FINANCIAL TIMES

EUROPE Monday September 27 2010

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News Briefing

TPG prepares raki group Mey Icki for sale
Mey Icki, Turkey's dominant producer of raki, the country's national drink, is being prepared for a sale or flotation by TPG. Page 20

Banks warn over Basel
Basel III rules that require investment banks to hold more capital against risky assets will hit lending to smaller groups, banks have warned. Page 17

No move over baht
The Thai baht is trading at levels not seen since before the 1997-98 Asian financial crisis. The finance minister says the government is unlikely to try to control its value. Page 4

Insurers snub games
Insurers in the Lloyd's of London market said they would not cover the Commonwealth Games in India owing to a lack of data about infrastructure and security threats. Page 4

US jobs bill considered
The US Senate is to consider legislation aimed at spurring US companies to hire workers in America and not overseas – one of the last items on the congressional agenda before the midterm elections. Page 2;
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www.ft.com/useconomy

Buy-out activity soars
There has been a near doubling of private equity buy-outs in the first nine months of the year. Page 17;
Buy-out deals accelerate, Page 19

Miliband starts afresh
Ed Miliband marked his first day as the UK's opposition leader by calling time on Tony Blair's "New Labour" project and promising to "redefine" the political centre ground. Page 5;
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Berlusconi to hang on
A vote of confidence following Silvio Berlusconi's speech to parliament this week is likely to confirm that the prime minister's government can still muster a majority. Page 5

US's 'rare earths' push
The US is rushing to resume production of raw materials – "rare earths" – that are vital for defence equipment after fears about Chinese dominance of the sector. Page 6

Venezuelans at polls
Venezuelans voted in elections yesterday, giving the opposition a chance to claw back political influence despite an electoral system favouring the government. Page 6

MP3 boom ends
Years of growth in digital music downloads have ended in the US, suggesting the MP3 market is approaching saturation point. Page 17

Japan $55bn boost
Japan's ruling Democratic party plans to introduce a supplementary budget of up to $55bn (€41bn) to pay for more stimulus measures. Page 4

Separate section
FTfm
Fund management update

EU's debt fines plan heads for showdown

German finance chief backs tough measures

France and Italy against automatic penalties

By Peter Spiegel in Brussels and Ben Hall in Paris

The German finance minister has thrown his weight behind a European Union proposal for tough new rules and fines against member countries that fail to keep their fiscal houses in order, setting up a showdown today at a meeting of his counterparts in Brussels.

In a letter to the other 26 EU finance ministers, Wolfgang Schäuble said he "chiefly supports" the stringent proposals to be unveiled on Wednesday by José Manuel Barroso, European Commission president, which include millions of euros in fines for countries that fail to cut sovereign debt levels.

But the letter and a position paper, obtained by the Financial Times, go further, suggesting EU development and agricultural funding should be suspended for repeated violators. It also proposes that voting rights in the Council of Ministers be suspended for countries that fail to meet fiscal benchmarks.

"The creation of stronger incentives to prevent and correct excessive government deficits stands at the very core of our endeavours to enforce fiscal and economic governance in the EU," Mr Schäuble wrote in the letter, which was also sent to Herman Van Rompuy, the EU's permanent president who chairs a taskforce looking to overhaul the rules.

Although the documents mostly restate German positions, the letter, sent on Thursday, is likely to lead to conflicts at today's meeting of Mr Van Rompuy's taskforce.

Countries such as France and Italy have objected to fines being imposed automatically with little say from national politicians and are uneasy with the Commission's proposals.

According to European officials, a bloc of countries led by Germany which includes the Netherlands, the UK and experts in the Commission are pressing hard for the fines to come almost automatically if certain benchmarks are breached. France, Italy and Belgium insist ministers have more leeway in deciding whether countries should be penalised.

The proposals to be unveiled on Wednesday by Mr Barroso and Olli Rehn, EU economic and monetary affairs commissioner, would require countries with public debt of more than 60 per cent of gross domestic product to reduce the excess by 5 per cent each year for three years or face a fine.

It is a daunting goal for some. France, which is forecasting a public debt of 83 per cent of GDP in 2010, would be required to reduce that by about 4 percentage points over three years. Italy, which is predicting debt of 116 per cent of GDP, would have to cut it by 8 percentage points.

The French government fears the plans could force countries to rewrite their three-year deficit reduction programmes.

Additional reporting by Joshua Chaffin in Brussels

Wolfgang Münchau, Page 11

Israel West Bank building freeze ends

Israeli settlers pour concrete into a foundation at Kiryat Netafim to mark the end of the Israeli freeze on construction in West Bank settlements. Palestinians have signalled they are ready to continue peace talks despite the expiry of the block on building Page 3 epa

Europe's central banks halt gold sales

By Jack Farchy in Berlin

Europe's central banks have all but halted sales of their gold reserves, ending a run of large disposals each year for more than a decade.

The central banks of the eurozone plus Sweden and Switzerland are bound by the Central Bank Gold Agreement, which caps their collective sales.

In the CBGA's year to September, which expired on Sunday, the signatories sold 6.2 tonnes, down 96 per cent, according to provisional data.

The sales are the lowest since the agreement was signed in 1999 and well below the peak of 497 tonnes in 2004-05.

The shift away from gold selling comes as European central banks reassess gold amid the financial crisis and Europe's sovereign debt crisis.

In the 1990s and 2000s, central banks swapped their non-yielding bullion for sovereign debt, which gives a steady annual return. But now, central banks and investors are seeking the security of gold.

The lack of heavy selling is important for gold prices both because a significant source of supply has been withdrawn from the market, and because it has given psychological support to the gold price. On Friday, bullion hit a record of $1,300 an ounce.

"Clearly now it's a different world; the mentality is completely different," said Jonathan Spall, director of precious metals sales at Barclays Capital.

European central banks are unlikely to sell much more gold in the new CBGA year, according to a survey by the Financial Times.

Although many central banks declined to detail their plans, the responses of some, along with numerous interviews with bankers and consultants, suggest it is unlikely there will be a return to the trend of the past decade, when CBGA signatories sold on average 388 tonnes a year.

The central banks of Sweden, Slovakia, Ireland and Slovenia said they had no plans to sell, while Switzerland reiterated a previous statement to the same effect.

The CBGA was first signed after gold miners protested that central banks' rush to sell was depressing prices.

In previous years signatories haggled for individual allowances to sell under the CBGA, but the most recent renewal of the agreement in 2009 contained no such quotas, according to Darko Bohnec, vice governor of Slovenia's central bank.

Value locked in, Page 9
Interactive graphic: www.ft.com/goldprice

Irish bank talks

Senior Irish ministers were locked in talks to finalise details ahead of a critical announcement on stricken Anglo Irish Bank. The announcement, expected on Thursday, will include a final bill for winding up Anglo, the lender at the centre of Ireland's disastrous property crash. It is also expected to spell out a plan to restructure part of the bank's bond debt. How the markets react could have a big bearing on whether Ireland rides out the financial storm.

Report, Page 2

HSBC's Thornton poised to quit after being ignored in reshuffle

Departure would be a blow to China growth

By Patrick Jenkins in London

John Thornton, the HSBC non-executive director who was overlooked when the bank selected its new chairman last week, is set to step down from the board within six months, dealing a blow to the group's ambitions for growth in China.

When HSBC confirmed the appointment of finance director Douglas Flint as chairman and Stuart Gulliver as chief executive in place of Michael Geoghegan on Friday, the bank said Mr Thornton – who had been widely seen as the favourite to replace outgoing chairman Stephen Green – would remain on the board.

But Mr Thornton, a former Goldman Sachs executive who has close ties to senior political and business leaders in China, has told associates that he plans to step down by the spring, when board members are due to stand for re-election, unless the board convinces him that it will attach more importance to China.

"He won't behave irresponsibly but he doesn't plan to stand for re-election," said one friend.

Mr Thornton was brought on to the board by Mr Green two years ago, as the chairman and his senior independent director, Sir Simon Robertson, began their process of succession planning.

Mr Thornton, who gave up a seat on the board of Chinese bank ICBC, was drawn to HSBC, with an understanding that he would be a top candidate to be the UK bank's next chairman. HSBC is increasingly seeking to use its Hong Kong hub as a springboard into mainland China.

In the interim, Mr Thornton was given the role of chairman of HSBC's US operations as the group struggled to cauterise the problems caused by subprime loan subsidiary Household.

HSBC has consistently signalled that the next chairman was likely to be a non-executive appointment, as it moves to normalise its corporate governance, but that it would be keen to appoint from within the board because an outsider could not master the complexities of such a vast group sufficiently quickly.

That made Mr Thornton, a powerful banker who came close to being made chief executive of Goldman Sachs, the standout candidate.

Many shareholders bemoan the sidelining of Mr Thornton, who had been their favourite for the chairman's job. "Not going with Thornton is a mistake," said one top 20 investor.

In depth: www.ft.com/ukbanks

World Markets

STOCK MARKETS

	Sep 24	Sep 17	Wk's chg%
S&P 500	1148.67	1125.59	2.05
Nasdaq Comp	2381.22	2315.61	2.83
Dow Jones Ind	10860.26	10607.85	2.38
FTSEurofirst 300	1078.15	1072.87	0.49
DJ Euro Stoxx 50	2792.75	2757.37	1.28
FTSE 100	5598.48	5508.45	1.63
FTSE All-Share UK	2889.12	2844.71	1.56
CAC 40	3782.48	3722.02	1.62
Xetra Dax	6298.3	6209.76	1.43
Nikkei	9471.67	9626.09	-1.60
Hang Seng	22119.43	21970.86	0.68
FTSE All World $	201.27	196.88	2.23

CURRENCIES

	Sep 24	Sep 17		Sep 24	Sep 17
$ per €	1.348	1.305	€ per $	0.742	0.767
$ per £	1.581	1.563	£ per $	0.632	0.640
£ per €	0.852	0.834	€ per £	1.173	1.198
¥ per $	84.22	85.86	¥ per €	113.5	112.0
¥ per £	133.2	134.2	£ index	80.90	81.80
$ index	81.60	83.20	€ index	95.19	93.52
SFr per €	1.325	1.319	SFr per £	1.555	1.580

COMMODITIES

	Sep 24	Sep 17	Wk's chg
Oil WTI $ Nov	76.49	73.66	2.83
Oil Brent $ Nov	78.11	78.21	-0.10
Gold $	1,294.00	1,272.70	21.30

INTEREST RATES

	price	yield	Wk's chg
US Gov 10 yr	100.13	2.61	-0.14
UK Gov 10 yr	113.94	3.04	-0.09
Ger Gov 10 yr	99.11	2.35	-0.08
Jpn Gov 10 yr	99.98	1.00	-0.08
US Gov 30 yr	101.47	3.79	-0.12
Ger Gov 2 yr	100.03	0.74	-0.04

	Sep 24	Sep 17	Wk's chg
Fed Funds Eff	0.20	0.21	-0.01
US 3m Bills	0.15	0.16	-0.01
Euro Libor 3m	0.82	0.83	-0.01
UK 3m	0.67	0.67	-

Cover price

Albania	Lek410	Macedonia	€3.30
Austria	€3.30	Malta	€3.30
Bahrain	Din1.5	Mauritius	MRu90
Belgium	€3.30	Morocco	Dh35
Bulgaria	Lev7.00	Netherlands	€3.30
Croatia	Kn27	Nigeria	Naira715
Cyprus	€3.30	Norway	NKr28
Czech Rep	Kc115	Oman	OR1.50
Denmark	DKr28	Pakistan	Rupee 100
Egypt	E£19	Poland	Zl 14
Estonia	EKr60	Portugal	€3.30
Finland	€3.60	Qatar	QR15
France	€3.30	Romania	Ron16
Germany	€3.30	Russia	€5.00
Gibraltar	£2.20	Saudi Arabia	Rls15
Greece	€3.30	Serbia	NewD330
Hungary	Ft820	Slovak Rep	€3.30
India	Rup85	Slovenia	€3.30
Israel	ILS17	South Africa	R26
Italy	€3.30	Spain	€3.30
Jordan	JD3.25	Sweden	SKr32
Kazakhstan	US$4.90	Switzerland	SFr5.40
Kenya	Kshs300	Syria	US$4.74
Kuwait	KWD1.50	Tunisia	Din6.00
Latvia	Lats3.40	Turkey	YTL6.25
Lebanon	LBP7000	UAE	Dh15.00
Lithuania	Litas19	Ukraine	€5.00
Luxembourg	€3.30		

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 No: 37,425 ★

Printed in London, Liverpool, Dublin, Frankfurt, Brussels, Stockholm, Milan, Madrid, New York, Chicago, Dallas, Los Angeles, San Francisco, Atlanta, Orlando, Washington DC, Tokyo, Hong Kong, Singapore, Seoul, Abu Dhabi, Sydney, Johannesburg