

THE WALL STREET JOURNAL.

DOW JONES | News Corp

THURSDAY, AUGUST 24, 2017 ~ VOL. XLI NO. 251

WSJ.com

ASIA EDITION

As of 12 p.m. ET DJIA 21852.65 ▼ 0.22% NIKKEI 19434.64 ▲ 0.26% STOXX 600 373.92 ▼ 0.50% BRENT 52.39 ▲ 1.00% GOLD 1286.90 ▲ 0.14% EURO 1.1801 ▲ 0.33% DLR \$109.14 ▼ 0.39%

What's News

Business & Finance

Some of the world's biggest consumer-goods firms are ratcheting back on ad spending, starving Madison Avenue of revenue and threatening further fallout among ad-dependent media firms. **A1**

◆ Saudi Arabia's plan to list Saudi Aramco is sending other Middle Eastern nations rushing to raise capital on equity markets. **B1**

◆ Four mutual-fund companies have marked down their investments in Uber by as much as 15%. **B1**

◆ Some banks are lending as if rates will never rise, loading up on a record amount of loans and securities that carry low rates for long periods. **B4**

◆ Stonemont Financial is buying a 100-property portfolio of office, industrial and retail properties for \$1.3 billion. **B4**

◆ Google and Wal-Mart entered a partnership that includes enabling voice-ordered purchases from the retailer on Google's virtual assistant. **B3**

◆ Samsung introduced its Galaxy Note 8, showcasing several advances in a phone with a less powerful battery than its predecessor. **B1**

◆ Wealthsimple is launching a new Shariah-compliant portfolio targeting U.S. and Canadian investors. **B4**

◆ BHP said it plans to replace two directors amid its monthslong tussle with activist investor Elliott. **B3**

World-Wide

◆ Trump's efforts to reboot U.S.-Pakistan relations as part of his new Afghanistan strategy may be challenged by a rising Pakistani politician. **A1**

◆ The world's major economies are growing in sync for the first time in a decade, helped by low-interest-rate stimulus and the fading of crises. **A1**

◆ Kim Jong Un appeared in state media visiting a missile production factory, hours after Tillerson praised his restraint. **A3**

◆ The U.S. Navy removed the commander of the fleet that has suffered four recent collisions and the deaths of several sailors. **A3**

◆ The Trump administration outlined new measures it plans to take to press Pakistan to stop harboring extremist groups. **A4**

◆ Najib Razak, whose administration is at the center of the 1MDB corruption probe, will visit the White House in September. **A4**

◆ Trump, in his first rally after the violent protest in Charlottesville, attacked the news media and continued his support of Confederate monuments. **A6**

◆ U.S. trade officials are forming a proposal to let the U.S. withdraw from corporate arbitration panels at the heart of Nafta. **A6**

◆ Saudi Arabia is courting Iraq's Shiite leaders and reopening borders between the countries. **A5**

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China: RMB28.00; Hong Kong: HK\$23.00;
Indonesia: Rp25,000 (incl PPN);
Japan: Yen620 (incl JCT); Korea: Won4,000;
Malaysia: RM750; Singapore: S\$5.00 (incl GST)
KDN PP 9315/10/2012 (03275); MCI (P)
NO. 066/01/2017; SK MENPEN RI NO. 01/
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 0377-9920 4.12.5.1
9 770377 992000

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Global Economies Grow in Sync

Low interest rates help spur a rare expansion in all 45 countries tracked by the OECD

By JOSH ZUMBRUN

For the first time in a decade, the world's major economies are growing in sync, a result of lingering low-interest-rate stimulus from central

banks and the gradual fading of crises that over years ricocheted from the U.S. to Greece, Brazil and beyond.

All 45 countries tracked by the Organization for Economic Cooperation and Development are on track to grow this year, and 33 of them are poised to accelerate from a year ago, according to the OECD. It is the first time since 2007 that all are growing and the most countries in acceleration since

2010, when many nations enjoyed a fleeting snapback from the global financial crisis.

The International Monetary Fund in July projected global economic output would grow 3.5% this year and 3.6% in 2018, up from 3.2% growth in 2016.

In the past 50 years, simultaneous growth among all the OECD-tracked countries has been rare. In addition to happening last decade, it has only

happened in the late 1980s, and for a few years before the 1973 oil crisis.

"It's not a particularly fast or thrilling beat, more plodding and methodical, but it's getting the job done," Josh Feinman, chief global economist of Deutsche Asset Management.

The development comes, ironically, just as nationalist movements in the U.S., Europe and beyond have gotten a new life, driven by suspi-

cion over global trade and finance. At the moment, the growth pickup is lifting the fortunes of car makers in Japan, coal miners in Indonesia and forklift makers in Germany. U.S. exports grew near a 6% annual rate in the first half of the year, their best two-quarter performance since the end of 2013 and outpacing the average of the previous decade.

Please see GLOBAL page A2

Typhoon Hato Hammers Hong Kong



HIGH WINDS: Hong Kong was hit by its first category 10 storm since 2012, with dozens reportedly hurt. In Macau, three people were killed. **A5**

Pakistan Politics Cloud U.S. Plans

By SAEED SHAH

ISLAMABAD—President Donald Trump's efforts to reboot U.S.-Pakistan relations as part of his new Afghanistan strategy face a potential challenge because of the rising fortunes of a popular politician who is a fierce critic of U.S. policy.

Pakistan's political path

took a twist in recent months with the ascendancy of charismatic sports-star-turned-politician Imran Khan. The fervent opponent of the U.S. war on terror used the courts to oust Prime Minister Nawaz Sharif in July and is looking to use the momentum from that legal victory to propel him to power.

Mr. Khan has been on the

political scene for two decades leading a small but vocal party opposed to what he views as the crooked political dynasties of Mr. Sharif and the other established party.

Mr. Sharif's removal has weakened the ruling party and thrust Mr. Khan and his Tehrik-e-Insaf (PTI) party into real contention in elections due within the next year.

Mr. Khan's surge is already shaping the political terrain by, among other things, pushing opinion in Pakistan more sharply against the country's close security ties to the U.S. He advocates a sharp break with the U.S. antiterror alliance, spurning aid that he has said comes with conditions that have proved too costly for

Please see KHAN page A4

Beijing Backlash

China's punishment of South Korea for its missile-defense program has hit Korean auto sales and tourism, among other sectors. **A3**

Car sales in China, in units



Chinese visitors to South Korea



THE WALL STREET JOURNAL.

This Song Is Dedicated to Our Therapist

* * *
At Rock Star Therapy, bands air grievances

By ERICH SCHWARTZEL

LOS ANGELES—When bassist Ken Christianson decided to quit the feminist punk group in which he had played for nearly two years, his bandmates had a request: Could they talk it out?

Mr. Christianson and the band's lead singer headed to the Los Angeles office of Jodi Milstein, a therapist who has helped many artists find harmony.

"She asked us, 'How are you feeling? What do you think the problem is, if there is any?'" explained Mr. Christianson. He ultimately decided to leave the now four-member group, the

Please see BAND page A8

CSX SPARKS AN EPIC RAILROAD TRAFFIC JAM

CEO's turnaround plan wreaks havoc on supply chains for farms, mines, factories

By PAUL ZIOBRO

The freight-train ride from Chicago to Colesburg, Tenn., usually takes a few days. Earlier this month, though, the ride was 18 days, 13 hours and 57 minutes, logs show.

Congestion, delays and erratic service are hitting CSX Corp., one of only two railroad operators that handle nearly all the shipments that move by train east of the Mississippi River. The problems began in May and became much worse this summer, according to customers and weekly performance

sonville, Fla., company. It's a colossal mess for businesses that have spent years streamlining supply chains to run with just-in-time inventories.

Coal producers say their stockpiles are growing because CSX is taking longer than it should to pick up coal-filled railcars from mines in Ohio and West Virginia. Food makers have slowed production in hopes that ingredients such as oils and sweeteners will last until the next delivery. Some companies are trying to avoid the worst bottlenecks in CSX's system, including by

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INSIDE



NORTH KOREA ORDERS MORE WARHEADS

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BOXING'S EARLY TOLL ON MUHAMMAD ALI

U.S. NEWS, A7



ARAMCO IPO SPURS RUSH TO PRIVATIZE

BUSINESS & FINANCE, B1

#1

Oracle Cloud 14.5%

#2

Salesforce Cloud 12.4%

1,000+ Employees Segment, 2015

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Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size," doc #USA1913816, Dec. 2016; Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM. Copyright © 2017, Oracle and/or its affiliates. All rights reserved.

WORLD NEWS

Goods Giants' Woes Spread

World's biggest makers of packaged goods are battling a host of difficulties

BY SAABIRA CHAUDHURI

The long-simmering pressure facing the world's consumer goods giants is now ricocheting more widely, hitting advertising firms and the media companies dependent on them.

WPP PLC, the world's biggest advertising holding firm by sales, said a sharp pullback among these core advertisers sent revenue in the first half sharply lower. Investors sold down WPP shares heavily and some European media firms also suffered early Wednesday on worries that ad buying could dry up further.

The world's biggest makers of packaged goods, including Procter & Gamble Co., Unilever PLC, Kraft Heinz Co. and Nestlé SA, have all struggled with a host of headwinds. Changing consumer tastes are favoring healthier, fresher options for food makers. New, often smaller, local upstarts are competing for sales of everything from shaving cream to ice cream. Low inflation in many parts of the world, until just recently, has kept them from raising prices to make up for slowing volumes.

The industry—in many cases encouraged by activist investors—has responded by ratcheting back hard on costs. The penny-pinching is hitting advertising budgets hard.

Unilever's ad spending as a ratio to sales—a metric that measures marketing against the ups and downs of actual

revenue—fell by 1.3 percentage points in the first half of 2017, compared with the previous six months, according to RBC. Eight of Europe's 10 biggest consumer-goods firms lowered their ratio of marketing to sales in the period, averaging a drop of just over half a percentage point.

It isn't just cost-cutting. Packaged foods makers and personal-care and household-goods giants are facing competition from new upstart brands, many of which have used social media and online "influencers" to target consumers. Some big companies have tried to follow suit, shifting their own advertising focus to include these often cheaper approaches.

The strategies have also made it more difficult to justify big-budget, multimedia campaigns—the sort of projects that made Madison Ave.

what it is today—to boost flagging sales. The ad-spending falloff could be "recognition that throwing money at marketing isn't the panacea it was," said RBC analyst James Edward Jones.

Unilever earlier this year said it planned to cut the number of ads it created by 30% and reduce the number of creative agencies it works with by half. Like its peers, the Anglo-Dutch maker of Dove soap and Hellmann's mayonnaise has been turning to YouTube stars and beauty bloggers to seed its products, diverting some money from traditional advertising channels.

Investors and analysts are divided on whether the cuts in spending are a response to a new reality or a short-term attempt to lift profit, which could ultimately dilute big brands. At least one activist

tightening at packaged-goods companies that make products as diverse as beer and shampoo. WPP also rattled investors in March, when it set a 2017 target for net sales growth—a measure used to judge the company's underlying performance—of just 2%.

Chief Executive Martin Sorrell said advertisers in the packaged-goods sector—which make up one-third of the company's sales—are struggling with a low-growth, low-inflation environment, while some are contending with activist investors and technological disruptions.

Sales volumes at consumer-goods companies "are flat or falling," Mr. Sorrell said in an interview. "That's a big wake-up call. It means you have less consumers, and that's the beginning of serious problems."

Among advertisers' biggest worries, Mr. Sorrell said, is the increasing dominance of **Amazon.com** Inc. over the traditional retailers that distribute

consumer goods. "If you're a packaged-goods company and you want to increase your volumes, do you ignore Amazon or do you go to them? And if you go to them, they control your data," he said.

Despite the slowdown in underlying revenue growth, the group reiterated its target for a 0.3-point improvement in its operating margin. It also raised its dividend to 22.7 pence (29 U.S. cents) from 19.55 pence in the first half.

Investors, however, were focused on the lower 2017 outlook, which showed the troubles of the consumer-goods sector are spilling into an already-weakened ad industry.

For years, the advertising world has strained to deal with the shift from traditional advertising platforms, such as print and TV, to digital. That is now being compounded by austerity among major advertisers that are core to growth.

P&G, Nestlé SA, Unilever and Anheuser-Busch InBev NV

have all struggled to boost growth. Those factors are leading companies to put additional pressure on ad firms to reduce the fees they pay for services.

Woes across the consumer-goods industry have given rise to the practice of zero-based budgeting, in which finance managers plan each year's budget as if starting their department from scratch—contrary to the prevailing method of adjusting the previous year's spending.

Mr. Sorrell said WPP's weakest performance came from the group's North America operations, pointing out the uncertainty around the economy and the Trump administration's ability to carry out its legislative agenda.

"The enthusiasm has waned," he said, adding that businesses are concerned about the administration's ability to push through tax changes after the failure of its health-care push last month.

WPP's slowdown comes as its closest competitors face similar headwinds. Publicis is navigating a leadership transition and reported sales growth of just 0.2% in the second quarter. Omnicom reported better-than-expected earnings, but sounded a cautious note regarding the U.S. economy.

Elsewhere, Japan-based advertising company Dentsu Inc. lowered its full-year net sales guidance by 1.5% earlier this month, saying "the movement by clients in industries such as consumer packaged goods to review their global marketing budgets has continued to impact business results."

Last month, Interpublic, a U.S.-based holding company that owns agencies including McCann Worldgroup, said spending cuts by consumer packaged-goods clients reduced its revenue in its latest quarter by 1%.

U.S.-based equity research firm Pivotal Research Group reduced its long-term organic-

revenue-growth expectations for ad companies such as Omnicom, Publicis and WPP. Ad companies were able to generate 4% organic growth annually between 2010 and 2015, but Brian Wieser, a senior analyst at Pivotal, now expects coming annual growth rates of 2.5% for the ad firms.

Among the challenges cited by Mr. Wieser were marketers experiencing slower growth, companies continuing to cut the fees they pay agencies, and growing competition from consulting firms.

WPP on Wednesday said first-half profit before interest and tax rose 15% to £882 million (\$1.13 billion). Reported revenue rose 13% to £74 billion for the period, lifted by favorable exchange rates to the Brexit-weakened pound. Net profit more than doubled to £596 million from £246 million after one-time costs a year earlier weren't repeated.

—Lara O'Reilly contributed to this article.

trend continue for a few years. In the end, however, those expansions became overextended and ended.

Some signs of froth are popping up now, beyond soaring stock prices. China relies increasingly on its property market for growth. Despite the government's recent crackdown on speculative home purchases, persistent demand for property has boosted production and sales of construction material, furniture and other items. Astronomical property prices are causing many consumers to tighten their purse strings.

Yet broader inflation is low worldwide, which will give central bankers an opportunity to proceed slowly in pulling back stimulus. It will make for easier breathing in the thin air of Jackson Hole, after years of hand-wringing and crisis management about the prospects for the global economy.

—Tom Fairless in Frankfurt, Grace Zhu in Beijing, Luciana Magalhaes in São Paulo and Megumi Fujikawa in Tokyo contributed to this article.

THE WALL STREET JOURNAL
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Advertising through Dow Jones Advertising
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Frankfurt: 49 69 29725390; London: 44 207
842 9600; Paris: 33 1 40 17 17 01; New York:
1-212 659 2176.

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Printers: Hong Kong: Euron Limited, 2/F, Block 1, Tai
Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong
Kong; Indonesia: PT Gramedia Printing Group, Jl. Palmerah Selatan 22-28, Jakarta 10270; Japan:
Mainichi Newspapers Co., Ltd., 1-1 Hitotsubashi,
Chiyoda-ku, Tokyo 100-805; Korea: JoongAng Ilbo,
100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher
Printer: Song Pi-Ho; Malaysia:Dasar Cetak (M) Sdn
Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor,
Seksyen 15, 40200 Shah Alam, Selangor, ROC No:
04888516; Singapore: Singapore Press Holdings
Limited, 2, Tanjong Katong Road, Singapore 437916;
Singapore 619088

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USPS 337-350; ISSN 0377-350

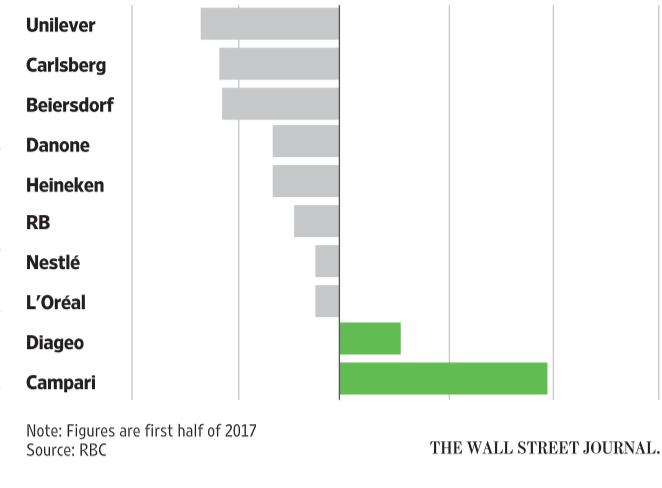
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Pulling Ads

Big consumer-goods companies have been spending less on ads. Change from second-half 2016 in spending on marketing as a percentage of sales:



Note: Figures are first half of 2017
Source: RBC

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ADS

Continued from Page One outside the advertising industry, hitting shares of some of Europe's biggest media firms. Television and publishing companies are heavily reliant on the ads that companies like WPP place with them. Axel Springer SE, the Berlin-based publisher of Germany's mass-market Bild newspaper and operator of the N24 cable-news station, was trading down 1.2% on Wednesday afternoon. In Britain, shares in broadcaster ITV PLC were down 1.5%.

Shares of rival ad-holding companies also tumbled. Omnicom Group Inc. was down 5.2%, Interpublic Group of Cos. 4.1% and Publicis Groupe SA 3%. Media companies more broadly also traded down, with the S&P 500 Media Index off 0.8%.

WPP lowered its full-year forecast for net sales growth to 1% or less, blaming belt

tightening at packaged-goods companies that make products as diverse as beer and shampoo. WPP also rattled investors in March, when it set a 2017 target for net sales growth—a measure used to judge the company's underlying performance—of just 2%. Chief Executive Martin Sorrell said advertisers in the packaged-goods sector—which make up one-third of the company's sales—are struggling with a low-growth, low-inflation environment, while some are contending with activist investors and technological disruptions.

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25/F, Central Plaza, 18 Harbour Road,
Hong Kong
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Frankfurt: 49 69 29725390; London: 44 207
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Printers: Hong Kong: Euron Limited, 2/F, Block 1, Tai
Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong
Kong; Indonesia: PT Gramedia Printing Group, Jl. Palmerah Selatan 22-28, Jakarta 10270; Japan:
Mainichi Newspapers Co., Ltd., 1-1 Hitotsubashi,
Chiyoda-ku, Tokyo 100-805; Korea: JoongAng Ilbo,
100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher
Printer: Song Pi-Ho; Malaysia:Dasar Cetak (M) Sdn
Bhd,

WORLD NEWS

Pyongyang Orders More Warheads

State media show Kim visiting missile plant, hours after Tillerson cited regime's restraint

By JONATHAN CHENG

SEOUL—Hours after U.S. Secretary of State Rex Tillerson praised him for exercising restraint, North Korean leader Kim Jong Un appeared in state media visiting a missile-development factory and ordering the production of more warheads and rocket engines.

Mr. Kim's visit, the date of which wasn't disclosed by Pyongyang in its report on Wednesday, underscores North Korea's continued investment in its ability to threaten the continental U.S. with a nuclear-tipped long-range missile.

At a Tuesday news briefing in Washington, Mr. Tillerson said he was "pleased to see that the regime in Pyongyang has certainly demonstrated some level of restraint that we have not seen in the past," referring to its abstention in carrying out missile tests or other acts of aggression.

But even when the regime hasn't been actively test-

launching missiles—which the U.S. terms "provocations"—it has been making rapid headway on its weapons technology.

North Korea didn't test-fire any missiles between October and February, according to a database compiled by the James Martin Center for Non-proliferation Studies. But after that relatively long hiatus, North Korea test-launched 14 missiles in a little more than five months, including two intercontinental ballistic missiles and other shorter-range missiles that demonstrated new capabilities.

Photos published alongside Wednesday's report by the official Korean Central News Agency showed Mr. Kim and other officials standing in front of diagrams. Missile experts said the diagrams ap-

peared to show at least two never-before-seen missiles, including one that looked to be a variant of a solid-fuel missile that North Korea launched from a submarine last year.

Pyongyang in February launched a land-based version of the solid-fuel missile, known as the Polaris-2. Solid-fuel missiles, unlike traditional liquid-fueled ones, don't need



North Korean leader Kim Jong Un visits the Chemical Material Institute of the Academy of Defense Science, in an undated photograph. KCNA/KNS/AGENCE FRANCE PRESSE/GETTY IMAGES

to be fueled on the launchpad—a laborious process that makes the weapon vulnerable to a pre-emptive strike.

"Pyongyang's release of photos indicating yet two more new missiles in development shows it has no intention of halting its continuing quest to threaten the U.S. and its allies with nuclear weapons," said Bruce Klingner, senior research fellow for Northeast Asia at the Heritage Foundation.

"A two-week adherence of

North Korea to U.N. prohibi-

tions against missile tests hardly counts as a significant indicator of benign intent by the regime," he added, referring to the United Nations Security Council's newest round of sanctions this month.

"The missile-building program is unshakable," said Patrick Cronin, senior director of the Asia-Pacific Security Program at the Center for a New American Security. "Diplomacy cannot touch that for now."

But Mr. Cronin argued that the U.S. should continue to pursue diplomacy with Pyong-

yang, and encourage any signs of progress—including the recent dearth of missile tests.

North Korea hasn't launched a missile in 26 days, although the launch of its first ICBM on July 4 came after a 35-day pause.

"North Korea has shown glimmers of restraint for now, and the U.S. seeks to encourage more—but is ready to move in the opposite direction as well," Mr. Cronin said.

During Mr. Kim's visit to the Chemical Material Institute of the Academy of Defense Sci-

ence, he learned about missile technology and gave instructions to the scientists there "to produce more solid-fuel rocket engines and rocket warhead tips," according to the account published by KCNA.

The institute is charged with making warhead tips for long-range missiles and solid-fuel rocket engines.

Mr. Kim was accompanied on his visit by Kim Jong Sik, a major general in the rocket command and a confidante of Kim Jong Un, to whom he isn't related.

For Navy Families, a Long, Hard Wait

By JAKE MAXWELL WATTS

SINGAPORE—For the families of the 10 sailors who went missing when the USS John S. McCain collided with a commercial vessel east of Singapore, the days after have been an agonizing wait.

Megan Partlow, who lives in Ohio, said her fiancé, 21-year-old Jacob Drake, was one of the sailors still missing and that there had been no news on his fate by Wednesday morning, more than two days after the collision. The two are planning to get married next July. "He is honestly my perfect match," she said.

Mr. Drake joined the Navy out of high school and loves it, Ms. Partlow said. "He likes helping and volunteering as much as possible. He also loves all the people on his ship. They are all like family to him."

It isn't clear what happened to the missing sailors. Search efforts are focused on whether they were trapped inside flooded portions of the ship or swept out to sea.

The Navy said Tuesday that Malaysian search-and-rescue teams had found one body 7.5 nautical miles from the collision site. The body was transferred Wednesday to the Navy for identification.

Navy and Marine divers searching flooded compartments of the McCain found remains, but how many bodies and to whom they belonged couldn't be immediately established.

The McCain's final approach to Singapore should



A Malaysian navy photo shows a U.S. Navy helicopter during search and rescue operations Wednesday.

have been a routine maneuver, even in one of the world's busiest sea lanes.

But as the destroyer approached the narrower waters to the east of Singapore, just before traffic converges into tightly controlled lanes, it collided with the Alnic MC, a 30,000-ton Greek-owned vessel also on its way to the island city-state.

It was like the seaborne equivalent of a collision on a highway on-ramp, analysts said. It is unclear which ship was at fault.

The front of the tanker tore through crew berthing, machinery and communications rooms in the destroyer. Within moments, the McCain began tak-

ing on water and sailors scrambled out of bed and rushed to stop the ship from listing. Five sailors were injured, in addition to the missing.

In the hours after the collision, the social-media pages of the McCain and the Navy's Seventh Fleet, with which the McCain is deployed, were filled with worried messages of family and friends of sailors on board and prayers from others trying to console them. They waited for updates and tried to connect with Navy helplines for information.

Vanessa Ramirez, who said she has a friend serving on the ship, said she had waited anxiously until she found out late Tuesday that he was safe.

Reacting to news that Malaysian search teams had found a body, Ms. Ramirez said she "can't explain the amount of pain I feel for the family of the deceased sailor."

In Yokosuka, Japan, where the McCain is based, the community prayed with relatives of the sailors.

"I know he is not one of the missing, but I am still waiting to talk to him," said the wife of one of the McCain's crew. "I just can't imagine what our friends are going through," she said.

Adm. Scott Swift, commander of the Pacific Fleet, said the search would continue until the Navy determines that hope is exhausted.

Fleet Commander Is Relieved of Duty

By GORDON LUBOLD

WASHINGTON—The U.S. Navy removed the commander of the fleet that has suffered four recent collisions in Asia and the deaths of several sailors, the Pacific Fleet said.

The Wall Street Journal reported Tuesday that the Navy was planning to remove Vice Adm. Joseph Aucoin—the three-star commander of U.S. Seventh Fleet in Yokosuka, Japan—though officials had declined to comment.

The Navy on Wednesday said Adm. Scott Swift, the commander of U.S. Pacific Fleet, had relieved him "due to a loss of confidence in his ability to command."

Vice Adm. Aucoin was expected to retire in coming weeks, but under the Navy's tradition of public accountability, commanders or ship captains are dismissed as soon as their superiors lose confidence in their leadership.

His removal doesn't represent a specific finding of fault against Vice Adm. Aucoin. Navy officials are investigating the role that training, manning and other internal fleet processes may have played in the collisions.

The Navy said Monday that it would impose a rare operational pause across the globe following the accidents, all within Seventh Fleet's waters.

Those include the collision on Monday of the destroyer

USS John S. McCain with a commercial vessel, the Alnic MC, as the McCain headed for a port visit in Singapore. A search-and-rescue operation had been under way for 10 missing sailors. Navy officials said Tuesday that some remains have been found but that the operation continues.

That accident followed the destroyer USS Fitzgerald's June 17 collision with another commercial ship, killing seven sailors.

The Navy said last week that the Fitzgerald's commanding officer, the ship's executive officer and the senior enlisted sailor on the ship all had been relieved of their command. The cause of the two fatal collisions are unknown and investigations continue into each, defense officials said.

Two other accidents within U.S. Seventh Fleet's area of responsibility occurred earlier this year.

Vice Adm. Aucoin, a naval flight officer, received his commission in 1980 through the University of North Carolina Naval Reserve Officers' Training Corps program there, and was designated a naval flight officer the next year. He served on a number of aircraft carriers as a pilot and as a commander and held other jobs at the Pentagon. He became Seventh Fleet commander in September 2015, according to the Navy.

Beijing's Anti-Korea Campaign Takes a Toll on Workers in China

By TREFOR MOSS

YANCHENG, China—This prosperous city of 1.6 million north of Shanghai is a factory town for South Korean auto maker **Kia Motors Corp.**—and a reminder that in a globalized world, Beijing can't punish foreign companies without sacrificing Chinese workers and business partners, too.

China's unofficial campaign against South Korean consumer goods has hit hard here. Kia factory workers have been forced to accept dramatically reduced hours and lower pay amid a precipitous drop in sales of Kia models in China. Those measures have staved off widespread layoffs, but even so, many workers as couriers or taxi drivers to make ends meet.

"This anti-Korean sentiment doesn't do us any good,"

said a 26-year-old Kia employee surnamed Chen, who felt that punishing Kia was threatening Chinese jobs.

Outside a company housing complex, Kia staff said they were working as few as three days a month on half pay in July. They were willing to endure that in the short term, Mr. Chen said, since their overall incomes hadn't yet taken a serious hit—but they were growing increasingly anxious about possible layoffs should the spat continue.

Kia is Yancheng's gold-standard employer, paying higher wages than other local manufacturers. Layoffs would have a ripple effect.

"In Yancheng, everyone has a relative that works for Kia, or it's your friend, or the friend of a friend," said Sun Nan, sales manager at a local Kia dealership. "The auto industry is the backbone of

Yancheng: No one wants anything to happen to it."

Sales of Korean goods in China have been in sharp decline since March. Although no boycott has been declared, state-controlled media has encouraged the campaign in retaliation for Seoul's deployment of an American-made missile-defense system for North Korea's nuclear-weapons program.

Many Chinese consumers have followed Beijing in punishing Seoul, curbing holiday travel to South Korea and turning away from Korean pop music and TV shows that had been hugely popular in China before the spat.

The boycott isn't popular in Yancheng. The city's Korean affinity is on proud display, with strips of Korean restaurants, Korean-language street signs and South Korean flags fluttering along highways and

outside factories.

Yancheng boasts a sprawling Korean business park, along with three Kia factories. Those factories employ 30,000 workers here, said a local Communist Party official. The official said Yancheng has

doubled in size since Kia's arrival in 2003.

Before then, agriculture was the only game in town. Now the city is a thriving manufacturing hub with a high-speed rail line being built southward to Shanghai, a bus-

ting commercial center and broad highways packed mainly with Kia cars.

The foundations for this success are largely Korean, the official said. Kia and the local auto-supply industry that has sprung up to support it contribute 60% of the city's tax revenue, closely tying Yancheng and much of its working population to the car maker's fate.

The sales of Kia and its parent **Hyundai Motors Co.** in China fell 61% from March to June. The local official said the plants were operating at only 30% capacity, but he said the authorities weren't contemplating that the plants might close since so much investment had been sunk into them.

A Kia spokesman declined to discuss the company's China operations, beyond saying its plants were "operating in line with the current market environment."



One of 3 Kia plants in Yancheng that together employ 30,000.

TREFOR MOSS/THE WALL STREET JOURNAL

WORLD NEWS

Trump Ramps Up Pressure on Pakistan

Administration spells out steps it could take to press for more help on Afghanistan

The Trump administration on Tuesday outlined steps it is prepared to take to raise pressure on Pakistan to stop harboring extremist groups, including sanctions on govern-

By Felicia Schwartz in Washington and Saeed Shah in Islamabad, Pakistan

ment officials, ramping up U.S. drone strikes in the country, and further cutting aid.

The effort—the latest in a series of start-and-stop U.S. campaigns to influence Pakistan dating to the Sept. 11 attacks—comes as a centerpiece of a new strategy encompassing Afghanistan and South Asia. President Donald Trump announced Monday that the U.S. would expand its military presence in Afghanistan.

But experts and former officials with experience in the region question whether it will be any more successful than its forerunners, and Pakistani officials already are chafing under new U.S. demands that come without the recognition they want of Islamabad's past efforts.

Secretary of State Rex Tillerson said a variety of tactics would be considered if Pakistan's leaders are "unwilling to change their posture or change their approach to how they're dealing with the numerous terrorist organizations [that] find safe haven inside of Pakistan."



The Trump administration is turning up the heat on Islamabad. A U.S. Army sniper sits near the Pakistan border in Afghanistan in 2011.

"Obviously, we have some leverage that's been discussed in terms of the amount of aid and military assistance we give them," Mr. Tillerson told reporters at the State Department on Tuesday. He said Pakistan's status as a major non-North Atlantic Treaty Organization ally of the U.S. also could be "put on the table."

A senior Trump administration official said the U.S. also is considering slapping sanctions on Pakistani officials found to be aiding terrorists.

The official said the administration's first move to press Pakistan would be to gradually withhold some security and economic assistance. That

could be followed up by sanctions, first on targets in the militant organization known as the Haqqani network, which supports the Afghanistan Taliban, and possibly extending to Pakistani government officials who are found to be supporting the terrorist network.

Pakistani officials say they are being blamed unfairly for the failures of American policy in Afghanistan and deny that they are harboring insurgents.

Past U.S. administrations have struggled over how to balance security cooperation with urging Islamabad to suppress extremist groups. The George W. Bush administration boosted aid to Islamabad after 2001, but

then-Vice President Dick Cheney made a secret trip in 2007 to press then-President Pervez Musharraf to do more to crack down on militants.

Under the Obama administration, the U.S. tried a mix of carrots and sticks, including creating new strategic dialogues and boosting military aid, before later cutting back on support as it grew increasingly frustrated with Pakistan's continued harboring of militant groups.

Former officials and experts said the Trump administration's fresh bid to turn up the heat on Pakistan is unlikely to convince its government to deny a haven to the Haqqani network.

"Even under conditions

where I had nearly 150,000 troops in Afghanistan and worked closely with the Pakistanis on cross border operations, they were usually lukewarm at best in their efforts to do that," said retired Gen. John Allen, a former commander of the International Security Assistance Force in Afghanistan.

"Pakistan may not change, but the president is right to seek a change in Pakistan's behavior."

The strategy outlined on Monday and Tuesday by Mr. Trump and other senior officials echoed past promises to increase pressure on Pakistan, said Joe Collins, director of the Center for Complex Operations at National Defense University.

"How many times have we said we're going to put more pressure on Pakistan, and then we don't?" he said.

Further withholding funds to Pakistan, a likely first step, has traditionally had limited effect, said Jarrett Blanc, a former Special Representative for Afghanistan and Pakistan under the Obama administration.

"We've tried this in every conceivable way," he said, referring to efforts to crack down on Pakistan. "We've withheld funds in the past, and it doesn't have any particular meaning."

Since 2014, the U.S. has cut the amount of economic and security assistance Pakistan receives by half, under policies by the Obama administration.

Pakistan's foreign minister, Khawaja Muhammad Asif, said Tuesday that U.S. money wouldn't determine the country's antiterrorism battle. "We can survive without that," said Mr. Asif. "We're not fighting this war with their money."

Hassan Akbar, director of programs at the Jinnah Institute, an independent think tank in Islamabad, said that Pakistan needs to see a winning strategy in Afghanistan to change its behavior, or a clear path toward Pakistan's preferred solution: peace talks that would see the Taliban given a share of power in Afghanistan in a political settlement.

"As long as the U.S. keeps failing in Afghanistan, almost nothing would be enough to get Pakistan to change its calculus," said Mr. Akbar. "The U.S. can't win in Afghanistan with 4,000 more troops."

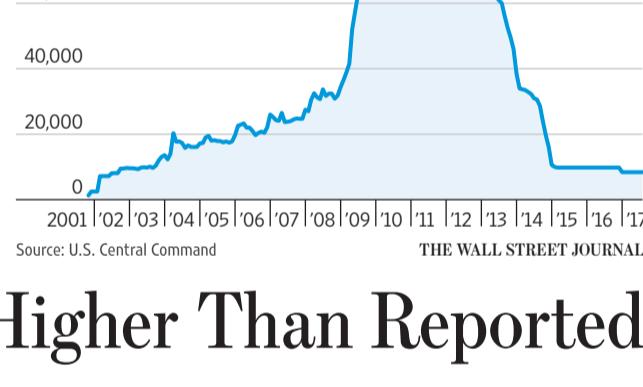
—Peter Nicholas and Ben Kesling in Washington contributed to this article.



A U.S. armored vehicle in Kabul, Afghanistan this week. Some U.S. troops in the country don't appear in Pentagon force tallies.

Long War

Approximate number of U.S. troops deployed to Afghanistan



Source: U.S. Central Command

Malaysia Leader Set for U.S. Visit

Malaysian Prime Minister Najib Razak, whose administration is at the center of a corruption probe by the U.S. Department of Justice, will visit President Donald Trump

By Bradley Hope,
Rebecca Ballhaus
and Tom Wright

in September in Washington, according to a White House official and several people in Malaysia familiar with plans for the trip.

Mr. Najib has been eager to emphasize his friendship with Mr. Trump at a time of U.S. scrutiny over alleged corruption in the Malaysian administration. People close to Mr. Najib say he would likely use the White House visit to try to play down the possibility of further investigations. A spokesman for Mr. Najib declined to comment.

The Justice Department, in lawsuits filed in 2016 and updated in June, alleged that Mr. Najib received \$681 million and his stepson, Riza Aziz, received \$238 million originating from a state development fund called 1Malaysia Development Bhd.

The fund is the subject of one of the world's biggest alleged frauds, with a total of more than \$4.5 billion allegedly stolen. At least six countries are investigating the affair, including Singapore and Switzerland.

The 1MDB issue is one of

the most pressing problems for Mr. Razak's administration in the run-up to elections expected in 2018. Nonetheless, Malaysia and the U.S. have many areas of mutual concern, including China's expansion of military power in the South China Sea.

Mr. Najib has had warm ties with recent U.S. administrations. He has boasted to a Malaysian newspaper and other media that he was Mr. Trump's partner at golf several years ago. Mr. Najib and Mr. Trump won the game, according to Malaysian media reports, and Mr. Najib said he has a signed picture of them together at the event, with an inscription from Mr. Trump: "To my favorite Prime Minister. Great win!" Mr. Najib also played golf with then-President Barack Obama.

The U.S. suit in June also alleged that Mr. Najib's wife received a \$27 million diamond necklace paid for by funds embezzled from 1MDB. Much of the money Mr. Najib received was returned to the offshore company that sent it to him, court filings show. Mr. Najib and Mr. Aziz have repeatedly denied wrongdoing.

1MDB itself has denied wrongdoing or that any money is missing. It has pledged to work with any lawful authority. Mr. Najib's wife, Rosmah Mansor, hasn't responded to the allegations.

—Yantoulra Ngui contributed to this article.

Afghan Troop Count Higher Than Reported

BY GORDON LUBOLD
AND NANCY YOUSSEF

WASHINGTON—The Pentagon maintains more than 12,000 U.S. troops in Afghanistan, defense officials said, currently about 3,500 more than it publicly acknowledges, a critical factor as military planners weigh how many additional forces to deploy under a new strategy.

The actual number of troops, which hasn't been previously disclosed, reflects the true U.S. force level on the ground in Afghanistan. The Pentagon for many years has kept the actual number of forces deployed to a war zone hidden, choosing to publicly disclose only those deployed for longer periods while not counting those who slip in and out of a war zone on temporary status.

In recent years, when tens of thousands of troops were

deployed to places like Afghanistan and Iraq, the difference between the public and the true numbers was largely inconsequential. But in recent years, overall troop numbers began to dwindle and the hidden number became more significant, military officials acknowledge.

There are currently about 8,400 troops that the Pentagon publicly acknowledges it has deployed to Afghanistan. Another 3,500 troops are there on temporary assignment or other status. Other groups of troops, such as special forces and other specialized units, are rarely if ever disclosed, bringing the total number in Afghanistan to above 12,000.

The Pentagon is expected to send up to another 3,900 troops under the new strategy for Afghanistan, for a total of about 16,000 troops, military officials said.

Once a plan is approved,

those forces will likely deploy in the next few weeks, a senior U.S. official said.

In June, President Donald Trump gave Mr. Mattis the authority to deploy up to 3,900

additional service members to Afghanistan under a new strategy, which wasn't completed until last week. It wasn't clear until now that they would be joining the roughly 12,000 troops already there.

The number of troops deployed to a combat zone can shape domestic politics as much as military tactics, as it is the metric Americans most commonly use to understand the U.S. commitment to a war zone. Since 2001, there have been changes with every administration regarding how much to reveal about troop deployments.

In a speech Monday, Mr. Trump suggested he wanted to keep military strategy—even the number of forces deployed to execute that strategy—under wraps.

"We will not talk about numbers of troops or our plans for further military activities," he said.

Additional reporting by Daniel Zuhouth

KHAN

Continued from Page One

Pakistan.

Mr. Khan's stance puts him at odds with Washington's new Afghanistan strategy of sending in more soldiers and pressuring Pakistan to take action against insurgents that use its soil as a sanctuary. Mr. Khan views the war on terror as the U.S.'s war, not Pakistan's fight. And he has said the U.S. is blaming Pakistan for what he calls its "deeply flawed and failed Afghan policy."

Mr. Khan has argued that far from harboring terrorist groups, Pakistan has fought a costly battle against them and received little credit from the West for its efforts.

"To expect Pakistan to do more killing on behalf of the Americans is not an option we should take. I think we have already suffered enough in this

country," Mr. Khan said in an interview. "It's not really an alliance. Basically America pays Pakistan to do its dirty work."

Mr. Khan, 64 years old, said the antiterror partnership with Washington has "caused disaster in Pakistan" by sparking a violent backlash at home.

He has called for a phased withdrawal of U.S. troops from Afghanistan and U.S. talks with the Taliban. Mr. Khan said that the Taliban, rather than a Pakistan-sponsored group, "is an indigenous movement," driven by opposition to the U.S. presence and the collateral damage that it causes, so "the solution is not by telling Pakistan to do more."

Even now, long before the election, Mr. Khan's growing influence has the potential to shape Pakistan's stance on issues of high importance to the U.S.: Afghanistan policy, India relations and Islamabad's attitude to terrorist groups U.S.

officials say operate from within Pakistan.

In 2014, Mr. Khan forced Islamabad to attempt peace talks with the Pakistani Taliban.

Pakistan's leadership has long complained that the U.S. approach to the region doesn't take into account its security fears and doesn't acknowledge Pakistan's efforts to root out terrorists. Yet the political and military consensus has been to continue accepting U.S. aid and maintain some level of cooperation with U.S. efforts in Afghanistan.

Mr. Sharif, the three-time prime minister dismissed by the Supreme Court last month, faces a corruption trial over family property holdings in London. He has denied any wrongdoing. His Pakistan Muslim League-N (PML-N) party remains in office. Political analysts said that Mr. Sharif's trial, due to begin within

weeks, will likely provide a regular drip of bad news for his party, which is built around him and his family.

Mr. Khan, meanwhile, has touted the ouster as a major advance for democracy in Pakistan because it was a court and not the coup-prone mili-

tary that pushed Mr. Sharif from office.

"This is the biggest step towards democratic evolution,"

said Mr. Khan, speaking at his serene hilltop home on the outskirts of Islamabad. "Ideology had disappeared from politics. It was just a question of

who could offer more money. That's how Nawaz Sharif's politics prospered. It was a kleptocracy."

Mr. Khan's critics however accuse him of receiving support from the military, an allegation he and the armed forces deny.

Mr. Khan's party promises clean government and better public services, a message that resonates with the more educated segment of Pakistan's emerging middle class.

The electoral impact of Mr. Sharif's removal could become clearer next month in a by-election over his vacated parliamentary seat in his hometown of Lahore. There, Mr. Khan's party is fielding a middle-class professional woman—the embodiment of the party's crusade against dynastic politics. Against her is Mr. Sharif's wife, Kulsoom, who has never served in Parliament before.



Imran Khan speaks from his home on the outskirts of Islamabad.

WORLD NEWS

In Mideast, Even Talks Are Elusive

President Donald Trump, who has pledged to broker the "ultimate deal" between Israelis and Palestinians, faces major obstacles to getting them to even negotiate, as his son-in-law and adviser Jared Kushner arrives in Israel this week.

By **Rory Jones** in Tel Aviv and **Paul Sonne** in Washington

The White House says the discussions will focus on "the path to substantive Israeli-Palestinian peace talks," combating extremism and economic and humanitarian issues in the Palestinian territories of the West Bank and Gaza Strip. Mr. Kushner's delegation is set to meet with Israeli and then Palestinian officials separately on Thursday.

But the U.S. hasn't received assurances that the two sides will talk to one another—let alone take steps to resolve the decades-long conflict. A White House official emphasized that the U.S. is still in the initial stages of the process and has yet to formally propose a new peace dialogue.

The Palestinians' quest for statehood is among the biggest hurdles to direct negotiations.

Many Israeli officials won't support the creation of a Palestinian state; Palestinian officials don't want to negotiate without statehood as the goal. The White House hasn't said how it plans to bridge the gap, say Israeli and Palestinian officials.

The deadlock underscores the tough task Mr. Trump faces in forging Middle East peace—a signature foreign-policy goal that has eluded American leaders for decades. Mr. Trump in February backed off the U.S.'s longstanding commitment to a two-state strategy, saying he would support whatever solution both parties prefer.

Mr. Trump has deputized Mr. Kushner, a 36-year-old for-



Israeli soldiers ran during clashes with Palestinian protesters in a West Bank village on Aug. 18.

mer real-estate developer with no experience negotiating foreign conflicts, to spearhead the peace efforts.

In leaked comments from an off-the-record meeting with congressional interns this month, Mr. Kushner said "there may be no solution" to the conflict but said he would try because it was "one of the problems sets the president asked us to focus on."

Accompanying Mr. Kushner on the trip is Jason Greenblatt, a former Trump Organization lawyer turned White House special representative for international negotiations, and Deputy National Security Adviser Dina Powell. They will also meet with leaders from Saudi Arabia, the United Arab Emirates, Qatar, Jordan and Egypt over the peace process and other issues.

Palestinian officials said they were initially encouraged by Mr. Trump's eagerness to get a deal done, but now say they are disappointed with his administration's early steps.

Palestinian Authority President Mahmoud Abbas on Sunday told a group of left-wing

Israeli lawmakers that he had met 20 times with Trump administration officials but still had no clear idea on its direction for peace.

The U.S. is "not willing to say" that the Palestinians' basis for negotiation is the establishment of a state, said Esawi Freij, an Israeli lawmaker who met with Mr. Abbas.

The White House official said the administration has developed a strategy that it will begin discussing with the relevant parties this week.

"The president remains optimistic," the official said. "And the administration remains engaged."

Disagreements over West Bank settlement housing also are roiling the waters. Since Mr. Trump took office, Israeli Prime Minister Benjamin Netanyahu has issued a significant increase in construction tenders for such housing and agreed to build the first new stand-alone settlement in more than 20 years.

In a meeting in February with Mr. Netanyahu, Mr. Trump asked the Israeli leader to halt settlements. But White

House officials also have refrained from condemning them when they are announced, in contrast with the Obama administration which frequently did. Mr. Trump appointed David Friedman, his longtime lawyer who has financially supported settlements, as U.S. ambassador to Israel.

The Trump administration "has made clear that unrestrained settlement activity does not advance the prospect for peace," the White House official said. "At the same time, the administration recognizes that past demands for a settlement freeze have not helped advance peace talks."

Israeli officials have said they don't believe settlements are an impediment to peace with the Palestinians or the establishment of a Palestinian state.

Israeli politics also is playing a role in the process. Members of Mr. Netanyahu's government have warned against entering peace talks based on a two-state solution at risk of destroying the fragile governing coalition.

Airstrikes Near Yemeni Capital Kill Dozens, Rebel Group Claims



Houthi rebels in Yemen said airstrikes by a Saudi-led military coalition near the capital on Wednesday killed and wounded at least 71 people, including more than 35 dead at a hotel, in the latest surge of violence in the nearly 2½-year war.

There was no independent confirmation of the Houthi claims. A spokesman for the coalition, which is fighting to unseat the rebels from the capital San'a and restore the interna-

tionally-backed government of President Abed Rabbo Mansour Hadi to power, didn't reply to a request for comment.

Abdulgoddoos al-Shahary, an official at Yemen's Houthi-controlled information ministry, said at the time of the airstrike, there was no fighting in the area around the hotel, located 14 miles north of the capital, in the Arhab district.

Mr. al-Shahary said the hotel was frequented by sellers of khat,

and most of the dead were children accompanying their fathers to buy the leaf, widely chewed by Yemenis as a stimulant, and transport it for sale in the capital.

(Above, people carried the body of a man they recovered from the site of the airstrikes.)

The casualty toll of 71 in airstrikes Wednesday near the capital, reported by the Houthis' official Saba news agency, couldn't be independently verified.

In June, the United Nations

said it had recorded almost 5,000 civilian casualties since the Saudi-led, U.S.-backed coalition intervened in Yemen in March 2015.

The U.N. and international human-rights groups say the coalition has been responsible for many of those casualties and have urged it to differentiate between civilian and military targets.

The coalition has denied deliberately targeting civilians.

—*Mohammed al-Kibsi*

HONG KONG

Typhoon Leaves Dead, Damage in Its Wake

Typhoon Hato, a maximum category-10 storm, slammed into Hong Kong, lashing the financial hub with wind and rain that uprooted trees and forced most businesses to close, while in some places waves flooded sea-side streets.

There were reports of 34 people injured in Hong Kong while in the city of Macau, across the Pearl River estuary, three people were killed, authorities there said.

In Hong Kong, more than 450 flights were canceled, financial markets were suspended and schools closed as Hato bore down, the first category-10 storm to hit the city since 2012.

Many skyscrapers were empty and dark as office workers

stayed home.

Hato, which means "sky pigeon" in Japanese, churned up Hong Kong's Victoria Harbour and triggered large swells and waves on some of the city's beaches, with serious flooding in low-lying areas.

In residential districts such as Heng Fa Chuen on densely populated Hong Kong Island, waves smashed against the sides of oceanfront buildings and surged over a promenade, sweeping away walls and benches and swamping parked vehicles.

Construction cranes swayed at the tops of skyscrapers, windows imploded and nearly 200 trees were uprooted. Some people used canoes to venture out into flooded streets.

Authorities downgraded the storm to a category three by late afternoon with government services, the courts, financial mar-

kets and companies set to resume business on Thursday.

The storm also caused a blackout across most of the gambling hub of Macau for about two hours, residents said, with disruption to mobile phone and internet networks. There was severe flooding on the streets, with some cars almost completely submerged, and the water supply was affected in some districts.

—*Reuters*

EGYPT

Cairo Slams U.S. For Withholding Aid

Egypt lashed out Wednesday against a decision by the Trump administration to withhold hundreds of millions of dollars in economic and military aid to Cairo, in a rare sign of friction between two leaders who have lav-

ished each other with praise.

The administration is cutting \$95.7 million in military and economic aid and putting \$195 million in military aid on hold be-

cause of unhappiness over Egypt's human-rights situation, a State Department official said.

Washington also wants to pressure Cairo on its ties with

North Korea, a person familiar with the decision said.

The \$195 million in withheld funds won't be disbursed until the U.S. sees "progress from Egypt on key priorities," said the State Department official, who declined to specify what Cairo must do to get the aid resumed.

Egypt's Foreign Ministry criticized the measures as harmful to "Egyptian and American common interests" and said they represented a misjudgment about the nature of historic U.S.-Egyptian strategic ties. They also reflected Washington's "lack of understanding about the stability and success of Egypt," the ministry said.

The U.S. has provided Egypt, a key Mideast ally, with nearly \$80 billion in military and economic aid in the past 30 years.

—*Dahlia Kholail and Felicia Schwartz*



A taxi navigates a flooded waterfront street after Typhoon Hato roared through Hong Kong, causing damage and disruption.

Saudis Rekindle Links With Iraq

By **MARGHERITA STANCATI**

ARAR, at the Saudi Arabia-Iraq Border—Saudi Arabia, with U.S. assistance, is pushing aside years of rancor with its neighbor Iraq and mounting a broad effort to win Baghdad's allegiance and dilute Iran's influence over the pivotal U.S. ally.

Saudi authorities are courting Iraq's Shiite leaders, expanding the kingdom's diplomatic presence, opening direct flights and reopening crossings closed for decades on the heavily fortified, 600-mile border.

"We share historical, cultural and social links with Iraq," Thamer al-Sabban, minister of state for Gulf affairs said after stopping at the newly reopened Arar border crossing. "If anything, I think we should be moving even faster."

The shift provides a political and economic lift to the Iraqi government as it drives Islamic State from the country and moves to rebuild.

For Washington, it is part of a push to align Iraq "a little more toward the Saudi Arabians and Turks of the world—and to blunt a little bit the Iranian influence," said a U.S. official, who described Saudi-Iraqi friendship as a priority for the Trump administration. "It's never too late."

The U.S.-led coalition against Islamic State, which includes Saudi forces, has fought on the same side as Iran against the Sunni extremist group. Success in largely vanquishing the group, also known as Daesh, creates an opportunity for the coalition allies to gain leverage in Iraq.

"We have been focused over the last three years not only on defeating Daesh, but on what comes after Daesh," Brett McGurk, the U.S. envoy to the coalition fighting Islamic State, said at the border with Mr. Sabban.

"We will do everything we possibly can to support your effort," he told Iraqi and Saudi officials gathered there.

Saudi Arabia is now seeking to expand its diplomatic presence across Iraq. The first new consulate, in Najaf, is likely to open in the next two months, Saudi and Iraqi officials said.

Saudi companies including oil giant Aramco are looking into opportunities for investment in Iraq. The Saudi dairy Almarai is considering producing animal feed in the impoverished border province of Muthanna, Saudi and Iraqi officials said.

—*Ali Nabhan, Ghassan Adnan and Asa Fitch contributed to this article.*

Opening Doors

Saudi and Iraqi authorities have opened their long-closed border at Arar and agreed to open another crossing at Jumaima. Iran and Iraq have eight open crossings.



THE WALL STREET JOURNAL.

WORLD WATCH

HONG KONG

Typhoon Leaves Dead, Damage in Its Wake

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—*Reuters*

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The administration is cutting \$95.7 million in military and economic aid and putting \$195 million in military aid on hold be-

cause of unhappiness over Egypt's human-rights situation, a State Department official said.

Washington also wants to pressure Cairo on its ties with

North Korea, a person familiar with the decision said.

The \$195 million in withheld funds won't be disbursed until the U.S. sees "progress from Egypt on key priorities," said the State Department official, who declined to specify what Cairo must do to get the aid resumed.

Egypt's Foreign Ministry criticized the measures as harmful to "Egyptian and American common interests" and said they represented a misjudgment about the nature of historic U.S.-Egyptian strategic ties. They also reflected Washington's "lack of understanding about the stability and success of Egypt," the ministry said.

The U.S. has provided Egypt, a key Mideast ally, with nearly \$80 billion in military and economic aid in the past 30 years.

—*Dahlia Kholail and Felicia Schwartz*

U.S. NEWS

Trump Seeks to Recharge His Base

President addresses his supporters in first rally since Charlottesville uproar

PHOENIX—President Donald Trump, in his first rally after the violent white supremacist protest in Charlottesville, Va., earlier this month, attacked the news media and his fellow Republicans who were critical

By **Rebecca Ballhaus, Ted Mann and Ian Lovett**

of his response to the protest.

In an address of more than an hour, Mr. Trump accused the news media of "fomenting divisions" and attacked his GOP colleagues for failure to repeal the Affordable Care Act, also known as Obamacare. He also urged supporters to press lawmakers on the overhaul of the tax code.

Mr. Trump's remarks about the Charlottesville violence—which oscillated between condemning the white supremacists and saying that "both sides" were to blame—was criticized by lawmakers, business leaders and civil-rights groups. The White House had sought to end those defections on Monday with a somber statement that unequivocally rejected bigotry and racism.

At the rally, Mr. Trump issued a forceful condemnation of "the thugs" who perpetrate hatred and violence. "What happened in Charlottesville strikes at the core of America," he said.

But Mr. Trump also reiterated



President Donald Trump greets supporters in Yuma, Ariz., ahead of a rally on Tuesday night.

bangs to disband the crowds.

Protesters dispersed, coughing and with burning eyes, while Trump supporters exiting the convention center appeared largely unaware of the scene unfolding on the street.

Mr. Trump sought the support of his crowd to move his agenda. While he largely refrained from naming any Republicans, he pointed to Senate Majority Leader Mitch McConnell's failure by one vote to pass a bill to repeal the Affordable Care Act and Arizona Sen. John McCain, the Republican who cast one of the fatal votes on the repeal bill. "One vote. Speak to your senator, please," the president said before a boisterous crowd.

Mr. Trump arrived in town as he is feuding with Jeff Flake, Arizona's junior senator who has been critical of the president's trade and border-wall plans and decried his Charlottesville remarks. Mr. Trump in turn has called Mr. Flake, one of the Republican Party's most vulnerable incumbents in 2018, "toxic" and "weak on borders."

In a tweet last week, Mr. Trump praised one of Mr. Flake's primary challengers, Kelli Ward. "Great to see that Dr. Kelli Ward is running against Flake Jeff Flake," he wrote.

Mr. Trump on Tuesday didn't mention Mr. Flake by name, but alluded to him, saying: "Nobody wants me to talk about your other senator, who is weak on borders, weak on crime." He added: "I haven't mentioned any names, so now everybody's happy."

Firms Promote Business Tax Overhaul

By **RICHARD RUBIN**

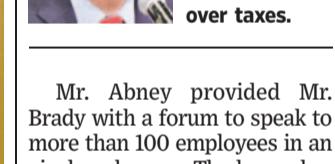
LOUISVILLE, Ky.—Large companies, looking for every angle to prod Congress into making the corporate-tax changes they have been seeking for years, are turning to some in-house muscle: employees and customers.

Beyond efforts by corporations' lobbyists and a television-ad campaign run by the Business Roundtable, an association of CEOs, companies are now seeking to rally broader public support for business-tax cuts. They are inviting senior lawmakers to their facilities this summer and encouraging workers to contact their representatives in Congress.

"We believe this issue's so important that you've got to get engaged. We can't ensure success. We can ensure that our point of view and our customers' point of view is heard," David Abney, the chief executive officer of **United Parcel Service** Inc., said in an interview Tuesday.

Business executives, though wary of direct connections with the White House after President Donald Trump's comments about white-nationalist protesters last week, remain deeply involved in promoting one of his major policy objectives.

Mr. Abney hosted Rep. Kevin Brady (R., Texas), chairman of the Ways and Means Committee, at the company's global air hub in Louisville and bolstered the chairman's tax-code pitch. The lower rates and permanent changes Mr. Brady envisions, he said, would encourage UPS to accelerate already-planned domestic investments.



Mr. Abney provided Mr. Brady with a forum to speak to more than 100 employees in an airplane hangar. The lawmaker also fielded questions from Louisville-area business executives that use UPS, toured some of the 155 miles of conveyor belts and saw parcels headed to his hometown's ZIP Code.

"You leave tax reform just to Washington, it won't get done," said Mr. Brady, who was joined by Rep. Andy Barr (R., Ky.) and Rep. Trey Hollingsworth (R., Ind.).

Before Congress's fall push for a tax bill, Mr. Brady has been busily adding to the 2.5 million frequent flier miles he mentioned to the UPS employees. He visited alcohol maker Brown-Forman Corp. in Kentucky on Tuesday, following a visit to Best Buy Co. in Minnesota last week and a speech at former President Ronald Reagan's California ranch.

Mr. Brady planned to head to Dallas Wednesday for a similar employee town hall at AT&T Inc. and a local Chamber of Commerce event. House Speaker Paul Ryan (R., Wis.), meanwhile, was scheduled to be in Oregon at Intel Corp. on Wednesday before heading to Everett, Wash., Thursday to meet with Boeing Co. workers.

Businesses can have a tough case to make in connecting the corporate-tax cuts they seek with benefits for the broader public.

Mr. Abney said he thought UPS employees—more than 300,000 in the U.S.—understood the broader benefits of the tax changes the company seeks. "We talk to them about how it benefits our customers," he said. "It will create more packages for us."

Bill Samuel, a government affairs executive at the AFL-CIO, said workers should be wary of these arguments from executives and conscious of the ultimate cost. "They should be skeptical that they're not hearing the full story," he said. "They'll pay for them in decreased services."

Iowa Seeks Waiver to Remake Health Law

Iowa officials filed a federal application to alter major aspects of the Affordable Care Act next year, the most ambi-

By **Anna Wilde Mathews, Michelle Hackman and Stephanie Armour**

tious so far of a growing crop of state efforts to tweak the health law with the goal of shoring up individual insurance markets.

The proposal in Iowa, which state officials said they are already preparing to implement pending federal approval, will be closely watched in other states. The Iowa setup would offer just one type of insurance plan on individual exchanges would reshape the health law's subsidies that help people buy coverage, among other changes. State officials, who are applying under a special waiver setup allowed by the ACA, argue they need to repair an exchange market that is expected to be down to just one insurer that has requested sharp rate increases for 2018.

States including Idaho, Minnesota and Oregon have submitted applications for less-sweeping waivers that aim to blunt insurers' expense for covering the claims of people with costly health conditions. In total, 13 states have passed laws authorizing state officials to craft ACA waiver requests, according to the National Conference of State Legislatures. At least six others are considering such legislation.

Iowa Insurance Commis-



Iowa and other states are seeking waivers from the Affordable Care Act to shore up individual insurance markets.

sioner Doug Ommen, a Republican, said that the new application was "based on feedback from CMS," the Centers for Medicare and Medicaid Services, and the state has worked in a collaborative process with federal officials. Mr. Ommen said that Iowa was working to get its new system up and running before individual-plan enrollment kicks off in 2018.

Iowa's largest insurer, Wellmark Blue Cross and Blue Shield, says it will reverse its current plans to exit from the state's individual market and will instead sell plans in every

county next year if the state wins approval for its proposal. Currently, a different insurer, Medica, is slated to be the only one in Iowa's insurance exchange for 2018.

CMS officials have told some states that waivers could be approved quickly and seem open to some of the proposed changes, sources close to the discussions said. A spokeswoman for the agency pointed to a March letter that Health and Human Services Secretary Tom Price sent states encouraging them to look at the process. The Trump administration has al-

ready approved a waiver for Alaska, which created a reinsurance program to limit insurers' claims costs.

The Iowa proposal would change important features of the federal health law. The ACA premium subsidies that enable lower-income people to buy health insurance would become flat payments tied to age and income, and Iowa's setup would eliminate so-called cost-sharing subsidies that help cover deductibles and other out-of-pocket costs for the lowest-income enrollees.

Consumers would still be able to buy 2018 plans during

this fall's open enrollment period, but to purchase them after Jan. 1 they would in many cases need to show they had maintained continuous coverage, with no gap longer than 60 days in the previous 12 months.

A reinsurance program would limit health insurers' costs for the most-expensive enrollees.

Patient groups raised concerns about the potentially higher health-care costs for low-income enrollees under the Iowa plan, largely because of the elimination of the cost-sharing aid.

U.S. Bid to Exit Nafta Dispute Panels Draws Ire

By **BOB DAVIS**

WASHINGTON—U.S. trade officials are putting together a proposal to let the U.S. withdraw from a corporate arbitration system at the heart of the North American Free Trade Agreement, upsetting big U.S. companies that said the system protects their foreign investments.

The plan, drawn up by the Office of the U.S. Trade Representative, would remake what is known as the investor-state dispute settlement system. ISDS is a form of international arbitration in which corporations can sue governments for damages if they believe governmental decisions improperly diminish the value of

their foreign investments.

The arbitration panels, which operate as an alternative to domestic court systems, have been widely criticized by labor and environmental groups and conservative nationalists as giving corporations—and only corporations—a way to circumvent domestic laws and regulations.

Under the plan, the three Nafta countries would need to "opt in" to the ISDS system in the future—essentially making participation in the system voluntary, according to people briefed on the plan. Mexico, for instance, could decide to keep the arbitration system as a way to give investors confidence that disputes won't drag out in the Mexican court system,

which has long been criticized for delays and corruption.

But the U.S. could decide against joining the system, forcing investors to take any disputes through the U.S. court system. If the U.S. took that path, Canadian and Mexican companies wouldn't have the right under Nafta to submit investment disputes with the U.S. to arbitration panels. It isn't clear whether U.S. companies would continue to be able to use ISDS panels in other Nafta nations if the U.S. doesn't join the system in the future.

The U.S. trade representative is circulating the plan to other agencies and the White House, which haven't yet given their approval. The U.S. is trying to put together concrete

plans to submit to Mexico and Canada in time for the third round of Nafta negotiations next month in Canada, which will follow a second round beginning Sept. 1 in Mexico City.

A spokeswoman for the agency declined to comment on the proposal.

The plan is generating opposition among business groups and on Capitol Hill. "The business community supports no fundamental change" in the ISDS system, said Vanessa Sciarra, a trade specialist at the National Foreign Trade Council, an organization representing big U.S. exporters.

Early this month, more than 100 U.S. trade associations sent a letter to the administration supporting the

system as "a core element to protect the United States against the theft, discrimination and unfair treatment of U.S. property overseas."

The U.S. stance is among several evolving positions that put the administration at odds with big business.

Critics of the system have long said the arbitration panels infringe on U.S. sovereignty, an argument made by U.S. Trade Representative Robert Lighthizer in Senate testimony in June. "I'm always troubled by the fact that nonelected non-Americans can make the final decision that the United States law is invalid," he said. "This is a matter of principle I find...offensive."

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U.S. NEWS



Muhammad Ali slips to the canvas during the 14th round of his Heavyweight title fight with Earnie Shavers in New York in 1977.

Boxing Took Early Toll on Muhammad Ali's Speech

While best known for his boxing talent, Muhammad Ali was also one of the greatest talkers of all time.

At a time when it was dangerous for black men to sass white people, Ali did just that. He spoke up and spoke back,

By Jonathan Eig,
Visar Berisha
and Julie Liss

using his tremendous wit and intelligence to challenge authority and undercut notions of what a black person in America could say and do. He earned his first nickname, "The Louisville Lip," in tribute to his verbal gifts.

Sadly, however, Ali's voice faded—literally and much too soon.

According to a new biography of the boxer and a study released Wednesday by speech scientists at Arizona State University, Ali's articulation started to become less precise in the mid-1970s, when he was between 30 and 35 years old, almost certainly as a result of blows to the head suffered in the ring. The study suggests that changes in the quality of speech can be important early markers of neurological damage or disease. Ali died in June 2016 at the age of 74.

In writing Ali's biography, one of us, Jonathan Eig, wondered when Ali's speech began to decline and whether that decline could be tied to boxing. Eig contacted the other two au-

thors of this piece—Julie Liss and Visar Berisha, scientists at Arizona State University who specialize in analyzing speech for signs of cognitive and motor impairment. Eig also enlisted CompuBox Inc., a boxing-statistics company, to count the punches that struck Ali over the course of his 21-year professional career. The study was scheduled to be presented Wednesday at Interspeech, a speech-science conference in Stockholm, Sweden.

Speaking is one of the body's most complicated functions. Speech and language circuits in the brain work together to form a message, translate that message into movement across more than 100 muscles, from the lungs to the throat to the tongue and lips, and execute those intricate muscle movements to produce sound waves. It is much more difficult than throwing a jab or dodging a tackle.

That is why changes in speech are often one of the first indicators of neurological damage or disease, such as the slurring of words by people having a stroke or with Parkinson's or Lou Gehrig's disease. The signals from the brain to the speech muscles are disturbed in ways that prevent clear speech.

In 1968, Ali spoke at a rate of 4.1 syllables a second, which is close to average for healthy adults. By 1971, his rate of speech had fallen to 3.8

syllables a second, and it continued sliding steadily, year by year, fight by fight. An ordinary adult would see little or no decline in his speaking rate between the ages of 25 and 40, but Ali experienced a drop of more than 26% in that same period. Slowing his speaking rate couldn't indefinitely compensate for the deterioration of signals between his brain and his speech muscles. The paper suggests that by 1978, six years before his Parkinson's syndrome diagnosis and three years before his retirement from boxing, Ali was slurring his words.

In addition to this overall decline in speech, researchers found a strong relationship between Ali's activity in the ring and his verbal skills. The more punches he took, the more steeply his speaking abilities declined. (You can hear a sample of Ali's speech changes at WSJ.com/Sports.)

In 1977, the 35-year-old Ali fought a brutal, 15-round bout with Earnie Shavers. One of the strongest punchers in boxing history, Shavers hit Ali with 266 punches, including 209 power punches, according to the new CompuBox data.

Before his fight with Shavers, Ali spoke at a rate of 3.7 syllables per sec. After the fight, his speaking rate fell 16% to 3.1 syllables per second. His voice also became less animated immediately after fights.

In 1984, three years after his final fight, Ali was diag-

nosed with Parkinson's syndrome. His doctor at the time said the condition was the result of too many blows to the head.

Today, we have a better understanding of the damage blows to the head cause athletes. We also know that about 50% of those diagnosed with chronic traumatic encephalopathy, or CTE, show signs of change in speech and language prior to diagnosis.

Muhammad Ali gave a lot to the world. He helped to lead opposition to the Vietnam War. He taught athletes black and white that they could use their public platforms to speak out on social and political issues. He used his voice, not his fists, to pound home those lessons.

Now, his voice has the power to instruct us yet again. Ali is telling us we can do a better job of warning athletes of the dangers they face from head trauma.

*Jonathan Eig is the author of *Ali: A Life*, which will be published Oct. 3; Visar Berisha is an Assistant Professor of Speech and Hearing Science and Electrical Computer and Energy Engineering at Arizona State University and Co-Founder of Aural Analytics; Julie Liss is a Professor of Speech and Hearing Science at Arizona State University and Co-Founder of Aural Analytics.*

University Fights Fetal-Tissue Law

By JACOB GERSHMAN

A legal challenge to an Indiana law that criminalizes research using the remains of aborted fetuses could determine how much power states have to restrict scientific access to fetal tissue.

The unusual case pits Indiana's government against the state's flagship research university, which is asking a federal court to declare Indiana's fetal-tissue statute unconstitutional.

The 2016 law makes it a felony to intentionally acquire, receive, sell or transfer aborted fetal tissue. Indiana University filed suit soon after Mike Pence, now the vice president, signed it into law in his final months as Indiana governor.

A federal judge is weighing whether to dismiss the lawsuit and allow prosecutors to enforce the law or to strike down the statute. A ruling could come by year end.

The dispute isn't the first to target a state regulation of fetal tissue. But it is the first time that medical researchers have led the charge, according to lawyers involved.

Also setting the case apart is the university's lead argument: that the state's regulation is unconstitutional restraint on interstate commerce.

Were the legal argument to prevail, according to lawyers, it could be leveled against similar fetal-tissue restrictions on the books in other conservative states, such as South Dakota and Louisiana.

Since 2011, Indiana University has received fetal brains from the Birth Defects Research Laboratory at the University of Washington under a National Institutes of Health grant.

The remains are used by

Debmoy Lahiri, a professor of neurobiology, psychiatry and genetics who is trying to develop a cure for Alzheimer's.

Dr. Lahiri is one of the top scientists for the school's Alzheimer Disease Center, one of about 30 NIH-funded centers advancing research into the disease.

The university's lawsuit makes multiple constitutional claims. The fetal tissue law, it argues, violates the First Amendment by abridging academic freedom, and it says it violates rights to equal protection by discriminating against researchers who use aborted fetal tissue.

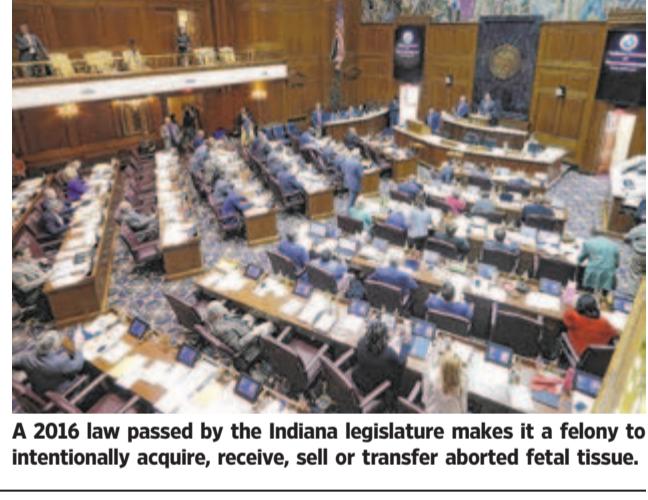
But it is the Commerce Clause claim that the university puts front and center. The school is invoking a constitutional doctrine that prevents states from interfering with free trade across their borders.

University court briefs liken the tissue regulation to state laws invalidated years ago banning the sale of margarine or banning the sale of fresh meat slaughtered more than 100 miles from the point of sale.

It is an argument premised on the idea that aborted fetal tissue acquired by Dr. Lahiri is an "article of commerce." The fetal parts qualify as such because "Dr. Lahiri must pay a fee to obtain it, and it crosses state lines when shipped to Indiana from Washington," the university stated in a brief.

Attorneys for the state say the fetal shipments can't be considered trade given that federal law prohibits profiting from the sale of fetal tissue.

In court filings, Indiana University accuses the state of threatening "significant research progress related to Alzheimer's and other diseases" and the institution's "important role and reputation in the global research community."



A 2016 law passed by the Indiana legislature makes it a felony to intentionally acquire, receive, sell or transfer aborted fetal tissue.

U.S. WATCH

ECONOMY

New-Home Sales Plunged in July

U.S. new-home sales fell sharply in July, providing fresh evidence that a shortage of housing inventory is depleting activity across all segments of the market.

Purchases of newly built single-family homes, a narrow slice of all U.S. home sales, decreased 9.4% to a seasonally adjusted annual rate of 571,000 in July, the Commerce Department said Wednesday. "It has been surprising the extent to which new-home sales have not picked up more," said Aaron Terrazas, a senior economist at Zillow. "It does seem to reflect a bit of a market breakdown."

Part of the problem, Mr. Ter-

razas said, is that high land and construction costs are making it difficult to build homes at lower price points, limiting the pool of buyers. Overall, the housing market has settled into a pattern of rising prices and flattening sales throughout much of the peak homebuying season. A lack of new-home construction is dampening both new and existing home sales activity, despite a strong economy.

—Laura Kusisto
and Sarah Chaney

NEVADA

Bundy Supporters Acquitted in Retrial

A federal jury in Las Vegas acquitted four co-defendants of Nevada rancher Cliven Bundy on most charges—and deadlocked

DARRON CUMMINGS/ASSOCIATED PRESS

on the others—related to a 2014 standoff with U.S. officers.

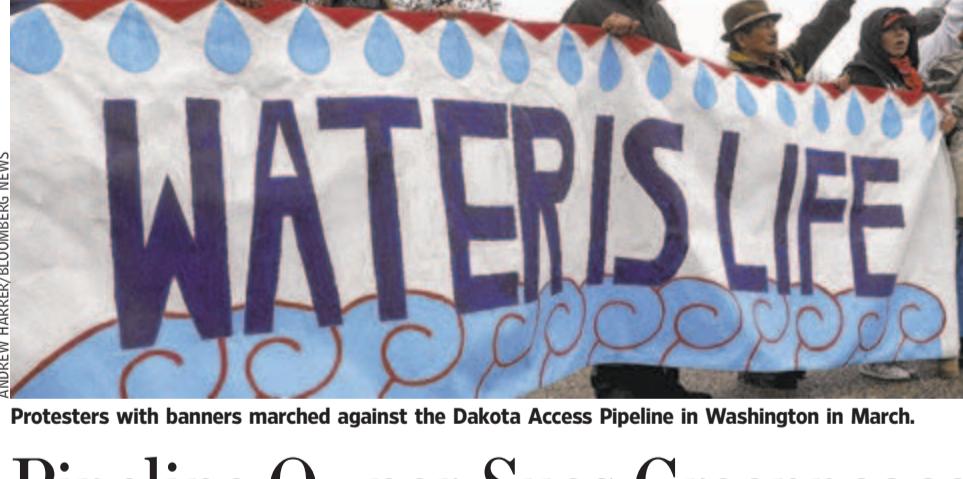
The jury late Tuesday acquitted Richard Loveland and Steven Stewart on all 10 charges stemming from their role in joining Mr. Bundy and hundreds of his supporters to protest when Bureau of Land Management agents seized 400 head of his cattle for failure to pay grazing fees on federal lands.

The jury exonerated O. Scott Drexler and Eric Parker on most of their charges but deadlocked on four against Mr. Parker and two for Mr. Drexler. Justice Department attorneys said they haven't decided yet whether to try those two men again. All four men underwent a retrial that began in July after their first trial earlier this year ended in a hung jury.

—Jim Carlton



DREAM ON: A cashier sells a Powerball lottery ticket at a convenience store in Dallas. Lottery officials said the grand prize for Wednesday night's drawing has reached \$700 million.



Protesters with banners marched against the Dakota Access Pipeline in Washington in March.

Pipeline Owner Sues Greenpeace

By CHRISTOPHER M. MATTHEWS

The company behind the Dakota Access Pipeline launched a legal attack Tuesday against Greenpeace International and other environmental groups, alleging the organizations effectively ran a criminal enterprise through their protests against the project.

The suit by Energy Transfer Partners LP was filed in federal court in North Dakota under the Racketeer Influenced and Corrupt Organizations Act, a law created to prosecute the mafia. It represents an aggressive new front in the battle over the nearly 1,200-mile pipeline, which became operational in June but remains the subject of legal challenges.

The company alleged that Greenpeace ran a "relentless campaign of lies and outright mob thuggery." Among other

things, it alleged Greenpeace and other groups solicited donations under false claims about the pipeline, threatened company investors and lenders, launched cyberattacks and sought to sabotage the pipeline.

"For decades, Greenpeace has executed its fraudulent, slanderous campaigns against hundreds of companies and industries with virtual impunity, and its tactics have become increasingly aggressive as a result," the lawsuit alleged.

Greenpeace USA General Counsel Tom Wetterer said in a statement that the suit was "not designed to seek justice, but to silence free speech through expensive, time-consuming litigation. This has now become a pattern of harassment by corporate bullies."

The Trump administration approved the pipeline in February following months of op-

position from Native American tribes and environmental groups.

The Standing Rock Sioux tribe filed a lawsuit to stop the project, arguing that a reservoir crossing could contaminate their water supply. The lawsuit failed, but the tribe has since asked a federal court to shut down the line while the U.S. Army Corps of Engineers conducts another environmental assessment of the project.

The lawsuit is the second of its kind filed against Greenpeace by a law firm with ties to Mr. Trump. Kasowitz Benson Torres LLP, Energy Transfer's law firm, sued Greenpeace last year on similar grounds on behalf of multinational forestry company Resolute Forest Products. Greenpeace has denied the allegations in that suit, which is pending.

on the others—related to a 2014

standoff with U.S. officers.

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—Jim Carlton

ANDREW HARRER/BLOOMBERG NEWS

IN DEPTH

TRAINS

Continued from Page One
switching to trucks and other railroads.

McDonald's Corp. has supplemented its regular train shipments of frozen french fries into the Nashville, Tenn., area with truck deliveries, according to a person familiar with the matter. Kellogg Co. has called in truck-hauled tankers of cooking oil to ensure uninterrupted production of Pringles at a Jackson, Tenn., factory, a person familiar with the matter said.

A spokeswoman for McDonald's said french fry eaters haven't been affected because "we have contingencies in place to ensure there is no disruption in our supply." Kellogg didn't respond to a request for comment.

Much of the blame is aimed at Hunter Harrison, the 72-year-old railroad-industry veteran who became CSX's president and chief executive in March as part of a shake-up led by an activist investor. He promised to run the company's 21,000-mile network more efficiently by idling excess equipment, closing some freight yards and running trains on a tighter schedule.

Mr. Harrison used a similar strategy to turn around Canada's two largest railroads, Canadian National Railway Co. and Canadian Pacific Railway Ltd. He conceded that the program is off to a rocky start at CSX but said any short-term problems will lead to improved service in the long run.

"I'm sensitive to the issues that we've had. I don't want to give the impression that I'm not," Mr. Harrison said in an interview. "Some of the characterizations of some of the issues have been inaccurate and have been far overstated."

He added: "Each one that has come to our attention, we have worked and continue to work very diligently" to address the problem.

Trains in vain

Mr. Harrison said some recent snarls were beyond his control, such as a derailment in Pennsylvania that interrupted service in that region for more than a week. Some employees also are resisting the efficiency plan, he said.

In June, CSX fired nine employees in Cincinnati who Mr. Harrison said falsified reports about train-car movements to avoid being criticized about delaying customer shipments.

He said this month's derailment of a CSX train in South Carolina appears to be suspicious. Local news reports said a bulldozer was partially blocking the tracks.

Unions representing CSX workers disputed Mr. Harrison's comments. In a letter to Mr. Harrison, they said the unions refuse "to accept responsibility for service disruptions that negatively affect the customers when we have no input on operational changes."

Late last month, the federal Surface Transportation Board ordered CSX to hold weekly meetings with the regulator to discuss the problems. Last week, the STB told Mr. Harrison in a letter that it is concerned about "widespread degradation" of rail service.

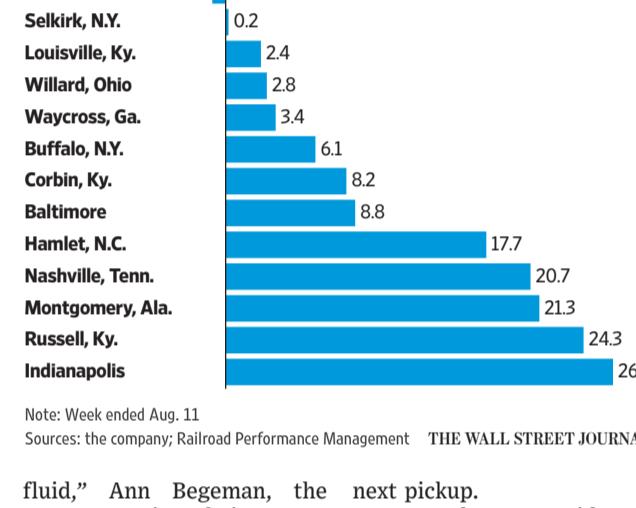
"The network needs to be



A CSX freight train near Nashville, Tenn. Freight-yard delays at a CSX terminal in Nashville have ballooned since April.

Delayed and Backed Up

Change in average dwell time at CSX terminals from a year earlier



Note: Week ended Aug. 11

Sources: the company; Railroad Performance Management THE WALL STREET JOURNAL.

next pickup.

Mr. Johnston said one Chemours plant came within hours of shutting down in late July before a CSX train arrived with a critical ingredient. Chemours has slowed production at one plant to make sure it can keep running.

"We're sort of hanging by a thread," he said. More than once, Chemours complained to a CSX employee about the problems and then found out

CSX has told customers to brace for a few more rocky weeks.

the next day that the employee had left. CSX has eliminated 2,300 jobs this year. It had about 27,000 employees in December.

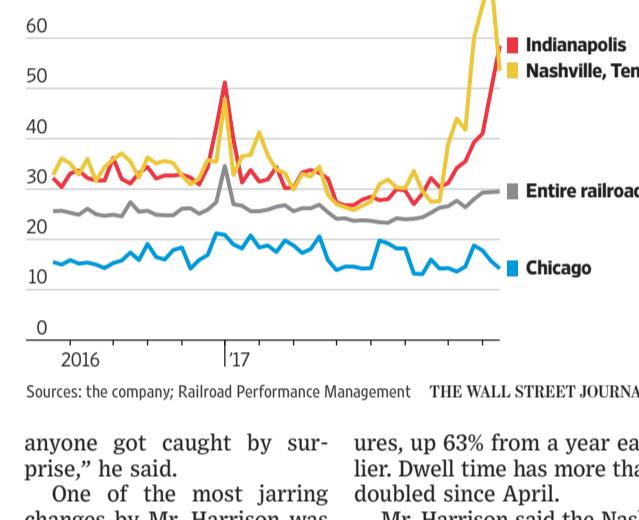
Chemours is using trucks to keep its plants running and deliver finished products to customers.

A conversation last month between Mr. Harrison and Mark Vergnano, president and CEO of Chemours, has led to better communications, but service levels haven't improved. "There are people that think normally still could be months away," said Mr. Johnston.

Mr. Harrison said CSX customers were "well-informed" of what the changes would look like, given his record at other railroads. "I don't think

Trouble in the Hump Yard

CSX has shut down more than half of its hump yards, which are massive freight-sorting facilities. Average dwell times at some of the company's terminals:



Sources: the company; Railroad Performance Management THE WALL STREET JOURNAL.

anyone got caught by surprise," he said.

One of the most jarring changes by Mr. Harrison was the elimination of hump yards, massive facilities that sort long trains by rolling them down an incline and directing them toward tracks where new trains are built. Those trains then roll out to new destinations.

CSX's Mr. Harrison wants more freight trains sorted when the railroad picks them

up, up 63% from a year earlier. Dwell time has more than doubled since April.

Mr. Harrison said the Nashville terminal "didn't have the best culture," so he brought in some new managers to try to unclog it. He said the worst is behind CSX in Nashville, and dwell times have begun to rebound.

After this article was published online Tuesday, CSX said it has revised how it calculates three service measurements "to more accurately reflect the company's operational performance." Using the new methodology, average dwell time throughout CSX's network was 12.5 hours in the week ended Aug. 18, an improvement of 2.3% from a week earlier.

Ping-ponging

Some shippers complain that freight is taking round-about routes that add days to the travel time. The railroad industry calls it ping-ponging.

"All of a sudden, we're seeing a flood of these types of things," said Dennis Wilmot,

chief executive of Iron Horse Logistics Group, of Aurora, Ohio, which manages railcars for customers. CSX took an Alabama-bound metals shipment to New Orleans, where it was handed off to a Union Pacific Corp. train and then headed west before turning around and eventually reaching

A Long Trip

Because of problems at CSX, it took one freight train 18 days to complete a trip that usually takes a few days.



Source: the company
THE WALL STREET JOURNAL.

ing Alabama, according to Mr. Wilmot.

CSX said it has been "sending some cars to less-congested, out-of-route terminals for sorting" to keep "customer deliveries moving as efficiently as possible through some congested terminals."

Poultry farmers are "incurring hundreds of thousands of dollars in additional business costs to make emergency purchases of ingredients transported by truck to keep poultry alive," according to a letter to regulators from the National Grain and Feed Association and other agricultural trade groups. The groups said some CSX feed deliveries were delayed nearly three weeks.

\$100 a day

Each day that a railcar is delayed costs the owner as much as \$100, estimates Herman Haksteen, president of the Private Railcar Food and Beverage Association, which represents large food companies like PepsiCo Inc. and Kraft Heinz Co. For now, companies are absorbing the higher costs.

"They're doing everything they can so the consumer doesn't see it," said Mr. Haksteen. "The customer might see it next year."

Brent Bilsland, chief executive of coal producer Hallador Energy Co., of Denver, said service improved in July and August after "subpar" performance in the second quarter. "The performance of the CSX has been much more precise and really, really quite good," he told analysts Aug. 9.

Shipments of corn and soybean meal by CSX are arriving at a Gettysburg, Pa., facility in seven days, down from 12 days, said Dan Sharrer, co-owner of Agricultural Commoditys Inc. The company makes pretzel flour, fertilizer and poultry feed.

"They stubbed their toe, but all in all, they have done me well," he said.

CSX has told customers to brace for a few more rocky weeks. "Shortly after Labor Day, you'll see things return to what we call normal," Mr. Harrison said. "And then they'll start tracking up again."

BAND

Continued from Page One
Menstruators. Still, "it's kinda nice to sit there and talk."

When musicians want to lend some psychological grounding to the rock 'n' roll lifestyle, they call Ms. Milstein, founder of Rock Star Therapy. She leads group therapy sessions for major acts and rookie groups all trying to keep discord at bay. Ms. Milstein, a music-industry veteran who moved into psychology more than a decade ago, is part of a movement that brings feelings into the hard-edge world of rock 'n' roll, where brawls and disagreements have built a back story behind many hit tracks.

When skeptical new clients come into her office, Ms. Milstein knows she's getting somewhere when the sunglasses come off. "They live almost a parody of themselves," she said. "They put on a show for me sometimes."

The Beatles sought spiritual direction from Maharishi Mahesh Yogi. Ms. Milstein's approach is more rooted in tradition.

tional psychology.

Disagreements about the set list? "That gets to the underlying issue of control," she said. Disputes over who is front-and-center at the photo shoot leave her asking, "Who is not being heard?"

Contemporary acts like Lady Antebellum and Jon Bon Jovi have publicly acknowledged attending group therapy sessions. When the pop stars Fifth Harmony saw one member leave in a messy exit last year, the group issued a statement to fans acknowledging they had tried group therapy.

Ms. Milstein's niche has been years in the making. After graduating from University of California, Los Angeles with a degree in sociology and an education from frequenting clubs on the Sunset Strip, she worked for nearly a decade at A&M Records.

Managing tour marketing and logistics for acts like Korn and Sheryl Crow taught her the "finesse" of working with a star, she said: "A balance of respect and authority."

After getting a masters in psychology, Ms. Milstein, 52 years old, opened her practice.

Her loft office has the hallmarks of any therapist's—wall-mounted degrees, bottles of water, tissues—with only one sign of her specialty: A framed poster of John Lennon and the lyrics to "Imagine."

Sessions with five-member bands can cost upward of \$500 an hour. About three-quarters of her clients are musicians; morning appointments are a rarity.

Though Ms. Milstein doesn't discuss individual clients, sometimes her work can follow her home. "You hear music on the radio, and you're like, 'Thank goodness that person got his addiction under control,'" she said.

Some artists worry therapy will deaden creative impulses, she said, thinking infighting keeps inspiration flowing. "They'll say, 'I'm going to be all soft and not able to write about anything,'" she said. But "it's about being able to enjoy all of this instead of self-destructing."

Bands like Fleetwood Mac and Guns 'n' Roses snarled through blowups in the 1970s and '80s that became as legendary as their best-selling albums. Professional therapy has

entered the music industry since then, notably through the 2004 documentary "Some Kind of Monster," which showed members of Metallica hashing it out with a therapist on tour.

When the a cappella country group Home Free replaced a founding member in 2016, the new five-person ensemble holed up in a New York conference room with a performance coach for trust-building exercises and positive affirmation. The session stretched for hours, recalled bass singer Tim Foust.

Dr. Jodi Milstein, a therapist, stands with four members of the band Menstruators. From left to right: a woman with blue hair, a woman with green hair, a woman with blonde hair, and a man with blonde hair. They are all dressed in dark clothing. The background is a colorful mural.

The Menstruators, behind the scenes of their 'Supergirl' video. Band members attended a therapy session with Dr. Jodi Milstein.

stage, we get better on stage."

Some rock stars scoff at the idea of opening up.

"Feelings, schmeelings," said Gene Simmons, the long-time frontman of Kiss. "That's kid's stuff. Guys don't talk like that. You hurt my feelings. F—that. It's called business. You're in a band."

Mr. Simmons, who has performed with the act since 1973 but seen bandmates come and go, said the group's manager often became a quasi-therapist, albeit one employed by them.

"You're surrounded by yes men. Nobody is going to tell you that your breath stinks or that you're an idiot," he said.

Ms. Milstein says she's often hired by managers as an objective third party, and older bands have come in for therapy sessions ahead of reunion tours. She suggests drawing a line on the past, asking, "Any more to clean up on that?" and moving on.

She's on high alert when musicians go on the road. Among the coping strategies she discusses: Don't hole up in the hotel. "Take your tour manager, your bodyguard, and go for a walk."

LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

After a Bad First Impression...

An early slip can do serious damage with a boss, colleague or client; here's how to redeem yourself

IT'S A MOMENT FEW can avoid: You meet someone you want to impress but wind up starting with a glaring faux pas. That tone-deaf comment to a prospective boss or spilled coffee all over a customer can wreck everything.

The moment Angela Copeland showed up for a job interview at a California clothing company years ago, she knew it was over. She had the digital-marketing skills the company needed, but the interviewers wore Birkenstocks and casual clothing of natural fabrics and she showed up in heels and a black tailored suit. "I could immediately see the look on their faces, thinking, 'Why is she here?'" says Ms. Copeland, a career coach in Memphis, Tenn. She never got a second chance.

It's possible to recover from a bad first impression. But it takes time, effort and some nuanced skills.

"First impressions are very sticky," says Heidi Grant, author of "No One Understands You and What To Do About It," a book about the psychological factors that shape people's interactions. Those impressions are rooted in biased thought patterns, including the primacy effect—the tendency for the first few things people notice about someone to influence how they interpret information later, Dr. Grant says. Another pattern, called confirmation bias, causes people to notice only details that confirm what they already believe. "People see what they expect to see," she says.

When Ms. Copeland got off on the wrong foot with new acquaintances again a few years later, she knew how to repair the damage. At a leadership program she attended, other participants told her they saw her as cold and unfriendly at first. "I'm an introvert and I can be somewhat formal," she says.

But her colleagues said they felt friendlier to her after she talked with them one-on-one. "I took the time to get to know each person and find common interests," Ms. Copeland says.

Spending a lot of facetime with someone can repair a bad start, Dr. Grant says. If you've made a bad impression on a manager who's about to become your boss, arrange to work out at the gym or hit the company cafeteria at the same time she does—not to stalk her, but to build familiarity with a casual greeting or wave.



ROB WILSON

Offering lots of evidence to counter a bad start can help. "If you're late for a meeting, make sure you're early every other time in the future, for a long time," says Alyssa Gelbard, founder and president of Resume Strategists in New York. Erasing a bad first impression takes patience, she says. "You can't just snap your fingers and make it go away."

Ms. Gelbard, who is in her mid-40s, was disappointed at a recent networking event when a senior executive in his 60s assumed she was younger and lacked senior-executive status, she says. He kept dropping such comments as, "That was before your time, so you couldn't relate."

She patiently worked to undo that impression, emailing him via LinkedIn, where her profile shows her 1996 M.B.A. and her years of experience as an executive-career consultant. She later went to a gathering where she knew she

would see the executive and others she knew at his level. She wove more evidence of her experience into the conversation. In time she overcame the executive's first impression and he became a valuable contact.

Poking fun at yourself can show you take your mistake seriously and want to make amends.

Drawing attention to common bonds, such as rooting for the same sports team, can help dispel bias, says a 2015 review of 119 studies led by Elizabeth Focella, a researcher at the University of Arizona at the time.

Poking fun at your own blunder can ease the tension. A little self-

deprecating humor can show you take your mistake seriously and understand how you made the other person feel, says Kate White, a former editor in chief of Cosmopolitan magazine and author and speaker on career issues.

If you muffed a job-interview question about your past accomplishments, follow up by sending work samples showing your skill, Ms. White says. "You want to dazzle them, to show that the underlying impression you made doesn't matter," she says.

Offering to help the other person reach an important goal can nudge her toward acceptance, Dr. Grant says. Use the collaboration as an opportunity to showcase your skills.

Opening up and sharing details about your experience can help erase others' negative views by evoking empathy, says the 2015 research review by Dr. Focella, a consultant with Portland, Ore.

based Research Into Action.

Eric Gates interviewed a job applicant at a previous employer several years ago who made a terrible first impression by confessing that he'd done prison time for dealing meth. Mr. Gates, an Austin, Texas, minister and former police officer, joked with the man about having been on opposite sides in the criminal-justice system, then made a conscious decision to move beyond his initial shock and re-evaluate the applicant, Mr. Gates says.

The man quickly showed "he wasn't the criminal he'd been in a previous life," Mr. Gates says, by describing his self-improvement efforts and handing Mr. Gates a list of people willing to serve as references.

"He came prepared to answer the tough questions," Mr. Gates says. He decided to take a chance and hire the applicant, and the man became one of his best employees.

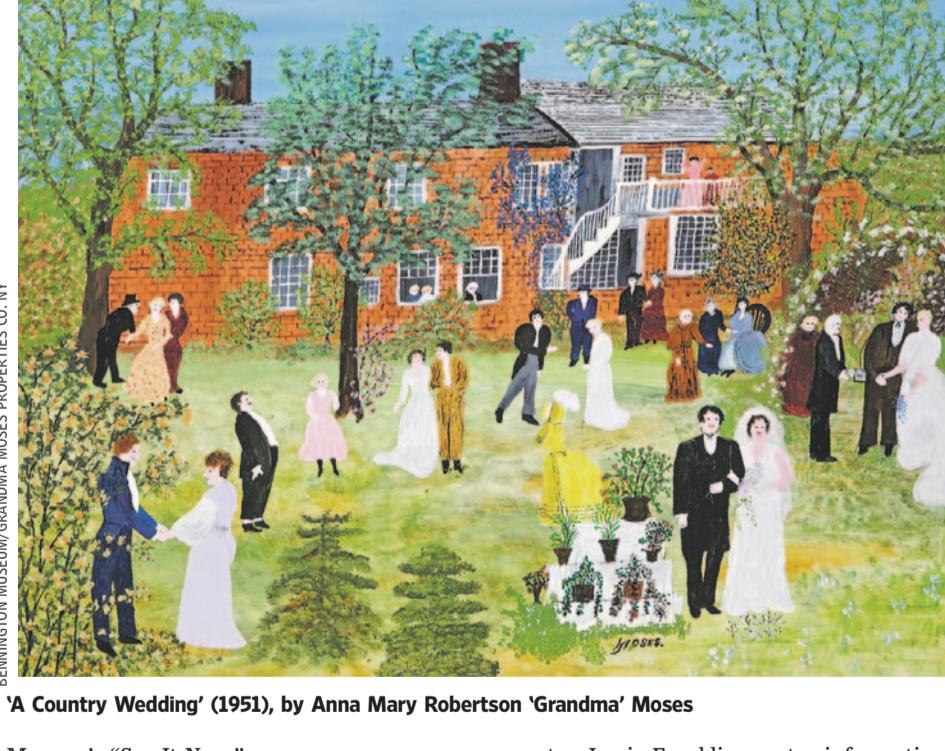
growing mastery of composition, over the years, and note the way she heightened textures and simplified shapes in her last works, painted when she was 100. (She is supposed to have said she thought she was becoming more "modern.") What remains constant is Moses' preference for omniscient, panoramic views, her reliable sense of placement, and her ability to animate and punctuate complex scenes with busy figures and animals whose activities are always completely intelligible.

We can enjoy the paintings' idyllic vision of a now-vanished, unspoiled, pastoral world governed by the seasons, marvel at a display of vintage Grandma Moses spinoff products, or meditate on the political value of her imagery for 1950s America (see products), as discussed in the excellent catalog. But we are also given ample evidence, discovered by recent research, that Grandma Moses was not simply a little old lady innocently depicting her memories. Instead, she proves to have been a thoughtful interpreter of existing imagery, whose father painted landscapes. She was largely ignorant of art history and contemporary art, but she was responsive to suggestions from photographs, advertisements, chromolithographs, needlework samplers, children's books, and the like, some of which she clipped and saved in a trunk of what she called "art secrets," often tracing the outlines of particular images for her paintings. Once alerted to this by a selection of original material, we look differently at, for example, a foreshortened horse-drawn sleigh in a snow scene.

"Grandma Moses: American Modern" reveals that while Moses' paintings are about her long experience of traditional farm life, they are also considered works of the imagination, provoked by memory but ultimately invented from a combination of observation, recollection and what might be called appropriation. They're no less charming once we know this. If anything, we gain new respect for the "Housewife, New York."

Grandma Moses: American Modern
Bennington Museum, through Nov. 5

Ms. Wilkin is an independent curator and critic.



'A Country Wedding' (1951), by Anna Mary Robertson 'Grandma' Moses

Murrow's "See It Now."

Modernism has long embraced the work of self-taught artists—think of Henri Rousseau—while today they are viewed with increasing admiration. Yet despite Moses' debut at MoMA and her representation by a respected New York gallery, her popularity and celebrity compromised serious appreciation of her art. Now, "Grandma Moses: American Modern," at the Bennington Museum, Vermont, offers a fresh evaluation of this well-known but problematic figure. Co-organized with the Shelburne Museum, Vermont, where it was seen earlier, the exhibition is a comprehensive survey of Moses' career, contextualized by a small group of works by her "schooled" modernist contemporaries, including some who are on record as admiring her paintings.

In the Bennington Museum installation and in his fine catalog essay, the museum's

curator Jamie Franklin creates informative juxtapositions with works by Helen Frankenthaler, Joseph Cornell, Andy Warhol and Fernand Léger, among others, underscoring the obvious differences among them, but finding unexpected commonalities in their attitudes toward nature and their ways of working. We learn, for example, that Moses, like Warhol, often repeated images, as we discover when we track a checkered house from picture to picture.

The generous selection of Moses' paintings at the Bennington Museum allows us to follow her evocations of different seasons and of subjects as diverse as the Battle of Bennington, which includes the commemorative monument erected a century after the event; a country wedding in the 1890s; boiling maple sap for syrup; and the Eagle Bridge hotel, with buggies in the foreground and a locomotive spewing smoke. We can follow, too, her

ART REVIEW

SEEING AN ICON ANEW

BY KAREN WILKIN

Bennington, Vt. IN 1939, the Advisory Committee of the Museum of Modern Art organized its first exhibition installed in the Members' Rooms of the 53rd Street building. Titled "Contemporary Unknown American Painters"—"outsider art" wasn't yet coined—it showcased works by 18 artists, their names followed by such labels as "Milliner, Brooklyn," "Unemployed. The Bowery, N.Y." and—shockingly, to today's sensibilities—"Negro housewife. Missouri." One, Anna Mary Robertson "Grandma" Moses (1860-1961), a "Housewife, New York," was a farm woman who at age 78 began painting scenes of rural New England life. Her work had been discovered the previous year in a drugstore in upstate Eagle Bridge, N.Y.: charming bird's-eye views of barns and buggies, farmyards and clapboard houses, steepled churches and sleighs, populated by agile figures and lively animals. A year later, in 1940, Grandma Moses had her first solo exhibition, at New York's Galerie St. Etienne.

She quickly became a full-fledged American icon, her images seen as emblematic of the values of postwar U.S. society. Moses' work was reproduced on greeting cards, calendars, tiles, fabric and dinnerware. In 1950, the U.S. Information Service circulated in Europe a large exhibition of her paintings. In 1953, after countless shows internationally, she appeared on the cover of Time magazine, a perfect embodiment of a salt-of-the-earth unsophisticate, with her cheerful grin, rimless glasses, and white topknot; a country church in winter, from one of her paintings, was seen behind her. In her 90s, she was featured on television, including on Edward R.

OPINION

REVIEW & OUTLOOK

Beijing's Threat to Academic Freedom

Cambridge University Press taught the academic world a valuable lesson this week in how not to respond to Chinese government censorship. As Western universities become dependent on China-related funding and the Xi Jinping regime tightens control over speech, the temptation to sacrifice core values will grow unless schools stand up for academic freedom.

Last week news broke that CUP blocked online access to 315 articles published in the journal *China Quarterly* after its Chinese distributor relayed a threat from Beijing regulators. If CUP refused to take down the offending articles on sensitive topics such as Tibet and the 1989 Tiananmen Square massacre, it was told, the periodical would be banned in China.

The publisher bowed to Chinese pressure without consulting *China Quarterly*'s staff and tried to keep its action quiet. After an email from Editor Tim Pringle to his board leaked, CUP tried to portray the decision to block the articles as a temporary measure.

Academics who study China reacted angrily, circulating open letters of condemnation and petitions to boycott the journal or move it to another publisher. On Monday CUP reversed course and announced that it would repost the offending articles online and make them freely available to nonsubscribers. A terse statement from Cambridge University suggested that it intervened "to uphold the principle of academic freedom on which the University's work is founded."

Chinese authorities haven't responded so far. But a state-run tabloid newspaper, the *Global Times*, wrote in an editorial last week, "Western institutions have the freedom to choose. If they don't like the Chinese way, they can stop engaging with us."

Macron's Test for France

As the popularity of the new French President tumbles, the question isn't whether Emmanuel Macron can save France. The question is whether France can save itself. Voters have the best chance in a generation to revive an economy in decline, yet they seem to quail at the critical moment.

Mr. Macron deserves some of the ire that's reflected in approval ratings that have fallen to 35% in recent polls, compared to the 66% of the vote he won in May. His leadership style is aloof, which the French used to not consider a defect but now apparently do. Spending cuts antagonized the military, and he needlessly embroiled himself in a debate over whether his wife should have an official, and taxpayer-funded, state role as first lady. His attitude toward the press is reminiscent of Donald Trump's, with more polish.

The bigger problem is that voters are having second thoughts about economic reform. Mr. Macron's approval started falling in July after he announced plans to cut housing benefits—by €5 a month for each recipient. Feminists are in arms over his plan to reduce the government's women's-rights budget to €20 million (\$23.6 million) from €30 million. That's before he gets to the labor reforms that will dominate the autumn.

You'd think voters would recognize they're getting their money's worth. Economic reform was Mr. Macron's central pitch to voters in the spring. He speaks frequently and well on the need to make France a "nation of unicorns," meaning innovative tech start-ups and other companies.

The U.S. Navy's McCain Moment

The commander of the U.S. Navy's Seventh Fleet has been relieved of his duties after a destroyer collided Monday with a tanker near Singapore. The cause of the incident is still unknown, but the investigation should go beyond the narrow causes to ask if the collision is further evidence that the military is strained beyond what the force can tolerate.

The crash of the USS John S. McCain Monday resulted in the removal of Vice Admiral Joseph Aucoin "due to a loss of confidence in his ability to command." Ten sailors were initially reported missing. At least one body has since been found.

To investigate the incident, Chief of Naval Operations Admiral John Richardson announced a pause in Navy operations around the world. There will also be a broader review of Navy procedures in the Pacific theater, including training and maintenance. This is warranted given multiple incidents at sea this year.

In June a merchant ship collided with the USS Fitzgerald, a guided-missile destroyer, in Japanese waters. The Navy's incident report details that the crew manning the helm at night didn't detect the danger. Seven sailors died, and last week the Navy relieved the ship's commanding and executive officers, noting "inadequate leadership," which suggests failure by the crew.

In May the USS Lake Champlain collided with a South Korean fishing boat, and in January the USS Antietam ran aground in Tokyo Bay. It's hard to credit all this merely to bad luck.

Whatever we learn about the McCain incident, one reality is that the Navy has been conducting missions across the oceans with less funding and fewer ships. Senior Navy officials told Congress recently that about 100 ships have been deployed

Cambridge Press pays a price for bowing to Chinese censorship.

That's not much of a choice for Cambridge and other Western schools. More than 91,000 Chinese students attended British universities in the 2015-16 school year, and they pay between two to three times the tuition of students from European Union countries. American universities enrolled 328,000 Chinese students that year.

Western schools also receive donations from wealthy and influential Chinese. The daughter of former Chinese Premier Wen Jiabao gave £3.7 million (\$4.8 million) to Cambridge through her charitable foundation to fund a chair in Chinese Development studies. In 2014 the family of Ronnie Chan, a Hong Kong tycoon known for pro-Beijing views, gave \$350 million to Harvard University, the largest gift in its history.

Cambridge University Press is doing a booming business selling textbooks in China, with its most recent annual report boasting of double-digit year-on-year growth for the past five years. The annual Beijing International Book Fair opened Wednesday, and the publisher acknowledged that it initially hoped to resolve the conflict at that event.

Chinese officials encourage the myth that quiet remonstration will yield some relief from unreasonable demands. But as CUP has learned, not being transparent can damage the integrity of Western institutions. It also prevents universities from forming a united front on specific problems such as the blocking of online articles.

Western academics who displease Beijing with their writings already risk being put on a visa blacklist that could impair their work. Now the Xi regime is starting to exploit financial leverage over Western institutions in their home countries. This week's events suggest that the best hope of preserving academic freedom lies in openly discussing Chinese censorship.

If he can't fix the economy, can anyone? Do voters want him to?

Voters were wise enough to endorse this agenda, giving Mr. Macron a mandate to cut government jobs, reduce taxes on corporations and overhaul labor and pension regulations. The timing will rarely be better. Economic growth is stronger than expected at 1.8% year-on-year, and the jobless rate is at a post-2012 low of 9.2%. Growth in the U.S. and a reviving eurozone provide rare tailwinds for French reform.

On foreign policy Mr. Macron's demand for more European Union fiscal cooperation threatens to be a distraction, and it will be a waste of political capital in the face of inevitable German opposition. But France shouldn't require a politician of messianic personal virtue and infallible political judgment to pass a new pension bill. If Mr. Macron isn't good enough despite his missteps, no other French politician is likely to do better.

Several French politicians would like to do worse. Although the Socialist Party is divided, the opposition to Mr. Macron is sliding further left, with the Bernie Sanders-esque Jean-Luc Mélenchon and his "France Unbowed" movement promising voters another attempt to make socialism work. The danger is that voters fall for it if they grow skittish about Mr. Macron.

Mr. Macron made his choice when he campaigned for supply-side reforms despite voters' traditional hostility to those ideas, and maybe voters surprised themselves by electing him. September—when the draft labor law is due, and when a general strike is set to begin—will be a test of whether French voters are prepared to stand by their decision.

Are sailors being pushed into missions without enough training?

routinely each day since 2001. Meantime, the size of the battle force has dwindled 14%. The Navy is now smaller than at any point in modern history, with more ship retirements ahead. That translates to longer and more frequent deployments.

To sustain the high operational tempo, ships must crash through scheduled maintenance in between patrols. The demand for fast turnover compresses time for the crew to train at home, which is essential for competence at sea. Sometimes ships are delayed in the yards, which can condense cycles for on-board qualifications for, say, aviators. This can become a lethal combination of less prepared sailors with less reliable equipment on more dangerous missions.

Another question is tactical. The Navy has damaged two destroyers in the Pacific in one summer, and a smaller fleet means the force can't easily replace this capacity without losing manpower elsewhere. So what risks must the Navy accept during what may be the most dangerous time in the western Pacific since the end of the Cold War?

Similar dynamics are hurting the U.S. Army and Marines, the latter of which has had a precipitous increase in fatal aviation accidents in recent years. Congress has for years approved stopgap funding for the military, and the interim measures undermine modernization and readiness. The 2011 sequester cuts have hit everything from pilot proficiency to equipment.

The Navy's review will be instructive, and the families of the sailors on the McCain and Fitzgerald deserve an explanation. The larger question is if the U.S. political class will prevent more needless harm to the less than one percent of American men and women who risk their lives for the rest.

The Great Nazi Scare of 2017



BUSINESS WORLD
By Holman W. Jenkins, Jr.

Well, that was a bit embarrassing. Anti-fascist liberals mounted thousand-strong counterrallies all weekend against a Nazi threat that proved nonexistent or thin on the ground. Leftists imagined themselves to be modern-day versions

of the Czech resistance or the Warsaw uprising, but it turns out they were the majoritarian mob shouting down a handful of losers who've been an execrable but small part of the American pageant for as long as most of us can remember.

We don't know what speakers at Saturday's "free speech" rally in Boston might have said. It was organized, according to the local papers, by libertarians protesting campus speech codes, though they opened their platform to anybody, left and right.

The meeting ended early; the speakers were all drowned out. Nazis and white supremacists, if any were present, were shown to be vastly outnumbered by Americans who reject such doctrines.

To state another obvious point, America's civil liberties are meaningless if they don't protect unpopular views. It's not the mob but the mob's targets that need protection.

For the record, of the 20th century's malign ideologies, Nazi ideas of who should be murdered and why strike me as slightly more odious and frightful than Maoist or Stalinist ideas of who should be murdered and why. The applicability to current U.S. events is slender, though.

More relevant is the principle that large mobs are more dangerous than small mobs, and likely to harbor more psychopaths. Apparently running out of Nazis to resist, Boston protesters threw rocks and urine-filled bottles at police.

Any shortage of white supremacists can always be corrected by expanding the definition. Opponents of a \$15 minimum wage are racist. Skeptics about a pending climate crisis are racist. Anyone questioning the utility of pulling down old statues is racist.

The slippery slope of civil-rights erosion is manifest every time certain members of the vituperative left open their mouths.

Hard to escape is a lesson about incentives: Majoritarian violence is the predominant risk even when its targets are people otherwise impossible to sympathize with.

Which brings us back to Charlottesville. Serious professionals in every field know first reports are unreliable. We aren't counting certain modern-day news sites, of course. Their job is manipulating passing news-related symbols in ways that pleasure their target audiences. Bandwagons are their profession.

For the record, however, Donald Trump's press conference, in its en-

tirety, is available online and takes 23 minutes to watch. He didn't fail to denounce Nazis and racists.

An account of events in Charlottesville is also taking shape. Mr. Trump feels he has been treated unfairly. Guess what? That's politics. Your opponents aren't required to give you a break. Outsmart them.

President Obama would have spoken carefully, starting with: Though we don't have all the facts, one thing Americans can agree about is that Nazi ideology and racial hatred are offensive to American ideals.

Even an Obama Justice Department, though, would be open to the possibility that Americans holding a legally permitted rally were beset by a mob while police failed to keep order, if

Fear the majoritarian mob, whatever its ideological predisposition.

that's what the facts eventually showed. From the Washington Post comes an interesting social characterization of today's young white nationalist idiots—but also a description of how their van was attacked with flying bottles and other objects.

According to Charlottesville's Daily Progress, there were two armed militias, one representing a pro-Constitution group, the other a left-wing group. No shots were fired. They worked together to break up fights. Neither supported the Nazis, and both promptly withdrew when the governor declared an "unlawful assembly."

In a tweet she has been made to regret, the New York Times's Sheryl Gay Stolberg reported: "The hard left seemed as hate-filled as alt-right. I saw club-wielding 'antifa' beating white nationalists being led out of the park."

For its part, the FBI has put out a call for witnesses and video of James Alex Fields Jr. before he got in his car.

Messrs. Trump and Obama may have different ideological bents, but no president wants to be consumed by passing political furies. Every president over a longer horizon, we also semiconfidently presume, would have a chief magistrate's willingness to let the true facts emerge and fill in public perception of events.

Many reputations are now tied to a false version of what Mr. Trump said, and a version of events in Charlottesville that may or may not survive careful documentation. Don't expect moral courage or any apologies. Mobs are mobs. Nazis whose every thought is reprehensible will still quail in the face of a lawless crowd. CEOs of publicly traded companies aren't in the business of being brave.

And yet the natural order is holding. Neo-Nazis and white supremacists may be a continuing American embarrassment and eyesore, but they aren't today's most pressing threat to our civil liberties.

Making a Mockery Of a Trade Deal

By Michael Taube

The North American Free Trade Agreement renegotiation process began last week. The U.S. released its 17-page platform in July with more than 100 proposals, including to examine "non-tariff barriers that constrain U.S. exports to Nafta countries," to devise "fair and open conditions for services trade," and to establish a "timely, effective... transparent" system for trade disputes.

Canada has a small list, only 10 proposals. Some, including reforms of the investor-state dispute settlement process, are good topics of discussion at the bargaining table.

But Foreign Affairs Minister Chrystia Freeland wants to make Nafta "progressive." So Canada's Liberal government proposes including new chapters related to "gender rights" and "indigenous rights." Seriously. Ms. Freeland wants Nafta to reflect the government's "commitment to gender equality" and "our commitment to improving our relationship with Indigenous peoples."

These topics should be discussed in an appropriate forum, but this isn't it. Gender and indigenous rights have nothing to do with a trade deal. Moreover, Nafta's successful renegotiation would benefit citizens of Mexico, Canada and the U.S., including the "progressive" elements Ms. Freeland is worried about.

This is another frustrating example of Canada's political culture. The Liberals are perennial fence-sitters, content to shift with the prevailing political winds. The current government is one of the most left-leaning in years, regularly casting leery looks at the free market, business community and foreign policy.

The Liberals also seem intent on blurring the lines between political and economic reality and becoming a

political and economic alternative to America.

Prime Minister Justin Trudeau's recent profile in Rolling Stone—cover line: "Why Can't He Be Our President?"—is part of a long-term marketing strategy to make the young, hip, photogenic leader a progressive hero in the age of Donald Trump.

Displeasure with Mr. Trump's leadership has caused a shift in overall perception, too. A June Pew Research

Canadians want to expand Nafta to cover 'gender rights' and 'indigenous rights.'

study found that only 43% of Canadians hold a favorable view of the U.S. That's down from 65% during President Obama's final year in office.

Canadians, many of whom share Mr. Trudeau's and Mr. Obama's political tendencies, seem content with this left-leaning direction. A majority of Canadians, 52%, approve of Mr. Trudeau, though that's down from 61% last year. Canada's political culture approves of preposterous proposals like gender and indigenous rights in Nafta. It's the type of modern progressive agenda many Canadians want.

For the country, though, it may be a tactical error. The wiser strategy is for Canada to defend trade liberalization, elimination of unnecessary tariffs and protection of business. If Canada and the U.S. can't find common ground on Nafta, Mexico may end up becoming North America's voice of economic sanity.

Mr. Taube, a Troy Media syndicated columnist and political commentator, was a speechwriter for former Prime Minister Stephen Harper.

OPINION

Was I Right to Pull the Plug on a Nazi Website?

By Matthew Prince

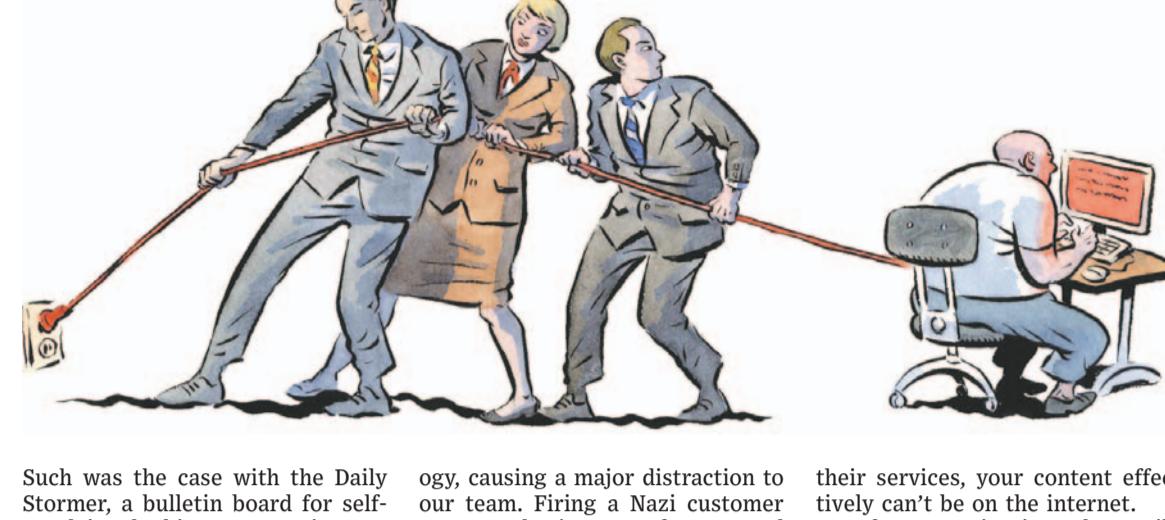
I helped kick a group of neo-Nazis off the internet last week, but since then I've wondered whether I made the right decision. I'm the co-founder and CEO of Cloudflare. We run a global network that makes internet applications faster and protects them from cyber-attacks. If you haven't heard of us, I'm not surprised. We're part of the internet's infrastructure, one of the groups operating behind the scenes to bring you everything you enjoy online.

Although Cloudflare isn't a household name, nearly 10% of all internet requests from 2.8 billion people pass through our network each month. We have almost 10 million customers, from small businesses to large financial institutions.

A handful of private companies control whether speech can appear online. That's reason to worry.

During the 2016 presidential election, 17 major-party candidates used Cloudflare to protect their campaigns from hackers. (Hillary Clinton was the notable exception.) Chances are you've used our network hundreds of times in the past 24 hours and, if we're doing our job, all you've noticed is fast internet.

Nearly all of our clients are upstanding people and businesses. But every once in a while, someone will use one of our services to protect content I would consider repugnant.



Such was the case with the Daily Stormer, a bulletin board for self-proclaimed white supremacists.

The site was used to help plan the neo-Nazi demonstrations in Charlottesville, Va. After Heather Heyer was murdered there, the Daily Stormer's founder and editor mocked her as a "fat, childless 32-year-old slut" and a "drain on society."

By any reasonable standard it was vile. Not surprisingly, the site was constantly targeted by anti-Nazi hackers trying to knock it offline. Cloudflare had helped foil those cyberattacks until last week, when I pulled the plug.

At some level, it's easy to fire Nazis as customers. They don't pay you much, if anything, since Cloudflare offers a free version of its service. Our terms of use give us broad discretion to choose whom we allow to use our network.

Beyond the horrible content, the Daily Stormer began claiming that we secretly supported their ideol-

ogy, causing a major distraction to our team. Firing a Nazi customer gets you glowing notes from around the world thanking you for standing up to hate.

But a week later, I continue to worry about this power and the potential precedent being set. The reality of today's internet is that if you are publishing anything even remotely controversial, your site will get cyberattacked. Without a massive global network similar to Cloudflare's, it is nearly impossible to withstand the barrage. Only a small group of companies—names you know, such as Facebook, Google and Microsoft, along with a handful of others you may not, like Cloudflare—have sufficient scale to keep their users online.

The upshot is that a few private companies have effectively become the gatekeepers to the public square—the blogs and social media that serve as today's soapboxes and pamphlets. If a handful of tech executives decide to block you from

their services, your content effectively can't be on the internet.

Before terminating the Daily Stormer, Cloudflare's policy had been to stay neutral to the content that used our network. We'd comply with the law in the jurisdictions where we operate, but we wouldn't bow to political or public pressure to boot anyone off our network.

And make no mistake, there is pressure: Hackers actually tweeted to us asking that we get out of the way so they could take down the Daily Stormer.

When standing up to government requests or angry Twitter demands to silence unpopular speech, it was powerful to be able to say we'd never terminated a customer due to political pressure. I'm not sure we can say that anymore.

I'd like to fall back on the First Amendment of the U.S. Constitution. I'm the son of a journalist. I grew up with discussions around the dinner table on the importance of freedom of speech. But the First

Amendment doesn't compel private companies to let anyone broadcast on their platforms. Moreover, Cloudflare operates infrastructure in 70 countries, few of which have anything approaching American-style speech protections.

Yet in all nations, there is (or should be) a reasonable expectation of due process. It is the idea that no one is penalized without first receiving a fair hearing and a fair shake. In civilized societies, the law is applied equally by independent decision makers, not capriciously by mobs and tyrants.

Did we meet the standard of due process in this case? I worry we didn't. And at some level I'm not sure we ever could. It doesn't sit right to have a private company, invisible but ubiquitous, making editorial decisions about what can and cannot be online. The pre-internet analogy would be if Ma Bell listened in on phone calls and could terminate your line if it didn't like what you were talking about.

Cloudflare is an expert at stopping cyberattacks, but we don't have the expertise to pass judgment on which of our 20 trillion monthly internet requests is racist, reprehensible or offensive. Even if we could solve the technical challenge of filtering them out, hidden behind the scenes is a problem of political legitimacy.

We're going to have a long debate at Cloudflare to think these issues over. But terminating the Daily Stormer is likely to be the exception that proves the importance of content neutrality. My moral compass alone shouldn't determine who gets to stay online.

Mr. Prince is the co-founder and CEO of Cloudflare.

Trump Learns From America's Failures in Afghanistan

By Vance Serchuk

Since the end of the Cold War, one of the unfortunate patterns in American foreign policy has been the tendency of new presidents to denounce their predecessors' approach to the world—only to repeat their mistakes.

As the Trump administration debated the way ahead in Afghanistan in recent months, it risked falling into this trap. For all their differences Donald Trump and Barack Obama both entered office ambivalent about the flagging war effort in South Asia. Each was sensitive to the threat of terrorism from the region, but viscerally resistant to the military's call for an intensified commitment to a potential quagmire.

As in 2009, the result was a drawn-out review in which competing strategies were mooted—including some offering the seductive promise of achieving more by doing less. But in his remarks Monday night, Mr. Trump put forward a framework for Afghanistan and the surrounding region that suggests he isn't repeating past failures there but has learned the right lessons from them—even when they conflict with his own instincts.

The first and most important of these is the rejection of fixed timetables for U.S. withdrawal. Instead the president is taking a conditions-based approach that removes any deadline for pulling out.

That's significant because America's recurring efforts to extricate itself from Afghanistan—from the Bush administration's push to hand over the Afghan mission to NATO, to the Obama administration's pledge to bring all forces home by the end of its term in office—have helped foster the very conditions that have forced the U.S. to stay.

This U.S. exit-seeking has encouraged the Taliban to think it can outlast America on the battlefield, deterred Afghan civilians from siding with the coalition and given regional powers such as Pakistan incentives to hedge against the U.S. by supporting insurgent groups.

Although by no means a guarantee of success, the Trump administration's consideration of an open-ended military commitment to Afghanistan marks a sharp break with past practice and creates new possibilities to pursue a decent outcome.

Mr. Trump was also correct to place the Afghan crisis in a regional context and to call out the Pakistani military for sheltering Is-

lamic extremists. Changing Islamabad's strategic calculus will require tremendous ingenuity and tenacity. But since a major reason for Pakistan's support for terrorists has been its belief it will need them as proxies after America's long-telegraphed exit from Afghanistan, a sustained presence in Afghanistan is the overdue first step to confronting this problem.

By focusing on getting out of the country, Bush and Obama fostered conditions that forced us to stay.

And Mr. Trump identified clearly why a U.S. exit from Afghanistan would court catastrophe, given the probability its territory would again be seized by terrorists to plot attacks against the U.S.

The most problematic part of the speech was when the president sounded most like his predecessor—in his disavowal of "nation building." Reasonably enough, Mr. Trump forswore telling Afghans how to live or trying to re-create their society in America's image. But as he acknowledged, the only

way for Afghans to shoulder more of the burden in the shared fight against terrorism is to build strong institutions like the Afghan National Army.

Success also requires an Afghan state that isn't so corrupt or dysfunctional that it pushes the population toward the Taliban, and that is sufficiently inclusive of the country's major communities that they have a stake in its success rather than its failure.

None of this entails the U.S. undertaking utopian social engineering in Afghanistan, but it does require much more than killing terrorists. And it explains why the U.S. has a national interest in standing with Afghans who share American values.

In his speech, Mr. Trump emphasized that continued U.S. support would be contingent on improving Afghan governance and politics. That is more sensible than the Obama approach, which committed the U.S. to leave regardless of what Afghans did. But identifying how and where to exercise that U.S. leverage will require considerable skill and savvy.

In this and other respects, while the president's framework gets most of the big ideas right, success will now turn on smart implementa-

tion and wherewithal. Both will be constantly tested.

Over the past 16 years, Washington has often described Afghanistan as being in "transition," implying the country's wrenching but inexorable progress toward a decisive endpoint, with America's own involvement there a fleeting exigency.

But "transition" is a concept that might better apply to Washington's strategy itself. The U.S. has approached Afghanistan since 9/11 with a typically American mind-set—as a discrete problem to be solved, requiring a temporary surge of effort, after which the military can declare success and go home.

There were strands of this thinking in Monday's speech. But in its substance, the Trump framework suggests the start of a reckoning with a more difficult reality: that Afghanistan is less a tactical battle to be won than a strategic challenge, like the Korean Peninsula or the Arabian Gulf, where the U.S. has vital, enduring national interests and therefore needs to remain engaged for the foreseeable future.

Mr. Serchuk is an adjunct senior fellow at the Center for a New American Security.

The Global Assault on Free Speech



POLITICS & IDEAS

By William A. Galston

Two recent events on either side of the globe have underscored the importance of free speech—and the peril it faces today.

Just days ago, Cambridge University Press yielded to pressure from the Chinese government

to remove more than 300 articles from the website of its journal China Quarterly.

The censored articles covered topics that the Chinese consider incriminating, such as the Tiananmen Square massacre. The

publisher was given the choice between accepting censorship and facing total exclusion from China, and it chose to acquiesce. After an international outcry, however, it reversed its position.

China's government wasn't pleased. An editorial in the state-run Global Times was chillingly frank: "Western institutions have the freedom to choose. If they don't like the Chinese way, they can stop engaging with us. If they think China's Internet market is so important that they can't miss out, they need to respect Chinese law and adapt to the Chinese way. It doesn't matter if some arti-

cles... disappear on the Chinese internet."

There is a striking resemblance between President Xi Jinping's drive to extend Communist Party control over information available to the Chinese people and his government's effort to appropriate the fruits of foreign innovation for its own nationalist purposes. As policy experts across the political spectrum now recognize, and as the Trump administration rightly insists, companies seeking to do business in China often are presented with a choice: transfer control of their intellectual property to Chinese entities, or risk outright exclusion from China's massive and rapidly growing market.

It is easy to understand China's economic strategy. Innovation is the heart of the 21st-century economy, and coercing its transfer enables China to reach the cutting edge while its indigenous research-and-development activities ramp up.

But why the heavy-handed suppression of academic materials, viewed by only a tiny number of scholars?

This takes us to the heart of the matter: Mr. Xi understands the power of free speech and free inquiry to call into question even the most entrenched claims that autocratic governments use to justify their rule. Allowing access to dissenting arguments and long-buried facts about Tiananmen and Tibet could have disruptive consequences. No one knows what scholars would write, who would be reading or how they might react. Better to shut the

door completely than to leave it open even a crack.

This sense of the fragility of political power is more than automatic paranoia. In the former Soviet Union, the writings of a few brave men and women eroded the

Beijing censors an academic publisher, while U.S. academics become censors.

regime's moral foundation. Communism collapsed in large measure because even those who claimed to rule in its name ceased to believe in its truth and virtue.

When times were good, this loss of faith remained recessive. When the economy faltered, it proved decisive—a lesson that China's leaders surely have pondered.

* * *

Seven thousand miles to the east, the neo-Nazi rally in Charlottesville, Va., sparked calls for the suppression of "hate speech"—bigoted rhetoric that any decent observer would condemn.

Racism and anti-Semitism have no place in any society, and certainly not in a society dedicated to the proposition that all humans are created equal. If these doctrines contain no truth and yield only ill effects, runs the argument, why not prohibit their expression?

In academia, the critique of freedom of speech goes deeper. Many

scholars want to censor speech that reinforces social imbalances, believing that it enhances the ability of the powerful to subordinate the powerless.

Writing in the *New York Times*, K-Sue Park, the Critical Race Studies Fellow at the UCLA School of Law, charges that the American Civil Liberties Union's willingness to offer legal support to right-wing as well as left-wing causes "perpetuates a misguided theory that all radical views are equal." Her conclusion: The ACLU should reduce its focus on First Amendment case law and address restraints on freedom of expression that stem from inequality in all its forms.

To this line of thinking, David Cole, the ACLU's national legal director, offers a pointed retort: "Allowing government officials to regulate speech based on their assessment of who is promoting equality... would be disastrous. How does Mr. Park think that Southern mayors would have used that power during the 1960s?"

One of the few clear lessons of history is that vesting any authority with the power to control speech is bound eventually to backfire. Firm adherence to the First Amendment of the U.S. Constitution enables public officials to impose reasonable time, place and manner conditions on speech—and to act to prevent the violence that may attend free expression in fraught situations.

Government should go no further—not in China, not in America, not anywhere.

THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

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Executive Chairman, News Corp

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LIFE & ARTS

MUSIC

A Surprise Dance Album

Joshua Homme opens 'the steam valve for joy' on Queens of the Stone Age's seventh release.

BY JOHN JURGENSEN

JOSHUA HOMME'S height—6 feet, 5 inches—is a big reason for the sweat-breaking pace of "Feet Don't Fail Me Now," the opening song of a new album by his rock band Queens of the Stone Age.

"That's the tempo I walk. That's my stride length," says the singer and guitarist, who was moving down a sidewalk when the tune took shape in his mind.

Movement is the message behind the band's seventh album, "Villains," which encourages listeners to live with urgency and gives them something to dance to in the process. The heavy rock of Queens of the Stone Age, abbreviated QOTSA and formed by Mr. Homme 20 years ago in the aftermath of grunge, has always had a groove to it. But to push itself forward, the band tightened the beat and intensified the swing of its new music.

Dancing is the "the steam valve for joy, and I love being a part of that," says Mr. Homme, whose music has also inspired mosh pits and headbanging. His band recorded "Villains" with Mark Ronson, the producer whose song "Uptown Funk" had singer Bruno Mars dancing, along with countless wedding parties and proms.

From Billboard charts to festival stages, rock 'n' roll is largely missing in action as hip-hop, especially, defines pop culture. Comment-section critics online are divided over "Villains" (out on Friday), with some partisans of QOTSA's most muscular work suggesting that the band has surrendered some ground. For Mr. Homme, making danceable songs isn't a concession to the market forces of pop; it's a natural step for a band that has always stacked its songs with melodic hooks and an arch sense of humor.

QOTSA's signature tone—hypnotic, arid, ominous—is often identified with the desert setting



Josh Homme performs during Splendour in the Grass 2017 in Byron Bay, Australia.

in Southern California where Mr. Homme grew up and formed his first band, the "stoner rock" group Kyuss. His sound also owes something to a less sexy part of his roots: the polka lessons he took when learning the guitar at age 9 because that's what the local music teacher favored.

"It's the best investment I ever made. When people hear about [the polka period] they say, 'Oh my God, it's everywhere!' Homme says, pointing to the spiky oompah, oompah that powered his band's biggest hit single, 2002's "No One Knows."

"I feel like I've been writing the same riff for years, trying to get it right. It's not because it's all I can do; it's because I know there's this perfect version out there and it's

worth pursuing." The squirming fuzz-guitar line on new single "The Evil Has Landed" dates back 15 years, he says, but he and his bandmates only recently nailed it down. "It was tied with monofilament lines to my brain, just dragging on the ocean floor...if a riff is really good, I'll remember it."

After the more brooding 2013 album "...Like Clockwork," Mr. Homme's music and outlook was reshaped by both tragic and triumphant events. In 2015, a side band that he formed with friend Jesse Hughes, called Eagles of Death Metal, was at the center of the terrorist attack on Paris in 2015. Mr. Homme wasn't performing with the band at the Bataclan theater, where 90 people were killed. The shock and mourning "reshuffled

and reprioritized my life so quickly. You want to talk about spring cleaning of people, relationships, ideas? My priorities were so clear and I only had a few. Family, friends, work. That's it."

Around that time he also made an album with a hero he had long admired from afar, Iggy Pop. In addition to his huge musical impact (with proto-punk band the Stooges and albums he made with David Bowie in the late 1970s), Mr. Pop offered the allure of a rock survivor who withstood infamous substance abuse and a gonzo performance style. Mr. Homme says he long thought of Mr. Pop as an "ink-like litmus test" to rationalize his own party levels.

"Once I got to know him, those things didn't mean anything any-

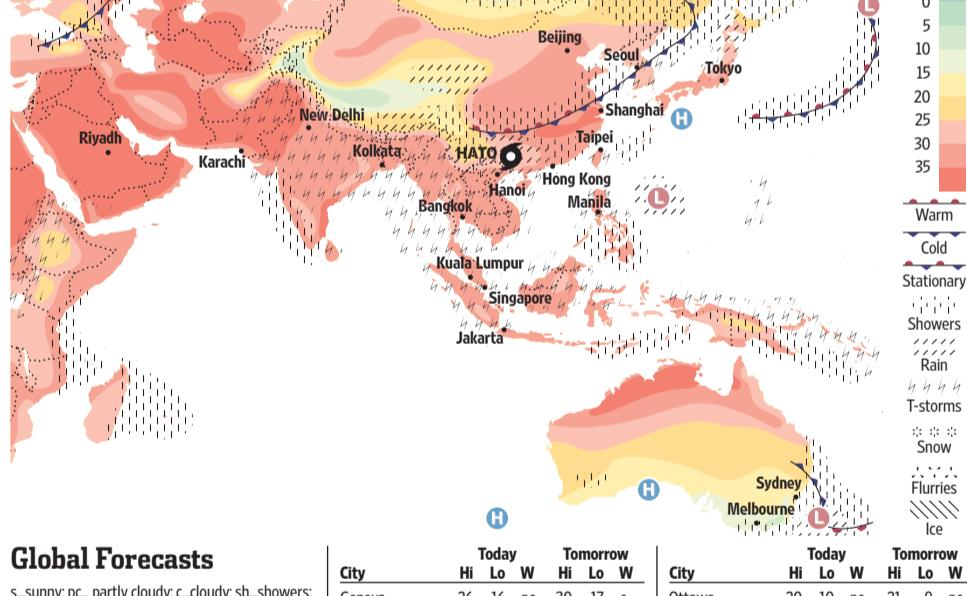
more," he says. In producing the album "Post Pop Depression" and touring with Mr. Pop, now 70, the 44-year-old rocker says that he learned how to age with integrity in an art form that fetishizes youth. In the new song "Un-Reborn Again," Mr. Homme sings, "Everyone is drowning in the fountain of youth."

A less public force in QOTSA's creative process came from a young visual artist from England known as Boneface. After providing illustrations and animations for the previous album, the band invited him to play a more immersive part in the new one. Boneface occupied a desk in the recording studio and drew the songs as QOTSA wrote and recorded them.

Mr. Homme describes Boneface as a "visual partner" whose illustrations helped build momentum in the studio (with guitarist Troy Van Leeuwen, keyboardist Dean Fertita, bassist Michael Shuman, drummer Jon Theodore, and co-producer and engineer Mark Rankin). Says Mr. Homme, "When I see something that he's drawn that really resonates, it refocuses my effort on lyrical stuff and the conversation about songs and what they're supposed to do. Saying it out loud also impacts what he's doing visually and creates this circular excitement."

"Domesticated Animals," a song with a staggered rhythm and grim lyrics about groupthink, led Boneface to draw a suited man snarling out of a cone collar that a dog would wear after surgery. Boneface created the cover art for "Villains" and his studio illustrations will be featured in the album's vinyl release. "In the modern age, the visual side has been relegated to a one inch by one inch thing," Mr. Homme says, referring to the thumbnail images that accompany digital music files. "It's so beautiful to see that music and images come together. It's almost like making conjoined twins instead of separating them."

Weather

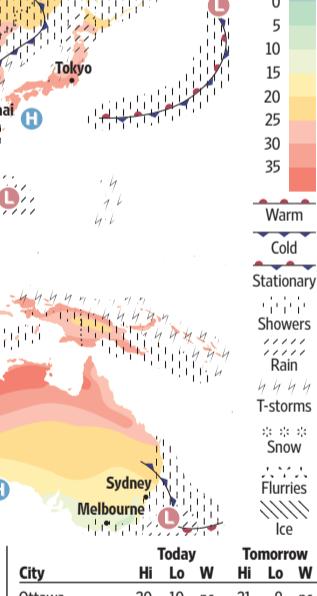


Global Forecasts

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	21	13	pc	23	15	pc
Anchorage	14	11	r	15	10	r
Athens	31	23	s	31	22	s
Atlanta	31	21	pc	30	21	pc
Bahrain	44	28	s	45	28	s
Baltimore	27	16	s	25	15	pc
Bangkok	33	27	t	33	26	t
Beijing	33	18	s	31	17	pc
Berlin	24	13	pc	22	13	c
Bogota	19	8	c	19	8	r
Boise	32	16	pc	33	16	s
Boston	26	17	s	22	14	pc
Brussels	23	12	pc	24	17	t
Buenos Aires	24	18	c	22	11	r
Cairo	35	24	s	36	24	s
Calgary	26	7	c	22	8	pc
Caracas	32	25	pc	31	25	pc
Charlotte	30	18	pc	29	19	pc
Chicago	22	13	pc	23	15	s
Dallas	30	22	t	31	22	pc
Denver	29	14	pc	32	15	t
Detroit	22	11	pc	24	13	s
Dubai	41	32	s	39	31	s
Dublin	18	12	c	17	11	sh
Edinburgh	18	11	c	18	11	sh
Frankfurt	25	13	pc	27	18	t

AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	20	10	pc	21	9	pc
Paris	25	16	pc	28	18	t
Philadelphia	28	17	s	26	16	s
Phoenix	41	29	s	43	30	s
Pittsburgh	22	11	pc	22	11	pc
Port-au-Prince	35	23	pc	36	24	pc
Portland, Ore.	24	11	pc	26	12	s
Rio de Janeiro	24	16	pc	24	17	s
Riyadh	42	29	pc	43	28	s
Rome	30	19	s	30	19	s
Salt Lake City	33	20	pc	34	20	pc
San Diego	24	19	pc	24	19	pc
San Francisco	21	14	pc	21	13	s
San Juan	31	26	pc	31	26	pc
Santiago	16	3	pc	15	3	r
Santo Domingo	32	24	pc	33	24	pc
São Paulo	21	13	pc	21	13	s
Seattle	21	12	pc	23	11	s
Seoul	27	19	t	28	18	pc
Shanghai	36	26	t	35	27	t
Singapore	31	26	pc	31	26	c
Stockholm	21	11	c	15	7	c
Sydney	17	10	pc	16	9	r
Taipei	35	26	t	36	27	t
Tehran	38	24	s	36	23	s
Tel Aviv	32	25	s	33	26	s
Tokyo	32	26	pc	33	24	pc
Toronto	19	10	sh	21	11	s
Vancouver	20	11	s	20	12	p
Washington, D.C.	28	19	s	26	17	pc
Zurich	28	16	pc	29	17	c

The WSJ Daily Crossword | Edited by Mike Shenk



Across	Down
1 Choice when setting an alarm	28 Couple's word
5 "Black Mass" star might clear?	29 Un color primario
9 One of 150 in the Bible	30 Crest container
14 Opera highlights	31 Faint puff
15 Instead	32 Treat similar to a Yodel
16 Suffuse	33 Fresh
17 Write a bad review of a "Misery" performance?	37 Far from ordinary
20 Masked raider	38 Greedy gullet
21 Some of Molly Malone's wares	39 Brest friend
23 1993 NBA Rookie of the Year	42 Rates highly
24 Soak, say	44 "Understood!"
25 Something the "Florence Foster Jenkins" star might clear?	45 Covered a "Bridesmaids" co-star in talc?
49 Some Belize natives	50 Articles of faith
50 Articles of faith	54 Informal handle
51 Crescent formed by two intersecting arcs	55 Big Pharma's wares
52 Painter-turned-inventor	56 Pews' setting
53 Conjunction with a slash	57 Abe's wife
54 Lester of NBC News	58 Plains people
55 Plains people	60 Spot for the "Love Letters in the Sand" singer to play croquet?
56 Pews' setting	61 Offerer of "the firstlings of his flock"
57 Nothingness	62 Traipses about
58 Suspicious of	63 Second or fifth
59 Strawberry Fields sponsor	64 Find for un paleontologo
60 Spot for the "Love Letters in the Sand" singer to play croquet?	65 "Good gracious!"
61 Offerer of "the firstlings of his flock"	66 Nitwit
62 Traipses about	67 Software license reader, supposedly

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

Across	Down

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, August 24, 2017 | B1

Yen vs. Dollar 109.1440 ▼ 0.39%

Hang Seng 27401.67 Closed

Gold 1286.90 ▲ 0.14%

WTI crude 48.28 ▲ 0.94%

10-Year JGB yield 0.036%

10-Year Treasury yield 2.183%

Chinese Deals Abroad Get Harder

Foreign governments grow more skittish, and Beijing restricts 'irrational' purchases

BY EMMA JOHANNINGSMEIER

After a record-breaking year for Chinese acquisitions of overseas companies and other assets, the country's investors are facing increasingly wary regulators in foreign governments—and a Chinese government determined to control where they put their money.

China's total outbound mergers-and-acquisitions investing over the next 10 years could total \$1.5 trillion, a recent report by international law firm Linklaters predicted. That is more than double the total from the past decade, according to Dealogic data, but is roughly flat when compared with current levels.

The first half of 2017 saw a



An Ant Financial stand at a 2016 exhibition in Shanghai. Ant is seeking approval to acquire U.S. payment firm MoneyGram.

total of \$72.6 billion of outbound M&A from China, with Europe taking the largest share. That is far below Chinese outbound M&A of \$129.3 billion in the first half of 2016, a record for any half.

Among the forces driving the sober forecasts and sharp decrease are the Chinese government's crackdown on what it has described as "irrational"

overseas deals—such as for expensive real estate—that don't relate to investors' core businesses.

Although China hasn't discouraged outbound investing as such, it is applying a stricter standard of approving investments that support the national interest, according to James Stent, a banker and author of "China's Bank-

ing Transformation: The Untold Story."

"China's government now looks hard at overseas investments not arising out of core business strategies or serving national interests," Mr. Stent said. "It is restricting frivolous investments in overseas football teams, and by highly leveraged financial conglomerates whose acquisitions neither clearly serve the national interest nor arise out of a well-defined core business strategy."

On Friday, Chinese officials published official guidelines for overseas investment for the first time. The new rules will restrict investment in sectors such as hotels and sports teams, but not technologies such as computer chips.

Also likely to influence Chinese M&A investing are Western governments' moves to block Chinese companies from gaining too much control over domestic infrastructure and branching into industries

where Chinese ownership might raise national-security concerns.

Chinese forays into sectors such as energy infrastructure, high-end technology and electronics face particular scrutiny abroad, the Linklaters report said.

In one high-profile case, Australia blocked China's State Grid Corp. and Hong Kong-based Cheung Kong Infrastructure Holdings Ltd. from taking a 50.4% stake in the country's largest electricity network, Ausgrid, out of concerns for national security. At the time, Australian Treasurer Scott Morrison said, "In making this decision, national-interest concerns have been paramount."

The range of companies likely to face resistance over security worries also includes those involving payment-processing systems and credit-rating systems, firms which might allow Chinese compa-

Please see INVEST page B2

Uber Shares Take A Cut

BY ROLFE WINKLER AND GREG BENSINGER

Four mutual-fund companies have marked down their investments in **Uber Technologies Inc.** by as much as 15%, the first such price cuts suggesting these investors are souring on the ride-hailing giant following a scandal-riden year.

Vanguard Group, Principal Financial Services and Hartford Funds all marked down their shares by 15% to \$41.46 a share for the quarter ended June 30, according to the fund companies' latest disclosure documents. **T. Rowe Price Group Inc.** cut the estimated price of its Uber shares by about 12% to \$42.70 for the same period.

Uber's shares don't trade publicly, so the mutual-fund companies that hold them must estimate the shares' worth each quarter.

Seven mutual-fund companies had mostly maintained a \$48.77 share price since the fourth quarter of 2015, when Uber first sold its shares to investors at that price.

Fidelity Investments held its estimate of \$48.77 as of June 30.

The one outlier is **BlackRock Inc.**, which wrote up the shares slightly each of the past two quarters, settling at \$53.88 as of June 30.

Uber didn't have comment. The mutual-fund companies couldn't be reached or didn't have comment.

Uber has struggled with a string of scandals, executive departures including the ouster of its chief executive and a lawsuit from **Alphabet Inc.** over allegedly stolen trade secrets.

It also faces fallout from a probe into its culture after allegations of sexual harassment and sexism.

Uber's board, meanwhile, is trying to fill the CEO position after Travis Kalanick resigned in June under investor pressure.

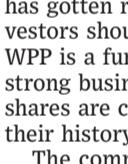
Uber board members are again considering **Hewlett Packard Enterprise Co.** CEO Meg Whitman as a possible candidate for CEO job despite her public statement last month pulling herself from contention, people familiar with the matter said. Some directors have discussed in recent days potentially putting Ms. Whitman's name back on Uber's short list of candidates, which also includes **General Electric Co.** Chairman Jeff Immelt. The thinking goes that if a majority of Uber's eight-person board were to vote to approve her as CEO, she could be persuaded to come to the table again, the people said.

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HEARD ON THE STREET

By Stephen Wilmot

WPP Woes Are Already In the Price Of Shares

The rough patch faced by **WPP**, the world's largest advertising company,

has gotten rougher. But investors shouldn't forget that WPP is a fundamentally strong business, and its shares are cheap relative to their history and their peers.

The company reported Wednesday that like-for-like net sales growth—its key top-line growth measure—fell into the red in the second quarter. Growth has been slowing since last summer, but nobody expected a contraction of 1.7%. The stock dropped 11% in London.

Given the mixed signals, speculating when things will improve is a fruitless exercise. On the one hand, WPP Chief Executive Martin Sorrell expects full-year organic growth of between zero and 1%, implying growth of between 1% and 3% in the second half. Some clients that clamped down on ad spending in the first half have said they would now loosen their purse strings.

On the other hand, the July numbers were bad, with like-for-like net sales down 2.6%.

Amid all the gloom about WPP's sagging organic growth, it is easy to forget that the company's profits are still rising, thanks to acquisitions and a fairly flexible cost base.

Crucially, its problem also still appears to be cyclical pressure from big clients, notably consumer companies that have their own growth challenges, rather than competition from media giants Google and **Facebook**, or consulting firms like **Accenture**.

The irony of the current situation is that, just like its consumer-goods clients, WPP has an efficiency plan to push its operating margin up to just shy of 20%. This bottom-line focus has done wonders for stocks like **Unilever** and **Nestlé** this year, but WPP remains deeply out of favor.

WPP was one of this column's summer stock picks. Clearly, we called it too early. But with the shares trading at 11 times forward earnings, the opportunity for those prepared to invest against the crowd is more compelling than ever.



Samsung mobile chief D.J. Koh, at center, introduces the Galaxy Note 8 smartphone during a launch event in New York on Wednesday.

Crisis Shaped Latest Galaxy Note

BY TIMOTHY W. MARTIN

NEW YORK—Samsung Electronics Co.'s desire to push the envelope on smartphone capabilities was severely tested by last year's Galaxy Note 7 fiasco, where fire-prone batteries triggered a costly global recall.

But rather than cautiously go on the defensive with the new Galaxy Note 8, Samsung mobile chief D.J. Koh in recent months hammered home a message internally to engineers: Don't hold back.

"If we are afraid of technology innovation, we will die," Mr. Koh said he told his engineers, during an interview in New York ahead of the launch of Samsung's next smartphone. "Do not hesitate to take the next quick step."

On Wednesday, Samsung,

the world's largest smartphone maker, introduced its new Galaxy Note 8, showcasing several advances in a phone that notably relies on a less powerful battery than its disgraced predecessor.

The latest incarnation of the Galaxy Note phones boasts Samsung's "infinity" display, which covers nearly the entire front of the phone and clocks in at 6.3 inches. It is Samsung's first handset to have a dual-lens camera that makes it easier to snap professional-quality photographs, a feature Apple Inc. introduced in last year's iPhone.

Mr. Koh is eager to show consumers Samsung hasn't lost a step after overheating batteries forced it to pull last year's version from shelves. The fiasco ultimately cost it around \$6.5 billion and led to

a widespread ban on carrying the device onto aircraft over fears it was a fire-safety hazard.

The stakes are particularly high this year as rival Apple is expected to unveil a 10th-anniversary version of its iPhone soon with advanced new features, and as Samsung's internal estimates show more than 50 million people are out of contract with their U.S. carriers—and potentially up for grabs for the South Korean company or its rivals.

The Galaxy Note series won fans by pushing the limit on new features. Six years ago, the Galaxy Note was the first mainstream plus-size phone and a variant to 2014's Galaxy Note 4 was the first to have a curved screen. Last year's version unveiled an iris scanner that could unlock the phone.

Its raw-material costs have often recently surpassed those of the newest iPhone base model, even though Apple charges more for those devices, according to market researcher IHS Markit's analysis.

"Apple has always been a study of discipline, and Samsung has always been rushing to stuff in as much advancements as possible," said Wayne Lam, a principal analyst at IHS Markit.

Samsung, in a January report led by Mr. Koh, concluded with three external firms it hired that the battery problems were caused by manufacturing and design problems.

In response, Samsung adopted an eight-point battery check, added protective brackets around the battery and

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Saudi Aramco Triggers Mideast IPO Rush

Saudi Arabia's plan to list **Saudi Arabian Oil Co.** is sending other Middle Eastern nations rushing to raise capital on equity markets, potentially

By Sarah McFarlane, Christopher Whittall and Summer Said

privatizing swaths of the state-run energy industry for the first time.

Three years of lower energy prices have pushed regional governments dependent on oil revenue to tap public markets as a way of plugging holes in their budgets. Gulf nations are also looking to this tactic to diversify their economies.

Many governments have already issued bonds. Now, they are turning to equity markets, a move hastened by the initial public offering of 5% of the company, also called Saudi

Aramco. Once listed, it is expected to be the world's largest company by market capitalization.

Already this year, there have been 32 IPOs in the Middle East, raising \$1.5 billion, according to data provider Dealogic. That is more deals than during the two previous years combined.

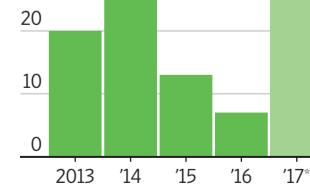
Other IPOs are being planned or have been announced, according to official statements and people familiar with the discussions. Those include state-owned commodity players such as Abu Dhabi National Oil Co., or Adnoc, Kuwait Energy, Emirates Global Aluminium and Oman Oil Co.

Some countries want to beat Saudi Arabia to the market, fearful that if Aramco's benchmark listing flops it will be harder to sell their own companies.

A Push Higher

IPOs by companies in the Middle East

40 IPOs



*Through Tuesday. Source: Dealogic

THE WALL STREET JOURNAL.

the Middle East's oil industry, and this will bring new options for those funds looking to put money into the global energy sector.

But investors also worry about geopolitical tensions in the region, particularly given the growing rift between Qatar and its neighbors.

Tim Love, an investment director at GAM Holding, would usually invest roughly 5% of his emerging-market equity portfolio in the Middle East. Currently it is at around 1%.

"We'd be more than happy to exploit opportunities in the Middle East just as and when" geopolitical risks subside, he said, adding that there were better risk-return opportunities elsewhere.

Aramco's IPO is slated for 2018. Estimates of the company's value have ranged from

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ARAMCO

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less than \$500 billion by some
analysts to Saudi Arabia's own
\$2 trillion price tag.

The coming IPO, first announced in 2016, has influenced other countries to look at listing their own assets, according to company and state officials.

"The Aramco IPO is definitely making several companies in the Gulf rethink their strategy," said a senior Oman government oil official.

Listings would boost the Omani stock exchange while attracting more foreign investors to the country, the official said.

Adnoc is expected to be first in line. The company is scheduled to list its retail business, which controls gasoline stations and convenience stores, later this year in an IPO that could raise as much as \$1.5 billion to \$2 billion, according to an official at the company.

Local governments had little reason to look for outside funding for their lavish spending plans when the oil price was above \$100 a barrel between 2011 and 2014.

But increased crude from the U.S. and elsewhere sent the price into a long period of decline, culminating in it trading below \$30 a barrel in early 2016. Midday Wednesday in New York, Brent oil futures—the international benchmark—were trading at \$52.43 a barrel.

Moody's Investors Service

estimates that oil accounts for approximately 25% of gross domestic product in Gulf Cooperation Council countries and about two-thirds of government revenue.

"The reality is oil prices are unlikely to recover significantly and not only are governments trying to diversify, but they're also trying to prioritize key investments in critical sectors," said Mustafa Ansari, energy economist at development bank Arab Petroleum Investments Corp.

Governments are trying to diversify their economies away from energy by moving into financial services, chemicals and even manufacturing.

"They can't do this without the help of private investment," Mr. Ansari said.

Around two years ago, these countries began turning to bond markets to raise cash. That included Saudi Arabia's \$17.5 billion bond sale last October.

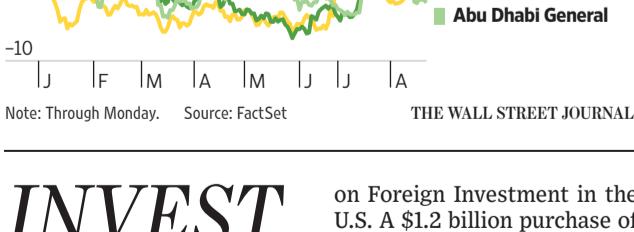
GCC members raised \$38.9 billion from bond sales last year, and a further \$32.5 billion of new paper is expected to be issued by the end of this year, according to Moody's.

Bankers say that IPOs are a natural follow-on. Bonds can be arranged and sold quickly. A listing can take months, sometimes years, to bring to market.

Local stock markets could do with a boost. Most Gulf bourses have missed out on this year's rally in emerging markets. The Saudi Arabia All-Share Index is flat year-to-date, while the Abu Dhabi General Index is off slightly.

Lagging Behind

Middle Eastern stock markets have trailed a rally in emerging-market index performance. Change in stock-market indexes



Continued from the prior page
nies to gather consumer data. "I think we're going to see a lot of concern about ultimate ownership" of such companies, said Ken DeWoskin, a senior adviser for Deloitte's Chinese Services Group.

In the U.S. this year, several deals have failed to get timely approval from the Committee

on Foreign Investment in the U.S. A \$1.2 billion purchase of Dallas-based payment firm MoneyGram International Inc. by Ant Financial Services Group, which is controlled by Chinese billionaire Jack Ma, a co-founder of Alibaba Group Holding Ltd., is among those deals.

In July, The Wall Street Journal reported that the Committee on Foreign Investment in the U.S. hadn't approved the deal by a deadline,

BUSINESS & FINANCE

Cargill Picks at 'Clean Meat'

Investment in startup growing product from animal cells marks a first in the industry

BY JACOB BUNGE

Cargill Inc. is betting you won't always need cattle to make hamburgers.

The agricultural conglomerate has invested in **Memphis Meats** Inc., a startup developing technology to grow meat from self-reproducing animal cells. The stake marks the first investment by a traditional meat company in the nascent "clean meat" sector, where startups are creating products they say are better for the environment than meat derived from traditional feedlots and slaughterhouses. Cargill and Memphis didn't disclose the size of the stake.

Meat companies are under pressure from consumers to reduce their reliance on animal drugs and to treat livestock more humanely. Some have invested in plant-based burgers and chicken strips, hoping to win business from both vegetarians and carnivores concerned about the meat industry's heavy use of crops and water.

Memphis and other startups in the U.S. and Europe are working on another route to assuage those concerns: Using cell-culture technology to grow meat from living animal tissue in stainless-steel culti-vator tanks.

"This is another way to harvest meat," said Sonya Roberts, head of growth ventures in the meat division at Cargill,



JASON HENRY FOR THE WALL STREET JOURNAL

Duck meat grown by Memphis Meats, which has Cargill's backing.

one of the world's biggest producers of beef and poultry. "For people who want a product from an animal welfare perspective, we want this to be there for them."

Memphis on Wednesday said Cargill's investment was part of \$17 million in funding that also drew from Bill Gates, Richard Branson and venture-capital firms Draper Fisher Jurvetson and **Atomico**. The companies didn't provide details on their individual investments.

Cell-cultured meats have some way to go before landing on dinner plates. Memphis Chief Executive Uma Valeti said his company, founded in 2015, can make a pound of meat for less than \$2,400, down from \$18,000 last year. Meanwhile, regulators haven't decided how they will oversee meat production that doesn't involve barns and butchers.

Representatives for the U.S. Food and Drug Administration and Agriculture Department said officials would need to determine whether the cell-

culturing process is safe before considering whether such products count as meat. Mr. Valeti said Memphis Meats is talking with both agencies.

Makers of "clean meat," a spin on clean energy, will also have to woo diners who have gravitated toward more natural foods, free from artificial ingredients and genetically modified crops.

Cargill and other investors acknowledge that Memphis and its rivals likely won't win over every steak connoisseur.

"There are going to be consumers and customers who are not going to be supportive of this," Ms. Roberts said. "They don't have to buy it, because we are going to be providing traditional protein."

Memphis's cell-culture production process currently takes three to six weeks. Using samples from a range of sources, including animals going to slaughter and those on farms or ranches, scientists isolate cells that have the capacity to renew themselves and feed them oxygen and nu-

trients to produce skeletal muscle. That meat can be made into meatballs, burger patties and chicken strips.

Proponents of the technology say it could revolutionize a meat production system that uses much of the world's cropland to feed billions of cattle, hogs and chickens. The United Nations estimates that animals raised for meat consume a third of the world's grain and use a quarter of all land for grazing.

A study published in February by researchers at Australia's University of Queensland found that about a third of 673 respondents in the U.S. would be willing to eat cell-cultured meat regularly. Nearly half said they would choose it over soy-based meat substitutes. About one-fifth said they were unlikely to try the meat or would refuse it.

Steve Jurvetson, a partner at Draper Fisher Jurvetson who will join Memphis's board of directors, said the visceral connection that cell-cultured products have with traditionally raised meat will help them stand out from plant-based alternatives.

Stephen Giunta, culinary director for Cargill's meat division and a master chef who once worked as President Ronald Reagan's personal cook, was convinced by a Memphis taste test in San Francisco. At the June event, Mr. Giunta pulled apart a slice of Memphis's duck meat with his fork, scrutinizing the muscle fibers before eating it.

"It was a nice, clean flavor," Mr. Giunta said. "It was something I'd absolutely serve to my kids."



Uber is going through a rough stretch, but mutual-fund firms generally don't specify reasons for the price changes in their filings.

UBER

Continued from the prior page

Ms. Whitman said in a Twitter message last month after word of her candidacy became public that "I am not going anywhere" and "Uber's CEO will not be Meg Whitman." A person familiar with her thinking said on Tuesday that she stands by her prior statement.

The CEO search is in flux after one of Uber's biggest investors, **Benchmark**, sued Mr. Kalanick in an effort to oust him from the board.

The legal feud began earlier this month—subsequent to the mutual-fund filings' June 30 ending date—and has since spiraled into a broader battle among shareholders.

Benchmark has been negotiating for months a potential deal with tech investor **SoftBank Group** Corp. to sell part of its stake at a discount to Uber's last valuation of nearly \$70 billion, according to people

familiar with the matter. Benchmark and SoftBank have declined to comment.

Amid all the controversies, Uber has sought to shore up its financials after reporting a loss of more than \$3 billion for last year and \$708 million in the first quarter, according to people familiar with the matter. The company in July combined its money-losing Russian operations with **Yandex NV**'s Yandex.Taxi, the more popular ride-hailing firm that she stands by her prior statement.

Uber is also winding down its U.S. subprime auto-leasing business after realizing losses per vehicle were \$9,000 on average, 18 times what was previously believed, said people familiar with the matter. Uber still had about \$7 billion in cash at the end of the first quarter, these people said, and its revenue totaled over \$3 billion in the three-month period, up 18% from the fourth quarter.

Mutual-fund companies determine the valuations for closely held companies by a

special committee that sits apart from the portfolio managers who buy and sell stocks. To value illiquid shares, such committees typically look to a company's financial information, the value of publicly traded rivals and share prices paid by investors in previous funding rounds.

The mutual-fund firms generally don't discuss individual investments in startups and don't specify reasons for the price changes in their disclosure documents. The fluctuations have frustrated startup chief executives and venture capitalists, many of whom assumed the firms would hold the investments at cost after investing.

At least seven mutual-fund companies own shares in Uber, several of them first buying in during a 2014 funding round at \$15.51 a share. The price has roughly tripled since then through a series of funding rounds, but Uber hasn't raised new capital since last year at the \$48.77 price.

Mutual funds have histori-

cally waited until initial public offerings or later to invest in young companies. In recent years, startups began staying private longer, opting for lucrative fundraising rounds rather than bothering with financial disclosures and securities regulation. Spurred in part by rock-bottom interest rates, mutual funds in 2013 began gobbling up stakes in companies that seemed destined for a public offering.

Most such companies have opted to stay private for now, and a pullback in startup funding has raised questions about overheated valuations. Some companies backed by mutual funds have recently struggled on the public markets, including social-messaging company Snap Inc., whose stock has fallen about 17% from its IPO price, and meal-kit company Blue Apron Inc., whose shares have halved since the public offering. Others have performed strongly, including Redfin Inc., with a 68% jump in share price since their debut.

offers abroad, said Björn Conrad, vice president of the Berlin-based Mercator Institute for China Studies.

But he cautioned that state backing can create market distortions that skew the competition in Chinese investors' favor.

"That's nice for the company that is being acquired—they get a good deal," Mr. Conrad said. "But it's bad for the overall macroeconomic structures."

INVEST

Continued from the prior page

to gather consumer data. "I think we're going to see a lot of concern about ultimate ownership" of such companies, said Ken DeWoskin, a senior adviser for Deloitte's Chinese Services Group.

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In July, The Wall Street Journal reported that the Committee on Foreign Investment in the U.S. hadn't approved the deal by a deadline,

leading Ant to refile its application.

In an op-ed column in the Journal, U.S. Secretary of Commerce Wilbur Ross wrote that "many governments across the globe have pursued policies that put American workers and businesses at a disadvantage," and added, "For these governments, President Trump and his administration have a clear message: It is time to rebalance your trade policies so that they are

fair, free and reciprocal."

TECHNOLOGY

WSJ.com/Tech

Google, Wal-Mart Lift Voices Together

Taking run at Amazon, partnership includes ordering purchases on virtual assistant

BY JACK NICAS
AND LAURA STEVENS

Google and Wal-Mart Stores Inc. are joining forces in a partnership that includes enabling voice-ordered purchases from the retail giant on Google's virtual assistant, challenging rival Amazon.com Inc.'s grip on the next wave of e-commerce.

Wal-Mart said Wednesday that next month it will join Google's online-shopping marketplace, Google Express. While the deal will add hundreds of thousands of Wal-Mart items to Google Express, it will also give Wal-Mart access to voice ordering. The deal won't alter how consumers receive their orders, because Wal-Mart will fulfill purchases made through Google Express.

Consumers will be able to order Wal-Mart goods from the retailer's stores by speaking to Google's virtual assistant, which sits in phones, Google's voice-controlled speakers and soon other devices. Wal-Mart said it will share consumers' purchase history with Google to enable users to quickly reorder items, a primary function of voice-controlled orders for commodity shopping.

"How do you help people who are going to be interacting more and more with devices get their weekly shopping tasks taken care of?" Google Express chief Brian Elliott said in an interview, citing a key reason for the partnership.

The increasing importance of voice shopping suggests Wal-Mart and Google, part of Alphabet Inc., need each other to compete against Amazon.

Voice-controlled ordering is a small but rapidly growing share of online sales, analysts say, and one of the top reasons to use Amazon's virtual assistant Alexa and its Echo speakers.



Wal-Mart is teaming up with online marketplace Google Express.

Google has "made significant investments in natural language processing and artificial intelligence to deliver a powerful voice shopping experience," said Marc Lore, Wal-Mart's head of e-commerce.

Amazon effectively invented voice shopping, which allows users to easily order goods, like toilet paper and diapers, thanks to Amazon's vast data set on customers' past pur-

chases. A key portion of online shopping is made up of consumers reordering the same staples. That is well-adapted to voice ordering because a device can recall the preferred brand, size and type, without requiring shoppers to scan through different product listings.

"When I buy a product that I don't care about, it is actually a pain for me to go to a website and find an item and check

out," said Forrester analyst Brendan Witcher, a former retail executive. "If I can simply say, send me dishwashing soap...and you send it, that's much easier on me as a consumer."

To make voice shopping easier, Wal-Mart said it will allow users to link their Wal-Mart accounts to Google Express, so a Wal-Mart shopper who asks the Google Home for more toothpaste will get the same brand she bought last time.

The Wal-Mart-Google partnership comes as Amazon continues to expand its share of online purchases. In July, Amazon claimed nearly 45 cents out of every dollar spent online, according to receipt tracker Slice Intelligence, up from about 43 cents at the start of the year. Wal-Mart, in comparison, claimed nearly 2 cents of each dollar, holding steady.

Google launched Google Express in 2013 and steadily expanded the service to reach the full contiguous U.S. by late last year. Google enlists third-

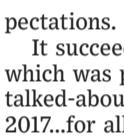
party firms to fulfill orders from a variety of retailers, including Target Corp., Costco Wholesale Corp., Walgreens Boots Alliance Inc., and Whole Foods Market Inc., which Amazon agreed to buy in June for \$13.7 billion. Google Express earns money on commissions from those merchants. Wal-Mart said it would fulfill its Google Express orders itself, a new, likely cheaper model for Google.

Wal-Mart will leverage Google's virtual assistant and Echo competitor, the Google Home, to make its goods available at the sound of a consumer's voice. Google, meanwhile, hopes access to Wal-Mart's inventory will help boost engagement and sales of its assistant and speakers. The partnership will enhance the selection and overall cachet of Google Express, which competes with delivery services such as Instacart Inc. and Uber Technologies Inc.

—Khadeeja Safdar contributed to this article.

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

Galaxy Note 8: Samsung's Big Phone Is Back



Samsung's new Galaxy Note 8 is a Grande-size smartphone with Venti expectations.

It succeeds the Note 7, which was perhaps the most talked-about phone of 2017...for all the wrong reasons. And when the Note 8 arrives in stores Sept. 15, it will go head-to-head against Apple's 10th-anniversary iPhone in what's expected to be the largest-ever season for phone upgrades.

So what is Samsung's strategy for breaking Apple's spell while also making us forget about battery fires? Rather than surprise, the Note 8 mostly just supersizes the things that worked well in this spring's Galaxy S8. Its screen measures 6.3 inches.

The Note 8's standout new feature, a dual-lens camera, will make other Samsung owners jealous, but it only just catches up to Apple.

When I had the chance to try the Note 8 briefly, ahead of its debut, it was clear this is the phone to beat for anyone looking to max out on screen. In a form that is slightly thinner and taller than the iPhone 7 Plus, the Note 8 packs about 20% more screen.

Like the S8, the Note 8 squeezes in more usable screen by slimming the phone's forehead and chin, elongating the display. And its so-called "infinity" screen stays trim on the sides by curving down. That curve has a sharper angle than past Samsung phones, which makes the Note 8 slightly easier to hold.

Side by side, the Note 8 screen looks like a modest boost from the S8+ model, with a 6.2-inch screen, that Samsung introduced in the spring. But it will feel like an Olympic-size swimming pool for anyone still using the two-year-old Note 5 or any iPhone.



From left, a Samsung Galaxy S8, an S8+ and a Note 8 on display last week in New York.

problems that caused fires in last year's model. Independent testing firm UL is publicly vouching for the Note 8 battery, a significant improvement over the just-trust-us approach Samsung took with battery safety in the S8.

The Note 8's dual 12-megapixel camera is the feature most likely to make other Samsung owners jealous. Just as on the iPhone 7 Plus, one lens is for wide angle and the other for 2X zoom. Samsung added optical image stabilization to both its lenses, which it says will produce clearer shots. The iPhone 7 Plus has stabilization only on the default wide-angle lens.

Like the iPhone, the Note 8 can use depth information from the two lenses to take portraits with only the subject in focus. The Note lets you manually adjust how much background blur

NOTE

Continued from page B1

created diagnostics to ensure safe charging currents and duration. Samsung executives made unannounced visits to suppliers' factories. And to incentivize quality, Mr. Koh signed three-year contracts with suppliers instead of annual contracts.

"When we designed the Note 8, we knew we had to get it right," Mr. Koh said.

The crisis required teams across the Samsung mobile division's global workforce of 165,000 people to band together and collaborate more closely during weeks of conference-room meetings, said Tim Baxter, head of North American operations for Samsung Electronics.

"It forced the company to work more closely together," Mr. Baxter said. "The way we got work done changed."

Despite the controversy, Samsung executives say its

brand has largely recovered to prerecall levels. Samsung's brand value rose 23% to \$24 billion in 2017, more than three times the average company's growth over the past year, according to an annual ranking by Kantar Millward Brown's BrandZ, whose metric measures consumer perceptions and financial performance. "Samsung is probably the fastest recovery of all the historical crises I've seen," said Doreen Wang, BrandZ's global head.

Samsung's apparent rebound comes as smartphone sales have inched upward this year, rising 6% in the second quarter from a year earlier, according to Strategy Analytics, a market researcher. Samsung grabbed 22% of total shipments, with Apple and China's Huawei Technologies Co. each recording 11%.

Mr. Koh said the well-reviewed Galaxy S8, and its larger S8+, have reached 20 million shipments since going on sale in April, outpacing sales of its predecessor—the

Galaxy S7, the firm's previous best seller.

The question for Samsung isn't so much whether it can woo back Galaxy Note fans, but rather whether it can attract new users. Samsung has experienced multiyear declines in its U.S. share of the premium market, defined as handsets selling at \$500 wholesale or more.

Three and a half years ago, Samsung had 30% of the U.S. high-end market versus Apple's 60%, according to BayStreet Research LLC, using a 12-month rolling average. But as of June, Samsung had fallen to 22%, while Apple had grown to 73%.

"Samsung cannot change the trajectory of losing users to Apple," said Cliff Maldonado, BayStreet Research's senior analyst, who tracks device sales. "I don't think they ever can turn the tide."

Before rising to become Samsung's mobile chief in late 2015, the 56-year-old Mr. Koh helped develop the original Galaxy Note phone and create

to apply—a feature I've felt was lacking on the iPhone's Portrait Mode. (On the Note 8, you can even adjust it after you take the picture.)

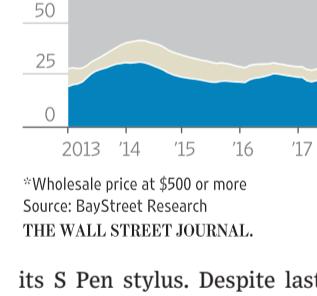
The Note 8, available in presales on Aug. 24, is too big for my taste. I think the Samsung Galaxy S8 offers just the right amount of screen, 5.8 inches, in a slender package. But by offering a supersize line, Samsung retains loyal customers who want choice.

And the Note 8 maintains Samsung's lead on phone design. The new norm for a premium phone in 2017 is a dual-lens camera and a reduced-bezel shape with a huge screen. But there is still room for Apple to impress this fall by fixing the fingerprint reader, addressing battery life—and perhaps identifying something we didn't even know we wanted.

Grapple With Apple

U.S. premium smartphone market share, by phone activations

■ Apple ■ Others ■ Samsung



*Wholesale price at \$500 or more

Source: BayStreet Research

THE WALL STREET JOURNAL.

its S Pen stylus. Despite last year's woes, Samsung executives never seriously considered discontinuing the Galaxy Note or skipping this year's release and waiting for next year, he said.

Internally, Mr. Koh told Samsung employees: "I will not give up on the Note series."

BUSINESS WATCH

LG ELECTRONICS

Company Is Planning U.S. Car-Parts Facility

LG Electronics Inc. said Wednesday that it will spend about \$25 million to build an electric-car parts factory in the Detroit suburb of Hazel Park, Mich., as the company seeks new engines of growth while it reels from losses at its once-lucrative mobile business.

In a written statement, LG said its new U.S. plant will produce battery packs for electric cars. It will expand into other components later.

The company began supplying parts to General Motors Co.'s Chevrolet Bolt EV last year, produced mostly in its South Korea plant. For LG, the Michigan plant will be its first vehicle-components factory in the U.S. The Seoul-based company already

has existing production facilities in five countries, including China, Vietnam and Brazil.

—Eun-Young Jeong

WHOLE FOODS

Shareholders Back Deal With Amazon

Shareholders of Whole Foods Market Inc. approved the natural grocer's takeover by Amazon.com Inc., a key step for the e-commerce giant to seal its biggest play yet in the more than \$700 billion food-retail market.

The \$13.7 billion deal, including debt, was approved by Whole Foods shareholders on Wednesday, the Austin, Texas-based company said. Amazon shareholders don't need to sign off on the transaction.

Amazon and Whole Foods both want to close the deal by year-end. U.S. regulators are still

evaluating it.

The deal is the biggest U.S. retail merger so far this year, and would be the third largest since 1995, according to Dealogic.

Shareholder proxy services Institutional Shareholder Services Inc. and Glass, Lewis & Co. endorsed the merger despite some concerns over a lack of a full sales process. Glass Lewis said increasing competition in the grocery sector and questions surrounding Whole Foods' ability to improve its operations makes the deal beneficial to investors.

—Heather Haddon

BHP

Miner to Replace Two Board Directors

BHP Billiton said it plans to replace two directors amid its months-long tussle with Elliott Management Corp., following

the mining company's decision this week to exit its American shale oil and gas business.

Activist investor Elliott has built a 5% stake in BHP's British shares, and specifically called on BHP to exit from the U.S. shale business. Elliott and others have

called for deeper changes, including adding more industry veterans to the board.

It wasn't clear whether Elliott had a role in the board changes BHP detailed on Wednesday, including the departure of Grant King just six months after his

appointment.

The New York hedge fund declined to comment. BHP stressed the decisions by Mr. King and Malcolm Brinded to step down were their own.

On Wednesday, departing Chairman Jac Nasser said Mr. King had decided not to stand for election at the annual meeting because of concerns expressed by some investors. Mr. Brinded also has opted not to stand for re-election, he said.

In their place, the resource company's board will bring in Terry Bowen, finance director at Australian coal and retailing conglomerate Wesfarmers Ltd., and former BP PLC veteran John Mogford from October.

Mr. Nasser will step down as chairman at the end of the month. Neither Mr. King nor Mr. Brinded were immediately reachable for comment.

—Rob M. Stewart



Amazon and Whole Foods want to close their deal by year-end.

PATRICK T. FALLON/BLOOMBERG NEWS

THE WALL STREET JOURNAL.

FINANCE & MARKETS

Banks Lend Like Rates Won't Rise

By RACHEL LOUISE ENSIGN

After years of waiting for interest rates to rise, some banks are lending as if that day will never come, loading up on a record amount of loans and securities that carry low rates for long periods.

The percentage of bank assets that won't mature or change rates for more than five years reached a high in the second quarter, according to **Federal Deposit Insurance Corp.** data released Tuesday. That means banks are allowing more borrowers to lock in low rates for long periods, a potential risk should rates move sharply higher.

"The interest-rate environment and competitive lending conditions continue to pose challenges for many institutions. Some banks have responded to this environment by 'reaching for yield' through higher-risk and longer-term assets," FDIC Chairman Martin Gruenberg said in remarks accompanying the data.

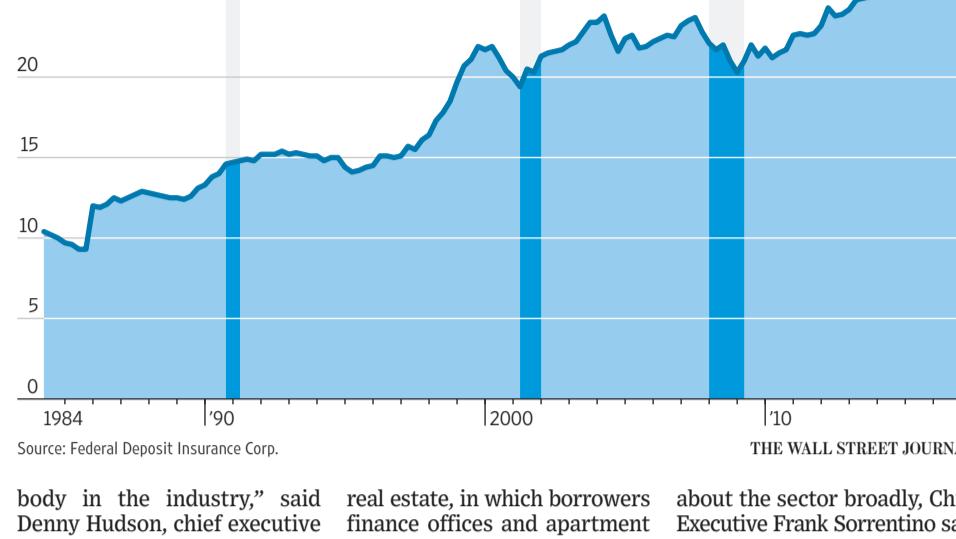
Banks largely make money in two ways: from lending and fees. Midsize and smaller lenders tend to rely more on lending profits than bigger banks that have fee businesses like wealth management. Lending profits typically come from the difference between what banks pay out on deposits and what they earn on loans and securities.

But rock-bottom interest rates following the financial crisis eroded those margins across the industry, leading some banks to lend for longer so they can capture more yield. Increasing their volume of loans also helped them compensate.

"It's a struggle for every-

Going Long

Bank assets with terms greater than five years as a percentage of total assets, quarterly



Source: Federal Deposit Insurance Corp.

body in the industry," said Denny Hudson, chief executive of Stuart, Fla.-based **Seacoast Banking Corp.**, which has \$5.3 billion in assets. He said his firm tried to keep its lending in check, but added there is a downside to being too careful.

"You could be smart all day long waiting for rates to increase, and you'll get killed by investors" rooting for loan growth, Mr. Hudson said.

Regulators and bank investors typically worry about interest-rate risk because banks borrow money at low rates on a short-term basis, usually by taking deposits, and lend it out at higher rates for a longer term. By locking in longer terms for loans at lower rates, banks could face a profit squeeze if they have to raise deposit rates sharply in the future.

An added worry: Much of this lending for longer is in the booming area of commercial

real estate, in which borrowers finance offices and apartment buildings typically with loans that have fixed-rate periods from three to 10 years.

"Every meeting I went to, bankers said, 'We're not going to go past five years'" on commercial real estate, said Scott Hildenbrand, chief balance sheet strategist at **Sandler O'Neill + Partners**. Within a year or so, the bankers were saying, "We're not going to go past 10 years."

Englewood Cliffs, N.J.-based **ConnectOne Bancorp Inc.** has expanded quickly in recent years largely through commercial real-estate lending. These loans made up more than half of the bank's assets at the end of 2016 and most of them were originated in the past three years, the bank said.

Competition for such borrowers was fierce, though it has slowed a bit in recent months after regulators raised concerns

about the sector broadly, Chief Executive Frank Sorrentino said in an interview. While Mr. Sorrentino said his bank, which has \$4.7 billion in assets, has expertise in the sector that serves it well, his firm has recently started to diversify lending.

"There's risk in everything that we do," Mr. Sorrentino said of banking. "That's what we do, take credit risk and interest-rate risk."

Across all banks, the percentage of total assets that are at a fixed rate for more than five years was 27.5% in the second quarter of 2017, its highest since the FDIC started tracking it in 1984.

The metric reached 33.7% in the second quarter at banks with \$1 billion to \$10 billion in assets.

Commercial real-estate loans made up 31.5% of assets at those midsize and smaller banks in the quarter, up from

25.7% in the second quarter of 2012. The figure is far lower at bigger banks, at 6.4%, and has remained steady in recent years.

So far, the reach for yield hasn't proved a problem as long-term rates have remained low, despite the Federal Reserve increasing short-term rates.

The yield on the 10-year Treasury has been around 2.20% of late and hasn't touched the 3% mark since early 2014. At the same time, credit quality of loans has stayed strong.

Indeed, the FDIC said in its report Tuesday that U.S. banks' earnings rose 11% to \$48.3 billion in the second quarter from a year earlier, indicating the sector is continuing its postcrisis recovery. Nearly two-thirds of banks reported their earnings were up from a year earlier.

The FDIC cautioned that the pace of loan growth is waning. U.S. banks had about \$9.4 trillion in net loans and leases in the second quarter. While that was up 4% from a year earlier, the rate of growth is down from a 7% pace in much of 2016.

Problem loans also continued to decline, with banks reporting a 6.7% decrease in loans that were 90 days or more past due in the second quarter compared with a year earlier.

Still, regulators have warned that the increasing share of longer-term and commercial real-estate loans at some banks could be risky. A heavy concentration in commercial real-estate loans could become an issue if credit issues begin to crop up.

—Rachel Witkowsky
contributed to this article.

Portfolio Offered for Muslim Investors

By DAVID GEORGE-COSH

The Toronto-based automated-investment provider **Wealthsimple Financial Inc.** introduced a Sharia-compliant portfolio targeting U.S. and Canadian investors on Wednesday in a move to expand its product offerings in an increasingly crowded robo-adviser market.

Robo-advisers have recently emerged as a popular segment of the market among passive individual investors seeking lower management fees and a reliable return on investment. However, the space has become crowded, with companies such as **Charles Schwab Corp.** and **Bank of America Corp.** launching their own robo-adviser offerings alongside startups such as Wealthfront Inc. and Betterment.

Robo-advisers are likely to report double-digit growth in assets under management in coming years from a base of less than \$100 billion in 2016, according to a report released by Fitch Ratings Inc. last month. The Fitch report cited a recent study by KPMG that estimates robo-advisers' assets under management will total more than \$2 trillion by the end of 2020.

Wealthsimple's Halal Investing portfolio is aimed at setting the company apart from its peers, said Michael Katchen, the company's chief executive and co-founder.

"The Muslim community in North America is extremely large and underserved," Mr. Katchen said.

The new portfolio will track a group of 50 companies traded in the U.S. and Canada that don't generate more than 5% of their revenue from alcohol, tobacco, gambling or pork production, and don't make significant income from interest. Wealthsimple's fees are a flat 0.5% for the first \$100,000 invested and drop to 0.4% on any additional investment.

Mr. Katchen cited the Global Iman Fund managed by **Global Growth Assets Inc.**, with a management fee of 2.82%, as a competitor. Another rival is New York-based **Wahed Invest**, which offers Sharia-compliant investments with management fees ranging from 0.29% to 0.99%.

Privately held Wealthsimple has raised 100 million Canadian dollars (\$79.6 million) over several funding rounds over the past three years led by a subsidiary of the **Power Corporation of Canada Inc.**, a Canadian-based financial-services company.

Real-Estate Deal Points to Robust Demand

By ESTHER FUNG

Stonemont Financial Group, an Atlanta-based real-estate-management firm, is buying a 100-property portfolio of office, industrial and retail holdings across 20 states for \$1.3 billion, saying demand for properties with investment-grade tenants remains strong.

The deal, Stonemont's largest acquisition ever, was fueled in part by debt capital seeking to finance strong real-estate portfolios, the company said Wednesday.

"We were able to hit the debt market at an optimal time, securing very attractive acquisition financing that will ultimately be recapitalized as part of the longer-term strategy of the fund," said Zack Markwell, Stonemont Financial's chief executive and managing principal.

The seller of the portfolio, Chicago-based private-equity real-estate firm **Oak Street Real Estate Capital**, will continue to provide management services to Stonemont.

The acquisition was structured with \$1.1 billion in financing, including \$800 million from floating-rate loans packaged into commercial mortgage-backed securities and two levels of mezzanine financing totaling \$274 million. The remainder was in equity. CBRE Capital Markets' Debt & Structured Finance team secured the financing from J.P. Morgan Chase, with Deutsche Bank and Barclays as co-lenders, said CBRE, which also brokered the transaction.



Stonemont Financial's deal included a MetLife campus in New Jersey.

The portfolio of buildings derives 96% of its net operating income from investment-grade tenants with an average lease of about 12 years. They include six campuses occupied by MetLife Inc., as well as offices occupied by Mylan Technologies Inc. and Ericsson AB,

and stores that have such tenants as Dollar General. The portfolio is 100% occupied.

While financing could be harder to come by for riskier property projects, lenders still favor top-tier assets, especially those judged to be as creditworthy as investment-

rated corporate bonds.

"There's a lot of capital chasing good-quality assets," said James Millon, executive vice president in debt and structured finance at CBRE.

Issuance of commercial mortgage-backed securities amounted to more than \$21.2 billion in the second quarter, doubling the \$10.5 billion recorded in the first quarter, according to real-estate research firm Trepp Inc. The market has been adapting to the new rules implemented late last year that required issuers of commercial mortgage-back securities to keep at least 5% of the bonds they create.

"Overall, the market has gained a better sense of how the process is carried out under risk retention, and new benchmark pricing levels for these deal types are slowly stabilizing," Trepp said in a recent research note.

Metals Plunge in China



Rebar futures fell 4% in Shanghai. Above, workers in Zhengzhou.

stream demand will remain relatively robust in the later half of this year, which could cause a slight supply shortage," Mr. Ye said.

Stronger-than-expected economic growth in China, a weaker U.S. dollar and government-led capacity cuts have buoyed bullish sentiment in metals futures this year. As speculators have swarmed into trading metals, unease has mounted over whether the current boom could be followed by a bust.

"The strong rally in steel and iron-ore prices in recent weeks is vulnerable to an expected moderation in construction sector activity in coming months, together with oversupply conditions for iron ore, with still-high stockpiles of iron ore at Chinese ports," said Rajiv Biswas, the Asia-Pacific

specific chief economist at **IHS Markit**.

"Strong speculative trading in Chinese commodities markets has also contributed to the metals and iron-ore price rally, creating risks of greater price volatility," he added.

In July, China's iron-ore futures jumped 18% while steel rebar gained 15% before a period of correction kicked in following official warnings over irrational speculation. Yet both metals rebounded to year-to-date highs last week as investors bet on shortages later this year.

The CISA said on Aug. 10 that the surge in rebar futures was due to "speculative" behavior that wasn't caused by demand or reductions in supplies of steel.

—Yifan Xie

and Biman Mukherji

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China A-Share Fund A AUD H OT HKG 08/21 AUD 13.53 14.8 12.7 23.6 15.4

China A-Share Fund A AUD M H OT HKG 08/21 AUD 12.32 12.7 11.9 4.4

China A-Share Fund A CAD H OT HKG 08/21 CAD 12.45 14.0 11.4 5.6

China A-Share Fund A EUR H OT HKG 08/21 EUR 13.04 13.5 10.4 5.5

China A-Share Fund A GBP H OT HKG 08/21 GBP 13.04 13.2 10.4 7.0

China A-Share Fund A HKD H OT HKG 08/21 HKD 13.26 13.7 11.9 19.1

China A-Share Fund A NZD H OT HKG 08/21 NZD 13.72 13.0 11.1 5.6

China A-Share Fund A SGD H OT HKG 08/21 SGD 13.72 23.0 15.9 3

China A-Share Fund A USD H OT HKG 08/21 USD 13.23 14.9 13.1 7.3

China A-Share Fund C A NZD H OT HKG 08/21 NZD 11.74 17.9 15.9 4.0

China A-Share Fund C A GBP H OT HKG 08/21 GBP 14.64 16.7 15.2 9.5

China A-Share Fund C A USD H OT HKG 08/21 USD 13.59 22.1 15.0 7.8

China A-Share Fund C A USD M H OT HKG 08/21 USD 13.26 14.1 11.8 6.1

China Greenchip-A Units AS EQ CYM 08/21 HKD 14.66 27.1 22.1 11.2

China Greenchip-A Units AUD H AS EQ CYM 08/21 AUD 10.97 27.7 23.0 11.8

China Greenchip-A Units CAD H AS EQ CYM 08/21 CAD 10.68 27.8 22.5 10.9

China Greenchip-A Units NZD H AS EQ CYM 08/21 NZD 11.24 27.4 23.1 12.3

China Greenchip-A Units SGD H AS EQ CYM 08/21 SGD 10.68 26.6 21.7 10.9

China Greenchip-A Units USD H AS EQ CYM 08/21 USD 11.65 26.8 21.8 11.0

GC HI Yield Inc-C1s A MDLS GBP H OT CYM 08/21 GBP 9.60 6.0 9.4 11.5

GC HI Yield Inc-C1s A MDLS CAD H OT CYM 08/21 CAD 9.19 7.2 11.2 13.5

GC HI Yield Inc-C1s A MDLS CAD M H OT CYM 08/21 CAD 9.26 6.5 10.1 12.0

GC HI Yield Inc-C1s A MDLS H OT CYM 08/21 H 9.55 7.8 11.1 14.1

GC HI Yield Inc-C1s A MDLS M H OT CYM 08/21 M 10.26 7.9 11.7 13.0



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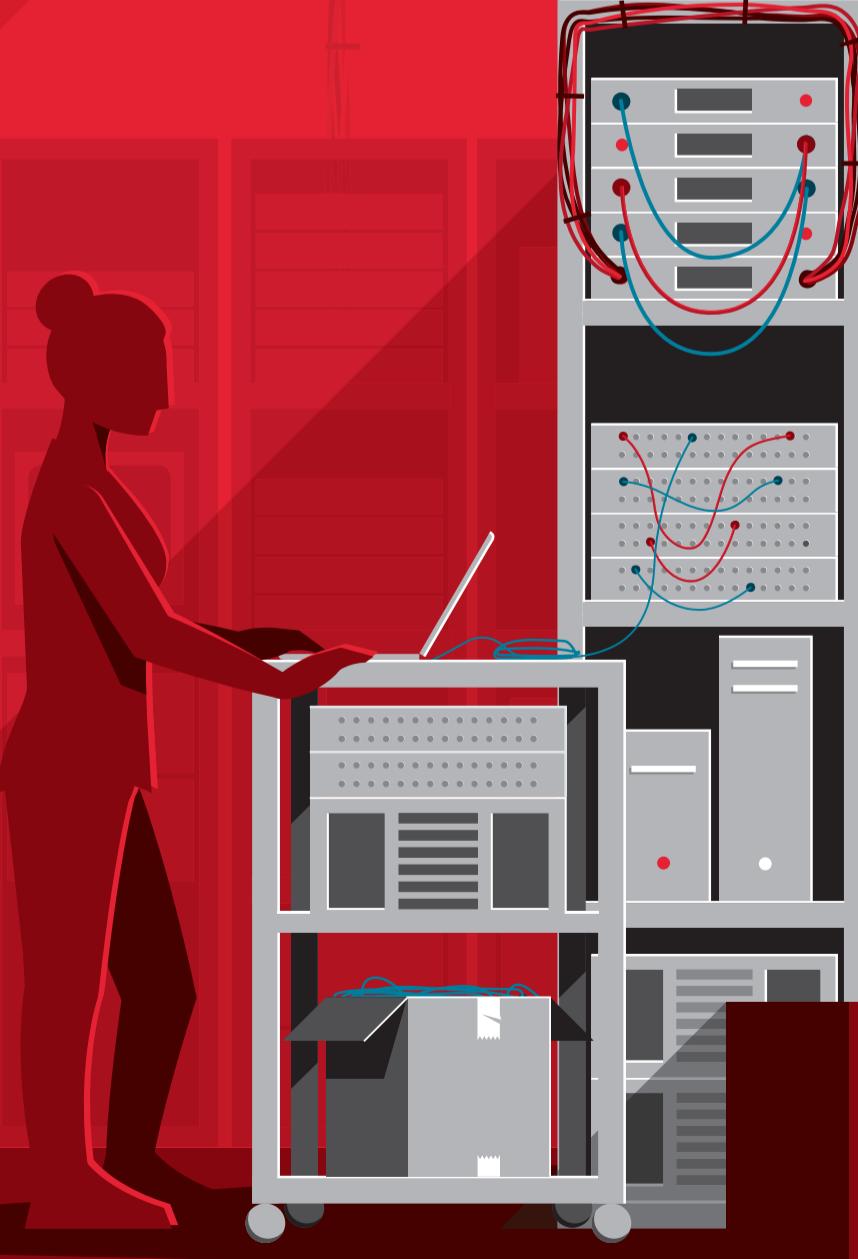
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MARKETS DIGEST

Nikkei 225 Index

19436.64 ▲ 50.80, or 0.26%

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

373.92 ▼ 1.88, or 0.50%

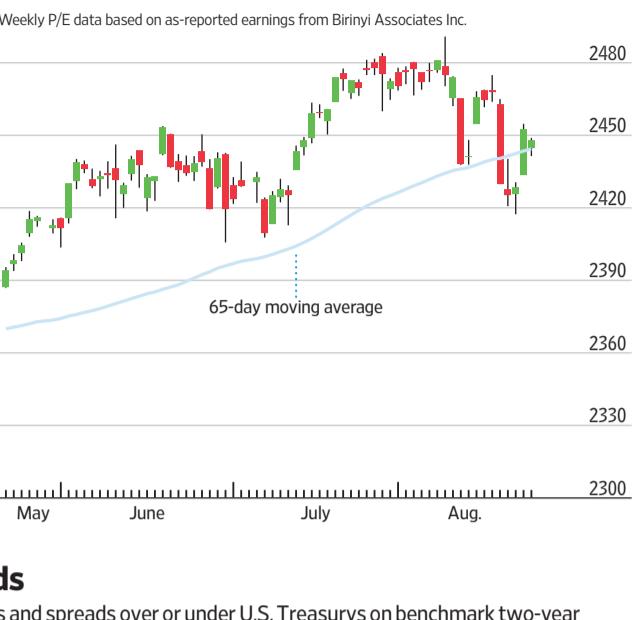
High, low, open and close for each trading day of the past three months.



S&P 500 Index

2447.89 ▼ 4.62, or 0.19%

High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

Last ▲ 23.49

Year ago 24.85

Trailing P/E ratio 23.49

P/E estimate * 18.69

Dividend yield 2.00

All-time high 2480.91, 08/07/17

International Stock Indexes

Region/Country	Index	Data as of 12 p.m. New York time					
		Close	Net Chg	% chg	52-Week Range	YTD High	% chg
World	The Global Dow	2823.73	-1.71	-0.06	2386.93	2881.15	11.7
	MSCI EAFE	1919.69	-1.01	-0.05	1614.17	1955.39	11.9
	MSCI EM USD	1075.45	2.93	0.27	838.96	1078.53	35.4
Americas	DJ Americas	589.25	-0.67	-0.11	503.44	599.20	9.0
Brazil	Sao Paulo Bovespa	70274.43	263.18	0.38	56459.11	70485.43	16.7
Canada	S&P/TSX Comp	15074.84	89.88	0.60	14319.11	15943.09	-1.4
Mexico	IPC All-Share	51222.82	-110.16	-0.21	43998.98	51772.37	12.2
Chile	Santiago IPSA	3883.49	-2.47	-0.06	3120.87	3908.55	20.5
U.S.	DJIA	21852.65	-47.24	-0.22	17883.56	22179.11	10.6
	Nasdaq Composite	6286.45	-11.03	-0.18	5034.41	6460.84	16.8
	S&P 500	2447.89	-4.62	-0.19	2083.79	2490.87	9.3
	CBOE Volatility	11.68	0.33	2.91	8.84	23.01	-16.8
EMEA	Stoxx Europe 600	373.92	-1.88	-0.50	328.80	396.45	3.5
	Stoxx Europe 50	3040.09	-14.52	-0.48	2720.66	3279.71	1.0
France	CAC 40	5115.39	-16.47	-0.32	4310.88	5442.10	5.2
Germany	DAX	12174.30	-55.04	-0.45	10174.92	12951.54	6.0
Greece	ATG	829.16	-3.62	-0.43	548.72	859.78	28.8
Israel	Tel Aviv	1395.75	-11.30	-0.80	1346.71	1490.23	-5.1
Italy	FTSE MIB	21620.28	-109.20	-0.50	15923.11	22065.42	12.4
Netherlands	AEX	519.36	-2.51	-0.48	436.28	537.84	7.5
Russia	RTS Index	1044.96	5.52	0.53	944.88	1196.99	-9.3
Spain	IBEX 35	10338.10	-71.70	-0.69	8509.80	11184.40	10.5
Switzerland	Swiss Market	8958.49	-5.34	-0.06	7585.56	9198.45	9.0
South Africa	Johannesburg All Share	56162.30	128.34	0.23	48935.90	56396.24	10.9
Turkey	BIST 100	108952.73	358.28	0.33	71792.96	110321.81	39.4
U.K.	FTSE 100	7382.65	0.91	0.01	6654.48	7598.99	3.4

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 12 p.m. ET

Country/Coupon	Maturity, in years	Yield	12 p.m. New York time			
			Latest	Spread Over Treasury, in basis points	Previous	Year ago
2.750	Australia 2	1.854	54.1	50.1	50.7	68.0
2.750	10	2.683	49.5	44.0	46.8	31.0
3.000	Belgium 2	-0.564	-187.7	-189.3	-183.7	-130.1
0.800	10	0.687	-150.1	-150.3	-146.0	-142.1
0.000	France 2	-0.508	-182.1	-182.2	-173.5	-130.9
1.000	10	0.684	-150.3	-151.1	-149.2	-141.0
0.000	Germany 2	-0.726	-204.0	-204.7	-197.8	-136.6
0.500	10	0.377	-181.1	-181.1	-173.3	-164.2
0.050	Italy 2	-0.020	-133.3	-136.7	-134.8	-82.5
2.200	10	2.118	-7.0	-11.8	-16.2	-41.3
0.100	Japan 2	-0.130	-144.3	-146.5	-145.5	-94.7
0.100	10	0.036	-215.2	-217.4	-216.8	-163.9
4.000	Netherlands 2	-0.667	-198.0	-199.5	-197.7	-133.0
0.750	10	0.507	-168.1	-168.5	-161.4	-152.2
4.750	Portugal 2	0.004	-130.9	-133.2	-127.5	-26.7
4.125	10	2.788	60.0	53.7	66.2	145.7
2.750	Spain 2	-0.362	-167.5	-168.3	-164.5	-93.8
1.450	10	1.564	-62.3	-76.2	-78.3	-59.8
4.250	Sweden 2	-0.672	-198.5	-200.0	-205.4	-138.6
1.000	10	0.624	-156.4	-158.5	-161.9	-145.6
1.750	U.K. 2	0.190	-112.3	-111.5	-107.9	-61.2
4.250	10	1.060	-112.8	-112.6	-106.3	-100.2
1.375	U.S. 2	1.313	1.334
2.250	10	2.188	2.214

Commodities

Prices of futures contracts with the most open interest

Commodity	Exchange	Last price	Net	One-Day Change		Year high	Year low
				Percentage	Year-to-Date		
Corn (cents/bu)	CBOT	358.25	-1.75	-0.49	417.25	357.50	
Soybeans (cents/bu)	CBOT	936.00	-1.50	-0.16	1,047.00	907.00	
Wheat (cents/bu)	CBOT	432.75	3.75	0.87	592.25	428.00	
Live cattle (cents/lb)	CME	107.150	-0.575	-0.53	122.850	99.125	
Cocoa (\$/ton)	ICE						

FINANCE & MARKETS

Treasury Prices Rise After Trump's Speech

By AKANE OTANI

CREDIT MARKETS U.S. government-bond prices rose, as combative rhetoric from the White House pressured stocks while stoking demand for assets seen as safer stores of value.

The yield on the 10-year Treasury note was at 2.188% midday Wednesday, compared with 2.215% Tuesday. Yields fall as bond prices rise.

Stocks fell, while assets viewed by investors as havens like government bonds and gold climbed, after President Donald Trump said Tuesday evening that he would shut down the government if necessary to secure funding to build a wall along the southwest border.

Speaking at his first rally after a violent white supremacists protest in Charlottesville, Va., Mr. Trump attacked his Republican colleagues for their failure to repeal and replace the Affordable Care Act and said he might terminate the North American Free Trade Agreement. "The rhetoric and belligerence out of Washington is a gift that keeps on giving" to the bond market, said Bryce Doty, a senior portfolio manager at Sit Investment As-

Downbeat Earnings Hurt Stocks

BY RIVA GOLD
AND AMRITH RAMKUMAR

Disappointing earnings and political turbulence put renewed pressure on U.S. stocks Wednesday.

The Dow Jones Industrial Average fell 48 points, or 0.2%, to 21852 after its largest one-day advance since April,

WEDNESDAY'S MARKETS and the S&P 500 shed 0.2% around

midday. The Nasdaq Composite declined 0.3% following the tech-heavy index's best session since late June.

Company reports drove some of the day's biggest moves in individual stocks.

Lowe's was among the worst performers in the S&P 500, falling 6.3% around midday after the home-improvement retailer posted earnings that fell below analysts' expectations and lowered its outlook for the year. **Home Depot** shares



PATRICK T. FALLON/BLOOMBERG NEWS

Lowe's sank after its earnings fell below analysts' expectations.

fell 1.3%, slicing roughly 14 points off the Dow industrials. The company, which raised its outlook for the second time this year in mid-August, was on track for its eighth move of at least 1% this month, the most since November.

Coty was an S&P 500 laggard for a second consecutive day after reporting weak beauty sales in the most re-

cent quarter. Shares fell 5.7%.

Some analysts and investors said Mr. Trump's threat to shut down the government to secure funding for a wall on the southwest border contributed to Wednesday's declines.

Some also cited a quiet period with few economic data releases as partially responsible for recent market jitters. The Dow jumped nearly 200 points

on Tuesday as shares rebounded from a recent dip.

The Mexican peso, among the year's best-performing currencies, dropped 0.3% against the U.S. dollar after Mr. Trump's comments, while gold climbed 0.1% at midday as assets seen as safer stores of value found favor.

Government bonds rose, with the yield on the 10-year U.S. Treasury note falling to 2.183% at midday, according to Tradeweb, from 2.215% Tuesday. Yields fall as prices rise.

Elsewhere, the Stoxx Europe 600 edged down 0.5%.

In Asia, Japan's Nikkei Stock Average jumped from its lowest close in months but pared gains to 0.3% as the yen rose against the dollar.

The Shanghai Composite Index declined less than 0.1%, with steel and precious-metals stocks the biggest decliners. Trading in Hong Kong was halted as Typhoon Hato passed by the city.

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GOVERNMENT OF MAHARASHTRA PUBLIC WORKS REGION NASHIK PUBLIC WORKS DIVISION (East) NASHIK E-TENDER NOTICE NO.04 for 2017 -2018 (Online)

The Public Works Department, Government of Maharashtra, The Principle Secretary, Public Works Department (the "Authority") represented by the Executive Engineer, P.W. Division, (East) Nashik is engaged in the development of highways and as part of this endeavor, the Authority has decided to undertake development and operation/ maintenance of the single Project (the "Project") on [Design, Build, Operate and Transfer (the "DBOT")] Hybrid Annuity basis, and has decided to carry out the bidding process for selection of a private entity as the Bidder to whom the project may be awarded.

Sr. No.	State	Dist.	Pack ages	Project	Project Length in (km)	Project Cost	Earnest Money/ Bid Security	Duration of the Project	Cost of Tender Fee Document
1)	Maharashtra	Nashik	NSK-41	A) 2-Lane with Paved Shoulder of Improvement to Niphad Khadak Malegaon Bhoyegaon Ganur Chawdaw Road MDR-64 Km 0/00 to 35/0/50 Tal Chandwad/ Niphad Dist Nashik (30.050) B) 2-Lane with Paved Shoulder of Improvement to Road in Industrial Sector, Dist Nashik (Malegaon, Ajang, Kashli, Yeola (6.500)	36.55 km	81,65,38,686 Crore	81,65,387 Crore	18 months	50,000/- Online payment through NEFT/ RTGS

E-TENDER SCHEDULE

Sr. No.	Event Description	Start Time & Date
1.	Invitation of RFP(NIT)	Dt.14.8.2017 at 10.00 am. to Dt. 23.10.2017 at 18.00 pm
2. A	(Download period of online tender)	Dt. 23.10.2017 at 18.00 pm
2. B	Last date for receiving queries for pre-bid No.1	Dt. 7.9.2017 upto 10.30 am
2. C	Pre-Bid meeting 1	Online or in the office of the Chief Engineer, Public Works Region, Nashik on or before Dt. 7.9.2017 up to 11.00 am.
3. A	Last date for receiving queries for pre-bid -2	Dt. 13.09.2017
3. B	Pre-Bid Meeting 2	28/9/2017 upto 10.00 am
3. C	Authority response to queries for Pre-Bid Meeting 2.	Online or in the office of the Chief Engineer, Public Works Region, Nashik on or before Dt.28.09.2017 up to 11.00 am
4.	Bid due Date (submit Hash to create online tender by bidder) (Technical and financial Bid Last Date and time)	Dt.06/10/2017
5.	Physical submission of Bid Security/POA etc (as per clause 2.11.2 of RFP)	Dt. 27/10/2017 till 17.00 pm
6.	Opening of Technical Bids	Till 11.00 am on 27/10/2017 in the office of Superintending Engineer, Public Works Circle, Nashik

Note:-

1. The payment towards the cost of Tender forms will be done online only through RTGS / NEFT. It should be noted that one should complete these activities at least one day in advance.
2. All eligible/interested Bidders who want to participate in tendering process should compulsorily get enrolled on e-tendering portal "<http://mahatenders.in>".
3. Contact below for difficulties in online submission of tenders:-NIC-Toll Free Ph.No.1800 3072232
4. Bid submitted through any other mode shall not be entertained. However, Bid Security, proof of online payment of cost of bid document. Power of Attorney and joint bidding agreement etc. as specified in Clause 2.11.2 of the RFP shall be submitted physically by the Bidder on or Before Dt.27/10/2017 upto 11.00 am.
5. Other terms and conditions are detailed in online e-tender form. Right to reject any or all online bids of work, without assigning any reasons thereof, is reserved with department.
6. Short Tender Notice is displayed on P.W.D. website www.mahapwd.com.

Executive Engineer, Public Works Division (East) Nashik
Contractor No.of Corrections Executive Engineer
D.G.I.P.R. 2017/2018/2387

BUSINESS OPPORTUNITY

GOVERNMENT OF MAHARASHTRA Office of the Executive Engineer, PUBLIC WORKS DIVISION No. 2, Nagpur

E-mail : div2nagpur.ee@mahapwd.com Tel. No. 0712-2565048

E-TENDER NOTICE NO.03 / 2017 -2018

Online E-tenders in 'R.F.P. (Turn Key Basis) are invited by Executive Engineer, Puplic Workks Division No.2, "Bandhkan Sankul" Civil Lines, Nagpur for the following works from the Eligible who satisfies the qualifying criteria. The tender documents should be downloaded from the Government website <http://mahatenders.gov.in> The competent authority reserve the right or reject any or all the tenders. Conditional tenders will not be accepted.

Sr. No.	Name of Work	Estimated Cost Lakh (Rupees Crore)
1)	RFP for Nagpur Package No. 68: (1) Improvement to S.H.346 to Patansawangi Bharatwada Fetari Hingna road Km. 0/00 to 32/00 (2) Improvement to Hingna Kanholibara Bibi Chowki Junagad (Jungli) Kelzai road to N.H. 369 to join road Km. 0/00 to 31/00 S.H.344 (37/650 to 68/650) 31/00 to 32/380 MDR-27 (0/00 to 1/380) 32/380 to 38/380 MDR-14 Km (24/200 to 30/200) (3) Improvement to Narkhed Ghubadmet Zilpa Saoner Patansawangi road Km. 0/00 to 34/00 S.H.335 (4) improvement to road in Nagpur District to join Tourism plane (Pench Sillar) (5) Construction of Nagpur City Ambazari road MDR. 53(2) Km. 0/00 3/800 Concrete road (To join Tourism road). (6) Construction of Concrete road in Nagpur City Ambazari Futala road MDR. 53(4) Km. 0/00 to 3/600 (To join Tourism road) in the State of Maharashtra under MRIP on Hybrid Annuity Mode.	278.60 Crore
2.	EMD / Bid Security	Rs. 2.79 Crore (Online Payment through NEFT / RTGS)
3.	Cost of Tender Form	Rs. 50,000/- (Online Payment through NEFT / RTGS)
4.	Tender Download	From Dt.16.08.2017 to Dt. 18.10.2017 upto 17.30 hrs.
5.	Tender Pre-Bid Meeting	For works Sr. No. 01 on Dt. 08.09.2017 16.00 Hrs. at Chief Engineer, Public Works Region, Civil Lines, Nagpur
6.	Physical submission of Hard Copy & Document of Tender	At any place within 72 hours after Bid online Bid lock. 1) Public Works Department (Pvt.) Mantralaya, Mumbai-32. 2) Chief Engineer, P.W. Region, Bunglow No.39/1 Office. Ladies Club, Civil Lines, Nagpur 3) Superintending Engineer, P.W. Circle, Civil Lines, Nagpur 4) Executive Engineer, P.W. Dn. No.1 Nagpur 5) Executive Engineer, P.W. Dn. No. 2 Nagpur
7.	E-Tender Opening	For works Sr. No. 01 Office of the Superintending Engineer, Public Works Circle, Nagpur Dt. 26.10.2017 to Dt. 27.10.2017 upto 17.30 Hrs. (As per Schedule)

All information of e-tendering is available on the following website / Notice Board.

Terms & Conditions :-

1. <https://mahatenders.gov.in>

2. <https://mahapwd.com> (if there s any changes in the notice, then the information will be communicated on the above website)

3. Executive Engineer, Public Works Division No.2, Nagpur Office Notice Board.

4. For any correspondence contact. Above mention e-mail & Telephone No.

Notice :-

1) All eligible / interested Contractor are downloading and mandated to get enrolled on e-tendering portal <https://mahatenders.gov.in> in and further need to empanelled online on sub portal <https://mahatenders.gov.in> in the appropriate bidder applicable to them.

2) Bidders are requested to contact on following telephone numbers for any doubts / information / difficulty regarding online enrollment or obtaining digital certificate. Help Desk Number – 0120-4200462, 0120-4001002.

3) Tender Document Fee and EMD. is to be paid via Online E-payment Gateway mode only.

EMD. Exemption Certificate shall not be considered. The information of E-payment Gateway is available on E-tendering website <https://mahatenders.gov.in>.

Outward No. 3831 / Tender / Dt. 5/8/2017

D.G.I.P.R. 2017/2018/2385 Executive Engineer, Public Works Division No. 2, Nagpur

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GOVERNMENT OF MAHARASHTRA PUBLIC WORKS REGION, PUNE

PUBLIC WORKS CIRCLE, SOLAPUR

Public Works Division, Akliuj

NOTICE FOR Hybrid Annuity (Online)Tender

E-TENDER NOTICE NO.8 FOR 2017-18

The Public Works Department, Government of Maharashtra, represented by the Executive Engineer, Public Works Division, Akliuj (the "Authority") is engaged in the development of highways and as part of this endeavor, the Authority has decided to undertake development and operation / maintenance of the project (the "Project") on Hybrid Annuity Basis, and has decided to carry out the bidding process for selection of a private entity as the bidder to whom the Project may be awarded.

Brief particulars of the Project are as follows:

Sr. No.	State	Dist.	Pack ages	Project	Project Length in (km)	Project Cost	Earnest Money/ Bid Security	Duration of the Project	Cost of Tender Fee Document
1)	Maharashtra	Solapur	PN - 13	PN - 13(A) Improvements to Barshi Solapur Road SH 204 KM. 0/00 to 64/800 Dist. Solapur on Hybrid Annuity Basis PN - 13(A) Improvements to Sidhtek Bambora Rasin Karmala Barshi Road SH 68 Km 137/ 260 to 187/940 and 208/160 to 250/600 Dist. Solapur on Hybrid Annuity Basis.	1				

MARKETS

The Case for Buying Venezuelan Debt

BY CHRISTOPHER WHITTALL
AND GEORGI KANTCHEV

Last month, Venezuelan bond prices tumbled when President Nicolás Maduro won a vote that his opponents said would pave the way to dictatorship.

But one large holder of Venezuelan debt, **Ashmore Group PLC**, thinks investors came to the wrong conclusion.

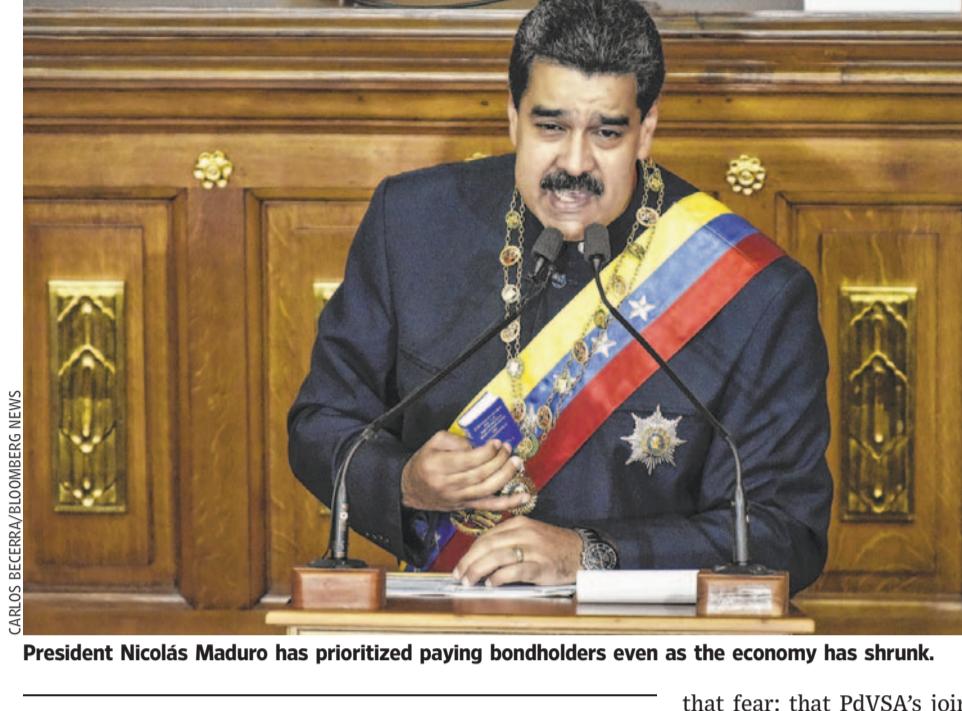
Mr. Maduro's political power "has just increased dramatically," said Jan Dehn, head of research at the emerging-market fund, which has \$56 billion under management. The July vote, which was widely seen as fraudulent, convened a powerful new assembly aligned with Mr. Maduro that will be able to override other institutions and redraft the constitution.

Mr. Maduro's administration has prioritized paying bondholders, even as the economy has shrunk, sparking unrest and food shortages. As long as he retains a tight grip on power, that is unlikely to change, Mr. Dehn believes.

Mr. Dehn's response underscores how some big international investors remain intent on staying invested in Venezuelan debt, even as the country is buffeted by internal strife, a lower oil price and U.S. criticism. The Wall Street Journal reported late Tuesday that Washington is considering temporarily banning U.S.-regulated financial institutions from buying and selling dollar-denominated bonds issued by the Republic of Venezuela and state oil company **Petróleos de Venezuela SA**, or PdVSA.

The bonds moved slightly lower on Wednesday following the news. Mr. Dehn said the report didn't change his view on Venezuelan debt and that Ashmore will comply if the law changes.

Mr. Maduro's political strength is one of three factors that should mean the country "can continue to ser-



President Nicolás Maduro has prioritized paying bondholders even as the economy has shrunk.

High Returns

Cumulative total return on Venezuelan bonds*



*Bloomberg Barclays Emerging Markets USD Aggregate Venezuela bond index.
Through Tuesday.
Source: FactSet

THE WALL STREET JOURNAL.

vice the debt indefinitely," he said. The other two are that oil remains above \$40 a barrel and that PdVSA retains access to working capital.

Many Venezuelan bonds have rebounded since the vote, though they still trade at distressed levels.

For roughly three years, Caracas has defied predictions that it will default on its external debt.

Mr. Dehn's response under-

scores how some big international investors remain intent on staying invested in Venezuelan debt, even as the country is buffeted by internal strife, a lower oil price and U.S. criticism. The Wall Street Journal reported late Tuesday that Washington is considering temporarily banning U.S.-regulated financial institutions from buying and selling dollar-denominated bonds issued by the Republic of Venezuela and state oil company **Petróleos de Venezuela SA**, or PdVSA.

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Mr. Maduro's political strength is one of three factors that should mean the country "can continue to ser-

that fear: that PdVSA's joint-venture partners, such as Russia's Rosneft, would pull lines of credit if the country defaulted. That would starve PdVSA of working capital and prevent it from producing oil.

"If he stops [servicing the debt]...oil production will stop. The government will fall," said Mr. Dehn.

The Venezuelan government didn't respond to a request for comment.

Of course, there are many analysts who believe that Venezuela will default. And that is also because of oil.

"The oil industry is under enormous pressure," said Hema Croft, head of commodity strategy at RBC Capital Markets. Ms. Croft believes that by autumn, the state-owned company could be faced with either a default on its debt or the need to stop salary payments.

In the past two years, production at PdVSA has fallen by nearly a fifth as a cash crunch saps investments, according to the International Energy Agency, which monitors the oil market.

U.S. Weighs Curbs On Trading Bonds

WASHINGTON—The U.S. government is considering restricting trades in Venezuelan debt as it seeks to punish President Nicolás Maduro for undermining the country's democracy, according to people familiar with the matter.

The move would temporarily ban U.S.-regulated financial institutions from buying and selling dollar-denominated bonds issued by the Republic of Venezuela and state oil company **Petróleos de Venezuela SA**, according to a person who was briefed on the proposal.

Another person familiar with the matter cautioned that the measure was one of several steps under consideration. The person said the final decision would rest with President Donald Trump.

One option being considered is banning the trading in just some securities issued by the state oil company to limit its access to external funds, said a third person.

The ban would be the first step against the Venezuelan financial system since Mr. Trump promised "swift economic action" against Mr. Maduro for installing a parallel parliament staffed with loyalists earlier this month.

Until now, U.S. sanctions have targeted dozens of Venezuelan officials, banning them from traveling to the U.S. and freezing any assets in the country for alleged human-rights abuses and corruption.

On Wednesday, Vice President Michael Pence was scheduled to speak to Venezuelan expatriates in Miami.

The ban is designed to damage Mr. Maduro's support among military officers and government contractors who hold Venezuelan bonds, without immediately hurting the wider population, said the person briefed on the matter.

Mr. Maduro's government has continued making bond payments even as the country is undergoing a severe recession, rewarding risk-tolerant investors with the world's highest yields. Many major U.S. fund managers rely on Venezuelan debt for growth at a time when some rich countries offer negative interest rates on their bonds.

The Venezuelan government has about \$65 billion of outstanding debt, which is among the most frequently traded in the emerging markets.

Mr. Maduro has prioritized international debt payments at all costs, even as the country sank deeper into an economic crisis and his government has cut back on imports of food and medicine.

return of 28% over the past two years, according to FactSet.

But the investment has also proven controversial for some, given accusations of human-rights abuses in Venezuela.

Mr. Dehn said he didn't condone the actions of the Venezuelan government and that Ashmore bought bonds on the secondary market. That means the fund manager isn't lending fresh money to the regime, he said.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

Price Just Isn't Right for Home Builders

Building homes is a good business, just not nearly as good a business as investors think it is.

S&P Dow Jones Indices'

broad index of home-building shares has risen 31% this year through Tuesday versus a gain of 9.5% for the S&P 500. Among the factors behind the rally: On a price-to-book basis, the shares of many home builders looked relatively cheap at the start of the year. Mortgage rates also were edging lower. Finally, home builders were seen as a major beneficiary of any corporate-tax cut because, as domestically focused companies, their rates tend to be high.

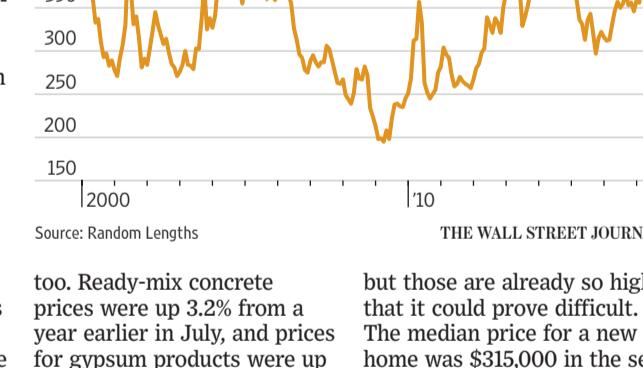
But the rally has taken valuations into rarefied air. Meanwhile, home builders are facing rising costs that, low rates or not, they will find difficult to pass on to home buyers. As investors wake up to that, the prices of their shares and those of exchange-traded funds such as the iShares U.S. Home Construc-

tion ETF could drop significantly.

Finding workers is a prob-

Wood Woes

Composite framing lumber prices, per thousand board feet



Source: Random Lengths

July \$415

THE WALL STREET JOURNAL.

too. Ready-mix concrete prices were up 3.2% from a year earlier in July, and prices for gypsum products were up 9.9%. Prices for lumber, which represent about one-tenth of builders' costs, have risen sharply after tariffs were placed on Canadian softwood lumber imports.

To preserve profit margins, builders could raise prices,

but those are already so high that it could prove difficult. The median price for a new home was \$315,000 in the second quarter, according to the Commerce Department, which compared with \$236,000 five years earlier. The NAHB's measure of new-home affordability, which is based on prices, family income data and mortgage rates, has fallen

to its lowest level since 2007. If mortgage rates rebound, then new home prices will be even further out of reach for many buyers.

Meanwhile, stock valuations have steepened. Among the top 10 home builders by market capitalization, the median price-to-book ratio, based on analysts' expected book value over the next year, is 1.2, compared with 1.06 at the start of the year, according to FactSet.

And, on a price/earnings basis, the group looks downright expensive. Among those 10 top home builders, nine were publicly traded during the housing bubble. Their median P/E ratio, based on analysts' expected earnings over the next year, is 11.3. In July 2005, when home-builder stocks reached their peak, that P/E was 8.5. It wouldn't take much—a move higher in interest rates, say, or the dream of lower taxes going away—for them to get nailed.

—Justin Lahart

OVERHEARD

What will **Warren Buffett** do for an Oncor?

Berkshire Hathaway has about \$100 billion burning a hole in its pocket but decided not to get into a bidding war for **Oncor Electric Delivery Co.** after **Sempra Energy** swooped in with a higher price.

Being the world's most successful investor doesn't make you immune to second-guessing. Coming on the heels of a soured alliance between food giant **Kraft Heinz**, which would have been backed by Berkshire, and consumer-goods company **Unilever**, phrases like "deal-making flop" are being used.

Only time will tell if he made the right decision, but it is a bit rich to call not spending cash a failure in connection with Oncor, which emerged from the biggest leveraged buyout bust of all time. Bought in 2007 with lots of debt by KKR, Goldman Sachs and TPG, it went bankrupt in 2014. Now that's a flop.

The Makers of Chip Gear Look Cheap

Chipped In

Operating income per calendar quarter*

\$10 billion

2010 '11 '12 '13 '14 '15 '16

Note: *Applied's fiscal quarter ends one month later. Source: S&P Capital IQ

THE WALL STREET JOURNAL.

1.0

0.5

0.0

But thanks to their rapidly expanding bottom lines, both stocks now look cheaper despite their gains.

That should help soothe investors who might be nervous about a downturn on the horizon. Chip-manufacturing gear is a cyclical business, but the industry is benefiting from an especially sustained uptick in demand for memory and processors.

China is also working to build up a domestic semiconductor industry and has several new fabrication plants under construction.

Those fabs will require production equipment well into the next year, which should chip in a little more growth to the sector's already strong run.

—Dan Gallagher

Clouds Are Parting for Europe This Year

As soon as the outlook improves in Europe, the worries start. The latest cloud on the horizon has been the rising euro, which has caused some jitters about the growth and inflation outlook, and may yet create a headache for the European Central Bank. But the eurozone of 2017 appears to be proving a resilient place.

The latest sign of that is the preliminary IHS Markit Purchasing Managers Index for August. Economists had expected a small decline, but the surveys Wednesday showed a small increase from already-respectable levels. The eurozone composite PMI came in at 55.8, versus a forecast reported by Fact

Set of 55.6, and well above the 50 level that separates expansion from contraction.

And there was little sign of any impact from a stronger euro in the data. Manufacturing was a source of strength: The German manufacturing PMI rose to 59.4 from 58.1 in July, and its French peer hit its highest level since 2011. IHS Markit reported goods producers were securing new export orders at the fastest pace in 6½ years. Moreover, domestic demand has become a more important source of eurozone growth as the recovery has progressed: Exports matter but aren't the linchpin.

Overall, the PMIs are consistent with growth

running at 2.5% annually, J.P. Morgan economists said. That is well above estimates of potential.

Importantly, eurozone data is still beating expectations, even after economists have become more optimistic. Citigroup's Economic Surprise Index for the eurozone has fallen from its highs earlier this year but has been in positive territory since the end of September 2016, in sharp contrast to the steep plunge in its U.S. peer this year.

The eurozone has suffered plenty of economic false starts in recent years. Increasingly, 2017 looks like the year it got its groove back.

—Richard Barley