU/CSU bloc, said the party wanted the EU to "calmly negotiate with the UK" and to recognise the UK's status as a "friend". "But EU membership must always have a special value."



Angela Merkel wishes to avoid a free-for-all in post-Brexit reform

Unity among the 27 remaining members in the EU is important to Ms Merkel. For that reason she has indicated key talks should be left to tomorrow's EU leaders summit. Already a gathering in Berlin on Saturday of foreign ministers from the EU's six founding states has been attacked by those left out, notably eastern European states.

The chancellor also frets that political tensions inside Germany, which could worsen as next year's elections approach, might affect the debate. Sigmar Gabriel, leader of her Social Democrats coalition partner, was due to attend a centre-left leaders' gathering in Paris today hosted by President François Hollande. Among their demands is a relaxation of the chancellor's austerity-led approach to the eurozone's economic woes.

Peter Altmaier, Ms Merkel's chief of staff, warned in a radio interview yesterday against starting the German election campaign before the year-end at the earliest.

Meanwhile, Ms Merkel knows well that Germany risks being cast as the EU's bully-boy again if it plays too big a role in the Brexit crisis. Attacked over eurozone austerity, the Greece rescue and unilateral decisions in the refugee crisis, she sees the dangers today could be even greater, because populists feel empowered.

"I don't believe that Europe can be led and managed by only one country alone," Mr Altmaier said in his interview.

"But it is right that in this situation many are looking towards Germany."

Employers

Anxious businesses freeze jobs and cut plans for investment

Britain more resilient than after 2008 crisis but still vulnerable

GEMMA TETLOW AND SARAH O'CONNOR

Britain's vote to leave the EU is prompting a sizeable minority of employers in the UK to freeze hiring and cut their investment plans, according to a survey of more than 1,000 business leaders.

The poll is an early indication that a British exit from the bloc will hit jobs and investment as employers grapple with volatile markets and political instability. Almost two-thirds of the business leaders surveyed by the Institute of Directors on June 24-26, immediately after the vote, said the referendum result would be "negative" for them.

A third said they would hire at the same pace, a quarter planned to freeze recruitment and 5 per cent expected to fire staff. More than a third planned to reduce investment plans and a fifth would consider moving some operations abroad.

"We cannot sugar-coat this: many of our members are feeling anxious," said Simon Walker, IoD director-general.

Many economists are already revising down their forecasts for growth in 2016 and 2017, with some expecting a recession. The revisions are in line with projections made before the referendum by economists, the Treasury and others.

Even Nigel Farage, leader of the UK Independence party, told the Telegraph the UK was "going into a mild recession", although he insisted this would have happened "regardless of Brexit".

The IoD survey tallies with anecdotal evidence. Erik Nielsen, UniCredit's global chief economist, reported in a note to clients on Sunday: "My neighbour . . . who runs a small IT company catering predominantly to the financial and legal industries, told me this morning that virtually his entire order book was cancelled on Friday by clients who are putting their projects on hold."

In three key ways, Britain is more resilient than it was in 2008 when the global financial crisis hit. The shock of a Leave vote is very different from the subprime mortgage debt crisis, which struck banks' balance sheets and raised serious questions about their solvency. Mark Carney, Bank of England governor, said on Friday that banks were now much better placed to continue lending to businesses and consumers. If banks and building societies did start to restrict access to credit, the BoE could extend its Funding for Lending Scheme, which incentivises lending to the real economy.

The sharp depreciation of sterling will provide respite for some companies, particularly those that have significant earnings in foreign currencies and those that sell much of their output abroad. This was apparent on Friday, as the international FTSE 100 fell by 3 per cent, and the FTSE 250 fell by 7 per cent.

Brexit's impact is more narrowly centred on the UK than the 2008 crisis was, meaning that demand for exports from our major trading partners is likely to hold up better. This will be particularly true if European leaders can prevent Britain's vote to leave the EU precipitating similar breakaway moves from other countries within the bloc.

> 'Virtually his entire order book was cancelled on Friday by clients putting their projects on hold'

Yet the UK economy is still vulnerable. Furthermore, with interest rates at record lows and government borrowing still high, there is less scope for policymakers to help out this time.

The depreciation of sterling, though beneficial for some export businesses, will push up the price of imported goods and reduce consumers' spending power. Household incomes will also be hit if unemployment rises.

In such circumstances, consumers would usually cut back on less essential purchases, reducing demand for cars and overseas travel. Uncertainty is also likely to depress the housing market as homebuyers reassess finances and wait to see which way the UK economy is moving.

When demand suffers, central banks usually step in. The BoE's Monetary Policy Committee thinks a further rate cut from 0.5 per cent would provide some boost to demand. But others worry this would be useless or counter-productive.

Neil Williams of Hermes Investment Management, cautioned that additional quantitative easing would bring with it "attendant pressures on pension funds".

Fiscal policy may provide only limited support to the economy in the coming months. Public sector borrowing and debt are much higher than in 2008, limiting the scope for fiscal stimulus.

More of a risk is the political instability, which will make it harder to find someone with the authority to quickly implement a significant fiscal stimulus.

For business leaders, this may well be the biggest concern. Their top two priorities are for the economy to be stabilised and for a new trade deal with the EU, according to the IoD survey. "We were promised an open and outward-looking country after Brexit. Now it must be delivered," concluded Mr Walker.

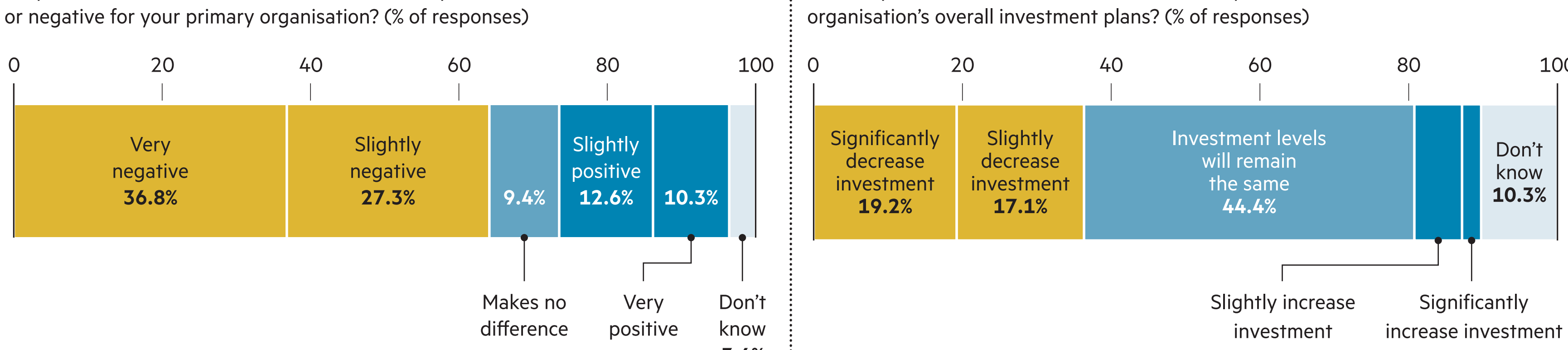
Testing times Uncertainty hangs over jobs market

Simon Dawson/Bloomberg

Institute of Directors Brexit reaction survey

Do you think the result of the referendum will be positive or negative for your primary organisation? (% of responses)

What impact will the referendum result have on your organisation's overall investment plans? (% of responses)



Source: Institute of Directors Results from 1,092 members, June 24–26

US monetary policy

Dollar surge presents Fed with conundrum

SAM FLEMING — WASHINGTON

As Federal Reserve officials anxiously scan the aftershocks of the Brexit vote in the coming days, the reaction of the US dollar in currency markets will be front and centre of their attention.

The dollar rose sharply on Friday in response to the UK's vote to leave the EU as money flowed into perceived havens. But a further surge would inject a destabilising element into already unsettled markets and add pressure on the Fed to delay any future rate rises.

Lewis Alexander, US economist at Nomura, said the dollar would be "the first order of business" for the central bank as it examined the markets, followed by gyrations in credit and equities. The dollar has been a main driver of Fed policy for the past two years because of the drag that a strong currency has imposed on US exports, inflation and corporate earnings. Nearly half of sales by S&P 500 companies in 2014 were generated overseas, according to UniCredit research.

The strong dollar has also injected financial volatility into emerging markets as seen in January and February. It could pose a particular threat to China by rekindling worries about capital outflows and currency devaluation. It is also a potential menace to other emerging markets because of their large stocks of dollar-denominated debts.

"A continued appreciation of the dollar could be the most serious channel of contagion to global markets," said Roberto Perli, an economist at Cornerstone Macro. "This is the same mechanism that led to the market sell-off in January and February."

The Brexit vote has already significantly damped expectations for monetary tightening by the Fed as policymakers warn of possible repercussions for the US economy from market turmoil. Futures trading now suggests the US central bank will hold short-term rates for at least the rest of the year, while some market participants have raised the possibility of the Fed reversing last December's quarter-point rise.

The Fed will be wary of dashing into an early cut given the panicky message that would send, but the Brexit shock has come at a time when the global economy is already languishing in a low-growth, low inflation trap.

Janet Yellen, Fed chair, said after its June meeting that a Brexit vote would have an impact on the outlook for monetary policy, in an indication that it would at the least lower the odds of a near-term upward move.

The central bank said on Friday it would offer dollar liquidity if needed and that pressures in global funding markets "could have adverse implications for the US economy".

"This comes in an environment where the US economy was not that strong and the Fed is clearly thinking about reassessing the whole trajectory of rates anyway," said Mr Alexander of Nomura. "You add this on top and they are not doing anything for a while."

The strong dollar injected financial volatility into emerging markets at the beginning of the year

Fed officials including Ms Yellen took to the phones in the early hours of Friday and into the day as the UK news emerged and market anxiety grew. She handled discussions from Basel, Switzerland, where central bankers later gathered for talks dominated by Brexit.

Ms Yellen is — together with many other of the world's central bankers — this week due to go to Sintra, Portugal, where the European Central Bank is holding a forum.

The event will give her a chance to commune with her counterparts and, on Wednesday, another opportunity to respond publicly to the turmoil. The problem for the Fed, however, is that the uncertainties surrounding Britain's relationship with the EU are likely to persist for months.

"The near-term impact [of the UK's vote] is going to be uncertainty," said Tim Hopper, chief economist at TIAA Global Asset Management. "The Fed's golden rule is uncertainty slows economic growth — or at least has potential to. They will look at this and say we need to step back and reassess."

Policymaking

Statist and protectionist outlook to win more influence

JIM BRUNSDEN AND DUNCAN ROBINSON
BRUSSELS

Britain's exit from the EU shifts the balance of power on policymaking for business, boosting a Franco-Italian bloc with more statist and protectionist instincts — that has long bemoaned the union's free market agenda.

For business, the impact could be felt even before Britain leaves, on matters ranging from competition enforcement and to digital regulation. Indeed, if Britain is granted access to the single market, it may look very different to the one it decided to leave.

Trade

Free-trade advocates in Brussels were already on the ropes. Britain's exit could mark a hammer blow to efforts to seal trade deals with North America that have already hit a rocky patch.

A popular backlash in Germany, Austria and other EU nations have drained political momentum out of talks with the US on the Transatlantic Trade and Investment Partnership, amid widespread fears that it could drag down social and environmental standards. A similar deal with Canada, which was set to be signed later this year, has also become a target.

For Karel Lannoo, chief executive of the Centre for European Policy Studies in Brussels, Britain's departure leaves both trade agreements "in limbo". A senior EU official puts it more bluntly, saying TTIP is "finished".

Technology

When it comes to technology regulation, the consequences of Brexit could be felt most keenly in Silicon Valley.
In Brussels, a Franco-German axis determined on reining in the perceived excesses of US technology groups, such as Google and Facebook, had been balanced by a British-led group of member states who were more inclined to looser regulation.

"The areas where it will make a big difference are ones with a transatlantic, protectionist element," said one EU diplomat who works on the topic.

In Britain's absence, Paris and Berlin will have a much freer rein to pursue their own agenda, amid persistent lobbying from their own national champions. This will affect everything from copyright reforms, which are likely to be watered down, and telecoms regulation, where the likes of Facebook's WhatsApp and Microsoft's Skype can expect a much tougher regulatory environment.

Services

One of the medium-term casualties is likely to be the bloc's push to make a single market for services, which are the mainstay of the British economy.

The European Commission has pledged a renewed push in this area. But without the UK this plan is likely to wither, says Sharon Bowles, former chairwoman of the EU's parliament economic committee. "It begs the question of what kind of single market the UK will be trying to get access to in the future," she said. "It won't be a fulsome single market in services — a lot of that will go down the pan."

Competition

For decades London has long been a protector of Europe's top competition watchdog, the European Commission. Partly with its help, Brussels has seen-off various Paris-backed initiatives to water down antitrust and state aid rules, or weaken its ability to enforce them.

These competition enforcers appear more vulnerable now. France and Germany have already made plain their unease with Brussels hindering consolidation in areas such as telecoms to create European champions.

Finance

Britain was both a champion and a scourge of the EU's pursuit of common rules for banks and financial markets. It fought centralisation of regulatory power to supervise or police markets and institutions, while strongly backing efforts to break down barriers to cross-border investment.

The European Central Bank, France, the commission and Jeroen Dijsselbloem, the president of the eurogroup, have all backed the creation of a "single European capital markets supervisor" — a dream that now may come to pass.

Without the UK, expect a classic Franco-German agenda focused on limiting competition to big exchanges such as Germany's Deutsche Boerse, stiff market regulation, concerns about hedge funds and a more dovish stance on capital and other core bank rules.

Impact on business

Future of big infrastructure projects thrown into doubt

JIM PICKARD AND GILL PLIMMER

A new runway in south-east England, the sale of billions of pounds of Lloyds Banking Group shares, the rescue of Tata Steel UK and a new nuclear power plant are among the UK government's big projects thrown into doubt by the Brexit referendum.

The focus since Friday's referendum result has been on the financial markets, the political fallout and international reaction to Britain's vote to leave the EU. But as Whitehall starts to focus on the exit negotiations, civil servants and business leaders are also trying to calculate the impact of Brexit on projects that a victory for David Cameron and the Remain campaign were meant to kick-start.

Several big announcements were scheduled for July, including a decision on where to build a new runway in the south-east — considered crucial to the UK's attractiveness as a business destination — a vote on the Trident nuclear capability and the Chilcot report into the Iraq war.

Campaigners against a third runway at Heathrow said the rise of Boris Johnson, who is opposed to the scheme, could scupper it. "Brexit must cast doubts on whether a third runway at Heathrow will ever be given the green light," said John Stewart, chairman of anti-Heathrow expansion group Hacan. Ministers were meant to announce a decision on whether to expand Heathrow or Gatwick before the end of July.

Richard Laudy, head of infrastructure at Pinsent Masons, the law firm, said: "Inevitably, some projects will be cancelled or at least delayed [but] further delay in the resolution of the UK's chronic airport capacity problems will be a huge and damaging setback."

Experts suggested the government could start to rethink a number of other controversial projects, including the new £18bn nuclear power station at Hinkley Point, a crucial part of the UK's future energy mix, and the High Speed 2 railway line, part of the government's "northern powerhouse" project to revitalise the north's economy.

Lord Berkeley, a Labour peer and transport expert, said that given the financial uncertainty caused by Brexit and the turmoil in the Tory party, "the priority for the government at this time will not be big sexy projects such as HS2 . . . or the new £4.2bn London 'super sewer'." He suggested that such projects should be scaled back.

Another potential casualty of the referendum result is the government's attempted rescue of Britain's steel industry, with thousands of jobs in the balance. After announcing in March that it planned to sell the business, the Indian steel company Tata had been close to changing its mind and staying in the UK after business secretary Sajid Javid offered various incentives to do so.

Yet Tata had always made it clear it valued access to the EU single market, which is now up in the air. The future of Mr Javid as business secretary is also uncertain after he picked the losing side in the referendum. There will now be "recalibration", said one person close to the company's thinking. "This could change everything."

Heathrow: a third runway could be doubtful if Boris Johnson is PM

Meanwhile, the sale of billions of pounds of taxpayer-owned shares in bailed-out UK banks has been shelved as a result of stock market turmoil following the vote to leave the EU.

Plans to start the sale of £2bn of retail shares in Lloyds over the next six months have been dropped, according to government advisers, dealing a blow to UK taxpayers. Similar attempts to offload the 73 per cent stake in Royal Bank of Scotland as well as £17.5bn of loans issued by defunct lender Bradford & Bingley will also be pushed back, they said.

Banking sector shares plummeted on Friday on worries about their operations outside the EU. Shares in Lloyds dropped by a fifth, closing at 57p, well below the government's break-even price of 73.5p.

Mr Javid insisted yesterday that the government was carrying on as normal. "Business wants to see more certainty. There are concerns there about some of the changes that will take place. I'm sure others will see opportunities," he said. "But the leadership is there. There is no vacuum here. . . . The government will stay in place, the cabinet is still in place."

US to sharpen Germany focus as UK influence ebbs in Europe

Clash of views on fiscal policy and role of austerity will limit new relationship

GEOFF DYER, DEMETRI SEVASTOPULO AND DAVID J LYNCH — WASHINGTON

As one special relationship falters, another may beckon. The British vote to leave the EU could hasten a changing of the guard among Washington's European allies, with Germany replacing the UK as its most important partner.

In the immediate aftermath of the Brexit vote, the White House has gone out of its way to emphasise the enduring links that will remain between the US and the UK. "One thing that will not change is the special relationship that exists between our two nations," US president Barack Obama said on Friday.

But Mr Obama has less than seven months left in office and much will depend on the attitude of his successor. The reality is also that even before the British referendum on June 23, the US had increasingly been looking to Germany, and to a lesser extent France, as its go-to ally in Europe — and that process is likely to accelerate as London's influence in the region diminishes.

"Henry Kissinger's famous question about 'Who do I call in Europe?' has now been settled. The answer is that we call the German chancellor's office. That means we have to invest in the relationship with Germany," said Nicholas Burns, a former senior state department official in the George W Bush administration, who is now advising Hillary Clinton's presidential campaign.

"Britain introduced us to the EU and introduced the EU to us, playing a pragmatic role. But much of that will be gone," he added.

John Kerry, US secretary of state, is due to visit Brussels and London today for emergency talks about the impact of the Brexit vote. Since the end of the second world war, the US relationship with the UK has been the critical hinge in the broader western alliance and few American politicians or officials want to turn their back on Britain.

However, "the US must face the fact that the UK will likely be less of an effective and reliable partner in global affairs", said Jim Stavridis, former Nato supreme commander and now dean of the Fletcher School at Tufts University. "The US-UK relationship is about to get somewhat less special, unfortunately."

There is also a broad acknowledgment that the importance of Germany is bound to rise — at the UK's expense. "We will now work to strengthen our relationship with Germany, given the UK's influence in the EU has been greatly diminished. A more isolated UK reduces its importance in Washington," said Brendan Boyle, a Democratic congressman from Pennsylvania.

Yet there are limits on how close the relationship between Washington and Berlin can become. The Obama administration and its German counterparts have different views on fiscal policy and the role of austerity in Europe — a division that was apparent during Greece's economic crisis and that could flare up again if France, Italy and other European countries push for greater public spending as a response to rising populism.

Allies: Angela Merkel, German chancellor, and Barack Obama two months ago in Hanover, where their flags flew with the EU's, below

Wolfgang Rattay/Reuters; John MacDougall/AFP/Getty

"Germany will become even more dominant in the EU," said Ben Cardin, the most senior Democrat on the Senate foreign relations committee. "We have an excellent relationship with Germany, [but] it will be a challenge for us in dealing with the EU, as we don't have Great Britain as our interlocutor."

The US Treasury worked closely, but ultimately unsuccessfully, with the UK to try to influence Germany's stance on Greece, said Mujtaba Rahman, a former EU and British Treasury official who now leads the Europe practice at the Eurasia Group, a risk consultancy.

"The bilateral relationship [between the US and Germany] will become much more important, but it will be difficult to get a common position on a number of issues, including budget deficits and austerity," he added.

With its postwar reticence on using its military, Germany also has a different stance on security to the US. "Germany is going to have to change. Where they have been hesitant to take a lead in security issues, before they could look to the UK and France," said Mike Turner, US congressman from Ohio. "It puts additional pressure on Germany and its membership in Nato."

Such German restraint could leave Washington looking for other European partners. Over the past two years, the US has already worked more closely with France on security, something that would have been unthinkable a decade ago in the aftermath of the Iraq invasion. Italy also has started to enjoy a higher profile in Washington, partly because of its role in diplomacy in Libya.

'The US-UK relationship is about to get somewhat less special'

Britain, a crucial Nato member, can maintain a central position in the Pentagon's worldview, as long as its EU exit does not lead to new defence budget cuts and a broader international withdrawal.

Peter Westmacott, former British ambassador to the US, said the country's recent decisions to boost defence spending would be unaffected by the Brexit vote, as would the nuclear deterrent.

"In the longer term, people will ask questions about Britain's role in the world," he said. "But for the time being issues of defence and security and intelligence and counter-terrorism are separate from the results of this referendum."

Middle East

Iraqi army declares battle for Fallujah over

At least 1,800 militants said to have been killed as Isis driven from city

ERIKA SOLOMON — BEIRUT

The Iraqi commander leading the fight to recapture Fallujah declared the battle "over", after government forces entered the last Isis stronghold in the city.

Iraqi troops, aided by US-led coalition air strikes and support from Shia militias, fought for nearly 30 days to retake the city that is the longest held by the militant group in Iraq.

Haider al-Abadi, Iraq's prime minister, prematurely claimed victory when government forces entered the city centre more than a week ago, but a group of fighters loyal to Isis held out in a north-west district known as Golan.

Lieutenant-general Abdul Wahab al-Saidi said the struggle to clear that area, which for more than a decade has been a militant stronghold, was completed over the weekend.

"Central Golan district . . . has been cleaned by the counter-terrorism service and we convey the good news to the Iraqi people that the battle of Fallujah is over," he told state television, according to Reuters news agency. Noting that at least 1,800 Isis militants were killed in the operation, he added that pockets of militants might remain in the city.

Fallujah has symbolic resonance for Iraqis and US forces alike. It had been a stronghold of Sunni militants since the US 2003 invasion and the site of some of the fiercest fighting the Americans faced. More recently, it became the harbinger of what was to come for Iraq when it was seized by Isis in January 2014, six months before the militants captured Mosul in a blitz that pushed the army close to collapse.

> Iraqi forces have vowed to recapture Mosul by the end of the year, despite scepticism among analysts

Shortly afterwards, Isis announced its so-called caliphate across the territory it held in Iraq and neighbouring Syria. But coalition-supported forces in both countries have taken the offensive to Isis in recent months. Washington says Isis has lost nearly half its territory.

Iraqi troops, aided by fresh training and equipment and coalition support, have scored a string of victories this summer, taking the likes of Hit and Ramadi before the battle for Fallujah. They hope to clear the rest of Anbar province as well as areas around their last and most challenging target, Mosul.

Iraqi forces have vowed to recapture the city by the end of the year, despite scepticism among military analysts and security forces linked to Iraq's semi-autonomous Kurdistan region, which sits on the border with Mosul and its surrounding province, Nineveh.

"The liberation of Nineveh will be achieved this year, God willing," Khaled al-Obaidi, Iraqi defence minister, said hours after the Fallujah victory. But Mosul is especially complicated to capture because Isis forces are more dug in and because of rivalries among Iraqi troops and their foreign backers, such as the US, Iran and Turkey.

Yet as Isis loses ground, it has in some ways become more of a threat to those outside its territory. The group has increased its use of suicide bomb attacks on civilian targets in the region and beyond, including Europe, and has encouraged supporters to do the same.

It is also unclear how much the capture of Fallujah is due to the strength of Iraqi and coalition forces, and how much to the fact that Isis seemed to withdraw in droves more than a week earlier — which allowed thousands of trapped residents to flee.

More than 85,000 residents have left since the army launched its Fallujah campaign on May 23. Many are now in overwhelmed camps, often in sweltering heat and with very little water.

Southern Africa. Cash crunch

Dollar shortage highlights Zimbabwe's woes

Fears grow of native currency returning amid desperate bid to reopen credit lines with IMF

TONY HAWKINS — HARARE

Patient wait: customers queue at a CABS bank in Harare. Uncertainty over who will succeed Robert Mugabe, below, is worsening the economic crisis
Jekesai Njikizana/AFP/Getty

The queue outside the Harare branch of CABS bank stretches to at least 60 people, as Zimbabweans wait patiently to withdraw cash amid a deepening US dollar shortage in the southern African nation.

If they are lucky, the cash machine will have notes — many do not and availability can vary depending on the time of day.

In nearby shops, retailers warn that the scarcity of dollars — the dominant currency in the import-dependent nation — will soon start to show on supermarket shelves. Authorities this week imposed restrictions on imports of a range of goods, from bottled water to fertilisers and canned beans, while local businesses complain of not being able to pay suppliers.

The currency crisis is indicative of the dire state of the economy under the regime of Robert Mugabe, Zimbabwe's veteran president, which is desperate to reopen credit lines with the International Monetary Fund and the World Bank.

The government had promised to address the dollar shortage by printing so-called bond notes — effectively currency notes — that are supposed to have the same value as the greenback. The announcement in May effectively meant Harare was reintroducing its own currency seven years after it ditched the Zimbabwe dollar at a time when the country was gripped by record levels of hyperinflation.

But in the weeks since, a series of confusing and contradictory statements by officials, coupled with concerns that the government's intention is to use backdoor methods to reintroduce the Zimbabwe dollar, has merely exacerbated economic uncertainty. "It is a spectacular own goal," says one banker who did not want to be named.

Zimbabwe's central bank originally said it would introduce up to $200m of bond notes backed by a loan from the African Export-Import Bank starting from next month. But their introduction has been delayed twice, and the central bank says that only $2m of the notes will be in circulation by the end of the year. "We are in classic headless chicken territory," another banker says.

Zimbabwe has used a multicurrency system since 2009 after dumping the Zimbabwe dollar in the wake of a period of economic chaos during which the central bank issued Z$100tn notes that lost value almost as soon as they were printed.

The US dollar has dominated since then, accounting for more than 90 per cent of transactions. The South African rand accounts for about 5 per cent of transactions.

But the depressed state of the economy, which has been hit by political uncertainty — including over who will succeed the 92-year-old Mr Mugabe, crippling infrastructure bottlenecks and drought — has triggered the US dollar shortage.

A vehicle importer says he has been unable to pay his suppliers for five weeks and will have to downsize his operations if payment conditions are not eased. Quest Motors, a local vehicle assembler, says it has sold just 40 units this year and is operating at below 1 per cent of capacity.

Few believe the introduction of the bond notes will provide the solution — the notes are derided on social media as "Zimbabwe dollars that went to private school".

But Zimbabweans, badly burnt by the hyperinflation of 2005-08, fear that in an effort to ensure it can pay its bills, the government will "de-dollarise" and bring back a local currency. Another option is to adopt a different currency, such as the South African rand. "Unless things change soon, forced de-dollarisation by September is a distinct possibility," says a bank economist.

The government last week pushed back public servants' June salary payments by three weeks, as well as pensioners' benefits. With state revenues 12 per cent below budget expectations in the first three months of the year, the government borrowed $245m — about 1.7 per cent of gross domestic product — in Treasury bills. It needs to raise at least another $600m during 2016.

In a bid to manage the US dollar scarcity, the authorities are promoting the use of debit and credit cards, while encouraging households and companies to use other currencies, notably the rand.

> 'The government wants me to buy food with Chinese and Japanese cash. Where do I get that money?'

Through currency and import controls, it is also prioritising the allocation of dollars to four sectors. But the priorities have already been reshuffled in response to political pressure, with foreign payments for education elevated to "priority one". That followed demands by heavyweights in the ruling Zanu-PF party whose children are educated abroad. Bankers say it is a worrying indication that the priorities will be revised randomly even as companies face closures.

And while nine currencies are legal tender under the multicurrency system, in practical terms Zimbabweans are dependent on US dollars.

"The government wants me to buy food with Chinese and Japanese cash," says an attendant at a filling station battling unsuccessfully to get a point-of-sale machine to accept a Visa card. Both currencies are legal tender in Zimbabwe. "Where do I get that money?"

New members

China's global ambitions underlined as development bank expands

TOM MITCHELL — BEIJING

China's newest development bank is poised to extend its lending activities beyond Asia to Africa and Latin America, underscoring the Chinese government's international ambitions at a time when globalisation is fuelling a populist backlash in the west.

The Beijing-based Asian Infrastructure Investment Bank held its first annual meeting over the weekend for 57 founding shareholders, most of them countries from Asia and western Europe.

But an internal list of "potential new members" circulated to delegates points to a surge in applicants from Africa and Latin America.

That would allow the AIIB, which can fund projects only in member countries, to expand its presence rapidly in both regions as western governments wrestle with the consequences of the UK's vote to withdraw from the EU.

Lou Jiwei, China's finance minister, said at the AIIB meeting that the UK decision had "cast a shadow over the global economy". He added that "the repercussions and fallout will emerge in the next five to 10 years" but said the resulting market turmoil was "a bit excessive".

Beijing is pressing ahead with ambitious plans to build a "New Silk Road" across the Eurasian landmass and beyond, through institutions such as the AIIB. The bank has only three Latin American or African members — Brazil, South Africa and Egypt. Jin Liqun, the bank's president, cited Latin America as an area where it could soon expand its activities.

"So far Brazil is the only [Latin American] founding member of the bank but I can assure you more Latin American countries will be members very soon," he told a media briefing. "Given the increasingly close relationship between Asia and Latin America, we will not be short of projects to finance."

Such projects, he added, would have to be "good for Latin America and good for Asia", given the AIIB's mandate to fund Asia-related infrastructure. The Latin American countries applying to join include Chile, Colombia and Venezuela.

"In the past 10 years, Latin America has grown its interaction with the Asia Pacific region," said Andreas Pierotic, a Chilean diplomat. "Trade has gone from $15bn to $350bn but there's a lack of infrastructure so Latin American products can go to Asia."

The AIIB's potential new African members include Algeria, Libya, Nigeria, Senegal and Sudan. Others in the membership queue include three countries brought low by the eurozone debt crisis — Greece, Ireland and Cyprus — which would have the option of applying for AIIB loans after joining.

Venezuela and Sudan have previously received financial support from the China Development Bank, in exchange for oil exports. The CDB is the world's largest development bank by balance sheet but it is frequently criticised by non-governmental organisations for the opacity of its lending activities.

By contrast, Thomas Maier, managing director for infrastructure at the European Bank for Reconstruction and Development, praised the AIIB as an "international Chinese partner with whom we can do business".

On Friday the AIIB's board of directors approved the bank's first four development loans totalling $509m, including three "co-financing" projects involving the World Bank, the Asian Development Bank and the EBRD.

Shipping

Panama Canal's $5.3bn gates open to bigger vessels but face trade flow headwinds

ROBERT WRIGHT — NEW YORK

Shortly before 9am yesterday the Cosco Shipping Panama, surrounded by smoke-spewing tugs, was eased gently into the new Agua Clara locks near Colon in Panama — and into a place in maritime history.

The vessel, 300 metres long and 48.2 metres wide, was embarking on the first official transit of a big set of locks built at a cost of at least $5.3bn to navigate the Panama Canal. The opening will transform access between the Atlantic and Pacific Oceans, long restricted by the canal's 102-year-old locks, able to take vessels up to only 294m long and 33m wide.

According to Clarksons, the shipbrokers, vessels accounting for 79 per cent of the world's cargo-carrying capacity will fit inside the locks, taking ships up to 366m by 49m. For the old waterway, the figure was 45 per cent.

Yet the Panama will sail under an economic cloud that has grown steadily darker over the nine years taken to build the locks. Trade growth for container shipping lines has nearly halted after years of breakneck expansion. Many lines are struggling with a surfeit of ships. While the expansion will change global trade patterns, most observers believe economic conditions will mute the upheaval. Jeffrey Heller, a senior executive for Norfolk Southern, one of two big railroads in the eastern US, says it will continue a gradual shift in trade flows over 10 to 15 years to the US east coast from the US west coast.

"Now that the bigger ships can come through the Panama Canal, growth can be a few points higher," he says.

Nevertheless, Silvia Marucci, executive manager of the Panama Canal Authority's economic analysis division, says the expansion was a vital "survival decision".

"We knew we were going to reach our maximum some time in 2012 or 2013 and after we reach our maximum capacity then there would be . . . angry customers," Ms Marucci says.

"Expanding the canal is a move to remain a major marine seaborne trade route."

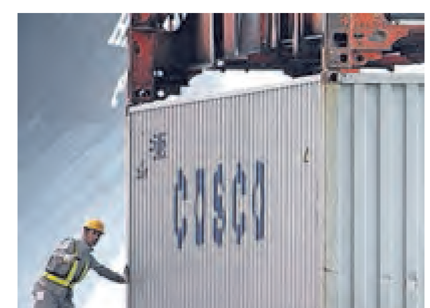
The decisive factor for success will be whether cash-strapped shipowners are prepared to pay the $600,000 to $800,000 cost per voyage that the Panama Canal Authority will typically charge for a big, modern ship.

Those calculations look different now from when the new canal was being planned, according to Anders Boenaes, head of network planning for Maersk Line, the world's biggest container line by capacity. Then, container trade volumes were booming, oil prices were high and ships were in short supply.

"At the time when vessels were more scarce and therefore more expensive, there would be a much bigger incentive to take the shorter and therefore faster route," he says.

The route is opening amid a glut of container ships and at a time of low prices for bunker, as ships' fuel is known.

That has prompted lines to switch about 30 per cent of movements to the US east coast from Asia to a longer westbound route via the cheaper Suez Canal. Suez can handle all sizes of ships.



Trade growth for container shipping lines has nearly halted

The Panama Canal Authority has estimated it can lure back at least four to five weekly services from Suez. While it has not yet announced its plans, Maersk looks likely to switch some of its Suez services to Panama after expansion for the time-critical Asia to US leg. But it is likely to return via Suez to save on tolls.

"With very expensive ships and very expensive bunker, whether you paid $1,000 more or less for a passage, it didn't make much difference," Mr Boenaes says. "Today it's a totally different calculation."

Calculations are further complicated by the patchy preparedness of east coast ports. With work to raise the critical Bayonne Bridge in the port of New York and New Jersey incomplete, lines look unlikely to deploy immediately the biggest ships the new canal can handle.

The waterway can take vessels carrying up to 13,000 20ft equivalent units of containers but the bridge can handle vessels of only about 8,500 TEUs. The canal's old locks were restricted to vessels of about 4,500 TEUs.

In addition, railroads in the western US may cut prices, according to Neil Davidson, ports analyst for London-based Drewry Shipping Consultants. The western railroads will want to maintain the market share of the fastest — but most expensive — traditional import route, via west coast ports then eastward by rail.

Yet the biggest question is whether the new locks risk obsolescence even before the first passage. In the past five years, owners have sought economies of scale by investing in far bigger ships, up to 395m long and 59m wide.

Ms Marucci defends the size of the new locks, insisting it reflects the optimum balance between cost and benefit.

FT BIG READ. BREXIT

The UK vote to leave has raised doubts about the survival of the EU amid voter discontent, the rise of populism and calls for more referendums. In that climate, support for expansion has all but evaporated.

By Tony Barber

Haunted Europe

Weeks before Britain's vote to leave the EU, Europe's centre-right political party leaders gathered in Luxembourg to hear a speech from Donald Tusk. Poland's former prime minister is president of the European Council, which brings together the bloc's national government leaders. Now that Britain is on its way out of the EU, Mr Tusk's speech offers in retrospect some resonant, even prophetic insights into how the remaining 27 member states will try to shape the bloc's future.

Mr Tusk warned his colleagues that ordinary European citizens did not share the enthusiasm of some of their leaders for "a utopia of Europe without nation states, a utopia of Europe without conflicting interests and ambitions, a utopia of Europe imposing its own values on the external world, a utopia of Euro-Asian unity". It followed that EU politicians and policymakers should scale back their ambitions, he said.

"Increasingly louder are those who question the very principle of a united Europe. The spectre of a break-up is haunting Europe and a vision of a federation doesn't seem to me to be the best answer to it," Mr Tusk said.

FT In-depth
For news, analysis and comment on the UK vote and its global impact
ft.com/brexit

Across Europe the reaction to the British referendum result goes beyond shock and sadness that, for the first time since the EU's founding 1957 Treaty of Rome, a member will leave the club. In Spain, for example, it is stimulating apprehension that Scotland's reinvigorated push for independence after the English-driven Leave vote in Britain will inspire separatists in the region of Catalonia. In Ireland, the British result is stirring concern about the resilience of Northern Ireland's peace settlement.

Breaking up: Brexit supporters celebrate Thursday's results

More broadly the EU's reaction reflects Mr Tusk's contention that the appropriate response should not be to press on with schemes of grand integration regardless of public opinion. "We must not resort to hectic activity," Frank-Walter Steinmeier, Germany's foreign minister, told a weekend meeting of the EU's six founding members.

In a sign of the immediate strains within the Union Mr Steinmeier will travel to Prague today to explain to his counterparts in central and eastern Europe why they were not invited to Saturday's gathering.

The move follows promises from Angela Merkel, the German chancellor, to include all 27 states in discussions. After the British vote, her priority is to prevent further divisions and to that end she will host Matteo Renzi, Italian prime minister, Mr Tusk and François Hollande, French president, in Berlin today.

Mr Tusk and Mr Steinmeier do not speak for everyone however. On the day of the British referendum José Manuel García-Margallo, Spain's foreign minister, published an article in El País, the leading Spanish newspaper, entitled "Whatever happens, more Europe".

For some prominent ministers in the French and Italian governments, this means a push to strengthen and deepen Europe's 17-year-old monetary union, which only emerged in the second half of 2012 from a sovereign debt and bank crisis that threatened its existence. Pier Carlo Padoan, Italy's finance minister, advocates a common budget for the eurozone's 19 states and a joint unemployment insurance scheme. Emmanuel Macron, economy minister in France's Socialist government, supports a common treasury, overseen by a eurozone assembly separate from the European Parliament, and permanent transfer mechanisms to channel funds from wealthier countries to those in difficulty.

Along similar lines, a blueprint for economic, financial, fiscal and a limited form of political union, to be achieved by 2025, appeared in Brussels last year under the title of "The Five Presidents' Report". The presidents in question are Mr Tusk and the heads of the European Commission, European Central Bank, eurogroup — which unites eurozone finance ministers — and the European Parliament.

Unstable foundations

In many national capitals, this proposal generated tepid enthusiasm, largely because it was seen as out of tune with the political and social climate in so many eurozone states. According to Lorenzo Codogno, a former director-general of Italy's treasury and founder of LC Macro Advisers, a London-based consultancy, the UK vote is unlikely to alter this cautious mood.

"It seems difficult to imagine that the rest of the [EU] will close ranks and move in the direction of greater integration quickly. Simply, there is no political will. Indeed, the risk is exactly the opposite — namely, that centrifugal forces will prevail and make integration even more difficult," Mr Codogno says.

"Following the [financial] crisis, Europe is increasingly divided and is mired in internal quarrels — not comprehensible to ordinary citizens — with an almost total lack of perspective, despite recent weak attempts in the Five Presidents' Report."

Apart from Mr Tusk, at least one other author of that report appears doubtful about the advisability of faster eurozone integration. Jeroen Dijsselbloem, the Dutch finance minister who presides over the eurogroup, told an audience in Berlin two days before the British vote: "In the eurozone some are pushing for a completion of the monetary union by creating a full political union, a euro area economic government or even a euro budget . . . To me it is obvious: we need to strengthen what we have and finish it, but let's not build more extensions to the European house while it is so unstable."

Mr Dijsselbloem contends that certain initiatives, such as completing the EU's banking union, establishing a capital markets union and deepening the bloc's single market, are desirable and within reach. However, the plan for banking union is sowing discord. Germany's reluctance to approve a common deposit insurance scheme, on the grounds that the eurozone has not done enough to curb excessive risk-taking in the financial sector, means that one pillar of banking union is blocked.

As for a capital markets union, it remains to be seen how much progress will be made after the withdrawal of Britain, home to Europe's pre-eminent financial centre in London, and after the resignation on Saturday of Lord Hill, the British EU commissioner responsible for the project.

Arguably, a more serious dispute concerns Germany's dissatisfaction with the monetary policies of the ECB under Mario Draghi, its president. These include extremely low interest rates, viewed in Germany as penalising savers, and the central bank's asset-buying programme, regarded in Berlin as sure to open the floodgates one day to inflation.

Rise of the right

Wolfgang Schäuble, Germany's finance minister, went so far in April as to blame Mr Draghi for the rise in support for the rightwing populist Alternative for Germany, which since August 2014 has won seats in eight of Germany's 16 state assemblies. AfD, born as an anti-euro party but now defined more by its anti-Islam, anti-immigrant stances, is set for a breakthrough that would win it seats in the Bundestag for the first time in Germany's next national elections, expected in September 2017.

The emergence of AfD is one reason to expect Berlin to be cautious, for the moment, about big initiatives to deepen Europe's monetary union. Another lies in the suspicions of much of the German public about the direction in which the currency union is travelling. For many, it is morphing into a "transfer union" in which Greece and other vulnerable countries not only benefit from German financial support but, via the ECB, undermine the prudent economic management that underpinned Germany's post-war success.

In France, where the far-right National Front is substantially more popular than AfD in Germany, and where President Hollande has the lowest ratings of any head of state in the Fifth Republic's 58-year history, political conditions are equally unsuitable for grand initiatives on the EU stage. The uppermost concern of Mr Hollande's Socialist party and the centre-right opposition is to ensure that Marine Le Pen, the National Front's leader who welcomed the Brexit decision and called again at the weekend for a French vote on EU membership, is defeated in the two-phase presidential election to be held next April and May.

Mr Renzi is a keen supporter of a more integrated eurozone, proposing in April that the bloc should issue common bonds to finance policies aimed at tackling Europe's refugee crisis. Such ideas arouse hostility in Germany and other northern European countries that would rather see more concerted efforts to address the weaknesses of Italy's economy, which has barely grown since the euro's launch in 1999, and its banking sector, which is struggling under a heavy burden of non-performing loans.

The Italian prime minister's career risks foundering on the rocks, if he loses an October referendum on sweeping constitutional reforms that would turn parliament into virtually a single-chamber legislature. Italy's political, financial and industrial elites are strongly pro-European, but other EU governments are discomforted by unconventional Italian parties such as the Five-Star Movement and the Northern League that have never been as strong.

Similar concerns surround Spain, the eurozone's fourth-biggest economy, where a general election yesterday was expected to produce another fractured parliament and either a minority government or a fragile coalition.

In central and eastern Europe, meanwhile, conservative nationalist governments in Hungary and Poland are causing alarm in western European capitals that democracy itself is under sustained challenge in the post-communist half of Europe. Few EU policymakers are looking forward with pleasure to a referendum that Viktor Orban, Hungary's premier, has called for the autumn on rejecting EU-fixed quotas for settling refugees.

These tensions do not rule out some EU policy initiatives, especially in areas not directly related to eurozone integration. For instance, common copyright rules and an effort to knit together Europe's fragmented telecoms market are under discussion.

Cycle of disintegration

On military matters, not historically an EU strength, a German government white paper suggests creating a permanent EU council of defence ministers as well as promoting the shared use of equipment and more efficient co-ordination of production. Better EU anti-terrorist co-operation is another project close to some governments' hearts after the terrorist attacks in November and March in Paris and Brussels.

Such initiatives will take place against a backdrop of anxiety and bitterness, in some EU capitals, that British voters may have set in motion a cycle of disintegration in the organisation that, for 60 years, has embodied the spirit and substance of post-second world war European co-operation.

Manfred Weber, the German leader of the European People's party, the group to whom Mr Tusk spoke on May 30, gave voice on Friday to this mood. He demanded that the EU and Britain should start immediate talks on the terms of British withdrawal, without waiting for the Conservative party to elect its successor to David Cameron. The UK premier announced his resignation after the referendum result, but suggested he might stay in office until October. "The European continent cannot be occupied by a Tory internal battle. Leave means leave," Mr Weber said.

Remarks so redolent of frustration highlight the risk that the withdrawal talks will occur in an atmosphere of acrimony between a new UK government, whose legitimacy will derive from last week's referendum verdict, and an EU determined as never before to ensure its own survival. The more time-consuming the talks are, the more they will be, from the EU's point of view, a distraction from other more pressing challenges.

In the climate of nativism, populism and anti-EU sentiment that, to varying degrees, pervades most EU countries, pressure for British-style referendums on EU membership may spread beyond the far-right circles that are already making such demands in France and the Netherlands.

"From now on, the narrative will be one of disintegration, not integration," says Charles Grant of the Centre for European Reform think-tank. "That doesn't mean that the EU will fall apart, or even that another country will leave, which is highly unlikely in the foreseeable future. But the centrist politicians who run nearly every EU member state will henceforth be on the defensive against the populist forces who oppose them and the EU."

Key dates

2016

Autumn Hungarian referendum on rejecting EU mandatory quotas for resettling refugees

October Italian referendum on constitutional reforms

2017

March 60th anniversary of the EU's founding Treaty of Rome

April-May French presidential election

June French parliamentary elections

September German parliamentary elections

Pictures: AFP; Getty; Reuters; AP

'The spectre of a break-up is haunting Europe and a vision of a federation doesn't seem to be the best answer to it'
DONALD TUSK

'We need to change [the EU], making it fairer and more human. Europe is our home and our future'
MATTEO RENZI

'We must, along with the 27 member states, decide how to react to British proposals for this separation'
ANGELA MERKEL

'The [UK] vote puts the European Union in difficulties. It must recognise its shortfalls'
FRANÇOIS HOLLANDE

'We need to strengthen what we have . . . but let's not build more extensions to the European house while it is so unstable'
JEROEN DIJSSELBLOEM

FINANCIAL TIMES
'Without fear and without favour'
MONDAY 27 JUNE 2016

Harsh truths in the wake of the post-Brexit storm

Leave campaigners' promises are about to clash with political reality

Four days on, the post-Brexit hurricane has struck British politics. The Conservatives face an acrimonious leadership contest, where the favourite is the maverick former mayor of London, Boris Johnson. Labour's Jeremy Corbyn may be overturned by his own parliamentary party. Fog has descended over the Channel and Britain's route out of the EU looks highly uncertain.

Whoever succeeds Mr Cameron — and that question will not be answered until the Conservative party's annual conference in October — faces a delicate task. The new prime minister's duty will be to extract the best deal possible from the UK's European partners while coping with the inevitable disappointment at home when some of the Leave campaign's multiple contradictory promises are broken.

Before negotiating with Brussels begins in earnest, Britain needs a general election. The new prime minister requires a fresh mandate in order to forge a deal with the 27 EU member states. The prospect of such an election has triggered the move by Labour MPs to oust Mr Corbyn, an ineffectual hard-left leader whose failure to mobilise his party was one of the main reasons the Leave campaign triumphed.

For their part, leaders of the EU countries are understandably shocked and disappointed. Their focus must be on preserving the EU. Yet they should also see that they have an interest in keeping the UK in a close relationship as long as it is on the same terms available to everyone else.

The UK is unlikely to invoke until later this year Article 50 of the Treaty on European Union to withdraw from the EU and begin negotiations with the 27 governments. In the process they will disappoint Leave voters sold a bill of goods. Immigration played a huge part in the campaign and Leave stood on an unequivocal pledge to end the free movement of labour from the EU. Yet some Leave leaders have already retreated from promises to control immigration, and seem to be leaning towards a Norway-style option of retaining access to the single market without full EU membership.

This is probably the least bad of the various options possible — certainly better than withdrawing altogether and seeking a free-trade agreement with the EU, which will leave UK exporters severely hampered. But it also removes almost every plank of the "take back control" Leave platform. It will mean free movement of EU workers into the UK, require Britain to adopt European regulations to enter the single market and necessitate a hefty contribution to the EU budget.

European leaders also need to work out their position. So far there has been a cacophony from leaders and ministers. Common sense has come from Angela Merkel, the German chancellor, who, true to character, has urged a period of calm reflection. Rather than getting down to the detail now, half a year before the UK is likely to start negotiations, the 27 would do better to set out some guiding principles.

The UK cannot expect more concessions than Mr Cameron won this year as part of his renegotiation of the terms of membership. Free movement of labour remains the price of being part of the single market.

The member states' overwhelming concern must be the integrity of the EU. The 27's attitude should be tough rather than vindictive, enough to make other countries aware of the consequences of leaving but not to reinforce impressions of the EU as capricious and dictatorial.

All sides need to understand just how high the stakes are. The cohesion of Europe and the unity of the west have been badly dented by the British vote. The imperative now is to salvage as much as possible from the wreckage.

The challenge of reworking the UK's relationship with the EU has been made far harder by the process which took the country into this sad pass. The UK is deeply divided. Passions are running high. The mainstream political parties are in disarray. The best the UK can hope for, absent a collective change of mind among voters and a reversal of the referendum decision by parliament, is for a settlement that ends up as near the status quo as possible.

For that to happen requires honesty as well as dexterity on the part of the British politicians who misled their voters during the referendum campaign. For all the justified anger in other European capitals, it also demands a degree of equanimity on the part of the rest of the EU.

Kenya's long and febrile run-up to elections

The electoral system must be reformed to avert another crisis

Kenya was ripped apart in 2008 when the disputed outcome of elections split the country along ethnic lines, fuelling an explosion of violence that cost more than 1,200 lives. The ultimate tragedy would be if lessons from that terrible ordeal, which brought east Africa's leading economic power to the brink of civil war, went unlearnt.

Weeks of rumbling and increasingly violent protests have put a spotlight on unfinished business and threatened to plunge the country into another crisis a year before elections fall due again.

Kenya has adopted a new constitution, reducing the concentration of power at the centre. But other governance reforms, identified in the wake of the 2008 violence as critical to forging future stability and national reconciliation, have been abandoned.

As a result of mishandling by the International Criminal Court and witness tampering in Kenya, none of the perpetrators of crimes against humanity has been successfully tried. The culture of impunity which risked turning the country into a failed state, according to the conclusions of a 2008 inquiry, remains prevalent.

The electoral system, deemed so rotten by the South African judge who investigated that it was impossible to tell the true results, also remains deeply flawed. And the Supreme Court, which became the ultimate arbiter after another round of dubious polling in 2013, has credibility issues.

These are legitimate concerns for the opposition coalition led by Raila Odinga, the former prime minister and veteran opposition politician who has been leading the recent protests, demanding among other things the appointment of new, untainted personnel at the electoral commission.

The 2017 elections are in all likelihood the last that Mr Odinga will contest. They pit him against the incumbent, Uhuru Kenyatta, heir to the country's most powerful political dynasty. The stakes are higher than ever and the mood among younger Kenyans frustrated with the status quo is febrile.

Despite his advancing age, Mr Odinga can still be a spoiler. The demonstrations have rattled investors and shaken the economy.

Kenya has looked like a star performer — a rare exception on the continent — because it is diversified and largely unscathed by the collapse in global commodity prices.

The recent arrest of several politicians accused of using hate speech proved a sobering moment. Thanks to additional pressure from the UK and US, the rival forces have now agreed a means of negotiation.

It is vital this pressure is maintained until a set of measures is found to restore confidence in the democratic system. The protests may be legitimate. But too often in Kenya they result in violence that spirals out of control.

Letters

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Corrections: corrections@ft.com

Public opinion may yet change dramatically

Sir, It is widely asserted that the Leave vote is irreversible. However, what if within the next two years before we cease to be EU members, there is a dramatic change in public opinion?

For the reasons given by Martin Wolf ("The decision to leave Europe will be costly", June 25), and as the vast majority of economists predicted, the likely result of the vote to Leave is a serious recession, causing tax rises, even more severe cuts and a rise in interest rates, prices and unemployment. Will our huge trade deficit continue to be financed by hot money? The fall in the pound will increase the deficit, as in the short term imports will cost more and exports will earn less. Will we still have access to the single market? Trade negotiations are likely to be very difficult and prolonged. We face a period of deeply damaging uncertainty and a potentially catastrophic outflow of capital.

It is therefore far from inconceivable that a large number of those who voted Leave will feel they were misled and would if they had the chance change their vote. Most MPs do not want us to leave, but to call for a new referendum now is to ignore the verdict of the majority. However, if we are in a deep recession and there is clear evidence of a profound change of the public mood, a new referendum would then be justified.

Dick Taverne
House of Lords, UK

Chin up, Cornwall — after all, you voted to be poorer

Sir, You describe "a roar of rage from Leave voters alienated by London" ("Britain breaks with Europe", June 25). Maybe. But we also read of the leader of Cornwall's council demanding "protection" now that the Cornish have turned their backs on EU funding for fishing, farming, tourism and infrastructure ("Brexiters divided over trade and immigration", FT.com, June 25). And similar pleas are being heard around the country.

Well, the answer is no. Four gaping divides opened up on Friday morning. First, England and Wales stuck two fingers up to London and its inclusivity, its dynamism and its tolerance, but also thereby its wealth creation, which has subsidised the rest of the UK for decades. The Cornish *et al* want London's money but not its values or its standing in the world. They have now abrogated that contract and we'd rather spend the wealth generated here on affordable housing and transport to keep our great city going. Chin up Cornwall: you voted to be poorer, have the decency to get on with it.

Second, the English and the Welsh have reopened the questions of Scottish and Northern Irish independence, but this time the impetus is more powerful because it flows from both sides of the borders. Third, the sentimental, self-interested old have voted to stifle opportunity for the young. The young already face expensive education, tougher prospects finding good work and far worse pensions; on Friday they woke up with new anger to the restated cupidity of their elders.

Fourth, the left-behind in rural, seaside and old industrial areas protested at their loss. That I have sympathy with: the government should have been resolving this but has spent years making it worse. For the rest, the referendum did not close down a debate, but has reopened it with renewed and possibly irresolvable rancour.

John Lock
London E7, UK

Too much is at stake to hinge on a simple Yes/No

Sir, The FT states that the "will of the sovereign people must be respected" ("Britain cuts itself adrift", editorial June 25) and the government must construct an exit from the EU. No, this exit must be challenged by any and all conceivable means. To allow a fundamental, monumental change in the status of the country with long-lasting consequences to hinge upon a single Yes/No vote and a simple majority of the voters on one day (with appalling weather conditions)

Delivering an opinion

establishes a precedent that makes a mockery of the principle of representative democracy.

Edmund Burke expressed the essence of this principle more than 240 years ago: "To deliver an opinion, is the right of all men; that of Constituents is a weighty and respectable opinion, which a Representative ought always to rejoice to hear; and which he ought always most seriously to consider. But authoritative instructions; Mandates issued, which the Member is bound blindly and implicitly to obey, to vote, and to argue for although contrary to the clearest conviction of his judgement and conscience; these are things utterly unknown to the laws of this land, and which arise from a fundamental Mistake of the whole order and tenour of our Constitution."

If the UK is to leave the EU let it do so only after a process, to paraphrase the US Declaration of Independence, that declares honestly, credibly and clearly the "causes which impel it to the separation" and pays "a decent respect to the opinions of mankind." The origin of this referendum and the conduct of the major participants in the campaign fall far short of meeting these criteria.

Martyn Roetter
Boston, MA, US

Cold light has been shed on a different set of truths

Sir, In your editorial "Britain cuts itself adrift" (June 25) you twice repeat the statement that the views of the sovereign people "must be respected". In the extraordinary circumstances of the campaign, why? It becomes clearer by the hour that the Leave vote was based on many false premises: deceptions over economic facts, clear suggestions that "Leave" would cut immigration (refuted by leading Leave representatives just 24 hours after the polls closed), that there would be no immediate crash of the pound, that Scotland would never dream of demanding another independence vote, that the EU has done no good and, perhaps worst of all, by implication, that the future of the elderly such as myself is more important than the future of the young.

Now that the crisis over the weekend has shed a little cold light on the rather different truth to that peddled by "Leavers", real democracy would be to respect the wishes of the several million petitioners to parliament that the referendum be re-run.

Peter Mahaffey
Sasbach, Germany

Maybe the Brexiters are just sick of the EU

Sir, In the FT Weekend edition of June 25-26, I learnt from a number of articles the reasons a majority of voters in Britain had opted to leave the EU. Apart from old age, lack of intelligence, lack of education and living in the wrong postcode area, these included dislike of bankers and finance generally, distrust of the political elite and business leaders, globalisation, London and inequality (of course).

Maybe they were just heartily sick of the EU and wanted out of it. Why look for a complicated explanation when a simple one is at hand?

John Murray
Guildford, Surrey, UK

UK can still negotiate membership of the EEA

Sir, Slightly over half the people who voted on June 23 voted to leave the EU. A stupid thing to do, as your splendid edition of June 25 made clear. However, they did not vote to leave the European Economic Area — and it is perfectly reasonable for the UK parliament to legislate accordingly.

Dr David Thame
Lingen, Herefordshire, UK

Common cause, common language?

Sir, It would be interesting to know which common language the six foreign ministers used to hold their meeting on Saturday: Latin?

Alfred Pain
London EC1, UK

That sinking feeling (i)

Sir, Tacitus reports how the Britons would seek to escape Romans by walking into bogland until they were up to their necks in mud. We just did it again.

Simon Crosby
Shotteswell, Warwicks, UK

That sinking feeling (ii)

Sir, Project Fear has morphed into Project Dread.

Peter Morrogh
Dublin 4, Ireland

Hold another referendum and there will be 20m of us voting to leave

Sir, In the English vernacular there is an expression that aptly describes 17m English Leave voters: bloody-minded. They do not like the EU and were unmoved by Project Fear. They have the vote and have used it. It is apparent, however, that bloody-mindedness is simply another personal characteristic that, in the minds of the commentariat, renders suspect a majority decision.

Living outside a major city, not having sufficient education and a middle-class job and — above all else — being that little bit older, perhaps once having jingled shillings and pence in one's pocket, are all thought by some of your commentators to be lamentable personal failings which might even be sufficient grounds for disenfranchisement. Some of your columnists have made it all too clear that the votes of people with, say, 50 years of life expectancy should count for more than those of persons of pensionable age. How progressive.

In 2016 the word "democracy" and the concept of majority decision-making apparently mean only what we want them to mean when our side loses the argument. Hence the idea that the UK parliament may now disregard the "advisory" nature of the Leave vote; hence the internet petition to "do over" the referendum. I fear we have all gone mad.

Except for the 17m bloody-minded Brexit voters, that is. And if MPs were misguided enough to do over the referendum there would be 20m of us.

Peter Geiger
Edinburgh, UK

London and Paris are leading the charge to shape the 21st century

Sir, London and Paris. There is so much that unites our two great cities. Shared history, shared culture, shared challenges and the shared experience of being one of just a handful of truly global cities. And despite the outcome of the EU referendum, our two cities must now work more closely together than ever before in order to deliver on our shared agendas.

If the 19th century was defined by empires and the 20th century by nation-states, the 21st century belongs to cities. Cities are innovating and leading global action in area after area. From supporting economic growth and enterprise to tackling air pollution, moving to clean energy or dealing with the pressures of rapid population growth — it is cities that are leading the charge. In cities we celebrate our diversity and see our differences as a great source of strength. Our cities are places where everyone, whatever their background, can feel at home.

As the mayors of London and Paris, we are today committing to work ever more closely together in order to build far stronger alliances between cities across Europe and around the world. Together, we can act as a powerful counterweight to the lethargy of nation states and to the influence of industrial lobbies. Together, we can and will shape the century ahead.

Sadiq Khan
Mayor of London
Anne Hidalgo
Mayor of Paris

We millennials are locked out of the union we voted for

OPINION

Nicholas Barrett

The Leave vote in last week's EU referendum bequeaths a legacy that will still be under scrutiny long after David Cameron, Boris Johnson and Jean-Claude Juncker evaporate into the political science journals.

In the small hours of Friday morning, tired, frustrated and looking for an angry fix, I described what I consider to be the first three tragedies of Brexit in a comment below an article on FT.com. My rant was screengrabbed, tweeted and, to my surprise, went slightly viral.

So what are the three tragedies? And why did they resonate with voters of my own generation?

First, millions of economically deprived people have voted against a scapegoat — and the solutions they were sold by the Leave campaign are almost entirely unfeasible. It was working-class voters who directed Britain towards the door. There was a clear divide between the more affluent and the millions who felt disempowered by the seemingly uncontrollable winds of globalisation and mass mobility. Furthermore, public services have been squeezed by years of government austerity since the start of the global financial crisis, while sluggish wage growth has exacerbated a feeling of economic abandonment.

And yet, if these conditions are to be improved in a greying country, we will need more of the immigration and international collaboration that so many Leavers felt unable to control. It is almost certain that they will not get the Britain they desired. Or, worse yet, they will — and it is going to hurt.

Second, doors are slamming shut all over Europe. Young Brits like me will lose the automatic right to live and work in 27 EU countries. The "Erasmus generation" — named after the EU's student exchange scheme — has come to see Europe as borderless, and many of us have grown up studying and working in other European countries. Some 75 per cent of voters under the age of 25 opted to stay in the EU. Meanwhile, those over the age of 65 voted most heavily to leave.

Those who voted Leave may feel powerless and ignored, but demographically they are more likely to be leading settled, retired lives with little need of a continent's worth of opportunity. They will have to tolerate the economic chaos they have created for roughly 20 years. But millennials — those of us in our

> Unlike us, Leavers are likely to be leading settled lives with no need of a continent's worth of opportunity

twenties and early thirties, one in five of whom are expected to make it to our 100th birthday — will now have to spend up to eight decades locked out of the union we voted to stay in. Does this count, in the parlance of the Leave campaigners, as a "democratic deficit"?

Third, we now appear to live in a post-factual democracy. When Michael Gove, the pro-Brexit justice secretary, was told by Faisal Islam of Sky News in an interview that "the leaders of the US, India, China, Australia, every single one of our allies, the Bank of England, the IFS, IMF, the CBI, five former Nato secretary generals and the chief executive of the NHS" were all against Britain's exit, the response was remarkable. "I think the people of this country have had enough of experts," he replied.

And he was right. This was in part because of the rise of social media and the Balkanisation of our news diets, which lead us to gravitate towards confrontation and scapegoats. In almost every instance, emotions trumped research, which could be easily dismissed with accusations of an ulterior elitist motive: "Well, the International Monetary Fund would say that, wouldn't they?"

But Mr Gove was right, too, because the appeal of "the experts" has been in relatively short supply since the start of the financial crisis nine years ago. When I told one Leave voter that almost every serious economist on earth was warning of a downturn in the event of Britain's exit, he replied: "Who cares? They didn't seem to know anything about the last crisis."

Even if almost all the academic research indicates that, despite the initial shocks to the system, immigration is good for economic growth and that globalisation can enhance every economy, it is of little interest to the average person if it is not immediately evident. If you read about international co-operation only when it goes wrong, why would you vote to keep it?

The reluctant heirs to this island will have to deal with a dissatisfied and distrustful country — a country that might still be known officially as the United Kingdom but is unlikely to be united in practice any time soon.

The writer is deputy editor of thestrix.com

Comment

We will make an orderly exit to ensure the City's future

OPINION

Chris Grayling

In the aftermath of the referendum result and the prime minister's resignation, there was bound to be shock and surprise. What matters now is that we get on with the task of delivering a proper response to the decision that the nation has taken.

We need to get beyond the initial rhetoric, here and elsewhere in the EU. This has been a momentous development. The result, which was not what people expected, is a blow to the European project, so strong words from Brussels and elsewhere were inevitable, as were triumphant shouts from the UK Independence party.

But let us be clear. Britain is still governed by the Conservative party and a team of Conservative ministers — not by Ukip. There will be a calm, measured process. We will take whatever steps are necessary to look after the British national interest. None of those in the frame to succeed David Cameron would take us away from being a liberal, one-nation government, with an internationalist view and a determination to be a strong global player.

The referendum was not won by a Little Britain team seeking to return to the past. It was won by a team that wants to free Britain from a struggling European project where we faced increasing marginalisation while it determined more of the way we worked. EU directives have already damaged the City and UK business. Why should a fund manager established in London to invest in emerging markets be subject to regulation designed to support the eurozone? Why should free trade relations between Britain and the US exclude our creative industries because of protectionist tendencies elsewhere in the EU?

The process now has to be careful and thoughtful. We would never have triggered Article 50, the formal exit clause from the EU, on day one. We need time to prepare, to set out our own objectives and to put the right expertise in place to support our negotiations. Our European partners also need time. Calls from EU institutions for immediate action are misplaced. They have as much to lose from getting this wrong. On Friday the biggest market falls were not in London, but elsewhere in Europe. This is a process of divorce where things are best approached calmly and methodically.

> This is a process of divorce where things are best approached calmly and methodically

So Article 50 will not be triggered until a considerable amount of informal preparatory work has been done, here and in discussions with EU partners. The formal process will also have to wait for the new prime minister to be in place in the autumn, and for him or her to get their new team and strategy ready.

It is a process that will not just involve politicians. We will ensure that the business and financial communities have a big say in shaping the best strategy. City UK, the lobby group, has already started work on this, and securing the future of the City must be a priority. The advantages of language, a respected legal system, time zones, depth of experience and access to large, well ordered pools of capital are all more important than EU membership. It is still inconceivable that we could leave the French agricultural sector with free and easy access to UK consumers while allowing the City to be emasculated by Paris or Frankfurt.

Our new trade negotiations with the EU do not require a lengthy process like that between Canada and the bloc. Our businesses already meet the same standards. We have regulatory equivalence, so trade decisions will be political not technical — and already wiser heads in the EU are saying they want continuity, given the scale of their trade surpluses with the UK.

Meanwhile, we must start early discussions on free trade deals elsewhere. Commonwealth countries have already expressed an interest. On Capitol Hill senior trade figures dismiss President Obama's "back of the queue" comment, telling me that with efforts to reach a transatlantic US-EU trade deal stalled, they think America and Britain could reach a bilateral agreement quickly.

The British people have taken a historic decision. What they now expect is a government that will approach the next steps in a measured way and do what is best for the UK. Whoever becomes our next prime minister, that careful approach is a certainty.

The writer is Leader of the House of Commons

A gift to America's conservatives

AMERICA

Edward Luce

Listen. Can you hear the British lion roar? People on Europe's side of the Atlantic may strain to do so through the din of Thursday's shock result. But in parts of America it came through loud and clear. Among conservatives in particular the UK has become an instant king of the jungle. To Donald Trump's supporters and critics alike, Brexit is that rare event that evoked the same instinct. What happens to Brussels need not stay in Brussels. It can happen to Washington too.

So much for Britain's demonstration effect. What of America's reality? The parallels between America's coming election and the UK referendum are real, particularly if you are on the side that is expected to lose. Much like Britain's Leave campaign, Republicans are beset by divisions, nervous of hijack by racist fringe groups, heavily discounted by the betting industry, and facing a well-oiled establishment opponent.

Mr Trump's fate — and those of many hapless down ballot Republicans — appears to be sealed. Only fools would gamble the presidency on such a person. Why risk so much for a brief emotional release?

The answer is not quite so confident after Brexit. It was natural Mr Trump would interrupt his golf marketing stopover in Scotland on Friday to congratulate the British for taking "their country back". That, after all, is what he is promising America. It was slightly odder that he observed Scotland "going wild over the vote" after almost two-thirds of Scots opposed Brexit. But Mr Trump has a knack of seeing things others cannot. Witness his imaginary fan base of Hispanic and African-American voters.

Yet he was not alone. The projection of American conservative dreams on to the UK referendum result went deep.

John Bolton, a senior official in George W Bush's administration, said that Britain's "peasants had voted to leave the feudal manor". Newt Gingrich, the former Republican Speaker and vice-presidential hopeful, tweeted that "Churchill and Thatcher would be proud". Ted Cruz, Mr Trump's former rival for the Republican nomination, heralded the vote as a "wake-up call to internationalist bureaucrats from Brussels to Washington".

It would be easy to poke holes in such misreadings. It was Churchill who conceived of the "United States of Europe" — albeit without British participation. It was Margaret Thatcher who proposed, and negotiated, the radical (and successful) idea of a European single market from which Britain now looks likely to be shut out. Likewise, some voters for Brexit may have been misled into doing so by promises it would free up money for the National Health Service — the stuff of US conservative nightmares.

> Just like the Remain camp in Britain, Clinton represents business as usual

Nor, contrary to Mr Cruz, was Brexit a dramatic blow for freedom. Britain already possessed full sovereignty. All that was needed to quit the EU was more than half of voters to say so. In many countries, any momentous change would require a two-thirds majority. In the US, no state, including Mr Cruz's native Texas, could secede without provoking war. The alternative would be to persuade three-quarters of US states, and two-thirds of each chamber of Congress, to amend the constitution. It could never happen, in other words. In legal terms Britain was little closer to being a sovereign EU's 28th state than it is to being America's 51st.

But such niceties are beside the point.

The spirit of Mr Trump's reading was more accurate than the letter. So too are his tactical conclusions. What he grasped — along with Boris Johnson, the big beast of the Vote Leave campaign — was the brute psychology of a society itching to upset the status quo. Once you suss out that logic, no genius is required. You may campaign without much regard for facts or consistency at all. The same conclusion applies in reverse to Britain's Remain campaign and Hillary Clinton's presidential bid. Mrs Clinton has the advantage of being able to see what David Cameron did wrong. If she wants to avoid the prime minister's fate, she must grasp his big error.

Mrs Clinton shows few signs of doing so. The key takeaway from Brexit is that Project Fear is not enough. You must give supporters something more positive to endorse than the status quo. Just like the Remain camp, Mrs Clinton represents business as usual. Even her campaign slogan "Stronger Together" echoes Mr Cameron's. Most people may vaguely agree with it. But it is too nebulous to excite. The demography is also similar. Like the Brexit base, Mr Trump's base is older, whiter, more rural and less educated than the median. It is also more spirited. Like Remain, Mrs Clinton assumes voters carry out a cost-benefit analysis of their choices. Some version of that is usually true in elections. Until it isn't.

Can we know which 2016 will be for America? Obviously not. It may be comforting to fall back on conventional logic and anticipate an easy Clinton victory in November. By the rules of the head Mr Trump's defeat is overdetermined. The alternative — revamping her campaign to appeal to people's hearts — is so much harder to do. It may even be beyond reach. Americans are too cynical about the Clintons to believe anything could be authentic. Yet in my view Mrs Clinton is overthinking her campaign. Few would question Mrs Clinton's IQ. It is her core that people doubt. The heart has its reasons of which reason knows nothing.

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Italy will be the next domino to fall

EUROPE

Wolfgang Münchau

The UK's vote to leave the EU will not only break the ties between the UK and the bloc, and probably between Scotland and England — it has the potential to destroy the eurozone. This is not the issue at the forefront of people's minds right now. But it is potentially the biggest impact of all. I am convinced Brexit's consequences will be neutral to moderately negative for the UK but devastating for the EU.

The main problem is not other countries wanting to hold EU referendums. The problem is more acute. The next referendum to be held in the EU takes place in Italy in October. It is not about the union but about Matteo Renzi's constitutional reforms. The Italian prime minister is taking a gamble which is no less risky than David Cameron did.

Mr Renzi is asking the Italians to agree a number of reforms to streamline their political system. The proposals are sensible. But Italians view the referendum as an opportunity for a midterm anti-government vote. Mr Renzi promised he would resign if he loses. If he does, it will have been a monumental error of judgment on the scale of Mr Cameron's.

Opinion polls have been showing a small lead for Yes but they are likely to be as unreliable as those in the UK. My Italian friends are telling me Mr Renzi may well lose, in which case he would either resign immediately or call elections in early 2017.

The implications of Brexit for Italy are extremely troubling for three reasons. First, consider the economic impact. Italy's economy has been in a weak recovery after a long recession. The British vote will have a significant effect on growth in the eurozone. But for Italy this means a reversion to a growth rate to below 1 per cent or worse.

Second, watch out for the Italian banks, which are woefully undercapitalised. A recent scheme to recapitalise the system has been a disappointment. The only options left to save it are a programme under the European Stability Mechanism, the rescue umbrella, which Mr Renzi will surely resist, or a break with a long list of EU rules on competition policy and bank bailouts.

Third, and most important, the political impact of a lost referendum will be disastrous. Either Mr Renzi keeps his promise to resign or he limps on to the next election. The technical details of the scenario that would then prevail are complex but the party most likely to benefit is the populist anti-establishment Five Star Movement. Beppe Grillo, its leader, last week reiterated his call for a referendum on Italy's membership of the eurozone. As the results of the recent mayoral elections in Rome and Turin have shown, Mr Grillo's party should not be underestimated.

> Renzi's administration has failed to break with corruption scandals or sort out the economy

The political dynamic in Italy is not much different from the one in the UK. The electorate is in an insurrectionary mood. The country has had virtually no productivity growth since it joined the euro in 1999. The Italian political establishment has until recently been as dismissive of its chances of losing the referendum as the British establishment was until Friday morning. They are still dismissive of the chances of a Five Star victory — and will be until the moment it happens.

In my view, that outcome is at least as probable as Mr Renzi emerging victorious from this mess. The Italian public has reasons to demand fundamental change. Unlike in the UK, unemployment there is high. Mr Renzi's own administration has failed to break with corruption scandals and, most important of all, has failed to sort out the country's economy.

A Pew Research Center poll on attitudes towards European integration in the largest member states suggests that the Italians and the Greeks view the EU's economic governance most negatively. I am not surprised.

Nor am I surprised that people are beginning to blame the euro for the economic problems. An Italian exit from the single currency would trigger the total collapse of the eurozone within a very short period.

It would probably lead to the most violent economic shock in history, dwarfing the Lehman Brothers bankruptcy in 2008 and the 1929 Wall Street crash. But my sense is that those who would advocate an Italian departure might even relish bringing down the EU.

To prevent such a calamity, EU leaders should seriously consider doing what they have failed to do since 2008: resolve the union's multiple crises rather than muddle through. And that will have to involve a plan for the political union of the eurozone countries.

Britain is not the cause for any of this. The eurozone and its appallingly weak leaders are to blame. But Brexit may well be the trigger.

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Let Germany put broken Europe back together

OPINION

Norbert Röttgen

European integration has suffered the greatest blow in its history with the UK's Leave vote. But Britain is no longer the priority. The most pressing question is not how the UK leaves the EU. It is also hard to imagine the country taking up the EU presidency in 2017; it should pass on the job.

Given the range of challenges the EU faces with Libya, Syria, Russia, the euro, youth unemployment and the refugee crisis, the most urgent and profound danger for the EU is not economic or geopolitical: it is psychological. The danger is that we fall into a state of paralytic shock. The fear that pro-European governments feel in the face of rising popular nationalism threatens to accelerate the erosion of the European project. It also leads to inaction, which fuels the perception that pro-European politicians are self-satisfied and do not hear the concerns of Europe's citizens. The next referendum, wherever it may be, could well end in a defeat for Europe.

The lesson from the Brexit debate is that pro-Europeans cannot allow anti-Europeans to dominate the public debate. The populists are stubbornly convinced of their position — with the possible exception of Boris Johnson, the former London mayor and leading Leave campaigner — and will defend it against all rational arguments. But the EU's proponents lack such ardour. If the pro-Europeans' main tactic is to scare people into support of a status quo and capitalise on the fear of change then the unravelling of Europe is inevitable.

Until now, the EU has been a success story. It seemed a fairly simple development from a small coal and steel community to a big, politically integrated union. That is no longer the trend. For the first time we must fight for Europe. Muddling through will not work.

> For one thing, we need to be more flexible about deficit spending in countries with high unemployment

Because globalisation drives so many people to nationalism and isolationism, it is all the more important to explain that today the most fundamental desires of Europe's citizens, such as peace and prosperity, can best be safeguarded through European co-operation. Since the cold war ended, Germans and their European partners have taken those goods for granted. But in the past two years disruptive global changes have opened our eyes to a new reality.

The response has been mixed. Europe's common stance against Russian aggression is a tribute to the power of collective action. Steps to save the euro have brought us back from the brink of disaster. But on other issues, such as the refugee crisis and high youth unemployment, Europe has failed.

To turn things round we will need all our strength. Yes, Britain is out. But there are 27 other nations left to hold this together. Germany wants to see more shared leadership in the EU and has a crucial role in achieving this. It is our responsibility to generate cohesion and facilitate compromise. That means being more flexible about deficit spending in nations with high unemployment and considering the energy security interests of Europe as a whole regarding the Nord Stream 2 pipeline, designed to bring Russian gas to the west.

Only by making concessions in these areas can Germany demand solidarity on the refugee question and expect support for a much-needed revitalisation of the common foreign and security policy. Together, we need to take our security into our own hands — for example, by finally committing more resources and personnel and by establishing a European defence headquarters. Moreover, Europe needs a comprehensive strategy for dealing with the turmoil in its southern neighbourhood, whose problems quickly spill over and become our own.

Germany should push for unity, not purely out of altruism but because it is in our own interests. Europe is a different place now the British have voted to leave. It is up to the rest of us to determine what type of Europe it will be.

The writer is chairman of the committee on foreign affairs of the German Bundestag

Island, tower, town hall: the new MBA campuses

Space constraints in big cities are forcing business schools to colonise unusual sites to expand, says Jonathan Moules

Roosevelt Island: Cornell University is developing a new campus on the site on New York's East River

The front steps of the Old Marylebone Town Hall in London are known to Beatles fans for the 1969 wedding of Paul and Linda McCartney, one of many couples to marry at the register office inside.

The municipal block on busy Euston Road more recently became the dowry for another marriage, between Westminster Council and new tenant London Business School, which is converting the buildings to expand its teaching space by 70 per cent.

"We have got this wonderful building in Regent's Park but it has been limiting in terms of size," Andrew Likierman says, referring to Sussex Place, the listed property designed by architect John Nash in the 1820s, which has been the school's base since it was founded in 1964. The additional town hall site opens next year.

The search for much-needed space has taken "a long time", he admits.

Adding campuses in densely populated global cities like London has become a focus for numerous business schools, which could scoop up additional students — and their fees — if they only had space to teach them.

A major problem is the rising cost of land in the urban centres where they are based, which is why partnerships with local government and private developers can be the ideal solution.

Paying for new campus construction is less of an issue among US business schools, whose highly developed fundraising programmes can secure donations to support building projects costing hundreds of millions of dollars.

However, even here partnerships have proved popular, illustrating that working with government and the private sector has benefits above and beyond cost.

Cornell University is developing a new campus on New York's Roosevelt Island, a previously neglected sliver of land in the city's East River, now being revived.

The 185,000 sq m of buildings set in 4.8 hectares of open space will cost $2bn to build, with about $100m coming from City Hall. New York's Applied Sciences NYC initiative received bids from a range of institutions that wanted to build a world-class technology campus in the city, including nearby Columbia University, New York University and Stanford University in California.

Cornell partnered with Technion — Israel Institute of Technology in Haifa for its successful bid and is using a $350m gift from an anonymous donor to fund the balance of the campus costs.

Money is not such an issue in the US as it might be for other business schools, according to Soumitra Dutta, dean of Cornell's Samuel Curtis Johnson Graduate School of Management. However, he admits that even Cornell would find it hard to justify the sums needed to buy sizeable plots of land in an expensive city like New York.

Partnerships also reflect the symbiotic relationship between higher education institutions and the businesses, public spaces and cultural institutions that surround them, according to Professor Dutta.

"Having knowledge institutions is a boon for the cities themselves because [they] are in a race for the best talent," he says, noting that the school has been increasing its city centre activities with ventures such as tech start-up incubators for the past two decades.

If the Roosevelt Island campus had not been possible, Cornell would have had opportunities to work with other owners of urban land, says Prof Dutta.

The business school already has a partnership with some medical schools in New York, he notes. "Having said that, [Roosevelt Island campus] was a focused effort, trying to do something bigger on a bigger scale."

The new campus, Cornell Tech, will also combine facilities for the engineering departments and medicine, enabling the business school to co-operate with several disciplines rather than just one, Prof Dutta notes.

"We would be able to do things in co-operation with local industries which would have been difficult otherwise," he says. The incubator that will run at Roosevelt Island will allow Cornell Johnson to connect with New York's venture capital firms, for instance.

In Madrid, IE Business School is building upwards rather than outwards thanks to a partnership with developers that gained permission to build four high-rise residential complexes in a neglected part of the city.

The campus will be located in a fifth skyscraper, at 165m somewhat lower

> 'Having knowledge institutions is a boon for the cities because they are in a race for the best talent'

than the residential blocks. This will create 50,000 sq m of additional space for the school, with capacity for 3,500 students.

IE, which has an executive education partnership with the Financial Times, will have this land for 20 years, renewable for another 55. The high-rise building will enable IE, currently in 20 buildings across the city, to bring many of its students together in one location, something Santiago Iñiguez de Onzoño, IE dean, believes could foster further educational opportunities.

"The city is our campus," he says, noting that there is an additional benefit in the school being able to offer its students a relatively low cost of living in Madrid as well as the city's rich culture of art, food and entertainment.

Shard symbolism
WBS reaches for the sky

The cultural value of the metropolis is also a lure for business schools far from capital cities. Warwick Business School chose London for its second UK campus, reaching a deal with the owners of the Shard — the capital's tallest building — to lease half of the 17th floor for 10 years.

The Shard was keen to have the school, as the original concept for the building by developer Irvine Sellar was to build a vertical town. Having an educational establishment such as WBS fitted perfectly, according to Mark Taylor, the school's dean. "Warwick is a young and dynamic university that has always aimed high," he says. "The Shard symbolises that dynamism, ambition and quest for excellence very succinctly."

The school has created a Doctor of Business Administration course for senior executives, taught from its new London base, along with part-time versions of its MSc in Finance and MSc in Human Resource Management.

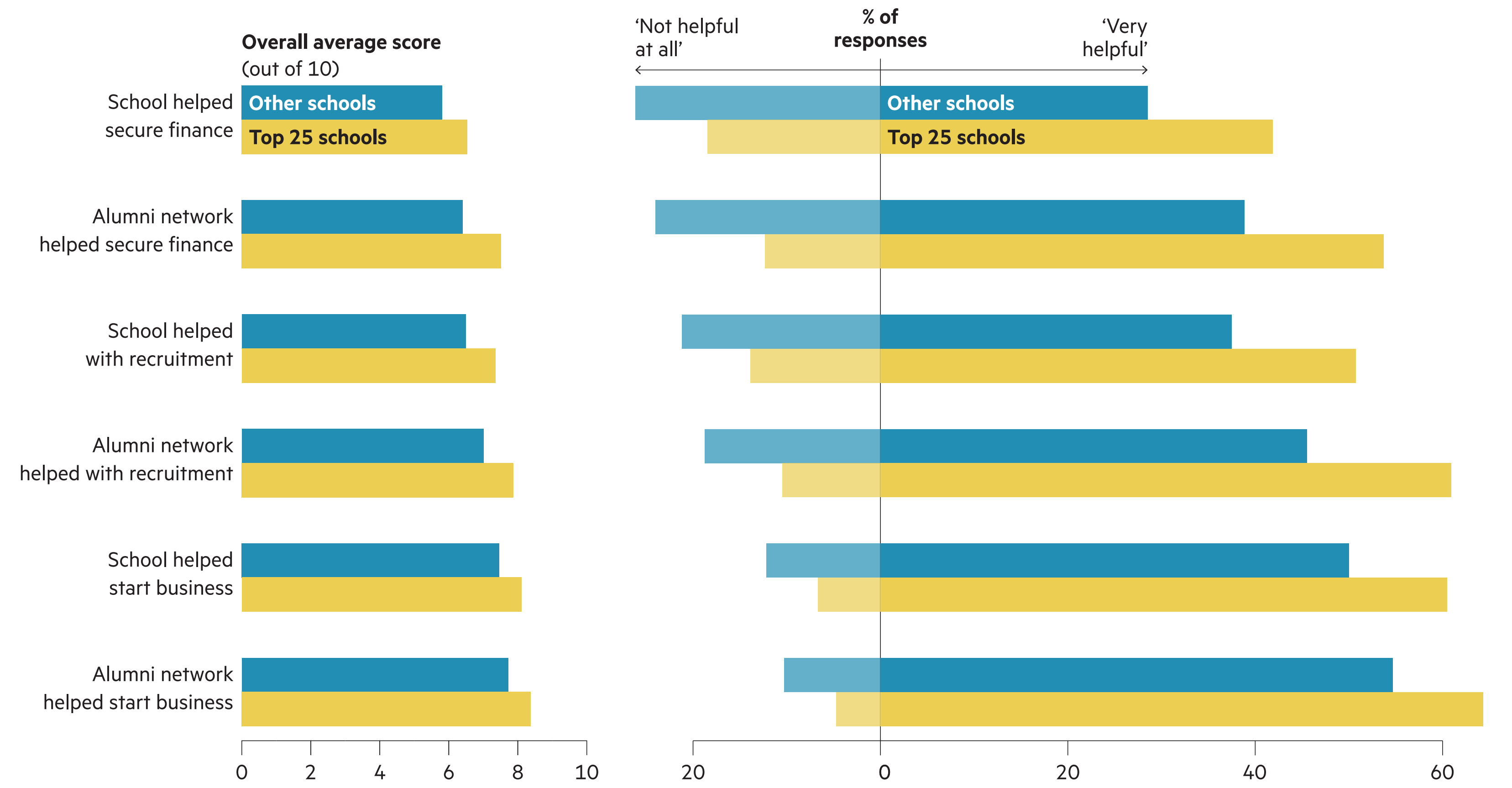
WBS's London site also won a contract to provide training in financial regulation and banking to graduate trainees at the Bank of England, which is located in the Square Mile just over the river Thames.

How the top 25 MBA programmes for entrepreneurship compare with the rest

As rated by the entrepreneurs from the Class of 2012

Top 25 schools

1 Stanford GSB
2 Babson College: Olin
3 University of Virginia: Darden
4 Dartmouth College: Tuck
5 UCLA: Anderson
6 Uni of California at Berkeley: Haas
7 University of Pennsylvania: Wharton
8 IE Business School
9 London Business School
10 Iese Business School
11 MIT: Sloan
12 University of Oxford: Saïd
13 Harvard Business School
14 University of Chicago: Booth
15 Ipade Business School
16 Georgetown University: McDonough
17 Insead
18 Duke University: Fuqua
19 New York University: Stern
20 USC: Marshall
21 Birmingham Business School
22 Columbia Business School
23 HKUST Business School
24 Incae Business School
25 HEC Paris



FT graphic Source: FT Global MBA ranking 2016

Ranking shows US schools excel at start-up spirit

LAURENT ORTMANS

It is two out of two for Stanford Graduate School of Business, which has retained its top position in the Financial Times' second annual ranking of the best MBA programmes for entrepreneurship.

FW Olin Graduate School of Business at Babson College came second, while The University of Virginia Darden School of Business followed in third. Places four to seven were also taken by US institutions — Dartmouth's Tuck school, UCLA's Anderson, Berkeley's Haas and Wharton.

This year's ranking — a customised spin-off from the FT's 2016 global MBA ranking — features the top 25 MBAs for entrepreneurship, an expansion from the 10 programmes listed last year.

The league table was compiled using exclusive data gathered during the broader ranking exercise, from students who graduated from MBA courses in 2012.

Among the criteria assessed were the percentage of a school's MBA graduates who started a company, as well as how many of those businesses were still trading at the end of 2015.

The ranking examined how integral the school and its alumni were in getting the company off the ground, from instilling the motivation in the mind of the entrepreneur to helping find staff and funding. A size threshold (responses from at least 15 entrepreneurs at each ranked school) was applied too.

When all these factors were analysed, US schools accounted for 15 out of the 25 ranked programmes.

At California-based Stanford, a third of graduates from the class of 2012 started their own company. The school came joint-first with Babson's Olin for motivating students through the skills gained during their MBA. Stanford's entrepreneurial spirit extends beyond those graduates who set up their own company. "I did not start a business but I am able to apply the entrepreneurship mentality to my corporate job," one graduate told the FT as part of the data gathering process.

Stanford is also placed first for the extent to which alumni support one another when starting a company. "Stanford GSBers help each other," another graduate added.

Olin, based in Massachusetts, rose to second from eighth in the previous year. Nearly half of its graduates — 46 per cent — started their own company.

One graduate praised its faculty's practical role in instilling the entrepreneurial spirit: "[They] ensure that students learn how to tackle the real world challenges of starting companies."

The ranking also includes schools from China, Costa Rica, France, Mexico, Spain and the UK. Spain's IE Business School, placed eighth, is the top non-US school. London Business School and Iese Business School, also from Spain, complete the top 10.

Overall, 19 per cent of MBA graduates from the class of 2012 started their own company. Entrepreneurs from all schools — ranked or not — tend to give similar replies when asked how much they were driven by their MBA course to set up on their own.

> At Stanford, a third of graduates from the MBA class of 2012 went on to start their own company

One factor that does vary significantly is the amount of help they get from their school and alumni network in setting up their company, financing it and recruiting key staff. There is an average difference of 0.8 points (out of 10) between the scores given by entrepreneurs in ranked programmes compared with those in non-ranked ones.

Overall, 56 per cent of entrepreneurs from the top 25 MBA programmes rated their school and alumni network as extremely helpful compared with only 44 per cent of entrepreneurs from the other MBA programmes.

In either group, the alumni network is consistently rated as being more helpful than the business school. For example, in terms of financing, entrepreneurs from the ranked programmes rated the help they received from their school at 6.5 out of 10, compared with 7.5 for the help they received from the alumni.

However, about 13 per cent of entrepreneurs deemed both their school and their network as not helpful at all and about a third of entrepreneurs sought no help from either.

Making the most of top female staff

ADAM JONES

Companies that appoint more female executives might not be reaping the benefits of that gender diversity because their culture is still too dominated by internal competition rather than collaboration, new business school research suggests.

Academics studied the "collective intelligence" — a measure of a team's ability to do various tasks — for groups with stable leadership and also in circumstances that encouraged individuals to jostle for position and interrupt each other.

In the latter context, it was found that female-dominated teams did not achieve the collective intelligence boost that previous research in the field would have predicted. The male-dominated groups meshed better when the atmosphere was less collegiate, however.

"Gender diversity benefits do not materialise if the atmosphere is too cut-throat," says Anita Williams Woolley, an associate professor at Carnegie Mellon's Tepper School of Business, who led the research.

The paper tested a theory derived from a previous study at an unnamed management consultancy, which felt that it was not reaping the benefits of greater gender diversity at senior level — arousing suspicions that its "up or out" approach to career progression might be at the heart of the problem.

Prof Woolley and her fellow researchers — drawn from the Tepper school in Pittsburgh, Northeastern University's D'Amore-McKim business school and HEC Paris — will present their findings at the Academy of Management's annual meeting in Anaheim, California, in August.

Competition and Collective Intelligence: Do Women Always Make Groups Smarter? *Anita Williams Woolley, Rosalind Chow, Anna Mayo, Christoph Riedl, Jin Wook Chang*

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Why we are ruder at work than we are in the street

Lucy Kellaway
On work

Last Tuesday on my way to work I was waiting to cross a road when a middle-aged woman next to me dropped some coins on to the pavement. Six people bent down to retrieve them for her. A man in a smart navy suit fumbled in the gutter to find a 1p piece, which he proceeded to hand over. The only person nearby who didn't help was me — but that was because I was holding on to my bicycle.

Instead, I found myself telling the group that what I'd witnessed made me pleased to be a Londoner. Everyone was in a hurry to get to work. Yet everyone instinctively paused to be nice to a stranger who had lost less than a quid in small change. The good Samaritans looked at me doubtfully. Being kind was one thing; talking to strangers quite another. As soon as the lights changed they bustled off to their City offices. I bustled off to mine.

When I arrived I walked to my desk straight past various colleagues staring at screens, some of whom were wearing headphones. I didn't greet any of them. I dumped the previous day's dirty tea cup in the communal sink and took a clean one from the cupboard. I sat down, looked at my emails and resolved not to reply to any of them. I went up to the canteen, bought myself a greasy pastry, which I ate at my desk, scattering crumbs all round me.

This is my routine every morning at the office; I wouldn't have been at all surprised if some of the Samaritans were doing something similar at theirs. How people behave at work isn't all that nice. We are more thoughtful to perfect strangers in the street than we are to our colleagues in the office. At work we ignore people, we stink them out with our lunches, we arrive late to meetings. We talk loudly when others are trying to work, or we whisper distractingly when we don't want everyone to hear.

Management experts call this "workplace incivility", which they define as "low intensity deviant behaviour" that is not necessarily intended to harm its target, but does so anyway. I didn't set out to be uncivil to my colleagues by not saying hello or by ignoring so many emails. This is just how office life has become.

Research suggests such rudeness is rampant and doing real harm. It makes people hate their jobs, it makes them less creative and more stressed. It might even (though I'm doubtful) make us more prone to heart attacks.

It isn't immediately obvious why offices are becoming less civil. Human nature hasn't changed much. In my experience, when something big goes wrong in the office, people are very nice indeed. But six things have changed that may have made us all ruder in little ways.

The first is email. As there is far too much of it to reply to we've learnt not to — or to send terse one word answers — both of which are rude. And having mastered the art of ignoring emails we are now learning to ignore anything we don't feel like doing. Answering the phone at work is becoming optional — which is rude not only to the person on the other end, but to the colleagues subjected to endless ringing.

The second invitation to incivility is the smartphone, which has made appearing to listen when someone else is talking — hitherto a mainstay of good manners — no longer required. This month I was at a conference at which not only was three-quarters of the audience (me included) staring at their phones, but half the people on the panel were openly tweeting or Whatsapping as the man at the lectern droned on.

Open plan offices are also made for incivility. Now that we are herded together in public spaces, what would have been fine in private offices (eating noisily, talking loudly on the phone etc) becomes less so. It is thanks to open plan offices that we have the rudest office invention of the lot — headphones. These shout: I'm here, but I wish I wasn't.

Hot desking and flexible working have made things worse still. When you are not sitting with the same people every day, and may not even know the person who dumps themselves down next to you, there is no incentive to be particularly nice as you won't see them tomorrow.

Possibly worse than any of this is the cult of busyness, which has made rudeness not just acceptable but admirable. If it is impressive to be busy, then it is good to keep people waiting, good to turn up late to meetings and good to be so preoccupied that you end up blanking people in the corridor.

All this is pretty fundamental, and it isn't clear how to get civility back.

The only way that might work is rude in itself: it is secretly to video people behaving badly and send it to them, or share more widely. Almost everyone is decent really. Few people like to think of themselves as rude. A 10-second video of someone cutting a colleague dead or eating disgustingly might have an agreeably corrective effect.

> I did not set out to be uncivil by not saying hello or by ignoring so many emails. This is just how office life has become

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Monday interview. Ken Moelis, founder, Moelis & Company

An old-fashioned dealmaker

The veteran banker is at the forefront of a successful wave of boutique advisers, writes James Fontanella-Khan

A single pool for bankers' rewards, rather than commission on deals, fosters a collegial spirit, says Ken Moelis
Pascal Perich

Ken Moelis admits that launching a boutique investment bank in the middle of a global financial crisis was not the most obvious move for a banker trying his hand at being an entrepreneur for the first time.

"Do you know how many people told me we were going to go bankrupt? Everyone," says the veteran adviser as he reminisces about the early days of Moelis & Company in 2007. "When I was expanding in the crisis the whole street thought I was crazy," he says.

The bank enjoyed a dazzling growth rate as it hired about 200 staff in less than two years. But critics predicted it would struggle to find new clients, relying instead on securing a few big-ticket deals with old clients of Mr Moelis, such as Hilton, which the bank advised in 2007 on its $26bn sale to Blackstone.

Instead, Moelis rapidly became emblematic of a bespoke kind of merchant banking, which also included Centerview, LionTree and PJT. This group has returned to dealmaking the old-fashioned way, say admirers.

That means concentrating on advisory services rather than additional offerings, such as financing.

Now Moelis has listed on the New York Stock Exchange, with more than 450 bankers working for it, and its 57-year-old CEO is focused on establishing his company as a global player. At the same time, he wants to maintain the partnership culture which has been at the heart of the boutique's success.

"We made a huge decision to not pay direct commissions to bankers when we started and we've stuck to that [post IPO]," Mr Moelis says. "There are a lot of boutiques out there that hire you by saying: 'I'll give you 35 or 40 per cent of whatever you bring in.' That's not how we work."

Having a single pool to reward bankers, he claims, fosters a collegial spirit that allows them to work together no matter the size of the deal. As Moelis focuses on expansion, with offices in India, Germany and Brazil among others, it puts a premium on bankers' abilities to work on cross-border deals in a creative way without worrying about the size of the transaction.

However, for self-proclaimed independent investment banks, which focus exclusively on advising clients on a sale or acquisition, greater challenges lie ahead. Overall deal volumes have fallen sharply compared with last year.

Global M&A is down more than 20 per cent so far this year, compared with the same period a year ago, according to Dealogic, and few dealmakers expect the situation to improve in the second half of the year. The chances of beating the all-time record of $5tn worth of transactions in 2015 are unlikely, most bankers admit.

For critics of the boutique's business model — mostly bankers at so-called "bulge bracket", or the world's largest, banks — the slowdown in M&A will test their resilience as fees shrink.

Many at bulge bracket institutions accuse boutiques such as Moelis of failing to dissuade their clients from bad deals if it means more money for their own bottom line.

The veteran dealmaker fumes at the accusation. "For somebody to say that advising my client to do a deal for a fee puts me in a conflict of interest is ridiculous," Mr Moelis spurts with irritation. "We need to provide really good, trusted advice to survive. The key is we never get on the other side of the client. I don't think they [his bank's critics] get this."

He adds for good measure that, unlike the big banks, his company is not in the business of cross-selling other services, such as financing or equity research, a lucrative business for many large groups such as Goldman Sachs, Morgan Stanley and JPMorgan.

Yet Mr Moelis is undaunted by the current gloomy M&A cycle. The advisory firm reported record first-quarter revenues of $126.4m, up 27 per cent from the first quarter of 2015, as it earned higher fees per deal and increased its client pool from 113 to 126. Nevertheless, the bounty in the first three months was due to the boom of 2015, because investment banks are paid only once a deal is completed.

A little adversity galvanises Mr Moelis, who says he enjoys being an outlier. Once a young hippy sporting Jimi Hendrix-style bandannas to hold back his unkempt hair, Mr Moelis struggled for a long time to find a job in banking after he graduated from the University of Pennsylvania.

He finally landed at Michael Milken's Drexel Burnham Lambert in 1981. During the next decade, that group went from being a little known second-tier investment bank to one of Wall Street's most sought-after financial institutions as it ushered in a new era of mega leveraged buyouts, issuing junk debt to companies to carry out takeover deals.

At Drexel, Mr Moelis made connections with some of the biggest names in the gambling, hospitality and entertainment industries, many of whom would stick with him throughout his career.

Some of his closest clients included Steve Wynn, one of the key figures behind the revival and expansion of the Las Vegas Strip; Steve Bollenbach, a former chief executive at Hilton Hotels; and the late Kirk Kerkorian, the Los Angeles billionaire with interests ranging from casinos to movie productions and the auto sector.

His clients were the ones who saved him after Mr Milken admitted committing fraud in the junk bond market, dragging Drexel to bankruptcy. "During that time, I became close with a group of people who were my clients; they became my friends. Steve Wynn gave me one of my first deals, post Drexel. I'll never forget that."

Mr Moelis later went on to spend a decade at DLJ merchant bank and six years at UBS in charge of M&A. He loved working at the Swiss bank. When he joined in 2001, UBS was relatively small in the US but had a large balance sheet, which Mr Moelis says was vital at the time as companies were carrying out highly leveraged mega deals.

But the love affair quickly fizzled out. Mr Moelis left UBS in March 2007 after becoming frustrated with the company's bureaucracy. "I just didn't want to be there, because I felt every day [spent there] was going to be bad for my reputation."

As Mr Moelis contemplated what to do next, clouds gathered over some of Wall Street's institutions. Amid the growing chaos of the period, the hippy turned banker rapidly realised that the approaching financial storm would not only transform US banking but would also provide a golden opportunity to build a new company.

"Great investment bankers don't leave. But when your firm is facing extinction it's different," says Mr Moelis. "This is when every investment banker in the world asked themselves: 'Am I in the right place?'"

Many left their large institutions to start their own or join a new "shop", such as Moelis. Boutique investment banks had around 15 per cent of the overall M&A market in early 2000. Now they control about a third of the total pie, according to Thomson Reuters data.

However, for Mr Moelis the goal is to recreate the dynamism that existed in the 1980s when M&A exploded.

"The history of investment banks is about innovation, hungry people trying to get ahead. That's why there are so many great war stories going back to Lehman, with [Lewis] Glucksman and [Stephen] Schwarzman and [Pete] Peterson," he says.

"It's built on incredibly successful people rising versus the bureaucracy holding people down. That's what's exciting about a really creative firm, the sense of dynamism on the way up."

CV

Born New York, 1958
Education In 1981 completes degree in economics and an MBA at the Wharton School of the University of Pennsylvania
Career
1981: Drexel Burnham Lambert, managing director
1990-2000: Donaldson, Lufkin & Jenrette, head of corporate finance
2000-2007: UBS, joint global head of investment banking and later president of UBS Investment Bank
2007-present: chief executive and founder of Moelis & Company
Interests Golf

Second opinion

The client

Steve Wynn met Ken Moelis in the early 1980s when the hotel and casino tycoon embarked on a mission to transform the then-decrepit Las Vegas Strip into an "adult Disneyland".

"Kennie was working for Mike Milken at Drexel, and he had a front seat in our effort to build a successful business in Las Vegas," Mr Wynn says. "He was hungry and smart."

Mr Moelis has not lost those qualities. "He has effective leadership know-how. This is not his first rodeo."

Working smarter

How to manage your erstwhile friends after promotion

EMMA JACOBS

The good news: you have been promoted. The bad news: you are managing your peers, including people you would describe as friends. So how do you manage those with whom you shared personal confidences?

Liana Davey, psychologist and founder of 3 coze, an executive team consultancy, recommends having a "reset conversation" with team members, along the following lines: "I will never consider not being your friend, but as a manager I have to set our relationship. How do we make it work?" By posing a positive question it leaves no room for the relationship to fail.

The awkwardness of this scenario, she believes, puts empathetic people off applying for promotions, whereas "it wouldn't even cross the mind of a driven person willing to steamroller over their former peers".

Robert Sutton, professor of management science and engineering at Stanford University, as well as author of *Good Boss, Bad Boss*, warns that a bit of teasing from your team is inevitable, although if it goes on for longer than a couple of weeks you are in trouble.

The first few months should be spent listening to your colleagues, advises Katy Tynan, management expert and author of *Survive Your Promotion*.

"Unfortunately many new managers don't get proper training, so they think they need to assert their authority and boss people around on day one." They spend more time trying to tell people what to do, and not enough time listening and learning.

A good rule of thumb, Ms Tynan says, is to spend the first 30 to 60 days in learning mode. Meet the people on your team, work on getting a solid understanding of the skills and motivations of team members, rather than their attributes as a friend.

There needs to be a bit of social distancing between yourself and your former peers, advises Prof Sutton. The friendship can survive, and it might make you a better and more empathetic manager because you care about their wellbeing. But you need to be clear-headed about the possibility of calling out team members over a problem or, even worse, firing them.

It works both ways: as a former peer, you are more likely to get blame and grumbling directed at you, he says.

What if you know your friends are cutting corners? You have to make a judgment on how it affects their performance, says Prof Sutton. You have to call people out on the big things, rather than the small fudges.

Ms Tynan advises having an "off the record" conversation with the friend to let them know that, as their peer, that behaviour was not your concern — but now you are the boss, you are going to have to deal with it.

Give them a grace period to clean up their act, but let them know that if they keep up that type of activity, you will have to deal with it on the record. If they do not fix their behaviour, you must act.

However, she adds, make sure you are also recognising as much (or more) the good things people are doing, and not just focusing on the negative.

workingsmarter@ft.com

Feedback

Andrew Hill wrote last week about pay transparency, which he believes to be the last taboo in business. He argued the case for employers to stop keeping employees' salaries under wraps. Readers responded online.

Pay transparency is often seen as absolutely fine for junior, low-paid or public sector workers. No one seems to care much about privacy or hurtful envy (or rather, feelings of low status) for them. Why are only the senior and well-paid deemed worthy of privacy and protection? **Ezra**

People who have experience managing a business know how destructive envy can be within an office environment. **WorkHardPlayHard**

I've seen what radical pay transparency looks like; it was all the rage in the late 1990s and my wife's firm used it. The ensuing envy and pettiness nearly sank the organisation. Why? Because everyone thinks they are worth more than their peers. **Pariah**

It's the conflict-averse, litigation-fearing HR departments that are against transparency. Most HR managers see themselves operating a risk-management post as opposed to being critical to success. **MetroGnome**

Mud, uncertainty and reasons to be cheerful

POP

Glastonbury Festival
Somerset, UK

Ludovic Hunter-Tilney

The annual battle over the soul of Glastonbury — a contest pitting lobster-and-chips gentrification against the keepers of the hippy flame — was overshadowed this year by an immensely bigger identity crisis.

News of Brexit was announced at the site on Friday morning, the start of its official programme. There were groans from most of the 177,000 present, alongside pockets of cheers and a certain amount of shoulder-shrugging, a determination to ensure the long weekend would be business, or rather pleasure, as usual, a temporary Glexit from reality. But the wet conditions that had turned the 900 acres of Somerset farmland into a quagmire reduced any opportunity for escapism.

"Reasons to be cheerful," Blur's singer Damon Albarn announced from the main Pyramid Stage, wearing a mourning black armband around his bomber jacket. "It's not raining." That scrap of consolation was soon extinguished by a passing shower. But the act that Albarn was introducing, the Orchestra of Syrian Musicians, was equal to the conditions.

The large stage was crammed with musicians and singers mainly from Damascus, touring under the auspices of Albarn's Africa Express collaborative project, in defiance of civil war in their homeland and visa difficulties overseas. Violins swirled and droned, string melodies lilted into view, piercing flutes rang out, percussion wheezed antique folk rhythms, accompanied by Arab vocalists and guest African musicians, one of whom, in tribute to that enduring sprite, the soul of Glastonbury, played a groovy psychedelic solo on a lute-like instrument.

Albarn sang an Arabised version of Blur's sad ballad "Out of Time". The cultural exchange sounded an optimistically cosmopolitan note in the context of resurgent anti-immigrant politics. But the song's melancholy sense of defeat undercut the defiance with which Albarn had earlier reacted to the Brexit vote ("We can change that decision!").

On the Other Stage, the festival's second biggest, veteran indie band James were delayed for an hour by technical gremlins. The hold-up epitomised Glastonbury's own difficulties this year, including epic traffic jams that snarled up Somerset when the festival opened its gates. Its founder, Michael Eavis, suggests it might move to a new location in 2019, a permanent Glexit.

Amid these signs of fallibility, one trend that the venerable festival has managed to address is the declining influence of its main genre, rock. This year's headliners included two acts familiar from previous festivals, Muse on Friday and Coldplay on Sunday, a ho-hum token of the lack of headline-worthy new rock bands coming through. But Saturday's headliner was a coup, the height of pop royalty, Adele.

There has always been an eclectic range of genres at Glastonbury. Increasingly, however, they share the same stage rather than being segmented. On the Park Stage, Ronnie Spector, former singer with 1960s girl group The Ronettes, charmed a Friday afternoon audience with a cover of Amy Winehouse's "Back to Black", a husky-voiced salute from a survivor to a fallen follower. At the same location, at midnight on Saturday, a large crowd gathered to watch an orchestral performance of the composer Philip Glass's tribute to David Bowie, *Heroes Symphony*, conducted by Charles Hazlewood, with lasers lighting up the night and an immense symphonic climax to rival even the loudest rock band.

High note: Adele headlined the main Pyramid Stage on Saturday. Below right: Skepta brought the sound of grime to Glastonbury
Getty Images

The UK's version of rap, grime, was particularly well represented this year. Its current star Skepta appeared on the Pyramid Stage on Friday afternoon, a cavernous setting that proved surprisingly receptive to his songs' rapid-fire raps and beats, as though the surrounding hills were transformed into huge woofers amplifying the bass. The London rapper treated the occasion as a challenge, not giving an inch in translating his underground scene to the mainstream, accompanied by fellow emcees, two of whom wheeled around the stage on bicycles, a reversal of "rus in urbe".

Birmingham rapper Lady Leshurr made an irresistible case to be grime's next crossover star on the Park Stage on Saturday afternoon. Comical "diss" tracks, many centring on her Ladyship's high standards of personal hygiene, were reoriented for a bemired festival audience, as when an audience member suffering the dreaded condition of "crispy bacon lips" was offered Vaseline. Ingenious wordplay was delivered with handbrake turns and deft shifts in pace, the vocal equivalent of *Grand Theft Auto*. Leshurr ended by descending to ground level to greet her new fans, thus sacrificing her box-fresh white trainers, a status symbol at muddy Glastonbury.

The 1975's singer Matt Healy took the prized pristine look even further, wearing a dazzling white suit on the Other Stage as the sun set opposite him on Saturday evening.

"I'm a pop star in a suit, what do I know?" he said impulsively during the Manchester band's set. "But when you stand on a stage like this, it's difficult to say nothing." An angry denunciation of the Brexit vote followed, a betrayal, in Healy's view, of the young by the old. The next song, "Loving Someone", was butter-smooth pop-R&B, an abrupt transition expressive of the jarring sense of disorientation that overhung the festival.

Brexit's glare was inescapable, a harsh light bearing down on even the most likeable act. Five hours after I passed veteran protest singer Billy Bragg singing "I Keep Faith" in the Left Field tent, he was to be found singing exactly the same song in the same place, a stuck record. Meanwhile, ska old-timers Madness came across as a banal heritage routine in their afternoon slot on the Pyramid Stage, churning through "House of Fun" with automatic jollity. "I must say, I've had a terrific weekend," said their singer Suggs, from somewhere within the deep, deep sleep of England.

Muse played a concentrated, loud set for their Friday headline set, without special guests or excessive stage gimmickry. Singer-guitarist Matt Bellamy dashed out punchy riffs and fierce solos and wailed with Freddie Mercury-like drama. Songs had a groove descended from Led Zeppelin, an ancestral debt honoured with the snatch of "Heartbreaker" that Bellamy played during their own song "Hysteria".

But Muse's paranoid world view, expressed in tracks about drone warfare and international conspiracies, acquired a pantomime character in the light of the real-life global crisis taking place that day. Offered a stage in front of tens of thousands, with many more watching on television, Bellamy had nothing to say about Brexit. His silence reduced the band to a cartoon-like approximation of heftier influences, the likes of Queen and Radiohead. Lightweights masquerading as heavyweights, they were all pomp and no circumstance.

Adele was better, alluding to national troubles with an aside about how people had to look after one another. There was a suspicion beforehand that her stately songs, built like luxury ocean liners and about as fast-moving, would prove too ponderous for the Saturday night slot. But the likes of "Hello" and "Hometown Glory" proved apt for the occasion, big emotive singalongs led by Adele's formidable vocals, one moment growling, the next soaring towards high notes.

Even this most technically gifted of singers struggled with the occasion, however. She went astray with "River Lea", restarting the song but still getting the vocals wrong, and disappeared from view for a muddled moment of dead time before encoring with "When We Were Young". They were small mistakes but significant, betraying the larger uncertainties that gripped this year's Glastonbury.

From dizzy heights to yesterday's women

PODCASTS

Fiona Sturges

What links Julia Gillard, Australia's first female prime minister, famed for her 2012 speech on misogyny, and the English Victorian painter, Elizabeth Thompson? This was the question raised by the New York essayist and author Malcolm Gladwell in his new podcast, *Revisionist History*, posed safely in the knowledge that while many listeners are familiar with Gillard, few will have heard of Thompson, And this, really, was the point.

Revisionist History is a 10-week series with the tagline "Sometimes the past deserves a second chance". Gladwell's plan is to re-examine past events that have been unjustly overlooked and he began with Thompson, whose 1874 painting, "The Roll Call", drew such vast crowds when it was exhibited in London that it was assigned its own policeman. It was the equivalent, said Gladwell, "of people camping out in line for two days to buy Beyoncé tickets".

Yet once the excitement died down, Thompson found herself frozen out of the art world and consigned once again to obscurity. The connection to Gillard? Both were operating in a man's world and both scaled dizzy heights in their respective fields, only swiftly to lose their positions.

According to Gladwell, they fell victim to "moral licensing", a phenomenon in which a good deed is invariably followed by a bad one. In the case of Thompson and Gillard, the fact that the door is opened for an outsider gives the status quo justification to close it again. "Once you know about Elizabeth Thompson," he said, "you see Elizabeth Thompsons everywhere."

This series marks a departure for Gladwell, who is best known for talking to business people about Fleetwood Mac and selling books about the power of thinking. His books have been criticised in some quarters for being simplistic and hokey but there are no such concerns here. As the title suggests, *Revisionist History* is heavy on historical fact, albeit presented through the prism of human behaviour. Its secret lies in turning serious and complex concepts into thoughtful and digestible stories.

Overlooked: Elizabeth Thompson

The second episode focused on counter-terrorism and a secret Pentagon-sponsored study to measure the morale of North Vietnamese soldiers in the early 1960s. Through extraordinary archive material and smart storytelling, Gladwell revealed the essential futility of intelligence-gathering. "You can know everything there is to know about your enemy and that still won't solve your problem," he noted, bleakly.

History podcasts are 10-a-penny nowadays, though the pleasure lies in the variety of ways in which they are delivered. *Dan Snow's History Hit* provides an enjoyable and authoritative rush of action with its old-school tales of derring-do, courtesy of the eponymous British TV presenter. My favourite, though, is *The Memory Palace*, a long-running podcast comprising 10-minute snippets of US history narrated by the Los Angeles writer Nate DiMeo. These are less like encyclopedia entries than short stories murmured over a gently tinkling soundtrack. They are little pockets of poetry.

OPERA

Jenůfa
Coliseum, London
★★★★☆

Richard Fairman

Look around the world and Janáček's operas are to be found everywhere this season. It has been a long haul: in the 1950s he was still largely unknown and it was Charles Mackerras at Sadler's Wells Opera, as English National Opera was then known, who played a big part in fighting for recognition of the composer's operas.

The company has done well by Janáček ever since. This revival of *Jenůfa* shows much the same all-round commitment that has made ENO's Janáček productions compelling in the past, albeit now with American singers in several of the leading roles. Sung in English, it makes the strongest argument for the kind of music drama that is the company's rationale.

David Alden's production from 2006 knows what it is doing. He places the drama in a dreary, hopeless, probably communist eastern Europe. The stage is near to bare, the Kostelnička's house decorated with little more than a small shrine to the Madonna. The feelings are stripped bare, too. Janáček was initially influenced by everyday life as depicted by the *verismo* composers, but he moved beyond that, and Alden heightens the realism of the story with flashes of harsh psychological lighting and emotions that glare with their intensity.

In the title role, young Laura Wilde (pictured with Peter Hoare) sings well and is especially successful at showing how Jenůfa finds calm and understanding for the future, though she is as yet rather impersonal and her words are unclear. Michaela Martens is not a figure who immediately inspires fear (how unforgettable was Anja Silja right from the start) but her Kostelnička grows in force of voice and personality. Showing a human side to this unforgiving woman adds another emotional layer. The real strength of the cast, though, is in its pair of tenors, Peter Hoare giving another of his gripping character portrayals as Laca, Nicky Spence growing impressively in voice as immature Števa.

Mark Wigglesworth, who is on the point of becoming ENO's ex-music director, conducts a powerful performance. In his ENO performances Mackerras had a unique ability to see transparently through Janáček's music, making the operas seethe with life. Wigglesworth's Janáček is more solid, more conventional, but it certainly lands a punch.

To July 8, eno.org

BREXIT Lex

Twitter: @FTLex **Email:** lex@ft.com

UK politics: status no

For the financial markets, British politics is usually more a matter of amusement than concern. Whoever leads the major parties can be relied on to stick to the same basic approach. The Bank of England grasps one lever (monetary); the Treasury another (fiscal); Both pull with dull competence. Rates are kept low, markets kept free, and the government is generally restrained.

One can only hope that this remains true. The nation's politics are in state of flux worse even than the sterling crisis of 1992. Labour party politics has been irrelevant to markets for a long time. Its leaders were either adherents to the post-1992 settlement, or were so implausible that there was no prospect of their influencing anything material. Now Labour's leadership is in chaos, at the same moment that events have given the party a shot at real power.

Conservative leadership is in equally bad shape. None of the prominent Leavers has held an important economic post, and none has offered even the barest outline of a practical plan. The favourite for the top job, Boris Johnson, proclaims himself an economic liberal. The votes that put him in this position came mostly from people who prefer the opposite.

Even if Westminster settles down, business faces prolonged uncertainty and inaction. Whitehall will be swamped by Brexit negotiations, leaving no time for bread and butter regulatory tweaks or tax policy. New trade deals need to be hammered out, not only a UK-EU arrangement but others with the rest of the world too. Such deals have countless fiddly subclauses, each of which can break an investment case.

Sectors, such as utilities, that rely on environmental policy may have it the worst. The EU has assured a certain stability on this front. The most efficient thing would be to signal commitment to keeping the EU regulations and targets in place. But for a government elected on the back of Brexit, this will politically difficult.

Business has long lobbied for a third runway at Heathrow, which Mr Johnson opposes. It is such a hard issue politically that only a strong and focused government will be able to get a runway built. That is not on offer.

Happily, many businesses thrive when government stays out of the way. Where government is in the way already, however, that is just where it is going to stay, for years to come.

The single currency: eur-on your own

The pound lost 7 per cent against the dollar on Friday; the euro, less than 3 per cent. But the currency that is leaving may ultimately do better than the one that is to be left behind.

When Article 50 of the Lisbon Treaty is triggered, a two-year negotiating period begins. The Leave camp is suddenly very wary of starting the clock, though. So the period of uncertainty is open-ended. During it, trade in rumour and hypotheticals will be lively. Other nations will be publicly rethinking EU membership while the discussions proceed. The euro volatility that inevitably results will be multiplied if there is economic weakness at the same time.

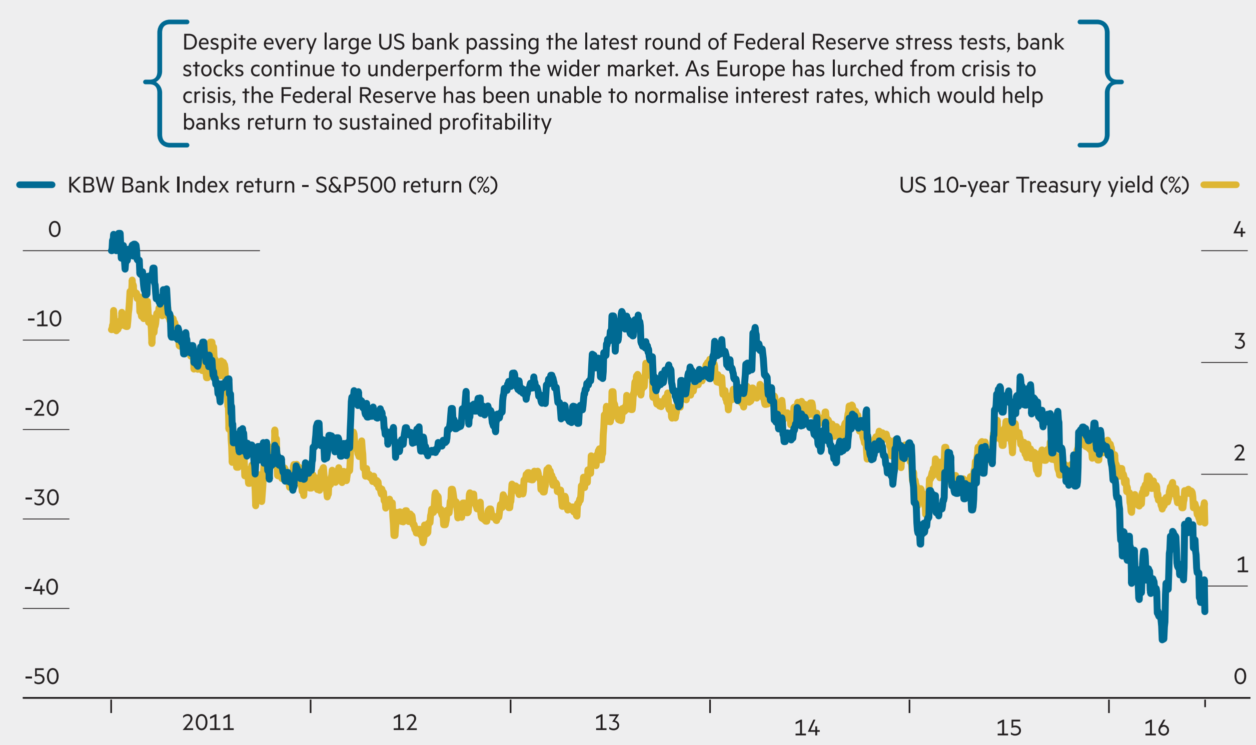
The knock-on effects of a weak euro will be significant. The biggest impact is likely to be on markets that perform poorly during periods of dollar strength. Dollar-priced commodities such as oil and copper are the first place to look, as a comparison of a trade-weighted dollar index to oil and copper prices over the past decade shows. On Friday, oil lost 5 per cent.

A similar negative correlation for the dollar exists with the MSCI Emerging Markets equities index. Latin American markets have the greatest commodity sensitivity, given producer constituents such as Brazil (iron ore), Mexico (oil) and Chile (copper). Better to own Asian emerging markets, especially India, in times of dollar strength. Asia has lagged behind this year's commodity-driven rally in EM.

Wherever they are domiciled, oil and mining stocks have rebounded strongly since their February lows. They will suffer in the short term. Tullow Oil, the UK-listed oil explorer, lost 11 per cent on Friday. More indebted miners and steel companies, such as Glencore (down 8 per cent) and Amsterdam-listed ArcelorMittal (11 per cent), are particularly vulnerable.

The pound should reflect the risk of the UK going it alone. But it is the path of the euro, a more traded currency representing a larger share of world output, that most needs watching.

Stress-related



FT graphic Source: Bloomberg

Recent years have brought US banks a series of stress tests, both artificial and real. The two types coincided last week. On Thursday, the Federal Reserve released the first results of its annual test. Good news: each of the 33 banks evaluated had enough capital to survive a "severely adverse scenario" arising from a sharp economic shock.

Just hours later, the banks got the news that the UK had voted to withdraw from the EU. On Friday, shares in the likes of JPMorgan Chase, Goldman Sachs and Morgan Stanley all fell between 5 and 10 per cent. The bad news: the declines make sense. Profitability at the big US banks is, in both the short and long term, quite sensitive to what happens on the other side of the Atlantic.

In the short term, revenues from trading, investment management and deal fees will dip as asset values fall and investment decisions are delayed. Each bank will have to decide how much of its London operations will have to be shifted or shuttered. The banks' share price losses were roughly in line with what analysts had forecast to hit earnings in the next year or two. Stocks dropped far less than what was seen at their already debilitated European counterparts, such as Barclays and Lloyds Banking Group.

The long-term issue is that no matter how the world political and regulatory map is redrawn, the big US banks are up to their necks in an irreversibly global financial system. When any part of that system has a wobble, all of it does. The malaise began with the sovereign debt and bank solvency drama after the financial crisis. Then, weak stimulus programmes begat weak economic recoveries. Today, anaemic growth and financial fragility outside the US have prevented the Fed from normalising US rates. And the big US banks need survival mode and into prosperity mode.

It is likely that the referendum has the US central bank boxed in for the foreseeable future. Depositors, creditors and regulators may finally believe in the strength of US banks. That does not mean that the pressure on bank stocks is ready to relent.

Airlines: brace position

If you can use some exotic booze . . . let's fly away, sang Frank Sinatra. Airline executives could use a bucket of pina coladas and a one-way ticket. Their profits are highly cyclical. Travel is largely discretionary, and the industry's fixed costs are high. Unsurprisingly, they took the result of the UK's referendum badly.

IAG shed a fifth of its market capitalisation when it issued a profit warning to coincide with the referendum result. The owner of British Airways and Iberia — which relies largely on business travellers — reported subdued demand in the run-up to the vote.

Ryanair and easyJet are more exposed to the leisure market. Seats were already being discounted to fill planes. As a weaker pound makes travel dearer for Brits, bigger discounts may be needed. That will hurt margins.

Soft sterling might create downward pressure in other ways, too. BA, which accounts for the majority of IAG's operating profit, earns mostly in pounds, reports in euros and buys its fuel in dollars. Fuel and currency exposures will be hedged in the short term. The long-term impact is unclear.

Britain's participation in the Open Skies agreement — which allows airlines to operate from any EU airport — is expected to be part of Brexit negotiations. If they do not get the access they want, airlines such as easyJet are likely to relocate their UK bases to the continent.

The MSCI Europe Airline index had risen by nearly half in three years, comfortably beating the FTSE Eurofirst 300. Airlines leveraged economic growth, cheap financing and lower oil prices to expand capacity. Investors were already fretting about the consequences, in Europe and the US. They will fret more now. One consolation: uncertainty reinforces the need for reform at legacy carriers. Both Air France-KLM and Lufthansa remain embroiled in damaging industrial relations disputes. Darkening skies may force co-operation.

UK housebuilders: confidence demolished

Housebuilders were among the biggest casualties of Friday's sell-off. This looks odd. They are not overleveraged; they learned that lesson back in 2008-09. They do not export to the rest of the EU, so will not be hit by tariffs. Imported materials constitute only a small proportion of build costs, so they will be relatively unaffected by a weaker pound.

The fall is likely a function of two related factors: high valuations and the sector's extreme sensitivity to consumer confidence. In 2011, shares in most housebuilders could be had for about half their book value. Five years of cheap credit, government subsidy and pent-up demand meant that by the start of this year, valuations had more than doubled. Margins had expanded dramatically. Short sellers had already taken positions, especially on builders heavily exposed to London, where prices have come off the boil.

Outside London, the issue is not so much about consumer sentiment; Brits want to own homes, whether in or out of the EU. Other market participants may be less accommodating. Estate agents thrive on volume; if it shrivels, they will drop asking prices and that could feed through into prices for new homes. Then, the banks. Mortgage costs are at record lows, but if longer-term rates rise, loans may become dearer or less available, or both.

A hit to volumes and prices would be severe for housebuilders. "Never had it so good" market conditions encouraged several to set out multiyear commitments on capital returns. True, dividend cover does not currently look stretched — at Barratt, for instance, last year's £250m of payouts were just over half net profit. Most builders have no pressing need to buy more land. But profits are highly geared to sales prices. Analysts at Bank of America Merrill Lynch think a 10 per cent reduction in volumes and prices over two years would cut earnings in half. In that scenario, a 20 per cent fall in sector-wide share prices does not look so drastic.

FT Lex on the web
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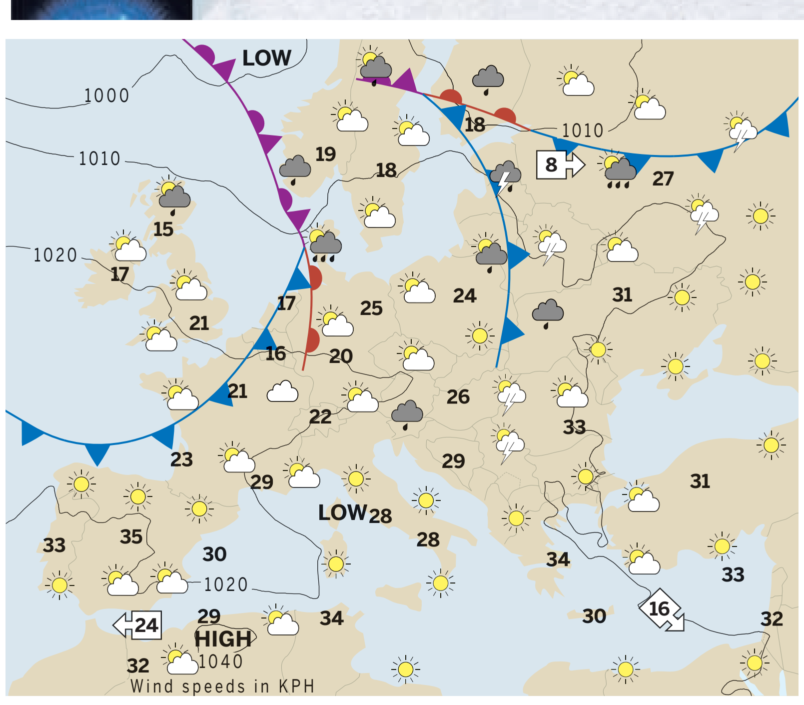
WEATHER



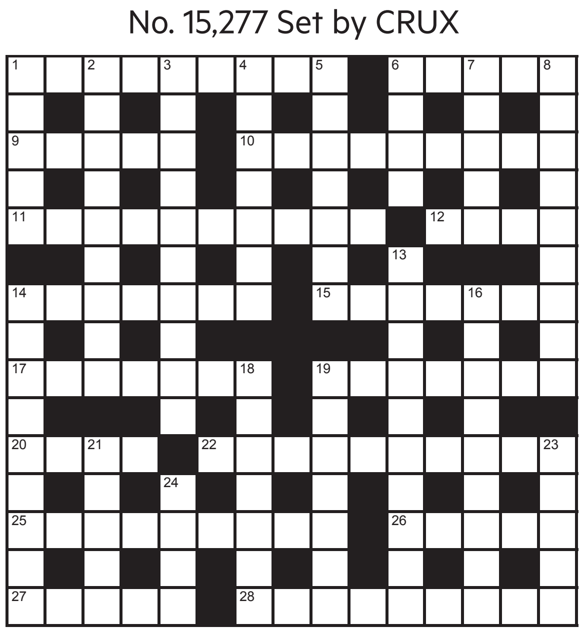
Forecasts by MeteoGroup Warm front Cold front Occluded front Wind speed in KPH

Today's temperatures Maximum for day °C

Abu Dhabi	Sun	41	Malta	Sun	32
Amsterdam	Rain	17	Manila	Thunder	32
Ankara	Rain	31	Miami	Cloudy	31
Athens	Sun	34	Milan	Sun	30
Bahrain	Sun	41	Montreal	Rain	28
Barcelona	Sun	26	Moscow	Thunder	27
Beijing	Thunder	32	Mumbai	Thunder	30
Belfast	Cloudy	15	Munich	Fair	21
Belgrade	Thunder	27	Naples	Sun	28
Berlin	Fair	25	New York	Fair	30
Brussels	Rain	18	Nice	Sun	25
Budapest	Shower	26	Nicosia	Sun	33
Cairo	Sun	35	Oslo	Shower	19
Cardiff	Fair	19	Paris	Cloudy	21
Chicago	Sun	32	Prague	Cloudy	20
Cologne	Rain	17	Reykjavik	Shower	13
Copenhagen	Fair	21	Riga	Thunder	20
Delhi	Fair	38	Rio	Fair	23
Dubai	Sun	40	Rome	Sun	28
Dublin	Cloudy	17	San Francisco	Sun	22
Edinburgh	Fair	16	Singapore	Fair	32
Frankfurt	Drizzle	21	Stockholm	Fair	22
Geneva	Fair	23	Strasbourg	Fair	21
Hamburg	Rain	20	Sydney	Rain	12
Helsinki	Thunder	18	Tokyo	Sun	28
Hong Kong	Sun	33	Toronto	Fair	32
Istanbul	Fair	30	Vancouver	Sun	21
Lisbon	Sun	33	Vienna	Rain	20
London	Fair	21	Warsaw	Sun	24
Los Angeles	Sun	29	Washington	Shower	31
Luxembourg	Drizzle	16	Zagreb	Rain	23
Madrid	Sun	35	Zurich	Sun	22

MONDAY PRIZE CROSSWORD

No. 15,277 Set by CRUX



A prize of The Good Word Guide by Martin Manser and How to Sound Clever by Hubert van den Bergh will be awarded for the first correct solution opened. Solutions by Wednesday July 6, marked Monday Prize Crossword 15,277 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 11.

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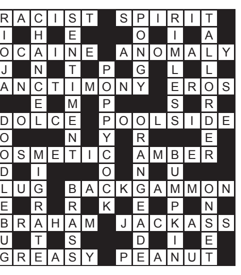
ACROSS
1 Doctor No praises character assassination (9)
6 Uneven parts of barley and wheat product (5)
9 Brave fellow by name of Fisher (5)
10 Baroness's flowery creation, much sought after in France (9)
11 These sins (about ten) could be mere intuition (5,5)
12 Partner said to get one provided free on trains? (2-2)
14 Working outside can be boring (7)
15 Lizard-like statuary oddly chosen by Scot (7)
17 Clearly evident wit, in a word (7)
19 Normal standard of school-leaver? A genius! (7)
20 Sin of every normally virile youth, originally (4)
22 Misery often associated with the deep Atlantic (10)
25 Sidney's round sugared almond causes upset (9)
26 Outstanding old part of mansion (5)
27 Right sort of oven for Sunday lunch (5)
28 Cook includes Rome's ingredients in equine fare (9)

DOWN
1 What remains of a sporting trophy (5)
2 They should lighten up non-U version of Oedipus Rex (9)
3 Practise to kill with a sword? (3,7)
4 What the reporter said in Shanghai, perhaps (7)
5 Goddess of deserts? (7)
6 Songbird, black- not white-headed, shot with it? Surely not! (4)
7 Unseen nuisance is a source of tedium (5)
8 Daughter's marriage regarded as a casual affair! (9)
13 Pressure to break up major retailer (10)
14 Last man in, inexperienced, about to be sick (9)
16 Type inclined to show stress (9)
18, 23 Play near the end of its second week? (7,5)
19 A European rodent, or maybe a worm (7)
21 Panorama from the pass – about time! (5)
23 See 18
24 Heartless android gives cheer to Americans (4)

SOLUTION 15,265



The winner's name will be published in Weekend FT on July 9

Companies & Markets

FINANCIAL TIMES

Don't panic Markets have avoided a 'Lehman moment' — GILLIAN TETT, PAGE 18

Big data IT companies prepare to build UK's 'tech island' infrastructure — PAGE 19

Brexit Uncertainty stalks bond markets • Foreign exchange dealers braced for turmoil

Gilt traders grapple with low yields and falling pound

ELAINE MOORE — LONDON

Bond traders face a critical week when they must weigh Britain's uncertain place in the financial and political order against near-record prices for UK government debt long ranked as one of the world's safest investments.

All three big credit rating agencies have said UK creditworthiness will suffer following the vote to depart the EU, and the cost to insure against a British default has jumped to the highest level since the eurozone crisis as investors attempt to insulate themselves from further turmoil.

Yet the benchmark 10-year borrowing cost for the UK on Friday also touched a record low of 1.01 per cent, reflecting demand for safe assets that has suppressed interest rates worldwide, fears a recession is imminent and the effect if policymakers respond.

"There is an increasing expectation that growth will deteriorate to such an extent the Bank of England will cut interest rates — which is helping to drive demand for gilts in spite of the potential rating downgrade," said Mike Amey, head of sterling portfolio management at Pimco, the influential bond investment house.

He expects base rates, set at 0.5 per cent since the financial crisis, to hit zero by the end of the year. Official bond buying is also possible, with BNP Paribas predicting £100bn of quantitative easing to be announced by November.

But the sharp fall in sterling — to a 30-year low against the dollar — raises the possibility of a rise in import prices that could contribute to higher inflation. Rising consumer prices, and higher interest rates that can follow, erode the value of bonds paying a fixed income.

Regular bond sales, which may indicate foreign investors' appetite, are not due to resume until July 5. A sale of popular short-term gilts maturing in 2021 will mark the end of a month-long hiatus around the referendum.

On Friday it cost $57,000 annually, or 57 basis points, to insure $1m of UK government debt for five years — the highest level since October 2012, according to financial data provider Markit.

So-called credit default swaps are a form of insurance against defaults of loans and bonds.

"The decision to leave triggered a wild and unprecedented swing in CDS," said

$57,000 Annual cost to insure $1m of UK government debt for five years

1.01% Record low borrowing costs for 10-year debt touched on Friday

Simon Colvin, research analyst at Markit. "The jump shows the level of uncertainty about what the vote means and the desire international investors have to protect themselves from it."

Rating agencies say the UK is likely to suffer long-term ill effects of what is expected to be a lengthy divorce from the EU. Standard & Poor's has said the UK is likely to lose its final AAA rating, the highest available, with an announcement expected as early as this week.

Fitch, which put the UK a notch below AAA in 2013, said leaving the EU would bring short-term disruption and long-term risks.

Moody's, which also downgraded the UK from Aaa three years ago, predicted uncertainty for years and changed its rating outlook for the UK from stable to negative.

Source: Bloomberg

Banks staff up for fierce currency movements

KATIE MARTIN AND ROGER BLITZ
LONDON

Banks have called in extra staff in case violent currency movements sweep through markets when trading begins in Asia this morning.

Shockwaves propagated through markets for sterling, yen, euros and dollars on Friday after Britons voted to leave the EU. Investors spent the weekend simply coming to terms with the questions they face amid growing political instability in the UK.

"This is not something that markets can price in one day," said Paul Lambert, head of currency at Insight Investment in London.

The pound fell by an unprecedented 12 per cent after the referendum result became clear, hitting its lowest point in three decades before ending the day down 7 per cent at $1.37.

Mr Lambert sees $1.20 in prospect, a scenario echoed by Matt Cobon, head of interest rates and currency at Columbia Threadneedle. "Friday was about the fact that people did not think this would happen. Now they are thinking about what it means for the medium to long term," he said.

The stakes are high well beyond the UK's borders.

The yen rocketed on Friday, with the dollar slipping under Y100 for a short time.

Banks, including Barclays, have arranged for staff across Asia to be at their desks early to support the very start of the global trading day.

Japanese authorities have expressed concern at the yen's ascent, which crimps exporters and complicates efforts to pump up inflation.

Economists at Bank of America Merrill Lynch said they now expect the UK to fall quickly into recession, prompting aggressive rate cuts from the Bank of England as soon as next month — a factor that would chip away further at the allure of sterling.

Bookies hit after record £120m wager on politics

PAUL MCCLEAN — LONDON

The nearly £120m wagered on the outcome of the Brexit vote broke the record for non-sporting events, with the unexpected outcome leaving some bookies celebrating six-figure profits while others nursed heavy losses.

Nearly £80m was wagered through the Betfair exchange and an additional £40m through bookmaking companies, who are predicting the unprecedented interest in political betting will offer them a new and lucrative market.

But like the pollsters and pundits, the bookies called the result of the referendum wrong — and one was left heavily in the red. William Hill took £3m in bets, and netted a £400,000 loss. "Very few saw this coming," says Graham Sharpe at William Hill. "It must be that more people backed Leave with us than other bookmakers."

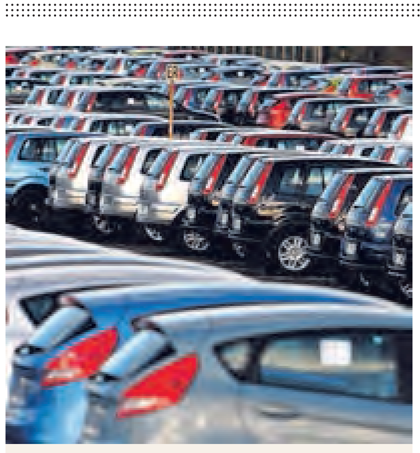
This was a betting market where the little guys won. At William Hill, 68 per cent of the money staked in the Brexit market was on Remain, but 69 per cent of individual bets were placed on Leave.

The average stake on Remain was £400 at Ladbrokes and £70 on Leave, which skewed the odds in favour of the status quo. Most "players in the market were backing Leave, but that doesn't matter to the prices; all that counts is the amounts of money," said Ladbrokes' head of political betting, Matthew Shaddick. "One £10,000 bet counts the same as 10,000 separate £1 bets."

Despite calling the result incorrectly, Ladbrokes made an estimated six-figure profit. It put this down to smaller payouts to successful punters, as most of those who backed Leave did not bet big.

Betfred took just over £1m in bets and says it made a small profit. Coral also took £1m in bets, and said it balanced its book such that it would have made profit on either a Leave or Remain vote.

The failure to predict the result contradicts the common view that bookies are a reliable indicator of public sentiment, but Mr Shaddick adds: "The truth is that bookies do not offer markets on political events to help people forecast the results. We do it to turn a profit."



Overseas groups weigh pros and cons of UK vote

Carmakers have given a sombre appraisal of what Britain's exit from the EU will mean for manufacturing and jobs, while financial services companies face decisions about whether they relocate operations from London to other finance centres

Analysis ▶ PAGE 18

Intel looks at selling former McAfee cyber security unit bought for $7.7bn

HANNAH KUCHLER — SAN FRANCISCO
JAMES FONTANELLA-KHAN — NEW YORK

Intel is looking at options for Intel Security, including potentially selling the antivirus software maker formerly known as McAfee, which it bought for $7.7bn almost six years ago.

The Silicon Valley chipmaker has been talking to bankers about the future of its cyber security unit in a deal that would be one of the sector's largest, according to people close to the discussions.

Intel declined to comment.

Private equity buyers are becoming more interested in such companies, anticipating strong cash flow as corporate customers grow worried about protecting their businesses from cyber attack. A group of companies might club together to buy Intel Security if it were sold for the same price or higher than Intel paid for it.

Bain Capital this month sold Blue Coat Security to Symantec for almost twice what it paid for the cyber defence company last year. Vista Equity Partners also bought Ping Identity, an authentication service, which had been planning a listing at the start of June.

Venture capital flooded into the industry in 2014 and 2015, as old stalwarts appeared unable to protect themselves against more sophisticated attacks. Now, as fundraisings slow and some valuations come down, many expect consolidation as start-ups are bought for their technology or engineers.

Intel has been restructuring after being hit by the falling PC market, announcing plans this year to cut 12,000 jobs in its largest workforce decrease in a decade. It is refocusing on selling chips for cloud computing rather than PCs, which still contribute 60 per cent of sales.

The chipmaker bought McAfee in 2010 intending to embed its cyber security functionality on to chips. But almost six years later Intel has not yet completed this plan. David DeWalt, the chief executive who helped engineer the sale, left to lead FireEye, a next generation security company, and his replacement, Mike DeCesare, left in 2014 and now runs ForeScout.

Intel Security is led by Chris Young, a former Cisco senior vice-president.

Companies / Sectors / People

Companies

Sectors

People

Financial services

Consultants grapple with poll upheaval

Surge in work begins for professional services firms as clients look to regroup

HARRIET AGNEW — LONDON

Professional services firms are experiencing a flurry of calls and emails from clients trying to make sense of what Britain's shock vote to leave the EU means for the future of their businesses.

Most of the calls are simply seeking advice and do not translate into instant fees. But they suggest the "Big Four" professional firms could be in for a potential financial bonanza when companies start reorganising to cope with the new political landscape.

"Most clients didn't expect to be reaching for the Brexit folder," said Steve Varley, UK chairman of "Big Four" professional services firm EY. This — and the uncertain nature of what Out would look like — meant that they have only drawn up tentative contingency plans over the past few months. Now they are scrambling for advice."

PwC held a client webcast on Friday to discuss the main issues and implications of Brexit, and it has had almost 15,000 views. Kevin Ellis, PwC's incoming UK chairman, said he was leading a new Brexit team, "focusing on co-ordinating our activities around our own people, supporting our clients and identifying market opportunities."

London's law firms are equally busy helping companies think about how to unwind 40 years of EU membership. Until the UK formally leaves the EU, all existing legislation will remain the same. But after a Brexit, the UK's parliament will face a substantial legislative review process. A range of law firms, including Dechert, Simmons & Simmons and Clifford Chance have established Brexit hotlines staffed by lawyers to help clients.

As UK chief executives digested the referendum result, many took early steps to check that they had enough cash and reassure EU nationals working in the UK and UK staff working in Europe that there would be no immediate effect on their terms of employment. Now attention is turning to longer-term strategic questions.

Simon Collins, UK chairman of KPMG, said: "The coming week's agenda will be on in-depth planning around supply chain management, investor sentiment, tax and regulation."

> 'Most clients didn't expect to be reaching for the Brexit folder'
>
> Steve Varley, UK chair of EY

There are clearly some immediate areas of focus, including the impact of Brexit on the value added tax regime. "VAT is an EU tax but it is a source of revenue that future [UK] governments would want to keep hold of," said David Sproul, chief executive of Deloitte UK. "Retaining a similar VAT but disentangling it from Europe is immensely complicated and would mean that retailers have to change all of their systems and processes."

Executives at the professional services firms played down suggestions that they were excited about the prospect of upheaval. "I don't welcome Brexit. As with all crises, there will be opportunities for professional services firms," said KPMG's Mr Collins. "We are certainly not rubbing our hands together with glee."

Foreign companies. Taking stock

Options and opportunities examined

The UK is a key link in a supply chain that might no longer make sense outside the bloc

SARAH GORDON — LONDON

Overseas companies are moving quickly to evaluate the challenges — and potential opportunities — that a British exit from the EU would bring.

The uncertainty created by the result will be the first test for many groups. Many are putting UK investment and hiring plans on hold and companies more broadly are worried that sales will fall and the cost of raising debt and equity will rise.

At the same time, some businesses that compete with UK-based rivals are scenting opportunity.

Car producers were among the first to give a sombre appraisal of what the vote may mean for manufacturing and employment in the country.

The UK is the EU's second-largest market for new car purchases and a key base for car production for the region. Fully 80 per cent of automobiles made in the UK are exported, half of that to the EU.

> 'The UK is a small land with a lopsided economy and a massive trade deficit'
>
> Ulrich Kater, DekaBank

Wheels of change: BMW says 'many of the relevant conditions for supplying the European market will have to be renegotiated'
Simon Dawson/Bloomberg

Britain also constitutes an important link in a European, or global, supply chain — one that may no longer make sense in a country that is no longer a member of the largest trading bloc.

"We know that many of the relevant conditions for supplying the European market will have to be renegotiated, but of course we cannot say what this means for our UK operations until those future regulatory and legislative arrangements are agreed," says Germany's BMW.

And Ford, which last year made 1.6m engines in its plants in Bridgend, in Wales, and Dagenham, outside London, warns: "We would expect that the combination of a softer industry and a weaker sterling would have an adverse impact on our operations in the long term."

Marco Tronchetti Provera, chief executive of Italian tyremaker Pirelli, says everything depended on how the economy develops over the next months.

"I hope the effect on the UK will not be good and it will show people it will be better to be in Europe than to leave," he tells the Financial Times.

Smaller suppliers are also likely to be affected. Mike Matthews, managing director of Nifco, a Japanese-owned automotive plastic components supplier based in Stockton, in north-east England, says his Japanese parent group had been in touch on Friday asking for a revised sales forecast. As European operations officer for Nifco plants in Poland, Germany and Spain, he is well aware that producers have many alternatives to the UK when deciding where to locate future investment.

"A large part of manufacturing in the UK produces parts that could equally well be made by manufacturers elsewhere," he says.

Salini Impregilo, the Italian construction group behind the building of the expanded Panama Canal which was due to be opened yesterday, issued a €428.3m bond the week before the Brexit vote amid concern that it could be more difficult to tap the markets after the vote if there were a Leave win. Pietro Salini, chief executive, says he is "very happy" with the timing.

And Joe Brusuelas, chief economist at RSM, an accountancy firm with a big global middle market client base, says he has been advising clients to secure lines of credit in case a serious upset in financial markets results in tighter markets "so that middle-market clients can meet inventory and payroll needs".

The effect is most pronounced in financial services. London has historically been Europe's dominant trading and banking centre. But banks based in the UK would almost certainly lose their automatic right to do business in the bloc, known as "passporting". That means the US and Swiss banks that use London as their EU base and UK banks themselves will face choices about shifting businesses to the Continent.

Frederic Oudea, president of the French Banking Federation and boss of Société Générale, says the vote will prompt the European Central Bank to demand that euro-trading activities — today done largely in London — move to the continent.

Poland, Germany and Ireland are already eyeing the benefits of such moves. Ireland has started emphasising its financial technology credentials and Warsaw is pitching itself to banks as a way for them to keep EU market access and reduce their costs.

Tarek Al-Wazir, economics minister for the German state of Hesse, where Frankfurt is located, says he thinks that some banks with their European subsidiaries in London can now think about moving to other centres in the EU, such as Frankfurt.

Mr Brusuelas says investors who use the UK as a jumping off point for foreign direct investment into the EU are likely to reconsider.

"Investors will consider reallocating investment to Ireland and the Netherlands, which we believe would be the primary recipients in reallocation," he says.

And Ulrich Kater, chief economist of DekaBank, which manages the assets of Germany's savings banks, adds: "The UK is a small land with a lopsided economy and a massive trade deficit."

INSIDE BUSINESS
ON MONDAY

Gillian Tett

No Lehman moment as system functions 'in an orderly manner'

Alex Stubb, the former Finnish prime minister, issued a grim warning last week: if the UK voted to leave the EU, it would face a "Lehman Brothers" moment, or a major financial crisis of the sort that occurred in 2008.

In the event, however, this prediction (thankfully) was not correct; or not yet. On Friday, asset prices gyrated dramatically. Indeed in some markets, such as currencies and European bank stocks, the prices moved even more dramatically than during the wild 2008 crash.

But what was almost as remarkable as Friday's price swings was what did not occur after that Brexit vote: namely a widespread market freeze or investor panic. To be sure, some traders in New York and London found it impossible to get price quotes in particular markets, such as European corporate bonds. "We cannot buy the credit names we want," said one European hedge fund manager on a conference call on Friday. "There are no sellers."

What was striking — but widely ignored — was that the markets did not experience any "flash crashes" of the sort seen two years ago in the Treasuries markets. Prices did not go completely haywire, as they did in the American ETF market this year. Nor was there a 2008-style panic about so-called "counterparty risk" — the technical term for a situation where traders stop cutting deals with each other out of concern that counterparts will collapse.

Instead the financial system continued to "function in an orderly manner", as a statement from the US Financial Stability Oversight Council pointed out late on Friday night. Translated from geek speak, that means markets did what they should — reprice the risk of assets to reflect a changing world.

This is a small point of good news. It is also a profound relief for central bankers who, by an ironic-but-clever quirk of scheduling, had their bimonthly meeting in Basel at the Bank for International Settlements on Saturday. After all, Friday suggests that at least some of the lessons that arose from that Lehman Brothers crash have now been learnt.

> In 2008, central bankers were unpractised at dealing with market panics

Think about it. Back in 2008 the world's central bankers were unpractised at dealing with market panics since the previous decade had been pretty benign. But now they have experienced the equivalent of disaster boot camp: the Lehman fall out, flash crashes, Chinese market dramas and multiple eurozone crises, too. That has made them far more skilled than they were in 2008 at communication and collaboration. They also know how to offset liquidity crunches.

And what is equally important is that the banks have stepped up their risk management skills — and have been forced by regulators to increase capital levels and liquidity coverage, and cut their proprietary trading positions. That makes them less vulnerable to market crashes.

Of course, that does not mean that the financial system has weathered all the shocks of Brexit yet. One nasty looming problem for banks, as Matt King of Citibank has observed, is that another likely decline in growth will leave inflation expectations and yields tumbling; this promises to be very debilitating for banks, particularly in Europe.

Another difficulty is that markets could soon face a second big "L" risk: a jolt similar to what occurred when Long-Term Capital Management hedge fund failed in 1998. On Friday, none of the big asset managers admitted to losing money as a result of the price swings. But that is just a matter of time. Soon, groups that have suffered big losses will face margin calls. That could spark a rash of failures and portfolio liquidations among hedge funds and investment groups of the sort that happened with LTCM. If so, asset prices may fall in a contagious, nerve-racking manner. Or to put it another way, the danger now is that there is "something out there lurking in the darkness like [the LTCM crisis] or a financial institution of some kind who might be in trouble, but we don't know about it yet", as Scott Minerd, head of Guggenheim Partners, puts it.

That sounds scary. But before anyone panics, it is worth remembering another key detail about 1998: after share prices collapsed, they rebounded, and there was no significant economic damage as LTCM — unlike Lehman Brothers — did not hit credit channels. So too in 1987 and 2001. That is no reason to be complacent. But, if history now produces this second type of "L" — namely a LTCM shock, not a Lehman Brothers disaster — it might be a relief. Fingers crossed this is so; and all eyes now on those margin calls.

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Insurance

Lloyd's braced for flight from London hub

OLIVER RALPH
INSURANCE CORRESPONDENT

Lloyd's, the insurance market, is likely to be an early loser from the UK's vote to leave the EU as the insurers that use its London hub prepare to shift some of their operations out of the country.

London is a global centre for specialist commercial insurance such as marine and aviation, and much of the business passes through Lloyd's, which is a market rather than a company. According to a 2014 report, the London commercial insurance market provided 10 per cent of UK financial services GDP in 2013.

Global insurers say that one of the big attractions of operating via Lloyd's is that it offers direct access to EU markets. But EU officials said over the weekend that the UK is likely to lose that right, known as passporting. Some global insurers now plan to either set up subsidiaries elsewhere in the EU or repurpose those they already own.

Stephen Netherway, an insurance partner at the law firm CMS, described the vote as "seismic" for London's insurance market. "The playbook for distribution and route to European market has just been ripped up," he said.

Among the international groups with large London operations are insurers AIG and QBE and brokers Aon and Willis Towers Watson. Ivor Edward, European head of corporate insurance at law firm Clyde & Co, added: "There will be uncertainty as people think about moving away from London. There are a number of insurers that we've spoken to that have contingency plans in place."

Lloyd's, which generates 11 per cent of its premiums from the EU, had campaigned strongly for a remain vote, with its chairman, chief executive and chief risk officer all speaking out on the issue.

"Obviously we're surprised and disappointed by the result, but as far as Lloyd's is concerned we don't think it is a life-threatening issue," said John Nelson, chairman, adding that insurers still had reason to do business in the market. "By and large, we are writing specialist risks. Insurers want access to the best talent, the financial covenant and the brand and reputation."

He added that the market also operated outside the UK: "Over the past seven years, Lloyd's has become a lot more local. We have hubs in Singapore, China, Dubai, and now offices in Colombia, Mexico and Brazil. Lloyd's is Lloyd's, not just Lloyd's of London."

Financials

Bearish hedge fund managers rack up gains

MILES JOHNSON, HARRIET AGNEW AND MARY CHILDS

Hedge funds betting that Britain would leave the EU were rewarded with bumper payouts after stock markets fell sharply on the back of the Brexit decision.

A heavy fall for UK and European stocks on Friday led to gains for some of the most bearish hedge fund managers such as Crispin Odey, who was among those that had been previously nursing large losses for the year.

Stockpicking hedge funds including Marshall Wace, Odey Asset Management and TT International were some of the biggest names to make money on their short positions against UK stocks.

Hedge funds that had taken short positions against equities but bought bonds also benefited on the first day of trading after the Brexit vote, including Winton Capital Management and Aspect, which run computer-driven funds. Alex Roepers, founder of Atlantic Investment Management, said he had made money from shorting the pound.

Hedge funds that had sold short, or bet against, some of the UK companies perceived by the market to be most vulnerable to Britain leaving the EU made some of the largest paper gains.

Hedge funds have been shorting Berkeley Group, the homebuilder focused on London and the south-east, and on Friday its shares fell more than a fifth.

Odey Asset Management had built up a short position of 1.42 per cent of Berkeley shares, while Marshall Wace had bet against 1 per cent of its stock, according to UK regulatory disclosures.

Odey had also bet against Aberdeen Asset Management and Intu Properties, which dropped, and further profited from taking out a large position in gold ahead of the referendum.

However, other funds had avoided big bets ahead of the vote, given the uncertainty over the outcome. "Performance is not as bad as we thought it could be," a managing director in prime brokerage at a US bank said. "Generally, hedge fund performance has held up." He said most funds he knew ranged between a 2 per cent loss and a 2 per cent gain.

Falls in stocks that look most vulnerable to the UK leaving the EU brought big gains for short sellers