FINANCIAL TIMES

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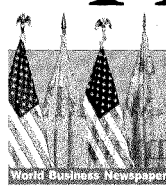

The China syndrome

Why Beijing is rattling the US. Analysis, Page 9

Gulf traders head for exit, pursued by bear

Markets, Page 27

World Business Newspaper

TOMORROW IN FT WEEKEND

How To Spend It
Fashion's ravishing monochrome moment. Plus new multi-hued garden sculptures

ECB hint on rate rise jolts markets

Euro sharply higher after signal of move

Trichet talks of bank's 'strong vigilance'

By Ralph Atkins in Frankfurt and Robin Harding in Washington

The European Central Bank has jolted financial markets by signalling that interest rates will almost certainly rise in April, taking a markedly more aggressive stance on inflation than the Bank of England and US Federal Reserve.

Sending the euro sharply higher, Jean-Claude Trichet, ECB president, on Thursday warned that the euro's monetary guardian was exercising "strong vigilance" – code for a rate increase just a month away. A hike next month from the record low of 1 per cent, was "not certain, it is possible" he said. Inflation risks were on the "upside", especially if oil and commodity prices rose further, while monetary policy was "very accommodative", the ECB president said.

Economists warned that the ECB's action risked backfiring, pointing out that its last interest rate increase in July 2008 came just months before the collapse of Lehman Brothers.

Mr Trichet indicated that interest rates would increase by only a quarter percentage point, however, and said an April hike would not have "the sense of the start of a series of rises" – although he used similar words at the start of the last tightening cycle in December 2005.

The ECB wanted to act preemptively with an interest rate "flu shot" and would see how the economy performed, said Peter Vanden Houte, European economist at ING.

In spite of its hawkish stance on inflation the ECB shelved further steps to unwind the exceptional support for eurozone banks it has provided since September 2008.

In the UK, the Bank of England is also moving closer to interest rate increases to combat inflation. But the US Federal Reserve has seen less of an inflationary threat in rising commodity prices. Ben Bernanke, Fed chairman, this week said that they are most likely to cause "a temporary and relatively modest increase in US consumer price inflation".

But positive economic data could turn the Fed's debate towards an earlier move. Attention will focus on today's non-farm payrolls report for February, the most important US data release, to see whether it confirms a labour market recovery.

The euro rose 0.5 per cent to $1.3937 against the dollar and 0.83 per cent to £0.8563 against sterling. German two-year bond yields jumped a quarter of a percentage point to 1.77 per cent.

The news also drove a wedge between stronger and weaker "peripheral" eurozone countries. Shares in Spain, Italy and Portugal – where a rate rise may push economies into reverse – fell while German and French stocks ended the day higher.

Additional reporting by David Oakley in London

Risky route, Page 5
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The Short View, Page 15
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Balance of power Delegates gather in Beijing

A police officer patrols Tiananmen Square ahead of the opening of the Chinese People's Political Consultative Committee, the top political advisory body in the country. President Hu Jintao and premier Wen Jiabao attended the opening session epa

UK freezes Libyan wealth fund assets

By Roula Khalaf, James Blitz and Lina Saigol in London

The squeeze on Muammer Gaddafi tightened on Thursday after the UK froze assets of Libya's sovereign wealth fund, including holdings at HSBC, and Austrian authorities questioned a senior fund executive.

Sources said about £2bn ($3.2bn) of assets belonging to the Libyan Investment Authority and other entities had been frozen in London, and that figure may go far higher in coming days. The UK initially froze about £1bn in assets linked to the Libyan leader and his children.

It was initially unclear whether the UK government would also target the LIA, which is estimated to control assets worth more than $60bn. On Thursday, Tim Geithner, US Treasury secretary, said Washington had seized nearly $32bn in Libyan assets including those held by the LIA.

Barack Obama, the US president, described the US measures as the "most rapid and forceful set of sanctions that have ever been applied internationally".

HSBC, the UK's largest bank and the LIA's custodian, holds much of the cash and assets affected by the UK measures, according to people familiar with the sanctions. HSBC declined to comment.

> The 'most rapid and forceful . . . sanctions ever applied internationally'
>
> **Barack Obama's assessment of the measures against Libya**

Other frozen LIA investments include the fund's £226m stake in Pearson, owner of the Financial Times, and a £300m property portfolio in London.

In Vienna, authorities questioned Mustafa Zarti, deputy head of the LIA, and froze his assets and accounts. Mr Zarti, who could not be reached for comment, was later released.

Mr Zarti is a close associate of Seif al-Islam, Colonel Gaddafi's son, who exercised considerable influence over the fund.

The Austrian foreign ministry said a directive, issued on February 25, provided the legal basis for asset freeze, adding that there appeared to be "some sort of closeness between Mr Zarti and the Gaddafi family – there seems to be enough evidence for that".

The government in Vienna will press the European Commission to add Mr Zarti to the European Union's list of 28 Libyans subject to sanctions.

In the UK, government sources said that the Land Registry would notify the Treasury automatically if the LIA sought to undertake any transactions involving its property portfolio.

Additional reporting by Daniel Dombey in Washington

Mideast unrest, Pages 2 &4
Comment, Page 11
Stocks off-loaded, Page 27

News Briefing

Glencore's results lead to higher valuations

Better-than-expected full-year results from Glencore have prompted analysts to raise their estimates of the valuation of the world's largest commodities trader ahead of a planned flotation in the second quarter. **Page 15; Lex, Page 14**

Airline fares warning

Air passengers face the risk of a hike in fares after airlines come into the European Union's emissions trading scheme at the end of this year, rating agency Standard & Poor's says. **Page 15; www.ft.com/transport**

Swiss bank reports loss

Swiss National Bank, the central bank that is independent and privately owned, reported a SFr19bn ($20.6bn) deficit for 2010. **Page 3; www.ft.com/centralbanks**

Financial reform closer

Momentum is building across the European Union to replicate the corporate transparency enforcements contained in the US Dodd-Frank financial reform bill, with draft proposals expected by November, EU officials say. **Page 6; Openness can help, Page 11; www.ft.com/europe**

Dutch party pays price

The Dutch Christian Democrats discovered the price of their government alliance with the far-right on Thursday, after losses in provincial elections confirmed their steady decline as an electoral force. **Page 6; www.ft.com/europe**

Struggle to fill jobs

The White House is struggling to fill key financial posts in the administration. **Page 6; www.ft.com/us**

US oil imports shifting

US reliance on foreign oil has been falling for the past five years and could well drop for the next five at least, thanks to a revival in the domestic oil industry. **Page 6**

Loan rate caps eyed

To protect vulnerable borrowers, the Reserve Bank of India has proposed a cap on interest rates and lender margins for the microlending sector. **Page 5; www.ft.com/india**

Anti-graft chief ousted

India's Supreme Court struck out the prime minister's appointment of the country's anti-corruption chief. **www.ft.com/india**

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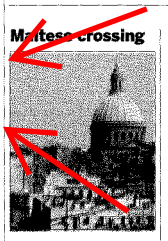
Maltese crossing



Some of London's biggest hedge fund managers are shifting their operations to the Mediterranean island of Malta, in response to the rising costs of business and the growing regulatory burden in the UK. The former British territory is emerging alongside traditional rivals to London as a location for big hedge fund managers keen to avoid heavy tax bills.

Report, Page 15

BSkyB shareholders mobilise to squeeze 'full price' from Murdoch

Big investors say £11 is reasonable level

By Ben Fenton, Neil Hume and Salamander Davoudi in London

British Sky Broadcasting's shareholders are mobilising to force News Corp to pay "a full and fair price" for the 61 per cent of the shares it does not already own in the satellite television company, according to interviews with big investors.

Following the announcement by Jeremy Hunt, the UK culture secretary, that he was minded to accept a spin-off of Sky News as a separate company in return for not referring the proposed acquisition to the Competition Commission, investors focused on how much they could extract from Rupert Murdoch's group.

The decision, subject to a 15-day consultation, proved controversial. Politicians accused Mr Hunt of making a U-turn to stay on good terms with Mr Murdoch. News Corp rivals described the spin-off as a "whitewash" and threatened a legal challenge.

Investors made it clear News Corp's June offer of 700p, valuing the broadcaster at £12.3bn, was far below expectations.

BSkyB's shareholder register shows that as few as four investors voting together could block an offer because only 11 per cent of the total equity would be needed to prevent Mr Murdoch succeeding, assuming an average turnout of 70 per cent.

A group of investors has already approached an investment bank to represent its interests, suggesting some are preparing a concerted approach.

One top 10 investor said that it would be "premature" to say they had clubbed together to agree a minimum target price. But the investor suggested that £11 would be a reasonable level, a sentiment echoed by a second, smaller shareholder.

When Mr Murdoch tabled his bid, the independent BSkyB directors said they would not entertain a bid of less than 800p.

People familiar with News Corp's strategy told the Financial Times on Wednesday that Mr Murdoch would not pay more than 750p, or perhaps 800p "at a squeeze". Officially, the group regards its 700p proposal as "full and fair". Shares in BSkyB closed up 2.8 per cent.

Additional reporting by Masa Serdarevic

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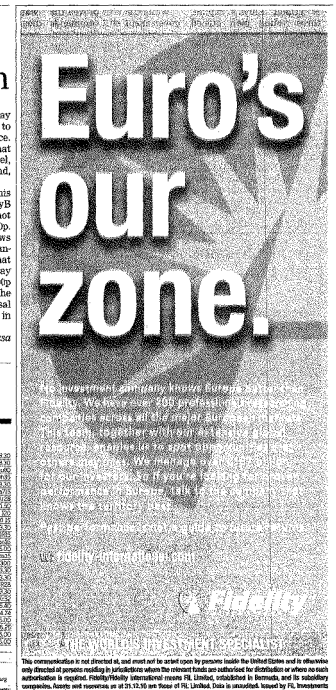
Euro's our zone.



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World Markets

STOCK MARKETS

	Mar 3	prev	%chg
S&P 500	1329.85	1308.44	+1.64
Nasdaq Comp	2799.2	2746.97	+1.86
Dow Jones Ind	12263.58	12066.8	+1.63
FTSEurofirst 300	1155.94	1153.73	+0.19
DJ Euro Stoxx 50	2969.24	2956.8	+0.35
FTSE 100	6005.09	5914.89	+1.52
FTSE All-Share UK	3112.72	3066.04	+1.42
CAC 40	4060.76	4034.32	+0.66
Xetra Dax	7225.96	7181.12	+0.62
Nikkei	10586.02	10492.38	+0.89
Hang Seng	23122.42	23048.66	+0.32
FTSE All World $	(u)	225.14	

CURRENCIES

	Mar 3	prev		Mar 3	prev
$ per £	1.594	1.588	€ per $	0.717	0.720
$ per $	1.528	1.632	€ per £	0.514	0.613
£ per €	0.856	0.850	€ per £	1.168	1.176
¥ per $	82 .4	81.7	¥ per €	114.8	113.4
¥ per £	134.1	133.3	£ index	81.2	81.5
$ index	78.7	78.5	€ index	95.71	94.97
SFr per €	1.297	1.280	SFr per £	1.515	1.506

COMMODITIES

	Mar 3	prev	chg
Oil WTI $ Apr	101.91	102.23	-0.32
Oil Brent $ Apr	116.35	116.35	...
Gold $	1,435.00	1,434.10	0.90

INTEREST RATES

	price	yield	chg
US Gov 10 yr	100.47	3.57	0.10
UK Gov 10 yr	99.66	3.79	0.05
Ger Gov 10 yr	99.18	3.32	0.12
Jpn Gov 10 yr	100.07	1.29	0.02
US Gov 30 yr	101.84	4.54	0.06
Ger Gov 2 yr	99.43	1.79	0.23

	Mar 3	prev	chg
Fed Funds Eff	0.16	0.16	0.01
US 3m Bills	0.13	0.13	0.01
Euro Libor 3m	1.05	1.05	0.00
UK 3m	0.72	0.71	0.01

Prices are latest for edition

Cover Price

Albania	Lek400	Macedonia	€3.00
Austria	€2.80	Malta	€2.80
Bahrain	Dnr1.5	Mauritius	Mrs40
Belgium	€3.30	Morocco	Dh27
Bulgaria	Lev1.00	Netherlands	€3.30
Croatia	Kn27	Nigeria	Nai150
Cyprus	€3.30	Norway	Nkr28
Czech Rep.	Kc110	Oman	OR1.00
Denmark	Dkr28	Pakistan	Rupee 200
Egypt	LE12	Poland	Pl 10
Estonia	€3.30/Ekr45	Portugal	€3.30
Finland	€3.80	Qatar	QR15
France	€3.30	Romania	Ron10
Germany	€3.30	Russia	€3.00
Gibraltar	£2.20	Saudi Arabia	Sr33
Greece	€3.30	Serbia	Nem300
Hungary	Ft820	Slovak Rep.	€3.30
India	Rupee	Slovenia	€3.30
Israel	4.50	South Africa	R28
Italy	€3.30	Spain	€3.30
Jordan	JD1.25	Sweden	Skr30
Kazakhstan	US$4.00	Switzerland	SFr4.00
Kenya	Ksh300	Syria	LS64.70
Kuwait	KWD1.50	Tunisia	DIN3.00
Latvia	Ldr3.50	Turkey	YTL6.00
Lebanon	LBP5,000	UAE	Dh15.00
Lithuania	Litas4	Ukraine	$3.00
Luxembourg	€3.30		

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