

The Note - Wednesday business

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NEWS AND COMMENT

Hawks rule as market braces for 6%

The Bank of England's Monetary Policy Committee voted overwhelmingly in favour of a quarter point rise in the interest rate to 5.5 per cent earlier this month. The minutes also revealed some members suggested a half-point rise.

Comment: Today's minutes will encourage the expectation that the MPC may move again on interest rates within the next two months. While they decided to raise by a quarter, the discussion that a half-point rise might be on the cards has created widespread unease. The vote to raise was unanimous, and a very strong signal of intent. These are a hawkish set of minutes. Even the persistently dovish David Blanchflower was convinced of the need for higher rates. Some MPC-watchers this morning have spotted a troubling parallel with May 2004. Back then, a half-point rise was discussed, and rates went up that month and the following month. Then in August, they were raised again. The MPC sees a number of significant inflationary risks and is still upbeat on growth. It also no longer looks implausible that the Bank could take rates to 6 per cent.

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Gabriel Rozenberg

Operators wince at phone rate cap

Mobile phone users will benefit from cheaper call charges while abroad after EU politicians voted in favour of proposals to limit the amount operators can charge. MEPs today approved plans which will cut call charges by 20-25 per cent.

Comment: The introduction of price caps on overseas calls is the latest in a series of blows that is forcing Britain's major mobile operators to re-think strategy. The charges account for up to 18 per cent of revenue and the EU decision will usher in a new round of cost-cutting and rationalisation. Slow growth and fierce pricing pressures have already forged pacts between deadly rivals Vodafone and Orange, who now share networks. With customers expecting cheap or even "free" calls and bargain-priced "bundles", operators can no longer raise prices or cut handset subsidies. Vodafone put a brave face on the decision saying its new pricing measures are largely in place. That may be so, but for it and others, the alternative is job cuts and outsourcing deals.

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Elizabeth Judge

Surgery needed to sweeten Tate & Lyle

Shares in Tate & Lyle plunged more than 7 per cent today despite the prospect of a cash return to investors as the sugars and sweeteners group warned of transition ahead. Sir David Lees, the chairman, said oversupply of sugar would hit profits this year.

Comment: For a group that makes money through sweeteners, Tate & Lyle certainly knows how to leave the City feeling sour. The gloom stirred into today's results statement suggests that management wants to buy itself some breathing space to re-shape the business without the pressure of haughty expectations. But patience is running thin and today's share price plunge means the group's market value has tumbled by £1 billion since December. Splenda has fallen flat as US soft drink manufacturers give it the cold shoulder, and it is difficult to see where new growth will emerge, particularly with the EU continuing to fudge its thinking on sugar regime prices. T&L's hope to buy off frustrated shareholders later this summer with a cash return of at least £200 million is unlikely to buy much time.

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Steve Hawkes

Time to line-up Michael Spencer heir

Icap boasted that its expansion opportunities were on the increase as last year's deal to acquire EBS helped to boost annual pre-tax profits to a record-topping £250 million.

Comment: Michael Spencer set up Icap with some mates in 1986. Now with £1 billion revenues, a FTSE 100 badge and a quarter of his chosen market, where does Icap go from here? Today's earnings are broadly in line, but analysts fret about its exposure to the dollar, whose depreciation reduced profits by £9 million, and marked the shares down, off 9p at 521p. Mr Spencer talks about a 35 per cent market share, but further large-scale acquisitions look unlikely. Last year's London Stock Exchange link-up did not happen. Mr Spencer denies his holding is up for grabs. What is undeniable is his commitment to the Conservative Party, of which he is treasurer. At the very least, he should plan for a successor.

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Martin Waller

LONDON MARKETS
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FTSE up as water keeps rising

Brokers tip Gyrus and Enodis Earnings hopes lift Vodafone Drax looks set for relegation

Vodafone led the FTSE 100 index into positive territory as traders closed out short positions ahead of its annual earnings next Tuesday. Deutsche Bank repeated "buy" advice on the mobile operator, saying the report was unlikely to disappoint. Separately, there was vague talk that Vodafone could look to sell its stake in its Verizon Wireless joint venture to co-owner Verizon. A leveraged buyout over the weekend for the US operator AltTel has focused attention on sector valuations, traders said.

Drax Group, owner of Europe's biggest coal-fired power station, was also helped by a tip from Deutsche Bank. The broker said power prices were now looking more stable, helping support Drax's dividend yield. The share-price strength was despite Drax looking likely to drop out of the blue-chip index at next month's review, to be replaced by **Barratt Developments**.

Among the mid-caps, **Pennon** jumped more than 5 per cent as takeover talk continued to swirl around the South West Water owner. Spain's Aguas Barcelona was the latest name being linked with the utility, which has also been mooted as a target for RWE and private equity. Peers such as **Kelda** and **United Utilities** were also in demand.

Medical devices company **Gyrus Group** jumped after JPMorgan started coverage with an "overweight" rating. Meanwhile, **Enodis** climbed after Credit Suisse analysts said the catering equipment maker looked well supported at current levels following three bid approaches in the past year.

FTSE 100 latest
6,628.7 + 22.1

£/\$ 1.9814 - 1.9818

OIL Brent 21-day
\$69.89 + \$0.37

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