



Blaming central banks for crisis is a cop out

MARTIN WOLF, PAGE 15

The dangers of China's fake science industry

BIG READ, PAGE 13

City of fight
Fresh unrest
across France

A protester throws a tear gas canister in Paris yesterday as France was hit by another day of national strikes and demonstrations over the government's plan to raise the retirement age.

About 450,000 people turned out in the capital, compared with 800,000 during last Thursday's protests, according to labour union estimates, with smaller crowds also seen in Rennes, Marseille and Toulouse. Strikes disrupted transport links and shut the Eiffel Tower and the Louvre gallery.

There are signs that more young people are joining the protests. Student activists closed down nine universities in Paris and at least 10 in cities such as Toulouse and Nice.

Radical activists, who the government calls Black Blocs for their clothing and masks, have been growing in number in recent protests.

Global Insight page 2



Yoon Valat/EPA-EFE

Briefing

► Bern raised Credit Suisse and UBS doubts 4 years ago

Regulators have revealed they concluded in 2019 that the banks could not be saved in a liquidity crisis.— PAGE 5; JOHN PLENDER, PAGE 9; MARTIN WOLF, PAGE 15; LEX, PAGE 16

► SVB regulators 'asleep'

Top Republican Tim Scott has accused US watchdogs of being "asleep at the wheel" in the time leading to the implosion of the bank.— PAGE 4; FIRST CITIZENS, PAGE 6

► Herzog urges Israel talks

Israel's president has urged party leaders to solve the nation's crisis, a day after a judicial shake-up was delayed.— PAGE 3; FT VIEW, PAGE 14; MARTIN INDYK, PAGE 15

► Italy football cash queried

Brussels has challenged Rome's plan to spend €55mn of EU cash from the pandemic recovery fund on renewing the football stadium of Fiorentina in Florence.— PAGE 2

► EU toughens trade stance

Brussels has agreed a policy to tackle nations deploying punitive trade measures, like China's block on Lithuanian imports over the Baltic state's Taiwan ties.— PAGE 4

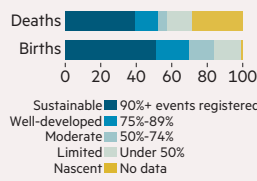
► Used Tesla values plunge

Second-hand prices have dropped since the electric-vehicle maker embarked on a series of price cuts for newer models over the past six months.— PAGE 5

Datavatch

Cradle to grave

Completeness of registration system, 2020 (%)



Source: WHO, 133 countries

Disparities in registration systems mean nearly 40 per cent of the world's deaths are not registered, most in poor countries. Although most nations have some form of birth registration, 36mn babies around the world each year are unregistered

Alibaba plans six-way split as Beijing seeks to heal ties with tech companies

◆ News follows Ma appearance ◆ Chinese regulators back proposal ◆ US investors welcome move

RYAN MCMORROW — BEIJING
QIANER LIU, HUDSON LOCKETT
AND CHENG LENG — HONG KONG

Alibaba is planning to split into six business units in a radical break-up following a crackdown by Beijing on China's tech giants.

The shake-up would put a separate chief executive and board in place for each unit, the company said, and could lead to some of the mini Alibabas adopting separate public listings.

The announcement came a day after Alibaba founder Jack Ma made a rare public appearance in mainland China, a visit that Beijing hopes will boost investor confidence that it has healed ties with the country's private sector.

Over the past two years Alibaba has dealt with a record \$2.8bn fine by

Chinese regulators for monopolistic behaviour, as well as the country's stuttering economic growth and a rush of new ecommerce competitors.

Two people close to the matter said Alibaba presented its plan to Chinese regulators and received positive feedback. One person close to the group said that while no formal demands were made for the split, regulators were keen for tech giants to rein in their empires.

The group portrayed the revamp, in

A crackdown by Beijing on tech giants resulted in a \$2.8bn fine for monopolistic behaviour

which Alibaba itself would become a holding company, as a way to "unlock shareholder value and foster market competitiveness".

Alibaba's shares have lost more than 70 per cent of their value since Ma made a speech in 2020 criticising China's financial watchdog and banks. In the subsequent crackdown on China's largest tech groups, the listing of Ant Group, Alibaba's fintech arm, was suspended.

Shares in Alibaba rose 13 per cent in early New York trading, giving it a market capitalisation of more than \$250bn.

Under the overhaul, Alibaba's six separate business groups will be: cloud computing, ecommerce, local services, logistics, digital commerce and media.

"The market is the best litmus test, and each business group and company

can pursue independent fundraising and IPOs when they are ready," chief executive Daniel Zhang told staff. "At 24 years of age, Alibaba is welcoming a new opportunity for growth."

Zhang will remain chief executive and chair of the holding group, and head up its struggling cloud business. Alibaba's main moneymaking units — its Taobao and Tmall platforms — will still be wholly owned by the main company.

Louis Tse, managing director at Hong Kong-based Wealthy Securities, said that if the group's different businesses were spun off into different listings, "you'll get a higher market value".

Wang Qi, co-founder of boutique fund MegaTrust Investment (HK), said: "The new structure may help Alibaba deflect some of the regulatory pressure

such as that related to anti-monopoly."

The break-up will set Alibaba on a similar path to rival JD.com, which has retained a controlling stake in a diverse set of businesses. Each unit has gone on to raise outside capital, with several already listed in Hong Kong. Chief Alibaba rival Tencent has also been divesting stakes it holds in Chinese groups.

A senior manager at Alibaba said the six business units had operated separately for years and had plans for IPOs in the short term. "This statement is an open admission of this reality, no more hiding," said the manager.

Goldman Sachs estimated that the businesses together were worth \$137 a share, a premium to Alibaba's closing price of \$86 on Monday.

Additional reporting by Edward White

Bankman-Fried paid \$40mn bribe to Chinese officials, US prosecutors allege

SCOTT CHIPOLINA — LONDON
JOE MILLER — NEW YORK

The US has accused former FTX chief executive Sam Bankman-Fried of paying a \$40mn bribe to one or more Chinese government officials in a revised indictment filed in federal court in Manhattan yesterday.

Prosecutors allege that Bankman-Fried sent the bribe in cryptocurrency to Chinese officials to regain access to trading accounts frozen by law enforcement in the country. The accounts were linked to Alameda Research, FTX's sister company. The bribery charge was added to a further 12 counts that the former FTX chief already faces after his exchange collapsed last November when it failed to meet a wave of withdrawal demands from customers.

Bankman-Fried was initially charged

with eight criminal counts in December, after being extradited from his home in the Bahamas, over what prosecutors called "one of the biggest financial frauds in American history". The government last month broadened its case against Bankman-Fried to include charges of securities fraud and conspiracy to commit bank fraud.

According to the latest indictment, Bankman-Fried repeatedly tried to unfreeze accounts in China linked to Alameda Research, including hiring attorneys to lobby on the company's behalf in the country.

Bankman-Fried also tried to use personal identifying information of several individuals not affiliated with FTX or Alameda in an attempt to transfer funds and circumvent the freeze orders put in place by Chinese authorities, prosecutors allege. The indictment alleges that

after months of failed attempts to unfreeze the accounts, Bankman-Fried directed the multimillion-dollar bribe.

On his instruction, one Alameda employee sent crypto payment instructions for at least a portion of the bribe to other Alameda employees, according to the indictment. Bankman-Fried later instructed a bribe payment, then worth roughly \$40mn, to be transferred from Alameda to a private crypto wallet.

Around the time of the payment, in approximately November 2021 according to the indictment, the accounts were unfrozen, prompting Bankman-Fried to transfer additional tens of millions of dollars worth of cryptocurrencies. Alameda then used the unfrozen accounts to fund extra trading activity.

A spokesperson for Bankman-Fried declined to comment.

Presale perks page 8

World Markets

STOCK MARKETS					CURRENCIES					GOVERNMENT BONDS				
	Mar 28	Prev	%chg		Pair	Mar 28	Prev	Pair	Mar 28	Yield (%)	Mar 28	Prev	Chg	
S&P 500	3975.10	3977.53	-0.06	\$/€	1.083	1.078	€/\$	0.923	0.928	US 2 yr	4.04	3.96	0.09	
Nasdaq Composite	11705.60	11768.84	-0.54	\$/£	1.233	1.227	£/\$	0.811	0.815	US 10 yr	3.56	3.49	0.07	
Dow Jones Ind	32515.98	32432.08	0.26	€/€	0.879	0.879	€/€	1.138	1.138	US 30 yr	3.77	3.71	0.06	
FTSEurofirst 300	1760.07	1759.87	0.01	¥/\$	130.965	131.515	¥/€	141.881	141.794	UK 2 yr	3.36	3.27	0.10	
Euro Stoxx 50	4169.45	4164.62	0.12	¥/£	161.448	161.408	£ index	78.839	78.563	UK 10 yr	3.61	3.51	0.10	
FTSE 100	7484.25	7471.77	0.17	Sfr/€	0.998	0.988	Sfr/£	1.135	1.125	UK 30 yr	3.83	3.76	0.07	
FTSE All-Share	4072.46	4071.07	0.03	CRYPTO						JPN 2 yr	-0.06	-0.07	0.01	
CAC 40	7088.34	7078.27	0.14							JPN 10 yr	0.31	0.29	0.02	
Xetra Dax	15142.02	15127.68	0.09							JPN 30 yr	1.25	1.34	-0.09	
Nikkei	27518.25	27476.87	0.15	Bitcoin (\$)	26908.70	27142.33		-0.86		GER 2 yr	2.58	2.50	0.08	
Hang Seng	19784.65	19567.69	1.11	Ethereum	1737.66	1716.11		1.26		GER 10 yr	2.29	2.22	0.06	
MSCI World \$	2702.42	2692.55	0.37	COMMODITIES						GER 30 yr	2.36	2.30	0.06	
MSCI EM \$	964.01	972.17	-0.84											
MSCI ACWI \$	626.52	625.06	0.23											
FT Wilshire 2500	5152.97	5139.47	0.26	Oil WTI \$		73.76	Prev	72.81	%chg					
FT Wilshire 5000	40196.24	40086.80	0.27	Oil Brent \$		79.10	78.12	1.25						
				Gold \$		1946.25	1993.80	-2.38						

Prices are latest for edition
Data provided by Morningstar



China spends billions on Belt and Road rescue loans

Debt write-offs, corruption and scandal plaguing its Belt and Road infrastructure programme have forced Beijing to boost its supply of rescue loans to poor nations. Such lending hit \$104bn between 2019 and 2021, almost as much as the figure for the previous two decades. Financing the BRI, which is blamed for white elephant projects in problem countries, is a big risk for Chinese lenders. 'Beijing is trying to rescue its own banks,' says one expert.

Scheme falters ► PAGE 4

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INTERNATIONAL

Israeli crisis over reforms to judiciary becomes battle for soul of Jewish state

Seeds of upheaval were sown after November elections that forced Netanyahu into alliance with far right

JAMES SHOTTER — JERUSALEM
ANDREW ENGLAND — LONDON

Benjamin Netanyahu has dominated Israeli politics for nearly two decades, outmanoeuvring his rivals with a combination of ruthlessness and skill to become the longest-serving prime minister in the country’s history.

But on Monday, the wily politician was forced to reverse course, at least temporarily, on his far-right government’s drive to overhaul the judiciary, after plunging the country into its biggest crisis in decades. Following months of protests, Netanyahu caved in to public pressure after sacking his defence minister for criticising the plan triggered further unrest and a general strike that threatened to paralyse the nation.

As news of the dismissal spread late on Sunday, tens of thousands of Israelis flooded the streets to voice their anger. Israel was shutting down, as trade unions called on workers to down tools, sending the dissent rippling through institutions, with banks, embassies, ports and even Ben Gurion airport suspending services.

Netanyahu finally agreed late on Monday to postpone the overhaul until the next parliamentary session. But although the concession prompted the unions to call off the strike, demonstrations continued into Monday night, with organisers warning they would continue until the changes were finally rejected.

“The State of Israel is injured and hurting,” opposition leader Yair Lapid said after Netanyahu’s partial climb-down. “We don’t need to put a plaster over the injuries but to treat them properly.”

The seeds of the crisis, dubbed by some the worst in Israel’s 75-year history, were sown after the parliamentary election in November, and then swiftly became a battle for the soul of the Jewish state.

Netanyahu, battling corruption charges and shunned by mainstream former partners whom he had alienated, and his ultraorthodox allies entered into an alliance with far-right groups, headed by the once-fringe ultra-nationalists Itamar Ben-Gvir and Bezalel Smotrich. The manoeuvring delivered a four-seat majority, returning the divisive Netanyahu to office after 18 months in opposition.

One issue that united the coalition, the most rightwing in Israeli history, was a desire to rein in the judiciary. A radical overhaul, which would give the government and its allies greater power over appointing judges and limit the ability of the top court to strike down legislation, became a priority.

Proponents argued that the changes were necessary to restrain an overly activist court that had used powers it was never formally granted to push a leftwing agenda. But critics viewed the overhaul as a fundamental threat to Israel’s checks and balances that would weaken minority protections, foster corruption and damage the economy.

Opposition to the plans brought hundreds of thousands of Israelis on to the streets to protest. Crucially, they also prompted thousands of military reserv-



Angry voices: protesters against the planned overhaul of the legal system by Benjamin Netanyahu, below, take to the streets on Monday in Tel Aviv
Illa Yefimovich/dpa; Ronen Zvulun/Reuters



ists to threaten that they would refuse to train. It was this that led defence minister Yoav Gallant to issue the warning that got him sacked: that the polarisation generated by the planned overhaul posed a “clear, immediate and tangible threat” to Israel’s national security.

Some observers consider Netanyahu’s decision to let his government embark on such a radical path as part of an evolution under way since he was indicted on charges of bribery, fraud and breach of trust in 2020. Netanyahu has always denied the charges, dismissing them as a politically motivated witch-hunt.

After his indictment, Netanyahu became “a lot more aggressive and beligerent vis à vis Israel’s judiciary and law and enforcement agencies”, said Yohanan Plesner, president of the Israel Democracy Institute, a think-tank. “He also increasingly allied himself to the most marginal and extreme elements of Israeli society.”

Others see the plan to force radical changes through parliament within a few months of taking office as a miscalculation that underscores the extent to which Netanyahu’s partners, rather than he, control the government’s steering wheel.

“I don’t think he’s changed,” said Aviv Bushinsky, a former Netanyahu adviser turned political analyst. “Maybe he thought after this victory in the elections that he’s stronger than he is.”

Shalom Lipner, who worked under Netanyahu and is now a senior fellow at the Atlantic Council think-tank, said the prime minister had chosen to “ride the back of the tiger” by betting he could control Ben-Gvir and Smotrich.

But the upshot, he said, was that the far-right coalition, which has already fanned tensions with Palestinians in the occupied West Bank and soured ties with Israel’s neighbours, risked undermining Netanyahu’s legacy: stability, a booming economy and better relations

‘I’ve heard so many political eulogies for Netanyahu that it would be way too early to try and predict the end of his career’

with Arab countries that the veteran prime minister has long courted.

Despite the turmoil, and the coalition tensions laid bare in recent days, analysts said it was too early to write off the government since neither Netanyahu nor his partners had better alternatives.

“The rightwing parties will hardly get another chance to have 64 [seats in Israel’s 120-seat parliament] in the near future. Netanyahu knows it, they should know it,” said Roni Rimmon, a political consultant who ran the campaign that kick-started Netanyahu’s second term in 2009.

Plesner warned against underestimating Netanyahu, pointing out the Likud leader was unlikely to face any challenges from within his own ranks. “I’ve heard so many political eulogies for Netanyahu that it would be way too early to try and predict the end of his career,” he said.

While Plesner was certain that the judicial reform legislation “in the scope and the way they wanted to pass it is dead”, the fight would begin again if the main components were retained in a subsequent push when parliament returned in May. “It would mean we’re not entering internal peace within Israeli society, but rather a one-and-a-half month ceasefire,” he added.

See The FT View and Opinion

Presidential appeal

Herzog urges political parties to search for compromise

JAMES SHOTTER — JERUSALEM

Israel’s president Isaac Herzog has urged political leaders to begin immediate negotiations to find a solution to the political crisis, a day after the government delayed a bitterly contested judicial overhaul.

Israel has been gripped by its deepest political crisis in years since Benjamin Netanyahu’s government, the most rightwing in the country’s history, unveiled a plan to rein in the powers of the judiciary in January, triggering a months-long wave of protests.

After Israel’s biggest trade union announced a general strike on Monday and tens of thousands took to the streets in protest, Netanyahu finally backed down, agreeing to postpone passage of the legislation until the next parliamentary session in May to allow dialogue.

After his announcement, Herzog spoke to Netanyahu and the two opposition leaders, Yair Lapid and Benny Gantz, and urged them to appoint negotiating teams to reach a compromise.

As he announced the delay on Monday evening, Netanyahu said he was acting “out of a desire to prevent a rift in the nation” but insisted that “one way or another”, his government would pass a judicial reform.

Gantz welcomed the decision to pause the legislative process, but Lapid, head of the largest opposition party, Yesh Atid, struck a more cautious tone.

“We’ve got bad experience from the past and so first we’ll make sure that there’s no tricks or bluffing here,” Lapid said. “If the legislation really does stop, genuinely and totally, we are ready to start genuine dialogue.”

Other opposition figures expressed concern over how Netanyahu had promised his extreme-right coalition partner, Itamar Ben-Gvir, that a national guard would be set up under his aegis as national security minister, in order to persuade him to agree to a delay in the overhaul.

Gilad Kariv, from the opposition Labor party, said the national guard should be under the control of the police and that establishing it under the direct authority of Ben-Gvir would be “a serious threat to democracy”.

The US government, which had been pushing for a compromise, welcomed Netanyahu’s decision to halt the overhaul, which would have given the government and its allies greater control over the appointment of judges and severely limited the top court’s ability to strike down laws.

In an interview with Army Radio yesterday, Tom Nides, US ambassador to Israel, said Netanyahu was likely to receive an invitation to the White House, which had not been extended since he returned to office in December, after the Passover festival next month.

Netanyahu and his allies insist reform is needed to rein in an overly activist judiciary. But critics say the changes proposed by his government will fatally undermine Israel’s checks and balances, damage minority protections and weaken the economy.

PR voting system

Greece heads for election in May amid train crash anger

ELENI VARVITSIOTI — ATHENS

Greek prime minister Kyriakos Mitsotakis has called a general election for May 21 under a proportional representation system that will make it difficult for a single party to form a government.

Support for Mitsotakis’s ruling centre-right party, New Democracy, has fallen amid criticism of the government’s handling of a train crash in February, which claimed the lives of 57, the worst rail accident in the country’s history.

But it still has an opinion poll lead of about 5 percentage points over Syriza, the leftwing party of the previous government, which under then premier Alexis Tsipras changed the electoral law to introduce full proportional representation. If parties fail to agree on a coalition, a second ballot under a semi-proportional system could be held a few weeks later, by early July at the latest.

During a televised cabinet meeting yesterday, Mitsotakis said voters would be able to choose “whether the country will continue to claim and win the bet of modernisation”.

He called on Greeks to compare his administration with the previous Syriza government in terms of its handling of

the economy, defence and foreign policy and how Greece was viewed from abroad.

Even before February’s train crash, the premier’s standing with centrist voters had been undermined by a political scandal in which opposition politicians were wiretapped by the secret service, and international criticism over his government’s handling of irregular migrants crossing from Turkey. Centrist support is seen as crucial for Mitsotakis’s re-election.

But criticism of Mitsotakis has not boosted Syriza’s poll numbers. As people took to the streets in protest over the rail crash, their anger was directed not just at the current ruling party but at those who had been in power in the years leading up to tragedy.

Marginal parties are the ones who have gained popular momentum while the pool of undecided voters is rising. After the election was announced, Tsipras claimed the government was out of touch economically and most Greeks could not afford to pay bills.

During yesterday’s cabinet meeting, Mitsotakis said in 2019 Greece was “the last” in terms of eurozone growth. “Today our economy is increasing at almost double the eurozone average.”

Disease origins

Genomic data release boosts hopes of solving Covid puzzle

DONATO PAOLO MANCINI — LONDON

Genomic data relating to Covid-19 has been made fully available again, assisting independent assessment of a potential animal link to the outbreak of coronavirus in China in late 2019.

Global genomic repository Gisaïd made the data, which was first released in January by researchers affiliated to China’s Center for Disease Control and Prevention, accessible again yesterday. Analysis of the data found molecular evidence that animals including raccoon dogs on sale in late 2019 at a Wuhan market were susceptible to being infected by Sars-CoV2, the virus that causes Covid-19.

“We are glad to see these data made available again to all registered Gisaïd users through the platform,” Gisaïd told the Financial Times. “This will hopefully end the unfortunate speculation about what may or may not be gleaned from analysing these data.”

The data had been temporarily obscured pending what Gisaïd said were “newer and additional data as part of a manuscript under review” by Chinese CDC researchers. But the restoration of access will help scientists globally discern whether the findings on a potential

zoonotic link, first reported in The Atlantic, offer a credible theory on the pandemic’s origins.

Three years into the pandemic, there is no consensus or certainty on Covid’s origins, with the two main theories involving either an accidental lab leak or transmission of the virus from an intermediate animal host. The debate has pitted Washington against Beijing and split the scientific community.

Some US intelligence agencies believe the virus originated from an accidental lab leak, though their confidence in the assessment is not high, while a World Health Organization mission to China in 2021 concluded this was “extremely unlikely”. But the global health body has stressed that all options remain on the table and that China has not been forthcoming enough in sharing raw data about the early phases of the outbreak.

Wuhan, where the virus is thought to have originated, hosts the Wuhan Institute of Virology that is known to have conducted viral experiments. The city also hosts the Huanan wet market, to which early cases of the disease were linked.

Though it has been accused by some scientists of deleting data, Gisaïd has said it “does not delete records”.

Middle East

Assad cousins face sanctions over illegal Syria drugs trade

RAYA JALABI — BEIRUT

The US and UK have placed sanctions on Syrian president Bashar al-Assad’s cousins for their alleged role in the making and export of Captagon, a highly addictive amphetamine whose trade has become an economic lifeline for the regime.

The sanctions were imposed yesterday on four Syrians said to be involved in the illegal trade, including the president’s cousins, Samer Kamal and Wassim Badia al-Assad, and two Lebanese drug magnates. The UK targeted five additional people, including militia leaders and businessmen, over their ties to the Captagon trade, which it estimated was worth \$57bn in annual revenues to Damascus.

“Trade in the drug is a financial lifeline for the Assad regime — it is worth approximately three times the combined trade of the Mexican cartels,” the UK said announcing the sanctions.

While estimates of the market’s size and worth vary, the Captagon trade has long been associated with the Syria conflict, now in its 13th year. Fighters on the battlefield frequently took it to suppress appetites and sharpen concentration.

In recent years, with economic crises

in Lebanon and Syria worsening, experts warned that the trade had metastasised. Millions of Syrian-made Captagon pills worth billions of dollars have been seized by authorities in Middle Eastern countries as well as in southern Europe, where experts report a growing market.

Its huge scale has led analysts to conclude that the Assad regime, which has regained control of two-thirds of Syria, is complicit in the trade. Experts said Hizbollah, the Lebanese militant movement, and other Iranian-linked militias in the area were behind the drug’s surge.

Hizbollah and the Assad government have denied involvement in the making and trafficking of the drug.

Among the four Syrians targeted by Washington and London was Khalid Qaddour, a businessman. Qaddour, and the two Assad cousins, have been censured over their ties to the president’s younger brother Maher, who heads the Syrian army’s Fourth Division.

Announcing the sanctions, US Treasury’s Office of Foreign Assets Control said Maher and the Fourth Division were known for running illicit trades, ranging from “smuggling cigarettes and mobile phones to facilitating the production and trafficking of Captagon”.

INTERNATIONAL

Capitol Hill

SVB regulators were ‘asleep at the wheel’

Senate banking committee
rips into watchdogs in
wake of bank collapse

COLBY SMITH AND LAUREN FEDOR
WASHINGTON
LAURA NOONAN — LONDON

A top Republican has accused US regulators of being “asleep at the wheel” in the period leading up to the implosion of Silicon Valley Bank, in the first of two bruising congressional hearings intended to shed light on failings that led to the lender’s collapse.

Tim Scott, the top Republican on the powerful Senate banking committee, said SVB was “rife with mismanage-

ment”, and that a “clear supervisory failure” had played a role in its collapse.

“Our regulators were simply asleep at the wheel,” he said.

Sherrod Brown, Democratic committee chair, added: “We’re left with many questions, and a lot of justified anger, towards bank executives and boards, venture capitalists, federal and state bank regulators, and policymakers.”

“The officials sitting before us today know that their predecessors rolled back protections,” Brown said, “like capital and liquidity standards, stress tests, brokered deposit limits and even basic supervision. They greenlighted these banks to grow too big, too fast.”

The grilling comes as the collapse of

SVB and Signature Bank has sparked debate on Capitol Hill over whether new laws are needed to shore up the banking system or punish executives.

To contain the fallout, government authorities guaranteed all deposits at the banks, while the Federal Reserve launched a lending facility ensuring others could meet their depositors’ needs.

Michael Barr, the Fed’s top official on banking supervision, was forced to defend the US central bank after lawmakers suggested it had failed to act in the face of obvious warning signs of SVB’s vulnerabilities. Barr appeared alongside Martin Gruenberg, chair of the Federal Deposit Insurance Corporation, and Nellie Liang, under-secretary

for domestic finance at the Treasury.

Barr blamed the collapse of SVB on a “textbook case of mismanagement”. He said supervisors had found “deficiencies” at the lender dating back to late 2021, and had met SVB’s management in November 2022 “to express concern with the bank’s interest rate risk profile”. However, Fed staff had only briefed the central bank’s board of governors in mid-February of this year. The central bank is also facing further scrutiny, with senators on both sides of the political aisle calling for the Fed’s internal investigator to be replaced with one appointed by the president. In a joint letter sent to Fed chair Jay Powell ahead of yesterday’s hearing, Bob Menendez, a

Democratic senator from New Jersey, and Mike Rounds, a South Dakota Republican, also asked for details on whether the central bank had applied particular scrutiny to SVB, which had \$212bn in assets when it collapsed.

The governor of the Bank of England has dismissed the prospect of an imminent financial crisis, describing last week’s dumping of European bank shares as investors “testing out” lenders and insisting the world is not “at all in the place” it was before the 2008 crash.

Appearing before the cross-party Treasury committee yesterday, Andrew Bailey said officials were being “very vigilant” about market conditions.

See Martin Wolf and Markets Insight

Asia. Belt and Road Initiative

China’s global infrastructure scheme falters

Study reveals bailout bonanza
for developing countries and
projects that have gone awry

JAMES KYNGE — LONDON

China has significantly expanded its bailout lending as its Belt and Road Initiative blows up following debt write-offs, scandal-ridden projects and allegations of corruption.

A study published yesterday shows China granted \$104bn worth of rescue loans to developing countries between 2019 and the end of 2021. The figure for these years is almost as large as the country’s bailout lending over the previous two decades.

The study by researchers at AidData, World Bank, Harvard Kennedy School and Kiel Institute for the World Economy is the first known attempt to capture total Chinese rescue lending on a global basis.

Between 2000 and the end of 2021, China undertook 128 bailout operations in 22 debtor countries worth a total of \$240bn.

China’s emergence as a highly influential “lender of last resort” presents critical challenges for western-led institutions such as the IMF, which have sought to safeguard global financial stability since the end of the second world war.

“The global financial architecture is becoming less coherent, less institutionalised and less transparent,” said Brad Parks, executive director of AidData at William & Mary college in Virginia. “Beijing has created a new global system for cross-border rescue lending, but it has done so in an opaque and uncoordinated way.”

Rising global interest rates and the strong appreciation of the dollar have raised concerns about the ability of developing countries to repay their creditors. Several sovereigns have run into distress, with a lack of co-ordination among creditors blamed for prolonging some crises.

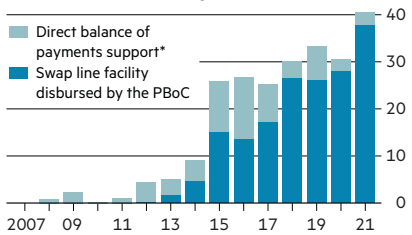
Sri Lanka president Ranil Wickremesinghe called on China and other creditors last week to quickly reach a compromise on debt restructuring after the IMF approved a \$3bn four-year lending programme for his nation.

China has declined to participate in multilateral debt resolution programmes even though it is a member of the IMF. Ghana, Pakistan and other troubled debtors that owe large



China’s bilateral bailouts total almost \$240bn

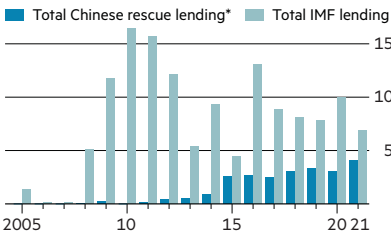
Cross-border rescue lending (\$bn)



* From state-owned Chinese banks & enterprises
Both categories include rollovers
Source: Horn, Parks, Reinhart & Trebesch: ‘China as an International Lender of Last Resort’ (AidData 2023)

China rescue lending equates to more than 40% of IMF lending in 3 years to 2021

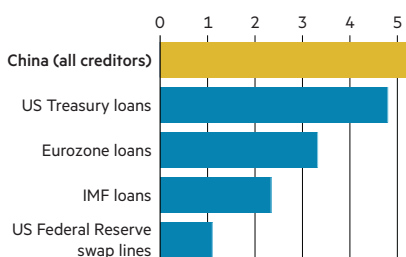
\$bn



* Includes rollovers; excludes non-distress recipients
There are classification differences between Chinese & IMF lending

Chinese loans are not cheap

Typical interest rate on rescue loans (%)



Unfinished business: a Chinese worker helps to build a railway station in southern Sri Lanka in 2018

Paula Bronstein/Getty Images

amounts to China are closely watching Sri Lanka’s example.

“[China’s] strictly bilateral approach has made it more difficult to co-ordinate the activities of all major emergency lenders,” said Parks.

Several of the 22 countries that China has made rescue loans to — including Argentina, Belarus, Ecuador, Egypt, Laos, Mongolia, Pakistan, Suriname, Sri Lanka, Turkey, Ukraine and Venezuela — are also recipients of IMF support.

However, there are big differences between IMF programmes and Chinese bailouts. One is that Chinese money is not cheap. “A typical rescue loan from the IMF carries a 2 per cent interest rate,” said the study. “The average interest rate attached to a Chinese rescue loan is 5 per cent.”

Beijing also does not offer bailouts to

all Belt and Road borrowers in distress. Big recipients of BRI financing, which represent a significant balance sheet risk for Chinese banks, are more likely to receive emergency aid.

“Beijing is ultimately trying to rescue its own banks. That’s why it has gotten into the risky business of international bailout lending,” said Carmen Reinhart, a Harvard Kennedy School professor and former chief economist at the World Bank Group.

China’s lending comes in two forms. The first is through a “swap line” facility, where renminbi is disbursed by the People’s Bank of China, the central bank, in return for domestic currency. About \$170bn was disbursed in this way. The second is via direct balance of payments support, with \$70bn pledged, mostly from state-owned Chinese banks.

‘Beijing is ultimately trying to rescue its own banks. That’s why it has gotten into [global] bailout lending’

The BRI is the world’s largest-ever transnational infrastructure programme. The American Enterprise Institute, a US think-tank, has put the value of China-led infrastructure projects and other transactions classified as “Belt and Road” at \$838bn between 2013 and the end of 2021.

The bailout bonanza reveals shortcomings in the design of a scheme described by Chinese leader Xi Jinping as “the project of the century”.

A \$1bn “road to nowhere” in Montenegro remains unfinished and dogged by corruption allegations. “White elephants” such as Sri Lanka’s Hambantota port and Lotus Tower are seen as symptoms of the country’s debt crisis, while more than 7,000 cracks were found in an Ecuadorean dam built by Chinese contractors near an active volcano.

Reopening

North Korea to restart diplomatic activity

EDWARD WHITE — SEOUL

North Korea is preparing to resume foreign diplomatic activity as Kim Jong Un gradually reopens the country after three years of isolation during the coronavirus pandemic.

Pyongyang is expected to rotate its foreign envoys in the coming months following a suspension of almost all diplomatic travel imposed at the beginning of the pandemic in 2020, according to two people familiar with the matter.

Diplomats and analysts said the presence of North Korean officials abroad would increase engagement with

Pyongyang and allow greater insight into the isolated regime, which has had limited contact with the outside world during the pandemic and seen talks with the US stalled on winding down its nuclear programme.

North Korean officials recently resumed travelling to neighbouring Vladivostok, in Russia’s Far East, and Beijing, laying the groundwork for greater engagement with the regime’s cornerstone allies, the people said.

Wang Yajun, China’s new ambassador to North Korea, arrived in Pyongyang this week. His predecessor, Li Jinjun, left the North Korean capital in late 2021.

Diplomats and analysts in Asia said the reopening would pave the way for greater communication with Kim’s officials at a time of heightened fears over North Korea’s nuclear weapons programme after a series of missile tests in recent months.

North Korean state media reported yesterday that Kim had ordered an expansion of the country’s weapons-grade materials to make “powerful nuclear weapons”.

Nuclear talks between Pyongyang

and Washington have been frozen since late 2019. Back-channel contacts with Pyongyang were especially important, diplomats and analysts said, after President Joe Biden sought to play down the North Korean nuclear issue to focus on competition with China, and Russia president Vladimir Putin’s invasion of Ukraine.

“There is a myth that North Korea doesn’t want to talk,” said Glyn Ford, a former member of the European parliament with connections to high-ranking North Korean officials, adding that any reopening was likely to be “slow”.

Ramon Pacheco Pardo, a North Korea expert at King’s College London, said the potential for a resumption of diplomatic travel to and from Pyongyang was “very positive” but cautioned that Kim’s support for Russia’s invasion of Ukraine would add another point of friction to already complicated talks.

North Korea has embassies in more than 45 countries; before the outbreak of Covid-19, more than 20 countries had diplomats in Pyongyang, including the UK, Germany and Sweden.

Additional reporting by Leo Lewis in Tokyo

Electric vehicles

US and Japan sign deal on car battery minerals

AIME WILLIAMS — WASHINGTON
KANA INAGAKI — TOKYO

The US and Japan yesterday announced a trade accord covering critical minerals needed for electric car batteries as Washington pushes to reduce its supply chain dependency on China.

As part of the deal, the countries will refrain from imposing export duties on lithium, cobalt, manganese, nickel and graphite. They will also share information on potential labour violations in the supply chain for those critical minerals and “identify opportunities to build their respective capacities”.

The deal comes as the Biden administration prepares to release guidance on how electric-car makers can qualify for the maximum tax credit under the Inflation Reduction Act, the climate legislation from Congress last year to jumpstart clean energy production.

The IRA, which seeks to reduce US emissions to half of 2005 levels by 2030, provides tax credits for companies that source parts and materials from countries with which Washington has a free

trade agreement. That potentially excludes the EU and Japan, which lack Congress-approved free trade deals.

The possibility of being blocked from IRA tax credits created tension between Tokyo and Washington as the governments worked to align on economic security issues such as export controls to stop China from developing advanced technologies including semiconductors.

Yasutoshi Nishimura, Japan’s minister of economy, trade and industry, said yesterday the deal was likely to pave the way for electric vehicles made with met-



Vital ingredients: a mixed block of lithium, nickel, cobalt and graphite

Deterrence

EU draws up anti-coercion trade tool after embargo on Lithuania

ANDY BOUNDS — BRUSSELS

The EU has agreed a new trade defence tool allowing it to retaliate against countries using punitive measures such as China’s block on Lithuanian imports over the Baltic state’s relationship with Taiwan.

The anti-coercion instrument is the latest in a series of recent unilateral measures Brussels has adopted after declaring China a “systemic rival” in 2019.

“This is a vital tool to deter economic intimidation and defend EU interests in an increasingly volatile world,” said Valdis Dombrovskis, trade commissioner. The agreement between the European parliament, member states and European Commission was reached on Monday night and is still subject to final approval in the coming weeks.

The bloc historically used the World Trade Organization to settle disputes but is increasingly disillusioned as the Geneva-based body’s dispute process has been hamstrung by the US’s refusal to participate in it fully.

“This instrument aims to deter third countries from targeting the EU and its member states with economic coercion through measures affecting trade or investment,” said the council of EU member states.

Among the measures that could be applied are increased customs duties, the withdrawal of import or export licences and restrictions in the fields of services and public procurement.

Once the legislation enters into force, which is expected to be in about six months, any member state can ask the commission to investigate any case of coercion.

If it determines that a country is coercing the member state, and the other governments agree, the commission can draw up a list of potential countermeasures which would be adopted unless a qualified majority of the 27 member states blocks them.

Brussels is obliged to take into account the impact on businesses.

In late 2021, China began an informal embargo on all imports from Lithuania and those from the EU with Lithuanian components after Vilnius allowed Taiwan to open a representative office there. The EU complained to the WTO and the case is continuing.

The commission has said there were several instances every year of economic coercion against EU members.

Among other measures targeting Chinese companies, the EU recently set up a mechanism allowing it to penalise companies receiving foreign subsidies that “distort” the internal market and another aimed at forcing open other countries’ public procurement markets.

Brussels has also proposed a ban on products made with forced labour.



Valdis Dombrovskis: ‘vital tool to deter economic intimidation’



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27 Mar 2023
8751FACC1DBA289BE20FCF1127100E1
D08AA15068E4EF351BE7B36EBA7244F

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81155C110B5CAB2B059F7F195B58903
442224C41A8FAF879C8A3E2FC8508FD

No happy ending Disney chief Bob Iger wields axe on thousands of jobs in drive to alleviate streaming service losses COMPANIES

Companies & Markets

Bern reported worries in 2019 over UBS and Credit Suisse

- Regulators voiced safeguarding fears
- Disclosure adds to political pressures

SAM JONES — ZURICH

Authorities in Switzerland concluded in 2019 that UBS and Credit Suisse, the country's two biggest banks, could no longer be saved in the event of a liquidity crisis using emergency measures put in place after the financial crisis.

"The special liquidity requirements for SIBs [systemically important banks] embedded in the Liquidity Ordinance [do] not safeguard the higher resilience of SIBs required by the Banking Act," a government working group, comprising members of the finance ministry, the Swiss National Bank and regulator Finma decided nearly four years ago.

There was no possibility of orderly wind-down of one of the two lenders, the working group concluded

There was no possibility of orderly wind-down of one of the two big banks, the group said, without far greater government support than had previously been anticipated.

A summary of the group's work was disclosed in Finma's annual report, released yesterday, and underlines that Credit Suisse's near-collapse raises serious questions for regulators.

Switzerland was regarded as having applied a stringent version of international regulatory standards on handling banking crises put in place after the crash 15 years ago.

The information will add fuel to a political crisis in Bern, with parliamentarians set to convene for an emergency session next month to scrutinise the government-organised rescue of Credit Suisse by UBS just over a week ago.

Anger over the deal is mounting, with a majority of Swiss in favour of legisla-

tion to split up the new bank and claw back bankers' bonuses.

On Monday night, the upper and lower houses of the assembly announced that they would be triggering legislation for creation of a parliamentary commission of inquiry, with wide-ranging powers of subpoena, to probe the sudden merger of the two banks, which will combine to become the world's fourth-largest lender.

Several lawmakers have asked why Swiss authorities did not take earlier measures to safeguard Credit Suisse — an issue that is likely to be a focus of the commission.

Just days before the bank's rescue, Finma and the SNB publicly reassured investors that the bank was stable and had plentiful liquidity.

Following the government working group's 2019 conclusions on inadequate liquidity provisions, it took three years for the Federal Council — the Swiss executive — to amend its existing ordinances on emergency liquidity.

The new measures, which were intended to address the working group's concerns, came into effect last June. They were inadequate, however, as became rapidly clear in the months that followed.

Finma began to harbour serious concerns about Credit Suisse's liquidity, even with the expanded liquidity laws in place, last October. In an interview with the Neue Zürcher Zeitung newspaper on Saturday, finance minister Karin Keller-Sutter said that clarification over the liquidity problems at the bank had been the first issue she had raised with civil servants when she took office in late December.

She recalled asking: "When will the point be reached at which the authorities have to intervene? At which point will Finma come to the conclusion that CS is no longer viable?"

Dimmer switch Tesla cars lose value faster than rival models after price cuts, data shows



Generating demand: Tesla has lowered prices in several markets since October to boost sales — Justin Sullivan/Getty Images

PETER CAMPBELL — LONDON

The value of second-hand Tesla cars has collapsed since the electric-vehicle maker embarked on a series of price cuts for new models in the past six months, according to sales data.

The value of a new Model 3 with a long-range battery bought in January this year in the UK for £57,435 is forecast to fall 46 per cent to £31,300 by January 2024, according to industry pricing agency Cap HPI.

This compares with only a 4 per cent fall over 12 months for the same model purchased in September 2021, which cost £48,435 new and was worth £46,300 a year later.

The Cap HPI data is for the UK, one of Tesla's largest markets, but the US group's cars have also experienced steep depreciation in other countries, according to industry executives.

Although second-hand car values have fallen this year compared with

2022, when old cars were often selling close to or above their new price, the depreciation of Tesla cars has been greater than rival electric brands.

In contrast to a Model 3's predicted decline in value of 46 per cent, a £50,395 electric Polestar 2 bought in January will be worth about £33,000 at the start of 2024, a loss of £17,395, or 35 per cent, Cap HPI forecasts.

The steeper depreciation in Tesla models potentially makes its cars more expensive in financing deals than rivals. This is because, under lease or personal purchase agreements, motorists have to finance the value a car loses over a leasing period.

This arrangement, which accounts for almost all new cars sold in the UK and is increasingly popular across Europe and the US, results in higher prices for vehicles that suffer steeper depreciation.

Tesla lowered prices for new cars in China in October, and then in the US,

Europe and the UK in January, and again on some models in March in order to generate demand.

Chief executive Elon Musk defended the cuts, saying: "The desire for people to own a Tesla is extremely high. The limiting factor is their ability to pay for a Tesla."

Tesla has also struggled to increase its second-hand sales operation, meaning cars are often sold too cheaply, said Dylan Setterfield, head of forecasting at Cap HPI.

Tesla's cuts sparked warnings of a price war among electric models but so far executives from rival carmakers have said they will not lower retail prices for new vehicles, for fear it will cause greater depreciation in the second-hand market.

Only Ford has cut the price of its electric Mustang in Europe, while Mercedes has cut the price of its electric E class in China. Tesla declined to comment on the resale data.

Prosecutors raid banks in France tax fraud probe

SARAH WHITE — PARIS

French prosecutors raided the Paris offices of BNP Paribas, Société Générale and several other large banks yesterday as part of a probe into alleged tax evasion tied to dividend payments.

In the biggest raid orchestrated by French financial prosecutors, investigators said they dispatched 150 agents to search emails and documents at the banks, which included HSBC, Natixis and BNP-owned brokerage Exane.

The financial prosecutor's office said the raids were linked to five investigations launched in 2021 over alleged money laundering and fiscal fraud charges. Separately, French tax authorities have sought to levy fines of more than €1bn on the banks, said a person familiar with the investigation.

The investigations centre on so-called "cum-cum" trades, or controversial transactions designed to seek tax advantages tied to the payment of dividends. In the deals under investigation, the banks allegedly helped foreign clients by temporarily taking the shares they held in French companies around dividend days to avoid tax being levied on them, prosecutors said.

SocGen and BNP Paribas confirmed the searches. The other banks did not return requests for comment.

The probes follow related dividend scandals in Germany, including around so-called "cum-ex" trades in which governments were duped into reimbursing taxes on dividends that were never paid.

Those trades have led to a wave of raids in Germany, including at international banks such as JPMorgan, Barclays and Morgan Stanley, while several bankers and a senior tax inspector have already received jail sentences. Related searches have also been conducted at banks in Britain at the behest of German investigators, who are examining the role of 100 banks on four continents.

Six prosecutors from Cologne had also helped co-ordinate the French searches, authorities in France said.

Yesterday's raids were designed to collect evidence on the way the dividend trades were orchestrated and if there had been deliberate efforts to help clients avoid tax, according to a person familiar with the investigation.

The more than €1bn sought by tax authorities has been contested by the banks, the person said.

France's economy ministry declined to comment.

Wages in Japan are finally showing signs of starting to climb

INSIDE BUSINESS

ASIA

Kana Inagaki



Over a private dinner late last year, the chief executive of a large listed Japanese company was doubtful about whether annual spring wage talks in 2023 would finally deliver increases in pay.

He told me that his guess was that the talks would lead to another false dawn, continuing a long, unerring cycle in Japan. With an ever-tightening labour market and nearly a decade of direct government lobbying to businesses to raise wages, each year felt like there was a sense of change in the air.

And at the end of every March, investors realised that their hunch was wrong once again as Japanese companies resisted raising wages and workers abandoned making aggressive salary demands. Even with global inflation rising, the Japanese chief executive thought that the administration of Fumio Kishida, prime minister, would struggle to persuade companies to finally raise wages. But at the risk of jinxing things, it does actually feel that there are grounds for optimism that the big moment Japan and its central bank have been desperately waiting for over the past three decades is coming.

Beyond headline figures that show a bigger than expected increase in monthly base salary by large businesses, companies including Uniqlo

owner Fast Retailing and carmaker Toyota are fundamentally changing their pay structure. This is partly to adapt more closely to international standards but also a more liquid job market that places a bigger emphasis on performance rather than seniority. That raises the risk that employees could be poached by competitors offering higher pay — a threat largely absent in the past.

The wage increases also are bolstered by inflationary pressures, with Japan's consumer prices rising at the fastest pace in 41 years. While inflation was initially triggered by the global energy crisis rather than strong underlying demand, there are increasing signs that price pressures are proving sticky. In turn, this has raised hopes that inflation will lead to higher wages.

"Maybe this is really the catalyst for the structure of the Japanese economy to change for the first time in 30 years," says a former Bank of Japan official. "Of course, it hasn't happened yet, but the possibility for change has now emerged."

Fast Retailing stunned the nation in January with a plan to raise wages in Japan by up to 40 per cent. Gaming group Nintendo, drinks company Suntory, and printer manufacturer Canon also revealed that they were increasing pay for some workers.

The *shunto* wage negotiations then kicked off in February with a surprising decision from Toyota, a bellwether for Japan Inc, to grant its 68,000 unionised workers in the country their highest pay rises in about two decades. The move was quickly followed by rival Honda.

Although second-hand car values have fallen this year compared with

agreed to grant an average pay rise of 2.3 per cent, excluding seniority-based pay, for the financial year that begins in April, compared with 0.5 per cent a year earlier.

So far, the markets are still divided on what that means for Japan, with economists at SMBC Nikko saying the strong wage negotiations are simply "one milestone", but Deutsche Securities hailing the outcome as "not just a one-time phenomenon but a vital step forward in the shift to an inflationary equilibrium".

The caution from many economists is well justified. It remains far from clear whether companies can sustain the wage increases into next year, especially with the global economic outlook becoming increasingly uncertain.

The *shunto* negotiations also involve only the largest corporations. For the small and medium-sized enterprises that employ at least 70 per cent of Japanese workers, the hurdles to salary increases are particularly high.

Still, even some of the smaller employers, who are struggling with the rising cost of imported materials, are being forced to raise wages to retain their workers in an extremely tight job market.

Sayuri Takashima, a 46-year-old president of a metal processing company in Osaka, increased the monthly pay for its eight employees by 30 per cent in the autumn despite wrestling with soaring steel and electricity costs. "In this age, my workers can easily find jobs with better conditions," says Takashima.

It will be critical for Japan to encourage such a liquid job market. If the country is to break out of its past cycle, that could provide the key to sustaining the wage momentum.

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COMPANIES & MARKETS

Oil & gas

BP and Adnoc seek NewMed stake

UK major and Abu Dhabi group offer \$2bn for half of Israeli gas concern

TOM WILSON — LONDON

BP has teamed up with Abu Dhabi National Oil Company to launch a \$2bn bid for a 50 per cent stake in an Israeli natural gas group as part of a plan to jointly pursue gas projects in the eastern Mediterranean.

Tel Aviv-listed NewMed, which has a market capitalisation of Shk8.6bn (\$2.4bn), is majority owned by Israel's Delek Group.

BP said it had partnered with Adnoc to make a non-binding offer to take the company private by acquiring the 45 per cent of NewMed that is publicly traded and 5 per cent of Delek's stake.

"BP and Adnoc intend to form a new joint venture that will be focused on gas development in international areas of

mutual interest, including the east Mediterranean," the UK energy major said in a statement yesterday. "This proposed transaction with NewMed Energy would be a significant first step in establishing this dynamic joint venture together with Adnoc."

NewMed holds the largest stake in the giant Leviathan offshore field, operated by Chevron, about 130km off the Israeli coast. Discovered in 2010, it produces 12bn cubic metres of gas a year and supplies Israel, Egypt and Jordan.

BP and Adnoc have offered to pay Shk12.05 per share, representing a 72 per cent premium to the pre-deal market price, valuing the company at about \$4bn.

NewMed's shares surged more than 36 per cent yesterday, while BP's stock was up 2.3 per cent.

Adnoc said the deal, if completed, would "strengthen the broader strategic partnership between Adnoc and BP".

It would also represent a further step

in strengthening commercial ties between the United Arab Emirates and Israel after the two countries agreed to normalise relations in a 2020 deal brokered by the US. Israel and the UAE have since signed a trade agreement that aims to advance bilateral trade to

'Having a new player like BP and Adnoc will enhance our ability to move this project forward'

more than \$10bn within five years.

Yossi Abu, NewMed chief executive, told the Financial Times that BP's expertise in building liquefied natural gas facilities would be particularly beneficial as the company seeks to double production from Leviathan.

In the second phase of the project, NewMed aims to increase annual production to 21bn-24bn cubic metres, 7bn

of which would be converted into LNG for export.

"Although Chevron is the operator, having a new player like BP and Adnoc will definitely enhance our ability to move this project forward," he said. The group aimed to take a final investment decision on the expansion in the second half of 2024, he added.

BP is also building a floating LNG project in the Atlantic, off the coast of Mauritania and Senegal. In February, the company moved to slow its retreat from oil and gas in response to what chief executive Bernard Looney said were increased calls for the company to invest in "today's energy system".

NewMed had been in merger talks with UK group Capricorn Energy, previously known as Cairn Energy, but activist investors scuppered the deal.

The proposed transaction with BP and Adnoc comes amid growing co-operation between Israel and some of its Middle Eastern neighbours.

Financials. Sector upheaval

First Citizens builds presence by pouncing on distressed banks

Family-run lender's balance sheet to more than double in size after seizure of failed SVB

ANTOINETTE GARA AND STEPHEN GANDEL
NEW YORK

A week before Silicon Valley Bank was seized by the Federal Deposit Insurance Corporation, the lender that would go on to acquire it was celebrating its 125th anniversary, having grown from a single branch based in rural North Carolina in the 19th century into one of the biggest banking dynasties in the US.

First Citizens Bank, which on Monday won an auction brokered by the FDIC to buy SVB, has in under three generations of family control capitalised on the industry upheaval to expand its balance sheet and make its owners a multibillion-dollar fortune.

With the assumption of \$110bn of assets from failed SVB, including about \$70bn in loans and \$40bn in cash, the size of First Citizens' balance sheet will more than double to \$219bn.

That will make it the 16th-largest bank in the US by assets, and put it just below the threshold at which it would be considered systemically important by the Federal Reserve.

It was founded as the Bank of Smithfield in 1898 with \$10,000 of capital and was the sole lender in Johnston County, where the majority of its customers worked on farms.

Current chief executive Frank Holding worked his way up the bank with a succession of roles in its branches before taking the reins from his uncle, Lewis Holding, since deceased, during the financial crisis.

But while Holding speaks with a southern drawl and preaches a straightforward approach to lending, he is a Wharton-educated dealmaker who has built First Citizens into a national banking presence by pouncing on distressed rivals being sold for bargain prices.

Holding was "not afraid to do any deal", said Phil Timyan, a private investor who has owned shares in First Citizens for nearly two decades.

"He has been an opportunistic guy in building the bank," he said of First Citizens' flurry of deals.

"He knew what the assets were, bought them at a discount, and they were immediately accretive."

Timyan noted that Holding was "doubling the size, and that he had bought SVB at a \$16bn discount".

First Citizens' winning bid was about 15 per cent below the value at which SVB carried the assets on its books.

Holding, with his sister Hope Bryant, the bank's vice-chair, and his brother-in-law Peter Bristow, its president, have acquired more than a dozen banks from the FDIC's ownership over the

past two decades. They have pursued hostile attempts to buy publicly listed lenders.

The Holding family controls First Citizens, and its members own about \$2bn of stock, according to Financial Times calculations.

The bank's shares rose more than 50 per cent on Monday after the purchase of SVB, resulting in a paper windfall of more than \$500mn for the family.

However, SVB and First Citizens could hardly be more different banks.

SVB was a lender to Silicon Valley start-ups and their investors, who held large balances at the bank and were offered a host of lending products from credit lines used to smooth out deal-making to large mortgages and even financing for wineries.

The typical depositor had a much higher balance than the \$250,000 protected by a federal guarantee, and just 3 per cent of the bank's deposits were insured.

Meanwhile, First Citizens operates a network of 550 branches that is about 30 times larger than SVB's footprint. The lender caters for the most part to customers in small towns across the

'We're proud to be recognised for strength and conservatism'

Frank Holding, First Citizens CEO

south-east of the US. Nearly 70 per cent of First Citizens' deposits are insured, according to FDIC data, meaning they are "sticky" and not as vulnerable to bank runs of the type that proved ruinous for SVB.

Nor does First Citizens rely on wholesale funding, the cost of which has risen sharply in line with increases in interest rates.

In 2020, the bank struck its biggest acquisition, agreeing to buy business lender CIT Group for \$2bn. The deal underscored its funding advantage.

"CIT wasn't as profitable as it could have been because it was primarily funded with wholesale funding," said Timyan. Holding "just put the assets on his balance sheet with their low deposit costs and materially increased what it earned".

On a call with analysts on Monday, Holding said that First Citizens' conservative profile had helped it win one of the largest FDIC auctions.

"We're proud to be recognised in the banking sector for conservatism and strength," said Holding. "This is a major reason why First Citizens has completed more FDIC transactions than almost any bank since 2009."

First Citizens plans to expand in the tech and venture space where SVB had been dominant.

Holding sees some overlap between SVB's customers and its own clients in Raleigh, North Carolina, an area dubbed the Research Triangle because it is home to a number of universities and biotechs.

When not scouring the industry for distressed-banking deals, Holding has a diverse range of business interests.

For instance, he is a director of the Mount Olive Pickle Company, a business in the eponymous North Carolina town, where First Citizens operates a branch.

Additional reporting by Mark Vandevelde in New York



Fairytale ends Disney sheds jobs to soften streaming loss

Spared: Tiana and Prince Naveen, from 'The Princess and the Frog', during the Magic Happens Parade at Disneyland in California. Hourly workers at Disney's theme parks are expected to be excluded from the wide-ranging job cuts

Jeff Gritchen/Orange County Register/SCNG

Bob Iger's plan to attack streaming boom-era spending at Walt Disney will pick up steam this week as the company begins the process of cutting about 7,000 jobs.

In a memo to staff, Iger said that the cuts would start this week and would last until the early summer, with the bulk taking place in April.

Iger told staff that the measures were needed for Disney to adopt "a more effective, co-ordinated and streamlined approach to our business".

The cuts are expected to be spread across the company, though hourly workers at its theme parks are not expected to be affected. They are the first big reductions at Disney since 2019, when the company cut thousands of jobs after completing its acquisition of 21st Century Fox.

Disney's moves come amid a wider retrenchment among the traditional Hollywood studios, which are seeking to stem billions in losses on streaming content. Disney plans to turn a profit in streaming next year and, along with

rivals such as Warner Bros, it is again emphasising the importance of box office revenue, which was often sacrificed to build its digital operations.

After Iger's surprise return as Disney chief executive in November, he outlined a plan to restructure the group and slash costs, which had skyrocketed as the company sought to expand the

7,000 Estimated number of jobs to be culled under Bob Iger's plans	\$1.5bn Quarterly loss in group's streaming division revealed last autumn
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Disney Plus streaming service. He has said that he plans to slash \$3bn from content budgets and \$2.5bn in other costs.

Iger told an investor conference this month that he was optimistic about Disney's streaming business but that he needed to "better rationalise" costs.

The company recorded a \$1.5bn quarterly loss in streaming last

autumn, a central factor in the dismissal of former chief executive Bob Chapek.

He added in his remarks at the conference that Disney would have to become "more disciplined about how much we spend on almost everything", noting that spending on TV series and movies had "just skyrocketed in a huge way and not a supportable way".

Cutting content spending could take longer, he said, because Disney has "full commitments" this year and into 2024. But executives on the content side of the business support the cuts, he added, and they "will deliver" the spending reductions.

In addition to the cost cuts, Iger is weighing his options on the fate of the Hulu streaming service.

Disney owns two-thirds of the business, with rival Comcast holding the remainder. The companies in 2019 agreed that either side could force a transaction starting in January 2024.

Technology

Lyft founders step back as new chief is named

RICHARD WATERS — SAN FRANCISCO

Lyft co-founders Logan Green and John Zimmer said they were stepping down from their roles running the company, after recent signs showed the US ride-hailing service has lost more ground against arch-rival Uber.

David Risher, a Lyft board member and early Amazon employee, will take over from Green as chief executive on April 17, the company said. Zimmer will step down as president on June 30.

The management reshuffle comes two months after Lyft conceded it would have to slash fares to try to stay competitive with Uber, denting its profit forecast for the latest quarter. Since the onset of the coronavirus pandemic it has lost market share to Uber, which was able to lean on its food-delivery service and international diversification to cushion it more from a drop-off in ridership.

Lyft's shares were down 2 per cent in early afternoon trading and have fallen 88 per cent from their price at the time

of the company's initial public offering in 2019.

Lyft said the founders had "decided to transition from their full-time executive management positions". In a blog post, Green said he wanted more time to spend with family and to "explore new ways I can contribute to protecting our planet". He added: "All founders eventually find the right moment to step back and the right leaders to take their company forward."

From the start, Lyft's founders sought



The US ride-hailing group has lost more market share to rival Uber

to position their service as a more friendly, community-minded alternative to Uber, but struggled in the face of aggressive pricing that the better-capitalised Uber used to try to drive out competitors. Thanks partly to its food-delivery service, which provided work for drivers during the pandemic, Uber has been able to maintain a larger network of drivers, strengthening its lead over its main domestic competitor.

Lyft has never reported an annual profit, and its accumulated losses by the end of last year reached nearly \$10bn.

Green and Zimmer started out with a carpooling service for long-range journeys called Zimride, before adding the Lyft service in 2012 and eventually renaming the company.

Lyft's founders will retain an interest in the company. Green will take over as non-executive chair while Zimmer remains vice-chair, Lyft said. Through a special class of shares they also control more than a third of votes in the group.

See Lex

Banks

ECB approves €5bn of UniCredit handouts

SILVIA SCIORILLI BORRELLI — MILAN

The European Central Bank has approved UniCredit's plan to significantly increase the amount it is returning to shareholders despite the banking sector's recent turmoil.

Italy's biggest bank said yesterday the ECB had signed off on its €3.34bn share buyback programme for 2022. Together with a proposed dividend, UniCredit will distribute €5.25bn to investors, a 40 per cent increase on 2021's levels.

The approval is a significant boost for the bank days ahead of its annual shareholder meeting, when investors will need to approve the planned dividend and the timing of the buyback programme.

The Financial Times reported in November that UniCredit and the European regulator clashed over the aggressive capital distribution strategy.

Ambitions to hand €16bn to shareholders through a mix of dividends and share buybacks has been a central pillar

of chief executive Andrea Orcel's strategy since he succeeded Jean Pierre Mustier in the top job in 2021.

UniCredit's share price has almost doubled since Orcel took over, with profits climbing to €6.5bn last year. The performance has led several of the bank's top shareholders to back a pay rise for Orcel, whose remuneration of €7.5mn already makes him one of the best-paid bankers in Europe.

German insurer Allianz, London-based fund Parvus and Norway's oil fund are all supporting the board's proposed 30 per cent pay rise for Orcel, defying calls by the world's largest proxy advisers to vote against it.

Under the plan, Orcel's fixed salary would increase from €2.5mn to €3.25mn. If targets for this year, including on profits and return on equity, are exceeded, his total remuneration will hit €9.75mn, with the bonus entirely paid in deferred shares.

Earlier this month, proxy advisers Glass Lewis and ISS urged shareholders

to reject the pay proposal, saying it would lead to an excessive increase in overall compensation of the bank's top management.

Edoardo Mercadante, the founder of Parvus, UniCredit's second-largest shareholder, told the Financial Times that "the structure [of the proposed pay package] is fair as it is strictly linked to new revised and upgraded targets . . . I don't understand the sensationalism around it".

At the shareholder meeting on Friday, investors will only be required to vote on the variable element of the pay package. The board has told shareholders it intends to increase Orcel's fixed pay by 30 per cent regardless of how they vote on the variable part.

"We need to do different things than the rest of the banks in Europe," said Cole Smead, of Arizona-based Smead Capital, a shareholder in UniCredit. "We can't be stingy to successful executives. Let's leave that to the banks that don't get it."

COMPANIES & MARKETS

OpenAI’s GPT-4 delivers increased proficiency, profitability and pitfalls

Microsoft-backed group’s latest software wins admirers but a lack of transparency raises concerns



MADHUMITA MURGIA
ARTIFICIAL INTELLIGENCE EDITOR

Klinton Bicknell was let into one of the technology world’s great secrets last September. The head of artificial intelligence at the language learning app Duolingo was given rare access to GPT-4, a new AI model created by Microsoft-backed OpenAI.

He soon discovered the new AI system was even more advanced than OpenAI’s earlier version used to power the hit ChatGPT chatbot that provides realistic answers in response to text prompts.

Within six months, Bicknell’s team had used GPT-4 to create a sophisticated chatbot of their own that human users could talk to in order to practise conversational French, Spanish and English as if they were in real-world settings, such as airports or cafés.

“It was amazing how the model had such detailed and specialised knowledge of how languages work and of the correspondences between different languages,” said Bicknell. “With GPT-3, which we had already been using, this just would not be a viable feature.”

Duolingo is one of a handful of companies, including Morgan Stanley Wealth Management and online education group Khan Academy, given prior access to GPT-4 before it was launched more widely this week. The release reveals how OpenAI has transformed from a research-focused group into a company worth almost \$30bn, racing

giants such as Google in efforts to commercialise AI technologies.

OpenAI announced that GPT-4 showed “human-level” performance on a range of standardised tests, such as the US bar exam and SAT school tests, and showed off how its partners were using the AI software to create new products and services.

But, for the first time, OpenAI did not reveal any details about the technical aspects of GPT-4, such as what data it was trained on or the hardware and computing capacity used to deploy it, because of both the “competitive landscape and the safety implications”.

This represents a shift since OpenAI was created as a non-profit in 2015, in part the brainchild of some of the tech world’s most radical thinkers, including Elon Musk and Peter Thiel. It was built on the principles of making AI accessible to all through scientific publications, and developing the technology safely.

A pivot in 2019 turned it into a profit-making enterprise with a \$1bn investment from Microsoft. That was followed this year by further multibillion-dollar funding from the tech giant, with OpenAI becoming a crucial part of Microsoft’s bet that AI systems will transform its business and products.

This transformation led Musk, who left OpenAI’s board in 2018, to tweet this week he was “still confused as to how a non-profit to which I donated ~\$100mn somehow became a \$30bn market cap

for-profit. If this is legal, why doesn’t everyone do it?”

OpenAI’s lack of transparency regarding the technical details of GPT-4 has drawn criticism from others in the AI community. “It’s so opaque, they’re saying ‘trust us, we’ve done the right thing,’” said Alex Hanna, director of research at the Distributed AI Research Institute and a former member of

Risks include an ability to provide detail on subjects including developing biological weapons

Google’s Ethical AI team. “They’re cherry-picking these tasks because there is no scientifically agreed-upon set of benchmarks.”

GPT-4, which can be accessed through the \$20 paid version of Chat-



Klinton Bicknell of Duolingo was allowed rare early access to GPT-4

GPT, has shown rapid improvement on earlier models at certain tasks. For instance, GPT-4 scored in the 90th percentile on the Uniform Bar Exam taken by would-be lawyers in the US. ChatGPT reached the 10th percentile.

While OpenAI did not provide details, AI experts believe the size of the model is larger than previous generations and it has had a lot more human training to fine tune it.

The most obvious new feature is that GPT-4 can accept input in both text and image form — although it only responds using text. This means users can upload a photo to ask the model to describe the picture in painstaking detail, request ideas for a meal made with ingredients present in the image, or ask it to explain the joke behind a visual meme.

GPT-4 is also able to generate and ingest far bigger volumes of text compared with other models of its type: users can feed in up to 25,000 words, compared with 3,000 words into ChatGPT. This means it can handle detailed financial documentation, literary works or technical manuals.

Its more advanced reasoning and parsing abilities mean it is far more proficient at analysing complex legal contracts for risks, said Winston Weinberg, co-founder of Harvey, an AI chatbot built using GPT-4 and used by PwC and magic circle law firm Allen & Overy.

Despite these advances, OpenAI has warned of several risks and limitations

of GPT-4. This includes its ability to provide detailed information on how to conduct illegal activities — including developing biological weapons and generating hateful and discriminatory speech.

OpenAI put GPT-4 through a safety testing process known as red-teaming, where more than 50 external experts in disciplines ranging from medicinal chemistry to nuclear physics and misinformation were asked to try to break the model.

Paul Röttger, an AI researcher at the Oxford Internet Institute who focuses on the identification of toxic content online, was contracted by OpenAI for six months to try to elicit harmful responses from GPT-4 and provide feedback, on topics ranging from suicide or self-harm content to graphic descriptions of violence or examples of extremism and hate speech.

He said that, overall, the model improved its responses over the months of testing, where it would initially hedge its answers but later become more unequivocal in its responses to bad prompts.

“On one hand, safety research has progressed since GPT-3, and there’s a lot of good ideas that went into making this model safer,” he said. “But, at the same time, this model is so much more powerful and can do a lot more things than GPT-3, so the risk surface has gotten a lot bigger too.”

Technology

Microsoft hit with antitrust investigation in Germany

GUY CHAZAN — BERLIN
JAVIER ESPINOZA — BRUSSELS

Germany’s antitrust watchdog has launched a probe into Microsoft to assess its power in the market, in a move that could presage a regulatory crackdown against the US tech giant.

The federal cartel office, or Bundeskartellamt, yesterday said it would look at whether Microsoft should be designated of “paramount significance for competition across markets”.

The action is being launched under Section 19a of the German Competition Act, which came into force in January 2021, and gives Germany’s authorities powers to go after so-called gatekeepers such as Meta, Google and Amazon, including the ability to impose sanctions such as forced divestments against companies and even break them up.

“Such a finding would allow us to take action at an early stage and prohibit possible anti-competitive practices,” said Andreas Mundt, head of the agency.

The investigation comes with Microsoft already under intense scrutiny from regulators in the US, the UK and the EU over its attempt to acquire gaming company Activision, owner of the popular game *Call of Duty*. However, recent provisional findings in the UK and the EU have narrowed their concerns.

The German probe is in its early stages and does not yet entail an assessment of Microsoft’s business practices, said the Bundeskartellamt.

It said if there were any indications of Microsoft engaging in potentially anti-competitive practices, a “separate decision will have to be issued in this matter — also in consultation with the European Commission and possibly other competition authorities”. Regulators in Germany argue that Section 19a is years ahead of the EU’s Digital Markets Act, and has the potential to capture even more illegal conduct by being less prescriptive on what constitutes anti-competitive behaviour.

Since the law came into force, the Bundeskartellamt has determined that Google-parent Alphabet, Meta and Amazon are of paramount significance for competition across markets.

Mundt noted Microsoft’s “very strong position” in operating systems and office software, the growing importance of its cloud services Azure and OneDrive, “which are often linked to other Microsoft applications”, and the “resounding success” of Teams, its videoconferencing software.

He also alluded to its Xbox gaming console, the LinkedIn platform, its Bing search engine and its AI applications.

The Bundeskartellamt said a company could be found to have “paramount significance for competition across markets” if it has created a “digital ecosystem which extends across various markets”.

Microsoft said it was “mindful of our heightened responsibility to support a healthy competitive environment” and added that it “will engage constructively with the Bundeskartellamt”.

Technology

Isar raises \$165mn to fund rocket launches

PEGGY HOLLINGER

Munich-based rocket start-up Isar Aerospace has defied a gloomy funding environment in the space tech sector to raise \$165mn from new and existing investors as it accelerates towards its planned launch this year.

Daniel Metzler, co-founder and chief executive, said the funds would help ramp up manufacturing of its Spectrum rocket and would be sufficient to carry Isar through several launches, whether or not they are successful.

“Even if we have multiple failures, we would still not need to raise more cash to ramp up manufacturing and operation of the current rocket,” he told the Financial Times. “This puts us into a comfortable position.”

Isar has raised \$330mn in total since its foundation in 2018 but has used up just \$150mn, Metzler said. “We can be very capital efficient.”

Metzler’s comments came as Sir Richard Branson’s Virgin Orbit struggles to find investors willing to bail out his rocket company. Virgin Orbit is facing a cash crisis, having burnt through most of its funds during its attempt to be the first to launch satellites from the UK last January.

The mission failed and the company this month suspended operations for a week while it sought emergency funding. Branson has invested a total of more than \$1bn in Virgin Orbit.

Other rocket companies are also seek-

ing new investors. Rocket Factory Augsburg’s majority owner OHB has signalled it is looking to reduce its 56.6 per cent shareholding in the microlaunch company by selling “a significant stake”.

Yet investors last year retreated from the space tech sector with private investment falling 58 per cent, according to Space Capital.

But Isar’s fundraising could signal the beginning of a return of investor appetite. The group has chosen to follow the Elon Musk model of vertical integration by designing, manufacturing and testing its vertical launch system in-house. It has also adopted automotive processes in manufacturing, attempting to fully automate the production process.

This is the fourth funding round since Isar was founded by three post-grad students from the Technical University of Munich. Metzler refused to reveal the valuation attributed to the company by the latest fundraising but said it had



The Munich-based start-up plans to launch the first Spectrum this year

increased since the last round in July 2021. At that time, estimates put the valuation at about \$550mn.

The group was on track to deliver a rocket capable of carrying satellites to their specific orbits at a price of about \$10,000/kg, Metzler said.

This was still substantially higher than the low-cost ride-share service offered by Musk’s SpaceX. But the Isar chief executive said the imminent maiden flight of Musk’s superjumbo rocket, Starship, was not a fundamental threat to his company’s service that delivered satellites to specific, dedicated orbits, unlike ride-shares.

“I definitely think for a few standard orbits, they will drive down the pricing,” he said. “But as soon as you deviate from those very, very standard orbits, it starts not really being very effective. Just the fuel cost of Starship is more than what we will charge for our full vehicle.”

The European Space Agency is strongly supporting Isar and other launch start-ups as it faces the prospect of losing access to space later this year. The agency has faced serial setbacks on Europe’s latest rocket programmes, Vega C and Ariane 6, and will have no launch capability once the Ariane 5 rocket is retired this year.

Two new investors joined existing Isar shareholders Porsche, Lombard Odier, and others. They are 7-Industries Holding, a family office focused on industrial companies, and Bayern Kapital, the venture arm of the Bavarian state.

INTESA SANPAOLO

EXTRACT OF THE NOTICE OF CALL OF ORDINARY SHAREHOLDERS’ MEETING
(pursuant to Article 125-bis, paragraph 1, of Legislative Decree no. 58/1998)

The **Ordinary Shareholders’ Meeting** of Intesa Sanpaolo S.p.A. is convened, on **single call**, at the New Headquarters in Torino, Corso Inghilterra no. 3, at **10:00 a.m. on 28 April 2023**, to discuss and pass resolutions on the agenda as stated below.

In compliance with Article 106, paragraph 4, of Decree Law no. 18 dated 17 March 2020, converted by Law no. 27 dated 24 April 2020, the effects of which were most recently extended by Law no. 14 dated 24 February 2023, the Company decided to avail itself of the option establishing that participation in, and voting at, the Shareholders’ Meeting shall only be allowed through the Appointed Representative pursuant to Article 135-undecies of Legislative Decree no. 58/1998, as per the indications provided in the specific paragraph of the notice of call available on the website group.intesasnpaolo.com (“Governance”/“Shareholders’ Meeting”).

Agenda:

- 2022 financial statements:
 - Approval of the Parent Company’s 2022 financial statements
 - Allocation of net income for the year and distribution of dividend to shareholders;
- Remuneration:
 - Report on remuneration policy and compensation paid: Section I – Remuneration and incentive policies of the Intesa Sanpaolo Group for 2023
 - Report on remuneration policy and compensation paid: non-binding resolution on Section II – Disclosure on compensation paid in the financial year 2022
 - Approval of the 2023 Annual Incentive Plan based on financial instruments;
- Own shares:
 - Authorisation to purchase and dispose of own shares to serve the Incentive Plans of the Intesa Sanpaolo Group
 - Authorisation to purchase and dispose of own shares for trading purposes.

Information on the share capital as well as on methods and terms applicable to:

- participating in, and casting votes at, the Shareholders’ Meeting **only through the Appointed Representative Computershare S.p.A.**,
- communication of ownership of voting rights with record date on 19 April 2023,
- exercising the right to add items to the agenda, the right to submit new proposals for resolution and the right to ask questions on the items on the agenda,
- the availability of the reports concerning the items on the agenda with the related documentation,

is set forth in the notice of call available on the website group.intesasnpaolo.com (“Governance”/“Shareholders’ Meeting”).

This extract is published in the daily newspapers “Il Sole 24 Ore”, “La Stampa”, “Corriere della Sera”, “Financial Times” and “The Wall Street Journal”.

for the Board of Directors
The Chair – Gian Maria Gros-Pietro

Intesa Sanpaolo S.p.A. Registered Office: Piazza S. Carlo, 156 10121 Torino Italy Secondary Registered Office: Via Monte di Pietà, 8 20121 Milano Italy Share Capital Euro 10,368,870,930.08 Torino Company Register and Fiscal Code No. 00799960158 “Intesa Sanpaolo” VAT Group representative Vat Code No. 11991500015 (IT11991500015) Included in the National Register of Banks No. 5361 ABI Code 3069.2 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund and Parent Company of the banking group “Intesa Sanpaolo” included in the National Register of Banking Groups.

COMPANIES & MARKETS

Crypto. Presale perks

FTX offered cheap digital tokens to bosses at lender Genesis



Special access ahead of public issuance highlights cosy links and sector’s interlaced nature

KADHIM SHUBBER AND NIKOU ASGARI
LONDON

Executives at a major lender to Sam Bankman-Fried’s defunct hedge fund had privileged early access to issuances of new tokens backed by the entrepreneur’s crypto exchange FTX, the Financial Times has learnt.

Genesis was long a source of funding for Alameda Research, the trading firm at the heart of Bankman-Fried’s alleged theft of customer assets from FTX.

The close relationship included opportunities for some Genesis executives to invest in cryptocurrencies Bankman-Fried helped launch at a discounted rate before the tokens were issued to the public, according to people familiar with the matter.

The access highlights the past closeness of the groups, both in bankruptcy, and the broader intertwined nature of the crypto industry, which is dominated by a small number of companies with various overlapping investments and interests.

Genesis’s lending unit failed earlier this year after suffering losses from the failure of Bankman-Fried’s crypto empire and another collapsed crypto hedge fund, Three Arrows Capital.

Genesis is FTX and Alameda’s biggest creditor and is owed \$226mn, according to US bankruptcy court records.

Former Genesis employees said Bank-

man-Fried gave some executives at the lender the opportunity to invest in “pre-sale” tokens of FTT, the FTX native token that launched in 2019, and Serum, which launched in 2020 with backing from FTX and Alameda.

The presale access to FTT and Serum, also offered to others outside Genesis in Bankman-Fried’s network of industry contacts, gave the Genesis executives an opportunity to profit after retail investors bought in.

It is unclear how widespread the access was within Genesis. One former executive told the FT they were unaware of any such offers from FTX.

Crypto token offerings to retail investors in recent years typically followed early funding rounds involving venture capital and other investors. In return for a discounted price, the early investors often agreed not to sell the tokens for a period that could range from a few months to years.

On launching FTT, FTX offered some Genesis executives presale access through a “very standard” one-page offering, a second former Genesis executive said.

They decided not to invest in FTT, but later rued their decision when the price of the token surged, the former executive said.

“That was a big miss,” the person said.

Further opportunities followed, including Serum, a project launched on the Solana blockchain network with backing from FTX and Alameda. Solana itself was also championed by Bankman-Fried.

“The only reason we invested in Serum is we missed FTT,” the former

Genesis executive said. At launch in August 2020, Serum’s price spiked 1,500 per cent.

Thomas Braziel, co-founder of 507 Capital, which has bought claims in several crypto bankruptcies including Genesis and FTX, said the revelations raised questions about Genesis’s lending and whether there had been a “weird quid pro quo” with Alameda.

Braziel said the practice was consistent with his understanding of how Bankman-Fried operated.

“He really took care of people he thought were important to him . . . He was doing a good job of keeping everybody’s bread buttered.” FTX and Alameda, now under new joint management in bankruptcy, did not respond to a request for comment. Genesis did not

US authorities are building a case against Sam Bankman-Fried in what they are calling one of the biggest frauds in history. Genesis is FTX and Alameda’s largest creditor and is owed \$226mn, according to court records

John Minchillo/AP

respond to requests for comment. A spokesperson for Bankman-Fried declined to comment.

US-based Genesis launched in 2013 and is part of SoftBank-backed Digital Currency Group, one of the oldest investors in crypto companies. Genesis’s lending arm launched in 2018 and became a source of credit for crypto ventures, originating \$131bn worth of loans in 2021.

Genesis’s \$226mn exposure to Bankman-Fried’s ventures when they collapsed had previously been much larger, but in the summer of 2022 Alameda repaid loans to Genesis and other lenders as crypto markets faltered.

US authorities have accused Bankman-Fried of repaying Alameda’s creditors in 2022 with funds from FTX without telling them the true source of the money.

Bankman-Fried has denied any wrongdoing.

A Genesis entity, GGC International Ltd, is on the official committee of unsecured creditors in the FTX and Alameda joint-bankruptcy process.

The FTT and Serum tokens, along with Solana, were also accepted by Genesis as collateral pledged by Alameda to secure its borrowings, according to people familiar with the relationship.

Alameda was more than just a source of direct loan demand for Genesis, according to a former Genesis employee who said that the hedge fund referred clients to the lender.

“It was a tremendous pipeline for us,” they said.

Additional reporting by Joshua Oliver



Bankman-Fried ‘was doing a good job of keeping everybody’s bread buttered’

Our global team gives you market-moving news and views, 24 hours a day
[ft.com/markets](#)

Equities

BoE governor brushes off fears of new financial crisis

LAURA NOONAN — LONDON

The governor of the Bank of England has downplayed the prospect of an imminent financial crisis, describing last week’s dumping of European banks’ shares as investors “testing out” lenders and insisting the world is not “at all in the place” it was before the 2008 crash.

Appearing before the cross-party Treasury select committee yesterday, Andrew Bailey said officials were being “very vigilant” about market conditions. They were also considering tightening some rules following Credit Suisse’s implosion and the collapse of Silicon Valley Bank, described by Bailey as “the fastest passage from health to death since Barings”.

But Bailey insisted that the UK banking sector remained “very strong” and the issues that afflicted both SVB and Credit Suisse were idiosyncratic ones that should not imperil the wider global financial system.

“What we saw at the tail-end of last week . . . I think there are moves in markets to test out firms,” Bailey said, referring to a wave of selling that erased 8.5 per cent of Deutsche Bank’s market cap on Friday and wiped 3.8 per cent off the wider Europe’s Stoxx 600 banks index. The sentiment was echoed by Dave Ramsden, a deputy governor, who said things had become “calmer” in the

‘What we saw at the tail-end of last week . . . I think there are moves in markets to test out firms’

aftermath of UBS’s shotgun marriage with Credit Suisse.

At the same hearing, Sam Woods, head of the BoE’s supervisory arm, joined international calls for a tightening of liquidity rules designed to make sure banks have enough cash to meet any requests from depositors.

A run on deposits was a key factor in the demise of both SVB and Credit Suisse, and their supervisors ultimately deemed both banks unviable because they were judged to be days away from not being able to meet depositors’ requests. Credit Suisse was already governed by global rules designed to ensure banks have enough liquidity to cover 30 days of high outflows.

“I think there’s going to be a question for all of us . . . as to whether those outflow rates are quite right,” Woods said, arguing for “recalibrating” the metric, known as the liquidity coverage ratio.

Woods also said there was a “legitimate question” about whether the BoE should shift the threshold at which it forces banks to be classed as subsidiaries rather than branches. Subsidiaries, as SVB UK was, must hold their own financial resources and are more tightly supervised than branches.

Under the Prudential Regulation Authority’s current approach, branches typically have less than £100mn of retail and small company deposits covered by the UK compensation scheme, and fewer than 5,000 retail and small business customers.

Commodities

Oil price drop a ‘wake-up call’ for shale groups betting on another energy rally

JUSTIN JACOBS — HOUSTON

US oil producers cut back on price hedges this year in a bet that energy markets would rally again, a move that has left them vulnerable after turmoil in the banking sector knocked down the price of crude.

The collapse of Silicon Valley Bank triggered a sell-off in US oil markets this month from recent highs of \$80 a barrel. Prices have recovered to about \$73 a barrel but remain at a level that could force producers to curtail plans to increase output or reduce payouts to shareholders, analysts say.

Many producers were left more exposed after they had rolled back hedges, a form of insurance against commodity market downturns. They were emboldened to do so after a surge in oil and natural gas prices gave them record profits last year.

“The fall in prices has been a wake-up call,” said Matt Bernstein, an analyst at Rystad Energy.

Top publicly listed shale producers have locked in prices for only about 27 per cent of their output for 2023 at an average of approximately \$66 a barrel,

down from the more than 40 per cent of output they hedged last year, according to data from Rystad.

Some of the largest US producers, including Pioneer Natural Resources, EOG Resources and ConocoPhillips, have little to no price hedges in place for this year.

Scott Sheffield, chief executive of Pioneer, defended the positions, saying the recent dip in crude markets “had nothing to do with the lack of oil demand” and that he was still “optimistic that



Shale groups at the Permian Basin in Texas have cut back on price hedges

we’ll see \$100 a barrel before the end of the year . . . We’re not going to hedge.”

Producers pulled back on hedges to avoid a repeat of last year, when they left billions of dollars on the table by locking in prices at an average of about \$55 a barrel before Russia’s full-scale invasion of Ukraine sent crude soaring well above \$100.

Oil producers hedge prices in futures and other derivatives markets to guard against price drops and ensure they have cash to fund drilling, debt payments and other expenses.

Hedging has become less attractive as the oil futures curve has declined along with the spot price. Producers can currently execute contracts for delivery in September 2023 at approximately \$72 a barrel, compared with about \$90 if they had entered into the contract last summer when markets were more worried about adequate supplies.

Analysts warn that current oil prices could start to put financial pressure on some producers, especially after oilfield services inflation raised their so-called “break-even” price, the level they need to cover expenses and shareholder payouts.

MARTIN ARNOLD — FRANKFURT
LAURENCE FLETCHER — LONDON

The European Central Bank’s top supervisor has claimed “opaque” trading in credit default swaps is harming banks’ share prices and could threaten a run on deposits.

Andrea Enria, chair of the ECB supervisory board, called for a review of the market after sharp moves in the prices of CDS preceded a sudden drop in the shares of Deutsche Bank and other European lenders last Friday.

“With a few million you can move the CDS spread of a trillion-euro-asset bank and contaminate stock prices and possibly also deposit outflows,” Enria told a conference in Frankfurt. “That is something that concerned me a lot.”

The turmoil in the banking sector has cast a spotlight on the market for single-name CDS, which act like insurance and pay out if a company defaults, making them watched as an indicator of a company’s financial strength.

Answering a question about Friday’s share price fall at Deutsche, Enria said the CDS market was “very opaque, very shallow and very illiquid”. He said there

should be “more transparency” in the CDS market by shifting trading to central counterparty clearing and it should be examined by the Financial Stability Board, a global regulatory body.

“For instance, having these types of markets all centrally cleared, rather than having all these . . . opaque transactions going on somewhere, where you don’t know who is trading, I think that

‘With a few million you can move the CDS spread of a trillion-euro-asset bank and contaminate stock prices’

would already be great progress in this market,” he said.

Deutsche shares fell as much as 14 per cent on Friday, prompting German chancellor Olaf Scholz to reject comparisons between the country’s biggest bank and Credit Suisse, which was rescued by rival UBS. Shares in Deutsche have since partially recovered, but remain down a fifth in the past month.

The derivatives are thinly traded, in the final three months of last year there

were on average only nine trades a day in Deutsche’s CDS even though it is one of the most traded, according to the US Depository Trust and Clearing Corporation, which runs a swaps data repository, although it is unclear how often they were traded this month.

Deutsche’s five-year CDS rose from less than 100 basis points two weeks ago to more than 200bp by Friday, as concerns grew that the German lender may be the next to come under pressure following three US regional bank failures and Credit Suisse’s forced sale to UBS.

Hedge funds were at the same time building bets against Deutsche’s shares. Short interest rose from less than 2 per cent to more than 3 per cent, the highest since May, in the same period, according to S&P Global Market Intelligence.

Marshall Wace, one of Europe’s biggest hedge fund firms, held a short position against Deutsche of 0.61 per cent of its shares as of Friday, a regulatory filing showed.

Credit Suisse’s CDS this month rose from less than 400bp to more than 1,000bp, reflecting worries about its financial position, shortly before it was bought by UBS.

COMPANIES & MARKETS

The day in the markets

What you need to know

- Wall Street takes stock of banks strife
- Expected rate rise pause hits dollar
- US government bonds weaken

US stocks slipped in morning trade yesterday as investors reassessed prospects for the banking sector following weeks of uncertainty over its health. The blue-chip S&P 500 fell 0.1 per cent and the tech-heavy Nasdaq was 0.6 per cent lower.

Bank stocks were steady, with the KBW Nasdaq Bank index up 0.2 per cent, while Citigroup fell 0.1 per cent and JPMorgan was 0.2 per cent higher. Bank stocks had risen on Monday as regulators confirmed First Citizens Bank would purchase part of the collapsed Silicon Valley Bank.

“At the moment no news is good news. People are waiting for the dust to settle and to see if there is another banking stress,” said Nadège Dufossé, global head of multi-asset at Candriam. “I expect better news flow around inflation in coming months but for now we don’t know the impact on growth. We’re not out of the woods yet and will continue to see volatility.”

The Stoxx Europe 600 Banks index, which includes the region’s biggest lenders, closed up 0.7 per cent. Commerzbank was among the biggest gainers, up 1.5 per cent. Deutsche Bank, however, was down 1.3 per cent.

The mood was reflected in broader share indices, with the region-wide benchmark Stoxx 600 flat and Germany’s Dax up 0.1 per cent. London’s FTSE was up 0.2 per cent.

The dollar index, which measures the greenback against a basket of six peers,

Investors turn away from short-term US debt as banking fears recede

Yield on two-year US Treasury (%)



Source: Refinitiv

fell 0.4 per cent. The US currency has fallen 3 per cent in the past two weeks as investors’ expectations that the Federal Reserve would raise interest rates have receded. Investors and economists are now weighing the impact of the banking crisis on growth and the likelihood and severity of a recession. According to analysts at UBS, the Fed’s downgrade of its 2023 growth forecast “suggests that either the banking stress is worse than investors currently know (the Fed gets bank data before the market) or the Fed is being conservative with its growth assumptions because the credit

tightening impact is highly uncertain. For investors, the safest conclusion is that the risk of a recession has gone up.”

In Asia, the Hang Seng index closed up 11 per cent after Monday data showed that Chinese industrial profits declined 22.9 per cent year on year.

Government debt weakened, with yields on two-year US Treasuries rising 0.06 percentage points to more than 4 per cent, while 10-year notes rose 0.02 per cent to 3.55 per cent.

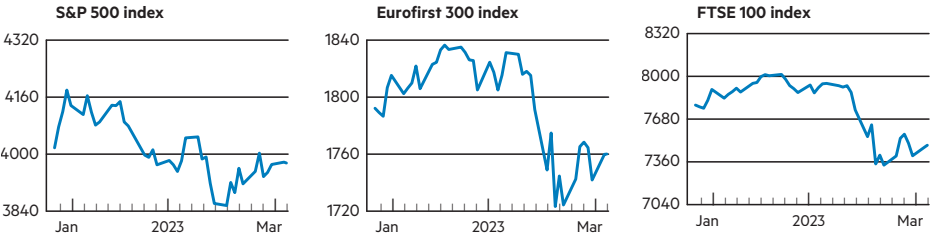
Brent crude rose 1 per cent to \$78.85 a barrel, while WTI, the US equivalent, was up 0.9 per cent at \$73.50. **Martha Muir**

Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	S&P 500	Eurofirst 300	Nikkei 225	FTSE100	Shanghai Comp	Bovespa
Level	3975.10	1760.07	27518.25	7484.25	3245.38	100739.45
% change on day	-0.06	0.01	0.15	0.17	-0.19	1.07
Currency	\$ index (DXY)	\$ per €	Yen per \$	\$ per £	Rmb per \$	Real per \$
Level	102.464	1.083	130.965	1.233	6.885	5.179
% change on day	-0.382	0.464	-0.418	0.489	0.035	-1.047
Govt. bonds	10-year Treasury	10-year Bund	10-year JGB	10-year Gilt	10-year bond	10-year bond
Yield	3.560	2.285	0.309	3.612	2.876	12.580
Basis point change on day	7.270	6.200	1.970	9.800	0.000	-8.900
World index, Commods	FTSE All-World	Oil - Brent	Oil - WTI	Gold	Silver	Metals (LMEX)
Level	414.47	79.10	73.76	1946.25	22.89	4012.70
% change on day	0.25	1.25	1.30	-2.38	-1.21	0.81

Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets



Biggest movers

	US	Eurozone	UK
Ups	Mccormick & 8.86	Unicredit 4.38	Bp 2.30
	Carnival 5.46	Galp Energia 3.66	Int Consolidated Airlines S.a. 2.19
	Bath & Body Works 4.69	Tenaris 2.97	Glencore 2.07
	Walgreens Boots Alliance 4.19	Telecom Italia 2.50	Rio Tinto 2.03
	Citigroup 3.97	Repsol 2.01	Prudential 1.75
Downs	Monolithic Power Systems -3.42	Kleppierre -5.77	Hargreaves Lansdown -2.61
	Cdw -3.37	Ses -3.04	Ocado -1.79
	First Republic Bank -3.33	Infineon Tech -3.03	Rightmove -1.78
	Advanced Micro Devices -3.04	Asml Holding -2.94	Haleon -1.61
	Seagate Technology Holdings -2.90	Dassault Systemes -2.50	Beazley -1.58

Prices taken at 17:00 GMT

Based on the constituents of the FTSE Eurofirst 300 Eurozone

All data provided by Morningstar unless otherwise noted.

Wall Street

Spices and seasoning specialist **McCormick** rallied to the top of the S&P 500 index after posting adjusted earnings of 59 cents per share for its fiscal first quarter, more than 15 per cent ahead of Wall Street estimates.

The Maryland-based group reaffirmed its financial outlook, expecting operating income to grow by up to 12 per cent in 2023, driven by price rises and cost savings that would help “offset inflationary pressures”, it said.

More forecast-beating results lifted **Walgreens Boots Alliance**, which reported a 3.3 per cent year-on-year rise in second-quarter sales of \$34.9bn, 4 per cent higher than the consensus forecast.

Buy-now-pay-later provider **Affirm** fell sharply on news that Apple had launched a competing service. The iPhone maker revealed Apple Pay Later in the US, which allows users to split purchases into four payments, spread over six weeks “with no interest and no fees”, it said.

Virgin Orbit, the group behind a failed attempt to launch satellites from UK soil in January, dived following a Reuters report that said unpaid furlough for most of its employees would be extended.

Reuters said last week that venture capital investor Matthew Brown held talks to invest \$200mn in the group, but those discussions had collapsed, said the article. **Ray Douglas**

Europe

Swedish video games group **Embracer** fell sharply after the release of a trading update described as “simultaneously cryptic and very clear”, said Citi.

The biggest gaming company in Europe said that some of the licensing deals it had hoped to sign before its fiscal end of year would slip into its April to June quarter.

This implied that a big beat for Embracer’s fourth quarter was now “unlikely”, said the broker, which was struck by the release not including a change to the group’s 2023 guidance.

Rockwool climbed after the Danish Business Authority watchdog concluded that the insulation manufacturer did not violate any Russia-related sanctions. The case was now closed, said the group.

Weaker guidance weighed on German professional kitchen supplier **Rational**, which forecast an operating profit margin for 2023 “slightly below the 2022 figure”.

Takeover target **Telecom Italia** rose following rumours of a fresh offer for its fixed-line assets.

Bloomberg said state-backed lender Cassa Depositi e Prestiti was planning on increasing its bid by about €2bn to above €20bn for the telecom’s landline network.

CDP faced a rival bid from US private equity firm KKR, which was also working on an improved offer, Bloomberg said. **Ray Douglas**

London

Near the bottom of the FTSE 100 index was online grocer **Ocado** despite reporting an almost 14 per cent year-on-year rise in active customers to 951,000 in its joint venture with Marks and Spencer.

But broker AJ Bell noted that revenue growth lagged far behind the rate of UK food inflation, a point highlighted by Kantar research that showed domestic grocery prices rising at a record pace this month.

Ocado’s average basket value was also flat for the 13 weeks to February 26, with the average number of items slipping from 49 a year earlier to 45.

Specialty chemical company **Synthomer** was at the tail-end of the FTSE 250 index after posting core profits of £265mn for last year, down more than 49 per cent from 2021.

The Harlow-based group warned of “challenging macroeconomic conditions” and did not expect an “unprecedented period of destocking . . . to abate before the end of 2023”.

Joining Synthomer in the lower half of the mid-cap index was Scotland’s **AG Barr**, home to the Irn-Bru and Rubicon soft drinks, which anticipated a “short-term impact on operating margins”.

This was the result of “ongoing inflationary cost pressures” and an “investment phase” that the group was going through, it said. **Ray Douglas**

Inflation targets have left central banks in a bind

John Plender

Markets Insight



Implausible though it may sound, the collapse of Silicon Valley Bank casts an interesting light on the question of whether central bank inflation targets should be raised to reduce the risk that overtight monetary policy will precipitate a recession.

This is because SVB, however inept its risk management and investment judgment, was ultimately a victim of the US Federal Reserve’s monetary policy regime.

In the period after the financial crisis of 2007-09, deflationary forces were the main challenge for central bank policymakers. Their problem was not how to bring inflation down to within target, but how to raise it up to the target level. This they could only do by resorting to ultra-low and even negative nominal interest rates.

A consequence of this extreme monetary licence, as Edward Chancellor points out in his book *The Price of Time*, has been a plethora of market distortions including the creation of the “everything bubble” in which prices of almost all assets were propelled to astronomical heights. With the income on assets severely depressed, investors were driven to search for yield regardless of risk.

That, in essence, was the story of SVB, banker to countless tech groups. At the height of the tech boom it experienced a tidal inflow of deposits. Because this by far exceeded potential lending opportunities, it had to find investment outlets for the money.

With short-term paper offering next to nothing, it searched for yield and locked up funds in \$120bn worth of mainly highly rated long-dated mortgage-backed securities.

Long-dated instruments are particu-

larly vulnerable to rising interest rates. So when the Fed belatedly tightened monetary policy in response to unexpectedly high inflation, the drop in the mark-to-market value of the SVB portfolio came close to wiping out its capital.

This would not have mattered if the depositors retained confidence in the bank because there would have been no losses if the securities were held to maturity. But the tech community panicked; there was a run on deposits; and SVB had to sell the devalued assets, thereby precipitating its own bankruptcy.

We may now be at just the start of a

Policy does not lean against booms but eases aggressively in busts while debt goes on rising

series of financial instability episodes which will add to the risk that in trying to wrest inflation back to 2 per cent, the Fed and other central banks will do serious damage to output and employment.

No surprise, then, that there is a growing chorus arguing for raising inflation targets from 2 per cent to 3 per cent. Nor is this unreasonable if, as former Bank of England chief economist Andy Haldane has argued, we are witnessing a shift upwards in the global equilibrium price level. There is anyway no theoretical justification for equating 2 per cent with price stability.

Yet moving the goalposts would look like surrendering to inflation. Central banks’ already depleted credibility would suffer huge damage, and inflation expectations would rocket. So they will

fudge, possibly following Haldane’s suggestion either to extend the time horizon for meeting the 2 per cent target or temporarily suspending it while promising to refix at the earliest possible date.

But that leaves two wider questions. What we have learnt about inflation targeting is that in deflationary times it causes seeds of financial instability to be sown.

Then when inflation returns it causes financial crises to erupt as interest rates are raised to get back to the inflation target. In fact it only seems to work when prices are anyway stable.

Oh dear. A case, then, for regime change? Unfortunately, any other regime might entail increased discretion and thus weaker accountability. Tweaking the existing regime may be the least bad option.

Then there is the question of how a 2 per cent target affects governments’ ability to shrink the current very high public debt levels.

The traditional remedy is a combination of growth, which produces buoyant tax revenues to help pay down the debt, and inflation, which shrinks the real value of debt. Yet growth is anaemic and a 2 per cent inflation target reduces the scope for informal default through inflation.

In the general panic after SVB’s collapse, banks rushed to borrow \$330bn of backstop funding from the Fed. Speculation is mounting that the Fed may defer further rate rises. We are stuck, then, in the longstanding bind whereby policy does not lean against booms but eases aggressively in busts while debt goes on rising inexorably. There can be no happy ending to this story.

john.plender@ft.com

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ARTS

Freshness and freedom of a great Impressionist

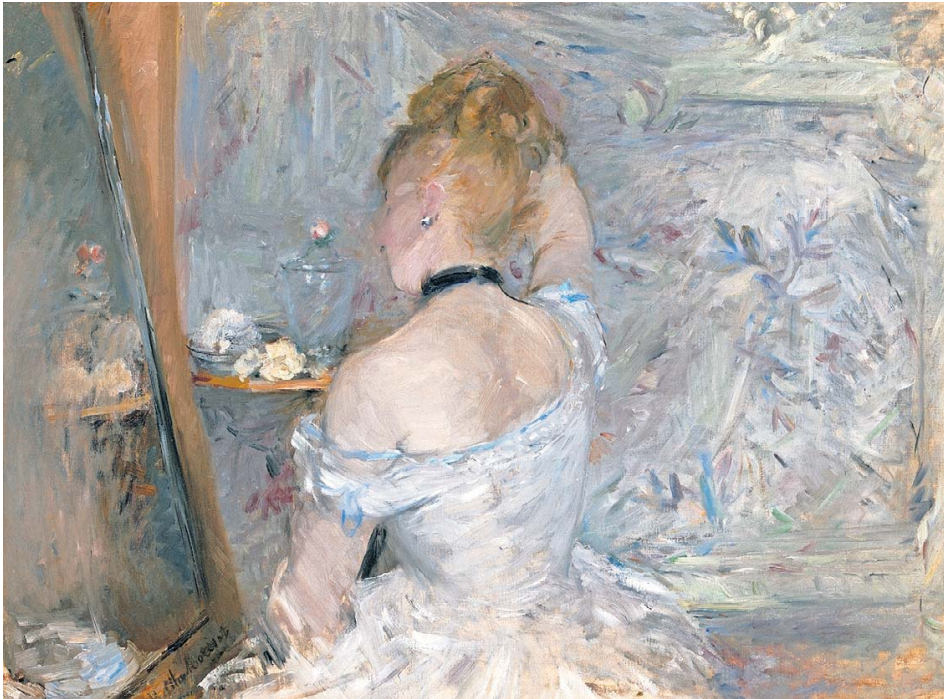
Berthe Morisot is placed at the heart of French painting in an enlightening new London show, writes Jackie Wullschläger

Berthe Morisot, extraordinarily a footnote in Impressionist history until a decade ago, arrives at London’s Dulwich Picture Gallery for her first UK exhibition in 70 years. It’s a wonderfully sympathetic, intelligent, enlightening show, placing Morisot at the heart of French painting while allowing her individuality to shine.

No major 19th-century French painter ventured works as loose and free as Morisot’s. The portraits of her daughter and sister especially have a freshness, dash and slack that call to mind contemporary laconic figuration such as Peter Doig’s or Chantal Joffe’s, and are riveting.

The blurry grace of “Julie Manet and her Greyhound Laertes”, the flame-haired teenager and dog as streamlined shapes dissolving into a rose-blue interior; the child in feather-light frock swinging on a branch among the white and green flurried marks of “In the Apple Tree”; her fierce little face and clenched fist raised above the liquid splendour of rippling water in a blue Chinese porcelain bowl in “Children with a Basin”: these are bravura paintings which feel slightly breathless – yet underlying the effect are masterly control of composition and careful nuance.

If Morisot intensely evokes her domestic domain, the framework is often wider, suggesting the ebb and flow between the private and the external worlds. In “Young Woman Watering a Shrub”, we follow from the back Morisot’s sister Edma, her housecoat whipped by the wind, crossing a terrace of plants and railings; beyond surge the walls, roofs, bridges of the Paris cityscape. In “Eugène Manet on the Isle of Wight”, painted on Morisot’s



‘Woman at Her Toilette’ (1875/80) by Berthe Morisot



‘Self-portrait’ (1885)

honeymoon, her husband surveys a seascape through a dazzle of fluttering layers – lace curtains, glass, window-boxes, fencing, a frieze of passing figures on the foreshore. The entire painting seems to bob up and down uncertainly, spatial ambiguity perhaps a metaphor for the newly-wed Morisot’s unease.

In love with the married Édouard Manet, she accepted his adoring brother as a consolation. He devoted himself to her art and gave her nervous temperament some stability, but, as she wrote, “if I were sitting on the jetty at Dover and he at Calais, we couldn’t be further from one another. There is between us a small channel of the sea, a whole ocean squeezed in a terribly deep narrow passage.”

Outwardly, their home on the rue de Villejust was, Renoir remembered, “one of the most authentic centres of civilised Paris life”, and that refinement is in the paintings – “At the Ball” features her own exquisite fan, also on show. But tensions between what to reveal, what to conceal, animate everything.

In “The Psyche Mirror”, a woman ties her blouse at the back, the sort of boudoir scene Manet enjoyed painting, but here de-eroticised into a drama of light and reflection in a rich tonal range of whites. Incongruously set in a park, “Young Woman in a Ballgown” is a continuum of flowers, greenery, the flower-encrusted dress of a model who looks aside, engrossed in thought rather than on display.

“Mme Berthe Morisot is French by distinction, elegance, cheerfulness, carelessness,” wrote collector Charles Ephrussi. “She grinds flower petals on her palette, to then spread them on the canvas in witty, breathy touches, thrown a little at random.”

“Woman at Her Toilette”, painted in Morisot’s bedroom, allows us only to glimpse the model’s neck and the back of her head, while in the mirror are visible objects used to create her public persona: powder puff, crystal jar, flowers. Varied textures – flesh, satin, floral wallpaper – blend in creamy harmonies. A virtuoso Impressionist rendering of atmosphere – the critic Gustave Geffroy said Morisot fixed “the play of colours, the quivering between things and the air that envelops them” – it is also a statement of art’s conscious artifice: paint creates an image, just as make-up and fashion do.

Morisot exhibited at nearly all the Impressionist exhibitions, but her route there differed from the sensationalising impulse of her male colleagues. Unlike them, she had shown successfully at the academic salons, and was on friendly



‘Children with a Basin’ (1886)

terms with her teacher, landscapist Camille Corot, implacable enemy of the Impressionists. She admired Corot’s “silver scrawls”, recalled here in the diaphanous pale grey scribbled strokes suggesting a dress in “Reclining Woman in Grey” and in reflections in a pond of the girls in a boat in “Summer’s Day”.

But from the start she loved to work outdoors, quickly – an Impressionist affinity. “Summer’s Day” and its companion “In the Bois de Boulogne” were painted in a single morning, beginning at 6am to avoid onlookers curious about why an affluent society woman was perched with her palette on the grass in a public park.

The iridescent “The Fable” places Julie in the family garden, roses, trellises, bench delineated in broad slashes, yet with delicate touches – the white of the tunic beautifully fused with blues, pinks, purples cast by the shadows. Impressionist painting staked its faith on catching the fleeting moment; for Morisot, focused on Julie, “wanting to capture something of what goes by, just something, the smallest thing” of youth’s transience was predominant.

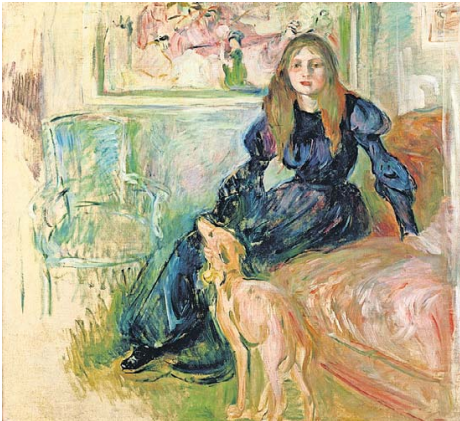
Not needing to sell liberated Morisot from compromising with public demands for “finish” which plagued the Impressionists. On the other hand, less determinedly radical, she could also explore continuities with 18th-century painting. Fragonard was an ancestor;

contemporaries emphasised the link – Ephrussi praised her “fugitive frivolity . . . reminiscent of Fragonard” – and so does Dulwich, showing Watteau, Boucher and Fragonard alongside Morisot, and displaying some of her copies of rococo works. It’s an intriguing aspect, a change from the inevitable context of her friends Renoir, Monet, Degas, at the recent shows at Paris’s Musée Marmottan and Musée d’Orsay which brought her to prominence.

Tensions between what to reveal and what to conceal animate everything

Before these exhibitions, Morisot was best known as subject of some dozen, psychologically gripping paintings by Manet. He never depicted her at work, however. Dulwich has borrowed her sole self-portrait, painted after his death; already grey, face somewhat worn, she eyes us with a direct, clear gaze, and swirling bold red and brown strokes loosely cohere into a palette and brush – an artist looking ahead to the painting of the future.

March 31-September 10
dulwichpicturegallery.org.uk



‘Julie Manet and her Greyhound Laertes’ (1893)

Star soprano makes the walls vibrate

OPERA

Der Rosenkavalier

Metropolitan Opera, New York
★★★★★

Kevin Ng

Norwegian soprano Lise Davidsen is the opera world’s next great hope for the big Wagner and Strauss roles, which require near-superhuman stamina and volume. But her latest role debut is no goddess or warrior-maiden, instead Strauss’s Marschallin, the elegant aristocrat at the heart of *Der Rosenkavalier*. Though it’s not a vocally demanding role for a voice like Davidsen’s, it requires an emotional maturity and finesse rare for a singer of her age.

Davidsen has never been the most natural actor, but her Marschallin at New York’s Metropolitan Opera demonstrated a newfound dramatic nuance. She nicely captures the humour and charm, as well as the wistful elegance, of the character, renouncing her younger lover, Octavian, after he falls for Sophie, another man’s fiancée. What she may lack in clarity of diction she more than makes up for with the opulence of her sound. Davidsen also displayed a newfound finesse in her singing, with carefully calibrated dynamics and exquisitely floated high notes.

But it’s when she unleashes the full power of her soprano that you see why her voice is special – you could feel the

Met’s walls vibrate during the high B that caps the final trio.

It almost feels unfair for Davidsen’s co-stars to have to compete with the power of her voice, but mezzo-soprano Samantha Hankey had a star-is-born moment as Octavian. Hankey has a rich, dark sound with a throbbing vibrato that captures the impetuosity of the character. She was convincing as a teenage boy, sulky and petulant with the Marschallin and instantly lovestruck upon meeting the young, beautiful Sophie. Erin Morley sounded exquisite in the ingénue role, with a pearly sound

that projects nicely through all but the heaviest orchestration. Morley’s luminous high notes are an absolute marvel, making time stand still.

Günther Groissböck is younger and sexier than usual as Baron Ochs, Sophie’s boorish fiancé, and he relished the crude, entitled masculinity of the role. He’s a stage animal, imposing one moment and pathetic the next, even if his bass is no longer as resonant as it once was. Among the rest of the large cast, Brian Mulligan’s lyrical, Italianate baritone and Alexandra LoBianco’s imposing soprano as Sophie’s father and duenna, respectively, were the standouts.

In the pit, conductor Simone Young drew incisive playing from the orchestra, with fine attention to detail in Strauss’s dense orchestrations. She started out stiffly, missing out on the sparkling wit of the opening act, but settled into a lyrical account.

Robert Carsen’s production is a known quantity, having travelled to the Met from London, but remains full of clever detail. Carsen updates the action to the turn of the century, placing the action into a decadent Vienna on the cusp of war. It doesn’t add much insight to the plot but provides Davidsen’s Marschallin with a spectacular entrance in the final act, costumed in a beaded art deco gown draped in furs and diamonds – a breathtaking look for a magnificent role debut.



Lise Davidsen as the Marschallin

To April 20, metopera.org

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FT BIG READ. INNOVATION

The nation has become a prolific producer of academic research in its goal of achieving global hegemony in science and technology. But fraudulent studies from ‘paper mills’ risk serious real-world consequences.

By Eleanor Olcott, Clive Cookson and Alan Smith

China’s fake science industry

As part of his job as fraud detector at biomedical publisher Spandidos, John Chesebro trawls through research papers, scrutinising near identical images of cells. For him, the tricks used by “paper mills” – the outfits paid to fabricate scientific studies – have become wearily familiar. They range from clear duplication – the same images of cell cultures on microscope slides copied across numerous, unrelated studies – to more subtle tinkering. Sometimes an image is rotated “to try to trick you to think it’s different”, Chesebro says. “At times you can detect where parts of an image were digitally manipulated to add or remove cells or other features to make the data look like the results you are expecting in the hypothesis.” He estimates he rejects 5 to 10 per cent of papers because of fraudulent data or ethical issues.

Spandidos, based in Athens and London, accepts a large volume of papers from China, with around 90 per cent of its output coming from Chinese authors. In the mid-2010s, independent scientists accused Spandidos of publishing papers with results that recycled the same sets of data. As part of its response to the allegations, the publisher is using a team of in-house fraud detectors to weed out and retract fake research.

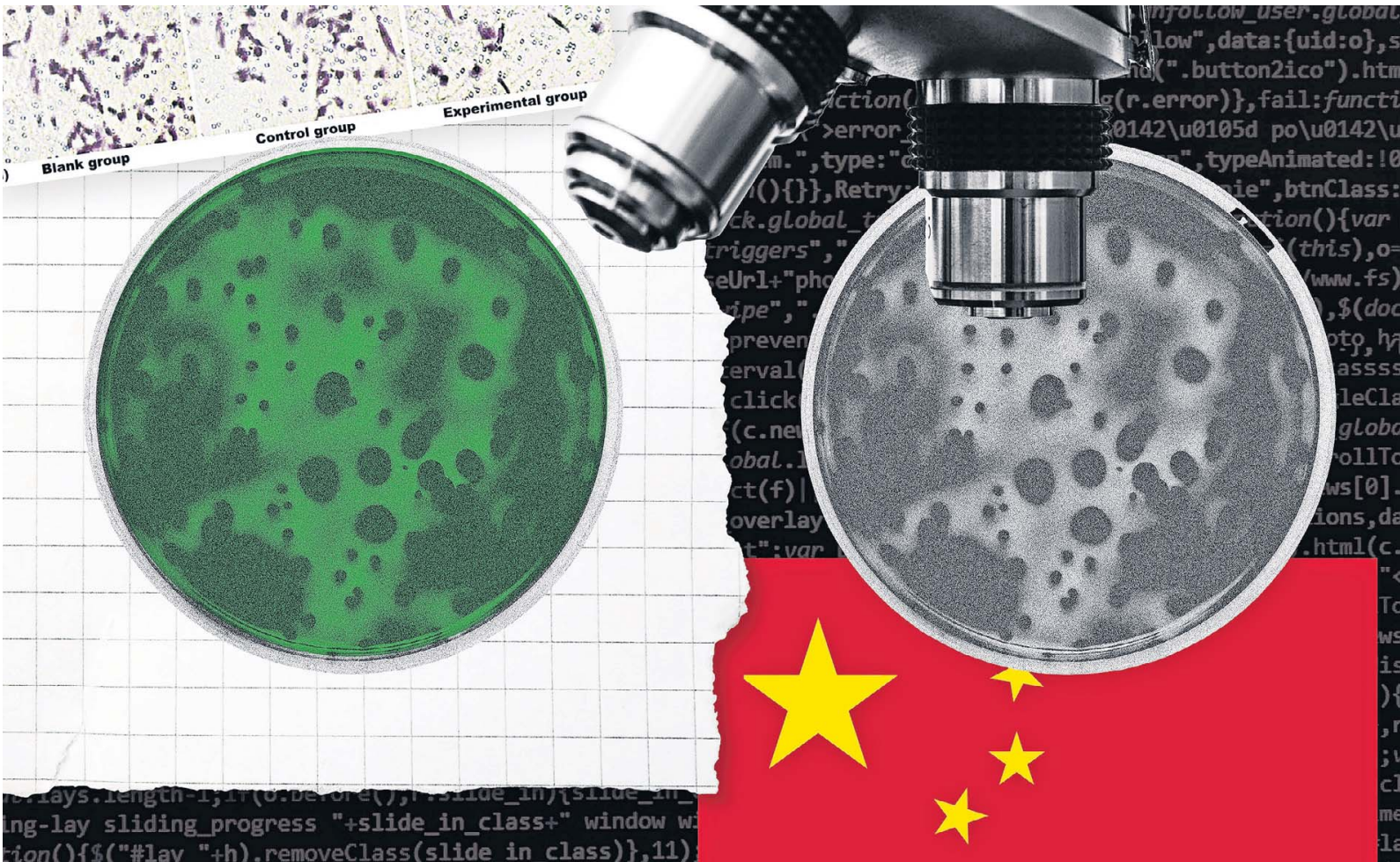
Over the past two decades, Chinese researchers have become some of the world’s most prolific publishers of scientific papers. The Institute for Scientific Information, a US-based research analysis organisation, calculated that China produced 3.7mn papers in 2021 – 23 per cent of global output – and just behind the 4.4mn total from the US.

At the same time, China has climbed the ranks of the number of times a paper is cited by other authors, a metric used to judge output quality. Last year, China surpassed the US for the first time in the number of most cited papers, according to Japan’s National Institute of Science and Technology Policy, although that figure was flattered by multiple references to the Chinese research that first sequenced the Covid-19 virus genome.

The soaring output has sparked concern in western capitals. Chinese advances in high-profile fields such as quantum technology, genomics and space science, as well as Beijing’s surprise hypersonic missile test two years ago, have amplified the view that China is marching towards its goal of achieving global hegemony in science and technology.

Experts say that China’s impressive output masks systemic inefficiencies and an underbelly of low-quality and fraudulent research. Academics complain about the crushing pressure to publish to gain prized positions at research universities.

“To survive in Chinese academia, we have many KPIs [key performance indicators] to hit. So when we publish, we focus on quantity over quality”



“To survive in Chinese academia, we have many KPIs [key performance indicators] to hit. So when we publish, we focus on quantity over quality”

internal paper mill. Jilin University was cited by two other experts who spoke to the FT as a top offender for generating fake research. Jilin University did not respond to a request for comment.

“They probably never thought that busybodies would start paying attention to their papers, because they didn’t try to hide the mass production very well,” Bimler says.

The publishers’ organisation Cope describes paper mills as “profit oriented, unofficial and potentially illegal organisations that produce and sell fraudulent manuscripts that seem to resemble genuine research”.

Estimates of the extent of fake scientific output vary enormously, from 2 per cent to 20 per cent or more of published papers. Extrapolating from his own research, Sabel puts paper mills’ global revenues at a minimum of €1bn a year and probably much more. There is general agreement that China is one of the world’s worst offenders, Sabel says, though Cope points out the paper mills are “by no means confined to China”.

Online brokers selling written-to-order papers proliferate on Chinese e-commerce sites such as Taobao. One broker advertising recently on Taobao charged clients \$800 for a submission to a middle-tier domestic medical publication.

“Scientific misconduct is an organised practice and has been run as a business almost always half openly,” says a Chinese medical researcher based in the US. She explains that fraudulent papers from low-tier universities, which use cheaper paper mills, are easier to spot. They tend to recycle the same fraudulent data sets multiple times, while academics at more prestigious universities may purchase “leftover” experimental data from other researchers.

Beijing has introduced penalties on the use of paper mills, including banning offending researchers from applying for state funding. But weak enforcement means the practice is still rife.

Chesebro says that a typical red flag is when authors refuse to share the underlying data. “I’ve seen every excuse. Two

dozen times, researchers have said their computer was broken. I have heard of five author deaths, a dozen or so authors that left the institute and are no longer contactable,” he says.

While academics around the world have to publish to advance their careers, the pressure in China is exacerbated by the scale of competition fighting for limited resources. The ISI estimates that there are more than 2mn researchers in China competing for funds from central and local governments. The physics lecturer says this creates an “institutionalised incentive to cheat” to hit targets for citations and publication output.

Cathie Martin, a botanist at the John Innes Centre in Norwich, UK, who runs exchanges and joint programmes with the Chinese Academy of Sciences, is enthusiastic about the abilities of the Chinese researchers who work in her plant science lab. But she is well aware of the pressures on them.

“If one of my guys is looking for a position back in China, very often they’ll be told: ‘You can apply to our institution if you get one more paper’, and then they’ll tell you the level of the journal you have to publish in,” she says.

The medical sphere has a particularly bad reputation for producing fake research because clinicians are required to publish to climb the hospital hierarchy, forcing time-poor doctors to outsource to paper mills.

Elisabeth Bik, a microbiologist in California who highlights cases of bad science, was part of a team that examined 20,000 biomedical papers from authors around the world and found that 800 had instances of “inappropriately duplicated images”. “Papers from China had a higher than average chance of containing problematic images,” she says.

Prominent scientists have been found to produce dodgy research, too. Bik says she uncovered 50 papers by a well-known immunologist working in China “with varying problems from small to heavily manipulated images”. The Chinese government decided after a review that “he was not responsible for any of

these manipulated images”, Bik adds. “He got a little slap on the wrist but nothing serious. He is still publishing.”

‘Sea turtle’ backlash

The scrutiny of fake Chinese research has exacerbated the mistrust between western and Chinese academic institutions, which was already growing as a consequence of fraying geopolitical relations – and allegations that Chinese researchers are using their time in overseas labs to steal intellectual property.

“In view of the increasing geopolitical tensions, we are conducting background checks [of applicants from China] in relation to our grants and other activities, whenever and wherever this is relevant,” says Mads Krogsgaard Thomsen, chief executive of Novo Nordisk Foundation, one of Denmark’s largest funders of academic research. “We do this based on recommendations from the authorities and in collaboration with our grant recipients.”

China has swiftly and indisputably become the world leader in the commercialisation of research as measured by patents. The World Intellectual Property Organization says the country’s patent office received 1.6mn applications in 2021, compared with 600,000 for its US counterpart.

Such activity has unsettled western governments, who have erected barriers for many Chinese science and tech researchers coming to their universities. Several Chinese researchers in the US have been arrested under suspicion of leaking intellectual property to China under a Donald Trump-era programme to root out economic espionage.

“Some of the growing hostility and suspicion [in the west] is around legitimate areas of concern, some of it is paranoid and daft,” says James Wilsdon, professor of research policy at University College London.

As countries that have been “big contributors to the growth of collaborative science” decelerate their engagement, the prospects for China’s research output “are far more uncertain” than they have been in the past, Wilsdon adds.

In China, academics with international training are most likely to be published in leading publications. Qingnan Xie, an intellectual property expert at Harvard University, found that 76 per cent of articles published in the Nature and Science journals from Chinese addresses had an author who had studied overseas before returning to the mainland.

Beijing has bankrolled the massive outbound movement of science graduates to study in universities from Tokyo to San Francisco and London through scholarships and grants, providing incentives to return to the mainland once they’ve completed their education.

Tricks by outfits paid to fabricate scientific studies range from clear duplication – the same images of cell cultures on microscope slides copied across unrelated studies – to more subtle tinkering

FT montage Dreamstime

This so-called “sea turtle” strategy is one pillar in a broader policy to develop an indigenous scientific and technological power base. It has “fostered international collaboration and lifted standards in China”, says Steven Inchcombe, president for research at Springer Nature.

As geopolitical tensions erode the trust needed to keep collaborative ventures alive, scientists say both sides are set to lose out. Western researchers benefit from access to cheap and well-educated Chinese PhD students who can help bolster their findings by running experiments.

“China is very good at application and refinement,” says Inchcombe. “But the culture is more one of systematic thinking building on other research, whereas the west tends to applaud individualism. China doesn’t seem to see the need for standout heroes in the same way.”

Carsten Fink, chief economist at the World Intellectual Property Organization, says Chinese innovation is strikingly successful when researchers are able to “leapfrog” over existing technology into a new field. One example is Beijing’s strategy of focusing investment on electric vehicle production rather than the already saturated combustion engine market.

Jonathan Adams, chief scientist at ISI, points out that China’s international collaborations are “strongly biased towards physical sciences: information and communication sciences, materials and areas like that – and particularly so in the US. In some areas of US research, 80 per cent of publications have a China address for a co-author.” The extent of Chinese involvement in US research had come as “a complete surprise” to some American policymakers, Adams adds.

Advocates for science in the US are working to ensure that collaboration with China does not collapse completely. “Our culture of science is a beacon for Chinese scientists,” says Sudip Parikh, chief executive of the American Association for the Advancement of Science. “They help to enrich our economy and our labs.”

If scientific ties with the west break down, the individuals who will suffer most are diligent Chinese academics, as an atmosphere of distrust makes it more difficult for them to gain international recognition. “The worst impact is on sincere Chinese researchers,” says Bimler. “There is enough junk coming from China that researchers privately admit that they don’t read papers if they’re from a Chinese source . . . Scientists don’t have time to determine what is junk and what isn’t.”

Additional reporting by Wang Xueqiao in Shanghai



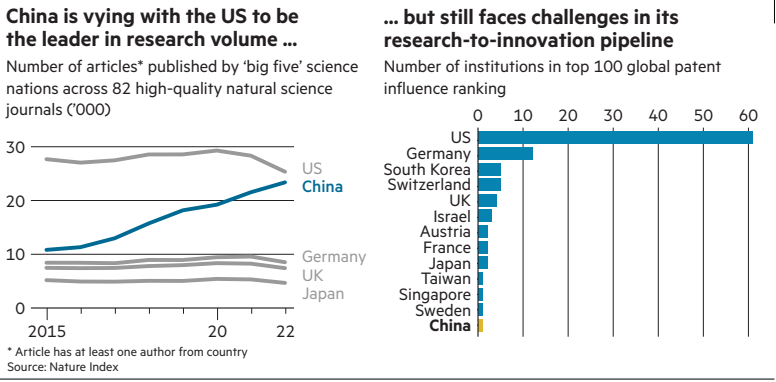
‘Papers from China had a higher than average chance of containing problematic images’

Microbiologist Elisabeth Bik, above

Brokers and ‘bushbodies’

The proliferation of dubious research that has accompanied China’s emergence has caught the attention of a number of independent scholars who are policing the country’s output.

One of them is David Bimler, a psychologist formerly at Massey University in New Zealand. He identified 150 biomedical papers from Jilin University that used the same few data sets and concluded that the institution had an



The FT View



A battle for the soul of Israel

Netanyahu should begin by withdrawing, not pausing, judicial reforms

Benjamin Netanyahu bowed to public pressure on Monday and delayed the contentious judicial reform he and his extremist partners have championed. With Israel paralysed by mass protests and strikes, he acknowledged the risk of civil war. The crisis is not over, however. The Israeli prime minister’s language made clear he intends his decision as a tactical pause to quiet the civil disobedience. Netanyahu is buying time.

The threat to Israeli democracy will not disappear as long as the far right remains dominant in the government. Netanyahu will need a more permanent retreat from the policies and politicians that plunged Israel into its most dangerous domestic crisis since its foundation.

Rather than reach out to his critics, Netanyahu blamed an “extreme”

minority for the months-long protests that have highlighted the huge opposition to his plans. Yet it is he and his ultranationalist allies who are imperilling the nation.

Israel’s troubles began when Netanyahu late last year masterminded an election victory for an alliance that thrust the most extreme rightwing fringes into the mainstream. To regain power after 18 months in opposition, he built a coalition that relies on religious Zionists and ultraorthodox parties. He awarded top cabinet posts to anti-Arab ultranationalists bent on annexing occupied Palestinian territory.

A key theme that unites the coalition is a shared desire to rein in the powers of the judiciary – a critical pillar of democracy in a nation that has no written constitution or upper house. Reforms proposed by the government include enabling MPs to override High Court rulings with a simple majority and granting politicians control over appointing judges. These would weaken

some of the few checks on the executive and severely undermine the democratic foundations of the Jewish state. All this comes as Netanyahu is on trial for corruption, fraud and breach of trust.

The hundreds of thousands of Israelis who have taken to the streets fear a power grab in the form of a legislative coup. Bankers, tech workers, teachers, students, legal experts and security officials are united in their opposition. In an extraordinary act of civil disobedience, hundreds of military reservists, including intelligence units and pilots, have refused to train.

Defence minister Yoav Gallant, of Netanyahu’s Likud party, was so alarmed by the threat to Israel’s security apparatus that on Saturday he publicly urged the government to halt the reforms. Rather than heed his ally’s warning, Netanyahu sacked him, suggesting the premier was willing to put his own interests above the state’s. Only when the largest trade union threatened a general strike did he relent.

The prime minister ought to pursue a more permanent retreat from the policies and politicians that plunged the country into its most dangerous domestic crisis since its foundation

The irony is that Jewish Israelis are having to confront the contradictions of their democracy. For Palestinians of Israeli citizenship who face institutionalised discrimination on a daily basis, Israel’s claims to being a democratic state have always rung hollow. That is even more true of Palestinians struggling in the occupied territories.

They fear the government’s drive to accelerate the creeping annexation of the occupied West Bank. This month, MPs amended a law that ordered four Jewish settlements in the territory to be dismantled. And one of the coalition’s first moves was to legalise nine settler “outposts” that even Israeli law deemed illegal. Weakening the judiciary would strengthen those expansionist goals.

Israelis who have taken to the streets against the reforms are to be saluted. But the battle is much bigger: it is about the soul of the Jewish state. Netanyahu and his cohorts cannot be allowed to win. A withdrawal of his ill-conceived judicial reforms should be only a start.

Opinion Science

We need to stop companies making consumers sick



A clown comes knocking on your door with a fun message for your kids. They can have a toy for free – if you buy them a meal from a fast-food restaurant. Would you invite him in?

Such is the power of advertising, that you don’t need to. The jester has the money and regulatory freedom to plaster his jolly corporate message across billboards, television screens and livestreamed content. Yet his products are associated with obesity and heart disease.

The clown symbolises what researchers call the “commercial determinants of health”, a budding concept that describes the influence of companies over the health of people and the planet. Researchers fighting globally to bring in plain cigarette packaging or minimum alcohol pricing have all

the damage caused to health and the planet is now really significant and we need to take action”. She denies being a killjoy, pointing out that most smokers regret starting and most obese people want to lose weight.

Health is influenced by medical factors, such as genes, and non-medical factors, usually called social determinants. The latter include income, social status, education and housing; the affluent enjoy better health and live longer than those on low incomes.

The World Health Organization has now added “commercial determinants” under its social determinants umbrella, describing them as “the conditions, actions and omissions by commercial actors that affect health”. These can be positive, as with seat belts, but also negative – the pricing and targeted marketing of tobacco, junk food, alcohol and formula milk (including in low-income countries); the siting of factories that cause air pollution; and the deforestation linked to the production of commodities such as timber, coffee and sugar.

It is unfair and unsustainable, the study’s authors argue, for companies to continue to profit from their products without paying for the harms. Restaurateur Henry Dimbleby may sympathise: this month, he resigned as the UK government’s food tsar, citing the delay in tightening rules on junk food advertising.

Dimbleby predicted the reluctance of ministers to intervene would, in a decade, bring “huge problems to the NHS . . . and cause misery from diet-related disease”. About a quarter of adults in England are obese. The Department of Health and Social Care said the government “will continue to work closely with industry to make it easier for people to make healthy choices”. That is music to corporate ears: many sectors have lobbied to delay, dilute or destroy policies that would curb commercial freedom. Industry, the Lancet researchers say, should never have a hand in shaping policy.

But industry has deep pockets and powerful allies, with compliant scientists, supportive “front” organisations and influential free-market think-tanks ready to fight its corner. The study’s authors are right to point out how deftly corporate irresponsibility has been recast as consumer weakness: the antisocial litter bug; the problem gambler, the fast-food consumer who exercises too little.

It is not asking too much, Gilmore says, for business to follow the rules, pay their taxes and not obstruct public-interest policymaking – and for governments to act for the many, not the few, in pursuit of a happier, healthier economy.

We can but hope. On with the circus.

The writer is a science commentator

Letters

Don’t use bank crisis as stalking horse to regulate credit funds

William Cohan’s opinion piece “Power shift raises case for a new regulatory stance” (On Wall Street, March 25) notes the growth of private credit, but incorrectly concludes it is a systemic risk to our global financial ecosystem.

There are fundamental differences between banks and private credit providers. Yet Cohan ignores the fact that credit funds are well regulated by the US Securities and Exchange Commission and structured to prevent systemic risk.

First, unlike banks, private credit funds are not implicitly or explicitly

backstopped by the federal government. Therefore, taxpayers are not on the hook in times of stress.

Second, private credit providers are not subject to liquidity risk. Banks have depositors who can withdraw their money at any time. Credit funds receive capital from sophisticated investors who commit their capital to the funds for multiyear holding periods. The long lock-up periods prevent runs on a fund and provide long-term stability to corporate borrowers and other investors.

Third, private credit providers

present no risk of contagion to other funds or the economy. If a credit fund fails, the losses are borne by that specific fund’s investors and do not impact investments in other funds. The failure is firewalled from, and will not ripple across, the broader financial system.

Cohan also fails to recognise the positive contributions credit funds make. Whereas banks curtailed lending to small and mid-sized businesses after the financial crisis, credit funds stepped up to support the economy by providing businesses with

the financing to grow, fund research and development, and hire new employees.

Now is not the time to restrict the ability of credit funds to serve the economy. Policymakers should focus on the banking crisis at hand and resist using current circumstances as a stalking horse to impose stricter regulations on a non-systemically risky industry serving such an important need.

Bryan Corbett
President and Chief Executive, Managed Funds Association, Washington, DC, US

Non-US lenders face a capital markets challenge

Following on from Patrick Jenkins’ excellent Inside Business column “Banking sector implosion tarnishes the lustre of the ‘Swiss finish’” (March 28) I would like to add a few points.

First, a large amount of the Credit Suisse balance sheet on both sides will have been in US dollars, yet the Swiss National Bank, the central bank, was ultimate lender of last resort. Despite SNB’s size and reserves, shoring up Credit Suisse’s investment bank was a big ask. The US Federal Reserve and its swap lines are needed at such times. But accessing such lines likely comes at a price, both monetary and political.

The second point is that investment banks can’t avoid having large dollar positions since Wall Street is the biggest capital market by some margin – partly because US corporates finance through tradeable bonds rather than bank loans, a position that is the reverse of Europe. It is also a fact that the dollar is the biggest reserve and traded currency, again by a large margin. This is a challenge for non-US banks playing in the capital markets in any size. One of the potential outcomes is that non-US players take more reputational, interest rate and liquidity risk.

Third, even US subsidiaries of non-US players are disadvantaged. They need an international holding company structure but that eats capital and they don’t have real access to Main Street’s deposits. US regulators don’t give them an easy ride, quite possibly because they understand these arguments.

In conclusion, as long as Wall Street and the dollar dominate, non-US players will have challenges accessing liquidity, both routinely and in crisis mode, and thus need to tread carefully in dollar capital markets.

Stephen Kingsley
London W8, UK

Thiam’s piece leaves out some important facts

In his disturbing article (“Credit Suisse’s fate casts a shadow over the banking sector”, Opinion, March 24), Tidjane Thiam boasts about his achievements as head of Credit Suisse Group. He conveniently leaves out some important facts: that the shares of Credit Suisse Group plunged, losing half their value while Thiam served as chief executive from 2015 to 2020. At the same time, he was making earnings for himself of SFr64mn.

There is no mention of the scandal that preceded his stepping down. Time will tell if and to what extent Thiam, among others, is accountable for the downfall of Credit Suisse. But one thing is for sure, the moment for this piece of self-congratulation was ill-chosen.

Sayeh Hunziker
Attorney-at-Law, Geneva, Switzerland



Wearing two hats, as cash depositor and a taxpayer

Martin Wolf’s two recent articles on banking (“Banks are designed to fail and they do”, Opinion, March 15; and “Four ways to fix the bank problem”, Opinion, March 22) reminded me that I wear two hats in the UK.

The first is as a cash depositor and I welcome that my savings are currently guaranteed by the government (up to £85,000). Even though Wolf continues to see the moral hazard in doing this, he seems to accept it is now economically and politically necessary.

But wearing my other hat as a UK taxpayer, I look aghast at what sums I might be underwriting.

Under the current system, am I the only one who thinks that I am nowhere near being adequately compensated by the banks for the risk, as a taxpayer, I am assuming?

Given the past, Wolf is right to call for an increase in insurance premia and to reduce the allowed leverage within the banking system.

Nicholas Malins-Smith
Cambridge, UK

Reducing risk for all parts of the creditor hierarchy

Here is a way to implement Charles Goodhart’s recommendation that senior management face a really serious loss if their bank fails (Letters, March 24). Pay a deferred bonus in the form of writedown bonds that would immediately be written down to zero, if the bank failed, before any loss to equity. This would reduce risk to all other elements of the creditor hierarchy, including deposits. Indeed, such writedown bonds would be additional tier one capital that is worthy of the name.

Thomas F Huertas
Senior Policy Fellow
Leibniz Institute – Sustainable Architecture for Finance in Europe
Frankfurt, Germany

Dietrich, Kipling and near identical proverbs

Marlene Dietrich said that most women set out to try to change a man, and when they have changed him they do not like him.

The west likewise doesn’t like the two countries James Kynge writes about – namely China and Russia (Opinion, March 25) – after trying to change them by supporting opposition in both countries and moving its army and navy to their borders.

Like the famous German-American actress, but unlike your China editor, Rudyard Kipling was aware that east is east and west is west. Just as your ancestors were calling Russia “the Bear” and China “the Yellow Peril”. Incidentally, Russia and China each have an almost identical proverb: “God is high and the tsar is far away” and “Heaven is high and the emperor is far away”. Reading dictionaries is very enlightening.

As is reading books. In a Russian short story a man doesn’t regret accidentally dropping a silver pocket watch from a bridge since a boy who dives to rescue it finds a golden one and hands it over to him. By supporting Donbas in Ukraine, Russia lost the west to find China, and by supporting Taiwan, the west lost China to find Taiwan.

Mergen Mongush
Moscow, Russia

Why luxury watches will not take chocolate route

John Gapper rightly points out (“Toblerone can afford to abandon the Matterhorn”, Opinion, FT Weekend, March 11) how “national” brand images can get eroded in commoditised areas such as chocolate and cheese. Buyers of motor vehicles also seem to care very little about where they are physically assembled.

On the other hand, the “Swiss made” image of luxury watches seems impervious. Swiss manufacturers dominate the top end of the market and face stiff legal requirements regarding the value-added that must be sourced within Switzerland. Expensive advertising linked to celebrities are a factor, but also client fascination with the local artisanal skills that go into watchmaking protect the aura. And on top, given the high margins, watch retailers have every interest in maintaining the “Made in Switzerland” quality image.

The global reputation goes beyond the Swiss-origin manufacturers. I well remember looking at a branded Tiffany watch in its flagship New York store, the salesperson enthusiastically assuring me that Tiffany would only ever sell “Swiss-made” watches, as was clearly displayed on the dial.

Freddie Hasslauer
Zurich, Switzerland

Government procurement can prove such a lottery

Regarding your story “Lottery technology supplier in stand-off with successor” (Report, March 27), the Gambling Commission is responsible for a “fair, open and robust competition” to select a preferred provider and ensure a smooth transition from the third to the fourth licence.

It should have anticipated potential problems in the transfer of the requisite soft and hardware logistics for the National Lottery from the outgoing technology supplier, International Game Technology, to Allwyn and its partner, Scientific Games. Technology transfer should have been an integral part of a negotiated handover strategy.

The technology transfer issues now encountered are surely due to the commission’s lack of farsightedness and experience in the complexities of commissioning of a 10-year contract that could generate up to £100bn in sales, while simultaneously failing to secure an all-encompassing transfer and implementation strategy.

The Gambling Commission works, as it says, “collectively with the Department of Culture, Media and Sport (DCMS) and other members of the DCMS ‘family’ of arm’s length bodies in support of each other”.

Is this not yet another calamity of government procurement, even if it is at arm’s length?

Dr Mary Piper
London NW3, UK

As a TikTok-watching 54-year-old white male . . .

As a TikTok-watching 54-year-old white male, I feel sad that the authors of the front page article “TikTok chief struggles to fend off US ban in front of hostile Congress” (Report, March 24) have provided such a narrow list of interests limited to “lip-sync and dance videos that capture the attention of its 1bn users worldwide”.

Does the FT not understand that the algorithm reflects the user’s profile and interests? My feed includes economic analysis, news, food recipes, coding algorithms, investment advice and life hacks to name just a few.

Christopher Gwyer
Palo Alto, CA, US

French female union leaders, who was the first?

Regarding the article “The union leader taking on Macron” (Person in the News, March 11) if Marie Buisson succeeds the current leader of the CGT union, Philippe Martinez, she will not, as stated, be the first woman union leader in France. Nicole Notat led the CFDT union from 1992-2002.

Denise Larking Coste
Paris, France

Opinion

Western voters will refuse to give up the peace dividend



Imagine for a moment that Emmanuel Macron had left the retirement age well alone. In this other France, the president chose to economise on defence instead. Fewer troops. Humbler ambitions in the Pacific. A budget nearer 1 than 2 per cent of national output.

Would the republic now be aflame with protests? There would be hurt pride, no doubt. Michel Houellebecq would get a didactic novel out of it called something like *Impuissance*. But who thinks France would be so tense as to be unvisitable by the monarch of an allied

state? It is beyond imagining. Take the nation's guns, if you must, voters would say. Just don't touch the butter. And this is France, with its martial pedigree, its militarised Bastille Day. If a culture so steeped in hard power prefers civilian spending, what will the average nation choose?

To counter Russia and China, the most important democracies in the world are arming. The decision has come from governments of the right (Britain), the left (Germany) and the hard to place (France). It comes from the best-armed nation in history (the US) and one that is constitutionally pacifist (Japan). Such is the breadth of consensus that even Sweden has stopped telling the polite lie that soft power and moral example-setting are enough. The leadership on show is first-class. It is, in truth, overdue. I just wonder if these electorates are good for the money.

It is excruciatingly difficult in a

mature democracy to make even marginal cuts to the welfare state. It is about as hard to sell the public on a net increase in taxation. (France has almost the highest tax burden in the OECD. The *gilets jaunes* rose up, at first, against fuel levies.) What the past year has done is turn this dilemma into a trilemma. A

Governments have to decide between a retirement age here and a naval fleet there

third goal, that of stronger defence, has joined the two irreconcilables. Something will have to fall away here, and the historical trend suggests which it will be. Conservatives are wrong to accuse the west of turning from defence to welfare when the Soviet threat vanished. No, the

problem is much older than that. In Britain, "defence cuts effectively paid for a growing welfare state for 60 years," wrote Ben Zaranko of the Institute for Fiscal Studies in 2022. Ronald Reagan is now seen as near-Prussian in his militarism. But defence spending nearly halved as a share of national output between the presidency of Dwight Eisenhower and the peak of his own.

In other words, the peace dividend was being cashed long before 1989. Some of this redistribution from soldier to civilian was wise. The home front needed tending. After the Cuban missile crisis, the cold war had got past its hairiest phase. But the sheer duration of this trend augurs badly for the chances of its reversal now. If the west is going to go on a generational spree in defence, it will have to undo the habit of a human lifetime, not just of the past 30 or so years. Voters will have to make economies for a defence sector that is more remote and

obscure to them than it was the mid-20th century, when conscription made it hard to tell where the military ended and civil society began.

The choice between guns and butter, defence lobbyists will say, isn't as clean as all that. The US military is a kind of auxiliary welfare state, providing employment, housing, medical coverage, college aid and childcare to citizens who might otherwise go without some or all of these things. Poor states would be poorer without defence or defence-adjacent jobs. Imagine Alabama minus Maxwell Air Force Base or the contractors at Huntsville. In Britain, the only "levelling up" plan that doesn't strike me as utter pie in the sky is one that uses an enhanced defence budget to spread research and manufacturing work to deindustrialised regions.

At the margins, then, the relationship between defence and welfare is circular. More often, though, it is oppositional.

Governments have to decide between a retirement age here and a naval fleet there.

Or rather, voters do. If they go the way I fear, it will be a legitimate and understandable democratic choice. But then so was the inward turn of the interwar years. The second world war happened, in part, because Germany and Japan didn't believe a US that had let its hard power run down for a generation could counter them. (To re-militarise took the Americans what Churchill called a "prodigy of organisation".)

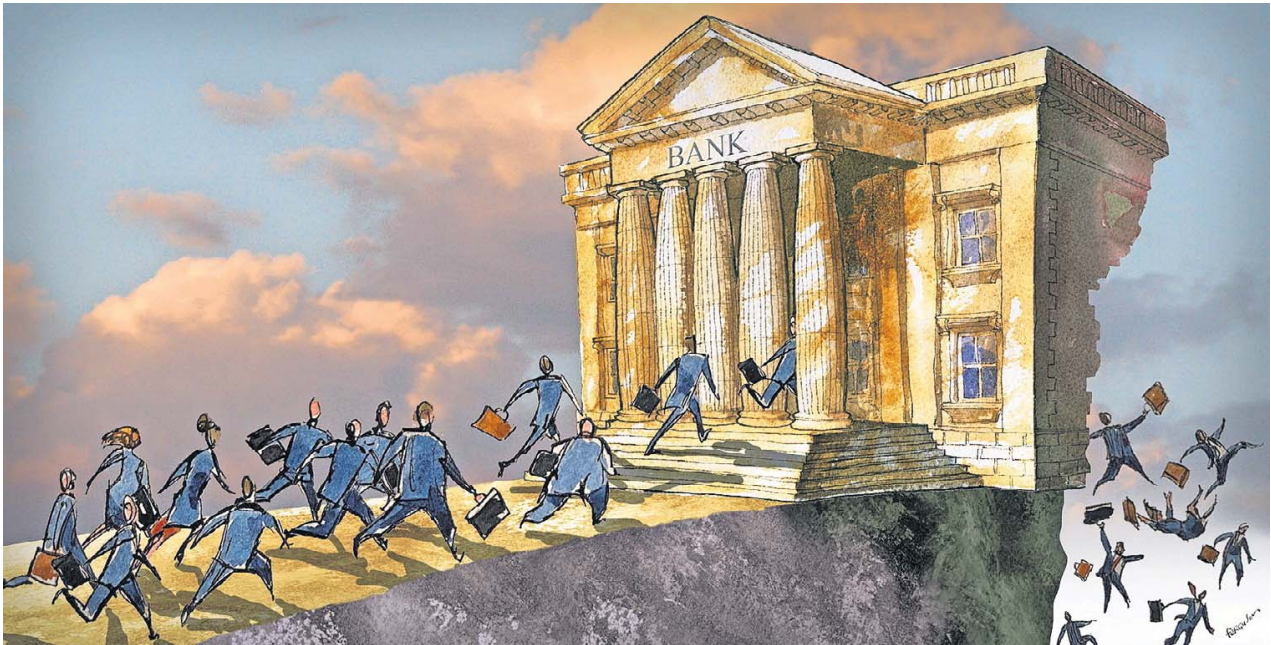
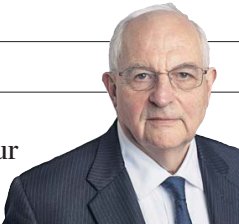
It is to avoid sending the same signal to their contemporary enemies that democracies are arming now. To judge by the chaos in Paris, financing this vision of deterrence will be harder than setting it out. Weakness is provocative, goes the cliché. But so, at home, is paying for strength.

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Monetary policy is not solely at fault

Martin Wolf Economics

It is a fallacy to suppose there is a simple solution to the failings of our financial systems and economies



So, who, or what, is to blame? Why, 15 years after the start of the last financial crisis, might we be seeing that of another? For many, it is the fault of a long period of ultra-low interest rates imposed by central banks. For others, the cult of the bailout is at fault. We do not need to look far to find the intellectual origins of such views. They lie in Austrian economics. As Brad DeLong puts it in his excellent book, *Slouching Towards Utopia*, the view is that "the market giveth, the market taketh away; blessed be the name of the market". The Austrians are not altogether wrong. They are not altogether right either.

The essence of the argument is that the transatlantic financial crisis of 2007-15 was the product of over-loose monetary policy. Thereupon, over-loose monetary policy, plus bailouts, thwarted the creative destruction that would have returned the economy to vigorous health. Finally, after Covid, another burst of over-loose monetary policy, combined with aggressive fiscal policy, caused high inflation and still more financial fragility. Now, all the chickens are coming home to roost.

The story is simple. But it is wrong.

Start with the run-up to the financial crisis. The UK has been issuing index-linked gilts since the early-1980s. The most remarkable feature of the series is the huge fall in real yields from a peak of 5 per cent in 1992 to 1.2 per cent in 2006, then minus 1.4 per cent in 2013 and minus 3.4 per cent in 2021.

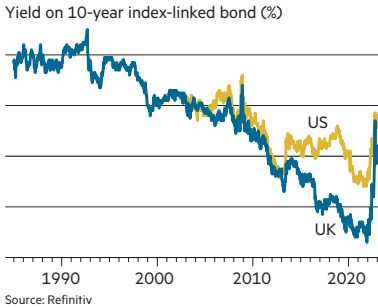
Central banks alone, however demented they may have been, could not deliver a decline of more than eight percentage points in real interest rates over three decades. If this huge fall in real interest rates were incompatible with the needs of the economy, one would surely have seen surging inflation. (See charts.)

So, what was going on? The big background changes were financial liberalisation, globalisation and the entry of China into the world economy. The latter two not only lowered inflation. They also introduced a country with colossal surplus savings into the world economy. In addition, rising inequality within high-income countries, combined with ageing populations, created huge surplus savings in some of them, too, notably Germany. It then needed exceptional credit-fuelled investment, notably in housing, to balance global demand and supply. Happily or not, the financial liberalisation facilitated this credit boom.

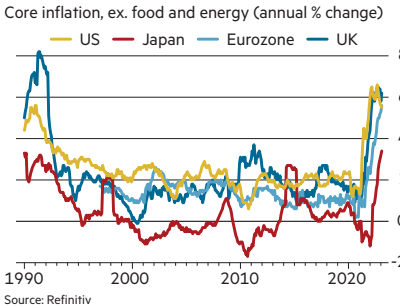
All this blew up in the financial crisis. The decision then made was not to have another great depression. I do not regret my support for that self-evidently wise decision. But, given the realities of the world economy and the impact of the crisis, there then needed to be either ongoing fiscal support or ultra-loose monetary policy. The former was ruled out. So, it had to be the latter.

Data on the money supply show why both ultra-low interest rates and quantitative easing were vital. After the finan-

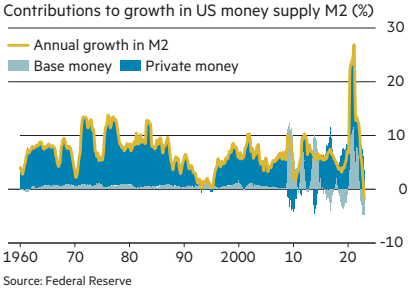
The 30-year decline in real interest rates is a remarkable fact



Underlying inflation was low for more than two and a half decades



Aggressive Fed action kept broad money growing after the financial crisis, but overdid it in 2020



cial crisis, there were extended periods when the private contribution to the growth of the money supply was negative, because credit was contracting. If interest rates had been higher and central banks had not expanded base money, as they did, the money supply would have collapsed. I am not a believer in our ability to stabilise demand by stabilising the money supply. But letting it implode is another matter. Milton Friedman would have considered the actions of central banks in stabilising the growth of broad money

Central banks are imperfect and sometimes incompetent. But they are not crazy

after the financial crisis essential. Certainly I do.

Then came Covid. At this point, the monetary and fiscal authorities made what turned out to be big mistakes. Monetary growth exploded. According to the IMF, the structural fiscal deficit of the group of seven leading economies also jumped by 4.6 percentage points between 2019 and 2020 and barely shrunk in 2021. This combination fuelled a surge in demand greater than supply could meet, given China's repeated lockdowns and the Ukraine war. The result was, we hope, a temporary surge in inflation and rising interest rates, which has caused another shock to our fragile banking system.

In sum, the central banks were not the evil puppet masters of some imaginings, but puppets under the control of more powerful forces. Yes, they made mis-

takes. Maybe monetary policy should have "leaned against the wind" rather more prior to the financial crisis, QE ended a bit sooner after that crisis, and monetary support been withdrawn faster in 2021. But, given our liberalised financial system and the huge shocks to the world economy, I am sceptical whether any of this would have made a huge difference. Crises were inevitable.

Certainly, the legion of critics need to spell out precisely what they would have recommended instead and what effects they would expect their alternatives to have had. We need the counterfactuals specified and quantified. How high should interest rates have been? How big a financial collapse, economic slump, and rise in unemployment would they have then expected after the financial crisis? Why do they imagine businesses would have invested more if

interest rates had been higher? Even if productivity would have been raised by slaying "zombie" firms, why would this have been a good thing if the costs included lower output for a prolonged period?

Like all human institutions, central banks are imperfect and sometimes incompetent. But they are not crazy. The view that what has gone wrong with our economies in the past few decades is mainly loose monetary policy is a cop out. It rests on the delusion that there is a simple solution to the failings of our financial systems and real economies. Things would not be wonderful if central banks had stood idly by. We cannot abolish democratic politics. Economic policy must be adapted to our world, not to the 19th century.

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Israel's divisions are distracting it from a regional perfect storm

Martin Indyk

For the time being, the crisis in Israel is over. Prime Minister Benjamin Netanyahu has paused his government's effort to curb the Supreme Court's independence, just when it looked like the country was about to descend into the abyss. President Isaac Herzog will now preside over a one-month effort to fashion a compromise, while the nation holds its breath. And Israel's enemies and friends will watch and wonder whether this formidable regional power has succumbed to the same internal divisions that have felled so many of its neighbours.

Unfortunately, it's likely to be a temporary reprieve. The two sides are very

far apart. The government seeks control over the court to advance its far-right and religious objectives; the opposition seeks to protect the court's independence to thwart the government. Both sides are full of righteous indignation.

The government's coalition members are all heavily vested in curbing the court's power to interfere with their agendas – legalisation of illegal settlement outposts, military exemptions for religious students and, in Netanyahu's case, staying out of jail.

The secular opposition has just won a big victory. The hundreds of thousands of demonstrators know their way back to the public square. The reservists who threatened not to serve and the high-tech entrepreneurs who threatened to leave know how to do so again. And the politicians, eyeing highly favourable polls, can see a path to victory if they can bring the governing coalition down.

With only a month before the Knesset comes back into session there is not

enough time for reconciliation, especially if both sides feel they have more to gain by refusing to compromise. They are more likely to engage in a game of manoeuvre to ensure that when the clock stops, the other side is blamed.

Preoccupied by all this, Israel's policymakers have little bandwidth to deal

Preoccupied by all this, the country's policymakers have little bandwidth to deal with external crises

with the external crises that threaten to create a perfect storm. In the West Bank and East Jerusalem, the situation has been deteriorating as friction between Palestinian and Israeli settler militants and the Israel Defense Forces generates a mounting casualty toll.

Several factors are fuelling the poten-

tial for an explosion. The Palestinian Authority is crumbling. Young militants with ready access to weapons are attacking Israelis. Settler vigilantes are responding with "price tag" violence (illustrated by the burning of Palestinian homes in Huwara). Extremist Israeli ministers are inciting and indulging the settler youth. And the onset of Ramadan and Passover makes friction at Jerusalem's holy sites seemingly inevitable.

The last thing Netanyahu needs now is an explosion of violence. But his coalition partners, Itamar Ben-Gvir and Bezalel Smotrich, seem determined to pursue the opposite approach. This behaviour is also undermining relations with neighbouring Jordan and progress with the Abraham Accords. The United Arab Emirates is openly warning of the negative consequences of the conflict with the Palestinians and refusing to set a date for a Netanyahu visit to Abu Dhabi. Meanwhile, the Saudis, whom Netanyahu hoped to bring into the circle of

peace, are busy reconciling with Israel's enemy Iran instead.

Iran continues its march towards the nuclear threshold, with US officials testifying that it would need only 12 days to enrich enough uranium to weapons grade for a nuclear bomb. Until now, the Iranians have been deterred from crossing the nuclear threshold by fear of Israeli pre-emption or American retaliation. But Iran knows the US is preoccupied elsewhere and uninterested in a new Middle Eastern war. Iran could well conclude from Israel's internal crisis that it no longer needs to fear its military action either.

All this is alarming to President Joe Biden's administration, which depends on Israel, fortified by decades of generous US military assistance, to help maintain stability in a volatile region. Not only is that role being eroded by the internal divisions, but the crisis over judicial restructuring, as well as the Netanyahu government's ambitious

plans for settlement activity, is creating friction with Washington.

Netanyahu's ambassador has been called into the US state department to be reprimanded. Meanwhile, no date has been set yet for the prime minister's customary visit to Washington. Biden has intervened twice in private to persuade him to back away from his judicial legislation. The US is also working with Israel, Egypt and Jordan to try to keep a lid on the Palestinian territories, and its armed forces recently exercised with the Israeli air force in a display intended for Tehran. But these will seem inadequate if Israel's internal and external situations deteriorate further.

With the stakes so high, Israel's friends are left to hope that Herzog's mediation can succeed. Only its enemies will relish the failure.

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Lex.

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UK water utilities: The Great Stink II

Picturesque Windermere is a favourite haunt of wild swimmers. Reports of sewage pouring into its waters sends them off the deep end. The problem riles investors too.

United Utilities, the water authority in Britain's rainy North West, has a quarter more sewer overflows than average. The government has demanded more than £14bn of investment to address the problem.

Water pollution is a big issue in the UK, as it was during London's Great Stink in 1858. Sewage discharges now head a list of complaints that includes high leakage rates and opaque finances. Campaigners, politicians and media are increasingly hostile.

Regulated monopolies like United Utilities tend to be steady earners. True to form, the group said that revenues would be only 1 per cent lower than guided. Inflation will take a toll despite inflation-linked revenues. The utility is a heavy user of index-linked debt. Its net finance costs will be 6 per cent, or £10mn, higher than last year.

The valuation of water utilities is in line with the historical average, at a premium of 15 per cent to adjusted regulatory capital value. Yet the political risks of investing are rising.

Politicians have responded to public anger by threatening fines of up to £250mn, a 1,000-fold increase. Water companies will have to prepare better for droughts. They need to spend an estimated £20bn on cutting leaks and reducing usage.

Water meters are part of that drive. About half of households have switched, in some cases compulsorily.

But meters also make it harder for companies to increase bills to pay for necessary investment. The average bill per household would need to rise by a daunting 60 per cent in real terms, to £700 a year, to cover the £100bn of capital expenditure required across the industry, according to Barclays.

The cost of curbing sewage spills comprises £56bn of that figure. The Great Stink was remediated with new sewers that are still serving that purpose today.

Water companies may need to raise new equity and splurge retained earnings. That will focus attention on dividends. Payouts extracted via

expensive loans from shareholders will receive unwonted scrutiny. As bond proxies, utilities have attractions.

But amid a second Big Stink, investors should weigh up growing political risks before taking the plunge.

Lyft: for Risher, for poorer

When tech companies reach public markets, the countdown starts for founder exits. Years of battling regulators, wheedling investors and wooing customers take their toll.

John Zimmer and Logan Green, co-founders of San Francisco ride-hailing group Lyft, are the latest to step aside.

Unfortunately for new chief executive David Risher, the changeover is not taking place at a high point.

Lyft shares trade 87 per cent below their 2019 listing price. New ideas are needed. Risher is a former Amazon executive who runs a non-profit digital library. His role as a board member at Lyft over the past two years suggests he has been hired for continuity.

The founders will maintain some control too. Dual-class stock gives them almost a third of voting rights. Lyft's basic model remains unproven. Like Uber, it acts as a middleman between drivers and customers. It keeps costs low to secure both constituencies — to the detriment of profitability.

Lyft avoided global growth and food delivery; that makes it dependent on the US, a market that Uber dominates. Lack of customer loyalty means it continues to lose market share. While Uber reported positive cash flow last year, Lyft was burning through money.

Rider numbers were flat in the past quarter. Lower prices are required to boost that total, meaning revenue growth will drop. To keep a steady supply of drivers, Lyft cannot increase its share of gross booking charges either. Operating losses doubled to \$596mn in the past quarter. Even with cost cuts, there is no hope that Lyft can reverse this trend.

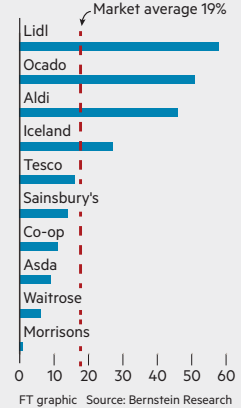
Techs run by career administrators experience mixed fortunes. Microsoft's Satya Nadella has prioritised subscription products to great effect, as has Apple's Tim Cook. Risher lacks their experience. He may not have long to make his mark either. Lyft's poor market performance and high costs

UK supermarkets: all over the shop

UK grocery price inflation has been rising, hitting 17.5 per cent in March. That has driven shoppers to shop at discount retailers Aldi and Lidl, which have been gaining market share. Tesco remains the largest grocer in Britain, with a market share that is almost equivalent to Asda and Sainsbury's combined.

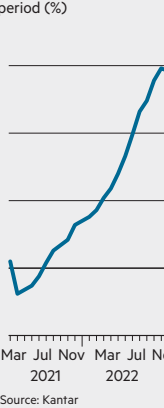
UK retail till-roll growth since Mar 2019

By retailer (%)



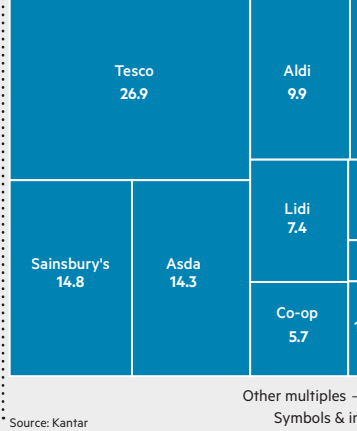
Food inflation has been rising

Increase in each four-week period (%)



UK retail sales, 12 weeks to Mar 2023

Market share (%)



If your weekly shop feels like it is getting pricier every week, that is because it is. The cost of groceries is continuing to rise — by 17.5 per cent in March compared with the previous year, says research group Kantar.

With the stretched UK consumer becoming adroit at hunting down deals, supermarket margins will remain under pressure and big-brand producers will take a hit. Food price inflation is not a recent phenomenon.

High commodity prices, supply-chain disruptions and poor harvests have led to nine straight months of double-digit price rises.

Shoppers are trading down and buying less. Discounters Aldi and Lidl have recorded sales growth of about a quarter over the period. They are

taking a bite out of the market share of mainstream grocers, particularly those at the top and bottom end of the spectrum.

The Kantar panel suggests Waitrose sales grew by a lowly 2.1 per cent. Morrisons, whose footprint leaves it exposed to poorer areas, did even worse, with sales flat year on year.

Ocado, catering to the well-heeled, grew by 3.4 per cent in the first quarter compared with the year before. At £124, the value of its average shopping basket was stable year on year, despite containing 7.5 per cent fewer products.

That leaves Tesco, J Sainsbury and Asda to slug it out in midfield. They have lettuce-limp ebit margins as it is: 4.5 per cent for Tesco and 3 per cent for Sainsbury's. With consumers shopping

around, visiting three supermarkets on average every month, they have to be careful about raising prices.

The trend towards cheaper products may be margin dilutive.

News that shoppers are eschewing expensive, branded products in favour of own-label options, which were up 15.8 per cent in the latest four weeks, is worrisome for the likes of Unilever and Nestlé.

Their ability to pass on hefty price increases underpinned their equity story in 2022. Any suggestion that this might end would leave their stocks — highly rated on 19 and 22 times this year's earnings, respectively — looking expensive.

Especially if inflation ends up being stickier than expected.

make it a potential acquisition target.

A buyer would probably install their own driver behind the wheel.

Diageo/Debra Crew: still life

Once chief executives get their hands on Diageo's drinks cabinet, they are reluctant to let it go. After 10 years as bar captain, Sir Ivan Menezes will hand the keys to Debra Crew, who is currently chief operating officer.

Crew, a seasoned consumer-goods executive, will benefit from Menezes' efforts to tidy up the group behind Johnnie Walker whisky and focus it on premium spirits. Yet with sales growth fizzling in Diageo's key US market, it

may win fewer toasts from investors.

Menezes hands over a company in better shape than the one he inherited. In 2013 Diageo was at the tail-end of an emerging-markets acquisitions spree that coincided with a slowdown in markets such as China.

Currency volatility added to its woes. Writedowns of assets ensued. For several years his tenure looked shaky.

He sold off lower-end brands and other peripheral assets such as wine. He went in search of top-shelf spirits. Despite initial scepticism, acquisitions such as the \$1bn purchase of George Clooney's tequila Casamigos in 2017 have paid off. Diageo is now the global market leader by net sales value in areas such as tequila and Scotch.

Shares have gained 72 per cent since July 2013, even accounting for a 2.7 per

cent fall so far this year. This compares with a 13 per cent rise in the wider FTSE 100 over 10 years. Diageo is valued at 21.3 times forward price-to-earnings, according to S&P Capital IQ data, in line with peer Pernod Ricard.

Diageo has struck a confident tone about recent US trading. This is despite first-half organic net sales only growing 3 per cent. They fell 4 per cent on a volume basis. During the same period a year earlier, net sales rose 13 per cent.

There will be an element of market normalisation following a burst in sales during the Covid-19 lockdowns.

But questions remain about how US consumer confidence will hold up, particularly given recent turmoil in banking markets.

If Crew has M&A in mind, she should not overspend at the bar.

Junk bond market: shift key

The recent banking crisis has advanced the idea that lending and borrowing activities must shift from deposit-taking institutions to the securities market. That transformation may ultimately happen.

Yet for now, the securities market is not a big source of cash for companies. Not a single transaction was priced in the US high-yield market last week, research firm LCD says. High-yield bond spreads went up a full percentage point in March to more than 5 per cent.

Issuers and investors are struggling to assess both credit risk and the trajectory of base interest rates. For companies hoping for easier conditions this year after a tough 2022, the sudden seizure of debt markets has again increased the likelihood of financial distress and even bankruptcies.

The junk-bond market roared early in 2023 amid predictions that the Fed's tightening cycle would soon conclude. At \$35bn, issuance in January and February was the highest since a record 2021. By early March high-yield spreads, a measure of market sentiment, had fallen to under 4 per cent, its lowest level in a year. But the downturn in March left the first quarter among the worst for new junk-bond sales since the financial crisis.

The balance sheet troubles of regional banks will not necessarily directly affect the prospects of a private equity-backed company trying to sell bonds. But risk appetites are clearly once again inhibited.

In recent weeks, once-prominent junk-bond issuers such as WeWork and Carvana have closed or attempted distressed-bond exchanges in order to reduce leverage and interest expense. In the previous era of loose money, the pair could probably have raised more cash rather than approach creditors to take haircuts.

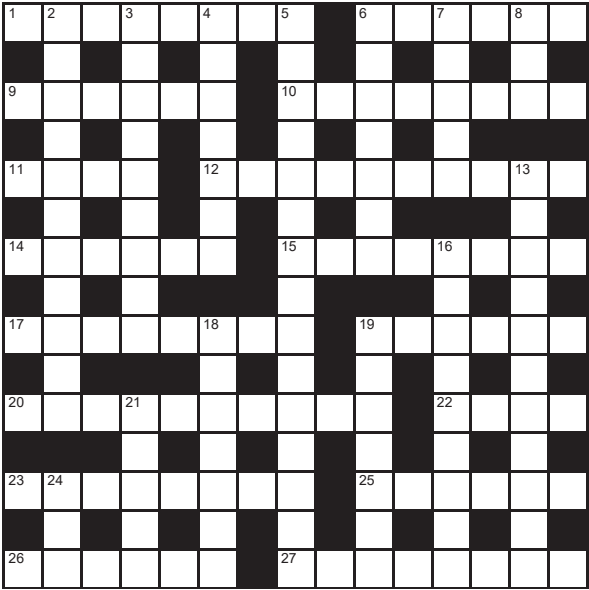
WeWork was able to cut a consensual deal. Carvana's exchange offer, for 71 cents on the dollar, remains outstanding against a group of hedge funds. Expect similar fights to unfold in the all-important securities market.

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CROSSWORD

No 17,371 Set by MONK



ACROSS

- Cause number one bag firm to go into recession (8)
- Wave in unconfined comic show (6)
- Sportsman with pain enveloping right radius (6)
- Battle later lost in court (8)
- Consuming Charlie, on which one goes bonkers (4)
- Supporters cheek one who's not currently in? (6,4)
- Settle police checked by river (6)
- Perennial squit, morally loose, pinching female (8)
- Leaderless group trapped by ridge retreating and so on (2,6)
- Mark's old form of blues (6)
- Recidivist bum runs across line (10)
- Along with American group of musicians (4)
- Around east, camel having no new source of disease (8)
- War-time deputy PM sheltered with Tito, on and off, under cover? (6)
- PC expert seeking majority of response in link (6)
- Extremely rubbishy charge initially held by hollow, small batteries (3,5)

DOWN

- Lice, and more, from my small furry animals (11)
- Earth Pod 1 manoeuvring round Venus (9)
- Drunkenness sees service somewhat held up (7)
- In which you'd find young dastardly con dealt with? (3,8,4)
- Decay picked up in course of building (7)
- Primate disposing of one having died in ground (5)
- Pro-environment novelist (3)
- Briefly uninstall flashing around walls of house (2,1,8)
- Servant oddly told to cork gratis port (9)
- Exaggerate general faults (7)
- Virgin Mary frequently missing husband taking notice (3,4)
- Boat, shortly 17, in middle of blockhouse (5)
- Dismiss progressive characters among American Express executives (3)

JOTTER PAD

Solution 17,370



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