Kuwait Times
Established 1961

THURSDAY, JANUARY 13, 2022

Business

London's City finance reigns in Europe despite Brexit fallout

The City has yet to strike a post-Brexit deal with Brussels on equivalence

LONDON: One year after Britain's formal exit from the European Union, London's powerful City financial sector still reigns on the continent despite losing key business and bankers to rival hubs.

"London has spent hundreds of years as a global financial center. Brexit will not change that, certainly not anytime soon," said Lee Wild, head of equity strategy at Interactive Investor. The City, whose skyscraper offices are largely deserted by COVID restrictions, has yet to strike a post-Brexit deal with Brussels on equivalence, which would allow London-based firms to fully operate in Europe.

London has over the past year lost out to rivals on equity trading, struggling to recover ground after a hammering triggered immediately after Britain's EU exit. Trading on London's stock market slumped by about 40 percent at the start of 2021, with London prevented from offering EU-listed shares to clients outside the United Kingdom.

Amsterdam has benefitted the most, overtaking London to become Europe's biggest hub in terms of equity trading volumes for much of the past year, according to Cboe Global Markets.

London remains the world's second biggest financial center behind New York when various factors are taken into account including infrastructure, reputation and business environment, according to the Global Financial Centers Index 2021. The City also remains a dominant financial center on a global scale in several markets, including foreign exchange and derivatives. "Leaving the EU brings challenges and there are threats from Paris, Brussels, Frankfurt and Amsterdam," Wild told AFP.

"But the likelihood that European rivals will wrest the crown of Europe's primary finance hub from the UK is slim." The City is able to maintain a strong standing in the world of finance also thanks to a large network of support services.

"London still has a huge amount in its favor," said Russ Mould, investment director at AJ Bell.

He said the City offered "an ecosystem of banks, advisers, lawyers, fund managers and hedge funds... (providing) appropriately-priced capital to companies who need it so they can invest, innovate, grow and create jobs".

No staff exodus

Nevertheless in the wake of Brexit, about 44 percent of UK-based financial services firms have moved or plan to move operations or staff to the European Union, according to financial group EY. Asset transfers totaled £1.3 billion ($1.8 billion, 1.6 billion euros) at the end of last year, it added.

Dublin and Luxembourg are home to the biggest amount of office moves, while Paris has won the most staff switches. French President Emmanuel Macron in June inaugurated the Paris premises for several hundred JP Morgan Chase traders switching from London.

The British capital has so far lost only about 7,400 financial roles, according to EY.

That is seen as a drop in the ocean, with the UK financial sector employing more than one million people, 400,000 of which are based in London. Recruitment consultants said that while the pandemic had contributed to limiting the movement, a future exodus of staff from London to the European Union remained unlikely. "London continues to be an attractive destination for business investment and finance professionals alike," said Hakan Enver, managing director at Morgan McKinley.

"To date we are yet to see an exodus due to Brexit, and it's now unlikely that will ever happen," he told AFP. London's financial attractiveness was last year highlighted by a record number of companies making their stock market debut.

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There were 122 initial public offerings-the highest amount since 2007 — for a total market capitalization of £16.8 billion. There was, however, in 2021 also a record IPO showing by the Euronext, whose exchanges include the Paris and Amsterdam stock markets and others across Europe.

"The real risk (for London) is not a 'big bang' but a slow deflation as activity moves to other centers, most probably in the US or Asia, and this only if the UK fails to respond to competitive pressures from other global financial centers," said Jack Neill-Hall of financial sector lobby group TheCityUK. —AFP

NEW YORK: In this file photo, the price of gasoline is displayed at a gas station in New York. —AFP

US consumer prices rose 7% in 2021

WASHINGTON: US consumer prices in 2021 rose at the fastest pace in four decades, the government announced yesterday, an inflation wave that has troubled President Joe Biden as the economy recovers from the pandemic. The consumer price index (CPI) in the 12 months to December jumped seven percent, the highest since June 1982, the Labor Department said, with housing, autos and energy among the biggest contributors.

However, month-on-month CPI growth slowed to 0.5 percent from November, indicating the price surge may be nearing a peak. The world's largest economy saw a record price increases last year as rising demand and a return to normalcy collided with labor shortages and global supply chain snarls.

While the spike was initially confined to items like used cars and energy, the latest data confirms inflation spread in December beyond those sectors and into consumer staples. Prices for shelter, including rental properties, were one of the main contributors to the increase, the Labor Department said, rising 4.1 percent in the year, while food rose 6.3 percent.

However, in both cases the monthly increase in the final month of the year was less than in November. Used car prices jumped 37.3 percent in 2021, the report said, and in December prices accelerated again, rising 3.5 percent from the month prior. With volatile food and energy prices stripped out, "core" CPI was up 5.5 percent for 2021 — the highest since February 1991, the report said. Core CPI rose 0.6 percent for the month, faster than analysts anticipated and above its rate of growth in November. —AFP

Powell pledges to fight inflation in second term

WASHINGTON: The pressures pushing prices to multi-decade highs are likely to last through the middle of the year, and the US central bank is ready to respond to this risk, but policymakers are committed to extending the economic expansion to promote employment, Federal Reserve chief Jerome Powell said Tuesday.

The world's largest economy is on a strong footing, and with inflation rising and employment recovering, "The economy no longer needs or wants the very highly accommodative policy" provided by the Fed in response to the COVID-19 pandemic, Powell told lawmakers, underlining the likelihood interest rate increases are coming.

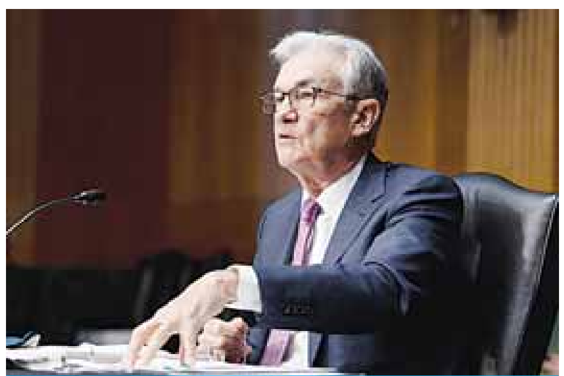
Surging prices for cars, housing and food have become a political liability for Democratic President Joe Biden, who in November tapped Powell, a Republican, to continue in his role as Fed chief for another four years, and also named Fed governor Lael Brainard, a fellow Democrat, to serve as Powell's vice chair. In the nomination hearing before the Senate Banking Committee, Powell again vowed that the Fed will do all it can to ensure high inflation does not become entrenched. Economists are projecting that government data due out Wednesday will show annual consumer price inflation hitting seven percent in December, its highest level in 40 years, and the issue dominated the questions from senators. Inflation is "very near the top of the list" of risks to the economic outlook, Powell said, acknowledging the current rate is now "very far above target."

But the Fed chief attributed most of the price surge to a "mismatch" between supply and demand caused by global logistics snarls, although policymakers also are watching wage growth carefully. The central bank expects a "return to normal supply conditions" in the coming months, but "if we see inflation persisting at high levels longer than expected... we will use our tools to get inflation back."

Fostering full employment

The Fed is in the process of winding down its bond buying stimulus program, which will end in March, and is expected to raise the benchmark lending rate off zero soon after. While Powell stressed that policymakers have not decided on the timing or any rate increases, some economists and even some Fed officials say that first move could come in March. "It's time to move away from emergency pandemic settings," Powell said. "The labor market is recovering incredibly rapidly," he added, with the jobless rate falling "pretty close to half-century lows" at 3.9 percent in December. Still, removing the stimulus measures "should not have negative effects" on employment, Powell said.

In fact, getting prices to return to around the Fed's two percent target is key to ensuring the US economy continues to expand, and brings more people into the labor force, he said. "High inflation is a severe threat to the achievement of maximum employment and to achieving a long expansion that can give us that." Businesses nationwide have complained that they struggle to fill open positions, and record numbers of workers have left their jobs while the share of adults in the labor force has barely budged in recent months, even as wages have risen.



WASHINGTON: Federal Reserve Board Chairman Jerome Powell speaks during his re-nominations hearing of the Senate Banking, Housing and Urban Affairs Committee on Capitol Hill on Tuesday. —AFP

Powell acknowledged that child care is one factor keeping the participation rate down, as the industry also has struggled to find workers. The central bank is juggling competing forces amid the global pandemic, with price spikes that took policymakers by surprise coupled with workers reluctant or unable to return to their jobs. Some senators and observers argue the Fed has waited too long to fight back against inflation and even the three rate hikes many predict the central bank will approve this year will not be enough. The Fed's easy money policies were a boon to financial markets during the pandemic, but the central bank's recent signals that they will roll them back has spooked investors, sending share prices tumbling at times, especially in the tech sector. —AFP

India's Infosys hikes growth forecast after strong quarter

MUMBAI: India's Infosys raised its full-year revenue guidance yesterday, with the software giant forecasting robust demand for digital services after another strong quarter. The country's second-largest IT firm exceeded analyst expectations with revenues of 318.67 billion rupees ($4.31 billion) in the three months to December 31, up 23 percent from last year.

Net profit at the Bangalore-headquartered company rose nearly 12 percent to 58.09 billion rupees.

"Our year-on-year growth was the fastest we've had in 11 years," chief executive and managing director Salil Parekh told a media briefing. "The growth was broad-based across industries, service lines and geographies, driven by our differentiated digital and cloud capabilities."

The company raised its full-year revenue guidance to between 19.5 percent and 20 percent in constant currency terms. The December quarter is traditionally weak for India's IT industry due to the year-end holiday season, but Infosys and other firms have benefitted from increased demand during the pandemic. Revenues from digital services grew 41.2 percent year-on-year, contributing more than 58.5 percent of total revenue, up from 56.1 percent in the previous quarter.

The firm's legacy consulting and technology business grew just 0.5 percent in the quarter. Infosys said it had signed large deals worth $2.53 billion in the period. The company plans to expand its graduate hiring program to 55,000 recruits this year, up by 10,000, to meet increased demand for digital services. Its employee attrition rate-a key metric for IT companies-spiked to 25.5 percent from 20.1 percent in the previous quarter, with Indian software firms facing an intense competition for talent.

Infosys was at the forefront of an outsourcing boom that saw India become a back office to the world, as Western firms subcontracted work to a skilled English-speaking workforce.

MUMBAI: Infosys chief executive and managing director Salil Parekh briefs the media yesterday.

Over 60 percent of its revenue comes from North American markets. Shares in the company closed more than one percent higher in Mumbai ahead of the earnings announcement. —AFP

Fact-checkers urge YouTube to fight disinformation

WASHINGTON: More than 80 fact-checking organizations yesterday urged online video platform YouTube to better combat disinformation, offering to help debunk false statements. "Every day, we see that YouTube is one of the major conduits of online disinformation and misinformation worldwide," said the groups spanning the globe, from Politifact and the Washington Post in the United States to the Kenya-based Africa Check.

Videos containing false information had gone "under the radar of YouTube's policies, especially in non-English speaking countries", they said in an open letter to YouTube chief Susan Wojcicki. "We urge you to take effective action against disinformation and misinformation... and to do so with the world's independent, non-partisan fact-checking organizations," they added.

"Our experience as fact-checkers together with academic evidence tells us that surfacing fact-checked information is more effective than deleting content." It also urged the platform to make sure its recommendation algorithm did not actively promote disinformation to its users.

YouTube spokesperson Elena Hernandez defended the platform, saying that fact checking was a "crucial tool", but just "one piece of a much larger puzzle to address the spread of misinformation".

"Over the years, we've invested heavily in policies and products in all countries... to connect people to authoritative content, reduce the spread of borderline misinformation, and remove violative videos," she added. She said YouTube had seen "important progress". —AFP