

BUSINESS

Credit Suisse faces penalties over Mozambique loan deals

Credit Suisse has announced settlements totaling nearly \$700 million with British and US authorities over lending to Mozambique state-owned companies that Swiss regulators say violated anti-money laundering rules. The Swiss financial markets authority also required the Zurich-based bank, Switzerland's second-largest, to improve its risk controls.

Credit Suisse said late Tuesday that its US settlement involved some \$275 million. The bank said it would pay a \$200 million penalty under an agreement with

Britain and forgive \$200 million in loans to the southern African nation. It said it expects to take a \$230 million charge in the third quarter in connection with the settlements, which are tied to activities between 2013 and 2016.

The bank's British subsidiaries in 2013 arranged two loans guaranteed by Mozambique's government totaling \$1 billion - equal to nearly 6% of the country's economic output - to state-owned companies ProIndicus and Empresa Mocambiana de Atum, or EMATUM, the Swiss authority

said. The loans were mostly intended to be used to pay for maritime security vessels and a tuna fleet, it said. Several people in the African country, including former government officials, have been accused of bribery, embezzlement and money laundering related to the loans. U.S. prosecutors also charged five people, including former Credit Suisse bankers Andrew Pearse, Surjan Singh and Detelina Subeva, in the \$2 billion fraud involving sham naval, fishing and other projects in Mozambique.

The Swiss financial market authority,

FINMA, said Credit Suisse had violated its duty to file a "suspicious activity report" in the case and didn't properly attend to the risks in some lending transactions with governments.

"There are high reputational risks associated with large loans to financially weak or corruption-prone countries," FINMA said. "Credit Suisse seriously violated the organizational requirements and the (Anti-Money-Laundering Act) reporting obligations in connection with loans it made to state-owned companies in Mo-

zambique in 2013."

The Swiss authority said Credit Suisse has already taken some steps to improve its risk-management and control systems, but that it would appoint an independent third party to review the measures put in place and make sure they are effective.

It also said Credit Suisse's existing credit transactions with "financially weak and corruption-prone state or companies with guarantees from such states" must be reviewed by an independent third party. (AP)

Ruling Communist Party pressing companies to reduce debt levels

Struggling Chinese developer calls off \$2.6B asset sale

BEIJING, Oct 21, (AP) - A major Chinese real estate developer whose struggle to avoid defaulting on billions of dollars of debt rattled financial markets says it has called off the sale of a \$2.6 billion stake in a subsidiary and has made no progress in selling other assets.

China Evergrande Group's planned sale of 50.1% of its property management unit to a rival, Hopson Development Holdings, was canceled because the buyer "had not met the prerequisite to make a general offer for shares," Evergrande said late Wednesday in a statement through the Hong Kong stock exchange. It gave no other details.

Evergrande's struggle to reduce its 2 trillion yuan (\$310 billion) of debt to comply with curbs on borrowing by China's real estate industry has prompted fears a default might trigger a financial crisis. The Chinese central bank has tried to allay those fears and said Friday the "risk of spillover" to the financial industry is controllable.

The ruling Communist Party is pressing companies to reduce debt levels it considers dangerously



A woman walks by an Evergrande new housing development in Beijing on Sept. 22, 2021. The real estate company says it has called off the sale of a \$2.6 billion stake in a subsidiary and has made no progress in selling other assets. (AP)

high.

In a separate announcement, Evergrande said late Wednesday except for the sale of shares in a Chinese bank, "there has been no material progress" in plans to shed other assets to "ease the liquidity issues" of the company.

Evergrande missed payments in late September and early October to investors in U.S. dollar-denominated bonds issued abroad. The company said Wednesday a 30-day grace period to make those payments before it would be declared in default had yet to expire.

Economists say Beijing can prevent a credit crunch if Evergrande defaults on debts to Chinese banks and bondholders but wants to avoid appearing to arrange a bailout while it tries to force other companies to reduce reliance on debt.

If regulators get involved, they are likely to focus on protecting families that paid for apartments that are yet to be built, not banks and bondholders, economists say. That would cause bigger losses for banks, construction companies and small investors who own Evergrande debt.

Another real estate company, Fantasia Holdings Group, announced Oct. 5 it failed to make a \$205.7 million payment due to bondholders.

Hundreds of smaller Chinese developers have gone bankrupt since regulators began tightening control over the industry's finances in 2017.

The slowdown in construction helped to depress China's economic growth an unexpectedly low 4.9% over a year earlier in the three months ending in September. Forecasters expect growth to decelerate further if the financing curbs stay in place.

P&G to raise product prices

NEW YORK, Oct 21, (AP) - Procter & Gamble is raising prices on a range of goods as higher commodity and freight costs are set to take a bite out of its profits.

The maker of Pampers diapers, Tide detergent and Crest toothpaste said Tuesday it has been raising prices on product lines including baby, family, home and fabric care. In the last few weeks, it has started telling retailers that it will boost prices on more categories including grooming, skin care and oral care.

"The degree and timing of these moves are very specific to the category, brand and sometimes the product form within a brand," Chief Financial Officer Andre Schulten said during a call to discuss quarterly results. "This is not a one-size-fits-all approach."

And though it's still early, the company has yet to see "notable changes" in consumer behavior in reaction to the higher prices, he said.

Schulten said the Cincinnati

company now expects a commodity hit of \$2.1 billion in fiscal 2022. That's up from an estimated \$1.8 billion in July.

P&G also sees higher transportation costs, reflecting in part a shortage of truck drivers and soaring diesel fuel costs. In July, the company estimated that would cost an extra \$100 million this fiscal year. Tuesday, the consumer goods maker doubled that estimate to \$200 million.

Combined, the \$2.3 billion in higher costs will lower fiscal 2022 earnings by about 90 cents per share.

Last week the Labor Department reported that wholesale prices rose a record 8.6% in September compared to a year ago, the largest advance since the 12-month change was first calculated in 2010. The jump in inflation this year reflects higher prices for food and energy. Core inflation at the wholesale level, excluding volatile energy and food, was up 0.2% in September from August and was 6.8% higher over the past 12 months.

Tesla posts record profit despite shortage, delays

DETROIT, Oct 21, (AP) - Record electric vehicle sales last summer amid a shortage of computer chips and other materials propelled Tesla Inc. to the biggest quarterly net earnings in its history.

The company said Wednesday that it made \$1.62 billion in the third quarter, beating the old record of \$1.14 billion set in the second quarter of this year. The profit was nearly five times larger than the \$331 million Tesla made in the same quarter a year ago.

Revenue of \$13.76 billion from July through September also set a record, but it fell short of Wall Street expectations of just over \$14 billion, according to FactSet.

Excluding special items such as stock-based compensation, Palo Alto, California-based Tesla made \$1.86 per share, beating analyst estimates of \$1.62. CEO Elon Musk has said he's moving the headquarters to Austin, Texas, the dateline of Wednesday's earnings release.

Some of the quarterly profit, though, came from selling regulatory credits to other automakers. Tesla made \$279 million on credits during the quarter.

"A variety of challenges, including semiconductor shortages, congestion at ports and rolling blackouts, have been impacting our ability to keep factories running at full speed," the company said in a statement to shareholders.

Earlier this month Tesla said it delivered a record 241,300 electric vehicles in the third quarter even as it wrestled with the shortages that have hit the entire auto industry. Most automakers reported sales declines in the U.S. last quarter due to chip and other shortages, including General Motors and Ford.

Compatible

Previously, Musk has said Tesla kept its manufacturing lines running largely by finding chips from alternate suppliers and then scrambling to rewrite some of the software in its cars to ensure all the technology remained compatible.

Third-quarter sales rose 72% over the 140,000 deliveries Tesla made for the same period a year ago.

So far this year, Tesla has sold around 627,300 vehicles. That puts it on pace to soundly beat last year's total of 499,550.

While sales grew in the third quarter, the average sales price fell 6% because Tesla is selling more less-expensive Models 3 and Y and fewer pricier Models S and X.

Tesla also took an impairment charge of \$51 million due to a decline in value of its Bitcoin holdings.

Musk didn't appear on this quarter's conference call with analysts and investors. He said previously that he would show up only when he had some-

thing important to say.

That left Chief Financial Officer Zachary Kirkhorn and Vice President of Vehicle Engineering Lars Moravy to answer questions.

Kirkhorn said the company was able to hit an operating margin - how much it makes pretax after variable production costs - of just under 15%.

But Kirkhorn said Tesla may face some difficulties in the future that could threaten that margin, including rising commodity prices and labor shortages. Tesla's biggest cost exposure is for nickel, which goes into battery cells, and aluminum, which the company uses for other non-battery components, he said. Tesla also will face inefficiencies as it starts production at new factories in Texas and Germany next year, he said.

Increases

The company already is seeing commodity cost increases, which have resulted in price hikes, Kirkhorn said. Next year it's possible that Tesla will see more. "It's difficult to say precisely, but the volatility and the increases are just so substantial," he said.

Tesla executives also made their first public comment on multiple investigations of the company by U.S. safety regulators. Moravy said Tesla is cooperating as much as possible.

The National Highway Traffic Safety Administration has opened an investigation into why Tesla's Autopilot driver-assist system keeps running into parked emergency vehicles. Of the dozen crashes that are part of the probe, 17 people were injured and one was killed.

The safety agency also is questioning why Tesla didn't recall vehicles with Autopilot when it did an over-the-internet software update so they better recognize firetrucks and police cars in low light. NHTSA said the update addressed a safety defect.

Kirkhorn said safety is important to Tesla as the auto industry transitions from traditional cars to being more software-oriented. "Regulatory bodies, and understandably so, are interested in understanding how to regulate in this environment, and NHTSA is no exception," he said. "Were excited to partner and we'll work collaboratively with all the different regulatory bodies."

Tesla hasn't always cooperated with the safety agency, though. In January, Tesla resisted a request from NHTSA to recall about 135,000 vehicles because their touch screens could go dark. The agency said the screens were a safety defect because backup cameras and windshield defroster controls could be disabled.

A month later, after NHTSA started the process toward holding a public hearing and taking Tesla to court, the company agreed to the recall.

Equities wobble as indexes hover around record highs

Crude price drop weighs down energy stocks

NEW YORK, Oct 21, (AP) - Stocks wobbled on Wall Street Thursday, a day after approaching record highs set this summer.

The S&P 500 index fell 0.2% as of 11:35 a.m. Eastern. The benchmark index is sitting just below the all-time high it reached on Sept. 2. The Dow Jones Industrial Average fell 156 points, or 0.4%, to 35,449 and is just below its all-time high set on Aug. 16.

The Nasdaq rose 0.1% and smaller stocks edged higher. The Russell 2000 rose less than 0.1%.

U.S. crude oil prices fell 2.4% and weighed down energy stocks. Devon Energy fell 3.4% and Schlumberger fell 2%. Banks also broadly fell. Capital One shed 3.6%.

A mix of companies that rely on direct consumer spending made gains. Tesla rose 2.9% after reporting encouraging third-quarter profits, despite parts shortages and shipping delays.

WeWork rose 10.6% in its second attempt to become a publicly traded company. The company, which provides shared workspaces, had a spectacular collapse during its first attempt to do so two years ago and is emerging after the pandemic closed millions of square feet of office space.

Rising

Investors are reviewing the latest earnings reports with supply chain problems and the impact from rising inflation as a key focus. Many companies have warned that the supply chain issues and overall higher costs will hurt operations and Wall Street is trying to gauge just how much it will sting corporate profit growth and margins.

Companies seem to be managing those higher costs and encouraging investors who had been uncertain in a very choppy market for weeks, said Sam Stovall, chief investment strategist at CFRA.

"Investors were willing to rotate rather than retreat while they waited for better news to take bigger and longer-term positions," he said.

Wall Street is also concerned that rising inflation will eventually force more companies to raise prices on goods, which could result in lower con-



In this file photo, trader Fred DeMarco, left, and specialist Meric Greenbaum work on the floor of the New York Stock Exchange. Stocks wobbled in midday trading on Wall Street Thursday, a day after approaching record highs set this summer. (AP)

sumer spending and a stalled economic recovery.

Several carmakers and automotive products companies are making gains following Tesla's latest earnings. Ford rose 1.3% and AutoZone rose 2.1%.

IBM slumped 7.7% after reporting quarterly revenue that fell shy of analysts' forecasts.

Bond yields moved higher. The yield on the 10-year Treasury rose to 1.67% from 1.63% late Wednesday.

European markets were lower and Asian markets ended mixed.

Outside of earnings, investors received an encouraging update on the labor market. The Labor Department reported that the number of Americans applying for unemployment benefits fell last week to a new low point since the pandemic erupted.

Global shares were mostly lower Thursday, after major Chinese property developer Evergrande said a plan to sell its property management arm to a

smaller rival had fallen through.

France's CAC 40 shed 0.4% in early trading to 6,679.78, while Germany's DAX fell 0.2% to 15,498.69. Britain's FTSE 100 dipped 0.4% to 7,198.09. U.S. shares were set to drift lower with Dow futures down 0.3% at 35,375.00. S&P 500 futures slipped 0.3% to 4,516.75.

China Evergrande Group's shares tumbled 12.5% while shares in Evergrande Property Services slipped 8%. In a notice to the Hong Kong exchange Evergrande said it was having difficulties selling off assets to resolve its cash crunch.

Hopson Development Holdings' shares rose 12.4% after it said was unable to complete the purchase. Trading of shares in all three companies was suspended pending a resolution of the transaction.

Hong Kong's Hang Seng index lost 0.5% to 26,017.53, while the Shanghai Composite index gained 0.2% to

3,594.78.

Some "verbal assurances by government officials and loosening of home loans for some of its major banks suggest that the authorities are monitoring the property market risks, hoping to reassure markets of the knock-on impact on the economy," said Yeap Jun Rong, a market strategist at IG in Singapore.

Japan's benchmark Nikkei 225 slipped 1.9% to finish at 28,708.58, as the world's third largest economy headed into nationwide elections to select a new prime minister.

The candidate from Japan's ruling party, Prime Minister Fumio Kishida, has given mixed messages about his policies, and his "new capitalism" measures, which include promises to reduce income disparities. That has done little to reassure markets so far.

Australia's S&P/ASX 200 was little changed, inching up less than 0.1% to 7,415.40. South Korea's Kospi fell 0.2% to 3,007.33.

Volvo adds 195,000 vehicles to recall for dangerous air bags

DETROIT, Oct 21, (AP) - Volvo is recalling another 195,000 vehicles in the U.S. because the front driver's air bags could explode and send shrapnel into the cabin.

It's the company's third U.S. recall for the issue with air bag inflators made by supplier ZF/TRW. It stems from the death of an unidentified U.S. driver. In all, the recalls cover more than a half-million vehicles.

The latest recall posted Thursday by U.S. safety regulators covers XC70 and V70 wagons from the 2001

through 2007 model years that were built from Feb. 22, 2000 through May 4, 2007.

The problem is similar to widespread trouble with air bag inflators made by bankrupt Japanese air bag maker Takata. The company used ammonium nitrate to create a small explosion to inflate the air bags. But the chemical can deteriorate over time when exposed to high heat and humidity and burn too fast, blowing apart a metal canister.

At least 19 people in the U.S. and 28

worldwide have been killed by exploding Takata inflators. More than 400 have been injured in the U.S.

The Volvo inflators do not use ammonium nitrate, but the propellant can still deteriorate when exposed to high heat and humidity, according to documents posted Thursday by the National Highway Traffic Safety Administration.

Volvo said in the documents that the fatality is the only inflator rupture case that it knows of.

ZF/TRW said the inflators were not

sold to any other automakers in the U.S. The company's U.S. headquarters is in Livonia, Michigan, near Detroit.

Earlier this month Volvo recalled nearly 260,000 older cars in the U.S. for the same problem. That was in addition to a recall from November of 2020.

Dealers will replace the driver's air bag "with a modern state-of-the-art propellant/inflator," the Volvo documents say. Owners in the latest recall will be notified by letter starting Dec. 14.