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As of 12 p.m. ET **DJIA** Closed (20453.25) **NIKKEI** 18335.63 ▼ 0.49% **STOXX 600** Closed (380.58) **BRENT** Closed (55.89) **GOLD** Closed (1285.90) **EURO** 1.0627 ▲ 0.11% **DLR** ¥108.62 ▼ 0.43%

What's News

Business & Finance

The Fed is hammering out details of how it will wind down its portfolio, a process that could start this year. **A1**

◆ **The Treasury criticized** China over its yuan policy but stopped short of calling the country a currency manipulator. **A5**

◆ **Apple secured** a permit to test self-driving cars in California, the clearest sign yet of the project's progress. **B4**

◆ **China Hongqiao** faces fraud allegations that the aluminum firm says threaten its financial stability. **B1**

◆ **Chinese telecom** giant ZTE is making strides in the U.S. despite a bruising fight with regulators. **B1**

◆ **Wells Fargo** faces a serious effort to vote out most of its directors in the wake of the bank's sales-practice scandal. **B1**

◆ **Uber lost** $2.8 billion last year as the ride-hailing giant's sales reached $6.5 billion. **B3**

◆ **Chinese borrowers** rushed to tap informal credit in March amid Beijing's efforts to rein in financial risk. **B8**

◆ **The recent wave** of global optimism that fueled big bets on everything from cotton to the U.S. dollar continues to fade. **B8**

◆ **'Fate of the Furious'** set a new box-office record around the world, opening to an estimated $532.5 million over the weekend. **B1**

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◆ **A U.S. official** warned that North Korea's provocative behavior can't continue following Pyongyang's failed missile test over the weekend. **A1**

◆ **Pence is touring** the region to reassure allies about a continuing U.S. presence. **A3**

◆ **Turkey voted** Sunday on whether to rewrite its constitution and vastly expand Erdogan's powers. **A4**

◆ **A fugitive** Mexican governor was arrested in Guatemala on racketeering and embezzlement charges. **A4**

◆ **McMaster arrived** in Afghanistan days after the U.S. dropped its second-largest nonnuclear weapon there against Islamic State. **A3**

◆ **U.S. military** commanders are stepping up their fight against Islamist extremism as the Trump administration urges them to make more battlefield decisions on their own. **A3**

◆ **Trump's revived** enthusiasm for tackling health care is complicating the GOP's tax-overhaul plans. **A7**

◆ **Centrist Republicans** are facing fury from their constituents over the health-law impasse. **A7**

◆ **Rouhani** registered to run for a second term as Iran's president. **A4**

◆ **The world's** oldest known person died at 117 in northern Italy. **A4**

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U.S. Weighs North Korea Strategy

Washington seeks support of regional allies after Pyongyang's failed missile test

By John D. McKinnon

WASHINGTON—A senior Trump administration official warned Sunday that North Korea's provocative behavior "can't continue," and said the U.S. is working with partners including China to develop a range of possible responses to future "destabilizing behavior."

"It's really the consensus with the president, our key allies in the regions—Japan and South Korea in particular, but also the Chinese leadership—that this problem is coming to a head," White House national security adviser Lt. Gen. H.R. McMaster said on ABC News's "This Week."

"And so it's time for us to undertake all actions we can, short of a military option, to try to resolve this peacefully," Gen. McMaster said, speaking from Kabul, Afghanistan.

His comments came in the wake of a failed North Korean missile test over the weekend. The missile "blew up almost immediately" after it was fired on Sunday morning, U.S. military officials said, less than a day after leader Kim Jong Un paraded a never-before-seen long-range ballistic missile through the streets of Pyongyang.

Officials said the missile North Korea tested was probably a medium-range missile, not an inter-continental ballistic missile capable of reaching the U.S.

It failed about four to five seconds after launch. A U.S. official said that if Pyongyang had attempted a nuclear test, "then other actions would have been taken from the U.S." Officials didn't say what those actions would have been.

Taken as a whole, the comments suggested the U.S. was continuing to seek solutions with Beijing as well as longtime allies in the region, short of a military response. The weekend missile test, which one Trump aide on Sunday termed a "fizzle," appeared to buy more time for those efforts.

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A Holiday Under Guard for Christians in Iraq

CHRISTOPHE SIMON/AGENCE FRANCE-PRESSE/GETTY IMAGES

ON WATCH: A Syriac Christian militiaman stands atop a church during an Easter procession in Qaraqosh, near Mosul. More than 150,000 Christians fled Iraq when Islamic State seized swaths of territory in 2014; the militia hopes to persuade other Christians it is safe to return.

Fed Works On Plan To Unwind Securities Portfolio

By Nick Timiraos

The Federal Reserve is moving quickly to fill in the details of how it will wind down its securities holdings in the years ahead, a process that could start this year and become the next big challenge for investors grown accustomed to easy money from the world's most important central bank.

The Fed wants to move toward a smaller portfolio for several reasons. The economy is on stronger footing, leaving less need for support from a large bond portfolio. The large holdings have become a political liability, unpopular in Congress. Moreover, getting started now could relieve pressure on possible new leadership in 2018, when Fed Chairwoman Janet Yellen's term ends. Finally, officials want room to ramp it back up in a crisis if needed.

The Fed moved closer to agreement on the outlines of a plan at their March 14-15 meeting, according to an official account released this month and interviews with officials.

Officials want their benchmark federal-funds rate to remain the primary tool for managing monetary policy, which means once they start shrinking the balance sheet, they want that process to run in the background with little ripple in markets.

If the economy performs in line with the Fed's forecasts, the bank could begin allowing its holdings of Treasury securities and mortgage bonds to mature

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A PHILIPPINE MURDER EXPOSES CORRUPT POLICE

The abduction and killing of an innocent South Korean businessman sparks a national scandal

By Eun-Young Jeong and James Hookway

ANGELES CITY, Philippines—Around lunchtime on Oct. 18, several men entered Jee Ick-joo's home, bundled the South Korean businessman into his black Ford Explorer and drove off.

Nearly two weeks later, his wife began receiving text messages demanding five million pesos—around $100,000—for his release. "Do not ask the police or someone bcuz we know what u do," one message said.

In mid-January, the National Bureau of Investigation discovered that Mr. Jee was dead. Investigators said they traced his remains to a funeral parlor owned by a retired policeman who had been contracted by police antinarcotics agents to dispose of his body. It had flushed Mr. Jee's ashes down a toilet.

Of all the 8,000-plus killings that have taken place since Philippine President Rodrigo Duterte declared a bloody war on drugs here last year, it is the abduction and killing of Mr. Jee, who was 53 years old, that has raised some of the most troubling questions. Investigators have said he had no known ties to drugs.

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Emerging Markets Trip Up Debt ETFs

By Carolyn Cui

Exchange-traded funds have jolted stock picking with their low costs and strong performance. But in emerging-market debt, they are facing greater competition from active investors.

ETFs, baskets of assets that trade like stocks, have exploded in popularity as a low-cost way to access specific countries or markets. They have become impossible to ignore in the $3.6 trillion emerging-market bond market. Already in 2017, an iShares ETF has attracted more than $2 billion to become the world's largest fund for developing-nation debt.

But in a year when emerging markets are in the spotlight as big winners, underperformance by the ETFs is also raising concerns over whether they are suitable instruments for betting on volatile developing nations.

Debt issued by governments and companies in emerging economies can be harder to buy and sell. Higher transac-

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Turkey Holds Critical Vote

OZAN KOSE/AGENCE FRANCE-PRESSE/GETTY IMAGES

DECISION TIME: A woman prepared to vote in Istanbul as Turkey held a referendum on whether to rewrite its constitution and vastly expand the president's powers. President Recep Tayyip Erdogan campaigned energetically for a yes vote. **A4**

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Pinball Maker Hits Tilt Building Sought-After Machine

* * *

Elusive 'Magic Girl' game stirs drama among hobbyists

By Patrick McGroarty

Chris Kooluris turned his New York City apartment into an arcade. He didn't do it to collect quarters. The 40-year-old creative strategist is a pinball obsessive.

In the center of his living room stands a game bearing the glowering visage of a blue-haired siren with pink tattoos, a scarlet bikini top and heavy chains for bracelets.

Inside its cabinet are some of the most ingenious targets ever imagined—one is meant to trigger a tiny mechanical chain saw wielded by a tiny lion. Another contains magnets meant to elevate the ball.

The game, called Magic Girl, was designed by a pinball master craftsman, John Popadiuk. It cost $16,000 new. One owner believes his is worth $40,000.

The only problem: Magic Girl is so flawed, Mr. Kooluris said, he is afraid to play it. "I'm nervous to press it because I'm worried the whole game will self-destruct," he said.

'Magic Girl'

Magic Girl's debut is stirring up hard feelings and high drama that simmered for years around a game Mr. Popadiuk completed in fits and starts. Mr. Popadiuk—"Jpop" as pinball fans call him—said running a startup was harder than he anticipated.

"I had a dream in my head that I would have my own company," said the 54-year-old, who sports shoulder-length red hair. "But

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WORLD NEWS

Happy Birthday, Charlie Chaplin

LAURENT GILLIERON/ASSOCIATED PRESS

HONORING THE TRAMP: Hundreds of people dressed as Charlie Chaplin gathered on his birthday in Corsier-sur-Vevey, Switzerland, at a museum dedicated to the late actor.

LAUNCH

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forts, which officials hope will include increased economic pressure on North Korea from China.

Still, Gen. McMaster noted that President Donald Trump had demonstrated in the recent U.S. missile strike on Syria's Assad regime that he is "clearly comfortable making tough decisions."

In an interview with The Wall Street Journal last Wednesday, Mr. Trump said his recent meetings with Chinese President Xi Jinping could yield new opportunities for cooperation in curbing Mr. Kim's provocations.

He suggested he would be willing to be flexible over trade issues with China if it offers more help in putting pressure on Pyongyang.

Mr. Trump on Sunday morning suggested on Twitter that China was broadly on board with the administration's North Korea strategy, writing: "Why would I call China a currency manipulator when they are working with us on the North Korean problem? We will see what happens!"

U.S. officials worried in recent days over signs that North Korea was preparing for a sixth nuclear weapons test, threatening U.S. efforts to develop a longer-term strategy with China. The administration regarded the medium-range missile test as less provocative than a nuclear test, said a foreign-policy adviser traveling in the region with Vice President Mike Pence.

Still, there is little reason to think that the North Korean leader won't attempt another nuclear test at some point. "He's stated that he wants to do both, he wants to do a nuclear test and a missile launch," the adviser said. "We've seen one…doesn't prevent him from doing the other."

North Korea's latest test also represents a challenge to Beijing, which, under pressure from Washington, appears to have taken some limited steps in recent weeks to use its economic leverage to rein in the North Korean leadership.

China banned coal imports from North Korea in February and has been sending some ships bearing coal back to North Korea from Chinese ports, according to the Chinese government.

The Chinese national carrier, Air China, suspended flights between Beijing and the North Korean capital, Pyongyang, on Friday, according to representatives of the airline. One said tickets on the route weren't available until at least the end of May.

Despite the apparent tension with Pyongyang, Beijing remains wary of using its economic clout in a way that might topple the North Korean government, potentially triggering a flood of refugees into northeastern China, and bringing U.S. troops closer to the Chinese border.

—Jonathan Cheng, Jeremy Page and Chun Han Wong contributed to this article.

YONHAP NEWS/NEWSCOM/ZUMA PRESS

North Korea displayed new military hardware, including a so-called 'frankenmissile,' at an annual parade on Saturday. A day after the parade, North Korea fired a ballistic missile that U.S. military officials said 'blew up almost immediately.'

ETF

Continued from Page One

tion costs have resulted in tracking errors in emerging-market bond ETFs. The complexity of these bonds, particularly those of far-flung markets, can also give an edge to active bond managers, who in some cases have spent decades gaining an understanding of idiosyncratic political and currency risks.

"There's an aura around ETFs that you're going to get an exposure to an asset class very cheaply and you're going to track the benchmark," said James Barrineau, co-head of emerging-market debt at Schroders Investment Management Ltd. "That by and large works for equities, but debt is a very different instrument."

Assets in the iShares J.P. Morgan USD Emerging Markets Bond ETF, called EMB, reached more than $10 billion this year to surpass the actively managed Pictet Asset Management's Global Emerging Debt Fund.

But EMB trailed its benchmark by a cumulative 4.92 percentage points between 2011 and 2016, according to BlackRock data. That amounts to an underperformance of 0.8 percentage point on an annualized basis. Even after excluding a 0.4% expense ratio, the performance still lagged behind the benchmark by 0.4 percentage point annually.

"We're trying to track the universe as closely as possible, while dealing with the over-the-counter nature of the EM debt market," said Karen Schenone, a fixed-income strategist at BlackRock.

Broadly, the average emerging-market bond ETF has returned over a five-year period 1.66% annually, while their active counterparts returned 1.95%, according to Morningstar Inc. data. From the start of 2017 through Wednesday, the average total return on emerging-debt ETFs was 4.15%, while the comparable figure for active funds was 5.32%. Over three years, ETFs slightly outperformed active funds.

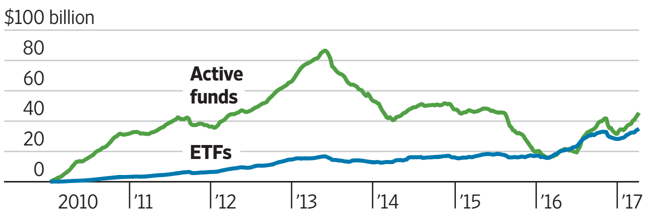
ETF managers say the majority of active managers also trail their benchmark over time. While 62% of the active emerging-market bond managers beat the benchmark in 2016, only 14% outperformed over a five-year period, according to S&P Dow Jones Indices LLC.

"We've done a fairly good job over a long period of time," said Fran Rodilosso, who runs a $3.1 billion VanEck ETF.

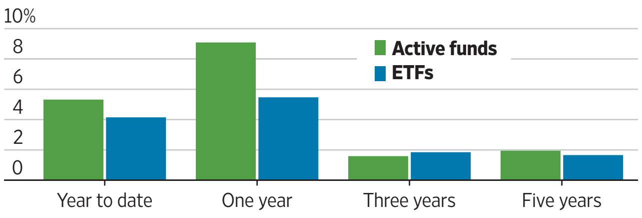
ETF Shortcomings

While emerging-market bond ETFs have enjoyed significant money flows in the past year, their performance relative to active-fund counterparts has been lackluster.

Flows to emerging-market bond funds, weekly, cumulative



Fund performance



Source: EPFR Global (flows); Morningstar (returns)

THE WALL STREET JOURNAL.

The lackluster ETF performance numbers contrast sharply with flows of funds into the securities since mid-2016. Emerging-market bond ETFs have nearly doubled in assets in the past year as of March, while traditional bond funds grew by 30%, according to data provider EPFR Global.

Emerging-market bonds broadly have attracted money this year as the economic outlook for developing countries improved, fears over President Donald Trump's protectionist policies eased and yield-hungry investors piled in.

Still, some active managers say ETFs are flawed products for these investments and can't properly replicate indexes. Because of liquidity constraints, ETF providers tend to own the more liquid bonds as a proxy for the entire market. That has led prices of certain bonds that are ETF constituents to become more costly as flows of cash increase—a circumstance that has emerged with some Russian and Indonesian bonds this year.

"Passive investing in this asset class is a particularly poor choice," Schroders's Mr. Barrineau said.

Teresa Kong, who has managed both ETFs and active funds, said she came to appreciate differences between the strategies. ETF managing is "purely a tracking error minimization exercise," she said.

Meanwhile, active managers can take advantage of market inefficiencies to generate excess returns, according to Ms. Kong, whose Matthews Asia Strategic Income Fund has handily beat the benchmark by three percentage points on an annualized basis since its 2011 inception.

Simon Lue-Fong, who manages the $7.6 billion Pictet fund, said in the world of emerging-market debt, only active managers can identify severe dislocations that lead to outsize returns or protect a portfolio when signs of distress surface.

"You still need to have somebody at the wheel, especially during market downturns," Mr. Lue-Fong said.

CORRECTIONS & AMPLIFICATIONS

UniCredit SpA raised €13 billion ($13.79 billion) from a rights issue in February. A Business & Finance article in the Thursday-Sunday edition about Italian markets incorrectly said UniCredit raised €7.5 billion in January.

Retired Gen. Stanley McChrystal was incorrectly called a former general in a Business & Finance article April 7 about WorldQuant LLC.

Readers can alert The Wall Street Journal to any errors in news articles by emailing **wsjcontact@wsj.com**.

ECONOMIC CALENDAR

The week ahead will feature a visit to Washington from the International Monetary Fund and the World Bank, as well as data on U.S. housing starts and existing home sales, China's first-quarter growth rate and U.K. retail sales.

MONDAY: On Monday at 10 a.m. (Sunday, 10 p.m. EDT) China will release first-quarter growth data that are expected to show the economy expanded by at least 6.8% year on year, matching fourth-quarter levels, driven by infrastructure spending and a still-strong property market. Economists expect stimulus-fueled growth will tail off in the second half of 2017 but that Beijing will still reach its annual growth target of "about 6.5%."

TUESDAY: The U.S. government releases data on housing starts for March. New single-family construction hit a 10-year high in February amid warm weather, steady job creation and rising demand. Figures for March may struggle to match that pace in the notoriously volatile report. Economists are forecasting a rate of 1.24 million for housing starts, a 3.9% decrease from the previous month.

Vice President Mike Pence will hold the first round of U.S.-Japan talks on trade and the economy in Tokyo with Finance Minister Taro Aso. Officials are expected to set the agenda for the dialogue and release a statement, possibly including a timetable for future discussions.

WEDNESDAY: At 23:50 GMT Wednesday, Japan will release merchandise trade data that are expected to show the country had 575.8 billion yen ($5.3 billion) in surplus during March, down 23% from a year earlier. Imports likely rose 8.2% on recovering energy prices, faster than an expected 6.9% increase in exports, according to economists.

THURSDAY: The International Monetary Fund and the World Bank kick off their spring meetings with a slew of central-bank speakers. Officials including Bank of Mexico head Agustin Carstens, Brazil's Ilan Goldfajn and the Bank of England's Mark Carney will be speaking in Washington. Optimism about a global economic recovery could be clouded by worries over protectionism in advanced economies.

FRIDAY: U.K. retail sales data will be parsed for signs that British consumers are reining in spending amid accelerating inflation and meager wage growth, a potential drag on economic growth just as the U.K. begins to negotiate its European Union exit. Economists expect that sales fell slightly on the month in March.

The National Association of Realtors will release data on existing-home sales for March. The market so far this year has been mixed, with signs that tight inventories and rising home prices are damping activity.

Economists surveyed by The Wall Street Journal expect sales to increase by 1.6% to a rate of 5.57 million.

Notice to Readers

Simon Nixon's Europe File column will return next week.

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On Pence's Asia Visit, Security Tops Trade

Shared strategies will overshadow economic demands as U.S. vice president tours region

The Trump administration takes its newly prominent globalism to the Pacific, as Vice President Mike Pence tours the region to reassure allies about a continuing U.S. presence.

By Peter Landers, Takashi Nakamichi and Jacob M. Schlesinger

With North Korea escalating its nuclear-weapons program, shared security strategies are likely to overshadow the economic demands that President Donald Trump had pledged to give greater priority during last year's campaign and in the early days of his administration.

A key theme of Mr. Pence's trip—beginning in South Korea, then continuing through Japan, Indonesia, and Australia—will be that "we are fully committed to our security alliances, especially in the face of our evolving security challenges," a senior administration official told reporters Thursday, laying out the agenda for the week.

And while the vice president will also carry Mr. Trump's message of "how to level the playing field" in trade and hold "listening sessions" with business leaders along the way, Mr. Pence is also focused on trying to contain the fallout from the president's withdrawal from the Trans-Pacific Partnership, an ambitious 12-nation trade pact negotiated by former President Barack Obama that was seen in Asia as a symbol of America's commitment to the region.

Another "purpose of the visit," said the Trump administration official, is to show that "withdrawing from TPP shouldn't be seen as retreat from the region...On the contrary, that our economic presence...continues to grow."

Mr. Trump himself signaled a security-over-economics pivot in Asia during an interview with The Wall Street Journal on Wednesday, where he said that he would be willing to soft-pedal his demands that China cut its trade deficit if Beijing would help more to rein in Pyongyang.

The president said he told his Chinese counterpart, Xi Jinping, during their recent summit: " 'You want to make a great deal? Solve the problem in North Korea.' That's worth having deficits. And that's worth having not as good a trade deal as I would normally be able to make."

CHUG SUNG-JUN/GETTY IMAGES

Vice President Mike Pence and his wife Karen paid silent tribute at Seoul National Cemetery Sunday.

Mr. Pence arrived in Seoul on Sunday afternoon after a failed missile test by North Korea earlier in the day.

The Trump trade agenda will gets its most prominent airing Tuesday in Tokyo, where Mr. Pence is slated to kick off a new "economic dialogue" that was first discussed when Japanese Prime Minister Shinzo Abe visited Mr. Trump in February.

While some Trump officials see that as a launchpad for a new bilateral trade agreement aimed at cutting Japan's trade surplus with the U.S., Tokyo hopes to be the latest beneficiary of what appears to be emerging as a gentler U.S. trade policy after Mr. Trump said Wednesday he didn't think China was a currency manipulator and his administration has also signaled that it will seek only modest changes to the North American Free Trade Agreement he had once branded a "disaster."

During his campaign, Mr. Trump frequently described Japan as taking advantage of Americans.

But, as with other countries, Mr. Trump has recently toned down his rhetoric.

During his two-day summit with Mr. Abe—which included multiple rounds of golf at the president's Florida resort—Mr. Trump agreed to let economic issues be hashed out between Mr. Pence and the No. 2 man in Japan's government, Deputy Prime Minister and Finance Minister Taro Aso.

If Mr. Trump wanted to press the issue, there would be plenty of grist for an attack. Japan's current account surplus, the broadest measure of trade, rose 18% to about $25 billion in February, and the U.S. accounts for the biggest portion of Japan's trade surplus. American cars have less than 1% of the Japanese market, and Tokyo maintains high tariffs on pork, beef and some other farm goods.

Officials in Tokyo say, based on preliminary discussions with the U.S. side, they expect Mr. Pence to bring up cars and agriculture as agenda items for future talks, but they don't expect specific demands in what is likely to be a fairly brief meeting.

Former Japanese officials say, if asked, Tokyo would be ready to re-create the concessions they had offered in TPP—particularly a cut of agricultural tariffs—in a bilateral agreement with the U.S. But they say it would resist going further, in a nod to domestic agricultural interests.

"In the TPP, Japan already erased tariffs considerably, and it made concessions on sacred cows" such as agriculture, said Yasuhiro Tokoro, a Meiji University professor specializing in trade issues. "I think the government should conduct these negotiations with the national interest in mind and avoid being forced into any concessions beyond TPP."

Trump Gives Generals More Say in ISIS Fight

U.S. military commanders are stepping up their fight against Islamist extremism as President Donald Trump's administration urges them to make more battlefield decisions on their own.

By Dion Nissenbaum in Washington and Maria Abi-Habib in Beirut

As the White House works on a broad strategy, America's top military commanders are implementing the vision articulated by Defense Secretary Jim Mattis: Decimate Islamic State's Middle East strongholds and ensure that the militants don't establish new bridgeheads in places such as Afghanistan.

"There's nothing formal, but it is beginning to take shape," a senior U.S. defense official said Friday. "There is a sense among these commanders that they are able to do a bit more—and so they are."

While military commanders complained about White House micromanagement under former President Barack Obama, they are now being told they have more freedom to make decisions without consulting Mr. Trump. Military commanders around the world are being encouraged to stretch the limits of their existing authority when needed, but to think seriously about the consequences of their decisions.

The more muscular military approach is expanding as the Trump administration debates a comprehensive new strategy to defeat Islamic State. Mr. Mattis has sketched out such a global plan, but the administration has yet to agree on it. While the political debate continues, the military is being encouraged to take more aggressive steps against Islamic extremists around the world.

The firmer military stance has fueled growing concerns among State Department officials working on Middle East policy that the Trump administration is giving short shrift to the diplomatic tools the Obama administration favored. Removing the carrot from the traditional carrot-and-stick approach, some State Department officials warn, could hamper the pursuit of long-term strategies needed to prevent volatile conflicts from reigniting once the shooting stops.

The new approach was on display this week in Afghanistan, where Gen. John Nicholson, head of the U.S.-led coalition there, decided to use one of the military's biggest nonnuclear bombs—a Massive Ordnance Air Blast bomb, or MOAB—to hit a remote Islamic

DOMINIQUE A. PINEIRO/PLANET PIX/ZUMA PRESS

A military briefing in Iraq earlier this month.

State underground network of tunnels and caves.

Gen. Nicholson said Friday it was too early to say how many militants had been killed in the previous day's bombing. The Afghan Defense Ministry retracted an earlier statement that the strike had killed 36 militants, saying it was unable to provide precise figures yet.

A military official for the coalition who viewed footage of the bombing said it was difficult to make out details of its effects beyond a "mushroom cloud" of smoke rising into the sky. He added that a second MOAB was available for use in the country, but no decision had been made on whether it should be deployed.

Islamic State's Amaq news agency posted a statement on Friday saying none of its fighters were killed or wounded in the strike, which took place in Nangarhar province, along the country's mountainous border with Pakistan.

Gen. Nicholson indicated that he—not the White House—decided to drop the bomb. "The ammunition we used last night is designed to destroy caves and tunnels. This was the right weapon against the right target," he told reporters Friday. "I am fortunate that my chain of command allows me the latitude to make assessments on the ground."

A senior administration official said Mr. Trump didn't know about the weapon's use until it had been dropped.

Mr. Mattis "is telling them, 'It's not the same as it was, you don't have to ask us before you drop a MOAB,'" the senior defense official said. "Technically there's no piece of paper that says you have to ask the president to drop a MOAB. But last year this time, the way [things were] meant, 'I'm going to drop a MOAB, better let the White House know.'"

On Thursday, Mr. Trump himself emphasized the free rein he gives the Pentagon. "I authorize my military," Mr. Trump said. "We have given them total authorization."

On Friday, the U.S. military said it had sent dozens of soldiers to Somalia, where Mr. Trump recently gave the head of the U.S. Africa Command more leeway to carry out counterterrorism operations against al-Shabaab, the al Qaeda affiliate in the area.

The more-aggressive military approach comes as the long slog against Islamic State is bearing fruit. The group is on the back foot in its Iraqi stronghold, Mosul, and is facing a hard battle to defend its de facto Syrian capital, Raqqa.

—Jessica Donati and Habib Khan Totakhil contributed to this article.

Top U.S. Security Official In Kabul

BY JESSICA DONATI AND HABIB KHAN TOTAKHIL

KABUL—U.S. national security adviser Lt. Gen. H.R. McMaster visited Kabul, days after the U.S. military dropped the second-largest nonnuclear weapon in its arsenal on a cave complex used by Islamic State fighters in east Afghanistan.

Afghanistan's defense minister, Gen. Abdullah Habibi, tweeted news of the visit and said Gen. McMaster arrived in the capital on Saturday for "important talks with Afghan authorities."

The U.S. military didn't immediately comment on the visit, which came as Afghan officials said the death toll caused by the nearly 22,000-pound U.S. bomb strike against Islamic State in eastern Afghanistan had risen to 92 militants, with U.S. and Afghan commando units discovering bodies in caves during an operation to clear the site.

The U.S. military declined to comment on the figures.

Gen. McMaster, a military strategist with extensive battle experience, served in Afghanistan and Iraq. The visit would be his first to Afghanistan as national security adviser.

President Donald Trump's team is assessing a request by Army Gen. John Nicholson, the top U.S. military commander in Afghanistan, to put thousands more troops on the ground to bolster the fight against the Taliban.

The country's largest insurgent group has made sweeping gains since most foreign troops withdrew in 2014, and is threatening to overrun at least half a dozen provincial capitals from the government.

Coalition officials are also concerned about the emerging Islamic State presence in Afghanistan, fearing its vast ungoverned areas could become a haven for the group's fighters fleeing Iraq and Syria.

The U.S. military on Thursday dropped the Massive Ordnance Air Blast into the mountains of Achin district, an Islamic State stronghold, weeks into a large-scale joint U.S. and Afghan operation targeting Islamic State. The bomb struck a complex of tunnels and caves used by the militants to train fighters and launch operations. On Friday, the top U.S. military commander in Afghanistan said no civilians had been harmed in the strike and it was the right weapon to use for the job of clearing the complex.

—Ben Kesling in Washington contributed to this article

Dozens Killed in Bombing of Syria Evacuations

BY NOAM RAYDAN AND RAJA ABDULRAHIM

BEIRUT—A car bomb near the Syrian city of Aleppo targeted a convoy of buses carrying evacuees from two besieged towns, killing dozens of people, according to Syrian state media, rebels and rescue workers.

Those killed in Saturday's attack included civilians and pro-regime fighters who had left their homes in the Idlib province towns of Fua and Kafraya, which had for years been besieged by opposition rebels. Rebel fighters who were escorting the convoy were also killed.

Syrian state media blamed the attack on "terrorists," the term it uses to refer to armed rebels, saying they had targeted some of the 75 buses and 20 ambulances carrying evacuees. The dead included women and children, it said.

The White Helmets emergency rescuers who pulled people from charred vehicles at the scene and treated the injured said about 100 people were killed.

A spokesman for Ahrar Al Sham, one of two rebel groups escorting the convoy, blamed the regime for the attack and said it had targeted the side of an exchange post where opposition fighters had lined up their vehicles.

Images of the bombing scene broadcast on Syrian state television and pro-opposition media outlets showed bodies strewn on the ground next to charred buses, some covered with blankets.

AMMAR ABDULLAH/REUTERS

One of the evacuation buses hit by a bomb in rebel-held territory outside Aleppo on Saturday.

The evacuations were part of a deal brokered last month to evacuate thousands of civilians, rebel and pro-regime fighters from two towns besieged by regime forces and two others under siege by rebels, the latest in a series of population transfers that are reshaping Syria.

Some 5,000 residents and pro-regime fighters had left the two Shiite Muslim towns Friday morning, escorted by rebel fighters, and arrived at an exchange point in opposition-held territory on the outskirts of Aleppo city, which was retaken by President Bashar al-Assad's regime in December.

More than 3,000 other residents and rebels concurrently left the Damascus suburbs of Zabadani and Madaya, which are Sunni majority and rebel-held, and traveled north toward the exchange point.

But due to a disagreement over the number of pro-regime fighters who had been allowed to leave Fua and Kafraya, both convoys spent the night near the exchange point waiting to cross into friendly territory, according to Ahrar Al Sham.

Rebels and opposition activists said the car bomb struck after the regime sent carloads of food to the convoy from Damascus.

Hours after the car-bomb attack, rebels and state media said that the evacuee swap had gone ahead and that both convoys eventually reached their final destinations. More evacuations from the four towns were expected in the coming days.

There were no casualties among staff members of the Syrian Arab Red Crescent, who were overseeing the evacuations, said spokeswoman Mona Kurdy.

—Nour Alakraa contributed to this article.

WORLD NEWS

Turkish Voters Decide Whether to Grant President Broad New Powers

SEDAT SUNA/EUROPEAN PRESSPHOTO AGENCY

ISTANBUL—Turkey voted Sunday in a referendum on whether to rewrite the constitution and vastly expand the president's powers. Backers of the changes say they would strengthen the government at a dangerous time; critics warn they could set the country on the path to dictatorship.

President Recep Tayyip Erdogan, (shown at left after voting) who has run the country under a state of emergency since a foiled attempt by military officers to oust him last year, has crisscrossed the nation, campaigning energetically for a "yes" vote, saying it would "herald lasting stability for Turkey."

Opponents say it would cement Mr. Erdogan's grip on politics and deliver a potentially fatal blow to a democratic system under intense strain. Since the failed coup, authorities have arrested more than 40,000 people and stifled public discourse by closing roughly 140 media outlets.

"This is not an ordinary vote," Mr. Erdogan said as he cast his vote in Istanbul. "There have been many referendums in the history of our republic, but this is for the choice of a new system of government, change and transformation."

Public-opinion surveys indicate that the contest is close to a dead heat.

—Margaret Coker, Ned Levin and Yeliz Candemir

One Man's Quest to Restore an Empire

Businessman Anton Bakov has traveled the world looking for a place to revive Russia's Romanov dynasty

By James Marson

Anton Bakov says he needs just a few square miles of land to restore the Russian Empire.

The millionaire businessman's search for a place to revive the Romanov dynasty that ruled Russia for 300 years has taken him from nearby Montenegro to the shores of western Africa and a Pacific archipelago 2,500 miles southwest of Hawaii.

"It's the duty of all patriots of Russia who remain faithful to the oath to the empire," says Mr. Bakov, who styles himself archchancellor of the Imperial Throne, a self-declared successor to the empire. "Alas, we are few."

A century after the revolution swept the Romanovs from power, polls show that restoring the monarchy is a minority faith. Russian President Vladimir Putin, for one, isn't in favor, his spokesman says. The Kremlin, which promotes a cautious and sometimes incongruous reverence for Russia's Soviet and imperial pasts, has kept commemoration of the centenary low-key.

Mr. Bakov, a former lawmaker who is now leader of the Monarchist Party of Russia, says that for now, he isn't trying to put the Romanovs back in the Kremlin. But he does want to restore their international legal status.

He created the Imperial Throne in 2011 and signed up 64-year-old German Prince Karl Emich of Leiningen, a scion of the Romanovs, as czar of the micronation. He scouted for land to locate the reborn empire, and added a business element, aiming to sell parcels of land along with princely titles.

"It has to be profitable, else it won't work," he says.

Not all monarchists are happy about Mr. Bakov's plans. "It's mockery of the very idea of monarchy," said Alexander Zakatov, an aide to Maria Romanova, who styles herself grand duchess and head of the House of Romanov. "It's buffoonery, pure and simple."

Mr. Bakov, a roly-poly 51-year-old with a broad smile, has had business interests from real estate to an airport. He was a lawmaker for a liberal opposition party, but lost his place in parliament in 2007 as Mr. Putin tightened his grip on power.

Mr. Bakov registered the Monarchist Party in 2012 after Russian politics unexpectedly opened up a bit. It flopped in local elections, but he then espied a chance to combine three passions: politics, monarchism and foreign adventures.

He recruited Prince Karl, who converted to Orthodoxy, adopted the name Nicholas III and wrote to Mr. Putin asking for land in Yekaterinburg, where Nicholas II and his close family were executed. The goal was to found a city state modeled on Vatican City.

No answer came, so Mr. Bakov widened his search. He bought a plot of land in Montenegro, a Balkan nation popular with wealthy Russians. But the government didn't embrace his empire-building plans.

FINE ART IMAGES/HERITAGE IMAGES/GETTY IMAGES

ANTON BAKOV

The Terem Palace in the Kremlin in Moscow, the main residence of the tsars in the 17th century. Below, Mr. Bakov and his wife in Kiribati, where he hopes to establish a reborn Russian Empire.

Mr. Bakov then hit upon a more-outlandish idea in a more-outlandish location: artificial islands in the tiny country of Gambia in western Africa.

That quest started badly. Mr. Bakov recalls how security officials detained him and his wife at the airport for six hours after the saber they brought as a gift for the president aroused suspicion.

The president provided them with a suite in a top hotel, a Bentley and six armed guards. But this apparent enthusiasm for the idea didn't translate into a deal, so the Bakovs flew home.

Last year, Mr. Bakov turned his attention to Kiribati (pronounced Ki-ri-bas), an impoverished former British colony of some 100,000 inhabitants and 33 islands spread over an area as wide as the U.S. mainland.

Mr. Bakov proposed that three uninhabited islands be given a special status as the Romanov Empire. Wealthy clients could buy land plots and become princes, thus avoiding taxes, he says.

The businessman would channel $20 million into the budget every year for six years and invest $230 million on Malden island building a port, airport, power station and roads. He says the islands, which enjoy temperatures around 90 degrees year round, could become tourist havens.

He persuaded local political and religious leaders to back his plan, fell in love with local seafood of all shapes and sizes and even, in the manner of empire-builders of earlier centuries, fended off inquisitive local wildlife when four crabs scurried into his hotel room.

However, opponents of the Kiribati plan appear to have the upper hand. Mr. Bakov says he was ready to sign an agreement when he was there at the end of January. But when the president set off on a boat to inspect the three islands, Mr. Bakov says he "sensed a conspiracy brewing."

A minister who used to be an eager drinking companion was unreachable. Then an email arrived from the government rejecting the proposal. The president's office says it was concerned that Mr. Bakov wanted sovereign status for the islands, although the businessman says that isn't the case.

Mr. Bakov hasn't given up hope on the Kiribati option, but he is also willing to court serendipity. A recent surprise election defeat ousted the longtime president of Gambia, so Mr. Bakov is trying to pique the new leader's interest.

Mexican Governor Arrested in Guatemala

By Juan Montes

MEXICO CITY—Javier Duarte, the fugitive governor of Veracruz state who became the face of Mexico's endemic corruption, was arrested in Guatemala on charges of racketeering and embezzlement, officials said.

Mr. Duarte eluded authorities for almost six months after escaping on a government helicopter in October, the same day authorities asked a judge for an arrest warrant, deeply embarrassing the government.

Guatemalan police captured Mr. Duarte in a hotel in the town of Panajachel, around 90 miles from Guatemala City, on Saturday, Mexico's attorney general's office said. Mexico will seek the former governor's extradition, the statement said.

Mr. Duarte left an economic disaster in Veracruz, Mexico's third most populous state. Federal and state auditors said around $2.5 billion spent by his administration, which ended in 2016, was unaccounted for. Federal investigators say Mr. Duarte was the mastermind behind a complex web of phantom companies that diverted millions of dollars of public funds. Mr. Duarte has said he is innocent of all charges.

MOISES CASTILLO/ASSOCIATED PRESS

Former Veracruz state Gov. Javier Duarte is escorted by local Interpol agents to Guatemala City after his capture on Saturday.

Mr. Duarte's arrest is a victory for President Enrique Peña Nieto and his ruling Institutional Revolutionary Party. The PRI, whose image has been badly tarnished by accusations of corruption—such as the ones against Mr. Duarte—faces state elections in June. Mr. Duarte belonged to the PRI until late October, when he was expelled from the party.

In November, Mexico offered a reward of $810,000 for information leading to Mr. Duarte's capture. It is not known whether the reward was paid.

His arrest comes just a week after the arrest in Italy of former Tamaulipas Gov. Tomás Yarrington, who is facing charges of money laundering and drug trafficking in the U.S. and Mexico. Joel Androphy, a lawyer for Mr. Yarrington, says he is innocent and will fight the extradition requests that both countries are expected to file soon with Italian authorities.

A number of other Mexican former governors are fugitives, wanted in Mexico or the U.S. on charges ranging from money laundering to embezzling state funds.

Two, from the border states of Coahuila and Tamaulipas, have been indicted in the U.S. on money-laundering charges.

A third, César Duarte, the former governor of Chihuahua state, dropped out of sight in March after an arrest warrant was issued for him in Mexico on charges including embezzling. All the governors said they were innocent before vanishing.

WORLD WATCH

IRAN

Rouhani Declares Bid for Re-Election

Iranian President Hassan Rouhani, a relative moderate who promoted Tehran's landmark nuclear accord with the West, registered to run in next month's elections for a second, four-year term.

Mr. Rouhani's re-election bid was widely expected, and after recording his intent at the headquarters of the interior ministry, he defended his administration's economic accomplishments and promised to preserve the gains he said have been made since he took office in 2013.

At stake in Mr. Rouhani's re-election bid is his effort to continue warming ties with the West and helping to revive Iran's ailing economy. Inflation has fallen into the single digits during his tenure in office, and the country's economic prospects have improved since his government reached the nuclear deal in 2015 with the U.S. and five other world powers.

Iran's GDP rose 4.5% last year, according to the International Monetary Fund, largely due to rising energy production following the accord, under which Tehran agreed to curbs on its disputed nuclear program in exchange for an easing of international sanctions.

—Aresu Eqbali

ITALY

World's Oldest Person Dies at 117

Emma Morano, at 117 the world's oldest person who is also believed to have been the last surviving person born in the 1800s, died Saturday at her home in northern Italy, her physician said.

Dr. Carlo Bava said Ms. Morano's caretaker had called him to say she had stopped breathing while sitting in an armchair at home in the town of Verbania.

While Ms. Morano had been increasingly spending more time sleeping and less time speaking in recent weeks, she had eaten her daily raw egg and biscuits that day, he said.

—Associated Press

China Tries to Battle the 'Trilemma'

Beijing's crusade to prop up its currency threatens to keep other important initiatives on the back burner

By Lingling Wei


QILAI SHEN/BLOOMBERG NEWS

People's Bank of China has shifted priorities toward preventing the currency from cratering. The central bank's headquarters, above.

BEIJING—President Xi Jinping gathered with his economic mandarins in December for their annual strategy meeting at a heavily guarded government hotel. In closed-door sessions, say people familiar with the confab, he made clear what their mandate was for 2017: He would tolerate no wobbliness in the economy.

The communiqué coming out of the session singled out one policy objective in particular—keep the yuan stable.

What followed has been the marked acceleration of a shift in priorities at the **People's Bank of China**, the central bank, toward preventing the currency from cratering above all else.

The yuan's value is a global hot button, and Beijing's handling of it has played prominently in President Donald Trump's rhetoric. In a report last week, Mr. Trump's administration criticized China's exchange-rate policies but didn't label the country a currency manipulator, something the president threatened to do during his campaign.

On Thursday, China's central bank guided the yuan to its biggest one-day gain against the dollar in nearly three months, putting it at the strongest level against the dollar since Feb. 17.

No matter how its moves are perceived, China's laser focus on slowing the yuan's decline is an issue of great significance to the world economy. If the PBOC's aggressive approach short-changes traditional central-banking mandates, it could imperil China's economic growth, say many economists, including Yu Yongding, a senior economist at the Chinese Academy of Social Sciences, a government think tank.

Mr. Yu, a former adviser to the central bank, says the bank's emphasis on propping up the yuan has constrained its ability to fight other economic ills such as persistent housing bubbles. "The issue of the exchange rate," he says, "has become shackles on policy makers' ability to take other necessary actions."

Simply put, China's currency-first policy is risky because the country now faces what economists call the "trilemma," the theory that a country can't at once have a controlled exchange rate, free capital flow and independent monetary policy.

The PBOC had been preoccupied with the yuan's downward slope for 2½ years, spending close to $1 trillion to keep it from weakening too fast. In 2016, though, the falling yuan was continuing to motivate Chinese to send money overseas and was eroding faith in China's economic management.

Going into 2017, a year that for Mr. Xi is all about launching his second term, Beijing concluded the PBOC had to go a step further and put the yuan's defense at the central bank's center stage, government officials and advisers say. Since December, the PBOC has strengthened limits on the ability of businesses and individuals to send money abroad, while raising short-term interest rates. A PBOC press official said the central bank declined to comment.

'Impossible trinity'

For most of the past decade, Beijing seemed to defy the trilemma, or "impossible trinity," as some call it, as it slowly lifted capital controls without the yuan or interest rates spinning out of control. "You can have a combination of all three," Yi Gang, a deputy central-bank governor, said last year in a panel discussion with former U.S. Federal Reserve Chairman Ben Bernanke.

The PBOC has backed off that notion. By tightening controls on money flowing out, it has dialed back years of efforts to make it easier for the Chinese to invest overseas and more attractive for foreigners to invest in China.

And the bank has essentially sidelined its traditional monetary-policy role because it must now consider the effect on the yuan before providing banks with more funds, government advisers say. The PBOC has tightened its hold on credit since December to reduce pressure for capital outflows.

That tightening might help prod some businesses to cut back on excessive borrowing—a stated government goal. But it is also creating unintended stresses, including heightened risks of a full-blown cash squeeze in the financial system, says Zhu Chaoping, China economist at UOB Kay Hian Holdings Ltd., a Singapore investment bank. "The PBOC is between a rock and a hard place."

Beijing's 2017 yuan defense harks to 2014. For years, China bought dollars and sold yuan, drawing Western criticism that it kept its currency undervalued to promote Chinese exports—a cheaper yuan meant lower dollar prices for its products.

In the summer of that year, it shifted course. After years of growth, when money was pouring in, the slowing economy was driving cash away, and the PBOC sold dollars to prop up the yuan. Since then, the PBOC has spent $1 trillion, a quarter of its currency reserves, to control the yuan's fall.

When dollar selling wasn't enough, it added stricter capital controls and other measures over the following years, while publicly repeating a mantra that the yuan was returning to normalcy.

Adding to China's motivations has been the Trump factor. As a candidate, Mr. Trump accused China of becoming the world's leading exporter—and destroyer of American jobs—by exploiting an artificially weak yuan. Beijing hopes its yuan defense will reduce the chance of a trade war that could hurt exports and sour relations with the U.S., Chinese officials say.

"The higher-ups don't want the exchange rate to become a trouble spot," with the U.S. as well as in China, says an official who attended the December meeting.

Mr. Trump's pronouncement Wednesday in a Wall Street Journal interview that the administration wouldn't label China a currency manipulator takes some pressure off Beijing. At a news briefing Thursday, a Chinese foreign-ministry spokesman said: "It's true that China hasn't been a currency manipulator—that's an objective fact."

China isn't seeking to stop the yuan's fall altogether, but to guide it lower in an orderly fashion. Too sharp a drop could drive up inflation by increasing import costs and cause uncontrollable capital flight—battering confidence in the Communist Party.

A weaker yuan also makes it harder for Chinese companies, from state banks to airlines, to service their more-than-$1 trillion foreign debt. Such companies draw most of their revenue from domestic businesses, and a weakening Chinese currency requires them to expend more yuan to pay off the same amount of dollar debt.

Chinese airlines, for example, have been trying to pare the huge dollar debts they racked up in years when the yuan was strong, mostly to buy planes from Boeing Co. and Airbus SE.

Pressure to service that now-pricier debt could force them to cut back domestic investment and jobs, and threaten them with insolvency. That could propel even more outflows, further weakening the currency, said Sheng Songcheng, a senior adviser at the PBOC, in a December interview. The potential for that type of negative-feedback loop, he said, makes stabilizing expectations for the yuan an "urgent task."

Beijing's moves to stabilize the yuan, though, threaten its financial stability elsewhere—the consequences of the trilemma.

The PBOC's moves since December to add new barriers to capital outflows have given many foreign investors pause. "We have to be sure that if we put money in, we can take it out," says David Loevinger, a managing director at Los Angeles-based fund manager TCW Group. "We don't want China to be our Hotel California, where you can check out but never leave."

Scaring foreign investors off could deny the Chinese economy an important source of capital. And those barriers also call into question Beijing's 2015 promise to the International Monetary Fund that it would promote free capital flow in exchange for acceptance of the yuan into the world's elite club of currencies.

What's more, the capital rules are disrupting the short-lived calm China had managed to inject in its jittery property markets. Unable to take money out of the country, many investors can't think of anywhere else to put it. Home-sales values jumped by 26% in the first two months of 2017 from a year earlier, despite a series of moves to cool down last year's frenzy.

"Stocks are too risky, bonds are not for retail investors like me, and you can't invest overseas now," says Qian Yu, a 42-year-old advertising executive in Beijing who was looking to buy his third property last month. "There is just not much else to buy."

The PBOC is also refraining from using traditional monetary-policy tools such as one it usually employed when the economy needed a push: cutting the amounts banks are required to hold in reserve, so they can make more loans. China now has one of the highest reserve-requirement ratios in the world, economists say, even though many businesses are starved of credit—traditionally a signal for a central bank to use monetary policy and inject money.

Credit pinch

The first inklings of new monetary-policy constraints came ahead of last year's Lunar New Year holiday. That is a typical time for a "triple-R" cut—a cut in banks' required reserves—to avoid a cash crunch when employers pay year-end wages. Instead, the PBOC opted to provide banks more-costly funds.

One argument for that approach was avoiding a signal the PBOC was loosening credit, which could weaken the yuan. "We need to put a high emphasis on maintaining the exchange-rate stability when managing liquidity," said one central-bank official in a meeting with banking executives in January 2016, according to minutes of the meeting.

This year, the PBOC's tightening of credit has caused a spike in borrowing costs for banks and many small and private manufacturers that rely on short-term funding. Interest rates on a popular form of short-term debt, discounted bills, among private manufacturers such as makers of cellphone parts have jumped to 4.3% from 3.5% early this year.

The increase comes as many companies are struggling to pay off debts. Loan defaults are also piling up at Chinese banks, hurting their ability to goose the economy at the government's behest. And Chinese companies have been putting off or scrubbing bond issuance—a growing funding source for Chinese industry—at a pace rarely seen before. In the first quarter, 130 companies dropped or delayed 119.95 billion yuan ($17.4 billion) in bond-issuance plans, according to database **Wind Information** Co., the highest amount for the quarter since Wind started collecting the data in 2014.

The PBOC's shift toward yuan defense has it following its U.S. counterpart's interest-rate moves, something it rarely did before. In December, as the Fed raised interest rates, the PBOC sharply curtailed its routine fund injections, driving up short-term borrowing costs. On March 16, just hours after the Fed lifted rates again, the PBOC pushed up a series of short-term rates to narrow any gap that could send money fleeing.

While many economists see higher U.S. rates as appropriate, they say China can ill afford them with its paralyzing debt levels among companies and municipalities and anemic private investment in manufacturing and other operations that generate jobs and improve productivity.

Less than a week after the PBOC's rate move, some small rural banks on March 20 failed to repay loans from other banks, unable to borrow at the higher rates to settle short-term debts. Emergency PBOC funding temporarily restored calm, but the episode raised concerns about the financial system's stability.

"China should tighten as little as possible so that it won't become too expensive for Chinese firms to borrow money, but it needs to tighten enough to keep money at home," says Christopher Balding, an economics professor at **Peking University**. "This is kind of like the Goldilocks effect."

Into 2017, the PBOC has gained breathing room from a softening dollar and a measure of economic stability fueled by stimulus spending by the government, which last year stepped up funding of roads and other infrastructure projects.

PBOC officials including Gov. Zhou Xiaochuan have publicly sought to play down its recent tightening, saying increases in short-term rates can prod companies to cut back on borrowing. In a March 30 paper, the PBOC nodded to the trilemma but argued that it has found a way to balance its mandates through more-targeted management of capital flows.

Still, to defend the yuan, "the overall cost goes up as U.S. interest rates go up," says Gene Frieda, global strategist at Pacific Investment Management Co. "The strategy is ultimately about buying time, but it's a bridge to nowhere unless the authorities successfully deal with the debt problem and undertake reforms that allow for healthier growth."

Wu Ge, chief economist at Chinese brokerage **Huarong Securities**, calculates China's financial system faces a liquidity shortfall—the gap between how much money is needed to meet China's 6.5% growth target and how much is available—of as much as 13.1 trillion yuan this year. In some cases, says Mr. Wu, a former PBOC official, banks have run out of collateral to borrow from the central bank.

Meanwhile, a January paper by the **Federal Reserve Bank of St. Louis** called China's $1 trillion reserve decline "unprecedented" and said China must eventually choose some combination of tighter capital controls, tighter monetary policy or a devaluation to avoid further depletion.

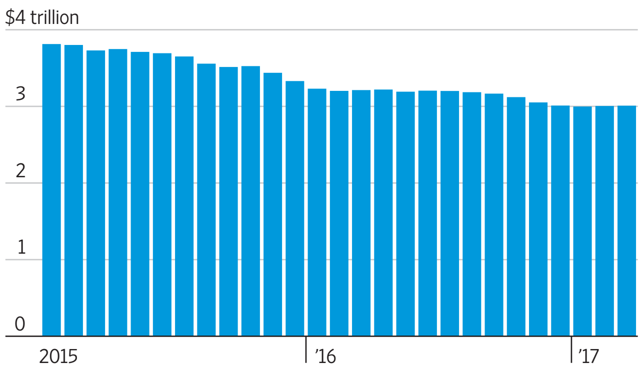
Economists and investors warn that because of the effect of higher interest rates on companies with massive debt, Beijing may eventually have to give up currency control and let interest rates fall.

"The greatest risk in 2017," says Pimco's Mr. Frieda, "is that China is forced to choose in favor of financial-system stability at the expense of exchange-rate stability."

Defense Mechanism

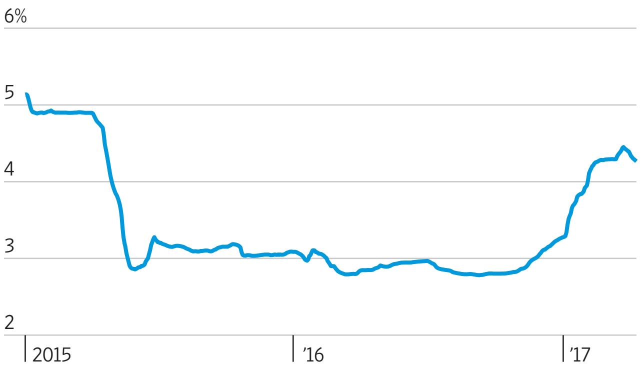
Beijing has spent foreign reserves in a bid to prop up its currency's value...

China's foreign-exchange reserves



...while its central bank has pushed up short-term interest rates to help stem the flow of money out.

Shanghai Interbank Offered Rate

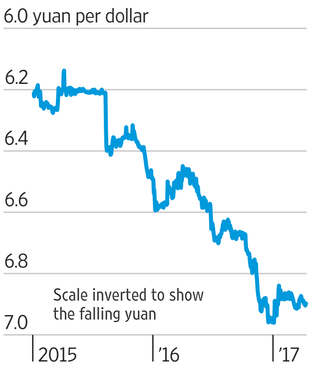


Sources: Wind (foreign-exchange reserves, Shanghai rate, yields)

THE WALL STREET JOURNAL.

Exchange-Rate Blues

China's currency has declined against the dollar, eroding faith in its economic management.



Sources: WSJ Market Data Group

THE WALL STREET JOURNAL.

Treasury Criticizes China's Yuan Policy

WASHINGTON—The U.S. Treasury sharply criticized China's exchange-rate policies on Friday, though it stopped short of labeling the Asian trade giant a currency manipulator, as President Donald Trump said he would do while running for office.

"China has a long track record of engaging in persistent, large-scale, one-way foreign-exchange intervention," the Treasury Department said in its semiannual report on foreign exchange policies of major U.S. trade partners. Although Beijing has allowed the yuan to slowly appreciate in recent years and actively fought depreciation recently, its past interventions "imposed significant and long-lasting hardship on American workers and companies," the Treasury said.

The report followed an apparent warming of relations between the U.S. and China following a visit to Washington and Mr. Trump's Mar-a-Lago resort by Chinese leader Xi Jinping last week. Mr. Trump is counting on Mr. Xi for support in a confrontation with North Korea.

Still, the administration sought to stick to some of the tough themes Mr. Trump laid out as a candidate and as president on trade and currency.

"Treasury will be scrutinizing China's trade and currency practices very closely, especially in light of the extremely sizable bilateral trade surplus that China has with the United States," the Treasury report said.

The report has traditionally been used as a diplomatic tool to prod other countries whose currency policies were deemed a threat to U.S. industries. The latest report's censure of China and other countries, including South Korea and Germany, could be used in the future as a pretext for new tariffs.

—Ian Talley

DRUGS

Continued from Page One

Civil-rights campaigners say police are killing people without due process in what amounts to an extrajudicial execution campaign. Sometimes, they say, police are using Mr. Duterte's war on cheap methamphetamine as cover for kidnapping and extorting people such as Mr. Jee.

The mayhem has drawn criticism from around the world. Mr. Jee's death has transfixed the nation and sparked calls from South Korea's government to bring those responsible to justice. The Joint Foreign Chambers of Commerce in the Philippines, including those of the U.S. and European Union, have demanded a full investigation.

The Philippines police say they are enforcing the law and that if any abuses occur, offending officers will be punished. Several have admitted, in sworn statements, involvement in Mr. Jee's abduction and have been detained pending further investigation, though none have confessed to the killing and no clear reason has emerged for it. The first court hearing about his death is slated to take place Wednesday in Angeles City.

JES AZNAR FOR THE WALL STREET JOURNAL

South Korean businessman Jee Ick-joo's wife, above, returned to the home they shared near Manila. Below, his memorial service.

TED ALJIBE/AGENCE FRANCE-PRESSE/GETTY IMAGES

Low profile

Mr. Jee, a man of medium build whose thick black hair was starting to gray, was a successful businessman who friends and family say tried to keep a low profile.

He had worked in Europe and elsewhere before moving to the Philippines in 2007 as a manager with Hanjin Heavy Industries & Construction Co. Ltd., which ran a shipbuilding operation at former U.S. naval base Subic Bay.

He and his wife, Choi Kyung-jin, had begun thinking about retirement, and thought the Philippines looked like a good place to settle down, Ms. Choi said in an interview. Mr. Jee opened a staff-recruitment business for factories around Angeles City, about 50 miles north of Manila. They moved there with their daughter in 2012 and found a growing community of South Korean expatriates drawn by the sun and slower pace of life.

Ms. Choi says her husband enjoyed golf, wines and science-fiction movies. He saved on his phone a song list for office karaoke outings—a favorite was Elvis Presley's "Hound Dog." He was a talkative man. "I used to joke that my husband was silent only when he was asleep," she says.

On the morning of Oct. 18, she got a text message from her husband asking about lunch. He often ate at home. She had plans to visit a sauna but said she would leave something for him.

When Ms. Choi returned at 5 p.m., she recalls, she found the door open and no one home. Upstairs rooms had been ransacked.

The couple's housekeeper, Marisa Morquicho, later told authorities that two men identifying themselves as police entered the house and said they were looking for drugs. Among them was a paunchy officer with short dark hair whom she later identified as Ricky Santa Isabel. Police brought Officer Santa Isabel in for questioning after security cameras captured his wife's car in front of Mr. Jee's house that day.

Neighbors told Ms. Choi and investigators they had noticed a struggle when several men pushed Mr. Jee into his SUV. Ms. Morquicho also was taken to the vehicle, where she saw Mr. Jee sandwiched between two men on the rear seat. She said the men instructed her to wrap a shirt around her head as a blindfold. Then they drove to Manila.

When they got there, Ms. Morquicho was put into a different vehicle and taken to another location, where some men gave her money and told her to get out at a bus station, wait 10 seconds, then remove her blindfold, she said. She counted to 10. Then they were gone.

One man who later admitted to being in the Ford Explorer, police officer Roy Villegas, told investigators they took Mr. Jee to police headquarters, Camp Crame.

Another man who said he accompanied the officers, civilian Jerry Omlang, told police in a sworn statement that Mr. Jee pleaded to be let go and offered four million pesos, or about $80,000, for his freedom.

Mr. Jee was killed just before 10 p.m., witnesses said. Accounts of how it happened differ.

Officer Villegas told investigators that Officer Santa Isabel got some tape and surgical gloves and told him to wrap the tape around Mr. Jee's head. Until that point, Officer Villegas said, he believed he was on a legitimate antidrug operation. Now he feared for his life and smothered Mr. Jee as instructed while Officer Santa Isabel killed Mr. Jee by strangling him, Officer Villegas said.

'Now move hurry and don't try anwting ok,' a message from the kidnappers warned.

In an affidavit, Officer Santa Isabel denied killing Mr. Jee or being present at the kidnapping. He said he was at Camp Crame and saw another officer hitting Mr. Jee with a pistol, and helped dispose of the body on orders from his superiors.

Mr. Omlang, the civilian, who once was an informer for the National Bureau of Investigation, said in his police statement he was at the kidnapping and that Officers Villegas and Santa Isabel were there, too. He said he got out of the SUV before Camp Crame to draw money from an ATM with Mr. Jee's card.

Efforts to reach Officer Villegas and Mr. Omlang, who are in government custody, and their lawyers were unsuccessful. In a brief interview during an investigatory panel at the Department of Justice in February, Officer Santa Isabel, who also has been detained, said other police were to blame for Mr. Jee's death.

On the night of the killing, Mr. Jee's body was dropped off at a funeral parlor owned by retired policeman Gerardo Santiago. He told investigators Officer Santa Isabel had asked him if he could get rid of a body. He said he assumed whoever it was had been killed in an antidrug operation.

Officer Villegas said Mr. Santiago was paid the equivalent of a few hundred dollars and given a set of golf clubs from the back of Mr. Jee's car. Mr. Santiago said in an affidavit he took some money, but denied getting the clubs.

Funeral-home staffers told police they prepared Mr. Jee's body for cremation under a false name and with a faked death certificate. Teodolito Tarepe, the embalmer, said in a sworn statement he found strangulation marks on the neck and said the wrists appeared to have been tied. "The front of his pants were wet, as if he had urinated himself," he said.

Back in Angeles City, Ms. Choi says, she tried texting and calling her husband, but he didn't respond. She called his driver, and together they searched for Mr. Jee's car until 1 a.m.

Frantic search

The next day, she called the police, but they weren't much help. As it became more evident her husband had been abducted, she started looking through evidence herself, including neighborhood security-camera footage that showed a Toyota Hilux pickup. It was later identified as belonging to Ricky Santa Isabel's wife.

Ms. Choi found out from her husband's bank branches that his cards had been used to withdraw cash. She began packing Mr. Jee's clothes into zip-lock bags so they could depart quickly for South Korea if he returned.

"It was OK if he came back crippled, as long as he came back," Ms. Choi says.

On Oct. 30, still unaware of her husband's fate, Ms. Choi received a late-night text message from an anonymous sender asking for five million pesos, or about $100,000, by 6 p.m. the following day, along with the warning not to contact the police.

The sender said nothing further. Ms. Choi began calling friends and family to raise the money. She decided not to alert police, but wrote down the serial numbers of the bank notes in case they might be useful later.

A message the next day from a different number instructed her to go to a supermarket near a Jollibee fast-food restaurant in Angeles City. She was to park her Honda Civic in front of the store with the engine running, leave the cash inside and wait in the restaurant, with an obscured view of the parking lot.

"Now move hurry and don't try anwting ok," another message said.

Ms. Choi arrived, with some friends watching from a distance, and waited inside the hamburger joint. After half an hour, she sent a message asking if she could return to her car. When she didn't get a reply, she walked back. The bag with the cash was empty.

Half an hour later, a text message arrived telling her not to worry and promising to be in touch.

Another message two days later asked for 4.5 million pesos more. This time, Ms. Choi didn't have the means to pull together the cash.

She couldn't respond immediately because of a cellular-network outage. When service was restored, she found a message warning her she was "playing" with Mr. Jee's life. When she texted back, no one answered.

In mid-January, an intermediary summoned Ms. Choi to the office of a private detective she had hired. He told her Mr. Jee was dead, without explaining how he knew. She broke down, and to this day can't remember how she got home afterward.

A couple of days later, the National Bureau of Investigation called Ms. Choi into its offices to tell her that her husband's body had been cremated and its remains flushed away. Other investigators asked her to identify Mr. Jee's golf clubs, found at the crematorium.

On Jan. 20, the Philippines Department of Justice accused several policemen, including Officers Santa Isabel and Villegas, of kidnapping for ransom, with homicide. The case became a national sensation. National Police Chief Ronald Dela Rosa told reporters he was "deeply offended" and sorry that "my people" were involved in Mr. Jee's homicide. "If I had my way, I will kill the policemen involved," he said.

'You will suffer'

President Duterte also apologized. "Police, you sons of bitches, I won't let you get away with it. You will suffer," he said in a speech.

He suspended his antidrug campaign and ordered police to clean up their act, but vowed to get tough again a few weeks later, when authorities launched a new phase of the drug war, dubbed Operation Double Barrel: Reloaded.

Officer Santa Isabel said he was pressured into taking the fall for the killing by his commanding officer, Superintendent Rafael Dumlao. Mr. Dumlao has denied wrongdoing and in a sworn statement implicated Officer Santa Isabel.

Last month, a Philippines lawmaker filed an impeachment complaint against Mr. Duterte, saying he was unfit for office, partly because of the drug war. Catholic Church leaders have criticized the drug campaign. Human Rights Watch cited Mr. Jee's case in calling for a United Nations inquiry last month.

At the end of January, Ms. Choi says, Gen. Dela Rosa, the police chief, asked her if her husband or his company had links to casinos or drugs. She said they didn't. He didn't even like taking medicine when sick. She says Gen. Dela Rosa told her not to read anything into his questions.

Some police officials and lawmakers, including Senator Panfilo Lacson, a former police chief, have said they worry the contradictory accounts of what happened on Oct. 18 might undermine prospects of ever convicting anyone for Mr. Jee's death.

Ms. Choi has tried to move on. At a memorial service on the outskirts of Seoul in February, she laid out her husband's favorite blue shoes and the clothes she saved in zip-lock bags on firewood and set them ablaze as part of a Buddhist ritual for the dead.

A week later, she visited their Angeles City home again. She had moved to a more secure location after the killing. She stared blankly into her old living room.

"He only visited me in my dreams once," she said after leaving. "I'm a bit hurt he didn't visit more often."

TILT

Continued from Page One

I'm more of an artisan. I just became overwhelmed."

BRENDA O'DONOVAN

Details of the 'Magic Girl' pinball game Chris Kooluris has in his home. The last of 20 machines made were finished in March.

To understand how one of the most elusive pinball games ever built—the hobby's Mona Lisa—hit some bumpers, one must travel back to Chicago a quarter-century ago. The Second City was a pinball mecca then, where manufacturers turned out legendary games like Fireball and Medieval Madness. Mr. Popadiuk was one of the greatest designers of the era, churning out classics like Cirqus Voltaire and Theatre of Magic.

"John kept you interested wherever the ball went," said Rob Berk, a founder of the annual Pinball Expo in Chicago.

By the end of the 20th century, pinball had fallen out of fashion. The internet was taking off and videogames were becoming more sophisticated. Arcades closed. WMS Industries, Inc., where Mr. Popadiuk worked, shut its pinball division in 1999 to focus on slot machines.

Pinball fanatics, marginalized by the digital revolution, retreated to fan forums and home collections that began to balloon—sometimes to hundreds of games. The value of rare machines like 1996's Big Bang Bar soared into the tens of thousands of dollars.

"People took the roller coaster and put it in their backyard," said Nate Shivers, host of a fan podcast, Coast 2 Coast Pinball. "The game makes grown men do crazy things."

In 2011, lured by the booming market, Mr. Popadiuk made a seismic announcement. He said he would build a limited run of a new game called Magic Girl. He set its price at $16,000—about four times the price of a mass-produced pinball machine. About 20 pinball fans paid him in full within days.

"It became this mythological prize that any collector who wanted a rare title was seeking," said Mr. Kooluris, who bought out one of the original customers.

Mr. Popadiuk promised Magic Girl would be his most creative game yet. Magnets would lift the pinball. The lion's chain saw would roar. Lights would change colors as the ball struck them repeatedly.

But the project quickly went off the rails. Ordering parts for so few games was more expensive than he realized, Mr. Popadiuk said. Without dozens of colleagues, he said he couldn't keep himself on track. Angry customers showed up at his workshop—but often left appeased by the model targets and artwork he showed them.

"We call it drinking the Jpop Kool-Aid," said one customer, Justin Kelly, who calls Mr. Mr. Popadiuk "a Mad Hatter genius designer."

After Mr. Popadiuk blew past the original two-year timeline to finish Magic Girl, customers grew irate. More than 23,000 posts discussing the dispute have piled up on a fan forum.

Mr. Popadiuk tried to put a positive spin on his predicament. "New features take a long time to get right, and also I want everyone to be amazed when the games are being completed," he wrote on his blog in June 2012.

As funds ran short, he announced plans for two more games: Retro Atomic Zombie Adventureland, and Alice in Wonderland. Despite apparent trouble on the Magic Girl project, some couldn't stand to miss out on such rare games. All told he collected more than $500,000 from about 100 people, he said.

"There are a lot of people in the pinball world who have way more money than sense," said Preston Burt, co-founder of Atlanta's annual Southern-Fried Gameroom Expo.

Mr. Popadiuk went on Mr. Shivers's podcast in 2015 to clear the air. He said he'd spent all the money on parts and production costs. "I'm working on my hubris," he said. "I don't know how to fix it."

Dhaval Vasani, who worked at a circuit-board maker that supplied parts for the Magic Girl prototypes, saw a business opportunity in the demand building up among pinball acolytes. He offered to manufacture Magic Girl games in exchange for Mr. Popadiuk's help designing a new pinball game he could market on his own through a new company, American Pinball Inc. They chose another magic-tinted theme: Houdini.

The Magic Girl machines were finished in March. Reviews are ricocheting around the pinball world. Many fans praised its original artwork and custom features. Others felt Mr. Popadiuk didn't manage to reconjure pinball's glory days. "Everybody was hoping this game would be like the second coming," said Mr. Kelly, the investor whose concerns Mr. Popadiuk assuaged years ago. "It's clearly not."

Still, Mr. Kelly thinks Magic Girl's rarity makes it worth even more than what he paid. He is advertising to sell his game for $40,000. Someone has offered him about $25,000.

"It's got the most beautiful artwork. It looks incredible," said Mr. Kooluris, the New York pinball fan who worries about using it. He thinks Magic Girl's faults can be solved through groupthink. "Pinball lovers won't rest until they figure out a way to make Magic Girl work," he said.

Mr. Popadiuk said he did what he could in a changed world. "You do your best effort and out it goes," he said. He knows his legacy is dinged. The universe of ubiquitous pinball machines and profitable manufacturers that made him a star, he said, has faded. "I'm a fish out of water," he said.

Health Bill Revival Vexes GOP Tax Plan

Trump's renewed focus underscores complications in budgetary priorities

By Richard Rubin


EVAN VUCCI/ASSOCIATED PRESS
President Trump signaled last week that a health-care overhaul is still on his agenda, while many Republicans shift focus to a tax bill.

President Donald Trump's revived enthusiasm for tackling health-care legislation before tax policy has highlighted the complicated interplay between Republicans' health-care overhaul and their planned tax bill.

Mr. Trump signaled last week that one of the reasons he has reprioritized health care is that he was relying on savings from the health bill to bolster the tax plan.

If the health plan is signed, "we get hundreds of millions of dollars in savings that goes into the taxes," said Mr. Trump said in an interview Wednesday. "Could we do it without health care? Absolutely but it's a cleaner package if we get health care done."

The budget reality isn't that straightforward. Budgetary savings from a health bill don't get plowed into the tax bill, so the lack of a health bill wouldn't necessarily change the tax-bill math. There is also no requirement that the health bill come first. But the two pieces of legislation are interrelated because the GOP health bill would eliminate discrete taxes created as part of the 2010 Affordable Care Act, smoothing the process of passing a broader tax overhaul.

"It seems really obvious that they're never really going to get off health care until they get to some resolution on health care," said Ray Beeman, a former House GOP tax aide now at Ernst & Young LLP.

The challenge facing Republicans stems from taxes Democrats included in the 2010 health law, also called Obamacare. They include an additional 3.8% tax on high-income households' investment income, an extra 0.9% tax on top earners' wages and various taxes related to health-care, such as medical devices. Republicans opposed those taxes from the start and they want to repeal them while making other changes to Obamacare.

The strategy advanced by Republican congressional leaders addresses health care first, repealing those taxes and offsetting the effect on budget deficits by cutting Medicaid, the health program for the poor.

The health bill's combination of tax cuts and spending cuts would reduce the budget deficit by $150 billion over 10 years, but would lower projected federal revenue by about $1 trillion over a decade.

Step two, after that first tax cut, would be a tax bill that is roughly revenue-neutral, with tax rate cuts offset by increases elsewhere in the tax system, such as through the elimination of some deductions.

In combination, the two bills would yield a net tax cut. For the GOP, the advantage of addressing the health care law's taxes first was to get them off the table ahead of the later, broader tax debate. In effect, the GOP's tax plan is just shuffling who pays the non-Obamacare taxes. That can happen if the Obamacare taxes are held to the side during the tax debate or repealed first, but the latter approach is probably easier.

That strategy creates benefits for Republicans. Politically, it keeps all of the groups lobbying to repeal the Obamacare taxes—investors, tanning salons, health insurance companies, medical device makers—in their own legislative space and away from the already acrimonious tax fight.

If the new health-care bill collapses and Republicans turn to a tax bill with those taxes still in place, or if they had turned to taxes first, there would be pressure to repeal some of the Obamacare taxes inside the bigger tax bill, complicating matters further.

Republicans are already struggling to limit deductions and other tax breaks to offset the tax rate cuts they plan. That task gets harder if they also have to come up with money outside of health care to offset repeal of some Obamacare or health taxes.

Republicans are trying to resist those forces. Last month, after the House failed to vote on its health-care bill, House Speaker Paul Ryan (R., Wis.) said the health law's taxes would stay in their own silo, tied to some future health bill.

But if Mr. Trump's next attempt to pass a health bill also falters, that line may be hard to hold.

"The members get to decide which other ones [taxes] are relevant," said Russ Sullivan, a former Democratic staff director on the Senate Finance Committee who is now at McGuireWoods LLP. "People who want medical device tax repeal or health insurance tax repealed or whatever it is, they're going to another bill," and they will press to address them in a tax overhaul if that gains steam.

Leaving the health law's taxes in place—particularly the 3.8% tax on investment income—could pose challenges for the tax bill.

Passive owners of many businesses pay their companies' taxes on their individual tax returns and face that 3.8% tax. If Republicans lower big corporations' tax rates and leave that 3.8% tax, business groups will likely object that they aren't getting parity.

Health care and taxes are also tied together through the quirky procedural rules of so-called reconciliation bills. Those bills must be fiscal and they can't increase deficits outside the budget scoring window, typically 10 years. The advantage for Republicans is that they can't be filibustered in the Senate and can pass on a simple party-line vote.

Republicans had planned to pass the health bill using a 2017 reconciliation bill and then use a 2018 reconciliation bill for taxes. When the first health care effort collapsed in March, they began exploring revising or repurposing the 2017 bill for tax policy.

But Mr. Trump's re-pivot to health care puts those plans on hold. On one hand, the delay on tax policy gives lawmakers more time to reach a deal on taxes, which has proven elusive so far. But the strategy and sequencing also leaves the tax overhaul waiting behind a messy health care bill and a 2018 budget resolution, which is necessary to trigger a reconciliation bill.

Republicans on Capitol Hill worry that they may not be able to adopt a 2018 budget resolution because of intraparty disagreements on spending.

Impasse Fuels Voter Fury

By Natalie Andrews
And Kristina Peterson

AURORA, Colo.—After nearly two hours of fielding mostly health-care questions from hundreds of rowdy constituents at a full auditorium here this week, Republican Rep. Mike Coffman threw up his arms in frustration.

"Those of you on the extreme left will never be satisfied," he told the group of about 500 people at a town hall here at the University of Colorado Anschutz Medical Campus. The crowd erupted in boos.

The congressman was right that many in the crowd were Democrats. But they aren't Mr. Coffman's only angry constituents. Centrist Republicans like him, in districts won by Democrat Hillary Clinton, are in a particularly precarious position on health care going into next year's midterm elections.

On one side, they face demands from the party faithful and Trump loyalists who want to see Republicans follow through on years of campaign promises to repeal and replace the Affordable Care Act, often known as Obamacare. On the other are voters queasy over how their health care could be affected by the law's repeal.

At Wednesday's town hall, roughly half of the 30 questions Mr. Coffman fielded were on the health plan that GOP leaders pulled last month because of a lack of votes. Mr. Coffman had initially expressed support for the bill, but said concerns over changes proposed later by conservatives.

Kristina Watson, 60 years old, who works as an administrative assistant at a respiratory hospital, said she attended the meeting because she is worried what cuts to Medicare and a repeal of the ACA would do to the patients she sees. "I've just been appalled by the whole thing," she said.

Conservatives were there in smaller numbers to offer support to Mr. Coffman, who campaigned on repealing and replacing the law. James Ross, 74, said Obamacare "was shoved down our throats and took away a lot of our choices and I want them back."

Mr. Coffman called the failure of the bill a "faceplant" by House Republicans and maintained his support for it, saying no bill is perfect. "It's a good starting point," he said.

DAVID ZALUBOWSKI/ASSOCIATED PRESS
Angry constituents held up signs of protest during a town hall meeting with Rep. Mike Coffman in Aurora, Colo., on Wednesday.

In Michigan, supporters of Obamacare drew hundreds of people to a Tuesday town hall at which they lobbed questions at a cardboard cutout of Republican Rep. Mike Bishop.

Mr. Bishop, who voted for the GOP health bill when it was working its way through a committee on which he sits, declined to attend. A spokeswoman said the congressman didn't view the event as an opportunity to hear a broad spectrum of political views, and prefers smaller meetings, which he sees as more productive.

The pressure on lawmakers back home is being intensified by outside groups' efforts. Conservative groups are urging centrist GOP lawmakers to drop their objections to provisions sought by the party's right flank, the House Freedom Caucus, a group of about three dozen of the most conservative House Republicans, which balked at the bill.

The Club for Growth, a conservative advocacy group, launched a $1 million ad campaign this week targeting 10 House Republicans, including some who had opposed the health bill, such as House Appropriations Committee Chairman Rodney Frelinghuysen (R., N.J.) and Rep. Charlie Dent (R., Pa.), as well as some members of GOP leadership, who had tried to broker a deal to pass the bill.

Over the past several weeks, conservatives have continued to negotiate with White House officials and some members of the Tuesday Group, a bloc of centrist Republicans. In an interview with The Wall Street Journal, Mr. Trump indicated he isn't ready to abandon it yet.

Members of the Freedom Caucus have pushed to roll back some of the ACA's regulations, in the hopes that would lower the cost of premiums. One idea they discussed with Vice President Mike Pence this month would give states more flexibility in enforcing certain requirements, including that insurers offer specific health benefits, such as maternity care.

Meanwhile, advocates for the ACA are also ramping up their effort to bolster centrists' resistance to the GOP health bill. Save My Care, a consumer advocate group trying to preserve the law, released a seven-figure television ad buy this week criticizing seven House Republicans for not doing enough to derail the GOP bill.

The group's targets included Mr. Coffman and Rep. Martha McSally (R., Ariz.), who was also a focus of a Club for Growth ad. Senate Democrats' campaign arm is also running a six-figure digital ad campaign highlighting potential GOP Senate challengers' support for the GOP health-care bill.

Mr. Coffman, who won his race in November by 8.5 points, shrugged when asked about the ads. "I just think that there's going to be a lot of these outside groups on both sides," he said.

—Siobhan Hughes contributed to this article.

OUTLOOK

Continued from Page One
without reinvesting all of the proceeds into new securities later this year or early in 2018.

Officials have penciled in two more quarter-point rate increases this year. After that, the Fed could pause rate increases, set into motion its plan to shrink the balance sheet, and then return to its normal practice of raising short-term rates.

Among the issues the Fed is working to resolve: How large should the balance sheet be when the Fed ends the process? The Fed's holdings swelled to $4.5 trillion from less than $900 billion before the financial crisis in 2008 through asset-purchase programs aimed at lowering long-term interest rates and boosting economic growth.

Already, the Fed's portfolio is providing less support to the economy than before because it is holding fewer bonds with long maturities. Holding long-maturity bonds is stimulative because these are especially risky assets. Constraining the supply sends investors in search of other risky assets, pushing up the values of stocks, corporate bonds and others private holdings.

Even though the Fed will shrink its holdings from current levels, it will end up with more assets than it did before the crisis because its liabilities have grown—there's more currency in circulation and the U.S. Treasury has increased its cash balance.

Changes in how it sets interest rates will also make the portfolio larger than before. Before 2008, banks held relatively low levels of deposits—known as reserves—at the Fed. The central bank managed the federal funds rate by making small adjustments in the amount of these reserves through routine purchases and sales of Treasury securities.

Now, with a large portfolio of securities, the Fed has left the banking system flush with trillions of dollars in reserves. It manages rates now by paying interest on these reserves. New York Fed President William Dudley said this month he prefers keeping some excess reserves in the banking system—perhaps $500 billion to $1 trillion—which will mean keeping a larger portfolio of securities than before the crisis.

Economists at Goldman Sachs Group Inc. estimate the balance sheet could shrink to $2 trillion if the Fed chooses to minimize reserves, and hover near $2.9 trillion if the central bank wants a higher level of reserves.

Another question is how fast the Fed should get there. Officials leaned at their March meeting toward reducing holdings of Treasuries and mortgage bonds simultaneously.

The stronger economy leaves less need for support from a large bond portfolio.

They could reduce these holdings gradually by tapering the reinvestments of principal payments, or they could stop the reinvestments cold turkey, which would be easier to communicate to markets but could also create more market volatility. Significant shares of the Fed's Treasury holdings are scheduled to mature in 2018 and 2019.

Officials at the March meeting seemed inclined to phase out the holdings gradually instead. That would add only around a year to an already drawn-out process of shrinking the portfolio, and officials may conclude it's a small price to avoid a re-run of the 2013 "taper tantrum" on Wall Street, when the Fed signaled an end to its asset purchases and roiled emerging stock and bond markets and sent up interest rates.

Finally, the Fed needs to manage the composition of its holdings.

Officials have said once they get the balance sheet to its steady state, they want almost all central bank holdings in Treasurys, not mortgages. But because their mortgage bonds have longer durations than Treasuries, the Fed could hold a much larger share of mortgage bonds once their balance sheet stabilizes. This could prompt the Fed to remix its portfolio down the road, perhaps by reinvesting principal from maturing mortgages into Treasuries.

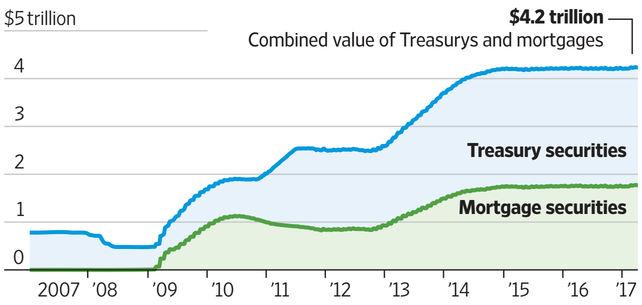
To avoid roiling markets, officials aren't inclined to engage in large-scale sales of their mortgage holdings.

More details about the strategy are likely to emerge in the months ahead.

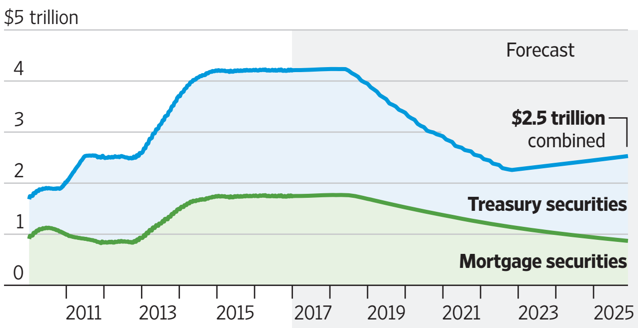
Ramp Down

After loading up on mortgage and Treasury securities, the Fed is developing a plan to wind them down.

Fed's balance sheet growth during the financial crisis and its aftermath



Simulation of how it could go postcrisis, based on a Fed board paper released in January*



*2007-16 figures are weekly; 2017-25 figures are monthly
Source: Federal Reserve
THE WALL STREET JOURNAL.

LIFE & ARTS

THE MIDDLE SEAT | Scott McCartney

After United, a Look at Your Rights as a Flier

How rules for overbooked flights and demands fliers can make may change in the wake of United's dragging a passenger off of a plane

KAGAN MCLEOD

WHEN YOU book a flight, you agree to a contract written by airlines that leaves passengers with little recourse when things go wrong or airlines want to make changes.

United Airlines invoked some of those provisions to force passengers off a plane in order to open seats for airline employees. Regulators, lawmakers and lawyers are now scrutinizing whether United followed its own rules when Dr. David Dao was pulled from his seat and dragged down the aisle, face bloodied, earlier this month, and whether travelers need more protections.

Outrage over past air travel incidents has brought about changes to airline rules, such as tarmac delay restrictions after airlines left packed flights marooned for 10 hours or more. It is possible that airlines may make some voluntary changes after this fiasco; less clear if Congress or the Trump administration will follow predecessors and impose new regulations.

The dragging "shows the issue of a lack of passenger rights is really boiling over," says Paul Hudson, president of consumer group Flyersrights.org.

Among the changes Mr. Hudson would like to see: Require airlines to offer richer compensation to volunteers who give up their seats to reduce forced bumping; reinstate the reciprocity rule so airlines have to put bumped passengers on competitors' flights to get them to their destinations quicker; and have flight attendants give disruptive passengers a soccer-like yellow card warning them they may be kicked off a flight before authorities are called.

Overbooking rules were written decades ago when a much higher percentage of tickets were refundable. Now airlines are doubly protected against no-shows: Typically more than 90% of passengers have nonrefundable fares and will pay a penalty, often $200 on domestic trips and higher on international flights, for changing plans. With overbooking, airlines get to resell that nonrefundable seat.

Concerned that airlines were routinely bumping low-fare passengers to give seats to last-minute, high-fare passengers, the Transportation Department doubled compensation that airlines have to pay to passengers involuntarily denied boarding in 2008 and increased it again in 2011. The maximum is now four times your one-way fare up to $1,350.

The higher limits reduced overbooking and gave airlines more incentive to offer fatter vouchers to volunteers to give up their seats. The United episode, where the airline offered no more than a $1,000 voucher before picking four people to remove from their seats, raises the question of whether the federal rules should be raised again.

Rules, Rules, Rules

Contracts written by airlines govern tickets. Here are the page lengths of contracts of carriage for domestic trips for the three biggest airlines.

51
DELTA AIRLINES

46
UNITED

21
AMERICAN

NOTE: Formatting and type size impact page count.

There's also a fundamental question of whether United actually had the right to remove the passenger. The airline said it removed four passengers, under its denied boarding rules. Rule 25 of United's contract of carriage, the legal document governing its tickets, says denied boarding applies to "oversold" situations.

Was it an oversold situation? United acknowledges that the flight was not overbooked, but it was full. It became "oversold" when the airline decided it wanted four seats for crew members needed in Louisville, Ky., the following day.

As with most airlines, the contract of carriage gives airlines broad powers. United can reroute passengers, for example, for "any shortage of labor." The contract's rules say United can remove any passenger from a plane for refusing to comply with crew instructions. That's a federal safety provision: Disagreements on planes can distract crew, lead to injuries or force unscheduled landings. Dr. Dao had no options: Once he refused an order from a crew member to leave the plane, the airline could remove him from the plane.

Former New York Sen. Al D'Amato learned just how wide airline latitude is in January when he tried to rally passengers to complain about a delayed JetBlue flight from Fort Lauderdale, Fla., to New York. Mr. D'Amato was escorted off the plane by Broward County sheriff's officers.

The DOT says it has begun a review to determine if United and its regional partner, Republic Airlines, "complied with the Department's oversales rule." United says it is undertaking its own investigation and will respond by April 30. Among the questions, the airline said, is "how we handle oversold situations."

United's contract of carriage for domestic flights runs 46 pages and covers everything from transporting antlers (must be free of residue) to the factors that determine which passengers get forced from an oversold flight. Passengers with disabilities and unaccompanied minors get to stay, the terms say. After that, United determines priority by fare, itinerary, frequent-flier status and check-in time.

Airlines look at solutions to bad situations as how to inconvenience the fewest number of people. Small planes get canceled more often than big planes when weather forces schedule cuts. Likewise, bumping four passengers so it can get four crew members in place and avoid canceling a flight with 70 passengers the following morning makes sense in an airline operations center trying to do the greatest good for the greatest number.

Customers don't always see both sides of that calculation, and complain airlines treat them like boxes of cargo. Angering four to not anger 70 doesn't always make sense from a customer-service perspective—or in a viral video world.

When things do go wrong, airlines have many choices to make for passengers. Delta and United took different paths recently in trying to get volunteers to give up seats. Delta canceled thousands of flights because of storms and crew shortages and induced spring break travelers to give up seats on some overbooked flights with generous gift cards. United stuck to offers of airline vouchers, which are far less appealing. Vouchers can be difficult to redeem and may not be useful unless passengers have future trips upcoming. Gift cards Delta offered, such as for American Express, Bloomingdales and Best Buy, swayed volunteers.

WORRIED ABOUT GETTING BUMPED? WHAT CAN YOU DO AND WHAT ARE YOU OWED

GETTING BUMPED from a flight is a huge inconvenience. Fliers have few rights in these situations, but there are some protections. And there are some things you can do to reduce your risk.

Lower the Chances of Getting Bumped

There are steps you can take to lessen your chances of getting bumped from a flight. It's not absolute. All you can do is make yourself less of a target than other passengers.

■ Book a seat assignment. Not having one means you may end up in the nomad category—waiting for a seat to open up. You're at high risk of getting bumped if you get the dreaded "Assigned at the Gate" on your boarding pass.

■ Check in early. Some airlines will consider check-in time in deciding who gets bumped.

■ Follow the airline rules. If check-in is required at least 40 minutes before departure, don't be late or you go to the head of the bumping queue, and you won't be eligible for compensation. If you have to be in the gate area by a certain time, comply.

■ If you're traveling with family members, make sure you're all on the same reservation. If not, call the airline ahead of time as ask to "link the PNRs," or Passenger Name Record, so the passenger records are handled together. Airlines try to avoid bumping families with children.

Your Rights as a Passenger

Airplanes are dictatorships, for safety reasons. Passengers are required by federal law to comply with crew instructions. That's important especially in the air where arguments can distract crews and boil into altercations that lead to injuries, diversion of flights and arrests.

Airline crews are particularly sensitive to non-compliant customers on the ground, where they can easily boot someone off a flight. Passengers have complained in many incidents of crews abusing that authority and having passengers removed for the slightest disagreement. Bottom line: If a crew member says you have to get off a plane, federal law says you have to comply.

Your Rights as a Customer

An airline ticket is really a contract that the airline will transport you from one city to another. You actually haven't purchased a specific flight or a specific seat; the airline can change all that on you. When the airline bumps you to a different flight, you are entitled to compensation, but only in certain circumstances.

If a Flight Is Overbooked

Airlines are required to offer vouchers to volunteers to give up seats. If an airline denies boarding to ticketed passengers, it must put them on the next available flight and cover any hotel costs. The key is "available." If flights are booked for three days, you'll have a long wait.

What Compensation Can You Get?

If the airline gets you to your destination within:

■ One hour of scheduled time, no compensation is required.

■ Between one and two hours domestically or one and four hours on international flights, the airline owes you 200% of your one-way fare up to $675.

■ More than two hours on domestic flights and four hours on international flights, 400% of your one-way fare up to $1,350.

Cash or Check?

Airlines are required to pay cash to fliers they bump involuntarily who are owed compensation. Some may try to pay in a voucher, which can carry restrictions and may have an expiration date. But customers can demand cash.

If you paid for extras such as premium seating or checked bag fees, a refund is required for services you did not receive.

There Are Exceptions

If the airline has to substitute a smaller plane, for example, compensation isn't required. If bumping is required for weight-and-balance issues, compensation isn't required. Planes with fewer than 30 seats are exempt from bumping rules.

If You Are Still Really Worried...

Still worried about bumping? Avoid regional jets. They have much higher rates of involuntary bumping. Avoid the last flight of the night. People are less likely to voluntarily give up seats. Buy a premium seat. You make yourself less of a target, and you might enjoy the legroom.

— Scott McCartney

TELEVISION

Fans Revive A Cult Comedy Favorite On Netflix

BY JOHN JURGENSEN

THE FIRST NEW episodes of "Mystery Science Theater 3000" since 1999 begin with the Netflix logo that brands all the streaming giant's original series, including other old TV shows it put back into production.

But there's a less-famous force behind the return of the influential comedy, starring several robots and a human pal joking their way through cheesy movies like "Pod People" and "The Thing That Couldn't Die." A small home-video company called Shout! Factory nurtured the "Mystery Science Theater 3000" brand for the past decade, then helped its creator rally fans to finance a new season, which premieres Friday. Nearly 50,000 donors chipped in a total of $6.3 million, enough to produce 14 90-minute episodes, which Shout! Factory then licensed to Netflix.

"Shout really kept the spirit of the show going when we couldn't," said Joel Hodgson, creator and original star of the series known as "MST3K," which was born on a local Minnesota TV channel in 1988.

Among the many defunct TV shows making a comeback, from the recent "Gilmore Girls" sequel to next month's "Twin Peaks" revival, the common denominator is a reliance on fan loyalty. It drives the development and marketing of revival projects and, in some cases, a backlash of disappointment with the finished product. Some fan communities run deep enough to cover the production budget itself. A movie sequel to cheeky detective series "Veronica Mars" raised the biggest crowdfunding pot of any movie or TV project ever—until "MST3K" broke that record in late 2015.

Shout! Factory is a microcosm of Hollywood's fandom economy. The company specializes in cult fare, reissuing TV shows ("Peewee's Playhouse: The Complete Series"), fringe horror films ("They Live: Collector's Edition") and niche hits from across genres ("Transformers" cartoons from the 1980s, the 2016 World Series). Though the DVD format is slowly dying, Shout's DVD sales have increased in recent years and now represent about 75% of the company's revenue.

For big studios that own vast libraries of movies and TV titles, it isn't worth the expense to repackage and market an old title that might sell fewer than 100,000 copies. Shout works the margins by releasing a lot of titles (315 last year, up from 149 in 2006) in modest quantities, and courting passionate constituencies. Offerings target everyone from "My Little Pony" connoisseurs to music lovers who hunger for a deluxe release of "The Decline of Western Civilization," a punk and heavy-metal documentary trilogy.

"If you add up those singles and doubles—and the occasional homer—you score some runs and have a pretty profitable company," said Shout co-founder Bob Emmer.

Sometimes the company overestimates the appetite for certain relics of entertainment. It took years for Shout to license all the rights to "Fridays," ABC's early-1980s answer to "Saturday Night Live," starring a pre-"Seinfeld" Larry David and Michael Richards—but the DVD box set bombed. A six-disc set spanning Lenny Bruce's infamous stand-up comedy also fizzled. "There were a lot more Lenny Bruce fans when we started negotiations than when we finished," Mr. Emmer said.

The company's three founders—Mr. Emmer, Richard Foos and his younger brother, Garson Foos—have a history of catering to superfans. The three men hail from Rhino Records, the retro music and pop-culture clearinghouse that grew out of a record shop Richard Foos started in 1973. After the Warner Music Group took over the label in 1998, the three men left and launched Shout! Factory in 2003.

Above and below, images from the new 'Mystery Science Theater 3000' episodes, and at left, one from the original.

CLOCKWISE FROM TOP: DARREN MICHAELS/SATELLITE OF LOVE (2); COMEDY CENTRAL/EVERETT COLLECTION

The Shout executives' relationship with "Mystery Science Theater 3000" dates back to their Rhino days, when they were involved with the first release of the show on VHStapes. It has been a steady top seller, thanks to its inter-generational appeal and brainy humor, packed with obscure pop-cultural references.

During its original run, "MST3K" aired on two cable channels (Comedy Central and the network now known as Syfy), spanning cast changes and 197 episodes and one feature film. Shout has released most of that back catalog in some form. That left the company little more to squeeze out of a property it didn't own.

Ownership of "MST3K" (and the right to produce new episodes) belonged to Jim Mallon, the executive producer who originally launched the show in the Twin Cities. In partnership with Mr. Hodgson, who left the show in 1993, Shout bought "MST3K" for an amount in the seven figures, a deal that took about six years to negotiate. Next came the Kickstarter campaign, intended to not only raise cash for a new season, but also to get fans personally invested in its success.

"Is there a lot of trust for an entertainment company in L.A.? Not really," said senior vice president of business affairs David McIntosh. "It would be a nightmare scenario if the fans turned on us."

Ivan Askwith, a consultant in fan-funded entertainment projects, including the "Veronica Mars" movie and a reboot of "Reading Rainbow," came on board to shepherd the Kickstarter effort. It had to overcome questions from fans, such as why some core cast members from the past weren't involved. Mr. Hodgson responded with frequent and lengthy posts on the motivation for a new "MST3K."

"That was crazy, because the Kickstarter became the thesis for what the new show should be," Mr. Hodgson recalled.

The show's 11th season features an entirely new cast, including Jonah Ray as the jump-suited host, and Hampton Yount and Baron Vaughn as the voices behind his sidekick bots Tom Servo and Crow T. Robot. The formula is the same: the "MST3K" players, seen in silhouette against a screen, fire off about 700 jokes per episode as they riff on each flick's clumsy dialogue, direction and production values.

Before shooting could begin, however, Shout had to lock in the B-movies that Mr. Hodgson and his team wanted to target. Tracking down the people who made obscure pictures can be tough, involving dozens of rights holders, some who stumbled into the movie business.

In addition to staffing up and building a new set, the Kickstarter money helped pay the cost of embedding those movies into the new episodes of "MST3K." "We had to go out and buy 14 more bad films," Mr. Emmer said. "They come cheaper than good films, but they don't come cheap."

BOOKS

A NOVEL'S ROLE IN MIDDLE EAST TENSIONS

BY TOBIAS GREY

WHEN DORIT RABINYAN began writing a novel about a star-crossed love affair between an Israeli Jewish woman and a Palestinian Muslim man living in New York she had no inkling that it would become an affair of state.

"All The Rivers", out in the U.S. from **Penguin Random House** on April 25, has become just such a political quagmire. In December 2015 it was refused a place on Israel's high-school Hebrew literature syllabus by the country's Ministry of Education. One of the reasons an education committee gave was that "intimate relations between Jews and non-Jews threaten the separate identity."

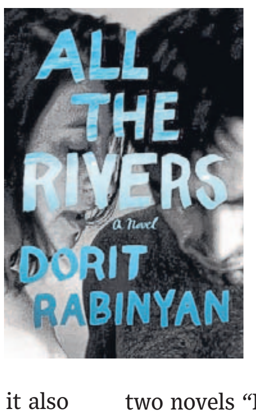
The Israeli newspaper Haaretz had already named "All the Rivers" a book of the year in 2014; it also won the country's Bernstein Prize for Israeli writers under 50 the following year. Domestic sales had been steady. After the ban was announced, sales rocketed.

After the ban's announcement there were a flurry of complaints from schoolteachers, and legislators pushed through a change in the law, whereby Israel's high-school literature teachers can now choose 30% of the curriculum they want to teach.

Still, the 44-year-old Israeli author says the negative publicity surrounding the original ban gave her novel a misleading image.

In "All The Rivers" Ms. Rabinyan drew on her own life to recount the story of an Israeli woman of Iranian ancestry, Liat, who arrives in New York as a translation student on a Fulbright scholarship in 2002 and is almost immediately the subject of suspicion and hearsay.

The novel opens with Liat being questioned at her home by two FBI agents acting on the tip of an informer who has reported seeing an Arab-looking woman in a cafe "passionately" writing emails in Arabic. "This was something that really happened to me," says Ms. Rabinyan. "But I was writing Hebrew, I don't write Arabic."



The striking thing for the author, who explored her Iranian heritage in her first two novels "Persian Brides" (1995) and "Strand of a Thousand Pearls" (1999), was "being perceived more as someone from the Middle East than as an Israeli," she says.

Soon afterward Liat meets and falls in love with Hilmi, a talented Palestinian artist. "My aim was outlining the fear of love," says Ms. Rabinyan. "I wanted to define those feelings which make Liat intimidated by Hilmi's love caused by the Jewish codes [of behavior] she carries within her." The original Hebrew title of "All The Rivers" novel is "Gader Haya" which Ms. Rabinyan says can be roughly translated into English as "Hedge." The hedge is a reference to the plants commonly used to separate properties and create privacy. To explain, Ms. Rabinyan cites Benjamin Franklin's famous quote: "love your neighbor, yet don't pull down your hedge."

Ms. Rabinyan set out to reflect on "this Jewish fear of being submerged by a shared identity," she says. "The book's Hebrew title accurately reflects the character of Liat who follows those Zionist codes of being different and keeping oneself apart."

Ms. Rabinyan dedicates her novel to her friend Hassan Hourani, a rising star of Palestinian art, who died in 2003 at the age of 29. "Hassan was the inspiration [for Hilmi]," says Ms. Rabinyan. "As I was writing my novel I felt his presence in the room alongside me giving me advice and criticism."

In Ms. Rabinyan's novel, Liat and Hilmi don't see eye to eye politically. She favors a two-state solution, while he yearns for an all-encompassing state. As a couple they laugh and cry together, fight and make up.

"People have told me that the reason my book is seen by the Ministry of Education to be dangerous for youngsters in Israel is that it reminds us there is a partner on the other side," Ms. Rabinyan says. "It is not perfect and does not see eye to eye with us on everything, but it is a partner you can maintain a dialogue with and identify with." The Ministry of Education did not respond to requests for comment.

ZIV KOREN

Dorit Rabinyan, 44, is the Israeli-born author of 'All the Rivers,' out in the U.S. this month.

REVIEW & OUTLOOK

Trump's Weak-Dollar Temptation

Donald Trump doesn't have many firm policy convictions, but one of them seems to be a mercantile faith in the virtue of a weak currency. The U.S. dollar "is getting too strong," Mr. Trump told our Journal colleagues on Wednesday. "That's hurting—that will hurt ultimately." Someone should tell him that weak-currency politicians tend to be losers.

One irony of his comments is that for weeks Mr. Trump had been celebrating the boost in economic confidence since his election, which has included a rise in the dollar. When investors have confidence in a country, they tend to put money into assets denominated in that country's currency. The "Trump reflation" in the dollar and stocks, which has since ebbed as the prospects for pro-growth reform seem more uncertain, was a good economic sign.

Mr. Trump's dollar-bashing is also highly unusual because even Presidents who favor dollar devaluation typically say the opposite. Or they say nothing at all, leaving the dollar commentary to the Treasury Secretary, whose mantra usually is "a strong dollar." And that makes sense. Why talk down the purchasing power of Americans?

A dollar-bashing President can also disrupt financial markets, as Mr. Trump's comments initially did on Wednesday. The greenback recovered, but currency markets are volatile and sharp movements can do serious harm at delicate financial times or take firms under if they've made the wrong currency bet.

Above all, dollar bashing can complicate the Federal Reserve's monetary policy. The Fed is currently in a tightening phase, which tends to support a stronger dollar, so Mr. Trump's comments are counter-cyclical.

But Mr. Trump also told the Journal that he might reappoint Fed Chair Janet Yellen when her term expires early next year. Ms. Yellen is known as a monetary dove who kept interest rates low throughout President Obama's second term. Most analysts interpreted that Yellen mention as a declaration that Mr. Trump wants the same treatment. But if Mr. Trump's policies succeed, growth will be faster and the Fed might have to raise rates more rapidly. The Fed and financial markets don't need a monetary kibbitzer on Twitter.

If economics doesn't persuade Mr. Trump, perhaps modern presidential history will. Going back to Richard Nixon, the most economically successful Presidents have presided over strong-dollar eras.

Reagan and Clinton presided over a strong currency—and success.

Ronald Reagan's pro-growth policies attracted capital from around the world, and the greenback soared along with U.S. growth. Bill Clinton also saw rapid growth and a rising dollar that sent commodity prices like oil that are traded in dollars crashing. Gasoline at 90 cents a gallon might have saved him after impeachment.

On the other hand, Richard Nixon encouraged an easy-money Fed and took the U.S. off the Bretton-Woods gold standard. One result was rising inflation and an explosion in oil prices. Jimmy Carter's Treasury tried to talk down the dollar, and inflation grew worse.

George W. Bush didn't seek a weak dollar but he did preside over one as the Alan Greenspan-Ben Bernanke Fed kept rates too low for too long. Oil and commodity prices rose, making for meager gains in real incomes, while runaway housing prices set the stage for the financial mania, panic and crash.

Much of Barack Obama's tenure was also marked by a weak dollar as the Fed tried to steal economic demand from the rest of the world. But that policy never did raise growth much above 2% a year. The public's frustrations with slow growth and stagnant incomes set the stage for the rise of Bernie Sanders and Donald Trump in 2016.

We aren't saying that a strong dollar is the primary goal of economic policy. That goal is broad prosperity from strong and sustainable economic growth. Monetary policy should seek a stable dollar not "king dollar." But the by-product of better policies and faster growth might be a flood of capital into the U.S. and a stronger dollar. This isn't to be feared. If a strong dollar were politically damaging, both Reagan and Mr. Clinton would have been one-term Presidents.

Mr. Trump's policy challenge is coaxing faster growth from an economic expansion that is already long at nearly eight years and with relatively tight labor markets. The only way to lift growth above 3% for an extended period is by lifting business and capital investment. That requires deregulation and tax reform that boost supply-side incentives. Worry about that, not the dollar.

Trump's Big Bomb

As demonstration effects go, it would be hard to top the bomb the U.S. dropped Thursday on Islamic State in Afghanistan. The 21,000 pound GBU-43, or "mother of all bombs," landed on Islamic State installations in eastern Afghanistan. Like the 59 Tomahawk cruise missiles that struck a Syrian airfield last week, the right people no doubt noticed this display of American purpose.

At the top of the list would be Islamic State, which Mr. Trump has promised to eliminate. The terrorist group has seized territory in Afghanistan's Nangahar Province, near the border with Pakistan. The Afghan army, supported by the U.S., has taken significant losses in its attempt to dislodge ISIS. The commander of U.S. forces in Afghanistan, Gen. John Nicholson, called the GBU-43 smart bomb the "right munition" to "maintain momentum" against ISIS.

Momentum is an important concept in this fight. The armed forces of Iraq, for example, are on the brink of recovering Mosul from Islamic State and have taken huge casualties to do so. But it will be difficult to consolidate an achievement like that unless other nations are willing to make similar commitments to support the fight, whether in Iraq, Syria, Afghanistan or Yemen.

Let's hope the right people noticed this blast against Islamic State.

Momentum routinely wilts beneath the politics and factions across the Middle East. The strike against Syria and now the use in Afghanistan of the biggest non-nuclear bomb in the active U.S. arsenal makes clear America's resolve to our allies. Islamic State won't be defeated without buy-in from those allies.

We may also assume that the missile-launching crowd in Pyongyang noticed the deployment of the GBU-43. Far be it from us to suggest that the U.S. drop one on a North Korean nuclear factory. But in the space of a week, Kim Jong Un, Vladimir Putin, Bashar Assad, Xi Jinping and ISIS leader Abu Bakr al-Baghdadi, wherever he is hiding, have learned that the U.S. considers it to be in its interest to push back hard against its adversaries' aggression.

Turkey's Road to Serfdom

Turkish President Recep Tayyip Erdogan has spent years laying the groundwork for authoritarian rule shaded by Islamism. With Sunday's constitutional referendum, he seeks to ratify his gains and sweep away the remnants of Turkey's once-liberal democracy.

Those are the stakes in the plebescite, in which voters are deciding whether to transform the country's parliamentary model into a strong executive system with Mr. Erdogan at the top. Under the proposed changes, Mr. Erdogan would be allowed to lead Turkey as President until 2029. His powers would expand to include declaring emergencies, issuing decrees, and appointing ministers and senior civil servants. The changes would permit Mr. Erdogan to check the judicial branch in some instances and simultaneously to head a political party while in office, something the constitution denies him today.

This presidential system would be the culmination of an authoritarian drive Mr. Erdogan first launched a decade ago, when the ruling Justice and Development Party (AKP) purged a secular establishment that was the main bulwark against Islamism. The AKP has since tightened controls over internet access, brutally suppressed a youth uprising in 2013 and won Turkey the dubious honor of being the world's foremost jailer of journalists.

Then came last summer's attempted coup, for which Mr. Erdogan blames his erstwhile ally Fethullah Gülen, a Pennsylvania-based imam who leads a rival Islamist network. Since the coup, the government has detained, fired or otherwise punished more than 140,000 Turks, shuttered more than 169 media outlets and arrested a dozen parliamentarians from a Kurdish opposition party. Mr. Erdogan has also intensified his anti-Western rhetoric. Christian missionaries, foreign journalists and "No" campaigners are among those targeted for intimidation and detention.

Self-government is on the ballot in Sunday's referendum.

All of this has transpired under Turkey's current parliamentary system, in which opposition parties can still vie for seats and check at least some of Mr. Erdogan's excesses. If the AKP had more seats in the current Parliament, Mr. Erdogan could have pushed through the constitutional change without having to bother with a referendum. If Mr. Erdogan gets his wish for a stronger executive, the parliamentary opposition would be further marginalized.

This suggests that Turkish democracy's future could be grim no matter the outcome, and the choice facing voters is between shades of black. If Mr. Erdogan loses the vote, he will continue to strengthen the repressive apparatus and whip up Turkish nationalism with his gratuitous war on Turkey's Kurdish minority. But if he wins, the possibility of democratically removing the AKP from power will be even narrower, if not foreclosed.

The danger for the Middle East, and for Turkey's NATO allies, is that the country could evolve into an Islamist state in the mold of Iran—albeit Sunni, not Shiite. Mr. Erdogan beguiled many in his early years as an Islamist leader who claimed to respect democratic norms. The sad irony is that his drive for authoritarian power will lead many in the West to the unfortunate conclusion that Islam and democracy are incompatible.

Tesla Bulls Bet on Musk, Not the Car Business

BUSINESS WORLD
By Holman W. Jenkins, Jr.

You probably have figured it out by now, but let me state it anyway. Ten years from now, if you're reading this paper in a driverless car, it will be on a limited-access highway or a closed-off, experimental city circuit.

You will not be thumbing through your text messages in a driverless car capable of carrying you anywhere, at all hours, in all weather conditions, over all kinds of roads.

And even so, you will be expected to take over driving at a moment's notice.

Ditto electric cars. If you own an electric car, you will be a member of a still-small minority. Electric-car owners will be people who own multiple cars or otherwise are willing to settle for a car with limited utility, suited for a daily commute but not a family trip or a long weekend. Even so, a new phenomenon will become apparent. After unexpected tie-ups on the interstate, tow trucks will routinely have to come and remove three or four Teslas that risked a long-distance trip and ran out of juice.

All this we offer as a discordant note amid the unrelenting hype for electric cars and autonomous driving.

Last week the market value of Tesla surpassed that of Ford and General Motors. Tesla is now the most valuable homegrown American car company, worth almost $52 billion. Yet in the same week a reputable consultancy, Navigant Research, showed that Ford and GM lead all others, including Tesla and Google, in the autonomous car race. Shocking? Not really. These companies are making and selling cars, while the Silicon Valleyites have been mostly engaged in brand-building exercises based on public fascination with jazzy, futuristic auto technology.

Google, the pioneer of self-driving hype, recently admitted it won't build and sell a car after all. Google, though, still finds it pays to trundle its handful of robot cars on the exquisitely mapped streets of a few locales in perfect weather as obstacles to other motorists.

Apple reaped untold millions in free publicity based mainly on rumors and job postings for automotive engineers. Uber briefly suspended its own self-driving taxi experiment in three cities after an accident last month. Uber customers knew they were in a driverless car, by the way, because it had two drivers instead of one.

The Journal reported this week that Tesla's triumph in the market-cap sweepstakes "underscores the profound change occurring in the global automotive industry as Silicon Valley pursues a vision for transportation . . . that could upend century-old competitors."

Except that the stock prices of traditional car makers haven't exactly been tanking. GM's remains within yelling distance of its postbankruptcy high. Look at BMW, whose market cap Tesla nearly equals. Even if Tesla succeeds in its high-risk plan to ramp up annual production to 500,000 from 80,000 in a scant two years, it will sell a quarter as many luxury cars as BMW does, and has yet to show it can do so profitably.

The stock market may or may not be crazy, but some who interpret Tesla's stock price are crazy. To justify its current valuation, Tesla needs a business that's more profitable than the car business.

To state the manner plainly, the car business just doesn't generate the kinds of returns Tesla investors are anticipating.

Its visionary founder, Elon Musk, has shown that swells will buy electric cars for noneconomic reasons, but not that swells will reward him with profits. He has discreetly cozied up to Donald Trump, whose loosening of fuel-mileage rules will actually benefit Tesla by giving other companies less motive to build and sell electric cars at a loss. He also has been waging a campaign against California's Air Resources Board, saying the state gives GM, etc. *too much incentive* to build electric cars rather than buy zero-emission credits from Tesla.

Selling autos into a crowded, competitive market will never justify today's market cap.

Mr. Musk has created a recognizable, compelling brand in Tesla, but selling cars into a crowded, competitive marketplace will never supply the Silicon Valley-like profit margins he needs. Read the analyst reports of his cheerleaders on Wall Street. One way or another, they think Mr. Musk is building an Apple, not a car company.

What product might eventually justify their faith? Who knows? Mr. Musk has dropped "Motors" from his company's name. Maybe batteries from his gigafactory will become a near-monopoly standard the way Intel chips did during the personal-computer explosion. Maybe "Tesla Inside" will be found on every kind of large and small electronic device.

Forget the General Motors comparison. Tesla's market cap is barely twice that of Snapchat's parent, a company even more bereft of revenues, never mind profits.

Tesla bulls are betting on Mr. Musk, not on the car business. They are betting on some wildly profitable, Apple-like future that they can't even clearly define.

Did George Washington Take 'Emoluments'?

By Eugene Kontorovich

Much has been made of Donald Trump's decision to retain ownership of his businesses during his presidency. Earlier this year a group of law professors and prominent attorneys filed a lawsuit in New York federal court that called into question the constitutionality of this decision. The suit argues that the Trump Organization's hotel rentals to a Chinese state-owned bank—along with royalties on "The Apprentice" from state television in countries such as Vietnam—violate the Constitution's Foreign Emoluments Clause.

Mr. Trump is not the first president to have business dealings with foreigners. That was actually George Washington, whose conduct in office has been a model for every president.

By the 1790s, Washington was wealthy primarily because of real estate—renting and selling his vast holdings. When Washington became president he did not sell his farm and estates. Rather, his nephew George Augustine Washington managed them while Washington remained involved. As with Mr. Trump's hotels, Washington's renters or purchasers could include foreigners.

The president received constant reports from his nephew and subsequent managers and wrote to them weekly. His letters could run 10 pages, with granular instructions on what to buy, sell and plant. This wasn't an anomaly: Thomas Jefferson, the third president, also continued to supervise his business while holding the nation's highest office. This belies the notion that the Constitution limits a president's management of, or benefit from, his existing business ventures.

The new view of the Emoluments Clause advanced against Mr. Trump is that any pecuniary advantage constitutes a forbidden "emolument." That would mean Washington and Jefferson would have had to ensure that no U.S. or foreign official stood on the other side of any transaction. Yet neither president, despite their close supervision, appears to have taken any such steps to curtail who they did business with.

One letter written by Washington deserves great attention in the current debate. On Dec. 12, 1793, Washington wrote to Arthur Young, an officer of the U.K. Board of Agriculture, an entity newly created and funded by Parliament at the initiative of William Pitt. The president asked for Young's help in renting out his Mount Vernon lands to secure an income for his retirement. Not finding customers in America, he wondered if Young, with his agricultural connections, could find and organize some would-be farmers in his home country and send them over.

He asked a British official to help find renters for his land.

Washington noted that the land would surely increase in value because of its close proximity to what would become the nation's capital in 1800. Large public-works projects were taking place—a circumstance over which he had some control.

Such a direct business solicitation of a foreigner with foreign government ties would surely lead to cries of constitutional breach if Mr. Trump did it. But the emoluments restriction only applies to benefits from "foreign states," and what entities count as parts of a "foreign state" for these purposes remains fuzzy. Washington's solicitation of a U.K. Board of Trade member suggests that either business transactions are not "emoluments" at all, or foreign entities such as state banks and television stations do not fall within the scope of the clause. Given the Founding Father's precedent, the legal objections to many of Mr. Trump's affairs would puzzle those who framed and breathed life into the Constitution.

Mr. Kontorovich is a law professor at Northwestern University.

OPINION

Curtains for Global Financial Regulation

By Peter J. Wallison

Last Wednesday was Daniel Tarullo's last day as a U.S. Federal Reserve governor. As the Fed's point man on banking regulation since 2009, he played a key role in the Obama administration's attempt to create an international system of financial oversight. But the election of Donald Trump ended any realistic hope of achieving that goal. When Mr. Tarullo announced in February that he would step down, even though his term runs until 2022, no one should have been surprised.

With Trump in the White House, the G-20's dream of world-wide bank controls is dead.

The plan was audacious in its scope. When a Democratic Congress passed the Dodd-Frank financial overhaul law in 2010, it was by far the most restrictive financial regulation in the U.S. since the New Deal. But the proposal hatched at a 2009 meeting of the Group of 20 countries was even larger and more intrusive. The goal was to create a common set of financial regulations governing the activities of financial firms in all G-20 countries—from the U.S. and the European Union to Russia, Turkey, India and Argentina.

The G-20 plan was to be carried out by a newly deputized international body called the Financial Stability Board, made up of regulators from around the world, including the U.S. Treasury, the Fed and the Securities and Exchange Commission. Mr. Tarullo was the Fed's representative on the FSB and helped develop its regulatory program.

There were two principal objectives: First, the G-20 wanted to impose more-stringent regulation on systemically important financial institutions, or SIFIs. Second, it wanted to put new regulatory controls on risk-taking by what the FSB called "shadow banks," which it defined as any financial firm operating without a regulator for its risk-taking.

But the FSB did not have the independent authority—even under the auspices of the G-20—to impose these regulations on companies in the various countries. Instead G-20 members were supposed to use the laws and processes in their respective jurisdictions to put the FSB's proposals into effect.

In the U.S., the main legal authority was the Financial Stability Oversight Council established by Dodd-Frank. The FSOC, led by the Treasury secretary, was authorized to designate "systemically important" firms and to restrict "ongoing activities" that could pose a threat


BLOOMBERG NEWS

to financial stability.

The Obama administration easily accomplished the G-20's first goal, stricter regulation of SIFIs. The FSOC dutifully designated as systematically important every American financial institution the FSB had deemed as such. GE Capital, AIG, Prudential and MetLife were referred to the Fed, as required by Dodd-Frank, for what the act calls "stringent" regulation.

The G-20's second goal was trickier in the U.S., because determining what constituted a shadow bank proved difficult. For the FSOC to regulate these institutions without new legislation, the definition of a shadow bank had to fit within its existing statutory authority.

Former Fed Chairman Ben Bernanke was particularly eager to control shadow banks' risk-taking. In a 2012 speech to a Fed conference he argued that any firm that participated in "maturity transformation"—turning short-term liabilities into long-term assets—was a potential threat to the stability of the financial system. He cited as an example a firm that provides short-term funds for the purchase of a pool of five-year auto loans.

The FSB ultimately adopted this approach—and expanded on it. In a November 2013 paper, the FSB argued that any firm that participated in a "complex chain of transactions" resulting in a maturity transformation would count as a shadow bank and had to be subject to controls on its risk-taking. The Obama administration probably would have tried to impose this rule under the FSOC's authority to control "activities" that could cause financial instability.

Despite regular urging by the FSB, the FSOC was never able to publish a regulation that adequately defined a "complex chain of transactions" in a way that aligned with its authority. Still, it was only a matter of time. A Hillary Clinton administration would have gotten it done.

Donald Trump's victory has interrupted this march toward greater government power over global finance. Mr. Trump's statements about regulatory relief have made clear that he will never sign on to the G-20's agenda. Indeed, the FSB—unable to get its rules adopted in the world's largest economy—will probably fold up its tent. The U.S. has dodged a bullet.

Mr. Tarullo rightly sensed that the opportunity to establish a global financial regulatory system had evaporated. The most sensible course was resignation.

Peter J. Wallison is a senior fellow at the American Enterprise Institute. His latest book is "Hidden In Plain Sight: What Caused the World's Worst Financial Crisis and Why It Could Happen Again" (Encounter, 2015).

Many of China's Economic Engines Are Sputtering

By Leland R. Miller And Derek Scissors

For China watchers, two of the oldest platitudes are that manufacturing is the bellwether of the economy, and that Beijing can achieve any results it desires by continually ramping up stimulus. The improving performance of the economy over the past year, occurring on the back of a manufacturing rebound and substantial fiscal and monetary easing, has done little to undercut those beliefs. This is also a prime reason investors remain complacent concerning China risk, perhaps dangerously so.

Yet another quarter of boring headline stability takes on a very different look in our 3,300-company China Beige Book survey. Our first-quarter results show manufacturing is indeed doing well, but most of the economy is plagued by worries.

The start of 2017 was reminiscent of 2007 in several ways. Corporate revenue and profits improved (and were much better than the nerve-wracking start to 2016). Manufacturing was strong, property was solid, and commodities soared. This may trigger a form of nostalgia that has convinced some observers that the economy may be primed to accelerate through the end of the year.

But this is 2017.. The enormous costs to China's growth-by-any-means approach are widely acknowledged, and some of that bill is already coming due.

Take property. Media reports have recently touted explosive price rises and home sales, pushing many leading banks to turn bullish. Our more comprehensive data suggest this is a mistake. Property firms did report decent revenue growth in the first quarter, but profits, hiring and wages show signs of having plateaued. Sales price growth deteriorated markedly, weakening across nearly every sub-sector and city tier. For three quarters, property has been supported by sky high borrowing. The first quarter saw investment slow and interest rates jump, leaving it hard to imagine that property's performance is sustainable.

While property merely appears to have overheated, the commodities markets already have. Commodities firms outperformed every other sector in revenue growth. Yet a reversal is certain and possibly imminent. Despite eye-popping price hikes and excellent profits, cash flow worsened for the third straight quarter. Even during a commodities boom, most firms' balance sheets are not getting stronger. And contrary to government claims, commodities firms report adding capacity. The stage is set for the bubble to pop sometime this year.

China bulls may acknowledge this pending retrenchment, painting

Manufacturing is thriving, but other industries face headwinds and tighter credit is starting to bite.

it as a positive development. After all, the new economy—retail and services—is what matters most. But that is not reassuring.

Retailers reported weaker hiring, profits, investment and cash flow compared to the end of last year. The results were not as discouraging for services, but services did clearly underperform manufacturing, lagging in revenue, profits and hiring. Beijing's grand promise that rebalancing is progressing smoothly from manufacturing to services is not supported by information from firms.

There is one area where the conventional wisdom is on the mark: With the Communist Party holding its once-in-five-years Congress in 2017, layoffs must remain carefully controlled.

On the surface, the jobs market looks pleasant, with China Beige Book data showing stable growth in both hiring and wages. But these sound employment results were due to hiring by state-owned enterprises, not private companies. Workforce expansion was concentrated in manufacturing and commodities, while weakening in the new economy—retail and services. Similar to the first quarter's growth drivers, a deeper look at the labor market does not suggest an improving economy, nor a particularly healthy one.

The true state of the credit environment may be further clouding the view. The conventional wisdom is that improvement compared to a year ago and commodities-induced inflation has already compelled the People's Bank of China to start tightening. Not so on the street. While interbank interest rates may have risen a bit, China Beige Book data show the cost of capital for companies fell, whether provided by banks, shadow financial firms, or the bond market. Interest rates at shadow banks fell to their lowest level in three years.

China therefore did not overcome tighter first-quarter credit to achieve its growth result, but rather capitalized on the loosest conditions since 2013. In response, the People's Bank may indeed eye rising debt and Federal Reserve hikes and wish to tighten, if for no other reason than to avoid another panic over capital outflows.

Problem one is that central bank tightening commands may not be heeded, given all the money sloshing around China. Problem two is that going back to the middle of the last decade, the economy has not faced tighter monetary conditions for a sustained period and thrived.

Investors may be justified in assuming that Beijing will seek to quash any fallout until after the Party Congress this fall. But they should be equally clear that what we are seeing now is not a recovery, and it is certainly not an acceleration.

Mr. Miller is chief executive officer of China Beige Book International and a nonresident senior fellow at the Atlantic Council. Mr. Scissors is the chief economist of CBB and a resident scholar at the American Enterprise Institute.

Iran Is a Bigger Threat Than Syria and North Korea Combined

By Michael Oren

The U.S. has signed agreements with three rogue regimes strictly limiting their unconventional military capacities. Two of those regimes—Syria and North Korea—brazenly violated the agreements, provoking game-changing responses from President Trump. But the third agreement—with Iran—is so inherently flawed that Tehran doesn't even have to break it. Honoring it will be enough to endanger millions of lives.

The framework agreements with North Korea and Syria, concluded respectively in 1994 and 2013, were similar in many ways. Both recognized that the regimes already possessed weapons of mass destruction or at least the means to produce them. Both assumed that the regimes would surrender their arsenals under an international treaty and open their facilities to inspectors. And both believed that these repressive states, if properly engaged, could be brought into the community of nations.

All those assumptions were wrong. After withdrawing from the Nuclear Non-Proliferation Treaty, Pyongyang tested five atomic weapons and developed intercontinental missiles capable of carrying them. Syrian dictator Bashar Assad, less than a year after signing the framework, reverted to gassing his own people. Bolstered by the inaction of the U.S. and backed by other powers, North Korea and Syria broke their commitments with impunity.

Or so it seemed. By ordering a Tomahawk missile attack on a Syrian air base, and a U.S. Navy strike force to patrol near North Korea's coast, the Trump administration has upheld the frameworks and placed their violators on notice. This reassertion of power is welcomed by all of America's allies, Israel among them. But for us, the most dangerous agreement of all is the one that may never need military enforcement. For us, the existential threat looms in a decade, when the agreement with Iran expires.

Like the frameworks with North Korea and Syria, the Joint Comprehensive Plan of Action of 2015 assumed that Iran would fulfill its obligations and open its facilities to inspectors. The JCPOA assumed that Iran would moderate its behavior and join the international community. Yet unlike its North Korean and Syrian allies, Iran was the largest state sponsor of terror and openly vowed to destroy another state—Israel. Unlike them, Iran systematically lied about its unconventional weapons program for 30 years. And unlike Damascus and Pyongyang, which are permanently barred from acquiring weapons of mass destruction, Tehran can look forward to building them swiftly and legitimately in the late 2020s, once the JCPOA expires.

This, for Israel and our neighboring Sunni states, is the appalling flaw of the JCPOA. The regime most committed to our destruction has been granted a free pass to develop military nuclear capabilities. Iran could follow the Syrian and North Korean examples and cheat. Or, while enjoying hundreds of billions of dollars in sanctions relief, it can adhere to the

Damascus and Pyongyang violated their agreements. Tehran can comply and still threaten millions.

agreement and deactivate parts of its nuclear facilities rather than dismantle them. It can develop new technologies for producing atomic bombs while testing intercontinental ballistic missiles. It can continue massacring Syrians, Iraqis and Yemenis, and bankrolling Hamas and Hezbollah. The JCPOA enables Iran to do all that merely by complying.

A nuclear-armed Iran would be as dangerous as "50 North Koreas," Israeli Prime Minister Benjamin Netanyahu told the U.N. in 2013, and Iran is certainly many times more dangerous than Syria. Yet Iran alone has been granted immunity for butchering civilians and threatening genocide. Iran alone has been guaranteed a future nuclear capability. And the Iranian regime—which brutally crushed a popular uprising in 2009—has amassed a million-man force to suppress any future opposition. Rather than moderating, the current regime promises to be more radical yet in another 10 years.

How can the U.S. and its allies pre-empt catastrophe? Many steps are possible, but they begin with penalizing Iran for the conventions it already violates, such as U.N. restrictions on missile development. The remaining American sanctions on Iran must stay staunchly in place and Congress must pass further punitive legislation. Above all, a strong link must be established between the JCPOA and Iran's support for terror, its pledges to annihilate Israel and overthrow pro-American Arab governments, and its complicity in massacres. As long as the ayatollahs oppress their own population and export their tyranny abroad, no restrictions on their nuclear program can ever be allowed to expire.

In responding forcibly to North Korean and Syrian outrages, President Trump has made a major step toward restoring America's deterrence power. His determination to redress the flaws in the JCPOA and to stand up to Iran will greatly accelerate that process. The U.S., Israel and the world will all be safer.

Mr. Oren is Israel's deputy minister for diplomacy and a Knesset member for the Kulanu Party.

Notable & Quotable

From "Free Speech Is Not Violated at Wellesley," an unsigned editorial in the Wellesley News, a student newspaper:

Our Wellesley community will not stand for hate speech, and will call it out when possible. . . .

We have all said problematic claims, the origins of which were ingrained in us by our discriminatory and biased society. Luckily, most of us have been taught by our peers and mentors at Wellesley in a productive way. It is vital that we encourage people to correct and learn from their mistakes rather than berate them for a lack of education they could not control. While it is expected that these lessons will be difficult and often personal, holding difficult conversations for the sake of educating is very different from shaming on the basis of ignorance.

This being said, if people are given the resources to learn and either continue to speak hate speech or refuse to adapt their beliefs, then hostility may be warranted. If people continue to support racist politicians or pay for speakers that prop up speech that will lead to the harm of others, then it is critical to take the appropriate measures to hold them accountable for their actions. It is important to note that our preference for education over beration regards students who may have not been given the chance to learn. Rather, we are not referring to those who have already had the incentive to learn and should have taken the opportunities to do so. Paid professional lecturers and politicians are among those who should know better.

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MUSIC

More Women Perform at Coachella Festival

Female-fronted acts are ascendant on the lineup at the Indio, Calif., show; five notables to watch

BY NEIL SHAH

AFTER YEARS OF CRITICISM of its heavily male lineup, the Coachella music festival is making some changes.

Lady Gaga is among the lead acts at the 2017 festival, which takes place this weekend and next in Indio, Calif. She is the second female headliner in Coachella's 18-year history, after Björk, who headlined twice. Organizers booked Gaga after Beyoncé bowed out due to pregnancy.

Twenty-one percent of Coachella's 2017 lineup is female or female-fronted, according to a WSJ analysis of scheduled performers. That's up from 14% five years ago. Goldenvoice, which organizes Coachella, declined to comment.

"We've had so many of our females [at] the festivals," says Julie Greenwald, chairman and chief operating officer of Atlantic Records, whose Coachella acts last year included Christine and the Queens. "Women are killing it."

Last year was a watershed, some observers say, with a stronger showing by female artists such as Sia, Grimes, Savages and Mavis Staples. "For the first time in the festival's history, women were more than just a welcome anomaly," L.A. Weekly music editor Andy Hermann wrote in a review.

The perceived dearth of female performers at America's highest-grossing annual festival reflects a gender gap in the music business, experts say. While women such as Rihanna and Taylor Swift dominate pop, many major names in alternative or indie rock and electronic music are male.

Female rap superstars are rare, as are female DJs, producers and engineers. Parents are partly to blame, says Pasquale Rotella, founder of Insomniac, a producer of electronic dance music festivals. "They're not putting [their daughters] in the studio—they're taking them to singing lessons or ballet."

Yumiki Nagano of Little Dragon, above, and Kehlani, left, are among the artists at this year's Coachella.

FROM LEFT: ZUMA PRESS; GETTY IMAGES

This year's Coachella features female artists in genres from punk and pop to R&B and indie rock. Five acts to watch:

DOWNTOWN BOYS

Victoria Ruiz, the 30-year-old frontwoman of Downtown Boys, a bilingual punk-rock group, hesitated at first when Coachella called with an offer.

"We're playing for the beast—it's so capitalistic," she says. "But our bass player was like, 'How many Chicana-fronted punk bands are playing Coachella?' " Ms. Ruiz, who grew up in a Mexican-American household in San Jose, Calif., says the group runs into ethnic bias when booking gigs.

"We get paid differently," she says. "It's like, $100 less here, $100 there." "Full Communism," the group's 2015 record, was a critical success. A follow-up, on Sub Pop, arrives this summer. Last month, Ms. Ruiz performed one of the new songs, "The Wall," at Baby's All Right, a Brooklyn, N.Y., club. "People of color have always been a part of punk, of music, of history," she yelled at the show.

LITTLE DRAGON

The typical hard-core festival fan—someone who attends four or more events a year—is a 32-year-old man, says market-research firm MusicWatch. At Electric Daisy Carnival Las Vegas, a premier dance festival, 60% of attendees are men, the organizer says. Women figure in a surprising number of electronic and DJ acts at Coachella this year, including Little Dragon, an electronic-pop four-piece from Gothenburg, Sweden, that is fronted by half-American, half-Japanese singer Yukimi Nagano. Interviewers don't ask the men in the band about their children, she says, but now that she has a son, she is asked about balancing music and maternity.

LORDE

Perhaps the most anticipated performer at Coachella will be Ella Yelich-O'Connor, the 20-year-old alternative-pop singer known as Lorde. Four years ago, this New Zealand vocalist touched a nerve with her distinctive sound and taut songwriting. On June 16, she releases "Melodrama," her sophomore record. Two songs are out: The sweeping pop anthem "Green Light," and the more intimate "Liability."

KEHLANI

There's a renaissance in R&B right now, whether it's pop-leaning (Beyoncé, Tinashe) or alternative (Solange, SZA). Having struggled through a painful childhood, Bay Area-born Kehlani, 21, is among R&B's young stars. In January, she released "SexySweetSavage," which puts a modern twist on 1990s R&B with tracks such as "Advice." Her album title is a play on TLC's "CrazySexyCool." Ms. Greenwald, of Atlantic Records, Kehlani's label, saw her perform a few years ago at SOB's, a Manhattan club. "I love that she's so genuine," Ms. Greenwald says.

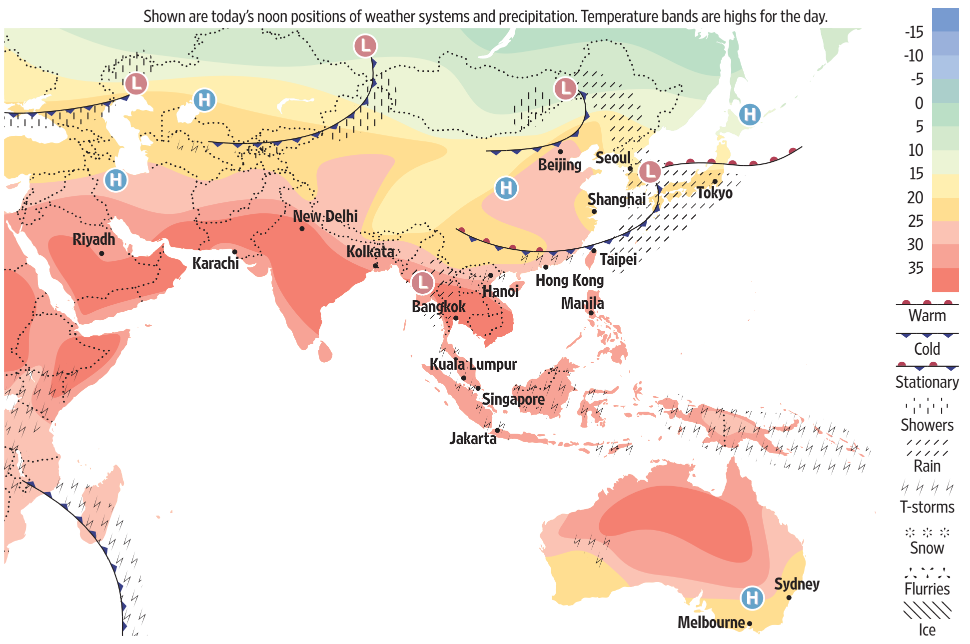
MITSKI

Women are making much of today's critically acclaimed indie-rock. Along with artists such as Angel Olsen, Courtney Barnett and Jay Som, the Japanese-American songwriter Mitski Miyawaki, 26, is reinvigorating a genre that has struggled to transcend its male-dominated 1990s and early 2000s heyday.

Weather

AccuWeather.com

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

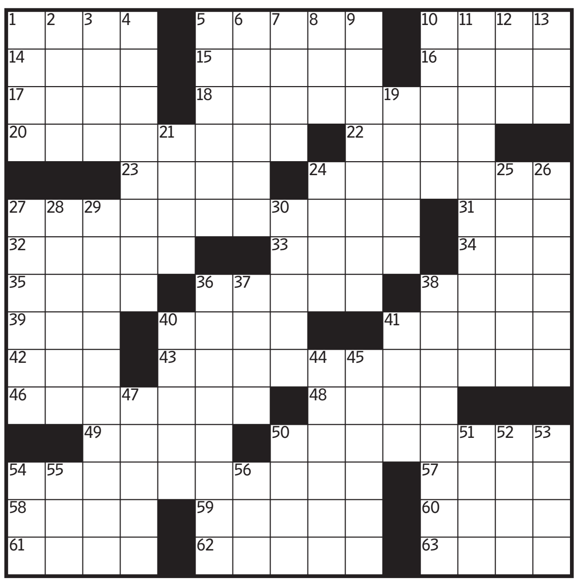


Global Forecasts

s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t'storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	11	3	pc	11	1	sh
Anchorage	9	1	s	9	-1	s
Athens	22	13	t	21	14	s
Atlanta	28	17	t	28	17	pc
Baghdad	30	16	s	32	17	pc
Baltimore	23	11	pc	21	9	pc
Bangkok	36	27	pc	36	27	pc
Beijing	27	11	pc	23	11	s
Berlin	9	0	sh	7	-1	sh
Bogota	19	11	r	18	10	r
Boise	16	7	c	15	4	sh
Boston	20	5	s	8	3	pc
Brussels	11	1	sh	11	0	pc
Buenos Aires	21	12	c	21	14	pc
Cairo	30	19	s	31	16	s
Calgary	10	-2	pc	12	1	c
Caracas	31	26	t	31	25	t
Charlotte	29	17	t	22	14	t
Chicago	22	6	s	23	15	pc
Dallas	27	17	t	29	19	t
Denver	25	7	c	26	9	pc
Detroit	21	7	s	19	12	pc
Dubai	35	26	s	36	27	s
Dublin	11	3	c	10	5	pc
Edinburgh	10	-1	pc	11	4	pc
Frankfurt	13	1	sh	10	0	sn
Geneva	16	4	pc	12	1	pc
Hanoi	27	21	c	29	23	t
Havana	29	17	t	29	18	t
Hong Kong	28	23	pc	28	23	pc
Honolulu	28	20	pc	29	21	pc
Houston	28	19	t	27	19	t
Istanbul	20	9	pc	13	9	r
Jakarta	32	24	t	32	25	sh
Johannesburg	21	6	s	23	6	s
Kansas City	22	12	c	24	18	t
Las Vegas	29	19	pc	29	16	pc
Lima	26	20	c	26	20	c
London	14	4	c	13	2	pc
Los Angeles	23	15	pc	21	13	c
Madrid	28	11	s	28	11	pc
Manila	34	26	t	34	26	pc
Melbourne	21	9	c	23	10	s
Mexico City	24	11	pc	21	10	t
Miami	28	22	sh	29	23	pc
Milan	20	8	s	20	4	pc
Minneapolis	15	8	pc	18	5	r
Monterrey	30	17	pc	28	15	pc
Montreal	10	0	c	11	4	pc
Moscow	3	-6	sf	3	-5	pc
Mumbai	35	27	pc	36	27	pc
Nashville	27	14	t	27	16	t
New Delhi	43	26	pc	44	27	pc
New Orleans	26	18	t	27	18	pc
New York City	21	9	s	15	7	pc
Omaha	23	13	pc	23	11	t
Orlando	30	17	s	32	17	pc
Ottawa	9	-2	c	12	3	pc
Paris	16	3	c	13	2	sh
Philadelphia	23	10	s	18	7	pc
Phoenix	33	19	s	34	20	pc
Pittsburgh	19	7	pc	21	13	pc
Port-au-Prince	32	22	t	33	22	t
Portland, Ore.	15	10	c	16	6	sh
Rio de Janeiro	29	22	sh	27	21	sh
Riyadh	34	20	s	36	24	pc
Rome	22	10	s	20	7	sh
Salt Lake City	20	10	c	17	8	sh
San Diego	23	17	pc	23	15	pc
San Francisco	19	12	sh	19	10	c
San Juan	27	24	sh	28	23	pc
Santiago	24	10	pc	23	10	pc
Santo Domingo	31	22	t	30	21	sh
Sao Paulo	22	16	pc	20	15	c
Seattle	15	9	r	14	6	c
Seoul	16	9	r	17	8	sh
Shanghai	22	15	r	27	13	pc
Singapore	31	26	c	32	25	c
Stockholm	4	-4	sf	5	-5	pc
Sydney	23	16	pc	23	16	pc
Taipei	31	23	t	26	22	t
Tehran	25	14	s	25	15	s
Tel Aviv	24	14	s	25	15	s
Tokyo	21	14	r	22	15	pc
Toronto	13	1	pc	11	5	pc
Vancouver	13	8	sh	14	7	sh
Washington, D.C.	23	13	pc	22	11	pc
Zurich	12	1	r	9	-1	r

The WSJ Daily Crossword | Edited by Mike Shenk



CABINET DEPARTMENT | By Harold Jones

Across
1 Silver-tongued
5 Calif. NFL pro
10 Concerning
14 Sister of Bart and Maggie
15 "___ by any other name would smell as sweet"
16 Madcap
17 Poet Khayyam
18 *Certain actions
20 Worker's reward
22 Basketball Hall of Famer Mikkelsen
23 On the sheltered side, nautically
24 Alcove for meals
27 *Targets for clippers
31 Courteney of "Friends"
32 Sign between Pisces and Taurus
33 Burrowing pest
34 Tire track worn in a dirt road
35 Equips
36 Michael of "Now You See Me"
38 Neither particularly good nor particularly bad
39 Somewhat: Suffix
40 A browser filter may block it
41 Promote for money
42 Tennis court sight
43 *They have brackets
46 Gives approval
48 Composer Satie
49 Despise
50 Eyeballed
54 *Pen holders?
57 Kill ___ killed (law of the jungle)
58 Add to the staff
59 Motherless calf
60 Yard divisions
61 Quartet in a Morse H
62 Blueprint figures
63 What you can do to all of the starred answers

Down
1 Unappetizing ladleful
2 Peru's capital
3 Brit's exclamation
4 Volleys of gunfire
5 More frilly
6 No longer in bed
7 Wander
8 "___ live and breathe!"
9 Captain Ahab's creator
10 Sky color
11 Largest of the U.S. Virgin Islands
12 Explosive stuff
13 Yiddish plaints
19 Detect
21 Pub offerings
24 Singer Celine
25 Mess up, as one's hair
26 Waxes lyrical about
27 Cream of Wheat makeup
28 Floral painting by van Gogh
29 Loose garment for a sleeper
30 ___ acids
36 Vies
37 Curved paths
38 Give the slip
40 Spotted horse
41 Recipe instruction
44 Like grams and liters
45 Makes blank
47 Alleviates
50 Cooking herb
51 Number between zwei and vier
52 Victim of fratricide
53 Noggin, in Nantes
54 Prof's deg.
55 2016 Olympics city
56 Jazz style

▶ Solve this puzzle online and discuss it at **WSJ.com/Puzzles.**

Previous Puzzle's Solution

The contest answer is WILLIAM & MARY. Each of the four theme answers consists of a famous William (Hurt, Goldman, Tell, Penn) and a famous Mary (Gross, Hart, Shelley, Wells), leading to the contest answer.

TECHNOLOGY: APPLE GETS PERMIT TO TEST AUTONOMOUS VEHICLES B4

Yen vs. Dollar 108.6170 ▼ 0.43% | Hang Seng Closed (24261.66) | Gold Closed (1285.9) | WTI crude Closed (53.18) | 10-Year JGB yield 0.026% | 10-Year Treasury yield 2.237%

'Fast and Furious' Zooms to Top

Action movie sets new box-office record around world while losing speed in U.S.

By Ben Fritz

It started as a distinctly American movie about the street-racing subculture of Los Angeles.

Now "Fast and Furious" has set a new box-office record around the world at the same time it is losing speed in its home country.

Known as "Fate of the Furious" in the U.S. and "Fast and Furious 8" in most foreign countries, the latest installment of Universal Pictures' action-adventure franchise opened to an estimated $532.5 million around the world this weekend. That is a virtual tie for the biggest-ever global launch. Walt Disney Co.'s "Star Wars: The Force Awakens" opened to $529 million in December and the "Fate" number may be adjusted slightly when final Sunday grosses are calculated.

The massive launch was fueled primarily by foreign audiences. The eighth "Fast and Furious" opened to $432.3 million internationally, destroying the foreign opening record of $316.7 million set by Universal's "Jurassic World" in 2015.

"Every culture, every nation, embraced the film," said Duncan Clark, president of international distribution for Universal. "There's not a single place where they didn't like it."

In the U.S. and Canada, meanwhile, the movie opened to $100.2 million, a big number but substantially less than the $147 million debut of the last installment, "Furious 7," in 2015 and far behind "The Force Awakens'" record of $248 million.

"Not every film builds on its predecessor, but eight films in to be the second biggest is extraordinary," said Nick Carpou, Universal's president of domestic distribution.

Curiosity about "Furious 7" may have been unusually high because co-star Paul Walker died during production, necessitating last-minute changes.

As expected, audiences for "Fate of the Furious," with its multicultural cast, were notably diverse. Fifth-nine percent of attendees in the U.S. were nonwhite, according to exit polls.

Comcast Corp.-owned Universal spent more than $200 million to make "Fate of the Furious," but had a co-financer that may have helped with its box-office performance. The state-backed movie distributor China

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UNIVERSAL STUDIOS

The eighth 'Fast and Furious' installment opened to an estimated $532.5 million around the world.

Key Vote For Wells Fargo's Board

By Emily Glazer And Joann S. Lublin

Wells Fargo & Co. faces something few other big banks have dealt with since the financial crisis: a serious effort to vote out most of its directors.

As the bank's April 25 annual shareholder meeting approaches, bank executives and directors are scrambling to meet with key investors and deal with the possibility that one or more directors could fail to win reelection, people familiar with the process said.

"A number of those directors will be vulnerable," an official at one large Wells Fargo investor said this past week.

It is rare for shareholders to vote a director off a big company's board. In the past five years, just nine directors have left boards of companies in the S&P 500 after they failed to receive majority support, according to ISS Analytics, the data arm of the proxy advisory firm **Institutional Shareholder Services** Inc.

The top Wells Fargo official at risk is Chairman Stephen Sanger, who took over last October when the former Wells Fargo chairman and chief executive officer, John Stumpf, resigned after a sales-practices scandal resulted in a $185 million settlement and two congressional grillings.

Mr. Sanger, the former chief of General Mills Inc., has handled the board's response to the sales problems, culminating in a 113-page report, made public on April 10, that largely blamed Mr. Stumpf and one of his key lieutenants, who also has left the bank.

Though Wells Fargo typically reaches out to investors around this time, shareholders have responded with many questions about the board's role, especially after the investigation results.

For instance, some want to know why the board didn't act sooner to shake up the retail-banking unit despite concerns in 2014 and 2015 about improper employee practices that included signing customers up for fake accounts to meet sales goals.

Earlier this month, the influential firm ISS recommended shareholders vote against Mr. Sanger and 11 of his colleagues on Wells Fargo's 15-member board.

The second-largest proxy advisory firm, Glass Lewis & Co., recommended investors vote for Mr. Sanger, but against six directors.

Seeing so many directors lose reelection from a major corporate board without any replacements in store would be unusual, raising potentially serious issues for Wells Fargo and its current CEO, Timothy Sloan.

Mr. Sloan, who was named chief executive after Mr. Stumpf abruptly retired, used to run the firm's corporate and wholesale business. He has so far avoided shouldering much of the blame for the sales problems because they occurred in the retail

Please see VOTE page B2

For Online Stardom, Many Buy A New Face

Deng Qian has had more than a dozen cosmetic surgeries, to slim her arms, enlarge her breasts and change almost every part of her face.

"Everything above my belly button is fake," she says.

CHINA CIRCUIT
LI YUAN

Above the neck, Ms. Deng's aim was an "online-star face"—big eyes, long nose, high forehead and sharp chin, a look pursued by young women seeking online celebrity and the big income that can follow.

"Chinese society values a pretty face above anything else," says the 24-year-old former business major. "If you're not pretty, nobody will care about you, and nobody will follow you online."

On live-streaming sites and on Weibo, China's Twitter, Ms. Deng sings, discusses her life and gives makeup demos. In the ranks of Chinese online celebrities, she's lower-tier—her Weibo followers number roughly 23,600—and desperate to climb higher. She went on China's top dating show and top job-seeking show and starred in a documentary about plastic surgery.

In her world, plastic surgery is a necessity, and an online-star face is an investment in a better future.

Ms. Deng is trying to stand out among some six million live streamers, most of them women, appearing on more than 200 platforms

Please see YUAN page B4

BRENT LEWIN/BLOOMBERG NEWS

Ernst & Young suspended its audit of China Hongqiao after allegations by two short sellers that the company inflated its profit.

Fraud Claim Plagues Metal Giant

The world's biggest aluminum producer is in trouble, locked in a feud with its accountant over fraud allegations that have forced it to suspend trading of its shares and seek help from the central government in Beijing.

By Scott Patterson in London and Brian Spegele in Beijing

China Hongqiao Group Ltd., has drawn the attention of the global aluminum market and U.S. trade officials as it soared to the pinnacle of the industry in the past few years, leapfrogging the production of giant rivals such as **Alcoa** Corp. in the U.S. and **United Co. Rusal** PLC in Russia.

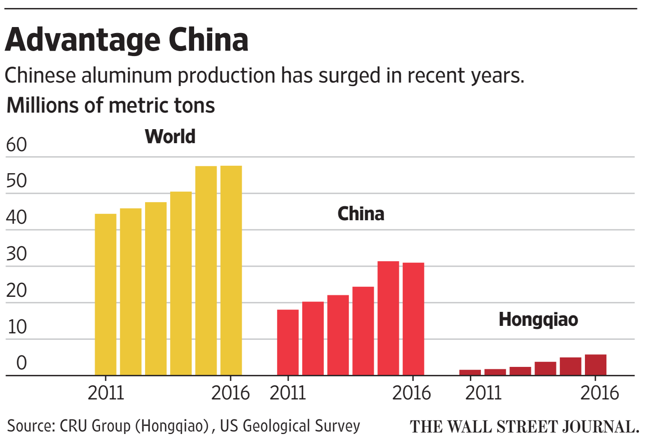
Its rise coincided with American allegations that Chinese companies—helped by government subsidies—flooded the world with cheap aluminum, coal and steel, depressed prices and decimated U.S. industries. U.S.-Chinese trade issues were a focus of a two-day summit last week between President Donald Trump and President Xi Jinping of China.

Now, China Hongqiao, a Hong Kong-listed company that employs nearly 60,000 people, is facing fraud allegations from two short sellers that the firm says threaten its financial stability. Short sellers hope to profit from a decline in a company's share price.

Trouble for Hongqiao could upend the aluminum industry in China and present an opportunity for American producers, who say the company has been using unfair tactics to dominate the industry. It could also reinforce the broader concerns over what many view as questionable business practices by China's big industrial giants, many of which are increasingly active on the global stage.

China Hongqiao declined to comment.

Please see FRAUD page B2



China's ZTE Makes Strides in U.S. Market

By Dan Strumpf

U.S. regulators haven't taken kindly to **ZTE** Corp. of late, but the Chinese telecommunications giant needs American consumers more than ever if it hopes to compete in an increasingly tough smartphone market.

ZTE is the only Chinese handset maker that has managed to crack the top ranks in the U.S., where it is No. 4 by sales behind **LG Electronics** Inc., Samsung Electronics Co. and Apple Inc. Its sales have risen every year since it launched there in 2011, according to Canalys, a technology market data provider.

The growth is notable for two reasons: ZTE has faltered on its home turf of China—where since 2012 it has fallen five places to 10th in sales among smartphone manufacturers—and it has endured a bruising fight with U.S. regulators. Last month, the company agreed to pay $892 million in fines and plead guilty to violating U.S. sanctions on Iran and obstructing justice.

But after taking those lumps, some analysts see better times ahead for China's largest publicly traded telecom manufacturer, which was set to report first-quarter earnings on Monday. Analysts polled by Thomson Reuters expect ZTE to post consolidated earnings per share of 0.23 yuan on revenue of 22.69 billion yuan ($3.29 billion), up 3.8% from a year earlier.

Following its settlement with the Justice, Commerce and Treasury departments, the company was taken off a U.S. trade blacklist, which, had its restrictions been fully implemented, would have prevented companies from selling U.S.-made parts to ZTE. That reprieve, industry experts say, removes a cloud on its business that should allow it to sell more goods globally. Despite its regulatory troubles, the company's U.S. handset business has been growing at a blistering pace, up 42% last year, according to Canalys.

"Clearly they gulped that bitter medicine as a cost of doing business" in the U.S., said Rushabh Doshi, a Canalys analyst, of ZTE's penalty. "ZTE is fairly unchallenged in the low-cost segment there," he said, but added that maintaining that growth clip will be difficult after a strong 2016. ZTE didn't respond to requests for comment.

ZTE's two-sided fortunes come at a tough time for the global smartphone industry.

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LUIS GENE/AGENCE FRANCE-PRESSE/GETTY IMAGES

Telecommunications giant ZTE has faltered in China and endured a bruising fight with federal regulators in the U.S.

INSIDE

MEXICAN PORT FACES UNCERTAINTY

BUSINESS NEWS, B3

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

INDEX TO PEOPLE

BUSINESS & FINANCE

Muted Results for Outcries

By Tatyana Shumsky

CFO JOURNAL

A social media kerfuffle can bruise a company's reputation, but these incidents rarely leave a red mark on the bottom line.

Video of a passenger being dragged off a United Airlines flight is fanning the latest outrage on social media. Earlier this month, **PepsiCo** Inc. pulled an advertisement that was panned as culturally insensitive. **Starbucks** Corp. faced a backlash in January when it said it would hire 10,000 refugees globally.

These incidents often grab consumer attention, but such controversies rarely translate into a material impact on sales or earnings in the absence of serious product issues. When money is paid—as in the case of **United Continental Holdings** Inc. refunding the ticket costs to all customers on the 70-seat flight—the effect is barely a rounding error on the quarterly results.

"There's no way that [refunding] one flight would be material to United's total financial condition," said Trent Gazzaway, national managing partner of professional standards at accounting firm Grant Thornton.

There is also scarce executive disclosure of these events in financial filings because they aren't considered material, or likely to change a reasonable shareholder's investment decision.

A review of filings by companies including United Continental, Pepsi and Starbucks showed they so far haven't disclosed the social media incidents to the Securities and Exchange Commission.


PEPSI

An image from a Pepsi ad that was criticized as culturally insensitive.

"Social media interest by itself may not be material enough to warrant a disclosure in the financial statements," said Olga Usvyatsky, vice president of research and CPA at Audit Analytics, an audit, regulatory and disclosure research firm.

Companies typically make such disclosures, like flagging the effect of a severe storm or a cyberbreach of corporate computer systems, in quarterly reports or a so-called Form 8-K, used to notify investors of a current event that could be material to the company or affect the stock price.

A United Airlines spokeswoman declined to comment on questions about the materiality of the incident. The company is due to report its first-quarter earnings on Monday after markets close. In January, it posted fourth-quarter earnings of $397 million on revenue of $9.05 billion.

United Continental stock fell last Monday, the day the video came out, though analysts attributed the move to mixed operational data released that morning. The stock ended the week down 2.6%.

"Historically, incidents like this are one-off in nature and rarely pose lasting or significant financial headwinds," analysts at Citigroup said in a note to clients.

Still, consumer-facing companies, which are particularly vulnerable to social controversies, should outline such risks and response strategies in financial filings, said Nell Minow, vice chair of corporate governance consulting firm ValueEdge Advisors.

PepsiCo likely paid as much as $30 million in talent and production costs of the ad it scrapped in response to the social media outcry, said Gene Grabowski, a crisis management specialist at communications firm kglobal.

However, the ad was produced by an in-house agency, which brought down the cost significantly. The maker of beverages and snacks spent between $1 million and $1.5 million, including talent fees, according to a person familiar with the matter.

"For Pepsi, in this situation, there might be some short-term impact, but long-term, it's doubtful," Mr. Grabowski said. "Pepsi is an old brand, and a lot of consumers may not care about this."

Starbucks in January sparked social media calls for a boycott after Chairman Howard Schultz said the coffee-store chain would hire 10,000 refugees globally.

Mr. Schultz addressed the issue at the company's annual shareholder meeting in March.

"I can unequivocally tell you, and we all know this from the research we've done, that there is zero, absolutely no evidence whatsoever that there is any dilution in the integrity of the Starbucks brand, reputation or our core business as a result of being compassionate," Mr. Schultz said.

VOTE

Continued from the prior page

consumer business, which he didn't oversee.

Mr. Sloan said in an interview that he recently spoke with Warren Buffett, head of Wells Fargo's largest shareholder, Berkshire Hathaway Inc., who expressed his support for management and the board.

"We value his input and engagement...at a very important time for the company," Mr. Sloan said.

Messrs. Sloan and Sanger and other Wells Fargo officials are to meet or talk with more than 20 of the largest Wells Fargo investors—including in New York, Boston and San Francisco—people involved with the meetings said.

Management and board members plan to argue that the board has taken the fallout from the scandal seriously, clawing back $183 million in pay from current and former executives. The board has also overhauled four of its committees—risk, audit, human resources and corporate responsibility—to further strengthen their oversight of the company. The heads of those committees, along with Mr. Sanger, "probably have more to worry about than the others," the official from one of Wells Fargo's largest shareholders said.

Mr. Sanger has said recently in response to a reporter's question whether he should resign that the recent "investigation showed the board took the appropriate actions with the information it had."

Large shareholders often follow ISS's recommendation, but with Wells Fargo, there are no known alternatives for the board if some of them get voted out.

Wells Fargo's corporate governance guidelines are fairly similar to those of most large companies that give the board latitude about what to do with "no" votes against directors. Wells Fargo's rules require directors to win a majority of votes cast, but the board can also reject offers to resign, even from directors who fail to gain a majority vote.

The bank would risk shareholder consternation and a possibly a hit to its stock price if the board decides to keep a director who doesn't receive the majority vote. Wells Fargo's board has 90 days to publicly disclose its decision regarding a director's resignation, according to the bank's corporate governance guidelines.

So far, a number of Wells Fargo's largest shareholders said they haven't decided how they will vote. If the planned investor meetings indicate that shareholders are leaning against certain directors, Wells Fargo could decide that those directors should retire soon in an effort to stem concern and preserve majorities for other key directors.

After J.P. Morgan Chase & Co. suffered a $6 billion trading loss known as the "London Whale" several years ago, the bank's board shook up membership of its risk committee amid a contentious shareholder vote.

ZTE

Continued from the prior page

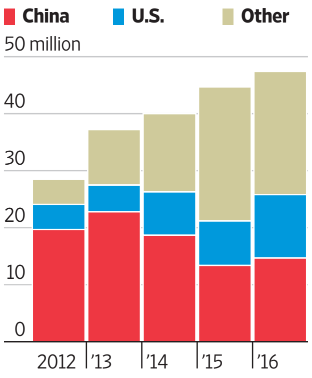
Sales growth is slowing, and brands have struggled to come up with models that keep consumers shelling out for new handsets as frequently as they once did.

That pain has spread to some of the biggest names in China's handset market. Last month, Huawei Technologies Corp., the world's largest telecom manufacturer, said its profit growth nearly ground to a halt last year as a greater share of its profits came from its lower-margin gadget and phone business. ZTE reported a net loss of 2.36 billion yuan ($342 million) last year due to provisions for its U.S. penalty.

Both Chinese companies have faced intensifying competition in their home market from domestic upstarts such as BBK Electronics Co., maker of the Oppo and Vivo brands—now No. 2 and No. 3 respectively by market share, according to Canalys. Xiaomi Corp., another Chinese phone maker, has lost ground at home and stumbled abroad.

Home and Away

ZTE smartphone shipments



Note: Exclude ODM and sub-brand Nubia
Source: Canalys
THE WALL STREET JOURNAL.

ZTE needs to remain focused on its fast-growing U.S. market, analysts say, if it wants to move past its regulatory setbacks. It has an advantage in its longstanding partnerships with U.S. telecom carriers like AT&T Inc. and T-Mobile US Inc., which have been key to its success with American consumers who generally buy smartphones on long-term contracts. Huawei, for instance, one of ZTE's Chinese rivals, has struggled to break into the U.S. given its lack of major carrier partners and concerns raised by the U.S. government that its telecom equipment could be used to spy on Americans—suggestions the company has repeatedly denied.

"By luck or by design, ZTE has struck some pretty good relationships with U.S. carriers, like with AT&T and some of the regional wireless operators, and because they were there early they acquired some good brand recognition," said Edison Lee, a Hong Kong-based telecom analyst at Jefferies.

ZTE's consumer business accounts for about a third of total revenue, while its equipment business made up 58% of revenue last year. Mr. Lee said ZTE's market share in its equipment business likely grew in China last year, and the lifting of U.S. trade restrictions means this business has room to grow world-wide. He expects the company to shrink its smartphone business in China, where it "missed the boat," and increasingly focus on the U.S. market.

MOVIE

Continued from the prior page

Film Group Co. had a stake of approximately 10% in the movie, according to a person with knowledge of the matter.

It opened to $190 million in China, exceeding the prior record for a Hollywood film of $182 million set by "Furious 7," in which China Film Group also had a minority stake.

"I've never watched so many cars in one film," gushed Wang Juan, a 29-year-old informational technology worker as she walked out of a screening in Beijing. "It was so cool."

One advantage was that "Fate" is the first movie in the series to open on the same weekend in China as the rest of the world, which can help both to drive interest via global publicity and to prevent piracy.

"Fast and Furious 6" was the first movie in the series to even play in China and it grossed a total of only $66 million. "Furious 7" made a total of $391 million, still a record in the country for a Hollywood import.

"Fate of the Furious" also set opening weekend records in Argentina, Colombia, South Africa and Vietnam and was the biggest movie in the "Fast and Furious" franchise in the United Kingdom, South Korea and Mexico.

All else being equal, studios would typically prefer to sell tickets in the U.S. more than most foreign countries because they keep a bigger portion of box-office sales and because follow-on businesses, such as DVD sales and cable-television licensing, are more lucrative domestically. Studios keep around 60% of box-office revenue on big movies like "Fate of the Furious" in the U.S., but an average of less than 50% overseas and only 25% in China.

"Fast and Furious" is a creaky 16-year-old franchise in the U.S., but newer to many moviegoers overseas, where it only started to gain attention with 2011's "Fast Five." With that entry, the franchise began its transformation from tales of auto-racing outlaws to globe-trotting action-adventure films in which stars like Vin Diesel, Dwayne Johnson, and Charlize Theron engage in increasingly outrageous stunts. The newest movie's settings include Cuba, New York and Siberia, and it features an action sequence with hundreds of self-driving cars and another with a nuclear submarine.

"Fast and Furious" is one of Comcast's most important cinematic franchises. It is featured in the company's theme parks and has a touring arena show set to launch next year.

Universal is already developing the ninth and 10th films in the series, which are scheduled for 2019 and 2021.

—Lilian Lin in Beijing contributed to this article.

FRAUD

Continued from the prior page

comment.

In a March 4 letter reviewed by The Wall Street Journal, China Hongqiao sought assistance from a trade group, the Chinese Non-Ferrous Metals Industry Association, or CNIA, saying the short sellers' claims of inflated profits were forcing the company's accountant, **Ernst & Young**, "to adopt an extremely conservative and careful attitude."

Then, on March 6, Ernst & Young notified the company it had suspended its audit of its 2016 financial results, according to a March 31 statement by China Hongqiao. Ernst & Young asked the company to commission an independent investigation into the short sellers' claims, delaying the release of the company's annual financial results, China Hongqiao said.

Without audited results, China Hongqiao said in its letter to CNIA, the company risks an investigation from Hong Kong securities regulators and a credit crunch. The company has about $10 billion in debt, according to securities filings. It could be in default on a $700 million loan unless it gets waivers from creditors, says S&P Global Ratings. S&P, citing the move by Ernst & Young, downgraded China Hongqiao's bonds a notch deeper into junk territory to B-plus.

In its March 31 statement, China Hongqiao denied the short sellers' fraud allegations, calling them "untrue and unfounded." Ernst & Young declined to comment.

China Hongqiao asked the CNIA and the Chinese government to come to its aid, warning in its March 4 letter of "serious effects" if nothing is done, including "regional systemic financial risks" and "dramatic social unrest."

It isn't clear whether the government or regulators will step in. The CNIA, the Hong Kong Securities and Futures Commission, and China's Ministry of Industry and Information Technology, which oversees China's industrial policies, didn't respond to requests for comment.

China Hongqiao says the fraud allegations are threatening its financial stability.

The events are "very embarrassing for the Chinese and for Hongqiao," said Paul Adkins, managing director of AZ China Ltd., a Hong Kong consultancy that tracks the Chinese aluminum industry.

China Hongqiao's production capacity has almost quadrupled to 6.7 million metric tons since 2011, according to commodity researcher CRU Group. Rusal can produce 4.1 million tons of aluminum a year, Alcoa up to 3.4 million tons a year, CRU says.

China's aluminum output reached an estimated 31 million tons in 2016, according to the U.S. Geological Survey, more than half of global output and up 60% since 2011. That is the year China Hongqiao went public, raising $817 million. China Hongqiao's founder, Zhang Shiping, holds an 81% stake in the company, according to FactSet.

The U.S. government in January launched a formal complaint against the Chinese government with the World Trade Organization, accusing China of funneling artificially cheap loans from state-run banks to aluminum producers, including China Hongqiao. China provides China Hongqiao with access to cheap coal, aluminum and electricity, according to the WTO complaint.

China's Ministry of Commerce denied the subsidies alleged by the WTO are provided to the industry.

Questions about China Hongqiao's finances were raised in November, when an anonymous short seller wrote on a website called Hongqiao Exposed that the company's profits are "too good to be true." China Hongqiao in the March 31 statement called the report "untrue and unfounded."

On Feb. 28, more allegations emerged in a 46-page report by Emerson Analytics, a trading firm that says it focuses on Chinese stock-market fraud. Emerson accused China Hongqiao of "abnormally high" profits generated by underreporting production costs and disclosing electricity expenses below their true cost. China Hongqiao in the March 31 statement denied the report's allegations. Emerson declined to comment.

Trump Poses Challenge for Mexican Port

Shippers weigh impact of trade barriers on new high-tech terminal at Lázaro Cárdenas

BY ROBBIE WHELAN

LOGISTICS

LÁZARO CÁRDENAS, Mexico—Latin America's most technologically advanced shipping terminal opened here early this month, with a ceremony attended by heads of state and shipping industry royalty.

But the project faces an uncertain future as U.S. President Donald Trump weighs new trade barriers.

Major importers such as **Wal-Mart Stores** Inc., **Samsung Electronics** Co. and **Target** Corp. see Lázaro Cárdenas as a key link between Asia's factories and Mexico's growing middle class. They also hope to use the port as a backdoor to the U.S., bypassing congested West Coast ports via the "Nafta Railway," a network of track operated by U.S. railroad Kansas City Southern that can shuttle goods as far north as Memphis.

APM Terminals, a unit of the world's biggest shipping company, **A.P. Moller-Maersk**, spent five years and $568 million on the new terminal. APM hopes to spend up to $900 million to expand capacity at the terminal to rival the Port of New York and New Jersey by the end of the next decade.

But what looked like a sure bet five years ago is less certain today. President Trump has threatened to penalize manufacturers that move operations to Mexico and wants to renegotiate the North American Free Trade Agreement. Republicans in Congress have floated a "border-adjusted tax" that would raise the cost of imports.

Any of these measures could deal a blow to U.S.-Mexico trade. Mexico's imports have grown more than 30% since 2010, according to the World Bank, and container volumes are up 60% in the past three years at Lázaro Cárdenas' older facilities, according to trade data firm Panjiva.

"The port is a microcosm of global trade flows," said Christopher Rogers, a research analyst with Panjiva. He added: "It's very exposed to the auto industry."

Danish conglomerate Maersk, which once touted the new terminal's "near-sourcing benefits," a reference to manufacturers producing goods in Mexico and selling them in the U.S., now says it is focusing more on using the port to import goods for Mexico's consumer market.

In an interview this month, Maersk Chief Executive Søren Skou said "the main purpose of the terminal is to be a gateway terminal for the Mexico City market," with cross-border trade secondary.

"The U.S. administration has made a number of statements that impact our business on the positive side," Mr. Skou said. "Then there are the discussions about trade deals, and some of the rhetoric seems more protectionist...It's really hard for us to judge how this will affect our business."

APM's terminal unloaded its first ship in February, and the port formally opened with a ceremony in early April attended by Mexico's president Enrique Peña Nieto and Danish Prime Minister Lars Løkke Rasmussen.

Mexico sees developing the port as a priority. In 2013, amid drug cartel violence and illegal smuggling, Mr. Peña Nieto deployed thousands of troops to the port and handed over its security to the navy.

At the ceremony this month, he called the terminal "a testimony to how Mexico has been growing, how it has become a trustworthy destination...that is crucial for the transit of goods bound for the important consumer market that is Mexico, and from here to other important consumer markets."

However, Mexico's president has also said the country will pursue trade deals with Vietnam and Japan and work more closely with China.

"Mexico's path forward is to participate more in world trade, not just to trade with North America," said Walter Kemmsies, an economist who specializes in ports and shipping. "The investment at Lázaro Cárdenas makes sense, because it's a gateway to trade with Asia."

The new terminal features towering 300-foot-tall ship-to-shore cranes that can span the largest container ships currently plying routes between Asia to North America.

The cranes can pluck two containers at a time from ships, then deposit them in piles. Robotic stacking cranes that run on electricity—rather than the usual diesel—use artificial intelligence to arrange the piles. Such semi-automated systems have never been used in Latin America.

SUSANA GONZALEZ/BLOOMBERG NEWS

Importers see Lázaro Cárdenas as a link to Mexico's middle class.

Samsung Heir Exits Exor

BY CHESTER DAWSON

Exor SpA, the Italian holding company that controls **Fiat Chrysler Automobiles** NV, has parted ways with a board member who was indicted in February for his alleged role in a political scandal in South Korea.

Lee Jae-yong, the vice chairman of **Samsung Electronics** Co. and the grandson of that company's founder, and three other Exor outside directors weren't reappointed to the board at a meeting earlier this month.

Mr. Lee had served as an outside director at Exor since 2012. Representatives for Mr. Lee were unavailable for comment.

South Korean prosecutors have accused Mr. Lee of embezzlement, perjury, hiding assets abroad and concealing profit gained from criminal acts. The charges are linked to an investigation into an influence-peddling scandal that led to the impeachment and arrest of South Korea's president, Park Geun-hye. Mr. Lee and Ms. Park have denied wrongdoing.

A spokesman for Exor, which owns 42.6% of Fiat Chrysler's voting rights, said Mr. Lee and the other three directors exited "simply because their mandate" as board directors had expired.

Company CEO John Elkann praised Mr. Lee and the other directors who left the board.

Uber Had $2.8 Billion Loss in 2016

BY GREG BENSINGER

Uber Technologies Inc. gave a rare glimpse of its financial performance, showing that the ride-hailing company's loss last year hit a whopping $2.8 billion on sales of $6.5 billion.

The San Francisco company, which isn't publicly traded and hasn't previously disclosed its financials, said revenue in the fourth quarter of 2016 jumped 74% from the preceding quarter to $2.9 billion.

The company declined to give sales or loss figures for the prior year.

The results underline just how big a toll Uber's rapid growth is taking on the roughly $15 billion in debt and equity funding it has raised from investors since it was founded eight years ago. Uber said it now has about $7 billion of cash left on hand.

BRENDAN MCDERMID/REUTERS

The ride-hailing company said fourth-quarter revenue jumped 74%.

Bloomberg News earlier Friday reported the figures, which an Uber spokesman confirmed the company had supplied. The loss number excludes costs such as employee stock compensation, certain real-estate investments, and automobile purchases, Bloomberg said.

The figures also exclude results from Uber's business in China, which was losing about $1 billion a year and which it agreed last summer to sell to rival Didi Chuxing Technology Co.

The numbers also don't reflect any impact from a string of recent scandals and other setbacks for Uber that began earlier this year, and Uber isn't yet divulging first-quarter financials.

Uber is wrestling with charges of institutional sexism and sexual harassment, a lawsuit from Alphabet Inc. alleging stolen self-driving-car technology, and the departures of several high-level executives.

Uber said gross bookings, a measure which includes rides and the Eats food-delivery business, rose 28% from the third quarter to $6.9 billion in last year's final quarter. Gross bookings for all of 2016 totaled $20 billion, compared with $8.9 billion in 2015, $2.9 billion in 2014 and $685 million in 2013, an Uber spokesman said.

YURI GRIPAS/REUTERS

General Motors' electric car doesn't come with built-in navigation.

Chevrolet Bolt Is High-Tech, but Bring Your GPS

By Mike Colias

Aiming to please the tech-savvy buyers of Chevrolet's new Bolt electric car, **General Motors** Co. equipped it with a 4G Wi-Fi connection and a 10-inch touch screen. But GM left out one feature that not long ago was a must-have for many car buyers: built-in navigation.

Nearly all but the cheapest budget cars sold in the U.S. are offered with factory-installed navigation at least as an add-on. Its absence on the $37,500 Bolt is unusual—and the latest sign that the ubiquity of smartphones is altering how drivers get around.

Many car owners are taking advantage of larger smartphone screens by mounting them on the dash or even clutching them in their hand to monitor a route while driving. Citing safety risks, car companies in the past two years have responded by equipping vehicles with **Apple** Inc.'s CarPlay or Google's Android Auto, which allow drivers to plug their smartphones into a USB to display the phone's maps, music and other street-legal features in the dash.

GM and other car companies typically use CarPlay or Android Auto as a supplement to factory-installed navigation gear, which has long served as a lucrative revenue stream. But many consumers say they no longer bother using the built-in systems.

It is "not as much of a have-to-have feature as it was a few years ago," said Mike Luner, a general manager at a Fiat Chrysler Automobiles dealership owned by Del Grande Dealer Group in Northern California. FCA continues to offer built-in navigation across its lineup.

Jeff Hawkins, co-founder of hand-held device maker Palm Inc., bought a Bolt recently and says the lack of onboard navigation doesn't bother him because he prefers to use Google Maps on his Android phone.

Built-in navigation systems have advantages: Because they use a GPS module and software wired into the car, they don't rely on a wireless connection. That eliminates the risk of losing access if a signal drops and minimizes the need to drain smartphone data plans by using a navigation app.

Still, the car companies' systems have endured tough criticism for not being updated in real time, requiring dealer support for updates and lacking crowdsourcing advantages offered by systems such as **Alphabet** Inc.'s Waze app.

Waze, for example, aggregates users' location data to detect backups and route drivers around traffic. Apple Maps lets users find nearby restaurants and book a reservation through OpenTable.

GM figured Bolt buyers are savvy and comfortable using the Apple or Google systems, company spokesman Vijay Iyer said. He said the car also comes with GM's OnStar concierge system, providing vocal turn-by-turn directions as another option.

GM doesn't plan to phase out navigation offerings in other vehicle lines. The company plans to eventually integrate additional location-based features on the Bolt, which comes with a $7,500 federal income-tax rebate for electric car purchases. For example, CEO Mary Barra last year raised the possibility of a feature that would help Bolt drivers find the most efficient route between charging stations to optimize battery life.

While they aren't the moneymakers they once were, factory navigation systems still rake in profits. Research firm IHS Markit estimates the systems cost auto makers roughly $450 on average, while consumers pay between $500 and $1,200. A stand-alone guidance system may have commanded $2,000 five years ago, but they are increasingly bundled into technology packages that include everything from backup cameras to heated seats.

Analysts expect margins to shrink further as more consumers discover CarPlay and Android Auto. Introduced less than two years ago, those systems are available in nearly one-quarter of vehicles produced in North America, IHS estimates. By 2020, that number is expected to grow to 62%.

Even if today's drivers are finding less reason to pay more for factory navigation, car companies and suppliers aren't giving up on them. That is because the self-driving vehicles of the future will need high-definition maps to navigate roadways.

Apple's Self-Driving Push

By Tripp Mickle And Tim Higgins

NOAH BERGER/REUTERS

Apple's headquarters in Cupertino, Calif. The company has a vehicle-testing permit from the state.

SAN FRANCISCO—**Apple** Inc. on Friday secured a permit for autonomous-vehicle testing in California, the clearest sign to date of progress in the company's secretive efforts to develop self-driving-car technology.

The permit, awarded by California's Department of Motor Vehicles, is Apple's first for autonomous cars and allows it to test-drive vehicles on public roads in the largest U.S. state by population, adding it to a list of rivals that includes Google parent **Alphabet** Inc. and **Tesla** Inc. The move indicates Apple is going beyond testing on private tracks and in simulators as it works to improve artificial-intelligence systems that must learn to interact in the unpredictable world of human drivers.

The Apple permit covers three 2015 Lexus sport-utility vehicles, which would be retrofitted with hardware and software to be used in autonomous mode. It also covers six human operators who must sit behind the wheel to monitor the driving and take over when needed, according to the DMV.

Apple has been working for years on self-driving cars—an effort dubbed Project Titan—under a veil of secrecy. Its first public statements about its car effort came in a November letter to the National Highway Traffic Safety Administration offering input on planned regulations governing automated vehicles.

The revelation of Apple's interest in self-driving technology in 2015 sent shock waves through the auto industry, which had been working on various research efforts but generally saw autonomous vehicles as a far-off endeavor. The race has intensified since then, with Silicon Valley companies and traditional auto makers vying for position around technology that has the potential to reshape a bedrock of the U.S. economy. A study by Deloitte estimates there is some $2 trillion in annual revenue in the U.S. tied to the auto industry.

Silicon Valley's increasing interest has spurred auto makers to increase their efforts with many claiming they will have self-driving vehicles on the road in the next few years. **General Motors** Co. acquired self-driving-tech startup Cruise Automation last year in an effort to speed up its self-driving efforts, and the auto maker has said it is spending about $150 million per quarter on development. **Ford Motor** Co., targeting a self-driving vehicle for the market in 2021, is investing $1 billion into Argo AI to help its effort. BMW AG has teamed up with **Intel** Corp. to bring out a fully autonomous vehicle as well.

An Apple spokesman on Friday declined to comment on the permit and referred to a statement it issued in December, when the letter to regulators became public, that said the company is investing in machine learning and autonomous systems.

The letter—which said Apple was making those investments for many purposes "including transportation"—suggested Apple was focusing on software that would control a self-driving car. That aligned with other signs that Apple's car effort had shifted from building a car to designing an autonomous-driving system. Last summer, for instance, Apple eliminated some positions on Project Titan focused on car development and added software-focused staff.

Its new approach is a departure for Apple, which typically tries to control both the software and hardware of its products to deliver a uniform user experience, and maximize profits. It is alone among major smartphone developers, for example, in using its own operating-system software instead of Google's Android system—a strategy widely credited with helping Apple garner more than 90% of profits in the global smartphone industry, according to Strategy Analytics.

Neil Cybart, who runs Above Avalon, a site dedicated to Apple analysis, said there could be similar value in controlling both the software and hardware of a car. "One aspect of the auto industry that needs to change is design and [the company is] well suited with their design philosophy," he said.

California has been the major testing ground for autonomous-vehicle technology. Apple rivals have been testing their vehicles on the roads here for some time—especially Waymo LLC, the Google sister company doing self-driving cars. Waymo has been working on autonomous vehicles since 2009 and has driven more than 2.5 million miles on public roads, including 635,868 last year in California, according to a report filed with the state.

"We're still in the first mile of the marathon of this race. At this point, it's still up in the air who can take the lead," said Dave Sullivan, an auto analyst with AutoPacific Inc.

Putting test vehicles on public roads opens Apple to more scrutiny than it is accustomed to when developing products. California requires companies with autonomous-car testing permits to file public reports about their efforts, including crash information and the number of times their human operators have to take over from the computer.

By 2030, about a quarter of all miles driven in the U.S. may be done through autonomous electric vehicles, according to a recent study by the Boston Consulting Group.

Hackers: U.S. Tried to Breach Swift

By Robert McMillan

A shadowy hacking group, which says it stole files from the U.S. National Security Agency, released documents and hacking tools that allegedly describe a U.S. effort to compromise users of the major international money-transfer system.

The documents, released Friday by a group that calls itself Shadow Brokers, includes PowerPoint slides and other documents that describe an alleged effort by the NSA to target two "service bureaus" connected to the Society for Worldwide Interbank Financial Telecommunication, or Swift. The documents say the NSA broke into one of the bureaus, which are companies that facilitate funds transfers for smaller banks, as recently as in 2013.

The documents' authenticity couldn't be independently verified by The Wall Street Journal. Several computer-security specialists said that data in them appeared to be legitimate but one of the two bureaus denied it had been hacked. The NSA didn't respond to messages seeking comment Friday.

A spokeswoman for Swift said it is aware of the allegations. "There is no impact on SWIFT's infrastructure or data, however we understand that communications between these service bureaus and their customers may previously have been accessed by unauthorized third parties," she said in an email.

The documents say the NSA broke into one of the bureaus that aid transfers.

The data dump is the latest in a string of leaks that appear designed to undermine U.S. intelligence efforts. In August 2013, the Shadow Brokers leaked another trove of alleged NSA attack tools and last month the WikiLeaks website released details on alleged Central Intelligence Agency attack tools. Neither the CIA nor the NSA have ever confirmed the authenticity of those documents. On Thursday, CIA Director Mike Pompeo called WikiLeaks a "nonstate hostile intelligence service often abetted by state actors like Russia."

Little is known about Shadow Brokers, which presents itself as anarchic vendors of government hacking secrets. While no individual involved has been identified as a member of the group, one man, former NSA contractor Harold "Hal" Martin III, was charged last October with stealing classified information from the NSA following an investigation into an August release of documents by The Shadow Brokers. It isn't clear if there is any connection between Mr. Martin and the hacking group, and the Shadow Brokers have continued to operate following Mr. Martin's arrest. Mr. Martin maintains his innocence.

Swift lists about 70 service bureaus world-wide on its website. Of the two financial-services technology firms listed in the Shadow Brokers documents, one is **Eastern Networks (IT) Solution Provider** Corp., known as EastNets, which has a large Middle East presence. The second is **Business Computer Group**, which operates in Panama, Venezuela, and the U.S., according to its website.

The Shadow Brokers documents allegedly show the NSA targeted, but didn't manage to compromise, Business Computer Group, and that it did compromise EastNets—a claim that company disputed.

The information disclosed about the hack appears obsolete and generated from a "low-level internal server" that the company retired in 2013, EastNets Chief Executive Hazem Mulhim said in an email. "The EastNets Network internal Security Unit has ran a complete check of its servers and found no hacker compromise or any vulnerabilities," he said. Business Computer Group didn't respond to messages seeking comment.

Shadow Brokers has provided data in the past that security experts said seemed to be legitimate. Last August, the group released previously undisclosed attack tools that forced networking makers to patch their products.

YUAN

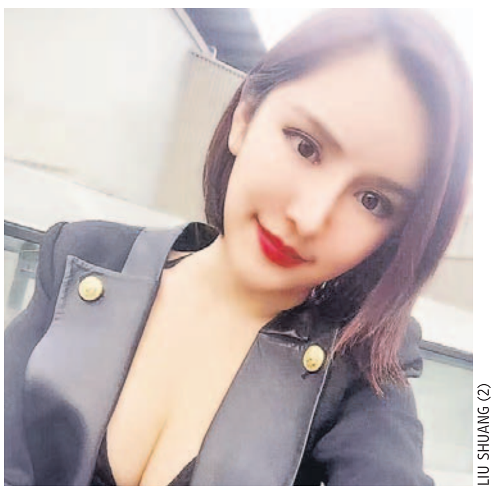
Continued from page B1

in China, according to industry executives and research. They chat, sing and carry on, seeking viewer rewards of virtual gifts that can be changed into cash. Some report making tens of thousands of dollars a month.

The best get product endorsements. In a two-hour session last June, one online celebrity sold 20 million yuan ($2.9 million) in fashion products on the Taobao online marketplace.

One commentator known for her acerbic short videos won backing of nearly $2 million in venture funding last year.

Ms. Deng expects to earn about 600,000 yuan ($90,000) this year, mainly by marketing cosmetic-surgery procedures online. That is a steep improvement, she says, from the 6,000 yuan-a-month entry-level finance job she got after college.



LIU SHUANG (2)

Before and after: Beijing DJ Liu Shuang has had cosmetic surgery to change her appearance.

"This face is worth 600,000 yuan," Ms. Deng says.

Beauty procedures are an "efficient upward-mobility channel" for young women, says Liu Di, founder and chief executive of cosmetic-surgery social-networking app Gengmei.

"For them, it's a better investment than getting into a good school or a good company."

On Gengmei ("prettier"), people interested in cosmetic surgery can share experiences, connect with clinics and get loans for procedures. Gengmei has 18 million users and counts internet giant Tencent Holdings Ltd. as an investor. Asked about the app's popularity, Mr. Liu says Chinese are more judgmental about natural failure than about plastic surgery.

China is the world's third-largest market for cosmetic surgery, behind the U.S. and Brazil, according to China's Association of Plastics and Aesthetics. How much of the spending is driven by social media is hard to quantify.

What researchers call the "online-celebrity economy"—which includes e-commerce sales driven by personalities, virtual gifts and sponsorships—totaled 52.8 billion yuan ($7.66 billion) in 2016, research firm Analysys International estimates. That is bigger than China's film box office.

Young women used to come in with photos of movie stars they wanted to look like, says Luan Jie, a 30-year veteran at the Plastic Surgery Hospital of the Chinese Academy of Medical Science in Beijing. Now they show him photos of stream queens.

Liu Shuang, a 20-year-old music DJ in Beijing who uses social media and live-streaming for promotion, blames the online-star face for her career struggles. Her solution: further surgery—a 12-hour procedure last month to give her what she calls "a mixed-race face."

"Most girls get plastic surgery that makes them look Japanese or Korean. Mine is more exaggerated, so more differentiating," she says. Ms. Liu got a discount for the procedure, which she says would ordinarily cost more than 300,000 yuan, by allowing the clinic to use her before-and-after photos.

As with other investments, returns aren't guaranteed. Audiences are tiring of repetitive content and faces, industry people say. Audience numbers and revenue for live-streaming shows are falling this year, says Jason Yang, founder of Mars Digital Entertainment, an online talent agency with 2,000 clients, including both Ms. Deng and Ms. Liu.

Recent government actions to remove edgy content haven't helped. Ms. Liu, who often posts suggestive photos and videos, had her accounts deleted on two popular sites.

Her answer to these challenges: more plastic surgery.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.

Avaya's Chapter 11 Plan Axes Debt Load

By Tom Corrigan

Bankrupt telecommunications firm **Avaya** Inc. has filed a restructuring plan that, if approved by a judge, would cut more than $4 billion in debt.

In court papers filed Thursday with the U.S. Bankruptcy Court in New York, Avaya outlined for the first time exactly how it proposes to reshape its balance sheet. The plan is the focal point of the chapter 11 process, which Avaya is using to restructure its entire business.

Kevin Kennedy, Avaya's chief executive, on Thursday called the plan "a crucial step forward in our effort to recapitalize Avaya's balance sheet and create a stronger and healthier company."

Avaya sought chapter 11 protection in January to restructure a debt load that tops $6 billion, the product of a 2007 leveraged buyout led by private-equity firms **TPG** and **Silver Lake**. The plan, should it win final court approval, would hand control of the company to its senior lenders by exchanging much of the lenders' debt for Avaya's new equity.

Top-ranking lenders would share a 95% stake in the restructured business, plus as much as $1.4 billion in cash. More-junior lenders would receive the remaining 5% stake.

General unsecured creditors are slated to take home about $25 million in cash, equating to a recovery of 10% of their claims, court papers show. However, Avaya said this estimate could be materially lower if the amount of unsecured claims turns out to be greater than expected.

The company said it would continue to honor pension obligations as well as collective-bargaining agreements with union-represented employees.

A hearing on a version of the plan meant to inform creditors of their recoveries is set for May 25. Once creditors have had time to review and vote on the plan, Avaya said it expects to return to court in August to seek final approval.

Avaya hopes to emerge from bankruptcy before the end of the year, court papers show.

During a hearing Friday, Judge Stuart Bernstein, who is overseeing the chapter 11 case, approved bonuses valued at up to $2.9 million for the company's executives. The bonuses, tied to earnings targets, had drawn scrutiny from a federal bankruptcy watchdog.

Fund Seeks Cheap Private Equity

Giant U.S. pension is tired of paying big fees to buyout firms, looks at alternatives

By Dawn Lim and Heather Gillers

The largest public pension fund in the U.S. is studying dramatic changes to how it invests in private equity that would slash payments to Wall Street managers, according to people familiar with the matter.

The internal review is the latest effort by the **California Public Employees' Retirement System** to re-evaluate its more expensive bets as it wrestles with a cash crunch, a widening funding deficit and declining estimates of future earnings from stocks and bonds. Calpers—like many pensions—doesn't have enough assets on hand to pay for all future obligations.

The options under consideration could give the $315 billion retirement system a greater hand in selecting and managing its investments in private companies, according to these people.

They include buying a private-equity manager; creating a separate company outside Calpers that would make private-equity wagers; or acting as the sole investor in more customized accounts with outside managers, these people said. Calpers also could decide to ask its staff members to make private-equity investments on their own.

Private-equity firms typically buy companies using money from pension funds and other investors, hoping to earn more in a later sale or public offering. Most funds require investors to pay up to 2% of assets under management and share as much as 20% of profits. Nearly 85% of Calpers's private-equity portfolio is currently held in such traditional funds.

"We are exploring a number of options, and no conclusions have been made," said spokesman Brad Pacheco. "We plan to discuss the review with our board over the summer."

It isn't yet known whether any of these moves would reduce the fund's total private-equity portfolio, which amounted to $25.7 billion as of January. That portfolio represents about 8% of its assets, down from more than 12% in 2013.

The hope, though, is that a new approach would reduce costs. Even though private equity has outperformed other Calpers assets over a recent two-decade period, no other investment has been so expensive. Private-equity returns were 12.3% in the 20-year period ended June 30, 2015, but they would have been 19.3% without fees and costs.

Calpers's decision will be closely watched in the pension world, where direct private-equity investments are more common among Canadian pensions than those in the U.S.

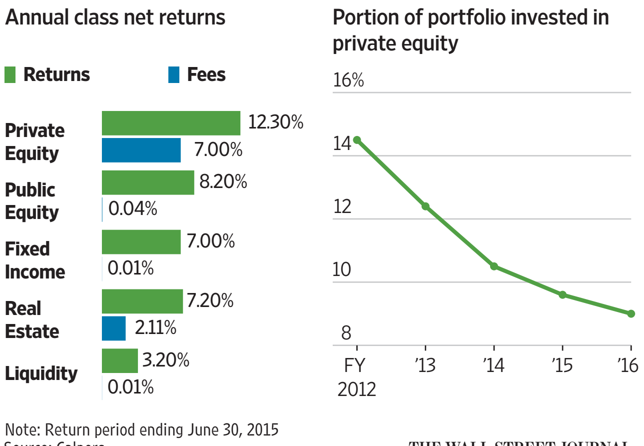
Calpers, which typically acts as a bellwether for smaller funds, already has made other decisions to eliminate all hedge-fund holdings and sever ties with roughly two-thirds of the private-equity firms that handle its money. It oversees retirement assets for 1.8 million active or retired police officers, firefighters and other public employees.

Calpers's private-equity review, which began in late 2016, is being led by Chief Investment Officer Ted Eliopoulos and investment director John Cole, according to people familiar with the matter. The person who was in charge of the private-equity portfolio, Real Desrochers, left Calpers this month to join an unnamed financial institution overseas. His departure wasn't related to the review, said people familiar with the matter.

The subject of fees paid to Calpers's private-equity managers surfaced as a prominent issue after an April 2015 board meeting when a top pension official acknowledged the fund wasn't able to provide a full accounting of all private-equity costs.

Expensive Returns

Private equity was Calpers's best-performing and priciest asset over a 20-year period.



Note: Return period ending June 30, 2015
Source: Calpers

THE WALL STREET JOURNAL.

The Costly Part of Trading Low-Cost ETFs

The costs of trading are one of the worst destroyers of investment returns. That is a fact of life in the markets, although it is easy to overlook in exchange-traded funds, in which commissions and management fees have shrunk almost to zero.

And during placid markets, when buying or selling tends to become cheaper, investors can form a bad habit of ignoring the costs of trading. That can come back to haunt them when turbulence resumes and trading becomes more expensive.

THE INTELIGENT INVESTOR
JASON ZWEIG

Often dirt cheap to own, ETFs can still be costly to buy and sell. In a study just published in the Financial Analysts Journal, portfolio manager Antti Petajisto of LMR Partners, a London-based hedge fund, looked at about 1,800 ETFs from 2007 to 2014. He wanted to see how often, and how much, their market prices differed from the value of their underlying assets.

The average difference between price and value among all U.S.-traded ETFs was only 0.06% from 2007 to 2014. The harder the underlying securities are to trade, however, the bigger that gap gets.

Market prices exceeded net asset values by an average of 0.18% among precious-metal funds, 0.29% in short-term bond funds, 0.31% in corporate, high-yield and emerging-market bond funds, and as much as 0.37% in foreign funds investing in small stocks. At individual funds they can be much wider.

"I was surprised both by how large and how common these differences are," said Mr. Petajisto. Even if you trade only a few times a year, "your ETF portfolio could easily be costing you 1% or 2%, and you might not even know it."

He estimates that the hidden costs of trading ETFs exceed $18 billion annually, a trifle in the trillions of dollars of combined trading in these funds, but real money to those who leave it on the table.

These costs lurk in the normally tiny space between the market price of an ETF and the per-share value of the stocks, bonds and other assets it holds. The market price is the number most commonly quoted, including by most brokers; the value of the underlying assets is much less widely available. So the gap between the two numbers is hard for most investors to see.

A broker making a market in an ETF will buy up a fixed amount of the portfolio's underlying assets in proportions matching their weights within the fund. The ETF's manager then creates new shares in exchange for that equal amount of its holdings. Normally, the fund's new shares and the basket of its assets will be almost identical in price. But fees and transaction costs aren't zero, and it can take time to round up securities that rarely trade, so the prices seldom match to the penny. Think of all this as a single grain of sand in the gears that manufacture an ETF.

CHRISTOPHE VORLET

During turbulent markets or in thinly traded securities such as municipal bonds or stocks in developing nations, that swap may come off at widely divergent prices. That is a cost of putting illiquid assets into a liquid fund.

When enthusiasm pushes an ETF's share price above the value of its holdings, that is called a premium; when the fund's shares trade for less than its underlying assets are worth, that is a discount.

Before trading, check the fund's "intraday indicative value," a real-time estimate of what its holdings are worth. You can do that on Yahoo Finance by entering the fund's ticker followed by "-IV" or view it on Morningstar.com's quote page for each ETF.

Right now, with markets extraordinarily calm, these costs are minimal. Only about two dozen out of nearly 2,000 ETFs in the U.S. have traded at average premiums or discounts of 1% or more in the past month, according to data from ETF.com. But that is unusual—and probably unsustainable.

Big, popular funds such as iShares Core U.S. Aggregate Bond, SPDR S&P 500 and Vanguard Total Stock Market ETF normally trade within a few hundredths of a percentage point of their underlying value.

To trade, set a limit order—a price above which you won't buy or below which you won't sell—within a penny or two of indicative value.

If you invest through a financial adviser, make sure he or she uses limit orders and always checks indicative value before trading, urges Samuel Lee of SVRN Asset Management in Chicago.

Avoid volatile days, said Mr. Petajisto, when premiums and discounts can shoot from fractions of a percentage point to 5% or more.

Typically, several ETFs from different managers invest in similar or identical assets. Track them over time so you don't end up buying one at a big premium.

Finally, favor widely traded ETFs that invest in big, broad markets. The narrower the fund, the wider those hidden costs tend to be. If you must buy a specialized fund, monitor the gap between price and value to see if you can grab it at a discount.

FINANCE WATCH

CREDIT SUISSE

Top Executives Call For Cuts in Bonuses

Credit Suisse Group AG Chief Executive Tidjane Thiam and other top executives at the bank have proposed cutting their bonuses by 40% and freezing compensation for the board of directors, addressing shareholder concerns over hefty payouts announced for executives last month.

Credit Suisse last month said it had increased its bonus pool by 6% in 2016 to more than 3 billion Swiss francs ($3 billion), despite posting a sizable loss. Mr. Thiam's pay jumped, too, as the bank cited strong progress in meeting its strategic objectives.

Mr. Thiam earned 11.9 million francs in total compensation last year, his first full year at the Swiss bank. That was up from 4.6 million francs in 2015 for the half-year he was there.

A former insurance executive and consultant, Mr. Thiam joined the bank as CEO on July 1, 2015. Credit Suisse posted a pretax loss of 2.3 billion francs in 2016, largely due to charges related to litigation in the U.S.

Credit Suisse said Friday that since the initial compensation announcement, it "conducted a thorough engagement with many of Credit Suisse's shareholders."

"Feedback on the group's strategy and its execution has been supportive. There were, however, some shareholders who expressed reservations relating to the variable compensation granted to the executive board," Credit Suisse said.

—Brian Blackstone

ANDREW HARRER/BLOOMBERG NEWS

Credit Suisse CEO Tidjane Thiam's total pay jumped for 2016.

SAUDI ARAMCO

CEO Is Upbeat On Oil Demand

The chief executive of Saudi Arabia's oil company said Friday that he doesn't believe global demand for oil will plateau soon, and cautioned that producers will eventually have to add capacity to meet rising demand.

In a discussion at the Center on Global Energy Policy at Columbia University, Amin Nasser, the top executive of **Saudi Arabian Oil** Co., known as Saudi Aramco, cast doubt on predictions by some companies and experts that oil demand could peak in the next decade or two.

"Our belief is peak demand is not in sight," he said.

Saudi Aramco has said it plans to list shares on a Western stock exchange. Mr. Nasser said those plans remain on track. The company has said the target date for the IPO is the second half of 2018.

Mr. Nasser said he believes the oil market is starting to tighten as supply and demand come more in line. He cited drawdowns from global storage and tanker reserves, and continued cuts to production by the Organization of the Petroleum Exporting Countries, which come ahead of increased demand for gasoline in the U.S. during the summer.

"We are getting close to rebalancing supply and demand," Mr. Nasser said.

—Christopher M. Matthews

MARKETS DIGEST

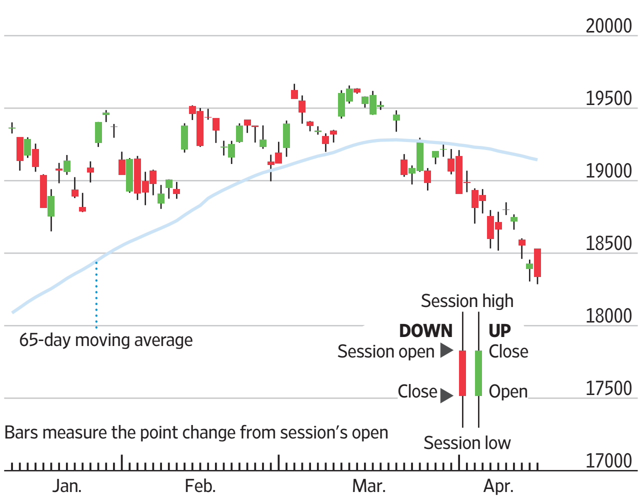
Data as of Friday, April 14, 2017

Nikkei 225 Index

18335.63 ▼91.21, or 0.49%

High, low, open and close for each trading day of the past three months.

Year-to-date		▼ 4.07%
52-wk high/low	19633.75	14952.02
All-time high	38915.87	12/29/89



STOXX 600 Index

380.58 Market Closed

High, low, open and close for each trading day of the past three months.

Year-to-date		▲ 5.30%
52-wk high/low	381.90	308.75
All-time high	414.06	4/15/15

S&P 500 Index

4 p.m. New York time

2328.95 Market Closed

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio *	24.45	23.62
P/E estimate *	18.25	17.41
Dividend yield	1.98	2.20
All-time high:	2395.96, 03/01/17	

* P/E data based on as-reported earnings from Birinyi Associates Inc.

International Stock Indexes

Data as of 4 p.m. New York time

Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2649.04	−1.26	**−0.05**	2197.91	2704.60	4.6
	MSCI EAFE	1777.63	−2.23	**−0.13**	1520.94	1812.06	5.6
	MSCI EM USD	960.43	−2.42	**−0.25**	781.84	973.08	11.4
Americas	**DJ Americas**	562.20	...	**Closed**	480.83	577.52	4.0
Brazil	**Sao Paulo Bovespa**	62826.28	...	**Closed**	48471.71	69052.03	4.3
Canada	**S&P/TSX Comp**	15535.48	...	**Closed**	13563.84	15922.37	1.6
Mexico	**IPC All-Share**	48955.82	...	**Closed**	44282.03	49637.93	7.3
Chile	**Santiago IPSA**	3750.31	...	**Closed**	3054.30	3782.66	16.4
U.S.	**DJIA**	20453.25	...	**Closed**	17140.24	21115.55	3.5
	Nasdaq Composite	5805.15	...	**Closed**	4594.44	5914.34	7.8
	S&P 500	2328.95	...	**Closed**	2000.54	2395.96	4.0
	CBOE Volatility	15.96	...	**Closed**	10.58	25.76	13.7
EMEA	**Stoxx Europe 600**	380.58	...	**Closed**	308.75	381.90	5.3
	Stoxx Europe 50	3146.65	...	**Closed**	2636.71	3163.46	4.5
France	**CAC 40**	5071.10	...	**Closed**	3984.72	5135.28	4.3
Germany	**DAX**	12109.00	...	**Closed**	9268.66	12312.87	5.5
Israel	**Tel Aviv**	1378.66	...	**Closed**	1378.66	1502.66	−6.3
Italy	**FTSE MIB**	19773.68	...	**Closed**	15103.58	20492.94	2.8
Netherlands	**AEX**	515.77	...	**Closed**	411.62	519.16	6.7
Russia	**RTS Index**	1073.15	−16.24	**−1.49**	879.55	1195.61	−6.9
Spain	**IBEX 35**	10326.10	...	**Closed**	7645.50	10529.00	10.4
Switzerland	**Swiss Market**	8629.02	...	**Closed**	7593.20	8704.39	5.0
South Africa	**Johannesburg All Share**	53510.22	...	**Closed**	48935.90	54474.09	5.6
Turkey	**BIST 100**	90063.69	193.01	**0.21**	71594.98	91240.45	15.3
U.K.	**FTSE 100**	7327.59	...	**Closed**	5923.53	7429.81	2.6
Asia-Pacific	**DJ Asia-Pacific TSM**	1545.47	...	**Closed**	1324.15	1569.47	8.6
Australia	**S&P/ASX 200**	5889.90	...	**Closed**	5103.30	5934.00	4.0
China	**Shanghai Composite**	3246.07	−29.89	**−0.91**	2806.91	3288.97	4.6
Hong Kong	**Hang Seng**	24261.66	...	**Closed**	19694.33	24593.12	10.3
India	**S&P BSE Sensex**	29461.45	...	**Closed**	25101.73	29974.24	10.6
Indonesia	**Jakarta Composite**	5616.55	...	**Closed**	4704.22	5680.24	6.0
Japan	**Nikkei Stock Avg**	18335.63	−91.21	**−0.49**	14952.02	19633.75	−4.1
Malaysia	**Kuala Lumpur Composite**	1730.99	−7.19	**−0.41**	1614.90	1754.67	5.4
New Zealand	**S&P/NZX 50**	7229.80	...	**Closed**	6664.21	7571.11	5.1
Pakistan	**KSE 100**	47577.06	−373.52	**−0.78**	33572.13	50192.36	−0.5
Philippines	**PSEi**	7629.64	...	**Closed**	6563.67	8102.30	11.5
Singapore	**Straits Times**	3169.24	...	**Closed**	2729.85	3187.51	10.0
South Korea	**Kospi**	2134.88	−13.73	**−0.64**	1925.24	2178.38	5.4
Taiwan	**Weighted**	9732.93	−103.75	**−1.05**	8053.69	9972.49	5.2
Thailand	**SET**	1589.50	...	**Closed**	1381.69	1591.00	3.0

Source: SIX Financial Information; WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points: Latest	Previous	Month Ago	Year ago	Yield: Previous	Month ago	Year ago
5.250	**Australia** 2	**1.635**	**42.6**	42.6	50.5	**119.3**	**1.635**	1.890	**1.967**
4.750	10	**2.482**	**24.8**	24.8	32.9	**74.0**	**2.482**	2.931	**2.534**
3.000	**Belgium** 2	**-0.570**	**-177.9**	-177.9	-187.7	**-123.3**	**-0.570**	-0.493	**-0.458**
0.800	10	**0.761**	**-147.3**	-147.3	-164.1	**-137.5**	**0.761**	0.961	**0.419**
0.000	**France** 2	**-0.465**	**-167.5**	-167.5	-186.8	**-121.1**	**-0.465**	-0.484	**-0.437**
0.250	10	**0.926**	**-130.8**	-130.8	-150.3	**-128.4**	**0.926**	1.100	**0.510**
0.000	**Germany** 2	**-0.863**	**-207.2**	-207.2	-219.3	**-127.8**	**-0.863**	-0.809	**-0.504**
0.250	10	**0.191**	**-204.3**	-204.3	-215.5	**-162.2**	**0.191**	0.447	**0.172**
0.300	**Italy** 2	**-0.034**	**-124.3**	-124.3	-135.5	**-74.2**	**-0.034**	0.029	**0.032**
2.200	10	**2.313**	**7.8**	7.8	-24.5	**-44.1**	**2.313**	2.358	**1.353**
0.100	**Japan** 2	**-0.222**	**-143.1**	-142.9	-164.1	**-102.8**	**-0.220**	-0.257	**-0.254**
0.100	10	**0.013**	**-222.1**	-220.8	-251.2	**-188.4**	**0.026**	0.090	**-0.090**
4.000	**Netherlands** 2	**-0.775**	**-198.4**	-198.4	-216.9	**-127.7**	**-0.775**	-0.784	**-0.503**
0.750	10	**0.439**	**-179.6**	-179.6	-188.6	**-153.7**	**0.439**	0.716	**0.257**
4.750	**Portugal** 2	**0.328**	**-88.1**	-88.1	-141.7	**-42.0**	**0.328**	-0.032	**0.354**
4.125	10	**3.867**	**163.3**	163.3	134.4	**127.8**	**3.867**	3.946	**3.072**
2.750	**Spain** 2	**-0.191**	**-140.0**	-140.0	-148.1	**-78.2**	**-0.191**	-0.096	**-0.007**
1.500	10	**1.665**	**-56.9**	-56.9	-73.3	**-29.5**	**1.665**	1.870	**1.499**
4.250	**Sweden** 2	**-0.680**	**-188.9**	-188.9	-194.2	**-119.1**	**-0.680**	-0.558	**-0.417**
1.000	10	**0.508**	**-172.6**	-172.6	-185.2	**-97.3**	**0.508**	0.750	**0.821**
1.750	**U.K.** 2	**0.118**	**-109.2**	-109.2	-131.2	**-31.0**	**0.118**	0.072	**0.464**
4.250	10	**1.046**	**-118.8**	-118.8	-137.6	**-34.0**	**1.046**	1.226	**1.454**
1.250	**U.S.** 2	**1.210**	**...**	...	...	**...**	**1.210**	1.385	**0.774**
2.250	10	**2.234**	**...**	...	...	**...**	**2.234**	2.602	**1.794**

Commodities

Prices of futures contracts with the most open interest — 4 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 4/13/2017

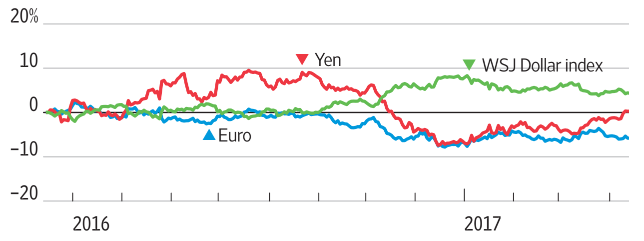
Commodity	Exchange	Last price	One-Day Change: Net	Percentage	Year high	Year low
Corn (cents/bu.)*	CBOT	377.75	1.75	0.47%	393.75	361.75
Soybeans (cents/bu.)*	CBOT	968.25	9.50	0.99	1,092.50	941.25
Wheat (cents/bu.)*	CBOT	442.75	-3.50	-0.78%	488.75	429.50
Live cattle (cents/lb.)*	CME	114.700	0.350	0.31	115.525	103.150
Cocoa ($/ton)*	ICE-US	1,914	-53	-2.69	2,270	1,879
Coffee (cents/lb.)*	ICE-US	141.20	0.60	0.43	161.55	138.55
Sugar (cents/lb.)*	ICE-US	16.66	-0.08	-0.48	20.81	16.20
Cotton (cents/lb.)*	ICE-US	76.60	0.37	0.49	80.27	71.86
Robusta coffee ($/ton)*	ICE-EU	2156.00	-27.00	-1.24	2,283.00	2,110.00
Copper ($/lb.)*	COMEX	2.5665	0.0215	0.84	2.8360	2.4800
Gold ($/troy oz.)*	COMEX	1288.70	10.60	0.83	1,290.70	1,152.20
Silver ($/troy oz.)*	COMEX	18.495	0.195	1.07	18.605	16.000
Aluminum ($/mt)*	LME	1,902.50	-14.00	-0.73	1,972.00	1,688.50
Tin ($/mt)*	LME	19,700.00	-325.00	-1.62	21,225.00	18,760.00
Copper ($/mt)*	LME	5,686.00	-25.00	-0.44	6,156.00	5,518.00
Lead ($/mt)*	LME	2,254.00	6.00	0.27	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,585.50	2.50	0.10	2,958.50	2,555.00
Nickel ($/mt)*	LME	9,755.00	unch.	unch.	11,095.00	9,430.00
Rubber (Y.01/ton)	TCE	218.50	-4.50	-2.02	n.a.	n.a.
Palm oil (MYR/mt)*	MDEX	2513.00	-26.00	-1.02	3,004.00	2,509.00
Crude oil ($/bbl.)*	NYMEX	53.50	-0.02	-0.04	57.95	47.58
NY Harbor ULSD ($/gal.)*	NYMEX	1.6550	-0.0047	-0.28	1.7833	1.4910
RBOB gasoline ($/gal.)*	NYMEX	1.7373	-0.0073	-0.42	1.9012	1.5908
Natural gas ($/mmBtu)*	NYMEX	3.306	0.044	1.35	3.5410	2.8170
Brent crude ($/bbl.)*	ICE-EU	55.80	-0.06	-0.11	59.89	50.00
Gas oil ($/ton)*	ICE-EU	497.25	-1.25	-0.25	525.00	446.25

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

London close on April 14

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Fri in US$	Fri per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0660	15.1446	**−4.6**
Brazil real	0.3180	3.1450	**−3.4**
Canada dollar	0.7509	1.3318	**−0.9**
Chile peso	0.001539	649.70	**−3.0**
Colombia peso	0.0003488	2867.00	**−4.5**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0539	18.5504	**−10.5**
Peru sol	0.3073	3.2543	**−2.9**
Uruguay peso-e	0.0350	28.570	**−2.7**
Venezuela bolivar	0.098626	10.14	**1.4**
Asia-Pacific			
Australia dollar	0.7581	1.3191	**−5.0**
China yuan	0.1452	6.8854	**−0.9**
Hong Kong dollar	0.1287	7.7727	**0.2**
India rupee	0.0155	64.4849	**−5.1**
Indonesia rupiah	0.0000754	13268	**−1.9**
Japan yen	0.009207	108.62	**−7.2**
Kazakhstan tenge	0.003203	312.25	**−6.4**
Macau pataca	0.1249	8.0079	**1.2**
Malaysia ringgit-c	0.2269	4.4075	**−1.7**
New Zealand dollar	0.7006	1.4273	**−1.2**
Pakistan rupee	0.0095	104.767	**0.4**
Philippines peso	0.0202	49.444	**−0.3**
Singapore dollar	0.7157	1.3972	**−3.5**
South Korea won	0.0008789	1137.80	**−5.8**
Sri Lanka rupee	0.0065569	152.51	**2.7**
Taiwan dollar	0.03298	30.322	**−6.6**
Thailand baht	0.02912	34.340	**−4.1**
Europe			
Bulgaria lev	0.5426	1.8430	**−0.8**
Croatia kuna	0.1429	6.999	**−2.4**
Euro zone euro	1.0627	0.9410	**−1.0**
Czech Rep. koruna-b	0.0398	25.103	**−2.3**
Denmark krone	0.1428	7.0006	**−1.0**
Hungary forint	0.003397	294.34	**0.02**
Iceland krona	0.008981	111.35	**−1.4**
Norway krone	0.1166	8.5733	**−0.8**
Poland zloty	0.2503	3.9947	**−4.6**
Russia ruble-d	0.01779	56.227	**−8.2**
Sweden krona	0.1108	9.0285	**−0.9**
Switzerland franc	0.9964	1.0036	**−1.5**
Turkey lira	0.2721	3.6754	**4.3**
Ukraine hryvnia	0.0372	26.8725	**−0.8**
U.K. pound	1.2531	0.7980	**−1.5**
Middle East/Africa			
Bahrain dinar	2.6524	0.3770	**−0.04**
Egypt pound-a	0.0551	18.1455	**0.1**
Israel shekel	0.2734	3.6581	**−4.9**
Kuwait dinar	3.2798	0.3049	**−0.2**
Oman sul rial	2.5974	0.3850	**0.01**
Qatar rial	0.2747	3.640	**−0.01**
Saudi Arabia riyal	0.2666	3.7504	**−0.01**
South Africa rand	0.0745	13.4201	**−2.0**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	90.05	−0.17	−0.18	**−3.10**

Sources: Tullett Prebon, WSJ Market Data Group

Cross rates

London close on Apr 14

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3191	1.6532	1.3146	0.0121	0.1697	1.4018	0.9906	...
Canada	1.3318	1.6686	1.3268	0.0123	0.1713	1.4150	...	1.0094
Euro	0.9410	1.1793	0.9377	0.0087	0.1211	...	0.7066	0.7133
Hong Kong	7.7727	9.7399	7.7450	0.0716	...	8.2598	5.8366	5.8918
Japan	108.6170	136.0900	108.2300	...	13.9740	115.4100	81.5700	82.3400
Switzerland	1.0036	1.2577	...	0.0092	0.1291	1.0665	0.7537	0.7607
U.K.	0.7980	...	0.7951	0.0073	0.1027	0.8481	0.5992	0.6049
U.S.	...	1.2531	0.9964	0.0092	0.1287	1.0627	0.7509	0.7581

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**0.99444%**	0.43625%
Three month	**1.15844**	0.63310
Six month	**1.40322**	0.90190
One year	**1.77178**	1.22125
Euro Libor		
One month	**-0.39143%**	-0.34300%
Three month	**-0.35786**	-0.26500
Six month	**-0.25657**	-0.15143
One year	**-0.13471**	-0.02886
Euribor		
One month	**-0.37200%**	-0.34200%
Three month	**-0.33100**	-0.24900
Six month	**-0.24600**	-0.14000
One year	**-0.12000**	-0.01100
Yen Libor		
One month	**-0.02393%**	-0.04771%
Three month	**0.01264**	-0.01414
Six month	**0.03357**	0.01764
One year	**0.13786**	0.10514
	Offer	**Bid**
Eurodollars		
One month	**1.1000%**	1.0000%
Three month	**1.2500**	1.1500
Six month	**1.3500**	1.2500
One year	**1.6500**	1.5500
	Latest	**52 wks ago**
Prime rates		
U.S.	**4.00%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	2.00
U.S. discount	**1.50**	1.00
Fed-funds target	**0.75-1.00**	0.25-0.50
Call money	**2.75**	2.25
Overnight repurchase rates		
U.S.	**0.91%**	0.43%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

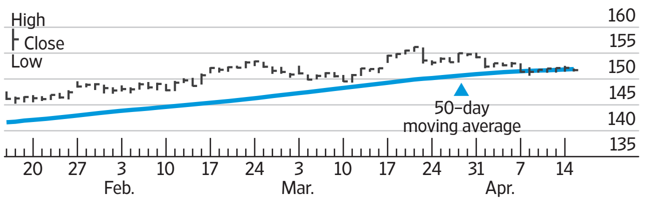
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
	Asia Titans				
HK$	AIAGroup	**1299**	49.85	...	13.94
¥	AstellasPharma	**4503**	1506.50	-0.50	-7.21
AU$	AustNZBk	**ANZ**	31.90	-0.72	4.87
AU$	BHP	**BHP**	24.31	-3.99	-2.99
HK$	BankofChina	**3988**	3.71	...	7.85
HK$	CKHutchison	**0001**	94.80	-0.73	7.85
HK$	CNOOC	**0883**	9.43	-0.21	-2.78
AU$	CSL	**CSL**	127.98	0.21	27.46
¥	Canon	**7751**	3375.00	-0.27	2.43
¥	CentralJapanRwy	**9022**	18175	-1.09	-5.49
HK$	ChinaConstructnBk	**0939**	6.26	0.48	4.86
HK$	ChinaLifeInsurance	**2628**	23.05	-0.65	14.11
HK$	ChinaMobile	**0941**	84.50	-0.41	2.80
HK$	ChinaPetro&Chem	**0386**	6.37	-0.47	15.82
AU$	CmwlthBkAust	**CBA**	86.25	-0.50	4.66
¥	EastJapanRailway	**9020**	9554.00	-1.32	-5.41
¥	Fanuc	**6954**	21945	-0.14	10.75
¥	Hitachi	**6501**	572.70	-0.28	-9.38
TW$	Hon Hai Precisn	**2317**	96.70	-1.83	14.85
¥	HondaMotor	**7267**	3117.00	-0.57	-8.73
KRW	HyundaiMtr	**005380**	142500	...	-2.40
HK$	Ind&Comml	**1398**	5.02	...	7.96
¥	JapanTobacco	**2914**	3676.00	0.80	-4.37
¥	KDDI	**9433**	2859.00	-0.49	-3.40
¥	Mitsubishi	**8058**	2336.50	-0.02	-6.16
¥	MitsubishiElectric	**6503**	1475.00	-1.54	-9.48
¥	MitsubishiUFJFin	**8306**	652.20	-0.38	-9.44
¥	Mitsui	**8031**	1533.50	-0.03	-4.57
¥	Mizuho Fin	**8411**	189.10	-0.47	-9.87
¥	NTTDoCoMo	**9437**	2566.00	-1.06	-3.64
AU$	NatAustBnk	**NAB**	33.09	-0.39	7.89
¥	NipponTeleg	**9432**	4749.00	-1.60	-3.32
¥	NissanMotor	**7201**	1012.00	0.15	-13.91
¥	Panasonic	**6752**	1223.50	-0.41	2.86
HK$	PingAnInsofChina	**2318**	42.35	-0.35	9.15
$	RelianceIndsGDR	**RIGD**	41.75	0.72	32.33
KRW	SamsungElectronics	**005930**	2101000	-0.94	16.59
¥	Seven&I Hldgs	**3382**	4572.00	-1.00	2.67
¥	SoftBankGroup	**9984**	7702.00	-0.89	-0.81
¥	Sony	**6758**	3422.00	-0.70	4.49
¥	Sumitomo Mitsui	**8316**	3822.00	-0.16	-14.30
HK$	SunHngKaiPrp	**0016**	119.30	1.36	21.73
TW$	TaiwanSemiMfg	**2330**	189.00	-1.31	4.13
¥	TakedaPharm	**4502**	5138.00	-0.93	6.27
HK$	TencentHoldings	**0700**	230.60	-0.17	21.56
¥	TokioMarineHldg	**8766**	4526.00	-0.53	-5.63
¥	ToyotaMtr	**7203**	5798.00	1.17	-15.70
AU$	Wesfarmers	**WES**	45.14	0.36	7.12
AU$	WestpacBanking	**WBC**	34.75	-0.52	6.60
AU$	Woolworths	**WOW**	26.47	-0.41	9.83
	Stoxx 50				
CHF	ABB	**ABBN**	22.99	-0.48	7.03
€	ASMLHolding	**ASML**	122.00	0.16	14.39
€	AXA	**CS**	23.25	-1.40	-3.06
€	AirLiquide	**AI**	107.50	0.05	1.75
€	Allianz	**ALV**	170.75	-0.38	8.76
€	AB InBev	**ABI**	103.25	-0.29	2.69
£	AstraZeneca	**AZN**	4743.00	0.18	6.88
€	BASF	**BAS**	90.77	-0.74	2.79
€	BNP Paribas	**BNP**	58.30	-1.35	-3.72
£	BT Group	**BT.A**	313.10	-0.82	-14.66
€	BancoBilVizAr	**BBVA**	6.86	-1.35	7.96
€	BancoSantander	**SAN**	5.49	-1.37	10.65
£	Barclays	**BARC**	212.65	-0.49	-4.83
€	Bayer	**BAYN**	106.55	0.28	7.49
£	BP	**BP.**	471.10	-0.30	-7.55
£	BritishAmTob	**BATS**	5383.00	0.02	16.48
€	Daimler	**DAI**	66.42	-0.60	-6.08
€	DeutscheTelekom	**DTE**	16.05	-0.50	-1.83
£	Diageo	**DGE**	2298.00	-0.30	8.91
€	ENI	**ENI**	14.99	-1.64	-3.10
£	GlaxoSmithKline	**GSK**	1647.00	0.09	5.44
£	HSBC Hldgs	**HSBA**	643.90	-1.74	-1.98
€	INGGroep	**INGA**	13.81	-0.68	3.29
£	ImperialBrands	**IMB**	3933.50	0.38	11.04
€	IntesaSanpaolo	**ISP**	2.44	-1.61	0.49
€	LVMHMoetHennessy	**MC**	208.60	-0.12	14.99
£	LloydsBankingGroup	**LLOY**	62.71	0.27	0.32
€	LOreal	**OR**	181.05	-0.49	4.41
£	NationalGrid	**NG.**	1036.00	-0.48	8.87
CHF	Nestle	**NESN**	76.40	-0.33	4.59
CHF	Novartis	**NOVN**	73.90	-0.40	-0.27
DKK	NovoNordiskB	**NOVO-B**	253.50	0.52	-0.47
£	Prudential	**PRU**	1663.50	-0.03	2.21
£	ReckittBenckiser	**RB.**	7444.00	0.64	8.10
£	RioTinto	**RIO**	3121.00	-0.76	-1.19
CHF	RocheHldgctf	**ROG**	256.70	-0.43	10.36
£	RoyDtchShell A	**RDSA**	2106.50	-1.15	-6.06
€	SAP	**SAP**	91.10	-0.43	10.01
€	Sanofi	**SAN**	85.33	0.11	10.96
€	SchneiderElectric	**SU**	68.38	-0.52	3.43
€	Siemens	**SIE**	126.55	-0.59	8.35
CHF	Syngenta	**SYNN**	462.20	0.33	14.83
€	Telefonica	**TEF**	10.23	-0.87	16.04
€	Total	**FP**	48.03	-1.25	-0.43
CHF	UBSGroup	**UBSG**	15.45	-0.58	-3.13
€	Unilever	**UNA**	47.97	-0.66	22.64
£	Unilever	**ULVR**	4033.50	-0.79	22.51
€	Vinci	**DG**	73.85	0.22	14.14
£	VodafoneGroup	**VOD**	204.00	-0.15	2.08
CHF	ZurichInsurance	**ZURN**	266.70	-0.30	-4.89
	DJIA 4/13/17				
$	AmericanExpress	**AXP**	75.80	-1.15	2.32
$	Apple	**AAPL**	141.05	-0.53	21.78
$	Boeing	**BA**	175.62	-0.24	12.81
$	Caterpillar	**CAT**	93.10	-1.86	0.39
$	Chevron	**CVX**	106.10	-2.63	-9.86
$	CiscoSystems	**CSCO**	32.42	-0.61	7.28
$	Coca-Cola	**KO**	42.79	-0.35	3.21
$	Disney	**DIS**	113.20	0.14	8.62
$	DuPont	**DD**	77.44	-1.26	5.50
$	ExxonMobil	**XOM**	81.69	-1.54	-9.49
$	GeneralElec	**GE**	29.56	-0.71	-6.46
$	GoldmanSachs	**GS**	223.32	-1.08	-6.74
$	HomeDepot	**HD**	145.91	-0.43	8.82
$	Intel	**INTC**	35.25	-1.07	-2.81
$	IBM	**IBM**	169.53	-0.66	2.13
$	JPMorganChase	**JPM**	84.40	-1.17	-2.19
$	J&J	**JNJ**	124.99	-0.33	8.49
$	McDonalds	**MCD**	130.76	-0.38	7.43
$	Merck	**MRK**	62.61	-0.70	6.35
$	Microsoft	**MSFT**	64.95	-0.43	4.52
$	Nike	**NKE**	55.34	-0.41	8.87
$	Pfizer	**PFE**	33.88	-0.12	4.31
$	Procter&Gamble	**PG**	90.03	-0.31	7.08
$	3M	**MMM**	188.65	-0.55	5.64
$	Travelers	**TRV**	120.53	-0.77	-1.54
$	UnitedTech	**UTX**	112.09	-0.13	2.25
$	UnitedHealth	**UNH**	164.96	-0.36	3.07
$	Visa	**V**	88.87	0.21	13.91
$	Verizon	**VZ**	48.62	-0.61	-8.92
$	Wal-Mart	**WMT**	73.15	-0.39	5.83

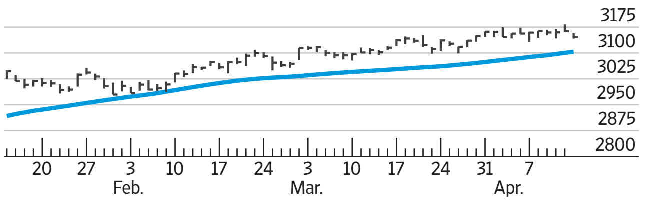
Asia Titans 50

Last: **151.71** ▼ 0.44, or 0.29% — YTD ▲ 7.6%



Stoxx 50

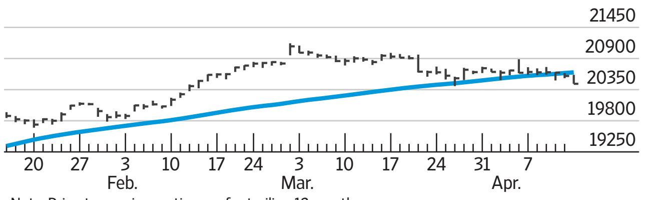
Last: **3146.65** Market Closed — YTD ▲ 4.5%



Dow Jones Industrial Average

P/E: 21

Last: **20453.25** Market Closed — YTD ▲ 3.5%



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

Commodities Under Fire

A contrarian researcher argues the asset class isn't appropriate for retail investors

By Ira Iosebashvili
And Timothy Puko

Campbell Harvey looks at Wall Street and sees a lot of ideas that are easy to sell, but hard to trust.

The Duke University finance professor is making a career out of challenging research backing the products firms pitch to investors. A lot of it, he says, just isn't sound.

His studies have shown that more than half of all research pumped out by both academics and analysts is, in his words, "likely false." Mine enough data, and you can find a result that backs up your idea, Mr. Harvey says.

While his contrarian ideas have put him at odds with many on Wall Street, Mr. Harvey's work has shown up in research and strategies employed by Goldman Sachs Group, **GMO** LLC's Jeremy Grantham and the **Federal Reserve Bank of New York**, among others.


NATALIE WEEDY
Campbell Harvey says many finance studies are 'likely false.'

His next project is aimed at one of his favorite targets: commodities. When a famous academic paper helped bring the asset class into the mainstream in the early 2000s, Mr. Harvey warned that commodities were too opaque and volatile to hold for the long term, and were unlikely to provide the stock-like returns that some consultants suggested. Prices for oil, metals and other raw materials crashed twice in the following decade, vindicating his position.

With the asset class coming back into vogue, Mr. Harvey is preparing a paper challenging popular strategies in commodities investing.

"People still believe they should be buying commodity futures," Mr. Harvey said. "I feel the obligation to correct that misperception."

He may have some persuading to do. With signs of global economic growth picking up, commodities have bounced back after bottoming in early 2016. The S&P GSCI Index, which tracks commodity futures, rose 28% last year. That was the index's biggest gain since 2009, though it is down a bit this year with falling oil prices.

Mr. Harvey, 58 years old, was born in Toronto. Growing up, he often discussed stock-picking and finance with his grandfather, a businessman and part-owner of the Toronto Star newspaper. He completed his Ph.D. at the University of Chicago in just three years. His thesis, which showed how the relationship between long- and short-term bond yields can predict U.S. recessions, was supervised by Nobel Prize winner Eugene Fama, widely recognized as "the father of modern finance."

His ideas have sometimes missed the mark. In 2012, he said there was an 80% chance that Greece would exit the eurozone, a prediction that hasn't yet come to pass.

Mr. Harvey's interest in commodities was piqued by a 2004 paper from Yale University professors Gary Gorton and K. Geert Rouwenhorst.

Their research analyzed a commodity-futures portfolio from 1959 to 2004. They argued that a broad index of commodity futures offered annual returns on par with the S&P 500, but with the added benefit that their prices didn't move together with stocks and bonds.

Messrs. Gorton and Rouwenhorst worked with American International Group Inc., they noted in the paper. The insurer had developed the Dow Jones AIG Commodity Index about six years before, and then used the research by Messrs. Gorton and Rouwenhorst to sell investment products tied to that index, according to people familiar with the process.

Typically, an index owner will receive a small fee every time a fund buys or sells options contracts tied to that index.

An AIG spokeswoman declined to comment for this article.

Messrs. Gorton and Rouwenhorst declined to comment. In their 2015 follow-up paper, they said their earlier findings on commodities "largely hold up."

Many consultants seized on their research to market commodities products to large investors. Giant pension funds like the California Public Employees' Retirement System and the Illinois Teachers' Retirement System began allocating money to commodities for the first time.

"When we read that paper, we just shook our heads," Mr. Harvey said, referring to himself and co-author Claude Erb, at the time a portfolio manager at Trust Company of the West. "The narrative was problematic."

Mr. Harvey stress-tested some of the other paper's main claims. For example, he said that replicating as diverse a commodities portfolio as Messrs. Gorton and Rouwenhorst recommended would prove challenging in the real world since many commodities, such as tin or butter, are thinly traded.

Another assumption that didn't stand up was the concept of "roll yield," or the bonus investors pocket when selling expiring commodity contracts and buying newer ones, which were often cheaper. There was no guarantee that prices for future-dated contracts wouldn't eventually rise, Mr. Harvey argued. In fact, many commodities are now more expensive further out in time, hurting investors who hold futures for long periods.

Producers Raise Oil Target to $60

By Benoit Faucon
And Summer Said

Some of OPEC's biggest oil producers, including Saudi Arabia, are now targeting $60 a barrel as the level to which they want to push crude prices, group officials said, signaling they will support additional production cuts next month.

Saudi Arabia, Iraq and Kuwait believe $60 a barrel will lift their economies and allow for more energy-industry investment, the officials said, without stimulating too much American shale output, which can be raised and cut more easily than most oil production.

The countries had been targeting $55 a barrel for Brent crude, a level they have largely achieved with an Organization of the Petroleum Exporting Countries production cut of 1.2 million barrels a day. Saudi Arabia, Iraq and other members of the 13-nation group have signaled they will push to extend those cuts in output for another six months on May 25, when they meet in Vienna.

"Iraq wants prices to rise to $60. This is our aim," said Iraq's oil minister, Jabbar al-Luaibi, in an interview. People familiar with Saudi and Kuwaiti oil policies confirmed that those countries also now want $60 a barrel.

Brent crude closed at $55.89 a barrel Thursday on ICE Futures Europe.

OPEC members' ideal price for oil is in some ways symbolic, as there are unpredictable variables that influence crude's price—from Chinese oil demand to supply disruptions in Libya to American technological advances in oil drilling. In 2013, Saudi Arabia's then-oil minister, Ali al-Naimi, declared $100 a barrel a reasonable price for consumers and producers; the next year, oil prices collapsed.

But OPEC members' target price offers a window into how serious they are about using their supply power to affect the market.

Other OPEC members could upend the plans to reach $60 a barrel. But Saudi Arabia, Kuwait and Iraq produce more than half of OPEC's total production.

OPEC officials said they are concerned about how $60 a barrel would affect shale producers. The cartel's top official, Secretary-General Mohammad Barkindo, traveled to Houston last month to meet shale producers and learn more about how they adapt to prices.

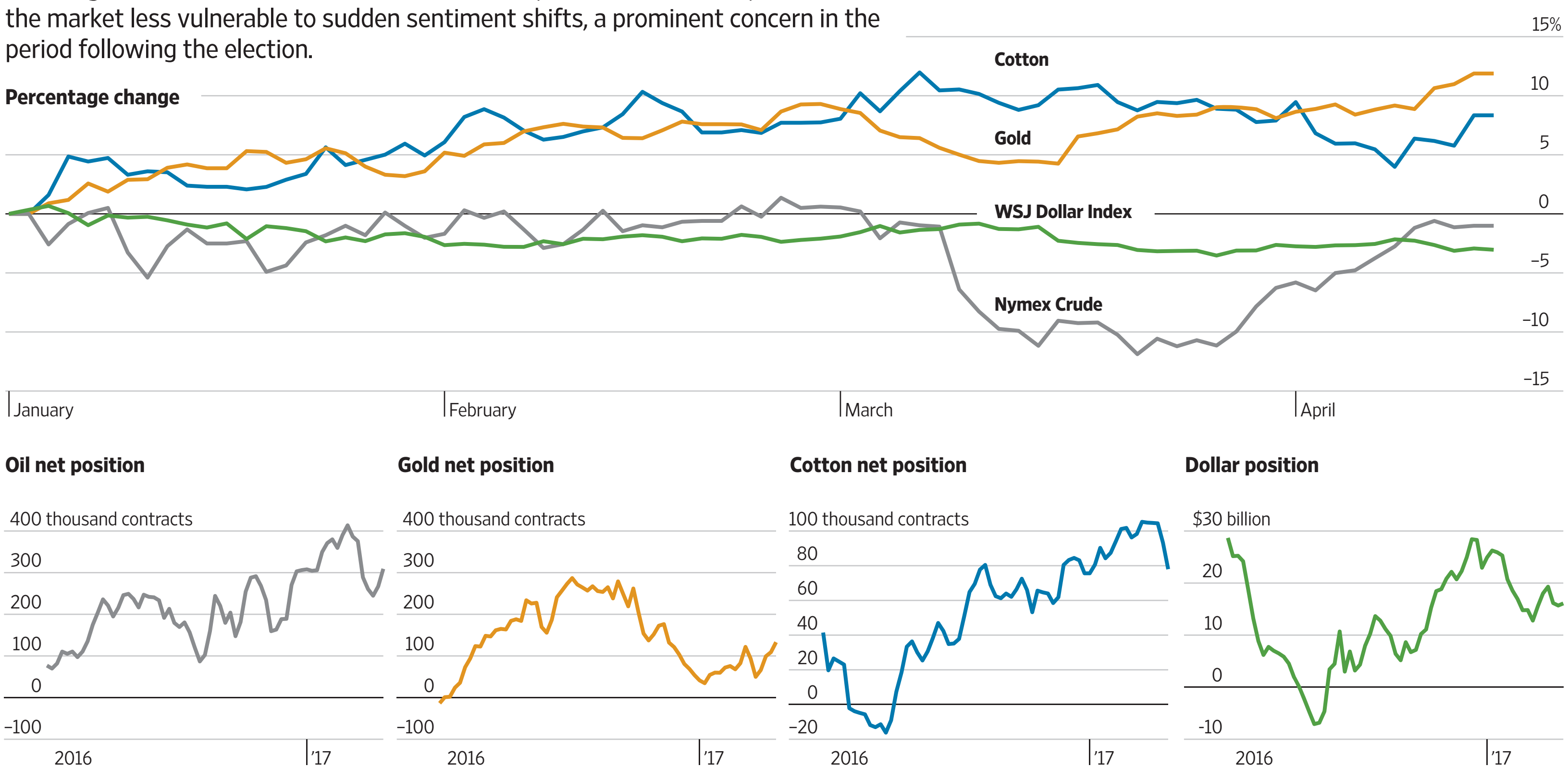
OPEC officials said they concluded that all those involved can coexist at $60 a barrel.


NABIL AL-JURANI/ASSOCIATED PRESS
An Iraqi oil worker operates valves in a field north of Basra.

MARKETS

Shaking Out

The rise and fall of global-growth expectations in recent months have shaken up commodity markets and resulted in a decline in bets on many popular assets, including oil and the U.S. dollar. Some investors say smaller commodity bets make the market less vulnerable to sudden sentiment shifts, a prominent concern in the period following the election.



Sources: FactSet (gold, cotton), WSJ Market Data Group (oil, dollar); Commodity Futures Trading Commission (positioning)
THE WALL STREET JOURNAL.

Retreat of the 'Reflation Trade'

Investors reduce bets on commodities, dollar as Trump's agenda hits setbacks

By Chelsey Dulaney

The wave of global optimism that fueled big bets on everything from cotton to the U.S. dollar in recent months continues to fade, hampered by specifics over the path of the U.S. economy and mounting geopolitical tensions.

Hedge funds have cut bets on a stronger U.S. dollar to $16 billion from $26 billion at the start of the year, according to Commodity Futures Trading Commission data. Bullish bets on a range of commodities from cotton to copper have also been pared back after touching records this year, CFTC data show.

"These big macro trades have not delivered, for the most part," said Alvise Marino, a foreign-exchange strategist at **Credit Suisse Group** AG. "The positioning was based on expectations that you would see fiscal stimulus, tax reform. None of that has happened."

The dollar has fallen 3% this year, erasing more than 60% of its postelection gains. Cotton prices have lost 1% in the past month after flirting with a three-year high in March, while copper has dropped 2.4% over that period.

Signs of fledgling global growth and inflation, compounded by President Donald Trump's economic plans, prompted investors to pour into bets on rising stocks, commodities and the dollar, in a strategy widely dubbed "the reflation trade." Investors believed that stronger economic growth and Mr. Trump's big infrastructure-spending plans would fuel demand for goods and commodities around the world.

But investors are now facing signs that the U.S. economy is slowing, while geopolitical tensions mount and the Trump administration faces setbacks in pushing through its growth-supportive agenda.

Government data Friday showed a key measure of inflation declined in March for the first time since January 2010, while a separate report showed U.S. retail sales declined for a second month.

"The military strikes [in Syria and Afghanistan] are the only thing the administration has done," said Mr. Marino. "If he manages to pass a massive stimulus, which becomes less likely by the day, that would also be a positive thing for these trades."

Increasingly strained relations between the U.S. and nations such as Russia and North Korea could help revive some of these bullish positions. Crude-oil prices, for example, stand to benefit from conflict in the Middle East. Net bullish bets on oil have fallen to 309,229 contracts from 413,637 contracts in February, CFTC data show.

The dollar could also attract more buyers because of its status as a haven during times of market turbulence.

Meanwhile, the moderation in positions helps ease concerns that bullish bets had gotten ahead of economic fundamentals, leaving markets crowded—traders making the same bets—and prone to swift reversals.

Informal Lending Jumps In China

BEIJING—Chinese borrowers rushed to tap informal credit in March as Beijing's efforts to rein in financial risk drove them away from traditional bank lending.

The trend highlights the challenge for policy makers, worried about high debt levels but unable to allow growth to slow too much. Government spending ramped up last month, which economists say will keep the economy going.

"The overall appetite for credit is still quite good," said Yan Ling, an economist with **China Merchants Securities.** "It's just that the banks are turning the lending activities off the balance sheet."

Chinese financial institutions issued 1.02 trillion yuan ($148 billion) in new loans in March, down from 1.17 trillion yuan in February, the People's Bank of China said Friday. The central bank's risk-control efforts, known as its macroprudential assessment, have curbed lending activities on banks' balance sheets, Ms. Yan said.

Overall lending rose, however. Total social financing, a measure that includes nonbank credit, stood at 2.12 trillion yuan in March, up sharply from 1.15 trillion yuan in February. The proportions of bank loans in total new credit dropped to 54% in March from nearly 89% in February.

National fiscal expenditure—central and local governments included—rose 25.4% last month compared with a year earlier, the Finance Ministry said Friday.

On Monday, China is expected to post first-quarter growth of 6.8% from a year earlier, mirroring the expansion in the previous quarter.

—Liyan Qi and Pei Li

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY **WSJ.com/Heard**

Threats to Trump-Beijing Détente

When it comes to China, U.S. President Donald Trump seems willing to follow British economist John Maynard Keynes's dictum about changing your mind when the facts change. The realities impacting the U.S.-China relationship have certainly shifted since Mr. Trump's election win in November. Investors should welcome the accompanying reduction in trade tensions between the two largest global trading powers, while remaining aware the ground can easily shift back.

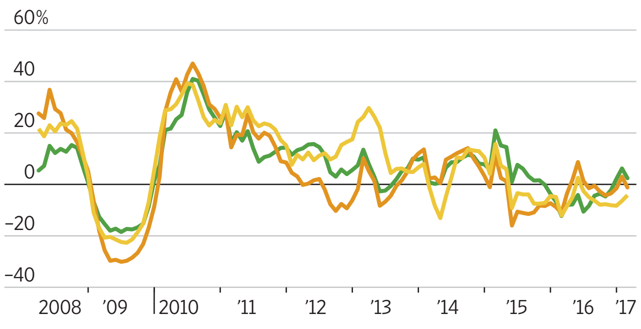
Three things have changed since November that explain the new dynamic with China.

First, confidence among U.S. small businesses and consumers is around multiyear highs, with consumers feeling more favorably disposed toward China as their paychecks rise.

Second, the threat from North Korea has become impossible to ignore, with intelligence analysts suggesting it could possess missiles capable of reaching the U.S. within a few years. Mr. Trump has indicated he is willing to give some ground to China on trade in exchange for help reining in its troublesome neighbor. And third, China's domestic economy is looking more stable than it did just a few months ago. That gives Xi Jinping, China's president, more room to compromise on trade too. Chinese officials indicated they were interested in addressing their persistently large trade surplus at the Mar-a-Lago summit.

America Bound

Chinese exports by destination, change from previous year



Note: Three-month moving average
Source: CEIC
THE WALL STREET JOURNAL.

So far, so good. But while the North Korea problem is unlikely to go away, economic momentum in both China and the U.S. is fragile. Sentiment may be bullish in the U.S., but gross-domestic-product data and inflation paint a mixed picture. Bank lending is worryingly weak, which could augur problems down the road. In China, meanwhile, a weakening real-estate sector later this year could put renewed pressure on policy makers to push up money supply again, heaping pressure back on the yuan.

One fact remains unchanged: Chinese exports are now rebounding rapidly as global trade recovers, with those to the U.S. tending to outperform.

The bilateral trade surplus, meanwhile, remains near record levels and is falling more slowly than China's surplus with Europe. Trade data released Thursday showed Chinese exports surging again, up 16.4% on the year in March against consensus expectations of 4.9%.

Exports to the U.S. rose 19.7%.

Messrs. Trump and Xi have suddenly found they have a lot in common.

But if growth stumbles on either side of the Pacific, deep-seated differences will quickly come back into focus.

—Nathaniel Taplin

OVERHEARD

The president who wrote "The Art of the Deal" has so far not presided over the year of the deal.

With a deal maker as president, a Republican-led Congress and low interest rates, bankers were gearing up for a big year in 2017.

None of it has mattered.

There were $306.6 billion of announced mergers and acquisitions in the U.S. this year through April 12, the lowest in dollar proceeds since 2014, according to S&P Global Market Intelligence. That is down 3.2% from the year-earlier period and off 55% from 2015.

The positive spin on the dearth of deals could be that business executives have become optimistic about growth, eliminating the cost-cutting impulse that fueled many mergers.

They could also be waiting for more certainty about rules on taxes, trade and health care.

For deal makers, there's a book we think you should read.

Surprise Call By FDA Will Sting Incyte

It wasn't a quiet Friday for investors in one of biotech's highest-flying stocks.

Incyte and **Eli Lilly** said Friday that the **Food and Drug Administration** declined to approve their rheumatoid arthritis treatment, baricitinib. The FDA ruled that additional clinical data are needed to determine appropriate dosage for the drug and resolve safety concerns. The application will be resubmitted at an undetermined date.

The news comes as a big surprise. The drug was approved by European regulators this year. And the companies have completed four phase 3 clinical trials studying the drug.

The rejection is likely to sting Incyte more than Lilly, which said it was affirming its financial projections through the rest of the decade. Incyte said it was evaluating the impact of the news.

Investors ought to do some evaluating of their own. Incyte's market cap is $29 billion, its stock is up about 40% this year and it trades at about 26 times last year's revenue. The consensus of analysts calls for total sales to quadruple by 2022, according to FactSet, and baricitinib is a significant chunk of that. Analysts at **Leerink Partners** assign a present value of $25 a share to future baricitinib revenue, more than one-sixth of the current market price.

The companies aren't shelving the drug. But the rheumatoid arthritis market is highly competitive. Several firms have blockbuster treatments with long records of safety and efficacy, and fresh competition is on the way soon. With the stock market closed on Friday, Incyte investors have had a long weekend.

—Charley Grant

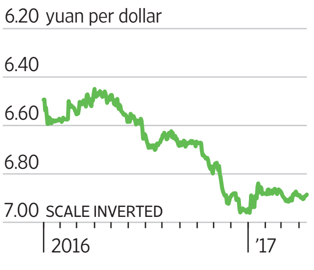
Dollar May Not Need the President's Help to Move Lower

President Donald Trump seems keen on sinking the U.S. dollar. It may not need the help of his jawboning.

In a departure from years of U.S. currency rhetoric, Mr. Trump has told The Wall Street Journal the dollar "is getting too strong." The immediate market effect was predictable: Emerging-market currencies, notably the yuan, strengthened against the dollar while gold rose and Treasury yields fell.

In fact, Mr. Trump's concerns about dollar strength may already be outdated. Currency levels ultimately rest on the relative strength of economies. Recent indicators suggest the U.S. economy is doing fine, but others are doing well too.

Yuan vs. Dollar



Source: WSJ Market Data Group
THE WALL STREET JOURNAL.

While the U.S. manufacturing index has been picking up, it is still below its long-term average, just as similar measures in many other major countries are outpacing their historical levels, economists at Bank of America Merrill Lynch point out.

Europe and Japan are both growing faster than their potential, they add, while most emerging markets are being driven by healthy domestic demand.

If the U.S. isn't obviously outdoing its major peers, the dollar should bumble along. On a trade-weighted basis, the currency has already slipped back below its level before Mr. Trump's surprise win in November—erasing its postelection surge, even if it remains close to decade highs.

Even the Federal Reserve's next moves may not be enough to boost the dollar. Regardless of whether the Fed raises U.S. interest rates two or three times this year, they will still be pretty low.

The gap between those in the U.S. and many emerging markets, for instance, remains wide enough for investors to keep seeking higher-yielding assets overseas—a trend that would put downward pressure on the dollar.

Meanwhile, some elements of Mr. Trump's agenda that had helped fuel the dollar's postelection surge, such as tax overhauls and higher infrastructure spending, have been delayed.

Mr. Trump's attempt to talk down the dollar is understandable as he battles to push through pro-growth policies.

A weaker dollar could be helpful elsewhere too, easing pressure on emerging-market governments and companies saddled with heaps of dollar-denominated debt. Investors, though, would be better off scrutinizing economic brass tacks than parsing Mr. Trump's words if they want to know where the U.S. currency is headed.

—Anjani Trivedi