

The Note - Tuesday business

Edited by Philip Robinson - email: philprobinson@timesonline.co.uk

CLICK & CARRY

NEWS AND COMMENT

US rate bet backfires on UBS profits

Third-quarter profits at UBS slid 21 per cent to Swf2.2 billion (£926 million) as its investment bank suffered tough trading in the equity and bond markets. The bank, which lost star trader John Wood this year, was hit by the market correction.

[Click here online for full story](#)

Comment: More bad news from UBS. It has been caught betting the wrong way on US interest rates. This cut revenues at the fixed income, rates and currencies operations by 25 per cent in the third quarter, helping to send group profits down by more than a fifth and £3.18 billion (Swf7.5bn) came off the bank's value as the shares fell 5 per cent. The investment bank usually generates a third of group profits. But UBS likes risk. On any one day in the past three months it totalled £190m, among the largest in the sector. Risks may be lower for other banks, but results are looking far from bright. Trading revenues at Credit Suisse fell 36 per cent in the second quarter and Deutsche Bank (reporting tomorrow) made a loss trading equities.

[Click here online for full comment](#)

Miles Costello

Generic threat to Sanofi's markets

Increased competition from a US generic drug maker and the impact of European healthcare reforms pushed third quarter post-tax profits at Sanofi-Aventis down 11.6 per cent to €1.7 billion (£1.14 billion). The shares fell 3 per cent.

[Click here online for full story](#)

Comment: France's biggest pharmaceutical company succumbed to a malady that is becoming an increasing threat to the world's biggest drugs makers. Profits fell 11.6 per cent because four of its key products are under mounting pressure from generic drugs. Sales of blood-thinning Plavix, the world's second best-seller, have been squeezed by rivals flooding the market. The pressure is more intense than ever: patent drugs which sell at \$3.50 each can be pumped out at 3 or 4 cents. Big Pharmas argue that they hire scientists and invest in R&D while generics prefer to hire patent-challenging lawyers. This may be true - but generics are good for consumers, especially in countries where drug prices are prohibitively high, and the generic makers are increasing market share.

[Click here online for full comment](#)

Robin Pagnamenta

Tomkins' woes spread sector gloom

Tomkins, the British engineer, has reported a 22 per cent fall in third-quarter profit to £56.3m wounded by a weak US housing market and lower car production. Trading in July and August dropped £11m. It sparked fears of a wider malaise.

[Click here online for full story](#)

Comment: Tomkins' third-quarter performance does not augur well for peers who also have a major exposure to the anaemic US housing market. Comments from the management that there has been weaker demand in the US for doors and windows is likely to worry investors in Laird and FKI. Both supply doors and windows to the US residential market. Bridgewell Securities cautioned today that there is "a material risk" that Laird and FKI will also issue profit warnings. Tomkins' pessimistic outlook statement will also provide little encouragement that US market conditions are about to improve. A 12 per cent fall in the shares since its first warning indicates the fears are all in the price. For the brave, a good time to pounce.

[Click here online for full comment](#)

Miranda McLachlan

India moves to cool the economic heat

India lifted interest rates today to clamp inflation as Mothercare announced it has accelerated expansion plans to open up to 100 stores in the country over the next five years.

[Click here online for full story](#)

Comment: India is not China just yet. But with the world's second-fastest growing economy expected to expand by a striking annual 8 per cent - against 10.4 per cent in China - India's central bank hiked overnight interest rates for the fourth time this year to 7.25 per cent. The move, part of the Reserve Bank's efforts to hold inflation below 5.5 per cent, came as the bank unexpectedly held its own borrowing rate at 6 per cent. The idea is to keep enough capital flowing while growth is not undermined. India's growth potential is highlighted by Mothercare's plan to build 100 stores in the country over the next few years. This kind of investment is unlikely to make this rate rise the last.

[Click here online for full comment](#)

Miles Costello

THE TIMES

TOMORROW'S TIMES

- Exclusive: the bankers living with an **electronic tag**
- What the **MPC** members said to the Lords
- The bank set to introduce **Islamic bonds**
- A new shopping card which beats **internet fraud**
- Why the **FSA** is reshaping regulation
- **Carl Mortished's** European briefing

FTSE 100 close
6,129.2 +2.4

DOW JONES latest
12,092.30 + 5.80

NIKKEI close
16,399 + 47.54

NORTH SEA OIL Brent 21-day
\$58.43 -\$0.25

GOLD London
\$603.90 - 4.60

£/\$ 1.9083-1.9087
£/€ 1.4938-1.4947

QUOTE



"It is very satisfying to be leaving the company in such a strong position."

Martin Bandier, departing chairman and joint chief executive of EMI Music as S&P downgraded group debt again

The best law news and analysis
in our **LAW CHANNEL**



TIMESONLINE

The Note - Tuesday business

Edited by Philip Robinson - email: philprobinson@timesonline.co.uk

CLICK & CARRY

IN THE NEWS



Ian McMahon: rising price of the daily bread

Ian McMahon, chief executive of RHM, spent the summer ruing the fine weather, which hit sales of Bisto Gravy. As appetites for Sunday lunches wilted, he was able to cling to the crumbs of comfort afforded by a turnaround by Kipling cakes. This after a botched relaunch of Kipling helped send his pay down by more than 30 per cent this year, to £680,000. Come the autumn, he finds himself facing sky-high wheat prices, up 40 per cent in a year, baked into RHM's Hovis, Granary and Mother's Pride loaves, which account for one third of the UK's daily bread supply. The former ICI Paints executive, who joined RHM in 2002 and took charge a year later, has been able to pass on at least a portion of that rise - bread prices are up 4p a loaf. That is expected to be enough to bring in flat underlying half-year profits of around £70 million. And that may help Mr McMahon's pay packet.

Rhys Blakely

LONDON MARKETS

Friends Provident outshines FTSE

Imperial Tobacco hits takeover trail
Persimmon rises with house prices
BP leads oil stocks down

Friends Provident was the FTSE 100's stand-out riser after beating forecasts with a 40 per cent rise in third-quarter sales, boosted by



A-day reforms to pensions. The smallest blue-chip insurer added that it plans to triple UK sales in the next two years. Analysts said they liked the performance, the life sector - which is showing growth - and FP's bullish strategy. Peer **Aviva** gained on a Deutsche upgrade. **Legal & General** and **Old Mutual** also rose.

Imperial Tobacco recovered after an early bout of profit taking as it unveiled an expected 5 per cent rise in annual profits. The world's fourth-largest cigarette maker added that, in the absence of takeover targets, it would press on with share buybacks. JP Morgan reckons Imperial could double its current rate of share-repurchases to £1.2 billion and lift underlying earnings by up to 14 per cent. Imperial, however, expects sector consolidation and would prefer to buy.

Persimmon moved higher after the UK's largest housebuilder said it is trading in line with expectations and reassured investors that prices remain "firm". It added that the housing market had not changed noticeably since August. Sentiment in the sector was further boosted with data from building society **Nationwide**. On the downside, oil stocks dragged after crude prices fell on the back of mild US weather and fears of a global slowdown. **BP** was further hit by a scathing US report on a fatal fire at its Texas City refinery. **Royal Dutch Shell** and **BG** also slipped.

- ▲ Friends Prov (6.7%)
- ▲ Lomin (2.4%)
- ▲ Smiths (2.16%)
- ▼ AstraZeneca (1.68%)
- ▼ Cairn Energy (1.68%)
- ▼ Severn Trent (1.62%)

[Click here online for full markets coverage](#)

THE LONG VIEW ON ... F&C'S EXODUS

A lesson in relationships

Rule number one of business, even more important than winning new customers, is keep the customers you've got. This, F&C Asset Management is struggling to obey. A disappointing trading statement today reveals that a net £4.1 billion of business walked out the door in the three months to September. F&C also warned that clients had given notice of their intention to pull another £3.7 billion worth. Even for a fund manager with £106 billion of mandates, these are chunky withdrawals. Despite respectable investment performance, F&C is being hit by a seismic shift in the way Dutch pension funds allot money, akin to the UK trend from so-called "balanced mandates" to specialist managers. Good progress in UK retail has not been enough to soften the pain. All the cost benefits of the 2004 merger of F&C with Isis Asset Management, which created the present-day F&C, are being offset by defecting clients. Only the juicy (but uncovered) dividend - F&C now yields 6 per cent - is shielding one of the oldest and most familiar names in the City from serious share price punishment.

Patrick Hosking

LIGHTEN UP

A return to a gentler age of travel next month, with the start of a journey from London to Dubai by The Spirit of Dubai, claimed to be the largest commercial airship in the world. The craft will be visiting various landmarks such as Big Ben, Stonehenge, the Eiffel Tower and the Pyramids. And, er, Birmingham and the new Selfridges store. It is all linked to the arrival of the first residents at the Palm Jumeirah, that huge artificial island in Dubai that is proving popular with footballers and their wives. "Please note all activity is dependent on weather conditions," the organisers caution. That might be a factor.

Martin Waller

[Click here online for City Diary](#)



...AND THE SHORT VIEW

"Store chain 7-Eleven has sent the word out to franchise operators to pull the caffeine friendly drink "Cocaine" from its shelves...that could potentially give a short term boost (pun intended) to other energy drinks like Red Bull and Coke's energy drink called Full Throttle."

The GenDigital blog comments on 7-Eleven's decision to pull Cocaine, a high-caffeine drink, from its US shelves after receiving complaints from parents.

[Click here online for full blog](#)