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What's News

Business & Finance

China's markets are sending conflicting signals about the health of its economy, where strong currency, stocks and commodities contrast with bond pessimism. **A1**

♦ Amazon is struggling to boost its share of the China market as rivals Alibaba and JD.com offer many of the same perks without requiring a membership. **B1**

♦ A Chinese-led group's proposed acquisition of the Chicago stock exchange looks shaky amid mounting U.S. concerns about national-security risks. **B1**

♦ GE's Immelt said he won't join Uber as CEO, after meeting with members of the ride-hailing firm over the weekend. **B3**

♦ Nintendo's Switch game console is in short supply, leading to queues and lotteries in Japan and frustrated fans in the U.S. **B4**

♦ Google is issuing refunds to advertisers for ads bought through its platform that ran on sites with fake traffic. **B4**

♦ Samsung's Lee was found guilty of bribing South Korea's former president and sentenced to five years in prison. **B4**

♦ Energy firms' shares are on track for their biggest monthly drop since 2015, showing that stabilizing earnings aren't enough to attract investors. **B8**

♦ Tapping home equity for cash is big again amid rising U.S. home prices. **B1**

World-Wide

♦ Tropical Storm Harvey turned Houston's roads into rivers, forcing authorities to rescue hundreds. At least five fatalities have been reported. The storm caused Exxon Mobil and other companies to close their refineries. **A1, B5**

♦ Big firms oppose taxing foreign profits as congressional Republicans weigh changes to the tax code. **A1**

♦ Central bankers' worry over issues in Washington drew focus from the timing to withdraw stimulus during the Fed's annual retreat over the weekend. **A2**

♦ Thailand's deposed leader fled the country before a court could hand down a verdict in her trial, which has eased the risk for the military junta. **A4**

♦ Military officials warned about overworked sailors and shortened training schedules in the years before the recent Navy ship collisions. **A4**

♦ Iraqi forces have driven Islamic State from Tal Afar, clearing one of the extremist group's remaining strongholds in the country. **A3**

♦ The U.K. Labour Party stiffened its position on Brexit, putting pressure on May to pursue a closer relationship with the bloc. **A3**

♦ North Korea fired three short-range missiles Saturday as U.S. and South Korea were conducting joint exercises on the peninsula. **A4**

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More than 150 roadways have been flooded throughout Houston by Harvey, which hit the Texas coast as a Category 4 hurricane.

Markets Tell Two Stories About Chinese Economy

By SHEN HONG

SHANGHAI—China's financial markets are sending conflicting signals about the health of the world's No. 2 economy, where a strengthening currency, buoyant stocks and soaring commodities contrast with the pessimism common among the country's bond investors.

The country's latest economic data have made the picture even murkier. The pace of industrial output, retail and housing sales and investment

growth all decelerated in July. Some economists, however, argue the weakness was temporary and due to a hot summer that affected construction.

A closer look suggests bond investors' cautious outlook may win out. That is because the rally in other asset classes has come partly thanks to policies designed to preserve financial stability ahead of a key Communist Party meeting this fall, and partly due to potentially excessive optimism about structural reforms.

"Although on the surface

the markets are telling different stories about the Chinese economy, the overarching theme remains that the economy faces bottlenecks like a relatively primitive growth model and fresh drivers," said Shen Meng, director at Chanson & Co., a Beijing-based boutique investment bank.

The Chinese currency's resurgence has been one of the year's big surprises. The yuan is up more than 4% against the U.S. dollar in 2017, after dropping 6.6% last year.

The yuan's rise has some

logic behind it: The dollar has been weak against a range of global currencies in recent weeks as expectations for U.S. rate increases are pared back.

Still, some say the yuan's recent strength could also reflect Beijing's desire to reduce frictions with the new administration of President Donald Trump, who repeatedly accused China of keeping its currency artificially weak during last year's campaign.

"One can't simply apply

textbook explanations to China."

Please see CHINA page A2

Powerful Storm Inundates Houston

Five deaths are reported in the area as Harvey brings devastating rainfall

By BRADLEY OLSON AND MIGUEL BUSTILLO

HOUSTON—Tropical storm Harvey flooded the U.S.'s fourth-largest city overnight, turning roads into rivers, inundating homes and forcing authorities to rescue hundreds of stranded people.

Five deaths have been reported in the Houston area, according to the National Weather Service, after bands of the storm repeatedly lashed the flood-prone city, spawning numerous tornadoes and pouring as much as 24 inches of rain in 24 hours onto areas that had already been soaked the previous day. Authorities warned that more fatalities were likely.

Police and emergency officials responded to more than 1,000 rescue calls through the night, evacuating an apartment complex and neighborhoods across the city. By Sunday morning, officials warned that 911 services were at capacity and urged people to take whatever steps they could to find safety.

The U.S. Coast Guard said its Houston sector had received more than 300 requests for urban search and rescue and was asking for additional HH-60 Jayhawk helicopters from New Orleans and Air National Guard support to assist its current five MH-65 Dolphin helicopters conducting rescues in the area.

"This is historic, devastating rainfall," said Jeff Lindner,

Please see HARVEY page A7

♦ Exxon shuts down Houston-area refinery..... B5

CORNERED IN RAQQA: THE LAST DAYS OF ISIS

Militants loosen enforcement of religious edicts and scrounge for cash

By RAJA ABDURAHIM

RAQQA, Syria—Before launching the battle to capture Islamic State's de facto capital, the U.S.-led military coalition dropped leaflets calling on extremists to surrender. On the ground, militants were going door to door, demanding that residents pay their utility bills.

Islamic State, long bent on expanding its religious empire with shocking brutality in the form of public executions, crucifixions and whippings, is desperately focused on its own survival.

Raqqa has been a crucial part of the ter-

ror group's self-declared caliphate. Until a few months ago, public squares were lined with decomposing bodies of those who had run afoul of Islamic State's religious rules or bureaucracy.

Instead of ruthlessly enforcing no-smoking decrees and dress codes, though, militants now are doing whatever they can to hold on to areas still controlled by the group—and revenue needed to help keep Islamic State afloat financially.

They are so preoccupied that some

Please see RAQQA page A6

♦ Iraqi forces seize Tal Afar from Islamic State... A3

Amazon Faces Challenge in China

NOT READY FOR PRIME TIME: Amazon, the American e-commerce giant, hasn't been able to increase its tiny share of the market in China. Analysts say it is largely Chinese competition, not the ground rules of doing business, that have stifled its efforts. **B1**

Market share for Chinese online retailers in 2016



Amazon's China market share



INSIDE



FALLING IN LOVE WITH FALL

LIFE & ARTS, A8

IMMELT WON'T JOIN UBER AS CEO

JAIL TERM LEAVES VOID AT SAMSUNG

TECHNOLOGY, B4

Firms Shape U.S. Debate On Changes In Tax Code

By RICHARD RUBIN

WASHINGTON—Congressional Republicans are trying to write new rules for taxing foreign profits of U.S. corporations, and a group of large, influential companies is warning against one prominent option.

Under current law, companies owe the full 35% corporate-tax rate on their worldwide earnings and have to pay it on any profits they bring back to the U.S. That system encourages companies to book profits overseas and leave them there. The issue is often a flashpoint in debates over changing the tax code.

Republicans want to lower the corporate-tax rate and let companies bring future global profits home without paying U.S. taxes on top of foreign taxes. They are searching for a way to do that without giving

Please see TAXES page A2

Nice New Kitchen! But What About the Fridge Magnets?

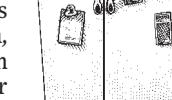
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Stainless steel looks sleek but can't hold up children's art, lists

By NATALIE ANDREWS

Holly Bonner spent \$30,000 upgrading her kitchen to incorporate today's sleek modern design. Now, she's slowly ruining it. The reason: Her \$2,700 stainless-steel refrigerator isn't magnetic.

To show off her children's artwork, she has been taping it to her wooden cabinets, which is destroying the finish, she said. To hang an American flag for July 4, the mother of two from Staten Island, N.Y., rigged the fridge with a stick-on plastic hook, but can't figure out how to remove it. Her radiator and oven hood have ugly marks and mangled paint from magnets she fixed to them.



Fridge magnets

The one thing Ms. Bonner said she won't do is surrender the personal touches. "It makes me feel like my kitchen is more homey." Refrigerator magnets—the ubiquitous keepers of appointment reminders, to-do lists and school certificates of accomplishment—aren't being rendered useless by the ruthless tyranny of stainless-steel products, whose magnetism is compromised by high levels of nickel. An empty, clutter-free fridge may be hailed as a cleaner design aesthetic. New lines of smart refrigerators can order groceries via Amazon's Alexa and keep track of food-expiration dates. As for kitschy magnets

Please see MAGNET page A6

WORLD NEWS

Central Banks Can't Savor Their Success

Worry over issues in Washington draws focus from timing to withdraw stimulus

BY KATE DAVIDSON
AND BEN LEUBSDORF

JACKSON HOLE, Wyo.—Central bankers have been looking forward for years to a moment when the world economy is growing steadily again, allowing them to unwind extraordinary monetary stimulus from global markets.

They are now in such a moment, but at the Federal Reserve's annual retreat here over the weekend they found their attention turned to other challenges, including a possible leadership transition at the Fed next year and the risk of a government shutdown or debt-ceiling crisis in Washington next month.

Congress returns to Washington in September with just a few short weeks in which to raise the federal borrowing limit and authorize new funding to keep the government operating beyond Oct. 1. Signs of angst over the debt limit are beginning to rise in financial markets amid worries lawmakers won't be able to close a deal on time. Treasury officials have urged Congress to raise the borrowing limit by Sept. 29.

"What's being discussed regarding the shutdown and the debt ceiling, we have to moni-

tor very carefully," Dallas Fed President Robert Kaplan said in an interview on the sidelines of the conference. Fed governor Jerome Powell warned in a television interview that failing to raise the debt ceiling would be a "major shock to the economy," while Treasury Secretary Steven Mnuchin told reporters at a White House briefing Friday he was "100% confident" Congress would act in time.

Fiscal brinkmanship comes as the Fed is preparing to take the next step in its gradual plan to withdraw monetary stimulus from the economy. It has raised short-term interest rates four times since December 2015. Next month it is expected to announce it will start shrinking its portfolio of mortgage and Treasury securities by allowing some to mature without reinvesting the proceeds into new bonds.

"The base case for me is that we should begin the roll-down of the balance sheet very soon," Mr. Kaplan said. "Obviously I'm monitoring closely, though, events in D.C., and I'm hopeful they won't have an effect on our efforts to begin that process. But we'll have to see." The Fed next meets Sept. 19-20.

Fed Chairwoman Janet Yellen did nothing to dispel the market's expectation that the Fed will start shrinking the portfolio next month. Her remarks Friday focused instead on bank regulation in the post financial crisis era. President



From left, Haruhiko Kuroda, Janet Yellen and Mario Draghi at the Jackson Hole symposium Friday

Donald Trump has vowed to roll back regulation across sectors, but Ms. Yellen defended the Fed's efforts since the crisis to toughen oversight of banks, which she said has bolstered lending and economic growth rather than hindered it.

Rather than focusing on near-term monetary policy issues, most of the conference dealt with long-term fiscal challenges, such as rising protectionism, growing inequality and the ability of fiscal policy makers to respond to the next recession—issues over which

central bankers may have limited influence.

On the sidelines of the meeting, participants buzzed about the potential for a leadership shake-up at the Fed next year, as Ms. Yellen closes in on the final months of her four-year term as the leader of the U.S. central bank.

Ms. Yellen is a top contender for another term as Fed chair, Mr. Trump has said. He has praised her stance on interest rates and said he liked her. But Ms. Yellen's remarks Friday highlighted a difference

in world views on regulation, which could lead Mr. Trump in another direction.

Mr. Trump has said his top economic adviser, National Economic Council Director Gary Cohn, along with "two or three" other candidates he declined to name, are also being considered, leaving markets and Fed watchers guessing about where policy might be headed beyond early next year.

Analysts have theorized about a handful of dark horse candidates who may be in the mix, several of whom attended this year's Jackson Hole gath-

ering, including former Fed governor Kevin Warsh, Stanford economist John Taylor and Columbia Business School dean Glenn Hubbard, who was chairman of the Council of Economic Advisers under President George W. Bush.

Among her peers, Ms. Yellen earned high marks for her steady approach and clear communication as the Fed unwinds its crisis-era stimulus program.

"President Trump has to take his own decision, and that's his prerogative," Bank of Mexico Gov. Agustín Carstens said. "But I can speak for myself, and I can say that she has done an outstanding job."

South African Reserve Bank Gov. Lesetja Kganyago said Saturday that, since the so-called taper tantrum of 2013 that roiled emerging markets, the Fed has done an excellent job of communicating its policy plans to the public and financial markets. Ms. Yellen took over the Fed in early 2014.

"The Fed has actually communicated so well, so transparently, that it has actually made it easier for us when we have to make our own monetary policy decisions," Mr. Kganyago said. "We base our decisions on what we see the outlook for the U.S. economy is, and I think that the communication from the Fed has been so clear that if the markets decide not to believe what the Fed says, it is at their own peril."

CHINA

Continued from Page One

nese markets because based on economic fundamentals, the yuan doesn't have any basis for appreciation," Mr. Shen said.

The yuan's rise also reflects Beijing's desire to deter rapid capital outflows.

"The yuan is a different story because the market is guided by the Chinese central bank everyday with a clear policy agenda," said Iris Pang, an economist at ING Bank NV in Hong Kong.

China's stock market has also done well in the past two months. The SSE 50, a widely watched index that tracks the 50 most valuable companies listed in Shanghai—almost all are state-owned—has surged 16% this year.

While some analysts have cited signs of a resumption of long-stalled reforms of the country's inefficient state-run enterprises as a factor, others point to Beijing's political agenda as a more important reason for the market's bull run. Some market participants say state-backed investment funds, nicknamed the "national team," have been stepping in to prop up the market.

"If you want to stabilize the market, you need to stabilize these large stocks, and that's why the national team has been putting money in them," said Major Teng, chief equities strategist at Everbright Securities.

In contrast, the tech-heavy, Nasdaq-style ChiNext board in Shenzhen is down 7.6% for the year.

China's notoriously frothy

commodities markets are on the up again: Steel-rebar futures have rallied 32% so far, while coke futures have surged 80% since June, on hopes that Beijing's clampdown on overproduction by mining and steel producers will reduce supply.

Some say investors are trusting too much in the central government. "Whether the capacity cuts will work and higher production costs can be passed on to consumers remains a question mark. The commodities traders are just betting on policies and there is a lot of speculation," said Shen Yuan, special adviser at ZYR Investment, a Nanjing-based private-equity firm.

China's bond market is sending a more chilling message. The yield on China's 10-year government bond is now just 0.09 percentage point above that on the three-year paper, giving the spread, or so-called yield curve, its flattest shape in three years. A flat yield curve usually reflects investor pessimism about a country's long-term growth and inflation prospects.

"The flat yield curve does reflect caution among investors because as long as China's various reforms aren't completed, there will be uncertainties over the economy," said ING's Ms. Pang.

The fact that the vast majority of buyers and sellers in China's bond market are more sophisticated institutional investors partly explains the different view expressed there as opposed to those in the more speculative stock and commodities futures markets, analysts say.

—Yifan Xie contributed to this article.

The week ahead will be a busy one for U.S. economic data, with readings on consumer confidence, gross domestic product and the **Federal Reserve's** preferred inflation gauge due before the August employment report caps off the week.

Elsewhere, Canada will release GDP data, while Japan issues household spending information.

TUESDAY: The Conference Board releases its index on **consumer confidence** for August. This measure rose sharply in July, as Americans expressed increased faith in both the current and future state of the economy. Economists surveyed by The Wall Street Journal expect the index rose to 120.3 in August, from 121.1 the previous month.

Japan releases **household spending** data for July. In June, household spending rose for the

first time in 16 months, gaining 2.3% from a year earlier.

WEDNESDAY: The **U.S. Commerce Department** releases a second estimate on second-quarter **gross domestic product**, after initially reporting a 2.6% annual growth rate in the April-to-June period. Since the original release, reports on key ingredients in gross domestic product have signaled positive growth. July retail sales indicated strength in consumer spending, while figures in the July durable-goods report pointed toward momentum in business investment. Economists surveyed by The Wall Street Journal forecast a revised second-quarter reading of a 2.9% seasonally adjusted annual growth rate.

THURSDAY: The U.S. Commerce Department releases the

July personal-income report, which will offer insight on the state of consumer spending and inflation. Consumer spending showed only modest growth in June. Inflation, meanwhile, proved weak. Overall prices rose 1.4% from a year earlier, down from 1.5% annual growth in May, according to the **price index for personal-consumption expenditures**—the Fed's preferred inflation measure. Economists surveyed by The Wall Street Journal forecast **personal income** in July grew 0.3%, while **consumer spending** is expected to have increased 0.4%.

Second-quarter **GDP** is due from Canada, where first-quarter GDP grew 3.7% annualized, tops among Group of Seven developed economies. The Bank of Canada forecast a 3% expansion for the second quarter.

TAXES

Continued from Page One

companies an incentive to move more operations and profits to countries with far lower taxes.

One alternative Republicans are considering is a minimum tax on those profits. But such a tax would have "unintended and adverse consequences," the business group, which includes companies such as Eli Lilly & Co., United Technologies Corp. and United Parcel Service Inc., told top lawmakers this month in a previously undisclosed policy paper.

The comments by the Alliance for Competitive Taxation are an early sign of the competing pressures lawmakers will face as they seek to overhaul the U.S. tax code.

As part of that overhaul, Republicans want to exempt foreign corporate income from U.S. taxes to a large extent. Other countries, including the U.K., have shifted to similar systems in recent years and Republicans want to follow that trend. The 35% rate would come down and the minimum rate would be set below the new U.S. corporate tax rate.

Republicans may also be considering other rules beyond a minimum tax, and they haven't made any final decisions.

A minimum tax would act as a "safety net" against companies trying to pay little or no tax on some foreign income, said Ed Kleinbard, a tax law professor at the University of Southern California. "The United States does not encourage competitiveness when it simply subsidizes international tax avoidance," he said.

But the alliance argues that a minimum tax would focus too much on U.S.-based com-

panies and that the rules wouldn't match how other major countries treat their home companies. A minimum tax, the alliance contends, would give foreign-based firms an advantage.

"We would continue to have a tax code that is out of step with the rest of the world," said David Lewis, vice president, global taxes, at drugmaker Eli Lilly. "Let's get it done right and not settle for anything less. And right means U.S. companies can compete, thrive and win in the global marketplace."

A group of large companies is warning against one option under consideration.

Under the current system, U.S. companies get tax credits for payments to foreign governments and only pay the difference between lower foreign rates and the U.S. rate if they repatriate profits.

The system encourages U.S. companies to book profits abroad and leave them there.

They can often pay the same tax rates outside the U.S. as their foreign competitors do, but they can't move cash freely around the world or distribute it to shareholders without triggering the need to pay U.S. taxes. To companies, that is a significant problem and it drives their dissatisfaction with the current system.

Lilly, for example, had an 18.9% tax rate in 2016 and a 13.7% rate in 2015, driven largely by lower foreign tax rates. The company now has \$28 billion in stockpiled profits that haven't faced U.S. taxes.

Eliminating the tax on for-

eign profits would allow U.S. companies to bring future foreign profits home without paying U.S. taxes. But that kind of system would give companies a bigger incentive to shift profits abroad because they could reap the benefits of lower foreign tax rates. Lower U.S. corporate-tax rates would reduce that incentive, but wouldn't remove it.

"You still need to have meaningful rules that define the income earned in your jurisdiction," said Tom Neubig, a former official and corporate-tax specialist at the **Treasury Department** and the **Organization for Economic Cooperation and Development**.

The countries that use tax systems Republicans want to emulate allow their home companies to bring back cash with little or no tax.

They use a variety of rules to prevent companies from seeking to pay less tax by moving operations or profits abroad, but generally don't have minimum taxes on active foreign profits.

Minimum taxes have been floated in recent years by former president Barack Obama and former House Ways and Means Committee Chairman Dave Camp (R., Mich.).

The original House GOP plan to address foreign profits and prevent erosion of the U.S. corporate-tax base was

border adjustment, which would have based taxes on the location of a company's consumers, not its headquarters or profit centers.

But that idea collapsed and Republicans are looking for an alternative.

Corporate executives say they want a system that doesn't put their companies at a disadvantage.

"It's got to be fair. It's got to be competitive. And it's got to recognize that you've got to protect the U.S. base," said Greg Hayes, the chief executive officer of United Technologies.

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Dow Jones Publishing Company (Asia)
25/F, Central Plaza, 18 Harbour Road,
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Tel: 852 2573 7121 Fax 852 2834 5291

Andrew Dowell, Asia Editor
Troy McCullough, Senior News Editor, Asia
Daren Everson, International Editions Editor

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Bonds Stand Out

China's bond markets are signaling pessimism about the country's economy even as other asset classes are buoyant.

Spread on Chinese bond yields



China's notoriously frothy

bonds stand out

China's bond markets are signaling pessimism about the country's economy even as other asset classes are buoyant.

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China's bond markets are signaling pessimism about

WORLD NEWS

Iraq Recaptures Another ISIS Stronghold

Fall of Tal Afar deprives militants of a way station between cities held in Iraq and Syria

ERBIL, Iraq—Iraqi forces have driven Islamic State from the town of Tal Afar, the Iraqi military said Sunday, clearing one of the extremist group's few remaining strongholds in the country.

By Ali A. Nabhan in Erbil, Iraq and Maria Abi-Habib in Beirut

Operations continued against the militants in a handful of surrounding villages, a military statement said. Army officials said Saturday night they were nearly in full control of Tal Afar's historic center, moving toward the northern neighborhoods still held by Islamic State.

The surprisingly swift conclusion on Sunday comes just one week into the battle for Tal Afar, which once served as a way station between the group's de facto capitals Mosul in Iraq and Raqqa in Syria. As U.S.-backed Iraqi forces penetrated Tal Afar, it became clear Islamic State fighters either had abandoned the city ahead of the battle to seek refuge elsewhere, or had laid down their weapons to blend in with the local population.

Irqi officials and Western diplomats have long feared Islamic State would use the same survival tactic its prede-



Fighters of Hashid al-Shaabi (popular mobilization units) flash the victory gesture as they advance through a street in Tal Afar.

land bridge to traverse both countries and continue launching attacks.

Military spokesman Brig. Gen. Yahya Rasool credited the sophistication of the battle-hardened Iraqi military for the victory in Tal Afar. The nine-month operation to retake Mosul, which ended in July, had honed their skills, he said. The strategy to surround and cut off Tal Afar for nearly a year also contributed to the swift victory by severing Islamic State supply routes while U.S.-led coalition airstrikes helped destroy important targets, he added.

In Lebanon, meanwhile, the army, on Sunday announced a cease-fire with Islamic State, which has established a foothold in the country.

The military is using the cease-fire to negotiate an end to its fight against Islamic State by expelling the remaining militants to the eastern Syrian province of Deir Ezzor, which is still largely in control of Islamic State. Their removal was expected to come in exchange for the retrieval of the bodies of eight Lebanese soldiers kidnapped and killed by the extremists in 2014.

Deir Ezzor is becoming an Islamic State stronghold as its fighters and leadership converge there from Iraq, Syria and Lebanon. The Syrian Democratic Forces, a U.S.-backed group led by Kurdish militants, on Friday announced they would begin an offensive on Deir Ezzor "very soon," according to local media.

cessor al Qaeda in Iraq had used in 2007 when confronted by a surge of U.S. troops: go underground and wait for an opportune moment to resurface.

"It looks like Iraq isn't [any longer] a priority [for Islamic State]," said Rasha al-Aqeedi, a researcher at Al Mesbar Studies and Research Center, a Dubai think tank focused on Islamic movements.

"They're losing and have lost their veteran networks. The fighters probably won't stay in Iraq to defend their remaining networks, they're not strong enough to fight for. They'll opt to stay underground instead."

Al Qaeda in Iraq resurfaced in 2013, morphing into Islamic State. The Sunni Muslim militant group seized about one-third of Iraq's territory in a

summer 2014 blitz, establishing its caliphate, or religious empire, across Iraq and Syria. It since has carried out attacks across the Middle East and Europe.

Despite being uprooted from most of the territory it controlled over the past two years, Islamic State has been able to rely on a mix of operatives and supporters with no connection to the group to

carry out attacks.

One of the last large, strategic Iraqi towns under Islamic State control is Hawijah, located in the oil-rich province of Kirkuk, and likely to be the next offensive for the Iraqi military and the U.S.-led coalition that is providing support.

The group's remaining resources in Iraq are concentrated heavily along the border with Syria, providing it a

team up with Labour lawmakers.

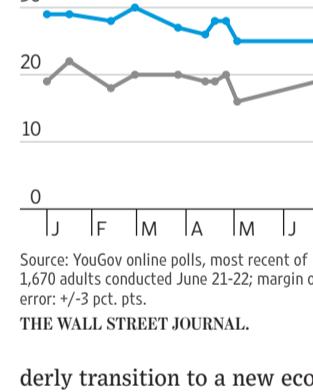
Labour has been in a difficult situation because its supporters are divided, with many traditional working-class voters in the heartland backing Brexit and cosmopolitan city dwellers and trade unions hoping to retain strong ties with Europe. More than a third of Labour Party supporters voted for Brexit, according to an estimate by pollster YouGov PLC, even though the party supported staying in the EU.

Labour leader Jeremy Corbyn—who expressed only tepid opposition to Brexit before last year's referendum—has been largely quiet in recent weeks. But other top party figures are speaking out postelection, sending significant signals.

Mrs. May's government wants Britain to leave the tariff-free single market and customs union to take control over immigration, including during a planned "interim" period meant to enable an or-

Brexit and the Economy

Public expectations of the impact of Brexit on economic growth



Source: YouGov online polls, most recent of 1,670 adults conducted June 21-22; margin of error: +/- 3 pct. pts.

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hash out solutions to difficult issues like how Brexit will affect the Irish border.

Mr. Corbyn last month took a similar line to the Conservatives on Brexit, saying Labour wanted the U.K. to leave the single market. But senior party figures, including its No. 2 and its point man on Brexit, in recent weeks shifted that stance, keeping open the possibility of staying during the transition. On Sunday, the party went further.

"No mixed messages," Labour's Brexit spokesman said wrote in an article in the Observer newspaper. "Labour would seek a transitional deal that maintains the same basic terms that we currently enjoy with the EU."

Labour has also demanded Mrs. May allow the European Court of Justice to continue to have a role in disputes between the U.K. and the bloc, which businesses say will ease trade barriers. The party's platform issued ahead of the election didn't mention the court, which has been a cen-

tral concern of Mrs. May.

The party has called on Mrs. May to retain membership in a handful of EU agencies that regulate or coordinate policing, medicine and nuclear energy. Brexit secretary Keir Starmer has increasingly spoken out, saying last month he would work with lawmakers across the political spectrum to pressure Mrs. May to stick to the EU treaty that governs nuclear energy.

A U.K. government spokesman declined to comment on Labour's stance. A spokesman for the Conservatives said Labour's plan is "weak attempt to kick the can down the road."

Mr. Corbyn and his No. 2 John McDonnell, both far-left politicians, have long expressed skepticism about the EU, which they see as bolstering capitalism. But Mr. Corbyn has come under pressure from trade unions and Labour lawmakers—the majority of whom want close ties to the bloc—to further strengthen the party's tone.

U.S. Talks In Mideast Are Called Productive

By RORY JONES

TEL AVIV—The U.S. described Jared Kushner's whistle-stop diplomatic tour of the Middle East as "productive" as he tried to make progress with President Donald Trump's plan to revive peace talks between Israelis and Palestinians.

Mr. Kushner, who is also the president's son-in-law, and other U.S. officials met with a number of regional leaders to discuss Middle East peace before he spoke with Israeli Prime Minister Benjamin Netanyahu in Jerusalem on Thursday afternoon. He then met with Palestinian Authority President Mahmoud Abbas in Ramallah before flying out later that night.

The White House had indicated it would present a strategy to bring the two adversaries back to the negotiating table. Mr. Trump has said he wants to achieve the "ultimate deal" of a peace settlement between the parties.

Mr. Netanyahu's office called the meetings "constructive and substantive" and said he looked forward to talking further with U.S. officials in the weeks ahead.

"Things are difficult and complicated," Mr. Abbas said in statement released as he met with Mr. Kushner. "But nothing is impossible in the face of good efforts."

White House Special Representative for International Negotiations Jason Greenblatt and Deputy National Security Adviser Dina Powell accompanied Mr. Kushner on his two-day trip. The group also held meetings to discuss the peace process with officials in key U.S. allies Saudi Arabia, the United Arab Emirates, Qatar and Jordan.

Mr. Greenblatt will remain in Israel for several more days, meeting with business leaders and other members of civil society to better understand prospects for peace, according to a U.S. embassy official in Tel Aviv.

The Trump administration's attempt to advance peace talks likely won't yield progress in the short term, Western diplomats and analysts have said. Mr. Trump has shifted from a long-held U.S. policy of supporting a two-state solution, saying he would instead support a plan on which both Israelis and Palestinians agreed.

WORLD WATCH

NORTH KOREA

Pyongyang Fires More Missiles

North Korea fired three short-range ballistic missiles off its east coast early Saturday, as U.S. and South Korean forces were conducting joint exercises on the peninsula and just days after Secretary of State Rex Tillerson had praised Pyongyang for exercising restraint.

The latest North Korean provocation comes as a rebuke to policy makers in Seoul and Washington, who have been making diplomatic overtures to dissuade Pyongyang from its quest for advancing nuclear-weapons and missile technology.

The missiles were launched from a site near the city of Wonsan, on the east coast, traveling to the northeast, according to U.S. Pacific Command, which tracked the launches.

Pacific Command spokesman Cmdr. Dave Benham said the first and third missiles traveled 155 miles to the northeast. His comments retracted an initial assessment that those two missiles had failed in flight.

—Kwanwoo Jun



Mourners walk in a funeral procession in Manila for 17-year-old Kian Delos Santos on Saturday.

crackdown against illegal drugs was buried, with mourners turning his funeral into a protest against thousands of drug killings.

Hundreds of mourners and left-wing activists on Saturday carried placards that read "Stop killing the poor" and "Justice for Kian" during a kilometers-long (miles-long) funeral march before Kian Loyd Delos Santos was interred at a public cemetery in the Manila metropolis.

The 17-year-old student, who wanted to become a police officer, was one of more than 80 drug and crime suspects killed in purported gunbattles with police

over three days this month in the bloodiest few days of President Rodrigo Duterte's antidrug campaign. The killings sparked alarm and official investigations.

At a funeral Mass, Roman Catholic Bishop Pablo David urged authorities to "stop the killings and start the healing."

—Associated Press

ISIS Attacks Mosque; At Least 20 Killed

Suspected Islamic State fighters attacked a Shiite Muslim mosque in Kabul, triggering an

hourslong gunbattle with government security forces that left at least 20 people dead and 40 wounded.

This attack came a day after the top U.S. commander in Afghanistan, Gen. John Nicholson, said Islamic State was being crushed in its eastern Afghan stronghold in Nangarhar province.

Friday's violence erupted when three gunmen opened fire on two police officers guarding the mosque, in northern Kabul, and fought their way inside, Interior Ministry spokesman Najib Danish said.

—Ehsanullah Amiri

PHILIPPINES

Teen's Burial Becomes Anti-Duterte Protest

A Filipino teenager at the center of the latest outcry against the president's bloody

MYANMAR

Thousands Flee Rohingya Clashes

Myanmar's government said it had evacuated at least 4,000 non-Muslim villagers amid ongoing clashes in northwestern Rakhine state, as thousands more Rohingya Muslims sought to flee across the border to Bangladesh on Sunday.

The death toll from the violence that erupted on Friday with coordinated attacks by Rohingya insurgents has climbed to 104, the vast majority militants, plus 12 members of security forces and several civilians, according to a Reuters tally based on official releases.

—Reuters

TENNIS

Andy Murray Drops Out of U.S. Open

The U.S. Open lost another star on Saturday, when Andy Murray said his hip wasn't well enough to compete.

Murray, the 30-year-old second seed, won the U.S. Open in 2012 and excels on hard courts. But this season has been a trying one for him in terms of injuries.

Murray said he had hoped that his time off this summer—he hadn't played since Wimbledon—would be enough rest, but he said the pain hadn't subsided.

—Tom Perrotta

WORLD NEWS

Thai Ex-Leader's Flight Eases Risk for Military

By JAMES HOOKWAY

BANGKOK—Thailand's military junta might have got the result it wanted when former leader Yingluck Shinawatra fled the country before a court could hand down a verdict in her negligence trial last week.

Her flight freed the generals from the risk that she could be viewed as a martyr if she were convicted and jailed for allegedly mismanaging a botched multibillion-dollar rice subsidy. Ms. Yingluck, 50 years old and the mother of a young son, was facing up to 10 years in prison for a crime she says she didn't commit. Thousands of supporters, many of whom benefited from the subsidy before her government was ousted in 2014, converged on Bangkok to hear the verdict last Friday, matched by as many if not more police.

While the prospect of mass disturbances appears to have been averted, many people here say the political forces Ms. Yingluck and her older brother Thaksin Shinawatra unleashed with their policies favoring the poor will continue to pose a threat to Thailand's militarist old guard. And the turmoil that has hamstrung what was once one of Asia's fastest-growing economies will likely continue.

"The Shinawatras left a crucial imprint upon Thailand of waking up the political aspirations of Thailand's rural majority with the implementation of welfare policies. Rural voters are not likely to forget this," said Paul Chambers, an expert on the country's politics and lecturer at the College of Asean Studies at Naresuan University.

The government didn't respond to requests for comment. People familiar with the military's thinking said the junta had grown wary of mass protests erupting if Ms. Yingluck were jailed. They feared a repeat of the rioting in Bangkok after a 2006 coup ousted Mr. Thaksin, who fled the country to evade a corruption conviction.

One person close to the situation said the junta aimed to gradually increase the pressure



Former Prime Minister Yingluck Shinawatra, leaving the Supreme Court earlier this month.

on Ms. Yingluck until she too broke and fled. It isn't yet clear where Ms. Yingluck has gone; people close to her political party said only that she had left. Her brother Mr. Thaksin spends much of his time in Dubai. Ms. Yingluck couldn't be reached for comment.

Another person close to the Shinawatra camp suggested that Ms. Yingluck's decision to leave was to almost the last minute after it became clear there was a very real risk of her being jailed. Previously she had said in interviews that she intended to pursue the case to the end. "It's better for all sides if she just disappeared," this person said. "The sight of her going to prison could set the country on fire."

In the short term the country's junta will gain from Ms. Yingluck's exit from the political stage, Mr. Chambers at Naresuan University said. Prime Minister Prayuth Chan-ocha, the former army chief who ousted Ms. Yingluck's government three years ago, is already making the most of the situation, suggesting that her decision to skip the court verdict

revealed everything there was to know about the case.

"If she's not guilty she should stay and fight," Gen. Prayuth told reporters.

The Shinawatras' political machine isn't finished. The family has dominated politics since the turn of the century after tailoring economic policies to appeal to the poorer segments of Thai society who had largely been ignored. A one-time telecommunications billionaire, Mr. Thaksin introduced cheap credit and health-care programs to help boost living standards and remains the only Thai premier to have been re-elected.

After he fled the country following the 2006 coup, Ms. Yingluck was elected in a landslide and quickly put in place a rice subsidy that involved paying farmers up to double the market price for their crops.

The scheme was wildly popular among farmers, who enjoyed a surge in living standards. It helped the economy, too, for a time. Around 40% of Thailand's workforce depends on agriculture and Ms. Yingluck repeatedly defended the policy

in court as a way of redistributing wealth for the benefit of all Thais. Her government intended to pay for the program by withholding its new stocks of rice from the global market, steering prices higher.

Instead, India entered the market after a long absence and Vietnam expanded production. Thailand fell from its position as the top rice exporter, and the government was left with vast stockpiles that it had to sell at loss. Officials estimate that the program cost Thailand at least \$15 billion, and the army and its allies in Bangkok's royalist establishment used the shortfall as an argument for removing Ms. Yingluck as a political force.

Last October the junta ordered Ms. Yingluck to pay nearly \$1 billion in civil damages. The government began freezing some of her bank accounts in July.

In the days leading up to the verdict in the criminal case, a person close to Ms. Yingluck's camp said signs were growing that she would also be jailed.

"That couldn't be allowed to happen," this person said.

Navy Was Warned About Deficiencies

Congressional investigators and military officials warned repeatedly about overworked sailors, shortened training schedules and budget cuts in the years leading up to two fatal collisions involving U.S. Navy ships, government auditors, lawmakers and Pentagon officials said.

By Nancy A. Youssef,
Ben Kesling
and Jake Maxwell
Watts

The collisions in June and earlier this week, both involving Navy guided-missile destroyers in the Pacific, left 17 sailors dead or missing.

Three reports in the past two years by the Government Accountability Office, an independent watchdog agency, spell out endemic problems. They found through interviews and Navy studies that U.S. sailors overseas often arrive to their assigned ships without adequate skills and experience.

They end up on duty for an average of 108 hours a week, instead of the Navy-standard of 80 hours, the reports found.

"Experienced sailors routinely provide on-the-job training for less experienced sailors, so the time doing this must come out of sleep, personal time, or other allotted work time," according to a May 2017 GAO report.

John Pendleton, the Government Accountability Office official who wrote the three re-

ports, is scheduled to testify Sept. 7 on Capitol Hill. Mr. Pendleton and Vice Adm. Thomas Rowden, the Navy's surface forces commander, plan to appear before subpanels of the House Armed Services Committee.

Congressional aides said they have long known about the stress on the Navy that has resulted from an erosion in training and equipment.

"We know that the Navy is less than half the size it was in the 1980s, but the operational demands have not declined," said a House Republican aide.

The problems have been notably acute overseas. A September 2016 GAO report concluded that while the Navy fleet has decreased by 18% since 1998, it still has maintained 100 ships overseas during that time.

"Consequently, each ship is being deployed more to maintain the same level of presence," according to the report, which also noted that maintenance has been reduced, deferred or eliminated.

The issues raised in the GAO reports haven't come as a surprise to the Navy, which has asked for more resources to maintain its fleet and personnel and in 2014 developed a plan to revamp its operational schedules. The Navy received and responded to all the watchdog reports, agreeing with nearly all the conclusions.

Gordon Lubold contributed to this article.



The GAO said many sailors are given inadequate training.

Brazil Woes Grow as Manufacturers Exit

By JEFFREY T. LEWIS

CIUDAD del ESTE, Paraguay—This remote South American country, long known for contraband traffickers and a 35-year dictatorship, is now becoming something else: a manufacturing hub.

Paraguay has attracted scores of foreign factories since 2013, as predominantly Brazilian companies respond to new incentives by flocking to this gritty border city to make everything from toys to motor scooters for export.

Koumei SA, a family-run Brazilian light-fixtures company, is typical. Its owners moved the plant and about 150 jobs here last year, saying they were fed up with Brazil's high taxes and complicated labor rules.

Companies shift operations next door to reduce taxes and red tape.

"It's just easier here," Seiji Abe, who directs the company with his father.

The shift from Brazil comes as Latin America's biggest country is trying to stabilize an economy that has contracted 7.2% in the past three years. A series of corruption scandals has also roiled the political class, leaving Brazilian President Michel Temer in a tenuous position as he tries to revamp the economy.

Brazil ranked 123rd out of 190 in the World Bank's 2017 survey on ease of doing business, right behind Uganda and Egypt. Companies there say they are bedeviled by rules that smother entrepreneurial impetus. They point to labor regulations that make hiring and firing difficult, high energy bills, a

legal system that encourages employee lawsuits and taxes of up to 35% on imported goods.

"The regulations are absurd," said João Carlos Komicheira, owner of Kompar SA, a company which makes small plastic bottles used for packing soy sauce and other products that moved to Paraguay from Brazil last year. "We need to wake up in Brazil; there is a lot of prejudice against business."

Enter Paraguay. The poor, landlocked country, ruled until 1989 by dictator Alfredo Stroessner, was long known for corruption, violent crime and drugs, tobacco and armaments smuggling, as well as its commodity agricultural exports. Paraguay began trying to attract manufacturers in 2000 with a series of incentives President Horacio Cartes has hawked enthusiastically since he took office in 2013.

Paraguay's sales pitch to manufacturers: cheap electricity, less onerous labor rules, zero import taxes and only a 1% levy on the value of finished exported products. So far, 115 factories have opened up in Paraguay under the so-called maquila program, 89 of them since 2013, with another 20 preparing to start operations, the government says.

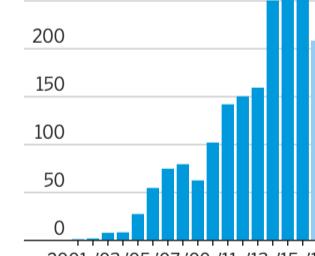
"Paraguay is the least developed country in Mercosur, we need to industrialize if we want to catch up," said Industry Minister Gustavo Leite, speaking of the trade union in South America of which Paraguay is a member. "Our obsession is jobs."

To be sure, Brazil, with thousands of factories and 65 times the economic power of tiny Paraguay, still dwarfs its neighbor. But for a small, landlocked country of nearly seven million people the shift is significant, not least for the 13,000 people employed directly by the factories.

Maida Soto, 23 years old, is among those benefiting from a

On the March

Exports by foreign companies operating under Paraguay's maquila program have soared since President Horacio Cartes came to power in 2013 and added new incentives.



*Through the end of June.

Source: Paraguay Ministry of Industry and Trade

THE WALL STREET JOURNAL

Paraguayan factory job in a Brazilian-owned plant, allowing her to continue her nursing studies while providing her with enough of a salary to buy a motor scooter.

"The work conditions here are better" than in the hospital where she previously worked, she said, taking a break from drilling holes in a lighting fixture at the Koumei plant. "I have more money and more time."

The Paraguayan cities profiting most from the influx of foreign manufacturers are Ciudad del Este and nearby Hernandarias—scrappy border outposts on the mighty Paraná River long known for their bustling contraband trade. Now, factories hum at industrial parks and trucks haul finished components along clogged highways into Brazil and elsewhere.

One company that moved here to Ciudad del Este, toy-maker X-Plast SA, employed about 20 people to handle accounting in Brazil. In Paraguay it uses only five.

"It's both the complexity and the cost," said Caina Chen, vice president of X-Plast, adding that up to 40% of the cost of producing a toy in Brazil was attributable to taxes.

Maida Soto, 23 years old, is among those benefiting from a

A Lesson in Boxing

Mayweather handles MMA's McGregor, who puts up a fight

By JIM CHAIRUSMI

LAS VEGAS—The boxing match between Floyd Mayweather Jr. and Conor McGregor wasn't supposed to be a fair fight.

But for the first half of Saturday's bout, Mayweather appeared every bit like a 40-year-old who hadn't been in the ring in two years.

McGregor, 29, the Ultimate Fighting Championship lightweight champion and a boxing novice, looked like he belonged in the same ring as the undefeated Mayweather.

But as the fight wore on, Mayweather began to find his range and finally wore McGregor down, stunning him with a barrage of blows in the 10th round, before referee Robert Byrd stopped the bout with 1:55 remaining in the round.

"I thought it was a bit of an early stoppage. I was just a little fatigued," McGregor said after.

Before the fight began, Byrd warned both fighters: "This will be a clean, professionally fought bout under boxing rules."

At the opening bell, McGregor charged at Mayweather and took command,

as Mayweather looked content to feel his foe out. Midway through the first round, McGregor briefly taunted Mayweather by putting both hands behind his back.

In the first five rounds of the bout, McGregor held a 51-40 edge in punches landed, according to CompuBox.

In the sixth round, Mayweather stepped up his effort and seized control. In rounds six through 10, Mayweather outlanded McGregor 130 to 60.

McGregor was the more active fighter, throwing a total of 430 punches, compared with 320 by Mayweather, but McGregor connected on only 26% of his blows. Mayweather landed at an astounding 53% rate, which eventually took its toll on the challenger.

"Our game plan was to take our time, go to him, let him shoot his shots early and then take him out down the stretch. We know in MMA he fights for 25 minutes. After 25 minutes, he started to slow down. I guaranteed to everybody that this wouldn't go the distance," Mayweather said.

At the time of the technical knockout in the 10th round, Mayweather was

ahead on all three judges' scorecards: 89-81, 89-82, 87-83.

Of course, if the rules had been reversed and mixed martial arts allowed, McGregor would have had a significant advantage. But Saturday's bout was a no-foul situation for McGregor.

Fighting under boxing rules, he got the biggest payday of his career for his crossover effort and didn't embarrass himself in the ring.

UFC President Dana White said he was proud of McGregor, but was looking forward to his star fighter returning to the octagon. "This is not what he does. He's a mixed martial artist," White said. "This was a fight where he could only use his hands."

Mayweather's win improves his record to 50-0. He eclipsed the mark originally set by Rocky Marciano (49-0) for most boxing wins without a defeat in the modern boxing era.

"I have to give it to him, that's what 50 pro fights will do for you," McGregor said.

In the ring after the bout, Mayweather said he was hanging up the gloves.

"This was my last fight," he said. "For sure."



Conor McGregor, left, was an easy target for Floyd Mayweather Jr., who landed 53% of his shots.



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IN DEPTH

RAQQA

Continued from Page One
women in Raqqa dare to uncover their faces in public. A few men defiantly smoke in the streets and shave their beards, current and former residents say.

When the call to prayer sounds from mosques, some residents no longer bother to go. Islamic State used to force shops to close and people to pray.

Women accused of violating Islamic State's strict dress code were once whipped. In May, though, militants released two women unharmed after they were forced to buy new robes and all-covering face veils sold by Islamic State's religious police for 10,000 Syrian pounds each, or a total of about \$40, says Dalaal Muhammad, a sister and aunt of the women.

Ms. Muhammad, 37 years old, says her sister had to beg a family member to borrow the \$40 from friends.

"They didn't even have enough to buy bread," she said at a camp for displaced Syrians, wearing sandals held by twine. "They just wanted to get the money quickly because we were running out of time" to flee Raqqa.

An estimated 25,000 civilians remain trapped in Raqqa under Islamic State control, according to the United Nations, and more than 230,000 people have fled Raqqa and its suburbs since early April. On Thursday, the U.N. called for a pause in the assault so civilians can escape.

Fighters for the U.S.-backed Syrian Democratic Forces, leading the assault to oust Islamic State from Raqqa, say on some days they have helped dozens of civilians reach safety. Other days, no one makes it out. Militants execute smugglers helping civilians flee and those accused of collaborating with the coalition.

The Pentagon has estimated there are fewer than 2,500 Islamic State militants left in the city, down from 4,500.

Militants spent months girding for the long-anticipated assault before it began in June. They dug extensive tunnels beneath streets and homes, set up snipers' nests and planted improvised explosive devices everywhere to stop people from fleeing.

Human shields

"They wanted us as human shields," says Obaida Matraan, 33 years old, a taxi driver who escaped with his family one night just before the battle began. They carried a piece of white fabric to wave as they approached the SDF.

Before the escape, he saw on public display the bodies of executed men with signs that said "smuggler" as "a warning to others," he recalls.

In early 2014, Raqqa was the first city in Syria or Iraq to fall under Islamic State's complete control. The group has lost about 60% of the territory it held in January 2015, including its former Iraqi stronghold of Mosul, according to analysts at IHS Markit Ltd.'s Conflict Monitor.

Even as the self-declared caliphate crumbles, Islamic State has continued to claim responsibility for deadly terror attacks around the world, including in Spain this month, in a bid to project power.

The SDF has encircled Raqqa and says it has seized more than half the area of the city. But militants are capable of striking behind the coalition's front lines and are scrambling to hoard the little food and water left in areas they control. Much of Raqqa



Abdullah, 12 years old, above, is treated for wounds suffered when a mine exploded during his family's escape from Raqqa. The smuggler helping the family stepped on a mine and was 'ripped to shreds,' the boy said. Below, a hole smashed by Islamic State militants to help them move undetected between houses in the city.

remains a battlefield.

The ground advance by the SDF has been aided by coalition airstrikes. At least 465 civilians have likely been killed in those airstrikes, independent monitoring group Airwars reported. The U.S.-led coalition said it investigates civilian casualties. Monthly reports released by the coalition show far lower estimates of civilian casualties.

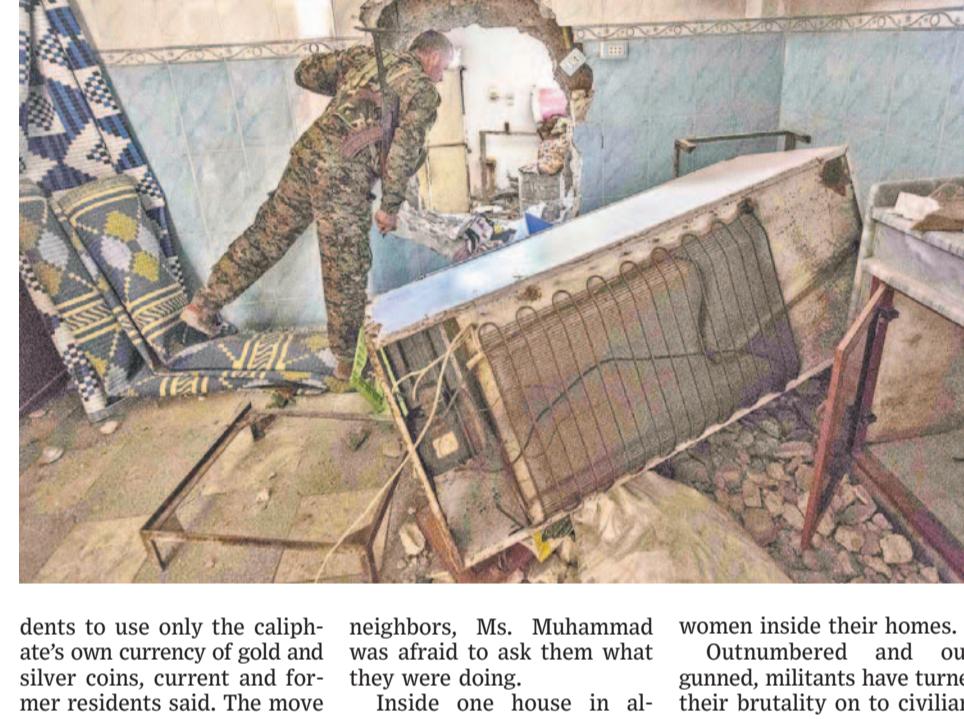
Syrian activist groups estimate that at least dozens more civilians were killed during the past week. Civilians in Raqqa say the airstrikes seem indiscriminate and kill more civilians than militants, who hide out in tunnels.

At the height of Islamic State's control, life in Raqqa and elsewhere in the group's territory was dictated by so many laws on everyday life that residents struggled to keep track of them.

Banned items ranged from men's skinny jeans (too Western and provocative) to canned mushrooms (made with preservatives) to bologna (because the group said it contained pork).

Enforcement slackened as the Syrian Democratic Forces advanced toward Raqqa through the Syrian countryside and eventually surrounded the city, according to residents who fled recently.

Checkpoints thinned out as Islamic State leaders and many militant fighters abandoned



dents to use only the caliphate's own currency of gold and silver coins, current and former residents said. The move forced people to trade in their U.S. dollars and Syrian pounds to Islamic State, which wanted those currencies as its territory shrinks.

Mr. Matraan, the taxi driver, says Islamic State made him pay \$30 for water, electricity and a landline telephone bill weeks before his family fled.

"They would go to people's homes and demand payment," said Mr. Matraan, who wore a San Jose Sharks cap under the searing sun at a camp for displaced Syrians in Ain Issa, a city north of Raqqa. "In the end, their main concern was money."

Abdulmajeed Omar, 27, says militants began fining those caught violating Islamic State's smoking ban, rather than jailing or whipping them. Being caught with a pack of cigarettes brought a \$25 fine. The fine for a carton of cigarettes was \$150.

"They didn't bother with poor people," says Mr. Omar, who fled Raqqa before the battle and returned with the Kurdish YPG militia to fight Islamic State.

Before Ms. Muhammad fled the city, militants spent a month digging a tunnel underneath her home in the eastern neighborhood of al-Mashlab, she said. Like many of her

neighbors, Ms. Muhammad was afraid to ask them what they were doing.

Inside one house in al-Mashlab, which has since been captured by SDF forces, a tunnel opening cut through the living-room floor. The fighters filled the hole with broken furniture because they weren't sure where the tunnel led.

"We are suffering from snipers and tunnels," said Dirghash, a Kurdish YPG commander on the city's eastern front line who wouldn't give his last name. "The tunnels are all in civilian homes, and we suddenly find [Islamic State militants] popping up behind us."

On the western side of Raqqa, a warning painted in silver on the metal shutters of a motorcycle shop simply read: "There are mines."

New graffiti

In captured neighborhoods, the walls already are covered with new graffiti by the YPG, the Syrian Kurdish militia that is the dominant group in the SDF. Every conquering force that has swept through Raqqa since the Syrian conflict began more than six years ago has left its mark with cans of paint.

A hot breeze ruffled bed sheets hanging from doorways. The sheets were in keeping with Islamic State's decree to provide an extra barrier to prevent outsiders from seeing

women inside their homes.

Outnumbered and outgunned, militants have turned their brutality on to civilians in Raqqa trying at last to escape from Islamic State.

Earlier this month, a 12-year-old boy named Abdullah said his family had tried twice to flee but was caught.

The first time, a Chechen fighter for Islamic State said he would arrest them unless they returned home. The second time, they were told: "If you try to leave again, we'll slaughter all of you."

Abdullah said the death threat came from a Chinese militant. His younger brother, Abdulrahman, interrupted: "He was a Pakistani."

The two boys debated the various ethnicities of Islamic State fighters who had helped turn their hometown into a rubble-strewn battleground, its streets lined with charred vehicles and pancaked roofs.

Militants blocked the family from drinking out of a neighborhood well, claiming they hadn't paid their water bill.

When the front lines approached the family home in the Old City, Abdullah and eight relatives made another harrowing escape attempt. They spent a hungry, thirsty night dodging militants while coalition warplanes and mortar shells struck. By morning, they spotted a checkpoint for U.S.-backed forces.



As they neared safety, the smuggler helping the family flee stepped on a mine and was "ripped to shreds," recalled Abdullah.

He didn't know how many of his siblings were still alive. His wounded father was stuck near the front lines because an Islamic State sniper prevented SDF fighters from pulling him to safety.

When Abdullah arrived in the back of a pickup truck at a villa in al-Mashlab now used as an SDF-run field hospital, his shoes and shirt were gone. He clutched a handful of chocolate bars. He had lost the backpack that he said saved his life by shielding him from shrapnel in the explosion.

Abdullah's right eye was bruised and swollen shut, gauze wrapped around his head, and his injured leg was propped up near a full ashtray on a sticky coffee table in the hospital's lobby. Dried blood caked the two brothers' faces.

Later, a nurse brought them chunks of bologna. It was the first time they had eaten bologna in years.

'Will it burn?'

As he narrated the escape, Abdullah's mature, emotionless demeanor broke only when a medic was about to clean his wounds, causing the boy to wince and cower in anticipation of the pain.

"Will it burn?" he asked.

Inside a room with a handwritten sign that said "Ambulance," Abdullah's mother laid on a stretcher on the floor, yelling deliriously. On a sheet of cardboard nearby was her 1-year-old son, Abdulmumin, who wore only a diaper and a new cast on his arm.

"Ayah, Ayah," the mother called out to her daughter, who held her hand. The mother asked about the fate of another son: "Where's Alawi?"

"Alawi is alive," Ayah said to her mother.

"Swear it," the mother demanded.

"I swear by God," said Ayah, but she didn't actually know. She gripped her mother's hand tighter and lowered her head. Tears streamed down her face.

"Did we make it?" the mother asked.

"Yes," Ayah assured. "We made it."

Dana Startt owns Chooop-aBoard, a business that launched in 2004 after her sister-in-law vented about not being able to put magnets on her high-end fridge. The magnetic boards are sold in two sizes.

The biggest complaint Ms. Startt gets is from customers who wake up in the middle of the night to the clashing of metal in the kitchen. Chooop-aBoard has no research and development team—it just has Ms. Startt—who has discovered the suction cups don't work on more porous types of stainless steel.

Ms. Bonner, of Staten Island, has a new strategy.

"Now what I do, if I do go out to buy something stainless steel, I usually take something magnetic with me," she said.

MAGNET

Continued from Page One
nets from the Grand Canyon—not so much.

Isaac Baker, 37, of Washington, D.C., had taped a friend's wedding invitation to his stainless-steel fridge. "It did not come off easily," he said. "I had to do some extra peeling."

Mr. Baker's bachelor-era fridge was clutter-free for 10 years, he said, but after getting engaged recently, he felt nostalgic for the personalized family refrigerator of his childhood. "Moving in with someone and starting a life together motivated me to have a more homely atmosphere in my kitchen," he said.

Taryn Brucia, a spokes-

woman for the appliance-maker LG, said the lack of magnetism isn't the top issue she gets asked about, but it does come up.

When she discovered that her mother had stuck a dorm-room-style half corkboard, half marker-board to her stainless-steel refrigerator using adhesive, "she got a talking to from me," Ms. Brucia said. "I was, of course, critical of her aesthetic."

Food blogger Kristin Porter spends hours in the kitchen and needed something to entertain her toddler son.

When she moved into her home in Des Moines in 2015, she used adhesive strips to stick two magnetic chalkboards to her fridge and freezer doors. A tutorial with instructions has generated sev-

eral thousand hits on her blog.

When family members with stainless-steel fridges come over, Ms. Porter said, "their kids always want to play with the magnets."

Nicole Schultz-Kass, 37, of Woodbury, Minn., said she didn't realize that some fridges weren't magnetic when she moved into her new home four years ago. The mother of two girls, ages 12 and 5, said she adapted by hanging a magnetic board by the home's entry way to display a calendar and hold papers.

Because her Viking fridge isn't magnetic, Amy Harder, 31, displays photos of her three nieces and two nephews on her wall-mounted knife bar, instead of sharp utensils.

"I make sure that they are all represented," the Washing-

ton, D.C.-based journalist said, adding that space is tighter than it would be if the fridge was magnetic and "some are more represented than others."

Many customers prefer clutter-free fridges, said Sandra

Refrigerator magnets are being rendered useless by the tyranny of stainless steel.

Brannock, a kitchen and bath designer in Amissville, Va.

Melanie Jackson, 40, of Fruit Heights, Utah, keeps her kitchen clutter free. If her four children want to hang up art, it goes to their rooms. She was

aware her stainless-steel fridge wasn't magnetic when she bought it. "I don't like things hanging on the fridge anyway. It bothers me," she said.

The new trend, Ms. Brannock said, is a docking drawer in the kitchen for cellphones. Reminders are no longer necessary on the fridge, she said, because they are on phones. "We've kind of integrated that electronic device into how we communicate," she said.

Samsung has fashioned something of a compromise. The company's newest Family Hub refrigerator has a 21.5-inch touch screen that can showcase a calendar, recipes and photos. Report cards would have to be photographed and uploaded on it to be displayed.

In the meantime, entrepreneurs have sought to fill the

void. Dana Startt owns Chooop-aBoard, a business that launched in 2004 after her sister-in-law vented about not being able to put magnets on her high-end fridge. The magnetic boards are sold in two sizes.

The biggest complaint Ms. Startt gets is from customers who wake up in the middle of the night to the clashing of metal in the kitchen. Chooop-aBoard has no research and development team—it just has Ms. Startt—who has discovered the suction cups don't work on more porous types of stainless steel.

Ms. Bonner, of Staten Island, has a new strategy.

"Now what I do, if I do go out to buy something stainless steel, I usually take something magnetic with me," she said.

U.S. NEWS

THE OUTLOOK | By David Harrison

Jobless Rate's Decline Hints at Broader Shift



The unemployment rate has fallen to a 16-year low of 4.3% and may not be done

falling. The question is whether that is good news because it means the economy is still operating below capacity and has plenty of room to run, or bad news because it means the economy is close to overheating and heading for trouble.

A study by the Federal Reserve Bank of San Francisco finds that over the past century, the jobless rate's "natural" level—meaning the level that signals an evenly balanced economic expansion—has fluctuated in a relatively narrow band between 4.5% and 5.5%. If it goes

much above that range it means recession, and much below it could signal inflation or other economic excesses building. It's now been below that level for four straight months, without obvious evidence of overheating.

Structural changes in the economy could alter this theoretical natural rate, meaning the jobless rate might have room to go lower without throwing the economy off bal-

ance. One reason is the aging workforce. Jobless rates tend to be lower for older workers, who are better trained than younger workers and tend to be more settled in their jobs. With a large portion of the workforce in older age groups, it might be the case that the economy can handle a lower jobless rate.

In 2015, economists at the Chicago Fed estimated that the aging workforce could have pushed the natural rate considerably below both Fed officials' estimates and those calculated by the Congressional Budget Office. One of their estimates predicted the natural rate could fall to as low as 4.1% by the fourth quarter of 2017, below where the actual rate stands now.

Other factors could be at play. Globalization might help drive unemployment down at home without affecting broader inflation trends. U.S. workers now compete with workers from around the world. An abundance of low-wage workers in China and other developing economies could hold down wages and prices in the U.S. in ways that didn't happen a decade or two ago. Likewise,

How Low Can Unemployment Go?

When the jobless rate falls below the natural rate of unemployment, it can be a sign of an imminent recession.

■ Natural unemployment rate* ■ Actual unemployment rate



* Natural rate based on Congressional Budget Office estimates of jobless rate which won't lead to inflation rise.

Sources: CBO (natural rate); Labor Department (unemployment rate)

THE WALL STREET JOURNAL.

technology could be reshaping the interplay of unemployment and inflation: Amazon.com Inc., the internet retailing giant, plans price cuts at Whole Foods Markets Inc., which it recently purchased.

"Digital technology was finding its way on the factory work floor and offices in a big, big way in a very positive, broad fashion," Charles Evans, president of

the Federal Reserve Bank of Chicago, said in an interview. "It makes you wonder if competition is beginning to take place along lines that haven't been contemplated. Competition in many forms would adjust price margins."

This is a hot topic at the Federal Reserve because inflation isn't behaving the way officials expect it to behave with such a low jobless rate. In the

past 12 months, the jobless rate has dropped from 4.9% to 4.3%. That decline suggests inflation should be picking up. Instead, a measure of underlying inflation—the personal consumption expenditure price index excluding food and energy—has dropped over that period from 1.7% to 1.5%.

When the jobless rate is higher than the natural rate, Fed officials tend to keep borrowing costs low to drive down unemployment. But when the jobless rate drops below the natural rate, it might signal inflation—and officials push up interest rates. The current low rate underpins the Fed's plan to keep raising rates. But the fact that inflation is so low is making some officials wonder if they can afford to let the jobless rate continue to drop and slow the pace of rate increases. The Fed has raised interest rates four times since 2015 and penciled in another rate increase this year and three more next year.

Robert Kaplan, president of the Federal Reserve Bank of Dallas, said the natural rate is probably lower than it has historically been and the wage and price pressures typically associated with low unem-

ployment are muted due to technological change and globalization. He sees the jobless rate continuing to fall.

"We're living an experiment now [where] the unemployment rate is falling and it's fallen below the point that people were where would have predicted an inflation pickup," said Laurence Ball, a Johns Hopkins University economist.

In Mr. Ball's view, the natural unemployment rate and the actual unemployment rate feed on each other so that a lower unemployment rate pushes down the natural rate, which in turn pushes down further on the unemployment rate. "It could be that unemployment drops down to 3-something [percent] and stays there and inflation stays low," he said.

That might be the case, but history offers some warnings. The jobless rate bottomed out at 3.8% in April 2000. It spent nine months at 3.4% in 1968 and 1969. But in both cases, recessions weren't far behind, one driven by a technology bubble in the 1990s and rising inflation in the 1970s.

—Ben Leibsdorf contributed to this article.

Civil War Museums Widen Scope

BY CAMERON MCWHIRTER

ATLANTA—When the Confederate Museum opened in Richmond, Va., in 1896, it was chartered to honor those who fought for the rebel cause and spent more than a century building a vast collection of historical artifacts from the secessionist movement.

Four years ago, the museum dropped the Confederacy from its name, and became simply the American Civil War Museum.

Its leaders say the decision—as part of a merger with a smaller museum—was vital to its future. The change also punctuated its evolution from solely presenting Confederate-themed exhibits to exhibiting a broader look at the four-year conflict that caused the deaths of at least 620,000 soldiers fighting on both sides.

"History museums need to view history with a high level of subjectivity and passion," said S. Waite Rawls III, president of the American Civil War Museum Foundation. "It was increasingly difficult to do that because people assumed we would simply take the Confederate side. Its very name was in the way."

The name change was costly. After the merger and adopting its new moniker, donor numbers dropped 40%. Mr. Rawls said the museum now relies on larger donations from fewer benefactors for its \$3.6 million operating budget.

In the aftermath of the violence in Charlottesville, the rapid removal of memorials to the Confederacy has renewed objections from those who want public memorials to the



Robert E. Lee's field coat at what is now the American Civil War Museum's facility in Appomattox, Va.

"Lost Cause" to remain. They argue history is being rewritten, but academics and curators say how the past is remembered constantly evolves.

The Sons of Confederate Veterans, the leading heritage group for descendants of those who fought for the South, has a different view. The group is so frustrated by what it sees as a dwindling of institutions presenting Confederate views on the war that it is spending at least \$4.5 million to build a private National Confederate Museum in Tennessee, said Executive Director Mike Landree.

"There are very few Civil War museums that take the Confederate side," Mr. Landree said. "The majority of them walk on eggshells."

The best known battlefield from the war, Gettysburg in Pennsylvania, is standing firm

on keeping the more than 1,325 monuments, markers, and plaques it has that commemorate those who fought and died—whether Union or Confederate.

The National Park Service, which manages the site, said it is "committed to safeguarding these unique and site-specific memorials in perpetuity, while simultaneously interpreting holistically and objectively the actions, motivations, and causes of the soldiers and states they commemorate."

In the 1950s and 1960s—before, during and after the Civil War's centennial, and as the nation struggled to end segregation—rebel museums and attractions had a heyday, and using the term Confederate and displaying the battle flag was often part of a sales pitch.

Public interest has shifted

from a focus on battles and generals, to an interest in slavery and the role it played in starting the conflict, say experts like Christy Coleman, the American Civil War Museum's chief executive. That has forced change at historic sites that focused more on military aspects of the Confederacy, giving less attention to slavery.

The former Confederate Naval Museum in Columbus, Ga., changed its name in 2001 to the National Civil War Naval Museum because it realized it had to expand its scope, said Executive Director Holly Wait. The museum, which used to focus on Confederate warships, has added replicas of federal ships and other exhibits, she said.

"You just can't talk about one side; that just don't make sense," she said.

Trump Draws Fire For Arpaio Pardon

BY SHANE HARRIS

A senior White House official on Sunday defended Donald Trump's decision to pardon Joe Arpaio, the former Arizona sheriff who was convicted last month of criminal contempt after he defied a federal court order to stop conducting immigration raids.

Tom Bossert, whose portfolio includes border security, said that previous presidents had also issued "controversial" pardons, and that Mr. Trump weighed Mr. Arpaio's long record of public service in making his decision.

"I think it's pretty straightforward what the president did," Mr. Bossert said on ABC News "This Week."

Mr. Bossert is the most senior administration official yet to comment on the pardon, which drew rebukes from Republicans who said the president's decision raised doubts about his respect for the rule of law.

Through a spokesman, House Speaker Paul Ryan said Saturday he "does not agree with the decision."

"Law-enforcement officials have a special responsibility to respect the rights of everyone in the United States. We should not allow anyone to believe that responsibility is diminished by this pardon," said Mr. Ryan's spokesman, Doug Andres.

Mr. Arpaio was due to be sentenced in October and faced up to six months in prison for refusing to follow

the judge's orders.

Sen. John McCain, an Arizona Republican, said the president "undermines his claim for the respect of rule of law as Mr. Arpaio has shown no remorse for his actions."

The state's junior senator, Jeff Flake, whom Mr. Trump has publicly attacked as weak on border security, said in a Twitter message that he would have "preferred that the president honor the judicial process and let it take its course."

Mr. Arpaio, whom the president has called a friend and political ally, became one of the most celebrated figures among immigration hard-liners for his tough and unapologetic treatment of inmates in his state. Some were held outdoors during sweltering conditions. Others were forced to wear pink underwear or were subjected to other treatment that critics said was humiliating.

Mr. Arpaio was also one of the leading proponents of the false claim that President Barack Obama wasn't born in the U.S., an assertion Mr. Trump embraced and tried to prove for years before becoming president.

But it was Mr. Arpaio's use of racial-profiling tactics that landed him in a federal court. U.S. District Judge Susan Bolton ruled last month that he had "willfully violated" a 2011 court order that barred his deputies from stopping and detaining Latinos without reasonable suspicion that they had committed a crime.

HARVEY

Continued from Page One
a meteorologist for the Harris County Flood Control District who is working with emergency personnel. "There is water in homes that have never flooded before, and we've received reports of water going into the second story of homes."

More than 150 roadways were flooded throughout Houston. William P. Hobby Airport, the city's second largest, said it was canceling all flights because of high standing water on runways.

President Donald Trump said that Washington is making an "all-out effort" to address the disaster caused by Harvey and praised government agencies for coordinating to bring speedy response.

Mr. Trump sent several tweets Sunday morning, reiterating on the damage inflicted by the storm. "Wow -

and going well!" Mr. Trump wrote in one of the tweets. "Great coordination between agencies at all levels of government," he said in another.

Mr. Trump indicated he was mindful of the mistakes made by Pres. George W. Bush during the Hurricane Katrina disaster as his administration crafted its response to Harvey. "@ChuckGrassley - got your message loud and clear," Mr. Trump tweeted Saturday, referring to a warning from Sen. Chuck Grassley (R., Iowa), who urged the president in a tweet to "keep on top of hurricane Harvey" to avoid repeating Mr. Bush's mistakes.

Authorities warned that the situation could worsen on Sunday as the storm continued to drop large amounts of rain on a soaked Houston.

Many of the most flooded areas are near the city's bayous and creeks, which are meant to act as a bulwark against flooding. Yet as has occurred two other times in recent years, including during the Memorial Day holiday in 2015, they failed to withstand the onslaught from a tremen-

dous downpour.

As flash flooding began to cause street flooding Saturday night, Houston Mayor Sylvester Turner and other leaders urged calm, advising people to stay indoors and avoid driving through high water. They asked people to remain vigilant, even

when it appeared rain had stopped falling in their area. "Do not be lulled into a false sense of security," said Police Chief Art Acevedo.

The National Weather Service took the extraordinary step of issuing a rare "flash flood emergency" for catastrophic life-threatening flooding," warning Houstonians not to leave their homes unless they were at risk of losing their lives due to rising waters.

After receiving reports that residents were fleeing into their attics, Chief Acevedo warned Houstonians not to do

so unless they were equipped with axes, because they might otherwise find themselves trapped if waters rise further.

"Unfortunately, we have more days of rain to come," he said in a video posted on Twitter after firefighters and police had rescued people in a flooded apartment complex north of the city. "It's sad. It breaks your heart for our city."

The National Hurricane Center said the storm could linger around the city through as late as Thursday, suggesting that danger from flooding in Houston and in many areas of Texas could intensify.

The catastrophic rainfall came only a day after Harvey battered Texas' southern coastline, after making landfall with wind speeds exceeding 100 miles an hour. It was the most powerful storm to hit Texas in more than 50 years.

Even as the storm is expected to continue weakening, meteorologists warned that the rainfall will continue for many days.

—Dan Frosch, Erin Ailworth and Russell Gold contributed to this article.



A search-and-rescue team member examines a destroyed apartment complex in Rockport, Texas.

JOE RAEDLE/GETTY IMAGES

JOE RAEDLE/GETTY IMAGES

LIFE & ARTS



KAGAN MCLEOD

BY CLARE ANSBERRY

THERE ARE TWO TYPES of people in this country, and their differences have nothing to do with politics.

"There are those who love fall and those who hate it," says Harvard psychiatrist John Sharp, who wrote "The Emotional Calendar," which explores how we feel about the seasons and why.

Fall marks the end of the relaxed summer, which some people mourn, and the return to routine and order, which others relish. Kim Petrolo doesn't like fall because it means shorter days. "I enjoy coming home from work while it is still light and having time to take a leisurely walk with the dogs, or at least not feel like I need to eat dinner and go straight to bed in preparation for the next day," says Ms. Petrolo, of Pittsburgh.

A street away, Laura McGaha, who grew up in Texas and worked summers for her father's home-building business, can't wait for fall: "I hate the summer months, because in Texas the low was 85 degrees at 5 a.m. and [I] longingly wait for the first day of fall."

Even those who live near the season-less equator or where temperatures are more constant have layers of memories and traditions associated with different times of the year that influence their emotions. In the Jewish faith, whether you live in Arizona or upper Minnesota, fall marks Rosh Hashana, the new year and a time of reflection and fresh starts. Personal experience, too, affects how we feel. If someone close died in the fall, the season

may always carry some sadness.

The most common fall memory is going back to school, a pattern for years of our early lives. "I think it makes a lot of people feel industrious and energized about possibilities. Things become more linear, and some people find that really works for them," Dr. Sharp says. "Others don't." Thirty years after graduating, some adults still get a bad feeling in the pit in their stomach because it reminds them of leaving for college or struggling to get good grades.

When September approaches, Lana Shami, also from Pittsburgh, feels uneasy. "It used to be because it meant another dreadful, challenging school year and the end of carefree summers," she says. She's been out of school for years, and her own children are eager to return to classes. But the vexing feeling remains. Now she dreads the back-to-school preparation, mothers' PTA-related responsibilities and regimented schedules.

Dr. Sharp likes fall, something

he traces to being one of those eager and prepared children who sharpened all their pencils before school started. He finds himself getting anxious when summer drags on too long.

"I have the opportunity to be more indulgent" during autumn months, chef Joshua McFadden says of his ingredients.

A few years ago, a cousin visited him at a Nantucket summer cottage the last week of August. She was ready to barbecue and eat ice cream and he was over that. "I was so ready for the fall that I was a little bit of a grump," Dr. Sharp says. He recognized his grouchiness and realized he should enjoy his remaining vacation rather than worry about tasks ahead.

Managing emotions when seasons change is a lesson he offers his patients. One, a retired professor, loved teaching and felt lost when fall approached. To fill the void, the professor scheduled fall trips and language classes. "There is usually some accommodation you can make," he says. If you don't like fall because your loved one spends every Sunday watching football, treat yourself to something you like. Hit the bike trail. Go shopping.

Joshua McFadden, an executive chef and restauranteur in Portland, Ore., recently completed his first cookbook, "Six Seasons: A New Way With Vegetables." His aim was to encourage people to eat what is in season and avoid buying things like tomatoes in the winter.

Fall is bittersweet, he writes, with leaves and temperatures dropping and plants shriveling. But it's also much more relaxing after the chaos of summer, when new vegetables peak every few weeks. To that end, his cookbook

allocates summer three seasons—early, mid and late.

In the fall, "I have the opportunity to be more indulgent," he says. He is now thinking about what he will do with the coming bounty—Brussels sprouts, mushrooms, chard. Good summer tomatoes need little preparation. Beets need to be roasted and artichokes braised. "It's labor-intensive, but in a really fun way," he says.

For some, fall boils down to "almost winter." Alice Barrett, a poet who taught English as a second language, lives in western Massachusetts, where "it's stunningly beautiful" when the leaves change, she says. But after a few weeks, the pretty leaves fall, and it's a slow descent to dark and dreary winter. "I don't ski. I don't skate. I stay in the house," Ms. Barrett says. She has written many poems, but devoted only one to the seasons. It's called "I Hate Autumn," which describes why. "Hard earth, rotten crab apples, smacked pumpkins. Cold floor in the morning."

Children can be slightly more ambivalent about the season, balancing the pluses of getting back together with classmates and trick-or-treating with the minuses of school demands.

"Overall, I fall somewhere between love and hate," says Dom Deniziuk, who is entering fifth grade in a Pittsburgh suburb. He doesn't like September.

"The first month back to school is really the worst one," he says. New teachers, homework and the strict bedtime. "It just dawned on me that I will have to start going to bed at 9:30 again." But the rest of fall is good, because it means playing soccer.

TURNING POINTS | By Clare Ansberry

Feelings of Fall: Love It or Leaf It?

Autumn marks the end of the carefree summer, which some people mourn, while others relish the return to routine and order

PLAYLIST: MARGARET BYRNE

REIGN OF THE 'AFRICAN QUEEN'

Margaret Byrne, 37, is a documentary filmmaker whose latest film, "Raising Bertie," follows the lives of three young African-American men in rural North Carolina. It will air on PBS's "POV" program on Monday. She spoke with Marc Myers.

In April 2005, I was living in New York and producing videos for Mary J. Blige when a producer friend asked if I wanted to go to Nigeria. MTV Africa had just launched, and there was an opportunity to produce a live-music series. While there, I met 2face Idibia, whose hit song "AFRICAN QUEEN" would change my life.

Traveling to Africa at age 24 was scary and thrilling. I was curious about the country and the culture. For the first few weeks in Nigeria, I filmed artists for the series.

When the MTV project ended in May, 2face's manager hired me to document the singer's upcoming tour. At the time, 2face was one of Africa's most popular artists.

The first time I heard "African Queen" I was in Abuja, Nigeria's capital. 2face was performing at a concert, and I was filming him along with local cameramen. The song didn't



strike me at first, but I was fascinated by how powerful it was for the women in the audience. They clearly loved him.

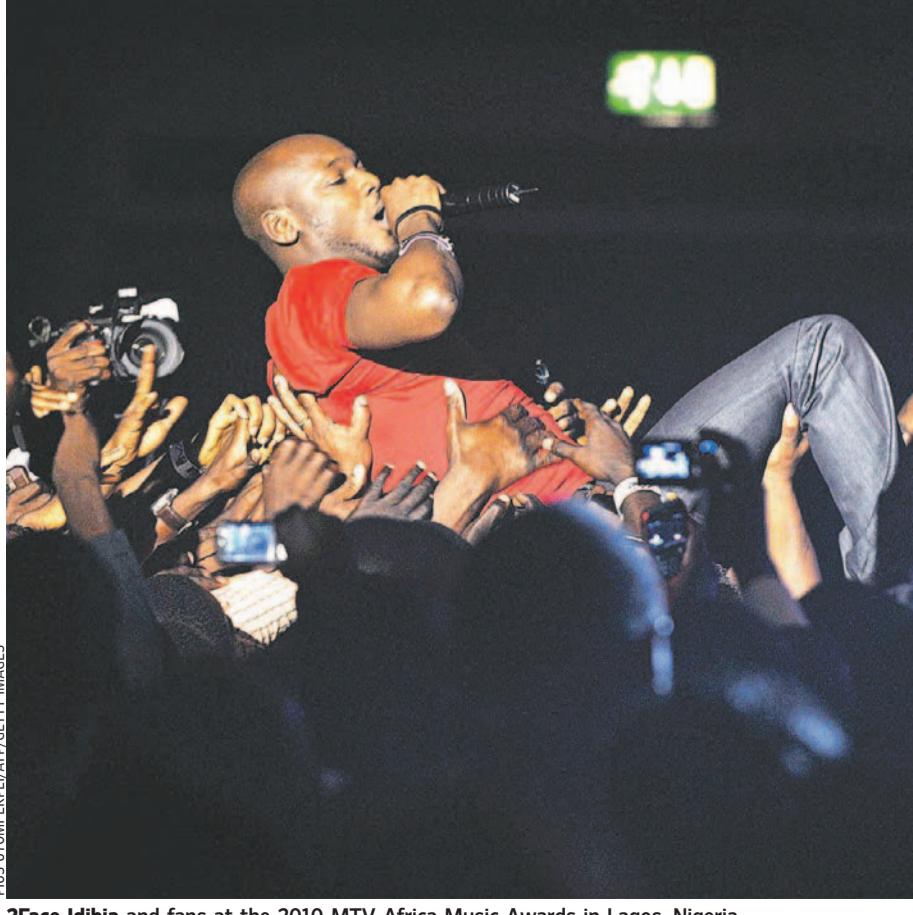
While in Nigeria, I began dating 2face's tour manager. We grew close and began a relationship. He used to sing "African Queen" to me.

The ballad has a reggae/hip-hop feel and opens with notes played on an electric guitar. Then 2face sings, "Yeah, you are my African queen, ooh, Lord / Just like the sun lights up the Earth, it lights up my life."

He sings romantically about the woman he loves: "I know you are brighter than the moon / Brighter than the star, I love you just the way you are."

At the end of the year, when 2face's tour ended, I realized I was pregnant. I returned home and applied for a fiancé visa for 2face's manager. He came to New York, we married, and I had my daughter, but we divorced four years later.

I still speak to 2face and to my ex-husband, who lives in the States. I don't listen much to "African Queen" now. It's too painful. It reminds me of being in love and then being heartbroken.



2Face Idibia and fans at the 2010 MTV Africa Music Awards in Lagos, Nigeria.

LIFE & ARTS

MUSIC

Gregg Allman's Stubborn Farewell

The legendary rocker worked to finish his last album until just before he died earlier this year

BY ALAN PAUL

GREGG ALLMAN had been working on "My Only True Friend" with guitarist Scott Sharrard for a few months when they met for a songwriting session in Mr. Allman's New York hotel room in March 2014. The Allman Brothers Band was in the midst of its final year of performances, after which Mr. Allman would dedicate himself to performances with his solo band, for which Mr. Sharrard was the musical director.

As they settled down with acoustic guitars, Mr. Allman dropped some heavy news: He had terminal liver cancer. Though he wished to keep the news secret, it seemed to shift his songwriting ideas.

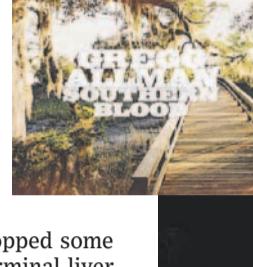
"He scratched out a line of the song and added a new one: 'I hope you're haunted by the music of my soul when I'm gone,'" Mr. Sharrard recalls.

With the new lyric, "My Only True Friend" transformed from a classic road song to an aching farewell to his fans. It is now the lead single and emotional centerpiece of "Southern Blood," the final solo album by Mr. Allman, who died on May 27 at age 69. The album is set for release Sept. 8.

"As soon as I heard 'My Only True Friend,' I thought the song was a shockingly honest confessional, that he was laying himself out and standing naked," producer Don Was says. "He was telling us the key to his life, because he wanted to tie up the loose ends for the people who had stuck with him for decades and also for himself. He was making sense of the totality of his life."

"Gregg was fully realized when he was on stage playing for his fans. What you saw on stage was the real guy, and all the troubles he encountered had to do with not knowing what to do with himself the rest of the time," Mr. Was says.

"Southern Blood" was recorded with Mr. Allman's touring band at Fame Studios in Muscle Shoals,



PATRICIA O'DRISCOLL

Gregg Allman, seen here performing in 2014, pushed hard to complete his album 'Southern Blood.'

Ala. The band played live with Gregg Allman singing along, and most of the performances on the album were captured in the first or second takes.

A noted perfectionist, Mr. Allman planned to do vocal overdubs, to add his voice to two more completed musical tracks and to finish some tunes he was working on with Mr. Sharrard and keyboardist Peter Levin. Mr. Sharrard says there were also plans to write with Bonnie Raitt, Jason Isbell and others.

All of this was rendered impossible by Mr. Allman's health struggles, so aside from "My Only True Friend" and one other Allman/Sharrard song, "Southern Blood" leans heavily on covers. Most of the material has an autumnal feel and underlying theme of mortality, notably Bob Dylan's "Going, Going, Gone" and the Grateful Dead's "Black

Muddy River." The album closes with a duet with Mr. Allman's old friend Jackson Browne on Mr. Browne's elegiac "Song for Adam."

"The sessions were powerful because we all knew what he was singing about and why we were there," Mr. Was says. The producer, who has worked with the Rolling Stones, Van Morrison, Ms. Raitt and many others, grew emotional discussing the monumental task of helping Mr. Allman achieve his dying vision.

"Even in such a heavy atmosphere, we had a lot of fun, and the mood was effusive because we knew we were getting it," Mr. Was says. "Gregg was digging in deep and he was oozing heart and soul, even in spots where he might not have had the lung power that he once had. He wanted to do vocal overdubs, but honestly if he had

been able to, maybe we would have cleansed away some of the soul."

By the time of the recording sessions, in March 2016, Mr. Allman had already outlived his diagnosis by several years. In 2012, two years after undergoing a liver transplant, he learned that he had a recurrence of liver cancer and was given 12 to 18 months to live, according to manager Michael Lehman.

"The doctors said the cancer could not be cured, but treatment could extend his life. But radiation treatment would have risked damaging his vocal cords and he refused, because he wanted to play music as long as he could," says Mr. Lehman. "He wanted to enjoy his life and to perform until he simply could not."

Mr. Allman played his final show in Atlanta on Oct. 29, 2016.

As he rested and eventually received hospice care in his Georgia home, Mr. Was worked to finish the album, adding minimal overdubs. Until the end, Mr. Allman discussed his illness with just a handful of people. Chank Middleton, a friend of almost 50 years who was a near constant companion and was with him in his final weeks, says that Mr. Allman remained upbeat until almost the very end.

"I knew for a few years and it was hard for me to accept, but he was the one with strong words," Mr. Middleton says. "I never saw him stand up to anything or anyone as he stood up to death. He did not like confrontation, but he faced death like a strong soldier. He looked it in the eyes and said, 'Death, I'm not scared of you and I'm not ready for you.'"



FROM TOP: SONGOK MEMORIAL HALL, SEOUL; PRIVATE COLLECTION

EXHIBITION REVIEW

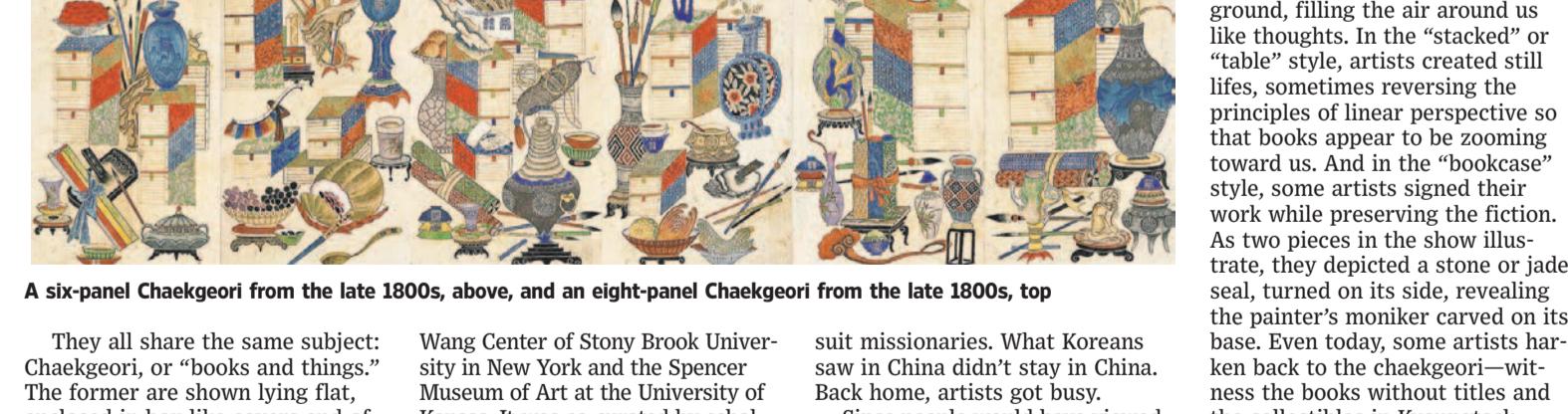
A CEREBRAL ART FORM THAT WENT DELIGHTFULLY ASTRAY

BY LEE LAWRENCE

Cleveland

FOR SOME 200 YEARS, Korean kings broadcast their heavenly mandate by sitting before a painted screen showing five mountains flanked by a red sun and a white moon. But King Jeongjo, who reigned from 1776 to 1800, invoked another source of authority: books. Besides amassing a large library and publishing over 4,000 books, he commissioned screens depicting bookcases brimming with tomes. Rising behind the throne, they reinforced his belief that people should read Confucian and other classics; avoid romance novels, Catholic writings, and other corrupting texts flowing in from China; and eschew using "Chinese objects to show off their highbrow culture."

None of Jeongjo's screens survive, but they spurred a vibrant genre that evolved in ways he would never have condoned. "Chaekgeori: Pleasure of Possessions in Korean Painted Screens," at the Cleveland Museum of Art, illustrates styles artists developed as their patronage expanded from court officials to rich merchants in the 19th and early 20th centuries. Multi-paneled screens range from trompe l'oeil paintings of filled bookcases to idiosyncratic still-life compositions that defy the laws of physics and optics.



A six-panel Chaekgeori from the late 1800s, above, and an eight-panel Chaekgeori from the late 1800s, top

They all share the same subject: Chaekgeori, or "books and things." The former are shown lying flat, enclosed in box-like covers and often stacked, with perhaps one volume askew or open. Although the books in Jeongjo's screens reportedly bore titles, these do not. People would have nevertheless recognized the large-format books with abstract patterns as Korean and the smaller ones enveloped in brocade as Chinese. They would also know that most of the "things" were from China: the bronzes and incense burners, calligraphy brushes and ink stones, ceramic bowls and vases, lacquer boxes and carved jade seals, paintings rolled up and partially unfurled.

The CMA is the show's last venue—it had been at the Charles B.

Wang Center of Stony Brook University in New York and the Spencer Museum of Art at the University of Kansas. It was co-curated by scholars in all three institutions, and only the catalog has the full complement of works. Still, the nine large screens and two paintings in Cleveland's iteration convey the galvanizing variety of a quirky off-shoot whose origins owe much to China.

Every year, some 200 to 300 Korean officials and technocrats (painters among them) accompanied court envoys to Beijing's Forbidden City, where they saw "cabinets of many treasures," including Western innovations such as the reading glasses we see in a number of screens. They also marveled at European perspective and trompe l'oeil techniques in paintings by Je-

suit missionaries. What Koreans saw in China didn't stay in China. Back home, artists got busy.

Since people would have viewed screens while sitting on cushions or low platforms, it behooves you to crouch. Look straight on, and you might spy a painting, a frog, or slippers tucked beneath low tables.

Glance up at a bookshelf painting, and you see the underside of upper shelves. You also get a better feel for the painting's overall impact. Screens served as portable décor to imbue a space with mood or message. Some act as symbolic portraits—in one, a woman's perfume and cosmetic containers jostle with glasses, ink brushes, books and other signs of erudition—while others set a celebratory tone with bright colors, flashy patterns, and

symbols of good fortune.

More appealing even than their meaning is their inventiveness. In one style, books and precious items float against a plain background, filling the air around us like thoughts. In the "stacked" or "table" style, artists created still lifes, sometimes reversing the principles of linear perspective so that books appear to be zooming toward us. And in the "bookcase" style, some artists signed their work while preserving the fiction. As two pieces in the show illustrate, they depicted a stone or jade seal, turned on its side, revealing the painter's moniker carved on its base. Even today, some artists harken back to the chaekgeori—witness the books without titles and the collectibles in Kyoungtack Hong's "Library 3" (1995-2001) and "Library—Mt. Everest" (2014).

Had King Jeongjo known how far from his ideals the genre would stray, he might never have required that top-tier court painters excel in this art form (a practice that lasted until 1879). And Korea's elite and wealthy might never have commissioned such works.

Chaekgeori: Pleasure of Possessions in Korean Painted Screens

The Cleveland Museum of Art, through Nov. 5

Ms. Lawrence writes about Asian and Islamic art for the Journal.

OPINION

REVIEW & OUTLOOK

The End of the Chaebol Era

Friday's conviction of the head of Samsung marks a turning point in South Korea's political economy. A court sentenced Lee Jae-yong, grandson of the company's founder, to five years in prison for paying \$7.9 million in bribes to an associate of former President Park Geun-hye. The Park government allowed a merger that facilitated Lee family control over Samsung, an example of what the court called "corrupt ties" between businesses and politicians.

The chaebols, as the conglomerates are known, drove South Korea's postwar development, but they are also notorious for abusing power. That is starting to change as voters insist that their leaders enforce the laws equally and investors demand that companies pass along higher returns to shareholders.

President Moon Jae-in, elected in May after Ms. Park's impeachment, has pledged not to pardon Mr. Lee and other chaebol leaders. He has also appointed Kim Sang-jo, a former economics professor and shareholder-rights activist, as head of the Korea Fair Trade Commission.

The new President is decidedly left-wing, and Mr. Kim is known as "the chaebol sniper." But so far at least their program of chaebol reform is measured. As Mr. Kim said when he took office, "I will pursue chaebol reforms through a positive campaign where companies voluntarily create exemplary cases."

This reflects that the chaebols still have plenty of defenders in the National Assembly. President Moon's Democratic Party controls 40% of the legislature, far short of the three-fifths needed to pass contentious legislation. So the President must use regulatory powers, buttressed by the public's demand for reform. South Korea's laws provide the leverage to

stop chaebol abuses, but the problem has been lax enforcement.

The founding families own a small percentage of the overall equity of their groups and typically exercise control through a web of cross-shareholdings. Inheritance taxes further dilute family holdings, so the chaebols have relied on regulatory forbearance to reconstitute their hold on key subsidiaries after a generational transition.

In Samsung's case, the notorious 2015 merger between its construction arm and a holding company Cheil Industries cost minority shareholders an estimated \$7 billion. That deal would have failed without the support of the government-controlled National Pension Service, which holds \$430 billion in assets. The former head of the pension service and a senior executive were convicted in June for abuse of power.

Samsung has since begun to clean up its corporate governance, canceling "treasury shares" held in reserve to defeat shareholder initiatives. Investors have bid up Samsung shares and those of other chaebols taking similar measures. The "Korea discount," the low share prices of Korean companies relative to international peers, is shrinking.

The chaebols will continue to exist in some form and even thrive, as Samsung Electronics showed by reporting record quarterly profits last month. And they will try to slow the pace of change. Samsung is resisting a holding-company structure demanded by investors such as American hedge fund Elliott Associates.

But the fact that the leader of South Korea's most valuable business group is now in prison shows that the tide has turned. Political and economic pressure is bringing the era of chaebol impunity to a close.

Korea's conglomerates are forced to change, as a Samsung verdict shows.

America's Botched Bottle Ban

Vacationers can now buy bottled water in America's national parks, after the Trump Administration this month ended an Obama-era policy that sought to reduce plastic waste. Environmentalists responded with predictable outrage, but reversing the ban is healthier and greener.

Bottled water has increasingly dominated the nonalcoholic-beverage market, surpassing soda this year. In this trend the Obama Administration saw a teachable moment. In a 2011 memo on sustainability, the U.S. National Park Service claimed that by reducing or prohibiting water sales and increasing its offerings of reusable bottles, it could "introduce visitors to green products and the concept of environmentally responsible purchasing, and give them the opportunity to take that environmental ethic home and apply it in their daily lives."

More than 20 sites, including the Grand Canyon and Zion National Park, banned bottled water sales, and the Park Service spent millions on

water fountains and filling stations.

But consumers have a way of thwarting paternalistic plans, and the Park Service failed to apply similar restrictions on soda or sports drinks. When the University of Vermont banned bottled water in 2013, researchers found that bottled beverage consumption didn't decrease—and students quenched their thirst with sugary beverages instead of water. Carbonated beverages exert more pressure than water, requiring heavier bottles that use more plastic.

Researchers at the University of Washington's Seattle campus also assessed a potential water-bottle ban, building on findings from the Oregon Department of Environmental Quality, as well as the Environmental Protection Agency's social cost of carbon. They concluded that "although it is widely believed that these bans are important for environmental reasons," any benefits were minuscule.

The teachable moment turns out to be a lesson in the law of unintended consequences.

Trump Divorces the Republican Congress

A biographer says Donald Trump once told him that he informed second wife Marla Maples he was seeking a divorce by leaking it to the New York Post. President Trump now seems to be using Twitter to tell Republicans in Congress that he's divorcing them, or at least seeking a trial separation, and for its own self-preservation the GOP Congress is going to have to find different living arrangements.

Mr. Trump has made common cause with the Congressional GOP in his first seven months on a few issues that have been his rare legislative successes—Neil Gorsuch to the Supreme Court and deregulation. But the lesson he seems to have taken from the Senate health-care failure is that he should distance himself from Republicans on Capitol Hill. No matter that he never gave a speech selling reform and even said amid the Senate debate that the House bill was "mean." Thanks, mate.

Bashing Republicans won't help him pass his fall agenda, but Mr. Trump may think he needs to protect himself politically by making Congress his foil. This would explain Mr. Trump's recent gibes at Majority Leader Mitch McConnell for the Senate's health-care failure. On Thursday he broadened the indictment to include blaming Mr. McConnell and House Speaker Paul Ryan, in advance, for trouble raising the federal debt ceiling when Congress returns in September.

"I requested that Mitch M & Paul tie the Debt Ceiling legislation into the popular V.A. Bill (which just passed) for easy approval," he tweeted. "They didn't do it so now we have a big deal with Dems holding them up (as usual) on Debt Ceiling approval. Could have been so easy now a mess!"

This followed his Tuesday night threat to shut down the government if he doesn't get money to build his border wall with Mexico. It's impossible to predict what the President will say or do, but the safe bet is to expect more taunts and blame-shifting.

All of which means that Republicans in Congress need to think of themselves as governing with an independent President—if they don't already. This doesn't mean joining Democrats as "the Resistance." But it does mean acting on their own to fulfill their legislative promises with or without the support of Mr. Trump. If the President goes his own way, at least Republicans can point to votes for legislation that they put on his desk.

Start with the GOP's main priorities after Labor Day, which include lifting the debt ceiling, funding the government and passing a budget outline that sets the stage for tax reform. Congress needs to move on all of them no matter what Mr. Trump tweets from the sidelines.

On the debt ceiling, the smart political play is to pass an increase with GOP votes and move on. Some conservatives want to tie policy reforms to the increase, but Democrats know Republicans will get the blame if there's a default on U.S. debt. GOP voters won't care about the debt limit in 2018 if Republicans have enough other policy victories.

On funding the government, Republicans in Congress will get no benefit from a shutdown fight over building a border wall. Two-thirds of the country doesn't support an expensive and largely symbolic wall, and even most Republicans who do won't like a shutdown to pass it. The GOP should pass a budget that has as many of its priorities as possible, and more money for border enforcement ought to satisfy the immigration restrictionists. The physical wall is Mr. Trump's personal preoccupation. He can veto a bill without it, but then he'd be responsible for the shutdown.

On tax reform, the White House and Congress are still working together because Mr. Trump is leaving the details to economic adviser Gary Cohn and Treasury Secretary Steve Mnuchin. Mr. Trump could muck it up at any moment with a call for higher income-tax rates, but Congress will have to ignore it. Mr. Trump will have little choice other than to sign whatever Congress sends him if he wants the political victory, and he needs a win as much as Congress does.

Republicans also can't count on Mr. Trump to provide them any political air cover for tax reform. Taxes were supposed to be the GOP theme during the August recess, but none of the speeches or TV appearances are breaking through because the President can't give up the spotlight, even if he is hurting himself. The business community and Republicans in Congress will have to sell reform.

Legislative success—especially on tax reform—is the best way Republicans can protect themselves from any Trump undertow in 2018. They need a record to change the campaign subject from whatever the President is tweeting a year from now when he might be contemplating a political affair with Nancy Pelosi.

The Approaching Global Car Wreck



BUSINESS WORLD
By Holman W. Jenkins, Jr.

German Chancellor Angela Merkel was tactfully on vacation but came back earlier this month to add her voice to the latest "dieselgate" scandal involving her country's car makers. The industry threw away "incredible public trust," she declared at a rally

AdBlue fill-ups—so their cars would remain salable.

We're told this was tantamount to a group decision to cheat on emissions controls. Except it wasn't. BMW, for one, developed a secondary means to clean its exhaust in addition to AdBlue. It was expensive but it worked.

In fact, German car companies compete fiercely with each other on price, features, performance and marketing jazz. They also compete with Acura, Cadillac, Infiniti, Jaguar, Lexus, etc. These other companies were free to crowd out passengers and luggage to make room for AdBlue if that's what customers wanted. (They didn't.)

Dieselgate isn't the fruit of a cartel but of politicians ignoring cost and benefit.

What the scandal really teaches is the remarkable political paradox of today's global car industry. It delivers complex products that meet the high standards of consumers, yet it bears a burden of political meddling that should make its competitive existence impossible.

The German magazine *Der Spiegel* has spent much of the summer condemning Audi, BMW, Mercedes, Porsche and VW. First it accused them of running an illegal cartel because they cooperated in meeting certain technical obligations related to Europe's mandated insistence on diesel vehicles. The magazine then accused them of besmirching the reputation of "Made in Germany" in the eyes of the world.

Never mind that such besmirching is hardly obvious from record global sales lately of BMW and Mercedes cars. Also missing from the magazine's 9,000-word diatribe is a recognition that Germany's dieselgate and associated scandals arise entirely from European politicians' politically correct pursuit of meaningless reductions in CO₂.

Switching to diesel from gasoline, the monumental regulatory effort launched by the European Union in the late 1990s, ended up delivering only thimbles-full of avoided greenhouse pollution compared to competing gasoline engines. But it also made the air in European cities significantly less breathable thanks to diesel particulates and nitrogen oxides.

Yet there has been no inclination to question the cost-benefit basis of the anti-carbon crusade. Instead, Europe is doubling down by forcing car makers to build electric cars, while *Der Spiegel* is trying to shift the blame for the diesel experiment's failure to alleged anticompetitive actions by German car makers.

In meetings that began decades earlier under the auspices of a national auto trade group, car makers agreed on the need to avoid using up excessive space for large AdBlue tanks (a fluid to mitigate diesel emissions) to save room for occupants and golf bags—i.e., to make sure their cars remained salable.

They also agreed on the need to avoid annoying owners by requiring frequent

Don't be surprised when this scandal is swept imperceptibly toward the memory hole once Ms. Merkel has been safely returned to office, as every poll suggest she will. Why? Because, from Berlin to Beijing to Sacramento, Calif., governments are already engaged in a new and even more implausible magic act: How to preserve their car industries and jobs while simultaneously mandating that car makers produce electric vehicles that can only be sold to the public at a steep loss in a world where oil is \$50 a barrel and gasoline engines continue to make impressive efficiency gains.

A car wreck is coming that will make dieselgate look like a fender bender.

J.P. Morgan's Hate List



POTOMAC WATCH
By Kimberley A. Strassel

Corporate America will do almost anything to stay on the safe side of public opinion—at least as it's defined by the media. CEOs will apologize, grovel, resign, settle. They will even legitimize and fund an outfit that exists to smear conservatives.

The press is still obsessing over President Trump's incompetent handling of the violence in Charlottesville, Va., and that has suited some profiteers just fine. The notorious Southern Poverty Law Center is quietly cashing in on the tragedy, raking in millions on its spun-up reputation as a group that "fights hate." Apple is giving \$1 million to SPLC and matching employee donations. J.P. Morgan Chase is pitching in \$500,000, specifically to further the SPLC's "work in tracking, exposing and fighting hate groups and other extremist organizations," in the words of Peter Scher, the bank's head of corporate responsibility.

What Mr. Scher is referring to is the SPLC's "Hate Map," its online list of 917 American "hate groups." The SPLC alone decides who goes on the list, but its criteria are purposely vague and it comes down to this: If the SPLC doesn't agree with your views, it tags you as a hater.

By funding this list, Apple and J.P.

Morgan are saying they support labeling

Christian organizations that oppose gay

marriage as "hate groups."

That may come as a sour revelation to any bank

customers who have donated to the

Family Research Council (a mainstream

Christian outfit on the SPLC's list)

or whose rights are protected by the Alli-

gance Defending Freedom (which litiga-

tes for religious freedom and is also

on the list).

Similarly put out may be iPhone own-

ers who support the antiterror policies

espoused by Frank Gaffney's Washington

think tank, the Center for Security Policy

(on the SPLC's list). Or any who back the

proposals of the Center for Immigration

Studies (ditto).

These corporations are presumably in

favor of the SPLC's practice of calling its

political opponents "extremists," which

paints targets on their backs. The

group's "Field Guide to Anti-Muslim Ex-

tremists" lists Mr. Gaffney (who worked

for the Reagan administration); Maajid

Nawaz (a British activist whose crimes

include tweeting a cartoon of Jesus and

Muhammad); and Ayaan Hirsi Ali (a So-

malai refugee who speaks out against Is-

lamic extremism).

The SPLC has tarred the social scientist Charles Murray as a "white nationalist." Mr. Murray has been physically assualted on campus as a result. He happens to be married to an Asian woman and has Asian daughters, so the slur is ludicrous.

But what's a little smearing and career destruction if J.P. Morgan Chase gets some good headlines?

It isn't only the lists. An honest outfit tracking violent groups would keep to straightforward descriptions and facts. Instead, the SPLC's descriptions of people are brutally partisan, full of half-truths and vitriol designed to inspire fury.

We've seen what this can do in Europe, with the murder of Theo Van Gogh, the controversial filmmaker, by a Dutch-Moroccan Islamic fanatic. Ms. Hirsi Ali, who had worked with Van Gogh, still travels with security—and J.P.

Morgan thinks it appropriate to further target her. In 2012 a gay-marriage sup-

porter named Floyd Corkins smashed

into the Family Research Council's head-

quarters and shot a security guard, say-

ing he was inspired by the SPLC's "hate

group" designation.

Had the companies done a bit of homework, they'd have discovered the SPLC isn't even considered a sound charity. Karl Zinsmeister excoriated the outfit in a recent article for Philanthropy Roundtable: "Its two largest expenses are propaganda operations: creating its annual list of 'haters' and 'extremists,' and running a big effort that pushes 'tolerance education' through more than 400,000 public-school teachers. And the single biggest effort undertaken by the SPLC? Fundraising.

On the organization's 2015 IRS 990 form it declared \$10 million of direct fundraising expenses, far more than it has ever spent on legal services."

Apple didn't return a call to its media center. J.P. Morgan Chase, in an emailed statement, said only that it has a "long history of supporting a range of organizations that are committed to addressing inequality."

The corporate donations are nonetheless appalling, as they legitimize a group that already exercises inappropriate influence. The SPLC's list is cited regularly by the media and congressional Democrats, ignorant or uncaring of its falsehoods.

Comparing pro bono lawyers at the Alliance Defending Freedom to hood-wearing KKK members only make the Klan seem more innocuous. Blackballing mainstream groups only silences the moderate voices the country needs to fight hate and bigotry. Corporations have a role to play in calming today's divisions. This is the opposite.

OPINION

The Distance Between Two Tragedies

By Bernard-Henri Lévy

Two cars used as rams. One, in Charlottesville, Va., was driven by a neo-Nazi into a crowd of anti-racist counterprotesters.

The other, driven by a Moroccan-born radical Islamist, careened blindly around Barcelona, killing 15 and injuring 126.

Excluding the similar modus operandi and the fresh proof that all forms of fascism eventually resemble one another, the two events differ in nearly every respect.

Response to the neo-Nazis in Charlottesville was swift and clear. Not so for the horror in Barcelona.

In Charlottesville, there weren't two "sides," as Donald Trump claimed, but rather two opposing camps, two visions of society and the world.

In Barcelona, by contrast, there was but one camp, that of nihilism and indiscriminate death: the whole world, every political leaning, every nationality, every religion (including Islam) jumbled together on the sidewalks of a city hated because it was

full of people strolling in blissful innocence, enjoying the pleasure of each other's company.

The ringleaders of Charlottesville are well known from television and social media: David Duke, Richard Spencer, "Baked Alaska" and the others who fomented the crowd.

The perpetrators of the slaughter in Barcelona were masked—faceless and nameless—up until the moment of action, and the instant renown it brought. It was nigh impossible to foresee; and, as for those who gave the orders, they are hunkered down between Iraq and Syria in what remains of the Islamic State, ready, when the time is right, to move their portable headquarters to more congenial climes. They will remain invisible and elusive for some time.

Responses to the Charlottesville tragedy are imaginable. We know, for example, that laws prohibiting the public expression of opinions that are in themselves offenses—even though the American Constitution makes such prohibitions legally impossible for now—would help mitigate this threat.

In the case of Barcelona, one faces the dizzying unknown. Except for tears and grief, no solutions are in sight to deal with the stealthy, sprawling army for which a driver's license is a license to kill, and which decides at random where and when to strike—any city, provided it has



AGENCE FRANCE PRESSE/GETTY IMAGES

At a market in Barcelona, two days after a radical Islamist killed 15.

open spaces with pedestrians and a whiff of life's sweetness.

The Charlottesville mob convened to defend a statue honoring Robert E. Lee, who fought to preserve slavery. The members of that mob are nostalgic for a past that refuses to pass away, despite clearly being obsolete. The reappearance of what had been repressed, the re-emergence of the racists from the sewers into which 50 years of struggle for civil rights had swept them, imparts nothing new about their squalid ideology.

The Islamic extremists of Barcelona, by contrast, are the byproducts of a more recently formed and ex-

panding nebula, the course of which no one can predict or fix. In just two decades we have had thousands of deaths world-wide—and a black book that, from Pakistan to the Philippines, from the African deserts to European suburbs and great American cities, shows no sign of closing.

The Charlottesville attack was clearly and unequivocally condemned around the world. In the U.S., the resurgence of Nazism behind the attack collided with a democracy that mounted a fierce resistance to the proponents of white supremacy.

After the horror of Barcelona, on the other hand, reactions in Europe

and the world were far too vague, confused and sometimes even obscene. Are we dealing with fascism, commentators asked, or something other than fascism? Is this Islam or not Islam? Did the killers of 7-year-old Julian Cadman have a difficult childhood? Did they come from underprivileged backgrounds? Is this a psychiatric matter? Was it not our Islamophobia that ultimately radicalized the killers?

The idea that the cowls of the Ku Klux Klan, its torches and lynchings, continue to tempt a nonnegligible and possibly growing fringe in the U.S. is no doubt fearsome. Unprecedented, too, is the stupefaction engendered by an American president refusing to name the crime and the criminals, thereby fraying still further the foundational compact of contemporary America.

Especially as the darkness of the time plays with our perception, we must beware of false symmetries. Humanity has a duty to confront with equal determination both heads of the beast. But the fact remains—in the U.S. as in Europe, it is necrophilic Islamo-fascism, as shown in Barcelona, that holds life, death and the future in its clutches.

Mr. Lévy is a writer and documentary filmmaker. His most recent book is "The Genius of Judaism." Translated from French by Steven B. Kennedy.

Three Lessons for Negotiating With North Korea

By Alan Liotta

When determining how to deal with North Korea, policy makers often debate the best method for predicting how the country's leaders will act. But Americans who really want to understand North Koreans instead should study how the U.S. has conditioned North Korea to behave.

From 1996 to 2005, as the senior Defense Department negotiator, I made six trips to North Korea. We conducted numerous rounds of official talks to allow the first U.S. military teams into North Korea to recover service personnel missing since the cessation of hostilities in 1953. Those negotiations repeatedly stalled until we changed how the North Koreans approached the talks. We learned three critical lessons, all of which are relevant in this current state of uncertainty.

• *The North Korean leadership rarely empowers negotiators to make a decision.* Everything must

be referred to their superiors, and ultimately to the "Supreme Leader." I had an off-chance meeting with the head of a leading nongovernment organization in Pyongyang at the height of the North Korean food crisis in 1998. He told me that North Korea could easily learn to feed itself, but the problem is there is only one person who can tell the farmers what to plant, when to plant it and where to grow it—and he isn't a farmer.

Normal work flow doesn't progress through the North Korean bureaucracy. To get an issue to the top leadership, it had to be a crisis. Harsh language, dangerous threats and even attempts at intimidation—privately in our talks and publicly through their media—were merely ways for North Koreans to inflate the importance of the issue.

The trouble was that previous U.S. negotiators often feared responding with similarly strong language. Americans repeatedly sought compromise through reason, which

only encouraged continued North Korean threats, intimidation and harsh language.

• *Walking away from the table can provide a tactical advantage.* The most important objective of previous

I've been to the country six times for talks. Sometimes the only words they hear are the strong ones.

negotiations simply was to keep the talks going. As a result, North Korean negotiators were conditioned to threaten and stall. They knew no matter how uncooperative they appeared, U.S. officials wouldn't walk away. We were trapped by our own negotiating strategy.

During our first round of talks in Hawaii in 1996, when my team exposed a split in the North Korean team's unity that caused them to lie to

us, we decided not to continue the talks. Against the objections of other U.S. officials who had negotiated in the past, we walked away. Our parting words: "When you have your act together, and are ready to negotiate in good faith, give us a call. Until then, we have nothing to talk about."

We sent them home stunned. Six months later they asked to reopen the talks. As a result, we successfully sent our first recovery teams into North Korea and began retrieving the remains of missing U.S. service personnel. More than 200 sets of remains eventually were brought home to be identified and reunited with their families.

• *The U.S. should share its bottom line immediately—and never waver from that line.* We knew that previous U.S. negotiators regularly compromised and adjusted their bottom line, often to keep talks going. Our negotiating teams used a different tactic. As our North Korean counterparts would pock, prod and offer options to go below the line, and

threaten to end the talks if we refused, we held firm.

They soon realized that our position wouldn't change. If they could agree to it, then the talks could end successfully. If they couldn't meet it, they learned quickly we would get up and walk away. In almost every case, they eventually called us back to the table to meet our terms.

Although many are quick to criticize President Trump's strong words to the North Korean leadership, it bears remembering that often the only words they hear are the strong ones. Using such language to define your endgame, and then steadfastly adhering to your bottom line, is a different negotiating style than they are used to. But as the personnel-recovery talks repeatedly showed, you can teach the North Koreans to moderate their behavior, to talk productively and ultimately to meet you on your terms.

Mr. Liotta was deputy director of the Defense Prisoner of War/Missing Personnel Office, 1995–2004.

Cutting Young Girls Isn't Religious Freedom

By Kristina Arriaga

Earlier this year, a 7-year-old girl from Minnesota entered an examination room at a clinic just outside of Detroit. Thinking this was a regular visit, she allowed the doctor to remove her pants and underwear and place her on the examination table. Suddenly, while two women in the clinic held her hands, the physician spread her legs and cut her clitoris. Two months later she told investigators the pain ran down to her ankles and she could barely walk.

In April Jumana Nagarwala, who allegedly performed the procedure, was charged with conspiracy to commit female genital mutilation. Fakhruddin Attar, the owner of the since-closed clinic, was also charged. Investigators suspect Ms. Nagarwala may be involved in 100 other cases, and the trial starts in October.

This marks the first time a female genital mutilation case is going to federal court. The lawyers for the Michigan physician will argue the girl "underwent a benign religious procedure." This is a dangerous hypocrisy with far-reaching consequences.

Female genital mutilation has been illegal in the U.S. since 1996. Yet a 2012 study in the journal Public Health Reports estimates that more than 500,000 girls in the U.S. have undergone the procedure or are at

risk. These girls live all over the country, with larger concentrations in California, Minnesota and New York. Most go through this process in secret, and only 25 states have laws that criminalize the procedure. In Maine, the American Civil Liberties Union has opposed a bill to do so on the ground that "the risk of mutilation isn't worth expanding Maine's criminal code."

Female genital mutilation, most often performed on girls under 13, has serious medical and psychological repercussions. The cutting ranges from a clitoridectomy, partial to total

removal of the clitoris, to infibulation, removal of all the external genitalia. The latter is so severe that "healing" often involves binding the girl from ankle to waist until the scar tissue closes. This kind of cutting leaves an opening the width of a pencil for urination, menstruation, sex and childbirth.

In 2015 a United Nations official estimated that 20% of parents take their daughters to physicians but the rest use improvised sharp objects. This spring, an Ethiopian man in Georgia was deported for performing female genital mutilation with a pair of scissors on his 2-year-old daughter. Parents fearing prosecution sometimes take their girls out of the country for "vacation cutting."

A report from Unicef suggests at least 200 million girls and women

alive today, in 30 countries, have undergone some form of genital mutilation. (The U.S. Commission on International Religious Freedom, of which I am vice chairwoman, doesn't take an official position on female genital mutilation.)

Whether this practice is religious or cultural is debatable. In the Michigan case, the victims belong to an Indian Shiite Muslim sect called the Daudi Bohra, whose members refer to the clitoris as a sinful lump of flesh. The cutting, *khatna*, is considered a religious observance to prevent girls from becoming promiscuous.

Yet female genital mutilation predates Christianity and Islam. No religious text requires it. Many imams have issued fatwas against the practice and Christian leaders like Pope Francis have denounced it.

The physician's lawyers announced they will craft a religious-freedom defense. And they may be astute enough to get away with it. The all-star team includes constitutional law

scholar and O.J. Simpson lawyer Alan Dershowitz, along with Mayer Morganroth, who represented assisted-suicide champion Jack Kevorkian for more than 15 years. They are funded by an international Muslim organization called Dawat-e-Hadiyah.

The U.S. Constitution doesn't protect the barbaric act of female genital mutilation.

The lawyers must know they are entering dangerous territory, at least in terms of public relations. After coming under criticism for defending female genital mutilation, Mr. Dershowitz suggested during a June interview that pricking the girls' clitoris would be a better way to fulfill a "religious legal obligation." This is absurd. There is no such obligation.

The physician's lawyers have not only put these girls at even greater risk, they have tainted the religious freedom of all Americans with their specious arguments. Religious freedom is a bedrock right that ensures all can live according to their convictions. It also allows for the existence of charities providing Americans with an equivalent of \$1.2 trillion annually in food, shelter, medical care and more. It isn't a tool to protect harmful practices like female genital mutilation.

These girls are among the most vulnerable in society. For their sake, Americans must raise their voices against this detestable practice. Doing what is right may also yield an important social good: the restoration of religious freedom to its proper place in American culture and jurisprudence.

Ms. Arriaga is a contributor at the Pepperdine School of Public Policy.

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Executive Chairman, News Corp

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Matthew J. Murray
Deputy Editor in Chief

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EDITORIAL AND CORPORATE HEADQUARTERS:

1211 Avenue of the Americas, New York, N.Y. 10036

Telephone 1-800-DOWJONES

Robert Thomson
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new definition, one that simply covers food that has no productive use—in other words, it ends up in a landfill.

We then show how widely cited official figures for food waste are both inconsistent with one another and may be significantly overstated.

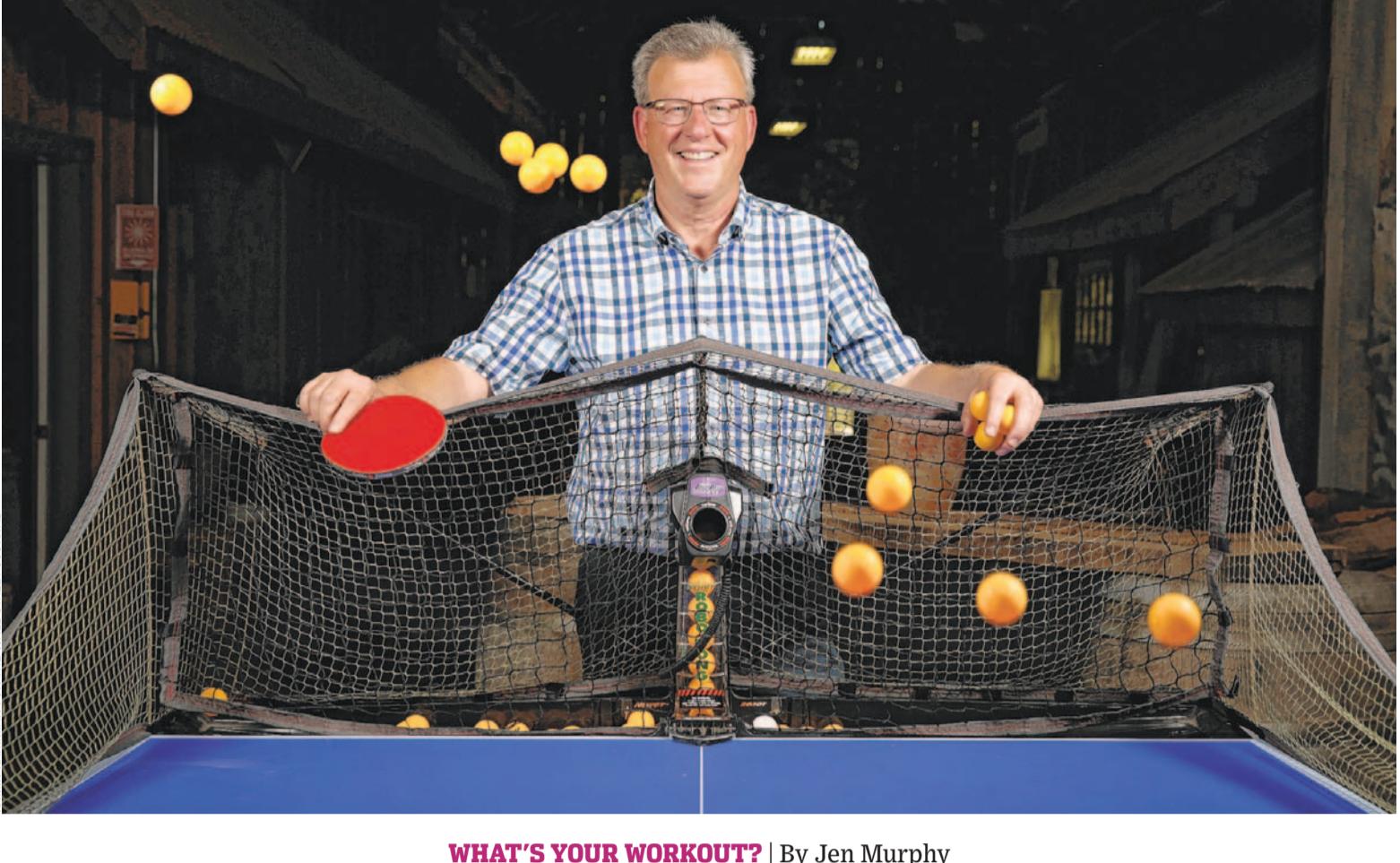
Moreover, the optimal amount of food waste is not zero. Even the most efficient supply chain isn't frictionless. If you are like me, your purchases of fresh fruits and vegetables more often than not reflect how you'd like to eat rather than how you actually eat. When you go out for dinner, you might end up not liking your meal, or you might order too much and not bring the leftovers home. Some of these issues may be solvable in theory, but the closer we get to zero waste, the more expensive trying to eliminate waste altogether would become.

This is especially important to understand given that "saving" edible food from going to waste isn't the same thing as sending it to feed the hungry. Popular discussions often seem to implicitly assume that wasted food could be somehow reallocated to feed the poor at little to no cost. But if lower levels of food waste

have any positive effect on food security, it's far from obvious.

The U.N. says that the 5.9 billion people who live in developing countries and the 1.2 billion in industrialized ones waste roughly the same amount of food—about 715 million tons a year. As food becomes an increasingly small fraction of a household's

LIFE & ARTS



RAMIN RAHMAN FOR THE WALL STREET JOURNAL

WHAT'S YOUR WORKOUT? | By Jen Murphy

Table Tennis for One

A winemaker calls the sport central to his fitness routine for its help with agility and core strength

BOB BLUE'S table tennis opponent never gets offended by his trash talking. That's one of the many upsides of playing against a robot.

Mr. Blue, 61, grew up in a family of table tennis fanatics and played avidly with friends through high school. It wasn't until 2007, when his wife died, that he thought to dust off his paddle again. "I turned to exercise as a way of coping," he says.

As the founding winemaker of Bonterra Organic Vineyards in Ukiah, Calif., Mr. Blue oversees all aspects of the winemaking process, from harvest to bottling. Long, unpredictable hours, particularly dur-

ing harvest season, made it nearly impossible to find a table tennis partner. "Hitting balls off the wall isn't very satisfying," he says. He nearly gave up on the game, turning to swimming and spinning for fitness. In 2014 he saw an online video of a table tennis-playing robot called the Newgy Robo-Pong.

"As soon as it went on sale, I bought one," he says. The device is a robotic cousin of a baseball-pitching machine, with controls for ball speed, placement and frequency. A net captures the returns from its human partner and recycles balls for continuous play that simulates a high-intensity rally. "It

doesn't replicate the spin of playing another person, but without an evenly-matched opponent, the robot is the next best thing," Mr. Blue says. "Plus, I don't have to chase balls all over the yard."

Mr. Blue says he was shocked to discover how much his reflexes had eroded since his teenage years. "As I get older, it's important to train my fast-twitch muscles," he says. He credits the game not only with improving his hand-eye coordination, agility and attention. He even says it helps keep his core engaged while moving back and forth behind the table. Unlike swimming or spinning, activities where the mind can

wander, he says table tennis forces him to stay focused. He has also learned to play ambidextrously.

He occasionally takes on his children, ages 29 and 26, when they come home to visit, and recently signed up for an upcoming local tournament.

The Workout

Mr. Blue moved his table tennis setup to the winery so he can pop in for games throughout the workday. He usually faces his robot three times a week for 30 minutes a session. The workout consists of random drills of 100 balls at varying speeds and intervals, alternat-

Bob Blue stands with his robotic table tennis partner in Ukiah, Calif.

ing backhand and forehand with both his left and right hands. He'll also simulate games.

(As to the question of whether to call his favorite sport table tennis or ping pong, he says, "As a kid it was the game ping pong, but today I view it more as a sport and use the term table tennis.")

Mr. Blue also takes a 50-minute spin class at 5:45 a.m. two to three times a week at the Redwood Health Club of Ukiah. "I feel like the speed work helps reverse the clock a bit," he says. "And spinning takes me to an intensity I normally wouldn't get to on my own."

Three to four nights a week he returns to the club after work, around 9 p.m., to swim. He spends 10 to 15 minutes in the hot tub to warm up and then performs calisthenics in the pool to loosen his hips and lower back. He does 15 minutes of freestyle swimming, starting with a gentle pace, then increasing the intensity for eight minutes and ending with sprints of 25 yards, with a break of 15 breaths between sets, for about five minutes.

"It's a relaxing way to end the day," he says.

Three to four times a week he walks the vineyards for lunch, between 30 and 50 minutes.

The Diet

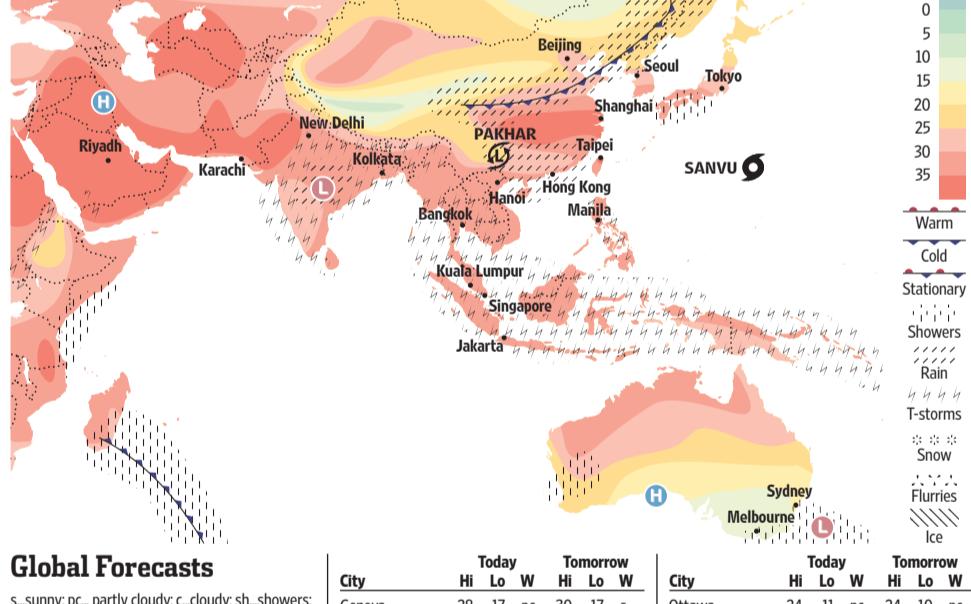
Mr. Blue has a soft-boiled egg for breakfast and takes an apple or orange for lunch. Sometimes he'll grab tacos from a nearby truck. He keeps carbs out of the house. "Too much temptation," he says. Mr. Blue enjoys cooking from scratch. "The creativity of cooking is like blending wine," he says.

He always has one glass of white wine and one glass of red wine with dinner.

The Gear & Cost

Mr. Blue purchased his Newgy Robo-Pong 2050 digital table tennis robot on sale for \$550. It retails for \$950. His Cornilleau 300S Crossover table cost \$1,200. He bought his BaBo Ball Boy Tube, which picks up ping-pong balls, on Amazon for \$24 and he buys sets of 12 Newgy Robo-Balls on Amazon for \$65 a set. He has four Donic Persson Powerplay paddles, which cost \$43 each.

Weather

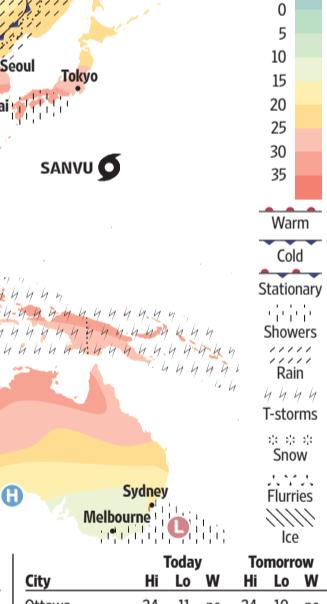


Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

| City | Today | | | Tomorrow | | |
|--------------|-------|----|----|----------|----|----|
| | Hi | Lo | W | Hi | Lo | W |
| Amsterdam | 25 | 14 | pc | 25 | 14 | pc |
| Anchorage | 16 | 11 | r | 15 | 11 | r |
| Athens | 33 | 25 | s | 34 | 23 | pc |
| Atlanta | 27 | 20 | pc | 29 | 21 | c |
| Bahrain | 46 | 27 | s | 46 | 28 | s |
| Baltimore | 24 | 17 | c | 23 | 16 | c |
| Bangkok | 31 | 26 | sh | 31 | 26 | t |
| Beijing | 27 | 14 | pc | 23 | 14 | pc |
| Berlin | 21 | 12 | s | 24 | 15 | s |
| Bogota | 18 | 8 | c | 18 | 8 | c |
| Boise | 37 | 21 | s | 38 | 20 | s |
| Boston | 21 | 14 | s | 20 | 16 | pc |
| Brussels | 27 | 17 | pc | 29 | 17 | pc |
| Buenos Aires | 24 | 18 | t | 23 | 8 | r |
| Cairo | 35 | 24 | s | 34 | 24 | s |
| Calgary | 27 | 11 | s | 28 | 12 | s |
| Caracas | 32 | 26 | pc | 32 | 26 | pc |
| Charlotte | 26 | 19 | c | 26 | 18 | c |
| Chicago | 25 | 17 | t | 25 | 17 | pc |
| Dallas | 30 | 22 | c | 30 | 21 | pc |
| Denver | 31 | 15 | s | 33 | 15 | s |
| Detroit | 23 | 17 | t | 25 | 16 | sh |
| Dubai | 44 | 32 | s | 41 | 31 | s |
| Dublin | 21 | 10 | sh | 17 | 10 | pc |
| Edinburgh | 19 | 10 | sh | 16 | 9 | sh |
| Frankfurt | 27 | 15 | pc | 29 | 16 | s |

AccuWeather.com



The WSJ Daily Crossword | Edited by Mike Shenk



- 28 Grove growth
30 First game in a series
31 Sites for gold diggers
32 Incline
37 "Blowin' in the Wind" songwriter
40 Paid respect to
42 User of a double-bladed paddle
44 Hunky-dory
45 Doesn't wolf down, perhaps
49 Diesel in the movies
50 Help in mischief
51 Back of the neck
52 Additional amount
53 Practical, as a plan
54 Nota ___, 55 Third-largest city in France, 56 Happy Motoring! gas brand, 57 Diesel in the movies, 58 Opponent, 59 Magazine with a fold-in

CONTAIN YOURSELF! | By Celia Smith

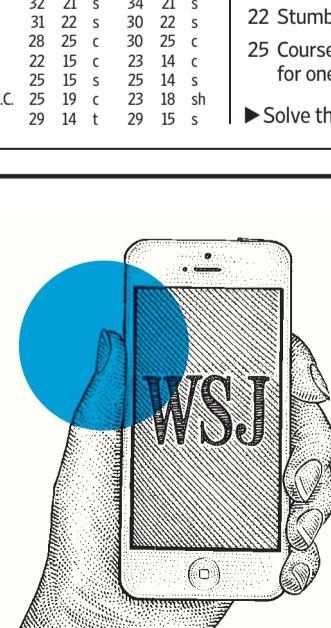
| Across | Down |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Plays with the band | 26 Ointment additive |
| 5 Removes rinds | 48 Biscuits topping in Southern diners |
| 10 Endure | 49 Really funny time |
| 14 Country on the Arabian Peninsula | 50 Long, for short |
| 15 Former Detroit Piston Thomas | 51 Back of the neck |
| 16 "It's ___!" ("My treat!") | 52 Additional amount |
| 20 Downhill course | 53 Practical, as a plan |
| 21 Some sweatshirts | 54 Nota ___, 55 Third-largest city in France, 56 Happy Motoring! gas brand, 57 Diesel in the movies, 58 Opponent, 59 Magazine with a fold-in |
| 22 Stumbles | 58 Opponent |
| 25 Course final, for one | 59 Magazine with a fold-in |

| Previous Puzzle's Solution | |
|----------------------------|---------|
| V | SIX |
| WORM | SWASH |
| ERIK | TRIP |
| BARE | OHNO |
| DIDIN | BYTE |
| UPANDATE | MAMET |
| GODOTT | BAGELS |
| PIONEER | ONO |
| PEAKS | NOBLE |
| ARTS | PCS |
| TUBED | NEHI |
| MAE | SONIC |
| BIPOD | SEE |
| STAKES | TEACHIN |
| WADUP | CPA |
| MIKE | NAP |
| AKIN | RUHR |
| COMIX | ALOE |
| MEEK | GONGS |
| INANE | LAPS |
| PIUS | |

The contest answer is AGENT. Five words that can follow "double" to make familiar phrases appear in the grid crossing themselves: DATE, BAG, BED, CHIN and TAKE. The crossing letters spell the contest answer.

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

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Monday, August 28, 2017 | B1

Yen vs. Dollar 109.2520 ▼ 0.28%

Hang Seng 27848.16 ▲ 1.20%

Gold 1292.50 ▲ 0.46%

WTI crude 47.87 ▲ 0.93%

10-Year JGB yield 0.014%

10-Year Treasury yield 2.169%

Amazon Battles Snags in China

In launching its Prime membership program in China last fall, **Amazon.com Inc.** was betting that the lure of hard-to-find Western goods and

stringent government controls and censorship, while **Apple Inc.** has seen its iPhone market share decline as Chinese smartphone makers offer less-expensive, high-performing smartphones.

"Over time, companies from **Apple** to **Microsoft** are seeing Chinese rivals move up the value chain and narrow the gap between them and their products," said Mark Natkin, managing director of Marbridge Consulting in Beijing.

Retail analysts say it is largely Chinese competition, and not the ground rules of doing business, that has challenged Amazon's efforts here. Membership programs aren't popular in China, and consultants say Amazon's app for mobile phones—the shopping cart of choice in China—lags

free international deliveries would be enough to get traction in the world's largest e-commerce market.

That hasn't happened, according to retail analysts, underscoring the difficulties faced by U.S. technology companies as they try to compete in a country with high hurdles for outsiders and increasingly sophisticated competitors.

Companies including **Facebook Inc.** and **Alphabet Inc.'s Google** have struggled with



Amazon's largely bare mobile platform can be a turnoff.

heavily to improve their selection of products and spent liberally on promotions and discounts through sale campaigns this year, said Jason Yu, China general manager at Kantar Worldpanel, a consumer-research firm.

In its most recent analysis in June, Kantar estimated that Amazon had a 1% share of China's fast-moving consumable goods, such as diapers and food, unchanged from a year earlier.

Free delivery, even internationally, isn't much of a selling point in China either, because overseas shipping costs are free or generally low. An 800-gram can of Aptamil infant formula, for instance, is free to ship from Germany to Shanghai on both Alibaba's

Please see **AMAZON** page B4

behind its competitors in ease of use and appeal.

What's more, the company's main pitch to Chinese consumers—authentic Western goods shipped free from abroad—is

being weakened as Chinese rivals strengthen their offerings and dangle discounts.

Chinese competitors **Alibaba Group Holding Ltd.** and **JD.com Inc.** have invested

U.S. Nuclear Missile Overhaul Ramps Up

Boeing, Northrop teams are chosen to vie for Pentagon's latest contracts

By DOUG CAMERON

The Pentagon is pitting two American contractors against each other as it looks to replace the nation's land-based intercontinental ballistic missiles.

But with Russia and China modernizing their nuclear forces and North Korea becoming a potential nuclear threat, some defense experts say a better plan would be to make **Boeing Co., Northrop Grumman Corp.** and others work together to confront mounting challenges.

This past week, the Pentagon picked teams led by Boeing and Northrop to vie for the latest piece of its overhaul of the country's nuclear force, with almost \$700 million in contracts for design work to develop replacements for aging Minuteman 3 missiles deployed in silos across the Great Plains.

Lockheed Martin Corp. was eliminated from the contest for the Ground-Based Strategic Deterrent program, which is expected to eventually cost \$85 billion. Lockheed could lodge a protest, as it did unsuccessfully after Northrop bested its joint bid with Boeing to build a new long-range bomber in 2015, though it declined to comment ahead of a debrief from Air Force officials.

The Pentagon is due to decide in 2020 which team will build the intercontinental ballistic missiles and new communications infrastructure, as well as refresh the silos.

Richard Safran, an analyst at **Buckingham Research Group**, said the project could still draw Lockheed and other defense firms, including General Dynamics Corp. and Orbital ATK Inc., into the project under Boeing or Northrop leadership. **Aerojet Rocketdyne Inc.** last week said it



An unarmed Minuteman 3 intercontinental ballistic missile during an operational test in May. The U.S. is modernizing its nuclear force.

tors for the Northrop offering.

Boeing is expected to disclose its partners at a military trade show next month, according to people familiar with its plans. The company said in a statement this past Monday that it would draw on the best of Boeing to deliver the "capability, flexibility and affordability the mission requires," with work focused at three of its plants in Alabama, Utah and Ohio.

Northrop Grumman said in a statement last Monday that it looks forward "to the opportunity to provide the nation with a modern strategic deterrent system that is secure, resilient and affordable."

Maj. Gen. Roger Burg, who retired from the Air Force in 2010 after a career that included heading the ICBM units, said pooling the work of

multiple companies under one joint effort is desirable, as many of the experts who built the original system in the 1970s have retired.

"We probably have just enough capability to have one really good team," said Maj. Gen. Burg, who advised two of the teams in the ICBM contest.

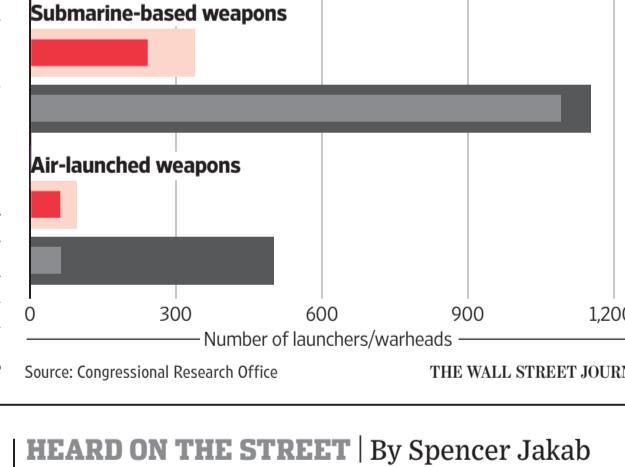
After years of delays caused by budget cuts, the Pentagon is pressing ahead with a simultaneous refresh of all three legs of the so-called nuclear triad defense system: land-based missiles, bomber-launched missiles and those on a fleet of submarines.

The Pentagon plans by 2020 to select one contractor to build 600 missiles, with 400 of those to be deployed on alert and the balance held for testing.

Please see **MISSILE** page B2

Back in the Silo

The U.S. stockpile of nuclear warheads continues to shrink with successive arms reduction treaties.



Source: Congressional Research Office

THE WALL STREET JOURNAL.

Homes Are Cash Cows Again

By CHRISTINA REXRODE

Rising home prices are getting borrowers comfortable again with the idea of tapping their homes for cash.

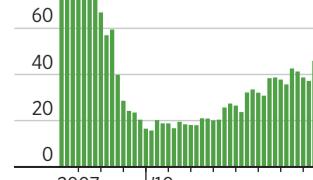
Home-equity lines of credit and cash-out mortgage refinances, two products that let consumers spend the windfall of home ownership, are back in vogue with consumers. That reflects growing confidence and is a potential benefit to the U.S. economy as homeowners have more money to spend.

"If customers feel like their home values are stable or increasing, and if they feel like their job prospects are good—that they will have the ability to pay back a loan they take—then they will start to take out

more home-equity lines," said Mike Kinane, head of U.S. consumer-lending products at **TD**

Coming Home Again

Home-equity line of credit originations, quarterly



\$120 billion

Source: Equifax

THE WALL STREET JOURNAL.

"That is what we are starting to see."

Home-equity line originations rose 8% to nearly \$46 billion in the second quarter, their highest level since 2008, according to credit-reporting firm Equifax. Borrowing via cash-out mortgage refinances hit \$15 billion, up 6% from a year earlier, according to Freddie Mac.

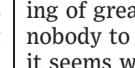
The engine driving demand: rising home prices. The median sale price of an existing home hit \$263,800 in June, the highest on record, up 40% from \$187,900 at the start of 2014, according to the National Association of Realtors.

Banks insist the increased borrowing doesn't herald a return to housing-bubble days

Please see **HOMES** page B2

HEARD ON THE STREET | By Spencer Jakab

Coin of the Realm, but Which?



Three centuries after crowds rushed to invest in

"a company for carrying on an undertaking of great advantage, but nobody to know what it is," it seems we still haven't learned our lesson.

That was a description of a British share offering that rode the tails of the South Sea Co., a large financial bubble. The argument is open as to whether bitcoin and the many initial coin offerings profiting from its success are a similar phenomenon, but there are hints history at least rhymes, even

if it isn't repeating itself.

On Friday, financial journalists received emails about Exio Coin, which, according to the news release, is the "world's first cryptocurrency to be officially endorsed by a sovereign nation."

That sounds sort of appealing for potential cryptocurrency investors hesitant to dip their toes in, put off by the Wild West nature of the booming asset class.

But which nation? A representative contacted by email demurred, explaining that the promoters "are under an obligation not to disclose the identity of our sovereign endorser until the successful conclusion of the

ICO." The representative did reveal that it was one of the richest countries on a per capita basis. Could it be tiny, secretive Liechtenstein or another European microstate such as Andorra, Monaco or San Marino? Some might

find those democracies reassuring as stewards of their digital wealth. Petro-monarchies Brunei or Qatar might be a different story. And what if one widens the definition of a state? The likes of the Cayman Islands, New Caledonia or Macau all come into the picture.

Speculators who don't think initial coin offerings are risky enough can now play geographical roulette.

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need a third method of delivering nuclear warheads to deter adversaries.

"We continue to wonder about the logic and cost of replacing land-based ICBMs," said consultant Byron Callan of **Capital Alpha Partners LLC**.

At the same time, lawmakers have questioned the trajectory of separate work meant to develop a replacement cruise missile that can be delivered from bombers.

The Pentagon last week awarded Lockheed and Raytheon separate \$900 million deals to continue the development of the long-range stand-off missile, a program expected to cost around \$20 billion. Boeing, which supplies the aging missiles that will need to be replaced in the late 2020s, had also bid for the cruise missile deal.

A final decision on which company will build the missiles will be made in 2022, if funding is agreed on.

Lockheed Martin said in a statement on Wednesday that its experience in cruise missiles "will provide the most reliable, capable, sustainable and affordable program in defense of our nation and our allies." Raytheon declined to comment.

President Donald Trump has supported the Pentagon push even as critics such as former Defense Secretary William Perry have said plans to replace the missiles are too costly. With a new bomber capable of delivering nuclear cruise missiles and Columbia-class submarines carrying missiles under construction, Mr. Perry and other defense experts argue the U.S. doesn't

have a third method of delivering nuclear warheads to deter adversaries.

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BUSINESS NEWS

In China, Skies Clear for Light Aviation

By TREFOR MOSS

SHANGHAI—Above Shanghai's skyline, things are eerily quiet: the helicopters and small planes that whir over other cities in the world are hardly ever seen here or elsewhere in China, thanks to decades-old airspace restrictions and a dearth of airstrips and heliports.

China has fewer than 4,000 helicopters and light aircraft, according to the U.S.-based General Aviation Manufacturers Association—fewer than New Zealand, and a fraction of the 210,000 aircraft operating in the U.S.

But that is changing. China's leaders have decided to promote general aviation—air services spanning leisure and transportation, logistics and emergency services—to benefit the world's second-largest economy.

The reforms promise a bonanza for aircraft makers, air-base operators and infrastructure developers.

Orders are rolling in. **Textron Aviation** Inc.'s Bell Helicopter has this year snared two big China orders for 150 aircraft, potentially worth \$350 million at list prices.



Local aviation operators are beginning to sell a variety of services, including midair weddings.

Last year, Airbus Group Inc.'s helicopter division secured a 100-aircraft contract worth \$790 million, and agreed to set up a local assembly line in the northeast city of Qingdao. Textron's Cessna Aircraft Co., which established local production for its Caravan utility airplane in 2013, recently announced its 100th delivery in China.

Also last year, Leonardo SpA, the helicopter unit of Italy's **Finmeccanica** SpA, sold 55 aircraft worth roughly \$350 million at list prices to help local operator **Shanghai King-wing General Aviation** Co. establish what it said would be

China's largest airborne emergency medical service.

The trigger for change came last year when the State Council, China's top policy-making body, published a blueprint signaling the transformation of general aviation into a \$150 billion industry by 2020.

It said China would liberalize airspace below 3,000 meters (nearly 10,000 feet), buy thousands of aircraft and build 500 new general-aviation airports within four years (the country has 300 today). That sounded ambitious enough, but when a local newspaper recently counted the airport projects already under way it found 934 of them.

The recent spate of aircraft orders suggests growth is accelerating. China's helicopter fleet nearly doubled to 907 aircraft between 2013 and 2016, according to Asian Sky Group, an aviation research company.

At China's first privately run heliport on the outskirts of Nanjing, trainee pilots—mostly young men and women dreaming of a career in the aviation industry—were being schooled on a bright-blue U.S.-built Robinson Helicopter Co. R-44 Raven II that sat primed for takeoff. Besides flying lessons, the facility offers transportation services, aerial tours of Nanjing and even midair weddings.

The heliport, owned by **Ruohang Group**, hasn't turned a profit since opening eight years ago, but the new na-

tional focus on improving air services should soon change that, said manager Zhang Weidong.

General aviation adds a bit more than 1% to U.S. gross domestic product, and China is seeking to tap that same source of growth, said Michael Shih, China head for Textron.

"We're expecting substantial growth," said Mr. Shih. "It's a whole chain of industries that they're trying to develop from zero."

Tourism, transportation, agriculture, logistics and law enforcement are some sectors that benefit from air capability, he said. The effect is multiplied in regions where deserts or mountain ranges have traditionally hampered economic growth.

China's aviation enthusiasts don't expect takeoff to happen overnight.

"China is building all these so-called aviation townships and aviation development zones," said Francis Chao, the managing director of Uniworld LLC, a consultancy that helps American aviation companies operate in China.

"But nobody is talking about who's actually going to use them."

BUSINESS WATCH

UBER

Immelt Drops Out Of Firm's CEO Race

General Electric Co. Chairman Jeff Immelt said he won't join **Uber Technologies** Inc. as chief executive, after meeting with members of the ride-hailing company over the weekend.

"I have decided not to pursue a leadership position at Uber," said the former CEO of GE in a post on Twitter Sunday. "I have immense respect for the company and founders."

It wasn't immediately clear why Mr. Immelt dropped out of the running. He had been in San Francisco on Friday and Saturday

meeting with Uber directors, according to people familiar with the matter. It was at least his second visit to the city as part of the vetting process. An Uber spokeswoman declined to comment.

—Greg Bensinger

DUKE

Company Pulls Plug On Nuclear Plant

Duke Energy Corp. said Friday that it was abandoning plans to develop a nuclear power plant in South Carolina, in the latest blow to the U.S. nuclear industry.

The company had planned to build two reactors designed by

Westinghouse Electric Co. The March bankruptcy of Westinghouse, a unit of **Toshiba** Corp., led Duke to reconsider moving ahead. Construction on the William States Lee III Nuclear Generating Station hadn't begun yet. Duke said it plans to file a petition with the North Carolina Utilities Commission to abandon the project. It was to be located near Gaffney, S.C.

Duke said it had spent \$542 million on the project to date, mostly on securing a license from the federal government, engineering and site acquisition.

The decision to pull the plug was driven in part by cost overruns to build other Westinghouse AP1000 nuclear reactors.

Last month, **Scana** Corp. decided to abandon work on a half-built AP1000 as costs swelled from \$14 billion to a projected \$25.7 billion. Southern Co. is struggling with rising costs at a half-built nuclear power plant in Georgia.

—Russell Gold

VOLKSWAGEN

Engineer Sentenced For Role in Fraud

A **Volkswagen** AG engineer was sentenced to 40 months imprisonment and will pay a \$200,000 fine for his part in the German auto giant's emissions scandal, after cooperating with U.S. prosecutors in their criminal

investigation of the yearslong conspiracy to defraud government officials and customers.

James Liang, 63 years old, received the sentence from U.S. District Judge Sean Cox on Friday. Mr. Liang in September pleaded guilty to one count of conspiring to defraud the U.S., commit wire fraud and violate the Clean Air Act for his role in helping Volkswagen evade emissions requirements with diesel-powered vehicles.

Mr. Liang, a German national, has agreed to be removed from the U.S. following his prison term, according to prosecutors. He moved to and settled in the U.S. with his family in 2008 to help Volkswagen launch diesel-

powered vehicles and handled certification, testing and warranty issues, prosecutors said.

Mr. Liang is one of eight individuals charged in a U.S. Justice Department probe of Volkswagen's nearly decadelong conspiracy to rig nearly 600,000 diesel-engine vehicles with illegal software that allowed them to cheat on government emissions tests while polluting far beyond legal limits on the road.

Volkswagen, which has acknowledged the software is on about 11 million vehicles globally, earlier this year pleaded guilty to criminal charges in the U.S. stemming from the deception.

—Adrienne Roberts and Mike Spector



WSJ PODCASTS

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Alphabet, Amazon, Facebook, Lead Tech's Earnings-Palooza

Amid highly anticipated reports from tech giants like Alphabet, Facebook, and Amazon, Heard on the Street's Miriam Gottfried and Dan Gallagher break down what's in store for the big week of tech earnings.

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WSJ GLOBALIZATION IN RETREAT

CHINA'S NEXT TARGET: U.S. MICROCHIP HEGEMONY

By Bob Davis and Eva Dou

Semiconductor industry, a stalwart of the global economy, is succumbing to fierce nationalistic competition

ILLUSTRATION BY JESSICA KURONEN

WUHAN, China—At a muddy construction site the size of 12 baseball stadiums, globalization is turning into nationalism. A truck after truck delivers steel rods to China's Tsinghua Unigroup Ltd., a state-owned firm that's spending \$24 billion to build the country's first advanced memory-chip factories.

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Nintendo Faces Shortages

Nintendo Co.'s latest video-game machine, the Nintendo Switch, is winning fans for both its lineup of popular games and its flexibility—it works as both a living-room console and a hand-held device.

By **Takashi Mochizuki**
in Tokyo and
Sarah E. Needleman
in New York

But the real challenge for gamers has been actually getting their hands on it. Production isn't keeping up with demand in Japan, resulting in blockbuster queues and lotteries there. Over weekends in July and early August, tens of thousands of fans lined up at stores for a one-in-10 chance to buy the \$300 console at events that have become a form of entertainment.

In the U.S. too, scarcity has only made the Switch more sought after. Some fans have spent months trying to find a Switch, and sellers on Amazon.com are getting \$380 or more for a unit. Wal-Mart Stores Inc., Target Corp. and GameStop Corp. said they have struggled to meet demand both in stores and online.

"We continue to see strong demand for the Switch and sell out our inventory in a matter of days if it being available in our stores and our websites," Tony Bartel, GameStop chief operating officer, said in a quarterly earnings call Thursday. "We believe that this will continue through the holiday."

Supply in Europe seems somewhat better, with electronics retailers' websites in France, Germany and Italy showing the console is available. In June, though, British videogame retailer Game Digital PLC issued a profit warning partly blaming lower-than-expected Switch supplies to the U.K.

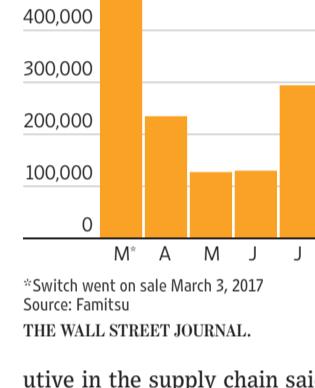
Nintendo's official target is to ship 10 million Switch units in its current fiscal year ending in March 2018. People involved in the supply chain say they have been told to prepare for 18 million units. One exec-



Game enthusiasts and industry personnel at a Switch exhibit in Los Angeles in June.

Game On

Nintendo Switch sales have lagged in Japan because of supply shortages but are picking up.



*Switch went on sale March 3, 2017

Source: Famitsu

THE WALL STREET JOURNAL.

tive in the supply chain said his company was ready to pick up the pace of production if asked.

"We're doing everything we can to make sure everyone who wants to buy a Nintendo Switch system can do so," Nintendo said in a statement. "We will ramp up production for the holiday period, which has been factored into our forecast."

One delicate balance for

Nintendo: The more it tries to boost output quickly, the more it has to bow to the terms of parts makers, some of whom are also busy with orders for Apple Inc.'s next iPhone.

Nintendo's stock price is up more than 50% since the Switch went on sale March 3, giving the company a market capitalization of more than \$45 billion. The scarcity of the Switch—whether by design or not—adds to the hype.

Aki Natsume, a 26-year-old singer, was one of more than 2,000 people a few weeks ago standing in line at the large Bic Camera store in Tokyo's Akihabara district for a chance to buy the Switch. She was there with a friend to make a video for YouTube about the hunt; she said her friend's YouTube channel has done well with clips of people trying to buy the machine.

Ms. Natsume got lucky—her number was one of 200 selected in the lottery. She bought a Switch, even though she said she wasn't particularly passionate about it. She already owns a rival console from Sony Corp. "I'm busy with playing a PlayStation 4 game."

Earlier this month in Japan,

electronics retailer Yamada Denki Co. apologized after acknowledging that a few of its salespeople were making what it called inappropriate demands on would-be Switch buyers: The customers were told that to get a Switch they had to buy a wireless router at the same time. The retailer said it has halted the practice.

Japan is Nintendo's second-largest market by revenue, accounting for 26% of sales. Nintendo sold more than 294,000 Switch units there in July, up from 129,971 in June, according to videogame publication Famitsu.

In Nintendo's Americas market, its largest, accounting for 43% of revenue, the company sold approximately 220,000 Switch consoles in July, up from about 215,000 in June, according to NPD Group.

People familiar with the supply chain say Nintendo is making progress working through shortages of key components, such as flash-memory chips and batteries. And it has overcome many of the challenges in assembling the machine's detachable, wireless controllers, which pack sensors and other delicate components into a small space.

Google Pays Up For Fake Traffic

By **LARA O'REILLY**

Google is issuing refunds for ads that ran on websites with fake traffic, people familiar with the situation said, as the web giant develops a tool to give marketers more transparency about the ads they buy through its platform.

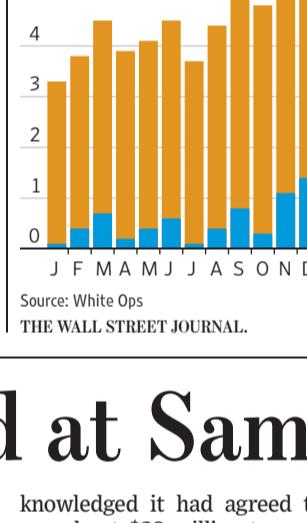
In the past few weeks, the Alphabet Inc. unit has informed hundreds of marketers and ad-agency partners about the issue with invalid traffic, known in the industry as "ad fraud." The ads were bought using the company's DoubleClick Bid Manager over the course of a few months this year, primarily in the second quarter.

Google's refunds amount to only a fraction of the cost of the ads served to invalid traffic, which has left some advertising executives unsatisfied, the people familiar with the situation said. Google has offered to reimburse its "platform fee," which ad buyers said typically ranges from about 7% to 10% of their total purchase.

The company says this is appropriate because it doesn't control the rest of the money spent. Typically, advertisers use DoubleClick Bid Manager

Mr. Robot

Estimated monthly digital ad spending and share lost to 'bot' fraud for 2017.



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to target audiences across vast numbers of websites in seconds by connecting to dozens of online ad exchanges, marketplaces that connect buyers and publishers through real-time auctions.

The ad spending flows through to the exchanges. The problems arise when ads run on publisher sites with fraudulent traffic, including those where clicks are generated by software programs known as "bots" instead of humans. This is an issue of growing concern to marketers. It is difficult to recoup the money paid to those sites when the issue is discovered too late.

Advertisers often receive small credits from Google and their other ad-tech vendors when they detect discrepancies, but in this case, for some buyers, the instance of fraud discovered was larger than usual.

It is the latest evidence of how the complexity of the digital advertising ecosystem—an industry where marketers and ad sellers are separated by layers of middlemen and automation—can cause tensions between Madison Avenue and big players like Google. Just a few months ago, some marketers suspended their campaigns from Google's YouTube after revelations their ads appeared next to hateful or otherwise unsavory videos. YouTube has taken steps to assuage marketers' concerns, and many brands have now returned to the platform. Ad agencies, too, have battled with Google to let them access more of its extensive data to help them improve how ads are targeted and measure whether they are effective.

Scott Spencer, director of product management for Google, acknowledged that refunds have been paid, but he declined to provide a dollar figure for the amount being returned. Some ad buyers said the refund amounts range from "less money than you would spend on a sandwich" to hundreds of thousands of dollars.

Heir's Prison Sentence Leaves Void at Samsung

BY **TIMOTHY W. MARTIN**
AND **EUN-YOUNG JEONG**

SEOUL—Samsung, one of the world's biggest business empires, faces a deepening leadership crisis after its heir and de facto head Lee Jae-yong was found guilty of bribing South Korea's former president and sentenced to five years in prison.

While less than the 12 years sought by prosecutors, the jail term for the 49-year-old grandson of Samsung's founder, and the vice chairman of Samsung Electronics Co., risks holding back a conglomerate that relies heavily on its top leadership for direction.

Samsung Electronics is still deliberating who, if anyone, will take Mr. Lee's place, according to people familiar with the matter. As recently as last week, the full board of Samsung Electronics hadn't been briefed on scenarios in which Mr. Lee would remain behind bars for an extended amount of time, according to a person familiar with the board's thinking.

Since Mr. Lee's February detriment, Samsung hasn't pursued a major deal, according to people familiar with the company's thinking. That followed a string of acquisitions in 2016

that included the \$8 billion purchase of auto-parts maker Hanman International Industries Inc.

The Lee family has shaped the company's vision and made major strategic decisions, such as moves into chips and phones that initially were loss-making but later helped drive record profits. The conglomerate spans smartphones, theme parks and biopharmaceuticals and accounts for nearly one-third of South Korea's stock-market value.

Samsung contains dozens

of affiliates, which each have their own CEOs and management teams. Samsung Electronics, the world's largest smartphone maker, generates much of its profits. Mr. Lee focuses almost entirely on that business, he has said, but he also serves as the unifying figure—and ultimate decision maker—for the disparate enterprise.

His time away threatens to temporarily halt Samsung's efforts to modernize its hierarchical, secretive culture and pursue acquisitions, which Mr. Lee has made priorities. China is pumping billions of dollars into semiconductors, a threat to the South Korean company's current cash cow, while Samsung is also seen as being a step behind its Silicon Valley peers on soft

ware development.

Mr. Lee, the only son of Samsung Chairman Lee Kun-hee, doesn't have an obvious successor within the family. He has two sisters who work for Samsung affiliates, but neither have much experience with smartphones or electronics.

If upheld, the verdict signals further progress in South Korea's efforts to depart from the

traditionally close and symbiotic relationship between the government and large family-run conglomerates known as chaebols.

Before a packed courtroom in Seoul on Friday, Mr. Lee was found guilty of bribery, embezzlement, hiding assets abroad, concealing criminal profits, and perjury.

Samsung previously ac-

knowledged it had agreed to pay about \$38 million to various entities, which Samsung said it didn't know at the time were linked to a close friend of the former president. The company previously denied the payments were in return for political favors including government backing of a merger.

Of the promised funds Samsung paid, the judge ruled \$7.9 million constituted bribery.

Under South Korean law, Mr. Lee would have to serve a third of his sentence term before he could win parole. Just after Friday's ruling, Mr. Lee's lawyer said outside the courtroom that he would appeal the ruling "immediately." Unless the appeals court changes the sentence, Mr. Lee's release could fall around autumn 2018 if his parole is granted.

Separately on Friday, the court convicted four other Samsung executives involved in the same case, with two receiving four-year sentences and two receiving suspended sentences. They faced similar charges as Mr. Lee, except for perjury; all had denied wrongdoing.

Samsung Electronics shares fell 1% on Friday, as investors had largely factored in an extended absence. Despite last year's Galaxy Note 7 recall and

Mr. Lee's corruption trial, Samsung has delivered its biggest-ever quarterly profits and shares are near record highs.

"It's rare to see the absence of a conglomerate head impact business performance," said Ryu Young-jae, head of Sustainvest Inc., a proxy advisory firm based in Seoul. "In most cases, business remains the same or improves."

During the four-month trial, Mr. Lee testified that about 95% of his role was dedicated to Samsung Electronics. Other lieutenants said during the trial that they handled conglomerate-wide matters—including organizational restructuring and most interactions with the South Korean government.

Few major moves advance without Mr. Lee's signoff and the Samsung heir's personal relationships with Silicon Valley leaders is critical given that the South Korean firm both competes with, and supplies electronics components to, their biggest rivals, according to people who know him.

Mr. Lee and Samsung now must grapple with whether a family-driven structure is appropriate for a global company like Samsung Electronics, whose shares are majority-owned by foreign investors.

AMAZON

Continued from Page One

Tmall and JD platforms via bonded warehouses. A similar product is also shipped free by Amazon.

In China, Amazon Prime's offerings don't stand out, said Shirley Lu, a Shanghai-based analyst focusing on retail at Euromonitor International.

"Local e-commerce providers have fast deliveries, good customer service and very competitive pricing," Ms. Lu said. "These are areas Amazon will find hard to beat."

A spokeswoman for Amazon said the company has had a "strong response" to Prime from Chinese customers since

its launch last October, with membership figures more than doubling since the beginning of the year. She declined to provide figures.

Amazon in October last year sweetened its offer by discounting its China Prime membership fee to \$30, or half its standard list price. Prime membership costs \$99 annually in the U.S.

But membership programs are also a tough sell in China, where high-profile scandals involving beauty chains and health clubs have made consumers wary, said Deborah Weintraub, New York-based managing director at Fung Global Retail & Technology.

JD and Alibaba also offer memberships, but on those sites you don't have to be a

member to qualify for free shipping on most purchases beyond \$15. Alibaba's 88 Membership program is free and rewards frequent shoppers on their site with discounts for high-end brands and free concert tickets. JD's Plus program costs \$22 and dangles unlimited e-books and free exchanges and returns, on top of free shipping for all purchases five times a month.

Furthermore, Euromonitor's Ms. Lu said that most Chinese consumers shop on their smartphones, and that Amazon's relatively bare mobile platform is a turnoff for Chinese consumers used to seeing a kaleidoscope of colors and attention-getting deals.

Mobile-phone shopping will account for more than 60%

China's total e-commerce this year, or \$720 billion, Boston Consulting Group analysts estimated.

Wang Hao, a 38-year-old internet entrepreneur in Shanghai who buys items as diverse as steaks and computer parts online, said he found Amazon's site "as bland as plain water." JD's website, a riot of red and orange hues, "makes one feel festive and in the mood to shop," he said.

Finally, the video-streaming service included in Amazon Prime—with its award-winning original content—isn't available in China because of censorship rules.

Still, China is an important piece of the puzzle for Amazon in its plans to one day haul and deliver packages and

cargo globally for others as well as itself.

The online retailer has been building its business with manufacturers and sellers in China, encouraging them to

Amazon has been building its business with manufacturers and sellers in China.

sell direct to U.S. consumers via Amazon.com. As the company sends more merchandise from China to the U.S.—and especially as it develops its own air-service offerings—it needs to fill trucks and planes

going both ways.

As Amazon adds international shipping capabilities including its own planes, "in order for it to be cost effective, they need to have goods that are going out of the U.S. and into the U.S. to do it profitably," said John Haber, chief executive of supply-chain consultancy Spend Management Experts.

Robert W. Baird & Co. Amazon analyst Colin Sebastian expects Amazon to continue to focus on its global store, which allows Chinese consumers to buy products from countries including the U.S. and the U.K. That is an area where it can likely gain a better foothold because of its reputation as a place to buy authentic Western goods.



Samsung's Lee Jae-yong on Friday following his verdict.

CHUNG SUNG-JUN/PRESS POOL/REUTERS

FINANCE & MARKETS

Payday-Loan Rule Is Scaled Back

By YUKA HAYASHI

WASHINGTON—Some companies selling high-interest personal loans in the U.S. could get a break from new oversight by the federal government when it completes a long-anticipated rule on payday lending in September.

The Consumer Financial Protection Bureau, still under the leadership of an Obama-appointed director, is expected to scale back its new rule on small-dollar lending as it rushes to complete the regulation before a Trump appointee takes over its leadership, say industry lobbyists and consumer groups.

CFPB Director Richard

Cordray, appointed by former President Barack Obama in 2012, is serving a term that runs through July 2018, but a number of people say he might resign soon to run for Ohio governor. Mr. Cordray through a spokesman declined to comment.

Facing pressure to wrap up the rule, the bureau has reduced its scope from a proposed version released in 2016, people familiar with the matter said.

The rule is now expected to focus on short-term payday loans that are typically due in two weeks, or the borrower's next payday, with annual interest rates of as much as 390%.

To be excluded are high-cost installment loans lasting 45 days or longer.

Mr. Cordray is seen as an aggressive regulator who has butted heads with the financial industry and Republican lawmakers. A Trump appointee could bring in a regulatory agenda viewed as favorable to the financial industry.

A CFPB spokesman declined to comment on the rule's content. The spokesman acknowledged that the process of reviewing and publishing public comments on the rule is substantially complete, indicating the bureau is nearing the end of its rule-making process.

People familiar with the

matter said the rule is undergoing a peer review by other banking agencies, such as the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp., with a deadline in early September. The OCC and FDIC declined to comment.

"We are expecting the rule anytime," said Dennis Shaul, chief executive of the Community Financial Services Association of America, the primary industry group for payday lenders. "They are very far along in their process."

The payday industry has fought new federal oversight, saying that an estimated 10 million to 12 million people who

take out payday loans every year could lose access to credit.

Efforts to regulate the U.S. payday-loan market, which lent roughly \$40 billion in 2015, according to an estimate by Jefferies, have been on the CFPB's agenda since its 2011 creation.

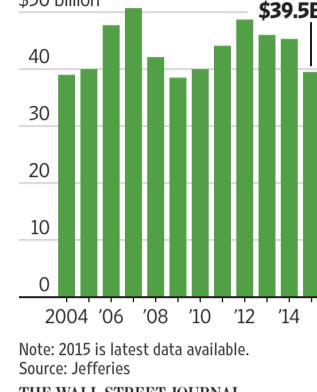
The bureau has said payday lenders push vulnerable lower-income borrowers into "debt traps" by offering unaffordable loans.

It proposed an oversight plan last year that would require lenders to assess a borrower's ability to repay and make it harder for lenders to roll over loans, a practice that often leads to escalating borrowing fees.

Up and Down

The Consumer Financial Protection Bureau is considering new regulations for the short-term lending industry, which has grown and contracted since the financial crisis.

U.S. payday-loan volume



Note: 2015 is latest data available.
Source: Jefferies
THE WALL STREET JOURNAL.

Venezuela Bonds Climb In Relief

By CAROLYN CUI

Bond investors expressed relief after new U.S. sanctions against Venezuela didn't ban trading of the country's existing bonds, an outcome that could have caused huge disruptions in the market for Venezuelan debt.

Prices of bonds from state-owned oil company **Petróleos de Venezuela SA** due 2021 were up 2% to 40.25 cents on the dollar Friday, while PdVSA bonds due on Nov. 2 were up 0.4%, to 93.4 cents, after a 6% gain Thursday, traders said.

While Venezuela hasn't issued public debt for years, the new sanctions on Friday include restrictions intended to block the government's ability to finance itself, hoping to undermine President Nicolás Maduro's authoritarian regime.

New U.S. sanctions didn't shut down trading for existing Venezuelan debt.

Those include prohibiting most new debt issues and banning bond trading between the Venezuelan government and any institution in the U.S.

But the sanctions didn't include shutting down secondary-market trading for existing Venezuelan debt. Prices of Venezuelan debt skidded earlier this month after The Wall Street Journal reported the Trump administration was considering a ban on bond trading.

"This has no impact on the secondary market for Venezuelan bonds," said AJ Mediratta, president of Greyluck Capital Management, a hedge fund specializing in distressed and high-yield emerging-market bonds.

Raymond Zucaro, chief investment officer at Florida-based **RVX Asset Management LLC**, said he took advantage of the sell-off and bought more Venezuelan bonds, believing an outright ban is impractical.

Bonds rallied Thursday after a Venezuelan news report said China is considering buying some discounted Venezuelan bonds. Another report said Russia's oil company, Rosneft, might also be involved in a deal that would raise cash for the Venezuelan government.

Prices for the PdVSA bonds due in November rose to their highest levels in three years, said MarketAxess BondTicker. Still, some investors said the ban on new issuance could begin to ripple through secondary-market trading. Bond investors would have to re-evaluate their Venezuelan holdings, taking into account that there would be no channels for the government to access capital markets.

"The U.S. government is closing the window on the ability for the Venezuelan government to raise new money; that's going to have negative repercussions on the value of the existing bonds," said Robert Abad, founder of the emerging-markets advisory firm EM+BRACE.

Matt Wizir and Emily Glazer contributed to this article.

Activist's Emerging-Market Niche

By JULIE WERNAU

As **Saudi Aramco** prepares for one of the largest-ever initial public offerings, few investors have the same connection with the oil giant as activist investor Teresa Barger.

Ms. Barger lived in Dhahran, Saudi Arabia, until she was 14 years old. Her father was among the last Americans to run the Saudi-U.S. joint venture before the kingdom took full control in 1980. If it were purely for sentimental reasons, she would gladly buy a stake.

But as an investor, Aramco represents exactly the sort of company she has learned to avoid.

"The vast majority of Aramco will still be owned and controlled by the kingdom, and their goals may or may not line up with that of shareholders," said Ms. Barger, chief executive of **Cartica Management LLC**, an activist fund that says it has \$3 billion in assets. "We typically stay away from government-controlled firms. As the patsy minority investor, you're at the mercy of their policies."

Aramco, officially Saudi Arabian Oil Co., didn't respond to requests for comment.

Ms. Barger, 62 years old, is a self-described emerging-markets activist investor. While well-known activists such as Paul Singer and Carl Icahn in the past have waged campaigns against governments or companies in Latin America and Asia, she said her firm is the only one dedicated to activism exclusively in emerging markets. Activist Insight, a firm that tracks these efforts, said it was unaware of any other emerging-market specialist in the field.

"You have a lot of government-controlled companies, so the ability to enact change is very limited," said Bob McCormick, partner with Cam-



Teresa Barger looks to persuade companies in the developing world that improving governance will boost their stock prices.

berView Partners in New York, which advises public companies on shareholder activism. "It calls for a high level of knowledge of the various markets. Mexico is very different from Colombia, which is different from Brazil."

Ms. Barger's goal: to persuade companies in the developing world that improving their corporate governance and treatment of minority shareholders will boost their stock prices. She has a focused portfolio of 21 investments in nine countries where the firm is optimistic about the economy and governance.

In the U.S., activists typically appeal to thousands of stockholders through the press or other public means in an effort to influence companies. But Ms. Barger usually focuses on one shareholder, the company's controlling family, and tries to persuade its members

gently in private.

It doesn't always work, especially when allies can be hard to come by.

Ms. Barger was friendly with Alvaro Saieh Bendek, a Chilean billionaire and the controlling shareholder of CorpBanca. Ms. Barger said Mr. Saieh assured her that a 2014 merger deal would treat minority shareholders as equals. When the bank announced the less-than-favorable terms for minority shareholders, Cartica sold its position at a small loss following a legal battle. Mr. Saieh and his attorneys didn't reply to a request for comment.

Ms. Barger's firm often targets companies that most U.S. investors tend to shun: businesses that are family controlled, with filings that aren't in English and stocks that aren't widely traded.

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"You think of an activist as

someone who kicks the door down and tells you what to do," said Anne Simpson, investment director, sustainability at California Public Employees' Retirement System, which was Cartica's first investor. "But in emerging markets, you can't go in as a minority shareholder and throw your weight around...So you have to use a charm offensive."

In 2010, for example, Ms. Barger said she helped persuade an executive at family-founded **Grafia y Montero** of Peru to adopt policies that would attract more foreign investors to the thinly traded shares. The company devised a succession plan, released financial reports in English, created a dividend policy, sought analyst coverage and divested itself of noncore assets.

Ms. Barger said the company was receptive because she and one of her co-founders knew the chairman from her years at International Finance Corp., a lending arm of the World Bank. Her fund doubled its money in less than two years, according to a person familiar with the performance.

With successes such as these, Cartica has generated a 24% return for its investors this year through June, the latest data available, according to a person familiar with the fund's performance. The median emerging-markets small-cap stock fund, meanwhile, returned 19.5% through June, according to data provider eVestment. Cartica returned an annualized 9.3% over the previous seven-year period, according to the person, compared with 7.7% for its peers as tracked by eVestment.

Its performance also contrasts with that of U.S. activist-targeted stocks on the New York Stock Exchange and Nasdaq, which this year through Aug. 23 had returned 5.3%, according to Activist Insight.

Harvey Hits Oil Refineries In Texas

By DAN MOLINSKI AND CHRISTOPHER M. MATTHEWS

Exxon Mobil Corp. is shutting down its Houston-area refinery—the second-largest in the U.S.—as floodwaters from Hurricane Harvey paralyze much of the area.

The plant, located in Baytown, Texas, on the Houston Ship Channel, can process as much as 560,000 barrels of oil a day and feeds fuel into pipelines and barges that move it from Texas across the Southeast and up the East Coast.

Hurricane Harvey has already forced refineries that make up roughly 8% of U.S. fuel-making capacity to shut down, and more facilities remain under threat as the storm moves through the heart of the nation's oil and gas infrastructure.

More than three million barrels of refining capacity is located around Houston, 325 kilometers north of Corpus Christi, and in the Port Arthur area further east along the Gulf Coast, which could get anywhere from 38 centimeters to 76 centimeters of rain as the storm continues.

The Gulf Coast is the epicenter of U.S. gasoline output.

Clint Follette, a partner at Boston Consulting Group, said refineries in the storm's path that hadn't closed may have already lowered capacity and reduced staff as they await a final decision on the threat of flooding. "Flooding can take a refinery down for a substantial period of time," Mr. Follette said. "Inspection, repairs, getting things up and running and restoring power, can be costly and time consuming."

Ford Begins a Push To Boost Car Loans

By ANNA MARIA ANDRIOTIS

A major auto lender has decided to change its approval process to look beyond credit scores in an effort to pump up sales.

The move by **Ford Motor Co.**'s financing unit, announced Friday, is expected to unfold in coming years, even as concerns mount about rising auto-loan losses in the industry.

Ford Motor Credit says it is looking at ways to increase loan and lease approvals for

distrustful consumers with missed loan payments and other blemishes on their credit reports to get financing. This helped fuel new U.S. car sales, which hit record highs in 2015 and again in 2016. But as losses have worsened, many lenders have pulled back on originations to risky borrowers.

Ford's U.S. sales were down 4.3% for the first seven months of the year compared with the same period a year prior, while total U.S. new auto sales fell 2.8%, according to Edmunds.com. **Wells Fargo & Co.**'s auto-lending volume fell 45% in the second quarter from a year earlier due to tightening underwriting standards. **Ally Financial Inc.**'s auto-loan originations fell 8.5% for the same period.

Some lenders are looking elsewhere to drive loan volume. One area of focus is borrowers who have low credit scores because they haven't used debt from banks and other mainstream lenders.

Ford Credit is among the largest U.S. lenders to say that it is looking at using alternative methods of underwriting, beyond the traditional factors that are mostly centered on credit reports. "No financial services firm would take that decision lightly," said Jim Moynes, vice president of risk management at Ford Credit.

Subprime auto lending in-

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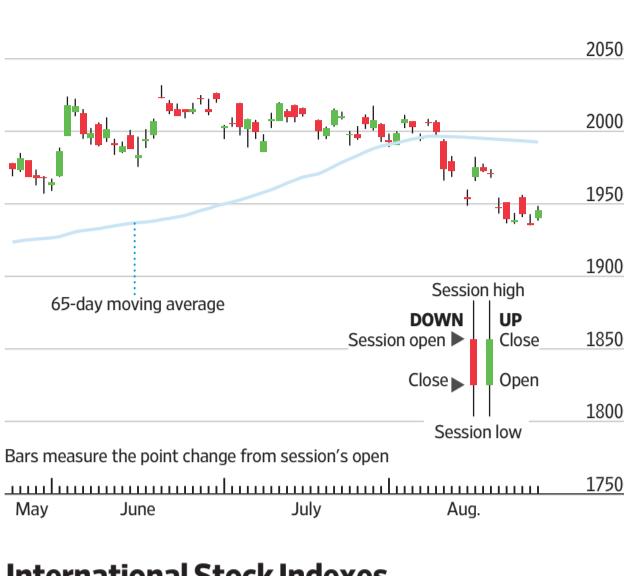
MARKETS DIGEST

Data as of Friday, August 25, 2017

Nikkei 225 Index

19452.61 ▲ 98.84, or 0.51%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

374.07 ▼ 0.44, or 0.12%

High, low, open and close for each trading day of the past three months.



S&P 500 Index

2443.05 ▲ 4.08, or 0.17%

High, low, open and close for each trading day of the past three months.



4 p.m. New York time

Last

Year ago

Trailing P/E ratio

23.53 24.71

P/E estimate *

18.73 18.59

Dividend yield

2.01 2.11

All-time high:

2480.91, 08/07/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

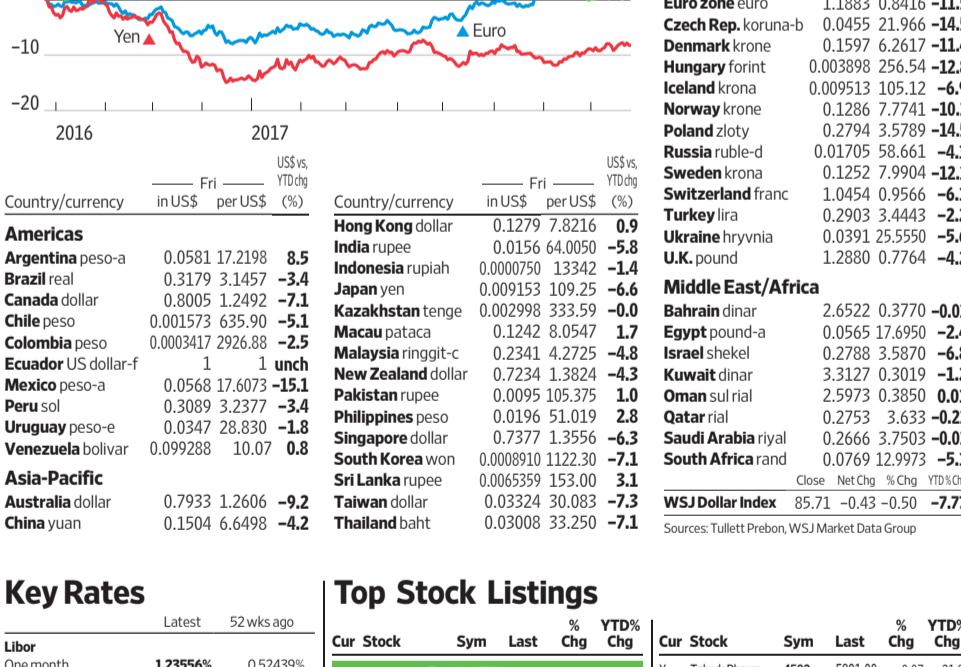
International Stock Indexes

Data as of 4 p.m. New York time

| Region/Country | Index | Close | NetChg | % chg | 52-Week Range | Low | Close | High | YTD % chg |
|---------------------|-------------------------------|-----------|--------|-------------------------------------------|---------------|-----|-----------|-------|-----------|
| World | The Global Dow | 2831.89 | 11.56 | ▲ 0.41 | 2390.11 | ● | 2878.99 | 11.9 | |
| | MSCI EAFE | 1927.80 | 9.26 | ▲ 0.48 | 1614.17 | ● | 1955.39 | 14.5 | |
| | MSCI EM USD | 1085.37 | 2.92 | ▲ 0.27 | 838.96 | ● | 1085.37 | 25.9 | |
| Americas | DJ Americas | 588.81 | 1.03 | ▲ 0.18 | 503.67 | ● | 596.96 | 9.0 | |
| Brazil | Sao Paulo Bovespa | 71073.65 | -59.15 | -0.08 | 56820.77 | ● | 71132.80 | 18.0 | |
| Canada | S&P/TSX Comp | 15055.99 | -20.17 | -0.13 | 14349.10 | ● | 15922.37 | -1.5 | |
| Mexico | IPC All-Share | 51373.23 | -96.83 | -0.19 | 44364.17 | ● | 51713.38 | 12.6 | |
| Chile | Santiago IPSA | 3932.62 | 17.71 | ▲ 0.45 | 3127.54 | ● | 3932.62 | 22.0 | |
| U.S. | DJIA | 21813.67 | 30.27 | ▲ 0.14 | 17888.28 | ● | 22118.42 | 10.4 | |
| | Nasdaq Composite | 6265.64 | -5.68 | -0.09 | 5046.37 | ● | 6422.75 | 16.4 | |
| | S&P 500 | 2443.05 | 4.08 | ▲ 0.17 | 2085.18 | ● | 2480.91 | 9.1 | |
| | CBOE Volatility | 11.28 | -0.95 | -7.77 | 9.36 | ● | 22.51 | -19.7 | |
| EMEA | Stoxx Europe 600 | 374.07 | -0.44 | -0.12 | 328.80 | ● | 396.45 | 3.5 | |
| | Stoxx Europe 50 | 3042.38 | -3.69 | -0.12 | 2730.05 | ● | 3276.11 | 1.1 | |
| France | CAC 40 | 5104.33 | -8.80 | -0.17 | 4332.45 | ● | 5432.40 | 5.0 | |
| Germany | DAX | 12167.94 | -12.89 | -0.11 | 10259.13 | ● | 12888.95 | 6.0 | |
| Greece | ATG | 835.30 | -0.25 | -0.03 | 551.93 | ● | 858.08 | 29.8 | |
| Israel | Tel Aviv | 1396.08 | ... | Closed | 1363.50 | ● | 1478.96 | -5.1 | |
| Italy | FTSE MIB | 21746.50 | 16.63 | ▲ 0.08 | 16134.71 | ● | 22048.30 | 13.1 | |
| Netherlands | AEX | 517.42 | -1.68 | -0.32 | 439.07 | ● | 536.26 | 7.1 | |
| Russia | RTS Index | 1060.49 | 10.53 | ▲ 1.00 | 944.96 | ● | 1195.61 | -8.0 | |
| Spain | IBEX 35 | 10345.30 | -12.10 | -0.12 | 8607.10 | ● | 11135.40 | 10.6 | |
| Switzerland | Swiss Market | 8906.18 | -36.86 | -0.41 | 7593.20 | ● | 9176.99 | 8.3 | |
| South Africa | Johannesburg All Share | 56655.88 | 66.89 | ▲ 0.12 | 48935.90 | ● | 56655.88 | 11.8 | |
| Turkey | BIST 100 | 109755.14 | 601.23 | ▲ 0.55 | 72519.85 | ● | 109781.13 | 40.5 | |
| U.K. | FTSE 100 | 7401.46 | -5.60 | -0.08 | 6665.63 | ● | 7547.63 | 3.6 | |
| Asia-Pacific | S&P/ASX 200 | 5743.90 | -1.60 | -0.03 | 5156.60 | ● | 5956.50 | 1.4 | |
| Australia | Shanghai Composite | 3331.52 | 60.01 | ▲ 1.83 | 2980.43 | ● | 3331.52 | 7.3 | |
| Hong Kong | Hang Seng | 27848.16 | 329.56 | ▲ 1.20 | 21574.76 | ● | 27854.91 | 26.6 | |
| India | S&P BSE Sensex | 31596.06 | ... | Closed | 25765.14 | ● | 32575.17 | 18.7 | |
| Indonesia | Jakarta Composite | 5915.36 | 21.25 | ▲ 0.36 | 5027.70 | ● | 5915.36 | 11.7 | |
| Japan | Nikkei Stock Avg | 19452.61 | 98.84 | ▲ 0.51 | 16251.54 | ● | 20230.41 | 1.8 | |
| Malaysia | Kuala Lumpur Composite | 1769.17 | -6.33 | -0.36 | 1616.64 | ● | 1792.35 | 7.8 | |
| New Zealand | S&P/NZX 50 | 7857.81 | -10.60 | -0.13 | 6664.21 | ● | 7879.46 | 14.2 | |
| Philippines | PSEI | 8015.14 | 10.21 | ▲ 0.13 | 6563.67 | ● | 8072.75 | 17.2 | |
| Singapore | Straits Times | 3259.57 | -12.59 | -0.38 | 2787.27 | ● | 3354.71 | 13.1 | |
| South Korea | Kospi | 2378.51 | 2.67 | ▲ 0.11 | 1958.38 | ● | 2451.53 | 17.4 | |
| Taiwan | Weighted | 10515.51 | 26.55 | ▲ 0.25 | 8902.30 | ● | 10579.38 | 13.6 | |
| Thailand | SET | 1575.85 | -0.11 | -0.01 | 1406.18 | ● | 1591.00 | 2.1 | |

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on Aug. 25

US\$ vs. Country/currency Fri YTD chg

Country/currency in US\$ per US\$ (%)

Country/currency in US\$ per

FINANCE & MARKETS

Watch ECB for Still More Bond Buying

By JUSTIN YANG
AND CHRISTOPHER WHITTALL

Just as the European Central Bank gets ready to reduce its bond-buying program, it appears poised to scoop up more.

The extra buying, as the ECB reinvests the proceeds of maturing debt, creates a new dynamic for investors who have been more focused on when the central bank will begin reducing its €60 billion (\$70.8 billion) a month of bond purchases.

The ECB began buying government bonds in March 2015 to help stimulate the eurozone economy, boosting the price of debt and stocks across the region.

But now, eurozone growth is taking off, and investors predict the ECB could taper its asset purchases as early as January 2018, having already reduced them from €80 billion a month in March.

But before that happens, the ECB's buying will actually ramp up, analysts say. Bonds on its books are starting to mature, and reinvesting billions of euros of redemptions could support the market even as the ECB prepares to reduce the overall pace of its pur-



Investors are waiting for signs from Mario Draghi, right, and the ECB on scaling back bond buying.

chases, some investors say.

Investors are trying to work out where that ECB reinvestment will go. The central bank already has purchased €1.8 trillion of sovereign and corporate debt.

"It adds to the inflow and is thereby even more supportive of European fixed income," said Charlie Diebel, head of rates at Aviva Investors.

In the last two weeks of July, €5.2 billion of bonds held by the ECB under its asset-

purchase program came due. Those proceeds have to be reinvested in new bonds, according to the ECB's own rules, in the same month the old bonds mature or in the following months "if needed."

About €12 billion of bonds a month will need to be reinvested over the course of 2018, according to estimates from Bank of America Merrill Lynch.

The Fed has been reinvesting the proceeds of its bond-

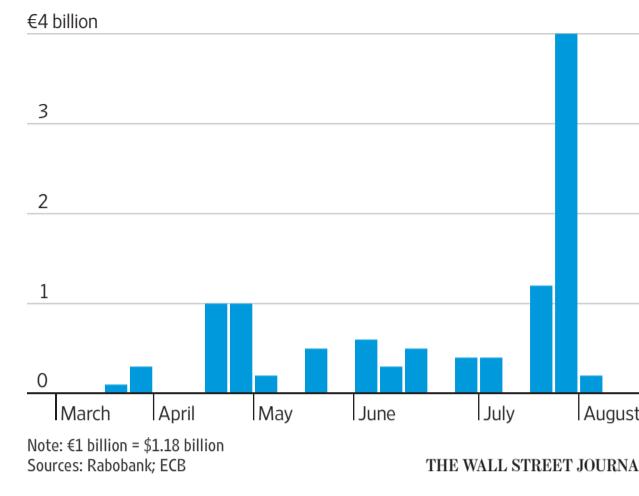
months of 2017, according to ANZ.

Now, though, the days of emerging markets' interest-rate advantage over developed markets look numbered. The Federal Reserve appears committed to raising rates. Meanwhile, the European Central Bank is getting ready to reduce its bond-buying program.

Even so, several factors are encouraging central bankers in emerging countries to feel confident they can enact rate cuts, or at least not tighten policy further, without causing undue damage to their economies. Low inflation in coun-

Picking Up

Bonds that mature each week, European Central Bank's public-sector purchase program



Note: €1 billion = \$1.18 billion

Sources: Rabobank; ECB

THE WALL STREET JOURNAL.

buying program since it stopped expanding its balance sheet in October 2014. Fed officials are now contemplating shrinking their bondholdings by scaling back reinvestments, a move economists think could come as soon as September.

That reduction, along with interest-rate increases, forms part of the Fed's efforts to unwind the extraordinary stimulus it unleashed following the financial crisis.

Richard McGuire, head of

rates strategy at Rabobank, said the Fed's reinvestments are far more predictable. That is because, unlike the ECB, the Fed provided more details on how many bonds, and of what different maturities, it bought.

That can make it tough for investors to establish where the ECB's reinvestments will fall. Those who can may be able to benefit from the extra buying if it boosts certain securities. Some analysts are starting to game where the re-

investments will go.

Some investors say it is simple: The ECB has been spreading its purchases based on the relative size of the eurozone's economies. Just below a quarter of its €1.7 trillion of its public-sector debt purchases have come from Germany, so that country's debt should also see the biggest chunk of the reinvestments, some investors say.

Mr. Diebel said he closed a bet that German bonds would fall in value relative to U.S. bonds last week, in part because of the prospect of more ECB money flowing into German debt from reinvestments.

German yields jumped following positive comments from Mr. Draghi about the eurozone economy in late June. Yields rise as prices fall. Investors took his comments as a hint that the ECB was moving closer to trimming its bond purchases.

Still, despite the focus on reinvestments, many analysts think tapering will continue to be the biggest question in European bond markets.

"They have to consider tapering sooner or later," said Mr. McGuire. "The market will take its cue from the pace of quantitative easing."

Easing, Not Tightening, Tops Agenda at Some Central Banks

By SAUMYA VAISHAMPAYAN

Policy makers from leading central banks may be wondering how to step back from easy monetary policy. But several of their counterparts in emerging markets are heading in the opposite direction by cutting interest rates.

The number of emerging-market central banks that lowered interest rates topped the number raising rates for the fourth month in a row in July, according to Capital Economics. That trend, largely driven by Latin America, is spreading to Asia.

In a surprise step last week, Indonesia's central bank lowered its benchmark rate for the first time in nearly a year,

to 4.5% from 4.75%. Its move followed the Reserve Bank of India's decision this month to cut its main lending rate to its lowest in more than six years.

Lowering rates right now might seem risky. Relatively high interest rates in emerging markets in recent years had helped them to attract foreign capital. Foreigners poured a net \$17.5 billion into India's debt market and bought a net \$8.4 billion of Indonesian bonds in the first seven

months of 2017, according to ANZ.

Now, though, the days of emerging markets' interest-rate advantage over developed markets look numbered. The Federal Reserve appears committed to raising rates. Meanwhile, the European Central Bank is getting ready to reduce its bond-buying program.

Moreover, Asia's rate cuts have come without negative consequences or evidence they will spur heavy capital outflows. Indonesia's rupiah slipped by just 0.1% after the central bank's policy decision Tuesday. India's rupee gained 0.7% against the dollar on the day of its rate cut.

A reason markets haven't reacted violently: Even with the latest cuts, India's main interest rate stands at 6%, while Indonesia's is at 4.5%. Those

policy rates are the two highest in the region, according to Capital Economics. That should leave bonds attractive to investors.

Another reason investors aren't worrying about rate cuts in Asia is that the region's decent growth levels mean few believe a concerted period of easing is needed.

"We don't think there's going to be a new wave of central bank easing in Asia," said Aidan Yao, senior emerging Asia economist at AXA Investment Managers in Hong Kong.

"If you don't have expectations for persistent cuts...in

the coming year, I don't think there's that much need for investors to take money out."

So can another central bank sneak in a rate cut this year? Rob Carnell, head of research for Asia at ING in Singapore, notes that Thailand's export sector has been hit by the value of the Thai baht, which he estimates is one of the most overvalued currencies in Asia, while both growth and inflation are low in Thailand.

"The most obvious contender to follow in Bank Indonesia's footsteps is the Bank of Thailand," he wrote in a recent research note.



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MARKETS

Terrible Month for U.S. Energy Shares

Sector down 5.7% as quarterly reports disappoint investors and oil prices languish

By MICHAEL WURSTHORN

Shares of energy companies are on track for their biggest monthly decline since the end of 2015, showing that stabilizing earnings aren't enough to attract investors.

Energy companies in the S&P 500 are off 17% so far this year, making it the index's worst-performing sector. August has been particularly painful, with energy shares shedding 5.7% through Friday.

The sector has given back nearly all the gains it made last year, when it rose 24% as oil prices rebounded from multiyear lows. The rally in energy companies reflected expectations that oil would continue to rise, bolstered by an agreement by the Organization of the Petroleum Exporting Countries and other major producers to curb output.

But such shares lost much of their appeal this year when oil prices started to fall again, even as earnings have generally improved off a low base. U.S. crude prices are down 11% this year and are languishing below \$50 a barrel.

About \$2.7 billion has flowed out of energy-focused stock funds for the year through July, according to data from Morningstar, after roughly \$5.8 billion flowed in last year.

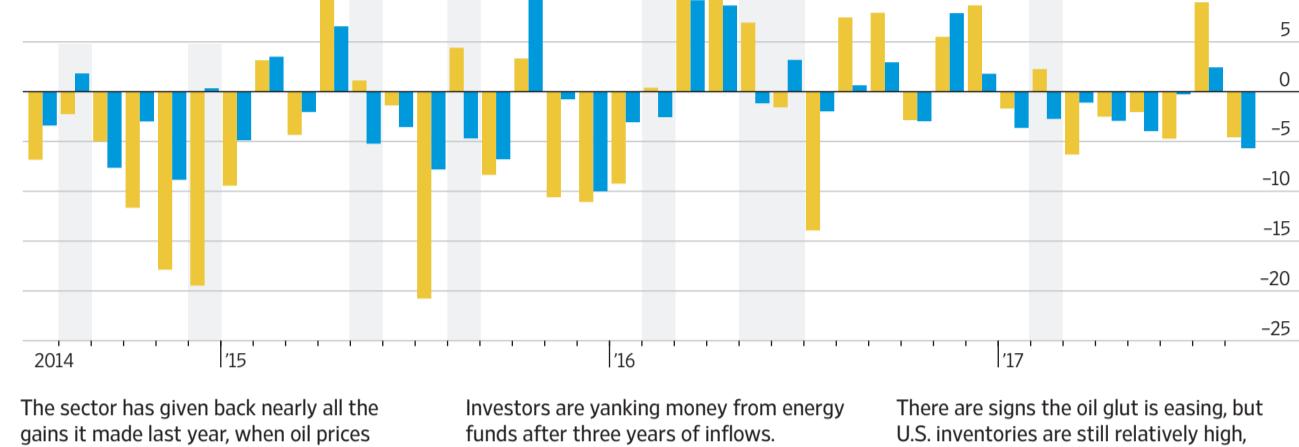
Analysts and investors pointed to quarterly reports from companies including **Pioneer Natural Resources** Co. as key contributors to the sector's sagging stock prices this month.

Some companies talked about not hitting production levels, which "spooked a lot of investors," said Terry Simpson, a multiasset investment strategist at BlackRock.

Pioneer cut its production-

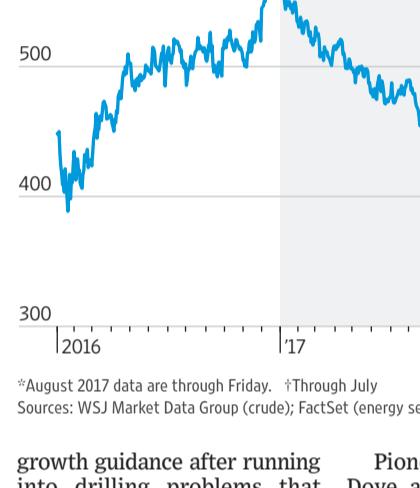
Sapped

Shares of energy companies in the S&P 500 have tumbled this month as earnings disappointed investors and U.S. crude-oil prices languished below \$50 a barrel.



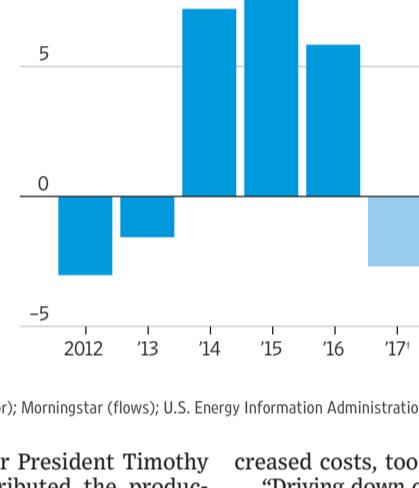
The sector has given back nearly all the gains it made last year, when oil prices rebounded from multiyear lows.

S&P 500 energy sector



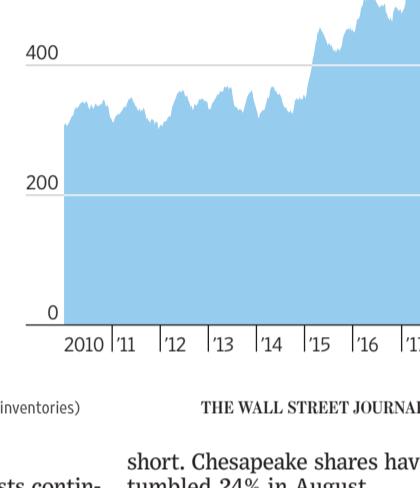
Investors are yanking money from energy funds after three years of inflows.

Estimated net flows into and out of U.S. energy-stock funds



There are signs the oil glut is easing, but U.S. inventories are still relatively high, keeping pressure on prices.

U.S. crude-oil inventories



*August 2017 data are through Friday. †Through July

Sources: WSJ Market Data Group (crude); FactSet (energy sector); Morningstar (flows); U.S. Energy Information Administration (inventories)

growth guidance after running into drilling problems that caused delays. Shares of Pioneer fell 11% Aug. 2, even though it reported a higher profit than beat analysts' expectations. Pioneer is down 28% for the year, with most of that decline coming in August.

Pioneer President Timothy Dove attributed the production issues to "train-wreck wells" that have caused "all kinds of problems," when he discussed earnings results with analysts. Pioneer said it now takes more time to drill those wells, and it has in-

creased costs, too.

"Driving down costs continues to be a primary focus for us," a Pioneer spokesman said.

Chesapeake Energy Corp. exceeded analysts' expectations on quarterly profit and revenue earlier this month, but its production increase fell

short. Chesapeake shares have tumbled 24% in August.

Whiting Petroleum Corp. said it expects production to increase later this year after the company reported a drop in second-quarter production, which contributed to its eighth consecutive quarterly loss.

Whiting, which isn't in the S&P 500, has shed 63% so far this year.

Analysts said such woes dragged down shares of other companies—especially those that, like Pioneer, operate in the Permian Basin of West Texas and New Mexico. **Concho Resources** Inc., which drills in the Permian, fell more than 8% the day after it reported better-than-expected profit and a higher output forecast. Shares are off 17% for the year.

"These companies attracted fund flows because of production growth," said David Deckelbaum, an energy analyst with KeyBanc Capital Markets. "Now they're in this Catch-22 situation where investors also don't want companies increasing supply dramatically" because of a global glut that has been pressuring prices.

After having a low exposure to the energy sector for several years, Invesco Ltd. has been building up its position over the past 18 months, said Brian Jurkash, a portfolio manager there.

Mr. Jurkash said more companies are embracing spending cuts as a way of coping with lower oil prices and higher costs tied to well drilling, contributing to the firm's decision to buy more shares of energy companies. **Anadarko Petroleum** Corp. and **ConocoPhillips**, for example, said they recently shaved a combined \$500 million from their budgets.

"These guys don't need to be increasing rigs, drilling more wells and spending more money when they're not generating cash flow," Mr. Jurkash said.

John Vail, chief global strategist at Nikko Asset Management, said that with depressed oil prices, the rosy growth prospects priced into energy shares may not pan out. "Overall, our team does not think energy equities look cheap at all," he said.

—Alison Sider contributed to this article.

HEARD ON THE STREET

Email: heard@wsj.com

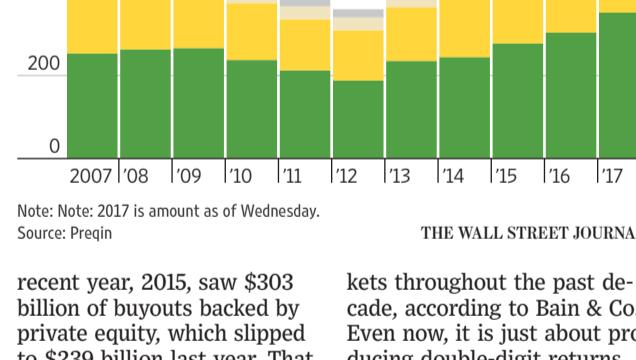
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Cash Is Piling Up at Buyout Funds

Burning a Hole

Total uninvested money committed to private-equity buyout funds



Note: Note: 2017 is amount as of Wednesday.

Source: Prequin

recent year, 2015, saw \$303 billion of buyouts backed by private equity, which slipped to \$239 billion last year. That pace has ticked up to \$190 billion so far this year, according to Thomson Reuters.

The last cycle peaked with KKR's \$45 billion buyout of Texas energy group TXU, which went bankrupt in 2014 and is only now being sold off in pieces. But even with such big blowups, private equity has given investors better returns than public stock mar-

kets throughout the past decade, according to Bain & Co. Even now, it is just about producing double-digit returns.

Very large deals have been scarce recently. There were none worth more than \$10 billion announced in 2016 and only a handful worth more than \$5 billion. In 2017, the U.S. power-generation company Calpine agreed to be bought in a deal worth \$17 billion including debt, but beyond that, just four other deals have cost more than \$5

billion, according to Dealogic.

Big deals also carry less debt now than a decade ago, partly due to restrictions on aggressive bank lending imposed by the Federal Reserve. However, valuations paid by private equity are rising. Deal values, as a multiple of underlying earnings, hit 11 times earnings among U.S. buyouts late last year, according to Bain, versus an average multiple of nine between 2007 and 2015.

In this environment, maintaining discipline will get harder. Alongside the glut of funds in private equity's hands, more competition is coming from traditional asset managers and pension funds. Also, since 2013 private equity has been able to keep busy making money in improving markets by selling and refinancing companies bought before the crisis.

With that work done, private-equity investors and managers could get itchy trigger fingers. They will have to work hard to balance discipline with the desire to put money to work.

—Paul J. Davies

OVERHEARD

As the crisis in U.S. retail rolls on, companies are going to great lengths to show investors they are doing something to avert disaster. They are even making up words.

Retail executives from at least 14 companies have used the word "learnings" during their second-quarter conference calls to emphasize efforts to turn their businesses around. The plural usage of the word is nowhere to be found in Merriam-Webster.

Abercrombie & Fitch CEO Fran Horowitz said executives "continue to acquire learnings" from its more successful Hollister brand, and **American Eagle Outfitters** brand President Charles Kessler said the company hoped to "get some learnings" from new store prototypes.

Of course, Wall Street analysts are often the biggest offenders. An analyst with RBC Capital Markets asked L Brands if it had any "learnings" from the launch of a new bra. Victoria's Secret CEO Jan Singer answered without repeating the word.

Samsung Needs a Boss Not in Jail

Are your bosses ever worth their paychecks? Maybe not, judging by recent events at Samsung Electronics. The Korean technology giant has been doing just fine without a leader for months, with its de facto boss Lee Jae-yong awaiting trial on charges of bribery and embezzlement. Still, the guilty verdict and five-year prison sentence handed to Mr. Lee on Friday should cause investors to rethink.

The long-running corruption scandal that involved former President Park Geun-hye doesn't appear to have hurt Samsung to date. It reported its best ever quarterly earnings in the three months ended June 30. Mr. Lee's lawyers say he will appeal the court's decision.

A big organization with well-defined responsibilities can keep daily operations going as normal even during a leadership crisis. Yet any long-term absence for its leader could still leave Samsung disoriented. The company made its biggest ever acquisition, the \$8 billion purchase of car-infotainment and audio company Harman,

on his watch last year. Similar deals could be harder to come by with a power vacuum at the top.

Moreover, tech, it hardly needs saying, is a fast-moving business that often requires nimble leadership. Witness the big changes in areas from artificial intelligence to self-driving cars currently taking place.

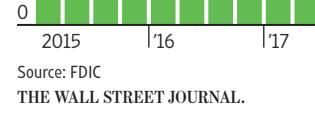
A prison cell hardly seems the best place from which to handle all this. Samsung may carry on doing well in an autopilot mode for a while yet. But unless Mr. Lee can change his fate, it will need to find a new driver soon.

—Jacky Wong

U.S. Banking Data Suggest Economy May Be Losing Steam

Downshift

Net loans and leases by FDIC-insured institutions, change from year earlier



Source: FDIC

THE WALL STREET JOURNAL.

secutive quarterly deceleration and is down from a 6.7% pace of growth a year ago.

In a statement, FDIC Chairman Martin Gruenberg explicitly linked the slowdown to the fact that the economy is now in its ninth year of expansion. But it is more than just a symptom. Slower lending growth means less fuel for business investment and personal consumption, potentially weighing on economic performance.

After a period of strong lending, it is also typical for defaults to start ticking up as levels of indebtedness rise and bills come due. This is

indeed happening, at least among consumers. Credit-card charge-offs soared by 24.5% in the second quarter, marking the seventh straight increase.

Charge-offs on loans to commercial and industrial borrowers, however, declined by 9.7%, possibly due to a recovering energy sector.

Despite these headwinds, banks are doing well for themselves. The nearly 5,800 banks and savings institutions that the FDIC monitors reported \$48.3 billion of combined net profits in the second quarter, up 10.7% from a year earlier. This was mostly due to higher interest

rates. Banks have been quick to raise rates on loans but slow to do so on deposits, widening their lending margins.

While good for the banks, rising interest rates are also a symptom of a late-phase expansion, and a potential trigger for an economic slowdown.

These signs of advanced age in the credit cycle don't mean a recession is imminent, but they do mean it is time to be on the lookout for other signals of an economic downturn. Expansions don't die of old age, as they say. They also can't live forever.

—Aaron Back