Ben Marlow
COMMENT

Blockbuster proves LSE is alive – and kicking rivals

Eighteen months ago, the London Stock Exchange (LSE) looked to be facing its biggest crisis in more than two centuries. Merger talks with German rival Deutsche Boerse had collapsed, triggering a bitter power struggle between chairman Donald Brydon and chief executive Xavier Rolet.

In the space of several extraordinary months, Rolet was gone and Brydon had resigned. Commentators feared that one of the UK's most important financial institutions could be left rudderless at a time of sweeping change. Activist investor TCI even called for the Bank of England to intervene.

Instead, under new boss David Schwimmer, the LSE hasn't looked back. Last week it sealed a blockbuster £22bn takeover of Refinitiv, the data giant behind Eikon financial trading terminals. It is a deal that should be cheered from the rooftops by anyone who understands the importance of seeing a pillar of the UK's financial industry prosper.

The tie-up promises to transform the LSE into a global financial technology powerhouse. At a period when the economy is facing its most uncertain moment since the financial crisis, this is a bold and timely move as Brexit looms over the economy and the City.

It reduces the exchange's dependence on UK equities by ramping up its presence in bond and foreign exchange trading, and takes it further into major markets such as the US and Asia. And in doing so, pits the LSE squarely against the financial data billionaire Michael Bloomberg despite Schwimmer's attempts to play down the rivalry.

Finally, the swoop bolsters the LSE's independence after nearly two decades spent fending off a procession of unwanted suitors.

It has tangled with Deutsche Boerse on three occasions, fought off Nasdaq, flirted with counterparts in New York, Toronto and Stockholm, and been the subject of an audacious approach from Australian bank Macquarie in 2005. That's not to say there aren't any downsides.

It promises to transform the LSE into a financial technology powerhouse

The biggest is that the LSE's debt burden will jump from less than £1bn to £[illegible]bn overnight, [illegible] much cash the borrowings will be quickly brought down. There will almost certainly be regulatory concerns too from creating a one-stop shop for financial information and trading.

Nor will it be easy to topple Bloomberg. The general consensus among traders is that the Eikon terminals are an inferior model to Bloomberg's, yet respective market shares of 22pc to 33pc suggests the gap between the pair isn't as large as perceived.

Still, after a succession of major UK companies including satellite operator Inmarsat, theme park operator Merlin Entertainments and defence supplier Cobham meekly succumbed to bids in recent months, it is heartening to see one of our biggest names leading the charge.

Perhaps others will be inspired to help reverse the one-way traffic.

Takeovers are ready for take-off

Here's a piece of impressive dealmaking that won't get as much attention as David Schwimmer's empire-building move.

In 2006, private jet operator BBA Aviation paid a paltry $67m (£55m) for Ontic, a little-known business that sells aircraft parts to the likes of Boeing, Airbus and British Airways. Thirteen years later, BBA is selling it on for $1.4bn to private equity firm CVC, making 20 times its money.

Yet, the deal may have unintended consequences. City sources say that BBA's decision to part with Ontic has alerted several other buyout firms, at least one of whom is now seriously considering a bid for the entire company.

The timing looks a little odd. The moment to pounce was 2016, when its shares were trading as low as 162p or even last December when they had crashed back down to 211p after hitting highs of 370p at the beginning of the year.

It will be no small meal either. Add the standard 30pc premium to Friday's share price, and it will take a £4.3bn offer or thereabouts to get shareholders' attention.

Yet, the City is suddenly alive with the sound of investment bankers licking their lips after a fallow period. The pound is at a two and a half year low against the dollar, turning British companies into sitting ducks. Private equity is sitting on a staggering $2.5 trillion (£2 trillion) of dry powder, and cheap debt is in abundance.

UK companies are falling like dominoes. BBA may well be next.

Keep calm and Ferrari on

One for the Aston Martin fanboys who were out in force last week, outraged at my recent criticism of the beleaguered carmaker.

Shares in Ferrari, that luxury carmaker that Aston Martin wishes it could be, had a rare setback on Friday. Under-fire Aston Martin boss Andy Palmer may point to the share price slide as evidence of wider problems in the luxury car market.

Except that's not the case. Sales and profits at Ferrari are rising, and it beat analyst expectations. The sell-off reflected the stockmarket's disappointment that forecasts were not upgraded.

Ferrari is a €30bn (£27.4bn) goliath firing on all cylinders. Aston Martin is lossmaking, has issued a profit warning, pared back guidance and analysts are concerned it may go bust again. They are two very different beasts.

Britain may have no option but to impose protections and barriers

JEREMY WARNER
VIEWPOINT

In the final scene of *Some Like it Hot*, Daphne (Jack Lemmon in drag), is driven away in a speedboat by ageing millionaire Osgood Fielding III, who has ridiculously fallen for her and is proposing marriage. Daphne protests she cannot get married, especially as requested in the wedding dress of Osgood's mother as she is not of the same build. We can get it altered, says Osgood. Let me level with you, says Daphne: "I can't get married at all."

She then lists a string of reasons, starting with "I'm not a natural blonde." Osgood: "Doesn't matter." I smoke all the time; I don't care. I've a terrible past; I forgive you. I can never have children; we'll adopt. Then, finally, ripping off her wig: "You don't understand, I'm a man." Osgood: "Well, nobody's perfect."

I sometimes think of this scene when confronted by the insouciant obstinacy of "clean break" Brexiteers. Apparently immune to the complaints of myriad business lobbies, there is almost no objection or difficulty that can be pointed out which is not immediately rejected as irrelevant, whingeing, wrong-headedness. Where there is a will, there is apparently a way. As example, we might perhaps cite International Airlines Group (IAG), owner of British Airways, which seems to have found a way around strict European ownership rules that require the company, in order to keep its European licences, to be at least 50pc owned by EU interests. Separate side approvals have now been struck with all relevant European national regulators. It's possible that the European Commission could still object, but IAG is confident it will do the trick. In any case, argue no-deal purists, business should stop complaining and do what it does best, which is finding solutions.

On one level, it is hard to disagree. Companies must learn to live with whatever the political environment happens to throw at them, and adapt accordingly. Those that can't or won't will soon be replaced by those that can. [illegible] economy adjusts to the reality of more restrictive trade with Europe.

The tariff and non-tariff barriers the UK will face if it leaves on October 31 on no-deal terms are bound to carry a cost. You cannot reverse more than 45 years of economic and legal integration with near-neighbours without breaking a few eggs along the way. For now, the UK is attempting to be as accommodative as it can with the Europeans. It has pledged to honour the rights of EU citizens living in Britain, it has said it won't establish a border in Northern Ireland, it has pledged to continue recognising virtually all European standards and, with the exception of some agricultural and automotive products, it has committed to tariff-free trade with Europe and beyond. We have promised to be a lot more open to them than they threaten to be with us. But whether such a magnanimous approach is sustainable in the long term must be open to question. Is it, say, realistic to charge no tariff on French camembert while the EU charges a 40pc tariff on Cheddar?

No; despite its free trading, Global Britain pretentions, our post-Brexit economy will in time be forced to establish its own protections and barriers. We won't be alone. The globalising trends of the last 40 years are fast going into reverse, forcing economies to become more self-reliant and relations with others onto bilateral terms in place of current multilateral ones. Supply chains will be reworked accordingly, with local production substituting for what had previously [illegible] relationships. Many people will welcome these changes.

I am not disputing that on some level they may be desirable. The adverse social consequences of globalisation are only too apparent. But will they make us richer, or the world more harmonious? Sadly not.

IMF stitch-up

As is obvious from the above, I am on the whole a supporter of the multilateral approach to global problems and issues. Yet the unseemly scramble for the top job at the International Monetary Fund (IMF) is fast shaping up into a case study in all that is wrong with the institutions that are supposed to champion its cause – secretive, unaccountable, non-transparent and riddled with political horsetrading. We plebs can only guess at the sort of "You scratch my back and I'll scratch yours" international stitch-up, struck in seedy backroom seclusion, that will eventually determine the choice. By continuing on this path, the IMF threatens its own legitimacy.

To start at the beginning, Christine Lagarde's appointment as president of the European Central Bank has created a vacancy at managing director of the IMF. By convention, the job always goes to a European. The EU is naturally determined to uphold the principle, even though its command over the IMF's voting rights let alone the world economy would scarcely seem to justify it. Things have moved on somewhat since the Fifties, when [illegible] with the US.

At the G7 a couple of weeks back, Philip Hammond, still then the UK chancellor, had to formally protest when the eurozone's inner sanctum attempted to hijack the nominations process and force its choice on the rest of the EU. Excuse me, he interjected, but Britain is still a member of the EU, and we are the IMF's fifth equal largest shareholder. Unperturbed, the eurozone pushed ahead with a shortlist of has-beens whose only qualification seemed to be that they are part of Brussels royalty and therefore deserve a cushy, tax-free retirement job in Washington. Two of them, Olli Rehn and Jeroen Dijsselbloem, were deeply culpable in the policy blunders of the eurozone debt crisis, but apparently that counted as a positive.

In the end the EU opted for Kristalina Georgieva, the Bulgarian chief executive of the World Bank, who most people speak highly of, but it was a messy agreement and her final appointment to the job is by no means assured. Britain's new Government, which abstained in disgust over the process, will have to work out whether its Brexit negotiations are best served by ultimately backing the appointment, or by putting up an alternative. In any case, the UK Government is absolutely right to claim that the process has been unnecessarily rushed in an attempt to bulldoze through one of Europe's own. This EU locomotive must be derailed. It may already be too late.

It is outrageous the job should still go undisputed to an EU [illegible] three largest economies – US, China and Japan – also happen to be the IMF's three largest shareholders. They should side with the UK in finding alternatives. Both George Osborne and Mark Carney deserve a shot but if that is not to be, surely someone from the developing world, such as Singapore's Tharman Shanmugaratnam. Fast-growing Asian economies are increasingly giving up on the IMF and looking to rival institutions. The EU's continued sense of entitlement risks making this once noble example of post-war international cooperation into an irrelevance.

GETTY IMAGES

Reasons why not: Jack Lemmon as Daphne in *Some Like It Hot* with Marilyn Monroe

We have promised to be a lot more open to [Europe] than they threaten to be with us

A whole new world awaits post-Brexit UK

GERARD LYONS
ECONOMIC AGENDA

We should be positive about Britain's longer-term outlook, despite present uncertainty. While the government is intent on leaving the EU in an orderly way, with a deal, it is sensibly planning for a no deal.

For maximum success following Brexit it is not just our affinity with the EU that is important but both our domestic agenda and how we position ourselves globally. It is this global approach I focus on here.

There is an unfolding slowdown in the world economy. Twice in recent years markets have been caught unawares: 2016, when global growth proved stronger than the consensus expected, and last year, as it slowed. Then, an escalation of trade tensions, global monetary tightening and Chinese policy all played their part.

Now, two of these three are being reversed. In recent days, the US and Brazil became the latest to cut interest rates. More than 30 central banks, representing economies accounting for more than half of global GDP, have lowered rates in the first half of this year. This is powerful, especially alongside fiscal easing across parts of the world.

This should allow global growth to stabilise. Last year demonstrated how vulnerable many economies are to policy tightening.

China too has reversed its stance. While still aiming to prevent a further build up of leverage and debt, it is now fine-tuning policy. I was in Beijing three weeks ago and the domestic economic signals, while mixed, suggest the economy is stabilising.

Since first visiting China in 1994, I detect that the pace and scale of change there is not always appreciated fully here. China now is moving towards a different economic model, driven by consumption and innovation. During China's previous development phase Germany's capital goods export machine benefited most. Now it is the UK that should gain, given our dynamic financial, business and professional services.

The current global problem is that the trade dispute between the US and China is unresolved. Manufacturing is slumping across the globe, also not helped by problems facing the worldwide car industry.

Such weakness reflects the profound impact of Artificial Intelligence (AI) and the green agenda. Continuous disruption may be part of the global influence upon us and across multiple sectors in the future.

The rise of China and the shift in the balance of power to the Indo-Pacific, stretching from India to the US, is one aspect of this global dynamism. As too is what I call perspiration and inspiration.

Perspiration reflects dramatic population change. One in twelve people in the world is an Indian under 28. India's economy has lost momentum but it will rebound. Africa's working age population, meanwhile, is set to rise by twice that of India and China combined over the next fifteen years.

Such changes, and those elsewhere, will create huge markets for Britain to sell into. In coming decades 90 per cent of global growth will emanate from outside the EU.

They have also constrained wage growth here and elsewhere in the west. But now as our unemployment hits a 44 year-low, wages are rising, underpinning consumption, as the Bank of England's Inflation Report alluded to.

Then there is inspiration. This is best captured by the term the fourth industrial revolution that we are going through.

Previous revolutions triggered an initial substitution of jobs, as new technology displaced repetitive manual tasks, to then see net new jobs created. AI, of course, threatens professional jobs and repetitive cognitive roles. Business models will need to change, and new firms will have to attract finance to grow. It is interesting to consider these challenges in the context of the pound's fall. Sterling was already at a competitive level, but currency markets can overshoot and have pushed it weaker. It is now incredibly competitive and this will boost inward investment. But it cannot divert attention from the need for the UK, in the new global economy, to compete more on quality. We already do so in many areas, such as high-end manufacturing and fintech.

Over the last three decades I have visited 82 countries on business, during my time with international banks. At first hand one can see the world changing before one's eyes. Those in the UK who advocate the status quo as part of remaining in the EU really need to reassess their stance given how the global economy is transforming and how we can best cope and prosper.

The pace and scale of change points to the need for a supply side agenda at home, helping firms compete and workers adjust, while encouraging investment, infrastructure and innovation. We need to do this also to help crack our problem of low productivity and wages.

Yet we are already taking the lead in many areas. One such example is climate change, a major global challenge. I have been fortunate enough to be on the advisory board of the Grantham Institute on climate change and the environment at the London School of Economics and Imperial College since its inception in 2008. Their innovative and practical economic and science ideas highlight how much can be achieved, with a global focus.

Another area the UK can lead on in the new global economy is finance. The City remains an innovative place to do business from, and London has more skilled workers than any other city in the world. Then there is the arts and our huge creative industry, our expertise in medical advances and being second only to the US in top universities. The more one delves the greater the reasons to be positive.

One area, often overlooked, is the importance of how the global policy infrastructure will evolve and the important role the UK can play in this.

New institutions, often based in Asia, are emerging, while existing groups such as the World Trade Organisation and International Monetary Fund need to evolve to reflect the changing world. Attending such global forums one also sees the powerful avenue they present for the UK to give its positive global vision.

We need to be vigilant about a further possible global slowdown now. Yet, it is not just the immediate outlook that should attract our attention. The world economy is undergoing transformative change that will impact us significantly.

Post Brexit, it will be even more important than before to be on top of the changing economic and financial dynamics, and strengthen our global network and ties.

Dr Gerard Lyons is chief economic strategist at Netwealth Investments;

Liam Halligan is away

Innovation will be key to opportunities in China and around the globe

We are already taking the lead in many areas. The more one delves, the greater the reasons to be positive