

Smartphones account for nine out of every 10 new phones sold. Three-fifths of China's users have yet to migrate to 3G or 4G networks. But this will not underpin annual growth of 20 per cent to 30 per cent, to which the market has become accustomed. Nomura sees China's first-quarter volume drop as a sign of increased volatility ahead.

Lower growth is not no growth. The challenge for Xiaomi, if it is to justify its valuation, will be to maintain high growth in a slowing market. It must either move its brand upmarket or find new low end markets. As entrants to China have found: it may not take long before locals catch up.

Gold miners: pass the aqua regia

Holy water is harmless - unless you happen to be a vampire. Turn down offers of a sprinkling with royal water though. Aqua regia is a mixture of nitric and hydrochloric acid. Each is highly corrosive. Together they dissolve a kingly metal: gold.

This market seems to be having no trouble breaking down, anyway. Spot bullion prices hit a four-year low this week, reaching \$1,145 a troy ounce - a long way from the days of \$1,900 per troy ounce three years ago. The price is doing perfectly well denominated in roubles, of course, though that is the problem. Both are being hit by a US dollar that keeps strengthening.

That may just mean gold miner equities languish where they are already, at decade-lows. AngloGold Ashanti stock is changing hands in Johannesburg 11 per cent below its price at listing - in 1998. Not much for the third-largest gold producer.

These companies have failed their shareholders in the same way miners in general have detonated value in recent years. They expanded output at

year. It seems wasting its resources on fighting vast forces - falling oil prices, a rising US dollar, sanctions over Mr Putin's Ukraine policy - with regular

high cost under cover of high prices. Investors have learnt to look beyond unit production costs, then, to all-in sustaining costs. These cover money spent on exploring to replace reserves which are becoming harder to make economical. It is not easy to think of cheaper ways to mine a tonne of dirt for a few grams of gold. Thus, when GoldCorp reported last week that its costs rose in the third quarter from a year ago, to above \$1,000 on average, its shares fell over a tenth. These are average costs, however. Toronto-listed Primero has an all-in cost over \$1,200. This sounds painful given current prices, but its biggest mine in Mexico had a cost half that in the second quarter. Miners should spin off high-cost operations to which they cannot devote attention, then. There is value to be unlocked. The entire S&P/TSX Global Gold Index has a market capitalisation of \$95bn: half a Facebook. Dissolution is one solution.

Pharma wars: upset stomach

It's not a good sign when a bowel medicine company feels bloated. Salix Pharmaceuticals, a drug company focused on gastrointestinal treatments, announced on Thursday that there was excessive inventory of its products in the supply chain, so that future sales will be depressed. Its shares fell nearly 40 per cent. The drugmaker is not particularly well known in its own right. However, it is a minor player in the Allergan/Valeant fight, the best merger melodrama going.

Allergan had been chasing its own

would worsen. The alternative is capital controls. History is a harsh overseer on the experience there, too.

deal for Salix to fend off Valeant's unwanted approaches. Allergan has been ferociously resisting Valeant, but it would only go so far. Salix's accounting problems helped nix the tie-up. Pharma companies sell to wholesalers, not pharmacies. Wholesalers can, for whatever reason, take on too much inventory in one period, hitting manufacturer sales in the next. There have also been cases of "channel stuffing" in the drug industry, where companies oversell to wholesalers to pad their results.

Allergan, to its credit, backed away when its due diligence made it nervous about Salix. But it need not resist Valeant quite so violently. Bill Ackman is loudly advocating for a tie-up; he owns 10 per cent of Allergan. Allergan has said that Valeant's serial acquisitions cover up weak growth and an unsustainable business model. In December, Allergan shareholders will vote on whether to replace the board of directors (a court has said Mr Ackman can vote his shares, despite an insider trading claim from Allergan).

The latest rumour has Allergan courting another potential buyer, Actavis (Allergan, Valeant, and Actavis all have market values between \$40bn and \$65bn). Mr Ackman has called for an open auction of Allergan rather than exclusive talks with Actavis. And Allergan should welcome an auction. Due diligence would come with it, and if Valeant, like Salix, had problems, they would soon become obvious.



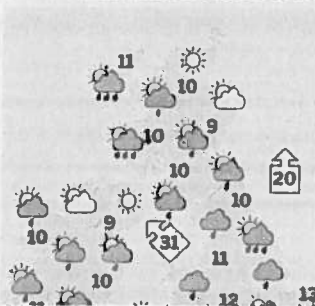
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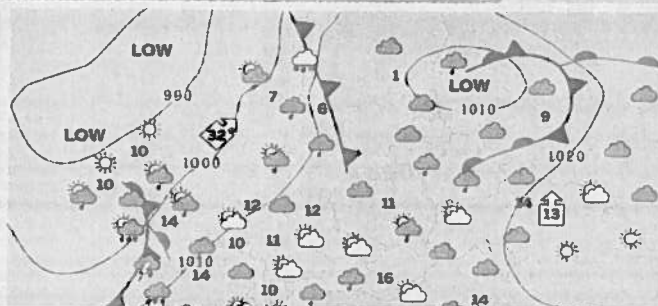
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Forecasts by



Luxembourg	Cloudy	10	50
Lyon	Fair	13	55
Madrid	Fair	14	57
Manchester	Showers	11	52
Miami	Cloudy	26	79
Milan	Fair	16	61
Montreal	Sleet	4	39
Moscow	Drizzle	9	48
Mumbai	Sun	35	95

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