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William Wallis on the last frontier for big resources, Page 10

Taking stock of China's relentless surge

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World Business Newspaper

News Briefing

Spain's ACS raises bid for Germany's Hochtief

ACS of Spain has sweetened its offer for Hochtief, hours after the German construction company formally rejected what it has always considered a hostile, low-ball bid to take gradual control. **Page 17**

Swedes outline threat

More than 20 Islamist extremists are known to have travelled from Sweden to the Middle East to attend terrorist training camps, says a report issued by the country's security service days after Stockholm was hit by a suicide bomb attack. **Page 4; Algeria attacks al-Qaeda group, Page 6; www.ft.com/terror**

Italian alliance closer

Several Italian opposition leaders, claiming they represented more than 100 members of parliament in the two chambers, launched their first formal effort to create a new centrist alliance. **Page 2; Editorial Comment, Page 12**

CDB eyes fund launch

China Development Bank, the state-owned lender, is set to launch the country's first private equity fund of funds in a sign of how rapidly the Chinese private equity industry is maturing. **Page 17; Reliance loan, Page 18; www.ft.com/banks**

Hyundai eyes relaunch

Hyundai Motor is preparing to relaunch its brand as "modern premium" in line with the South Korean carmaker's growing confidence and global sales. **Page 17; Hyundai shifts gear, Page 21; www.ft.com/autos**

Optimism over treaty

Barack Obama has closed in on one of his biggest foreign policy achievements, with the full US Senate beginning work on the ratification of the Start arms control treaty with Russia. **Page 3**

Loans to poor boosted

The World Bank said it had expanded its capacity to give grants and loans to the world's poorest countries over the next three years. **Page 6**

Rift over tax victory

Some of the US Republican party's top presidential contenders have attacked the tax deal forged with the White House. **Page 3**

Ambassador recalled

Senegal has recalled its ambassador from Tehran to register dissatisfaction with Iran's explanation of an arms scandal. **Page 6**

Refugee tragedy

As many as 50 asylum seekers are thought to have died after their boat broke up as it attempted to reach Australia's offshore refugee processing centre at Christmas Island. **Page 6**

Sudan's oil concerns

Concerns about the oil industry in Sudan mount ahead of next month's referendum on independence that could see the south secede. **Page 8**

Kenyans accused

The chief prosecutor at the International Criminal Court has named six high-profile Kenyans in connection with violence that followed botched 2007 elections. **Page 6**

Separate section

Egypt

The country is held back by political uncertainty

Merkel under fire in Berlin over crisis

Chancellor accused of being un-European

Labelled 'Teutonic savings-monster'

By Quentin Peel in Berlin

Angela Merkel was fiercely criticised in the German parliament on the eve of a vital European Union summit in Brussels as opposition leaders accused her of being both indecisive and un-European over the eurozone debt crisis.

After months of cautious sniping, the centre-left Social Democratic party and the environmentalist Greens on Wednesday attacked the German chancellor head-on for damaging the country's reputation with its EU partners.

The clash came as Moody's warned it may downgrade Spanish government bonds because of the country's likely difficulty in raising some €300bn next year, the problems of its savings banks and the debts of its autonomous regions.

In Berlin, Frank-Walter Steinmeier, parliamentary leader of the SPD and former vice-chancellor, said German unwillingness to bolster the size of the €440bn ($583bn) eurozone stabilisation fund, or to contemplate the issue of jointly guaranteed eurozone bonds, was in danger of turning the European Central Bank into a "bad bank".

Jürgen Trittin, joint parliamentary leader of the Green party, said Ms Merkel was seen in the eurozone as a "Teutonic savings-monster" who had aggravated the crisis.

The chancellor, whose insistence on amending the EU treaties to create a permanent crisis facility is the central point on the Brussels summit agenda, was forced to defend her pro-European credentials.

"Nobody in Europe will be abandoned," she declared, in an outspoken pledge of solidarity with the most debt-laden members of the currency union. "Europe only succeeds if we work together."

The stormy debate in the Bundestag underlined the fundamentally pro-European attitude of all the leading parties.

No one blamed Ms Merkel for not being German enough, but criticised her for being scared of the popular press.

"The euro is our common fate, and Europe is our common future," the chancellor retorted. But she still insisted on the "indispensable preconditions" of any eurozone crisis programme, including a German veto on any future financial rescues.

Mr Steinmeier, however, accused Ms Merkel of not understanding the seriousness of the crisis, and also of failing to heed the alarm signals sent by the ECB in Frankfurt.

"They are looking to the member states to do more," he said. "These are alarm signals that you really don't want to hear."

If the ECB were forced to continue buying government bonds and giving credit to banks in difficulty, "it will become the bad bank of Europe", Mr Steinmeier added.

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Blog: www.ft.com/moneysupply
www.ft.com/eurozone

Athens clashes Violence during 24-hour strike

A woman walks past riot police in Athens. Violence erupted in the Greek capital after about 20,000 protesters marched to the national parliament during a strike over labour reforms Eurozone woes, Page 2; Mohamed El-Erian, www.ft.com/comment Getty Images

Moscow police act to stem race riots

By Isabel Gorst and Catherine Belton in Moscow

Police detained at least 800 people in Moscow on Wednesday as they launched a massive security sweep aimed at heading off spiralling racial violence in the Russian capital.

Security services have been on high alert ever since thousands of ultra-nationalists and soccer fans battled police outside Red Square at the weekend in riots sparked by the killing of a Russian football follower in an ethnic brawl last week.

Thousands of police massed in a square in central Moscow after reports that migrants from the North Caucasus and racist gangs were readying for renewed conflict.

City police said authorities had seized knives, batons and other weapons as they rounded up crowds of suspected troublemakers across Moscow.

Police said both ultranationalists and members of ethnic groups from the Caucasus had been detained.

Aleksey Malashenko, a North Caucasus specialist at the Carnegie Center in Moscow, said, "We are on the brink of very dangerous events. This will be repeated. I don't know what the authorities will be able to do to stop it."

> 'This will be repeated. I don't know what the authorities will be able to do to stop it'
>
> **Aleksey Malashenko**
> **North Caucasus specialist**

Fyodor Lukyanov, editor of Russia in Global Affairs, said the high number of detentions was a sign of the "intense nervousness of the security services" following the weekend riots.

Police sealed off Red Square and evacuated tourists from the area.

Political analysts said the turmoil could provide a pretext for the authorities to clamp down on freedom of assembly and further curb independent media ahead of crucial parliamentary elections next year and a presidential poll in 2012.

Dmitry Medvedev, the Russian president, promised tough action against those responsible for the nationalist "pogroms" in Red Square at the weekend, warning that ethnic tensions threatened stability.

Fighting broke out outside the Kievsky station in central Moscow on Wednesday afternoon as racist gangs attacked ethnic groups mainly from the North Caucasus. Scuffles were also reported outside underground stations elsewhere in the city.

Although the authorities said nobody had been injured, dozens of ambulances were seen streaming across Moscow as evening fell.

Ethnic tensions have been rising in Moscow due to an influx of migrant workers from the North Caucasus and central Asia. Ethnic minorities face discrimination from Slavic Russians in Moscow and are often the target of racial attacks.

Bold China bid

China has launched a bold bid to deepen economic engagement with neighbouring India. On his first visit to New Delhi for five years, Wen Jiabao, China's premier (pictured with Indian premier Manmohan Singh), said his business delegation had struck $16bn worth of deals with Indian partners, underwritten by Chinese finance. The 50 agreements, top the $10bn of orders for US companies that crowned President Barack Obama's India visit last month.

Report, Page 4

Afghan campaign will fail unless Pakistan acts, warns US official

Support for insurgents threatens success

By Matthew Green in Kabul

The Nato campaign in Afghanistan is on a "bullet train to failure" unless the US takes a tougher approach towards Pakistan shutting down sanctuaries for Taliban fighters, a former senior US official has warned.

The White House is due to publish a review of its strategy in Afghanistan today that is expected to broadly endorse current policy while acknowledging the risks posed by insurgent havens in Pakistan.

The review is also expected to seize on recent military successes around the southern city of Kandahar where US-led Nato forces have been directing much of their energy in recent months.

But in an interview with the Financial Times, Bill Harris, who stepped down last month as the top US civilian official in Kandahar, said Washington's attempts to boost ties with Islamabad had failed to stem a steady flow of fighters from Pakistan over the past year.

"We have put the government in Islamabad on a very rich diet of carrots for 10 years and nobody should be surprised that they have developed a taste for it," he said.

"I do believe that it's past time for some absolute straight talk in that bilateral relationship.

"We're on the bullet train to failure in Afghanistan if we try to fight this war to any kind of conclusion with Pakistan sanctuaries open."

His comments reflect mounting concern that growing flows of US aid are doing little to persuade Pakistan's security forces to stop covertly supporting Afghan insurgents.

In spite of Pakistani denials, US officials have long suspected Pakistani security forces of continuing to support Afghan factions as part of a long-standing policy to counter Indian influence in Afghanistan.

Mr Harris said sanctuaries in Pakistan had assumed greater importance for the Taliban after the summer influx of US troops in Kandahar province, the Taliban heartland, pushing many militants across the border.

Mr Harris, a veteran diplomat, said he feared insurgents would continue to slip back into Afghanistan to disrupt attempts to help Kabul extend its presence into areas where US and Afghan forces have provided a degree of security.

"In my year in Kandahar, I had not seen any progress whatsoever in stemming the flow in people and capacity for the Taliban across that southern border," he said.

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World Markets

STOCK MARKETS

	Dec 15	prev	%chg
S&P 500	1235.67	1241.59	-0.48
Nasdaq Comp	2615.49	2627.72	-0.47
Dow Jones Ind	11463.34	11476.54	-0.12
FTSEurofirst 300	1127.25	1132.46	-0.46
DJ Euro Stoxx 50	2841.99	2861.67	-0.69
FTSE 100	5882.18	5891.21	-0.15
FTSE All-Share UK	3046.33	3051.76	-0.18
CAC 40	3880.19	3902.87	-0.58
Xetra Dax	7016.37	7027.4	-0.16
Nikkei	10309.78	10316.77	-0.07
Hang Seng	22975.35	23431.19	-1.95
FTSE All World $	(u)	215.46	

CURRENCIES

	Dec 15	prev		Dec 15	prev
$ per €	1.333	1.338	€ per $	0.750	0.747
$ per £	1.562	1.579	£ per $	0.640	0.634
£ per €	0.853	0.848	€ per £	1.172	1.179
¥ per $	84.0	83.5	¥ per €	112.0	111.8
¥ per £	131.2	131.9	£ index	80.3	80.9
$ index	81.3	81.1	€ index	94.19	94.21
SFr per €	1.282	1.289	SFr per £	1.502	1.520

COMMODITIES

	Dec 15	prev	chg
Oil WTI $ Jan	88.62	88.28	0.34
Oil Brent $ Jan	92.20	91.21	0.99
Gold $	1,390.25	1,393.55	-3.30

INTEREST RATES

	price	yield	chg
US Gov 10 yr	92.52	3.53	0.07
UK Gov 10 yr	108.80	3.62	0.00
Ger Gov 10 yr	95.40	3.04	0.00
Jpn Gov 10 yr	99.43	1.26	0.01
US Gov 30 yr	94.28	4.60	0.05
Ger Gov 2 yr	99.84	1.08	-0.02
	Dec 15	prev	chg
Fed Funds Eff	0.19	0.17	0.02
US 3m Bills	0.14	0.15	-0.01
Euro Libor 3m	0.95	0.95	0.00
UK 3m	0.66	0.66	

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Cyprus	€3.30	Norway	NKr28
Czech Rep	Kc115	Oman	OR1.50
Denmark	DKr28	Pakistan	Rupee 100
Egypt	E£19	Poland	Zl 14
Estonia	EKr60/€3.83	Portugal	€3.30
Finland	€3.60	Qatar	QR15
France	€3.30	Romania	Ron16
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Jordan	JD3.25	Sweden	SKr32
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Kenya	Kshs300	Syria	US$4.74
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Luxembourg	€3.30		

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Eurozone woes

Portugal's reforms aim to calm investors

Move seeks to avoid sovereign debt crisis

Tax incentives to boost exports

By Peter Wise in Lisbon and Peter Spiegel in Brussels

Portugal has approved an economic reform package designed to reassure European Union partners and investors that the government is responding to pressure to strengthen its debt-laden economy.

The package gives José Sócrates, the prime minister, tangible measures to present at an EU summit in Brussels today, where steps to prevent the spread of the eurozone's sovereign debt crisis to Portugal and Spain will be high on the agenda.

Approved at a cabinet meeting on Wednesday, the wide-ranging measures are seen partly as a response to indications of growing concern in Brussels that Portugal has been moving too slowly on economic reform, drawing negative comparisons with Spain.

However, Fernando Teixeira dos Santos, finance minister, insisted that the reform package, which involves a total of 50 measures, was not the result of "any external demands".

Fears that Portugal could be forced to follow Greece and Ireland in seeking an international financial bail-out were highlighted on Wednesday when Lisbon suffered a sharp increase in government borrowing costs in a €500m ($663m) auction of three-month Treasury bills.

In its last debt issue of the year, Portugal paid an average yield of 3.40 per cent, compared with 1.82 per cent at the previous equivalent auction in November.

The measures included tighter controls over government spending and tax incentives to encourage exports.

Helena André, labour minister, said the government would also propose limits on the amounts of compensation paid to dismissed workers.

The package also included measures to reduce company costs by cutting bureaucracy, to combat clandestine economic activities and to stimulate the housing market.

European officials contrast perceptions of "fast and decisive" economic reforms by Spain with what some see as less effective measures by Portugal.

Concerns have also been expressed in Brussels that some measures planned by the Lisbon government could be seen as small window-dressing steps.

Low economic growth, which has averaged less than 1 per cent a year over the past decade, is seen as Portugal's greatest weakness. Economists attribute it mainly to a sharp fall in international competitiveness as increases in labour costs outstripped productivity gains.

Mr Sócrates has promised reforms to stimulate growth, partly to offset the impact of austerity measures that are expected to tip Portugal into recession next year and push unemployment above 11 per cent, the

3.4%

Average yield paid in Lisbon's last debt issue

highest level for more than a decade. Under pressure from the European Commission and the International Monetary Fund to introduce more flexibility into labour markets, Mr Sócrates has several times met trade unions and employers in recent weeks to discuss reforms.

He has promised unions that he will not go beyond measures designed to make existing legislation more effective. That has led to accusations from political opponents that he has been promising important reforms in Brussels, while reassuring domestic audiences that the changes will be kept to a minimum.

Markets, Page 29
Video: Spain nears bail-out, www.ft.com/spain-rating
Blog: the eurozone – a question of trust, www.ft.com/moneysupply

Austerity package: José Sócrates, Portugal's prime minister, has promised reforms to stimulate growth AP

Brussels rivals call truce to agree compromise 2011 budget

By Joshua Chaffin in Brussels

MEPs approved a compromise European Union budget for 2011 after a protracted fight with member states that laid bare the growing rivalry between the Brussels institutions in an age of austerity.

The budget calls for a 2.9 per cent increase in spending next year to €126.5bn ($166bn) – in line with the offer made by member states at the outset of negotiations but just half the increase that the European Parliament had requested.

MEPs were also rebuffed in their attempt to secure political concessions that would give them greater say over the seven-year budgetary framework that will guide billions of euros in EU spending from 2014 to 2020.

The parliament was able to secure more money within next year's budget to support some favoured causes, such as aid for Palestinians. "Please understand: This is a success," said Jerzy Buzek, the parliament president.

But member state diplomats took a different view. One likened such remarks to the Monty Python film where "the limbless and feisty Black Knight calls it a draw."

Some MEPs appeared to agree. Helga Trupel, a member of the Green party, blasted colleagues for caving in.

The agreement, after months of deadlock, will avoid a potentially parlous situation in which the 2010 budget would have been doled out next year in 12 equal instalments. Officials had warned that could wreak havoc with billions of euros in agriculture and regional subsidies, and with efforts to build Europe's new diplomat corps, the external action service.

The negotiations demonstrated the growing rivalry between the member states, the traditional authority in Brussels, and the parliament, which has seen its powers expanded since the Lisbon treaty came into force last December and has been keen to assert them. The sides have clashed repeatedly recently.

The spreading austerity also shaped the debate as leaders – particularly David Cameron, the British prime minister – who have imposed deep spending cuts at home were determined to be seen taking a tough line against Brussels.

Those same dynamics suggest that talks for the next financial framework, set to get under way next year, will also be difficult.

Even before that, diplomats were braced for the possibility that Mr Cameron would use today's summit in Brussels to rally support to limit the 2012 and 2013 budgets – the last of the current cycle.

Mr Cameron had originally called for a budget freeze. He forced the issue on to the agenda of the last EU summit in October, ultimately persuading leaders to sign a letter indicating they would not budge beyond 2.9 per cent.

In-depth reports: www.ft.com/eurozone

UK calls for bail-out policy changes

David Cameron, the UK prime minister, will push his European Union partners to adopt a measure that would prevent non-euro countries from being pulled into future eurozone bail-outs at today's EU summit, according to European diplomats, **writes Peter Spiegel in Brussels.**

But the drive has raised concerns Mr Cameron's manoeuvring could hamper efforts to approve a narrow change to the bloc's treaties intended to create a new bail-out system for countries such as Greece and Ireland after the current €440bn fund expires in 2013.

The dispute centres on the current, temporary financial rescue system that was created using a provision in the EU's treaties normally reserved for natural disasters. The provision covers all EU members, so when Ireland requested a bail-out last month, the UK and other non-eurozone countries were obligated to chip in.

European diplomats said the UK had wanted new language inserted into the treaty that would have made explicit the "natural disaster" article could not be used for future financial crises. But EU officials pushed back, saying such an amendment would force a full-blown constitutional convention, since it would mean a change in the EU's powers.

Full story: www.ft.com/brussels

Italy's flawed premier keeps deft hand on levers of power

GLOBAL INSIGHT

Guy Dinmore in Rome

Italy has been saying a long goodbye to Silvio Berlusconi ever since his first government collapsed in 1994 after a few months. But by scraping through a confidence vote in parliament on Tuesday, the scandal-ridden prime minister has again demonstrated his powers of survival.

Whether the 74-year-old billionaire can last long with a majority of just three votes in the chamber of deputies remains in doubt, with early elections still a likely outcome. For the moment, however, Mr Berlusconi can rightly claim there is no alternative – either in the opposition or from within his own party.

In two days of heated parliamentary debate this week that climaxed in a brawl, opposition leaders portrayed the prime minister as a corrupt, hard-partying, self-interested businessman who had brought shame to Italy on the international stage while passing laws to evade pending court cases against him. US diplomatic cables exposed by WikiLeaks were brandished as evidence.

Yet a closer reading of those cables reveals not just prescient analysis by the Americans of Mr Berlusconi's ability to cope with his mounting domestic problems, but also his usefulness, whatever his flaws.

"It might be tempting to dismiss Berlusconi as a frivolous interlocutor, with his personal foibles, public gaffes and sometimes unpredictable policy judgment, but we believe this would be a mistake," Elizabeth Dibble, a senior diplomat, wrote in a briefing for Barack Obama, US president, in June 2009. "Despite his faults, Berlusconi has been the touchstone of Italian politics for the last 15 years, and every indication is that he will be around for years to come."

Misgivings were noted over a possibly corrupt relationship with Russia's Vladimir Putin and Italy's commercial ties with Iran, but the US embassy in Rome still pointed out that Mr Berlusconi "has invariably come through on our top [military] requests, despite domestic political risks".

US military facilities with 15,000 personnel on six bases in Italy "provide unmatched freedom of action and are critical to our ability to project stability into the Mediterranean, Middle East and North Africa", Ms Dibble wrote.

Mr Berlusconi's ability to finesse his close personal ties with Mr Putin while remaining important for Washington is mirrored by the clientelism that characterises the twin Italian worlds of politics and business.

"If Silvio Berlusconi is irredeemably tarnished by the manner in which he has ruled Italy, his capacity to remain in office also reflects the way that Berlusconismo has changed Italy," comments Geoff Andrews, author and academic. "It is a political regime which has become characterised by the view that everyone has their price," he adds. "Berlusconismo has corroded the heart of Italian public life."

A key lever of power for Mr Berlusconi – and other party leaders – is the electoral system passed under his previous government that even the official in charge once described as "crap". Italians do not choose their MPs, voting instead for a list chosen by party leaders that can then be manipulated after the results are in.

> Mr Berlusconi 'has invariably come through on our top [military] requests'
>
> **Senior US diplomat in a briefing for Barack Obama**

Opposition politicians alleged that, well ahead of the confidence vote, Mr Berlusconi's lobbyists homed in on those deputies who knew, for one reason or another, that they had no future in their own party but could be guaranteed a place on the prime minister's handpicked lists, joining his lawyers, doctor and even dental hygienist.

"We are an oligarchy without parties," admitted Pier Ferdinando Casini, head of the centrist UDC party and a former ally of Mr Berlusconi.

Just before the vote Mr Berlusconi planted a public kiss on Mr Casini and afterwards invited his party to rejoin the fold in an enlarged coalition. Mr Casini refused, leaving Mr Berlusconi to acknowledge that he would need to attract individual MPs to shore up his majority.

All this does not make for stable government, and despite Mr Berlusconi's age and questions over his health there is no clear successor in the ruling party. As one official critical of the premier put it: "There is no exit strategy. There is only exit. That is the problem."

Editorial Comment, Page 12

Opposition leaders launch 'third pole' against Berlusconi

By Guy Dinmore in Rome

Having narrowly failed in their efforts to unseat Silvio Berlusconi's coalition government in parliament, several opposition leaders have launched their first formal effort to create a centrist alliance, dubbed "the third pole" by Italy's media.

A statement released after talks in Rome's Minerva hotel on Wednesday night said they represented more than 100 members of parliament in the two chambers and would prepare a common platform for local elections in the spring.

The meeting brought together old rivals and former allies from diverse political backgrounds, including Gianfranco Fini as head of his new Future and Liberty party, Pier Ferdinando Casini as leader of the Catholic UDC, Francesco Rutelli of the small Alliance for Italy, several deputies of the Sicilian Movement for Autonomy and a few other lawmakers.

Mr Berlusconi was quoted as saying the "third pole" was "dead". Altero Matteoli, infrastructure minister, echoed the views of commentators in casting doubt on their unity.

Should they succeed in forming a coherent alliance, which as yet has no formal name, then it could spell the end of a brief era in which the prime minister's ruling People of Liberty party and the main centre-left Democrats had sought to establish a clear-cut bipolar system along the lines of the UK and US.

Aides said one of the meeting's was to present a show of unity in the face of Mr Berlusconi's efforts to draw more wavering deputies into his government to shore up the three-vote majority he secured in defeating a no-confidence motion in the lower house.

"A new pole is born and it seems solid," said Rocco Buttiglione, UDC chairman. "Either we all stick together or they are going to hang us one by one," he added, paraphrasing Benjamin Franklin, one of the founding fathers of the US.

> 'Either we all stick together or they are going to hang us one by one'
>
> **Rocco Buttiglione UDC chairman**

Opinion polls have indicated that a "third pole", which has been months in the making, could draw as much as 20 per cent of the vote should Mr Berlusconi be forced to resign as prime minister and call snap elections.

Mr Casini, who on Tuesday rejected an offer of an alliance by Mr Berlusconi, said the new group had no intention of precipitating early general elections but wanted to work together in parliament in the interests of the nation.

Mr Fini, who ended his long alliance with Mr Berlusconi last month and precipitated the latest government crisis, was still a neo-Fascist in 1993 when he ran for mayor of Rome against Mr Rutelli, then a Green. He has long since evolved as a leading moderate.

Editorial Comment, Page 12

News digest

Berlin approves army overhaul

Germany's armed forces are set to be reduced from 240,000 to 185,000 personnel as part of a radical overhaul approved by the government.

The reform was agreed by the cabinet in Berlin on Wednesday after months of debate. Karl-Theodor zu Guttenberg, defence minister, described the move as the most fundamental reform of the Bundeswehr since it was established in 1955.

Quentin Peel, Berlin
www.ft.com/europe

Khodorkovsky verdict delayed

A Moscow court has delayed the start of the verdict in the case against Mikhail Khodorkovsky, the jailed Yukos oil tycoon, in a trial seen as a test of the pledge by Dmitry Medvedev, Russia's president, to boost independence of the courts.

A notice announcing the delay until December 27 was posted on the entrance to the Moscow court, surprising defence lawyers and journalists arriving to hear the judge's decision. No reason for the postponement was given.

Catherine Belton, Moscow
www.ft.com/europe

Global fall in tax receipts

Tax receipts across the industrialised world have fallen to their lowest level since the early 1990s, according to data that underline the severity of the economic crisis on government revenues.

Jeffrey Owens, director of the centre for tax policy and administration of the Paris-based Organisation for Economic Co-operation and Development, said that the tax burden – the tax to gross national product ratio – declined more than 5 percentage points between 2007 and 2009 in Spain, Iceland and Chile.

Greece, Ireland, the US and New Zealand saw declines of 3-4 percentage points.

Vanessa Houlder, London
www.ft.com/globaleconomy

Tymoshenko set to face charges

Ukrainian prosecutors announced on Wednesday that they had launched criminal charges against Yulia Tymoshenko, a leading opposition figure and former prime minister.

Prosecutors said Ms Tymoshenko was expected to be formally charged on suspicion of abuse of power later this month.

Roman Olearchyk, Kiev
www.ft.com/europe

Bulgaria plans diplomat recall

Nikolai Mladenov, foreign minister, says Bulgaria plans to recall ambassadors who served as agents of the former communist secret service.

Mr Mladenov's remarks came a day after a panel investigating communist-era police files published the names of 192 diplomats who had worked for the secret service.

AP, Sofia

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Risk of Spanish downgrade heightens

Moody's warns over 'funding stress'

By Victor Mallet in Madrid

Moody's has warned it may downgrade Spanish government bonds because of the country's likely difficulty in raising some €300bn next year, the problems of its savings banks and the debts of its autonomous regions.

Spain was already downgraded by the credit rating agency by one notch from its top rating of AAA less than three months ago. In a statement on Wednesday that depressed the euro and European bank stocks, Moody's said it was putting Spain's current Aa1 rating for local and foreign currency government bonds on review for possible downgrade.

"The Moody's warning is another blow for Spain and the eurozone," said David Owen, chief European financial economist at Jefferies. "The worry is that the country's cost of funding will keep on rising to a level where it cannot be sustained. In such a scenario, Madrid will need emergency loans, which will take the eurozone crisis to a new and dangerous level."

The news came at a bad time for Spain, one day ahead of its last scheduled bond auction of the year and just as it was struggling to restore international confidence in its economy and banking system. On Tuesday, Spain sold €2.5bn in treasury bills but had to pay more than a percentage point more in interest than it did only a month ago.

Elena Salgado, Spanish finance minister, voiced confidence that Spain's financial and economic performance in the coming weeks would convince Moody's not to lower its ratings. Moody's said the first reason for the review was "Spain's vulnerability to funding stress", a problem amplified by "fragile market confidence". That underlined how Spain risks falling victim to a vicious circle of credit downgrades leading to market nerves, and in turn to further downgrades and higher borrowing costs.

"However, Moody's also wants to stress that it continues to view Spain as a much stronger credit than other stressed eurozone countries," the agency said.

"Moody's does not believe that Spain's solvency is under threat, and its base case assumption does not expect the Spanish government to have to ask for EFSF [European Financial Stability Facility] liquidity support," it said.

But it noted that the central government would need to raise €170bn next year, including treasury-bill rollovers, while regional governments needed to refinance €30bn and banks about €90bn.

Kathrin Muehlbronner, Moody's lead analyst for Spain, defended the agency's decision to change its stance partly in response to market movements. "The market dynamics have changed, and liquidity and access to markets is an issue for these highly rated countries," she said.

In addition, Moody's expressed concern about the capital needs of the country's cajas or savings banks. It also doubted whether the Spanish government would be able to engineer necessary structural improvements in public finances over the next few years, given the fiscal indiscipline of some of the 17 regional governments.

Additional reporting by David Oakley in London

View of the Day

Philip Isherwood
Evolution Securities

The strong rally in UK and European stocks over the past month underlines the seasonal nature of equity markets – and there are good reasons for investors to look towards 2011 with confidence, says Philip Isherwood, European equity strategist at Evolution Securities.

"The equity markets have certainly entered into the Christmas spirit, and the push higher through December has helped turn 2010 into a positive year," he says.

He acknowledges that December rallies are far from unusual – European stocks having fallen only five times over the course of the month in the past 30 years – and says this year's rise could still be dismissed as a low-quality, unsustainable, thin-volume squeeze higher.

But Mr Isherwood believes this ignores improving economic confidence and the awaited asset allocation shift from bonds to equities.

"And while a reversal in January is not uncommon, there is another, even more powerful, seasonal story waiting in the wings.

"Over the past 30 years, the January-to-April period has delivered average monthly returns in Europe and the UK of +116 basis points and +138bp respectively – compared with overall average monthly returns of +74bp and +76bp.

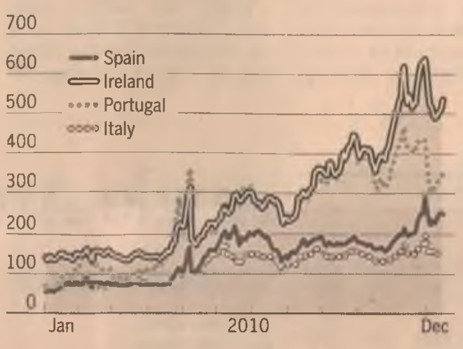
"As we go into 2011, equities should be buttressed by stronger economics and earnings, and investors can look towards April with hope."

No easy exit from vicious circle of sovereign debt

Bond bulls are in short supply

Photo: Getty

10-year government bond yields
Spread over bunds (basis points)



Sources: Thomson Reuters Datastream; JPMorgan

Gross bond issuance
Forecasts for 2011 (€bn)

Bond monthly redemptions
2011 (€bn)

	Ireland	Portugal	Spain*	Italy
Feb				18.6
Mar				28.0
Apr		4.5		
May			15.5	14.6
Jun		5.0		12.2
Jul				
Aug			15.5	19.8
Sep				46.1
Oct			14.1	
Nov	4.4			15.4

* Spanish bonds that mature on Apr 30 and Jul 30 will pay in May and Aug

News analysis

The sheer size of Spain's bond market would make a bail-out difficult, say Victor Mallet and David Oakley

Spain had almost managed to convince the markets that its budget deficit was under control. Investors, though, spooked by the €85bn rescue of Ireland three weeks ago, turned their attention to its fragile savings banks and the large debt refinancing needs of its public and private sectors in 2011.

The result is that Spain risks falling into a circular debt trap. Investor concerns are causing bond yields to rise, as they have nearly every day for the past eight days. That makes it harder to raise money and increases the country's financing burden, which in turn causes further anxiety and even higher yields.

Moody's, the credit rating agency, reinforced this vicious circle on Wednesday by announcing it might downgrade Spanish government bonds from their current Aa1 rating, in part because of the country's "vulnerability to funding stress" – which it said had been amplified by a shortage of confidence in the markets.

Lorenzo Bernaldo de Quirós, economist at consultants Freemarket Corporate Intelligence, says: "It's highly probable that the Spanish situation will become unsustainable if the costs of debt issuance and the risk premium to provide liquidity to the public and private sectors continue to rise and if the financial constraints on the economy are maintained."

In a pessimistic report, he notes that Spain is highly dependent on foreign credit and that public and private sectors need to refinance about €300bn of debt between them next year.

Investors, analysts and Spanish ministers are now asking whether Spain, which is scheduled to hold its last bond auction of the year on Thursday, can somehow escape its debt trap, either through a dramatic government gesture to change investor perceptions or with the help of the European Central Bank, which could buy Spanish bonds.

So far, the ECB has bought only Greek, Irish and Portuguese bonds, traders say. The size of the Spanish debt market is such that the ECB would have to mount an aggressive buying campaign to make any impact.

One unknown factor is the point at which the Spanish government might decide that it makes no financial sense to pay a very high rate of interest – more than 7 per cent for a 10-year bond, perhaps – in order to stay in the market.

It still has some room for manoeuvre, both in terms of time and cost. Spain has built up a reserve of cash by "over-borrowing" in recent months when markets looked more favourably on Spain, probably amounting to more than €20bn, and the average cost of its total debt load is still a modest 3.5 per cent.

And, although the yield on its 10-year bond has risen above 5.5 per cent in the secondary market this week, the spread between Spanish and benchmark German bonds, a measure of the higher perceived risk of Spain, was about 240 basis points on Thursday, below the record spread of about 300bp. One reason that Ireland was forced to seek a rescue was because its spread over Germany rose above 450bp, according to some strategists.

> 'The market is losing confidence in Spain because the ECB seems unwilling to buy Spanish bonds'

At this point LCH.Clearnet, the clearing house, increased margins on the trading of Irish bonds, which led to a vicious spiral of rising bond yields followed by further increases in margin payments.

The manageable level of the Spanish spread reflects the fact that government bond prices, not only those of peripheral eurozone economies but also those of the US and Germany, have all fallen amid increased investor worries about the public finances of developed economies.

Market prices suggest there is a one-in-four chance that Spain will default over the next five years. For Greece, there is a probability of more than 50 per cent, and for Ireland and Portugal more than 30 per cent, according to credit default swap prices.

Analysts are therefore examining the previously unthinkable possibility that Spain will need to seek a bail-out from the €750bn available from the European Financial Stability Facility, the International Monetary Fund and the European Union, or even negotiate a default. Either option would have grave consequences given that the Spanish economy is larger than those of Greece, Portugal and Ireland put together.

"Spain is too big to fall but also too big to be rescued in a similar way to Greece, Ireland and – shortly – Portugal," says Mr Bernaldo de Quirós. He raises the possibility of long-term remedial treatment based on the combination of a budget programme, structural economic reforms, a payment moratorium on both public and private debt and the provision of funds to clean up the financial system.

Even if Spain can avoid a debt moratorium or default, analysts say it is still likely to need support from the ECB or the EFSF.

Elisabeth Afseth, fixed-income strategist at Evolution Securities, says: "The market is losing confidence in Spain and the periphery because the ECB seems unwilling to buy Spanish bonds and there is very little faith that anything will be done in Brussels at this week's [European Union] summit to change the situation."

Nick Matthews, senior European economist at RBS, agrees. "If Spain does run into trouble, something would have to give. Either the ECB will have to significantly step up its bond buying programme or the EFSF will probably have to be increased in size... Portugal is very likely to have to go to the EFSF. The probability of Spain going to the EFSF is high too."

Others are a little less gloomy. Nicholas Spiro of Spiro Sovereign Strategy wrote in a report this week that "Spain's day of reckoning has not yet fully come to pass". But he concluded: "Given its systemic importance, both financially and politically, it is more likely to be a lingering source of distress than a prime candidate for an external bail-out."

Beaten banking stocks test the brave

High yields make lenders look cheap

By Michael Stothard

At first glance, Spanish banking stocks might look cheap. They have high dividends and some of the lowest prices since the peak of the 2008 financial crisis.

The listed Spanish banks have lost 28 per cent of their value this year compared with an average for European banking stocks of 7 per cent. Meanwhile, they have an estimated average dividend yield of 5.5 per cent, compared with about 2.5 per cent for the big listed French, German and UK banks.

Santander, for example, which is the largest bank in Europe and one of the most profitable, has a dividend yield of 7 per cent. Its share price has fallen by almost 30 per cent this year.

The catch, according to some analysts, is the banks' exposure to the Spanish sovereign debt market. A Moody's report on Monday said that Spanish banks had a €17bn capital shortfall, illustrating how much they will have to raise in a potentially difficult market.

Santander has a dividend yield of 7 per cent

"Spanish banks may look like a bargain, but they are more like a trap," says Philippe Lecoq, co-head of European equities at Edmond de Rothschild Asset Management.

"Some of them could be negatively exposed to the liquidity concern of the Spanish banking system and they will have trouble raising their capital ratios to comply with the new Basel III requirements. If they are cheap, they will continue to be cheap for a long time," he says.

Some analysts might be worried about the potential pitfalls of investing in Spanish banks, but others argue that the largest two banks, Santander and BBVA, still look undervalued following their losses this year.

These two banks have the advantage of being diversified away from Spain, deriving about half their revenue from emerging markets.

"Even if Spain was forced to restructure its debt, the biggest Spanish banks would be able to withstand up to about a 20 per cent haircut on their sovereign bond holdings," said Marco Troiano, an equity analyst at Standard & Poor's.

However, while these banks may be seen as safer than others, they are also correspondingly more expensive.

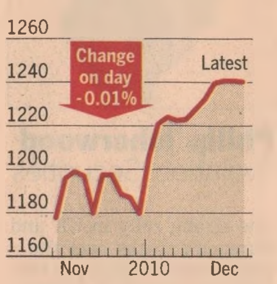
BBVA and Santander have a price to tangible book ratio – the most common way of measuring relative bank prices – close to the European banking sector average of 1.3 times. Only those banks that are more exposed to Spain's problems look cheaper on that basis. Bankinter is valued at 0.7 times price to tangible book value and Banco de Sabadell at 0.8 times.

www.ft.com/eurozone

MARKETS

Thursday December 16 2010

S&P 500 index



US equities
Honeywell lost ground as its full-year profit forecasts fell short of some expectations. Support for the broader market came from positive US economic data, although investors were unsettled by fresh eurozone debt worries

FTSE 100 index

UK equities
The FTSE 100 index edged back from a 2½-year high, with Barclays dropping 3.7 per cent as investors fretted about its loan exposure to Spain. The mining sector was unsettled by weaker metals prices

FTSE Eurofirst 300 index

European equities
Losses for banking stocks helped bring to a halt a seven-session run of gains for the Eurofirst 300, after Moody's Investors Service warned of a possible downgrade to Spain's sovereign credit rating

Nikkei 225 Average
'000

Asian equities
The Nikkei inched back from a seven-month high, while Hong Kong tumbled 2 per cent – the most for three weeks – and the Shanghai Composite fell 0.5 per cent. But Seoul rose 0.4 per cent to hit a three-year high

Source: Thomson Reuters Datastream

Markets updated at www.ft.com/markets

Moody's sparks fresh eurozone contagion fears

GLOBAL OVERVIEW

Spanish sovereign debt put on review

Euro at record low against Swiss franc

By Dave Shellock

Resurgent worries over eurozone debt unsettled the markets following a rating agency warning on Spain, although the mood improved slightly after the release of reassuring data on US industrial activity and manufacturing.

Moody's Investors Service put Spain's Aa1 credit rating on review for downgrade, citing the country's high funding needs and doubts over its banking sector.

"The news plays on fears that contagion could extend to the Spanish bond market, though it doesn't enlighten the market much further with respect to the underlying issues with respect to Spain," said Jane Foley, senior currency strategist at Rabobank.

The Moody's warning came a day ahead of Spanish 10- and 15-year debt auctions and the start of a two-day summit of EU leaders, which is aimed at creating a new financial rescue system for the eurozone.

The euro initially fell below the $1.33 level on the news, although it later pared its decline to stand 0.3 per cent lower at $1.3338. The single **currency** also touched a record low against the Swiss franc, but gained ground against sterling.

Spanish government bond yields held around a ten-year high, although an early sell-off ran out of steam, while the cost of insuring against a sovereign default by Madrid – as measured by **credit default swap** spreads – actually fell. The German 10-year Bund yield held steady at 3.03 per cent.

Meanwhile, support for the dollar came from still-elevated levels of US **government bond** yields.

Treasuries initially attracted some buying following a rise in the 10-year yield to 3.5 per cent in the wake of Tuesday's Federal Reserve policy meeting. But by midday on Wednesday, the yield was flat at 3.46 per cent.

Analysts questioned the Fed's decision to make only a modest upgrade to its economic outlook, in spite of last week's tax compromise and recently improved US macro data.

Indeed, Andrew Wilkinson, senior market analyst at Interactive Brokers, questioned whether the Fed was actually looking at the same data that others in the markets were focusing on.

"The silence surrounding the Fed's Tuesday statement spoke volumes, with the market begging to disagree with the central bank's outdated assessment of the health of the economy," said Mr Wilkinson.

"The Fed has been singing from the same hymn book for so long that perhaps it deserves a chant from the market in the shape of rising 10-year yields – the ultimate arbiter of growth."

There was further good news on the US data front on Wednesday as the latest Empire State survey of manufacturing activity in the New York region came in much stronger than expected and US industrial production rose more than forecast in November.

Meanwhile, subdued US consumer price data appeared to reinforce the Federal Reserve's view that inflation was not yet a concern while deflation and disinflation remained more pressing.

The figures offered some support to **US equities**. The S&P 500 was flat by midday in New York, having initially pushed slightly higher.

The mood on Wall Street was not helped by a 2011 profit forecast from Honeywell that fell short of some analysts' expectations.

The Vix equity **volatility** index, watched as a measure of broad risk aversion, was down 0.5 per cent and holding below the 18 level.

In Europe, the FTSE Eurofirst 300 index snapped a seven-session run of gains – its longest winning streak in six months. The benchmark fell 0.5 per cent, but ended off the day's lowest level.

Asia suffered a broadly negative day, with the Nikkei 225 Average in Tokyo slipping less than 0.1 per cent, however the Hong Kong Hang Seng index slid 2 per cent.

The broader MSCI **emerging market** stock index was down 0.7 per cent.

In **commodities**, copper eased back from Tuesday's record high and gold fell below $1,390 an ounce as prices responded to the firmer tone of the dollar.

Crude oil saw choppy trading as it briefly sank below $87 before recovering to stand little changed as European trading drew to a close.

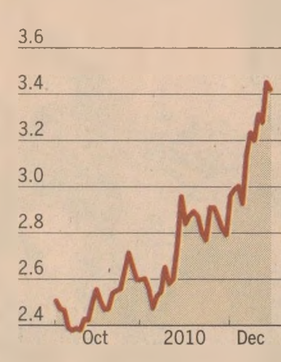
Euro
Against the dollar ($ per €)

Source: Thomson Reuters Datastream

◄ The euro retreated against the dollar after Moody's Investors Service warned of a possible downgrade to Spain's credit rating, rekindling concerns about the eurozone debt crisis

► Treasury bonds initially attracted some bargain-hunting after the 10-year yield touched 3.5 per cent on Tuesday – but the buying eased off as the session wore on

US government bonds
10-year Treasury yield (%)



Honeywell misses out on broader rally by industrials

WALL STREET

By Hannah Kuchler in New York

Industrial stocks edged up after strong data on manufacturing activity overshadowed a forecast from Honeywell that missed some analyst expectations.

The S&P 500 industrials index was up 0.1 per cent after a report showed industrial production in the US increased more than expected in November.

Factories made more computers, home electronics goods and appliances, helping output rise 0.4 per cent after a revised 0.2 per cent fall the previous month.

"More important than the aggregate figure was the report that manufacturing output increased by 0.3 per cent month on month in November after a similar rise in October," said Joshua Shapiro, chief US economist at MFR.

The Empire State index, which measures the pace of manufacturing activity in the New York-area, beat expectations in December.

The index, which shook investors last month when it fell to minus 11.1, shot back up to a positive 10.6.

But **Honeywell International** fell 1.5 per cent to $51.72 even though the industrial conglomerate predicted its full-year profit for 2011 would rise 17-24 per cent.

The middle of the range that the company forecast, between $3.50 to $3.70 per share, is below the average analyst estimate.

The company also forecast that sales would rise 6-9 per cent in 2011, which was to the lower end of analyst projections.

General Electric also fell, even though it said it would finish the year with $20bn in cash on hand, and in the next few years could have $30bn to spend on takeovers, share buy-backs and dividend rises. The shares lost 1 per cent to $17.51.

But elsewhere in industrials, **Joy Global** jumped 8.1 per cent to $86.71 after the maker of mining equipment forecast earnings in 2011 of between $5 and $5.30 per share, above the consensus estimate of $4.86.

Caterpillar rose 2.4 per cent to $94.26 after analysts at RBC Capital Markets raised their price target for the stock from $98 to $108, saying it was poised to benefit from a rebound in spending and that its focus on mining machines would help margins.

The S&P 500 was almost flat at 1,241.78 by midday, the Dow Jones Industrial Average had gained 0.6 per cent to 11,511.89 and the Nasdaq Composite was 0.3 per cent higher at 2,634.76.

"We've had a pretty good December run to get to this stage and people are saying what do we do for the rest of the year? Close out our books?" said Dan Cook at IG Markets. "So the markets are chugging a little bit with no strong bias in either direction."

The S&P 500 has nudged up a little each day, closing flat or in positive territory for the last six days in a row, to gain 5.2 per cent so far this month.

Another government report showed consumer prices edged 0.1 per cent higher in November, less than the 0.2 per cent gain that was forecast. The price of new vehicles, household furnishings and natural gas fell. The S&P 500 consumer discretionary index nudged up 0.1 per cent.

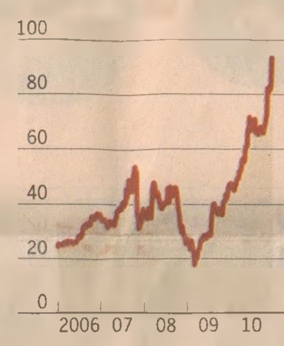
"Today's CPI report further reinforces the Fed's concern, from an official government inflation measurement standpoint, that inflation is not yet a concern while deflation and disinflation is more pressing," said Dan Greenhaus, chief economic strategist at Miller Tabak.

A couple of ongoing deals were finally tied up. **Dynegy** climbed 2.9 per cent to $5.61 after the power producer said its board had unanimously approved an agreement to be bought by Icahn Enterprises for $5.50 a share in cash or about $665m. **Alcon**, which specialises in eyecare, added 1.7 per cent to $165.22 after Swiss pharmaceutical group **Novartis** finished its purchase of the shares that it did not already own. US-listed shares in Novartis surged 5.5 per cent to $58.87 after it agreed to pay an extra $1bn to buy out the remaining minority shareholders.

Meanwhile, **Best Buy**, the consumer electronics retailer which tumbled on Tuesday after its third-quarter earnings missed expectations and its forecast came in light, was downgraded by analysts at Oppenheimer.

Shares in Best Buy fell a further 1.7 per cent to $34.91 after the analysts cut its rating from "outperform" to "market perform".

Boston Beer
Share price ($)



Source: Thomson Reuters Datastream

▲ Boston Beer jumped 12.2 per cent to $95.05 after the maker of Samuel Adams lager forecast earnings for 2010 of at least $3.30 a share, above the average analyst estimate, as beer shipments rose. The brewer also forecast strong earnings for its fiscal year 2011

Key indicators

S&P 500	Closing price	Day's change	Day's chng%
Rises			
Ryder System Inc	49.80	+2.76	+5.87
HCP	34.09	+1.13	+3.43
Watson Pharma	51.18	+1.43	+2.87
Sherwin-Williams	81.63	+2.25	+2.83
US Steel	56.55	+1.35	+2.45
Falls			
Visa	77.97	-2.67	-3.31
Intl Paper	25.72	-0.83	-3.13
MeadWestvaco	25.11	-0.80	-3.09
MEMC Elec Mat	11.36	-0.36	-3.07
Best Buy	34.49	-1.03	-2.90

Indices	Close	Day's change
S & P 500	1241 50	-0.09
DJ Industrials	11510 03	+33.49
Nasdaq Comp	2633.42	+5.70
Russel 2000	776.27	+4.61
VIX	17 53	-0.08
US 10 yr Treas Bd	3.40	-0.05
US 2 yr Treas Bd	0.62	-0.01

Anglo American gains pace

LONDON

By Bryce Elder and Neil Hume

Disposal hopes lifted **Anglo American** on Wednesday even as the wider market stalled at a two-and-a-half-year high.

Anglo shares gained 1 per cent to £31.09 after Credit Suisse speculated that the miner might spin out its De Beers diamond division.

With diamond miners typically trading at more than 17 times earnings, Anglo's 45 per cent stake in De Beers could be worth between $4.3bn and $6.3bn, the broker argued. Anglo has already flagged up plans to sell assets including Tarmac and Peace River Coal, Credit Suisse said.

The wider market went nowhere as volumes remained below average levels. The FTSE closed down 0.2 per cent or 9.03 points to 5,882.18 as financial stocks provided the main drag.

Barclays led the blue-chip fallers, losing 3.7 per cent to 262p, after Moody's warned Spain that its debt rating could be downgraded. Barclays has about £39bn of loan exposure to Spain, more than half of which is in residential mortgages, Macquarie analysts estimated.

Precious metals miners were weak after the Federal Reserve's decision on Tuesday not to increase its Treasury buying programme sent gold lower. **Fresnillo** lost 2.5 per cent to £15.55 and **Randgold Resources** was 2 per cent weaker at £56.55.

Among the gainers, **Capital Shopping Centres** rose 4.8 per cent to 415½p after rebel shareholder Simon Property made an indicative 425p takeover offer. CSC rejected the proposal as too low and too vague.

Rexam jumped 3.8 per cent to 322½p on confirmation that it was looking at selling the speciality lidmaking unit, which accounts for about a third of its plastics packaging division.

Scottish & Southern Energy climbed 1.4 per cent to £11.66 on continued speculation of a break-up bid, with Eon rumoured to be among the interested parties.

Banks under pressure as bourses retreat

EUROPE

By Michael Stothard

A week long rally in European equities was drawn to a halt by sovereign debt fears as Moody's, the credit rating agency, said it might downgrade Spanish government debt.

The FTSE Eurofirst 300 index fell 0.5 per cent to 1,127.25 as investors were given fresh cause to worry about their exposure to the eurozone sovereign debt crisis after Moody's put Spain's credit on review for a possible downgrade.

Spanish equities fell the furthest in the session with the Ibex 35 index down 1.5 per cent to 10,009.80, at one point dipping below the 10,000 mark.

Losses in Spain were led by the banking sector, with **Santander** falling 2.6 per cent to €8.14 and **BBVA** shedding 2 per cent to €7.83.

Banking stocks were down across the region as well.

In Italy, **Banco Popolare** was down 3.3 per cent to €3.39 while **Crédit Agricole** in France fell 2.6 per cent to €10.39. The Eurofirst 300 banking index was down 1.7 per cent to 542.83.

Italian bank **UniCredit** lost substantial ground, falling 4.2 per cent to €1.63 as it was also hit by downgrades from Nomura and JPMorgan.

All of the peripheral bourses were down in the session. Italy's FTSE MIB index fell 1.4 per cent to 20,410.27 while Portugal's PSI 20 lost 1 per cent to 7,889.43.

These losses across Europe brought an end to six consecutive sessions of gains, which saw the Eurofirst index add on 2.6 per cent. The Eurofirst has still been lifted 5.6 per cent in a December rally after losing 1.8 per cent in November.

The auto sector was also hit in the session on news that European car sales had fallen 7.1 per cent in November, according to data from the European Automobile Manufacturers' Association. In France, **Peugeot** fell 2.5 per cent to €30.32, while **Renault** lost 1.8 per cent to €43.66.

Overall, however, the automotive sector has had a strong year with the FTSE Eurofirst Auto & Parts index up 50 per cent since January 1, the biggest yearly gain on record.

Swiss drugmaker **Novartis** topped the gainers on the Eurofirst index, rising 4.9 per cent to €56.25, after it successfully purchased the remainder of US-listed target Alcon.

Novartis had been trying to buy 100 per cent of Alcon, a specialist eyecare company, since the start of the year but its offers had previously been rejected as "grossly inadequate".

Atos Origin, the French IT company, jumped 13.5 per cent to €38.36 after agreeing to buy an IT unit of Siemens for €850m.

Siemens topped the gainers on the Xetra Dax index, rising 2.3 per cent to €93.19.

Danish oil and shipping group **Moller-Maersk** rose 1.8 per cent to DKr50,480 as Cheuvreux raised its rating on the stock to "selected list" from "outperform".

Moller-Maersk, which operates nine container ports in the US, was also lifted by a National Retail Federation and Hackett Associates report which said that US retail container traffic would be up 9 per cent in December and 17 per cent over the year.

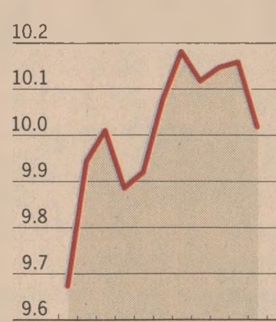
German's **Beiersdorf**, the maker of Nivea skincare products, continued its troubled week, falling 5.7 per cent to €41.20 after releasing more bad news.

Beiersdorf announced that it expected profitability to go down in 2011, sending shares lower.

This news followed a statement from the company last Friday that its 2010 profits would be hit by restructuring costs.

The company has now lost 11.2 per cent since Friday and 10.3 per cent over the year.

Spain
IBEX 35 index ('000)



Source: Thomson Reuters Datastream