THE WALL STREET JOURNAL.

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What's News

Business & Finance

The eurozone economy quickened last quarter, raising expectations that the ECB will begin to phase out stimulus in 2018. **A1**

◆ **Apple posted** its second-best quarterly revenue ever on re-energized iPad and Mac sales and steady iPhone sales. Profit climbed 12%. **A1**

◆ **BP said** it can now break even with oil at $47 a barrel, as the company swung to a quarterly profit. **B1**

◆ **Snap and Blue Apron** are trading well below their IPO prices, stoking doubt among investors about private firms' valuations. **B1**

◆ **GM completed** the sale of Opel to Peugeot, the most significant move yet by the auto maker to shed unprofitable operations. **B1**

◆ **Auto sales fell sharply** last month amid a slump in lease deals that have kept payments low. **B2**

◆ **A former Fiat executive** pleaded not guilty of making illegal payments to auto union officials. **B2**

◆ **Sprint said** it would decide soon on whether to pursue a merger with either T-Mobile or Charter. **B3**

◆ **Sony reported** sharply higher profit, helped by sales of image sensors for smartphone cameras. **B4**

◆ **The U.S. bank regulator** is taking a first step toward changing the Volcker rule banning certain trading. **B6**

◆ **The U.K. could lose** up to 17,000 investment-banking jobs to Brexit, a study said. **B6**

World-Wide

◆ **Senate Democrats** argued against tax cuts for the wealthiest and refused to back deficit-financed cuts, limiting chances for a tax deal with the GOP. **A1**

◆ **Venezuelan officers** detained two opposition leaders, a day after Maduro vowed to jail politicians who had accused him of electoral fraud. **A4**

◆ **Greece's former** top statistician was convicted of wrongdoing for not seeking approval before disclosing deficit data to the EU. **A2**

◆ **Stolen emails** show ties between the U.A.E.'s envoy to the U.S. and a Malaysian believed central to the 1MDB corruption scandal. **A3**

◆ **The top U.S. drug officer** repudiated Trump's remarks condoning rough treatment by police. **A5**

◆ **Trump warned** that he could end payments to insurers, as a way to press lawmakers to revive efforts to repeal the health law. **A5**

◆ **U.S. consumer prices** were flat in June, a potential yellow flag for the Fed as it weighs a rate increase. **A7**

◆ **Anti-India clashes** erupted in disputed Kashmir after government forces killed two senior militants. **A4**

◆ **China blasted** the U.S. over North Korea, saying Washington was boosting tensions with Pyongyang. **A4**

◆ **Tension is rising** in Thailand as the corruption trial of former leader Yingluck enters its final days. **A3**

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€3.20; CHF5.50; £2.00;
U.S. Military (Eur.) $2.20

Venezuela Crisis Grows as Opposition Chiefs Dragged From Homes

REUTERS (2)

TAKEN: Videos posted by family members showed officers detaining Antonio Ledezma, left, the elected mayor of Caracas, and Leopoldo Lopez, the country's most popular politician, a day after President Nicolás Maduro vowed to jail opponents after winning a disputed vote. **A4**

VOLKSWAGEN STRUGGLES TO REDEFINE ITSELF

Auto maker's CEO faces resistance over his push to downgrade the internal combustion engine

By William Boston

WOLFSBURG, Germany—Matthias Müller was appointed as chief executive of Volkswagen AG, the world's No. 1 auto maker, to clean up after its emissions scandal and drag it into the modern world of electric and self-driving cars.

He has been buffeted by a formidable counterforce—VW's own managers, many of whom still yearn for the old autocratic corporate culture and remain skeptical of moves to downgrade the business of cars powered by fossil fuels.

"There are definitely people who are longing for the old top-down leadership," Mr. Müller, 63, told an industry gathering in Germany in May, speaking of the corporate culture he inherited. "I don't know if you can imagine how difficult it is to change their mind-set."

That mind-set, people inside and outside the company say, included a conviction among many at VW that the internal combustion engine, especially the diesel, is a proven and superior technology that can meet emission standards for years. That conviction, they say, helped lead engineers to rig diesel-engine software to appear to meet such standards, the crux of the scandal, which broke open in 2015.

It also left VW dragging its feet in electric vehicles and created internal skepticism about new ways consumers were using cars—ride-hailing services such as Uber Technologies Inc., car-sharing business like Zipcar Inc. and apps that help steer drivers to businesses and services.

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◆ GM retools after exit from Europe........ B1

Eurozone Run Spurs Case to Pull Back Stimulus

The eurozone's economy quickened in the second quarter, raising expectations the European Central Bank will begin to phase out its stimulus measures next year as the region emerges from the shadow of the past decade's financial crises.

By Paul Hannon, Tom Fairless and Giovanni Legorano

Gross domestic product in the 19-country euro currency zone grew by 0.6% in the three months to June, an annualized pace of 2.3% and a slight improvement from the 0.5% expansion in the first quarter.

The eurozone's recovery has been a boon this year for the global economy, partly offsetting weaker-than-expected U.S. growth. Entering 2017, most economists expected growth in Europe's economic heartland to slow in response to political uncertainty and

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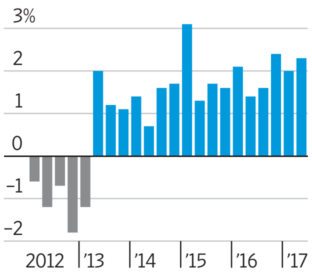
Speeding Up

Eurozone gross domestic product, quarterly change at anannualized rate



Note: adjusted for seasonality and changes in the calendar
Source: Eurostat
THE WALL STREET JOURNAL.

Apple Revenue Surges As iPad and Mac Gain

By Tripp Mickle

Apple Inc. managed to deliver the second-best revenue in company history for the June quarter, typically its weakest period, by re-energizing iPad and Mac sales and keeping purchases of iPhones steady as consumers anticipate a new phone this fall.

The company's revenue jumped 7.2% from a year earlier, its best growth in seven quarters, as shipments of Apple's flagship product rose 1.6% to 41.03 million iPhones.

The biggest surprise was a revival of the iPad business, and the continued momentum of the Mac, which both had waned in recent years as consumers shifted more money into smartphones. Mac sales rose 6.7%, the third consecutive quarter of gains, while iPads avoided a fourth consecutive quarterly slide with 1.9% growth. For the first time in 14 quarters, iPad shipments increased, rising 15% to 11.42 million units amid strong sales to schools and businesses.

Profit for the period rose 12% to $8.72 billion—the company's second consecutive quarterly increase in earnings after a year-long downturn.

"We've got some momentum," Chief Executive Tim Cook said. "A lot of things we've been working on a long time are beginning to show in the results."

Goldman Turns to Charm As Trading Arm Falters

By Liz Hoffman

After catching a tennis match at Wimbledon in July, Goldman Sachs Group Inc. trading chief Pablo Salame paid a visit to the London offices of the bond-fund giant Pacific Investment Management Co.

His message to the Goldman client: "How can we do better?" according to people briefed on the July meeting.

The next day, Goldman reported quarterly trading numbers that were the worst on Wall Street. Those followed a disappointing first quarter in which Goldman failed to catch an upswing in debt trading reported by rivals.

A 40% second-quarter decline in fixed-income activity, which includes bonds traded by Pimco and its ilk, left Goldman with first-half trading revenue that trailed its major banking rivals—a first since Goldman went public in 1999.

The slump has rattled executives, sparking a charm offensive designed to showcase a more customer-friendly Goldman, focused on solving clients' problems rather than steering them into trades that benefit the firm's bottom line.

It has also tipped the scales in favor of more immediate action at the firm, despite a yearslong debate around whether changing market conditions were temporary or deep-rooted and how aggressively Goldman should respond to them.

"It could be secular, it could be cyclical, doesn't matter, who knows?" finance chief R. Martin Chavez said last month on the bank's earnings call. The bottom line: The firm has to go where its clients want to go.

Chief Executive Lloyd

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◆ Regulator is making move to alter Volcker rule..................... B6

Look Out—It's New York's Bee Cop! And He's Got a Vacuum Cleaner

* * *

City's go-to guy for dealing with urban swarms has 400 stings and counting

By Zolan Kanno-Youngs And Ben Kesling

NEW YORK—An owner of Arturo's pizzeria in Greenwich Village called the New York City hotline on a recent afternoon for help to break up a rowdy gathering outside before somebody got hurt.

Officer Darren Mays had already pulled a shift at the 104th precinct in Queens, but the New York Police Department dispatched him to Arturo's. It was the kind of trouble Officer Mays was best equipped to handle. He traded his 9mm pistol and handcuffs for a hedge-trimmer, vacuum and white-veiled hat.

Officer Darren Mays

Gotham City has Batman. New York City has bee man.

That day, tens of thousands of bees had followed their queen to a tree in Arturo's West Village neighborhood, scaring passersby as the swarm scouted for a spot to land a new colony. Officer Mays, the city's go-to guy for bee swarms, directed colleagues to string a yellow police-tape perimeter around the tree. Then he rode a NYPD cherry picker to the high branches for a look.

"This is a historical event in my neighborhood," said Lisa Giunta, age 55, among those watching Officer Mays ascend to the yellow-and-black cloud.

Like Batman, Officer Mays, 46 years old, has a back story. Growing up in South Carolina,

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REUTERS

OUSTED THAI LEADER'S TRIAL RATTLES JUNTA

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Democrats Set Conditions on Tax Law

By Richard Rubin

WASHINGTON—Senate Democrats outlined their conditions for working with the Trump administration and congressional Republicans on tax policy, and their principles didn't seem to leave much room for common ground.

In a letter dated Tuesday, Democrats argued against tax cuts for the top 1% of households, declared it crucial that Republicans not use the fast-track procedures known as reconciliation, and said they wouldn't back deficit-financed tax cuts.

"Tax reform cannot be a cover story for delivering tax cuts to the wealthiest," says the letter, which was signed by 45 of the 48 members of the Senate Democratic caucus.

"We will not support any effort to pass deficit-financed tax cuts, which would endanger critical programs like Medicare, Medicaid, Social Security and other public investments in the future," the letter said.

Each of the Democrats' conditions will be hard for Republicans to meet in the tax bill they hope to turn into law by the end of the year, unless

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Greek Court Sentences a Top Economist

Former statistics chief denies wrongdoing; peers say he has been unjustly persecuted

BY MARCUS WALKER

A Greek court ruled the country's former top statistician should have sought approval before he told European Union authorities of the full extent of Greece's budget deficit at the start of its debt crisis.

The Athens Appeals Court handed Andreas Georgiou, head of Greece's official statistics agency in 2010-2015, a two-year suspended jail sentence on Monday after finding him guilty on the charge of breaching his duties in his handling in 2010 of the revision of Greece's deficit data for previous years.

Mr. Georgiou denies any wrongdoing and has won widespread support from international statisticians, who say he is the victim of persecution.

The EU has repeatedly certified that Mr. Georgiou reported Greece's fiscal data accurately, in contrast with earlier Greek practices that EU bodies have said deliberately hid the scale of the country's deficits.

The appeals court ruled that Mr. Georgiou, who took over statistics agency Elstat after the nation's 2010 bailout, should have sought the approval of its board of directors before he communicated revised deficit data to the EU in late 2010. At the time, some of the part-time board members insisted that Greece's true deficit was among the lowest in Europe—rather than the gaping deficit that Elstat's staff of statisticians measured and that the EU verified.

The verdict marks an escalation of a six-year campaign against the former statistics chief by Greece's major political parties and parts of its judicial system.

Leading members of Greece's ruling left-wing Syriza party and main conservative opposition party New Democracy have for years suggested that Mr. Georgiou exaggerated Greece's deficit for 2009 and earlier years to justify the country's bailout by the EU and International Monetary Fund.

Critics say that much of Greece's political class has sought to make Mr. Georgiou a scapegoat to deflect blame for the painful fiscal austerity under the continuing bailout.

They say New Democracy officials also want to repair the reputation of their former leader, Costas Karamanlis, during whose term as Greek prime minister until late 2009 the public finances deteriorated, leading to the collapse of investors' trust in Greek debt.


JASON ANDREW FOR THE WALL STREET JOURNAL

Andreas Georgiou in December

Several investigators have concluded that Mr. Georgiou correctly applied EU accounting law in revising deficits for earlier years.

Probes against Mr. Georgiou, a former IMF official who now lives in Maryland, have repeatedly been dropped after no evidence of wrongdoing was found. But senior judicial officials have sought to keep the case alive, annulling Mr. Georgiou's acquittals and ordering fresh proceedings.

Greece's Supreme Court is due to rule in coming months on whether to cancel Mr. Georgiou's acquittal this spring on the most serious charge against him: that of falsifying the deficit and causing massive financial damage to the Greek state. The felony charge, which could bring a life sentence, has been dropped and revived several times since 2013.

Tuesday's verdict reversed the outcome of a trial late last year that found Mr. Georgiou innocent of breaching his duties.

A spokeswoman for the EU executive, the European Commission, noted that the verdict was "not in line" with Mr. Georgiou's previous acquittal on the same charges, and that the EU has full confidence in the fiscal data published under Mr. Georgiou.

The trial was marked by raucous scenes as people in the public gallery called loudly for Mr. Georgiou to be condemned and shouted accusations of treason. Mr. Georgiou didn't attend and was represented by his lawyers.

—Nektaria Stamouli contributed to this article.

EUROPE

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rising oil prices.

"All in all, the eurozone economy has rounded out the first half of the year in a very healthy state and seems to be set up nicely for continued firm growth for the rest of 2017," said Bert Colijn, an economist at ING Bank.

The region has taken longer than other major economies to shake off the legacy of the global financial crisis.

Some crisis-era effects linger, including high unemployment in Southern Europe, lack of growth in laggards such as Italy and Greece, and widespread popular discontent with political elites. But improving growth is dispelling fears of the euro's demise, reviving the confidence of the EU's political class that it can fend off challenges from nationalist or antiestablishment parties and boosting optimism that the continent is mostly returning to normality after a lost decade.

More ordinary Europeans are sensing the effects. Antonio Vallejo, finance director at Spanish restaurants and bars company Grupo Mercado de la Reina, said business has been improving steadily since the end of 2015. "People started to go out for dinner again," he said. "You can see clearly that people spend more."

The return of growth rates above 2% annualized is likely to further encourage ECB officials who want to decide this fall, probably in September, to reduce monetary stimulus starting in early 2018.

The ECB has launched a series of stimulus measures since mid-2014 that are intended to raise inflation to its target of just below 2%. At 1.3% in July, inflation remained well short of that goal. But central bank officials expect that if growth continues to be robust, inflation will eventually pick up, and the need for their stimulus measures—especially bond purchases—will diminish.

Financial markets are watching closely for signals about when and how quickly the ECB will reduce the bond-buying program, known as quantitative easing. The program is widely regarded as an important factor in the region's escape from economic stagnation.

The timing of the decision to phase it out is the ECB's most important decision in years.

The next hint could come when ECB President Mario Draghi addresses the U.S. Federal Reserve's economics conference August 24-26 in Jackson Hole, Wyo.

The ECB could signal as soon as its next policy meeting on Sept. 7 that QE will be gradually wound down next year, according to officials with the bank.

But the decision could be delayed until October, depending on the latest economic data, these officials say.

In July, Mr. Draghi described the recovery as "robust" and said policy makers would decide in the fall on the future of their bond-buying program, which is tentatively scheduled to end in December. ECB watchers expect the program to be extended into 2018, but at a reduced scale. Most doubt the purchases will continue into 2019.

The ECB has already raised its growth forecast twice this year and may do so again in September. It now expects the eurozone economy to grow by 1.9% across 2017.

The European Union's statistics service, Eurostat, gave no breakdown of Monday's GDP growth data, though economists suspect both consumer spending and business investment contributed to the improvement.

Spain has already released data showing acceleration in the second quarter, while France said its growth rate was unchanged. Germany and Italy, the bloc's other major economies, have yet to report.

The recovery has lifted business and consumer confidence to highs not seen since before the global financial crisis. It has also helped reduce the eurozone's unemployment rate to 9.1%—still high by international standards, but down from peak levels of around 12% during the crisis. Much of the fall in unemployment has occurred in Spain and Germany; job creation remains more sluggish in France and especially in Italy.

Growth is also easing the strains on government coffers in Spain. "Finally, some money has become available for public services, which is remarkable after so many people were laid off to cut costs," said Tomás Domingo, a high-school teacher from Tenerife in the Canary Islands.

Mr. Domingo said his school finally obtained money to fix the leaky roof of its sports pavilion, something it has been asking for since 2009.

Germany, Europe's biggest economy, is the other main pillar of the improvement. At machine-tool maker Trumpf Group from near Stuttgart, sales rose 11% to €3.1 billion ($3.6 billion) in the year to June 30. The company's order book is brimming, said chief executive Nicola Leibinger-Kammüller.

The same holds across much of Germany's engineering sector, which has long profited from global trade but now is also enjoying rising orders from eurozone countries, according to industry association VDMA.

Some early signs suggest growth might slow slightly in the second half of the year. A survey of 3,000 manufacturing companies released Tuesday found that activity in July increased at the slowest pace in four months. But at 56.6, the Purchasing Managers Index for the sector still pointed to solid growth.


FRANK RUMPENHORST/DPA/ZUMA PRESS

A stand-up paddler makes his way up the Main past ECB headquarters in Frankfurt. Eurozone growth accelerated in the past quarter.

TRADES

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Blankfein, himself a former trader, has scheduled one-on-one meetings with some of the firm's top traders, according to people familiar with the matter.

Senior executives and salespeople have fanned out to top clients, pitching trade ideas and talking down the bad quarter, according to people on both sides of the outreach.

The firm also is leaning on its investment bankers to pitch their corporate clients on hiring Goldman's traders for products that protect against swings in currency values and interest rates.

Meanwhile, Goldman is working with a financial-data company to better understand what percentage of each client's trading business it is getting, and how it can sell more products to existing clients, according to people familiar with the matter.

Trading is the engine that has historically powered Goldman. The firm led the development of the institutional stock-trading market in the 1960s and dominated it for decades. In the 2000s, it was at the forefront of an explosion of complex debt instruments that ushered in a golden age of Wall Street profits.

Even after postcrisis declines, trading still accounts for almost half of Goldman's revenue.

Big banks make fees by arranging trades for clients, ranging from simple corporate bonds to complex derivatives tied to interest rates or currency prices.

The more complex instruments, which are often used by active investors like hedge funds, command higher fees. Plain-vanilla products are a low-margin game.

Market and regulatory changes since the financial crisis have hit Goldman especially hard. Regulations closed its proprietary desks, which once made billions of dollars betting with the firm's own money.

A steadily rising stock market has pushed investors away from risky investments and toward simpler products where giant banks such as J.P. Morgan Chase & Co. dominate.

First the firm wrong-sided the Trump trade. Then the culprit was the commodities unit.

Goldman's trading desk, by contrast, has been more geared toward hedge funds—which have been less active as they face outflows and more trading moves to exchanges.

"The business changed around them," said James Mitchell, an analyst with Buckingham Research Group. "If you're a hedge fund and you're worried about investors pulling money next quarter, are you really going to be asking Goldman to build you a five-year yen swap?"

The shifting ground caused consternation within Goldman. In March 2016, a fixed-income sales executive, Tom Cornacchia, spoke publicly of an internal split between those who believed the business had changed for good and those betting on a return to the past.

Mr. Cornacchia cast himself in the former camp, which felt the firm needed to adapt. The executive—who left the firm last September—said he had urged salespeople to be more patient and more client-focused, not to expect to land a trade with every phone call.

For a firm that has long hunted big game—and where bonuses are set by "gross credits" that correspond to an employee's revenue generation—that was uncomfortable for some, Mr. Cornacchia said. "There's a lot of denial," he said at the time.

Meanwhile, Goldman ceded ground to rivals. Among top U.S. trading shops, Goldman has lost 10 percentage points of fixed-income market share by revenue since 2010 to J.P. Morgan Chase and Citigroup Inc., according to regulatory filings.

In the first quarter, Goldman's fixed-income revenue was essentially flat from a year earlier, compared with double-digit percentage gains at J.P. Morgan, Bank of America Corp. and Citigroup.

The firm had wrong-sided the "Trump trade," stockpiling products it expected clients would desire as long-term interest rates rose and the dollar gained in value, according to people familiar with the matter. Instead, long-term rates fell relative to short-term ones, and the dollar slid in March.

In the second quarter, the culprit was the commodities unit, which posted its worst three-month stretch in Goldman's 18 years as a public company. The business ended the quarter in the black, but barely, as the bank struggled to adequately hedge its inventory, according to people familiar with the results.

Goldman has responded by turbocharging a push—begun about two years ago—to court mutual funds, asset managers and other so-called "real money accounts." These investors typically have long-term horizons and are less prone to flameouts than hedge funds, which can close after a few bad quarters.

It has bolstered a sales group started in 2014 under partner Stacy Bash-Polley that aims Goldman's sales firepower at its biggest and most profitable clients.

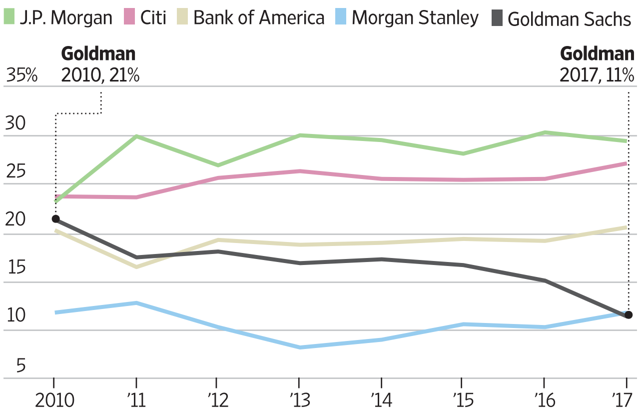
Besides his visit to Pimco in July, Mr. Salame, the Goldman trading executive, also recently visited J.P. Morgan's asset-management division.


MICHAEL NAGLE/BLOOMBERG NEWS

Lloyd Blankfein plans to meet with some of Goldman's top traders.

Trading Shift

Fixed-income trading market share, by revenue



Note: 2017 revenue for first two quarters. Share is among top U.S. investment banks.
Source: the companies
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CORRECTIONS & AMPLIFICATIONS

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WORLD NEWS

Former Thai Leader's Trial Rattles Junta

Supporters defy rulers in turning out for Yingluck as corruption case nears a climax

By James Hookway

BANGKOK—Tension is rising in Thailand as former Prime Minister Yingluck Shinawatra enters the final stages of a trial accusing her of mismanaging a multibillion-dollar rice-subsidy program.

Defying warnings by the ruling junta to stay away, more than 1,000 of Ms. Yingluck's supporters—watched over by 300 police officers—gathered on Tuesday outside the Supreme Court as she arrived to make her closing statement. A verdict is due Aug. 25.

If convicted, Ms. Yingluck could face up to 10 years in prison, and the junta is growing wary of the consequences, people familiar with the situation said. Thailand's political battles have devolved into violent street protests in the past.

One person said the primary goal of the junta, which deposed Ms. Yingluck's government in 2014 after nearly three years in power, had been for her to leave the country, as her brother, former Prime Minister Thaksin Shinawatra, had done. He went into self-imposed exile to avoid conviction on a corruption charge after he was removed in a 2006 coup.

"They're surprised she stayed," this person said. Ms. Yingluck has said she is determined to have her case tried in court.

Many in the crowd on Tuesday reached over the red crash barriers outside to hand Ms. Yingluck flowers as she entered the court building. There were chants of "Fight! Fight!" Some had benefited personally from the rice subsidy, Ms. Yingluck's flagship policy as prime minister—an echo of the subsidized health care and cheap loans that were the hallmarks of her brother's years in power.

"Life was better under Yingluck and Thaksin," said Seng Lamud, an 80-year-old farmer who had traveled from the country's northeast. "We had more money, and they were able to help us." He lifted his shirt to show a scar from an operation performed thanks to the subsidized health-care system, which is still in place.

Ms. Yingluck, 50, broke down and wept twice as she addressed the court. She said she hadn't done anything wrong, and had only tried to help the farmers. "I grew up in a family outside of Bangkok, so I understand their problems," she said.

The controversy over the rice subsidy highlights the gulf between the people of Thailand's agricultural heartland, consistent supporters of Mr. Thaksin and his proxies, and the royalist establishment in Bangkok that grew wary of his growing power, even after he fled the country.

Under the program, the government bought rice from farmers for as much as double the market price, seeking to boost incomes for the roughly 40% of the workforce that depends on agriculture and increase spending in rural Thailand. Ms. Yingluck told the court Tuesday that the policy was "the pride of my life." It worked for a time. Spending ticked higher, fueling a round of commercial investment in the Thailand's second-tier cities.

The hope was to recoup some of the cost of the program by withholding grain from the global market to steer world prices higher. Instead, India entered the market after a long absence and Vietnam expanded production. Thailand fell from its position as the world's top rice exporter, and the government was left with vast stockpiles that it had to sell at a loss. Officials estimate that the program cost Thailand at least $15 billion.

The Shinawatras' opponents used the program's failure to spur protests in Bangkok against Ms. Yingluck's government, which grew increasingly violent until the military seized power in May 2014. Prosecutors then charged her with negligence, saying she had deliberately ignored the problems surrounding the subsidy. In October 2016 the junta, led by former army chief Prayuth Chan-ocha, ordered Ms. Yingluck to pay nearly $1 billion in civil damages. The government began freezing some of her bank accounts last week.

In recent weeks, the government has stepped up surveillance of pro-democracy activists, officials have said. Since the 2014 coup, the junta has also increased the number of defamation cases against those criticizing Thailand's royal family—a source of much of the military's power—targeting social media in particular.

Bangkok-based legal watchdog iLaw says 59 people have been convicted of online criticism of the royals since the army took over. One man was sentenced to 35 years in prison, while another is in prison awaiting trial for sharing online a BBC biography of the new monarch, King Maha Vajiralongkorn. He succeeded his father, King Bhumibol Adulyadej, who died in October after more than 70 years on the throne.


NARONG SANGNAK/REX/SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

A supporter of former Thai Prime Minister Yingluck Shinawatra hugged a picture of her outside a Bangkok court on Tuesday.

Stolen Emails Show Ties Between Envoy, 1MDB Figure

Yousef Al Otaiba, the United Arab Emirates ambassador to the U.S., is a high-profile power player in Washington, trying to shape American policy toward the Middle East and lobbying over a regional dispute with Qatar.

By Bradley Hope in London and Tom Wright in Hong Kong

He is also being drawn deeper into a major global corruption scandal.

Newly released stolen emails show a long-running relationship between Mr. Otaiba and Jho Low, a Malaysian financier who U.S. law-enforcement officials say is at the center of the misappropriation of $4.5 billion from a Malaysian state development fund.

That relationship is drawing new scrutiny from U.S., Swiss and Singaporean authorities, according to people familiar with the probes. The stolen emails show Mr. Otaiba and Shaher Awartani, his Jordanian partner, discussing inquiries from those countries about transactions they received from entities investigators say are connected to Mr. Low.

In one email, Mr. Awartani suggested buying a Ferrari after what Mr. Otaiba described as a "transfer from Jho."

"I think we each deserve to buy a nice toy in celebration, what do you think ?? The 458 ITALIA maybe?," Mr. Awartani wrote to Mr. Otaiba in 2009.

Mr. Otaiba responded that buying such "toys" in Abu Dhabi "will just attract unnecessary attention." Messrs. Awartani and Otaiba both declined to comment. The probes are continuing.

The group that says it obtained the stolen emails and showed them to The Wall Street Journal, Global Leaks, declined to identify its members or say how they got the communications. In a statement to the Journal, Global Leaks said it wanted to "expose corruption, financial frauds which are done by rich governments."

The Journal reported in June that companies connected to Mr. Otaiba received $66 million from entities investigators say acted as conduits for money allegedly stolen from the state investment fund, **1Malaysia Development** Bhd., or 1MDB. The Journal cited court and investigative documents and emails Mr. Otaiba wrote.

A 1MDB spokesman declined to comment. The fund has denied any funds were misappropriated or any wrongdoing on its part. It pledged to cooperate with any "lawful" investigation. Malaysian authorities cleared the fund of wrongdoing, but it remains under investigation in the U.S. and several other countries.

Mr. Low hasn't been accused of a crime and has denied wrongdoing. A Low spokeswoman said the leaked emails created a "biased and inaccurate picture."

Mr. Otaiba has been a key figure in U.S.-U.A.E. relations for years. The emails detail Mr. Otaiba's sizable personal wealth, including millions of dollars of shares in Palantir Technologies, a data-analysis company that has numerous contracts with the U.S. intelligence and law-enforcement community, and the Carlyle Group investment firm.

Lately, Mr. Otaiba has become a frequent source of advice to President Donald Trump's son-in-law and adviser, Jared Kushner, on Middle East policy, people familiar with the matter said. He has also urged the Trump administration to back efforts by the U.A.E., Saudi Arabia and other Middle Eastern countries to isolate Qatar, which they accuse of supporting Islamist terror groups like al Qaeda. Qatar says it doesn't fund terror.

Mr. Otaiba in July issued a statement denying media reports that the U.A.E. had participated in an alleged scheme to hack Qatar government websites and post fake quotes attributed to Qatar's emir.

The U.A.E. Embassy in Washington declined to comment about the emails stolen from Mr. Otaiba except to say they were part of a campaign by political opponents to smear him. They also acknowledged that Mr. Otaiba has private business interests outside his diplomatic role.

The people familiar with the 1MDB investigations in Switzerland, Singapore and the U.S. said officials are looking into the circumstances of the transfers to companies controlled by Messrs. Otaiba and Awartani, and whether they bought assets with funds originating from 1MDB.

The stolen emails appear to show Mr. Otaiba using his diplomatic influence to persuade banks to give loans, saying it was important for U.A.E.-Malaysian relations.

Scrutiny of Mr. Otaiba's U.S., Swiss and Singaporean accounts appeared to kick off in 2015, when several countries were starting 1MDB-related probes.

Writing from an email address affiliated with the island of St. Helena in May, Mr. Low wrote Mr. Awartani asking how to get in touch quickly. "Need to speak as questions being asked. Want to ensure coordinated," according to the stolen emails, which were forwarded to Mr. Otaiba.

It is unclear if they ever spoke.

PATRICK T. FALLON/BLOOMBERG NEWS

Yousef Al Otaiba, the U.A.E. envoy to the U.S., is seen in May.

Fund Delays Outlay To Abu Dhabi Entity

A troubled Malaysian state-investment fund said it was delaying a payment of about $600 million that it owes to an Abu Dhabi sovereign-wealth fund because of regulatory hurdles in getting the money.

Although **1Malaysia Development** Bhd., known as 1MDB, said it would still honor its obligations, the delay threatens to reopen a dispute with its former business partner, Abu Dhabi's **International Petroleum Investment** Co., over who should foot the bill for billions of dollars that U.S. investigators allege was stolen from 1MDB.

1MDB said it had been due to make the payment by July 31, using proceeds from the sale of units in offshore investment funds. Receipt has been delayed until August because of the "need for additional regulatory approvals," 1MDB said.

1MDB said it had "written to IPIC to inform them of our commitment to meet the obligations."

The money is the first installment of a $1.2 billion sum that 1MDB agreed to pay IPIC to compensate the Abu Dhabi fund for an emergency loan and other financial support it had extended to the Malaysian fund.

IPIC confirmed it hadn't received payment from 1MDB.

The payment was the first to come due since the U.S. Justice Department and Singapore's public prosecutor alleged that units owned by 1MDB in an offshore investment fund were almost entirely worthless. The fund hasn't commented on the allegations.

—*Bradley Hope*

China Manufacturing Data Give Hot and Cold Signals

BEIJING—China watchers again got conflicting signals this week on the state of the world's second-largest economy: Two gauges of factory activity pointed in opposite directions, clouding whether the manufacturing sector is cycling up or down.

The Caixin China manufacturing purchasing managers index, a private gauge, rose to 51.1 in July from 50.4 in June, hitting its highest level in four months, according to the compilers, Caixin Media Co. and research firm Markit on Tuesday. They attributed the rise to a solid upturn in new export sales.

A day earlier, however, the Chinese government's official PMI dropped in July because of slower production and weaker foreign demand, though the level still signaled expansion.

Why the two gauges diverged this time is debatable. Caixin said that though the official PMI decreased slightly in July, it stayed at a relatively high level and that the gap between the two gauges decreased. It also said exports got a boost in July from robust economic growth in the U.S., the European Union and Japan, whose PMI figures lingered at high levels. The National Bureau of Statistics, which released the official data, declined to comment.

Some economists say they track official PMI more closely and think the data is more reliable, given its larger sample base. The statistics bureau surveys 3,000 manufacturers nationwide, while Caixin polls 400 companies.

"The divergence of the two gauges happened from time to time, because the official PMI includes more big state-owned enterprises while the Caixin PMI tracks more closely on export-driven small firms," said Zhao Yang, an economist with Nomura.

Getting a bead on the health of the Chinese economy matters for the global economy.

Julian Evans-Pritchard with Capital Economics, among others, suggests giving more weight to the Caixin PMI "since the index has typically done a better job capturing cyclical trends in economic activity."

Getting a bead on the health of the Chinese economy matters for the global economy and for manufacturers, investors and other businesses, and while the purchasing managers indexes are just one of many indicators, they offer among the earliest glimpses of economic conditions every month.

The rising Caixin PMI cheered markets, helping them extend gains on Tuesday.

China registered a strong start to the year. The 6.9% growth rate in the first six months is well above the annual 6.5% target and provides a comfortable margin for Beijing to continue efforts to tackle financial risks.

Economists expect those efforts, which include higher financing costs and restrictions on home purchases, to filter through to the broader economy in the second half of the year.

Mr. Zhao projects "a significant slowdown" next year, with growth slipping to 6.2%.

—*Grace Zhu*


QILAI SHEN/BLOOMBERG NEWS

A worker installs panels on a shipping container in Qidong.

Maduro Jails Two Leading Opponents

LILIAN TINTORI/REUTERS

A video image is said to show Leopoldo Lopez, one of two Venezuelan opposition leaders detained, being led to an intelligence service car.

By Ryan Dube
And Anatoly Kurmanaev

CARACAS, Venezuela—Dozens of intelligence officers dragged two opposition leaders from their homes in the middle of the night, a day after President Nicolás Maduro vowed to jail his opponents after winning a disputed vote.

Videos posted by family members showed masked officers in fatigues armed with automatic weapons taking Leopoldo Lopez, the country's most popular politician, and Antonio Ledezma, the elected mayor of Caracas, and shoving them into patrol cars. Their lawyers and family members said they were taken to the Ramo Verde military prison on the outskirts of Caracas. It was not clear if any charges had been filed.

In a speech Monday, Mr. Maduro said he would jail any opposition politicians who accused him of electoral fraud. The government claims to have received more than eight million votes in Sunday's uncontested election for a special assembly that will have absolute powers. The opposition said the turnout was below three million.

"What we now have in Venezuela is a narco-dictatorship," Mr. Ledezma's wife, Mitzy Capriles, said from Madrid after watching video of her 62-year-old husband pushed out the door of their apartment building in his blue pajamas.

Governments, human-rights organizations and nongovernmental groups denounced the detentions.

Florida Republican Sen. Marco Rubio called the actions a direct challenge to President Donald J. Trump hours after the White House imposed sanctions against Mr. Maduro for rights abuses and holding an election Sunday to create a super-assembly whose power would supersede all other institutions as it worked to redraft the constitution.

The U.S. move freezes any assets Mr. Maduro may have in the U.S. and prevents American entities from doing business with him. Mr. Maduro also is barred from traveling to the U.S.

There were signs that his measures were costing his government support, with two lawmakers from the ruling alliance joining the opposition faction on Tuesday.

Venezuela's Supreme Court, which is packed with Mr. Maduro's allies, said orders to detain Mr. Lopez and Mr. Ledezma were issued after intelligence suggested they were planning to flee. It said additionally the men had broken rules overseeing guidelines for home detentions. The government accuses both men of instigating violence, charges they deny. Both have posted videos in recent days condemning Mr. Maduro for staging a power grab, in an apparent violation of their sentencing terms.

"This was a fraud foretold," Mr. Ledezma said in the video posted just hours before his arrest, adding he understood the risk carried by his statement. "We know that the state apparatus has been put at the service of the totalitarian regime, of the tyranny."

The arrest of Mr. Lopez, 46 years old, comes less than a month after the head of the Popular Will opposition party was released from a military jail, where he spent more than three years.

His commuted sentences had raised hopes for a rapprochement between the government and the opposition after months of unrest, which claimed more than 120 lives to date.

Those hopes were spoiled by Mr. Maduro's decision to go ahead with elections for the controversial assembly.

Diego Moya-Ocampos, political risk analyst with IHS, said the arrests show Mr. Maduro is worried about a growing economic isolation and the threat of new U.S. sanctions against the country's oil industry.

"The government is trying to secure more political prisoners to improve its bargaining position in an eventual negotiation in the U.S.," he said.

The newly elected Constituent Assembly is expected to take office as early as Thursday. International observers and rights groups fear the assembly will move to dissolve the opposition-controlled congress and justify a purge of state institutions.

On Monday, opposition leaders said they were prepared for a new wave of repression.

"Each one of us has made the same decision to move forward with this struggle despite the risks," said Freddy Guevara, national coordinator of the Popular Will party. "The government is acting from the position of weakness, not of strength."

Oriette Ledezma, Mr. Ledezma's daughter, noting that her father was taken in his pajamas, said in a video posted on Twitter, "We make the regime responsible for his life."

Brazil Graft Probe Faces Biggest Test: The President

Congress is set to vote Wednesday on whether to put Michel Temer on trial for alleged graft

By Luciana Magalhães
And Samantha Pearson

CURITIBA, Brazil—After three years, the biggest nemesis facing the Car Wash corruption probe is no longer one single defendant, but Brazil's political system itself.

On Wednesday, Congress is scheduled to begin voting on whether to put President Michel Temer on trial for alleged graft, as the far-reaching inquiry reaches the highest levels of government. The embattled leader is widely expected to muster enough support from lawmakers, many of whom are also under investigation, to avoid the courts.

"The real truth is that Car Wash doesn't have the strength to defend itself against attacks from the most powerful institution of Brazil, which is Congress," said Deltan Dallagnol, the lead Car Wash prosecutor, in an interview. "The only shield of protection that Car Wash has is society."

The probe has landed scores of Brazil's most powerful executives and former politicians behind bars.

While Mr. Temer is deeply unpopular with voters, he has shown himself to be a deft political negotiator. He has worked around the clock in recent weeks to secure the support of lawmakers, bringing forward $1.3 billion in financing for projects in their home states, according to Open Accounts, a public-accounts watchdog.

The president was charged in June with taking bribes from meatpacker JBS in exchange for granting state-backed funding and other favors. Mr. Temer, whose approval ratings have dropped to 5%, has denied wrongdoing and refused to resign.

Two-thirds of Congress must vote to put Mr. Temer on trial in order for the case to proceed. While it is still possible for the vote to be delayed until next week because of low turnout, there are few doubts about its outcome.

Beto Mansur, a deputy for the Brazilian Republican Party, said he has been preparing Excel spreadsheets for the president, listing undecided lawmakers, and is now certain that on the day of the vote enough congressmen will be on the president's side. On Monday, opposition lawmaker Silvio Costa publicly conceded that Mr. Temer has enough support to survive.

ADRIANO MACHADO/REUTERS

Brazil President Michel Temer is widely expected to avoid trial.

A large margin of support would strengthen Mr. Temer's political capital and likely allow him to serve out the remainder of his term until elections in October 2018, even if the Brazilian attorney general, as expected, files more charges against him, said Christopher Garman, managing director for the Americas at political risk consulting firm Eurasia Group.

It would also represent a setback to Brazil's efforts to tackle its problem of impunity, anticorruption activists say.

"The Car Wash Operation is entering one of its most critical and difficult phases, because now it has reached the top levels of power," said Bruno Brandão, Brazil's representative for corruption watchdog Transparency International.

Over the past three years, the Car Wash probe has ballooned into Brazil's largest corruption investigation, uncovering a nationwide scheme in which companies paid billions of dollars in bribes over more than a decade to win contracts, cheap state financing and other favors. It has led to more than 150 convictions and won praise as a model for tackling graft in the developing world.

But visible results have been diminishing in recent months, Mr. Dallagnol said. As the investigation zeroes in on sitting politicians, its fate increasingly rests with Brazil's slow-moving Supreme Court. In Brazil, only the high court can investigate and punish sitting politicians—a measure designed to safeguard Congress from authoritarian regimes.

The investigation has also suffered as the government reduced the number of top police officers devoted to the Car Wash probe in Curitiba, the southern city where the probe started, Mr. Dallagnol said. Since the end of last year, the number of chief officers has shrunk to four from nine, curbing the task force's ability to investigate new leads.

"The Federal Police's work in the Car Wash Operation is being suffocated and smothered," said Mr. Dallagnol. He added that without staffing cuts, police would have been able to complete as many as 12 new phases of the operation since November, instead of seven. The Federal Police said the size of the team is adequate.

Mr. Dallagnol said Congress had made other attempts to derail Car Wash. Last year, lawmakers introduced a proposal to ban defendants from striking plea bargains. It is still being deliberated.

Some Supreme Court decisions have also sparked controversy. In May, former presidential chief of staff José Dirceu, who was convicted of corruption, was released from jail while he appeals his case.

"We have become very concerned with attempts from various places—the judiciary, the executive branch and Congress—to damage the investigation," said Caio Magri, head of the Brazilian transparency watchdog Instituto Ethos.

—Paulo Trevisani contributed to this article.

WORLD WATCH

KASHMIR

Protests Erupt In Disputed Region

Large anti-India clashes erupted in disputed Kashmir after government forces killed two senior militants in a gunbattle and fatally shot a demonstrator during an ensuing protest.

Police inspector-general Muneer Ahmed Khan said the two militants were killed after police and soldiers, acting on a tip, cordoned off southern Hakripora village early Tuesday. Mr. Khan said the trapped militants attacked the troops with gunfire, triggering a battle.

Police described one of the slain militants as a top commander of the Pakistan-based militant group Lashkar-e-Taiba, which India blames for a 2008 attack in Mumbai that left 166 people dead.

Villagers said troops blasted two civilian homes with explosives during the operation. During the battle, residents defied the security lockdown and clashed with government forces near the site of the fighting, seeking to help the trapped militants escape. A young man was killed and dozens of others were injured in the clashes.

—Associated Press

TAUSEEF MUSTAFA/AGENCE FRANCE-PRESSE/GETTY IMAGES

Mourners in a Kashmiri village carried the body of a suspected rebel during his funeral Tuesday.

CHINA

Envoy Criticizes U.S. Over North Korea

China lashed out at the U.S. on Monday over North Korea, saying Washington was ratcheting up tensions with Pyongyang and violating Security Council resolutions calling for restraint and dialogue.

China's ambassador to the U.N., Liu Jieyi, criticized the U.S. for unilateral sanctions that don't have the council's backing and for publicly saying that Washington was keeping all options on the table. Joint U.S. and South Korean military exercises in the Korean Peninsula, he added, risked destabilizing the region.

"These developments run counter to the obligations in the Security Council resolutions," Mr. Liu said at a news conference to mark the end of China's month-long presidency of the council.

North Korea fired two intercontinental ballistic missiles in July, with the most recent one, on Friday, appearing capable of reaching the continental U.S. China and Russia have so far not agreed with the U.S. and its European allies, who are demanding a new resolution imposing tougher economic sanctions on Pyongyang.

Mr. Liu's comments appeared to be a response to a series of comments and tweets over the weekend by President Donald Trump and U.N. Ambassador Nikki Haley that accused China of failing to rein in North Korea.

—Farnaz Fassihi

INDONESIA

Jakarta Lifts Threat To Ban Encrypted App

Indonesia's information technology minister says the government will allow the encrypted messaging app Telegram to continue operating because it is taking steps to address "negative" content.

The minister of communications and technology, Rudiantara, said Tuesday ahead of a meeting in Jakarta with Telegram cofounder Pavel Durov that "we have agreed to keep Telegram accessible."

The ministry earlier said it was preparing for the total closure of Telegram in Indonesia, where it has several million users, if it didn't develop procedures to block unlawful content including pro-Islamic State discussion groups.

As a partial measure, it asked internet companies in the world's most populous Muslim nation to block access to 11 addresses offering the web version of Telegram.

—Associated Press

MEXICO

Economists Stick to 2% Growth Estimate

Private economists surveyed last month by the Bank of Mexico kept their expectations for economic growth this year at 2%, but put domestic matters such as politics and public security at the top of the list of things that could stymie the economy.

The survey, published Tuesday, shows growth estimates have picked up from the start of the year, when concerns about strained U.S.-Mexican trade and investment relations under the administration of President Donald Trump led business and consumer confidence to sink.

Foreign direct investment in Mexico has remained steady, and negotiations to update the North American Free Trade Agreement are no longer expected to disrupt the trade on which Mexico relies heavily.

—Anthony Harrup

DEA Chief Rebuts Trump on Police Force

Official urges staff to disregard president's comments condoning rough treatment

By Jess Bravin

WASHINGTON—The nation's top narcotics officer repudiated President Donald Trump's remarks about police use of force, issuing a memo saying Drug Enforcement Administration agents must "always act honorably" by maintaining "the very highest standards" in the treatment of criminal suspects.

Chuck Rosenberg, who as acting DEA chief works for the president, told agency personnel world-wide in a Saturday memo to disregard any suggestion that roughing up suspects would be tolerated. The memo came a day after Mr. Trump told a crowd of law-enforcement officers they shouldn't be "too nice" when arresting "thugs."

"The president, in remarks delivered yesterday in New York, condoned police misconduct regarding the treatment of individuals placed under arrest by law enforcement," begins the memo, titled "Who We Are" and marked "Global Distribution."

Mr. Rosenberg wrote that although he is certain no "special agent or task force officer of the DEA would mistreat a defendant," Mr. Trump's comments required a response.


BRENDAN SMIALOWSKI/AGENCE FRANCE-PRESSE/GETTY IMAGES

Chuck Rosenberg wrote that though he is sure no DEA officer would mistreat a defendant, Mr. Trump's comments required a response.

The White House, the Justice Department and the DEA, which is an arm of the Justice Department, declined to comment on the Rosenberg memo.

"I write to offer a strong reaffirmation of the operating principles to which we, as law enforcement professionals, adhere," the memo says. "I write because we have an obligation to speak out when something is wrong. That's what law enforcement officers do. That's what you do. We fix stuff. At least, we try."

On Friday, Mr. Trump visited Long Island, N.Y., to commend law enforcement efforts against MS-13, an international criminal gang with roots in El Salvador.

"When you see these thugs being thrown into the back of a paddy wagon—you just see them thrown in, rough—I said, please don't be too nice," Mr. Trump said, prompting laughter and applause from the audience of law enforcement officers. "Like when you guys put somebody in the car and you're protecting their head, you know, the way you put their hand over? Like, don't hit their head and they've just killed somebody—don't hit their head. I said, you can take the hand away, OK?"

Mr. Rosenberg is a longtime Justice Department official who twice served as a U.S. attorney in the George W. Bush administration—first for the Southern District of Texas and later the Eastern District of Virginia.

He has prosecuted or supervised prosecutions into crimes including murder, espionage and financial fraud, and as a senior official worked on national security problems.

He served as a senior aide to Mr. Bush's first attorney general, John Ashcroft, and to James Comey and Robert Mueller, two other former Bush administration officials whose recent investigations into alleged Russian meddling in the 2016 election, and any potential involvement of Trump campaign officials, have vexed the president.

Mr. Rosenberg worked for Mr. Comey, when the latter served as the Justice Department's No. 2 official, deputy attorney general, and for Mr. Mueller when he was director of the Federal Bureau of Investigation. After several years in private practice, Mr. Rosenberg returned to the FBI as chief of staff to Mr. Comey, whom President Barack Obama appointed to succeed Mr. Mueller.

In 2015, Attorney General Loretta Lynch made Mr. Rosenberg acting administrator of the DEA, and he was retained by the Trump administration.

President Trump dismissed Mr. Comey as FBI director in May over displeasure with the Russian investigation. The president has indicated unhappiness with the work of Mr. Mueller, who was appointed a special counsel to pick up the investigation following Mr. Comey's dismissal.

Veterans in Private Care Face Risk

By Ben Kesling

WASHINGTON—Veterans using a Department of Veterans Affairs program to seek care from doctors in the private sector instead of the VA face a greater danger of becoming entangled in the country's opioid epidemic, the VA said Tuesday.

Findings from the VA's Office of Inspector General show that programs allowing veterans to get care from private doctors when appointments aren't available in the VA system leave veterans vulnerable to overprescription of powerful opioids because of gaps in the process used by the VA to keep track of prescriptions.

The Inspector General said problems still arise when veterans get VA-funded care from the private sector, but when patients are treated entirely within the VA system they fare better, in part due to a VA program designed to combat opioid overprescription and misuse.

"With the expansion of community partnerships, a significant risk exists for patients who are prescribed opioid prescriptions outside of VA," the report said. "The risk is exacerbated when information about opioid prescriptions is not shared between VA and non-VA providers."


CHARLES DHARAPAK/ASSOCIATED PRESS

Using private doctors poses risk of opioid-drug abuse, the VA said.

The report didn't elaborate on how many veterans may be intentionally skirting the VA system to avoid the department's opioid tracking system.

The Inspector General launched its investigation into opioid prescription oversight some two years after the department began overhauling two major aspects of its health care. In 2014, the VA began programs to combat patient overuse of opioids by encouraging doctors to use alternative treatments for pain management, while also enabling them to better track when and how many patients use painkillers.

That year, the VA also launched a multibillion-dollar program for veterans to get care from private doctors, but the program has been plagued with complaints that patient records aren't always properly reported back to the VA so the department can keep comprehensive files on veterans and monitor their treatment.

The VA's watchdog recommends the department ensure private-care providers are fully informed of the department's opioid safety program and intervene when private providers are deemed to be putting veterans at risk. The watchdog also recommends that private-sector doctors get full access to the veterans' medical records and be required to send all opioid prescriptions to VA pharmacies so they are tracked by a central database.

The findings call into question quality-control standards for the so-called Veterans Choice program that allows veterans to seek care in the private sector and that last week was approved by the House of Representatives for an extension of funding. The Senate has yet to vote on the funding.

The VA agreed with the findings of the watchdog in its official response to the report. The VA didn't respond to a request for further comment on the matter.

Opioid Panel Seeks Emergency Decree

A White House commission to combat soaring rates of drug addiction and overdose deaths has recommended President Donald Trump declare a national emergency over the crisis, saying it would "empower" the administration and Congress to take action.

The commission, chaired by New Jersey Gov. Chris Christie and established by executive order in March, also recommended the White House rapidly increase addiction-treatment capacity in the country, expand access to medications to combat addiction and reverse overdoses, and mandate medical education about the risks of prescribing addictive opioid painkillers, among other measures.

In a preliminary report, the commission said the president should seek to declare a national emergency under the Public Health Service Act or the Stafford Act.

"Your declaration would empower your cabinet to take bold steps and would force Congress to focus on funding and empowering the executive branch even further to deal with this loss of life," the commission said.

Mr. Trump and many other elected officials face growing pressure to address the opioid-addiction crisis, which has caused more than 300,000 overdose deaths since the late 1990s. The president asked the commission, made up of governors, state attorneys general and addiction experts, to make preliminary recommendations within 90 days of its creation.

The commission said the administration could help boost the number of addiction treatment centers by eliminating a Medicaid rule known as the Institutes for Mental Diseases (IMD) exclusion. The rule prohibits federal Medicaid funds from being used to finance most inpatient treatment of mental illnesses, including substance-abuse disorders, the report said. The rule leaves states alone to fund such inpatient treatment for Medicaid-eligible patients, which undermines the provision of treatment, the report said. The states and federal government jointly finance Medicaid.

—Jeanne Whalen

Trump's Insurer Threat Aimed At Reviving Repeal of Health Law

By Michelle Hackman, Siobhan Hughes and Anna Wilde Mathews

WASHINGTON—President Donald Trump warned that he could end federal payments to insurers, allowing them to be "hurt" by the Affordable Care Act, as a way to press members of Congress to revive efforts to repeal the Obama-era health law.

"If ObamaCare is hurting people, & it is, why shouldn't it hurt the insurance companies," Mr. Trump wrote on Twitter on Monday.

The president was alluding to the ACA's "cost-sharing reduction" payments, which the government pays to insurers to help them cut deductibles and other costs for low-income consumers.

Some Republican lawmakers Monday advocated a pause to regroup following last week's collapse of the repeal effort, but Mr. Trump wasn't backing down from his push to resurrect those efforts.

Several GOP governors, including Scott Walker of Wisconsin and Asa Hutchinson of Arkansas, met with White House officials to discuss repeal options. Mr. Trump has also held discussions on a proposal from Sen. Lindsey Graham (R., S.C.) that would convert ACA funding into block grants that states could use to remold their own health-care systems.


YURI GRIPAS/REUTERS

Sen. Orrin Hatch said it wouldn't make sense to vote again on a health plan until Republicans knew the Senate would pass it.

But a legislative path excluding Democrats narrowed last week when Senate Republicans failed to approve several proposals to overhaul the 2010 health-care law, leading Senate Majority Leader Mitch McConnell (R., Ky.) to say it was time to "move on."

While Mr. Trump suggested he might end the insurance payments, a bipartisan group of more than 40 House members released a proposal on Monday aimed at permanently authorizing them. "My hope is we don't have to go down the path of stopping these payments or cutting off other areas of payment out there," said Rep. Tom Reed (R., N.Y.), the leading Republican on the bipartisan plan.

Some Republican senators indirectly took issue with Mr. Trump's recent tweet that they were "total quitters" if they didn't vote again on repeal before tackling other bills. "It's time to move on to something else, come back to health care when we've had more time to get beyond the moment we're in," said Sen. Roy Blunt (R., Mo.). "Obviously we didn't give up and we didn't quit and we gave it our best shot."

Senate Finance Committee Chairman Orrin Hatch (R., Utah) said it wouldn't make sense to vote again on a health plan until Republicans knew the Senate would pass it.

"You've got to have a system that has a reasonable chance of success," Mr. Hatch said. "We are moving on to tax reform, but that doesn't mean we can't do more than one thing at a time. We can still keep working on health care."

For now, ending the insurance payments may be the most potent tool at Mr. Trump's disposal. Insurers say that without them, they would be forced to increase premiums or exit the ACA's exchanges, where consumers buy insurance if they don't get it through their employer or a government program.

The administration has maintained an uneasy relationship with insurers since taking office, regularly threatening the payments while working behind the scenes to encourage insurers to continue to sell coverage.

Insurers also face a mid-September federal deadline for completing their premium rates for 2018 exchange plans, leaving them little breathing room as the Trump administration and Congress send mixed signals about next steps.

The Kaiser Family Foundation has estimated that ending the cost-sharing payments could generate average premium increases of 19% for the marketplaces' middle-tier "silver" plans.

—Louise Radnofsky contributed to this article.

TAXES

Continued from page A1

they alter the direction the party has been heading in or more Democrats prove willing to bend.

Republicans plan to use reconciliation, which will allow them to pass a bill without Democratic votes, though they have said they are open to working with Democrats.

The Republican proposal includes rate cuts for businesses and individuals that will almost certainly lower taxes for many high-income households, though Treasury Secretary Steven Mnuchin said Monday that most households paying the top tax rate won't get a tax cut.

And although Republicans are aiming for a plan that doesn't increase budget deficits, they haven't shown yet how their math adds up.

Among Democrats, just Joe Manchin of West Virginia, Heidi Heitkamp of North Dakota and Joe Donnelly of Indiana didn't sign the letter.

All of them are up for reelection in 2018 in states that President Donald Trump won last year.

The letter likely singles out those three Democrats as the pool of possible votes for a GOP tax plan.

Seven other senators up for re-election in states won by Mr. Trump signed the letter, and five of those are on the tax-writing Senate Finance Committee.

Marc Short, the White House legislative affairs director, said Monday that the president would be visiting states in the Midwest with the aim of persuading lawmakers.

He also cited meetings that Trump administration officials have had over the past few months with Democrats in Congress.

"We welcome Democrats' support in tax reform," Mr. Short said.

No Democrats supported any version of the health-care bills that advanced through the House and failed last week in the Senate.

Given the gap that exists between Democrats and Republicans on fiscal policy, the same thing may happen on tax policy.

"The White House has not reached out to Sen. Heitkamp on this," said Julia Krieger, a spokeswoman for the senator.

"She has said many times that she is open to working with anyone on tax reform, and that those reforms must support working families," the spokeswoman said.

Mr. Donnelly has had several contacts with the Trump administration about his proposal to limit tax and other benefits for companies that shift jobs abroad, but the White House hasn't reached out directly to him on the broader tax agenda, according to the senator's office.

VW

Continued from Page One

Almost immediately after taking over in September 2015, Mr. Müller presented a plan to move beyond VW's huge business in diesel and gasoline vehicles and generate at least 25% of sales from electric cars. He argued VW needed to create a "significant share of revenue" from apps and services.

"What are you doing?" demanded one angry executive during a meeting of top managers last fall, referring to the CEO's stress on shifting beyond conventional vehicles, according to people present. "You are driving the nails into our own coffin."

Such exchanges have been frequent and continue to this day, say some VW insiders.

VW, which owns brands such as VW, Audi, Porsche, Skoda, Seat and Bentley, is facing a perilous moment. Its emissions-tampering scandal, which has cost it nearly $25 billion in fines, penalties and customer compensation, has been followed by a market-share erosion in its core European markets.

VW declined to make Mr. Müller available for interviews, directing inquiries to his public statements. "Volkswagen must change," he said in the May meeting, "because our industry is going to change more deeply in the coming 10 years than in the 100 years before."

As Mr. Müller tries to move Volkswagen beyond the diesel debacle, it continues to haunt him. The European Union's top antitrust regulator last month confirmed that, after a 2016 tip from VW, it has been investigating whether VW, BMW AG and Daimler AG violated antitrust rules through collaboration on diesel emissions and other technology going back more than 20 years.

Volkswagen declined to comment on the substance of any antitrust investigation. BMW denied any collusion. Daimler declined to comment.

Later last month, the German government said it found illegal software that manipulated emissions on Porsche's Cayenne and ordered a recall. Porsche said it alerted German authorities to the issue and is cooperating. A Porsche spokesman said Audi, as the engine's manufacturer, was responsible. Audi and Volkswagen declined to comment on the recall.

Shareholders are largely supportive of Mr. Müller's efforts but say VW has lost precious time.

"This shift to electric and digital mobility services is the right thing to do, but it comes five or six years too late," says Ingo Speich, a fund manager at Union Investment, a VW shareholder. "Volkswagen has lost any first-mover advantage because they kept clinging to the old way of doing things."

Mr. Müller has support from some VW executives who agree on the urgency. If VW's passenger-car business can't reorient toward new technologies by 2020, says one senior executive, "the Volkswagen brand will be dead meat."

Internal backlash

Mr. Müller's first steps came almost immediately. So did the backlash.

Three weeks after his promotion, he met secretly with Johann Jungwirth, one of Apple Inc.'s top car-project engineers. Mr. Müller peppered him with questions about automotive efforts by U.S. tech giants such as Apple, Uber and Alphabet Inc.'s Google and the threat they posed. After talking for an hour, recalls Mr. Jungwirth, Mr. Müller posed a final question: "When can you start?"

Two weeks later, Mr. Jungwirth was at VW headquarters, preaching the digital gospel and "getting on a lot of people's nerves," according to one executive. A person close to Mr. Müller says he has repeatedly defended Mr. Jungwirth in front of skeptical colleagues.

Mr. Müller's challenge is to win over VW's more-than-600,000 employees at a company that last year sold 10.4 million vehicles, more than any other single company, generating €217 billion ($237 billion) in revenue.

CHRIS RATCLIFFE/BLOOMBERG NEWS

VW CEO Matthias Müller

In new executive appointments, people close to him say, he has sometimes passed over a generation of executives to bring in outsiders and tech-savvy executives. He has jettisoned the idea prevalent at VW that it had to make most everything itself, entering partnerships to develop critical technologies. VW has teamed up with BMW, Daimler and Ford Motor Co. to build a pan-European electric car-charging network and is jointly developing artificial-intelligence applications with Nvidia Corp.

He has pushed VW into app-based businesses, such as an Uber-like ride-hailing service, and plans to launch a new generation of electric self-driving vehicles in 2020. VW has said it is tripling its investment in developing electric vehicles to $10 billion through 2025.

Mr. Müller is also pushing to overhaul some of VW's traditional businesses—and facing backlash there, too.

When Herbert Diess, CEO of the VW brand, last year pushed for big productivity gains at the unit, the IG Metall labor union reacted vehemently. Mr. Müller intervened and scaled back targeted gains.

When Mr. Diess took the stage in a February assembly of VW-unit workers, thousands turned their backs in protest of job cuts and productivity-gain targets. A week later at a meeting of the board of Volkswagen, the parent company, half of the 20-member body—those representing workers—walked out to protest Mr. Diess' pursuit of cost cuts, say people familiar with the meeting. Mr. Diess says unions hold excessive influence.

The seeds of VW's emissions scandal were sowed about a decade ago, when the U.S. was drafting new emissions rules. Some car makers began to develop electric vehicles and hybrids. U.S. environmental officials urged VW to develop hybrids as Toyota did.

Under VW's then-chairman Ferdinand Piëch and then-CEO Martin Winterkorn, the company instead pushed to come up with a diesel engine that would meet U.S. emissions targets. When the engineers failed, VW has said, they rigged the engines to cheat on emissions tests.

A lawyer for Mr. Winterkorn didn't respond to requests for comment. Mr. Piëch couldn't be reached, and his lawyer didn't respond to requests for comment.

Electric push

When Mr. Müller ascended to the top job, VW's obsession with diesel engines had left it lagging behind in electric vehicles, which it needs to meet European carbon-dioxide-emissions targets in 2020, company executives say.

VW sold 63,392 plug-in vehicles in 2016, achieving an 8.2% share of global plug-in passenger-car sales of 775,417, according to EV-Volumes, a research group. Mr. Müller in March unveiled plans to launch 30 new electric-vehicle models over coming years across all its brands.

The company is developing a new family of electric cars, named I.D. A prototype unveiled at the Paris auto show last year resembles VW's best-selling Golf. It would drive autonomously, connect to cloud-based services and be ready for an array of digital services, said VW, which plans to build it in Germany, China and the U.S. starting in 2020.

VW is also behind on new "mobility services" such as car-sharing and ride-hailing. Car companies must move into such services, the argument in the industry goes, to replace revenue lost as consumers using them buy fewer cars. Car companies with their own sharing services would also be in a strong position to provide the cars used in those services.

> *VW is also behind on new 'mobility services' such as car-sharing and ride-hailing.*

In the past, many VW executives scorned car-sharing and ride-hailing as fads, some VW executives say. One internal evangelist was Ole Harms, a 42-year-old economist who is now head of VW's group handling new business models and mobility services.

Until Mr. Müller took over, the company pursued few of Mr. Harms' ideas, they say. Meanwhile, rival Daimler AG was building its Car2Go unit into Europe's biggest car-sharing company, with 2.3 million members world-wide.

Daimler veteran Andreas Renschler, who joined VW months before the emissions scandal broke, says he asked then-CEO Mr. Winterkorn about VW's car-sharing plans. "I hear those cars are always dirty," Mr. Winterkorn replied dismissively about Daimler's car-sharing service, says Mr. Renschler, now VW's truck chief.

"The quality of the discussion has improved a lot," Mr. Renschler says.

Mr. Müller's new strategy chief, Thomas Sedran, after joining in 2015 from General Motors Co.'s Opel unit, persuaded the CEO to take a stake in Gett, an Israel-based ride-hailing company.

Over several months, Mr. Müller hosted VW-executive retreats at the company's guesthouse in Wolfsburg. Skepticism lingered about Gett at one retreat on April 22, 2016, the day VW reported a €4.1 billion loss due to the diesel scandal. Mr. Harms launched into his pitch, say people who were at the meeting, with slides of sales projections and showing the strategic fit with VW's brands.

When the floor was opened for questions, these people say, Frank Witter, VW's finance chief, asked: "Do we really have to do this? Is this sensible?"

"Yes, we do," shot back Mr. Renschler, who said VW needed to seize new revenue created by such services.

Mr. Renschler, Mr. Harms and another participant confirm the exchange, saying Mr. Witter was concerned about mounting costs from the emissions scandal. Mr. Witter declined to comment.

"It was a development process," says Mr. Harms, "and then at some point everybody was convinced."

The board backed the acquisition of Gett, which is now the nucleus of VW's Moia brand run by Mr. Harms. Gett drivers use their own vehicles now, but VW says it eventually wants to build vehicles for the service. Gett is the world's 10th largest car-hailing service, with about 1% of the market, according to industry consultants Frost & Sullivan.

Behind Mr. Müller's push in app-based businesses is also the notion, growing in the auto industry, that data-heavy applications may create revenue streams inside the car—location-based services, for example, that steer drivers to hotels or restaurants. Some believe data generated in the car—where a driver travels or what parts are wearing down—could be sold to third-party vendors offering services.

A 2016 McKinsey study projected shared-mobility and data services could create up to $1.5 trillion in additional revenue for the auto industry by 2030. To capture this new revenue, analysts say, auto makers need to develop digital technology and business models or risk seeing technology companies like Google fill the gap.

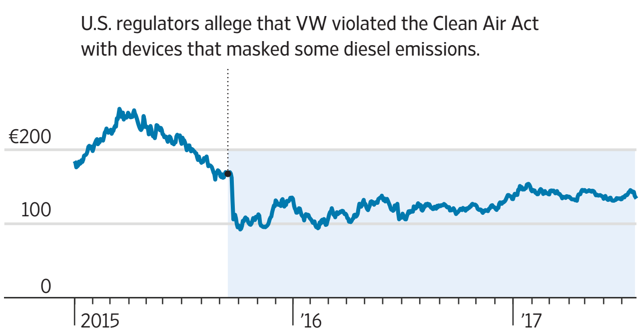
At the Geneva car show in March, VW unveiled its vision of where electric self-driving vehicles and mobility services can converge. Dubbed Sedric, the company's first fully autonomous vehicle, has no steering wheel or pedals.

"Dieselgate was bad," says Yung-Joo Prescutti, senior exterior designer on the Sedric project, "but now we have a good chance to change our way of thinking."

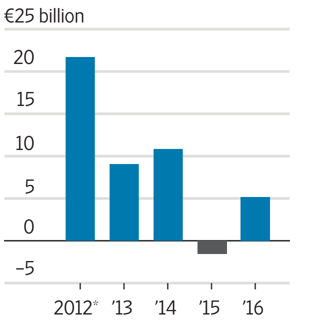
Shifting Gears

As Volkswagen seeks to recover from its diesel-emissions scandal...

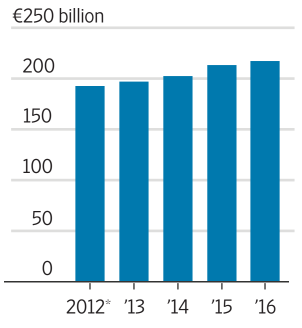
Stock price



Profit

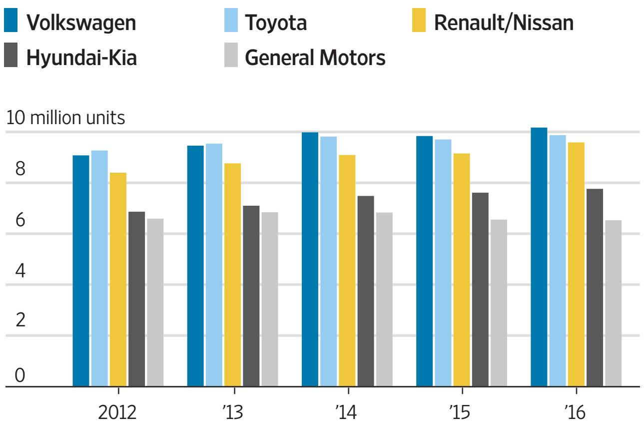


Revenue



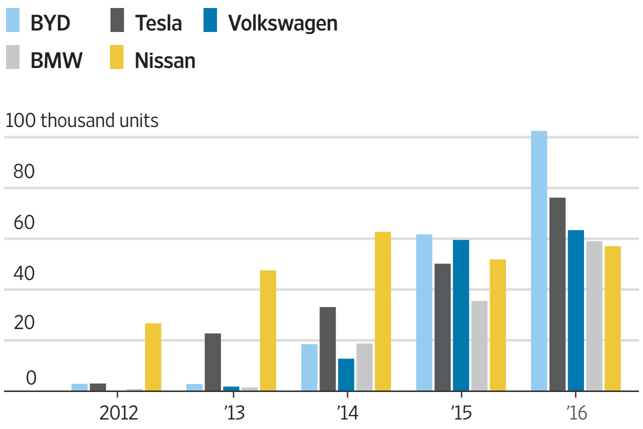
...it has maintained its No. 1 spot in global auto sales...

Global vehicle sales



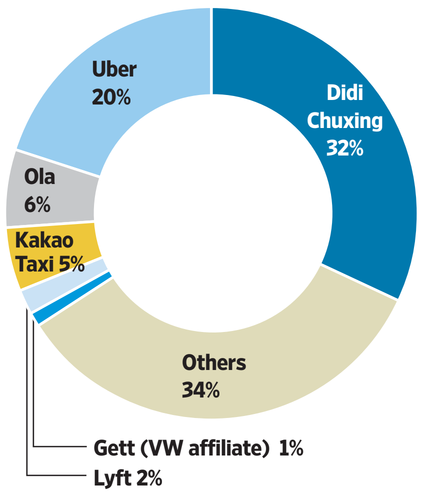
...but its CEO wants a stronger position in new markets such as electric cars...

Global plug-in electric vehicles sales



...and app-based services such as ride-hailing.

Global car-hailing market share in 2016



*Includes large one-off gains from acquisition of Porsche AG

Sources: WSJ Market Data Group (stock price); the company (revenue, profit); IHS Markit (vehicles sales); EV-volumes.com (plug-in electric vehicle sales, car-hailing market share); Frost & Sullivan (car-hailing market share)

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BEES

Continued from Page One

he said, he and his brother couldn't understand their neighbor's beekeeping. "Why would you want to raise bees if they're going to sting you," Officer Mays said, recalling his views as a boy.

He thought much the same as an adult. But during a 2008 visit to a friend's house in Worcester, Mass., he was persuaded to take a closer look at the beehives his friend had acquired. Officer Mays knelt close to the hive and was immediately mesmerized by its droning buzz, he said.

Officer Mays's wife was so impressed that the following Christmas she bought her husband a beekeeping hive. In the spring of 2009, Officer Mays bought many bees and eight books, including "Beekeeping for Dummies."

He joined the NYPD in 2001 to chase crooks, not bees. But after learning about beekeeping, Officer Mays informed the department of his new skills.

Officer Mays was assigned a bee-wrangling partner—Dan Higgins, a former counterterrorism detective and beekeeper. At retirement, Mr. Higgins moved to a job in the Westchester County District Attorney's office and left NYPD's bee duties to Officer Mays, who gets overtime pay for his work.

Bee swarms create problems in densely populated cities, Mr. Higgins said: "In nature, it happens in the middle of the woods. In New York City, it happens in Grand Central or Park Avenue where there are 500 or 600 people."

New York City is responsible for protecting public areas from swarms, a job that falls to police. Anthony Planakis, who was the NYPD's bee specialist in the 1990s and 2000s, said the department kept a beekeeper because no other city agency wanted the job. Some police departments in Maryland, Virginia and Arkansas also don the white beekeeper's veil to protect and serve.

Elsewhere, bees are generally dispatched by animal-control departments.

Chuck Wexler, the executive director of the Police Executive Research Forum, said police were well suited for the job, though he conceded a swarm "scares the beheebies" out of some officers who would prefer facing criminals.

"All kidding aside, it's a dangerous task," he said, "but if not the police, who?"

After capturing a swarm, most bee cops either give the insects to beekeepers or adopt them. Officer Mays keeps a hive on the roof of the Queens precinct, in addition to the four he keeps at home in Orange County, N.Y.

One of his first assignments this year was a bee swarm wreaking havoc at NYPD headquarters near City Hall. By the time Officer Mays arrived, the bees had fled. Before long, another swarm was spotted uptown, covering a large flower pot outside Mount Sinai Hospital.

Officer Mays, when facing a 30,000-strong swarm of bees, relies on old-fashioned police skills.

"Anytime you go to work on the beehive you always talk to them," he said. "Same thing with people in the street, especially in a domestic situation. You got to force them into a calm manner and get their demeanor down."

After talking to the bees, Officer Mays breaks out a vacuum that connects to a temporary hive. Once all the bees are sucked into the hive, he picks it up and puts it in the car.

In the recent Mount Sinai caper, Officer Mays drove the temporary hive to the Queens precinct, where he spotted a lieutenant who had teased him about his beekeeping. He said he dropped the box of bees on her desk: "They were just buzzing. She was saying, 'Get out of here! I told you I'm afraid of bees!'"

Officer Mays said he has been stung more than 400 times over the years. Among his lessons has been the importance of capturing the queen bee, which, he said, was "the reason life goes on" at the hive.

As Officer Mays worked the bee swarm from a cherry picker by Arturo's pizzeria, a detective from the NYPD's Emergency Services Unit watched from the ground. He would rather face any other kind of perp, he said, as long "they don't sting."

From his perch 20 feet in the air, Officer Mays accidentally cut off a tree branch with the hedge-trimmer. The branch fell hard to the ground, scattering bees and rubberneckers in all directions.

Officer Mays calmly rode the cherry picker to the ground to vacuum the rest of the swarm. After passing on a few bee facts to the thinned-out crowd, Officer Mays placed the temporary hive into the back seat of his car.

By around 7 p.m., Officer Mays took stock of his operation: one hive of bees recovered; one string suffered.

—Lisa Schwartz and Mariana Alfaro contributed to this article.

SANGSUK SYLVIA KANG/THE WALL STREET JOURNAL

NYPD Officer Darren Mays vacuums bees from a recent swarm.

New Police Video Emerges in Baltimore

Second batch of video from police body-cam allegedly shows evidence planting

By Scott Calvert


BALTIMORE POLICE DEPARTMENT/REUTERS
A body-cam image, released July 19, taken from a January video in which police retrieved evidence.

The Baltimore Police Department is facing fresh scrutiny as a second batch of police body-camera footage has emerged, this time allegedly showing officers involved in planting drugs in a car shortly before two people were arrested.

Prosecutors have decided not to pursue charges against the two defendants in connection with the November arrest and video, which the Office of Public Defender said "appears to depict multiple officers working together to manufacture evidence." That video hasn't been publicly released.

Last month, the public defender's office released police video from a separate incident in January, in which an officer's own camera shows him placing purported drugs in a trash-filled yard before returning moments later and retrieving the items.

Body cameras used in Baltimore are constantly recording and save the most recent 30 seconds of video when an officer activates the camera.

The revelations are the latest blow for Baltimore police. In February, seven officers in a gun unit were charged under federal racketeering law; two pleaded guilty in connection with robbery charges.

In January, Baltimore and the federal government signed a consent decree aimed at making major changes in the police department after a Justice Department investigation in 2016 found a longstanding pattern of unconstitutional policing.

The city's police department is battling a surge in homicides in 2017. Near-daily killings have produced a nearly 20% increase in the number of homicides in the city versus a year ago.

State's Attorney Marilyn Mosby said Friday she had spoken to Police Commissioner Kevin Davis about the video footage from the November arrest. She declined to describe the video but said it "raised concerns" for the prosecutor handling the case.

The two cases are likely to further erode public trust in police in Baltimore and could make it harder for prosecutors to persuade juries to render guilty verdicts, said David Jaros, an associate law professor at the University of Baltimore.

"The distinct possibility that jurors can no longer trust the evidence brought into court by police officers, which we really depend on for the entire system to function, casts a shadow," said Mr. Jaros, who teaches a class on evidence. The episodes show the growing use of body-worn cameras by police in the U.S. isn't a panacea for public distrust or potential misconduct by officers, he said.

The police department has suspended one officer involved in the January incident and put two others who were there on administrative leave. None could be reached for comment through the department.

In addition, state prosecutors have dropped or plan to drop at least 34 pending cases in which the three officers were deemed key witnesses and have more than 70 other cases to review.

Prosecutors have referred two officers to the police department's internal affairs unit in connection with the November arrest. The public defender's office has raised questions about why five other officers present at that arrest didn't receive similar referrals.

Chief police spokesman T.J. Smith said the department is committed to probing all claims of misconduct, "Anytime an allegation of misconduct is made, we take it seriously and investigate it fully," he said.

Mr. Smith said other officers have been disciplined in the past for violations of body-camera policy. "We remain committed to getting it right," he said. "Our relationship with the community depends on it."

Debbie Katz Levi, who heads the special litigation section in the public defender's Baltimore office, estimated that the 10 officers in the two videos are connected to hundreds of cases in which people face criminal charges or have been convicted.

"We have people sitting behind bars without bail, we have people whose lives are ruined by these charging documents," she said.

In the November case, police said there is a gap in the video footage "after the recorded recovery of drugs and before the final recovery of additional drugs."

The public defender's office said the footage consists of a series of videos that show multiple officers searching a car, including the front driver's side area.

"After the car has been thoroughly searched, the officers turn off their body cameras and reactivate them," the office said. "When the cameras come back on one officer is seen squatting by the driver's seat area. The group of officers then wait approximately 30 seconds. Shortly thereafter, another officer asks if the area by that compartment has been searched." When no one responded, the office said, a police officer "locates a bag that appears to contain drugs right by where the prior officer was."

Tribe, Utilities Feud Over Aquifer

By Jim Carlton

Deep beneath the desert east of Los Angeles is a Southern California treasure: a massive basin filled with freshwater.

The aquifer has spurred development of the popular resort towns in the Coachella Valley, such as Palm Springs, Palm Desert and Rancho Mirage.

But it also lies underneath the reservation of a small Native American tribe that owns golf courses and casinos in the area.

The Agua Caliente Band of Cahuilla Indians says the drinking water is partly its and wants a stake in how it is used by public utilities. A yearslong legal battle over the issue could end up being taken up by the U.S. Supreme Court this fall.

The high court's action could affect groundwater rights across the arid West, where utilities now deliver the water to tribes as another customer, along with farmers, cities and businesses.

The 480-member tribe contends the local water agencies—the Desert Water Agency and Coachella Valley Water District—have mismanaged the groundwater by allowing too much to be pumped out and by replenishing the source with untreated water from the Colorado River that they consider subpar.

The water agencies, however, say the tribe appears to be making a water grab, potentially setting a dangerous precedent where control of a municipal resource is partially ceded from a public utility.

They also say the tribe, which has built two casino-resorts and two 18-hole championship-caliber golf courses on its 31,500 acres, has little experience in managing water and could potentially sell some of it.

The California case is the first in the nation to reach a federal appellate level.

"They're in the money business," said James Cioffi, board president of the Desert Water Agency. The tribe says its only interest is in preserving the quality of the water.

Agua Caliente in 2013 took its case to federal court, winning in the first round on the issue of whether it has federal reserved rights to groundwater. That ruling was upheld in March by the Ninth Circuit Court of Appeals in San Francisco.

The water agencies appealed to the Supreme Court, which is expected to decide whether to hear the case this fall.

If the court were to overturn the appellate court, legal observers say that could mean fresh challenges in other cases where tribes have already been awarded groundwater rights from some state courts.

If it lets the lower-court rulings stand, more tribes could seek groundwater rights—triggering more litigation.

"There are very few water lawyers in the West who are not aware of this case," said Dan Tarlock, a law professor at Illinois Institute of Technology's Chicago-Kent College of Law.

Other tribes have already filed friend-of-the-court briefs on behalf of Agua Caliente's litigation, including the Spokane in Washington and Paiutes in Nevada.

State and national water groups are weighing in, too.

The Association of California Water Agencies, for example, plans to file a friend-of-the-court brief on behalf of the utilities, said Tim Quinn, the group's executive director.

"The big deal is possibly that water agencies are there to manage water for everyone, but the concern about a case like this is you might not be able to manage the water for everyone," Mr. Quinn said.

Tribal rights over rivers and other surface-water supplies are well established in the West, but less so when it comes to groundwater—one of the most important drinking-water sources in many desert areas.

Tribes in Arizona and Montana have gained rights to local groundwater in recent decades after appealing to the supreme courts of those states, although a tribe's bid to do so in Wyoming was rejected in 1988 by that state's highest court.

The California case is the first in the nation to reach a federal appellate level.

Native Americans didn't start pursuing groundwater rights in earnest until after the 1970s, as part of a movement to seek greater independence, legal experts say.

The dispute in California's Coachella Valley—a 45-mile strip of desert where temperatures soar as high as 120 degrees—arose after the Agua Caliente said water agencies ignored their claims of mismanagement for two decades.

The aquifer supplies water to an area with a population of roughly 400,000 people.

"The tribe was hoping that they could get the water districts to change their practices, but they realized that was just not going to happen," said Catherine Munson, a tribal attorney based in Washington, D.C.

Officials of the water agencies say they adopted a plan in 2002 to help better manage the groundwater and that over the past decade they have stabilized the amount that gets used.

Water Fight

The Agua Caliente tribe wants greater control over groundwater from a massive aquifer that's partly under their reservation. The fresh water source has helped fuel the growth of the area.

Sources: Coachella Valley Regional Water Management Group; Agua Caliente Band of Cahuilla Indians

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"We have a vibrant economy where anyone who wants water gets water," said Mr. Cioffi.

The Agua Caliente filed suit in U.S. District Court in Riverside, Calif., in May 2013, seeking a declaration that it has a federally reserved right to water underneath the reservation, which was created in the 1870s.

The U.S. Department of Justice joined the case as a plaintiff in 2014.

A lower-court judge ruled in favor of the tribe in 2015, prompting the appeals process that is still under way.

If the Supreme Court lets the previous rulings stand, the exact amount of water belonging to the tribe would be determined in another proceeding.

That would likely set the stage for other landowners to try to win their own rights to the groundwater, said John Powell, board president of the Coachella Valley Water District.

That may create "a lot of uncertainty and cost," Mr. Powell said. "Everyone is going to have to lawyer up."

Tame Inflation Complicates Fed's Next Move on Interest Rates

By Sarah Chaney

Consumer prices were flat in June from the prior month, and annual inflation remained well below the Federal Reserve's 2% target, a potential yellow flag for the central bank as it considers interest-rate increases later in the year.

Inflation is turning into a conundrum for the Fed. Officials have been expecting a pickup as the economy improves, but it isn't appearing.

The Fed's preferred measure of inflation, the price index for personal-consumption expenditures, was flat in June from the prior month, the second straight flat reading. It was up 1.4% in June from a year earlier and has dropped for four consecutive months on an annual basis, from 2.2% in February.

Consumer spending didn't offer much spark either, rising a tepid 0.1% for the month. Adjusted for inflation, consumer spending was unchanged in June. Personal income was flat, the Commerce Department reported Tuesday, held back in part by a drop in the income households earn on dividends from investments.

Soft energy prices are part of the story, but not the whole story. Excluding the often-volatile categories of food and energy, so-called core prices were up 0.1% in June for the second straight month. Core prices have stabilized at 1.5% from a year earlier, which is down from 1.9% reached in February and notches below the Fed's 1.7% end-of-year projection.

"Core inflation hasn't been quite as weak as previously believed, although the continued shortfall relative to the Fed's 2% target will leave officials with little appetite for a rate hike at the mid-September FOMC meeting," said Andrew Hunter of Capital Economics in a note to clients.

The price index hit and slightly exceeded the Fed's target level in early 2017 for the first time in nearly five years, but has since settled lower. One reason was a drop-off earlier this year in the price of cellphone services, something many Fed officials see as a transitory event.

The Fed sees low inflation as a sign of broader economic weakness, which is why it seeks to keep it steady at around 2%. The persistent softness in inflation readings has some economists wondering if broad forces are at play holding down inflation and the economy.

"One of the things that's really holding back inflation right now is just the weak wage growth," said Scott Anderson, Bank of the West chief economist. "Without that catalyst of rising real wages, it's going to be hard for inflation to move a lot higher."


ELISE AMENDOLA/ASSOCIATED PRESS
Consumer spending inched up in June, a sign of modest momentum in a key economic segment.

In theory, wages should pick up as slack in the job market diminishes and employers have to compete more for scarce workers. Economists estimate the July unemployment rate ticked down to 4.3% from 4.4% a month earlier and the economy added jobs at a steady pace.

Despite recent soft inflation readings, Fed Chairwoman Janet Yellen said at her congressional testimony in July that it was "premature to conclude that the underlying inflation trend is falling well short of" the Fed's target.

"We have quite a tight labor market and it continues to strengthen, and experience suggests that ultimately, although with a lag, we're not seeing very substantial upward pressure on wages," Ms. Yellen said. "But we may begin to see pressures on wages and prices as slack in the economy diminishes."

Peter Hooper, chief economist for Deutsche Bank Securities, sees an eventual upturn in prices. "As some of the big surprises begin to drop out, the February (and) March declines, particularly in cellphone services, we then expect to start to see things move up," Mr. Hooper said.

Some Fed officials have expressed concern in recent weeks about pushing ahead with interest-rate increases in light of the softening inflation data. Federal Reserve Bank of Philadelphia President Patrick Harker said last month the recent slowing path of inflation gave him pause over whether the central bank should raise its benchmark interest rate for a third time this year.

Overall, the economy appears to be advancing at a steady but unspectacular pace.

Consumer spending propelled economic growth in the second quarter, the Commerce Department reported last week. Gross domestic product, a broad measure of economic output, rose at a seasonally and inflation-adjusted annual rate of 2.6%, aided by a 2.8% growth rate for consumer spending. That was up from the first quarter's 1.9% growth pace for household outlays.

LIFE & ARTS

MEN'S FASHION

The Stickiest Debate for Men

In summer, men ponder the style and usefulness of a T-shirt under a dress shirt to protect against sweat stains

BY RAY A. SMITH

ISTOCK

IN THE SUMMER, Reed Chapman wears an undershirt so he can avoid a Rorschach test of sweat marks from forming on his dress shirts.

"I sweat down my back a lot, so that's a lot of surface area to be embarrassed about on a button-down," says the 26-year-old New Yorker, who works in finance and is grateful for the undershirt anytime he's waiting for a train in the city's steamy subways.

Dominic Trombino, a marketing professional and writer in Chicago, isn't a fan. "I understand it protects the sweat but I always feel it's more uncomfortable because when I sweat, they stick to me more and it makes me feel hotter," says the 27-year-old. "I'd rather be comfortable." He wears button-down shirts "in very dark colors so sweat doesn't show as much."

Call it the sweat wars.

When summer temperatures soar, some men swear by undershirts while others swear off them. Heated debates between men on the topic have spilled out on Twitter.

Now, underwear makers from Fruit of the Loom and Hanes to upscale brands like Sunspel, of England, and Zimmerli, of Switzerland, are locked in an arms race to provide undershirt options that address men's common pet peeves about comfort and style. Some have added more slim-fit undershirts to keep up with the slimmer-shirt silhouette that has been popular in menswear for years. Some versions are made with lighter cotton, or fabric-cooling and moisture-wicking properties.

Jockey's Staycool+ Essential Fit undershirts have a tailored fit so they won't bunch up under dress shirts, says Rob Styles, Jockey VP of Merchandising and Design. Fruit of the Loom's "stay-tucked" V-neck undershirt, made with a softer cotton than its other undershirts, has reshaped sleeves to prevent "unwanted peeking from underneath your shirt," the company said. It also made them longer, to ensure they won't pop out of pants when the wearer is doing things like sitting or bending.

Hanes last year began adding odor-protection to its lightweight undershirts. It embeds them with a technology the company said is designed to adapt to the wearer's body temperature to keep him cool.

At the more upscale end, Zimmerli, markets a line of undershirts made with a light, slightly transparent cotton to make it more imperceptible under a dress shirt. Sunspel's "Superfine Cotton" V-neck undershirts, made from a specially-developed lightweight jersey fabric, are "close without being tight," the company says. They feature "an ultra low V-neck," a help to men who want to wear their dress shirts with the top buttons undone without fear of an undershirt peekaboo.

A visible undershirt is considered a fashion faux paux. "It's an undergarment," said Tim Gunn, the fastidiously dressed "Project Runway" co-host and mentor. "You look a little more polished if we don't see it," says Mr. Gunn.

Brad Lavoie, 37, of Seattle is "evangelical" about the V-neck. "One of the tackiest things is when I see people with their dress shirt collars open and you can see 6 inches of white under a dress shirt" because they're wearing a crew-neck undershirt, he says. The reverse is also true. When Mr. Lavoie, who works in health-care finance, wears a tie and buttons the top shirt button, he'll wear a crew-neck undershirt. "If I'm wearing a V-neck under that, you can see where my shirt ends and my chest begins," he says.

Uniqlo recommends customers choose its AIRism Seamless V-necks, which feature quick-drying technology and self-deodorizing properties. Uniqlo says the color beige is best if customers plan on wearing a white dress shirt because a white undershirt would be too visible underneath. The neck and cuffs are constructed without seams, which Uniqlo says keeps lines from showing through a dress shirt. They have a deep-v neck too, to hide the undershirt from view under an open collar.

> "That one layer is a kindness to ourselves and the people around you," says Tim Gunn.

Undershirts have come a long way from their days as an offshoot of the one-piece union suits men wore as undergarments in the late 19th and early 20th century to protect precious clothes. In 1901, Hanes, then known as the P.H. Hanes Knitting Co. introduced two-piece underwear, a variation on the union suit, according to the company. By 1913, the U.S. Navy made the T-shirt part of its standard issue uniform, replacing one-piece underwear.

They eventually became a work-wear staple for men with blue-collar jobs. The undershirts offered a way for men to beat the heat while on duty without going shirtless. Veterans returning from war would wear the undershirts as casual wear, inspiring civilian men to do the same.

In the 1950s, the white T-shirt was popularized in Hollywood by James Dean in "Rebel Without a Cause" and, especially, Marlon Brando in "A Streetcar Named Desire" and "The Wild One," even as the tees they wore were technically underwear. Around that time, men with white-collar jobs would also wear undershirts under their suits and ties for warmth in winter and to fight sweat in the summer.

"It's a great protector," says Mr. Gunn, who is also an author and educator. "It keeps all the bodily fluids away from the shirt. That one layer is a kindness to ourselves and the people around you."

Tim Pickert, a 29-year-old Chicago-based lawyer, puts an undershirt on "pretty much every day." That includes off-the-clock, when he's wearing a polo shirt or T-shirt and plans to be outdoors for a long time, "to avoid backsweat" from showing. For work, where he often dresses in a business-casual style, he prefers the slim-fit V-neck undershirts Nordstrom makes. "You can unbutton two buttons and it won't show," he says. Another plus: "They have [6%] spandex, so they're not as bulky."

For men concerned an undershirt will mess with the sleek profile of the slim-fit shirts they are wearing, Mr. Gunn shared his secret to making it work: "One thing I do every day, all the time, I tuck the T-shirt into the waistband of my underpants," he said. "It helps keep it down and secured. If you don't, [the undershirt] can rise up and create a little bulk" in the waistband area.

Sometimes even a great lightweight, slim-fit, deep-v V-neck will be no match for really hot weather, as Kevin Hupp recently learned, The 23-year-old Los Angeles-based actor and writer, was on a set in a building with no air conditioning on a hot day and managed to sweat through the underarms of both his undershirt and oxford shirt. "Someone on set said 'you really sweat through your entire button down,' which was embarrassing." He posted a five-second video clip of himself on Twitter, zooming in on his sweat-soaked shirt's armpit.

MY RIDE | By A.J. Baime

ABSURD RACE CARS AND A DRIVER WHO LOVES THEM

APRIL GREER FOR THE WALL STREET JOURNAL

Jeff Bloch, a police sergeant, and his wife, Jaime, with some of their race cars. Their Upside Down Camaro, left, in a 24 Hours of Lemons race in 2013.

Jeff Bloch, a Washington, D.C., police sergeant, on his Lemons racing cars, as told to A.J. Baime.

I have been a police officer for 22 years, and I have been racing cars longer than that. I first heard about 24 Hours of Lemons racing in 2009 (Lemons, which recently changed its named from LeMons, is a pun on a bad car and the 24 Hours of Le Mans, regarded as the world's most important sports car race). It's a nationwide endurance racing series, and at the same time, a contest for who can make the coolest, most absurd racing car. I am overly competitive, but I'm also 44 going on 8. This was for me.

I put together a team called Speedycop & the Gang of Outlaws. My wife Jaime is outlaw #1 and the rest is an eclectic mix. I do the design and engineering. We build the vehicles in my garage, and we race them. In Lemons racing, it does not matter as much who is fastest but who wins the prize for coolest fast car—the Index of Effluency prize. We have won nine times.

Our latest is the Trippy Tippy Hippy Van. We took the body a 1976 Volkswagen bus, flipped it on its side, slid a 1988 Volkswagen Rabbit into it, and built it into a race car, so you cannot see the Rabbit, only the sideways van. Lemons cars have to cost no more than $500; after you have the base vehicle you can spend as much as you want making it cool. I found a Rabbit in Texas for $500, and the build took five intense weeks. We raced in Kentucky last month (the vehicle can hit about 100 mph), winning the Index of Effluency award.

Other cars include Speedy's Weenies—a hot dog stand welded onto a Suzuki SUV. (At a race earlier this year in New Jersey, we came in 48th out of 124, which means we beat over 75 cars—in a hot dog stand.) There's the Spirit of LeMons (an abandoned 1956 airplane body mounted onto a 1987 Toyota), and the Upside Down Camaro (the name says it all). The SpeedyCopter is a Vietnam-era attack helicopter body mounted on a 1986 Toyota. We built this vehicle to be amphibious, so after I raced it, I drove it on a lake on propeller power.

My wife is a saint. We have two incomes and no kids, and we scratch by because everything goes into racing. On the track, we drive these cars hard, and we have an absolute blast.

Contact A.J. Baime at Facebook.com/ajbaime.

CELEBRITY

Boomer Stars Who Can't Resist a Comeback

Garry Kasparov, Steven Soderbergh, Cher and others are coming out of retirement

BY DON STEINBERG

OSCAR-WINNING DIRECTOr Steven Soderberg said he quit making feature films in 2013, but his new movie "Logan Lucky" opens in theaters on Aug. 18. Chess grandmaster Garry Kasparov retired from professional play in 2005, but he's back in a tournament on Aug. 14. Cher staged an elaborate farewell tour in 2014, but lately she's been adding dates to a new concert series in Las Vegas.

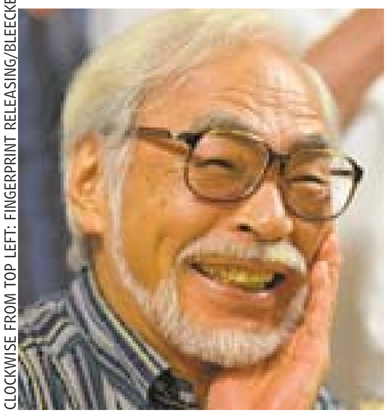
For Baby Boomers, retirement planning sometimes isn't perfect, especially since they don't want to stay retired.

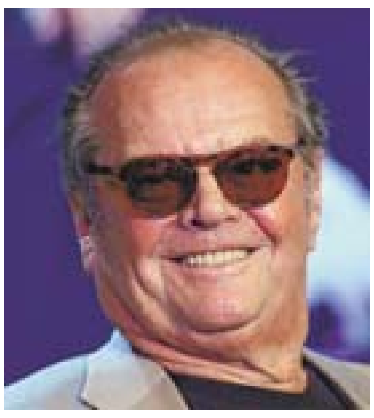
Prodigies like Messrs. Kasparov and Soderbergh and Cher may not be your typical 401k retirees. But their decisions to return to their passions are instructive for the whole generation: They're going back to deal with unfinished business, restless creativity, and simply because they miss the rush.

"Retirement really should be called a sabbatical," says Chris Farrell, author of "Unretirement: How Baby Boomers Are Changing the Way We Think About Work, Community and the Good Life." For many boomers, "retirement is just, 'I'm taking a break.' It's a time for introspection. What do I want to do next? It's hard to find time for that when you're on the job."

Anyone can do that, Mr. Farrell suggests: "Maybe you've been an accountant in a large organization. You say 'I'm gonna take a break,' then be an accountant for a nonprofit. Or for an entrepreneur who's starting a company.' You're using the same skills, but you're re-energized with a new mission."

The latest crop of unretirees:





CLOCKWISE FROM TOP LEFT: FINGERPRINT RELEASING/BLEECKER STREET; GETTY IMAGES (3)

Clockwise from top: Director Steven Soderbergh, singer Cher, actor Jack Nicholson and film animator Hayao Miyazaki are all making comebacks this year. 'Retirement should be called a sabbatical,' author Chris Farrell says.

Steven Soderbergh, 54, film director

The Retirement:
The director of "Erin Brockovich," the "Ocean's Eleven" movies, and many quirky independent films said in 2013 he was finished trying to create feature films in a Hollywood studio system that favored globally marketable action movies over vision-driven cinema. "You've got people who don't know movies and don't watch movies for pleasure deciding what movie you're going to be allowed to make," he griped in a keynote speech at that year's San Francisco International Film Festival.

The Unretirement:
Mr. Soderbergh's "Logan Lucky" opens Aug. 18. Channing Tatum, Adam Driver, Daniel Craig, and Hillary Swank star in the NASCAR-track heist comedy that puts a redneck twist on his "Ocean's" caper films. The director found new energy for feature films by devising a new model for releasing films that bypasses the big studios. "Announcing my retirement from movies was a cry for help. 'Logan Lucky' has been a crucial part of my healing process," he said in an interview.

Garry Kasparov, 54, chess champion

The Retirement:
"Today I played my last professional game," Mr. Kasparov announced in 2005 after winning the Linares tournament in Spain, but losing his final game. He admitted to feeling less competitive than he wanted to be. In a 30-year career, he reached the highest rating of any player in history at the time. He moved on to pursue business, politics and writing.

The Unretirement:
Mr. Kasparov will return to professional chess 12 years later, at a tournament starting Aug. 14 in St. Louis. In July, he tweeted: "Ready to see if I remember how to move the pieces! Will I be able to announce my re-retirement afterward if not?!"

Cher, 71, singer and actress

The retirement:
Cher had a farewell concert tour (not her first) in 2014 that was cut short by health issues. The Oscar-winning actress's last on-screen role was in "Burlesque" in 2010.

The Unretirement:
Her Classic Cher concert series in Las Vegas began this February and currently runs through November. "I planned to retire when I did the farewell tour, because I was old and because it seemed appropriate," she said in a TV interview. On her continued performing: "There will come a time when I can't do it. And that scares me into doing it."

Jack Nicholson, 80, actor

The Retirement:
The Oscar-winning actor never officially quit, though his last film role was seven years ago, after averaging more than a film per year since the early 1960s. He turned down roles including baseball executive Branch Rickey in "42" (2013) and Robert Downey Jr.'s father in "The Judge" (2014)," according to Variety. "I think he is basically retired," his friend Peter Fonda told the New York Post during an event earlier this year.

The Unretirement:
Mr. Nicholson this year signed up to return to the screen. He'll costar with Kristen Wiig in an English-language remake of the German film "Toni Erdmann," currently in development.

Hayao Miyazaki, 76, film animator and director

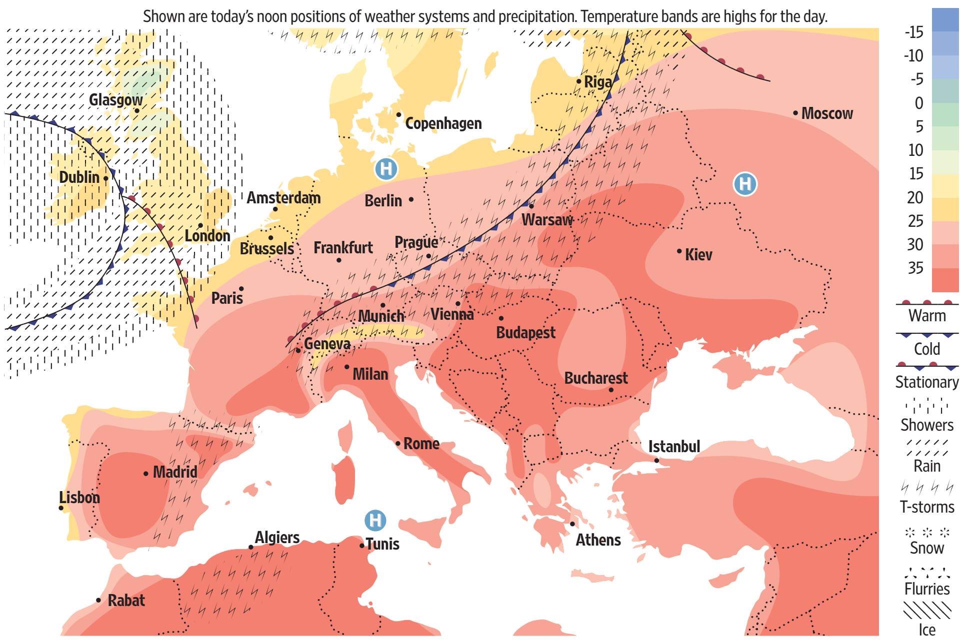
The Retirement:
Japan's legendary creator of anime films including "Spirited Away" and "Princess Mononoke" retired at age 72 in 2013. "I feel that my days in feature film are done," he said at a 2013 press conference in Tokyo. He felt he no longer had the stamina to direct the hundreds of animators involved in a feature film, and he closed his studio.

The Unretirement:
The chance to work on a short film about a baby caterpillar reignited his passion, according to a documentary. The project led to Mr. Miyazaki's work on a new feature-length film to be ready in time for the 2020 Tokyo Olympics. "I'm prepared to die before it's finished," he says later in the documentary. "I'd rather die that way than die doing nothing."

Weather

AccuWeather.com

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

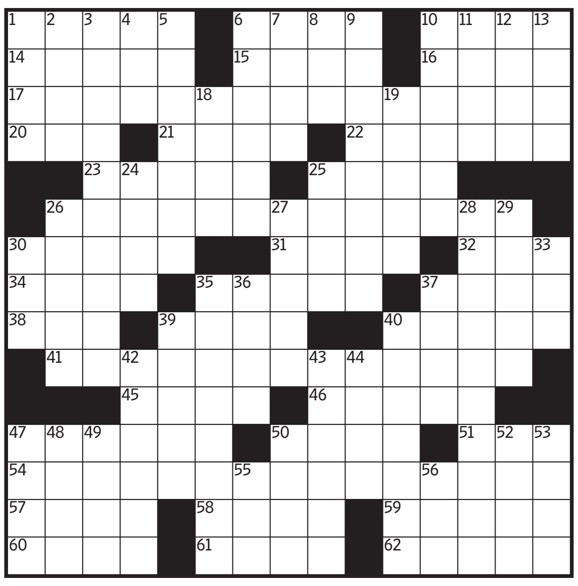


Global Forecasts

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

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	22	17	pc	22	16	pc
Anchorage	16	13	r	17	13	c
Athens	32	25	s	34	25	s
Atlanta	31	22	pc	28	21	t
Baghdad	50	31	s	49	32	s
Baltimore	32	20	s	31	20	pc
Bangkok	36	28	t	34	27	t
Beijing	29	24	t	34	25	t
Berlin	26	18	pc	28	19	t
Bogota	20	10	r	20	10	r
Boise	39	19	s	38	20	s
Boston	28	20	s	28	19	pc
Brussels	23	18	pc	25	16	pc
Buenos Aires	16	6	pc	17	6	pc
Cairo	37	26	s	37	26	s
Calgary	21	10	pc	26	12	s
Caracas	32	26	pc	33	27	pc
Charlotte	31	20	pc	32	20	pc
Chicago	28	19	t	28	15	t
Dallas	31	23	pc	34	24	pc
Denver	31	13	t	22	12	t
Detroit	30	20	t	30	18	t
Dubai	45	36	s	46	35	s
Dublin	21	13	r	20	11	sh
Edinburgh	18	12	r	18	11	sh
Frankfurt	28	19	pc	29	19	t
Geneva	32	21	t	33	21	t
Hanoi	34	27	t	33	26	t
Havana	33	23	pc	34	23	pc
Hong Kong	33	29	sh	33	28	t
Honolulu	31	24	pc	31	25	pc
Houston	30	24	t	32	25	t
Istanbul	31	24	s	31	24	pc
Jakarta	33	24	s	32	24	pc
Johannesburg	19	7	c	21	8	s
Kansas City	30	20	pc	26	13	t
Las Vegas	39	29	t	39	30	pc
Lima	21	15	pc	21	15	pc
London	19	16	r	22	15	c
Los Angeles	32	23	pc	33	22	pc
Madrid	36	21	pc	38	22	s
Manila	31	26	t	31	26	t
Melbourne	14	5	pc	11	7	r
Mexico City	25	14	pc	26	13	pc
Miami	33	27	t	34	29	pc
Milan	37	24	pc	37	23	pc
Minneapolis	29	15	pc	17	14	r
Monterrey	34	23	pc	33	23	pc
Montreal	30	18	pc	29	20	sh
Moscow	26	20	s	23	15	pc
Mumbai	31	26	sh	31	26	pc
Nashville	31	21	t	32	21	pc
New Delhi	32	26	t	33	27	pc
New Orleans	30	23	t	29	24	t
New York City	31	22	t	29	22	pc
Omaha	31	19	pc	24	13	pc
Orlando	31	23	t	33	24	t
Ottawa	29	17	t	27	18	sh
Paris	27	19	pc	27	17	pc
Philadelphia	32	23	t	33	23	pc
Phoenix	36	28	t	40	29	pc
Pittsburgh	29	19	t	29	21	t
Port-au-Prince	37	24	pc	35	24	pc
Portland, Ore.	42	21	s	41	21	s
Rio de Janeiro	29	20	s	30	20	s
Riyadh	45	29	s	44	30	s
Rome	34	22	pc	35	24	s
Salt Lake City	37	22	s	37	22	s
San Diego	27	23	pc	28	23	pc
San Francisco	26	16	pc	25	16	pc
San Juan	31	27	sh	31	27	sh
Santiago	19	2	s	22	3	s
Santo Domingo	34	24	pc	32	24	t
Sao Paulo	26	16	pc	21	13	pc
Seattle	35	19	s	37	19	s
Seoul	33	26	pc	34	25	pc
Shanghai	37	29	t	37	30	s
Singapore	30	27	c	31	27	t
Stockholm	21	13	t	23	13	pc
Sydney	17	11	pc	19	11	r
Taipei	35	27	t	35	26	t
Tehran	35	25	s	35	25	s
Tel Aviv	32	26	s	32	25	s
Tokyo	27	22	pc	28	23	pc
Toronto	30	19	sh	28	21	t
Vancouver	29	17	s	29	18	s
Washington, D.C.	33	23	s	33	24	c
Zurich	30	19	t	30	19	t

The WSJ Daily Crossword | Edited by Mike Shenk



TAKE SOME TIME | By Daniel Hamm

Across
1 Ball-bearing entertainers
6 Poetry contest
10 Fellow
14 "What's new, Buenos Aires? I'm new..." singer
15 Bit
16 Give a new look to
17 Melanie Griffith decision of 1996?
20 NYC-to-Rio bearing
21 Request to a prompter
22 "Heavens!"
23 Queen's mate
25 Delivery vehicles
26 Say "You mutts couldn't catch a dead grouse," say?
30 Kenobi's creator
31 Belligerent god
32 Green prefix
34 Flyer based at Ben Gurion International
35 A quarter of the cards
37 Played at a party, perhaps
38 The youngest Cratchit
39 Move doggedly
40 Pitcher's place
41 Diva's trademark brazenness?
45 Essence
46 Marseille man
47 2005 World Series losers
50 "The Well-Built Swede," in old ads
51 Cribbage jack
54 Staring at one's vast pumps collection to ease depression?
57 Cruise destination
58 Debtor's voucher
59 Critic, with stars
60 About half of deliveries
61 Shipshape
62 Forgo frugality

Down
1 Makes muumuus, say
2 Times for some holiday parties
3 General's right-hand man
4 Old Ford model
5 They're often on top of the deck
6 Official impression
7 Brain part
8 Words with premium or discount
9 Formal orders
10 Folder's creation
11 Munich Mr.
12 He "gave names to all cattle, and to the fowl of the air"
13 Take a stance
18 Nickname of Columbus's Santa Clara
19 Body shop challenges
24 Bona fide
25 Conjugation target
26 Enrique Iglesias's dad
27 User of riyals
28 Give a shot in the arm to
29 Embarrassing outburst
30 Rent out
33 Unmatched
35 Paragon of dignified behavior
36 Senate majority leader in 2000
37 Frosh quarters
39 Antecedent
40 They've paid their dues
42 White waders
43 Loquacious
44 He put two and two together
47 African serpents
48 "Get lost!"
49 Of two minds
50 Lose traction
52 Ready for customers
53 Antarctic explorer Richard
55 Greek's X
56 Grammy category

Previous Puzzle's Solution

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

OPINION

REVIEW & OUTLOOK

On the Macron Waterfront

Investors hope Emmanuel Macron will be a French Margaret Thatcher, but his first major economic move is all Charles de Gaulle. Paris last week nationalized a shipyard to keep an Italian company from buying it.

France's investment spat with Italy will hurt its economy—and defense.

The STX France shipbuilding facility at Saint-Nazaire on the Atlantic coast is up for sale after its Korean parent company filed for bankruptcy. Italian state-owned shipbuilder Fincantieri and another Italian investor agreed in April to buy roughly 55% of the French company.

That already marked a major compromise for Fincantieri, which originally intended to buy the 67% of STX France not already owned by the French government when the Italian company was the only bidder in the Korean bankruptcy sale last year. Mr. Macron's hapless predecessor, François Hollande, fretted about a single Italian company owning the majority, so he strong-armed Fincantieri into cutting its own stake to about 48%, roping in another Italian investor for some 7%, and selling the rest to a French company.

That's still not good enough for Mr. Macron. He has exercised a clause in French law that allows for a "temporary" nationalization when national security is at stake.

This is only partly an economic move motivated by concern for French jobs. The Saint-Nazaire yard, which mostly manufactures cruise ships, is profitable with an order book stretching for years, so it's not in grave danger of closure. Paris's bigger concern appears to be that the yard is the only facility left in France capable of building the keel for an aircraft carrier. France's longstanding principle of strategic autonomy thus dictates that the shipyard shouldn't fall into foreign hands, despite the European Union's efforts to create a single market in defense procurement.

This makes the episode a defense and economic fiasco. The single market for procurement, if it ever materializes, would allow European NATO members that refuse to spend the target 2% of GDP on defense (France spent 1.78% in 2016) to at least get more bang for their euros by buying efficiently produced equipment operable across the EU. France's refusal to trust close ally Italy to make military hardware on French soil undermines that EU goal.

Even politicians with good economic instincts sometimes feel compelled by politics to make bad decisions, as President George W. Bush did when he imposed steel tariffs in 2002. But so far Mr. Macron has stressed industrial protectionism with no concrete pro-growth policy beyond proposals on labor-law reform that he hasn't moved to implement.

Mr. Macron promised voters better, and now he has more work to do to overcome this early negative signal to investors and blow to French credibility in the EU.

Britain's Brexit Blunders

Theresa May's government is deeply divided over Brexit, but one trend is emerging: Her ministers seem determined to get their negotiating priorities backward. Witness a growing resistance to compromise with the European Union when compromise would be best for Britain, coupled with unilateral policy disarmament on issues where Britain should carve out a new path.

London disarms on taxes while hurting itself on immigration.

An example of the latter comes via Chancellor Philip Hammond's promise that Britain won't cut taxes and regulations to compete with the EU. He told Le Monde this week that Britain will "remain a country with a social, economic and cultural model that is recognizably European," including a tax take as a percentage of GDP around the European average.

This is self-destructive. Brexit is supposed to allow Britain to shed onerous taxes and cumbersome regulations. The U.K. will have to do both to attract investment despite the costs of probable new trade barriers with the EU and the weaker pound. Mr. Hammond's unilateral economic disarmament is a mistake for the ages.

Meanwhile, members of the cabinet are holding firm on their determination to block immigration from the EU. A spokesman for Mrs. May on Monday promised free movement of people would not "continue as it is now" after Brexit. Yet the economy can't grow without immigrant labor, given the skills shortages in the tight pre-Brexit labor market. Intransigence on immigration will also make it harder for London to negotiate a more open trade deal with the EU.

June's election fiasco has dimmed Mrs. May's enthusiasm for standing up to destructive factions within her own party, especially on migration. If she doesn't start leading in a different direction, the future looks bleaker for her and Britain after Brexit.

John Kelly Sends a Message

The big questions about new White House chief of staff John Kelly are whether he can impose discipline on a chaotic staff, and whether President Trump will listen to him. After one day on the job, Mr. Kelly appears to be 2-0.

The new White House chief of staff gives the Mooch the boot.

Mr. Trump swore in his new staff chief Monday morning and within hours Anthony Scaramucci was out as White House communications director. Sources said Mr. Kelly had requested that Mr. Scaramucci depart and that Mr. Trump assented.

The Mooch's dismissal is certainly a tone setter, and not merely because he was on the job for only 10 days. A New York brawler who made a fortune in finance, Mr. Scaramucci had advertised himself as someone who understood Mr. Trump's authentic political voice and could fire anyone he wanted to. He had bragged that he reported directly to the President, not to previous chief of staff Reince Priebus. And last week he gave a profanity-laced interview to a writer for The New Yorker denouncing Mr. Priebus and White House aide Stephen Bannon.

By firing Mr. Scaramucci, Mr. Kelly in a stroke demonstrated that he is already in charge and has the President's support, that aides who want to see Mr. Trump need to work through Mr. Kelly, and that no one should trash their colleagues in public or freelance without permission from the top. Not a bad first day.

With Mr. Trump, it's possible—perhaps likely—that this will be a fleeting moment of organizational discipline. The President has shown in the past that he can listen to advice for a few hours, sometimes even a few days, but inevitably he feels too confined by political normalcy and breaks free with a Twitter barrage or interview tirade. Or maybe, as a former four-star general, Mr. Kelly is the rare person outside his family whom Mr. Trump will heed.

Venezuela's Mocked Election

Venezuela's Nicolás Maduro went ahead Sunday with elections for a new assembly, claiming that eight million people voted to replace the sitting legislature. Let it be noted that if Mr. Maduro could legitimately turn out eight million voters like this, he wouldn't have had to precipitate the current crisis by blocking a recall referendum on his regime last year. The questions now are what comes next and what should the U.S. do?

How Trump and the OAS can respond to Maduro's power grab.

The 545 newly elected representatives are supposed to arrive in Caracas and take their seats within 72 hours of the election. This new constituent assembly will have absolute sovereignty. They will rewrite the Venezuelan constitution and have the power to make law. They will surely fire the legitimate national assembly, which is controlled by the opposition. Unclear is whether the current assembly will leave their seats by themselves or force the Maduro national guard to remove them.

Mr. Maduro is already threatening to strip the current legislators of legal immunity before their powers are abrogated. The new assembly is also expected to fire Attorney General Luisa Ortega Díaz, an outspoken opponent of Mr. Maduro.

President Trump warned Mr. Maduro that pursuing this course would trigger U.S. sanctions, and on Monday the U.S. followed through by freezing any assets Mr. Maduro has in the United States. U.S. Treasury Secretary Steven Mnuchin called the election "illegitimate" and Mr. Maduro a "dictator who disregards the will of the Venezuelan people."

But the statement made no mention of sanctioning oil exports, which are crucial to the regime's survival. Venezuela's access to hard currency depends largely on its export of heavy crude to the U.S. Gulf Coast, where refineries are specially fitted to handle it. A U.S. ban would hurt the Maduro government because it would force the state-owned oil monopoly, PdVSA, to ship to faraway markets that could handle their heavy crude, such as China. The higher shipping costs and the dislocation would have a material impact on an already shaky PdVSA.

Mr. Trump could also block PdVSA from using the U.S. financial system and ban U.S. companies from doing business in Venezuela. Embargoes are famously porous, and no one expects this one to be airtight. But Venezuela's fiscal dependence on heavy crude exports to the U.S. makes this situation especially suited to American action.

Some will say that oil sanctions can only hurt the Venezuelan people, but they are already suffering extreme deprivation. Some are starving. The U.S. and the willing members of the Organization of American States need to form a united front not to recognize this vote or the regime it has produced.

Trump's Unused Bully Pulpit

MAIN STREET
By William McGurn

Not yet a week after the most extravagant Republican Party botch since the Bill Clinton impeachment, Beltway fingers are still pointing. And why not? The failure to make good on seven years' worth of ObamaCare repeal promises has many fathers.

Take your pick. Sen. John McCain's pique. The squishiness of those such as Sen. Rob Portman who voted for repeal when it didn't matter, and then voted nay when it did. Behind-the-scenes undermining by governors such as Ohio's John Kasich. A GOP bereft of party discipline.

There is truth to all these. Even so, perhaps the most obvious reason goes almost unmentioned: The Republican bills were unpopular.

This doesn't mean they were bad bills, notwithstanding the many compromises lawmakers included. It does mean that their merits went mostly unsold to the public. This allowed Democrats and their allies to paint the bills as but the latest Republican attempt to rob from the poor ($800 billion in Medicaid cuts) to give to the rich ($600 billion in tax cuts).

Even more astounding is that as this narrative took hold the president of the United States neglected the greatest bully pulpit of all: the Oval Office.

Notwithstanding his flaws, Donald Trump has proved himself able to connect with voters, especially those who voted for Barack Obama, in a way other Republicans have not. But the Trump White House has yet to recognize the unique punch a formal, televised address from behind the desk of the Oval Office still carries, even in the age of Twitter.

Ronald Reagan's use of the Oval Office to push his tax cuts through in 1981 is a textbook example. Yes, the Gipper schmoozed those on the opposite side of the aisle. He had to, given that Democrats controlled the House. But as likeable as he was, folks on both sides of the political aisle were skeptical about his proposed tax cuts.

In a July 27 Oval Office address, Reagan made his pitch. In simple language, he gently mocked the Democratic leadership claims that their bill "gives a greater break to the workers than ours." He said the whole controversy came down to whose money it was—the people who earned it or the government that wanted to spend it. And his call for Americans to "contact your senators and congressmen" to urge them to vote for his tax cuts touched off what Speaker Tip O'Neill described as a "telephone blitz like this nation has never seen."

Though it's now popular to reminisce about the warm cuddly Reagan who put partisanship aside, that isn't the way it was seen at the time. The day after his speech, the New York Times reported Reagan had "engaged in a series of partisan attacks on his opponents on Capitol Hill."

It worked: Two days later the Democratic House approved the Reagan administration's tax cuts by a comfortable margin.

What does this mean for Mr. Trump? It's probably too late now for health care. But it might have been a different story if President Trump had used a televised White House address to explain that the Republican goal was a bill that would help drive down costs, lower insurance premiums and undo mandates forcing Americans to buy products they don't want.

As Reagan proved, there's nothing as powerful as an Oval Office address.

Some suggest Mr. Trump doesn't have the mastery of detail to pull it off. But a president doesn't need to be a policy wonk. One big thing he can do is simply to push back on the falsehoods.

Imagine, for example, if Mr. Trump had pointed out that the accusation Republicans were cutting Medicaid was classic Swampspeak: In fact, spending would still go up every year, albeit at a slower rate. For good measure, he might have contrasted the Republican faith in the wisdom of the American people with the admission by a chief architect of ObamaCare that it owed its passage to a "lack of transparency" and "the stupidity of the American voter."

In fairness, Mr. Trump did make calls, bring in senators and speak at his rallies. Even so, nothing quite matches the prestige of an address from his desk, where the president speaks directly to the entire American people. Unlike his rallies, generally limited to his most ardent supporters, even many of those who detest the president would tune in for a prime-time Oval Office address.

This isn't about blaming Mr. Trump for the failure to repeal ObamaCare. It is about pointing him to a huge presidential asset that went unused in a key contest involving Republican credibility.

Democrats are now gearing up to run the same class narrative against the Republicans on tax reform they did on ObamaCare. If the president wishes to avoid another embarrassment, he might put down his smartphone for a moment and start thinking of how to use the Oval Office to ensure the coming debate on taxes is argued on his terms and not the opposition's.

Write to mcgurn@wsj.com.

Lessons From HillaryCare

By Joe Lieberman

One of the greatest bonuses of my years in the Senate was getting to know Sen. John McCain. John has consistently served causes larger than himself, beginning with our country. The speech he gave on the Senate floor last week, followed by his "no" vote after midnight Thursday on a health-care bill nobody wanted to become law, was one of his finest hours.

His message was eloquent and direct. As he put it: "This country—this big, boisterous, brawling, intemperate, restless, striving, daring, beautiful, bountiful, brave, good and magnificent country—needs [the Senate] to help it thrive. That responsibility is more important than any of our personal interests or political affiliations." To live up to its promise, the world's greatest deliberative body needs to return to the spirit of bipartisan cooperation that can lead to real legislative accomplishments.

It reminded me of a message another great senator, Pat Moynihan of New York, delivered to another administration 25 years ago. In 1993 Moynihan, the new chairman of the Senate Finance Committee, offered strategists at the Clinton White House a suggestion. He knew many Democrats were pressuring the president to pursue universal health care, but Moynihan believed nearly total Republican opposition would make it a divisive opening flop for the new administration. He argued that instead the president should focus on another promise he had made, to "end welfare as we know it," because Republicans could be convinced to back welfare reform.

Pat believed the nation's welfare system was in a more acute crisis than its health-care system. He also believed that major reforms rarely passed Congress with the support of only one party. "They pass 70-30," he explained, "or they fail."

Moynihan's wisdom fell on deaf ears. The White House vigorously pursued a broad-based health-care-reform agenda crafted by First Lady Hillary Clinton and her team. They presumed most Republicans would line up against them but figured the Democrats would back them. In the end, Democrats weren't any more united than Republicans are today. Their disarray doomed the plan before it even came up for a vote.

Republicans won resoundingly in the 1994 midterm elections, and President Clinton learned from the experience. The White House reverted to the approach Moynihan had initially suggested. While the senator himself ended up opposing the 1996 welfare reform, his political advice worked. Mr. Clinton's embrace of bipartisan negotiation and compromise delivered a series of victories, including a balanced budget and the creation of the Children's Health Insurance Program.

What can we learn from Mr. Clinton's evolution? Maybe most important for President Trump, legislative strategies rarely succeed when they depend on a single party. If Mr. Trump were to extend a hand to Democrats, Washington might well prove capable of solving some of America's problems and seizing some of its opportunities. For that to happen, Democrats in Congress will have to engage with Mr. Trump the way Newt Gingrich and his party worked with Mr. Clinton.

Rallying both parties to repair America's infrastructure could be Mr. Trump's version of welfare reform. Tax reform could also gain bipartisan support. Then Congress can return to more divisive issues, considering them, as Mr. McCain suggested, through regular order. A good place to start would be with the bipartisan health-care reforms that the House No Labels Problem Solvers Caucus released yesterday.

To win in Washington, one must counter and court the opposition. As Mr. McCain said last week, "Incremental progress, compromises that each side criticize but also accept, just plain muddling through to chip away at problems and keep our enemies from doing their worst isn't glamorous or exciting. It doesn't feel like a political triumph. But it's usually the most we can expect from our system of government, operating in a country as diverse and quarrelsome and free as ours."

Mr. Lieberman, a former U.S. senator from Connecticut, is a national co-chairman of No Labels.

Free Trade Is a Two-Way Street

By Wilbur Ross

The Trump administration last week celebrated the workers and businesses that make America great. The purpose of "Made in America Week" was to recognize that, when given a fair chance to compete, Americans can make and sell some of the best, most innovative products in the world.

Unfortunately, many governments across the globe have pursued policies that put American workers and businesses at a disadvantage. 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.

> China, the EU and other trading partners put up formidable barriers to imports from America.

Many nations express commitment to free markets while criticizing the U.S. for what they characterize as a protectionist stance. Yet these very nations engage in unfair trading practices, erect barriers to U.S. exports and maintain significant trade surpluses with us. They argue that our $752.5 billion trade deficit in goods last year was simply a natural and inevitable consequence of free trade. So, they contend, America should have no complaints.

Our major trading partners issue frequent statements regarding their own free-trade bona fides, but do they practice what they preach? Or are they protectionists dressed in free-market clothing?

When it comes to trade in goods, our deficits with China and the European Union are $347 billion and $146.8 billion, respectively. As the nearby chart shows, China's tariffs are higher than those of the U.S. in 20 of the 22 major categories of goods. Europe imposes higher tariffs than the U.S. in 17 of those 22 categories, though the chart does show that the EU and China are much different regarding tariff rates.

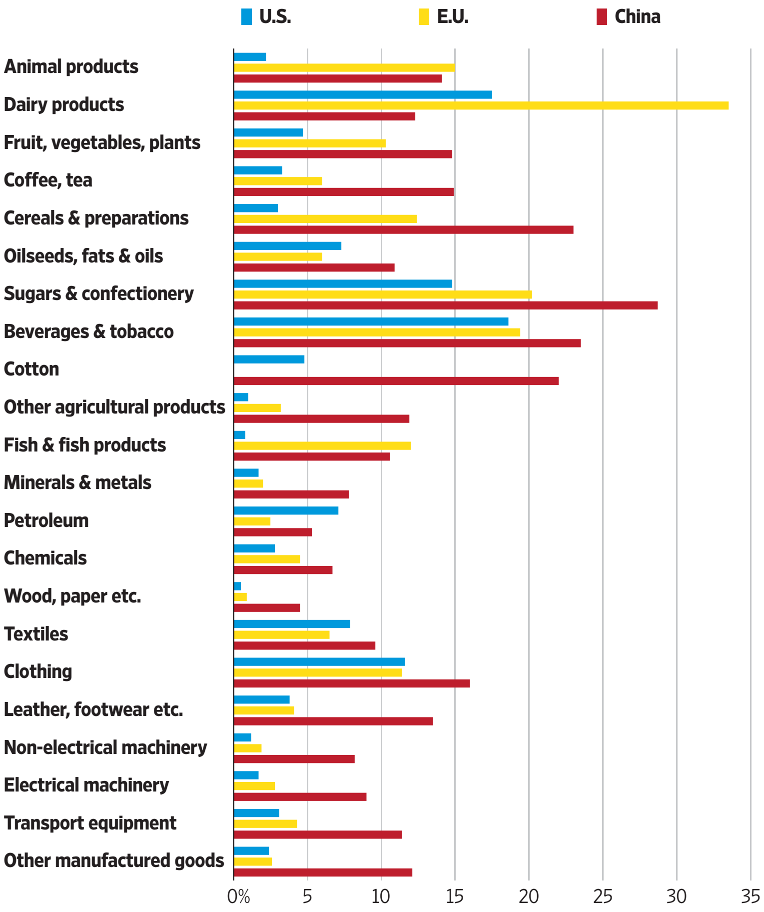
The EU charges a 10% tariff on imported American cars, while the U.S. imposes only a 2.5% tariff on imported European cars. Today Europe exports 1.14 million automobiles to the U.S., nearly four times as many as the U.S. exports to Europe. China, which is the world's largest automobile market, has a 25% tariff on imported vehicles and imposes even higher tariffs on luxury vehicles.

In addition to tariffs, both China and Europe enforce formidable nontariff trade barriers against imports. Examples include onerous and opaque procedures for registering and gaining certification for imports; unscientific sanitation rules, especially with regard to agricultural goods; requirements that companies build local factories; and forced technology transfers. The list goes on.

Both China and Europe also bankroll their exports through grants, low-cost loans, energy subsidies, special value-added tax refunds, and below-market real-estate sales and leases, among other means. Comparable levels of government support don't exist in the U.S. If these countries really are free traders, why do they have such formidable tariff and nontariff barriers?

Who's Protectionist?

Average applied tariffs for the U.S., the EU and China



Sources: World Trade Organization, U.S. Department of Commerce THE WALL STREET JOURNAL.

Until we make better deals with our trading partners, we will never know precisely how much of our deficit in goods is due to such trickery. But there can be no question that these barriers are responsible for a significant portion of our current trade imbalance.

China isn't a market economy. The Chinese government creates national champions and takes other actions that significantly distort markets. Responding to such actions with trade remedies isn't protectionist. In fact, the World Trade Organization specifically permits its members to take action when other countries are subsidizing, dumping and engaging in other unfair trade practices.

Consistent with WTO rules, the U.S. has since Jan. 20 brought 54 trade-remedy actions—antidumping and countervailing duty investigations—compared with 40 brought during the same period last year. The U.S. currently has 403 outstanding orders against 42 countries.

But unfortunately, in its annual reports, the WTO consistently casts the increase of trade enforcement cases as evidence of protectionism by the countries lodging the complaints. Apparently, the possibility never occurs to the WTO that there are more trade cases because there are more trade abuses.

The WTO should protect free and fair trade among nations, not attack those trade remedies necessary to ensure a level playing field. Defending U.S. workers and businesses against this onslaught shouldn't be mislabeled as protectionism. Insisting on fair trade is the best way to ensure the long-term strength of the international trading system.

The Trump administration believes in free and fair trade and will use every available tool to counter the protectionism of those who pledge allegiance to free trade while violating its core principles. The U.S. is working to restore a level playing field, and under President Trump's leadership, we will do so.

This is a true free-trade agenda.

Mr. Ross is U.S. secretary of commerce.

Averting a Third Lebanon War

By Mark Dubowitz And Mike Gallagher

In a rare moment of disagreement between Benjamin Netanyahu and Donald Trump, Israel's prime minister last month rejected a U.S.-Russia cease-fire agreement that he said could cement the buildup of Hezbollah and Iranian forces along Israel's border with Syria.

Mr. Netanyahu has good reason to be concerned. Israel's head of military intelligence, Maj. Gen. Herzl Halevi, confirmed in June a Kuwaiti newspaper report that largely went unnoticed: Iran's Islamic Revolutionary Guard Corps, in cooperation with Hezbollah, has been constructing missile-production facilities in Lebanon.

Buried more than 50 meters below ground and protected from aerial attack, these facilities could produce highly sophisticated rockets with ranges of more than 300 miles and equipped with advanced guidance systems.

Israeli officials now say that preemptive strikes may be necessary to destroy these missile capabilities before they're operational. The result could be a bloody war that would see thousands of Hezbollah missiles hurled into Israeli airspace, with punishing Israeli reprisals and hundreds—if not thousands—of civilian deaths on both sides. It would be more chaos for Washington policy makers scrambling to manage a region already in flames.

Iran has long transferred missiles by ground and air through Syria to Hezbollah in Lebanon. In recent years, Israel repeatedly struck these transfers of what their officials call "game-changing" weaponry—weapons that could challenge Israel's military superiority and pose severe threats to its civilians.

Despite significant success against many of these transfers, Hezbollah's inventory has expanded to more than 150,000 missiles today from an estimated 50,000 missiles at the beginning of the second Lebanon War in 2006. And while many of these projectiles are crude, an increasing number are highly accurate, capable of delivering a massive payload to anywhere in Israel.

Israel, of course, has advanced short-, medium- and long-range missile defenses: the Iron Dome, David's Sling and Arrow systems. But Iran and Hezbollah are now seeking an arsenal that can overwhelm these systems.

If Israeli missile defenses don't hold—and there's reason to believe they may not completely prevent a missile onslaught many times the size and potency of what hit the country in 2006—Israeli civilian casualties will mount. At the first sign of such a scenario, the Israeli Air Force might unleash a devastating air campaign and potentially a ground invasion of Lebanon.

> Hezbollah's missile buildup, facilitated by Lebanon and Iran, is forcing Israel's hand.

Israeli officials have warned that the ensuing war could be much more devastating than the last one between Israel and Lebanon. And they hold Beirut responsible for Hezbollah's missile buildup. In fact, much of Hezbollah's arsenal is known to be nestled under or alongside Lebanon's schools, hospitals and apartment buildings.

Israel would have little choice but to put Lebanese infrastructure in its cross hairs. Which is why officials are sounding the alarm now, to prevent a devastating war.

The Trump administration should make it clear to Lebanon's Prime Minister Saad Hariri that it is his responsibility to dismantle these facilities, as well as to ensure that southern Lebanon is free of "any armed personnel, assets and weapons" not under direct control of the Lebanese government, as required by United Nations Security Council Resolution 1701.

Israeli diplomats are pleading with Washington to also consider other means to deter Iran. For its use of civilians as human shields, Hezbollah and its Iranian patron should be sanctioned by the U.S. and Europe for committing massive human-rights abuses amounting to war crimes.

Washington should sanction companies listed on the Tehran Stock Exchange that are directly controlled by the military entities in charge of Iran's ballistic-missile programs, which represent about 20% of the stock exchange's total market capitalization. It should also sanction the thousands of IRGC front companies active in Iran's economy and penalize the foreign companies that do business with the IRGC.

Additional steps might include the rewriting of U.S. Treasury rules to block Iranian access to the dollar and impose enhanced audit standards on any businesses involved with Iran.

The Trump administration should also sanction those sectors of the Iranian economy supporting the missile program, including mining, metallurgy, telecommunications, construction, energy, automotive and computer science as well as the IRGC-controlled academic institutes involved in this missile work. The IRGC reportedly has created a special department at Imam Hossein University in Iran to train Lebanese and other operatives in missile production.

Sanctions lifted under the Iran nuclear agreement should be restored. Blacklist the Central Bank of Iran and expel Iranian banks from the Swift banking system.

Some will worry this financial pressure could put the Iranian nuclear agreement at risk. So be it. This is the price Iran must pay for pushing the region into another bloody confrontation.

And if sanctions don't succeed, Israel should be given the wide berth it needs to address the threat using all means at its disposal.

Mr. Dubowitz is the chief executive of the Foundation for Defense of Democracies. Mr. Gallagher, a former U.S. Marine Corps intelligence officer, is a congressman from Wisconsin.

How U.S. Allies Undermine NATO

By Orde F. Kittrie

The U.S. spends heavily to defend Europe, yet most North Atlantic Treaty Organization members don't spend 2% of their GDP on defense, as the alliance's guidelines call for. Worse, many of these free riders also punish U.S. companies for manufacturing weapons used by the Pentagon to defend NATO allies and other countries. Specifically, several NATO member governments have divested from or even criminalized the purchase of stock in U.S. defense contractors.

Between 2005 and 2013 Norway's government pension fund divested from U.S. defense contractors such as Boeing, Honeywell, Lockheed Martin and Northrop Grumman "because they are involved in production of nuclear weapons." The fund, controlled by Norway's Finance Ministry, is worth some $900 billion. At the end of 2015, approximately $180 billion was invested in 2,099 American companies.

Norway, a NATO member, divested even though these companies produce nuclear weapons only for the U.S. government, and NATO's 2012 Deterrence and Defence Posture Review describes U.S. nuclear weapons as "the supreme guarantee" of members' security.

The hypocrisy goes further: In 2016 Norway authorized its pension fund to invest in Iranian government bonds—even though Iran has sponsored terrorism for decades and is a patron of Bashar Assad's atrocities in Syria.

So far only Norway has divested from companies for producing nuclear weapons. But the government pension funds of Denmark, France and the Netherlands have joined Norway in divesting from American companies that produce other weapons stocked by the U.S. military. These countries have targeted General Dynamics, Raytheon and Textron for manufacturing cluster munitions and land mines, in some cases after production reportedly has stopped.

Six European countries—NATO members Belgium, Italy, Luxembourg, the Netherlands and Spain, plus nonmember Liechtenstein—make it illegal for their nationals to invest in companies that produce cluster munitions or land mines. In Switzerland, citizens can be imprisoned for five years for direct and indirect financing, including stock purchases, of companies that manufacture nuclear weapons, cluster munitions or land mines.

While these weapons often pose a threat to civilians even after conflicts end, the U.S. government deems them necessary. The Obama administration acknowledged in 2014 that land mines are needed to protect South Korea. The U.S. State Department has long said the elimination of cluster munitions "from U.S. stockpiles would put the lives of its soldiers and those of its coalition partners at risk."

Many NATO governments joined the 2008 international treaty to ban cluster munitions and the 1997 agreement to forbid land mines. Boycotts targeting companies producing these weapons derive from expansive interpretations of particular provisions in these accords. Both treaties say that "never under any circumstances" will a country "assist, encourage, or induce" anyone to engage in activities such as the development or production of the banned weapons.

> European countries divest from American defense firms that help protect them.

The treaty banning nuclear weapons, which was adopted by the United Nations General Assembly on July 7, includes similar language. Many of the 122 governments that voted for the nuclear treaty will likely divest from and criminalize purchase of stock in nuclear-weapons manufacturers.

No NATO government supported the nuclear-ban treaty. Yet Norway's divestment from stock in nuclear-weapons manufacturers shows the fervor generated by movements against disfavored weapons can spur such boycotts even if a country ultimately doesn't support the treaty.

The danger of European economic warfare against Israel—including the Boycott, Divestment and Sanctions movement—deservedly has received considerable attention. In contrast, European economic warfare against U.S. companies for implementing U.S. government policy has avoided the spotlight and elicited virtually no response from Washington.

This must change. The targeted U.S. firms together employ hundreds of thousands of American workers. For allied governments to penalize such companies for filling U.S. government orders is unacceptable. It could even increase costs to the U.S. taxpayer, who ultimately would pay extra legal or financing costs associated with producing these weapons.

If left unchecked, this problem will grow. Norway's pension fund has divested from Wal-Mart, America's largest employer, for "serious violations of human rights," according to the fund's website. The fund has also divested from two U.K. companies for producing Britain's nuclear arsenal and one Israeli company for involvement with Israel's antiterrorism fence.

Congress and the executive branch should spotlight and vigorously oppose ally- and partner-government boycotts that target the defense industrial base of the U.S. and key allies such as Israel and the U.K. Governments must know that such boycotts, if continued, will subject them and their companies to commensurate penalties.

Mr. Kittrie, a law professor at Arizona State University and senior fellow at the Foundation for Defense of Democracies, is author of "Lawfare: Law as a Weapon of War" (Oxford, 2016).

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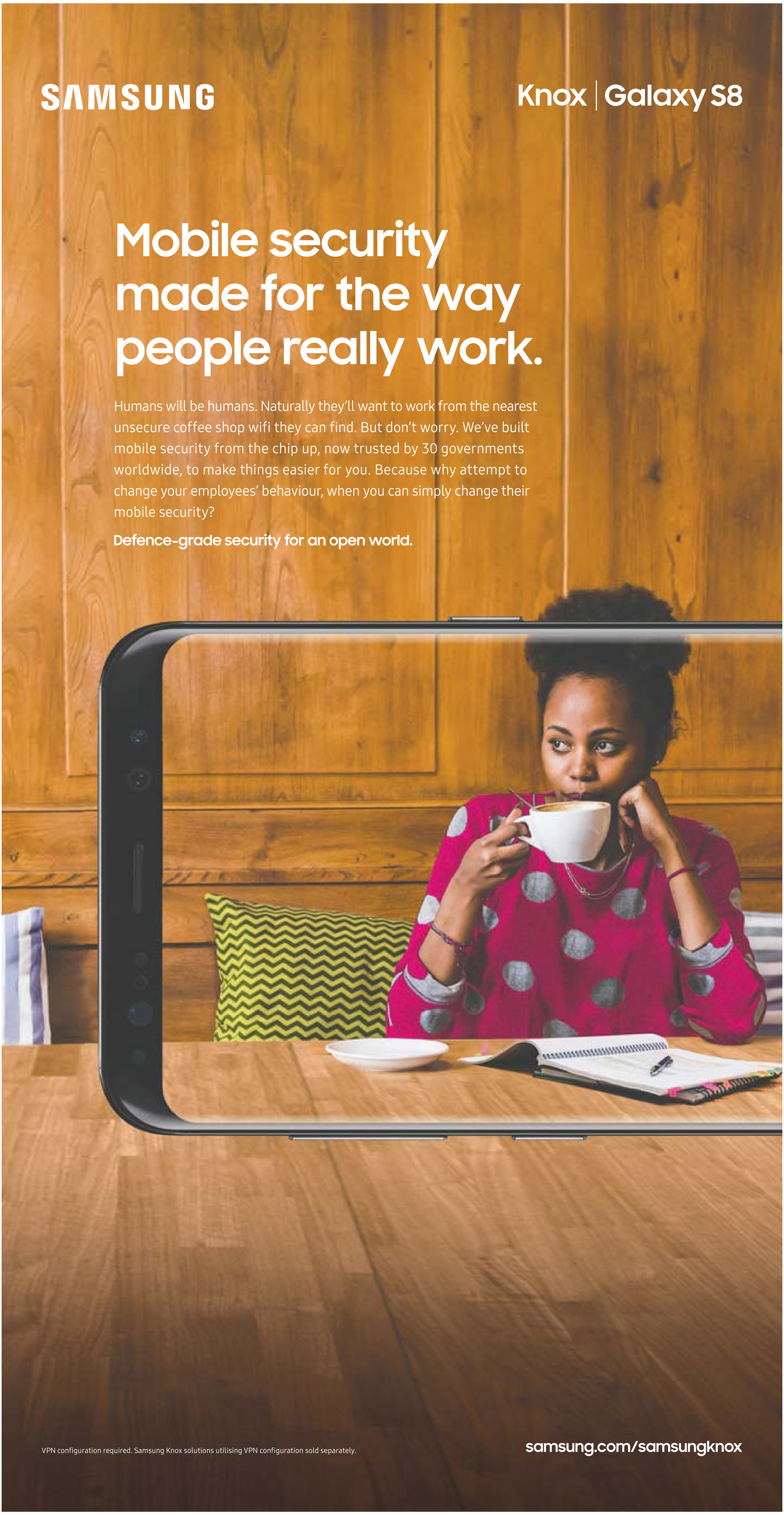
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BP Acclimatizes to Oil Prices Below $50

Break-even point at the company falls as it reverses a loss for the second quarter

BY MICHAEL AMON

SERGEI KARPUKHIN/REUTERS

CEO Robert Dudley said petroleum prices still present a 'tough environment,' but was optimistic about his company's prospects.

LONDON—BP PLC is once again raking in billions of dollars in cash.

The British oil giant, which on Tuesday was the last of the world's biggest Western oil companies to report quarterly earnings, said it can now break even when oil is at $47 a barrel, cushioning it against an extended period of low prices.

Though BP's equivalent to second-quarter net profit was, by oil-industry standards, a relatively modest $553 million, that compared with a loss of $2.2 billion a year earlier. And that was despite oil prices stuck at $50 a barrel or less for much of the year and further costs associated with the Deepwater Horizon oil spill in 2010.

Low oil prices, driven by an excess of supply, have compelled the entire industry to pivot, cutting costs and seeking new avenues for growth. Like its peers **Exxon Mobil** Corp. and **Royal Dutch Shell** PLC, BP has moved to increase production through relatively low-cost projects that make money at depressed crude prices.

BP also eliminated $7 billion in costs last year, the effects of which are beginning to bear fruit, Chief Financial Officer Brian Gilvary said in an interview. Mr. Gilvary said the company is targeting a break-even oil price of $35 to $40 by next year. Just a few months ago, BP disappointed investors by saying it needed $60 a barrel to cover its costs.

Other companies haven't disclosed as much about their break-even price as BP. Shell Chief Executive Ben van Beurden said last week the company had reduced costs and was getting "fit for the $40s," referring to oil prices.

Mr. van Beurden said Shell was prepared for oil prices to remain "lower forever." That was a riff on a phrase BP Chief Executive Bob Dudley coined about prices back in 2015, when he said they would be "lower for longer" and later amended to "lower for longer but not forever."

On Tuesday, Mr. Dudley said oil prices still presented a "tough environment," but sounded a rare note of optimism, calling $50 a barrel "a pretty good fairway for us going forward."

The company said it was girding for oil prices of $45 to $55 a barrel for the next five years, a recovery from last year's low of $27 but well below the consistently high levels around $100 from 2011 to 2014.

"They will firm this quarter," Mr. Gilvary said of oil prices. "They will stay underpinned by strong demand...They will start to drop off into the fourth quarter."

Brent crude, the international benchmark, has been rising in recent weeks and was trading at $52.32 a barrel on Tuesday afternoon in London—up about 13% in the past three weeks.

BP shares were 3.1% higher in London trading after the company's results beat analyst expectations.

The company can now cover most of its expenses and dividends with its almost $7 billion in cash flow—an important metric of success in the oil industry—in the second quarter instead of debt, he said.

Mr. Gilvary said the only thing holding back BP's profit in the quarter was more than $4 billion in payments related to the 2010 blowout on the Deepwater Horizon oil rig in the Gulf of Mexico. The explosion killed 11 workers, spilled millions of barrels of oil into the Gulf and forced BP into a long period of retrenchment, with costs estimated at more than $60 billion.

With oil hit by a historic downturn, the Deepwater Horizon incident has been a drag on BP during the worst time for the company. Its net debt increased to more than $39 billion in the second quarter, compared with about $30 billion in the same period last year, because of such payments, BP said.

The company increased its oil-and-gas production by almost 10% compared with a year earlier. Its exploration-and-production unit was buoyed by discoveries and new projects in Senegal, Egypt, the U.K. North Sea, Trinidad and Tobago, and India. The company is turning to new projects and acquisitions to try to generate growth again, hoping to boost production by one-third in the next three years.

HEARD ON THE STREET

By Paul J. Davies

A Complex Precrisis Product Lives On

The last financial crisis cleared out an alphabet soup of complex credit products. One type, however, has returned in droves in recent years, although popularity is now threatening their viability.

This product is collateralized loan obligations, or CLOs, which buy portfolios of risky, leveraged loans often used by private-equity firms in buyouts. In the U.S., new CLO volumes have outstripped precrisis totals since 2014, while Europe is catching up to its previous levels rapidly.

But returns from the loans they buy are getting squeezed as money from individual and institutional investors rushes in alongside CLOs to snap up loans. That could bring CLOs to a painful halt again.

The biggest CLO managers, such as **Blackstone Group's** GSO Capital Partners, **Carlyle Group**, **PGIM**, **Investcorp** and **Alcentra**, run billions of dollars of deals. Such vehicles own more than 60% of the more than $900 billion in outstanding U.S. leveraged loans, according to S&P Global LCD.

CLOs have many mouths to feed. Normally, about 60% of a CLO is funded with senior AAA-rated debt and the rest with a mix of riskier lower-rated debt and equity. Each bit gets paid in order: the safest and cheapest AAA-rated debt first and the equity last.

Before 2008, CLOs needed loans that paid an average interest-rate spread of just 2.5 percentage points over a base rate, like the London interbank offered rate, or Libor, according to Fitch Ratings. That income would cover the cost of the different bits of CLO debt and leave a healthy, low-double-digit-percentage return for the equity.

CLOs today pay much more for their debt. Even the most recent CLOs, which have much cheaper funding than deals from just a year ago, still need loans that pay average spreads of 3.5 percentage points. The trouble is, a wave of loan repricing

Please see HEARD page B2

CARLO ALLEGRI/REUTERS

Snap's IPO was hotly anticipated, but shares now trade below what some venture-capital firms paid to invest in the Snapchat owner.

IPO Flops Hang Over Valuations

BY CORRIE DRIEBUSCH AND MAUREEN FARRELL

Snap Inc. and **Blue Apron Holdings** Inc. were supposed to herald a return of the great technology IPO. They have instead become vehicles of market dismay.

Both companies now trade well below their initial public offering prices. More disturbingly for venture-capital investors, those prices are below what some paid for their pre-IPO stakes.

The result is renewed doubt about valuations across Silicon Valley's private companies, whose worth has been climbing for a decade.

On Monday, Snap shares touched a fresh low in volatile trading after some early shareholders in the messaging-app owner were allowed to sell their holdings for the first time.

In another ominous sign, yoga-studio owner **YogaWorks** Inc. in mid-July postponed its IPO on the eve of its debut, citing market conditions. **App-Nexus** Inc., an advertising-technology company that was planning to go public as early as this fall, is now more likely to wait until next year, people familiar with the matter said.

Analysts and underwriters say that the weak performance of Snap, the largest tech IPO in more than two years, is stoking doubts among late-stage private investors. Such doubts could interrupt the cycle of ever-increasing funding rounds that has underpinned the lofty valuations of many tech startups.

The relationship between private and public markets has never been so lopsided. Currently, nearly 170 private companies are valued by their owners at $1 billion or more, according to Dow Jones VentureSource.

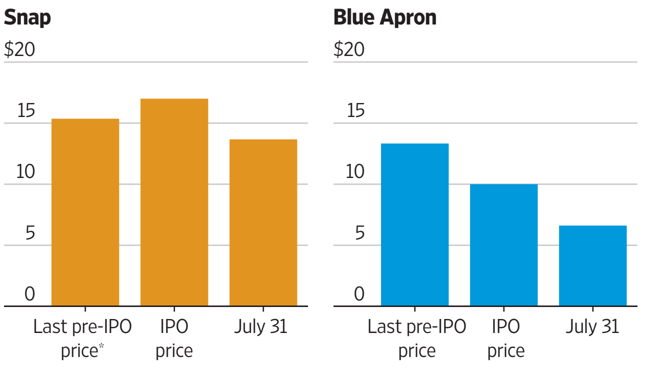
That is up from about 60 just three years ago. Thirteen private companies now fetch a valuation of $10 billion or more. Before the financial crisis, no venture-backed company had ever achieved a billion-dollar valuation before going public, according to McKinsey & Co.

Funding dedicated to private startups is robust. North American venture firms as of

Please see VALUES page B2

Valuation Snapback

Shares of Snap and Blue Apron have fallen below what investors paid while the firms were private, shaking confidence in valuations.



*Price adjusted for pre-IPO stock split
Sources: FactSet; SEC filings

THE WALL STREET JOURNAL.

After Europe Exit, GM Retools

General Motors Co. is hitting the accelerator on its growth agenda now that it has given up trying to extract a profit from Europe and several tough markets around the globe.

By Mike Colias in Detroit and Nick Kostov in Paris

GM on Tuesday said that it has completed the sale of its Opel AG unit to France's **Peugeot** SA, marking the end of 88 years as a mainline car maker in Europe and nearly two decades of heavy losses despite nearly constant restructuring. The deal was first announced on March 6.

The Opel sale is the most significant in a string of moves GM has made to jettison unprofitable operations and narrow its focus on moneymakers, including its stout U.S. truck business. In an interview, GM President Dan Ammann said the company is "most or all of the way through" a reduction of its global footprint that is likely to drop GM from the ranks of the world's top three auto makers by sales volume.

"Over the last four or five years, what percentage of our time did we spend solving problems versus pursuing opportunities?" Mr. Ammann said, calling the Europe exit the "biggest step" in sharpening GM's growth plans. "We hope to significantly swing that now to spending most our time and energy on pursuing growth."

For Peugeot, acquiring the storied Opel and Vauxhall

Please see GM page B2

Japan's Central Bank Puts the Bond Market to Sleep

BY SURYATAPA BHATTACHARYA

TOKYO—The second-biggest government-bond market is close to becoming inactive.

Trading in Japanese government bonds has plummeted this year, with volumes down by nearly a quarter for the benchmark 10-year note in the first six months of the year, according to data from Quick. Meanwhile, prices of government debt have barely budged.

The culprit, according to many in the market: Japan's central bank.

Since 2013, the Bank of Japan has been buying up billions of dollars of Japanese government bonds, flooding the economy with cash in an effort to boost the country's stubbornly low annual inflation rate toward its 2% target. The central bank now owns some 40% of the ¥1.1 trillion ($9.98 billion) of government debt issued.

Compounding its dominant ownership of the market, the BOJ has since September sought to keep the yield on 10-year Japanese government bonds at zero, meaning it buys 10-year debt if and when their yields rise. Bond yields rise when their prices fall. The "yield curve control" policy was designed to help increase the profits that could earn by lending money.

The cumulative effect of the central bank's heavy hand is that investors are finding it hard to profit from trading government bonds: Price volatility has sunk to near-record lows this year.

On average, $900 million of 10-year Japanese government bonds were traded each day last month, according to Quick data. Direct comparison is tricky, but some $75 billion to $90 billion of U.S. Treasurys due in seven to 11 years change hands on average each day, according to data from

Please see BONDS page B2

Pinned Down

The yield on Japan's 10-year government bonds

Source: Tullett Prebon

THE WALL STREET JOURNAL.

BUSINESS & FINANCE

Summer Slump Hits Auto Makers

By Christina Rogers
And Mike Colias

Auto sales declined sharply in the U.S. in July, part of a six-month-long cyclical slowdown that was punctuated by manufacturers' reluctance to sell discounted cars through leases and to car-rental chains.

Sales fell 7% last month, compared with a year earlier, according to Autodata Corp. Research firm J.D. Power said manufacturers typically pull back on sales incentives after the July Fourth holiday, "but this year elevated inventory levels coupled with the sales slowdown, have compelled them to maintain aggressive discounts throughout July."

Detroit's car companies felt the brunt of the decline, with **General Motors** Co. reporting a 15% sales drop in July compared with the same period a year earlier. Sales at **Ford Motor** Co. and **Fiat Chrysler Automobiles** NV slid by 7.4% and 10%, respectively.

Despite falling sales, the three companies aimed to protect their bottom lines by trimming incentives for car leases. Auto makers have banked on such discounts to keep consumers' monthly payments low as sticker prices soared because of a market shift to heavier trucks and sport-utility vehicles, and technology aimed at making cars safer and more efficient.


DANIEL ACKER/BLOOMBERG NEWS
An Illinois car dealership. Auto sales in the U.S. fell 7% in July.

Manufacturers in July also edged away from discounted, less-profitable rental-car sales to companies such as Hertz and Enterprise.

The moves reinforce a new-found discipline for domestic manufacturers that have ridden a seven-year growth streak since GM and Chrysler sought bankruptcy protection in 2009. The Detroit 3 reported tens of billions in profits during that span, bolstered by falling gasoline prices and surging demand for profit-rich trucks and SUVs.

Overall industry demand softened over the first seven months of 2017, falling about 3% in June, according to Autodata. The development ushers in an expected plateau for auto sales, an important driver for the broader U.S. economy.

Sales to government fleets, commercial buyers and rental-car companies have fallen 7.8% in that period, according to J.D. Power, while sales to retail customers at dealerships fell less than 1%.

Leasing accounted for 31% of all retail sales in the first half of 2017, falling slightly from last year's record of 32%, according to Edmunds.com. That number dropped to 29% in July, the lowest mark of the year. The declines appear modest, but represent a potential tipping point.

"For a long time, we were all wondering where the ceiling was for leasing," said Jessica Caldwell, an analyst for Edmunds.com. "Now, it has been hit."

INDEX TO BUSINESSES

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

INDEX TO PEOPLE

BONDS

Continued from the prior page
the Securities Industry and Financial Markets Association.

"It's a very tough and strange situation right now for the JGB market," said Kazuaki Oh'E, head of fixed income at CIBC World Markets Japan in Tokyo, adding that some traders have taken to playing catch or practicing minigolf in the office on days when there is hardly any trading.

"It is kind of a problem for investors that [the BOJ] killed the secondary market...It's very boring, it's a cold market," he said.

Government-bond markets the world over are a vital cog in the financial system, and not just because of their vast size. Such bonds are seen as "risk free" in countries such as the U.S. and Japan—that is, highly unlikely to default. The price and yield at which they trade are used as a benchmark against which other, riskier debt is valued. If a major market like the one for Japanese government bonds is distorted, it could lead to the mispricing of a range of assets across the economy.

The yield on 10-year JGBs is important as it "plays a critical role as a risk-free benchmark for other financial instruments," said Masaki Okazaki, head of corporate planning at Tokyo-based brokerage Japan Bond Trading. When trading in JGBs fizzles out, "we can't know whether the rate is appropriate or not," he said.

Low trading volumes carry other risks. Any miscommunication by Japan's central bank could suddenly roil markets, causing volatility to surge.

But bond traders might welcome some excitement. In a central-bank survey released in early June, 44 market participants were asked their view on the degree of bond-market functioning: 55% replied "not very high" while the remainder said "low." Only one survey respondent said the firm had increased the frequency of its bond dealing during the February-to-May period.

The BOJ's "aggressive buying has sucked up all the oxygen and led to a sharp decline in liquidity," said Frederic Neumann, co-head of Asian economics research at HSBC Holdings in Hong Kong.

Some of the BOJ's own board members have criticized the effect of its policies. Low market volatility "has led to a decline in market functioning," according to one board member quoted in the minutes of the central bank's June policy meeting.

Even when global government-bond markets experienced a sharp selloff in early July, the reaction in Japan was late and somewhat muted. The yield on the 10-year government bond rose to a five-month high at 0.105% on July 7, before the BOJ swiftly intervened to bring it back down closer to its 0% target.

Trading volumes in the Japanese government-bond market have nose-dived before. After the BOJ in October 2014 increased its annual JGB-buying target to ¥80 trillion from ¥50 trillion, volumes also plummeted. They recovered not long after.

The problem this time is that with bond yields capped, few investors see opportunities to trade profitably. Most market watchers expect the BOJ to dominate the JGB market for some time, with the inflation target still some way off. Core inflation in Japan reached 0.4% in June.


KAZUHIRO NOGI/AGENCE FRANCE-PRESSE/GETTY IMAGES
Traders blame the Bank of Japan, whose headquarters in Tokyo is shown above, for the somnolent state of the market.


BARTEK SADOWSKI/BLOOMBERG NEWS
Workers in Poland assembled an Opel Astra in March. GM made cars in Europe for 88 years.

GM

Continued from the prior page
brands from GM is a daring move for an auto maker that is still in the early stages of its own financial recovery. Chief Executive Carlos Tavares is betting he can steer a successful turnaround at the brands, similar to the project he put in place at Peugeot when he joined about three years ago.

"We are witnessing the birth of a true European champion today," Mr. Tavares said. "We will assist Opel and Vauxhall's return to profitability and aim to set new industry benchmarks together."

GM CEO Mary Barra's tenure since taking over in January 2014 has been marked by retreats from markets where GM has sold cars for decades.

The Opel divestiture leaves GM as the only major auto maker without a significant presence in Western Europe. It also has thrown in the towel on India, Russia and other markets in which rivals are staking out long-term growth.

GM's strategy comes with risks, analysts say.

The largest U.S. auto maker is left more vulnerable to downturns in its home market, as well as China and Latin America—regions it normally ranks in the top two by sales volume.

GM has cited Opel's middling position in the European market, a tightening regulatory environment in the wake of **Volkswagen** AG's diesel-emissions scandal and last year's Brexit vote as key factors in the decision to get out.

The auto maker has said the sale will free up about $1 billion in capital annually to invest in more-promising markets and product lines.

Ms. Barra during a conference call with analysts last week ticked off several projects slated for extra resources and attention.

Those include the North American truck business—which generates the bulk of GM's global operating profit—and a turnaround effort for the Cadillac luxury brand.

GM and other auto makers also face growing pressure to invest in autonomous vehicles, electric cars and alternative-mobility experiments that aren't likely to generate a return for years.

The Opel sale will shave about 1.2 million vehicles from GM's annual sales, likely dropping it to No. 4 globally behind Volkswagen, **Toyota Motor** Corp. and Renault-Nissan, from No. 3 last year.

Ex-Fiat Official Pleads Not Guilty

By Christina Rogers

A former **Fiat Chrysler Automobiles** NV executive pleaded not guilty Tuesday to charges of making illegal payments to United Auto Worker officials, part of a continuing U.S. investigation into suspected misuse of funds meant for autoworker training.

Alphons Iacobelli, 57 years old, a former head of labor relations at Fiat Chrysler, was indicted last week by a federal grand jury for allegedly steering $1.2 million in payments and gifts to UAW Vice President General Holiefield, his wife and other UAW officials. Mr. Holiefield died in 2015.

Federal prosecutors also charged Mr. Iacobelli with pocketing more than $1 million from company-funded accounts set up by the UAW-Chrysler National Training center, allegedly making purchases that included a $350,000 Ferrari and gold Mont Blanc pens costing $37,500 each, according to court filings.

Mr. Iacobelli, who was released on $10,000 bond, declined to comment.

A Fiat Chrysler employee, Jerome Durden, was also charged last week for allegedly conspiring to obstruct the government's investigation and conceal millions of dollars in illicit payments. He will be arraigned Friday.

Monica Morgan, Mr. Holiefield's widow, pleaded not guilty Monday to conspiracy charges. Mr. Holiefield, a top UAW official who led bargaining with Fiat Chrysler, died a year after retiring from the union.

Ms. Morgan's lawyer didn't respond to requests for comment.

During his time at Fiat Chrysler, Mr. Iacobelli was the company's top labor negotiator, often sitting across the bargaining table from Mr. Holiefield to negotiate contracts for tens of thousands of auto workers.

He left Fiat Chrysler abruptly in 2015, a month before negotiations for a new four-year contract with the union began, but was hired by General Motors Co. in 2016 as an executive director of labor relations. A GM spokesman declined to say whether Mr. Iacobelli is still employed with the company.

The indictments come at a sensitive time for the UAW, which is in the midst of an organizing drive at Nissan Motor Co.'s massive auto plant in Mississippi. A unionization vote is planned Thursday and Friday.

VALUES

Continued from the prior page
July 2017 had nearly $96 billion in uninvested capital, the most on record, Preqin estimates.

Apart from that, SoftBank Group Corp. recently launched a $100 billion vehicle to invest in private tech firms, the largest such fund ever.

The IPO market, meanwhile, is on shaky ground. While the roughly $30 billion raised in 105 offerings in the U.S. through July is nearly triple the comparable amount from last year, it is an easy comparison: Last year was the slowest for IPOs in more than a decade, according to Dealogic.

Furthermore, IPOs, usually priced to outperform benchmarks, are generating weak returns. U.S. IPOs were up 11% this year through Friday, on average, according to Dealogic—only slightly better than the S&P 500's 10% gain. Technology IPOs, which are up 19% on average, have underperformed the S&P 500 tech sector, which is up 22%.

Following the Blue Apron and Snap stumbles, entrepreneurs and investors are increasingly questioning whether the private market is in for a correction that would bring it more in line with its public counterpart. They point out

Investors are questioning whether the private market is in for a correction.

that many of the most highly valued private companies, including Uber Technologies Inc., lose money and have an uncertain path to long-term growth and profit.

Roelof Botha, a partner at Sequoia Capital, the big Silicon Valley investor, said he expects more companies have and will continue to hit valuation bumps as investors become more discriminating in the pre-IPO markets.

"Private companies sometimes have unrealistic expectations that prices will go up consistently," he said, adding that he doesn't anticipate a sharp drop in pre-IPO valuations in the market more broadly.

Nearly two years ago, well-known venture capitalist Bill Gurley outlined in an interview with The Wall Street Journal reasons why he saw danger ahead for many of the most-highly valued startups. But valuations have kept rising.

In June, for example, Pinterest Inc. raised another $150 million, valuing the image-search startup at $12.3 billion, compared with $11 billion in 2015.

And even though late-stage private investors such as Fidelity are facing losses in the Blue Apron and Snap IPOs, there is no sign they plan to exit from the market. Fidelity portfolio managers will continue to invest in private companies they believe are good long-term opportunities, according to a spokesman.

HEARD

Continued from the prior page
means many now pay spreads of just 3 to 3.5 percentage points over Libor, sometimes less. Also, loan interest rates can be cut just six months after issue, while CLOs can only reprice debt after two years typically.

In the latest crisis, the safest CLO debt caused problems because it was owned by other vehicles that in turn were funded with short-term commercial paper: When the commercial paper market evaporated, there was a CLO fire sale.

Now, the safest CLO debt is held by less vulnerable investors: banks and insurers starved of safe assets by central bank bond buying.

The pinch point now is on the owners of CLO equity, which are alternative funds and CLO managers themselves. As loan spreads fall, the income left over for them is squeezed. And if returns for equity get too slim—before there is even any pickup in defaults—CLO issuance will dry up and existing deals could be forced to stop reinvesting, let loans mature and repay their investors.

That might not cause a selloff like 2008, but it could spook individual investors in loan exchange-traded funds and mutual funds. And because CLOs are such big lenders it would mean less money for new loans, higher borrowing costs and disruption for the market.

Borrowers don't realize how much they need this alphabet soup to keep them afloat.

New Chief Takes GE Helm

Flannery is conducting review of company's portfolio, will unveil his plans in November

By Thomas Gryta

CHRISTOPHER GOODNEY/BLOOMBERG NEWS

CEO John Flannery says he met with investors and hears them 'loud and clear' on their concerns.

John Flannery started his first day as **General Electric** Co.'s chief executive with a letter to employees, highlighting the company's transformation under its previous leader but saying "now we need an intense focus on running the company well."

GE is coming off a 16-year run of Jeff Immelt, who moved the company away from struggling and lower-margin businesses toward industrial machines and related technology and services. The company's stock faltered during his tenure, but he navigated challenges such as the 9/11 terrorist attacks and the financial crisis while pushing into software development.

In his letter Tuesday, Mr. Flannery said he met with 100 investors over the past month and hears them "loud and clear" on their concerns.

"They understand the importance of GE in the world, but they think we are underperforming," he wrote. Investors want improvement on cash flow, margins and cutting costs, he added, and asked GE to simplify the financial metrics it discloses. He is reviewing GE's portfolio and will unveil his plans in November.

"They understand how massive the portfolio transformation has been since 2001, but now we need an intense focus on running the company well," said Mr. Flannery. Mr. Immelt took the reins in 2001 from Jack Welch.

Mr. Flannery conceded he was still getting used to the idea of being the CEO, saying it seems "a bit surreal" and telling workers about his start at "a small part" of GE Capital in New York City in the 1980s.

Mr. Flannery's experience is closer to a private-equity executive than an industrial operator or salesman. The son of a bank executive, he has worked around the globe, buying and selling portfolios of undervalued assets. He led the $17 billion acquisition of Alstom SA's power business, the biggest industrial acquisition in GE's history. In 2014, he stepped in to lead GE's health-care business when the unit was struggling and some analysts called for GE to spin it off or sell it.

Mr. Flannery faces different challenges than his predecessor, who inherited a conglomerate with a massive media and financial business.

On Monday, Mr. Immelt posted his own letter to employees. He called Mr. Flannery "the right person to lead GE into the future."

Sprint Is Nearing Merger Decision

By Ryan Knutson

Sprint Corp. said it would decide soon on whether to pursue a merger with either **T-Mobile US** Inc. or **Charter Communications** Inc., with an announcement coming "in the near future," according to the U.S.-based wireless carrier's chief executive.

"We've had sufficient conversations with several parties and soon we're going to start making decisions," Sprint CEO Marcelo Claure said on a call Tuesday after the company reported results for the three months ending June 30.

While Mr. Claure didn't mention either company directly, The Wall Street Journal has reported on its discussions with both of them. Sprint and its parent company, **SoftBank Group** Corp. of Japan, are considering making a formal offer to acquire Charter, the U.S.'s second-largest cable firm, according to people familiar with the matter, a massive deal that would reshape the rapidly transforming cable, wireless and media industries.

The offer being considered by Sprint's chairman and SoftBank's founder, Masayoshi Son, would be to form a new publicly traded entity that would use SoftBank money to buy out shareholders of both Sprint and Charter at a premium, the people said. The transaction would be funded with roughly half cash and half stock. The deal would result in SoftBank controlling the combined company.

SoftBank has already lined up financing from at least three banks to fund the deal, the people said. One of them cautioned that it could still take several weeks or more to reach an agreement with either company.

SoftBank already controls more than 80% of Sprint, whose market cap is around $35 billion, not including roughly the same amount of net debt, following a roughly 7% jump in the stock since The Wall Street Journal first reported contours of the plan on Friday. Charter's market cap is about $100 billion and it has more than $60 billion of debt.

Mr. Claure said a deal with T-Mobile might be the preferred option, but it would be tougher to get past antitrust regulators in Washington. Sprint and T-Mobile held merger talks in 2014 but backed down in the face of regulator opposition.

"If you were to merge with another wireless carrier, the synergies are enormous. I mean, this is a scale business, and today you need to operate two competing networks to offer the same service, having half the amount of customers that AT&T and Verizon have," Mr. Claure said.

An announcement is coming 'in the near future,' according to the company's CEO.

T-Mobile and Charter declined to comment. Last month, T-Mobile CEO John Legere said he hasn't ruled out a combination with his wireless rival, though he has also told investors not to expect any imminent deal.

A Charter deal poses its own hurdles, particularly because the company said Sunday that it isn't interested in buying Sprint. Mr. Claure said Tuesday that Sprint didn't offer to sell itself, so he was "surprised to see Charter's announcement."

Charter's CEO, Tom Rutledge, might have an incentive to wait things out: His pay package includes options that vest if the stock reaches $564. It currently trades around $390.

Athenahealth Sets Management Shake-Up

By David Benoit

Jonathan Bush, the sometimes outspoken founder and head of **Athenahealth** Inc., will cede his chairmanship but stay as chief executive in a shake-up that has the backing of two of his biggest shareholders, months after activist investor **Elliott Management** Corp. piled into the stock.

Mr. Bush will also give up operational control of the health-care-software company to a new president. Both roles are expected to be filled following searches with external candidates, the company said Tuesday.

Yet Mr. Bush will remain as the daily leader of the company, a decision applauded by typically quiet mutual-fund investors at **T. Rowe Price** and Morgan Stanley who have said his visionary leadership has been key to the company's growth, even if the company needs to mature into a more disciplined financial enterprise.

Each firm owns more than 10% of the stock and has been an investor for several years, and their support is a rare example of public backing by longtime holders of an executive facing an activist investor.

Elliott hasn't publicly commented on the company or what it wants done, but often urges executive changes or sales.

"Athena is one of those companies that's on its front foot, but it's got to get sharper," Henry Ellenbogen, of T. Rowe Price's giant New Horizons Fund, said in an interview. "Now the company is basically entering kind of its next phase" and needs to "strengthen its management team and its financial discipline," he said.

Dennis Lynch, head of growth investing at Morgan Stanley Investment Management, said in a statement that he was "enthusiastic about Athenahealth's potential to create shareholder value going forward" under Mr. Bush.

The company will also find a second new independent director and will run an operational review aimed at boosting performance. It said it was targeting $100 million in cost cuts. Last month, it also launched a search for a new financial chief.

Sony's Profit Soars but Caution Prevails

Sales are strong for image sensors used in smartphone cameras; videogame earnings lag

By Takashi Mochizuki

TOKYO—Strong sales of image sensors for cameras in iPhones and other smartphones helped **Sony** Corp. post sharply higher profit in the three months through June.

Sony's operating profit in the fiscal first quarter rose to ¥158 billion ($1.43 billion), nearly triple the figure in the same quarter a year earlier and the highest on record for Sony in the April-June period.

The figure was boosted by one-time factors, including income from insurance payments over earthquake damage that a Sony factory in southern Japan suffered a year ago. Even without those factors, Sony said its operating profit for the quarter was on par with the previous record set in April-June 2007.

Net profit for the quarter was ¥81 billion on sales of nearly ¥1.9 trillion.

For the full fiscal year ending in March 2018, analysts expect the 71-year-old electronics maker to break its operating-profit record of ¥526 billion set in the year ended in March 1998.

"The first-quarter outcome is good because this figure suggests Sony could even post a full-year operating profit of more than ¥600 billion," said Hideki Yasuda, an analyst at Ace Research Institute.

Sony on Tuesday stuck to its more cautious operating-profit forecast of ¥500 billion for the full year. "It has been just three months," said Chief Financial Officer Kenichiro Yoshida, citing risks such as rising component costs and unstable macroeconomic conditions.

Sony's television, smartphone and camera units look fairly stable thanks to cost-cutting efforts, despite unfavorable market conditions.

Profit at Sony's videogame unit, meanwhile, is running below year-earlier levels as its PlayStation 4, which made its debut in 2013, has aged. Sony shipped 3.3 million units of the console in the April-June quarter, down from 3.5 million a year earlier, despite some cuts in retail prices.

Some analysts say they expect a new PlayStation will be announced next year.

Sony's image sensors, which enjoyed a good quarter thanks to demand from Apple Inc. for its iPhones, could see some risks from the Chinese market for the rest of this year. Sony's sensors tend to be used for expensive handsets, which in China have faced growing competition from affordable devices. Sony slightly cut its fiscal-year revenue forecast for the unit.

X

Alphabet's Malta team is focused on energy storage. Above, members work with computer simulations of turbine machinery.

Alphabet Sees Power in Molten Salt

By Jack Nicas

Google parent **Alphabet** Inc. is pitching an idea to store power from renewable energy in tanks of molten salt and cold liquid, an example of the tech giant trying to marry its far-reaching ambitions with business demand.

Alphabet's research lab, dubbed X, says it has developed plans to store electricity generated from solar panels or wind turbines as thermal energy in hot salt and cold liquids, such as antifreeze. The lab is seeking partners in the energy industry, including power-plant developers and utilities, to build a prototype to plug into the electrical grid.

Whether the project, called Malta, comes to market depends as much on a sound business model as it does on science. Academics said the technology is likely years away from market, if it makes it. An X spokeswoman said Monday it could reach the market "in the foreseeable future."

Malta is the latest example of Alphabet seeking to use new technologies to enter new industries, sometimes in surprising ways. X first developed self-driving cars almost a decade ago and is building delivery drones and high-altitude balloons that beam internet connections to the ground below. X encourages its engineers to try audacious projects.

The lab has also shown interest in energy. One X team is building wind turbines that use drones attached to cables as their propellers, and X recently spun off a firm called Dandelion that uses geothermal energy—via underground pipes—to heat and cool homes. Dandelion says its product is already available in New York.

X's plan to collaborate with other firms to bring Malta to market reflects a new financial discipline at Alphabet under Chief Financial Officer Ruth Porat, who joined from Morgan Stanley in 2015.

The X spokeswoman said in an email that "it's safe to say that X isn't going to start building power plants!"

Storing electricity is an area of intense interest for the energy industry. In California, solar panels sometimes generate more power than the grid can handle. In Texas, overnight winds sometimes drive power prices down below zero—so that companies must pay for the right to put power on the grid. Finding a cost-effective way to store solar and wind power during times of surplus and deploy it when needed is the Holy Grail in the industry.

Existing storage solutions have disadvantages. Lithium-ion batteries can be inefficient, for example, though the price of storing power in batteries has been falling rapidly in recent years. Water can be stored behind dams, releasing it through generators when needed—but this doesn't work well in warm climates. X says Malta, its thermal-energy system in salt, can be durable, flexible and cheap.

Research lab X says its thermal-energy system in salt can be durable and cheap.

Malta builds on a theoretical system designed by Robert Laughlin, a Stanford University professor who won the 1998 Nobel Prize in physics for separate research. X said fewer than 10 researchers have been working on it for more than two years. Several other firms are pursuing similar technology, including a solar-power plant in Morocco.

X says its system works by sending electrical power from solar panels or wind turbines through a heat pump that converts the power to thermal energy, splitting it between hot and cold, which is then stored in tanks of molten salt or a cold liquid, such as antifreeze. The thermal energy can be stored for days or weeks depending on the tanks' insulation. To return the energy to the grid, the hot and cold thermal energy is recombined, creating a stream of wind that spins a turbine, re-creating the electrical energy.

Academics agreed that X's system makes technical sense, but its financial viability will determine its success. X declined to detail the expected costs of the system but said it relies on inexpensive components, including the salt.

"The devil is in the details in how you manufacture it and install it at low costs," said Massachusetts Institute of Technology professor Jessika Trancik.

Other academics said new demand for energy storage may mean the idea could now work. "Molten salts aren't new, and thermal storage isn't new. What's new about this is there's a big brand-name backer behind it," said mechanical-engineering professor Michael Webber, deputy director of the Energy Institute at the University of Texas at Austin.

—Russell Gold contributed to this article.

Etsy Is Pressed To Scale Back Its Startup Ways

By Khadeeja Safdar

Two years after its much-hyped IPO, **Etsy** Inc. finds itself in a predicament familiar to the rest of the retail industry: Sales are slowing and investors are frustrated.

The online marketplace for handmade and vintage goods is now under pressure to stop spending like a tech startup and start acting like a retailer.

"We're trying to find the right balance between a tech company and an e-commerce company," Fred Wilson, a venture capitalist and chairman of Etsy's board, said in an interview. "Engineering is still critically important, but we don't need to build technology for technology's sake."

Etsy's new CEO, Josh Silverman, who took over in May, has slashed spending and is focusing on reviving the company's core marketplace, in which revenue growth has slowed in each of the past four years. "We have invested too much in building our version of things that already exist in the market," Mr. Silverman said.

Last year, Etsy booked a $30 million loss as higher costs offset a 33% jump in revenue to $365 million. In the first quarter, operating expenses rose 36% from a year ago, or twice as rapidly as revenue. The company reports its latest results on Thursday.

Several people familiar with Etsy's thinking say the company has grappled with the expectations of public markets and failed to prioritize its marketplace, which now accounts for less than half of its revenue. Since 2015, Etsy generates most of its money from providing add-on services to merchants, such as shipping labels and advertising. Shares shot above $30 in their first day of trading in April 2015 but soon crumbled and have been trading below the $16 IPO price for about the past two years.

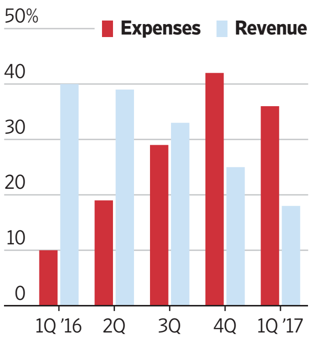
Hedge fund **Black-and-White Capital** LP publicly criticized the company in May, citing issues from Etsy's "technical research functionality" to a "historical pattern of ill-advised spending." The firm, along with buyout giant TPG and others, have encouraged Etsy to explore a sale of the company.

Asked if the company was for sale, Mr. Silverman said he would have to consider any offers that may surface but he is focused on revamping the business. "Step one is to have a plan and confidence in the plan and only then could we weigh any offers," he said.

Etsy, according to former and current executives, long prided itself on building its own technology but many of

Retail Reality

Etsy's expenses and revenue, change from a year earlier



Source: company filings
THE WALL STREET JOURNAL.

the homegrown products, such as the site's email system and search engine, had limited capabilities.

The site's technology frustrated Amy Stringer-Mowat, who has been selling cutting boards on the marketplace since 2010.

When her items seemed to stop showing up in search results as frequently and her revenue declined, she shifted more of her business, American Heirloom, to her own e-commerce site.

"Everything felt like an experiment on Etsy," she said. "I realized I could make better use of my time figuring out my own analytics rather than figuring out Etsy's algorithms."

Growth in Etsy's core marketplace business derived from charging transaction and listing fees began decelerating a few years before its IPO. Some analysts say finding secondary revenue streams such as selling search ads and shipping services to merchants has been necessary because Etsy's marketplace has limited growth potential.

In search of growth, Etsy's previous CEO, Chad Dickerson, invested in business tools for merchants and an overseas expansion.

To prevent successful merchants from leaving the site, Etsy also loosened its rules to allow items produced in small manufacturing plants, departing from its handmade-only policy.

Executives continued investing over the past year, including the acquisition of a machine-learning startup, a new marketplace for craft supplies and a brand-marketing campaign. After its IPO, Etsy's head count increased more than 30% to 1,043 by the end of 2016.

In May, the company announced plans to cut 8% of its workforce and said Mr. Dickerson, who had run the Brooklyn, N.Y., company since 2011, was being succeeded by Mr. Silverman, a former Skype and eBay executive.

ETSY

Etsy offices in Brooklyn, N.Y. The online marketplace has prided itself on developing its own technology, but that came at a cost.

GM Hires Duo Who Hacked Into Jeep

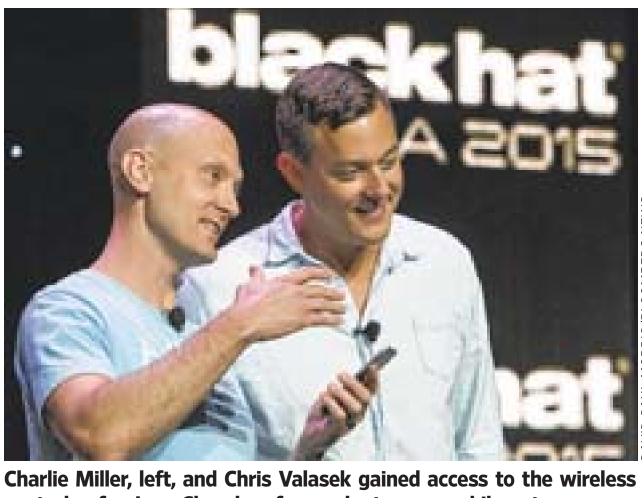
By Mike Colias

Chris Valasek and Charlie Miller made names for themselves a couple of years ago when they remotely hacked into a Jeep made by **Fiat Chrysler Automobiles** NV. Now they are going to work for **General Motors** Co.

Messrs. Miller and Valasek became well known in automotive circles when they successfully hacked into the wireless controls of a moving Jeep Cherokee from a laptop many kilometers away, manipulating the climate-control settings, stereo and even disabling the transmission. Fiat Chrysler Automobiles, Jeep's owner, issued a recall days later to fix a potential cybersecurity flaw on 1.4 million vehicles.

The Jeep hack was a watershed moment for the auto industry, raising questions about the safety of internet-connected vehicles and how auto makers would combat potential threats.

GM, Chrysler and other auto makers hired hacking



DAVID PAUL MORRIS/BLOOMBERG NEWS

Charlie Miller, left, and Chris Valasek gained access to the wireless controls of a Jeep Cherokee from a laptop many kilometers away.

consultants and beefed up controls to prevent data breaches.

GM's self-driving-vehicle subsidiary, Cruise Automation, has hired the cybersecurity experts from two major ride-sharing firms, the latest salvo in a war for tech talent between Silicon Valley and Detroit.

Mr. Valasek was working as **Uber Technologies** Inc.'s top cybersecurity expert, and Mr. Miller had worked at Uber before leaving in March to join **Didi Chuxing**, China's largest ride-hailing firm.

GM is looking to move into a leading position on autonomous vehicles that are connected to the internet and can be updated over the air. While the developments will expose vehicles' software to security breaches, introducing cars that drive themselves and are easy to upgrade is central to GM's race against tech giants aiming to gain ground in the car business, including Uber, Tesla Inc. and Google Inc.

Messrs. Miller and Valasek were set to start work at the GM subsidiary this week, Cruise founder and Chief Executive Kyle Vogt confirmed in a tweet. Uber confirmed Mr. Valasek's departure and wished him well.

GM has about 80 employees globally working on cybersecurity, led by Jeffrey Massimilla, who was appointed chief product cybersecurity officer in 2014, a GM spokeswoman said.

GM Chief Executive Mary Barra said last week that the auto maker is working toward offering over-the-air updates of conventional vehicles by 2020. Tesla for several years has used the technology to wirelessly modify a car's suspension system, for example, or to add various new features.

MANAGEMENT

Insecure Workers At Risk Of Illness

By Lauren Weber

Fear of getting laid off or fired naturally makes workers worry about their finances. A lack of job security may put people at risk for numerous health problems, too, according to a new study.

Researchers at Ball State University and the University of Toledo analyzed data from more than 17,000 working adults who took part in the government's 2010 National Health Interview Survey and found that workers feeling insecure are more likely to report lifetime histories of ulcers, diabetes, hypertension and coronary heart disease.

Men, African-Americans and hourly workers had higher rates of job insecurity than their counterparts, meaning they agreed that the statement "I am/was worried about being unemployed," applied to them in the prior year.

High-school dropouts and workers with household incomes under $35,000 were more than twice as likely as other groups to report anxiety about potential job loss.

Ulcers, diabetes and hypertension can pose threats to worried employees.

Globalization, outsourcing, corporate consolidation and the rise of short-term contract work are among the factors fueling workers' worries.

People who worry about unemployment are far more likely to report serious health conditions, the authors found. For example, their chances of having experienced symptoms of mental illness during the prior 30 days was almost five times higher than those of workers who felt secure in their jobs. The government conducts its survey annually but doesn't always ask the job-security question.

The findings raise this question: Are workers' job anxieties making them sick, or are their jobs in trouble because they are missing work?

Evidence supports the former explanation, the authors say. Other studies show that "when people's health improves, their job status and incomes don't improve," suggesting that job anxiety leads to poor health, says Jagdish Khubchandani, a professor of health science at Ball State. He co-wrote the paper with James Price, an emeritus professor at the University of Toledo.

The 2010 survey took place as the U.S. was climbing out of a recession. At the time, one in three workers felt anxious regarding their employment status.

How to Succeed in a Family Business

Thriving in a high-level role can be tricky for outsiders, but asking the right questions often pays off

By Joann S. Lublin


BRETT CARLSEN FOR THE WALL STREET JOURNAL

Benco Dental Supply executive Kari Taylor with Chuck Cohen, co-head of his family's firm, at a company warehouse in Pittston, Pa.

Three words of advice for anyone taking a top management role at a family-owned business: Success is relative.

Thriving in a high-level role can be tricky for leaders without family ties. Family members may resist executives' efforts to break with tradition by changing strategy, and may oppose calls to fire their poor-performing kin or to professionalize operations, experts say. Yet the arrangement can succeed when longtime staffers identify strongly with the founding family or recruits bring a keen grasp of relatives' roles in the business.

YOUR EXECUTIVE CAREER

John Priest, a veteran manager at **Crossland Construction** Co., says he initially worried about accepting a promotion to its presidency. No one from outside the Crossland family had ever served in senior management of the Columbus, Kan., midsize firm, which was founded in 1977.

"The first nonfamily guy usually does not make it," Mr. Priest recalls telling colleagues.

Mr. Priest had numerous chats with Crossland's two highest leaders—sons of the commercial builder's founder—before he moved up in late 2015. The brothers spelled out "what they wanted my job role and the presidency to consist of," he says. That prepared him to work better with other Crossland family executives, including one who also wanted to be president.

Family firms, which are typically smaller than major corporations, can be attractive for outside leaders.

"Often they can have greater impact," says Andrew Keyt, clinical professor of family business at Loyola University in Chicago. "There's less bureaucracy."

Between 20% and 25% of family businesses employ unrelated executives, Mr. Keyt estimates. That is up from 11% in a 1996 study that he co-wrote.

For outsiders, becoming a family-company executive "is like kissing a porcupine," observes Wayne Rivers, president of the Family Business Institute. "You have to do it carefully." He urges executives to insist on a written job description and employment contract "so you have a fallback position if things go haywire."

In May, Mark Allin gave up command of John Wiley & Sons Inc., a company controlled by the founding family where he isn't a relative.

After about two years in the job, the chief executive resigned, partly because some Wiley family members disliked his proposal to sell or find a partner for its college-textbook unit, according to a person familiar with the situation. "They saw that [unit] as core to the 200-year tradition of the business," this person says.

A Wiley spokesman declined to comment. Mr. Allin didn't return calls.

Executives must do their homework to avoid a mismatch at a family-owned concern. Prospects should ask whether prior nonfamily senior managers flourished. Did those alumni enjoy clear operating authority and does the firm's board include independent members? "You want evidence that the family listens to outside influence," Mr. Keyt suggests.

Management candidates also glean a sense of family dynamics through chats with relatives heading the business and former executives from outside the family, adds Gail Golden, a Chicago leadership coach.

Kari Taylor did extensive due diligence before the W.W. Grainger Inc. executive joined a family-owned business for the first time in 2016. Benco Dental Supply Co., with about $770 million in annual revenue, is run by brothers Chuck and Richard Cohen, grandsons of the founder.

While vying to be vice president of sales and branch operations, Ms. Taylor says she asked Chuck Cohen about how she could effectively raise opposing views within the family firm. Mr. Cohen confirms he welcomed being challenged with facts.

Ms. Taylor also met face to face with six Benco executives unrelated to the Cohens. She learned the firm's owners prefer collective decision-making but reserve veto rights. She hoped a stint at a midsize private concern such as Benco would test her ability "to run my own business someday."

The company provided an executive coach who advised her on meshing with the Cohen family's core values.

For example, she put greater emphasis on customer benefits than financial metrics during her internal pitch to revamp the sales operation. "I've seen Chuck often choose an improved customer experience at the cost of the bottom line," she says. "That has taken some real adjusting for me."

With Mr. Cohen's approval, Ms. Taylor says she changed the sales operation in ways that helped generate more new customers.

Deep digging didn't pay off for Ellen Rozelle Turner. She spent several months probing the founding family of a management and information-technology consultancy where she previously had worked before taking its presidency in late 2008. She was the sole senior executive without family ties to the 70-something founder, who promised to share the CEO title with his daughter following Ms. Turner's arrival.

The founder moved Ms. Turner into his office and stopped coming to work, only to return part-time six months later, saying, "I don't know what to do with myself," she recalls. Some staffers soon created confusion over who was in charge by raising issues with the founder rather than coming to her, she continues.

She left in early 2010. As an outsider, Ms. Turner says she didn't then understand "the depth and complexity of being in a family dynamic."

She does now. Ms. Turner started her own management consultancy—and employs two of her adult children.

BUSINESS WATCH

DOMINICK REUTER/AGENCE FRANCE-PRESSE/GETTY IMAGES

The drugmaker raised the low end of its earnings guidance, citing reduced expenses and higher-than-expected royalty income.

HONDA MOTOR

Profit Gets a Lift From the Weak Yen

Honda Motor Co. reported a 19% increase in net profit for the quarter ended in June, as a relatively weak yen helped boost repatriated earnings.

Net profit for the three-month period rose to ¥207.3 billion ($1.9 billion) from ¥174.7 billion a year earlier.

Revenue rose 7% to ¥3.71 trillion, boosted by strong motorcycle sales.

The company maintained its full-year projection for a 12% decline in net profit to ¥545 billion amid higher research expenses. Revenue is projected to rise 3.6% to ¥14.5 trillion.

Honda raised its first-quarter dividend ¥2 to ¥24.

—Sean McLain

PFIZER

Stiffer Competition Pushes Sales Lower

Pfizer Inc.'s sales continued to fall in the second quarter as its drugs faced increased competition from biosimilars, but the company still gave a rosy earnings outlook for the year.

The drugmaker raised the low end of its full-year adjusted earnings guidance, citing reduced expenses and higher-than-expected royalty income from certain products. Pfizer now expects earnings of $2.54 to $2.60 a share, compared with prior guidance of $2.50 to $2.60 a share.

Pfizer posted earnings of $3.07 billion, or 51 cents a share, up from $2.05 billion, or 33 cents a share, a year earlier. Revenue fell 1.9% to $12.9 billion.

—Imani Moise

UNDER ARMOUR

Sportswear Maker To Cut 280 Jobs

Under Armour Inc. said it would cut roughly 2% of its global workforce, or about 280 jobs.

The Baltimore-based sportswear maker has been affected by slowing sales amid a contracting sportswear market.

Under Armour reported second-quarter revenue of $1.1 billion and a loss of $12 million for the period ended June 30.

—Sara Germano

Corporate Spending Lifts Results

U.S. companies' earnings are largely fueled by expenditure from other businesses

By Jon Sindreu

How much money can companies make? In the U.S., it has been up to how much money they have been willing to spend.

U.S. business investment increased at a solid pace for a second consecutive quarter, data released Friday showed. Private nonresidential fixed investment rose to 12.6% of gross domestic product.

That is good news for investors watching second-quarter earnings. From the start of July when companies started reporting earnings, the S&P 500 is up 2%.

Economists often point out that stronger profits can lead companies to invest more. But research finds that it also happens in reverse: Companies frequently invest by buying things from other companies—building a new factory, for instance, means buying construction services and many other things. That boosts the profits of the whole sector.

Indeed, over the past four years, profits of U.S. companies have been largely dependent on capital spending by companies themselves, an analysis of national accounts suggests.

The investment-profit relationship has been especially tight in the U.S. since 2013. During this period, households and foreigners have saved a little more than they have spent, and government has spent more than it has saved—balancing out precisely.

Aside from capital gains, there was only one source of income left for companies to carve out earnings from: spending by other companies.

From 2013 to 2014, private nonresidential fixed investment rose to 13% from 12% of GDP. Earnings in the S&P 500 followed and gained about 10%, figures by FactSet show. As oil prices nose-dived from 2014 to 2016, spending on investment was cut to 12.3% of GDP, and earnings declined by 8%. The profit recovery that boosted the stock market in the first half of this year has also been matched by a rebound in investment across the economy.

For analysts looking at company reports, the challenging part of the equation is that decisions made to improve an individual firm's profitability often affect the whole of the market in the opposite way. Whereas spending too much on investment can be reckless for the company doing it, it still boosts profits for corporations overall. By contrast, cutting costs can be a good decision for the company doing it, but reduces the revenues of others.

Take the 70% slide in the price of crude from 2014 to 2016: Revenues for oil giants like **Chevron** and **Exxon Mobil** plummeted, and they responded by slashing investment. U.S. spending in mining exploration, shafts and wells dropped 70%, data show.

For these companies, shelving projects that suddenly looked unprofitable was probably the right call. But sales for **Caterpillar**, a manufacturer of heavy machinery used in oil drilling, fell around 30% from 2014 to 2016.

Likewise, "increasing competition can redistribute profits from one industry to another, but aggregate profits won't change," said Srinivas Thiruvadanthai, director of research at the Jerome Levy Forecasting Center LLC.

To be sure, the dependence of earnings on corporate spending could weaken. The Trump administration could slash taxes and boost infrastructure spending, and there are signs that households are spending more.

A report published Monday by S&P Global expects investment to increase 5.5% this year globally, after four years of declines. Looking at the longer term, however, there is more cause for concern: Since 2008, investment has been weak across the developed world, and capacity utilization in the U.S. industrial sector keeps going down, suggesting that businesses won't have much need to invest.

"Capital deployment by U.S. companies remains extremely disciplined, extremely cautious," said Yves Bonzon, chief investment officer at Swiss private bank Julius Baer & Co. Ltd.

CARLO ALLEGRI/REUTERS

Sales for Caterpillar declined 30% from 2014 to 2016 as sinking oil prices led energy companies to slash capital investment.

U.K. May Lose 17,000 Bank Jobs to Brexit

By Max Colchester

LONDON—Up to 17,000 investment-banking jobs could leave the U.K. soon after Brexit, according to the latest estimates by the consulting firm Oliver Wyman.

With the U.K. government negotiating an exit from the European Union, there is a chance that banks will lose their rights to sell products to EU clients. To offset this, banks are putting into place contingency plans to build up their operations in the trade bloc. Based on those initial plans, Oliver Wyman says, 15,000 to 17,000 wholesale banking jobs are set to be relocated to the EU. Over the longer term, that number could rise to 40,000, the firm says.

There are around 560,000 people employed in banking in the U.K, so such a departure is unlikely to mortally wound the country's reputation as a financial hub. But it could reduce the efficiencies of having Europe's investment-banking services located in one place, the firm added.

"We find uncertainty about the outcome of the Brexit negotiations means wholesale banks are trying to restrict their initial responses to 'no regrets' moves: actions that increase their options but cost relatively little, such as applying for licenses in EU jurisdictions," the group said in a report. However, in the next six to 12 months, banks will have to start making more-expensive decisions, such as whether to relocate staff.

Already, banks are warning about taking a Brexit hit. HSBC PLC Chief Executive Stuart Gulliver said on Monday that creating a new hub in Paris could cost up to $300 million.

The reorganization is likely to eat into banks' profits. Oliver Wyman estimates U.K.-based investment banks would need to find $30 billion to $50 billion of extra capital to support new European entities, if the U.K. cuts all ties to the EU. That is equivalent to 15% to 30% of the capital currently parked in the region by investment banks.

This could add up to a 4% increase in their annual cost base, equivalent to about $1 billion across the industry.

Regulator Is Making Move on Volcker Rule

By Liz Hoffman And Ryan Tracy

The U.S.'s national bank regulator is taking a first step toward changing the so-called Volcker rule, according to people familiar with the matter, as regulators continue behind-the-scenes discussions about revamping the regulation.

The rule is meant to ensure that taxpayer-insured banks aren't using customers' money to make hedge fund-like speculative bets.

The Office of the Comptroller of the Currency will ask for public feedback as soon as Wednesday on potential changes to the rule's definition of proprietary trading, among other matters, these people said.

The OCC and four other agencies that enforce the rule—the Federal Reserve, Federal Deposit Insurance Corp., Securities and Exchange Commission and Commodity Futures Trading Commission—have publicly committed to discuss potential changes in recent weeks, but haven't reached an agreement on specifics, according to people familiar with those talks.

The five agencies would have to jointly agree on changes to the rule. The Fed and the FDIC are still controlled by regulators appointed by former President Barack Obama.

The regulatory discussions continued Friday at a meeting of the Financial Stability Oversight Council of senior regulators, where officials discussed recommendations to change the rule made by the Treasury Department in a June financial regulation report.

Acting Comptroller Keith Noreika in July said his agency could move on its own to solicit public comment on the rule, although he said he was hoping to do so jointly with other regulators.

The agency's information request would last for 45 days, giving banks and others a public forum to suggest changes to the regulation, people familiar with the matter said.

Bankruptcy Declared For Fund Financier

By Laurence Fletcher

A Scottish businessman behind one of Europe's biggest hedge fund failures has been declared bankrupt in a Gibraltar court after failing to repay investors millions of dollars.

Gregory King controlled a $600 million property-lending fund, **Heather Capital**, according to fund documents, and was closely involved with a smaller Gibraltar fund, **Advalorem Value Asset Fund**, according to a report by the British territory's financial regulator. Heather collapsed in 2010 and is in liquidation. Advalorem was put into administration in 2014.

Heather's liquidator has alleged that Mr. King and another director were "co-conspirators in the fraudulent diversion" of Heather's money to third parties, according to a Scottish court filing. Gibraltar Judge Adrian Jack said in January that Advalorem's collapse followed "a fraud carried out by Mr. King" involving investment in "grossly overpriced Scottish real estate."

Scotland's prosecutor is investigating Mr. King. He hasn't been charged with any crime.

Mr. King, through a lawyer, has previously said he denies any wrongdoing in relation to Advalorem or Heather.

During a 40-minute court hearing on Monday, Judge Jack ruled that Gibraltar was the center of Mr. King's business interests. The special administrator of Advalorem, Adrian Hyde, who has been pursuing Mr. King for repayment, was appointed trustee in the personal bankruptcy.

"After a lengthy period of proceedings, we can now begin the process of tracing and realizing Mr. King's assets for the benefit of his creditors," said Mr. Hyde, who is also a partner at **CVR Global**, an insolvency and restructuring services firm.

"This has ultimately ended with a judgment that shows that Gibraltar will not tolerate its companies being used as vehicles for fraud and will deal appropriately with culprits," he said.

Mr. King couldn't be reached for comment on Monday's ruling. He didn't have legal representation at the hearing.

Mr. King, a lawyer and former Glasgow car dealer, took nearly $52 million in fees from Heather, according to fund documents. The fund pulled in big-name investors including the **Ontario Teachers' Pension Plan**. He ran the Isle of Man-registered fund for years from an office in Gibraltar.

After Heather's collapse, Mr. King became involved with Advalorem, which used investor money to buy land that he owned anonymously through Gibraltar companies, according to the territory's financial regulator.

In a hearing last year on Advalorem's collapse, Judge Jack ordered Mr. King to pay £6.1 million ($8 million) plus interest and costs. The same judge in January found Mr. King in contempt of court for failing to comply with disclosure requirements relating to an order freezing his assets.

$1 Trillion and Counting: ETFs on a Roll

By Sarah Krouse

The fortunes of Wall Street's cheapest and priciest funds are diverging fast.

Exchange-traded funds held $1 trillion more in investors' money than hedge funds globally for the first time ever at the end of June, according to research from London consulting firm ETFGI LLP. Assets in ETFs, which trade on exchanges like stocks, first surpassed the amount of money in hedge funds two years ago and have continued to swell.

Funds such as ETFs, which aim to match the returns of indexes or asset classes and are known as passive investments, have been helped by fresh market highs. The Dow Jones Industrial Average closed at a record Monday after a string of strong corporate results in the U.S. The S&P 500 as well as major German and U.K. stock indexes are also near records.

Those gains have prodded investors already losing faith in star stock and bond pickers to plow even more money into these ultralow-cost funds.

This year through Monday, research firm HFR Inc.'s index of hedge-fund performance returned 3.7%, compared with a 10% return for the S&P 500. ETFs had $4.17 trillion in assets at the end of June, while hedge funds had $3.1 trillion, according to ETFGI and HFR.

The divergence in assets is just the latest evidence to show how individual and large investors are changing the way they put money to work. Wealth advisers are shifting clients' assets into portfolios filled with ultracheap funds for which they charge a fee. Cost-conscious institutional investors have taken money out of hedge funds and allocated more to funds that match the performance of broad swaths of the market.

Price is a major attraction. The asset-weighted average annual cost for exchange-traded funds globally is 0.27%, according to ETFGI. Hedge funds traditionally charged investors 2% of assets and another 20% of profits over a certain threshold. ETFs also come with some tax and trading advantages.

The movement of money has caused a shift in power on Wall Street from money managers that pick what investments to buy and sell and promise outsize returns to less flashy passive investment funds.

In the first half of this year, ETFs around the world attracted a net $347.7 billion in net new assets, according to ETFGI. Hedge funds attracted a net $1.2 billion, according to HFR. Hedge funds still outnumber ETFs by more than 1,000 globally, despite their slower growth.

BlackRock Inc. and Vanguard Group, the two largest ETF providers and the world's No. 1 and No. 2 money managers by assets, respectively, have been the main beneficiaries of the shift in assets. A host of other money managers are now trying to package their passive as well as stock- and bond-picking strategies into ETFs to nab assets.

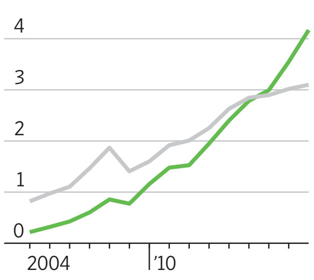
Some hedge funds, meanwhile, have trimmed fees or called it quits. Paul Tudor Jones, for example, known for charging some of the highest fees in the hedge-fund industry, has cut fees twice in the past year and a half.

BRYAN R. SMITH/AGENCE FRANCE-PRESSE/GETTY IMAGES

Investors are changing the way they put their money to work.

Diverging Fortunes

Exchange-traded funds globally have gathered assets rapidly in recent years as hedge-fund growth has stagnated.



Note: Data for 2017 are as of midyear.
Sources: ETFGI (ETFs); HFR (hedge funds)
THE WALL STREET JOURNAL.

Workers Sort Coffee Beans in Indonesia

ADITYA PRADANA PUTRA/ANTARA FOTO/REUTERS

ON THE BOIL: A small recent crop of robusta coffee in Brazil and increasing demand in Indonesia are shaking up the market. Robusta for delivery in September on ICE Futures Europe is at a premium to beans for November, a phenomenon known as backwardation that tends to happen in times of scarcity. A trader says most of the next crop from Vietnam, which is the top robusta grower, has been sold.

The Trickiest Time of the Year for Stocks

By Ben Eisen

We are getting into the dog days of summer, but that is typically when the stock market cools off.

August has historically been a weak month for equities. The S&P 500 has averaged a 1.4% decline in August over the past two decades, according to Bespoke Investment Group.

Over the past half-century, an investor who put $100 into the S&P 500 only for the month of August each year would have $98 today. That same amount invested only in December, another typically slow month for the market and the best for performance, would be worth $204 over the half-century span.

Markets are always subject to seasonal factors that can distort performance, and it isn't surprising that the market lags behind during a low-volume period in which traders and investors are often on vacation. But investors should pay particular attention this year as they contend with a stock market whose unusual calm has itself become a source of concern.

Stocks have marched higher this year almost unabated, even as President Donald Trump's agenda has stalled, geopolitical tensions have risen and the economy has cooled off.

The S&P 500 is up almost 11% in 2017 and has gone more than a year without a 5% pullback, the longest such stretch in more than two decades, according to LPL Financial. In fact, it has been nine months since the market pulled back even 3%, the firm notes. That has led to worries that stocks are climbing too rapidly, making them subject to a sharp reversal.

Some say the seasonality in play in August could hasten a retreat in the market.

"August has been the worst month of the year twice out of the past four years," said Ryan Detrick, senior market strategist at LPL Financial, in a research note. One of those years, he notes, was 2015, when the stock market swiftly fell into a correction amid concerns about China.

Still, there are also reasons to believe stocks will keep chugging higher. The Federal Reserve has continued to hold rates historically low, keeping that nearly-decade-long support for the stock market intact. Earnings are also robust, with companies set to report their best two quarters of growth in six years.

But if the seasonality kicks into gear in 2017, it doesn't paint a particularly bright picture for the market in the months to come. Over the past half-century, September has been even worse for the S&P 500 than August.

Dow Industrials Closer to 22000 On Bank Gains

By Akane Otani and Justin Yang

TUESDAY'S MARKETS

The Dow Jones Industrial Average logged its sixth consecutive session of gains Tuesday, climbing within striking distance of 22000.

The blue-chip index surged at the open and got within 10 points of the milestone about midway through the session, before paring gains toward the close. The Dow notched its fifth consecutive record close as the S&P 500 and Nasdaq Composite ended three-session losing streaks.

U.S. stocks have posted fresh records this summer, buoyed by strong corporate earnings and signs of resurgent global growth. That should help major indexes continue to climb, investors say, even as many have doubts over the timing and scale of potential policy changes from the Trump administration, such as tax cuts and infrastructure spending.

"Equities are in an earnings-driven market, surprising to the upside," said Terry Sandven, chief equity strategist at U.S. Bank Wealth Management.

The Dow industrials rose 72.80 points, or 0.3%, to 21963.92. The S&P 500 climbed 0.2% and the Nasdaq Composite added 0.2%.

In Europe, the Stoxx 600 Europe rose 0.6% to 380.26, lifted by a raft of upbeat earnings reports, as well as data showing rising economic growth in the eurozone.

Energy giant BP rose 2.4% after the company returned to profitability in the second quarter on recovering oil prices.

Eurozone economic growth gathered pace in the second quarter, coming in roughly in line with economists' expectations. The reading marked the most consistently strong expansion of Europe's economy since bouncing back from the recession that had followed the global financial crisis.

Bank shares lifted U.S. stock indexes. Goldman Sachs Group added 0.9%, while J.P. Morgan Chase rose 1.3% in late trading, boosting the Dow industrials. Index heavyweight Apple is due to report earnings after the market closes Tuesday.

Xerox, **Royal Caribbean Cruises** and **Archer Daniels Midland** were among the S&P 500's best performers after beating Wall Street's quarterly earnings expectations.

Boeing, which has helped lift the Dow industrials this year, was one of the stocks standing in the way of the index reaching its latest thousand-point milestone Tuesday. Boeing shares fell 1.2% in late trading.

Although corporate earnings have generally been solid, soft U.S. economic data Tuesday weighed on some corners of the market.

Shares of car companies fell, with **General Motors** down 3.4% and **Ford Motor** losing 2.5%, after major U.S. auto makers said sales dropped sharply in July.

Government-bond prices climbed after data showed U.S. factory activity decelerated in July from the prior month, and the Federal Reserve's preferred measure of inflation, the price index for personal-consumption expenditures, was flat in June from the prior month. The yield on the 10-year U.S. Treasury note fell to 2.253% from 2.292% Monday. Yields fall as prices rise.

—Amrith Ramkumar contributed to this article.

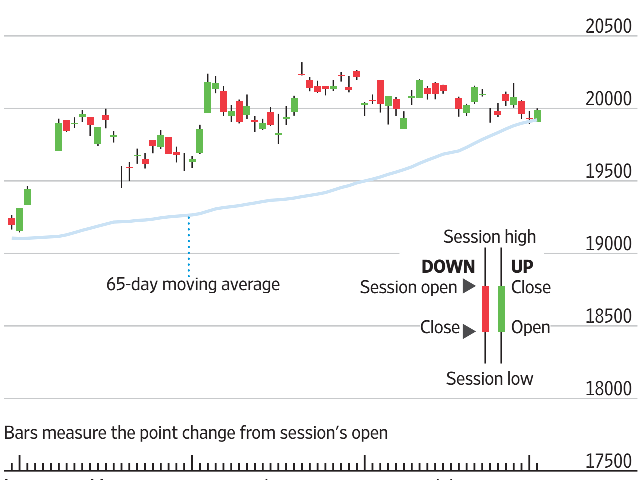
MARKETS DIGEST

Nikkei 225 Index

19985.79 ▲60.61, or 0.30%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲4.56%
52-wk high/low	20230.41	16083.11
All-time high	38915.87	12/29/89



STOXX 600 Index

380.26 ▲2.41, or 0.64%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲5.21%
52-wk high/low	396.45	328.80
All-time high	414.06	4/15/15

S&P 500 Index

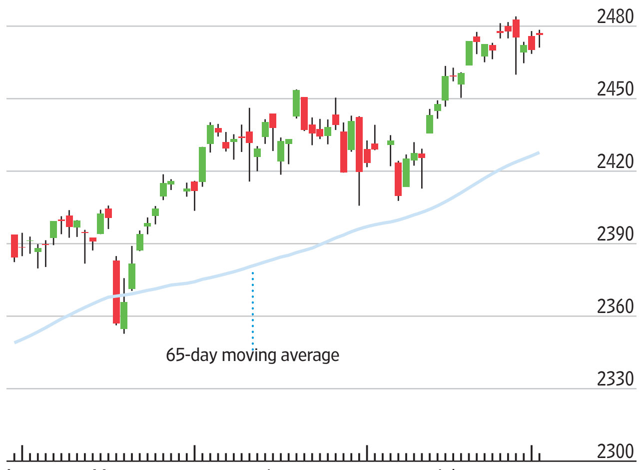
Data as of 4 p.m. New York time

2476.35 ▲6.05, or 0.24%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	23.94	25.03
P/E estimate*	18.94	18.42
Dividend yield	1.97	2.11
All-time high:	2477.83, 07/26/17	

*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

Data as of 4 p.m. New York time

Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2864.11	10.59	0.37	2384.24	2869.61	13.3
	MSCI EAFE	1950.80	13.89	0.72	1612.29	1952.28	13.7
	MSCI EM USD	1067.95	1.72	0.16	838.96	1068.26	34.5
Americas	**DJ Americas**	596.17	1.43	0.24	503.44	597.92	10.3
Brazil	**Sao Paulo Bovespa**	66529.42	609.06	0.92	55695.52	69487.58	10.5
Canada	**S&P/TSX Comp**	15206.92	63.05	0.42	14319.11	15943.09	–0.5
Mexico	**IPC All-Share**	51215.44	203.57	0.40	43998.98	51772.37	12.2
Chile	**Santiago IPSA**	3857.95	10.03	0.26	3120.87	3861.48	19.7
U.S.	**DJIA**	21963.92	72.80	0.33	17883.56	21990.96	11.1
	Nasdaq Composite	6362.94	14.82	0.23	5034.41	6460.84	18.2
	S&P 500	2476.35	6.05	0.24	2083.79	2484.04	10.6
	CBOE Volatility	10.07	–0.19	–1.85	8.84	23.01	–28.3
EMEA	**Stoxx Europe 600**	380.26	2.41	0.64	328.80	395.45	5.2
	Stoxx Europe 50	3099.75	16.84	0.55	2720.66	3279.71	3.0
Austria	**ATX**	3241.24	23.31	0.72	2166.58	3262.55	23.8
Belgium	**Bel-20**	3960.36	17.90	0.45	3362.71	4055.96	9.8
France	**CAC 40**	5127.03	33.26	0.65	4293.34	5442.10	5.4
Germany	**DAX**	12251.29	133.04	1.10	10092.53	12951.54	6.7
Greece	**ATG**	817.74	5.53	0.68	546.95	859.78	27.0
Hungary	**BUX**	35786.52	16.65	0.05	27001.48	36280.07	11.8
Israel	**Tel Aviv**	1447.14	...	Closed	1372.23	1490.23	–1.6
Italy	**FTSE MIB**	21612.81	125.90	0.59	15923.11	21828.77	12.4
Netherlands	**AEX**	527.48	2.04	0.39	436.28	537.84	9.2
Poland	**WIG**	62800.96	205.20	0.33	46321.24	62853.78	21.3
Russia	**RTS Index**	1014.24	7.10	0.70	898.05	1196.99	–12.0
Spain	**IBEX 35**	10586.70	84.50	0.80	8229.40	11184.40	13.2
Sweden	**SX All Share**	565.76	6.31	1.13	483.91	598.42	5.8
Switzerland	**Swiss Market**	9055.00	...	Closed	7585.56	9148.61	10.2
South Africa	**Johannesburg All Share**	55390.07	182.66	0.33	48935.90	55392.19	9.4
Turkey	**BIST 100**	106147.43	-1384.01	–1.29	71792.96	108605.51	35.8
U.K.	**FTSE 100**	7423.66	51.66	0.70	6615.83	7598.99	3.9
Asia-Pacific	**DJ Asia-Pacific TSM**	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Australia	**S&P/ASX 200**	5772.40	51.80	0.91	5156.60	5956.50	1.9
China	**Shanghai Composite**	3292.64	19.61	0.60	2971.28	3292.64	6.1
Hong Kong	**Hang Seng**	27540.23	216.24	0.79	21574.76	27540.23	25.2
India	**S&P BSE Sensex**	32575.17	60.23	0.19	25765.14	32575.17	22.3
Japan	**Nikkei Stock Avg**	19985.79	60.61	0.30	16083.11	20230.41	4.6
Singapore	**Straits Times**	3338.20	8.68	0.26	2787.27	3354.71	15.9
South Korea	**Kospi**	2422.96	20.25	0.84	1958.38	2451.53	19.6
Taiwan	**Weighted**	10437.29	9.96	0.10	8902.30	10513.96	12.8

Source: SIX Financial Information; WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points Latest	Previous	Month Ago	Year ago	Yield Previous	Month ago	Year ago
2.750	**Australia** 2	1.819	47.2	44.6	35.1	77.8	1.801	1.737	1.465
2.750	10	2.720	47.0	39.0	30.6	30.2	2.688	2.608	1.828
3.000	**Belgium** 2	-0.540	-188.7	-186.5	-185.5	-126.2	-0.510	-0.469	-0.575
0.800	10	0.763	-148.7	-147.1	-150.2	-137.6	0.826	0.800	0.150
0.000	**France** 2	-0.498	-184.5	-180.6	-174.9	-122.2	-0.451	-0.364	-0.535
1.000	10	0.744	-150.6	-149.1	-148.1	-139.6	0.806	0.821	0.130
0.000	**Germany** 2	-0.692	-203.9	-203.1	-197.9	-130.1	-0.676	-0.594	-0.614
0.500	10	0.490	-176.0	-175.2	-183.5	-162.4	0.545	0.467	-0.098
0.050	**Italy** 2	-0.033	-138.0	-137.5	-169.3	-75.0	-0.020	-0.307	-0.063
2.200	10	2.014	-23.7	-20.5	-14.7	-34.9	2.093	2.155	1.177
0.100	**Japan** 2	-0.114	-146.1	-147.0	-150.1	-92.0	-0.115	-0.116	-0.233
0.100	10	0.076	-217.4	-221.8	-221.4	-166.2	0.079	0.088	-0.136
4.000	**Netherlands** 2	-0.664	-201.1	-200.4	-195.4	-127.0	-0.649	-0.569	-0.584
0.750	10	0.603	-164.7	-164.4	-164.2	-152.5	0.654	0.660	0.001
4.750	**Portugal** 2	0.042	-130.5	-129.9	-130.4	-30.5	0.056	0.082	0.382
4.125	10	2.820	57.0	55.5	71.8	136.7	2.853	3.020	2.893
2.750	**Spain** 2	-0.358	-170.5	-170.1	-164.0	-86.7	-0.346	-0.255	-0.180
1.500	10	1.455	-79.5	-80.6	-77.0	-50.2	1.491	1.532	1.024
4.250	**Sweden** 2	-0.679	-202.6	-203.9	-200.3	-135.7	-0.684	-0.617	-0.670
1.000	10	0.713	-153.7	-157.6	-164.3	-146.7	0.721	0.659	0.059
1.750	**U.K.** 2	0.267	-108.0	-108.5	-101.4	-51.2	0.271	0.372	0.175
4.250	10	1.215	-103.5	-106.6	-104.3	-79.3	1.231	1.259	0.733
1.375	**U.S.** 2	1.347	...	...	...	...	1.355	1.386	0.687
2.375	10	2.250	...	...	...	...	2.297	2.302	1.526

Commodities

Prices of futures contracts with the most open interest — 3:30 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 7/31/2017

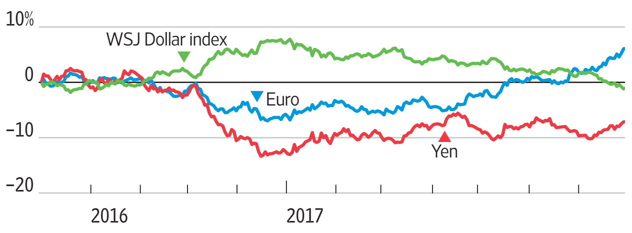
Commodity	Exchange	Last price	One-Day Change Net	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	376.75	-8.00	-2.08%	417.25	374.00
Soybeans (cents/bu.)	CBOT	970.50	-36.75	-3.65	1,047.00	907.00
Wheat (cents/bu.)	CBOT	461.00	-13.50	-2.85	574.50	430.75
Live cattle (cents/lb.)	CME	113.150	1.200	1.07%	122.850	99.125
Cocoa ($/ton)	ICE-US	2,009	-51	-2.48	2,281	1,767
Coffee (cents/lb.)	ICE-US	138.65	-0.60	-0.43	163.75	115.50
Sugar (cents/lb.)	ICE-US	14.81	-0.10	-0.67	20.50	12.74
Cotton (cents/lb.)	ICE-US	69.36	0.50	0.73	75.72	66.15
Robusta coffee ($/ton)	ICE-EU	2106.00	-17.00	-0.80	2,286.00	1,885.00
Copper ($/lb.)	COMEX	2.8800	-0.0115	-0.40	2.9055	2.4850
Gold ($/troy oz.)	COMEX	1277.80	4.40	0.35	1,307.00	1,160.80
Silver ($/troy oz.)	COMEX	16.725	-0.061	-0.36	18.780	14.340
Aluminum ($/mt)*	LME	1,924.00	11.00	0.58	1,972.00	1,688.50
Tin ($/mt)*	LME	20,810.00	135.00	0.65	21,225.00	18,760.00
Copper ($/mt)*	LME	6,383.00	-17.00	-0.27	6,400.00	5,491.00
Lead ($/mt)*	LME	2,333.00	28.00	1.21	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,810.00	41.50	1.50	2,958.50	2,450.50
Nickel ($/mt)*	LME	10,280.00	65.00	0.64	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	204.90	-0.80	-0.39	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2654.00	-21.00	-0.79	2705.00	2376.00
Crude oil ($/bbl.)	NYMEX	49.18	-0.99	-1.97	58.36	42.29
NY Harbor ULSD ($/gal.)	NYMEX	1.6448	-0.0226	-1.36	1.8065	1.3703
RBOB gasoline ($/gal.)	NYMEX	1.6635	-0.0131	-0.78	1.8366	1.3805
Natural gas ($/mmBtu)	NYMEX	2.824	0.030	1.07	3.5490	2.7610
Brent crude ($/bbl.)	ICE-EU	51.79	-0.93	-1.76	60.13	44.88
Gas oil ($/ton)	ICE-EU	485.00	-2.50	-0.51	532.25	405.50

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners

London close on Aug. 1



Country/currency	Tue in US$	Tue per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0568	17.5951	10.9
Brazil real	0.3210	3.1149	–4.3
Canada dollar	0.7982	1.2529	–6.8
Chile peso	0.001532	652.60	–2.6
Colombia peso	0.0003363	2973.75	–0.9
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0562	17.8008	–14.2
Peru sol	0.3087	3.2393	–3.4
Uruguay peso-e	0.0354	28.240	–3.8
Venezuela bolivar	0.098979	10.10	1.1
Asia-Pacific			
Australia dollar	0.7975	1.2539	–9.7
China yuan	0.1488	6.7182	–3.3
Hong Kong dollar	0.1280	7.8122	0.7
India rupee	0.0156	64.0951	–5.7
Indonesia rupiah	0.0000751	13324	–1.5
Japan yen	0.009063	110.34	–5.7
Kazakhstan tenge	0.003014	331.84	–0.6
Macau pataca	0.1253	7.9836	0.9
Malaysia ringgit-c	0.2333	4.2855	–4.5
New Zealand dollar	0.7475	1.3378	–7.4
Pakistan rupee	0.0095	105.270	0.9
Philippines peso	0.0199	50.377	1.6
Singapore dollar	0.7363	1.3581	–6.2
South Korea won	0.0008917	1121.42	–7.2
Sri Lanka rupee	0.0065223	153.32	3.3
Taiwan dollar	0.03305	30.253	–6.8
Thailand baht	0.03003	33.300	–7.0
Europe			
Bulgaria lev	0.6032	1.6578	–10.8
Croatia kuna	0.1593	6.276	–12.5
Euro zone euro	1.1804	0.8472	–10.9
Czech Rep. koruna-b	0.0451	22.155	–13.7
Denmark krone	0.1587	6.3003	–10.9
Hungary forint	0.003892	256.95	–12.7
Iceland krona	0.009587	104.31	–7.7
Norway krone	0.1262	7.9212	–8.4
Poland zloty	0.2776	3.6029	–13.9
Russia ruble-d	0.01660	60.252	–1.7
Sweden krona	0.1233	8.1120	–10.9
Switzerland franc	1.0356	0.9656	–5.2
Turkey lira	0.2840	3.5206	–0.1
Ukraine hryvnia	0.0387	25.8450	–4.6
U.K. pound	1.3213	0.7568	–6.6
Middle East/Africa			
Bahrain dinar	2.6515	0.3772	–0.01
Egypt pound-a	0.0559	17.8847	–1.4
Israel shekel	0.2805	3.5650	–7.4
Kuwait dinar	3.3165	0.3015	–1.3
Oman sul rial	2.5967	0.3851	0.04
Qatar rial	0.2740	3.650	0.3
Saudi Arabia riyal	0.2666	3.7507	unch
South Africa rand	0.0757	13.2157	–3.5

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	85.90	0.15	0.17	–7.57

Sources: Tullett Prebon, WSJ Market Data Group

Cross rates

London close on Aug 1

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.2539	1.6567	1.2984	0.0114	0.1605	1.4799	1.0009	...
Canada	1.2529	1.6554	1.2975	0.0114	0.1604	1.4788	...	0.9993
Euro	0.8472	1.1194	0.8774	0.0077	0.1084	...	0.6762	0.6756
Hong Kong	7.8122	10.3228	8.0904	0.0708	...	9.2217	6.2355	6.2301
Japan	110.3400	145.8000	114.2800	...	14.1240	130.2300	88.0700	87.9900
Switzerland	0.9656	1.2759	...	0.0088	0.1236	1.1398	0.7707	0.7701
U.K.	0.7568	...	0.7838	0.0069	0.0969	0.8934	0.6040	0.6035
U.S.	...	1.3213	1.0356	0.0091	0.1280	1.1804	0.7982	0.7975

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.23167%**	0.49390%
Three month	**1.31056**	0.76760
Six month	**1.45167**	1.12720
One year	**1.72567**	1.44260
Euro Libor		
One month	**-0.39786%**	-0.36857%
Three month	**-0.37729**	-0.30429
Six month	**-0.29900**	-0.19271
One year	**-0.18743**	-0.06571
Euribor		
One month	**-0.37100%**	-0.37100%
Three month	**-0.33100**	-0.29800
Six month	**-0.27200**	-0.18400
One year	**-0.15100**	-0.04800
Yen Libor		
One month	**-0.03014%**	-0.04914%
Three month	**-0.01421**	-0.01379
Six month	**0.00886**	0.01086
One year	**0.11143**	0.09671

	Offer	Bid
Eurodollars		
One month	**1.3300%**	1.2300%
Three month	**1.3900**	1.2900
Six month	**1.5000**	1.4000
One year	**1.8200**	1.7200

	Latest	52 wks ago
Prime rates		
U.S.	**4.25%**	3.50%
Canada	**2.95**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.75**	1.00
Fed-funds target	**1.00-1.25**	0.25-0.50
Call money	**3.00**	2.25
Overnight repurchase rates		
U.S.	**1.06%**	0.52%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

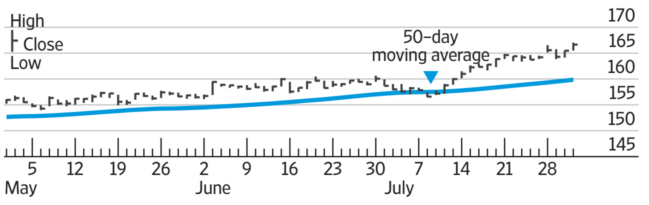
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
	Asia Titans				
HK$	AIAGroup	1299	61.95	0.65	41.60
¥	AstellasPharma	4503	1406.50	-0.11	-13.37
AU$	AustNZBk	ANZ	29.76	0.44	-2.17
AU$	BHP	BHP	26.16	1.20	4.39
HK$	BankofChina	3988	3.92	1.82	13.95
HK$	CKHutchison	0001	104.30	1.36	18.66
HK$	CNOOC	0883	8.77	0.34	-9.59
AU$	CSL	CSL	127.06	0.84	26.54
¥	Canon	7751	3850.00	0.34	16.84
¥	CentralJapanRwy	9022	18060	1.75	-6.08
HK$	ChinaConstructnBk	0939	6.57	1.08	10.05
HK$	ChinaLifeInsurance	2628	25.65	3.64	26.98
HK$	ChinaMobile	0941	83.45	-0.36	1.52
HK$	ChinaPetro&Chem	0386	5.99	1.01	8.91
AU$	CmwlthBkAust	CBA	84.54	0.97	2.58
¥	EastJapanRailway	9020	10465	1.11	3.61
¥	Fanuc	6954	22585	0.09	13.98
¥	Hitachi	6501	737.30	-2.94	16.66
TW$	Hon Hai Precisn	2317	116.50	-0.85	38.36
¥	HondaMotor	7267	3127.00	0.61	-8.43
KRW	HyundaiMtr	005380	145500	0.34	-0.34
HK$	Ind&Comml	1398	5.54	1.28	19.14
¥	JapanTobacco	2914	3856.00	0.57	0.31
¥	KDDI	9433	2944.50	0.84	-0.51
¥	Mitsubishi	8058	2439.00	1.77	-2.05
¥	MitsubishiElectric	6503	1718.50	0.47	5.46
¥	MitsubishiUFJFin	8306	715.40	2.20	-0.67
¥	Mitsui	8031	1629.00	1.50	1.37
¥	Mizuho Fin	8411	195.30	-0.56	-6.91
¥	NTTDoCoMo	9437	2599.50	1.42	-2.38
AU$	NatAustBnk	NAB	30.08	0.43	-1.92
¥	NipponTeleg	9432	5477.00	1.61	11.50
¥	NissanMotor	7201	1098.00	0.18	-6.59
¥	Panasonic	6752	1487.50	-2.20	25.05
HK$	PingAnInsofChina	2318	60.30	4.06	55.41
$	RelianceIndsGDR	RIGD	49.55	-0.10	57.05
KRW	SamsungElectronics	005930	2430000	0.83	34.85
¥	Seven&I Hldgs	3382	4467.00	0.49	0.31
¥	SoftBankGroup	9984	8860.00	-1.09	14.10
¥	Sony	6758	4459.00	-1.78	36.15
¥	Sumitomo Mitsui	8316	4293.00	2.34	-3.74
HK$	SunHngKaiPrp	0016	121.00	...	23.47
TW$	TaiwanSemiMfg	2330	212.00	-1.17	16.80
¥	TakedaPharm	4502	5897.00	1.11	21.96
HK$	TencentHoldings	0700	314.40	0.32	65.74
¥	TokioMarineHldg	8766	4735.00	1.94	-1.27
¥	ToyotaMtr	7203	6300.00	1.06	-8.40
AU$	Wesfarmers	WES	40.90	0.42	-2.94
AU$	WestpacBanking	WBC	32.07	0.79	-1.63
AU$	Woolworths	WOW	27.03	1.24	12.16
	Stoxx 50				
CHF	ABB	ABBN	22.70	0.13	5.68
€	ASMLHolding	ASML	127.95	-0.16	19.97
€	AXA	CS	25.12	0.64	4.73
€	AirLiquide	AI	104.10	0.39	-1.47
€	Allianz	ALV	182.75	1.53	16.40
€	AB InBev	ABI	101.10	-0.69	0.55
£	AstraZeneca	AZN	4490.00	-1.73	1.18
€	BASF	BAS	81.25	0.82	-7.99
€	BNP Paribas	BNP	66.79	1.86	10.31
£	BT Group	BT.A	316.00	0.80	-13.87
€	BancoBilVizAr	BBVA	7.76	1.49	22.27
€	BancoSantander	SAN	5.82	0.87	17.44
£	Barclays	BARC	206.60	1.77	-7.54
€	Bayer	BAYN	107.50	0.33	8.44
£	BP	BP.	456.45	2.39	-10.43
£	BritishAmTob	BATS	4832.00	2.51	4.55
€	Daimler	DAI	59.85	0.94	-15.37
€	DeutscheTelekom	DTE	15.60	0.97	-3.69
£	Diageo	DGE	2439.50	-0.37	15.62
€	ENI	ENI	13.47	0.75	-12.93
£	GlaxoSmithKline	GSK	1516.50	0.13	-2.91
£	Glencore	GLEN	336.40	0.67	21.29
£	HSBC Hldgs	HSBA	764.80	1.03	16.43
€	INGGroep	INGA	15.90	0.54	18.92
£	ImperialBrands	IMB	3203.00	2.66	-9.58
€	IntesaSanpaolo	ISP	2.92	0.14	20.20
€	LVMHMoetHennessy	MC	215.90	1.50	19.02
£	LloydsBankingGroup	LLOY	65.57	-0.02	4.90
€	LOreal	OR	175.90	0.46	1.44
£	NationalGrid	NG.	944.20	0.79	-9.05
CHF	Nestle	NESN	81.70	...	11.84
CHF	Novartis	NOVN	82.40	0.92	11.20
DKK	NovoNordiskB	NOVO-B	266.80	-0.48	4.75
£	Prudential	PRU	1859.50	0.62	14.25
£	ReckittBenckiser	RB.	7386.00	0.23	7.26
£	RioTinto	RIO	3502.00	-0.51	10.88
CHF	RocheHldgctf	ROG	244.90	0.99	5.29
£	RoyDtchShell A	RDSA	2134.50	0.07	-4.82
€	SAP	SAP	90.54	0.96	9.33
€	Sanofi	SAN	79.69	-1.28	3.63
€	SchneiderElectric	SU	66.91	0.84	1.21
€	Siemens	SIE	116.45	1.48	-0.30
€	Telefonica	TEF	9.66	1.05	9.52
€	Total	FP	43.45	1.13	-9.03
CHF	UBSGroup	UBSG	16.82	-0.47	5.45
€	Unilever	UNA	49.31	0.02	26.06
£	Unilever	ULVR	4308.00	-0.31	30.84
€	Vinci	DG	75.45	-0.38	16.62
£	VodafoneGroup	VOD	221.65	-0.16	10.91
CHF	ZurichInsurance	ZURN	294.80	0.61	5.14
	DJIA				
$	AmericanExpress	AXP	85.23	...	15.05
$	Apple	AAPL	150.05	0.89	29.55
$	Boeing	BA	239.44	-1.25	53.80
$	Caterpillar	CAT	113.10	-0.75	21.95
$	Chevron	CVX	110.78	1.46	-5.88
$	CiscoSystems	CSCO	31.64	0.59	4.68
$	Coca-Cola	KO	45.70	-0.31	10.23
$	Disney	DIS	110.61	0.62	6.13
$	DuPont	DD	82.65	0.54	12.60
$	ExxonMobil	XOM	80.15	0.14	-11.20
$	GeneralElec	GE	25.44	-0.66	-19.49
$	GoldmanSachs	GS	227.02	0.75	-5.19
$	HomeDepot	HD	149.85	0.17	11.76
$	Intel	INTC	36.35	2.48	0.22
$	IBM	IBM	145.28	0.42	-12.48
$	JPMorganChase	JPM	93.03	1.34	7.81
$	J&J	JNJ	132.55	-0.13	15.05
$	McDonalds	MCD	154.04	-0.71	26.55
$	Merck	MRK	63.92	0.06	8.58
$	Microsoft	MSFT	72.54	-0.22	16.74
$	Nike	NKE	59.88	1.41	17.80
$	Pfizer	PFE	33.08	-0.24	1.85
$	Procter&Gamble	PG	91.10	0.31	8.35
$	3M	MMM	203.15	0.98	13.76
$	Travelers	TRV	129.17	0.84	5.51
$	UnitedTech	UTX	118.88	0.26	8.45
$	UnitedHealth	UNH	192.06	0.13	20.01
$	Visa	V	100.86	1.31	29.27
$	Verizon	VZ	48.89	1.01	-8.41
$	Wal-Mart	WMT	80.50	0.64	16.46

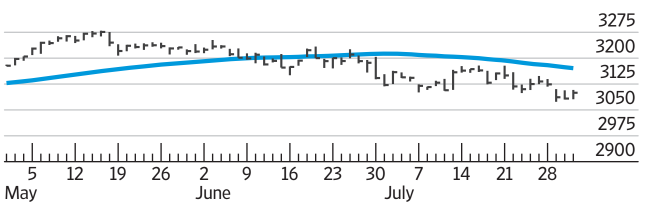
Asia Titans 50

Last: **166.64** ▲ 1.17, or 0.71% — YTD ▲ 18.2%



Stoxx 50

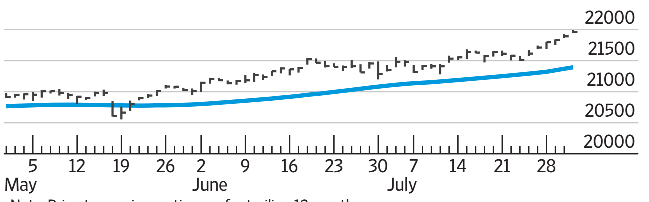
Last: **3099.75** ▲ 16.84, or 0.55% — YTD ▲ 3.0%



Dow Jones Industrial Average

P/E: 20

Last: **21963.92** ▲ 72.80, or 0.33% — YTD ▲ 11.1%



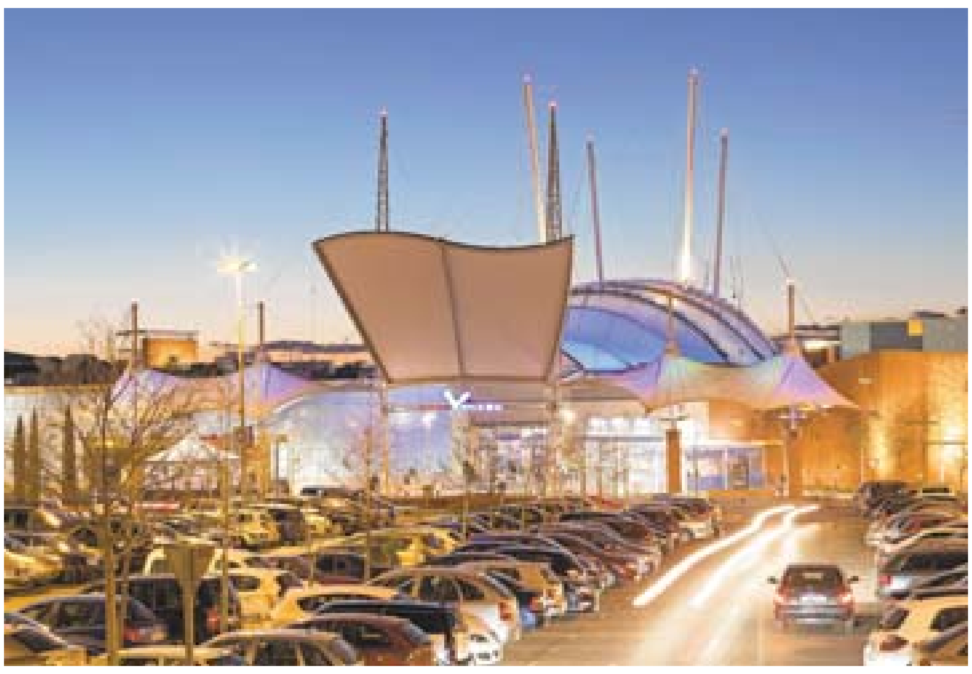
Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

INTERNATIONAL PROPERTY: SPAIN

Foreigners Bid Up Commercial Assets

Demand pushes down expected yields in a market where supply remains limited

By Art Patnaude


INTU PROPERTIES

The Xanadu shopping complex near Madrid, in which TH Real Estate bought a 50% stake in May.

Spanish real estate is back.

Nearly a decade after a property bust sent Spain into a deep and enduring recession, commercial real-estate investment is picking up, even among risk-averse investors. Investment volumes in the first half of 2017 topped €5 billion ($5.9 billion), up from €2.9 billion in the same period last year, according to property broker **Savills**.

The demand has pushed expected returns to record lows. In Madrid, prime office yields, a measure of return based on rental income, are at 3.25%, the same as offices in London's expensive West End, Savills data show. Before the financial crisis, yields in Madrid bottomed at 4% in 2007.

Despite historically low returns in commercial-property markets around the world, investors increasingly have piled into real estate, where yields tend to be higher than other asset classes such as bonds.

Also driving demand in Spain is a wager that an economic recovery is on a solid footing. Spain's gross domestic product increased at an annualized 3.2% in the first quarter, the same pace as in the past two years and better than the 1.8% eurozone average, according to European Union data.

Confidence in a recovery has helped make the country "a focus of investment for foreign investors," said Marta Cladera de Codina, head of Iberia at **TH Real Estate**, a London-based asset manager. Most of the foreign investment is from Europe and the U.S.

The road to recovery was long. In 2008, the bust in Spain's debt-fueled property market became central to a financial and political crisis that soon swept across Europe. Investors steered clear as property values plummeted in Spain, Ireland, Portugal and Greece.

Spain's property market showed signs of a recovery in 2014 when bargain hunters returned. But even then, investors sought out only what they perceived to be relatively safe assets in Madrid and Barcelona.

Now, with Spain's economy among the fastest-growing in Europe, investors "are willing to look at a wider range of assets," said Alejandro Sanchez-Marco, a capital markets director at Savills. This includes hotels and student housing, as well as dominant shopping centers across the country, he said.

The economic recovery also has attracted institutions, such as pension and insurance funds, that tend to prefer less-risky real estate. These types of investors "want to invest only when the [economic] recovery is clear," said Borja Ortega, head of capital markets at property broker JLL.

Retail assets have been in high demand. In May, TH Real Estate bought a 50% stake in the Xanadu Shopping Centre just outside Madrid for €264 million. As the capital city's largest mall, and the only one with an indoor ski slope, "it's a very unique asset and a great opportunity," Ms. Cladera de Codina said.

Vukile Property Fund, a South African retail specialist, bought a portfolio of nine shopping centers for €193 million earlier this month.

Overall, commercial-property investment across Europe has slipped in the past year, hampered by a lack of supply and political uncertainty. But while property for sale in Spain is limited, it remains a relatively cheap option on the Continent.

Even though yields are at record lows, property values in Spain haven't yet returned to their precrisis peaks. That is because the price of real estate includes how much a landlord earns from rent payments. And in Spain, rents are still low.

In Madrid, office rents averaged €345 a square meter (10.8 square feet) a year in the first half of 2017. In 2008, they were €504 a square meter a year, Savills data show.

"Compared to elsewhere in Europe, Spain is still very cheap," Mr. Ortega at JLL said.

Still, the limited amount of property for sale is a big problem for eager investors.

"There is a real lack of product," said Ms. Cladera de Codina. "If you have €500 million to invest in commercial real estate in Spain right now, that's a great idea. But it won't be so easy to do."

The surging demand has spurred warnings the market is at risk of overheating. Even though the economy is growing, Spain's unemployment rate is over 18%, still the second highest in the eurozone after Greece.

But one big difference from the last property boom is the lower level of debt in the market.

"Banks are being more selective," said Mr. Sanchez-Marco at Savills. "They are very competitive in their rates for the high-quality stuff. But financing for riskier assets, or for development, is much harder to get nowadays."

If strong demand continues in the second half of the year, 2017 investment volumes could be the highest in any year since 2007, brokers and investors said.

"Historically, we're close to the peak," said Mr. Sanchez-Marco. "But if you do a European comparison, Spain comes in as a very friendly place to invest."

Barcelona Bans Cars, Boosts Tech

By Emily Nonko

Planners in cities throughout the world have been racking their brains to come up with ways to tap into the new technology economy to add jobs, spark economic development and boost real-estate values.

Barcelona has come up with an unusual solution: ban cars.

One year ago, Barcelona ordered most automobiles out of a 40-acre portion of a once-dilapidated industrial area where the Spanish city has been trying to attract technology companies. The move has helped turn the area—named the 22@ District—into one of Barcelona's hottest office markets.

Today, office rents in some of 22@ District's buildings are as high as €20 a square meter a month—or $23.46 for 10 square feet—surpassing rents of some office buildings in Barcelona's main city center, according to CBRE Group Inc. Five years ago, rents were about 25% lower in the area, named after the traditional industrial designation previously assigned to it, 22a.

Tenants include **Amazon.com** Inc.'s European headquarters and co-working company **WeWork** Cos.

In 2014, Cisco Systems Inc. announced an investment of $30 million for an innovation center here.

More than 180 restaurants, 50 bars and 20 hotels have opened in the area, according to the city, another element that has attracted tech companies.

The district's waterfront locale means "you can go have lunch by the sea," said Anna Esteban, the office director of CBRE Barcelona.

"Most large corporations—not just in Barcelona but everywhere—use their offices as a tool to attract talent," she added. "For them, it's important their people are in a place they like to work."

To be sure, the district owes its success partly to Spain's popularity and Barcelona's quarter-century of growth that began with the 1992 Summer Olympics. A diversified economy, with many manufacturing and services jobs, means the city has some of the highest job creation in the country, according to CBRE.

But the popularity of Barcelona among tech companies also reflects a pedestrian-friendly approach that has become almost an obsession with the city government.

Office-Space Developers Are Gearing Up in Madrid

By Theresa Agovino


ANGEL NAVARRETE/BLOOMBERG NEWS

Most of the development in Madrid is upgrades to older buildings.

Last summer, **Gmp Property Socimi** SA began developing an office building without preleasing any space, one of the first speculative projects that the Madrid real-estate market has seen since the boom years.

This year, Gmp doubled down on the office market. In April, the Spanish real-estate investment trust bought an older property with plans to modernize it.

"We trust the market now," said Xabier Barrondo, Gmp's managing director. "And there is a real lack of good quality space in Madrid."

New office projects are being launched in Madrid at the greatest rate since the 2008 financial crisis. Construction all but disappeared during the financial crisis and its immediate aftermath as demand and financing evaporated.

But office development is making a comeback. About 2.1 million square feet of new space is slated to be delivered in Madrid this year, compared with 90,400 square feet last year, according to **Cushman & Wakefield**. The new space comes as many landlords are also renovating older buildings to include modern space and amenities. Most of the development involves upgrades of older buildings to include modern space and amenities. But speculative projects also are moving forward.

Hispania Activos Inmobiliarios SA has started foundation work for two office buildings on a Madrid site the company purchased last year for €32 million ($37.7 million). "For the first time we are negotiating power shifting from the tenant to the landlord," said Cristina García-Peri, general manager of Hispania.

The development boom has been triggered by the biggest surge in demand Madrid has seen in years from the financial, consulting and other service firms that drive the city's market. Technology companies also are expanding, including one of the biggest leases of last year, the 226,000 square feet leased by Chinese telecom firm Huawei Technologies Co. at Castellana Norte BP.

In the first half of this year, companies leased a total of 2.5 million square feet, up 10% from last year, according to Cushman & Wakefield.

Adolfo Ramirez-Escudero, chief executive officer of CBRE Spain, said his team is looking for a total of about 861,000 square feet of space for clients. "We haven't had that much in years," he said.

Office vacancy fell to 12% in the second quarter, a level not seen since 2009, according to Cushman & Wakefield. It was 18% in 2013.

Meanwhile, rents in the central business district—Madrid's most coveted location—rose to €30 a square meter a month in 2016, up 22% from 2013. The rate is still far below its prerecession high of €40 a square meter.

Broader market rents hit €19.3 a square meter last year, up 12% from the recession low. Real-estate observers are expecting rent growth of anywhere from 10% to 15% a year in the next few years.

"We have zero vacancy in our portfolio," said Pere Viñolas, chief executive officer of Colonial Group, a real-estate investment trust with about 40 properties in Spain. "Supply is lagging demand."

Mr. Viñolas said that after seven years of either falling or stagnating, rents jumped an average of 10% to around €20 a square meter last year. Colonial is developing two speculative office buildings in Madrid—something the company hasn't done for about a decade—and overhauling an older building.

Landlords say tenants are looking for modern buildings in city centers to appeal to younger workers. Those properties are in short supply in Madrid, where the average buildings is about 25 years old, CBRE's Mr. Ramirez said.

Gmp is asking between €26 and €33 a square meter a month in its two renovated towers, which are located in the central business district and recently hit the market. It spent €24 million to upgrade 77 Castella, a 172,000-square-foot property that is still empty. About a quarter of neighboring 81 Castella has been rented since the 409,000-square-foot building received a €30 million face-lift.

"We are going to be very demanding about rent," Gmp's Mr. Barrondo said. "We know we have a great product."

A dearth of Class A buildings in the city center moved Gmp to purchase a tower at Manuel Cortina 2 this year for €72 million. It is slated to be completed next year after a €21 million renovation. Construction has already started on Oxxeo, a 153,000-square-foot building scheduled for completion next year.

—Peter Grant contributed to this article.

MARKETS

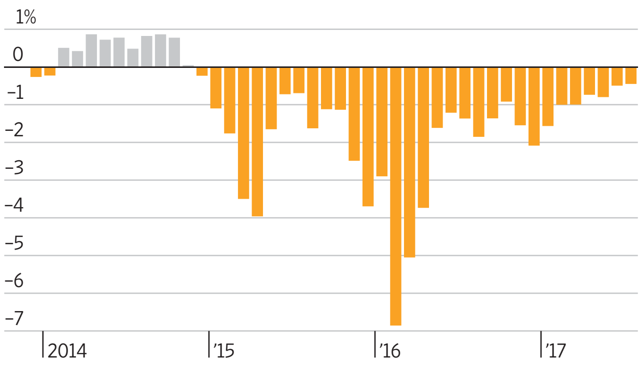
Oil Futures Are Flashing a Buy Signal

Pricing shift, indicating the global glut of crude may be easing, is bullish for investors

By Alison Sider

Rolling Along

S&P GSCI crude-oil roll return —gains or losses from rolling futures positions from one month to the next



Source: S&P Dow Jones Indices THE WALL STREET JOURNAL.

Crude storage tanks are seen at the oil hub in Cushing, Okla.

Patience is paying off for investors who stuck with bullish oil bets this year.

Near-term oil prices are close to rising above longer-term prices—a long-anticipated shift that signals the global glut of crude may be easing.

It is welcome news for oil investors, who already have benefited from the rebound in crude prices in July. U.S. oil prices rose 9% to $50.17 a barrel in July in response to positive U.S. stockpile data and a renewed commitment from Saudi Arabia to curtail exports.

For most of 2017, the price of oil delivered in the future has been higher than the spot price. That is a sign that there is more than enough oil to meet current demand. And since that price relationship makes it more profitable to put oil in storage rather than sell it right away, it encourages oil stockpiles to become even more bloated.

During such periods, an investor would be "basically forced to sell low and buy high," said Terence Brennan, portfolio manager at Lazard Asset Management. "Then it's probably not the best investment."

Now, the difference between current and longer-term futures prices has shrunk. The gap between prices of the two nearest monthly contracts fell to the narrowest since December 2014, one month after the Organization of the Petroleum Exporting Countries surprised the market with its decision against production cuts, which sped up a descent in oil prices.

The persistence of lower current prices versus future ones has been painful for investors who hold long-term bullish bets or buy index products that track crude. Typically, investors have to pay the difference in the prices of monthly futures when they roll over positions from one month to the next.

This year, investors have lost 5.6% in rolling positions from one month to the next in the S&P GSCI Crude Oil index, according to S&P Dow Jones Indices. Last year, the comparable "roll cost" was 20.8% through July.

Higher prices further out in the future "is still costing you, but it's costing you less. It is getting to the point where it could start to turn around," Mr. Brennan said.

Big banks had expected the oil-futures curve to pivot quickly, and current prices to rise above future prices in the first half of the year. The thinking was that the temporary output reduction agreed to in December by OPEC and other major producers, such as Russia, would jolt near-term prices while leaving longer-term futures more depressed, creating a condition known as backwardation. That would encourage oil companies, speculators and traders to sell oil rather than store it.

While the market flirted with backwardation this year, getting to that point has been a tougher slog than expected because U.S. shale producers were able to increase production more quickly than most observers anticipated. As a result, global oil supplies remain well above the level OPEC was targeting.

"The market isn't paying you to store," said John Saucer, vice president of research and analysis at Mobius Risk Group. "It doesn't mean the market is tight, but it isn't sloppy either."

There are signs of a shift. The amount of oil held in storage tanks in the U.S. has dropped in the past four weeks by more than double the average rate for this time of year.

The shift—if it happens—may be fleeting. It "would flood the market at a time when it's too fragile to absorb those barrels," said Michael Tran, director of global energy strategy at RBC Capital Markets.

But others say that should the relationship between current and future prices revert, it could be the bullish signal investors have been waiting for to jump back into oil.

"That would be a pretty important indicator to asset allocators and longer-term investors, who are keenly aware of the last decade's experience of what negative roll yields can do to the return on investment," said Greg Sharenow, a portfolio manager at Pacific Investment Management Co.

Doubts on OPEC's Power Chip Away at Recent Gain

By Stephanie Yang

Oil prices fell from a two-month high on Tuesday as doubt returned that OPEC's ability to curtail production and make a dent in the global supply glut.

Light, sweet crude for September delivery settled down $1.01, or 2%, to $49.16 a barrel on the New York Mercantile Exchange, snapping a six-session winning streak that led prices above $50 a barrel for the first time since May 24. Brent, the global benchmark, fell 94 cents, or 1.8%, to $51.78 a barrel.

Signs of increasing production from the Organization of the Petroleum Exporting Countries have negated reassuring rhetoric by leading member Saudi Arabia, analysts said. The kingdom has announced plans to cap exports and enforce compliance in curtailing output.

The cartel, along with several other major oil-producing nations, agreed to cut production late last year and has extended the deal through March 2018. Still, prices have dropped in 2017 as market players become more doubtful of OPEC's influence on global crude stocks. Meanwhile, U.S. shale activity has ramped up in response, helping offset the cuts from OPEC.

A Reuters survey this week showed OPEC production climbing in July to the highest level since December 2016, as Libya increased supply and some members slipped in compliance with the deal.

"The realization that OPEC oil production is at its highest level this year is undercutting some of the recent strength," said John Kilduff, founding partner at Again Capital. "I think there's a lot of skepticism."

Cargo-tracking data have indicated that OPEC exports increased in July despite the production deal, according to Robbie Fraser, commodity analyst at Schneider Electric.

"You've got the market really hesitant at this point to make any decisive move above $50 a barrel," Mr. Fraser said.

Traders will be watching for storage data from the U.S. Energy Information Administration, due at 10:30 a.m. ET on Wednesday. Prices have rallied in recent weeks on signs of declining supply in the U.S. as stockpiles have fallen six out of the past seven weeks.

Recent gains have also prompted some traders to take profits ahead of the EIA data, said Jim Ritterbusch, president of the energy-advisory company Ritterbusch & Associates.

Analysts and traders surveyed by The Wall Street Journal on average expect that crude stockpiles declined by 3.1 million barrels in the week ended Friday.

The storage reports are "especially big right now," Mr. Fraser said. "If you want to point to a single justification of why prices have been able to claw their way back...those stock draws are really going to need to keep happening."

—Neanda Salvaterra contributed to this article.

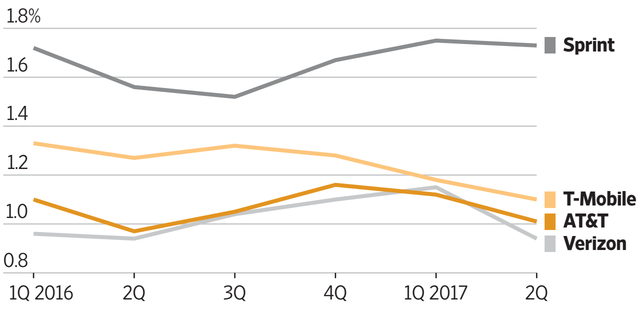
HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

Telecoms Have iPhone to Thank

On Hold for a New iPhone

Postpaid churn rates



Note: Data are calendar-year. Sprint, whose fiscal year ends in March, changed its subscriber reporting methodology in the most recent quarter. For comparison, the 2Q 2017 figure for Sprint is calculated using the previous methodology.
Source: UBS THE WALL STREET JOURNAL.

Judging by second-quarter earnings of wireless companies, it might appear the industry has turned a corner after a few dismal years. The truth is, the industry benefited from an **Apple**-induced calm as customers waited for the new iPhone before dumping their carriers.

Sprint capped off quarterly earnings for the big wireless carriers on Tuesday, reporting net income for the first time in three years.

The carrier, which is aggressively looking for a merger partner, was in line with rest of the industry, which posted surprisingly strong earnings. Even more impressive, both **AT&T** and **Verizon Communications** reported big improvements in subscriber additions after multiple quarters of losing share to smaller rivals. Both touted record-low phone-subscriber churn. Shares of both companies soared after their earnings.

Investors should take a step back: A big reason for the calm is the coming launch of the 10th anniversary iPhone. Apple typically introduces new iPhone models in September. Many iPhone devotees wait for the new model before replacing their phones. If customers are going to switch carriers, they often do so when they buy a new device. As a result, the quarter before the launch of a new iPhone tends to be characterized by an eerie calm, followed by an uptick in churn as iPhone-related promotions kick in.

The industry also had low churn in the second quarter of 2016 ahead of the launch of the iPhone 7. With about three-quarters of the market between them, Verizon and AT&T have the most to gain when industry churn is low. If the release of the next iPhone is delayed until the fourth quarter, as some have speculated, the two giants will benefit from another quarter of calm.

For its part, **T-Mobile** added a better-than-expected number of postpaid phone subscribers. But after excluding some less valuable customers it added through a new program, the result wasn't as impressive as the blowout quarters to which investors have become accustomed. T-Mobile also beat estimates for earnings before interest, taxes, depreciation and amortization, citing spending discipline. That suggests it may be saving its promotional firepower for the second half of the year.

Granted, industry churn has been falling for the past couple of years thanks to new plans that separate the cost of a phone from the cost of service. That could mitigate the effect of the iPhone launch. Verizon's unlimited offering and AT&T's bundling wireless with TV packages are also clearly responsible for some of their gains.

The period of low churn may give carriers a respite, but the real test will be how they perform when the new iPhone hits the market.

—Miriam Gottfried

OVERHEARD

What's in a name? A lot, says **Ford Motor**, especially when it comes to China.

The auto giant is fighting to block a U.S. trademark application by **Geely Automobile** for a new brand, Lynk & Co. According to Ford, the name sounds too similar to Lincoln, its luxury brand.

Geely plans to use the Lynk moniker for a wave of high-tech vehicles designed to appeal to young, affluent consumers. Lynk, when said in Chinese, means style and technology. Lincoln is known for luxury sedans that enjoyed popularity among older generations of Americans.

Ford is eager to protect the brand as it gears up to start production of Lincolns in China by 2019.

Sales in China are still small—Ford sells about 4,000 Lincolns a month there—but have been growing rapidly. Overall, the U.S. auto maker's sales in China have been sagging, while Geely's have been on fire.

Maybe a little name confusion could help Ford in China.

Expectations Run High for Rolls-Royce

Aircraft-engine maker **Rolls-Royce** is flying high—and its stock even higher.

The British company has been on a tear after years of operational missteps and a major bribery scandal.

First-half results out Tuesday confirmed things are going well in the company's main business of selling and servicing jumbo jet engines. It delivered more engines and got more revenue from maintaining existing ones. Air traffic remains high, boosting its business model of selling engines at a loss while making money servicing them.

Crucially, free cash flow, adjusting for fines, was a less-than-expected outflow of £339 million ($445.8 million). That excites investors who are banking on Rolls's long-term trajectory. There is a record order backlog at Airbus and Boeing, and Rolls is set to control half of the market in supplying wide-body jet engines.

The company aspires to generate £1 billion of free cash flow annually around 2020. Speaking to analysts Tuesday, CEO Warren East may have been trying to temper expectations by being vague about the timing, but he ended up winding them up by saying it could be achieved ahead of schedule—if everything goes right.

A consensus estimate for free-cash flow yield of around 5% for 2020 seems to pack in a full dose of optimism. And on earnings-related valuation, after shares shot up 9% Tuesday and 45% this year, Rolls-Royce's enterprise value is 10.6 times earnings before interest, tax, depreciation and amortization, the highest ever. They expect a flawless flight.

—Alex Frangos

Big Oil Is Finally Coming to Terms With Reduced Prices

Major oil companies seem to have moved through the stages of grief about low prices, finally arriving at acceptance.

During the latest round of sector earnings delivered in recent days, **Royal Dutch Shell**'s boss Ben van Beurden even said oil could be "lower forever": BP said Tuesday it is targeting a future breakeven oil price of $35 to $40 a barrel. The question for investors is whether they and their global peers can protect their precious dividend payouts in this brave new world.

Shell's own results offer some hope—largely because it has become less reliant on crude production itself. Its push into natural gas in recent years and big refining operations are paying off: Second-quarter earnings rose sevenfold to $1.9 billion, beating expectations.

U.S. majors **Exxon Mobil** and **Chevron**, meanwhile, also saw profits rise sharply but cash generation lagged, in part due to expensive upstream U.S. oil operations.

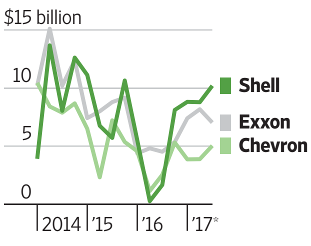
If oil demand peaks as soon as 2030, as Shell is predicting, its shift into natural gas will be validated. Although most of the majors have shifted toward gas and Exxon remains a larger gas producer overall, Shell's bet has been especially obvious. Following its expensive 2015 acquisition of BG Group, it could be the world's largest liquefied natural-gas marketer by the 2020s, and it now produces more gas than oil.

Still, if peak oil demand comes later, Exxon's and Chevron's big investments in shale oil will probably look smart.

The problem with producing shale oil is that it burns up cash. Shell generated $35 billion in cash flow from operations in the past four quarters, according to Tudor Pickering, 25% higher than Exxon. That cash-flow generation helped Shell reduce its net debt by 9% from a year earlier, against rises of around 5% for Exxon and Chevron. And despite overall profits sharply higher than a year ago, Exxon's U.S. upstream business lost money for a 10th consecutive quarter.

Geyser

Net operating cash flow



*First half Source: FactSet
THE WALL STREET JOURNAL.

The danger for Exxon and Chevron is that they will find themselves continually pumping cash into shale wells to keep production numbers up, even as small independent shale producers—which face less pressure to pay big dividends—do the same.

Shell's big bet on Australian natural gas isn't without risk. If the U.S. is able to muscle in on the Chinese market for liquefied natural gas, prices in Asia could remain depressed, for example. But for this quarter at least, Shell's strategy looks smart.

—Nathaniel Taplin