

Spray and pray

Cash surge into Indian internet ventures slows — BIG READ, PAGE 7

Opioid overdose

US drug industry confronts crisis caused by addictive painkillers — COMPANIES, PAGE 13

Authoritarian axis

Putin's boost from Turkey's post-coup purge — COMMENT, PAGE 9

Death of duke who owned a royal fortune

Prince Charles, heir to the British throne, left, greets Gerald Grosvenor, Duke of Westminster, at an event in 2009. The billionaire duke, who died suddenly on Tuesday aged 64, was one of Britain's wealthiest landowners, with estates covering some of London's most exclusive land, including 300 acres (120 hectares) in Belgravia and Mayfair.

Worth almost \$11bn, the duke was a close friend of the prince and was descended from Gilbert le Grosveneur, who arrived in England in 1066 with William the Conqueror.

Gerald Grosvenor developed the family estate into a multinational property business. It now passes to his 25-year-old son Hugh.

Duke of Westminster page 4



Dave Thompson/PA Wire

Britain's bond-buying accelerates collapse in global borrowing costs

◆ Short-dated gilts touch negative territory ◆ Record low yields for Spain and Ireland

ELAINE MOORE — LONDON

Britain's revived programme of mass bond-buying accelerated a fall in global bond yields yesterday in the latest sign of how central bank policy has intensified a worldwide collapse in borrowing costs this year.

The Bank of England this month announced a new £70bn asset purchase programme designed to address fears of an economic slowdown after Britain voted to leave the EU, joining the European Central Bank and Bank of Japan to become the third major central bank engaged in quantitative easing.

The speed and extent of market reaction to the BoE's monetary easing programme indicated a change among investors who previously doubted the

ability of central banks to further suppress bond yields, said Steven Major, head of fixed income research at HSBC.

"The bank has made it clear that the next move is lower rates and possibly more QE — if they can find the bonds to buy — which is why this new round of easing is having an influence on everything in markets. It has shifted expectations towards further easing in Europe and away from a rate rise in the US."

Demand for UK bonds meant yields on two short-dated gilts due in March 2019 and March 2020 briefly traded in negative territory yesterday while interest rates across all other maturities fell to fresh lows.

The UK benchmark 10-year borrowing rate fell to an all-time low of 0.51 per cent yesterday as the BoE successfully

completed its third day of QE after failing to buy £1.17bn of long-dated paper on Tuesday. Rates on long-dated 30-year gilts fell to 1.26 per cent for the first time as investors bet that the bank would be forced to pay sharply higher prices for the debt in order to meet its purchase targets.

In global markets, yields on 10-year bonds issued by Spain and Ireland set record lows of 0.9 per cent and 0.33 per cent respectively. The yield on equivalent 10-year Treasuries fell 3 basis points to 1.51 per cent and there was strong demand for the sale of new debt. China's benchmark bond yield fell below 2.7 per cent, the lowest since the global financial crisis.

The moves marked a sharp reversal in sentiment from just six months ago,

0.51%

All-time low rate for UK benchmark 10-year borrowing yesterday

1.26%

Record low reached for 30-year borrowing

when many investors had begun to doubt the potency of central bank policies following the BoJ's adoption of negative interest rates after more than a decade of other measures failed to stimulate inflation.

"This reaction is striking when you consider that we are only on day three of a six-month QE programme in the UK," said Mike Amey, portfolio manager at Pimco, one of the world's largest investors, which expects to see further interest rate cuts in the UK.

BoE governor Mark Carney has explicitly stated that negative rates — which put pressure on bank profits — are not an option but policymakers have left the door open to a further cuts.

BoE grapples with challenge page 20

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The world's largest agricultural trading house revealed its weakest operating profit in four years amid a slump in grain markets, intensifying pressure on it to reignite growth.— PAGE 11

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Nato has issued a statement to quash rumours that its 64-year relationship with Turkey is in jeopardy, amid unease in the alliance over rekindled Ankara-Moscow ties.— PAGE 4; LILIA SHEVTSOVA, PAGE 9

► **Trump stalls amid amendment storm**
Donald Trump's attempt to reboot his campaign appeared to be stalling as polls showed the gap between him and Hillary Clinton widening amid fresh controversy.— PAGE 3



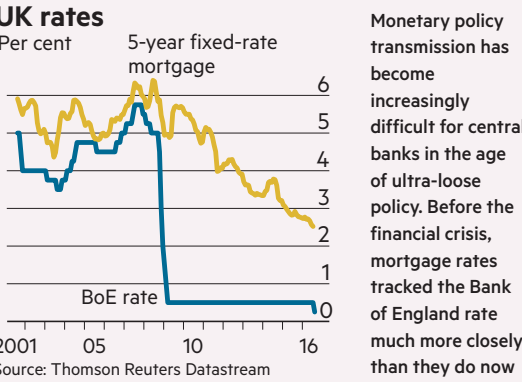
► **Signs of progress in Spanish deadlock**
Signs that the centrist Ciudadanos party is ready to back conservative leader Mariano Rajoy for a second term marks a cautious but significant step towards ending political deadlock.— PAGE 2

► **Vietnam-China tensions rise over islands**
Tensions have risen amid allegations of missile deployments by Vietnam in the disputed Spratly Islands and cyber attacks by hackers aligned with Beijing on Hanoi businesses and agencies.— PAGE 2

► **Politicians buzzing over Zika in Miami**
Wynwood, a 10-block former garment district of art galleries and trendy bars is the US "ground zero" for the Zika virus. Residents are calm but the outbreak has entangled itself in the election bickering.— PAGE 3

► **Australia's first online census hacked**
Canberra's first online population census has blown up spectacularly after cyber attacks, believed by the statistics office to have come from abroad, forced the survey website to be taken offline.— PAGE 4

Datawatch



Hole in Olympic card deals blow to golf authorities

Analysis ► PAGE 2

Austria	€3.60	Luxembourg	€3.60
Bahrain	Dm1.7	Macedonia	Dm220
Belgium	€3.60	Malta	€3.50
Bulgaria	Lev7.50	Morocco	Dh43
Croatia	Kn27.50	Netherlands	€3.60
Cyprus	€3.50	Norway	Nkr35
Czech Rep	Kc100	Oman	OR1.50
Denmark	DKr32	Pakistan	Rupee 280
Egypt	E£20	Poland	z18
Finland	€4.10	Portugal	€3.50
France	€3.60	Qatar	QR15
Germany	€3.60	Romania	Ron17
Gibraltar	€2.70	Russia	€5.00
Greece	€3.50	Serbia	NewD420
Hungary	Ft1000	Slovak Rep	€3.60
India	Rup195	Slovenia	€3.50
Indonesia	€3.50	Spain	€3.50
Kazakhstan	US\$5.50	Sweden	SKr37
Kenya	KSh300	Switzerland	Sfr5.90
Latvia	€6.99	Tunisia	Dm7.50
Lebanon	LBP7500	Turkey	TL10
Lithuania	€4.30	UAE	Dh15.00

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Putin quits peace talks after accusing Ukraine of 'incursion' into Crimea

KATHRIN HILLE — MOSCOW
ROMAN OLEARCHYK — KIEV

Russia's Vladimir Putin accused Ukrainian forces of a "criminal" incursion into Crimea in a sudden escalation of the conflict between the Kremlin and Kiev more than two years after the peninsula was annexed by Moscow.

The Russian Federal Security Service said yesterday it had foiled "terrorist acts" prepared by Ukrainian military intelligence against infrastructure in the territory, with the aim of disrupting Russia's parliamentary elections on September 18. Kiev denied the allegations.

Following the FSB's claims, Mr Putin said he was pulling out of international peace talks on the conflict in eastern Ukraine. The Russian president said he was no longer ready to meet his Ukrainian counterpart, Petro Poroshenko and

German and French leaders in the so-called Normandy format, which has been used for negotiations since 2014. Mr Putin hinted at a possible meeting on the sidelines of the G20 summit in China early next month.

"Apparently, the people who seized power in Kiev and continue to hold on to it, instead of seeking compromise, instead of searching ways of a peaceful settlement, have moved on to the practice of terror," Mr Putin said.

The FSB, successor organisation to the KGB, claimed one of its officers and a Russian soldier were killed foiling the Ukrainian plot last weekend. Kiev insisted it was committed to reclaiming Crimea and the Russian-backed break-away Donbass region through political, not military, means.

Moscow's allegations heightened fears in Kiev that Russia could retaliate

militarily, plunging the region back into war and forcing Ukraine to fight on two fronts. The brinkmanship comes amid an uptick in fighting between Kiev's forces and Russian-backed separatists.

The FSB said the Russian soldier died in an exchange of fire with the Ukrainian army across the border that now separates Crimea from the rest of Ukraine — a level of fighting not seen even during the annexation. Moscow said it arrested several people, including a Ukrainian military intelligence officer.

Ukrainian intelligence denied an officer was detained and officials said Russian claims of a plot were unfounded. "We deny this information," Yuriy Tandt, adviser to the security service, told the Interfax-Ukraine news agency. Ukraine's defence ministry denied that government forces fired on Russian positions on the peninsula.

World Markets

STOCK MARKETS				CURRENCIES				INTEREST RATES			
	Aug 10	prev	%chg		Aug 10	prev			price	yield	chg
S&P 500	2174.80	2181.74	-0.32	\$ per €	1.116	1.111	€ per \$	0.896	100.98	1.52	-0.03
Nasdaq Composite	5198.79	5225.48	-0.51	\$ per £	1.301	1.299	£ per \$	0.769	108.49	0.62	-0.06
Dow Jones Ind	18494.46	18533.05	-0.21	¥ per €	0.858	0.855	¥ per £	1.166	106.46	-0.17	0.00
FTSEurofirst 300	1354.10	1357.93	-0.28	¥ per \$	101.265	101.895	¥ per €	113.042	101.84	-0.07	0.00
CAC 40	3019.59	3029.18	-0.32	¥ per £	131.761	132.378	£ index	78.035	105.80	2.23	-0.03
Euro Stoxx 50	6866.42	6851.30	0.22	€ index	88.981	88.775	\$ index	99.903	103.19	-0.67	0.00
FTSE 100	3732.38	3724.84	0.20	Sfr per €	1.091	1.091	Sfr per £	1.271			
FTSE All-Share	4452.01	4468.07	-0.36								
CAC 40	10650.89	10692.90	-0.39	COMMODITIES					price	prev	chg
Xetra Dax	16735.12	16764.97	-0.18		Aug 10	prev	%chg	Fed Funds Eff	0.39	0.38	0.01
Nikkei	22492.43	22465.61	0.12	Oil WTI \$	42.04	42.77	-1.71	US 3m Bills	0.29	0.31	-0.02
Hang Seng	276.72	276.66	0.02	Oil Brent \$	44.32	44.98	-1.47	Euro Libor 3m	-0.32	-0.32	0.00
FTSE All World \$				Gold \$	1341.00	1336.80	0.31	UK 3m	0.39	0.40	-0.01

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INTERNATIONAL

Reselection bid

World Bank staff call for global search to replace Kim

Letter to the board urges an end to run of ‘American males’ serving as president

SHAWN DONNAN — WASHINGTON

Jim Yong Kim has spent the past few months quietly campaigning for a second term as president of the World Bank, and when the bank’s board members held informal discussions about the subject recently discretion seemed to be the order of the day. But an unusual move this week by the World Bank staff association calling for an international search to find a replacement for Mr Kim is turning his reappointment to another five-year term from June into a much more raucous affair.

In a letter to the board the staff association cited a “crisis of leadership” at the bank and called for the board to conduct a merit-based search for its next president. While it did not call for Mr Kim’s head, its demand for an end to a run of “American males” in the bank’s presidency left little doubt about how it felt about him. “Staff are clearly disenchanted with the leadership,” said Daniel Sellen, the head of the staff association. Mr Kim, a medical doctor and anthropologist who moved to the US from South Korea as a young boy and was nominated for the job by US President Barack Obama, has drawn criticism ever since his election in 2012 over rival Ngozi Okonjo-Iweala, a former Nigerian finance minister. If the original angst was over putting a public health expert

with no experience in finance or economics in charge of the bank, much of the criticism since has centred on a controversial reorganisation that he pushed through and a management style that has left many veterans feeling alienated. Those concerns have come at a time when the World Bank is facing big questions about its purpose and future as well as new competition from institutions such as the China-backed Asian Infrastructure Investment Bank. One appropriate response, according to many experts, is to give emerging economies such as Brazil and China a much bigger role in existing institutions, such as the International Monetary Fund and the World Bank, including the top jobs. In Mr Kim’s favour is the support he

continues to enjoy from the Obama administration, where officials praise him for pushing through needed changes. The US Treasury was unequivocal in its response on Tuesday to the staff letter. “The US fully supports [Mr] Kim’s presidency at the World Bank, including the steps he’s taken to enact important reforms,” a spokesman said. That Hillary Clinton, the former secretary of state now running for president, played a role in his 2012 appointment is also seen as a strength. Should she win the November election the con-

Jim Yong Kim: staff revolt risks casting a shadow over his leadership for another five years should he be reappointed



sensus is that she would probably back a second term for Mr Kim. Also in Mr Kim’s favour is his studious courting of leaders in powerful emerging economies such as China and India, where Mr Kim has pushed the bank as a vital resource to advise on things like competitiveness and health policy. Just as was the case with the IMF, where Christine Lagarde was unanimously appointed to a second term earlier this year, it is not clear that emerging powers are either interested in replacing Mr Kim or ready to coalesce around a rival. But all of that is complicated by any staff revolt, which risks casting a shadow over Mr Kim’s leadership for another five years should he be reappointed. For the time being the discussions at the bank’s board have focused on proc-

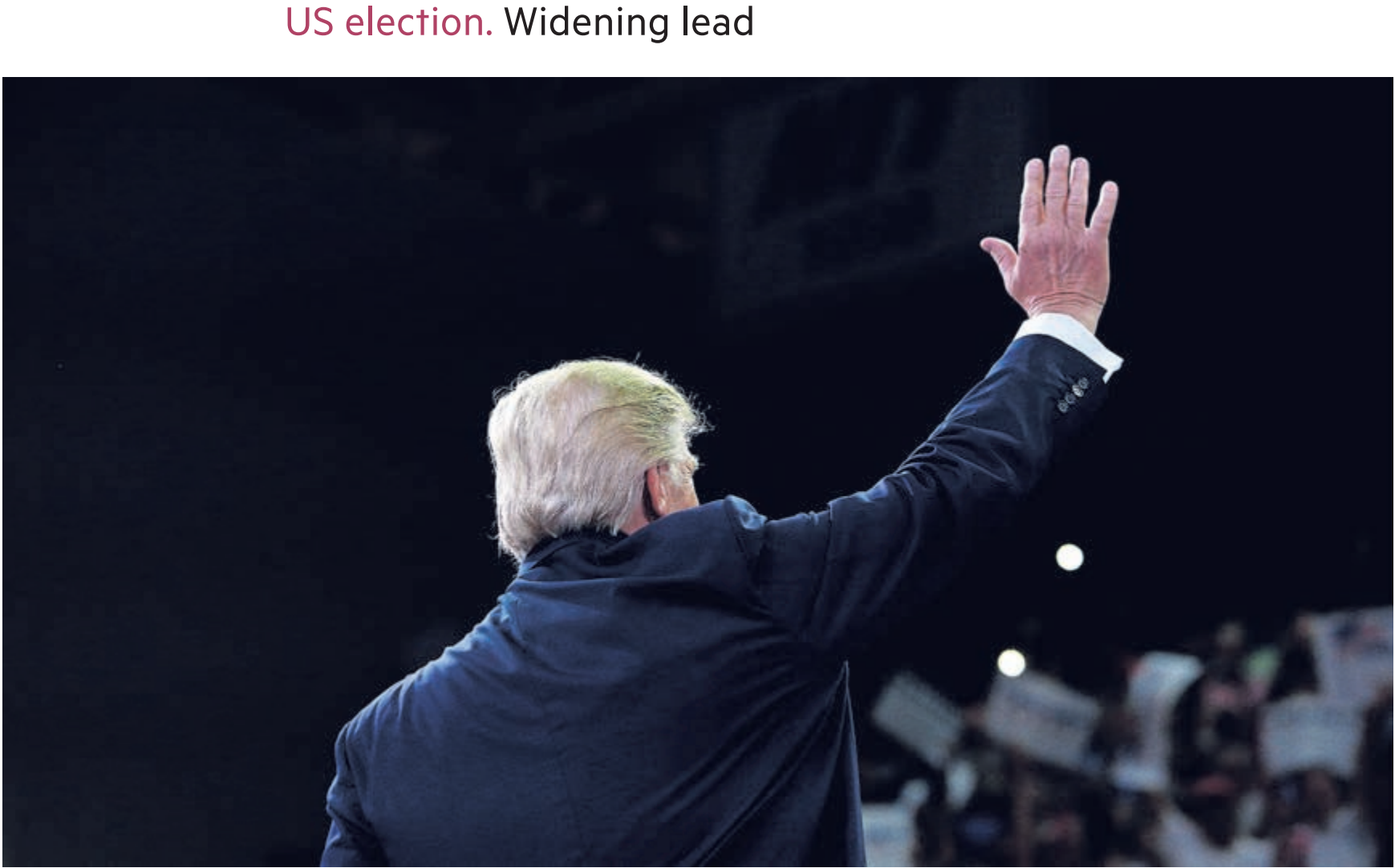
ess, which allows only for candidates nominated by board members to be considered. In a response to the staff letter, the Kuwaiti dean of the board, Merza Hasan, said the board was committed to an “open, merit-based and transparent” presidential selection. Those sorts of assurances alone may not be enough to quell the revolt, however. Plenty of people beyond the bank’s staff have been arguing for the US to recognise the changing nature of the global economy and to give up its customary stranglehold on the World Bank presidency. And Mr Kim’s critics clearly spy an opportunity. In its letter the staff association called for Mr Kim to face an “open, transparent, international competition” for the job. Editorial Comment page 8

Trump comment plays well for Clinton

Second Amendment ‘joke’ dismays his supporters as it cheers Democratic nominee

COURTNEY WEAVER AND SAM FLEMING WASHINGTON

Donald Trump’s attempt to reboot his campaign appeared to be stalling yesterday as polls showed the gap with Hillary Clinton widening and as a fresh controversy on the campaign trail provoked alarm among Republican leaders. Mrs Clinton’s lead is 7.7 points, according to a compilation of national polling by RealClearPolitics, reversing the polling advantage Mr Trump had as recently as late July. One survey by Ipsos/Reuters survey showed 19 per cent of Republicans wanted him to quit the campaign. Another revealed the property baron to be falling badly behind in key state of Pennsylvania. Alarm was heightened on Tuesday night after Mr Trump made comments that prompted accusations of inciting violence against his opponent. Speaking in Wilmington, North Carolina, Mr Trump suggested that supporters of the Second Amendment, the right to bear arms, might be able to stop Mrs Clinton from appointing liberal justices to the Supreme Court. “Hillary wants to abolish — essentially abolish the Second Amendment,” he told the crowd. “If she gets to pick her judges, [there is] nothing you can do folks. Although [for] the Second Amendment people maybe there is. I don’t know. But I tell you what, that will be a horrible day if Hillary gets to put her judges [in].” The comments distracted from Mr Trump’s attempt on Monday to regain



Donald Trump speaks at Wilmington in North Carolina, where he made his latest controversial comments

Eric Thayer/Reuters

the initiative by unveiling a more substantial economic platform, and drew criticism from both sides of the aisle. Michael Hayden, head of the CIA under George W Bush and Barack Obama, told CNN: “If someone else had said that outside the hall, he’d be in the back of the police wagon now with Secret Service questioning him.” The Secret Service tweeted that it was “aware” of Mr Trump’s remarks. On Tuesday night Mr Trump said his remarks had been misinterpreted by the media. His campaign said he meant supporters of the Second Amendment should unify behind his campaign to defeat Mrs Clinton. Rudy Giuliani, former mayor of New York and a Trump supporter, blamed the attention the story was getting on the “Clinton spin machine”. He told *Good Morning America*: “Donald Trump is not particularly indirect. If Donald Trump was going to say something like that, he’d say something like that. With a crowd like that, if that’s what they thought he meant, they’d have gone wild.” Paul Ryan, the Republican House Speaker who has been critical of Mr

Trump, said the remarks sounded like “a joke gone bad” and hoped Mr Trump would clear up the matter. The controversy came three days after Paul Manafort, Mr Trump’s campaign manager, said the nominee was prepared to reset his campaign after a string of gaffes. “[Mr Trump] is very focused. He knows what he needs to do. I am confident he is going to start doing it and eventually the media will start having to cover it,” he told Fox News. Larry Sabato, head of the University of Virginia’s Center for Politics, said the Second Amendment remark challenged the campaign’s claims. “Resets are like second or third marriages. It’s the triumph of hope over experience. It’s not going to work. You can’t change his DNA,” he said. Mrs Clinton faces continued questions over her use of a private email server and her relationship with foreign donors while secretary of state. But Mr Trump’s controversies seemed to be eclipsing them, Mr Sabato said. “The Clintons have so much baggage. But they were given [an opponent] who redefined what baggage is.”

Campaign ‘resets are . . . not going to work. You can’t change his DNA’

Larry Sabato, politics expert

Polling from Quinnipiac University shows Mrs Clinton’s lead widening to 11 points in Pennsylvania and 5 points in Ohio. In Iowa she has a 4-point lead, according to an NBC-Wall Street Journal-Marist poll, while her campaign is investing in Republican-leaning Georgia after an Atlanta Journal Constitution survey gave her a 7-point lead there. Worryingly for Mr Trump, a Bloomberg Politics poll yesterday found that 61 per cent of voters had become less impressed by his business expertise over the course of the campaign. The poll gave Mrs Clinton a 6-point lead. Norm Ornstein at the American Enterprise Institute said the question of whether to repudiate Mr Trump was likely to grow as a dilemma for Republican lawmakers, especially as prominent party members such as John Negroponte, a former top Bush administration official, endorse Mrs Clinton. “You have a lot of people who are scared to death about embracing him in a way that will alienate a slew of voters, or repudiating him in a way which will enrage his supporters,” Mr Ornstein said, speaking before Mr Trump’s Second Amendment comments.

Employment

US workforce openings rise despite weak growth pace

MAMTA BADKAR — NEW YORK

The number of US job openings rose in June, suggesting that labour demand has not been weakened by soft economic growth.

The number of job openings rose to 5.62m in June from 5.51m the previous month, the Bureau of Labor Statistics said in its Job Openings and Labor Turnover Survey. The rise was driven by increases in business services, education and health. The report also showed that 2.91m people quit their jobs in June, compared with about 2.94m in May, leaving the quits rate, or the rate at which people voluntarily leave their job, steady at 2 per cent. This measure is a favourite of Federal Reserve chair Janet Yellen as a higher number indicates workers have confidence they can find a new job. Steve Murphy, US economist at Capital Economic, said that the quits rate suggests that average hourly wage growth could rise to about 3 per cent by the end of the year. “The latest JOLTS survey suggests that labour market conditions continue to tighten, which should generate an acceleration in wage growth later this year,” he said. Jesse Hurwitz, economist at Barclays, said: “With labour market turnover stable and demand rising, further gains in employment should drive a modest improvement in wage growth and better rates of household income growth.” The JOLTS data arrived after a more closely watched jobs report showed that the US economy created 255,000 jobs in July, after adding 292,000 jobs in June. The July non-farm payroll report also showed that the labour force participation rate, the proportion of the working-age population that is either employed or actively seeking work, climbed for the second straight month. The Fed is closely watching for signs of health in the labour market and wage pressures as it determines when next to raise interest rates. But the weak pace of economic growth and a continued decline in productivity has created a conundrum for policymakers.

Sunshine State. Public health

Floridians keep their cool as politicians bicker about tackling Zika virus

Miami outbreak prompts call by Clinton for extra aid after Congress failed to back bill

BARNEY JOPSON — WASHINGTON JOHN PAUL RATHBONE — MIAMI

It was three years ago that Ines Lozano, a headteacher, helped set up a primary school in Miami’s hippest neighbourhood, Wynwood. Enrolments surged, with parents attracted by the multilingual curriculum, organic lunches and the head of sport, former tennis star Arantxa Sánchez-Vicario. Today the school has a less welcome distinction. It is at “ground zero” for Zika in the US. Wynwood, a 10-block, former garment district of art galleries and trendy bars, has recorded the first 21 cases of the disease on the US mainland, transmitted by local mosquitoes. Local transmission — as opposed to travellers returning with Zika from abroad — was the moment public health officials feared. So far in sweltering Wynwood, which

is on former swampland, residents are taking it calmly. But the same cannot be said for politicians. The virus has become entangled in election year bickering. Congress failed to approve funding for Zika before the summer break and Hillary Clinton, the Democratic presidential nominee, was in Miami this week calling for an emergency session to release more dollars. At the Metropolitan International School, Ms Lozano is keeping her cool, as are the parents of children in its summer programme. “Our response has been proportionate,” she says. “We have written to parents and are in touch with authorities. “But the only activity that has really had to change is to bring outside activities indoors. The rest, like [instructions about] clearing standing water, is about being sensible.” In Wynwood the streets are being coated with insect repellent as residents prowling for stagnant water that could become a breeding ground for bugs. But otherwise downtown life seems unchanged. Tattooed hipsters sip iced drinks outside the Panther artisanal cof-

fee shop while scantily clad tourists take selfies in front of swirling murals. The outbreak is causing the gravest worry for women who are pregnant or trying to conceive, because the virus can cause brain damage in children born to infected mothers. Last week the Centers for Disease Control and Prevention, a federal agency, took the unprecedented step of warning pregnant women to avoid Wynwood. More than 400 cases of Zika have been reported in Florida this year. Christine Curry, a University of Miami doctor, has counselled more than a dozen pregnant women with Zika. “These conversations are difficult, because there is still so much we don’t know,” she wrote in a column. “We don’t know how many pregnant women who are infected with Zika will have babies with brain problems.” In February, Barack Obama, the US president, asked Congress for \$1.9bn to control Zika-carrying mosquitoes and develop a vaccine. After months of wrangling, lawmakers agreed on a \$1.1bn package. But it ran aground last month.

Democrats accused Republicans of sabotaging the package by inserting a poison pill provision to limit the role of Planned Parenthood, a group that performs abortions. Republicans accused Democrats of looking for any excuse to scupper the bill and then to blame them, with Paul Ryan, Speaker of the House of Representatives, calling it “a blatant ploy in an election year”. At a campaign rally in Miami on Tuesday, Mrs Clinton said she was “disappointed” in the lawmakers. “I would



very much urge the leadership of Congress to call people back for a special session and get a bill passed.” Marco Rubio, the former White House Republican candidate who is battling to keep his Florida Senate seat, sparked criticism by suggesting that pregnant women carrying the virus should not have the right to an abortion. “If I’m going to err, I’m going to err on the side of life,” he told *Político*, the US political journalism group. In Wynwood, the outbreak’s impact on commerce is being watched by Zak Stern, founder and chef at Zak The Baker, a café where the lunchtime queue reaches to the door. “It looks busy but business dropped a half this week; normally the line continues outside,” he says. “But all one can do is be sensible. It’s entirely predictable, after all. There is Zika in Latin America and the Caribbean, and Miami is the gateway to both. There’s no point in overreacting.” Amesh Adalja, an infectious diseases expert at the University of Pittsburgh Medical Center, predicts further small US outbreaks of Zika — with likely hotspots in Texas and on the Gulf coast

— but he does not expect the virus to spread widely as it has in Brazil. “Our risk is much lower because it’s a less hospitable environment for this mosquito,” he says. In Latin America, bugs can breeze through open doors and windows but it is more common for people in the US to be shut inside, cooled by air conditioning, which lowers the survival rates for those mosquitoes that breach the defences. Rick Scott, Florida’s Republican governor, has allocated \$26m in emergency funding to combat Zika and called for more support from the federal government. If locally transmitted cases rise, elected officials at all levels will face sharp questions, says Fernand Amandi, a political consultant based in Miami. “Anyone from the state is susceptible to being looked at with the Medusa stare of political death if this thing spirals out of control.” At the door to Zak’s café is a small shrine, comprising a sunflower, candles and an invocation to Zika that all politicians can agree on: “Go away!”

INTERNATIONAL

Military alliance

Nato affirms strength of ties with Ankara

Move follows talk of weaker links since Putin and Erdogan end stand-off

SAM JONES — LONDON
LAURA PITEL — ISTANBUL

Nato took the unusual step of issuing a statement to quash rumours that its 64-year relationship with Turkey was in jeopardy, amid unease in the military alliance over the rekindled friendship between Ankara and Moscow.

“Turkey’s Nato membership is not in question,” Oana Lungescu, spokeswoman for the military alliance said yesterday, a day after the presidents of Russia and Turkey met in St Petersburg and vowed to restore their relations after an eight-month stand-off.

Ms Lungescu added: “Nato counts on the continued contributions of Turkey and Turkey can count on the solidarity and support of Nato.”

The surprise Nato statement followed mounting rancour in the Turkish press against the alliance, the US and Europe over what many in the country perceive as at best indifference to last month’s attempted coup against the elected government of Recep Tayyip Erdogan — or at worst, evidence of complicity in it.

Also yesterday Mevlut Cavusoglu, Turkey’s foreign minister, said Nato “did not satisfy” Turkey when it came to missile defence, implying that Ankara might look to Moscow for solutions.

Joseph Dunford, chairman of the US joint chiefs of staff, visited Ankara last week in an attempt to smooth tensions, but no senior European politicians have

visited Turkey since the failed putsch. Ankara has been angered by criticism of the sprawling crackdown that has followed the failed coup, with more than 70,000 arrested or suspended from their jobs.

It was against this backdrop that Mr Erdogan met his Russian counterpart, Vladimir Putin, their first face-to-face encounter since the downing of a Russian fighter jet by the Turkish military in November on Syria’s border. Turkish officials described the mood of the visit as “very warm”, while Turkish media heralded a new “Russian spring”.

Officials at Nato, echoing Ms Lungescu’s remarks, have stressed consistently that the working relationship with Ankara, at least through official channels, is unchanged.

Nato’s military command has been in

regular contact with counterparts in Turkey’s military loyal to Mr Erdogan since the coup. “I haven’t seen any breakdown on a day-to-day level as such really,” said one senior British diplomat.

Yet many in Nato are deeply wary.

Eastern Europe fears that Turkey’s double-edged diplomatic strategy will weaken Nato’s position against an increasingly hostile Russia, at a time when the alliance has called for internal solidarity over the issue.

Analysts say the worry is not so much Turkey leaving the alliance but of a Turkey that is friendly — if not allied — to Moscow, being within Nato.

James Nixey, head of the Russia and Eurasia programme at the Chatham House think-tank, said: “Russia is relatively patient — if it can scrape away at the problems . . . then it will do so. And

that does help with Russia’s wider issue of Nato.”

Russia could benefit greatly from a friendship with Turkey, pointed out Mr Nixey, giving Moscow a sympathetic ally within Nato. He noted, however, that this rapprochement was as much a return to a status quo for the pair.

Nato’s western members, meanwhile, are left with an unpalatable choice. They can criticise Mr Erdogan’s crackdown and push Turkey closer to Russia, or they can swallow their principles and make a diplomatic push to try to lure Ankara back.

“Russia is nothing if not opportunistic and it has spied an opportunity here,” said Mr Nixey. “It’s a clear victory for Russian pressure [and] for Russian diplomacy.”

Putin the beneficiary page 9

Credit rating

Turkey keen to reassure agencies after failed coup

LAURA PITEL — ANKARA

Only a few weeks earlier there may have been tanks on the streets and fighter jets in the skies, but at Ankara’s sprawling Ostim industrial park, the official message was clear.

“From the next morning we were back at our facilities. We were fulfilling our contracts,” said Muharrem Dortkasli, chief executive of Turkish Aerospace Industries, one of a series of company bosses rolled out by the government to hammer home the mantra that Turkey is open for business.

“Life is going on,” he added. “It is the routine order. Perhaps even more committed, more motivated for production, for export programmes.”

After July’s attempted coup, Turkish ministers, officials and trade bodies have been scrambling to show that the world’s 17th largest economy is on a sound footing by meeting investors, advertising in western media including the Financial Times, and announcing a range of measures aimed at building confidence.

They are anxious to reassure markets and investors and, crucially, the rating agencies after Moody’s warned it could downgrade Turkey’s sovereign debt rating to junk status.

Along with Fitch Ratings, the agency still gives Turkey the investment-grade rating needed to attract some of the world’s biggest funds. Losing it would trigger an automatic bond sell-off of about \$10bn, according to an estimate by JPMorgan Chase.

Such a scenario would leave the Turkish economy increasingly vulnerable to global shocks, analysts say, by pushing up borrowing costs for indebted Turkish banks and businesses, and damping growth. It could present a major challenge for President Recep Tayyip Erdogan, who has dominated Turkish politics for more than a decade, in part thanks to his success in steering Turkey through a period of unprecedented prosperity and growth.

Atilla Yesilada, an economist at GlobalSource Partners Inc, said he was more optimistic than many about Turkey’s political outlook after the coup attempt but on the economy he struck a grim note. “I am very pessimistic,” he said, “and I don’t see any sign that things are going to get better . . . that’s going to play out badly.”

Moody’s has given a mid-October deadline for reviewing its Baa3 investment grade rating while Fitch is due to decide on August 19. Although the agencies appear willing to give Turkey time to convince them it deserves to keep its investment grade rating, most analysts believe a downgrade is likely.

Timothy Ash, a strategist at Nomura International, said Turkey and its markets would survive the jolt of a downgrade to junk status. “What is important is that the underlying credit story remains strong and supportive.” He pointed to positive factors including what he said was durable real gross domestic product growth of about 4 per cent, a low public debt-to-GDP ratio of 34 per cent, a strong banking system and “a strong pro-business culture in government and society”.

“Remember, credits such as Croatia, Hungary and Brazil all lived through downgrades to junk, and lived to fight another day — and have since rallied.”

Gerald Grosvenor. Real estate

Duke’s death hands property empire to 25-year-old son

Aristocratic family with ties to William the Conqueror owns exclusive London districts

JUDITH EVANS, ANDREW BOUNDS AND HUGO GREENHALGH — LONDON

In 1677, Sir Thomas Grosvenor married the 12-year-old heiress Mary Davies and came into possession of 500 acres of swamp, pasture and orchards to the west of London.

More than 350 years later, a majority of those 500 acres remain in the possession of Sir Thomas’s family. Now, however, they are part of London’s most exclusive districts and the core of a property empire worth billions that stretches around the world.

With the death on Tuesday of the sixth Duke of Westminster, Gerald Cavendish Grosvenor, at the age of 64, the vast Grosvenor estate passes to his 25-year-old son Hugh, who inherits one of London’s remaining great landed estates, albeit one that underwent fierce modernisation during his father’s era.

Gerald Grosvenor may have been only the 68th richest person in the world, but he was possibly the wealthiest aristocrat. Born to vast wealth, he proved to be an accomplished businessman.

“For a family that did not need to set themselves up as a professional business, they did an amazing job of creating a very powerful brand — and the legacy of much of that would be down to the late duke,” said Toby Courtauld, chief executive of the listed property company Great Portland Estates.

“That will be an enduring legacy. He has created an exceptionally high quality real estate business.”

The Grosvenor family’s history began with the arrival of Gilbert le Grosveneur — a surname meaning “master of the hunt” — in 1066 with the Norman conquest. This led the late duke, speaking to an FT reporter in 2004, to give the following advice to young would-be entrepreneurs: “Make sure they have an ancestor who was a very close friend of William the Conqueror.”

A descendant married the heiress to the Eaton estate near Chester, north-west England, which became the family seat, in the 1440s; in 1634 the second bar-



Leafy London: property in Belgravia owned by Grosvenor. Below, Hugh Grosvenor



onet, Richard Grosvenor, acquired valuable Welsh mining holdings.

The estate was imperilled during the English Civil War when it was sequestered after the Grosvenors supported the king, but they reclaimed it through payment of a fine and soon after Sir Thomas made his auspicious marriage to Mary Davies. “We have a very strong survival instinct,” Gerald Grosvenor told the FT. “We have been pursued by every single government and, prior to that, Cromwell had a damn good go at us. The great thing is that we have kept our heads on our shoulders.”

In the 1700s the family began developing the London land as a desirable residential area known as Mayfair, centred on Grosvenor Square, today the site of the US embassy. Later the family’s surveyor set out plans for Belgravia.

Gerald Grosvenor, born in 1951, only found out that he would inherit the estate when he was 15, after his father came into the title

unexpectedly. He had early ambitions to be a professional footballer and then longed for a military career, an urge he satisfied through 42 years in the Territorial Army, which comprises part-time troops. He told an interviewer at The Independent newspaper in the 1990s that his youthful weakness had been cars: “I had an appalling series of high-speed car crashes.”

But despite this — and although he managed to pass few exams at Harrow school — he showed a tendency to take the real estate business seriously, working in a central London property agency to learn about the market.

The Grosvenor estate had already begun expanding internationally, with a development in Vancouver, by the time Gerald became involved in the 1950s as his father became ill. But at that time, he later said, the estate was “in bad shape”.

Today the group runs £13.1bn of assets — including those handled for third parties — and of its £6.7bn property portfolio, more than half is outside

‘We have been pursued by every single government and, prior to that, Cromwell had a damn good go at us’

Gerald Grosvenor

Britain and Ireland. It is active in 60 cities, employs 567 people and directly owns 1,550 properties, with a specialism in urban regeneration.

It has been credited with shrewd market calls, including stepping back from the luxury housing market in 2014 because of concerns over pricing; prices in that segment have been on the decline since.

By that time, the sixth duke — who always left its day-to-day running to a series of chief executives — had taken a back seat, stepping down as chairman of its property business in 2007. He once said he would rather have been born as Joe Bloggs. “Given the choice, I would rather not have been born wealthy, but I never think of giving it up. I can’t sell. It doesn’t belong to me,” he said.

But many in the industry credit him with the professionalisation of the group, which unlike other family offices has chosen to operate as a public brand and to regenerate already lucrative slices of real estate.

Reprocessing plant

Protests narrow China’s nuclear waste options

LUCY HORNBY — BEIJING

Mass protests have forced a Chinese city to remove itself from a shortlist of sites to host a large nuclear reprocessing plant — the latest win for people power but a setback for the world’s biggest nuclear expansion.

China plans to add dozens of reactors to reduce reliance on coal, aiming for 20 per cent of energy consumption to be met by non-fossil fuels by 2030.

If all the reactors are constructed, the country will rank number two globally, above France and Japan.

Disposing of spent fuel is increasingly a global concern. China National Nuclear Power Corporation, one of the two state-owned entities spearheading the nuclear drive, identified six potential sites for a waste-processing facility, a joint venture with France’s Areva. But after a weekend of protests in Lianyungang, eastern China, the local government withdrew its name from the list.

Thousands of people gathered in peaceful protest on Saturday, alarmed by an online acknowledgment of the project. The following night hundreds of riot police clashed with demonstrators.

Industrial projects, including nuclear, have galvanised opposition from the urban middle classes, and conceding to protesters is increasingly common.

China is expected to run out of waste processing capacity at reactor sites by 2020, according to a 2011 paper by Yun Zhou at the University of Maryland. Off-site storage would extend that to 2035, the study found.

The Lianyungang protests are the third instance of local opposition scuppering a nuclear project. Earlier casualties were a proposed reactor on the



Peaceful: demonstrators force a change of heart in Lianyungang

banks of the Yangtze and a fuel processing site in the south.

Of the five other potential reprocessing sites, one — in Zhanjiang — has been publicly identified.

He Zuoxiu, an 89-year-old nuclear physicist, has become a vocal opponent of the energy source’s rapid growth. The initial handling of the protests would “damage the government’s credibility”, he said. “The public’s concern over safety has been taken as a small matter.”

Local governments have pulled or relocated waste incinerators and petrochemical plants that make paraxylene (PX) in the face of protests.

Nuclear officials also fret that suppressing protests will lead the public to turn against the power source.

“Just like the PX protests, if the authorities try to crack down heavily-handedly there will be a huge backlash,” said Mao Shoulong, a public policy expert at Renmin University.

The Lianyungang setback follows the UK decision to review China’s investment in the Hinkley Point power station in south-west England. Beijing has said bilateral ties are at a “historic juncture”. Additional reporting by Luna Lin

Cyber attacks

Hackers bring Australia online census to a halt

JAMIE SMYTH — PORT AUGUSTA, SOUTH AUSTRALIA

Australia’s first attempt to conduct its population census online has spectacularly blown up after a series of cyber attacks forced the survey website to be taken offline.

The Australian Bureau of Statistics blamed overseas hackers for launching the denial of service attacks, which yesterday it said were malicious attempts to sabotage a survey that gathers sensitive personal details on every resident.

“It was an attack, and we believe from overseas,” David Kalisch, chief statistician at the ABS, told Australia’s state broadcaster on Tuesday. “The Australian Signals Directorate are investigating but they did note that it was very difficult to source the attack.” He said people’s data were safe and had not been accessed by anyone but the ABS.

The cyber attacks follow a bitter dispute over privacy regarding the census, which prompted several parliamentarians to risk prosecution by refusing to provide their names on census forms. It comes amid increasing global concern over cyber security following a series of

bank heists by hackers, including the theft of US\$81m from Bangladesh’s central bank.

The decision by several newly elected politicians to boycott the census follows changes to this year’s survey, which as well as being conducted online would store residents’ names and addresses for four years rather than the 18 months in previous years.

‘It was an attack, and we believe from overseas . . . it was difficult to source’

David Kalisch, chief statistician

Nick Xenophon, a senator, accused the ABS and the Australian government of riding roughshod over human rights in an “undignified and disrespectful” way by forcing people to give their names and addresses along with sensitive personal information and storing these for four years.

He called for a parliamentary inquiry to investigate the hacking incident.

The ABS said it had taken down the census website at 7.30pm on Tuesday as

a precaution following a fourth successive hacking attack in a number of hours. It had agreed a A\$9m deal for IBM to manage the census process.

Mr Kalisch said about 2m Australians had successfully uploaded their personal data before the census was taken offline.

The incident is likely to knock confidence in the census, which every five years collects a range of sensitive personal information that is used by the government and researchers to track changes in the economy and society.

On Tuesday #CensusFail was trending on Twitter and the public flooded news organisations with angry comments about their inability to fill out their census forms.

Australians are required by law to fill out their census forms and can face prosecution and significant fines for failing to do so.

The opposition Labor party called on Michael McCormack, the minister with responsibility for the ABS, to resign.

Mr McCormack told reporters it was not a hack but rather an attempt to frustrate the collection of data. ABS security was not compromised, he said.



Discover Hidden Rio

The FT Weekend Hidden Cities guide of Rio de Janeiro, created in partnership with Google, lets you explore the best-kept secrets of the city through the eyes of FT journalists and local tastemakers.

Using Google Maps, the guide pinpoints all the recommended places to drink, dine, shop and explore to help you make the most of your time there. The hub also includes a 360° exploration of life in the favelas, brought to life through Google Cardboard.

Explore insiders' Rio online now at ft.com/hiddencities

ARTS

Young Turks make their voices heard

An exhibition in Freiburg tackles issues from gender and book-burning to money’s influence on art. By *Alistair Hicks*

Street art is often eloquent, and political graffiti always packs a punch. Aslı Çavusoğlu’s “A Few Hours After the Revolution” (2010) is a reproduction, in brothel-red neon, of a piece of graffiti that has become common on Turkey’s streets: it reads “DEVİRİM” (“revolution”) but is often defaced by rightwing opponents to make it illegible. Transported to the Museum for New Art in Freiburg, it forms part of an exhibition to celebrate the strength of Turkish contemporary art and the German city’s friendship with Istanbul.

The second in the museum’s *Freundschaftsspiel* (friendly game) series, the exhibition is built round two private collections, those of Ayşe Umur and Agah Ugur. There is very little state support for the visual arts in Turkey, so the remarkable health of contemporary culture in the country owes a great deal to SAHA, a group of some 100 collectors whose members travel to big art events across the world. The exhibition shows Turkish artists exploring similar themes to Argentine, Bulgarian, Canadian, Estonian, French, Finnish, German, Romanian and South African artists also in the collections.

The current Turkish regime may be attempting to define the essence of the country in a narrow way, but there are few places in the world where one can find such robust individuality. This comes with a confusion and profusion of identity that Erdem Taşdelen illustrates in a work simply called “Erdem Taşdelen” (2011). It consists of 48 different coloured business cards where he oscillates between being Erdem Taşdelen, eternal adolescent and cynical artist, delusional lover and distraught egomaniac, drama queen and unhappy queer.

Gender is one of the most prevalent themes. The poster for the exhibition shows a wild but elegant lady bringing out a tray of tea. She is a composite figure made out of pieces of cloth and simple ink lines, but the invitation is traditional. The artist, Nilbar Güreş, is a complicated mix, like many people in Turkey. Her father’s family are followers of the Alevi branch of Islam and come from a village that is not linked to the mainline telephone system, so she has made a film entitled *Open Phone Booth* (2011) which shows the villagers going up to the top of the hill to try and make contact with the outside world. In the present context this seems like a desperate cry.

The two collections here, which are shown alongside works from the museum’s holdings, are very different. Agah Ugur’s consists of video work, one of several strong such collections in Istanbul, and provides a two-hour loop of films chosen by co-curator Didem Yazıcı, a young Turk living in Freiburg who built her reputation on the museum’s video programme in the Schauraum.

Ayşe Umur’s collection is very much linked to books, literature and libraries. The constant evolution of language and meaning, as seen in the work of Çavusoğlu and Hera Büyüktaşçıyan, reflects a belief that Istanbul is not just a place of deep learning, has often been a barometer of world culture.

Appropriately, the exhibition has an accompanying book programme. Ciprian Muresan, a skilled draughtsman from Cluj, Romania, will be making an artist’s book referring to one of the star pieces in the show. In the Unlimited section at Art Basel he made a wall of 15 two-metre drawings that told the story of the first 15 years of the 21st-century art market. He literally drew the contents the magazine Art Forum, each panel containing the pages of the 12 volumes of the magazine for one year. Comparing the panels, it was possible to trace the



changing state of the market based on how much was advertising, how much editorial. The art was easier to see in leaner times — a wry comment on money’s influence on the art world.

At first sight, Muresan’s sculpture in Freiburg looks like a huge pile of books. It is a pile of art volumes, but only the top couple of feet of it. Beneath is what appears more like a crate, but is in fact layers of board, with etchings in between each layer made by the artist. They are being flattened by the weight of art history above them. And the dialogue of Muresan’s piece seems more ironic when placed against three works by the British-Argentine artist Amalia Ulman. She is known for the semi-fictional persona that she has created on social media, and the photos here are pages from her Instagram life. One declares that “Books are Better than People”. It’s a sentiment that could all too easily be taken as genuine in the current age.

As part of the exhibition programme, a book is being created by filmmaker and photographer Ali

Kazma that reflects the fragility of literature, art and life. Kazma, who represented Turkey at the Venice Biennale in 2013, is also showing some photographs and a video installation in Freiburg. What the visitor cannot yet see is a work in Umur’s collection that Kazma made as a 40th birthday present to himself entitled *Written* (2011). It consists of six screens showing burning texts. Kazma is an avid reader and when he finds passages that he likes he writes them down in a little book. It is these passages that are burning. The work inspires horror, recalling the violence done to books by bigots such as Savonarola, Hitler and Isis, yet Kazma calmly reflects that many books end in fires for a range of more mundane reasons.

This exhibition shows that we don’t have to live in the dull market-led world revealed by Muresan’s drawings of Art Forum. We can support artists who give us alternative visions in very difficult times.

Sign of the times: ‘A Few Hours After the Revolution’ by Aslı Çavusoğlu. Below left: ‘Große Deutschland Uhr’ by Raymond Waydelich

‘Freundschaftsspiel Istanbul: Freiburg’, Museum für Neue Kunst, to October 9. freiburg.de/pb

DANCE

Forsythe/Mal Pelo & Niño de Elche
Paris Quartier d’Été
★★★★☆

Laura Cappelle

On a quiet day in August, the line to enter Saint-Eustache in Paris snaked around the venerable church and threatened to spill on to the street. The reason? A piece by William Forsythe at Paris Quartier d’Été, the festival that provides Parisians with a ration of performances during the summer months.

Duo2015 is a reworked version of *Duo*, which Forsythe created for the Frankfurt Ballet in 1996. The two original women are here replaced by two men, Brigel Gjoka and Riley Watts, both former members of the now-defunct Forsythe Company.

They first performed the 20-minute *Duo2015* as part of Sylvie Guillem’s farewell tour *Life in Progress*, where it was the strongest work on offer yet peripheral to the main event. At Saint-Eustache, on a small stage set up in the crossing of the church, *Duo2015* got its due. Like the church’s imposing decor, where Gothic architecture meets Renaissance embellishments, Forsythe’s choreography blended styles into an articulate whole.

Baroque arms were followed by elongated classical shapes, themselves subsumed in dynamic, virtuosic phrases; near the end, Watts slowly slid to the floor with his arms outstretched behind him, like a modern “Winged Victory”.

Another dance duo closed the festival in the courtyard of the Bibliothèque Historique de la Ville de Paris. *7 Lunas* brought a witty encounter between Catalan dancers María Muñoz and Pep Ramis, known as Mal Pelo, and Niño de Elche, a flamenco singer and musician.

Muñoz and Ramis started performing together in the 1980s, and they bring a wealth of experience to the simplest steps. Muñoz is especially striking in her black pantsuit, her no-nonsense charisma lending weight to her dialogue with de Elche. The latter is a goofy, expressive presence, switching between classical and electric guitars, oversized coat and flamenco skirt.

The choreography and arc need more development, but it was an apt send-off for festival founder Patrice Martinet, who is leaving after 26 years.

quartierdete.com

Fierce love with a heart of glass

THEATRE

The Glass Menagerie
King’s Theatre, Edinburgh International Festival
★★★★☆

Griselda Murray Brown

“What is going to become of us? What is the future?” cries Amanda Wingfield. Having “put up a solitary battle all these years”, Tennessee Williams’ inimitable matriarch fears for her grown-up children, who still share her cramped apartment in St Louis. Shy and limping from childhood polio, Laura faces the very real prospect of spinsterhood. And Tom is becoming, like his absent father, too fond of drink.

The future is a worrying prospect in Williams’ breakthrough play, modelled on his own life and family. It was first performed in 1944 but set in 1937, when “the huge middle class of America was matriculating in a school for the blind”, a description that resonates strongly with our own uncertain times.

Amanda still believes in American self-determination, in making something of oneself. She chastises Laura for calling herself crippled: “I’ve told you never, never to use that word.” But Amanda lives in the past, recounting golden memories of her genteel upbringing in the South.

The arrival of the Gentleman Caller is a rush of fresh air through the stale apartment. He is confident and robust where Laura is as fragile as the glass animals she collects. As Tom says in his prologue, “I am using this character as a symbol; he is the long-delayed but always-expected something that we live for.”

Tom is both protagonist and narrator, participant and observer. John Tiffany’s terrific production at the Edinburgh International Festival — seen on Broadway in 2013 — draws out the artifice and unrealism of the play. This is no period piece. There are passages of pure music and stylised choreography, throbbing piano and strings from composer Nico Muhly. In Bob Crowley’s design, the

apartment itself is a glass menagerie: three hexagonal platforms over a dark, reflective pool. But what is real and what illusion?

Michael Esper is a dark, moody Tom to Seth Numrich’s sparkling Gentleman Caller. Kate O’Flynn plays Laura as a brittle girl who is seemingly lost in a fantasy, yet feels love as keenly as anyone. But Cherry Jones as Amanda carries the show. Born in Paris, Tennessee, you feel Jones has lived Amanda’s story, so vivid are her highs and lows, her fierce love and final despair.

To August 21, eif.co.uk

Highs and lows: Cherry Jones as Amanda Wingfield Michael J Lutch

Pop Album reviews

By Ludovic Hunter-Tilney

Wild Beasts
Boy King
Domino
★★★★☆

Masculinity is a recurring theme in Wild Beasts’ albums, announced by the first song of their 2008 debut *Limbo*, *Panto* with its refrain about furtive male emotion: “Men, to be men, must love and pity/So deeply and secretly.” Four albums later, the UK four-piece subject the

state of maleness to their most sustained inspection yet. *Boy King*’s tracks variously dramatise machismo (“Big Cat”), reckless lifestyles (“Tough Guy”), desire (“Eat Your Heart Out Adonis”) and submission (“Alpha Female”).

Less flamboyant than the band’s earlier work, the songs have a skewed sense of groove also detectable in US producer John Congleton’s work with St Vincent. Low-frequency sounds illustrate visceral appetites, such as the brutal fuzz-rock riff that muscles into view during “He the Colossus”. Although lead vocalist Hayden Thorpe deploys his

falsetto in a calmer, less burlesque fashion than before, his fluting high voice remains teasing and unpredictable, a provoking challenge to traditional ideas of manliness.

Hieroglyphic Being
The Disco's of Imhotep
Ninja Tune
★★★★☆

Hieroglyphic Being occupies an intriguing place in electronic music, a one-man Rosetta Stone translating the

cosmic jazz improvisations of Sun Ra into the harder-edged language of house and techno. The prolific Chicago DJ, real name Jamal Moss, gets his debut album for UK label Ninja Tune up and running with the superb “Sepulchral Offerings”, in which an iridescent keyboard melody glimmers amid forbiddingly muscular techno, a perfect marriage of contrasting styles. It sets a standard that the rest of the album can’t quite match. But it remains an impressively formidable experience, with tracks such as “Crocodile Skin” achieving a hypnotic union of abrasive beats, adventurous bass lines and abstract synthesiser patterns.

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FINANCIAL TIMES
Make the right connections

FT BIG READ. INDIA TECH

Investors have triggered billion-dollar valuations of local start-ups while US groups such as Amazon are spending heavily. Even as funding fervour cools, a battle for users in a market of 1.2bn people lies ahead.

By Simon Mundy

Reality call



Deepinder Goyal had a moment of horror last year when he received an email from a would-be entrepreneur seeking funding. “[The idea] was Uber for water: if you want a bottle of water, I have an app for you and I can deliver it within 10 minutes,” says Mr Goyal, founder of Zomato, an Indian restaurant search platform.

“On a bottle of water the margin is about two rupees . . . there is no way that can work. He was looking for a \$1m seed round at an \$8.5m valuation. That is what we had created.”

Mr Goyal, whose company last year raised money from foreign investors who valued Zomato at \$1bn, has had a front-row view of an exuberant rush of funding into India’s fast-growing internet sector over the past three years.

Having struck gold in Chinese e-commerce, foreign investors such as Japan’s SoftBank and New York-based Tiger Global Management turned their sights on India and pumped in billions of dollars, betting on its huge population, rapid growth in internet penetration and strong economic growth.

By last year India had amassed eight “unicorns”, or unlisted companies valued at more than \$1bn – behind only the US and China. The funding wave was a conspicuous vote of confidence in India’s economy, now the fastest-growing of any major nation, and in its ability to use technology to skip 20th-century concepts such as hypermarkets, while driving higher living standards.

“India never really had modern retail, so the leapfrog that will happen is quite compelling,” says Sanjeev Aggarwal, co-founder of Helion Venture Partners, an Indian venture capital group. “This is day one of India’s consumption going digital.”

But both investors and companies now talk of a conspicuous cooling of sentiment, amid fears that the funding rush has led to widespread overvaluation. There has been concern about the scale of losses at some of the companies, stiff competition from foreign rivals and the knock-on effect on other markets of tech investment writedowns. Some businesses are shedding staff and withdrawing job offers as they adjust to a world in which exuberant foreign investors can no longer be relied on to underwrite losses indefinitely.

“If you’d asked me – when we got the round – do you deserve the \$1bn, I’d have said absolutely not,” says Mr Goyal. “But for anything, the value is about how much you want it. And then the market changed and suddenly everyone is sceptical about everything.”

Chinese parallels

When the influential venture capitalist Mary Meeker presented her annual report on web trends in June, she provided two estimates for internet usage

317m

Web users recorded in India last October, 49 per cent higher than a year earlier

\$119bn

Estimated size of India's digital sales by 2020, up from almost \$16bn last year

9

Number of unicorns — unlisted tech companies valued at more than \$1bn — in India

\$3bn

The most recent funding pledge made to Amazon India by its parent company

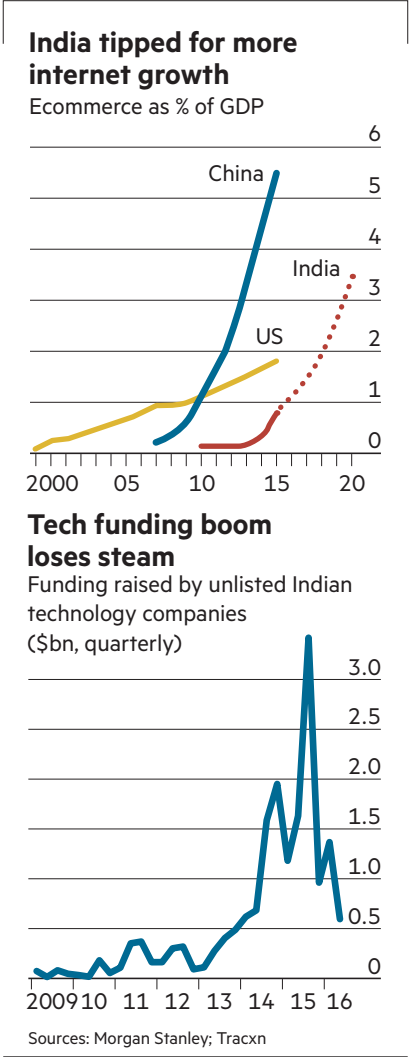
growth in 2015; one stripped out India, which was growing so fast that it distorted the sluggish worldwide figure.

The number of web users reached about 317m last October, 49 per cent higher than a year earlier, according to Ms Meeker, citing data from the Internet and Mobile Association of India. This growth was driven by smartphones, of which sales in India increased at a rate of 12 per cent in the first quarter of this year, while they stagnated or even fell globally, according to research groups.

The smartphone boom has attracted the attention of tech leaders such as Tim Cook, the Apple chief executive, who made his first visit to India in May, and it is inspiring excitement among analysts about the outlook for e-commerce growth in the country. Most bullish is Morgan Stanley, which predicted in February that total sales in the sector will grow to \$119bn by 2020, up from about \$16bn last year.

Such optimism has been fuelled partly by the dramatic rise of Chinese e-commerce groups such as Tencent, JD.com and especially Alibaba, which undertook the biggest ever initial public offering last year.

But investors and entrepreneurs in India warn that any parallel should be treated with extreme caution. “I was very surprised that all these funds were so naive in treating India just like China,” says Kashyap Deorah, a serial



technology entrepreneur and author of a book on the “hyperfunding” of Indian internet groups.

India’s lower level of development – its per capita gross domestic product was \$1,617 last year, against China’s \$7,990, according to the International Monetary Fund – is one obvious difference. Just as important, Mr Deorah says, is the fact that US internet groups have struggled to make themselves felt in China.

Google, Facebook and Twitter are all unavailable to most Chinese internet users but have won dominant positions in India, limiting the space for local players. Even where Indian start-ups have stolen a march on US rivals, some have seen that lead rapidly eroded.

American rivals

In September 2014, Amazon founder Jeff Bezos clambered on top of a gaudily painted truck in Bangalore wearing a white Indian wedding suit, and handed a giant cheque for \$2bn – symbolising planned investment in the country – to Amit Agarwal, whom he had sent to run its Indian operation.

The hilarity of the pantomime-style performance may have been lost on Flipkart co-founders Sachin and Binny Bansal, former employees of Mr Bezos who now found themselves in his competitive crosshairs.

The Bansals – unrelated despite having a surname in common – met while working for Amazon at its Bangalore campus, which then provided back-office support. In 2007, with Amazon showing no sign of launching sales in India, the two men decided to put the company’s playbook into practice.

Just like Amazon, Flipkart honed its service by selling books before branching into other products, and after a slow start began attracting investor attention. In 2009 it raised funding that valued it at \$4m; in 2010 at \$50m; in 2012 at \$1bn, and in July last year, at \$15bn, making it by far India’s highest-valued internet company. “In terms of market share, funding and the brand we have been able to build up in a very short amount of time,” Sachin Bansal told the Financial Times this year.

But losses have also grown rapidly. Flipkart’s most recent regulatory filings in Singapore, where it is domiciled, show revenue of Rs102bn (\$1.5bn) in the year ending in March 2015, with a pre-tax loss of Rs29.8bn – up from the previous year’s figures of Rs29.4bn and Rs10.3bn respectively.

And although the heady investor enthusiasm for Flipkart continued long after Amazon’s entry to the market, it is now showing clear signs of fading amid rapid growth at Amazon India, which received an additional \$3bn funding

Value for money? Unicorn generation comes of age

flipkart.com

fundraising: \$15bn (May 2015)

● InMobi A platform for buying mobile advertising that competes with Google and Facebook. Founded in 2007. Valuation at last fundraising: \$2.5bn (December 2014)

● Mu Sigma A data analytics company with operations in the US and India. Founded in 2004. Reported valuation at last fundraising: \$1.5bn (February 2013)

● Ola A ride-hailing app that competes with Uber. Founded in 2010. Valuation at last fundraising: \$5bn (November 2015)

● PayTM Payments and online shopping platform backed by China’s Alibaba. Founded in 2010. Valuation at last fundraising: \$3.4bn (September 2015)

● Quikr Classified advertisement site that supports payments and deliveries. Founded in 2008. Valuation at last fundraising: \$1bn (April 2015)

● ShopClues Marketplace with a capital-light model. Does not own any warehouses. Founded in 2011. Valuation at last fundraising: \$1.1bn (January 2016)

● Snapdeal Started by offering discount vouchers but became a general marketplace a year later. Founded in 2010. Valuation at last fundraising: \$6.5bn (February 2016)

● Zomato Online restaurant directory that offers table bookings and food delivery services. Founded in 2008. Valuation at last fundraising: \$1bn (April 2015)

zomato

Discover more places to eat around you

snapdeal.com

pledge from Mr Bezos in June.

A fund run by Morgan Stanley has twice this year marked down its stake in Flipkart, giving it a sharply lower valuation of \$9.4bn, and other shareholders have made similar moves.

Funding trends suggest a broad turn in sentiment. In the nine months to the end of June, Indian technology companies raised \$3.1bn, down from \$6.7bn in the preceding nine months, according to Tracxn, a research company.

Chief executives and investors say the slowdown was triggered in part by sharp falls in US and Chinese technology stocks last summer, and most argue that well-run Indian tech companies will still be able to raise capital, with funding far from drying up. ShopClues, an e-commerce platform, in January became India’s ninth unicorn through a financing round led by GIC, Singapore’s sovereign wealth fund.

But even Sandeep Aggarwal, a co-founder of ShopClues, perceives a chillier funding environment. “The fear of missing out was so great that [investors] went for spray and pray,” he says. “And when the market started slowing, reality hit them in the face.” That blow was especially violent for Nikesh Arora, the

Speed read

New caution Some tech groups are shedding staff and withdrawing job offers as funding begins to dry up

Leading presence Google, Facebook and Twitter, while often unavailable in China, have dominant positions in India

‘The next 400m users’ Entrepreneurs are focusing on providing services for Indians who have yet to come online

former Google executive who became one of the most prominent investors in the Indian tech sector after being recruited by SoftBank in 2014. Within weeks of his appointment as president, Mr Arora led investments of more than \$800m in Flipkart rival Snapdeal and in Ola, a competitor to Uber in ride-hailing, and made large capital injections into other Indian tech companies.

But shareholder unease grew as Snapdeal fell far behind Flipkart and Amazon in sales. Ola slashed its prices to fend off a fierce assault from Uber, which is set to redouble its focus on India having sold its Chinese business to rival Didi Chuxing last week.

Mr Arora resigned from SoftBank in June shortly after being cleared by an internal investigation prompted by anonymous investor allegations of improper conduct, largely in relation to his Indian investments. Mr Arora and SoftBank deny that his departure was linked to these complaints, but his brief

“The fear of missing out was so great that investors went for spray and pray . . . reality hit them in the face’

career at the Japanese group is viewed by some investors in India as a cautionary tale that sums up the rollercoaster ride of the past two years.

The quieter funding market of recent months has come as a relief to some entrepreneurs. “We’re very happy that phase has ended. In the long run that’s the right thing for the company and for the country,” says Rohit Bansal, co-founder of Snapdeal. “No company can exist just by raising money from investors.”

Global battleground

Despite their newfound global status, China’s leading e-commerce companies have been slow to make incursions abroad. In India, their expansion has been limited to portfolio investments: Didi Chuxing took a stake in its counterpart Ola while Alibaba invested in Snapdeal and in PayTM, a payments and e-commerce business. However, Alibaba announced in March that it planned to start operating in India as soon as this year and the country looks set to become the first major market to host a full-on fight for supremacy between US, Chinese and local e-commerce companies, says Nandan Nilekani, co-founder of Infosys, the IT services group. Now a venture capital investor, Mr Nilekani argues that companies that have niches least exposed to well-resourced foreign competitors are best placed to succeed.

Among these are groups tailoring their offerings to the millions of Indians taking their first steps online, typically through low-cost smartphones. Such companies include DailyHunt, a news aggregator that provides content in local languages rather than English.

Asked to demonstrate the product, Virendra Gupta, DailyHunt’s chief executive, reaches for his unfashionable mid-range Chinese smartphone, waiting patiently while its basic 2G data connection grapples with downloads. For Mr Gupta such inconvenience is part of an effort to understand his target audience. With his focus on the “next 400m” Indian web users, he has little patience for questions such as how many Indian companies deserve a \$1bn valuation.

“People get into a mad rush when there is [a successful model] somewhere else and they just put a multiplier around it,” he says. “It’s important for people who invest in the companies to realise: the growth will happen, but India just takes a bit more time. Throwing money doesn’t solve problems.”

FT

Video

What the cooling off in investor sentiment means for India's tech start-ups

ft.com/india-e-commerce



FINANCIAL TIMES

‘Without fear and without favour’

THURSDAY 11 AUGUST 2016

The case for reform at the World Bank

Kim should not be the automatic choice for another presidential term

The World Bank demands transparent, meritocratic governance of those countries that seek its assistance. It has yet to apply those principles to the appointment of its own president. In 2012, emerging economies led a serious challenge to the traditional US monopoly of the appointment, fielding credible, heavyweight candidates.

Yet in the end the job went to Jim Yong Kim, the last-minute choice of the Obama administration, who had an admirable record in academia and public health, but no experience of economic development or of running such a large and complex organisation.

Four years on, the World Bank’s staff are trying to pre-empt any move to wave through Mr Kim’s reappointment for a second term. They are calling for an end to the backroom deals that, for decades, have installed an American at the head of the World Bank and a European at the International Monetary Fund; and they warn that, without reform of the process, the World Bank risks becoming an anachronism.

This level of internal discontent is troubling. The World Bank is a perennially fractious institution and its sprawling bureaucracy is undeniably in need of reform. But even by the standards of previous reorganisations, the changes instigated by Mr Kim have been protracted and poisonous, leading to the departure — both forced and voluntary — of many senior officials.

More worrying still is Mr Kim’s failure to redefine the Bank’s mission, and restore its relevance in a world where middle-income countries, traditionally its biggest clients, can raise finance in global capital markets or go to nimble regional development banks. The internal shake-up was long on management fads and short on substance. Mr Kim has launched admirable initiatives, such as a \$500m fund to help fight future pandemics. But this does

not amount to a coherent strategy. There have also been signs of mission creep, with the World Bank engaging in crisis lending to countries hit by the commodities slump, a role that would usually be filled by the IMF.

Whatever one thinks of Mr Kim’s record in office, there is no question about the need to open up the opaque process by which he was appointed. The World Bank’s legitimacy in the eyes of the developing world has long been undermined by US dominance. This has provided a justification for China gradually to usurp its role, through bilateral lending and through sponsorship of competing institutions such as the Asian Infrastructure Investment Bank.

Other international institutions are rising to the challenge, with the competition for the post of UN secretary-general opened up to scrutiny and subject to explicit diversity objectives.

The rules governing the appointment of the World Bank president are not prescriptive, so it would be entirely possible for the board to decide on a more open and meritocratic procedure. The right course would be to allow a search committee to draw up a shortlist of candidates, rather than leaving it to powerful shareholders to jump in with their own nominations. But voting weight on the board will still determine the final decision. No matter how strong the shortlist, it will make no difference if the result is still a backroom stitch-up by western countries.

The US refusal to relax its stranglehold on the World Bank presidency is understandable but short-sighted. No matter who runs the Bank, the US will remain the biggest shareholder, with immense influence. Yet if it continues to view the institution purely as an instrument of American power, it will weaken the World Bank’s shaky credibility, to its own detriment.

May traces a new policy blueprint for her party

Some change is necessary but the UK premier should not go too far

Theresa May entered Downing Street a month ago promising to build “a better Britain”. What the prime minister did not spell out was quite how much of her predecessor’s programme and political legacy she intended to cut down to deliver that goal.

For a “continuity candidate”, Mrs May’s scythe has been sweeping restlessly across the political landscape. Not only has she made big changes to the structure of the cabinet in the wake of the EU referendum, removing many of David Cameron’s closer colleagues and allies, in the past four weeks she has also outlined a new direction for policy, adopting a more confrontational stance on Chinese investment and executive pay. She has also signalled an enthusiasm for industrial policy going well beyond that seen in the Cameron and Osborne years.

Some of these changes are, of course, understandable. Mrs May needed to put her stamp on her own administration, and that was always going to entail the changing of personnel, with the consequent bruising of political egos. Certain aspects of her decisions, such as the review of the Hinkley Point nuclear project, are in fact welcome. A critical assessment of this expensive and risky scheme was long overdue.

Nor should the prime minister’s approach to industrial policy be seen as a misplaced endeavour. Mrs May is largely building on the achievements of the coalition, which bore down on high executive pay and focused on building capacity in sectors where the UK has a competitive advantage. The Financial Times would like to see more grit thrown in the machinery of takeovers, as well as more powers for shareholders to block excessive pay. That said, we would urge caution before adopting the German practice of appointing representatives — of whatever interest group — to company boards.

Mrs May should, however, remember that appearances and tone matter in politics. Some of her personnel changes have appeared to verge on the vindictive, such as the brutal treatment meted out to George Osborne, former chancellor. She should think hard before dismantling too enthusiastically policies that Mr Cameron championed and which formed part of the platform on which Mrs May campaigned before the 2015 general election.

Some of the Cameron commitments have been overtaken by events, such as that to achieve a fiscal surplus by the end of this parliament. But thought should be given before shifting priorities in areas such as NHS funding or education policy, where there has been vague talk about reintroducing selective grammar schools. Mr Osborne’s tilt towards China in pursuit of foreign investment may have been excessive. But the UK will need sound relations with Beijing (and Delhi) if it is to make its way in a post-Brexit world.

Mrs May’s instinct seems to be to stick to the centre ground. This is wise, given the Tories’ slim majority in the House of Commons. While the opposition’s disarray may seem to invite political risk-taking, it has also perversely lowered the cost of backbench revolt.

The June 23 result bequeathed Mrs May a daunting agenda, which involves both rebalancing a now-fragile economy and recalibrating the UK’s relationship with Europe. In the absence of any pre-planning, much hard thinking is under way in Whitehall.

The prime minister may be tempted to seek an explicit mandate from the British people, notably on the terms she secures for the UK’s exit. That time is not now. Mrs May should govern, as she promised, in the interests of the whole nation. She is entitled to review the Cameron legacy. She would be unwise to pursue a repudiation.

Ignore your high-school careers advisers too

Sir, Lucy Kellaway is on to something and she has only just scratched the surface (“Millennials ought to ignore career advice from BCG boss”, August 8). As a 24-year-old millennial, I enjoy the modern freedom of choosing a career for myself, but this liberty has become confused in the form of poor advice. At high school I received the old regurgitated and meaningless platitudes: “Follow your heart . . . Do what you most enjoy . . . Do what

you’re passionate about.” These faux-philosophical statements are dangerous and they are stunting graduates from going into good jobs. Twenty-somethings are leaving university with the misunderstanding that they need to be passionate about a chosen industry before they can apply for a job in that sector. This nonsense fails to view work as a transaction of effort and payment, but rather as a hobby that you get paid for.

I now work in insurance; needless to say this was not a childhood passion, but I’ve found an interesting sector and company for whom I can invest my effort.

Let’s tell graduates to take bold leaps into industries that weren’t necessarily their first passion and, as Lucy reiterates, it’s OK to “take a few bad turns”.

Christopher Toyn
London N7, UK



No one said active fund management was easy

Sir, Stuart Fowler (Letters, August 8) identifies some of the challenges faced by investors in the selection of active fund managers. To his list might be added the risk-on, risk-off markets of the last several years, which have made active management itself that much more difficult.

That said, some active managers will do better than others. As many academic studies have shown, however, past performance is not necessarily indicative of the future, and simple performance-based statistics are not very helpful. Rather, manager selection is very much a matter of horses for courses, as much an art as a science. Indeed, the successful investor may find himself/herself spending as much time and effort in selecting managers as the managers themselves do in selecting investments for their funds. Nobody said that active management is easy, but it can be rewarding to those willing to work.

Ray Soifer
Soifer Consulting, Green Valley, AZ, US

Market measure of bank capital can be misleading

Sir, Your report on the academic study by ZEW’s Sascha Steffen, NYU Stern’s Viral Acharya and University of Lausanne’s Diane Pierret which says that the European Bank stress tests “dramatically underestimate the actual capital shortfall at the banks, which could be up to €900bn based on a market measure of capital” (“Poorest performers in bank stress tests attacked for €20bn dividend payments”, August 8).

I would contend that a market measure of capital is an interesting indicator but can be highly misleading. Just as with hindsight some banks were wrongly regarded as “overcapitalised”

on this measure before the 2008 crisis, the extent of their current “undercapitalisation” may also be wrong. Indeed the banks subject to the stress test are going through a multiyear process of capital strengthening which has already taken their tier one capital ratio from 8.9 per cent as of end 2010 to 13.2 per cent as of end 2015. The price of their equity reflects the market evaluation of future profitability due to lower leverage and low interest rates not the state of the banks’ current solvency. Empirically this can be seen in the divergence in price performance between the banks’ junior debt securities, which have been generally good this year and their shares which have been poor.

Anthony Smouha
Conches, Switzerland

Isn’t it time for chief executives to organise?

Sir, The recent headlines on executive pay remind me of when I was working with a FTSE 250 company. The chief executive worked harder and longer hours than any other member of the management team or staff. Virtually 24/7.

Clearly CEOs are in need of a union that will insist on a 35-hour week and provide the framework for job-sharing arrangements that cover the entire 168-hour week. That will need another three or four CEOs, who will help to share the load of responsibility for thousands of employees and suppliers. It will also let CEOs take holidays where the phone stops ringing. Chance to relax, perhaps.

Until then executives should be paid what they deserve.

Chris Challis
Maidenhead, Berks, UK

Starting up our wind turbine was a breeze

Sir, Simon Mundy’s report “Suzlon chief seeks lift-off for green projects” (August 9) raises some interesting points. We were one of the first European investors in a Suzlon turbine, which has mitigated our family’s lifetime carbon emissions while making a positive return. The purchase was very easy, from walking off the street in to a branch office on February 20 2009 to inspecting the bare desert site on March 7 and exchanging contracts on March 20, with the wind turbine ready to start producing on May 20.

There may be frustrations in now dealing with Indian officials, but we do recommend others to support the replacement of dirty coal electricity with Indian renewables.

Malcolm Moss
Moss Energy, Leatherhead, Surrey, UK

Chinese ambassador’s nuclear safety claims are open to challenge

Sir, The article by Liu Xiaoming, the Chinese ambassador to the UK (“Hinkley Point is a test of mutual trust between UK and China”, August 9) is both important and disturbing.

It is important because it contains a veiled threat at the end of his article, with the unstated hint that unless this continues to China’s satisfaction, other financial, investment and business co-operation could be impacted. It is disturbing because the ambassador makes a number of unsupported assertions in regard to nuclear safety in China and nuclear safety and security regulation in the UK. Both are open to challenge.

On regulatory problems, Mr Liu asserts: “The UK has a state of the art supervision regime and legal system.” However, at a meeting in Manchester last October, executives from the UK nuclear regulator, the Office for Nuclear Regulation (ONR) revealed to representatives from environmental stakeholder groups that they now have to encourage the industry’s economic growth in addition to promoting safety.

But to be independent and effective, surely the ONR needs to stand up to government pressure to act as an arm of the nuclear cheerleaders at the Treasury, and carry on implementing the robust UK nuclear safety rules. Nuclear industry regulation is totally unsuitable to the Business Department’s misguided crusade to cut red tape in regulations. During the Manchester meeting, the ONR seemed to be dangerously edging towards the corporate financial interests of the nuclear industry rather than the public interests of ensuring national nuclear safety.

On Chinese nuclear safety, the ambassador states: “China has a fine record of 30 years of safe operation of nuclear facilities”. Not all agree. In a little noticed article published nearly three years ago, nuclear Industry veteran Li Yulun, a former vice-president of China National Nuclear Corp (CNNC) told the South China Morning Post: “Our state leaders have put a high priority on [nuclear safety] but companies executing projects do not seem to have the same level of understanding.” (“China nuclear plant delay raised safety concern”, October 7 2013.)

Dr David Lowry
Senior Research Fellow, Institute for Resource and Security Studies, Cambridge, MA, US

You can enjoy a pint in cosmopolitan Melbourne

Sir, Further to Chris Hill’s letter “Enjoy a quiet 450ml in a Sydney pub” (August 8): Sydney has the Bridge and the Opera House but, being the more cosmopolitan, Melbourne has the pints.

Paul Ormrod
Cashfac, London EC3, UK

Correction

● In the article ‘The great escape’, published on August 8, the right-hand axis on a chart showing fund flows into emerging market bonds was incorrectly labelled in billions, rather than millions.

The push to make Sunday an extra day to rest and play

Jerusalem Notebook

by John Reed



Consensus is rare in the Knesset, where debates escalate quickly into name-calling, few subjects are too touchy for debate and few epithets beyond the pale.

But rare harmony on at least one point is breaking out among lawmakers on the right and far left, among the secular and the ultra-Orthodox, among majority Jews and minority Arabs alike. Israelis work too much, many MPs are saying, and need to cut themselves a break. Enter the two-and-a-half day weekend.

The Israeli working week — meant to accommodate both the Jewish sabbath (sundown Friday to sundown Saturday) and Muslim Friday prayers — runs from Sunday morning to midday Friday. Israel’s 43-hour working week is one of the longest in the OECD.

Now legislation is making its way to the Knesset that would give Israelis six Sundays off a year, providing more time to shop, spend time with the family and generally chill. The question being debated is whether the extra time off will reinvigorate workers and thus boost productivity — among the lowest in the developed world — or make it weaker still.

As things stand, the typical Israeli weekend runs something like this: a frantic rush on Friday morning to complete banking, shopping and other chores done before the afternoon, when most businesses close and the keening of the shofar horn blares over public loudspeakers, marking the start of Shabbat. A week’s

rest is then packed into a single 24-hour slot.

At sundown on Saturday, a rush begins again as Israelis take to their cars and the streets, tweeting or heading to Ikea, as is their wont. On Saturday evening people wish one another a *shavua tov* (good week), then by Sunday morning they are back to the weekly grind.

“Israelis work too hard and too much,” says Dov Khenin, an MP with Hadash, a far-left party that belongs to the Arab Joint List, which is sponsoring one of four legislative initiatives that have passed preliminary discussion in the Knesset.

Eli Cohen, an MP with the centre-right Kulanu party, sponsored a bill calling for six Sundays off a year that was approved by a ministerial committee in June, the first step to becoming a law.

Some advocates of the law hope that half a dozen free Sundays a year will be the first step to reforms giving Israelis all Sundays off.

Advocates say more free time would give a boost to sectors like tourism (in trouble recently because of political unrest), commerce, culture and leisure, not to mention Israelis’ work-life balances. One of the biggest boosts to consumption, they say, would come from the large Orthodox Jewish minority, whose members face strict religious constraints on what they can do on Shabbat, when the devout are barred from driving, shopping and other worldly pursuits (hence the rush to Ikea on Saturday nights).

The Histadrut trade union federation likes the bill. Employers, who will have to pay workers overtime if free Sundays are passed into law, hate it.

“The idea is too expensive,” says Ruby Ginel of the Manufacturers Association of Israel. “If we add more days off, the market will produce less, so we will be less competitive and the costs will be huge.”

Ordinary Israelis see it differently. “One more day free time is better because people will work harder,” says Sarkis Karagozian, a photographer sampling a coffee at Jerusalem’s upscale Mamilla mall.

Karagozian, a member of the city’s Christian Armenian community, says the change to longer weekends will make him “feel European”. His father, he remembers, used to work for the British in colonial Palestine, five days a week from 7am until 2pm. “After that, you were free — to play football, go see a movie, go for a rest,” he said. “The next day you would feel fresh.”

Shai and Salome Kalifa, an Orthodox couple, are emerging from a Zara clothing shop, where they are stealing some rare time to browse. “In general, we shop in the evening; if you need to do stuff, you need to leave work earlier,” says Shai, who has a job at a call centre. Salome, who works in quality control, is looking forward to more time off.

“It’s cool,” she says. “It will be a day off and we don’t have many of those.”

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Comment

China takes a gamble in scapegoating the west

ASIA

Jamil Anderlini



Across much of the world, fear-mongering and xenophobia are creeping into public and political discourse. In liberal democracies with traditions of free speech, vociferous denunciations of these attitudes can act as a counterweight. But in authoritarian countries where alternative narratives are forbidden, official attempts to demonise foreigners and “others” can be especially dangerous. In the past week, the Chinese government has launched several viral online videos that blame “western hostile forces” for a host of ills and supposed conspiracies within China. The videos are crude but exceptionally powerful in their simplicity and emotional appeal. One video promoted

by the Supreme People’s Procuratorate and Communist Youth League, two of the most powerful state bodies, begins with heartbreaking scenes of orphans and victims of the wars in Iraq and Syria, and then jumps to an assertion that the west, led by the US, is trying to subject China to the same fate. “Under the banner of ‘democracy, freedom and rule of law’ western forces are constantly trying to create societal contradictions in order to overthrow the [Chinese] government,” the subtitles read over pictures of democracy protesters in Hong Kong and President Barack Obama meeting the Dalai Lama. According to the video, western plots and the “dark shadow of the Stars and Stripes” are also to blame for everything from attacks on Chinese peacekeepers in Africa, to farmers’ riots in China’s hinterland, to the Tibetan independence movement. The effect is heightened by ominous music and juxtaposition of chaos elsewhere with heroic images of Chinese soldiers and weaponry. In some ways this is a mirror of the populist, jingoistic tilts happening elsewhere in the world. While not a direct

reaction to the assertive Trumpism emanating from the US or the rise of rightwing nationalism in Europe, some of the same collective animus is taking hold in China, partly at the instigation of the ruling Communist party. Many of those propagating this message are the shallowest of nationalists – the kind of party apparatchiks who are diversifying their (often ill-gotten) assets abroad as fast as they can and sending their children to study in Australia, the US, Canada or the UK. Indeed, one of the main producers of the video on western plots is a 29-year-old PhD student from China now living in Canberra, Australia. Meanwhile, the party has called for the rejection of western values and concepts in favour of Marxism – an ideology named after a

German living in London and refracted into China via Moscow. Regardless of the hypocrisy and contradictions, this kind of propaganda is highly effective and gives licence to ordinary people to indulge their most primitive prejudices. Since President Xi Jinping took power in late 2012, there has been a noticeable negative shift in Chinese attitudes towards foreigners living in the country. In the past, most foreigners in China enjoyed a certain level of unstated protection and privilege. In business and in everyday life “foreign friends” were welcomed and often treated with kid gloves by the authorities. Some of them undoubtedly took advantage of this to flout the rules or behave badly without fear of retribution. Today, that informal immunity seems to have vanished. In its place are hints of a backlash that many long-term foreign residents will tell you can be very ugly, ranging from casual discrimination and racial slurs, to physical altercations that take on a racist dimension. This extends from individuals to the treatment of multinationals companies

that increasingly complain about the absence of a level playing field in China. The privileges Chinese officials and many ordinary citizens used to extend to foreigners should never have existed. But the calculated and repetitive demonising of “western hostile forces” risks whipping up the kind of xenophobia that will limit the government’s own room for manoeuvre in the future. By convincing its people that many of China’s ills are the work of foreign spies and conspiracies, Beijing could eventually be forced to hit back against such perceived enemies in order to placate popular outrage. The less welcoming environment is also to blame for recent slipping foreign direct investment and an exodus of international talent. China’s impressive economic rise began nearly four decades ago with a policy known as “reform and opening” and since then the country has been more open to the outside world than at almost any time in its very long history. An end to that openness would be terrible for China and the world.

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Business chiefs have no need to defend their pay packets

MANAGEMENT

Andrew Hill



Until recently, a good motto for the well-paid British chief executive would have been “united we stand, divided we rise”. Businesses often act together to fight measures that may dent corporate profits, as a group of trade associations did this week in pushing back against government attempts to raise its national living wage for those at the bottom of the pay scale. On their own pay, though, chief executives work separately, tackling each challenge at company level. The High Pay Centre lobby group’s annual survey of FTSE 100 bosses’ pay – issued, by cruel coincidence, the same day as the living wage letter – underlines the effectiveness of such tactics. Heads of big UK companies have seen their average pay rise by a third since 2010 and were paid more than 140 times employees’ average wages in 2015. Theresa May, the prime minister, has called their bluff. By pointing out, days before her appointment last month, how perceptions of bosses’ pay undermine trust in the “privileged few” of the corporate establishment, she may finally draw them into the debate they have tried to ignore. Rarely do executives defend their own rewards publicly. One exception is Sir Martin Sorrell, ranked as Britain’s best-paid FTSE 100 chief executive, who in 2012 wrote a defiant opinion piece for the Financial Times despite attempts by people close to the WPP chief to deter him. He claimed he was merely behav-

Bosses’ richly cushioned position stands in contrast to the shaky existence of workers on the living wage

ing as an owner rather than a manager. “I thought that was the object of the exercise,” he wrote. A more concerted effort by companies to defend – let alone curb – levels of executive pay would be unthinkable. More to the point, it would be unnecessary. Chief executives are sheltered by the very pay data their companies are required to publish. This “market” information is brandished by “compensation” consultants to justify above-average contract settlements for corporate leaders, and used by headhunters to bait the lines for their successors. In addition, executive pay, however elevated, is trivial compared with overall payroll costs. And the forces campaigning against inflated executive rewards are weak. UK investment institutions have less clout than they used to, even assuming they choose to spend time actively analysing pay levels. Non-executive directors are too timid. Pliable board members are corralled into remuneration committees that rarely shake the status quo, let alone claw back pay awards when underperformance exposes them as excessive. Rather than challenge high pay, boards can fall back on their legal responsibilities to shareholders. Guy Jubb, a governance expert, pointed out last month that the duties of directors are too permissive and have given “legitimacy to implementing excessive boardroom pay practices”. As Frank Field, the opposition Labour party MP, put it more bluntly in London’s Evening Standard: “The model that has emerged over the past 30 years is a con.” Enter Mrs May. Her proposals – annual binding votes on what chief executives are paid, worker representation on boards – have flaws but they point in the right direction; drawing board members from a wider range of backgrounds, for instance, would increase the likelihood of challenge. More important, while her intervention may not yet have changed the law, it has changed the environment. The level and terms of executive pay are now, rightly, the subject of a political discussion at the highest level. Mrs May’s intervention set chief executives’ richly cushioned position in sharp relief against the precarious existence of those workers counting on the living wage. She should make business leaders realise that what they have grown used to treating as a little local difficulty is a national problem that, for once, requires a collective response.

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The spreading pain of Italy’s bank saga

BUSINESS

Sarah Gordon



Much has been written about the risk that Italy’s weak banks pose to the rest of the eurozone’s financial system. The risk is real but it obscures a greater one, which could derail the zone’s political as well as economic future. Underlying Italy’s banking sector woes is the lack of growth that afflicts the single-currency countries, contributing to a political malaise that could rob Matteo Renzi, Italy’s prime minister, of his legitimacy – and thus the ability to push through reform. The band-aids that have been applied to Italy’s banks may have succeeded in staving off temporary crises, but they have done little to address these underlying challenges. Last week, banks and insurers pledged €1.6bn in new money to Atlante 2, a fund set up by the Italian government to channel private sector money into rescuing the banks. The fund has backstopped capital raisings at the country’s weakest banks and should be enough, for now, to tide over Monte dei Paschi di Siena, Italy’s third-largest lender and the worst performer in July’s European-wide stress tests.

This will allow the Renzi government to sidestep, temporarily, its most pressing dilemma: whether to use public money to bail out MPS, and fall foul of Brussels’ rules, or let the bank’s bondholders, including thousands of small retail investors, take the hit. Who knows what arm-twisting by the government persuaded contributors to stump up money for Atlante. Some pension funds balked at the last minute, but enough corporate allies were leaned on to get it out of a tight hole. It may be enough to soothe the market for a while but Atlante will not provide a longer-term solution. MPS’s woes are symbols of a wider malaise. The sector is weighed down with €360bn of problematic loans, equivalent to a fifth of gross domestic product, and Atlante has neither the firepower nor the tools to address a challenge on this scale. The problem is not just an Italian one. The Centre for Economic Policy Research suggests that, for the EU as a whole, non-performing loans were more than 9 per cent of GDP at the end of 2014, equivalent to €1.2tn and more than double the level in 2009. The reason the numbers have deteriorated, in Italy as in the rest of the eurozone, is because bad loans are the iceberg above the water. Under the surface lurks a bigger problem: a persistent lack of economic growth. Italy inched out of recession last year but the International Monetary Fund recently estimated that its economy would not return to pre-crisis size until 2025. Thousands of small and medium-sized companies have



gone under, taking with them the bank loans on which they depended, as well as demand for lending. The banks’ challenges do not just affect Italy’s economic prospects; they have the potential to derail its political future. Mr Renzi has committed to holding a referendum on constitutional reform in the autumn which, if passed, will allow the government to make its new electoral system fully effective. The reform would strip the Senate, the upper house, of most of its powers and drastically cut its numbers. The plan is the linchpin of Mr Renzi’s broader reform programme. If the referendum goes against him, Mr Renzi has said he will resign, a self-defeating announcement that has effectively turned the vote into one on him personally as well as his government’s

Many voters believe that the government helps business to the detriment of small savers

record. This is always a danger with referendums, and making explicit the link between Mr Renzi’s future and the vote’s outcome will only encourage the people to use the ballot box to punish the administration. They will want to do so because, like much of the voting public across Europe, they are fed up. The economy is growing too slowly to deliver much tangible benefit. Meanwhile, the electorate is distracted by endless stories about corruption in the political elite. The bank saga has contributed to this sense of sleaze and backroom deals between politicians and business. MPS, backed by local dignitaries and already bailed out twice after fraud and mismanagement scandals, is one aspect of this sorry tale. Others include the wiping out of junior creditors in four small banks last December. Many voters believe the government helps business to the detriment of small savers, a narrative given heft by the suicide of an affected pensioner, and the fact the vice-chairman of one of the banks in question was the father of a cabinet minister.


Anti-establishment disgust has already led to significant gains by the populist Five Star Movement, which won in Rome and Turin in recent local elections. It has led to a fall in support for Mr Renzi’s reforms. Opinion polls suggest voters’ intentions in the referendum are very finely balanced. The consequences of a No vote would be severe. Constitutional reform will, at the least, be delayed, leading to an untenable situation where the new electoral system has been applied to the lower chamber, but not to the upper one. A caretaker administration would be ineffectual. If early elections are held, they are unlikely to deliver a new government with a pro-reform mandate. The immediate as well as the long-term casualty will be growth. This does not just matter to Italy. The danger of its banks’ woes spreading further has been much commented on. But a No vote could deal an even more serious blow to the eurozone’s prospects – political as well as economic.

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Putin is the beneficiary of Erdogan’s post-coup purge

OPINION

Lilia Shevtsova



The *spetsnaz* are Russia’s elite special forces, undertaking high-risk missions that lay the groundwork to enable the country’s regular soldiers to dominate the battlefield. President Recep Tayyip Erdogan of Turkey is playing a similar role for the “authoritarian international”. His post-coup purges are part of a tradition of despots cracking down on enemies – real or imagined, it makes no odds – to consolidate their rule. Yet there is one crucial difference: Turkey belongs to Nato and to the Council of Europe human rights body, and is an aspiring member of the EU. Mr Erdogan’s actions are thus an open challenge to western principles. Authoritarians everywhere are scrutinising the western response. “Erdogan the Spetsnaz” is exposing precisely

where the “red line” on illiberal actions really lies. His successful purge of the army, judiciary, universities and schools, and the grumbling acceptance of this by the west, will inspire his peers to follow suit. For now Russia is the main beneficiary of Mr Erdogan’s counter-coup. It seems only yesterday that President Vladimir Putin was a whipping boy for promoters of democracy, who lamented his strangulation of civil society and domestic opposition. Turkey, meanwhile, was held up as proof that democracy could take root even in a country with an illiberal past. It appeared to be a democratic state with political pluralism, an independent media, opposition parties and a constitutional court able to confront the powerful president. But in light of Mr Erdogan’s vengeful clear out, the Russian regime looks positively vegetarian. True, the Kremlin still harasses opposition parties and manages electoral outcomes, and you can be sent to jail for a couple of years if you write an unflattering blog post. But it seems inconceivable that even the Kremlin today will start to behave like

this (unless it faces domestic turmoil). Mr Erdogan’s experiment has broadened the Kremlin’s field for manoeuvre internationally as well as at home. The purge has weakened Turkey, which until recently was a headache for Russia. As long as Mr Erdogan persists in decimating his own army, Turkey’s role in Syria will continue to decline. Even before the coup, Mr Erdogan The Turkish leader’s descent into authoritarianism should serve as a warning to the world was patching up relations with Moscow; today Russia is returning to its joint gas and nuclear energy projects with Turkey. The Kremlin also anticipates that Turkey will become the weakest link in Nato and will stop insisting on an increased alliance presence in the Mediterranean and the Black Sea. The “personal meeting” between Mr Putin and Mr Erdogan in Russia this

week suggests both sides are ready to expand the scope of their dealings. How realistic are Russia’s dreams of Turkey pivoting east? Such hopes are in many ways naive. First, authoritarian regimes never forge sustainable friendships. Second, neighbouring states with expansionist agendas will sooner or later fall out; if Turkey turns away from the west, its interests in Eurasia will impinge on Moscow’s area of influence. Finally, why would Turkey want to leave Nato and confront an ambitious and reckless Iran and Russia on its own? The Kremlin sees upsides whichever way it goes. If the west decides it cannot do anything about Mr Erdogan’s push for absolute power, this will justify Moscow’s mantra about western hypocrisy and suggests the west will stomach any authoritarian crackdown. A soft line on Mr Erdogan could also strengthen the hand of those who propose accommodating Russia – who include, to judge by their rhetoric, Germany’s Social Democrats, the junior partner in Chancellor Angela Merkel’s coalition. If, on the other hand, Turkey’s relationship with the west deteriorates, the

Kremlin will be even happier. It could then play each side against the other, embracing Mr Erdogan against the west or vice versa. Most likely, it will try to do both. Mr Putin already has some experience in driving two horses in opposite directions when trying to contain the west and be partner with the west. And both he and Mr Erdogan have an interest in flirting with each other to enhance their negotiating positions with the west. But they will never trust one another – not only because Russia and Turkey have always had a rocky relationship but because authoritarian leaders survive by sowing distrust and suspicion of foreign enemies. From the Brexit vote to the Turkish coup, recent global events have dealt the Kremlin a strong hand. Mr Erdogan’s descent into authoritarianism should serve as a warning to the world about how far personalised regimes, from Moscow to Ankara and beyond, will go to keep a grip on power – and how little the west will do in response.

The writer is non-resident senior fellow at the Brookings Institution

Companies & Markets

FINANCIAL TIMES

Smart money Yield hunters have Japanese equities in their sights
JOHN AUTHERS, PAGE 22

Shiseido

7.5%

¥2,571

Galaxy

3.4%

HK\$27.35

Centamin

1.73%

173.8p

Brent crude

1.6%

\$44.28

NZ\$ vs US\$

0.7%

\$0.7212

10-year UK gilt

6bp

0.53%

FTSE 100

0.2%

6,866.42

Gold

\$5

\$1,345

Cargill profits hit four-year low after dip in grain markets

- US group faces pressure over growth
- Chief responds by shuffling portfolio

GREGORY MEYER — NEW YORK

Cargill revealed its weakest operating profit in four years amid a slump in grain markets, intensifying pressure to reignite growth at the world's largest agricultural trading house.

The US-based private company earned \$1.64bn in the fiscal year ended May 31, down 15 per cent from the year before and the least since 2012, it said yesterday. The figures were adjusted for items such as gains on sales of businesses.

In the fourth quarter, Cargill reported an adjusted operating loss of \$19m, reflecting unprofitable soyabean and energy trading and a charge to account for heightened contract risks in weak shipping markets. "We are not happy with our financial performance," said Marcel Smits, chief financial officer.

International grain merchants such as Cargill, Archer Daniels Midland, Bunge and Louis Dreyfus have endured a tough stretch as a succession of big crops depresses commodity prices and volatility, reducing trading opportunities.

Traditional customers of merchants, such as China, have also begun to procure commodities directly from growing regions, adding to competition.

Cargill has responded by shuffling its vast portfolio, selling off businesses including steel mills, crop insurance, sauces and Texas cattle-feed yards and buying ADM's chocolate unit, a salmon-feed maker, a candle-wax company and a ground-beef plant, among others.

The company said it had invested more than \$3bn in acquisitions and new or expanded facilities and made nearly \$2.4bn in divestitures in 2016. Mr Smits called it a "peak year" for transactions

and said that fiscal 2017 was unlikely to bring deals of a similar size.

"It's pretty clear that we either lead, and we have a good path to growth and winning in our industry, or we'll reconsider our position," Mr Smits said.

Cargill's return on equity, a measure of profitability, was 5.8 per cent in the latest fiscal year, also the lowest since 2012. In the past year, it also streamlined its management structure, replacing a two-tier system with a single executive team in an effort to speed up decision-making.

The company is controlled by the Cargill and MacMillan families, descendants of its founder.

"I'd say that shareholders are very encouraged by steps we're taking to improve the results outlook for the business," Mr Smits said.

He added: "We're pushing through an enormous amount of change in a time-condensed period, in order to position ourselves. We should be doing OK when we're in a trough and doing great in a peak of the market."

For the full fiscal year, Cargill's unadjusted net profit rose 50 per cent to \$2.38bn, the highest since a record year in 2011. Full-year revenue declined 11 per cent to \$107.2bn because of lower commodity prices, a strong dollar and divestitures, Cargill said.

John Rogers, credit analyst at Moody's, called the results "not great" and said prospects for another year of large crops meant continued pressure.

"I think they're still in a transition period, and it will take several years to show a meaningful improvement in margins. The bottom line is there's so many things that are beyond their control," Mr Rogers said.

Clever tailoring Ralph Lauren brushes up well in spite of resurgent dollar and sales headwinds

By design: Ralph Lauren kept expectations low to avoid shocks — Joe Schildhorn/BFA; Rex Shutterstock

PAN KWAN YUK — NEW YORK

Ralph Lauren has become the latest company to demonstrate an old Wall Street rule: set the bar low enough and investors will reward you for beating low expectations.

Best known for its polo shirts, it reported another quarter of sales and profit dips as it battles shifting consumer shopping habits and the strong dollar.

However, shares in the com-

pany jumped more than 10 per cent in midday trade after the declines turned out to be less than feared. Net revenues fell for a fifth straight quarter, dropping 4 per cent to \$1.6bn — a shade better than the \$1.52bn the market was expecting.

Same-store sales, a key industry metric, were off 6 per cent and both gross profit and operating margins fell as the company ramped up promotional activities to clear inven-

tories. This pushed the company into a net loss of \$22m, compared with a profit of \$64m in the prior year period.

Excluding one-off restructuring items, adjusted net income was \$90m, or \$1.06 per diluted share, ahead of the 89 cents a share that analysts had predicted.

The rise of ecommerce and discounting have seen traditional names struggle to lure customers back to their shops.

Short View

Robin Wigglesworth

Libor, an important part of the financial system's plumbing is gumming up, raising eyebrows and sparking concerns over the knock-on effect on the real economy. Luckily the cause is innocuous, but it bears watching.

The London Interbank Offered Rate, one of the world's crucial interest rates, has been ratcheting higher over the summer, almost unnoticed as attention has naturally focused on the remarkable rally in government bonds, and on stock markets hitting new highs.

But three-month dollar Libor has climbed from 0.622 per cent near the end of June to a seven-year high of more than 0.8 per cent this week.

Libor has undergone big changes since it was subject to widespread manipulation and became known colloquially as "Lie-bor". But it is still important — it represents short-term bank funding costs, and trillions of dollars of derivatives, mortgages and business loans are linked to its level. So the rise has begun to generate chatter in the industry.

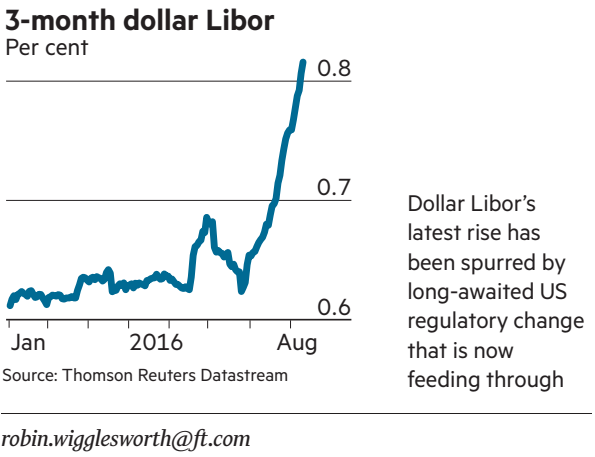
Libor climbed higher when the Federal Reserve raised interest rates in December last year, and was nudged up by the brief financial tremors caused by the UK's vote on June 23 to exit the EU. But the latest upward march has been caused by a long-awaited US regulatory change that is only now beginning to feed through.

New rules slapped on the US money market fund industry in the wake of the financial crisis are set to come fully into effect in October. The changes have spurred a gradual investor exodus from the funds, and the conversion of "prime" MMFs which invest into corporate debt into ones that invest only in Treasuries (which are less affected by the new regulations).

Funds are now hoarding cash in case of further outflows. That is in turn limiting their capacity to buy short-term securities from banks, pushing Libor higher.

Bank analysts are mostly playing down the rate move, but it has the effect of tightening financial conditions on the edges. Higher Libor rates could also spur some European and Japanese banks to tap long-dormant dollar swap lines with central banks.

Once the October 14 deadline has passed, the rise of the Libor rise should abate. Still, keep an eye on it.



Indian banks cash in on state-owned rivals' woes

Private banks in India are seizing a chance to grow as their big state-owned rivals suffer from a spate of bad loans. The upstarts have been expanding their loan books partly by targeting corporate lending traditionally dominated by state banks.

Analysis PAGE 14

Tesla crash in China raises fears that carmaker oversells 'autopilot' function

CHRISTIAN SHEPHERD — BEIJING
PETER CAMPBELL — LONDON
RICHARD WATERS — SAN FRANCISCO

The driver of a Tesla Motors car, which hit another vehicle in China while using the autopilot function, has accused the company of overselling the capabilities of the technology.

Lou Zhen was unharmed when his Tesla Model S collided with an illegally parked Volkswagen car on a motorway in Beijing last week. In a post online, the 33-year-old programmer admitted he was not paying attention and did not have his hands on the wheel — something that Tesla instructs its drivers to do when using the driverless mode.

But Mr Lou also claimed that consum-

ers were not told of the limitations of the technology "when buying the car".

The case will ignite further debate around the company's promotion of its driverless technology, which has come under scrutiny following a fatal crash in Florida this year.

In most countries, Tesla promotes its driver assistance as autopilot, a similar term used in aircraft when they fly themselves. In reality, the technology tracks other vehicles on the road and monitors lane lines, taking control of steering and braking.

Drivers are told to have their hands on the wheel and to be able to take control at any time. In China, Tesla markets the technology as *zidong jiaoshi*, a term most commonly translated as autopilot.

While it may be weaker than the Chinese term for self-driving, which is *wuren jiaoshi*, there is room for misunderstanding among Chinese consumers, according to Zhong Shi, an independent automotive analyst in Beijing. "China's way of referring to these technologies is a big problem. Though a similar risk exists for the term autopilot in the west, Chinese consumers are less likely to read the instruction manual," he said.

Tesla maintains that the autopilot technologies are not fully developed and that the driver has to be ready to retake control at all times. Elon Musk, Tesla's founder and chief executive, has also defended the technology, saying that it leads to safer roads and fewer deaths.

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COMPANIES

Utilities

Eon falls €3bn into red after writedown

Shift to renewables dents value of power stations earmarked for Uniper unit

GUY CHAZAN — BERLIN

Eon reported a net loss of €3bn for the first half of 2016, after writing off €2.9bn on the value of power stations, as the crisis in Germany’s conventional energy sector continued to deepen.

Germany’s largest utility and its rival RWE have been battered by Germany’s Energiewende, its historic shift to renewables from fossil fuels and nuclear power.

Heavily subsidised wind and solar have squeezed the conventional energy Eon produces out of the market, while

declining wholesale electricity prices have made traditional power stations uneconomic.

Eon has responded by dividing itself into two, with the conventional power generation assets and energy trading division grouped in Uniper — short for Unique Performance — and the renewables, networks and customer solutions businesses remaining with Eon.

The company plans to float Uniper next month. For every 10 shares of Eon stock, shareholders will receive an additional one share of Uniper stock.

But the outlook for the new company continues to darken. Eon said it was taking impairment charges on power stations and gas-storage facilities of €2.9bn at Uniper, as well as €900m as provisions for future losses.

This, the company said, led to a net loss in the first half of 2016 of just over €3bn at Eon, compared with a €1.15bn profit a year earlier.

Eon’s shares were trading down 7.6 per cent yesterday afternoon at €8.71.

Johannes Teyssen, Eon’s chief executive, said: “The developments on the energy market demonstrate unambiguously that Eon chose precisely the right strategy; namely to seize opportunities in the new energy world.”

He added: “Customers want innovative, renewable and digital energy solutions. And that’s exactly what they’ll get from us.”

The company said that adjusted net income for Eon without Uniper in the first half of 2016 declined by €232m, or 28 per cent, to €604m, due to high tax

payments to earlier reporting periods, and the fact that the prior-year figure included the earnings of businesses that have since been divested.

Factoring those out, adjusted net income would have declined only about 8 per cent.

Eon reiterated its forecast for 2016, saying it expected adjusted net income of €600m-€1bn, while adjusted earnings before interest and tax would come in between €2.7bn and €3.1bn.

Yesterday’s writedown was not the first Eon has taken on its conventional assets.

The company reported its biggest annual loss last year after writing down the value of its coal and gas-fired power plants by €8.8bn.

See Lex

€2.9bn
Writedown on Eon’s power stations as conventional energy is squeezed out of German market

2
New divisions, one for conventional power generation assets and the other for renewables

INSIDE BUSINESS
EUROPE

Neil Buckley



Pragmatic Warsaw scrapes a pass mark in forex loans test

For much of this year, the question of how Poland will help more than half a million citizens struggling to repay mortgages taken out in Swiss francs has hung over the investment climate. In the end, the Law and Justice government came through what investors had seen as something of a test case rather positively.

Warsaw announced last week that banks would not face a forced, one-off conversion of the loans into zloty at historical exchange rates — and having to absorb the costs — as previously mooted. Poland’s regulator had warned that that could cause a banking crisis. Instead, banks are being asked to carry out a voluntary, gradual conversion of the loans, “encouraged” by tighter regulation.

Like many citizens in central Europe, Poles flocked to accept offers to borrow in the Swiss currency before the 2008 financial crisis, to benefit from lower interest rates. The halving of the zloty against the Swissie in the past six years has left many of the 565,000 Polish borrowers struggling to service loans now worth more than their property.

Andrzej Duda, Poland’s president, who came from the Law and Justice camp, made dealing with the \$36bn forex loan issue a key plank of his election campaign last year.

But the financial regulator estimated that Mr Duda’s initial plan announced in January for a forced conversion would cost banks 67bn zloty (\$17bn) — several times the sector’s entire annual profit. It would push what had been one of Europe’s more stable banking sectors — dominated by foreign groups including Italy’s UniCredit, Germany’s Commerzbank, Spain’s Santander, and the Netherlands’ ING — into a systemic crisis.

Mr Duda signalled a rethink in April. But with Law and Justice already mimicking some other policies pursued by Hungary’s Fidesz government, including a retail tax, investors feared any changes might be only cosmetic.

Subsequent suggestions from senior Polish ministers that they wanted to reduce the 70 per cent foreign ownership of the country’s banking sector did little to calm concerns. In Hungary, two smaller foreign lenders quit the market amid perceived hostile moves by the government, helping Viktor Orban, the prime minister, achieve his aim of increasing Hungarian ownership of the sector.

Mr Duda’s revised plans last week, however, were a significant climbdown. They seemed to show the moderating influence of Adam Glapinski, the newly appointed central bank governor, who presented them alongside presidential officials. They also suggested Law and Justice is prepared to be pragmatic — to investors’ relief — and try to avoid a Hungarian-style clash with the banks.

Banks are being asked to carry out a voluntary, gradual conversion

Banks will face lower costs than they would have done under the president’s original plan, and will be able to spread them over time. But lenders will still face costs — and must recognise that they are expected to take action.

Firstly, they will be made to reimburse borrowers for “excessive” exchange rate spreads charged on the loans, where these differed widely from the central bank rate. That is likely to cost the sector about 4bn zloty.

Second, Mr Glapinski said he would ask the regulator to persuade banks to draw up their own plans for resolving the forex loans issue by increasing significantly capital requirements for banks with large portfolios of such loans. Peter Attard Montalto, an analyst at Nomura, estimated banks might still face costs of about 25bn-30bn zloty.

Otilia Dhand, a political risk analyst at Teneo Intelligence, said Poland’s president still faced political pressure to deliver on his election pledge to help borrowers. “Duda has reserved himself the right to evaluate the success of the programme within one year, and resume work on binding rules should it fall short of expectations,” she said.

In another telling response, Andreas Treichl, chief executive of Austria’s Erste Group — one of central Europe’s biggest lenders, but absent from Poland — said last week his bank was still not tempted to enter the market, though some Polish banking assets are for sale. “We will not make an acquisition in Poland at any price given [the] political situation,” he said. “We need to have a stable political environment before we invest.”

Despite the better than expected resolution of the forex loans issue, Poland clearly has some way to go to repair the damage its ultra-conservative government has done to its image over the past year.

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Media. Content production

Peppa Pig owner sends ITV back to drawing board

Entertainment One’s rejection leaves group with choice of lifting bid or looking elsewhere

FT REPORTERS

ITV’s £1bn bid to buy Entertainment One — the majority owner of children’s cartoon franchise Peppa Pig — may have been rebuffed, but comes as further evidence of the UK broadcaster’s ambition to become a major international content production business.

After months of speculation, ITV finally tabled an offer to buy the Canadian media company in a deal worth £2.36-a-share late on Tuesday. The unanimous decision by Entertainment One’s board to reject the proposal, first reported by the Financial Times, came a few hours later.

In a statement, Entertainment One said the offer “fundamentally undervalues the company and its prospects”.

The rejection is unlikely to stop ITV’s ambition to create its own exclusive content, however, even if people with knowledge of the group’s thinking played down any immediate improvement to an offer only made on Tuesday.

ITV, which airs *Downton Abbey* and *The X Factor*, has already been trying to move away from a traditional broadcast

‘If you look at the response from Entertainment One it wasn’t, go away. It was, this price was too low’



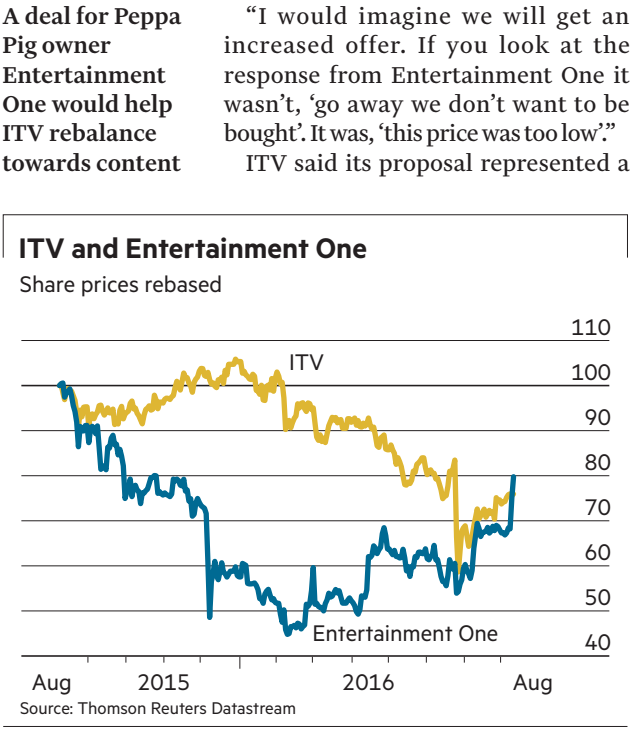
business model heavily dependent on advertising revenue and into TV production of its own.

ITV Studios — its content production and ownership business — accounts for just over 40 per cent of total revenues. But ITV wants to take this further, and so reduce its reliance on advertising even as some media analysts predict a weakening in the advertising market following Britain’s vote to leave the EU.

In 2015, ITV acquired the company producing *The Voice*, a popular music talent show, for €1.1bn. Last month Adam Crozier, ITV’s chief executive, promised that the broadcaster would “continue to invest” in its content business through acquisitions.

The question for ITV now is whether it increases the offer for Entertainment One or sets its sights on other content production houses.

“It’s not obvious what other companies are out there,” said Sarah Simon, an analyst at Berenberg.



“significant premium” over the company’s share price before recent bid speculation. The £2.36-per-share offer reflects a 41 per cent premium over Entertainment One’s average share price for the past month.

Entertainment One, which is based in Toronto but listed in London, insists that the bid is too low.

Giles Willits, financial director of Entertainment One, said ITV’s offer did not reflect the company’s recent growth or the value of its assets.

Last year, Entertainment One paid £140m to raise its stake in Astley Baker Davies, the company that makes Peppa Pig. It also bought a 51 per cent stake in the Mark Gordon Company, the Los Angeles-based production group behind the medical drama *Grey’s Anatomy* that has also had a box-office hit with Steven Spielberg’s adaptation of Roald Dahl’s classic *The BFG*.

Mr Willits added that the company’s biggest shareholder, the Canada Pen-

sion Plan (CPP), which owns just under 20 per cent of Entertainment One and is represented on its board, was fully behind the decision to reject the offer.

Analysts at Liberum said one factor could be the price which the CPP paid to purchase the majority of its stake — just under £2.60 per share and much higher than the offer price from ITV.

However, other shareholders might bring pressure for the company to return to the table. Earlier this year, Livermore Partners — an activist hedge fund that owns an undisclosed stake in Entertainment One — wrote to the company demanding it either strengthen its board or start returning cash.

Yesterday, Livermore said an offer of over £3 per share would probably clinch the deal, which would mean that ITV will need to significantly sweeten the bid to hope to snare the Peppa Pig-owning group.

David Bond, Arash Massoudi, Matthew Garrahan and James Fontanella-Khan

Support services

Brexit leaves no dent on Adecco as sales climb

JAMES SHOTTER — FRANKFURT

Adecco, the recruitment group, said it had not witnessed any hiring slowdown in the UK despite Brexit uncertainty.

Alain Dehaze, chief executive, said the Swiss-based group — seen as a bellwether for economic conditions — had not suffered “any impact from the Brexit decision in the second quarter”.

Adecco’s revenues in the UK and Ireland rose 6 per cent in the three months to June 30 compared with the same period last year.

“At this stage, we don’t see a material impact in the results for the UK or other countries,” Mr Dehaze said.

Hiring trends in July and August had been normal, he said.

He acknowledged that the lack of any impact from the Brexit referendum on Adecco’s numbers could be due to how

many of its UK clients were domestic in their focus. He noted that the UK had not yet started the official process of leaving the EU.

Mr Dehaze said the effect of the referendum on hiring should be clearer by September, when companies picked up activity after the summer break.

In the three months to June 30, Adecco reported net income of €190m, up 7 per cent compared with the same period last year and in line with analysts’ expectations. Revenues rose 4 per cent at €5.7bn.

Adecco cautioned that the global economic outlook remained “uncertain”.

Mr Dehaze described the company’s second-quarter results as “solid”, adding that Adecco was making “good progress” with turnaround plans in weaker markets including Norway and Australia.

In France, which is Adecco’s biggest market and accounts for more than a fifth of group sales, revenues rose 3 per cent, with strong demand in the construction and automotive sectors offsetting weaker figures in retail, manufacturing and logistics.

Sales in Spain and Portugal — where unemployment has begun to fall from post-financial-crisis highs — rose 11 per cent. Revenues in Italy rose 9 per cent.

Mr Dehaze said there was scope for a further tightening of labour markets around the EU.

“If you look at a lot of countries in Europe, they are far below their previous peaks [in employment]. There is still a lot of room [for improvement].”

Outside Europe, the picture was mixed in the second quarter, with revenues in North America falling 1 per cent but sales in Japan climbing 4 per cent.

Chemicals

Higher growth regions help to bolster Lanxess

PATRICK MCGEE — FRANKFURT

Lanxess, a specialty chemicals company, raised its 2016 earnings outlook for a second time this year on the back of strong quarterly results.

The Cologne-based company said that earnings before interest, taxes, depreciation, amortisation and one-time expenses would be between €930m and €970m this year, up from a €900m-€950m range in May and €880m-€930m at the start of the year.

Lanxess, formed in 2004 when it spun off from Bayer, has improved its financial performance under the leadership of chief executive Matthias Zachert, who rejoined the company after three years at Merck. Mr Zachert had helped establish Lanxess after it was spun off as its chief financial officer until 2011.

His strategy has been to invest in

higher growth regions such as North America, China and Southeast Asia, while balancing its portfolio by extending into integrated chemical value chains, such as high-performance plastics used in car bodies, and application-driven businesses, such as leather chemicals.

Lanxess, which is listed on Germany’s 30-member Dax index, has also become the sole supplier of Icaridin, a chemical used in a popular type of mosquito repellent. Because of the Zika virus, sales are expected to jump more than 50 per cent this year, although it is still a tiny share of group’s revenue.

The upgraded guidance reflects “good business prospects” in such “new” segments, the company said yesterday.

Last year, Lanxess sold half of its synthetic rubber business to Saudi Aramco, the state-backed oil company, for

€1.2bn after the price of the material came under pressure.

In the second quarter, Lanxess reported an 8.5 per cent rise in ebitda excluding one-off items to €293m, ahead of forecasts at €280m. Operating margins rose to 15.1 per cent, up from 12.8 per cent a year earlier.

But net profits were lower than a year ago as higher volumes “could not compensate for price reductions” in raw materials, which it passed on to customers, the company said.

Net income in the quarter fell 13.8 per cent from a year ago to €75m, as group sales declined 7.7 per cent to €1.94bn.

UBS analyst Patrick Rafaisz called the results “slightly better than expected” and reiterated a “buy” rating, pointing out that Lanxess shares “rank amongst the cheapest” in the diversified specialties peer group.

COMPANIES

Drugmakers hooked on \$10bn opioid habit

Concern at soaring prescription painkiller addiction and surge in overdoses forces policymakers to tackle misuse

DAVID CROW — NEW YORK

It is hard to find many winners in the painkiller addiction epidemic engulfing the US. But last year drugmakers from Pfizer and AbbVie to smaller groups like Depomed sold almost \$10bn worth of prescription opioids.

As sales of the pills have surged — from \$3.8bn in 2000 to \$9.6bn in 2015, according to IMS Healthcare — so has the number of drug-related deaths.

Overdose deaths involving prescription opioids quadrupled over roughly the same period, according to the US Centers for Disease Control, with more than 165,000 fatalities. More than 2m US adults misuse the drugs.

After years of inaction, US policymakers have in recent months introduced a string of initiatives designed to curb opioid use, prompting some analysts and executives to ask whether sales of the drugs are set to tumble. Some say a crackdown is long overdue.

“When it comes to opioids, I don’t sit here and wear a hat and say ‘I’m going to hurt my revenue,’” says Heather Bresch, chief executive of Mylan, which makes generic versions of off-patent opioids. “I say, ‘This country’s got a serious problem that we need to do something about.’”

In March, the CDC issued new federal guidelines for doctors, suggesting that they first put patients on paracetamol or ibuprofen, and only give out a few days’ supply of opioids at a time.

Some states, including Connecticut and Massachusetts, have enshrined similar restrictions into law, while Chicago, the third most populous US city, is trying to force manufacturers to sign a code of conduct that limits the way pharmaceutical companies can market opioids to doctors.

Last month the Obama administration made it easier for patients to access buprenorphine, a treatment that can help wean addicts off opioids.

Some analysts and doctors say the combined efforts could result in stagnating or declining sales of the drugs.

“There will be ongoing efforts to narrow the prescription of opioids, making it harder for new people to become addicts and resulting in a gradual narrowing of the market,” says Ronny Gal, an analyst at Bernstein.

Dr Andrew Kolodny, head of Physicians for Responsible Opioid Prescribing, says: “Prescriptions will plateau, or even come down a bit, now that the genie is out of the bottle.”

For many of the bigger, diversified pharma companies, such efforts will probably have a small impact. Opioid painkillers represent a profitable stream of revenue, but one they could cope without, and few large drugmakers count such medicines as “blockbuster” — those that achieve multibillion-dollar sales.

But there are a handful of drugmakers that rely heavily on sales of opioid painkillers, including Depomed and Purdue Pharma, a private company. Others, such as Endo Pharmaceuticals and Mallinckrodt, generate a large chunk of their revenue from the pills.

“If you’re a company specialising in pain and your growth profile depends on more opioid prescriptions getting written, I think that you’re going to have a problem,” Ms Bresch says. “You can’t have 78 deaths a day in our country and there not be anything done about it.”

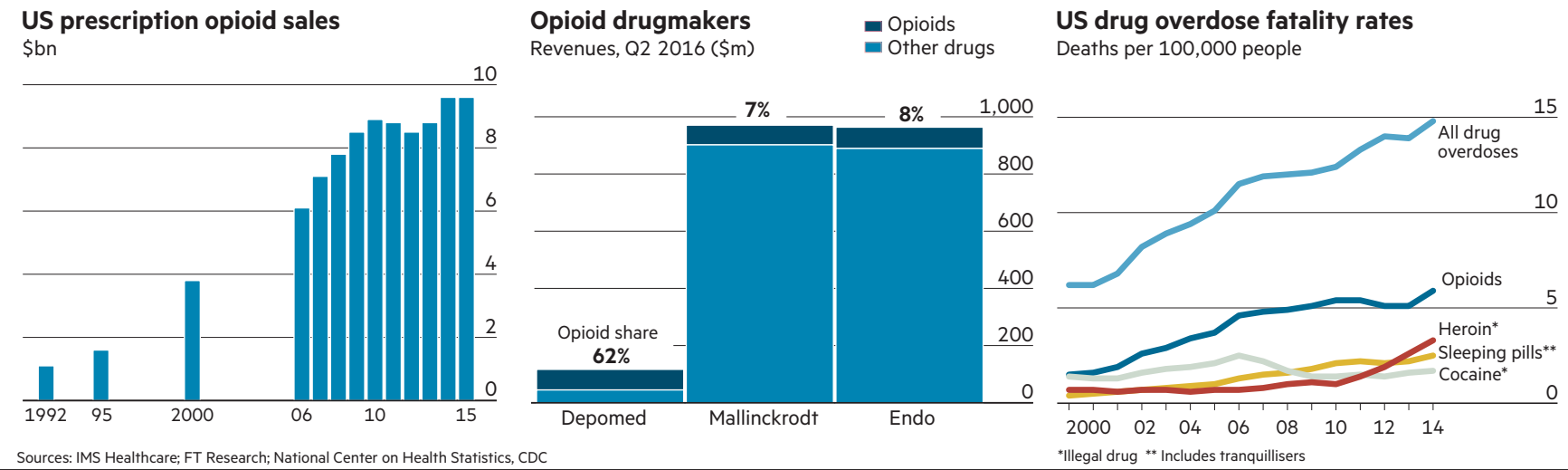
Depomed, a California-based drugmaker, generated almost two-thirds of its second-quarter revenue from the sale of opioid painkillers marketed under the Nucynta brand, which it purchased from Johnson & Johnson for \$1bn in April 2015.

Nucynta ER, a long-lasting opioid, is approved for severe pain that requires round-the-clock treatment, and a type of pain caused by diabetes. The active

Desperate remedies



Overdose deaths involving prescription opioids have quadrupled since 2000, with more than 165,000 fatalities. Some 2m US adults misuse the drugs — Alamy



ingredient, tapentadol, is addictive and the drug label instructs doctors to “monitor patients closely for signs of abuse”.

Dr Kolodny says the medicine is “appropriate only for end-of-life palliative care” of patients with cancer and “certainly not chronic pain”.

Last week Depomed reduced its estimates for full-year sales and profits, citing a tougher opioid market and a drop in the average dose of Nucynta that doc-

‘You can’t have 78 deaths a day in our country and there not be anything done about it’

tors are prescribing, prompting several analysts to downgrade the company’s stock.

Jason Gerberry, an analyst at Leerink, says: “Opioid brands like Nucynta have been negatively impacted by the recent CDC guidelines which recommend using fewer opioids and lower dosages.”

Jim Sanford, portfolio manager at Sag Harbor Advisors, adds: “Depomed have a fairly concentrated risk to anti-opioids legislation given their high reliance on Nucynta. This company is a poster child of who could get hurt on the downside,

[and] a proxy for shorting the opioids space.”

The company is also defending itself against several generic drugmakers, which are challenging the patents that stop them from launching a generic version of Nucynta ER. And it has a restive activist shareholder, Starboard, which owns almost 10 per cent of its shares and is seeking to remove and replace the board of directors.

Endo, which makes Opana ER, an opioid painkiller, said second-quarter sales of the drug fell 11 per cent compared with a year ago when it reported earnings this week.

Makers of opioid-based medicines are also facing a longer-term threat as drugmakers try to find new medicines that are less addictive but just as effective at managing pain.

Eli Lilly and Pfizer are developing one such drug, Tanezumab, which targets nerve growth factor, a type of protein thought to regulate pain.

“We desperately need alternatives to opioids, and we believe we have one,” says John Lechleiter, chief executive of Eli Lilly. “We’re looking at it in [late-stage trials] in areas including chronic lower back pain and cancer pain. We don’t have the data to be definitive yet, but hope it could be an alternative at some point.”

Personal and household goods

Shiseido cuts forecasts as yen gains strength

KANA INAGAKI — TOKYO

Shares in Shiseido fell 7.5 per cent yesterday after a stronger yen and acquisition costs forced the Japanese cosmetics maker to lower its guidance.

The damaging exchange rates could not have come at a worse time for the 144-year-old Japanese group, which owns the Elixir, Maquillage and top-of-the-range Clé de Peau brands.

Under Masahiko Uotani, Shiseido’s chief executive, the company is seeking to strengthen its overseas profile while streamlining its lossmaking operations.

As part of its new strategy, this year it acquired US brands Laura Mercier and RéVive and secured a licensing agreement for Dolce & Gabbana’s fragrance, cosmetics and skincare lines. But Shiseido, which generates about half of its sales overseas, warned on Tuesday

that acquisition cost savings would be wiped out by the stronger yen.

Mr Uotani also blamed merger and acquisition costs for weighing on earnings and said the company was aiming to integrate its brands at a faster pace. This follows its slow integration of Bare Escentuals, the US natural make-up company it acquired for \$1.7bn in 2010.

Shiseido lowered its full-year net profit forecast by 13 per cent to ¥30bn (\$296m) from earlier guidance, under-shooting analyst forecasts for a profit of ¥36.2bn. It also cut its revenue forecast by 2.8 per cent to ¥848bn. Shiseido said it now assumed an average ¥106.9 against the US dollar for the financial year ending in December compared with its earlier assumption of ¥119.

“It’s a tough situation with the uncertainty surrounding the global economic outlook and the yen’s surge having a

major impact on many Japanese businesses,” Mr Uotani said.

“But we need to continue ahead with our restructuring measures and carry out investments and M&A to ensure future growth,” he added.

Despite the downgrade, analysts said there were signs of progress.

Shiseido said that sales in China for the six months to June 30 increased 3.1 per cent — or 15.5 per cent in local currency terms — on strong demand for locally developed cosmetics. Sales in Japan also rose 5.5 per cent, boosted by inbound tourism and a review of its branding and marketing strategies.

“Although we think the strategic direction is on the right track, we believe earnings visibility will remain weak for the time being,” analysts at Deutsche Securities wrote in a report.

See Lex

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COMPANIES

Oil & gas

Lower gas prices knock Gazprom earnings

Quarterly profit down more than 5% amid higher capital expenditure

MAX SEDDON — MOSCOW

Gazprom, the Russian state-run gas group, reported a dip in quarterly profit of more than 5 per cent due to lower gas prices and higher capital expenditure. Net income fell to Rbs362bn (\$5.6m) in the first quarter, down from Rbs382bn a year earlier, the company said yesterday. Total sales increased by 5.4 per cent to Rbs1.74tn.

The global oil slump has created uncertainty for Gazprom, which sells much of its gas to Europe at rates linked to the price of oil. Prices on the spot

market in Europe, Gazprom’s key source of revenues, have more than halved in the past two years. Many analysts predict that falling demand in Russia, Ukraine, and China, as well as a potential rise in exports of liquefied natural gas from the US, will push prices down further.

The company said that it did not intend to cut its capital expenditure or turn to debt markets to head off the problem. Gazprom’s budget for 2016 is

The group still intends to finance Turkish Stream, a gas pipeline that was put on hold last year

based on an average price of \$199 per thousand cubic meters — which would already be the lowest in a decade — when expected prices are even lower at \$167-\$171 per thousand cubic meters.

“We can see that the prices on the market today are lower than those we set out in our budget,” Alexander Ivanikov, Gazprom’s finance director, said on a conference call with investors. “But we have half the year still to come and the weather factor is more important.”

Total sales of gas by volume to European countries increased by 49 per cent. But with prices at \$187.5 per thousand cubic meters nearly \$100 less than a year earlier, the rise only translated into a 22 per cent increase in sales revenues. Sales by volume went down by 16 per cent in the former Soviet Union, mostly



Falling revenues might affect plans for several new investment projects

driven by Ukraine’s attempt to wean itself off Russian gas since the annexation of Crimea in 2014, and 6 per cent in Russia. Operating expenses dropped by 24 per cent to Rbs1.74tn, a rise the company mostly attributed to an asset swap agreed last October with German firm Wintershall.

Gazprom’s falling revenues may affect its plans for several new investment projects. The company said it still intended to finance Turkish Stream, a gas pipeline that was put on hold last year after Turkey shot down a Russian Su-24 fighter jet.

Turkish president Recep Tayyip Erdogan, who was in St Petersburg to meet his Russian counterpart Vladimir Putin on Tuesday, said Ankara intended to finish the project.

Insurance

Prudential profits lifted by UK and Hong Kong sales growth

OLIVER RALPH
INSURANCE CORRESPONDENT

Prudential suffered sharp drops in sales in some of its big markets such as the US and Indonesia, but strong performances in the UK and Hong Kong more than compensated for the declines, helping it produce first-half profits that beat expectations.

The UK-based insurer, whose main businesses are in the UK, US and Asia, reported first-half operating profits of £2.06bn — up 9 per cent on the same period in 2015. Analysts had expected a flat performance.

Chief executive Mike Wells said Prudential had made good progress despite volatile and uncertain investment markets. “This was a very broad-based performance, with each of our businesses making contributions,” he said. “This is one episode in a long-running and very successful box set.”

Analysts said that the numbers beat expectations across all major metrics. “Prudential delivered another excellent set of results . . . despite the heightened volatility across many financial markets throughout the period, not just post the Brexit vote,” said Shore Capital analyst Eamonn Flanagan.

However, there was some concern at progress in Asia where the 19 per cent jump in overall operating profits masked changes in the way that the business is made up.

“Asian sales have become increasingly reliant on Hong Kong, which accounted for 56 per cent of sales in Asia in the first half of 2016,” said Gordon Aitken, an analyst at RBC Capital Markets.

“HK sales grew 58 per cent, even faster than our expectations of 30 per cent . . . Prudential’s other major Asian businesses are witnessing negative or lower level of growth which is further adding to loss of diversity in the Asian business.”

Tony Wilkey, head of Prudential’s Asian business, said that the Indonesian operation — where sales dropped by a third — had been affected by the weak economy.

“In a difficult environment we will not aggressively push the business forward,” he said.

Prudential stressed in its statement that it would not chase new customers at the expense of long-term value.

In the US, new business sales dropped a tenth. Mr Wells blamed volatile financial markets and uncertainty over distribution rules that are due to come in next year.

However, profits from the business rose 6 per cent, driven by earnings from the back book and favourable exchange rates.

The impact of choppy markets was also visible at M&G, Prudential’s UK-based fund management operation. Profits there dropped a tenth as customers continued to withdraw their funds from the business. The company has brought in Anne Richards, formerly of Aberdeen Asset Management, to turn M&G around.

The other parts of the UK business were stronger, however. Sales of PruFund, a product which smooths market movements, soared 80 per cent in the first half, prompting an 8 per cent jump in UK profits despite the group’s decision to withdraw from large parts of the annuity business. PruFund now has £20.1bn under management.

The company said that the Brexit vote would not have a significant impact on its business.

The dividend was increased by 5 per cent to 12.93p.

Banks. Distressed debt

Lenders target India after loans surge turns to purge

Private sector homes in on state-owned rivals’ assets after investment cycle sours

SIMON MUNDY — MUMBAI

Even as distressed asset woes at state-owned banks cast a shadow over India’s economic outlook, other financial companies are seeing opportunities for profit — either by taking market share from struggling state lenders or buying up assets at knockdown prices.

State-controlled banks, which account for 70 per cent of India’s banking assets, are suffering the fallout from a surge in lending for much of the past decade to companies in sectors such as steel and infrastructure, many of which have struggled to service their debt after projects were delayed.

Under pressure from the central bank to classify problem loans more aggressively, banks have made extensive provisions for souring assets over the past nine months. That has cut profits and dramatically curbed their loan growth, which stood at just 4 per cent in the year to March.

Much of the slack, however, is being taken up by private sector banks, which



The aim is to exploit ‘a three to four-year period when [the state banks] might be distracted’

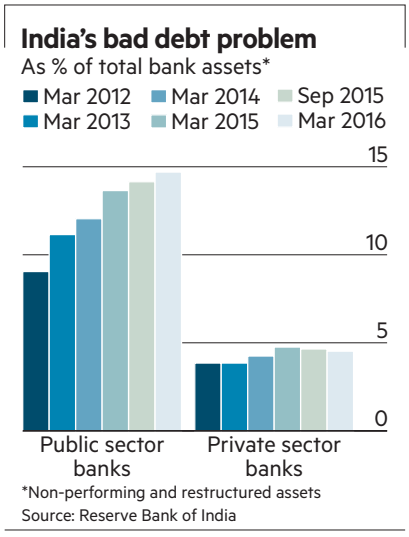
have been expanding their loan books at such a pace that one financial executive in Mumbai ponders whether authorities are overseeing “privatisation by stealth”: allowing state companies to flatline while better-run private groups rush to the fore, as previously happened in sectors such as aviation.

Loan growth at private sector banks was more than five times that of their state rivals in the year to March, driven partly by their encroachment on the corporate lending space traditionally dominated by the state banks.

The corporate loan books of both HDFC Bank and Kotak Mahindra, two of the largest private sector banks, were more than a fifth higher at the end of March than a year before — an expansion that comes with potential risks, warns Uday Kotak, Kotak Mahindra’s founder. “The private sector needs to make sure it’s taking the right risk calls as it expands,” he says. “It should not make the same mistakes.”

Nilesh Parikh, an analyst at Edelweiss Securities, says there is reason for confidence on that score, noting that corpo-

State-controlled banks are suffering the fallout from a surge in lending during the past decade to companies in sectors such as steel and infrastructure, many of which have struggled to service their debt after projects were delayed — Mukesh Gupta/Reuters



rate credit is now focused on less risky areas such as working capital facilities, with big capital projects thin on the ground as companies in the relevant sectors lick their wounds from the high point of the last investment cycle.

Despite the opportunity to poach big corporate clients from state banks, it is in areas that they have underserved — such as smaller enterprises and retail customers — that the private sector must now forge ahead, argues Rajiv Lall, chief executive of IDFC Bank, one of two new lenders to be issued banking licences last year.

“The corporate lending space is overcrowded and not paying back the risk that’s involved,” he says.

A similar logic is attracting other new entrants such as Centrum Group, which previously focused on wealth management and investment banking but next month will start extending loans to small businesses. The aim is to exploit “a three to four-year period when [the state banks] might be distracted” by their bad loans, says executive chairman Jaspal Bindra.

As India’s state banks seek to put their imprudent loans behind them, investors are circling in the hope of profiting from the process.

Last month US-listed asset manager Brookfield committed \$1bn to a fund that aims to make both debt and equity investments in distressed corporate clients of State Bank of India, the biggest of the country’s publicly controlled lenders.

That followed tie-ups between the Canadian Pension Plan Investment Board and Kotak Mahindra, and between US private equity firm JC Flowers and Indian financial group Ambit Holdings. Both new ventures will seek to buy bad loans at a discount from banks and potentially provide financial support to the struggling borrowers.

These foreign-backed funds will join a field already well populated by local asset reconstruction companies, which buy loans from banks for a discounted sum paid mostly out of the dues recovered from the account.

But despite the surge of interest in this space, distressed asset sales have slowed

this year, says Siby Antony, chief executive of Edelweiss Asset Reconstruction Company, the country’s largest by assets.

In part, he says, this reflects regulatory changes that increase the upfront payments the asset reconstruction companies must make when buying assets. But a more fundamental problem, he argues, is a shortage of capital at the banks — meaning they feel unable to take the hefty writedowns that would be needed for them to sell their distressed assets at fair market value.

The government last month announced the first Rs229bn (\$3.4bn) injection in a Rs700bn recapitalisation plan, with the state banks expected to raise a further Rs1.1tn from the market. But this falls well short of some private sector estimates of the sum required: Ambit, for example, estimates that \$30bn is needed to put the sector on a healthy footing.

“We’ve been meeting all the banks — they are open to [selling assets to asset recovery companies],” Mr Antony says. “But the problem is their capital.”

Legal Notices

In the matter of Kernel Capital Limited and
In the matter of the Cyprus Companies Law Cap 113
Notice is hereby given that the creditors of the above-named company which is being voluntarily wound up are required on or before the 11th day of September 2016 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Constantinos Constantinou, of PricewaterhouseCoopers Limited, Jula House, 3 Th. Dervis Street, CY-1066 Nicosia, P.O.Box 21612, CY-1581 Nicosia, Cyprus, the joint liquidator of the said company, and if so required by notice in writing from the said joint liquidator, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.
Dated this 11th day of August 2016
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Financials

Redemption bar on Aviva property fund set to remain for at least 6 months

MADISON MARRIAGE AND
ATTRACTA MOONEY

Aviva Investors has warned investors in the company’s £1.6bn property fund that they are unlikely to be able to withdraw their money until 2017, raising further questions about the suitability of highly liquid real estate products.

The £290bn asset management arm of insurer Aviva was one of seven investment groups that last month decided to suspend withdrawals from their UK commercial property funds after Britain’s vote to leave the EU sparked fears about property valuations.

Aviva Investors is the first of the affected fund houses to confirm that its decision to gate investors will not be a short-term measure. The other asset managers to have barred investor with-

drawals from their commercial property funds, including M&G, Henderson and Standard Life, have not said how long the suspensions will remain.

In a note to clients yesterday, Aviva Investors said its Property Trust fund was likely to continue to bar investors from withdrawing their money for another six to eight months while its managers attempted to sell commercial properties held by the fund.

Among the fund’s top 10 holdings are the 20 Soho Square office building in London’s West End, the Abacus House office block next to St Paul’s Cathedral, and the Lombardy Retail Park in west London.

Aviva said: “In order to lift the suspension, we need to ensure that we can meet any requests to sell, buy, switch or transfer units which have been held by

us during the suspension period. We are committed to ensuring that the Trust has a sustainable liquidity position before we allow dealing to resume, in order to protect the interests of all investors.”

The suspensions of the open-ended real estate funds, which normally allow investors to withdraw money daily, have caused several experts to question whether their structure is suitable, in particular for retail investors who might not understand the inherent risks.

Asset management specialists are worried by Aviva’s announcement, given that many investors were expecting the property fund suspensions to be in place for a matter of weeks.

Other companies to have suspended redemptions from property funds include Columbia Threadneedle, Can-

ada Life and Prudential, parent of M&G.

Aberdeen Asset Management, the UK’s second largest listed asset manager, suspended redemptions from its commercial property fund last month, but removed the gate after a few days.

Martin Bamford, managing director at Informed Choice, a financial adviser, said: “It is a big concern. When we see suspensions in funds, we expect them to be for a few weeks or a few months, not for several months. It really does raise big concerns about the liquidity of the

‘It really does raise big concerns about the liquidity of the fund and contingency plans’

fund and contingency plans. We all knew about the referendum so [Aviva] should have been better prepared. They should have been holding cash back. They could have improved communications with investors. Other funds will only extend their suspensions if they are in real dire straits over liquidity.”

The suspension could affect other products run by Aviva Investors. At the end of July, the Aviva Investors multi-asset fund had a 4 per cent stake in the company’s gated property fund.

Laith Khalaf, senior analyst at Hargreaves Lansdown, said: “This is a big blow to investors in the Aviva fund, who are basically now being told they won’t be able to get their money out any time in 2016. The wider question is whether this timeframe applies across the rest of the sector.”



Aida Muluneh, *The Sacrifice*, 2016, courtesy of the Artist and David Krut Projects

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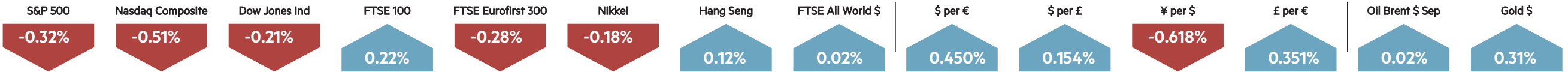
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MARKET DATA

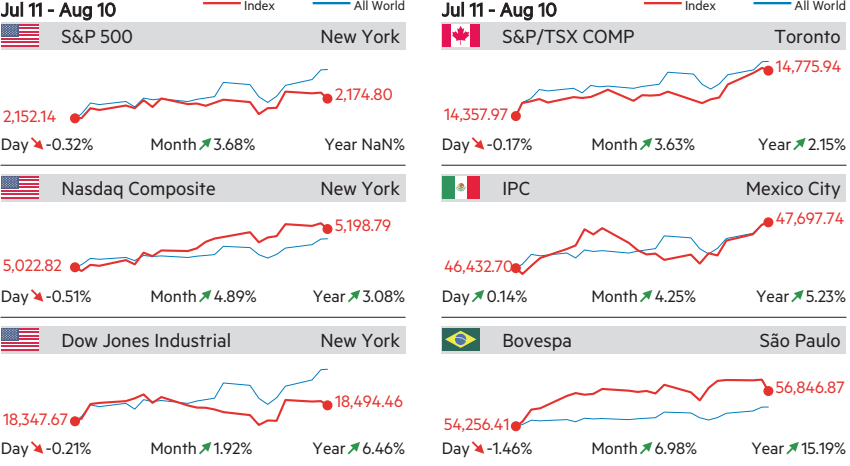
WORLD MARKETS AT A GLANCE

Change during previous day's trading (%)



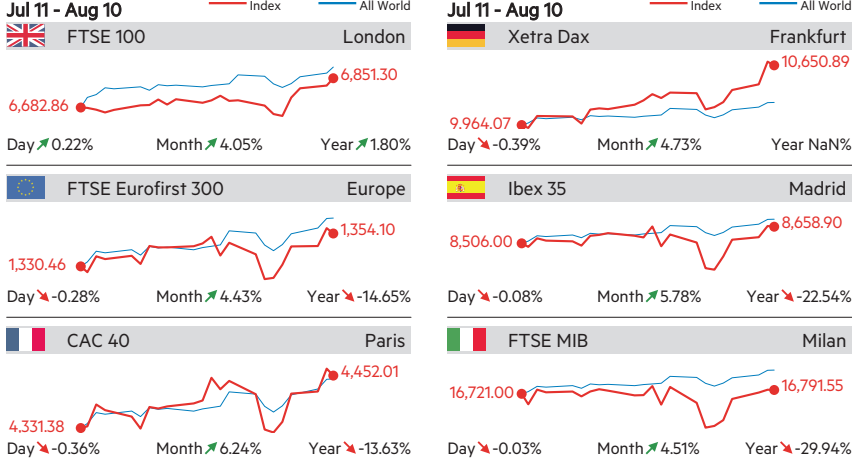
Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison

AMERICAS



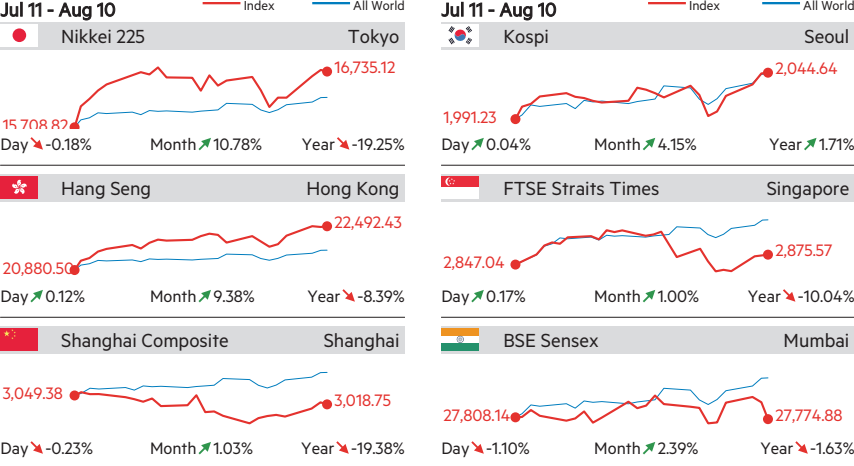
Country	Index	Latest	Previous
Argentina	Merval	15280.91	15454.04
Australia	All Ordinaries	5620.20	5636.70
	S&P/ASX 200	5543.70	5552.50
	S&P/ASX 200 Res	3021.60	3020.40
Austria	ATX	2767.22	2774.47
Belgium	BEL 20	3490.52	3493.77
	BEL Mid	5883.68	5934.21
Brazil	Bovespa	56846.87	57689.42
Canada	S&P/TSX 60	14775.84	14860.74
	S&P/TSX Comp	10441.88	10494.16
	S&P/TSX Met & Min	20474.80	20494.16
Chile	IGPA Gen	20474.80	20494.16
China	FTSE A200	8184.24	8213.76
	FTSE B35	9474.09	9462.68
	Shanghai A	3167.33	3167.33
	Shanghai B	346.84	347.56
	Shanghai Comp	3081.75	3022.44
	Shenzhen A	2067.07	2073.89
	Shenzhen B	1161.67	1161.98
Colombia	CROBEX	13293.83	13293.83
Croatia	CROBEX	1784.82	1785.01

EUROPE



Country	Index	Latest	Previous
Cyprus	CSE M&P Gen	67.56	67.34
Czech Republic	PX	859.18	856.79
Denmark	OMXC Copenhagen 20	990.99	996.35
Egypt	EGX 30	8273.14	8223.46
Estonia	OMXC Tallinn	1013.10	1012.22
Finland	OMXC Helsinki General	7979.72	8001.14
France	CAC 40	4452.01	4468.07
	SBF 120	3533.27	3543.31
Germany	M-DAX	21630.18	21576.41
	Telx/DAX	1729.53	1729.54
	ETEX Dax	10622.90	10650.89
Greece	Athens Gen	567.28	562.40
	FTSE/ASE 20	1507.52	1494.82
Hong Kong	Hang Seng	22482.43	22465.61
	HS China Enterprise	5315.50	5301.17
	HS2C Red Chip	3848.18	3845.15
Hungary	Bux	27502.22	27593.10
India	BSE Sensex	26774.88	28005.16
	S&P CNX 500	8627.95	8634.30
Indonesia	Jakarta Comp	54420.88	54420.88
Ireland	ISEQ Overall	5909.33	5960.13
Israel	Tel Aviv 100	12.89	12.88

ASIA



Country	Index	Latest	Previous
Taiwan	Weighted Pl	9200.42	9155.08
Thailand	Bangkok SET	1548.13	1548.21
Turkey	BIST 100	78524.89	77779.10
UAE	Abu Dhabi General Index	4526.56	4509.62
UK	FTSE 100	2995.50	2986.70
	FTSE 250	6886.42	6851.30
	FTSE All Share	6119.39	6119.29
	FTSE iTechMARK 100	4392.45	4370.75
	DJ Composite	6434.48	6453.43
	DJ Industrial	19448.48	19533.05
	DJ Transport	7795.36	7836.78
	DJ Utilities	689.16	690.63
	Nasdaq 100	4776.62	4795.75
	Nasdaq Comp	5196.78	5225.48
	NYSE Comp	10777.21	10804.51
	S&P 500	2141.80	2181.74
	Wilshire 5000	21224.32	21238.05
Venezuela	IBV	12918.80	12336.35
Vietnam	VNI	646.33	637.34

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

STOCK MARKET: BIGGEST MOVERS

AMERICA STOCKS					LONDON ACTIVE STOCKS					EURO MARKETS ACTIVE STOCKS									
	stock traded m's	close price	Day's change	Day's chng%		stock traded m's	close price	Day's change	Day's chng%		stock traded m's	close price	Day's change	Day's chng%					
Walt Disney (the)	18.1	97.79	1.12	SabMiller	232.1	4380.00	1.00	Nestle N	32.5	71.48	0.00	Softbank	1204.1	6384.00	163.00				
Apple	12.2	107.96	-0.85	Arm Holdings	1.1	1689.00	1.71	Novartis N	263.2	74.59	0.00	Tytsu Motors	507.2	5944.00	-67.00				
Hospira	11.8	89.95	-0.01	GlaxoSmithKline	157.6	1897.50	8.46	Allianz Se Na O.n.	258.2	133.00	0.00	Mitsubishi UFJ Fin.	357.2	56.16	0.10				
Lockheed Martin	8.8	259.63	0.00	Royal Dutch Shell	155.2	1884.53	-21.69	E.ON Se Na O.n.	245.7	9.43	0.00	Fest Retailing Co.	305.5	3700.00	-50.00				
Perrigo	7.7	85.25	-0.85	Held Holdings	147.1	5434.30	-2.35	Royal Dutch Shell	220.0	22.46	-0.16	BridgeStone	288.3	3370.00	-24.00				
Facebook	7.1	124.78	-0.28	AstraZeneca	146.7	5160.00	-21.25	Roches G	216.3	22.18	0.00	Sumitomo Mitsui Fin.	235.5	3390.00	-10.00				
Jd.com	5.6	23.42	1.05	Bp	108.8	423.00	-1.55	Deutsche Bank Ag Na O.n.	211.3	12.27	0.00	Mizuho Fin.	187.8	166.30	-1.40				
Amazon.com	5.4	766.91	-0.15	Vodafone	106.0	233.10	-1.10	Intesa Sanpaolo	203.7	1.10	0.00	Kddi	103.6	226.00	-1.10				
Bank Of America	4.3	14.96	-0.23	Prudential	13.8	142.00	-0.30	Siemens Ag Na	105.6	126.05	0.00	Sony	186.6	373.00	-1.00				
Exxon Mobil	4.0	86.70	-1.25	Reckitt Benckiser	93.4	7420.00	-41.47	Sanofi	183.0	71.21	-1.84	Kao	176.6	5469.00	149.00				
BIGGEST MOVERS					BIGGEST MOVERS					BIGGEST MOVERS									
	Close price	Day's change	Day's chng%		Close price	Day's change	Day's chng%		Close price	Day's change	Day's chng%		Close price	Day's change	Day's chng%				
Ups	105.23	10.16	10.89	Ups Entertainment One	240.00	19.50	8.87	Agas	32.40	1.55	0.50	Shimizu	984.00	56.00	6.03				
Ralph Lauren	22.42	1.05	4.69	G4	22.27	12.28	13.28	Deutsche Wohnen Ag	28.23	1.12	0.12	Trend Micro corporatd	2950.00	180.00	6.80				
Handstransfers	26.57	0.99	3.87	PaySafe	415.20	29.70	8.82	B-popular	1.24	0.40	0.60	Nippon Suisan Kaisha	50.20	22.00	4.59				
Kohl's	39.03	1.33	3.35	Onesavings Bank	230.50	11.19	5.16	CaixaBank	2.42	0.08	3.33	Taiheyo Cement	29.00	12.00	4.29				
Alkerm	51.65	1.43	2.85	Adams	153.60	6.70	4.59	Rva	8.83	0.24	2.81	Daikin Industries	9164.00	373.00	4.24				
Downs	85.25	-9.85	-10.35	Reus	300.10	-17.22	-5.36	Griols Sa	14.99	-14.40	-48.99	Shaeid	2571.00	-208.50	-7.50				
Perrigo	70.52	-0.80	-1.13	Noc	331.10	-17.80	-5.16	Svenska Mobitel Wote Ag	64.40	-4.15	-6.05	BridgeStone	2950.00	180.00	6.80				
First Solar	39.24	-2.42	-5.81	Up	83.50	-4.35	-4.40	Industriehandelbank	15.14	-0.82	-4.81	Shoava Denko K	1008.00	54.00	-5.36				
Lim Research	88.60	-4.69	-5.30	Go-ahead	1834.00	-74.47	-3.90	Svenska Handelsbanken Ab	11.40	-0.50	-4.18	J.front Retailing Co.	1176.00	-54.00	-4.38				
Transocean Ltd	10.46	-0.55	-5.00	Arcelor Mittal	502.50	-16.51	-3.17	ArcelorMittal	5.69	-0.21	-3.47	Nippon Soda Co.	480.00	-22.00	-4.38				
Based on the constituents of the S&P500 and the Nasdaq 100					Based on the constituents of the FTSE 100					Based on the constituents of the FTSE Eurofirst 300					Based on the constituents of the Nikkei 225				

CURRENCIES

		DOLLAR			EURO			POUND					DOLLAR			EURO			POUND					DOLLAR			EURO			POUND																																																																																																																																																																																																																																																																																																																																																																																																													
Aug 10	Currency	Closing	Day's	Day's	Closing	Day's	Day's	Closing	Day's	Day's	Closing	Day's	Day's	Closing	Day's	Day's	Closing	Day's	Day's	Closing	Day's	Day's	Closing	Day's	Day's	Closing	Day's	Day's	Closing	Day's	Day's																																																																																																																																																																																																																																																																																																																																																																																																												
		Mid	Change	Change		Mid	Change		Mid	Change		Mid	Change		Mid	Change		Mid	Change		Mid	Change		Mid	Change		Mid	Change		Mid	Change																																																																																																																																																																																																																																																																																																																																																																																																												
Argentina	Argentine	14.7525	-0.0775	-0.53%	16.4682	-0.0109	-0.19%	19.1952	-0.0713	-0.37%	Indonesia	Indonesian Rupiah	13113.5000	-19.0000	-0.14%	14638.5450	45.7355	17062.6626	1.4847	Poland	Polish Zloty	3.8194	-0.0147	-0.38%	4.2635	0.0032	4.9586	-0.0114	-0.23%	Three Month	0.7688	-0.0012	0.8578	0.0026	-																																																																																																																																																																																																																																																																																																																																																																																																								
Australia	Australian Dollar	1.2952	-0.0067	-0.52%	1.4458	-0.0009	-0.06%	1.6852	-0.0009	-0.06%	Israel	Israeli Shekel	3.8144	-0.0048	-0.12%	3.8004	-0.0040	4.9621	0.0040	Romania	Romanian Leu	3.9940	-0.0199	-0.49%	5.1000	-0.0018	5.9598	-0.0179	-0.30%	One Month	0.7693	-0.0012	0.8571	0.0026	-																																																																																																																																																																																																																																																																																																																																																																																																								
Bahrain	Bahraini Dinar	0.3711	-	-	0.4209	0.0010	0.4906	0.0008	Japan	Japanese Yen	101.2650	-0.6300	-0.62%	113.0417	-0.1838	131.7611	-0.1615	Russian Ruble	64.5607	-0.1419	72.0688	0.1715	84.0032	-0.0555	United States	United States Dollar	-	-	-	1.1163	0.0051	1.3012	0.0020	-																																																																																																																																																																																																																																																																																																																																																																																																									
Bolivia	Bolivian Boliviano	0.9450	0.0150	1.57%	7.527	0.0021	0.03%	0.03%	One Month	101.2649	-0.6302	-0.62%	113.0417	-0.1838	131.7611	-0.1615	Saudi Arabia	Saudi Riyal	3.7504	-	4.1866	0.0191	4.9798	0.0075	One Month	0.7693	-0.0012	-0.02%	0.8571	0.0026	-	-	-																																																																																																																																																																																																																																																																																																																																																																																																										
Brazil	Brazilian Real	0.2912	-0.0075	-2.57%	3.2079	-0.0008	-0.25%	3.4106	-0.0037	-0.11%	Canada	Canadian Dollar	1.3051	-0.0068	-0.52%	1.4568	-0.0009	1.6852	-0.0009	China	Chinese Yuan	6.6429	-0.0192	-0.29%	7.1454	0.0125	7.8434	-0.0117	Kuwait	Kuwaiti Dinar	0.3032	0.0002	0.3375	0.0017	0.9333	0.0008	Swedish Krona	8.4617	-0.0601	-0.71%	9.4458	-0.0270	11.0100	-0.0651	Vietnam	Vietnamese Dong	2229.0000	-3.5000	24982.2797	109.7454	24014.3736	39.3822	0.0000	-																																																																																																																																																																																																																																																																																																																																																																																					
Canada	Canadian Dollar	1.3051	-0.0068	-0.52%	1.4568	-0.0009	-0.06%	1.6852	-0.0009	-0.06%	Three Month	101.2654	-0.6332	-0.62%	113.0417	-0.1838	131.7611	-0.1615	Singapore	Singapore Dollar	1.3401	-0.0050	1.4959	0.0031	1.7436	-0.0038	Three Month	0.7693	-0.0012	-0.02%	0.8571	0.0026	-	-	-																																																																																																																																																																																																																																																																																																																																																																																																								
Chile	Chilean Peso	648.6200	-4.4500	-0.69%	724.0517	-1.6381	-0.23%	724.0517	-1.6381	-0.23%	China	Chinese Yuan	6.6429	-0.0192	-0.29%	7.1454	0.0125	7.8434	-0.0117	South Africa	South African Rand	13.2970	-0.1345	14.8434	-0.0817	17.3014	-0.1482	One Month	0.7693	-0.0012	-0.02%	0.8571	0.0026	-	-	-																																																																																																																																																																																																																																																																																																																																																																																																							
China	Chinese Yuan	6.6429	-0.0192	-0.29%	7.1454	0.0125	0.17%	7.8434	-0.0117	Kuwait	Kuwaiti Dinar	0.3032	0.0002	0.3375	0.0017	0.9333	0.0008	Swedish Krona	8.4617	-0.0601	9.4458	-0.0270	11.0100	-0.0651	Vietnam	Vietnamese Dong	2229.0000	-3.5000	24982.2797	109.7454	24014.3736	39.3822	0.0000	-																																																																																																																																																																																																																																																																																																																																																																																																									
Colombia	Colombian Peso	2553.9800	-16.4500	-0.64%	3297.5266	-16.4500	-0.51%	3297.5266	-16.4500	-0.51%	Costa Rica	Costa Rican Colon	546.5000	0.3700	0.07%	612.3869	3.2079	7.1454	0.0125	Malaysia	Malaysian Ringgit	3.8910	-0.0090	4.4501	-0.0230	5.1929	-0.0427	Switzerland	Swiss Franc	0.9789	-0.0053	1.0906	-0.0009	1.2712	-0.0049	European Union	Euro	1.0000	-0.0001	-0.01%	1.1163	0.0051	1.3012	0.0020	-																																																																																																																																																																																																																																																																																																																																																																																														
Costa Rica	Costa Rican Colon	546.5000	0.3700	0.07%	612.3869	3.2079	0.53%	7.1454	0.0125	Mexico	Mexican Peso	18.8313	-0.0424	-0.22%	20.4966	-0.0465	23.8908	-0.0185	Taiwan	New Taiwan Dollar	31.2015	-0.2000	34.8301	-0.1076	45.2150	-0.2496	One Month	0.7693	-0.0012	-0.02%	0.8571	0.0026	-	-	-																																																																																																																																																																																																																																																																																																																																																																																																								
Czech Republic	Czech Koruna	24.0073	-0.1101	-0.46%	27.0224	0.0010	0.37%	31.7993	-0.0946	-0.33%	New Zealand	New Zealand Dollar	1.3827	-0.0019	-0.14%	1.5435	-0.0061	1.7992	-0.0126	Thailand	Thai Baht	34.7500	-0.2200	38.7913	-0.0678	45.2150	-0.2165	Three Month	0.7693	-0.0012	-0.02%	0.8571	0.0026	-	-	-																																																																																																																																																																																																																																																																																																																																																																																																							
Denmark	Danish Krona	6.6533	-0.0031	-0.47%	7.4383	0.0005	0.07%	8.0258	0.0018	0.22%	Nigeria	Nigerian Naira	321.7500	-0.0500	-0.02%	321.7500	-0.0500	321.7500	-0.0500	South Korea	South Korean Won	1005.4500	-10.4500	1005.4500	-10.4500	1005.4500	-10.4500	One Year	0.7693	-0.0012	-0.02%	0.8571	0.0026	-	-	-																																																																																																																																																																																																																																																																																																																																																																																																							
Egypt	Egyptian Pound	8.8791	0.0221	0.25%	9.9116	0.0858	0.87%	11.5530	0.0464	0.40%	Norway	Norwegian Krone	8.6255	-0.1441	-1.65%	9.2234	-0.1180	10.7658	-0.1707	Turkey	Turkish Lira	2.5679	-0.0008	3.3010	0.0042	3.8487	-0.0068	Associated British Foods PLC	239.00	-15.00	-6.3%	271.00	-16.00	-5.9%	271.00	-16.00	-5.9%																																																																																																																																																																																																																																																																																																																																																																																																						
Hong Kong	Hong Kong Dollar	7.7561	-0.0005	-0.06%	8.6582	0.0300	0.34%	10.0919	0.0449	0.44%	Pakistan	Pakistani Rupee	104.5790	-0.0400	-0.04%	116.7636	0.0576	106.7059	0.2066	United Arab Emirates	UAE Dirham	3.6731	-	4.1003	0.0187	4.7793	0.0073	United States	United States Dollar	-	-	-	1.1163	0.0051	1.3012	0.0020	-																																																																																																																																																																																																																																																																																																																																																																																																						
Hungary	Hungarian Forint	277.8800	-1.9367	-0.70%	310.1739	-0.7355	-0.24%	361.5779	-1.9618	-0.54%	Peru	Peruvian Nuevo Sol	3.3085	0.0093	0.28%	3.6933	0.0217	4.3049	0.0186	United Kingdom	Pound Sterling	0.7685	-0.0012	0.8579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0.0026	0.9579	0

MANAGED FUNDS SERVICE

	Bid	Offer	D+/Y-	Yield	Fund	Bid	Offer	D+/Y-	Yield	Fund	Bid	Offer	D+/Y-	Yield	Fund	Bid	Offer	D+/Y-	Yield	Fund	Bid	Offer	D+/Y-	Yield	Fund	Bid	Offer	D+/Y-	Yield	Fund	Bid	Offer	D+/Y-	Yield	Fund
ACPI Global UCITS Funds Plc <small>(IRL)</small> www.acpihdfund.com					Euroclearance	€ 888.67	-	-1.20	0.00																										
					Far East	\$ 721.19	-	-10.30	0.00																										
					Bank of America Cap Mgmt (Ireland) Ltd Regulated																														
ACPI Emerging Mkts F UCITS Fund USD A	\$ 121.46	-	-0.70	0.00																															
ACPI Global Credit UCITS Funds USD A	\$ 14.76	-	-0.01	0.00																															
ACPI India Fixed Income UCITS Fund USD A	\$ 158.97	-	-0.16	0.00																															
O ACPI India Fixed Income UCITS Fund USD A	\$ 10.59	-	-0.02	0.00																															
ACPI India Fixed Income UCITS Fund USD A3	\$ 90.40	-	-0.16	0.00																															
ACPI International Bond UCITS Fund USD A	\$ 18.75	-	-0.03	0.00																															
					Sterling Bond F	£ 0.51	-	0.00	2.96																										
					Barclays Investment Funds (CI) Ltd <small>(JER)</small> 29/41 Broad Street, St Helier, Jersey, JE2 3PR Channel Islands 01534 812800																														
					FCA Recognised Bond Funds																														
					Russia A GBP Inc F	£ 36.35	-	0.27	-																										
					BlackRock Regulated <small>(JER)</small>																														
					BlackRock UK Property	£ 41.10	-	-0.98	3.41																										
					BlackRock UK Long Lease	£ 1077.05	-	-1.88	0.00																										
					BLK Intl Gold & General	\$ 7.93	8.36	0.20	0.00																										
					BLI - Banque de Luxembourg Investments S.A. FCA Recognised																														
					BL-Equities Europe B	€ 6113.01	-	-59.98	0.00																										
					BL-Equities America B	\$ 5890.90	-	6.58	-																										
					BL-Equities Japan B	¥ 1495.00	-	9.00	0.00																										
					BL-Emerging Markets B	€ 1693.24	-	0.56	0.00																										
					BL-Global Equities B	€ 774.12	-	2.67	0.00																										
					BL-Global 30 B	€ 1437.55	-	1.69	0.00																										
					BL-Global 50 B	€ 1727.06	-	3.23	0.00																										
					BL-Global 75 B	€ 2346.05	-	6.85	0.00																										
					BL-Global Flexible EUR B	€ 157.07	-	0.56	-																										
					BONHOTE Other International Funds																														
					Banque Bonhote - Multi-Asset Income Fund (EUR)	€ 6403.00	-	-54.00	1.97																										
					Banque Bonhote - Multi-Asset Income Fund (USD)	€ 9545.00	-	-1.00	0.84																										
					CG Asset Management Limited <small>(IRL)</small> Northam Road, George's Court, 54-62 Townsend Street, Dublin 2, Rep of Ireland 00 353 1 434 5098																														
					FCA Recognised CG Portfolio Fund Plc																														
					Real Return Cls A	£ 200.42	200.42	1.98	1.48																										
					Dollar Fund Cls D	£ 156.95	156.95	0.68	1.39																										
					Capital Value Fund Cls V	£ 142.24	142.24	1.04	0.25																										
					Cedar Rock Capital Limited Regulated <small>(IRL)</small>																														
					Cedar Rock Capital Fd Plc	\$ 395.12	-	3.09	0.00																										
					Cedar Rock Capital Fd Plc	£ 467.24	-	5.29	0.00																										
					Cedar Rock Capital Fd Plc	€ 367.84	-	0.31	0.00																										
					Charles Schwab Worldwide Funds Plc Regulated <small>(IRL)</small>																														
					Schwab USD Liquid Assets Fd	\$ 1.00	-	0.00	-																										
					Chartered Asset Management Pte Ltd Other International Funds																														
					CAM-GTF Limited	\$ 3046.03	3046.03	893.58	0.00																										
					CAM GTI Limited	\$ 752.80	-	79.40	-																										
					Raffaella Asia Investment Company	\$ 1.64	1.64	0.04	5.24																										
					Cheyne Capital																														
					Cheyne Capital Management (UK) LLP Regulated <small>(IRL)</small>																														
					Cheyne Convertibles Absolute Return Fund	€ 1392.52	-	1.81	0.00																										
					Cheyne Global Credit Fund	€ 122.39	-	0.06	0.00																										
					Cheyne European Mid Cap Fund	€ 1088.63	-	13.23	0.00																										
					Cheyne Capital Management (UK) LLP Other International Funds																														
					Cheyne European Event Driven Fund	€ 126.18	-	-0.62	0.00																										
					Cheyne Real Estate Credit Holdings Fund III	€ 168.02	-	0.48	0.00																										
					Cheyne Real Estate Credit Holdings Fund IV	€ 111.42	-	0.44	0.00																										
					Cheyne Real Estate Debt Fund Class A1	€ 130.05	-	-2.14	0.00																										
					Cheyne Total Return Credit Fund - December 2017 Date	\$ 192.37	-	5.63	0.00																										
					Cheyne Total Return Credit Fund 2020	\$ 104.83	-	0.58	-																										
					Cohen & Steers SICAV Regulated <small>(LUX)</small>																														
					European Real Estate Securities	€ 23.3281	-	-0.0972	1.71																										
					Europ.RealEstate Sec. IX	€ 31.7895	-	0.1324	0.00																										
					Gbl Listed Infrastructure I	\$ 10.9152	-	-0.035	-																										
					Gbl Listed Infrastructure II	\$ 11.0428	-	-0.037	-																										
					Gbl RealEstate Sec. I	\$ 11.8424	-	0.0461	1.85																										
					Gbl RealEstate Sec. IX	\$ 14.2868	-	-0.0566	0.00																										
					EFG Hermes DFC, The Gate Building, West Wing Level 6, PO BOX 30727, Dubai UAE Contact: Telephone + 971 4 363 4029 Email:AMales@EFG-HERMES.com																														
					Other International Funds																														
					The EFG-Hermes Egypt Fund	\$ 29.93	-	-	0.00																										
					EFG-Hermes Frontier Equity UCITS Fund Class I	\$ 1049.99	-	-12.15	-																										
					EFG-Hermes MENA Equity UCITS Fund Class A	\$ 985.76	-	5.62																											

MANAGED FUNDS SERVICE

Morgens Waterfall Vintiadis.co Inc
Other International Funds
Phaenon Intl (BVI) Ltd (Est) \$368.28 - 1.39 0.00



Natixis International Funds (Lux) I SICAV (LUX)
Canon Bridge House, 25 Doughty Hill, London, EC4R 2YA +44 (0)20 3216 9000
FCA Recognised
Harris Global Equity R/A (USD) \$243.23 243.23 1.87 0.00
Harris US Equity Fund R/A (USD) \$218.12 218.12 0.41 -
Harris Concentrated US Equity R/A (USD) \$165.35 165.35 0.53 0.00
Loomis Sayles Strategic Alpha R/A (USD) \$113.24 113.24 0.34 0.00

Natixis International Funds (Dublin) I plc (IRL)
Canon Bridge House, 25 Doughty Hill, London, EC4R 2YA +44 (0)20 3216 9000
Regulated
Loomis Sayles Global Opportunities Bond R/I (USD) \$13.37 13.37 0.06 1.27
Loomis Sayles High Income R/I (USD) \$8.64 8.64 0.00 -
Loomis Sayles Multisector Income R/I (GBP) \$12.56 12.56 0.04 5.43



New Capital Fund Management Ltd
Lancaster House, Curzon Street, London, W1J 5JB
FCA Recognised
New Capital UCITS Funds
Asia Pac Bd USD Inst Inc \$96.15 - 0.15 3.28
Asia Pac Bd USD Ord Inc \$98.21 - 0.15 2.60
Asia Pac Eq EUR Ord Inc \$92.07 - -0.02 2.76
Asia Pac Eq GBP Ord Inc \$95.37 - -0.01 3.40
Asia Pac Eq USD Ord Inc \$97.16 - -0.01 2.72
Asia Pac Eq USD Inst Acc \$106.78 - -0.01 0.00
Asia Pac Eq USD Inst Inc \$108.34 - -0.01 3.29
Dym Europ Eq EUR Ord Inc \$167.21 - 1.31 1.09
Dym Europ Eq GBP Ord Inc \$175.85 - 1.41 1.58
Dym Europ Eq USD Ord Inc \$167.95 - 1.34 1.03
China Equity EUR Ord Acc \$126.20 - -0.51 0.00
China Equity GBP Ord Acc \$131.99 - -0.52 0.00
China Equity USD Ord Acc \$129.45 - -0.51 0.00
China Equity USD Inst Acc \$133.82 - -0.52 0.00
Europe Equity Fd EUR \$101.15 - 0.79 -
Europe Equity Fd GBP \$98.95 - 0.79 -
Europe Equity Fd USD \$100.49 - 0.80 -
Global Val Cr Fd GBP Ord Inc \$112.80 - 0.17 3.61
Global Val Cr Fd USD Inst Acc \$129.66 - 0.19 0.00
Global Val Cr Fd GBP Ord Acc \$186.34 - 0.28 0.00
Global Val Cr Fd USD Ord Acc \$174.96 - 0.26 0.00
Global Val Cr Fd EUR Ord Acc \$161.61 - 0.23 0.00
Swiss Select Equity Inst Acc \$F122.22 - 1.16 0.00
Swiss Select Equity Ord Acc \$F120.32 - 1.14 0.00
US Growth USD Ord Acc \$206.11 - 0.34 0.00
US Growth EUR Ord Acc \$195.47 - 0.32 0.00
US Growth GBP Ord Acc \$205.88 - 0.33 0.00
US Growth USD Inst Acc \$191.32 - 0.32 0.00
Wealthy Nat Bd EUR Inst Inc \$114.60 - 0.30 3.28
Wealthy Nat Bd GBP Inst Inc \$119.61 - 0.34 3.41
Wealthy Nat Bd EUR Ord Inc \$113.89 - 0.30 3.01
Wealthy Nat Bd GBP Ord Inc \$120.42 - 0.33 3.16
Wealthy Nat Bd USD Ord Inc \$117.75 - 0.32 2.97

New Capital Alternative Strategies
All Weather Fd USD CIs \$114.06 - -1.24 0.00
All Weather Fd EUR CIs \$101.95 - -1.24 0.00
All Weather Fd GBP CIs \$110.01 - -1.27 0.00
Tactical Opps USD CIs \$141.27 - 0.97 0.00
Tactical Opps EUR CIs \$117.90 - 0.79 0.00
Tactical Opps GBP CIs \$132.10 - 0.93 0.00




Northwest Investment Management (HK) Ltd
118 Floss, Kowloon Centre, 32, Hollywood Road, Central Hong Kong +852 3854 4070
Other International Funds
Northwest's class \$238.27 - 87.41 0.00



Oasis Crescent Management Company Ltd
Other International Funds
Oasis Crescent Equity Fund R 9.92 - -0.11 0.00

Oasis Global Mgmt Co (Ireland) Ltd
Regulated
Oasis Global Investment (Ireland) Plc
Oasis Crescent Global Short Term Income Fund \$0.99 - 0.00 1.14

Oasis Global Equity \$28.03 - 0.03 0.33
Oasis Crescent Global Investment Fund (Ireland) plc
Oasis Crescent Global Equity Fund \$28.93 - 0.05 0.11
Oasis Crescent Variable Balanced Fund €10.67 - 0.03 1.39
OasisCresGI Income Class A \$10.80 - 0.01 2.52
OasisCresGI LowBall D (S) Dist \$12.03 - 0.03 0.00
OasisCresGI Med Eq Bal A (S) Dist \$12.28 - 0.02 0.60
Oasis Crescent Gbl Property Eqty \$10.07 - 0.02 1.60



Odey Asset Management LLP
Regulated
OEI Mac Inc GBP A £256.20 - 2.83 0.00
OEI Mac Inc GBP B £152.16 - 2.22 0.00
OEI MAC Inc USD \$1342.71 - 14.85 0.00
Odey European Inc EUR €592.63 - 6.58 0.00
Odey European Inc GBP A £233.60 - 2.72 0.00
Odey European Inc GBP B £132.52 - 1.54 0.00
Odey European Inc USD \$275.18 - 3.22 0.00
Giano Capital EUR Inc €438.20 - 4.97 0.00

Odey Asset Management LLP
FCA Recognised
Odey Pan European EUR R €292.83 - 0.21 -
Odey Absolute Return Focus Fund \$95.67 - -1.76 -
Odey Allegra European EUR O €253.89 - 1.35 0.00
Odey Allegra International EUR O €158.18 - 0.13 0.00
Odey Allegra Developed Markets USD I \$134.23 - 1.13 0.00
Odey European Focus Fund €16.83 - 0.58 0.00
Odey Giano European Fund EUR R €112.71 - 0.07 0.00
Odey Naver Fund EUR I €115.42 - 0.68 0.00
Odey Odyssey USD I \$123.84 - 0.84 0.00
Odey Swan Fund EUR I €66.11 - 0.21 0.00
Odey European Absolute Return GBP S €91.66 - 0.25 0.00

Odey Wealth Management (CI) Ltd
Regulated
www.odey.com/prices
FCA Recognised
Odey Opportunity EUR I €219.00 - 0.13 0.00



Optima Fund Management
Other International Funds
Cuttyhunk Fund II Limited \$1384.32 - 6.48 0.00
JENCO Global Healthcare Fund Ltd \$12.31 - 0.04 0.00
Optima Fd NAV (Est) \$93.05 - 1.42 0.00
Optima Fd NAV (Est) \$84.30 - 0.07 0.00
Optima Discretionary Macro Fund Limited \$84.94 - -0.23 0.00
The Dorset Energy Fd Ltd NAV (Est) \$33.58 - -0.06 0.00
Platinum Fd Ltd (Est) \$84.92 - 0.65 0.00
Platinum Fd Ltd EUR (Est) €16.26 - 0.10 0.00
Platinum Japan Fd Ltd (Est) \$55.18 - 0.77 0.00
Optima Partners Global Fd \$13.80 - 0.06 0.00
Optima Partners Focus Fund A \$14.84 - -0.02 0.00

Oryx International Growth Fund Ltd
Other International Funds
NAV (Fully Diluted) £6.92 - -0.25 0.00



Pictet Asset Management (Europe) SA
15, Avenue J.F. Kennedy L-1855 Luxembourg
Tel: 0041 58 323 3000
FCA Recognised
Pictet-Abal Rtn Fd Inc-HI EUR €108.63 - -0.15 0.00
Pictet-Agriculture-I EUR F €189.76 - 1.09 0.00
Pictet-Asian Equities Ex Japan-I USD F \$225.11 - 0.58 0.00
Pictet-Asian Local Currency Debt-I USD F \$166.08 - 0.56 -
Pictet-Biotech-I USD F \$716.79 - -2.32 0.00
Pictet-CHF Bonds-I CHF \$F154.13 - 0.08 0.00
Pictet-China Index-I USD \$106.16 - 0.16 0.00
Pictet-Clean Energy-I USD F \$80.07 - 0.42 0.00
Pictet-Digital Communication-I USD F \$291.51 - 1.14 0.00
Pictet-Em Lnd Cdy Dbr-I USD F \$174.00 - 0.53 0.00
Pictet-Emerging Europe-I EUR F €259.96 - 2.01 0.00
Pictet-Emerging Markets-I USD F \$529.06 - 2.29 0.00
Pictet-Emerging Markets Index-I USD F \$237.02 - 1.11 0.00
Pictet-Emerging Corporate Bonds-I USD \$116.88 - 0.29 0.00
Pictet-Emerging Markets High Dividend-I USD \$105.08 - 0.66 0.00
Pictet-Emerging Markets Sust Eq-I USD \$95.19 - 0.45 0.00
Pictet-EUR Bonds-I F €563.66 - 0.81 -

Pictet-EUR Corporate Bonds Ex Fin-I EUR €152.11 - 0.15 0.00
Pictet-EUR Corporate Bonds-I F €210.31 - 0.20 0.00
Pictet-EUR Government Bonds-I EUR €168.18 - 0.25 0.00
Pictet-EUR High Yield-I F €252.64 - -0.70 0.00
Pictet-EUR Short-Mid-Term Bonds-I F €137.57 - 0.00 0.00
Pictet-EUR Short-Term HY-I EUR €124.09 - 0.03 0.00
Pictet-EUR Sov.Sht.Mon.Mkt EUR I €102.66 - -0.01 0.00
Pictet-Euroland Index IS-EUR €127.89 - 2.04 -
Pictet-Europe Index-I EUR F €164.39 - 1.50 -
Pictet-European Equity Selection-I EUR F €612.23 - 4.00 -
Pictet-European Sust Eq-I EUR F €240.17 - 2.14 0.00
Pictet-Global Bds Fundamental-I USD \$127.32 - 0.69 0.00
Pictet-Global Bonds-I EUR €180.31 - 0.34 0.00
Pictet-Global Emerging Currencies-I USD F \$101.52 - 0.08 0.00
Pictet-Global Emerging Debt-I USD F \$397.89 - 1.95 0.00
Pictet-Global Env.Opport-I EUR €170.83 - 0.70 -
Pictet-Global Megatrend Selection-I USD F \$231.32 - 1.11 -
Pictet-Greater China-I USD F \$402.29 - 0.29 0.00
Pictet-Health-I USD \$271.51 - 0.84 0.00
Pictet-High Dividend Scl-I EUR F €165.58 - 0.35 0.00
Pictet-India Index-I USD \$103.60 - -0.45 0.00
Pictet-Indian Equities-I USD F \$477.04 - -4.53 -
Pictet-Japan Index-I JPY F ¥1389.14 - -37.69 -
Pictet-Japanese Equities Opp-I JPY F ¥3931.66 - -46.74 -
Pictet-Japanese Equity Selection-I JPY F ¥12147.96 - -51.89 -
Pictet-LATAM Lc Cdy Dbr-I USD F \$129.02 - 1.41 0.00
Pictet-Mid Asset Global Opportunities-EUR €119.20 - 0.07 0.00
Pictet-Pacific Ex Japan Index-I USD F \$363.69 - 5.19 0.00
Pictet-Premium Brands-I EUR F €143.91 - -0.29 0.00
Pictet-Quality Global Equities-I USD \$146.45 - 0.41 0.00
Pictet-Russia Index-I USD \$57.35 - -0.07 -
Pictet-Russian Equities-I USD F \$54.60 - 0.25 -
Pictet-Security-I USD F \$210.15 - 1.06 -
Pictet-Select-Callisto-I EUR €103.26 - 0.02 0.00
Pictet-Small Cap Europe-I EUR F €1081.73 - 10.62 0.00
Pictet-ST.MoneyMkt-I €140.27 - 0.00 0.00
Pictet-ST.MoneyMkt.JPY-I USD ¥1910.932 - 2.54 0.00
Pictet-ST.MoneyMkt-CHF Sfr123.60 - -0.01 0.00
Pictet-ST.MoneyMkt-IUSD \$135.92 - 0.00 -
Pictet-Timber-I USD F \$149.83 - 0.79 -
Pictet-Total Ret-Agona-I EUR €115.45 - -0.18 0.00
Pictet-Total Ret-Corto Europe-I €136.93 - 0.51 0.00
Pictet-Total Ret-Divers Alpha-I EUR €105.56 - -0.05 0.00
Pictet-Total Ret-Kosmos-I EUR €110.27 - 0.01 0.00
Pictet-Total Ret-Mandarin-I USD \$116.57 - 0.63 0.00
Pictet-US Equity Selection-I USD \$194.47 - 0.08 0.00
Pictet-US High Yield-I USD F \$151.35 - 0.74 0.00
Pictet-USA Index-I USD F \$194.31 - 0.08 -
Pictet-USD Government Bonds-I F \$669.36 - 1.33 0.00
Pictet-USD Short-Mid-Term Bonds-I F \$131.56 - 0.03 0.00
Pictet-USD Sov.St.Mon.Mkt-I \$102.97 - 0.00 -
Pictet-Water-I EUR F €301.54 - 0.84 0.00



Polar Capital Funds Plc
Regulated
Asian Financials-I USD \$318.32 318.32 0.03 -
Biotechnology-I USD \$16.91 16.91 -0.01 0.00
European Equity Acc EUR €11.16 11.16 0.15 0.00
European Ex UK Inc EUR Acc €9.74 9.74 0.14 -
Financial Opps-I USD \$11.01 - 0.04 1.80
GEM Growth-I USD \$9.46 - 0.05 0.00
GEM Income-I USD \$10.41 - 0.04 0.00
Global Alpha-I USD \$13.09 13.09 0.03 0.00
Global Convertible-I USD \$11.58 11.58 0.07 0.00
Global Insurance-I GBP £5.04 - 0.04 0.00
Global Technology-I USD \$26.30 - 0.09 0.00
Healthcare Blue Chip Fund-I USD Acc \$11.07 11.07 0.04 0.00
Healthcare Opps-I USD \$37.35 - 0.31 0.00
Income Opportunities B2-I GBP Acc £1.81 1.81 0.01 0.00
Japan Alpha-I JPY ¥169.08 169.08 0.20 0.00
Japan-I JPY ¥1628.85 - -5.26 1.25
North American-I USD \$18.27 18.27 0.03 0.00
UK Absolute Equity-I GBP £14.78 14.78 0.01 0.00

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Dealing: +44 20 3640 1000
PIMCO Funds: +44 (0)20 3640 1407
FCA Recognised
Capital Securities Inst Acc \$15.43 - 0.04 0.00
Commodity Return Fund Inst Acc \$6.23 - -0.04 0.00
Credit Absolute Return Fund Inst Acc \$11.49 - 0.02 0.00
Diversified Income - Inst Acc \$21.31 - 0.06 0.00
Diversified Income Dsrst HgY Fund Inst Acc \$11.91 - 0.01 0.00
Emerging Asia Bond Fund Inst Acc \$10.53 - 0.01 0.00
Emerging Local Bond - Inst Acc \$12.54 - 0.09 0.00
Emerging Markets Bond - Inst Acc \$43.05 - 0.09 -
Emerging Markets Corp.Bd Fund Inst Acc F \$13.80 - 0.03 0.00
Emerging Markets Short-Term Local Currency Fund \$12.65 - 0.06 0.00
Euro Bond - Inst Acc €23.96 - 0.03 0.00
Euro Credit - Inst Acc €15.61 - 0.02 -
Euro Income Bond - Inst Acc F €13.75 - 0.02 0.00
Euro Long Average Duration - Inst Acc €25.94 - 0.12 0.00
Euro Low Duration Fund Inst Acc €11.38 - 0.00 0.00
Euro Real Return - Inst Acc €14.06 - 0.03 0.00
Euro Short-Term Inst Acc €12.26 - 0.00 -
Euro Ultra Long Duration - Inst Acc €35.20 - 0.29 0.00
Global Advantage - Inst Acc \$13.03 - 0.06 0.00
Global Advantage Real Return Fund Inst Acc \$9.12 - 0.05 0.00
Global Bond - Inst Acc \$29.71 - 0.06 0.00
Global Bond Ex-US - Inst Acc \$20.98 - 0.04 0.00
Global High Yield Bond - Inst Acc \$21.50 - 0.09 0.00
Global Investment Grade Credit - Inst Income \$12.74 - 0.04 3.86
Global Investment Grade Credit Fund Inst Acc \$12.45 - 0.00 0.00
Global Investment Grade Credit Fund Inst Acc \$17.96 - 0.06 -
Global Multi-Asset - Inst Acc \$14.87 - 0.06 0.00
Global Real Return - Inst Acc \$19.62 - 0.07 0.00

Private Fund Mgrs (Guernsey) Ltd
Regulated
Monument Growth 09/08/2016 £500.19 505.48 9.04 1.22

Prusik Investment Management LLP
Regulated
Enquiries - 0207 493 1331
Prusik Asian Equity Income B Dist \$176.98 - 0.50 -
Prusik Asia A \$203.97 - 2.95 0.00
Prusik Asian Smaller Cos A \$158.21 - 0.25 0.00

Purisma Investment Fds (CI) Ltd
Regulated
PCG B # 171.84 - 1.35 0.00
PCG C # 169.26 - 1.33 0.00

Putnam Investments (Ireland) Ltd
Regulated
Putnam New Flag Euro High Yield Plc-E €1015.70 - 2.29 3.72



Ram Active Investments SA
www.ram-ai.com
Other International Funds
RAM Systematic Emerg Markets Core Eq \$87.96 - 0.42 -
Bridge Fund £177.61 - -0.003 2.01
Diversified Assets Fund £1237.7 - 0.0016 3.32
Global Equity Fund £2136.0 - -0.0114 1.39
Global Balanced Fund - Income Units £15204. - 0.0002 2.37
Global Balanced Fund - Accumulations Units £18105. - 0.0001 2.33
Global Fixed Interest Fund £10358. - 0.0029 4.42
Sterling Fixed Interest Fund £0.9334 - 0.0066 3.58
UK Equity Fund £1977.7 - 0.0000 2.88

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Werra 950, 3014 DA Rotterdam, The Netherlands
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FCA Recognised
Asia-Pacific Equities (EUR) €137.68 - 0.12 0.00
Chinese Equities (EUR) €75.06 - -0.07 -
Em Stars Equities (EUR) €182.41 - 0.00 0.00
Emerging Markets Equities (EUR) €156.76 - -0.25 0.00
Flex-o-Rente (EUR) €109.02 - -0.04 0.00
Gbl Consumer Trends Equities (EUR) €153.96 - 0.48 0.00
High Yield Bonds (EUR) €136.68 - 0.22 -
Lux O- Rente (EUR) €149.06 - 0.40 -
New World Financials (EUR) €49.77 - 0.07 0.00
US Premium Equities (EUR) €191.14 - -0.18 0.00
US Premium Equities (USD) \$215.15 - -0.19 0.00

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Emerging Markets Equities (EUR) €156.76 - -0.25 0.00
Flex-o-Rente (EUR) €109.02 - -0.04 0.00
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Emerging Markets Equities (EUR) €156.76 - -0.25 0.00
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Gbl Consumer Trends Equities (EUR) €153.96 - 0.48 0.00
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Lux O- Rente (EUR) €149.06 - 0.40 -
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Em Stars Equities (EUR) €182.41 - 0.00 0.00
Emerging Markets Equities (EUR) €156.76 - -0.25 0.00
Flex-o-Rente (EUR) €109.02 - -0.04 0.00
Gbl Consumer Trends Equities (EUR) €153.96 - 0.48 0.00
High Yield Bonds (EUR) €136.68 - 0.22 -
Lux O- Rente (EUR) €149.06 - 0.40 -
New World Financials (EUR) €49.77 - 0.07 0.00
US Premium Equities (EUR) €191.14 - -0.18 0.00
US Premium Equities (USD) \$215.15 - -0.19 0.00

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The Investment Engineers

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FCA Recognised
Asia-Pacific Equities (EUR) €137.68 - 0.12 0.00
Chinese Equities (EUR) €75.06 - -0.07 -
Em Stars Equities (EUR) €182.41 - 0.00 0.00
Emerging Markets Equities (EUR) €156.76 - -0.25 0.00
Flex-o-Rente (EUR) €109.02 - -0.04 0.00
Gbl Consumer Trends Equities (EUR) €153.96 - 0.48 0.00
High Yield Bonds (EUR) €136.68 - 0.22 -
Lux O- Rente (EUR) €149.06 - 0.40 -
New World Financials (EUR) €49.77 - 0.07 0.00
US Premium Equities (EUR) €191.14 - -0.18 0.00
US Premium Equities (USD) \$215.15 - -0.19 0.00

PLATINUM CAPITAL MANAGEMENT

Platinum Capital Management Ltd
Other International Funds
Platinum All Star Fund - A (Est) \$117.78 - - -
Platinum Global Dividend Fund - A (Est) \$49.89 - - -
Platinum Maverick Enhanced Fund Limited (Est) \$92.91 - - 0.00



Polar Capital Funds Plc
Regulated
Asian Financials-I USD \$318.32 318.32 0.03 -
Biotechnology-I USD \$16.91 16.91 -0.01 0.00
European Equity Acc EUR €11.16 11.16 0.15 0.00
European Ex UK Inc EUR Acc €9.74 9.74 0.14 -
Financial Opps-I USD \$11.01 - 0.04 1.80
GEM Growth-I USD \$9.46 - 0.05 0.00
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Global Alpha-I USD \$13.09 13.09 0.03 0.00
Global Convertible-I USD \$11.58 11.58 0.07 0.00
Global Insurance-I GBP £5.04 - 0.04 0.00
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North American-I USD \$18.27 18.27 0.03 0.00
UK Absolute Equity-I GBP £14.78 14.78 0.01 0.00

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MARKETS & INVESTING

INSIGHT

Larry Hatheway



Pure passive investors riding on the coattails of active managers

In the current low-return environment, savers can be forgiven for asking, why should an ever-larger fraction of their meagre gains be paid to active asset managers? After all, the alternative — passive investing — is beguiling. Passive funds offer many advantages, including a menu of low-cost opportunities to spread risk across markets, greater transparency versus the less visible picks of active managers and, for advisers, the benefit of not having to explain at some point why returns have been subpar. Unsurprisingly, nearly a quarter of a trillion dollars has left the active management sector in the past year, with much of it finding a home in exchange traded funds. Pro-passive arguments, made so successfully by providers of ETFs in recent years, however, gloss over an important fact: passive investing would not be possible if it were not for the work of active managers.

Partly, that is because true passive investing is rare. By definition, a passive strategy should follow the market capitalisation index and nothing more. The advent of a large variety of low-cost strategies, including ETFs, suggests instead that they are instruments for active use, such as in so-called smart beta strategies.

Low fees have been instrumental in driving their growth. Multi-asset managers today can take positions across asset classes, styles and strategies at less than one-twentieth the cost before ETFs became commonplace. Active use of so-called passive instruments lies behind much of the explosive growth of ETFs.

A purely passive approach, on the other hand, is based on the strong form of market efficiency, where systematic opportunities to generate excess risk-adjusted returns are not possible. Pure passive investors believe the market capitalisation-weighted index cannot be regularly bested. But market efficiency, particularly its strong form, requires active management to ensure that any inefficiency is bid away. Pure passive investing can therefore be seen as leveraging the work of active managers whose efforts are required to maintain market efficiency.

By analogy, if we consider markets as repeated elections, pure passive approaches are akin to showing up at the polling booth and marking the ballot “abstain”, hoping that those who actively choose will consistently deliver the best electoral outcome. Smart beta, by extension, is analogous to voting for a party but not the individual representative that might best deliver local public services. That’s not all. In their purest form, passive strategies bid up the prices of the largest companies that command the largest fraction of index capitalisation. They also ignore evidence that markets are not strongly efficient. Some factors, for instance momentum, have produced consistent excess risk-adjusted returns. Ironically, therefore, pure passive strategies appear to be taking implicit bets — eg, (anti)-momentum. That creates opportunity — for example, via systematic strategies — to generate persistent “alpha” by investing in a “passive contrarian” fashion.

Pure passive strategies can also misallocate capital. By purchasing shares based solely on market capitalisation, passive strategies may overlook changes in underlying profitability, which are otherwise spotted by active managers. A world of “pure passive” investing, therefore, would lead not only to less efficient markets but potentially to suboptimal capital spending. Investing is, like so many other examples in economics, subject to the fallacy of composition. What is good for the individual investor — low-cost, passive investing — fails if everyone does the same. Perhaps the nearest comparison is the Laffer curve — tax collection is nil at both a zero and a 100 per cent tax rate. The optimal public finance policy is a happy medium somewhere in between. The same is true in fund management. Investor preferences may come and go, pendulums swing, but the market will ensure that equilibrium is found at the point on the active-passive spectrum that maximises after-fee performance and minimises market inefficiency. To succeed, therefore, passive needs active and vice versa. The two approaches are complementary, not competing. And with global savings inexorably rising, the future for both passive and active management remains promising.

Larry Hatheway is group head of multi-asset portfolio solutions and chief economist at Gam

Commodities

Saudi Arabia oil output breaks record

Opec rivalry step ups with July’s production edging towards 11m barrels a day

ANJLI RAVAL
OIL & GAS CORRESPONDENT

Saudi Arabia’s oil production rose to a record level in July as it moved to meet domestic demand and maintain pressure on rivals, with Opec countries still locked in a battle for customers.

Data submitted by the kingdom to Opec showed output jumped to 10.67m barrels a day last month, up 123,000 b/d on June and surpassing the previous record of 10.56m b/d from June last year.

Saudi Arabia usually pumps more crude in the summer to meet an increase in the usage of domestic air-conditioning. In July, parts of the kingdom endured record-breaking temperatures above 50C.

But Saudi Arabia’s oil production is under intense scrutiny after it promised its Opec peers in June that it would not flood the market with its crude. Rival Opec countries will be watching closely to see if the kingdom pulls back production once temperatures cool. It did so last year, lowering output to about 10.2m b/d between September and May.

Saudi Arabia’s state oil company last week cut export prices for Asian customers by its biggest margin in a year, signalling a more aggressive push for customers as it competes with large producers such as Russia and Iraq and its regional rival Iran, where exports are rising after the end of sanctions. In October demand is also expected to weaken in Asia as the refinery maintenance season gets under way.

Oil prices are back under pressure since June amid an oversupply of crude and refined products after a recovery for much of the first half of the year.

“Lower-than-predicted demand, high refined product stocks during the peak summer driving season and rising crude supply . . . have all significantly exerted pressure over the month,” Opec said.

Brent crude, the global benchmark, has slid towards \$40 a barrel, prompting oil producers such as Venezuela to rally support for another meeting of oil producers to discuss measures to prop up crude prices.

An April gathering failed to reach any agreement to freeze production and no production cap was implemented at Opec’s June meeting.

The cartel’s members are scheduled to meet informally in September on the sidelines of an industry conference in

10.67m
Number of oil barrels a day produced by the kingdom in July

33.1m
Opec’s total production of crude in July, according to secondary sources

Algiers, the group’s president said earlier this week.

“In terms of the group agreeing on a deal that would make a real change to supply, we shouldn’t expect anything,” said Olivier Jakob at consultancy Petro-matrix. “Everyone is more or less producing at capacity.”

The group’s output is still well above the estimated demand for its crude. In July, total Opec production stood at 33.1m b/d, according to estimates from secondary sources. Opec forecasts demand for its crude to stand at 31.9m b/d in 2016 and 33m b/d next year.

World oil demand growth in 2016 is expected to average just over 1.2m b/d, which is 30,000 b/d more than forecast in last month’s report. Although the oil surplus will ease, the report suggests the oil market will remain oversupplied by 100,000 b/d on average in 2017.

Analysis. Equities

Four hurdles emerge for US earnings growth

Chiefs of S&P 500 groups are focusing on Brexit, the oil price, consumers and wages

ERIC PLATT — NEW YORK

After five consecutive quarters of earnings declines, investors have patiently awaited a recovery in profitability by the largest US companies.

While they will probably have to hold out until the end of the year — analysts have pencilled in another decline for the third quarter, albeit a shallower drop than in the first half of 2016 — investors have already started a rotation into riskier and more cyclically geared sectors of the economy.

Technology and financial shares have rallied over the past month, led by 10 per cent-plus gains for Apple, Google owner Alphabet, exchange traded fund provider State Street and asset manager Legg Mason, while earnings results have set a somewhat lacklustre tone for the remainder of the year.

On conference calls over 30 days, four clear themes emerged: Brexit has sparked uncertainty across management suites. The US consumer — the driving force of the country’s economy — shifting oil prices and budding wage pressures also stood out on executive calls reviewed by the Financial Times.

Brexit

The UK vote to leave the EU in June triggered a sharp depreciation in sterling with the currency having fallen some 12 per cent. A weaker pound rippled to companies such as Delta Air Lines, with its chief executive Edward Bastian saying the “steep drop” would prompt the carrier to “take an additional six points of capacity out of the UK for the winter” as it dealt with weak passenger trends.

Stefano Pessina, the chief executive of drugstore Walgreens Boots Alliance, characterised the situation as “very volatile”. “The period of uncertainty will be quite long . . . it will take at least two years. For now it’s really too soon. We have seen in the stores days, very good days [and] very bad.”

But the effects for other companies were more diffuse. James Bombassei, a senior vice-president of Viacom, said the group had yet to see a “significant impact” but expects a potential slowdown. Larry De Shon, who leads car rental group Avis Budget, said he was “optimistic” the summer driving season would live up to expectations. Bombardier chief executive Alain Bellemare was more direct: “So far it’s pretty much like business as usual.”

US consumer

Second-quarter growth for the US economy was shored up by the consumer, as a dismal 1.2 per cent overall growth rate



Several technology and financial groups, including Apple, have rallied 10%-plus in the past month
Reuters/Thomas Peter

was overshadowed by the fastest rise in personal expenditures in a year.

While Discover Financial chief executive David Nelms noted higher spending from credit card holders, companies across the discretionary and staples sectors struck downbeat tones. The sectors have trailed the broader S&P 500 over the past month as their earnings expectations have more than halved since June 30, according to FactSet.

Mark Fields, chief executive of Ford Motor, pointed to three months of declines in the auto sector, warning that “the competitive environment has increased as growth has slowed and . . . retail industry demand has weakened”.

Starbucks shares were knocked after the coffee behemoth reported slower than expected sales in stores. Howard Schultz, chief executive, called the quarter an “anomaly” and said that “what we did not and could not have fully anticipated was the profound weakening in consumer confidence in [the third quarter] that has caused sharp declines in [quick service restaurants] and restaurant traffic overall and has many of our competitors struggling.”

A dour note was struck by Michael George of QVC, the home-TV shopping

network, who said that since mid-June the company had seen “softening demand”, aggressive department store markdowns and rising bad debts.

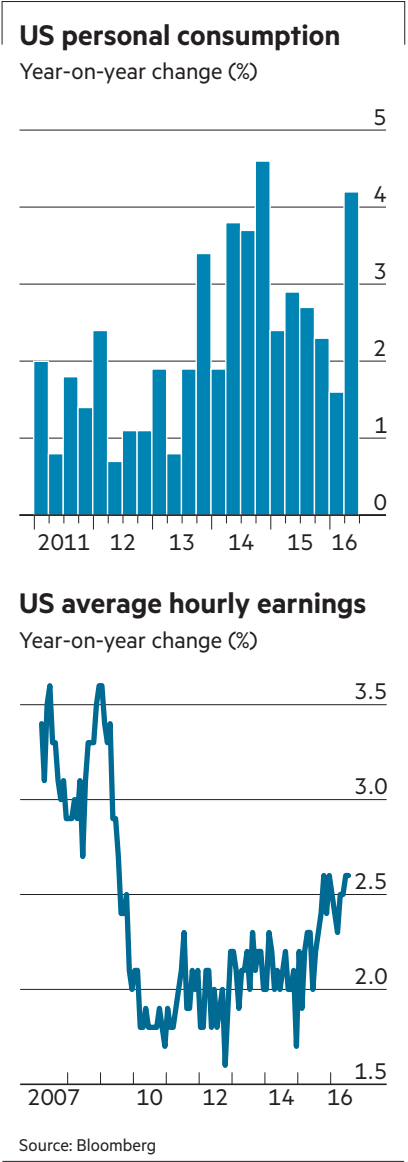
“This is a very unusual swing in trend for QVC,” he said. “And we’ve really not seen this kind of swing before outside of a couple of quarters around the Great Recession timing in 2008 or early 2009.”

Oil prices

The oil price is key to a return to growth for S&P 500 earnings. The blended earnings decline by the energy sector in the second quarter, which includes companies that have already reported and those that have yet to file, is a worse than projected 82 per cent drop. Revenues in the third quarter are expected to fall another 11 per cent from a year earlier, dragging earnings 62 per cent lower.

Crude has found some brief stability above \$40 a barrel, with prices advancing after Opec members agreed to informal talks in September. Higher prices are a requisite for improved earnings and a drop in the default rate, with W&T chief executive Tracy Krohn noting on a call that the low prices had “dramatically reduced” the company’s liquidity.

Lee Tillman, chief executive of Marathon Oil, said: “I think the sector in gen-



eral is struggling with striking the correct balance between wanting to be prepared if they get a strong and sustainable price signal versus getting too far ahead of their headlights and losing . . . the discipline that has been required during this downturn.”

Jeffrey Woodbury, vice-president of investor relations at ExxonMobil, said: “The issue that we’re all faced with right now is very large inventories.”

Wage pressures

Higher wages represent a boon in the form of greater consumer spending for S&P 500 companies. However, a rising wage bill for workers is expected to clip margins as payrolls increase. Average hourly earnings rose at the fastest pace in July since December, matching the highest level since the financial crisis.

Christian Brickman, chief executive of cosmetics retailer Sally Beauty, said: “The reality is we’re absorbing some minimum wage pressure right now.”

James Forson, chief financial officer of La Quinta, said the hotels group faced a tighter pool of talent. “And we need to be sure that we’re paying the right rate to get the right people in house, to be able to deliver that experience. So certainly, we’re seeing pressure.”

Capital markets

BoE grapples with challenge of coaxing reluctant ‘buy and hold’ investors to jettison bonds

MICHAEL MACKENZIE

The Bank of England’s revival of large-scale bond purchases has already hit turbulence after owners of long-dated gilts this week were reluctant to sell their paper to the central bank.

As the BoE sought to buy £1.17bn of long-dated government bonds — at prices significantly above market levels — investors offered to sell just £1.12bn.

The rally for UK government debt continued yesterday, taking short-dated yields, which move inversely with prices, into negative territory, while 10-

and 30-year benchmark yields fell to further all-time lows.

Why the impasse between long-term gilt holders and the BoE?

Holders of long-term government debt define the meaning of a “buy and hold” investor. Pension funds and insurance companies buy bonds that pay a fixed rate of return for decades, thereby allowing them to match these future income streams with long-term liabilities, such as promises to future retirees.

Even after the substantial capital appreciation of long-dated gilts follow-

ing the Brexit vote — gilts of maturities longer than 15 years have experienced a total return of 32 per cent so far this year, according to Bank of America Merrill Lynch indices — it appears buy and hold investors are not keen to sell.

Markus Allenspach, head of fixed income research at Julius Baer, says UK pension funds and insurance companies are forced to match the duration of their assets with their liabilities. “There is, so to say, an institutionalised demand for long-dated paper which could make it hard for the BoE to achieve its targets for gilt purchases.”

What’s the dilemma for long-term investors?

While holders of long-dated gilts can sell and book a capital gain, that raises the issue of what to do with the money. The base rate of 0.25 per cent provides a scant return from sticking with cash.

Quantitative easing has spurred a fall in gilt yields. The 30-year gilt yield has dropped 0.90 percentage points since the Brexit vote from 2.19 per cent to a record intraday low of 1.26 per cent yesterday.

A pension plan could sell its holdings, but if it reinvests at a lower interest rate

it will not be able to adequately fund its long-term liabilities.

What’s the response from the BoE?

The bank said yesterday that instead of trying to buy more gilts, it will now make up for the £52m shortfall in gilt purchases in the second half.

Luke Hickmore, senior investment manager at Aberdeen Asset Management, says the shortfall could grow as liability-driven investors look to match future promises. “The BoE programme actually just makes them want more gilts as yields continue to fall.”

What next for the BoE’s QE?

Yesterday the bank purchased £1.17bn of gilts with maturities between seven and 15 years and received offers worth £5.508bn. The next purchase of long-dated gilts is on Tuesday. However, next week’s sale of gilts maturing in 2055 might prompt investors to sell current holdings before buying new paper.

The gilts rally means the BoE can readily find sellers of shorter-dated maturities via QE. For holders of two-, five- and 10-year benchmarks, an offer for their gilts from the BoE is like a scene from *The Godfather* — too good to refuse.

MARKETS & INVESTING

TRADING POST

Jamie Chisholm

Implied benchmark borrowing costs dribble ever lower. The 10-year gilt yield fell through 0.55 per cent amid the Bank of England's fresh largesse.

Meanwhile, the dollar's latest rally seems to have stalled. This is a good environment for gold. By mid-session yesterday, the yellow metal was back above \$1,350 an ounce and eyeing the two-year high of \$1,375 hit last month.

Its rally has energised the whole precious metals sector. Silver is back above \$20 an ounce and the platinum group metals are joining in the fun.

Palladium at one point yesterday was up 7.5 per cent to a 14-month high. Like platinum, it has rallied more than 30 per cent so far this year.

Data at the start of August showed investors had yet to start pushing big money into platinum and palladium-based exchange traded funds.

Perhaps this latest spurt in prices suggests the retail investor excitement that characterises a strong commodity rally is picking up steam.

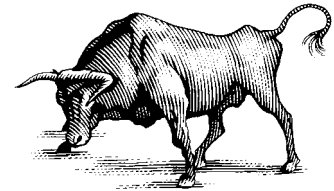
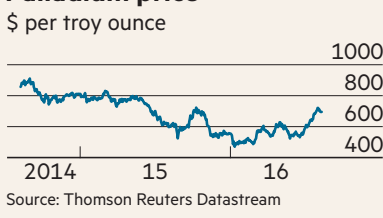
Certainly, hedge funds are already taking note. US palladium futures data show that in just five weeks the speculative net-long positions have risen from a near 10-year low of just 2,400 contracts to 15,200 contracts.

Meanwhile, platinum sector fundamentals are supportive. Demand from car producers — particularly tied to robust sales in China — is underpinning prices while production in South Africa is struggling.

Some analysts see the palladium market in physical deficit for the fifth year in a row.

jamie.chisholm@ft.com

Palladium price



Wall Street

Yelp shares surge on unexpected profit and upbeat outlook

Mamta Badkar

Yelp shares surged yesterday after the customer-review site reported a surprise profit in the second quarter and issued an upbeat sales outlook for the current quarter.

Shares in Yelp jumped 14 per cent to \$37.18, taking its year-to-date gain to 29 per cent, after the San Francisco-based company reported a profit of \$449m or 1 cent a share in the three months ended in June, compared with a loss of \$1.3m or 2 cents a share in the year ago period.

Analysts had forecast a loss of 7 cents. Sales jumped nearly 30 per cent to \$173.4m — ahead of the \$169.8m that analysts were looking for — as local advertising revenue climbed 41 per cent from a year ago to \$151.9m.

Global overview

UK bond yields hit low and Wall St retreats on oil surplus concerns

A weak dollar helps gold edge up, while equity indices dip on an unexpected rise in US crude inventories

DAVE SHELLOCK

US stocks retreated from recent record highs as oil prices came under fresh pressure and “core” government bonds continued to attract demand, although activity was generally subdued because of the summer lull.

The UK gilt market remained in focus as benchmark yields touched fresh record lows and the Bank of England pressed on with its revived quantitative easing programme, despite hitting a stumbling block on Tuesday.

Sterling managed to hold above the \$1.30 level against the dollar, although that was largely due to broad weakness for the US currency as the positive impact from last week’s robust non-farm payrolls report continued to fade.

Indeed, the dollar index, a measure of the **currency** against a weighted basket of peers, was down 0.5 per cent, below where it stood before the release of the jobs data on Friday.

The euro was up 0.5 per cent at \$1.1170 and the dollar was 0.6 per cent softer against the yen at ¥101.28, while the pound was flat at £1.3001. Sterling was down 0.5 per cent versus the euro at €1.1638.

“As expected, the strong labour market report was not a game changer for the majority of market participants as far as US rate expectations are concerned,” said Thu Lan Nguyen, currency analyst at Commerzbank.

“The majority still considers a Federal Reserve rate hike before year-end to carry a likelihood of less than 50 per cent.

“After all, experience has taught us



Hunt for yield: FT.com/video

The FT’s John Authers shows how record low bond yields have driven sharp gains for world stocks and US credit

that it takes more than a solid labour market for the Fed to decide to hike interest rates.

“At present, the weak GDP growth in the first half of the year and the stubbornly low inflation rate is likely to be a thorn in the central bank’s side.”

The dollar’s latest retreat came as the yield on the two-year **Treasury**, which moves inversely to its price, fell 2bp to 0.70 per cent — well off a post-payrolls report high of 0.746 per cent.

The yield on the 10-year note fell 3bp to 1.51 per cent ahead of new debt being sold by the US Treasury, while that on the 10-year German bond shed 3bp to 0.11 per cent.

The combination of a weak dollar and

falling bond yields helped **gold** rise \$5 to \$1,345 an ounce, although that was well short of an early high of \$1,357.

In the UK, the 10-year gilt yield touched a record low of 0.515 per cent before closing at 0.53 per cent, down 6 basis points on the day, while the 30-year yield also hit its lowest ever point and shorter-dated maturities fell into negative territory for the first time.

On Tuesday, the BoE failed to find sufficient sellers of longer-dated bonds to meet its target of £1.17bn of purchases, although it was more successful yesterday as it received more offers than needed while buying medium-term gilts.

Peter Chatwell, head of euro rates strategy at Mizuho, said that Tuesday’s

shortfall suggested that in the absence of willing sellers, the market was likely to continue overshooting what fundamentals dictate.

“Another sign that market expectations of further easing are running high is the fact that all gilts with a maturity of less than five years are already yielding less than the bank rate, which might go some way to explain the higher cover at Monday’s short-end operation than at Tuesday’s long-end one.

“This points to a further flattening of the gilt curve, although the BoE might look to adjust the relative sizes of its short- and long-end operations in the future.”

Meanwhile, equity indices on both sides of the Atlantic were undermined by weaker **oil** prices following a bearish report on US inventories from the US Energy Information Administration. Crude stocks unexpectedly rose 1.1m barrels last week, offsetting falls in petrol and distillate inventories.

Brent crude was down 1.7 per cent at \$44.23 a barrel, while US West Texas Intermediate was 1.6 per cent lower at \$42.07.

That helped push the S&P 500 index down 0.2 per cent to 2,177 by midday in New York, as the energy sector fell 0.7 per cent. The US **equity** benchmark hit an all-time intraday high of 2,187.66 on Tuesday, and set a closing record of 2,182.87 on Friday

The Nasdaq Composite index was down 0.4 per cent from its own record closing high.

The pan-European Stoxx 600 index, meanwhile, slipped 0.2 per cent from a six-week peak, with German utility Eon sliding 7.8 per cent after unveiling disappointing results.

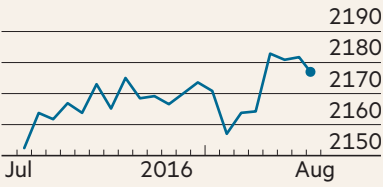
The Nikkei 225 in Tokyo slipped 0.2 per cent.

The New Zealand dollar was up 0.7 per cent against its US namesake at US\$0.7212, ahead of a policy meeting of the country’s central bank.

Markets update

S&P 500 index

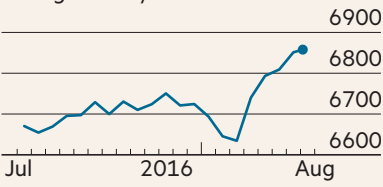
Change on day ▼ 0.27%



US equities Sharp falls for energy stocks put Wall Street under some pressure as crude oil prices sank, although Walt Disney shares rose after its quarterly results beat expectations

FTSE 100 index

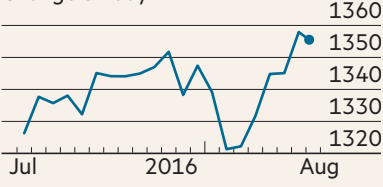
Change on day ▲ 0.22%



UK equities Gains for financial stocks helped the FTSE 100 outperform its continental European counterparts although weakness for the energy sector kept the market reined back

Eurofirst 300 index

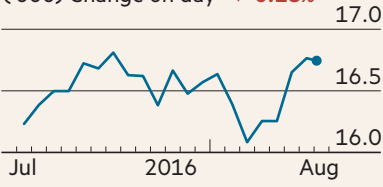
Change on day ▼ 0.28%



European equities A five-session run of gains for the Eurofirst 300 came to a halt as disappointing trading updates from the likes of Novozymes and Eon unsettled the region’s markets

Nikkei 225 index

(’000) Change on day ▼ 0.18%



Japanese equities Yen strength provided an excuse for profit-taking after two days of big gains as activity wound down ahead of today’s holiday

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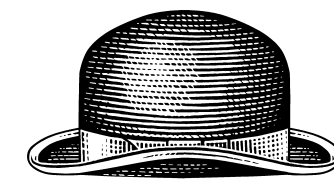
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London

Rolls-Royce roars ahead with broker upgrade on cash flow optimism

Bryce Elder

Rolls-Royce was a gainer yesterday on an upgrade from the engine maker’s joint house broker.

Recent interim results had eased worries about a credit rating downgrade, said Morgan Stanley.

Selling more jet engines as spares at a profit than as installations at a loss means 2016 free cash outflow will be much shallower than feared and

should turn positive in 2017, it said. “Having spent a reasonable amount of time with the company post first-half results, it is clear management has a better handle on the levers that can be pulled for cash to improve going forward,” said the broker.

An update on the company’s transformation plan due in the autumn should “at least serve to underpin consensus if not to upgrade it”, it added.

Rolls closed 4.4 per cent higher at 797p after Morgan Stanley upgraded to “equal weight”. Since hitting a four-year low in February, the stock has rebounded 57 per cent, which has moved activist investor ValueAct back into positive territory from when it disclosed a 5 per cent stake last July.

A quiet wider market nudged the FTSE 100 higher for a fifth straight day. The index rose 0.2 per cent, or 15.12 points, to 6,866.42 on volume 20 per cent lower than the recent daily average.

Shire edged 0.6 per cent lower to £50.75 amid continued speculation around Radius Health, a US-listed osteoporosis drugmaker with a market value of \$2.2bn. Radius was rumoured to have recently rejected a bid of around \$70 per share from Shire, a premium of 37 per cent on yesterday’s price, with

Shire said to be weighing up whether to sweeten the offer by about \$10 a share.

Roche, Pfizer and Amgen have also been linked with Radius, which has key trial data due next month.

Entertainment One jumped 10.3 per cent to 240p after confirming it had rejected a £1bn offer from ITV.

A day after results, **Regus** faded 6.5 per cent to 300.1p. Numis cut the serviced office provider off its “buy” list, largely on valuation grounds.

Numis said: “A softening in trading conditions leads to an underlying earnings downgrade. However, an emphasis on cost efficiency, cash generation, returns and a disciplined approach to capital allocation is positive for the operating model over the medium term. On balance, we believe the shares appear up with events in the short term.”

Centamin added 1.3 per cent to 173.8p after Merrill Lynch upgraded to “buy”. Interim results showed Centamin’s Sukari gold mine in Egypt is “a cash machine” with performance ahead of expectations and costs among the lowest globally, said Merrill.

G4S soared 16.1 per cent to 227.2p after its interim profit, debt position and organic growth all beat expectations.

Markets & Investing

FINANCIAL TIMES

INSIGHT

John Authers



Japan’s ‘quality income’ stocks stand out in the global hunt for yield

The Japanese carry trade is taking on a whole new meaning for equity investors. For years, the yen revolved around borrowing or selling short Japanese securities, to take advantage of the reliably low yields and weak currency, and parking somewhere else where there was a higher yield. Now, Japanese equities are yielding more than US equities, and are attracting attention from those hunting yield. The yield on the Topix stock index overtook that of the S&P 500 in June. The yields on both remain very low, at 2.31 and 2.21 per cent respectively, compared with an average 3.66 per cent yield for other stock markets, according to MSCI, but it still raises its attractions for US investors. Further, “quality income” investing — buying companies with strong balance sheets and consistent profits that reliably pay an income — is working well in Japan. According to Société Générale, “quality income” stocks in Japan have comfortably beaten the main Japanese index since the crisis, even as their yield has increased. Thanks to the habit of sitting on cash, those dividends remain well protected. This is an unusual combination, and suggests that Japan is worth searching for income opportunities. There is good reason to hope for continued increases. Corporate governance reforms are having an effect. According to Activist Insight of London, 13 Japanese companies had been subject to activist demands by the end of July this year. In none of the three preceding years had this number exceeded eight. With the government itself taking a more active role — through the national pension fund, and the Bank of Japan’s growing holdings of exchange traded funds — cash payouts are increasing. Total money spent on buying back stock had almost reached last year’s total by the beginning of June, according to Nicholas Smith of CLSA in Tokyo. Mr Smith, like Société Générale, suggests looking at “equity income” plays. With cash flows rising, and company needs for cash limited, he suggests that the consensus expectation that dividends per share will rise 7.5 per cent over the next year is reasonable. The other argument in favour of looking for value in Japan is that sentiment has turned so drastically against it. In the wake of very poorly received negative interest rates, in January the Nikkei 225 sunk into a bear market. While it has recovered somewhat, and even set a high for the year in dollar terms, sentiment remains very negative. Last month, the outflow to international securities by Japanese investors was the greatest on record, according to Jesper Koll, head of WisdomTree’s operations in Japan. For contrarians, this looks like an interesting opportunity. Finally, months of internal political wrangling appear to have been resolved in favour of attempting a true fiscal stimulus. In the short term, it should be good for stocks. Any further signs of recovering export orders from China would also aid the case for Japan. The biggest argument against Japan for international investors is, as ever, the currency. The yen has shot up this year since markets refused to believe that the Bank of Japan could go through with cutting rates further into negative territory. That has forced corporate profits down. Japanese authorities are uncomfortable with a yen at current levels. If the Federal Reserve were to raise rates, not currently expected, the yen fall should be dramatic. And, as the Japanese market has long been driven by flows from international investors, who have treated Japan’s stock market as though the country is one large exporter, the yen and stock market tend to be strongly inversely correlated. A weaker yen means stronger stocks. So if any catalyst will help Japanese stocks recover, it would be a weakening yen — which would hurt international investors’ return. For those prepared to go stock-picking, the capital good sector might be an answer. Domestically focused smaller companies might also repay a hunt for value and well-supported yield. For more passive exposure, the answer lies in hedging the yen. Currency-hedged ETFs have had a disastrous year in Japan, as the currency and the equity bet have gone wrong. With Japan showing genuine value and needing a lower currency, they begin to look attractive again.

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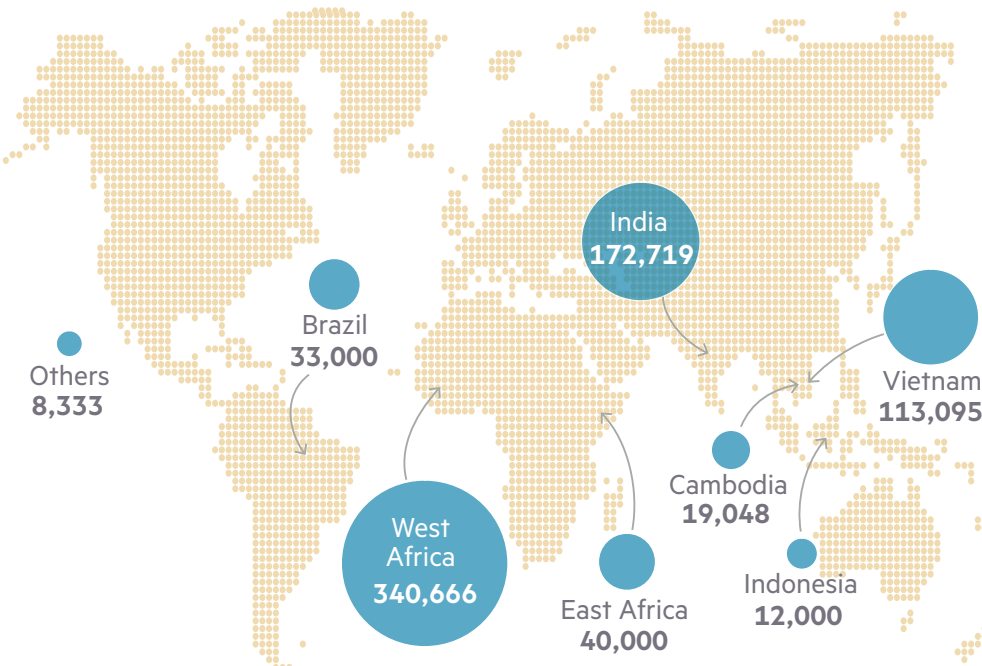
Prices surge as bad weather in main growing areas lines up a 4% drop in output for the year

EMIKO TERAZONO

Nut lovers are facing a supply crunch on their favourite bar snacks. First it was soaring peanut prices, now cashew prices are surging as bad weather hits key growing areas. “Prices are going through the roof,” says Ian Dyas, who handles cashews at London-based nut traders CG Hacking. Excessive heat and lack of rain linked to the El Niño weather phenomenon earlier this year affected cashew producers in Africa and Asia, while a rise in labour costs in India as well as an import tax has led to numerous processing plants being idled. Cashew prices have jumped a fifth from the start of the year to about \$4.20 a pound, with buyers facing a tight market for the rest of the year. Michael Stevens, a trader at Freeworld Trading in Edinburgh, says: “The rest of this year will be very tricky.” The high prices are likely to worry cashew buyers, including retailers and food processors who use the treenut in a range of foods including biscuits, cereals and sauces such as pesto, say traders. International nut buyers are already reeling from a sharp fall in peanut supplies caused by flooding in Argentina and drought in South Africa. Peanut production in Argentina, a leading exporter, has fallen about 25 to 30 per cent from the previous year, and prices on the “spot” market have disappeared due to the lack of sellers, says Martin Masopust, director at Netherlands-based trader Bohemia Nut. Vietnam and India are the two largest producers and exporters of cashew kernels. The two countries process raw nuts that they produce as well as importing raw material from Africa, including Ivory Coast, Tanzania and Benin, and re-exporting the processed product.

Nut drivers

World’s top cashew producers 2015 kernel basis, tonnes

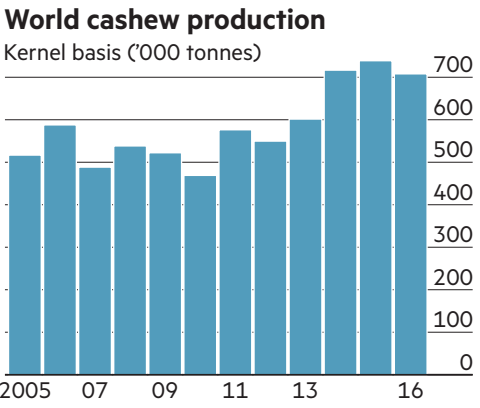
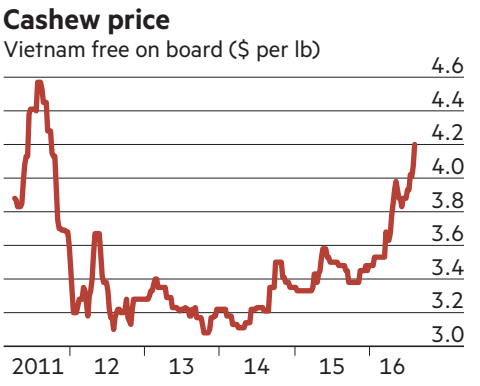


FT graphic Sources: INC; Mintec; CG Hacking

The high prices are likely to worry cashew buyers, including retailers and food processors

Analysis. Commodities

Cashew consumers hit by supply crunch



The cashew market started rising once processors began to panic after El Niño delayed the Vietnamese crop in March. Exports from Africa were also delayed after the stronger-than-normal Harmattan winds from the Sahara hit the crop in west Africa. “The adverse weather has decreased both quality and quantity from these origins,” says Corrina Hutchings, analyst at Mintec. Production for 2016 could fall about 4 per cent to 708,000 tonnes, according to early estimates by the International Nut and Dried Fruit Council. The delays and poor yields meant packers in Vietnam, who had overcommitted their sales, were forced to delay shipments. This caused a shortage on the European market, further pushing up prices. While some buyers sought to wait out the rally for further raw nut from Africa

to Vietnam and India, the quality and supply volumes have not improved, forcing them to scramble in a thin market. Many buyers were unprepared and had not signed forward contracts, say traders. “Because people had initially thought there would be good crops, they had little forward cover,” says Mr Dyas. The tight supply situation has been aggravated by troubles facing India’s cashew processors. A rise in labour costs ate into profit margins, leading to facilities being idled, while a new import tax on raw cashew nuts has crippled the sector, leading to lower export flows. Traders are now nervous about the cashew rally, as higher prices will incentivise more production, leading to a sharp fall in prices. On the demand side, they forecast reduced demand from large retailers. Supermarkets and other large buyers will next month start the

tendering for their purchases for 2017 at current prices, forcing them to reduce the quantities they contract. A decent crop next year plus reduced purchases could mean a “real drop in prices next year”, says Mr Stevens. Nut lovers might take comfort from the expected bumper almond harvest in California, which produces about 80 per cent of the world’s supplies. Almond prices have more than halved from the year before, after several years of rises. But high prices weighed on demand, while forecasts of a good crop this year also depressed the market. Almonds are now the cheapest tree nut, priced between \$2.25 and \$3 a pound depending on the grade, compared with cashews, pecans, Brazil nuts, walnuts and pistachios which are all above \$3.50. “This is a complete 180-degree turnaround from last year,” says Mr Stevens.

Capital markets

US and eurozone junk yields decline sharply

GAVIN JACKSON AND DAN MCCRUM — LONDON ERIC PLATT — NEW YORK

Yields on US and eurozone speculative grade rated bonds fell sharply yesterday, thanks to a global hunt for income spurred on by central bank purchases of corporate debt.

The average yield, weighted by issue size, for high-yield bonds included in the iBoxx euro index dropped to 3.47 per cent, the lowest since July 2014. Bond prices rise as yields fall. Also yesterday, the risk premium or spread above the rate paid by government bonds fell below 400 basis points for the first time since July last year. The shift is the latest sign that the inclusion of investment grade bonds in the European Central Bank’s asset purchase programme — as well as an announcement that the Bank of England would start buying the assets in September — has compelled investors to buy riskier assets. Todd Youngberg, a strategist for Aviva Investors, said that while the spread on high-yield bonds was small by the standards of history, “given the demand for yield worldwide it has scarcity value right now, and the overall default trend is coming down.” US corporate debt has also been buoyed by stimulus measures from global central banks, as foreign buyers are attracted by the country’s higher market interest rates. Portfolio managers say they have been inundated with orders from Asian and European clients, searching for income as \$13tn of global

debt trades with a yield below zero. While many of the fears that had dominated at the start of the year, such as falling commodity prices and a slowdown in China, have faded, Duncan Sankey, head of credit research for Cheyne Capital, said: “I’d really question if you are being rewarded for the risks you are taking.” The average yield on US junk corporate bonds slid to 6.58 per cent this week, its lowest level in more than a year, according to Bank of America Merrill Lynch. “As high-yield managers we are dealing with significant inflows,” said Niklas Nordenfelt, a portfolio manager with Wells Fargo Asset Management. “The market has been pretty rational in spite of the rally,” although he warned an advance in bonds issued by commodity groups was worrisome. US high-yield bond funds have received more than \$6bn of inflows since the start of July, despite suffering some losses in the latest week as the price of oil slid. An anaemic pace of bond sales has also bolstered valuations within the junk bond market, as portfolio managers struggle to find debt to add to their funds. Junk bond sales are running at the slowest pace since 2010, with offerings in Asia, Europe and the US decelerating, Dealogic data show. Mr Youngberg said that defaults might continue to pick up in the US this year due to problems at oil and gas producers struggling with low prices, but that the rate of defaults was likely to be lower in 12 months’ time.

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