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## What's News

### Business & Finance

**D**iscovery Communications agreed to acquire Scripps Networks for \$11.9 billion, combining two powerhouses at a time of major upheaval in the cable-TV business. **A1**

◆ A new bitcoin is slated to launch Tuesday, causing confusion as exchanges and brokerages scramble to deal with the new currency. **B5**

◆ Charter Communications said it isn't interested in buying Sprint, potentially ending several weeks of deal talks. **B1**

◆ HSBC said it would buy back another \$2 billion in shares, as part of a new pledge to regularly buy back shares if it can. **B1, B8**

◆ Credit-card losses are mounting, a reversal from a six-year trend that could be a warning sign for markets and the broader U.S. economy. **B5**

◆ A discreet government-backed fund is playing an outsize role in China's push to become a semiconductor power. **B1**

◆ Saint Laurent is launching online sales in China as the French fashion brand seeks to expand in that fast-growing market. **B4**

◆ Sanofi reported net profit fell in the second quarter, but lifted its earnings guidance for 2017. **B3**

◆ Lyft is adding its first independent board member, Valerie Jarrett, a former top adviser of President Barack Obama. **B4**

### World-Wide

◆ Maduro's government said more than eight million people had voted to give his administration overwhelming powers to redraft the constitution. **A1**

◆ The U.S. urged China and other nations to band together to confront North Korea over its nuclear and ballistic-missile ambitions. **A3**

◆ May's spokesman said free movement of people between the U.K. and the EU will end when the U.K. leaves the bloc. **A4**

◆ The ECB said the EU should consider fining European governments that fail to adopt its economic reform proposals. **A4**

◆ Trump's tumultuous past week has widened rifts among Republicans. **A5**

◆ Fewer EU citizens are seeking work in the U.K., a consequence of its vote to leave the EU. **A2**

◆ Retired Marine Corps Gen. Kelly took charge as the White House new chief of staff. **A5**

◆ Law-enforcement officials across the U.S. are taking extraordinary new precautions against fentanyl. **A7**

◆ Australia boosted security at airports after police thwarted an alleged plot by Islamist-inspired militants to down a plane. **A3**

◆ The eurozone's unemployment rate has fallen to its lowest level in more than eight years. **A3**

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## WORLD NEWS

# Fewer EU Citizens Seek Work in U.K.

Allure wanes in wake of U.K. vote to leave EU and accelerating growth in eurozone

By JASON DOUGLAS

FLITWICK, England—Neil Goldman, who employs workers from across the European Union's in his food-packaging business, blames the U.K.'s Brexit vote last year for making vacancies harder to fill.

Britain has for years been a magnet for European job seekers drawn by decent wages, the English language, and plentiful openings in the country's easy-to-hire economy. That attraction now appears to be waning as a consequence of its vote to leave the EU, as well as accelerating growth in the eurozone.

In industries as diverse as agriculture, health care and manufacturing, executives are growing anxious about labor shortages that they fear could crimp expansion plans and restrain the British economy. Already, growth in the U.K. is sputtering as quickening inflation squeezes consumer spending.

The Confederation of British Industry, an employers' lobby group, has said continued access to high-skilled and low-

skilled workers from abroad is critical to sustain economic growth.

Any ebbing of the flow of foreign workers shouldn't come as a surprise, since Brexit was designed in large part to make that happen. Reducing immigration from the EU is a central plank of Prime Minister Theresa May's Brexit strategy. Quitting the bloc, she says, was a vote to take back control of Britain's "borders, laws and money."

Indeed, Brexit advocates say, scarcity has a silver lining: Labor shortages could help boost Britain's lagging productivity if firms respond by investing in new machinery and training. On the other hand, economists caution, foreign workers are themselves an important source of productivity-enhancing skills.

Mr. Goldman, chief executive of Colpac Ltd., based in Bedfordshire some 40 miles north of London, employs 150 people, about 40% of whom are from other EU countries. He said he spent the months after the referendum in June last year soothing foreign employees worried about their future in Britain. A handful of them have already left and he says he is struggling to find replacements.

"Ever since that day, I've



About 40% of the 150 employees at Colpac, a food-packaging business in Flitwick, Bedfordshire, are from other EU countries.

been reassuring and encouraging everyone that Britain is open for business," Mr. Goldman said.

The U.K. experienced waves of new arrivals from the EU over the past two decades, especially after it opened its doors to workers from new member states in Central and Eastern Europe in 2004. The influx fueled its economy but also stoked public anxiety. Last year's Brexit vote was in part a backlash against immigration, polls suggest, though it also reflected British discomfort at what detractors see as the EU's

excessive influence over U.K. affairs.

More than 2.3 million workers from other parts of the EU were working in the U.K. in the first quarter of 2017, 2½ times as many as a decade ago and the highest number ever recorded. EU nationals account for about 7% of Britain's 32-million-strong workforce.

There are signs that employment swell is ebbing. The number of EU nationals receiving national insurance numbers, which are required to start work or claim benefits, was 6% lower in the year through March than a year earlier, according to the Department of Work and Pensions.

National insurance registrations by Polish citizens were down 23%, and those by Spaniards down 9%. Net migration to the U.K. in 2016 from the eight EU countries that joined the bloc in 2004—a group that includes Poland, Lithuania and Hungary—fell to 5,000 from 46,000 a year earlier, according to the Office for National Statistics.

In some sectors the falloff is especially striking. The Health Foundation, a charity, said in June that 46 EU nationals applied to work as nurses or midwives in the U.K.'s state-run National Health Service in April, compared with more than 1,000 that month a year earlier.

There isn't a big pool of unemployed Britons to fill any emerging gaps. Unemployment in the U.K. was 4.5% in the first quarter, the lowest level since 1975. A recent survey by the National Farmers' Union found that of 13,400 workers recruited in the industry between January and May, just 14 were British. Farmers say the pool of foreign labor from which they draw seasonal workers has shrunk dramatically, and Brexit hasn't even happened yet.

Uncertainty over the future status of EU citizens in the U.K. after Brexit—the EU and U.K. have yet to negotiate an agreement on the question—is one factor persuading some footloose workers to look elsewhere, recruiters say. Current and potential workers "need some certainty around residency rights," said Jane Gratton, head of business environment and skills at the British Chambers of Commerce.

Another reason for skipping Britain: A battered pound means foreign workers' earnings don't go as far when spent at home. The eurozone's expansion and a strengthening euro means some workers are looking to countries such as Germany instead. Others are choosing to stay home altogether to take advantage of buoyant domestic labor markets.

"There are more choices available to EU migrants that have free movement," said Gervyn Davies, senior labor-market analyst at the Chartered Institute of Personnel and Development, an association for human-resources managers.

In Poland, wage growth hit an annual 6% in June, according to official figures. Maciej Witucki, chief executive of Warsaw-based recruitment firm Work Service SA, which helps Poles find jobs abroad, said a May survey by his firm found the proportion of Poles considering moving abroad for work had declined to 14% from 19% a year earlier, though many still identified the U.K. as their No. 1 choice. Germany and the Netherlands were other top destinations.

Ryan Scattery, managing director of Thistle Seafoods Ltd. in Peterhead, Scotland, which supplies supermarkets with fishcakes and other chilled seafood products, says he needs to find around 50 new workers every year to replenish those who leave his 500-strong workforce to return to their homes elsewhere in the EU.

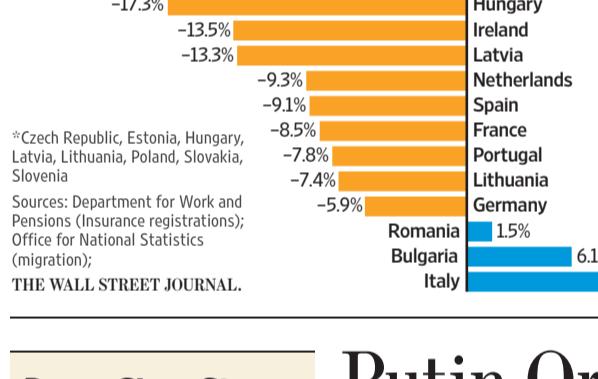
That used to be straightforward, as departing workers would often recommend their friends and family.

"We are just not seeing that coming through anymore," he said.

## Destination Elsewhere

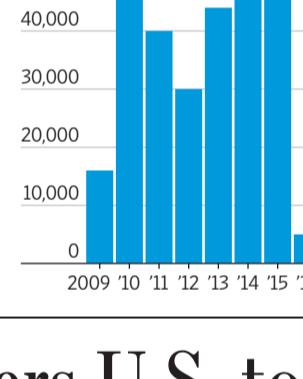
EU citizens from outside Britain, and especially from Eastern Europe, have long boosted the U.K.'s workforce, but there are signs that flow is starting to ebb since the Brexit vote.

### Change in U.K. national insurance registrations to foreign EU citizens from year ending March 2016 to year ending March 2017



\*Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia  
Sources: Department for Work and Pensions (Insurance registrations); Office for National Statistics (migration);  
THE WALL STREET JOURNAL.

### Net annual migration to the U.K. from EU<sup>8</sup> countries



## Pence Gives Stern Warning to Russia

By THOMAS GROVE

TALLINN, Estonia—Vice President Mike Pence issued one of the toughest attacks on Russia since the Trump administration took office, coming to a Baltic state on Russia's border to warn against "aggression" from the "unpredictable neighbor to the east."

Mr. Pence said President Donald Trump would a sign bill passed by Congress that imposes sweeping new sanctions on Russia, despite earlier reservations of the White House and a promise from Moscow to expel hundreds of U.S. diplomats in return.

Mr. Pence said Russia must be held accountable for its actions, saying the U.S. wouldn't lift sanctions until it sees as a reversal of "the actions that caused the sanctions in the first place."

"At this very moment, Russia continues to seek to redraw international borders by force, undermine the democracies of sovereign nations, and divide the free nations of Europe one against another," he said.

Mr. Pence was in the midst of a three-day overseas trip that includes stops in two other countries that Moscow has seen as its traditional sphere of influence—the former Soviet state of Georgia and Balkan state of Montenegro. The message he has been repeating is that the U.S. won't abandon allies living in Russia's shadow.

The vice president delivered his remarks outside Estonia's defense headquarters, surrounded by symbols of military resolve. Flanking him were armored tanks and standing in front of the stage were hundreds of U.S., British, French and Estonian troops.

—Peter Nicholas

that President Donald Trump plans to sign the legislation.

"We had hoped that the situation would somehow change," Mr. Putin said. "But judging by everything, if it changes, it won't happen fast."

Mr. Putin held out the possibility of additional measures but said that at this point he was against taking further punitive steps. "I hope it doesn't come to that," he said.

Mr. Putin told state television that slightly more than 1,000 U.S. diplomatic and technical staff work in Russia at present.

Last week, the Russian foreign ministry said the number

of U.S. diplomatic and technical staff in Russia as of Sept. 1 would be reduced to 455, the same number of Russian diplomats now operating in the U.S.

But it wasn't clear at the time how many positions would have to be cut to reach that level. It's unclear how the reductions will affect American citizens working in the U.S. embassy and in three U.S. consulates in Russia; many of the people who work in those facilities are local hires.

A State Department official said Sunday, "This is a regrettable and uncalled-for act. We are assessing the impact of

such a limitation and how we will respond to it."

A U.S. official said the move to trim down staff could slow down the embassy's ability to issue visas, among other possible consequences.

The largest-to-date diplomatic expulsion involving Washington and Moscow occurred in 1986, when President Ronald Reagan ordered 55 Soviet diplomats to leave the country.

Russia's relationship with the U.S. has been a major factor in Mr. Trump's first months in office. During the presidential campaign, Mr. Trump avoided criticizing Mr. Putin even as he

claimed China, Mexico and others were dealing unfairly with the U.S., chiefly in terms of trade. Mr. Trump also has voiced skepticism over U.S. intelligence findings that Russia meddled in the presidential election.

## CORRECTIONS & AMPLIFICATIONS

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## Torrential Rains During India's Monsoon Season



Indian flood victims stand atop a partially submerged building in Gajol village, some 40 miles (66 kilometers) west of Calcutta, on Monday. The floods have hit millions of people—submerging villages, washing away crops, destroying roads and disrupting power.

PALANIADH/EUROPEAN PRESSPHOTO AGENCY

# WORLD NEWS

## U.S. Presses China on Pyongyang Threat

Pence, in Estonia, says Beijing, others need to join in isolating regime over nuclear ambitions

Trump administration officials urged China and other nations to band together to confront North Korea over its nuclear and ballistic-missile ambitions, with Vice President Mike Pence declaring "all options are on the table" to rein in Pyongyang.

By Peter Nicholas  
in Tallinn, Estonia,  
and Felicia Schwartz  
in Washington

"The continued provocations by the rogue regime in North Korea are unacceptable and the United States of America is going to continue to marshal the support of nations across the region and across the world to further isolate North Korea economically and diplomatically," Mr. Pence told reporters traveling with him in Estonia on Sunday, two days after North Korea's second intercontinental ballistic-missile test. "We believe China should do more."

Speaking at a trade briefing on Monday, China's vice minister of commerce, Qian Keming, said the U.S. and China should separate issues over trade from those over North Korea's missile test, adding that Beijing is willing to work with the U.S. to boost bilateral trade. Mr. Qian didn't directly address North Korea's latest missile test, but said China remains committed to ridding the Korean Peninsula of nuclear weapons.

At the United Nations, U.S. Ambassador Nikki Haley rejected calls for an emergency session of the Security Council, saying "the time for talk is



A Thaad interceptor was tested in Alaska on Sunday, as South Korea's defense minister said the country would upgrade its missile defenses.

over" and that a further Security Council resolution that doesn't "significantly increase the international pressure" on North Korea would be "worse than nothing."

Secretary of State Rex Tillerson also singled out Russia on Friday, saying it could do more to blunt Pyongyang, while Ms. Haley in a tweet on Sunday said Japan and South Korea could step up as well.

Their remarks came as President Donald Trump signaled his chagrin at what he described as China's inaction on North Korea's nuclear and ballistic-missile ambitions.

After North Korea's first

ICBM launch, in early July, Defense Secretary Jim Mattis said the U.S. wasn't closer to war, and said the Trump administration would give diplomacy more time to resolve the crisis.

On Friday, the White House said Mr. Trump would sign a package of sanctions passed last week by Congress designed in part to limit the cash available to North Korea to further its nuclear and missile programs. Yet on Sunday, it wasn't clear the administration's strategic calculus had fundamentally changed with the second missile launch.

"I don't see the test leading to any change of the adminis-

tration's approach," said Robert Einhorn, a former senior State Department official who worked on North Korea in the Obama and Clinton administrations. "I think they will try to use the test to reinforce what they're doing—maximizing pressure on North Korea."

"I think the Trump people know you have to get China on board, and part of that is to confront the Chinese with real costs if they don't get on board."

For now, Trump administration officials have been making preparations to act unilaterally, including by drawing up measures targeting Chinese compa-

nies and banks that are funneling funds into North Korea's nuclear and weapons programs. That direction has already prompted protests from Beijing.

The U.S. also been demonstrating military force in the region, including by conducting a missile test, sending two American bombers to fly over the Korean Peninsula and testing a sophisticated missile-defense system known as Thaad.

The State Department's acting top Asia diplomat told lawmakers last week before North Korea's second test that the U.S. would soon impose sanctions on additional Chinese entities for violating U.N.

AGENCE FRANCE PRESSE/GETTY IMAGES

sanctions on North Korea.

China's ambassador to the U.S., Cui Tiankai, last week warned against unilateral sanctions by the U.S., calling Washington's targeting of a small Chinese bank in late June that the administration accused of facilitating Pyongyang's weapons program unacceptable.

"We also object to the 'secondary sanctions' imposed by the U.S. on Chinese entities and individuals according to U.S. domestic laws," the ambassador said last week.

The increasingly public rancor between Beijing and Washington over the issue threatens to affect other aspects of the relationship, especially trade.

The Trump administration could still do more to penalize Beijing. There are hundreds more Chinese companies that trade with North Korea and could be targeted by secondary U.S. sanctions.

That would infuriate Beijing, but wouldn't impose sufficient economic costs to force a change in policy, some analysts and diplomats said.

U.S. officials have privately warned Chinese counterparts that the U.S. could also expand the missile-defense system in Asia if North Korea continues to accelerate its nuclear and ballistic-missile programs.

Washington is also trying to exploit Beijing's fears that a U.S. military strike against Pyongyang could bring a flood of North Korean refugees into northeastern China, and U.S. troops to China's borders.

President Xi Jinping, however, is unlikely to cede much ground in the politically sensitive run-up to the party leadership shuffle this fall.

—Ian Talley in Washington  
and Jeremy Page  
and Liyan Qi in Beijing  
contributed to this article.

## Australia Boosts Security At Airports After Arrests

BY ROB TAYLOR

CANBERRA, Australia—Security lines stretched out the doors at Australia's major airports as travelers faced tighter screening after police thwarted an alleged plot by Islamist-inspired militants to bring down a commercial airliner.

Prime Minister Malcolm Turnbull declined on Monday to comment on local news reports that four men detained in Sydney over the weekend by counterterrorism police planned to kill everyone on board a passenger aircraft using toxic sulfur gas or an improvised bomb, hidden inside a kitchen meat grinder carried on board.

The Wall Street Journal wasn't able to independently verify the reports of the alleged plot.

Mr. Turnbull hinted that the information that led to the sweep came from another government.

Police continued to search the homes of four men detained in an alleged terror plot.

"We have very fine intelligence services. But every nation depends on the work of others," he said. "We are intensifying, all the time, our collaboration with other countries and other agencies, because with the threat there are no borders. Nowhere is far away from anywhere else nowadays."

Australia is a member of

the Five Eyes intelligence-sharing alliance together with the U.S., Canada, New Zealand and the U.K. It has less formal intelligence-sharing agreements with other countries including Germany, France and the Netherlands.

Authorities urged patience as increased security-screening measures ordered after the weekend sweep triggered long delays at airports in Sydney and Melbourne, as police continued to search the homes of the four men arrested on Saturday.

"The traveling public needs to have confidence that we're doing everything we can to maintain safety throughout Australia," Transport Minister Darren Chester said.

Most of the properties raided were in gritty parts of the city's western suburbs where many migrants settle, although one was in the inner city near Mr. Turnbull's affluent beachside constituency.

While police declined to say whether the alleged plot was

focused on domestic or international flights, the Daily Telegraph newspaper in Sydney said the four suspects—two Lebanese-Australian fathers and their sons—planned to carry a device onto an aircraft flying from Australia to the Middle East.

"We have very good security at airports now," said Andrew Colvin, who heads the Australian Federal Police.

"What we are doing, what you're seeing at the moment is making sure there is extra vigilance, to make sure we aren't cutting any corners in our security."

Australia, a close U.S. ally that has contributed military advisers and warplanes to the U.S.-led coalition combating Islamic State in Syria and Iraq, has disrupted 13 planned terrorist attacks since 2014, in-

cluding a 2016 plot to behead police during national Anzac Day veterans' parades and a separate plot the same year to attack Christmas shoppers in Melbourne.

Separately, two men and a teenager pleaded guilty Monday in a Sydney court to plotting a terrorist attack on government buildings including a police headquarters in Australia's largest city in late 2014.

Police patrolled at Sydney Airport on Sunday, after authorities thwarted an alleged plot to down a plane.

WILLIAM WEST/AGENCE FRANCE PRESSE/GETTY IMAGES

including the 2016 plot to behead police during national Anzac Day veterans' parades and a separate plot the same year to attack Christmas shoppers in Melbourne.

But consumer prices were just 1.3% higher in July than a year earlier, as the rate of inflation was unchanged, at its lowest level in 2017.

"The eurozone continues to create jobs at a very strong pace, which is helping support domestic consumption," said Fabio Balboni, an economist at HSBC. "Unfortunately, from an ECB perspective, the fall in unemployment isn't translating yet into inflationary pressures."

However, the ECB isn't alone in confronting this unemployment/inflation combination. Figures released on Friday showed the U.S. economy accelerated in the three months to June, but inflation remained weak, leading some investors to doubt whether the Federal Reserve can muster another interest-rate increase in 2017.

—Paul Hannon

## WORLD WATCH

INDIA

### Central Bank Seen Cutting Key Rate

The central bank is likely to cut its key lending rate by a quarter percentage point this week after a sharp slowdown in inflation and weaker-than-expected economic growth.

The Reserve Bank of India's monetary-policy committee, headed by Gov. Urjit Patel, is scheduled to announce its rate decision on Wednesday. Eleven of 14 economists polled by The Wall Street Journal predicted it would cut its key lending rate to 6% from 6.25%, while three economists expect the RBI to leave the rate unchanged.

Inflation has been easing steadily for the past few months. Benchmark consumer inflation was at 1.5% in June, well below the 2% lower end of the central bank's target range.

Earlier signs that prices were cooling had prompted a rethinking of inflation forecasts by the RBI during the previous monetary-policy meeting. That led the RBI to lower its inflation forecast

to 2% to 3.5% in the six months through Sept. 30, compared with an earlier projection of 4.5%.

"It is an opportune time to act," said Madhavi Arora, an economist at Kotak Securities.

If the central bank lowers the rates, it would be a timely move just ahead of a key shopping season, Bank of America Merrill Lynch said. But if it stays put, it could delay an economic recovery until April, it added.

Consumer demand peaks during the October-December period because of a string of festivals.

The RBI previously cut its benchmark interest rate in October.

—Debiprasad Nayak

CHINA

### Manufacturing Data Suggest a Slowdown

A gauge of manufacturing activity fell more than expected in July, offering a sign of an anticipated slowdown in the world's second-largest economy after a strong start to the year.

China's official manufacturing purchasing-managers' index fell

to 51.4 in July from 51.7 in June, according to data released by the National Bureau of Statistics.

The July reading fell below a median forecast of 51.6 from a Wall Street Journal poll of economists, but still remained above the 50 mark that separates expansion from contraction, as it has for 12 months straight.

Some economists saw the downturn in manufacturing as a sign the economy is slowing after the government began to try

to rein in a hot property market and rising corporate debt.

The latest official PMI readings suggest that China's growth momentum may have waned at the start of the third quarter," said Julian Evans-Pritchard, an economist with Capital Economics.

China achieved a 6.9% growth rate in the first half of the year,

a pace seen as higher than ex-

pected by some economists and

that gives Beijing a comfortable

margin to continue the delever-

aging effort, meet the 6.5% growth target for this year and maintain stability ahead of a leadership shuffle this year.

Zhao Qinghe, an economist with China's statistics bureau, attributed July's drop in the official manufacturing PMI chiefly to weaker foreign demand and slower production amid hot weather and floods in southern China.

Moving into the second half of the year, some economists have predicted a deceleration in the economy as rising financing costs and some cooling in the real-estate market weigh on growth.

—Grace Zhu

EUROZONE

### Unemployment Rate Hits Eight-Year Low

The eurozone's unemployment rate has fallen to its lowest level in more than eight years, but the annual rate of inflation is unchanged, new data showed—highlighting the challenge at the heart of the European Central Bank's decision on dialing down



Men walked by a store selling household items in Beijing on Monday, when China released data showing a downturn in output.

ANDY WONG/ASSOCIATED PRESS

its stimulus programs.

The European Union's statistics agency said the proportion of workers without jobs across the 19 countries that use the euro fell to 9.1% in June from 9.2% in May, reaching its lowest level since February 2009.

But consumer prices were just 1.3% higher in July than a year earlier, as the rate of inflation was unchanged, at its lowest level in 2017.

"The eurozone continues to create jobs at a very strong pace, which is helping support domestic consumption," said Fabio Balboni, an economist at HSBC. "Unfortunately, from an ECB perspective, the fall in unemployment isn't translating yet into inflationary pressures."

However, the ECB isn't alone in confronting this unemployment/inflation combination. Figures released on Friday showed the U.S. economy accelerated in the three months to June, but inflation remained weak, leading some investors to doubt whether the Federal Reserve can muster another interest-rate increase in 2017.

—Paul Hannon

## WORLD NEWS



Clashes broke out in Caracas on Sunday between government security forces and protesters in which 10 people were killed during a government-orchestrated vote to create a new constituent assembly.

## VOTE

*Continued from Page One*  
testers and security forces. A total of 123 people have died since a steady stream of protests began in April, the government says.

The election results were announced on state television by Tibisay Lucena, head of the National Electoral Council, near midnight on Sunday.

"Peace won. When peace wins, Venezuela wins," said Ms. Lucena, summing up the vote. "It was a result that was so big, so surprising."

The late hour minimized unrest in a country that has been whipsawed by antigovernment protests. But on Monday, government opponents called the outcome fraudulent and promised more protests in the capital.

"Now is the time to keep fighting in Venezuela for peace, for free elections," Julio Borges, head of the opposition-led National Assembly, said in a television interview. "Maduro is behaving like an emperor."

Mr. Maduro, speaking to followers after the announcement, asserted that it was the best result obtained by the Socialist government in its 18 years in power, despite the country undergoing its deepest economic crisis ever, punctuated by food shortages and

fast-rising poverty levels.

While Venezuela has long boasted of the soundness of its electoral system at times calling it the world's best, Sunday's process didn't include independent observers, and safeguards to prevent people from casting multiple ballots, voting more than once weren't in place.

The results were a foregone conclusion, since voters had been asked to choose 545 delegates from 6,000 candidates handpicked by the ruling party.

But the government wanted millions of voters to lend validity to Mr. Maduro's plans and outnumber the 7.5 million voters the opposition said voted against the so-called constituent assembly in an unauthorized referendum on July 16.

The official result appeared to conflict with the turnout at polling sites in cities and in the surveys done by various polling companies. Reporters from The Wall Street Journal who visited more than 50 polling stations in Caracas and Maracaibo, Venezuela's second-biggest city, saw short lines and, in some cases, sites that were either empty or had attracted only a handful of voters.

Pollster Datanalisis said before the election that just 2.5 million of the 19 million registered voters were very open to voting, while an exit poll conducted Sunday by the pollster Innovarium for the investment



Maduro supporters in Caracas cheered the results of a vote Sunday.

firm Torino Capital estimated that 3.6 million had participated. Past elections in Venezuela have drawn 70% of registered voters.

Government opponents warn that the new assembly will lead to a dictatorship, creating an all-powerful constituent assembly that would delay future elections and supersede all other institutions, including the opposition-controlled congress.

Mr. Maduro and other government officials, though, say that the assembly, which is to be convened later this week, would permit them to more

easily deal with unrest and a devastating economy marked by the world's highest inflation and years of contraction. He has done little, though, to clarify how the government would make corrections, since economists say state controls of the economy, including stringent price controls, are to blame.

The government did all it could to get the vote out, with officials warning state employees—who number nearly 3 million—that they would keep tabs on whether workers voted.

Many voters, in fact, said

that they worked for the government. Others like Vanessa Castillo, a 30-year-old single mother of four, said they feared losing benefits from a government-subsidized food program if they stayed home.

"I didn't want to vote, but in my house they were going to take away [the benefits]," said Ms. Castillo. "What could I do? I need the [food], we all need it."

There were supporters for the government. "I voted to support the fatherland, to ensure that the economy improves," said Ana Bravo, a member of the local food-distribution committee in the former Socialist bastion of La Parota in central Caracas.

But it was clear that coercion was among the tools used by the state to generate votes.

Outside polling stations, Socialist Party activists scanned each voter's ID card to keep a list of participation. After lunch, party officials began to visit the houses of the abstainers to remind them of the food subsidies from the government and push them to vote.

"We got to add pressure," local Socialist party chief Reinaldo Samanca shouted to his aides, in order to boost the turnout as he drove around the voting centers.

In Maracaibo, buses dropped off voters at polling stations, where residents were given food. Yuber Marín, a 23-

year-old who just got a job for a company that provides transportation to state oil firm Petróleos de Venezuela, said he received a call from company managers early Sunday to go vote.

"They told me that if I didn't vote, I'd be fired," he said.

Those tactics—and what activists say was the flouting of the constitution, which requires a referendum among other steps to permit a constituent assembly—led the Trump administration to move against Mr. Maduro last week. Thirteen senior officials in the Venezuelan government were sanctioned. U.S. assets that they might own were ordered frozen and visas were revoked. American citizens and institutions are prohibited from doing business with them.

The governments of Colombia, Panama, and Mexico quickly complemented the U.S. sanctions, saying they, too, had leveled sanctions at the same 13 officials. By late Sunday, more than 10 countries had rejected the vote, including all of Latin America's biggest countries—Brazil, Mexico, Argentina, Peru, Chile and Colombia—as well as Spain and the U.K.

On Monday, the European Commission said a new assembly can't be part of the solution to Venezuela's crisis, saying it would increase division and further undermine democracy.

## U.K. Divide on Brexit Underscored

By JENNY GROSS

LONDON—Free movement of people between the U.K. and the European Union will end when the U.K. leaves the bloc in March 2019, Prime Minister Theresa May's spokesman said Monday, underscoring divisions within the government over future immigration policy.

Ministers have agreed over the past week that the U.K. will seek a multiyear transition arrangement with the EU to give businesses time to adjust to Brexit, but they have expressed differing views about which EU rules would continue to apply—particularly on immigration.

James Slack, Mrs. May's spokesman, said free movement, which gives citizens of the bloc the right to live and work in any EU country without a visa, would end when Britain departs the EU but that further details were up for negotiation. Talks got formally under way in June.

"Other elements of the post-Brexit immigration system will be brought forward in due course," he said. "It would be wrong to speculate on what these might look like or to suggest that free movement will continue as it is now."

Mrs. May's spokesman's comments, if followed through, would appear to rule out the least disruptive type of transition deal with the EU—and also the easiest to negotiate—under which the U.K. would stay temporarily inside the bloc's single market and its customs union. The EU requires countries to agree to



Border agents check the passports of EU passengers arriving at London's Gatwick Airport.

free movement of people if they want to reap the benefits of free movement of trade and services within the bloc.

Businesses and others have been eager for certainty on the U.K.'s approach as they make plans, but cabinet members have sent mixed signals.

Ministers have been bolder in voicing opinions on Brexit since Mrs. May's Conservative Party lost its parliamentary majority in a June election.

While she was vacationing in Italy, Chancellor Philip Hammond last week gave several fresh details about Britain's Brexit plans, including that the U.K.'s relationship with the EU could look similar to what it does now for a number of years after leaving.

Mr. Hammond, who supported staying in the EU, said he wanted to avoid a "cliff-edge" scenario where goods and people would stop being able to move across Britain's borders as soon as the U.K. left the bloc.

He also said that rules affecting Britain's relations with the bloc would be implemented gradually by 2022 and that it would be some time before full immigration controls could be introduced.

Over the weekend, Liam Fox, trade secretary, said in an interview with the Sunday Times that he doubted free movement of people could continue for up to three years after the U.K. leaves the EU. "I have not been involved in any discussion on that, nor have I

signified my agreement to anything like that," said Mr. Fox, who supported leaving the EU.

Tony Travers, politics professor at the London School of Economics, played down the significance of the Downing Street spokesman's words. He said that although the comments appear to contradict Mr. Hammond's, in practice, they may not be that different.

"Free movement is ending, but that wouldn't preclude reintroducing something that isn't the same as free movement minus some tiny element," Mr. Travers said, referring to the transition period. "It's a very nuanced world of being able to assert everything changes when it doesn't."

## ECB Takes Hard Line On Economic Reform

By TOM FAIRLESS

FRANKFURT—The European Union should consider slapping large fines on European governments that fail to adopt its economic reform proposals, the European Central Bank said, underlining the ECB's mounting frustration at a sluggish pace of eurozone reform that risks hurting the bloc's longer-term growth and stability.

The stern advice, in a report published Monday, comes as the ECB prepares to discuss reducing its large monetary stimulus as soon as its next policy meeting on Sept. 7. Less support from Frankfurt will shift the onus onto national governments to help drive economic growth in the 19-nation currency union.

European governments can be fined up to 0.1% of gross domestic product if they repeatedly fail to address economic flaws flagged by EU authorities under a new risk-monitoring system launched during the region's recent debt crisis.

The system, known as the macroeconomic imbalances procedure, aims to prevent worrisome economic developments such as high current-account deficits, unsustainable debt levels and house-price bubbles.

In practice, though, the EU has so far stopped short of issuing such sanctions.

But the ECB suggested that should change. "There seems to be a strong case for applying the corrective arm of this procedure for all countries

with excessive imbalances," the central bank said.

EU policy recommendations typically address issues such as boosting the sustainability of public finances, reducing the tax burden on labor, and increasing the efficiency of public administration and state-owned enterprises.

ECB President Mario Draghi frequently scolds eurozone governments for their failure to implement reforms that could bolster the region's growth rate and lower unemployment. At a news conference 10 days ago, Mr. Draghi warned that the pace of reforms "needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost productivity growth."

The ECB has launched sweeping stimulus measures in recent years in an effort to support lending and growth in the currency bloc, to drive up inflation, which has hovered around zero. The bank is currently buying €60 billion (\$70.4 billion) a month of eurozone bonds under its quantitative-easing program, which is due to run through December.

But policy makers are expected to start reducing QE early next year, as the eurozone economy picks up speed.

The number of countries in which EU authorities have identified "excessive imbalances" is at a record high, according to the European Commission, the EU's executive arm. They include Bulgaria, France, Croatia, Italy, Cyprus and Portugal.

## U.S. NEWS

# Kelly Takes Charge at the White House

West Wing aides hope ex-military man can bring order to chaotic operation

BY TED MANN  
AND REBECCA BALLHAUS

WASHINGTON—Retired Marine Corps Gen. John Kelly took charge of the Trump White House on Monday morning, after a ceremony with the president and a host of his top aides and advisers.

Mr. Kelly, who had served as President Donald Trump's first Homeland Security secretary, was sworn in as the White House new chief of staff in an Oval Office crowded with administration officials, including the president's son-in-law, Jared Kushner, and new communications director, Anthony Scaramucci.

Senior advisers Steve Bannon and Stephen Miller, as well as departing press secretary Sean Spicer also attended the event, as did John Dowd, Mr. Trump's private attorney representing him in the special counsel probe of Russian meddling in the 2016 election.

Mr. Kelly succeeds Reince Priebus, who was forced out of office last week amid deep internal tensions in the West Wing that spilled into public view—including in the form of a profane denunciation of Mr. Priebus by Mr. Scaramucci last week in a magazine interview.

"He will do a spectacular job, I have no doubt," Mr. Trump said of Mr. Kelly on Monday. "We look forward to—if it's possible—an even better job as chief of staff."

Mr. Kelly sat silently to Mr. Trump's right as the president touted what he called his administration's accomplishments, including a record-high stock market.

The president told report-



'He will do a spectacular job,' President Trump said of John Kelly, left, who was sworn in Monday as the White House's new chief of staff.

ers that Mr. Kelly had performed "record-shattering" work running the Homeland Security department and implementing the president's policies to more strictly control the country's borders. Mr. Kelly has also overseen implementation of Mr. Trump's executive order banning travelers from six Muslim-majority countries, which has been curbed by the federal courts.

"With a very controversial situation, there's been very little controversy," Mr. Trump said.

Following the swearing-in ceremony, Mr. Trump held his first cabinet meeting with his new chief of staff. The meeting

was his first face-to-face encounter in several weeks with Attorney General Jeff Sessions, whom he repeatedly criticized last week on Twitter and in an interview with The Wall Street Journal.

Mr. Trump spoke briefly to reporters before the meeting began, with members of the cabinet, including Mr. Sessions, seated around the table in the White House Cabinet Room in silence. Mr. Trump again praised Mr. Kelly and said that economic indicators, including measures of business confidence and gross domestic product, were exceeding expectations.

"We're going to have a good

time but much more important we're going to work hard," Mr. Trump said of the Kelly-led West Wing operation. "It's all about making America great again."

The cabinet meeting contrasted with a similar meeting in June, in which Mr. Trump prompted each member of the cabinet to praise the work of the administration in turn. This time, Mr. Trump spoke briefly and answered only a single shouted question from reporters, about how he would deal with the rising tensions with North Korea.

"It will be handled," the president said.

White House aides have ex-

pressed hope that as a former military man, Mr. Kelly can bring order to the White House and perhaps rein in the president.

"If he says you should stop, he might actually think twice about sending that tweet," one official said of Mr. Trump, whose top advisers have proved unable to curb his penchant for bombastic social-media posts.

Before Mr. Kelly's swearing-in, Monday morning, like many mornings of the Trump administration, saw a series of tweets from the president addressing a range of issues including health care and criminal gangs.

### John F. Kelly Chief of Staff

Age: 67

Background: Discharged from the Marine Corps in 1972 at the rank of sergeant. Graduated University of Massachusetts in 1976. Commissioned and returned to active duty, where he served for four decades.

Service: Commander U.S. forces in Western Iraq, 2008-09; Commander U.S. Southern Command 2012-16

Notable: In 2010, Gen. Kelly became the highest-ranking military officer to lose a child in Iraq or Afghanistan, when his son, Lt. Robert Michael Kelly, was killed after stepping on a land mine in Afghanistan.

Mr. Kelly said he had never met Donald Trump before he was offered the job as Homeland Security secretary shortly after the election.

—Shane Harris

Mr. Trump again suggested he was willing to cancel some of lawmakers' health-care benefits if they didn't repeal and replace the Affordable Care Act. He also touted what he said were his economic accomplishments in the White House so far, and wrote: "No WH chaos!"

The president's abrupt announcement of Mr. Kelly's appointment on Friday left West Wing officials awaiting over the weekend other personnel changes to come as he sets up shop. Mr. Scaramucci has also said he is willing to fire the entire communications office if he can't determine which officials are leaking to the news media, adding to aides' concerns.

# Trump's Decisions Deepen Divide Among Republicans

BY SIOBHAN HUGHES  
AND THOMAS M. BURTON

WASHINGTON—President Donald Trump's tumultuous past week has widened rifts in his party, between those who vocally support the president's combative style and others who bridle at it, according to interviews with GOP officials and supporters across the country.

Mr. Trump has long been a polarizing force among members of his party, but for the first several months of his tenure, the GOP was largely united by a shared desire to make the most of his election and the party's total control of the government for the first time in a decade.

After a week that included the president attacking his attorney general, the collapse of a GOP health bill, a surprise effort to bar transgender people in the military, and a White House staff shake-up, divisions that were largely set

aside at the start of 2017 have emerged anew.

"Particularly among some of my former colleagues in the House, there is a frustration and lament about opportunities squandered in what should be a prime time for a GOP legislative agenda," said former Republican Rep. David Jolly of Florida. In 2015, Mr. Jolly urged Mr. Trump to drop out of the presidential race and, as a result, lost the support of some GOP voters during his unsuccessful re-election bid.

Mr. Jolly added that Mr. Trump remains popular among many of his voters.

"They are going to stick with Trump—they like him the more combative he is and the more his back is against the wall," he said.

During the Obama years, the party was split between establishment Republicans and hard-line conservatives who rose to prominence out of the tea-party movement. Now, more Republicans are

beginning to split from the president, seeing him as easily riled and hampering the party's ability to govern.

Last week started with Mr. Trump's criticisms of Attorney General Jeff Sessions as "weak" and "beleaguered" and ended with his decision to

**In Congress, some Republicans are pushing back through actions.**

push out his chief of staff, Reince Priebus. Along the way, Republicans reacted to new White House communications director Anthony Scaramucci's profane denunciation of his fellow West Wing aides in a published interview and Mr. Trump's military transgender ban, a policy change that Republicans neither re-

quested nor anticipated.

Sunday on CNN, Sen. Susan Collins of Maine, a Republican who has said she didn't vote for Mr. Trump, took a shot at the president's propensity to communicate by Twitter, saying that "whether it's health care or the transgender issue for our military, I just don't think a tweet is the right way to go."

Speaking on CBS, Sen. Jeff Flake (R., Ariz.) said that Republican leaders were complicit if they didn't call out Mr. Trump for his behavior. "We can't respond to everything," he said. "But there are times when you have to stand up and say I'm sorry. This is wrong."

On the other side are Republicans who echo Mr. Trump's behavior and tone.

Rep. Blake Farenthold (R., Texas) last week suggested that he would have settled differences with Ms. Collins and Sen. Lisa Murkowski (R., Alaska), who both made decisive votes against a GOP health plan, by challenging

them to duels had they been male. Mr. Farenthold later apologized. Rep. Buddy Carter (R., Ga.), asked about Trump's decision to attack Ms. Murkowski on Twitter over her "no" vote, used a confusing but coarse phrase that suggested resorting to physical assault. His spokeswoman said he wasn't commenting on Ms. Murkowski but was using a Southern idiom roughly translating to "get your act together."

"They're just attacking him for everything, even some of the Republicans," said Republican New Hampshire State Rep. Al Baldasaro, about Mr. Trump. "I'm really disgusted over the GOP." He had praise for the new White House communications director, Mr. Scaramucci, saying "we've finally got someone who's outspoken."

Rep. Chris Collins (R., N.Y.), the first member of Congress to endorse Mr. Trump, said that instead of turbulence, Mr.

Trump last week "had one of the best weeks he has ever had." Pointing to his calls to crack down on the street gang known as MS-13, Mr. Collins said that "he is addressing one of the scourges of America."

In Congress, some Republicans are pushing back at Mr. Trump through actions. Last week, the House and Senate passed legislation that would make it hard for Mr. Trump to relax economic sanctions on Moscow or to restore Russia's control over diplomatic compounds, in response to U.S. intelligence findings that Russia interfered in the elections, which Russia denies.

In the meantime, Republican senators moved to block every path Mr. Trump might try to use to fire and replace Mr. Sessions, out of concern that doing so would disrupt the independence of the investigation into any election interference.

—Janet Hook contributed to this article.

## SEIB

Continued from Page One

tively in the Persian Gulf.

In case that isn't enough, few paid much attention over the weekend when nuclear-

armed Pakistan,

also one of the

most dangerous

places on earth,

fell into a govern-

ing crisis as its prime

minister was ousted amid a

scandal that is creating new

instability.

Is this all bad coincidence?

Mostly, yes. Certainly the

Trump administration didn't

create all these problems.

Still, the spectacle of dys-

function in Washington has

the potential to make things worse.

When an American presi-

dent appears weak, distracted

or in trouble, as President

Donald Trump does right now,

the effects on international af-

fairs can play out on many

fronts.

First, adversaries may feel

more emboldened to chal-

lenge a besieged American

leader. That may be a misca-

lulation, but the chances of

miscalculation go up at such

times.

Second, there always is the

suspicion that a president embattled at home is looking for a distraction abroad. Even if there's a real crisis, there would be charges the White House is pumping it up to divert attention. "Wag the Dog" suspicions are never far beneath the surface.

In any case, the president's pattern of engaging in exaggerations and outright misstatements has downside risks in a dangerous international environment. When the leader of the free world speaks in a time of genuine crisis, he needs his countrymen to believe him and the rest of the world to take him seriously. On the world stage, calm and understated usually beats bluster.

Third, when a president is thought to be distracted or in trouble, Congress steps in to fill what it perceives to be a void. That's what happened during Watergate, when lawmakers voted to cut funding for the war in Vietnam and passed the War Powers Act to limit a president's hand in military operations abroad.

Was this congressional mindset at work in recent days when Congress passed legislation imposing more

sanctions on Russia, Iran and North Korea? Probably; at a minimum, lawmakers worried that Mr. Trump otherwise would be soft on the Kremlin after a campaign in which he talked of wanting to improve relations, and amid accusations Moscow worked to help him win.

But in the process, the legislation also blocked the president from rolling back sanctions without congressional approval, a provision that severely limits presidential flexibility in conducting foreign policy. Mr. Trump doesn't like it, and neither will future presidents if that becomes the pattern.

Of all these problems, the North Korean one is the most urgent and dangerous. Mr. Trump is right when he says China hasn't done what it could to curb North Korea: At this point, Beijing's true intentions have to be considered suspect.

The grim reality, though, is that China's balkiness leaves few options, and no good ones, for dealing with the North Korean threat.

And that's a problem a lot more important than who's up and who's down in the White House this week.



President Donald Trump at an event during the G-20 summit in Hamburg, Germany, in July.

## IN DEPTH

# COURTS

Continued from Page One

last year.

India's government doesn't have it any easier. Highway projects worth hundreds of millions of dollars remain stalled over eminent-domain disputes.

The 2017 World Bank's "Doing Business" report placed India 172nd out of 190 countries on the "ease of enforcing contracts," an indicator that evaluates court systems. Sudan and Iraq ranked higher.

Indian Prime Minister Narendra Modi made an improved business climate a test of his leadership. A chronic shortage of judges hinders that goal. India has roughly 17,000 judges to handle 30 million open cases. About 40% of posts for high-court judges remain vacant. Last year, then-chief justice T.S. Thakur wept when he rebuked the Modi administration for moving too slowly.

The law ministry said it has instituted new courts and approved dozens of judges last year.

The judiciary, which picks judges, and the government, which approves them, are locked in a power struggle. India's supreme court in 2015 struck down a law that gave the executive branch greater sway in selection. Continuing discord means appointments aren't being substantially ramped up.

Allahabad's High Court, which is located in the state of Uttar Pradesh in India's north, is housed in a majestic, colonial-era stone building. Nearly 45% of the judicial positions are unfilled.

### Appeals for justice— 10:10 a.m.

Arguments began in Courtroom 41 in the appeal of murderer convictions that had been reached 34 years ago. Two men found guilty in the case, and freed on bail during their appeal, had died without serving more than a few days of their life sentence. To keep the two others out of prison, men now in their 70s, their lawyer recounted an exculpatory version of the August 29, 1982, killing of a young farmer who was fatally stabbed on his way home from a local fair.

The judges shuffled through documents and struggled to reconcile conflicting testimonies recorded more than three decades ago. Were the eyewitnesses 10 steps away that moonlit night or 100? Did the digested food in the victim's stomach put the time of death closer to 2 a.m. than 10 p.m.?

After hearing closing arguments, the judges set a future date for a verdict.

Half the cases due to be taken up that day were postponed because court administrators hadn't yet prepared records for the hearings.

### The lawyer—11 a.m.

Associates of civil lawyer Manish Goyal fanned out to keep track of his 34 lawsuits listed on calendars in various courtrooms at the Allahabad courthouse. It isn't possible to predict which cases, if any, will be called.

Most judges here are consumed by the fire hose of new cases—nearly 1,000 on this day. They seldom get to the hundreds of open ones, which then carry forward to another day and then another.

To stem the flow of new



Crowds seek entry on a recent Thursday to the Allahabad High Court in Allahabad, India.

VIVEK SINGH FOR THE WALL STREET JOURNAL

filings, Mr. Modi wants the government, party in 46% of pending lawsuits in India, to litigate less.

New legal desks are being created to scrutinize official orders, which are frequently faulty and trigger disputes, said P.P. Chaudhary, Minister of State for Law.

One of Mr. Goyal's cases, filed in 2006, was called at about 11:20 a.m. A public-sector financial institution sold its client's property to recover a loan from the client's fertilizer company. The client sued.

Proceedings in the case lasted about a minute. One of the parties was granted another week to prepare objections to a filing Mr. Goyal had made 10 years ago. During that period, the case had surfaced in court at least 25 times.

Usually, lawyers for one side or the other hadn't shown up because they were busy in other courts, or they had filed "illness slips," a major cause of delays.

### The farmer—11:30 a.m.

Waiting anxiously in the back of a nearby courtroom, Mohammad Aqeel Hasan, a 27-year-old farmer, has lost count of the number of court trips he has made from his village. He said he was sure it was fewer than his father had made in the 1983 lawsuit against their neighbor. Each side claims ownership of land between their properties.

His father had won a swift victory in a lower court, but the decision was overturned on appeal. His father's appeal of that decision has been pending since 1986. A few years ago, when his father could no longer travel, Mr. Hasan took over.

"At this rate, the case will go on for hundred years," Mr. Hasan said. Court appearances require a 10-hour journey by train from his village.

Mr. Hasan's case came and went in a heartbeat. The other

side's lawyer had sent an illness slip, forcing a delay.

"Not well again?" the judge said, and he moved the hearing to another month.

Mr. Hasan was crest-fallen. "Coming to court is not easy," he said, heading to the railway station for his trip home. "The lawyer just puts an application he's not well and the case gets adjourned. It's very unfair."

### Bail court—12 p.m.

Justice Vipin Sinha's court was packed with black-robed lawyers awaiting their turn. The judge tackled requests for bail at the rate of one every two minutes. The man accused of abetting a homicide is 68 years old with no criminal history: bail granted. An uncle accused by his niece of molestation: bail rejected.

His docket that morning was made up of new cases from previous days that he hadn't had time to adjudicate, a category called "backlog

fresh." At 12:30 p.m., he glanced at the clock and asked his clerk, "How many?"

"233," the clerk said. Justice Sinha was at 85. Another list of older cases heard at least once but not yet decided, also awaited his attention.

"The rest will have to be transferred," he said with resignation. Hundreds of cases, unheard for lack of time, would be distributed among other judges.

"Five more, your lordship," lawyers pleaded, and the judge agreed.

"Basic liberty is at stake here," Justice Sinha said later in an interview. "But how can I hear them all?"

### Her son's appeal—1 p.m.

After the courtrooms closed, the activity shifted to processing rooms that store case files.

Porters hoisted rope-tied bundles onto their shoulders and hauled them up to courtrooms for the next day's docket. Others brought that day's files back from courtrooms. Three men must transport 2,000 bail files. One was out sick.

Space is scarce. Tattered stacks of case paper were piled on racks, tables, chairs and the floor. Towers of folders spilled into corridors where passersby toppled smaller stacks. Files from 2015 mixed with ones from 2016 and 2017, creating a nightmare for officers struggling to locate hundreds of them every day.

On a stuffy third floor, Amit Kumar Yadav, age 35, squeezed sideways through dust-laden stacks, then pulled himself up on his toes and vaulted over the paperwork that carpeted the floor.

After an eight-hour hunt, he was still missing 17 of 65 files for the next day's hearings. Those cases won't be heard.

"I've lifted 200 bundles today," he said, and pointed to a cluttered corner. "There's no other way to search those files at the very end."

To replace paper records, the court has hired teams that are scanning and coding documents as far back as 1863, a trove of ink-pen calligraphy. It will take some years.

### No urgency—3:34 p.m.

After lunch, the judges were confused about whether a second convict in the case, listed as free on bail, was dead or alive. They issued an arrest warrant to learn.

"What about my son who is living?" asked Ms. Devi, teary-eyed. "What is the meaning of justice? If the court finds him not guilty, will they give us these 13 years back?"

### Try again tomorrow —9 p.m.

On the other side of the city, lawyers prepared for another day of bail applications, appeals, petitions and delays.

Cloth-covered bundles tucked away in the office of Mr. Dwivedi, the criminal lawyer, are labeled 2008, 2009 and 2010.

"Maybe my children will handle these," he said.

Sliding his finger down his list of cases for the next day, Mr. Dwivedi enumerated the potential roadblocks for each of them: Case won't come up; opposing lawyer won't turn up; judge is too slow.

Looking at one of the cases, he smiled and said: "I'm going to stall this one until the judge changes. This judge doesn't give bail."

# DEAL

Continued from Page One

Scripps operates HGTV, Cooking Channel and Food Network among others.

The two companies account for 13% of overall cable viewership but receive just 7% of the monthly cable fees consumers pay, according to RBC Capital Markets.

The deal will create a must-buy network group for advertisers interested in targeting women and help the network command more premium ad rates. Of the top 20 U.S. cable networks, the merged company will control four of the top five with the highest percentage of female viewers—TLC, HGTV, Investigation Discovery and Food Network, according to Nielsen data.

Discovery said it would be

able to expand Scripps's channels into more overseas markets, which could help generate significant additional revenue. The combined company is also touting its short-form video production, which will help it gain more viewers and ad dollars on social-media platforms.

"We believe that by coming together with Scripps, we will create a stronger, more flexible and more dynamic media company," said David Zaslav, chief executive of Discovery, in announcing the deal.

The deal could put pressure on other media companies that must defend their turf on the cable dial. AMC Networks and Viacom Inc. are the most vulnerable to industry changes. The two aren't part of big conglomerates that own broadcast or sports networks, which cable distributors find most difficult to drop.

Viacom had also been in

talks with Scripps, but Scripps decided to negotiate exclusively with Discovery after reviewing the bids from both companies, according to people familiar with the matter.

The deal will lift the profile of Mr. Zaslav, who had a roughly two-decade career at NBC before joining Discovery in 2007. He has led a transition of Discovery from being primarily known for its serious educational fare to a mix of documentary-style programming and over-the-top reality TV—shows like "Here Comes Honey Boo Boo" and "Naked and Afraid." Lately, the pendulum at the company has swung back to more of an emphasis on content with higher aspirations.

He has launched new channels, including crime-focused Investigation Discovery, which has become a huge hit with female viewers. And he has been as aggressive as any media

CEO in international expansion: Operations outside the U.S. accounted for 47% of the company's \$6.5 billion in total revenue last year.

The companies announced disappointing earnings simultaneously with the deal news.

That prompted Marci Ryvicker, an analyst at Wells Fargo, to put out a note titled: "Well, Good Thing They're Combining Because Q2 Results Were Underwhelming."

Discovery said second-quarter revenue rose 2% to \$1.75 billion, shy of analysts' esti-

mates. Scripps lowered its revenue guidance and reported second-quarter U.S. advertising sales growth of 2.2%, which also fell short of expectations.

The deal is expected to close by early 2018, pending approval by shareholders and regulators.

Mr. Zaslav is a close associate of John Malone, the cable mogul who owns a nearly one-third voting stake in Discovery and sits on its board.

Mr. Malone, who has significant interests in companies from Liberty Media Corp. to Charter Communications Inc., has been a driving force in the industry's mergers and acquisitions and has talked up the need for small players in the content world to merge, particularly as cable and broadband providers have gone through their own wave of big deals.

Charter acquired Time Warner Cable in 2016. AT&T Inc.

agreed last year to buy Time Warner Inc.

Mr. Zaslav didn't rule out other deals. "We're not out of bullets. We still have some room to do some selective purchases," he said.

The sale to Discovery will end more than two decades of family control over the Scripps cable networks. Scripps Networks business got its start in 1994, when now-CEO Ken Lowe created HGTV within the E.W. Scripps Co., a newspaper company and later local TV station owner founded in 1878 by Edward Willis Scripps. Scripps Networks was split off from E.W. Scripps in 2008.

Discovery is securing a purchase of Scripps after more than one failed attempt over the last decade. Three years ago, talks between the two companies broke down, in part because the Scripps family didn't appear ready to sell.

### Bailing out: 4 p.m.

Justice Sinha's bail court erupted in an uproar at adjournment. Lawyers with pending cases all shouted for attention.

"It's a senior-citizen case," one pleaded.

"Our bail is unopposed," another cried.

"He's been in jail for two years, your lordship," a third said.

Justice Sinha dispensed early hearing dates for those cases before leaving.

### Paper shuffle—4:30 p.m.

After the courtrooms closed, the activity shifted to processing rooms that store case files.

Porters hoisted rope-tied bundles onto their shoulders and hauled them up to courtrooms for the next day's docket. Others brought that day's files back from courtrooms. Three men must transport 2,000 bail files. One was out sick.

Space is scarce. Tattered stacks of case paper were piled on racks, tables, chairs and the floor. Towers of folders spilled into corridors where passersby toppled smaller stacks. Files from 2015 mixed with ones from 2016 and 2017, creating a nightmare for officers struggling to locate hundreds of them every day.

On a stuffy third floor, Amit Kumar Yadav, age 35, squeezed sideways through dust-laden stacks, then pulled himself up on his toes and vaulted over the paperwork that carpeted the floor.

After an eight-hour hunt, he was still missing 17 of 65 files for the next day's hearings. Those cases won't be heard.

"I've lifted 200 bundles today," he said, and pointed to a cluttered corner. "There's no other way to search those files at the very end."

To replace paper records, the court has hired teams that are scanning and coding documents as far back as 1863, a trove of ink-pen calligraphy. It will take some years.

On the other side of the city, lawyers prepared for another day of bail applications, appeals, petitions and delays.

Cloth-covered bundles tucked away in the office of Mr. Dwivedi, the criminal lawyer, are labeled 2008, 2009 and 2010.

"Maybe my children will handle these," he said.

Sliding his finger down his list of cases for the next day, Mr. Dwivedi enumerated the potential roadblocks for each of them: Case won't come up; opposing lawyer won't turn up; judge is too slow.

Looking at one of the cases, he smiled and said: "I'm going to stall this one until the judge changes. This judge doesn't give bail."

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## U.S. NEWS



Jay Dearborn, left, meets with a colleague at WEX's offices in South Portland, Maine. Mr. Dearborn, a former Mainer who spent 20 years working away from the state, was recruited back by the company's CEO, also a Mainer, to become Wex's vice president of strategy.

# Calling Ex-Mainers Home

Recruiters search for candidates with ties to the state to fill jobs in a tight labor market

By JON KAMP

Employers and recruiters looking to fill positions in Maine are scouring the U.S. for people who once lived in the northern New England state in hopes work will coax them back.

With the state's unemployment rate hovering at 3.5%, near record lows, the labor market is tight, particularly in the southern part of the state near Portland, Maine's largest city with 67,000 residents.

Though the state known as "Vacationland" draws tourists to its coastal hamlets and rugged wilderness, it can be harder to convince outsiders to actually live there, recruiters say. Maine doesn't have a deep roster of major companies, lacks a large city and has notoriously harsh winters.

To improve his odds at finding a good candidate, recruiter Ed McKersie, who runs Portland staffing firm Pro Search Inc., looks on social-media sites such as LinkedIn to identify ex-Mainers and graduates from Maine colleges who might be persuaded to return to their old stamping ground.

"They know what it's like here, they have an affinity," said Mr. McKersie. He said the key is to show ex-Mainers that the state has more available jobs than they may think.

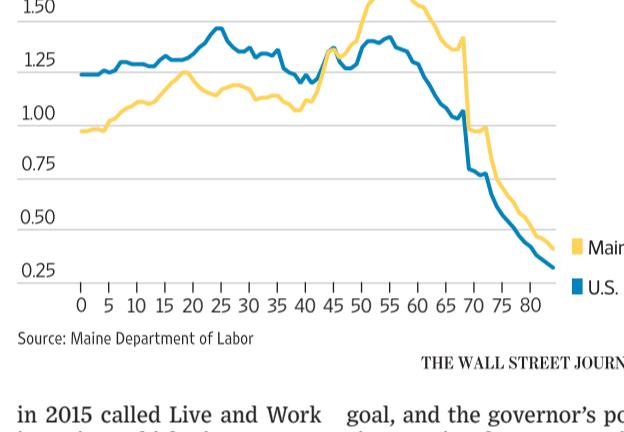
With roughly 1.3 million residents, Maine is among the smaller U.S. states by population. But there are also nearly a half-million people who were born in Maine scattered throughout the country, according to U.S. Census data.

The state has thus far invested \$100,000 in an organization Mr. McKersie launched

### Gray Maine

In nation's oldest state, many people are set to age out of the workforce.

Percent of population by age, 2015



Source: Maine Department of Labor

goal, and the governor's policies are aimed at encouraging them to come home," the spokesman said.

A recent state survey showed that employers had 31,000 job openings in September, nearly 5% of the non-farm payroll jobs in the state at that time, said Glenn Mills, chief economist in the Maine labor department's Center for Workforce Research. Three-quarters of responding employers said the jobs were difficult to fill.

Anecdotally, jobs in information technology and health appear particularly hard to staff, said Quincy Hentzel, chief executive at the Portland Regional Chamber of Commerce.

The extra effort to lure workers to Maine is a sign of the times as companies look for workers to fill skilled positions amid low unemployment nationally. The U.S. jobless rate was 4.4% in June, around a level that indicates nearly everyone looking for a job has one.

Other hard-sell locales are also trying to keep young people at home and tempt back those who moved away. Detroit has hosted annual confabs to show off the city to

successful natives who live elsewhere. Similar events are in the works in Cleveland and Erie, Penn. Lawmakers in Connecticut have proposed a tax credit for college graduates to stay put.

In Maine, Idexx Laboratories Inc., a veterinary-health company with roughly 2,500 local employees, hunts for job candidates with connections to the state, said Giovani Twigge, the chief human resources officer. This includes looking for clues on social media, including Facebook and LinkedIn.

"Maine is not on everybody's radar," Mr. Twigge said. "The sale was very difficult when people didn't know Maine."

Idexx found its director of software research and development, Alan Boucher, because his LinkedIn profile listed his location as both northern California and Maine. He and his wife bought a small Maine cottage in 2011 as a vacation home, and after Idexx offered him a job, they moved across country permanently with their grade-school-age daughter four years later.

Mr. Boucher, a Connecticut native, said he and his wife were already drawn to the small-town feel and pace of life. They now live in the coastal town of Kennebunkport. "It was a both a great opportunity and a great outcome for our family," he said.

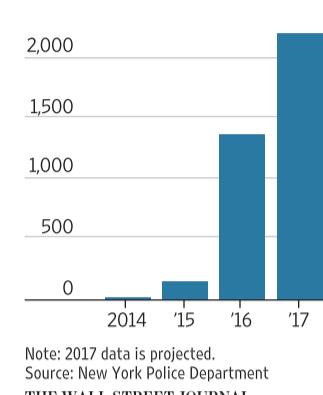
Jay Dearborn left Maine for college in Pennsylvania 20 years ago and moved back to the state last year. Working as a principal for McKinsey & Co. and living in Princeton, N.J., Mr. Dearborn met Melissa Smith, the chief executive of Maine-based payment-processing firm Wex Inc. at a lunch event. Ms. Smith helped convince the 38-year-old to return home with his family, he said.

"There is something about the place and the people that get in your bones," he said.

# Police Confront Peril of Fentanyl

Law-enforcement officials across the U.S. are taking extraordinary new precautions against a growing threat to their ranks: fentanyl, a drug so toxic that just a few grains can kill.

By Zolan Kanno-Youngs and Corinne Ramey



Note: 2017 data is projected.

Source: New York Police Department

THE WALL STREET JOURNAL

guidelines for first responders in June.

"[Fentanyl] is a new challenge, a game changer for law enforcement," said Harford County Sheriff Jeffrey Gahler. "It could be anyone exposed."

It's not just humans at risk. While executing a narcotics search warrant in October, officers from Broward Sheriff's Office in Florida directed three trained dogs—Primus, Finn and Packer—to sniff around a house.

The dogs soon became drowsy, found it difficult to stand and eventually adopted blank stares and became unable to move, said Det. Andy Weiman, the head dog trainer. The dogs, who were later found to have overdosed, were treated at an animal hospital and returned to work the next day, he said.

Law-enforcement officials are swiftly overhauling their procedures for handling fentanyl. About a year ago, New York Police Department detectives routinely tested narcotics at a crime scene. Now, they wear protective gloves to package the drugs and drive it to a Queens laboratory to be tested. There, workers with white safety suits, respirator masks and the antidote naloxone stand by as an analyst tests the drug, which lies within a glass tank.

NYPD officials estimate they will find fentanyl in more than 2,200 narcotics cases by the end of the year, up from nine cases in 2013.



Breathing even a tiny amount of fentanyl can be dangerous. New York police officials recently tested drugs in a forensics laboratory.

## U.S. WATCH

### FLORIDA

#### Tropical Storm Nears Gulf Coast

Tropical storm Emily churned toward the Florida Gulf Coast at the mouth of Tampa Bay, forcing Gov. Rick Scott to declare a state of emergency for 31 counties as the storm threatened to dump heavy rain when it crosses the peninsula in coming hours. Forecasters warned of possible risks of isolated tornadoes and even offshore waterspouts from the system.

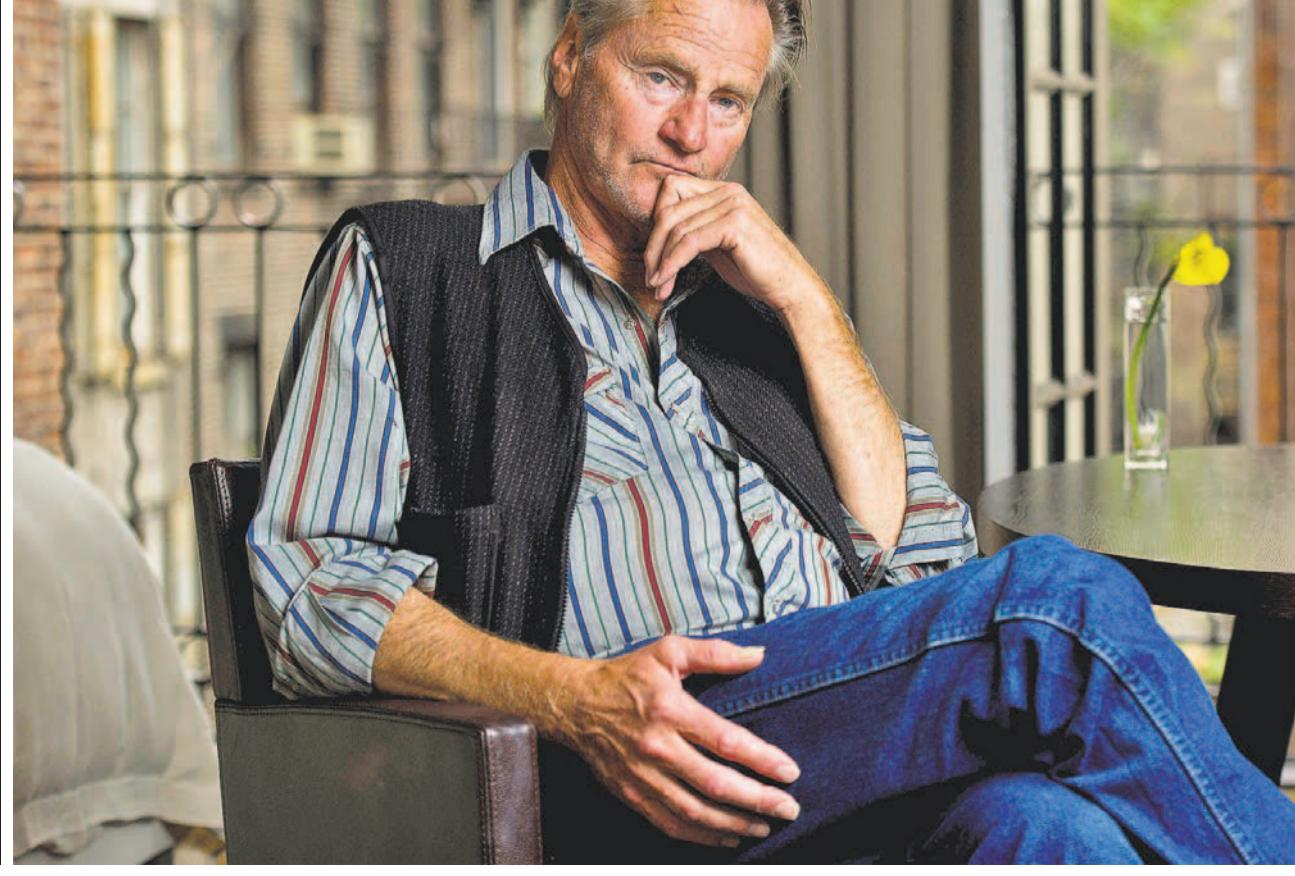
Associated Press

### MONTANA

#### Gianforte to Atone As a Volunteer

Greg Gianforte will work off his sentence for assaulting a reporter by volunteering for an organization that builds custom wheelchairs for children. The Republican was ordered to perform 40 hours of community service as part of his sentence for attacking Guardian reporter Ben Jacobs the day before the congressman was elected May 25.

Associated Press



#### Playwright Sam Shepard Dies at Age 73

Sam Shepard, the Pulitzer Prize-winning playwright and actor celebrated for chronicling America in the 20th century, died Thursday at his home in Kentucky, according to a spokesman. He was 73 years old and died from complications related to Lou Gehrig's disease.

Widely regarded as one of the country's greatest—and most prolific—contemporary playwrights, Mr. Shepard catapulted to the top echelon of American letters with "Buried Child," his 1978 play about a fractured Illinois family that won the Pulitzer Prize. Mr. Shepard wrote more than 40 plays in his career.

Mr. Shepard appeared in dozens of films, including an Oscar-nominated turn in "The Right Stuff," starring as military test pilot Chuck Yeager. He most recently appeared on the Netflix series "Bloodline." Mr. Shepard was in a relationship with actress Jessica Lange, whom he met filming "Frances," from 1982 to 2009. He is survived by three children and two sisters, according to the spokesman.

Erich Schwartzel

CHARLES SYKES/ASSOCIATED PRESS

# SPORTS

NFL | By Jason Gay

## Could Football Ever End?

 It seems crazy to imagine the end of football. The game is so beloved, so profitable, and, frankly, such a cultural mirror that it feels like a permanent feature of American life. Without football, what the heck happens to Sunday? (Or Saturday, or Monday night, or an ever-expanding number of weekday nights.)

There are a lot of institutions and franchises and schools with a deep interest in football's continued prosperity. The game is a godsend for the entertainment industry, which is why it commands billions.

That's why if football ever vanishes, it will likely vanish from within.

From the players. And parents.

Consider the conversation of the past week. A disturbing medical study was released showing brain damage in the brains of 110 deceased NFL players.

Shortly afterward, a PhD-candidate offensive lineman in Baltimore abruptly retired at age 26. In Pittsburgh, a two-time Super Bowl champion quarterback wondered out loud if the 2017 football season should be his last.

As NFL teams begin their pre-season preparations, players were confronted with an ominous query: *How worried are you about continuing to play this game?*

Let's be clear: Football, an overtly physical game of speed and collision, has always carried bodily risk. Busted knees. Degraded hips, shoulders, ankles, fingers. Careers at the pro level tend to be mercifully short, and players often leave with chronic pain, which can continue long after leaving the sport.

But it's the grimmer, previously unknown risks which are finally catching up to football. After years of denial and obfuscation, there is widening agreement that football carries long-term risk from head injuries. A new study in the Journal of the American Medical Association found signs of the progressive neurological disease known as chronic traumatic encephalopathy, or CTE, in 87% of 202 brains donated from deceased high school, college, semi-pro and pro football players.

The report's stunner was that 110-out-of-111 figure—of 111 brains donated by late NFL players, all but one showed signs of CTE.

Sure, we could go around and around about the study's limited and self-selecting sample—the late players' families who donated brains suspected a problem—and how it can't be seen as representative of the full football-playing population. The authors don't deny its biases.

But is that enough comfort to players still receiving hits, or their families? Take a look at the recent comments of 35-year-old Steelers quarterback Ben Roethlisberger, who has suffered concussions in the past.

"This [JAMA study] shows there's nothing to mess with," Ro-



Kansas City Chiefs defensive end Jaye Howard and teammate Chris Jones put pressure on Pittsburgh Steelers quarterback Ben Roethlisberger.

ethlisberger told the Pittsburgh Tribune-Review last week. "If you want to mess with your brain, you can't put a new one in. You can't have a brain transplant. If you want to mess with your brain, go ahead. I'm not going to. I love my family and kids."

"I want to play catch with my kids. I want to know my kids' names. As much as I want my kids to remember what I did and watch me play the game, I also want to remember them when I'm 70 years old."

### A new concussion study provokes more existential worry—and an early retirement.

The study was reportedly a factor in the sudden decision last week of Baltimore Ravens offensive lineman John Urschel—currently pursuing a doctorate in mathematics at MIT—to retire early from game. Urschel didn't mention the JAMA report publicly, but the Baltimore Sun cited team sources as saying the study was involved in Urschel's choice to walk away.

He's not the first premature exit. A year ago, there was the Buffalo linebacker A.J. Tarpley, leaving at 23 after a pair of concussions. "I am walking away from the

game I love to preserve my future health," Tarpley said at the time. In 2015 there was San Francisco rookie standout Chris Borland, relinquishing millions after a single year in the NFL. "If there was no possibility of brain damage, I'd still be playing," Borland told ESPN.

On and on the quiet drumbeat of early exits goes, attracting far less media attention than, say, a quarterback controversy or locker room dust-up. Widows and children of dead players give heartbreaking interviews, and after a somber wave of respect, they fade from the conversation. Same with the NFL's nearly billion-dollar settlement with former players. It's a lot easier to argue about Colin Kaepernick's job odyssey, or Rob Gronkowski's latest goof, than it is to confront an existential threat to the game.

At this point playing football—even watching football—requires a sharp dissonance between one's enjoyment of it and the growing evidence. Make no mistake: I'm right there with the shameless compartmentalizers. I love football, write about it, often celebrate it in print like a face-painted fan in the parking lot. Come September, I'll be back with my pompos. Count on it.

But even the devoted have to feel twinges of conflict now. Consider this recent editorial in the Dallas Morning News sounding the alarm about football in Texas, where the sport is basically religion.

"We're as crazy about football as anyone in Texas, but this new

data gives a sense of urgency to our push for more study on concussions in all sports," the Morning News editorial said. (That "all sports" is a nod to games like soccer, hockey and others, where concussions are also a hazard. Still, football's the game where the head has been routinely weaponized.)

Football has always been a trade-off. There are many, many former players among us who feel every second was worth it. And there will always be players willing to take a chance with their health for a shot at their dream. They're not the only American laborers making such a choice, and in football, there's potentially millions to be made.

In the meantime, current players trade in their own rationalizations:

*Those players in that CTE study were from a different era.*

*The game is smarter now about handling head injuries.*

*My equipment's better.*

*I haven't had a bad concussion.*

*You can get hurt doing anything.*

"We're not hitting head-to-head all the time," New York Jets linebacker Jordan Jenkins told the Journal's Jim Chairusmi on Saturday. "CTE is something we have to be worried about, but that specific sample isn't completely accurate.

People who played pre-2000s, that's a different story. There's not nearly as much contact [now]. We aren't hitting in the first days of camp—[years ago,] it was like that. I feel this generation of football is safer, not softer."

It's possible science will catch up and offer a clearer view. My colleague Matthew Futterman has written about a blood test in development that will give a fast and conclusive diagnosis of concussions. But such a test "may reveal more vividly how dangerous the game really is," he wrote. Dr. Ann McKee, a neuropathologist and the director of Boston University's CTE Center, told him it isn't the big hits, but a career of lesser blows, that appears to be the underlying problem. "It's looking like that—not the concussions, but the duration, the years of playing—is the most significant factor," McKee told the Journal last fall. McKee was one of the co-authors of the recent JAMA study.

Will anything ever alleviate the worry? A few months ago, there was a brief stir when Gisele Bündchen, the fashion mogul and spouse of Patriots superstar Tom Brady, aired her anxieties about her husband's long-term health, and appeared to suggest he's played with head injuries that weren't disclosed. Brady's father, Tom Sr., has said publicly would be hesitant to let his son play football were he a kid growing up today.

Brady has five Super Bowl rings, and has gotten as much out of football as anyone who's ever played it. And he loves the game too much to leave it. On the verge of turning 40, he's back out on the field for the New England Patriots.

It's hard to know what to say, other than: Good luck.

## FROM PAGE ONE

### BLOOM

*Continued from Page One*  
descend each weekend when the fragrant flower is in bloom. The farm sells lavender in sachets, essential oils and bath salts. It sells culinary lavender for use in baking and tea, and lavender pillow mist that, according to the farm's website, will "transport you to our fields" and "bring the spa home to you."

To cope with the crowds and soothe cranky neighbors, the farm began charging admission when the lavender bloomed (\$8 on weekends, \$5 during the week), prohibited tour buses, trucked in portable toilets (stocked with lavender-scented wipes) and—at the town's request—removed more than an acre of lavender this year to add about 100 parking spots. The farm has made money off admissions, offset by expenses to accommodate visitors.

There is no doubt that lavender-peeping, here and elsewhere, has become a bona fide thing. One obvious question has proven more difficult to answer: Why?

Serge Rozenbaum, who said he did nothing to cultivate his crop's newfound fans, bought Lavender by the Bay in 2002 with one goal—to grow lavender, and nothing else. He said he first fell in love with lavender when, as a child, he met a man on a donkey selling it in a market in his native Paris.



Visitors like taking selfies in fields of lavender on Long Island.

While driving his golf cart around his fields this summer, the 66-year-old pointed to his beehives (painted lavender), shipping containers (painted lavender) and Adirondack chairs (also lavender). He plucked sprigs of lavender from his meticulous fields, rubbing them between his fingers and describing their "fineness" as if he were a sommelier. "I'm French," said Mr. Rozenbaum, who was wearing a lavender polo. "I don't like mediocrity."

In France, lavender farms are a popular tourist attraction. That, at least to some ex-

tent, seems to explain why some of the new arrivals are making pilgrimages here. "It's a substitute for Provence," said Johnny Guan, 39 years old, who was posing for selfies with his girlfriend.

One aspect of the lavender craze, according to the farmers and locals, is that the majority of the new visitors are of Asian descent. On a recent day at the farm, many visitors were born in a swath of Asian countries: China, Vietnam, Japan and Korea. Many first- and second-generation Asian-Americans, and young Asian students studying in the U.S.,

also trek to the farm, about 100 miles from New York City.

Some carry parasols and wear white or purple dresses, spending hours shooting photos in the fields. Others bring young children, or are accompanied by small dogs. Almost everybody comes with a cellphone or camera.

Hoang Dinh, 25, who lives in Manhattan, said he was lured out to East Marion in part by stories he had heard of the lavender fields in France. But he also came with another mission, he said: "Instagram picture, man!" Photos with lavender are all over social media, he said.

A glance at WeChat, the Chinese social network with nearly a billion monthly active users, shows that lavender has indeed become a popular topic. More than 20 official accounts, not affiliated with the farm, promote it in Chinese.

"If you want to look at lavender you don't have to go to France!" reads one posting. "New York Long Island's Provence will satisfy you!"

Lavender hasn't always been a tourist attraction, or even particularly beloved. For Victorians who ascribed meaning to flowers, there was nothing romantic about it. "One of the things it signified was distrust," said Diane Miske, former head horticulturist of the Robison York State Herb Garden at Cornell University's botanic gardens. "They thought a poisonous snake would hide under the lavender bushes."

Some horticulturists say lavender is relatively new to China, having been introduced there in the 1960s.

On a recent visit with her husband, Tim, to Mr. Rozenbaum's field, Sui McCarthy, 34, from the Flushing neighborhood in Queens, wrangled her 5-year-old and baby into a lavender-painted chair for a photo. Ms. McCarthy, an ethnic Chinese born in Myanmar, said lavender is beloved by many Chinese.

"We love lavender," she said. "We use lotion and cream and face cleanser."

Some suggest that a source

of the craze is a 2000 romantic film from Hong Kong that includes a scene shot in a lavender field in France. A Taiwanese soap opera in the early 2000s, called "Lavender," features a boy giving lavender buds to a girl with heart disease.

Then again, one visitor to the farm suggested the flower probably got a boost from a Tom Cruise movie called "Lavender Sky." (This doesn't exist, although "Vanilla Sky" does.)

Mr. Rozenbaum has been going to ever-greater lengths to manage the situation. He asked a Chinese couple to translate instructions he posted inside the port-a-potties. This summer, he recruited a Chinese tour guide to post etiquette instructions in Chinese and English on WeChat and other social-media sites explaining, among other things, that tour buses aren't allowed.

"Part of the lavender experience is to be in harmony with the surrounding and send positive energy," his lavender memo said.

For now, East Marion has reverted to its traditional bucolic state. Mr. Rozenbaum and his family have cut their crop, which they sell at New York City farmers markets.

How does he explain the Long Island lavender craze?

"It's one of the few essences that goes straight to your brain," he said. "There's no filter."

—Esther Fung contributed to this article.

# LIFE & ARTS

FILM

## When Real-Life Meets The Movies

BY CARYN JAMES

**IN "THE GLASS CASTLE,"** based on Jeannette Walls' best-selling memoir, Brie Larson plays the Jeannette, a successful magazine writer in New York. Like the book, the film is largely a flashback to her girlhood, when the family was often homeless and hungry, and to her relationship with her charming, brilliant, alcoholic father.

During a visit to the movie set, Ms. Walls watched a scene in which Jeannette leaves home for New York and her father, played by Woody Harrelson, pleads with her to stay. Ms. Walls was so distressed that she apologized to Mr. Harrelson when the scene was over. "He hugged me and said, 'You had to do it, Honey, or we wouldn't be here.' He said it in Dad's voice. So 40 years after I walk out on my father, I get absolved by him."

A wave of memoirs and fact-based movies are coming to the screen this year, highlighting the popularity of non-fiction in print and film. The real people watching their stories portrayed by actors say the experience is sometimes comic, and often so emotionally raw that they see themselves in a new light.

For Emily Gordon, who co-wrote the current hit romantic comedy "The Big Sick" with her husband Kumail Nanjiani, the line between movies and life sometimes wavered. Mr. Nanjiani plays himself in the film. Zoe Kazan plays Ms. Gordon, who falls ill and is put into a coma while doctors diagnose her with a rare autoimmune disease.

After watching Ms. Kazan play her in a hospital bed with a respirator in her mouth, Ms. Gordon apologized for the discomfort it caused the actress. When Ms. Kazan said it was fine, Ms. Gordon realized, "Oh, right, you don't have the connotations with this that I do."

Some real-life people see their fictional selves serving a bigger purpose. Adam Schumann is played by Miles Teller in "Thank You For Your Service." Set for release in October, the film is based on David Finkel's book about soldiers returning from Iraq with post traumatic stress disorder. Mr. Schumann was a military adviser for the film, and has a cameo as a sergeant who takes the soldiers' weapons as they are arriving home.

"I was really nervous about what the movie world had to bring to this story," Mr. Schumann says. Being involved reassured him. He views the screen Adam as "a version of everybody who was over there," in Iraq. He was fine with details being changed, such as his largely fictionalized friendship with another soldier, as long as the message about dealing with trauma remained. He cried throughout his first viewing of the movie, "because they got the way it feels, the way everything is kind of a mess when you come back."

Rebecca Skloot wrote the book "The Immortal Life Of Henrietta Lacks," about a family's search for the true story of their mother, whose cancer cells were used for medical research. In the HBO film, Henrietta Lacks' daughter, Deborah, who died before the book was published, is played by Oprah Winfrey, and the fictionalized Rebecca is played by Rose Byrne. A consultant on the film, Ms. Skloot insisted on some points, such as having Rebecca ask permission before turning on a tape recorder for an interview. The character is a journalist with her name, she says, and she was protecting her professional reputation.

More often, she was amused at the reinventions. She recalls walk-



'The Glass Castle' cast from left, Sadie Sink, Charlie Shotwell, Ella Anderson, Woody Harrelson and Naomi Watts and Eden Grace Redfield. Below, author Jeannette Walls, right, with her real-life mother Rosemary.

ing into the film's production office and seeing a giant board labeled Rebecca with images connected to her character: photos of herself alongside others she

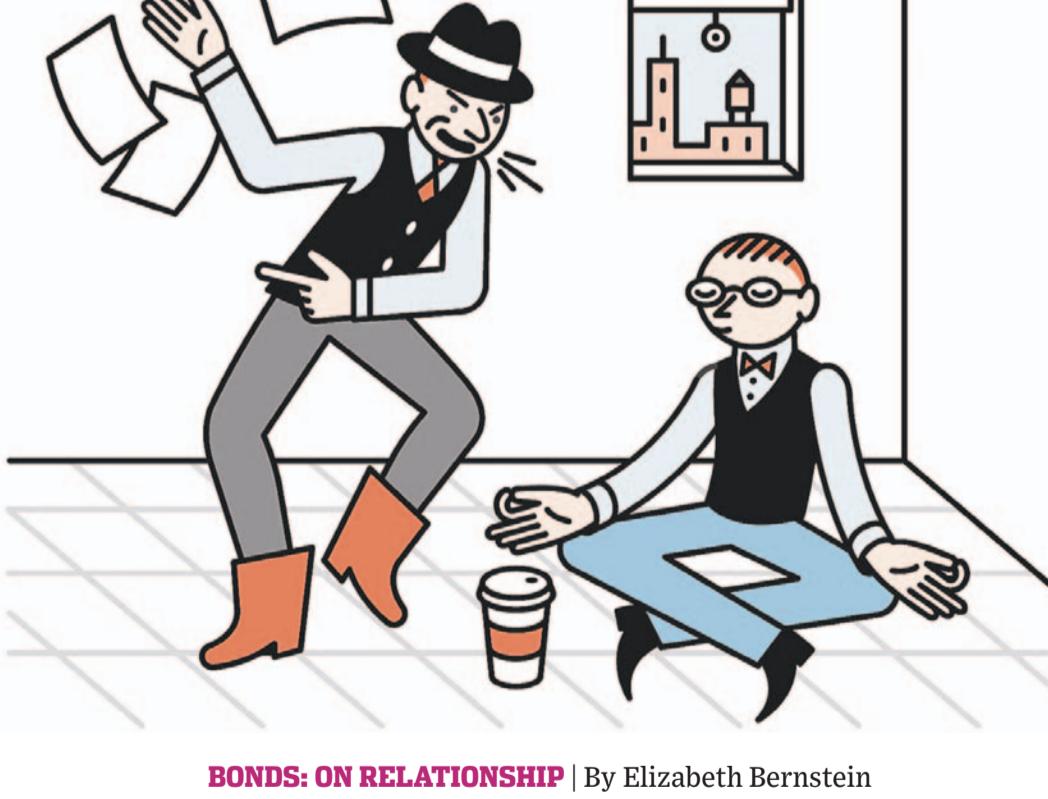
couldn't identify, such as boy bands popular during her teenage years. "There are moments in creepy movies where somebody's been stalking somebody, and then they go to the apartment and see the wall is covered with some kind of crazy collage. In some ways it was like that," she says.

In "Stronger," due out Sept. 22, Jake Gyllenhaal plays Jeff Bauman, who lost his legs as a result of the Boston Marathon bombing. The first time Mr. Bauman saw Mr. Gyllenhaal in costume was when he re-enacted a scene not long after the bombing: Mr. Bauman was wheeled onto the ice at a Boston Bruins game, cheered by the crowd. Mr. Bauman was on set with Mr. Gyllenhaal, walking on prosthetics. "I was pushing him around in the wheelchair, joking," Mr. Bauman

says about the actor. "That was when I realized how freaky it was to see him. I noticed how good he was at portraying me."

Some details are tidied up for the movies. Mr. Bauman and his wife, played by Tatiana Maslany, announced earlier this year that they were divorcing. Mr. Schumann and his wife, played by Hayley Bennett, divorced years ago. The movies don't mention either split.

More profoundly, the films sometimes offer a reality check even to the people who inspired them. Looking at himself on screen, Mr. Bauman thought, "I'm a real piece of work. I was drinking a lot and partying." A year ago, long before seeing the film, he stopped drinking and returned to college. "The movie, it showed me how far I've come in the last year."



BONDS: ON RELATIONSHIP | By Elizabeth Bernstein

## FIND COMPASSION FOR DIFFICULT PEOPLE

It takes compassion to deal with the difficult people in your life.

New research suggests the answer to avoiding the anxiety, high blood pressure and disappointment of interacting with a person that rubs you the wrong way lies in preparation. You can adjust your thinking about the person before an encounter and learn to feel compassion for him or her.

Researchers say compassion has four components: You recognize another person's suffering, are emotionally moved by it, wish the

other person didn't suffer and feel motivated to help relieve the suffering. Whether you actually help or not is up to you. It is enough to be willing to do so, the researchers say.

The new study, conducted by researchers at the University of California, Berkeley, Stanford University and the University of California, Davis and published online last month in the journal "Mindfulness," looked at the efficacy of Stanford's Compassion Cultivation Training Program (CCT),

which is an eight-week course that teaches people how to become more compassionate. Researchers tracked 51 adults in the course through an iPhone app that prompted them to rate their levels of four different emotional states—anxiety, calm, fatigue and alertness—twice a day. Participants were also asked if they felt they could successfully regulate these emotions and how they would do that. (Did they try to reduce the emotion, maintain it, increase it or ignore it?) They an-

swered weekly surveys as well.

Over the time period of the class, people were able to regulate and improve negative states, such as anxiety and stress, and increase positive states, such as calm, by cultivating compassion, both for themselves and others.

Anyone can take Stanford's CCT course, which was created in 2009 by Thupten Jinpa, the Dalai Lama's chief English translator, and a group of neuroscientists, psychologists and therapists and aims to teach people compassion toward all, including the difficult people in their lives. It is taught through the university's medical school and by more than 100 certified teachers around the world.

The program, which includes training on meditation and how to adjust one's thoughts, takes people through a number of steps that get more difficult as the program goes on. Some of the steps are about learning to focus, practicing compassion toward yourself and a loved one, and developing an appreciation for people outside your inner circle, including difficult people.

Exercises include reflecting on how the difficult person in your life is someone's son or daughter, mother or father, sister or brother—just as you are—and has hopes and dreams and sorrows of his or her own.

The program doesn't advocate that people forgive someone who has been hurtful or continue a relationship with that person. Rather, it suggests we can feel compassion for that person—recognize that he or she suffers and wish for an end to that suffering—as a way to help ourselves.

"There are consequences to ourselves in terms of negative emotions when we are walking around thinking bad thoughts about someone or trying to avoid him; this al-

lows us to let them go," says Hooria Jazaieri, a researcher at Berkeley's Greater Good Science Center, who teaches the compassion class at Stanford and is the lead author on the new study.

Here are tips for using some of the Stanford program's teachings at home:

**Don't suppress your thoughts.** Research shows that suppression activates the amygdala in your brain, where your body's fight-or-flight response resides. Suppressing will make you more anxious in the long-run and will have harmful effects on your physical health. It

will also make you think more about the person you might be trying to stop focusing on. In one classic study in which participants were told not to think about a white bear, the bear took over their thoughts.

If your difficult person's name or a memory arises, try to pay attention briefly then let your thoughts drift on to something else.

**Acknowledge that you can be difficult, too.** Ms. Jazaieri calls this the "just like me" rule—remember that just as this person is difficult for you, you might be difficult for someone else. "Maybe I have not done as many bad things," Ms. Jazaieri says. "But I have said things that aren't true or have hurt people and it is humbling to remember that."

**Be curious.** For a moment, imagine what life might be like for this other person. Remember that he or she also has hopes and dreams. He is a father or son. She is a mother or daughter. By tapping into their struggles, you will be able to let go of some of your anxiety or anger.

*Write to Elizabeth Bernstein at elizabeth.bernstein@wsj.com or follow her on Facebook, Twitter or Instagram at EBernsteinWSJ.*

## OPINION

### REVIEW & OUTLOOK

## The Regime Change Solution in Korea

The North Korean crisis is accelerating as dictator Kim Jong Un moves closer to holding U.S. cities hostage to nuclear blackmail. Some in the U.S. intelligence community are admitting they have underestimated the threat, and President Trump again tweeted his frustration with China's refusal to restrain its client state. A new U.S. strategy is needed, so it's notable that CIA Director Mike Pompeo recently suggested that the Trump Administration may be contemplating a goal of regime change in Pyongyang.

"It would be a great thing to denuclearize the peninsula, to get those weapons off of that, but the thing that is most dangerous about it is the character who holds the control over them today," Mr. Pompeo told the Aspen Security Forum recently. "So from the Administration's perspective, the most important thing we can do is separate those two. Right? Separate capacity and someone who might well have intent and break those two apart."

Mr. Pompeo is right. Israel is believed to have nuclear weapons but its arsenal is defensive. Democratic India doesn't threaten its neighbors with a first strike. The nature of the regime matters as much as the weapons, and in North Korea that means the dynastic cult that attributes supernatural powers to its young, reckless leader Kim Jong Un.

The U.S. has no time to waste after the North's latest missile test on Friday that experts say flew far enough to put in jeopardy Los Angeles and Denver. Media reports last week say the Defense Intelligence Agency now believes the North will be able to deploy a nuclear-capable ballistic missile by next year. Thanks for letting us know. For years U.S. intelligence agencies have predicted the North was several years away from posing such a threat.

Mr. Trump blasted China on Saturday for doing "NOTHING FOR US with North Korea, just talk. We will no longer allow this to continue." China continues to preach the illusion of a diplomatic solution even as it abets the North's evasions of international sanctions. The U.S. and its allies need to raise the ante if the world is going to avoid another Korean war.

A policy of regime change needn't require an invasion or immediate unification of North and South Korea. Security in Northeast Asia could

also improve if the Kim regime is overthrown from within by generals or a political faction that wasn't determined to threaten the world with a nuclear arsenal.

The U.S. does have policy tools to promote this strategy, especially if the goal of regime change is clearly stated. Some are economic, such as the North Korea Sanctions and Policy Enhancement Act that cuts off North Korean banks from the dollar-based international financial system. The Trump Administration recently began to sanction Chinese banks and trading companies that violate United Nations sanctions, and the list should be expanded.

Washington could also promote the truth to the North Korean people and elites about the Kim family's crimes. If army officers believe that Kim is leading the regime toward disaster, they will have an incentive to plot against him.

The Trump Administration can encourage that calculation by drawing a red line at further long-range missile tests. Shooting down future test launches would deny the North's researchers the data to perfect their re-entry vehicles. It would also show U.S. resolve to stop the North's sprint to obtain an intercontinental missile that could strike the U.S. mainland.

The other audience for this policy is in Beijing. Chinese leaders have long calculated that a nuclear North might serve the strategic purpose of driving the U.S. out of the region. And if the U.S. pursues regime change in the North, Beijing will at first react angrily and blame Washington for destabilizing the region.

But a debate is already under way among Chinese elites about the wisdom of supporting the Kim dynasty. China might decide to manage the process of regime change rather than allow a chaotic collapse or war on the Korean peninsula, perhaps by backing a faction within the army to take power.

A military dictatorship beholden to China is no guarantee of reconciliation between North and South. But it would be preferable to the erratic Kim regime and its strategy of nuclear blackmail. A new government would need to grow the economy to build its legitimacy, and it would need foreign investment.

North Korea has become an urgent threat because U.S. administrations pursued endless accommodation. Let's hope Mr. Pompeo is signaling that this era is over.

### The CIA director talks about separating Kim from his missiles.



AMERICAS  
By Mary  
Anastasia  
O'Grady

## Venezuela Heads For Civil War

may increasingly have support from dissident government forces.

Consider what happened in the municipality of Mario Briceño Iragorry in the state of Aragua last month, when the pro-government mayor and the regime's paramilitary, known as *colectivos*, began looting shops that were closed during a one-day national strike.

Eyewitness testimonies sent to me by a source in Caracas describe how townspeople tried to defend the shops. The mayor brought in paramilitary reinforcements. But the town was saved when the judicial police arrived from the state capital of Maracay. According to the Venezuelan daily *El Nacional*, they arrested the mayor, who was armed, and "many" *colectivos*.

### The regime has rifles and armored vehicles, but the people have numbers and anger.

Islamic extremists received Venezuelan passports to give them false cover when crossing borders. Regime supporters got the papers they need to vote under more than one identity.

This is something to keep in mind as Venezuelan strongman Nicolás Maduro claims victory in Sunday's election for representatives to draft a new constitution. In polls, some 80% of Venezuelans opposed Mr. Maduro's "constituent assembly." But the opposition boycotted Sunday's election because they knew Cuba is running things, that voter rolls are corrupted and that there is no transparency in the operation of electronic voting machines.

Opposition leaders in Caracas are

still trying to use peaceful means to

unseat Mr. Maduro. Last week they

orchestrated an effective 48-hour

national

strike and on Friday another

day of demonstrations.

But grass-roots faith and hope in

a peaceful solution has been lost.

One symptom of this desperation is

the mass exodus under way. On Tues-

day the Panam Post reported that

"more than 26,000 people crossed

the border into Colombia Monday,

July 26, according to the National Di-

rector of Migration in [the Colom-

bian city of] Cúcuta."

Venezuelan applications for asy-

lum in the U.S. were up 160% last

year, making Venezuelans No. 1

among asylum seekers to the U.S. Ac-

cording to the United Nations Refu-

gee Agency, there were 27,000 Vene-

zuelan asylum seekers world-wide in

2016. By mid-July this year there

were already 50,000.

Last week the National Guard ar-

rested and badly beat violinist Willy

Arteaga, who has become a national

symbol of peace. Many of those flee-

ing say they fear that after Sunday

the regime crackdown will intensify.

Some of those staying behind have al-

ready begun to launch counteroffe-

sives. This provides the regime an ex-

use for increasing repression, yet

there is a growing sense that violence

is the only remaining option.

The regime has the armored vehi-

cles, the high-powered rifles and the

SWAT gear. But the population has

the numbers and the anger. It also

has the

judicial police, who number around 12,000 and conduct criminal investigations, are Venezuela's largest national police agency. They are also responsible for protecting Attorney General Luisa Ortega Díaz. Ms. Ortega broke with the regime in March when the Maduro-controlled Supreme Court tried to dissolve the opposition-controlled legislature. She is an out-spoken critic of Mr. Maduro's constituent assembly. She hasn't been arrested, probably because the regime doesn't want to confront the judicial police.

There are also dissident members

of the military but their possible role

in recovering democracy seems diffi-

cult. The leadership is pro-regime

and though there are rumors of

grumbling among the lower ranks, orga-

nizing a coup requires communica-

tion. The security and intelligence ap-

paratus installed by Cuba makes that

challenging.

But a citizens' revolt, led by young

people whose families are starving, is

already under way. Last week after 24-

year-old Ender Caldera died from inju-

ries sustained in a demonstration in

Timotes, Merida, his friends exacted

revenge by intercepting an armored

National Guard truck on a mountain

road and setting it afire. Numerous

other National Guard vehicles have

been torched in Caracas.

The state of Barinas, where Hugo

Chávez was born, was once a regime

stronghold. Today it is an antigovern-

ment pressure-cooker where dissidents

burn debris in the streets and confront

the National Guard. It is the state with

the highest number of protest fatali-

ties in the country since the street

protests began in April.

Mr. Maduro tried Sunday to put a

"democratic" imprimatur on his

power grab. But by the afternoon

there were at least 10 dead in clashes

with the regime. On the streets of

Venezuela, it is now fight or flight.

Write to O'Grady@wsj.com.

## Last Supper at Nani's Table

By Angela Rocco DeCarlo

I love big family dinners. Bringing out the Wedgwood china and Waterford crystal makes me happy. Cooking does not. I want to see smiling faces around the table. To me, the food is incidental. For an Italian-American this is something of a scandal.

I grew up in Chicago, and my husband and I raised our three sons there. We all live in California now, but we haven't forgotten the endless Italian family dinners of homemade ravioli around my parents' heavily carved walnut dining table. Purchased in 1926, it was the centerpiece of their bungalow on South Mayfield Avenue, a stone's throw from Oak Park.

After my parents and sister died, the bungalow had to be sold. Before that, though, I engineered a Last Supper at the house. The whole gang trekked 2,000 miles for a salute to our happy past in Nani and Papa's dining room.

What was meant as a pilgrimage to our Chicago home served only to remind us how many loved ones we had lost. Italians seem to lack the capacity for frivolity where death is concerned. I admire the Irish in that regard. They have a gift for festive send-offs. We Italians hearken back to pagan times when the only appropriate response to death was to wail and curse the gods.

You never saw a sadder group seated around a table. The eldest son, Mark, a comedian and author, folded his arms tightly across his chest. "All the people who sat with us around Nani's table," he croaked. "They're all gone."

The middle son, Dr. Michael, sat silent, tears in his eyes. Danny, the youngest, had insisted on bringing his two babies: "I want them to spend at least one night under Nani and Papa's roof."

We sat for a while in silence, immobile with grief. Then Mark piped up. "If no one wants Nani's table, I'd like it," he said. "And if no one wants their bed-

room set, I'd like that, too."

The pall was lifted, and the memories started flowing. Mark had been the first grandchild born to the family. Remember the crib that Auntie Cookie had given him? It fit snugly next to Nani's side of the bed so she could hold his foot while he sucked both thumbs. A born comedian.

### We came for the memories. My son left with the furniture.

Now that Nani and Cookie and all the rest had left us, Mark wanted the bedroom set. He also decided he needed the lovely stained-glass window from Nani and Papa's bedroom. He spirited it away without telling us.

We immediately planned a First Dinner with Nani's dining table at Mark's house in the Hollywood Hills. Of course, my husband and I were left to arrange transport of these newly minted family heirlooms from Chicago to California. And we had the privilege of trying to fill the odd space where the stained glass had been.

In California we had Nani's table refinished and the chairs reupholstered. Mark installed the stained-glass window in his front door, where it looks beautiful. It was a lot of work—and cost a lot of money—but it was worth it.

It's a good thing to want to hold on to one's grandparents, one's family connections. Italians understand this, even if we can't put any cheer in our teary wakes. Our First Dinner at Mark's house was wonderful.

Best of all, I didn't have to cook.

Ms. DeCarlo formerly covered culture, travel and entertainment for the Chicago Tribune and the Las Vegas Review-Journal.

**A Fiduciary Rule Reckoning**

**T**he Obama era imposed many destructive regulations, but few were more arrogantly conceived than the Labor Department's new fiduciary rule on retirement accounts. The good news is that the bureaucratic victory may be rolled back. Though the new rule took partial effect on June 9, Labor recently said it now opposes allowing an enforcement provision that would encourage class-action lawsuits. President Trump also ordered a review of the economic damage, which won't be complete until later this year. Meantime, the Fifth Circuit Court of Appeals on Monday heard arguments from business groups seeking to overturn a lower-court decision upholding the rule.

The rule applies a fiduciary standard to the broker-dealers and insurance agents who assist their clients with IRAs. The claim is that this will protect ordinary investors from brokers who recommend certain investments because of the commissions they get. But the new rule imposes many new burdens, from new disclosure requirements to changes to compensation practices.

As so often happens, the new reality is harming the very people the rule is meant to help. One problem is that small investors often can't afford the higher costs associated with the fee-based investments the rule promotes. Another is that some firms will no longer serve the retirement funds of small-business plans because the account balances aren't large enough for the risk. Then there's the added paperwork and costs that are many times Labor estimates.

The main legal objection is the flimsy authority Labor used to upend an industry and establish

**An opportunity in the U.S. to roll back regulatory overreach.**

**C**ontrol. In a flim-flam worthy of Robert Preston's con man in "The Music Man," Labor made an end run around the U.S. Securities and Exchange Commission by claiming authority to regulate these retirement accounts.

In the musical, Preston's character bases his authority to lead a band on a degree from a nonexistent Conservatory of Music in Gary, Ind. Labor did much the same by invoking the 1974 Employee Retirement Income Security Act (Erisa), which gave it the authority to reduce the regulatory burdens on IRAs. Labor turned that on its head and used Erisa to impose a new, industry-altering regulation.

The arbitrary and capricious way this rule was created and imposed is a fitting subject for the Fifth Circuit's attention, not least for what it says about the legal doctrine of *Chevron* deference. Under this doctrine, courts are supposed to defer to regulatory agencies when the language from Congress isn't clear. Labor naturally is banking on *Chevron* to sustain its naked power grab.

But as Judge Brett Kavanaugh of the D.C. Circuit Court of Appeals pointed out in a recent dissent in an unrelated case, in a narrow class of cases involving major agency rules "of great economic and political significance," the Supreme Court has articulated a "countervailing canon" that reflects both common sense and the Constitution's separation of powers.

Judge Kavanaugh puts it simply: "For an agency to issue a major rule, Congress must clearly authorize the agency to do so. If a statute only ambiguously supplies authority for the major rule, the rule is unlawful." Let's hope the Fifth Circuit takes note.

## OPINION

# Climate Change Isn't the End of the World

By David R. Henderson  
And John H. Cochrane

**C**limate change is often misunderstood as a package deal: If global warming is "real," both sides of the debate seem to assume, the climate lobby's policy agenda follows inexorably.

It does not. Climate-policy advocates need to do a much better job of quantitatively analyzing economic costs and the actual, rather than symbolic, benefits of their policies. Skeptics would also do well to focus more attention on economic and policy analysis.

**E**nough if world temperatures rise, the appropriate policy response is still an open question.

To arrive at a wise policy response, we first need to consider how much economic damage climate change will do. Current models struggle to come up with economic costs commensurate with the apocalyptic political rhetoric. Typical costs are well below 10% of gross domestic product in the year 2100 and beyond.

That's a lot of money—but it's a lot of years, too. Even 10% less GDP in 100 years corresponds to 0.1 percentage point less annual GDP growth. Climate change therefore doesn't justify policies that cost more than 0.1 percentage point of growth. If the goal is 10% more GDP in 100 years, pro-growth tax, regula-

tory and entitlement reforms would be far more effective.

Yes, the costs aren't evenly spread. Some places will do better and some will do worse. The American South might be a worse place to grow wheat; Southern Canada might be a better one. In a century, Miami might find itself in approximately the same situation as the Dutch city of Rotterdam today.

But spread over a century, the costs of moving and adapting are not as imposing as they seem. Rotterdam's dikes are expensive, but not prohibitively so. Most buildings are rebuilt about every 50 years.

If we simply stopped building in flood-prone areas and started building on higher ground, even the costs of moving cities would be bearable. Migration is costly. But much of the world's population moved from farms to cities in the 20th century. Allowing people to move to better climates in the 21st will be equally possible. Such investments in climate adaptation are small compared with the investments we will regularly make in houses, businesses, infrastructure and education.

And economics is the central question—unlike with other environmental problems such as chemical pollution. Carbon dioxide hurts nobody's health. It's good for plants. Climate change needn't endanger anyone. If it did—and you do hear such claims—then living in hot Arizona rather than cool Maine, or living with Louisiana's frequent floods, would be considered a health catastrophe today.

Global warming isn't the only risk our society faces. Even if science tells us that climate change is real and man-made, it doesn't tell



ALAMY STOCK PHOTO

A dike and a windmill in Rotterdam, a city already prone to floods.

us, as President Obama asserted, that climate change is the greatest threat to humanity. Really? Greater than nuclear explosions, a world war, global pandemics, crop failures and civil chaos?

No. Healthy societies don't fall apart over slow, widely predicted, relatively small economic adjustments of the sort painted by climate analysis. Societies do fall apart from war, disease or chaos. Climate policy must compete with other long-term threats for always-scarce resources.

Facing this reality, some advocate that we buy some "insurance." Sure, they argue, the projected economic cost seems small, but it could turn out to be a lot worse. But the same argument applies to any possible risk. If you buy overpriced insurance against every potential danger, you soon run out of money.

You can sensibly insure only when the premium is in line with the risk—which brings us back where we started, to the need for quantifying probabilities, costs, benefits and alternatives. And uncertainty goes both ways. Nobody forecast fracking, or that it would make the U.S. the world's carbon-reduction leader. Strategic waiting is a rational response to a slow-moving uncertain peril with fast-changing technology.

Global warming isn't even the obvious top environmental threat. Dirty water, dirty air and insect-borne diseases are a far greater problem today for most people world-wide. Habitat loss and human predation are a far greater problem for most animals. Elephants won't make it to see a warmer climate. Ask them how they would prefer to

spend \$1 trillion—subsidizing high-speed trains or a human-free park.

Then, we need to know what effect proposed policies have and at what cost. Scientific, quantifiable or even vaguely plausible cause-and-effect thinking are missing from much advocacy for policies to reduce carbon emissions.

The Intergovernmental Panel on Climate Change's "scientific" recommendations, for example, include "reduced gender inequality & marginalization in other forms," "provisioning of adequate housing," "cash transfers" and "awareness raising & integrating into education." Even if some of these are worthy goals, they aren't scientifically valid, cost-benefit-tested policies to cool the planet.

Climate-policy advocates' apocalyptic vision demands serious analysis, and mushy thinking undermines their case. If carbon emissions pose the greatest threat to humanity, it follows that the costs of nuclear power—waste disposal and the occasional meltdown—might be bearable. It follows that the costs of genetically modified foods and modern pesticides, which can feed us with less land and lower carbon emissions, might be bearable. It follows that if the future of civilization is really at stake, adaptation or geo-engineering shouldn't be unmentionable. And it follows that symbolic, ineffective, political grab-bag policies should be intolerable.

*Mr. Henderson is a research fellow with the Hoover Institution and an economics professor at the Naval Postgraduate School. Mr. Cochrane is a senior fellow of the Hoover Institution and an adjunct scholar of the Cato Institute.*

## Kim Jong Un Is Going Ballistic in More Ways Than One

By Henry Sokolski  
And Zachary Keck

**A**mong the many types of missiles North Korea is perfecting is a short-range system that Kim Jong Un is almost certain to export. Although not as worrisome as the intercontinental ballistic missile Pyongyang tested Friday, this weapon has a highly accurate front end optimized to knock out overseas U.S. and allied bases, Persian Gulf oil fields, vital Israeli assets and eventually even commercial shipping and warships. The good news is there's still time to halt the system's proliferation, but only if we act quickly.

The missile is an advanced version of a Scud, a 185- to 620-mile-range missile that has been in use world-wide for decades. What makes the version North Korea just tested so different is that it has a maneuvering re-entry vehicle, or MaRV, which allows the missile's warhead to maneuver late in flight both to evade missile defenses and achieve pinpoint accuracy.

China, Russia, South Korea and the U.S. have all tested MaRVs but decided, so far, not to export them.

Iran has also tested a MaRV, raising questions about Tehran's possible cooperation with Pyongyang.

The worry now is how far and quickly this technology might spread. Pyongyang has already sold ballistic missiles to seven countries, including Iran, Syria and Saddam Hussein's Iraq. For the Kim regime these sales generate precious hard currency, which is otherwise difficult to come by as Washington continues to ratchet up sanctions.

PyonYang will have no trouble finding customers. While only Iran or Pakistan might consider purchasing a North Korean ICBM, 15 countries besides North Korea already possess older Scud missile systems they might want to upgrade. Getting a MaRV version would be an affordable way to threaten targets that previously could have been knocked out only by a nuclear warhead or scores of missiles.

If Syria—which previously purchased Scuds from North Korea—were to acquire this missile, it would need only a handful to wipe out the bases the U.S. uses to launch airstrikes within its borders. Rebels in Yemen have repeatedly fired Scuds at Saudi air bases. Most have

either missed their targets or been shot down by Saudi forces. A MaRV would ensure a successful strike. If Hezbollah, a North Korean arms customer, got its hands on the new system, it could make good on its threats to take out Israeli chemical

**North Korea has developed advanced short-range weapons and is almost certain to export them.**

plants and the Dimona nuclear reactor. Eventually, if paired with capable surveillance systems, MaRV Scuds could even be used against moving targets such as warships or oil tankers.

If these missiles spread, hostile nations and terror groups won't need nuclear weapons to threaten America or its allies. They will be able to upgrade their threat level by merely trading up the Scuds they already have.

What should the Trump administration do about this? First, start talking more candidly about the

threat. The U.S. Navy has been clear that it's now vulnerable to China's highly precise conventional MaRV missiles. Washington now needs to spotlight the threat North Korea's MaRV Scuds will pose if these systems proliferate globally.

Second, along with developing defenses to cope with this threat, the U.S. needs to double down on blocking illicit missile exports. In 1987 Ronald Reagan worked with the Group of Seven nations to create the international Missile Technology Control Regime, which today urges missile suppliers (including China and Russia) not to export missiles capable of lifting 1,100 pounds for distances of more than 185 miles—precisely the type that North Korea might sell.

The MTCR also serves as the basis for the 105-nation Proliferation Security Initiative, which allows countries to search ships and airplanes carrying proscribed missile technology. These tools for stifling the illegal trade of missiles have already been developed. It's time to hone and use them.

Finally, America must get serious about restricting missile sales more generally. President Reagan wanted

to eliminate what he called "nuclear missiles." His efforts to do so—the MTCR and the Intermediate Nuclear Forces Treaty, which banned an entire class of ground-based nuclear-capable missiles—suggest he was focused on eliminating missiles ideally suited for surprise first strikes.

Given that today's missiles are accurate enough to destroy their intended targets with conventional warheads, it's time to update our thinking in this area.

Persuading the world's major powers to sign on to new missile-trade restrictions will be no simple feat. Russia, for one, has already violated the existing INF Treaty. Yet before this violation, Moscow proposed expanding the INF to include other countries, especially China, the world's largest land-based missile power.

Bringing all parties to the table in good faith will be a long-term proposition. But given the missile threats that are already emerging, the time to begin is now.

*Mr. Sokolski is executive director and Mr. Keck a fellow at the Nonproliferation Policy Education Center.*

## The High Cost of Raising Prices

By Andy Kessler

**M**ost investors love companies with pricing power. Me? Not so much. Consider the life of a wealthy expat who asked a broker to show him the most expensive apartments in Rome. The first, at €20,000 (\$23,500) a month, was a dump. So was the second, at €18,000. Yet the third apartment, at €16,000, was well-maintained, with gorgeous views of the Italian capital. Sensing confusion, the broker explained that the first two apartments had sat empty for months—and the owners kept raising prices to make up for the lost rent.

Sound familiar? The U.S. Postal Service has seen first-class mail volume drop to 61.2 billion letters last year from a peak of 103.7 billion letters in 2001. It raised rates

to 49 cents from 34 cents to make up the difference. Movie tickets sold in the U.S. peaked at nearly 1.6 billion in 2002. Last year only 1.3 billion were sold. Meantime, average ticket prices jumped to \$8.65 from \$5.81.

The more prices rise, the more customers bolt. It's like running up a down escalator and never getting to the top. With the stock market hitting highs just about every day, investors need to be wary of companies that raise prices to make their numbers. These stocks make for spectacular sell-offs on even the slightest earnings miss. Case in point: Starbucks, the \$4.65 macchiato maker, slid nearly 10% on Friday.

Disney's stock has been stuck around \$100 for the past few years as investors bite their nails over cord-cutters. ESPN and cable net-

works were more than half of Disney profits in 2012. Figuring the party would rage on, ESPN signed multibillion-dollar television deals with the National Basketball Association and the National Football League. The Oakland Raiders' Derek Carr makes \$25 million a year? Thanks, ESPN.

Yet the sports channel's subscribers have dropped to 89 million today from 100 million in 2011. So ESPN raised prices, to \$7.21 for a monthly sub from \$4.69. It's now five times as high as any other channel.

This newspaper reported last month that Disney is in talks with cable operator Altice USA to raise prices again by perhaps 6% a year and institute "minimum penetration guarantees" to make up the difference. We've seen this movie before: ESPN may be a few price increases away from losing another 11 million subscribers.

I had a friend who worked at General Electric for decades. He told me that in strategy sessions with his management, Jack Welch would constantly berate them, saying, "Any id-

iot can raise prices." Except he used a stronger word than idiot to coax them into squeezing out costs, adding features, improving services and generally delighting customers.

**What do ESPN, eBay and the U.S. post office have in common? Ask a kangaroo in a bar.**

private-equity firms are circling P&G. Same for Nestlé. Expect rising beer and liquor prices soon.

Empires are lost on rising prices. Until recently, rather than innovate in mobile or cloud computing, Microsoft kept raising the price of its Windows operating system to computer manufacturers. Tablets and phones ate their lunch.

Fees rose at eBay until Amazon took its growth away. Booksellers raised effective prices on digital books to offset the decline of physical copies. I never understood that one.

The Durbin amendment to the 2010 Dodd-Frank Act cut the fees banks could charge on debit-card transactions. Banks simply cut back on free checking, adding annoying low-balance and overcharge fees, making up the difference elsewhere. Not sure how this affected personal-safe sales.

Increasing prices attracts others to attack your market. Amazon's Jeff Bezos warns: "Your margin is my opportunity." We'll see devastation from rising prices in lots of places: ObamaCare premiums, personal tax rates in Illinois, cap-and-trade costs in California, wages in China.

Competition solves much of this problem. Investors love protected businesses, but eventually relentless price increases kill them all. Consumers are the kangaroo at the bar in the old cartoon: The bartender says, "Say, we don't get a lot of kangaroos in here." The kangaroo replies, "No, and with these prices, I can see why!"

Call me a kangaroo, but I prefer to invest in companies that lower prices and offer more.

*Mr. Kessler writes on technology and markets for the Journal.*

## THE WALL STREET JOURNAL.

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## Notable & Quotable: Hillary

From "What happened? What happened?! You blew it, Hillary," by Damon Linker, ThisWeek.com, July 28:

Donald Trump as an opponent! What a dream! Clinton didn't even need to campaign in August. She could just rest up and travel to a few fundraisers where she could rake in \$143 million in excess cash. The media buy would take care of Trump. Hell, she wouldn't even need a motivating message of her own. Just be-

## LIFE & ARTS

YOUR HEALTH | By Sumathi Reddy

# Patients Take Big Risks to Stop Statins

One in five patients taking the cholesterol-lowering drugs report muscle aches, new research shows

A new study on statins—widely used medicines that lower cholesterol levels—highlights the dangerous outcomes that occur when patients stop taking them due to adverse side effects.

One in five patients taking a statin reports a side effect, mainly muscle aches, according to the study. About one-third of those patients stop taking statins completely, leaving them 13% more likely to die or have a heart attack or stroke over the next four years than those who continued to take statins. The study was published in the *Annals of Internal Medicine* last week.

Since the discovery and usage of statins began about 30 years ago, doctors have touted them as a safe, inexpensive method for lowering bad, or LDL, cholesterol levels for the prevention of cardiovascular disease, the leading cause of death.

Experts say 56 million people in the U.S. should be taking statins, such as atorvastatin (brand name Lipitor) and rosuvastatin (brand name Crestor). But only about half actually take the inexpensive, generic drugs. Previous studies have found that anywhere from 25% to 75% patients stop taking statins, usually due to side effects, and doctors are increasingly worried about the discontinuation of the medicines due to perceived side effects which may be caused by something else or due to the placebo effect, which is the negative expectation of a drug.

A recent paper published in the journal the Lancet compared the rates of muscular side effects in patients getting statins to those taking a placebo. They repeated the analysis with patients knowingly taking statins in a second leg of the trial and found little difference in the rate of side effects.

"This kind of analysis supports the idea that statin intolerance is probably not as big of a problem as we have thought it is," said Ethan J. Weiss, a cardiologist and



scientist at the **Cardiovascular Research Institute** at the **University of California, San Francisco**.

For the *Annals of Internal Medicine* study, researchers analyzed data from two Boston Hospitals, focusing on 28,266 patients who reported a side effect to a statin between 2000 and 2011, said Alexander Turchin, senior author on the study and an associate professor of medicine at **Harvard Medical School** and endocrinologist at **Brigham and Women's Hospital**. About 71% of the patients con-

tinued to receive a statin prescription and about half of those continued taking the same medication. About 29% of the patients stopped taking statins. The researchers compared the mortality, heart attack and stroke rates of both groups after about four years.

A secondary analysis of 7,600 patients found that 26% of patients who had an adverse reaction to the first statin they took, reported another adverse reaction to the same or a different statin again. But about 80% continued to

receive a statin prescription.

Pradeep Natarajan, director of preventive cardiology at **Massachusetts General Hospital** in Boston, said when deciding whether to keep patients on statins, there needs to be a discussion weighing the benefits against the risks. For those patients who have previously had a heart attack or who have cardiovascular disease, the benefit will almost always outweigh the risk.

The recent *Annals of Internal Medicine* study, he said, brings

"good awareness to the fact that a lot of people who are on statins who report musculoskeletal issues can often continue on the statin and do well or be re-challenged on another statin."

In many cases the muscular aches are mild, said Dr. Natarajan, though there is a subset of patients who have more debilitating symptoms. They can often be helped by lowering their dose of the statin, he said.

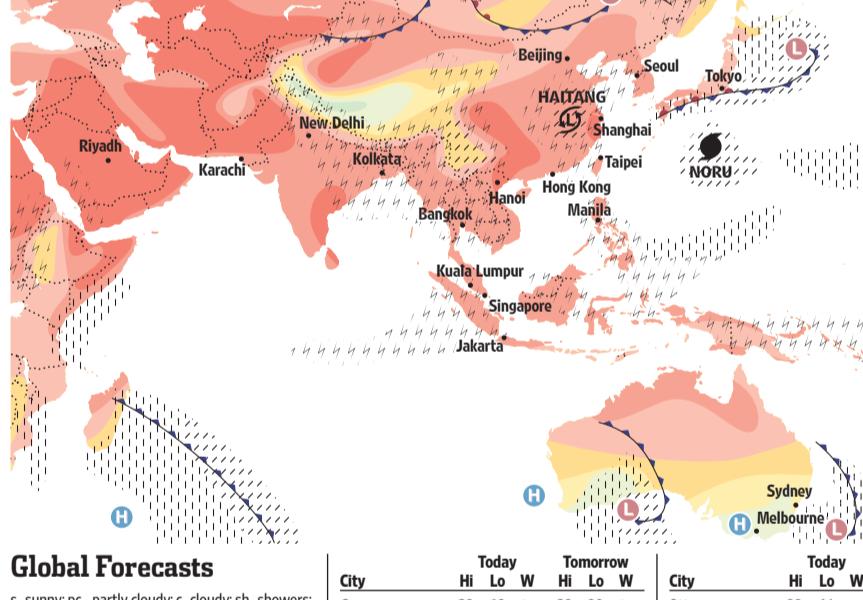
The **American College of Cardiology** has an app to help clinicians rate the likelihood that a musculoskeletal issue is being caused from a statin, he said. If pain is happening on one side of the body it is less likely to be caused by a statin. Pain in the shoulder and thighs is more likely to be caused by a statin.

The two other risks often linked to statins are an increased risk for diabetes and cognitive problems. Dr. Natarajan said there is a "very modest" increased risk of developing diabetes but the benefits usually outweigh that risk. The data associating statins with cognitive problems is very limited, he said.

Steven Nissen, chairman of the department of cardiovascular medicine at Cleveland Clinic and author of an accompanying editorial, said numerous websites and blogs have made unscientific claims about statins, which are damaging the reputation of a critically important medicine. "The vast majority of people do very well on statins," he said.

William O'Neill, medical director of the Center for Structural Heart Disease at Detroit's **Henry Ford Hospital**, tried numerous statins to treat his cardiovascular disease. He experienced debilitating muscular aches and doesn't believe the problem of statin intolerance is overblown. "When a patient comes to an exam room the doctor doesn't ask, 'Are your muscles hurting?' he said. "Patients won't really offer that unless it's really severe."

## Weather



## Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	23	15	pc	22	16	pc
Anchorage	18	13	pc	15	12	c
Athens	31	24	s	32	24	s
Atlanta	31	21	s	31	22	pc
Bahrain	48	32	s	50	30	s
Baltimore	32	20	t	31	20	t
Bangkok	35	28	t	34	27	t
Beijing	30	24	c	28	24	t
Berlin	30	20	t	25	19	t
Bogota	19	9	r	21	10	r
Boise	39	19	s	39	20	s
Boston	28	20	s	28	21	s
Brussels	22	14	pc	24	17	pc
Buenos Aires	15	7	c	16	6	pc
Cairo	37	25	s	37	26	s
Calgary	18	10	sh	22	11	c
Caracas	32	26	pc	32	27	pc
Charlotte	31	19	s	31	20	pc
Chicago	29	20	pc	29	20	t
Dallas	29	22	pc	30	24	t
Denver	31	15	pc	31	14	t
Detroit	31	20	pc	31	20	t
Dubai	43	36	c	46	36	s
Dublin	19	12	t	19	12	r
Edinburgh	18	10	t	18	12	r
Frankfurt	31	19	t	28	19	t

## AccuWeather.com

## The WSJ Daily Crossword | Edited by Mike Shenk



## THE VILLAGE VOICE | By Zhouqin Burnikel

Across		
1	School transport	22 Canadian pump choice
4	Sharp response to an insult	48 *Oft-marinated salad addition
8	Second-largest city in Oklahoma	52 Rooney of "Carol"
13	Mine yield	53 Swear words? e.g.
14	Largest city on the Big Island	54 Zap with light
15	"A Girl With a Watering Can" painter	55 Drab green color
16	Periodontist's org.	60 Spot
17	*Feature of many Shakespeare comedies	63 *Winter weather map line
19	Backside	66 Colgate rival
21	Baseball's Al, nicknamed "the Hebrew Hammer"	67 "Oh, goodness!"
43	Weak— (easily intimidated)	68 Proton's place
45	"Wonderfilled" snack	69 Chain that sells supplements
70	Vancouver	70 Panasonic subsidiary
		71 Freeway hauler
		72 Letter that looks like an H

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

Down	
1	Compliments to a big star
2	Pakistani tongue
3	Email status
4	"Step aside, I'll do it!"
40	Biblical refuge
41	Toxin that may cause an anaphylactic reaction
44	Domingo, for one
46	"Looky here!"
49	"Time in a Bottle" singer
50	Game period
51	Farm female
54	Young chaps
55	Triangle measure
56	Look over quickly
58	Retirement plan components
59	Say "nay," say
61	Ice cream purchase
62	Hit song literally hinted at by the answers to the starred clues
64	"I believe," to texters
65	"Spare me the deets!"

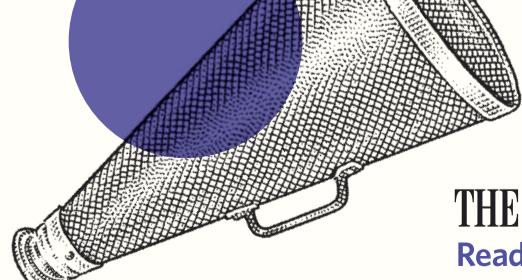
## Previous Puzzle's Solution

CANON	ALI	BARB
AMORE	BET	OILER
LIVELI	WIRES	NOLTE
SAHARA	ADESERT	NOT
BUG	GAM	TIS NOT
ABUSED	BRAT	AB
TOME	LANE	BAA
HABANERO	ROPEPPERS	ANTS
STY	EVEN	MEAD
MEAD	PER	GOLDIE
LATEST	TRENDS	YET
ADORE	STOLEN	CAR
NINOS	TEN	RAISE
DIES	OSS	SPASM

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, August 1, 2017 | B1

Yen vs. Dollar 110.4250 ▼ 0.24%

Hang Seng 27323.99 ▲ 1.28%

Gold 1267.70 ▼ 0.06%

WTI crude 49.33 ▼ 0.76%

10-Year JGB yield 0.079%

10-Year Treasury yield 2.295%

## HSBC to Buy Back More Shares

By MARGOT PATRICK  
AND JOANNE CHIU

LONDON—**HSBC Holdings** PLC said that it would regularly buy back shares if it has extra capital, in the latest sign of strength from the global banking giant.

HSBC said Monday it will buy back another \$2 billion in shares, adding to the \$3.5 billion in stock it repurchased since last year. The transaction announced Monday is part of a new pledge by the bank to regularly buy back shares if it can, in contrast to the earlier purchases that were specifically linked to capital it freed up by selling its large Brazilian unit.

Chief Executive Stuart Gulliver said that HSBC will review potential buybacks every half year, and go ahead with them if it has surplus equity and nothing more attractive to invest in.

The bank has been adding capital through profit, as well as by shrinking in some areas, and analysts had expected



ERIC PIERMONT/AGENCE FRANCE PRESSE/GETTY IMAGES

Chief Executive Stuart Gulliver said HSBC Holdings will review potential buybacks every half year.

more cash returns. Factors helping the bank in recent quarters include lower bad loans and rising interest rates on an expanding deposit base. HSBC has also been freeing up capital from its defunct U.S.

consumer-lending business.

On Monday, the bank said net profit for the second quarter rose 57% to \$3.87 billion from \$2.47 billion in the same period a year earlier. Its profit before tax for the period rose

47% to \$5.3 billion.

Mr. Gulliver in an interview said the bank is seeing the fruits of the strategy he laid out in June 2015, including getting more cross-unit business from its 38 million cus-

tomers. Revenue that can be attributed to such cross-selling rose to \$5.9 billion in the second half from \$5 billion in the first half of 2016, he said.

Analysts covering banks such as HSBC, J.P. Morgan Chase & Co. and Citigroup Inc. have sought proof that the universal banking model is suited for an industry hobbled by banking rules and capital charges since the financial crisis. HSBC says its global reach should be a magnet for companies looking to trade or invest overseas, and it can do anything from managing their cash to helping them tap capital markets, all supported by a strong retail brand and private bank. At the 2015 strategy day, Mr. Gulliver laid out an aim to get revenue growth in its international network above GDP, and said that he tracks the estimated figure every two weeks.

Please see HSBC page B2

◆ Heard on the Street: More cash to come from HSBC... B8

## Charter Snubs Sprint On Deal

By RYAN KNUTSON

**Charter Communications** Inc. said it isn't interested in buying **Sprint Corp.**, rebuffing a sizable merger offer and potentially ending several weeks of deal talks between the media and communications companies.

While the announcement could effectively kill the possibility of a deal between Sprint and Charter any time soon, a person familiar with the matter said that Sprint Chairman Masayoshi Son might still decide to make a formal offer to acquire Charter anyway.

Sprint proposed a merger with Charter that would create a massive new entity controlled by Japan's **SoftBank Group Corp.**, Sprint's parent, The Wall Street Journal reported Friday.

On Sunday, Charter rejected the merger idea and indicated it would stick with an existing wireless reseller agreement with **Verizon Communications** Inc.—known as an MVNO pact—rather than switch to one with Sprint.

"We understand why a deal is attractive for SoftBank, but Charter has no interest in acquiring Sprint," Charter spokesman Alex Dudley said in an emailed statement. "We have a very good MVNO relationship with Verizon and intend to launch wireless services to cable customers next year."

Charter has influential investors, including **Liberty Broadband Corp.**, which is controlled by cable mogul John Malone. Mr. Malone has been interested in a wireless deal.

Sprint entered into exclusive talks with Charter and Comcast Corp. in late May about an array of deal possibilities, including one that would allow Comcast and Charter to offer wireless service under their own brands using Sprint's network, people familiar with the matter have said.

Also on the table was a potential investment in the wireless carrier from the cable companies, people familiar with the matter have said.

The exclusivity ended last week, but Sprint and Mr. Son, who is also SoftBank's chairman, continued to pursue a full combination with Charter, the people said. Together, the companies have a market value exceeding \$130 billion, though Charter, worth roughly \$100 billion, is much bigger than Sprint.

Comcast has made clear it wasn't interested in participating in any merger with Sprint.

The telecommunications company is free now to re-

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MARK BLINCH/REUTERS

A 2018 Toyota Camry at the Detroit auto show this year. Auto makers are looking further afield for design cues to boost curb appeal.

## Family Cars Aim to Be Sexy Again

Sedan designers strive to lure buyers with vehicles inspired by lions and ballerinas

By JOHN D. STOLL  
AND ADRIENNE ROBERTS

A yearslong slump in sedan sales has forced designers to seek inspiration from some unorthodox sources to tempt buyers away from beefy pickups, SUVs and crossovers.

For Ian Cartabiano, who was charged with revamping **Toyota Motor Corp.**'s iconic Camry sedan, ballet dancers and catamarans sparked some ideas. The car's pronounced front end with its deep grill, for instance, includes elements derived from the view of an oncoming twin-hulled sailboat.

"I didn't want to do a vanilla car," said Mr. Cartabiano,

who will see the result of work sketched out four years ago when the cars hit the showrooms this fall. "We wanted people to say, 'Man! I really want to get into this Camry,'" he said.

Once the dominant body style on American roads, passenger cars now make up 38% of U.S. vehicle sales, down from nearly half in 2014.

Even though auto makers make most of their money on thirsty pickups and sport-utility vehicles, they can't give up on sedans. The companies have billions of dollars in production capacity devoted to the body style, with lengthy production cycles that make short-term adjustments impossible. Plus, gasoline prices might rise, and the smaller vehicles help auto makers meet U.S. emissions mandates.

All this has prompted car companies to overhaul three

dozen midsize and large cars for the 2017-2019 model years, and to look further afield for design cues to boost curb appeal.

**Volvo Car Corp.** says its new S90 was inspired by a lion. **Hyundai Motor Co.**'s new Sonata was modeled after a sprinter in the blocks. **Honda Motor Co.** flew a 3-D model of the 2018 Accord from Japan to Los Angeles to get the "correct light" to show "sharp edges and contrasts generated from the sculpted bulging surfaces," said chief exterior designer Tetsuji Morikawa.

"They want people to give the sedan at least one look before moving on to a more popular body style," AutoPacific Inc. product analyst Dave Sullivan said. "Whatever it takes to get you in the seat."

Sedan designers are getting their first look at how their creations fared, with auto

magazines publishing stories that call the Camry "radical" and the Sonata "aggressive." The cars hit dealer lots in coming months, and initial sales numbers will signal whether the designs successfully rekindled interest.

Auto makers aren't only focused on sexier sheet metal. Bob Boniface, Buick design director at General Motors Co., said engineers are tweaking everything from the way a trunk works to the way a headlight functions to boost appeal.

"The days of offering a bread-and-butter car are long gone," he said during an event where GM showed off an updated version of the Buick Regal. The car's front end uses a "hook light" and a restyled

Please see CARS page B2

◆ Aluminum may not be the new steel after all ..... B2

## China Fund Fuels a Chip Drive

By EVA DOU

BEIJING—In China's push to become a semiconductor power, a discreet government-backed fund is playing an outside role.

The national chip fund has provided financing for deals seen as key in helping Chinese companies produce more powerful, cutting-edge semiconductors. U.S. chip makers **Intel Corp.** and **Qualcomm Inc.** each have participated in deals with Chinese companies backed by the fund, said its Executive Vice President Wei Jun.

"We maintain frequent exchanges with the U.S. side," Mr. Wei told The Wall Street Journal in a rare interview. "It doesn't matter if it's international or domestic [compa-

nies]. We will invest or participate in the best development projects in this field in China."

Announced in 2014, the \$20 billion government-controlled fund is the centerpiece of Beijing's plan to dominate the computer-chip industry. Formally known as the **China Integrated Circuit Industry Investment Fund Co.**, it is referred to locally simply as "the Big Fund."

Detractors in the U.S. call it a slush fund, and American trade groups warn its deep pockets will subsidize so many Chinese factories it will flood the sector with overcapacity.

Mr. Wei said at the fund's Beijing offices that he and his colleagues are a force to keep overcapacity in check by promoting consolidation.

Mr. Wei pointed to Qualcomm's and Intel's willingness to co-invest with the fund, despite the criticisms from Washington that China's massive spending push could distort the market. The American chip makers previously announced their China investments but not the involvement of the Big Fund. Intel and Qualcomm declined to comment on their dealings with the chip fund.

Mr. Wei said he isn't bothered by the criticism from Washington. "In one sense, this means they are taking us seriously," he said.

The chip fund is a new model for China's state-driven economic development. After being criticized by the West

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CHRISTIAN VIERIG/WIREIMAGE/GETTY IMAGES

LUXURY BRAND SAINT LAURENT READIES ONLINE SALES IN CHINA

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Liberty Broadband, controlled by John Malone, is a Charter investor.

## SPRINT

Continued from the prior page  
sume merger talks with rival T-Mobile US Inc., which it had held earlier this year. Sprint shifted to the talks with the cable companies when discussions with T-Mobile, which have been on and off for years, hit an impasse, people familiar with the situation said.

T-Mobile has also made public statements lately indicating it is in no hurry to strike a merger, as the carrier has been adding customers at a fast clip while also improving financial performance.

Sprint recently reversed years of subscriber losses but still hasn't turned profitable. It reports quarterly results on Tuesday.

The rebuff adds to the already high drama surrounding the cable, telecom and media industries, which are jockeying for position as consumers spend more time watching video and surfing the web on smartphones. AT&T Inc. is awaiting approval for a proposed \$85 billion acquisition of the content company Time Warner Inc.

Comcast Chief Executive Brian Roberts said on an earnings call last week that he was happy with his current business units, including cable, content and theme parks, all of which show healthy growth.

The wireless industry, meanwhile, is under great

pressure, as there are more active cellphones in America than people. Carriers have resorted to price cuts and bigger data allowances to win a smaller pool of available subscribers.

The competitive pressure in the wireless business that gives carriers motivation to consolidate has been a boon for consumers, who have recently seen prices fall. The consumer-price index for wireless service recorded its largest fall to date earlier this year, according to the U.S. Labor Department.

The wireless industry is also poised for another major technology cycle to fifth generation, or 5G, technology, which will require significant investment. T-Mobile and Sprint, the third- and fourth-largest U.S. carriers by subscribers, respectively, have indicated that greater scale will help them invest in such technology, which their larger rivals are already working on.

Sprint isn't the only carrier to have an eye for Charter. Verizon also discussed a deal with the cable company earlier this year, but the talks didn't amount to anything.

Charter's rejection of Sprint is good news for Verizon, which currently carries wireless traffic from Comcast's new offer, called Xfinity Mobile, and the service Charter plans to launch in the coming months.

While such reseller deals don't typically bring in as much revenue as Verizon's own customers, they are still highly profitable connections.

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## BUSINESS & FINANCE



Ford made a shift in 2014 from steel sheet metal to aluminum for the body panels of the company's best-selling F-150 pickup.

# Aluminum Loses Speed in Replacing Steel Car Parts

BY CHESTER DAWSON

Aluminum may not be the new steel, according to a new study, as auto makers' use of a single predominant lightweight material such as aluminum in vehicles like Ford Motor Co.'s F-150 pickup is giving way to a patchwork of materials replacing heavier sheet metal.

Long seen as a lighter but far more expensive alternative to steel for automotive manufacturers, aluminum has enjoyed a surge as engineers scramble to shave weight amid tighter emissions standards.

A new study on Monday by Ducker Worldwide says the use of aluminum in vehicles is projected to grow 42% over the next decade, but at a slower pace than in previous forecasts.

The average vehicle sold today weighs nearly 4,000 pounds and is made of rubber, plastic, steel, aluminum, upholstery and other materials.

Auto makers have worked to make every component—from body panels and engines to brackets and windshields—lighter, often by substituting materials that can add costs but improve miles per gallon.

Ford's shift in 2014 from steel sheet metal to aluminum for the best-selling F-150's body panels, which represent a meaty portion of a vehicle's structure, was seen as a tipping point for aluminum because

sales and production volumes of Ford's truck are so high.

Designers more recently have decided to use a mix of materials including magnesium and carbon fiber to achieve weight savings, and steelmakers have rolled out stronger but thinner lighter steels.

At the same time, the Trump administration is considering softening fuel economy regulations, which could slow so-called light-weighting efforts as urgency fades.

"You'll probably never see anything again that's as aluminum intensive," Dick Schultz, co-author of the Ducker study, said in an interview. While Ford slimmed down its F-150 by 700 pounds via aluminum, it also added \$1,000 in costs per vehicle,

he said, while predicting the next generation F-150 would likely use less aluminum in favor of other materials.

A Ford spokesman declined to comment on the next-generation F-150.

General Motors Co., Ford's chief rival, has said its updated full-size trucks due in 2019 will use a blend of materials to achieve weight savings.

"Everyone is pursuing the multimaterial approach," said Doug Richman, a vice president at Kaiser Aluminum and technical chair of trade group The Aluminum Association's transport arm. "It's a pretty clear and durable trend that's

been helped by significant advances in joining technology and production experience."

The Ducker study was commissioned by the aluminum trade group; steelmakers also commission Ducker for research.

Auto makers have improved fusing steel with other materials on assembly lines to

pounds per vehicle in 2025, up sharply from today's mix but down from a previous forecast by Ducker in 2014 for 547 pounds per vehicle by then.

A decade from now, Ducker estimates cars will have an average of 565 pounds of aluminum per vehicle, representing a record 16% of the 3,565-pound weight total, which is nearly 300 pounds less than the current average curb weight.

The study bases its most likely longer-term forecast scenario through 2028 on several variables, including federal weight-reduction goals averaging around 270 pounds per vehicle, or the equivalent of a 7% cut in curb weight from 2015 levels.

A delay or abandonment of that goal by the Trump administration would further dent aluminum's growth next decade. "If the regulations went away, the growth in quantity would be cut in half" after 2020, said Mr. Schultz.

The aluminum industry says the race to drop pounds will continue regardless of what Washington does.

"Regardless of the regulations, the light-weighting of vehicles and their aluminization will continue," said John Thomas, an executive in charge of the automotive business at specialty-metals maker Arconic Inc., which is a supplier to a number of top auto makers.

## CARS

Continued from the prior page  
"winged grille" to breathe new life into the brand's "aeronautical design language."

Designers in 2017 face challenges that stylists could largely ignore during the sedan's golden age, when tail fins and chrome were commonplace.

Stringent requirements for hood measurements and other safety regulations force designers to abide by strict rules, Mr. Boniface said. And, sedan design hasn't until recently been an area that encourages risk-taking.

Mr. Cartabiano, the designer of the 2018 Camry, said recent sedans haven't elicited enough passion. He said crossover vehicles—typically roomy and bulbous wagons based on the architecture of a car—are the hot body style, but they don't have the same potential as sedans when it comes to design.

"There's something sensual and heart-tugging about a sleek and sexy car that can't be provided by a crossover," he said. This is why Toyota turned to a ballerina on a

beam: "The idea was the movement of a dancer was beautiful and rhythmic...the beam represented strength."

Hyundai broke the mold on exteriors early in this decade with an edgy and aggressive-looking Sonata. Critics, however, panned a redesigned Sonata for 2015, calling it overly conservative and boring.

Edward Kim, a designer in Hyundai's California studio, was charged with injecting a "wow factor" into the 2018

version. He said he modeled the profile of the car from a runner crouching at the starting line before a race. To add heft to the grille, he also incorporated cues from a catamaran and pulled in imagery from the steelmaking process.

Swedish designers several years ago went to work sculpting the 2017 Volvo S90, a large sedan that had gone several years without a major freshening. Tisha Johnson, a senior director of design at Volvo,

said the company's new engineering platform for large vehicles allowed a much "lower, wider, longer" profile. Known for Scandinavian materials and influences in its cars, staffers found inspiration on a different continent.

"This guy here doesn't have to do anything flamboyant to get people to understand what he's about," Ms. Johnson said, pointing to an image of a lion at a seminar about the new car last year.

ought to be introducing high-end premier accounts to the private bank," he said.

HSBC's decision follows strong results from several of Europe's largest lenders, a welcome change that shows the sector's grinding restructuring is starting to pay off. European bank shares have shot up 50% over the past year as investors bet on lenders riding a European economic recovery and a tightening of regulations, and newfound op-

timism has permeated once-gloomy bank boardrooms.

Showing that his strategy for HSBC is working is crucial to Mr. Gulliver's legacy at HSBC. The revamp he and Chairman Douglas Flint started in 2011 involved exiting dozens of businesses and swaths of the world, and marked a U-turn for HSBC after a stint of unbridled growth. Mr. Flint is leaving in September and will be succeeded by Mark Tucker, for-

mer CEO of AIA Group Ltd. Mr. Gulliver has said he would leave next year after a new CEO is named.

For the first half, revenue fell 11% to \$26.2 billion from \$29.47 billion a year ago. The bank said that after stripping out the impact of the bank's sale of its Brazil unit and other one-off factors, revenue was up 3%.

Net profit in the period was \$7 billion, up 10% from \$6.36 billion a year earlier.

**HSBC**

Continued from the prior page

"It's an obsession because we need to prove the logic of the network that comes from referrals going between the three global businesses," Mr. Gulliver said.

"Global banking and markets ought to be taking commercial clients to the high-yield bond market, and retail

## BUSINESS NEWS



TAYLOR WEIDMAN/BLOOMBERG NEWS  
Heineken and Anheuser-Busch InBev both beat earnings outlooks.

# European Sales Boost Heineken

By NICK KOSTOV

**Heineken** NV has lifted sales in Europe—but the extra beer isn't all going to drinkers' heads.

The Dutch brewer posted higher profit for the first half of 2017, fueled by strong sales in Europe—including double-digit revenue growth for non- and low-alcohol drinks there. The lift represents an early vote of confidence after an investment push into the sector by Heineken and its competitors.

Heineken joins the world's largest brewer, **Anheuser-Busch InBev** NV, in reporting better-than-expected results, thanks in part to a rebounding European beer market. Last week, AB InBev said sales grew by double digits across Western Europe—a market that has lagged in recent years amid a stop-and-start recovery after the global financial crisis.

"It was a really good performance of Europe, with the growth coming from a number of countries," Chief Financial Officer Laurence Debroux said. "It was pretty balanced."

The world's second-largest

brewer by sales said profit growth was strongest in Europe, as beer volumes rose in France, Italy, Spain and Portugal, helped by warmer weather.

Global beer sales have been hit in recent years by a shift among drinkers toward wine and spirits.

Consumers in the developed world have also pivoted to healthier drinking options, putting added strain on the market.

That has led the world's biggest brewers to invest heavily in a product that has been hit-or-miss for decades: nonalcoholic or lower-alcohol beer.

Net profit rose 49% to €871 million (\$1.02 billion) from the 2016 period when the company booked an impairment charge on its business in the Democratic Republic of Congo. Revenue rose 5.7% on an organic basis to €10.48 billion.

Consolidated beer volumes climbed 2.6% organically in the period, beating analyst expectations of a 1.7% rise.

◆ Heard: Choosing between Heineken, AB InBev ..... B8

# Sanofi's Profit Drops Amid Overhaul Costs

By NOEMIE BISSEERBE

PARIS—French drugmaker **Sanofi** said net profit fell in the second quarter as it was hit by higher restructuring costs, but the company lifted its earnings guidance for 2017.

On Monday, the Paris-based drugmaker said net profit declined 10% to €1.04 billion (\$1.22 billion) from €1.16 billion a year earlier.

Business net income, the company's term for adjusted income excluding the impact of acquisitions and divestments, increased 1% to €1.7 billion, lifted by Genzyme, Sanofi's biotech business. That beat analysts' expectations of €1.6 billion, according to a poll by data provider FactSet. Total sales rose 6% to €8.66 billion.

Sanofi said it now expects business earnings per share—

excluding the impact of acquisitions and divestments—to remain stable in 2017 at constant exchange rates. The company previously said it expected business earnings per share to be stable or decline by as much as 3% in 2017.

Sanofi has been struggling with dwindling sales of its blockbuster insulin drug Lantus since it went off patent in the U.S.

To revive growth, Sanofi has boosted its research and is seeking to acquire an innovative pharmaceutical company that could replenish its new drug pipeline. It lost out to Pfizer Inc. in a bidding war for cancer drugmaker Medivation in August. Late last year, talks with Actelion Ltd. collapsed after the French company and the Swiss biotech failed to hash out an agreement.



MELISSA SUE GORDON/WARNER BROS./ASSOCIATED PRESS  
The World War II drama 'Dunkirk' held off two new releases.

# 'Dunkirk' Retains Top Slot At U.S., Canada Theaters

BY ERICH SCHWARTZEL

A pair of new releases failed to unseat the World War II drama "Dunkirk" from its top spot at the box office this weekend.

"The Emoji Movie" and "Atomic Blonde" both arrived with decent debuts, while second-week grosses for "Dunkirk" declined 44% to an estimated \$28.1 million in the U.S. and Canada.

Director Christopher Nolan's acclaimed war drama, released by **Time Warner** Inc.'s Warner Bros., has been a hit, with \$102.8 million so far.

"The Emoji Movie," a critically panned animated movie starring the smiley faces and

icons that populate smartphones, grossed \$25.7 million in second place. That is a fine start for the film, released by **Sony Corp.**'s Sony Pictures Entertainment, considering it cost a modest \$50 million to produce.

"We're thrilled with it," said Adrian Smith, Sony's president of domestic distribution.

"Atomic Blonde," an R-rated action film starring Charlize Theron released by the Focus Features division of **Comcast Corp.**'s Universal Pictures, grossed a fair \$18.6 million in fourth place. Taking the No. 3 spot was Universal's own "Girls Trip," now the highest-grossing live-action comedy of the year, with \$65.5 million.

## ADVERTISEMENT

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#### BUSINESS OPPORTUNITY

## GOVERNMENT OF MAHARASHTRA PUBLIC WORKS DEPARTMENT

### NOTICE INVITING TENDER E-Tender Notice No. 06 For 2017-18

The Public Works Department, Government of Maharashtra, The Principle Secretary, Public Works Department (the "Authority") represented by the Executive Engineer, P.W.Division, Jalgaon is engaged in the development of highways and as part of this endeavor, the Authority has decided to undertake development and operation / maintenance of the single Project (the "Project") on (Design, Build, Operate and Transfer (the "DBOT") Hybrid Annuity basis, and has decided to carry out the bidding process for selection of a private entity as the Bidder to whom the Project may be awarded. Brief particulars of the Project are as follows:

Sr. No.	State	Dist.	Pack- age No.	Name of Project	Project Length in km)	Project Cost	Earnest Money / Bid Security	Duration Of the Project	Cost of Tender Fee Document
1)	Maharashtra	Jalgaon	NSK-47	A) Improvement of Chopda Khedi Bhokar Amoda Kanalda Jalgaon Pachora Wadi Satgaon Bharadi Road S.H.-40, CH-0/00 to 51/00 (Chopda to Jalgaon) B) Improvement of Bhikangaon Pal Khiroda Savda Amoda Road S.H.-45, CH-0/00 to 44/00(Pal to Amoda), District Jalgaon	84.65 km	₹ 190.33 Crore	₹ 1.90 Crore	18 months	₹ 50,000/- Online Payment through NEFT/ RTGS

#### E-Tender Time Table

Sr. No.	Event Description	Date
1)	Invitation of RFP (NIT) (Download period of online Tender)	Dt. 25.07.2017 at 10.00 am to Dt. 22.09.2017 at 18.00 pm
2.A)	Last date for receiving queries for Pre-Bid No.1	15.08.2017 upto 10.30 am
2.B)	Pre-Bid Meeting No.1	Online or in the office of the Chief Engineer, Public Works Region, Nashik on or before Dt. 15.08.2017 upto 11.00 am.
2.C)	Authority response to queries for Pre-Bid Meeting No.1	21.08.2017
3.A)	Last date for receiving queries for Pre-Bid No.2	05.09.2017 upto 10.00 am
3.B)	Pre-Bid Meeting No.2	Online or in the office of the Chief Engineer, Public Works Region, Nashik on or before Dt. 05.09.2017 upto 11.00 am.
3.C)	Authority response to queries for Pre-Bid Meeting No.2	11.09.2017
4)	Bid due Date (submit Hash to create online tender by Bidder) (Technical and financial Bid Last date and time)	Dt. 25.09.2017 till 18.00 pm
5)	Physical submission of Bid Security / POA etc. (as per clause 2.11.2 of RFP)	Till 11.00 am on 29.09.2017 in the office of Superintending Engineer, Public Works Circle, Jalgaon.
6)	Opening of Technical Bids.	at 11.30 am on 29.09.2017 office of Superintending Engineer, Public Works Circle, Jalgaon.

#### Note:-

1. The payment towards the cost of Tender forms will be done online only through RTGS / NEFT. It should be noted that one should complete these activities at least one day in advance.
2. All eligible / interested Bidders who want to participate in tendering process should compulsorily get enrolled on e-tendering portal "<http://mahatenders.in>"
3. Contact below for difficulties in online submission of tenders:- (NIC Toll Free Ph. No. 1800 3070 2232)
4. Bid submitted through any other mode shall not be entertained. However, Bid Security, proof of online payment of cost of bid document, Power of Attorney and joint bidding agreement etc. As specified in Clause 2.11.2 of the RFP shall be submitted physically by the Bidder on or before Dt. 29.09.2017 upto 11.00am.
5. Other terms and Conditions are detailed in online e-tender form. Right to reject any or all online bid of work, without assigning any reasons thereof, is reserved with department.
6. Short Tender Notice is displayed on Public Work Department (PWD) website [www.mahapwd.com](http://www.mahapwd.com)

Executive Engineer,  
DGIPR. 2017-2018/1761

Public Work Division, Jalgaon

## Municipal Corporation Of Greater Mumbai

### No. Ch.E/B.M/9128/II Dtd.25.07.2017

#### Short E-Tender Notice

Department	Ch.E. (Building Maintenance )
Sub-Department	Dy. Ch.E. (Building Maintenance) City
Tender No.	Part 'A':- % rate basis: 7100101828 Part 'B':- Item rate basis: 7100101829
Subject	E-Tender Notice for the work of "Construction of Exhibits for Wolf, Sloth Bear, Jackal, Otter, Madras Pond Turtle, Hyena, Cat complex, Leopard, Bird Aviary-I & Reptile house in V.J.B Udyan-Zoo, Byculla (E Ward), Mumbai."
Total Estimated Cost	Rs. 62,91,68,465/-
E.M.D.	Part 'A':- % rate basis: Rs. 26,31,618/- Part 'B':- Item rate basis: Rs. 36,60,067/-
Tender -Sale	27.07.2017 from 11.00 am to 18.08.2017 upto 12.00 pm
Pre-Bid Meeting Date & Venue	03.08.2017 @12.00 noon Office of AMC (City), Brihan Mumbai Mahanagarpalika, 2nd floor, Head office Extension building, Mahapalika Marg, Mumbai-400001.
Website	<a href="http://portal.mcgm.gov.in">http://portal.mcgm.gov.in</a>
Concern Person	Sub Engineer - (B.M) City-E
Name	Uday D. Kachare
Telephone No.	8450960261
Email-Id	se01.pd@mcgm.gov.in
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#### BUSINESS OPPORTUNITY

## GOVERNMENT OF MAHARASHTRA PUBLIC WORKS DIVISION, SANGAMNER

### Notice For Hybrid Annuity (Online) Tender E-Tender Notice No. 06 For 2017-18

The Public Works Department, Government of Maharashtra, represented by the Executive Engineer, P.W.Division, Sangamner (the "Authority") is engaged in the development of highways and as part of this endeavor, the Authority has decided to undertake development and operation / maintenance of the one Project (the "Project") on (Design, Build, Operate and Transfer (the "DBOT") Hybrid Annuity basis, and has decided to carry out the bidding process for selection of a private entity as the Bidder to whom the Project may be awarded.

Brief particulars of the Project are as follows:

Sr. No.	State	Dist.	Pack- age No.	Name of Project	Project Length in km)	Project Cost	Earnest Money / Bid Security	Duration Of the Project	Cost of Tender Fee Document
1)	Maharashtra	Ahmednagar	NSK-51	A) Improvement to District border Rajur SH-23 and Rajur Akole Sangamner SH-50 Km 205/ 380 to 233/880 and 50/200 to 89/300 Dist. Ahmednagar in the state of Maharashtra	67.60 km	₹ 134.53 Crore	₹ 2.23 Crore	18 months	₹ 50,000/- Online Payment through NEFT/ RTGS
				B) Improvement to SH-50 to Nandur Shingote Lon Kolhar Road to SH 165 Road SH 31 Km 0/000 to 48/ 700 in the State of Maharashtra	48.70 km	₹ 88.66 Crore	₹ 1.72 Crore		
				Total					

## TECHNOLOGY

WSJ.com/Tech

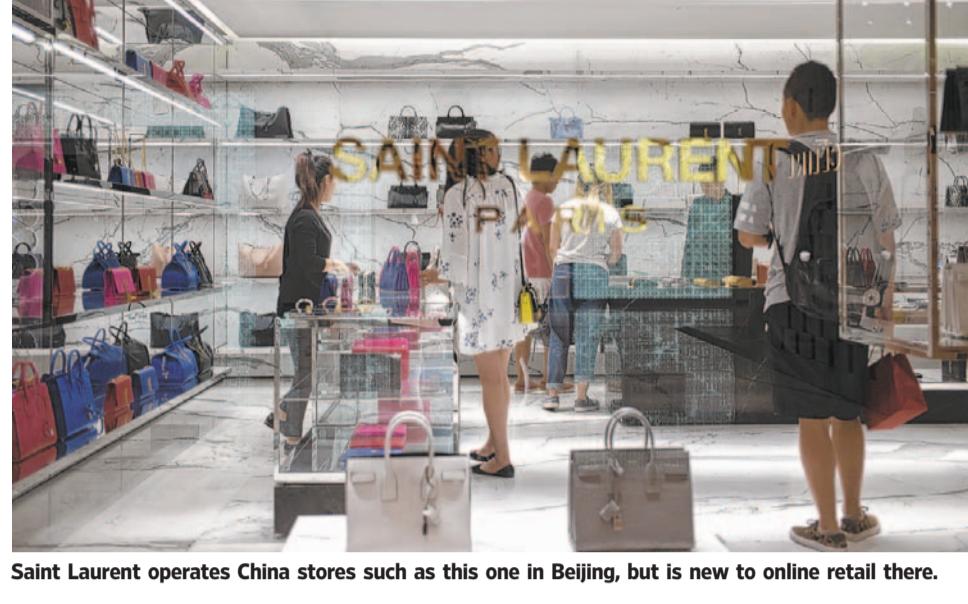
# Saint Laurent in China E-Retail

By MATTHEW DALTON

PARIS—French fashion house Saint Laurent is launching online sales in China, a significant step in the storied brand's efforts to expand in China's rapidly growing domestic market.

Saint Laurent Chief Executive Francesca Bellettini said the brand is teaming up with online fashion retailer Farfetch to sell over the internet in China. The brand will sell merchandise on a new online platform recently announced by Farfetch in a joint venture with JD.com, China's second-biggest e-commerce company.

The announcement marks a cautious foray into China's free-wheeling internet market by one of the most elite brands in fashion. Until relatively recently, luxury-products companies had been reluctant to sell over the internet in China because of concerns that China's main online retailers, JD.com and Alibaba Group Holding Ltd., run marketplaces that are riddled with counterfeit goods. Only a few luxury brands have the size to attempt online sales in



Saint Laurent operates China stores such as this one in Beijing, but is new to online retail there.

consumers, who account for 30% of global luxury spending, are increasingly shopping at home—partly the result of efforts by Beijing to block Chinese tourists from bringing expensive merchandise back from abroad.

That means selling to the Chinese consumer in China has become important to the luxury industry's growth.

Ms. Bellettini said Saint Laurent's sales to Chinese consumers have surged in recent years despite a slowdown in the global luxury market. Kering Co., which owns Saint Laurent, Gucci and other brands, last week reported that sales rose "sharply" across Asia, "particularly in mainland China."

"There is this population of millennial Chinese, very well educated, in particular Chinese university students, that are incredibly literate with the brand," she said.

Saint Laurent is pledging same-day delivery in Beijing, Shanghai and Hong Kong. Starting in October, the brand aims to offer delivery within 90 minutes in each of those three cities.

China without teaming up with either e-commerce giant.

But Farfetch's partnership with JD.com helped ease concerns about knockoffs, Saint Laurent said.

"Protecting the brand from counterfeiting is fundamental for Saint Laurent," Ms. Bellettini said in an interview, adding that the agreement with Farfetch would "guarantee to

our clients secured purchases in addition to a very efficient service."

Alibaba has recently drawn more concern from Western brands and authorities about counterfeits than JD.com. The U.S. government last year placed Taobao.com, Alibaba's flea-market-like website, on its Notorious Markets List, published annually to highlight

websites where U.S. authorities allege knockoffs are sold frequently.

Alibaba says the listing doesn't reflect its efforts to root out counterfeits.

The importance of the Chinese domestic market is overcoming the industry's concerns about relinquishing some control over physical distribution there. Chinese

## Former Obama Adviser Joins Lyft as a Director

By GREG BENINGER

Ride-hailing startup Lyft Inc. is adding its first independent board member, Valerie Jarrett, a former top adviser of President Barack Obama.

The appointment, effective Monday, brings Lyft's board to nine directors, who are mostly investors, but also include co-founders Logan Green and John Zimmer. Mr. Green is chief executive and Mr. Zimmer is president.

Ms. Jarrett, 60 years old, was one of Mr. Obama's closest confidantes and served in several roles during his eight-year administration, including as an assistant for intergovernmental affairs and in the Office of Urban Affairs. She joined the board of money-management firm Ariel Investments in March.

Lyft's move comes as rival Uber Technologies Inc.'s board faces pressure to diversify its ranks after a workplace investigation conducted by the law firm of former U.S. Attorney General Eric Holder in part called for the company to add new independent directors, including at the chairman

level. It recently named Wan Ling Martello, a Nestlé SA executive, as an independent director. Uber is scrambling to fill several top executive roles, including a new CEO and chiefs of operations, finance and marketing.

Ms. Jarrett is the second woman on Lyft's board, alongside Ann Miura-Ko, a partner at venture-capital firm Floodgate. The board includes Andreessen Horowitz's Ben Horowitz; Icahn Capital's Jonathan Christodoro; Rakuten Inc. CEO Hiroshi Mikitani; former Trulia Inc.

CFO Sean Aggarwal; and General Motors Co. President Dan Ammann. GM invested about \$500 million in Lyft last year and is working with the San Francisco company on developing self-driving vehicles.

Uber also has two female board directors on its eight-member board, including media magnate Arianna Huffington, herself an investor.

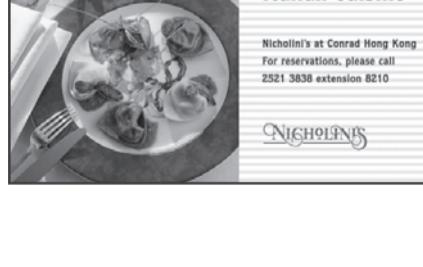


Valerie Jarrett will be the firm's first independent board member.

BRYAN BEDDER/GETTY IMAGES FOR TOWN & COUNTRY

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## Snapdeal Abandons Deal Talks

By NEWLEY PURNELL

NEW DELHI—SoftBank Corp.'s attempt to merge India's two biggest homegrown e-commerce companies to compete with Amazon.com here hit a roadblock.

For months the Japanese conglomerate has been pressing Snapdeal.com, in which it owns a stake, to combine with market leader Flipkart Ltd., according to people familiar with the matter. But Snapdeal said Monday it is calling off the talks.

"Snapdeal has been exploring strategic options over the last several months," the firm said in a statement. "The Company has now decided to pursue an independent path and is terminating all strategic discussions as a result."

SoftBank said it respects Snapdeal's decision and looks forward to "remaining invested in the vibrant Indian e-commerce space."

A Flipkart spokesman declined to comment.

Snapdeal last week sold its digital-payments platform FreeCharge to India's Axis Bank Ltd. for around \$60 million. The infusion of funds means Snapdeal should become cash-flow positive soon, said a person familiar with the matter.

Analysts say Bangalore-based Flipkart leads India in online sales, but both it and New Delhi-based Snapdeal have been losing ground to Amazon, which has grown quickly since arriving in India in 2014 armed with slick advertising and technological know-how.

SoftBank, which in 2014 invested \$627 million in Snapdeal, in May launched the world's biggest technology fund, a nearly \$100 billion vehicle to invest in emerging fields and promising markets.

—Mayumi Negishi contributed to this article.

## FUND

Continued from page B1  
for interfering with market forces, Beijing is shifting from government subsidies to investment funds that it says operate on market principles.

The Big Fund is an experiment to try to invest government funds more efficiently, said Wei Shaojun, a government adviser and head of Tsinghua University's microelectronics department.

But the line between government officials and private-sector executives in China is hazy. Many executives of the chip fund, including its head Ding Wenwu and Mr. Wei, are former officials of China's technology ministry. Mr. Wei said the fund aims to generate returns for investors, which are primarily departments of China's central government.

"State-owned investors are the majority, there's no way around it," Mr. Wei said. "But when I sit here, I'm no longer a government employee, I'm a company executive. My interests are tied to the business performance of this company."

The fund had pledged 59% of the total \$20 billion by the end of 2016 and will complete investments by 2019, Mr. Wei said. It will seek to recoup its

investments in 2024, although fund shareholders can vote to give projects a five-year extension, he said.

The national fund has played a pivotal role in shaping China's chip industry over the past three years. Most of the country's key chip projects count it as a financier.

The fund also brokered an important merger last year, resulting in a domestic company that China hopes can become competitive in capital-inten-

it, we have a greater chance of success for China memory chips," Mr. Wei said.

Mr. Wei said the Big Fund co-invested with Intel in China's top chip designer Spreadtrum—owned by Tsinghua Unigroup—and with Qualcomm on a joint venture with China's largest chip manufacturer SMIC and a chip packaging factory in Jiangsu province.

Intel didn't comment on its \$1.5 billion investment, other than to say that "Intel has a long and successful history of growing its business in China in a responsible manner that complies with applicable U.S. national-security controls." Qualcomm declined to comment on the joint venture.

The fund's executives agree with Western critics that overcapacity is a danger of China's chip drive, Mr. Wei said. But he sees it as a problem caused by provinces across China trying to jump on the bandwagon with their own funds and chip projects. He says he is doing his best to keep such funds in check.

"This industry requires companies to have large scale to survive," he said. "Small companies will surely die, so there's no use investing in a lot of small companies."

—Bob Davis contributed to this article.



## FINANCE & MARKETS

# Issuers' Losses on Credit Cards Mount

Charge-offs hit a four-year high as consumer balances rise, leading to greater provisions

BY ANNAMARIA ANDRIOTIS

Credit-card losses are increasing, a reversal from a six-year trend that could be a warning sign for markets and the broader economy.

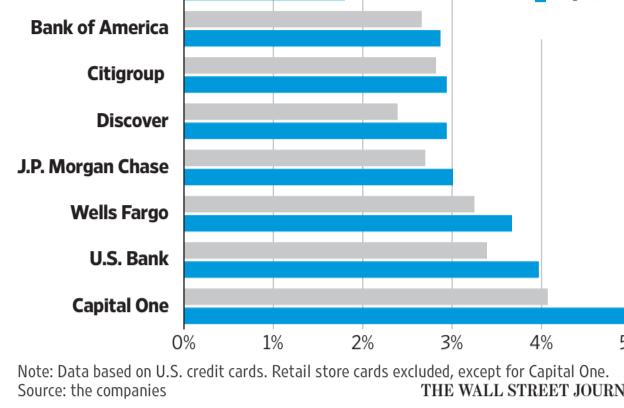
The average net charge-off rate for large U.S. card issuers—the percentage of outstanding debt that issuers write off as a loss—increased to 3.29% in the second quarter, its highest level in four years, according to **Fitch Ratings**. The quarter was also the fifth consecutive period of year-over-year increases in the closely watched rate. All eight large issuers, including J.P. Morgan Chase & Co., **Citigroup Inc.**, **Capital One Financial Corp.** and **Discover Financial Services**, had increases for the quarter.

The trend, which accelerated in the first half of this year, has started to suppress bank earnings. If consumers' budgets get more stretched, a pullback in spending could put pressure on both growth and corporate profits.

While losses are rising, they remain low compared with historical levels and the 10% net charge-off rate they hit in early 2010. Lenders say they aren't expecting a return to crisis-level losses and that the increases are largely a return to normal after a period of ab-

### Taking a Loss

Net charge-off rates



Note: Data based on U.S. credit cards. Retail store cards excluded, except for Capital One.  
Source: the companies

THE WALL STREET JOURNAL.

normal lows.

Still, other bankers have noted the change in direction, a new string of losses in the industry after 24 quarters in which they fell. "The overall environment is deteriorating," said David Nelms, chief executive at Discover in an interview. It is "not quite as favorable as it was over the past few years."

In 2010, when credit-card write-offs started declining, banks lent mostly to credit-worthy borrowers. But starting around 2014, many lenders loosened underwriting standards substantially, turning to subprime borrowers with lower credit scores who brought in higher yields.

That contributed to a new boom in credit-card spending. Card balances nationwide rose 6% over the past 12 months through May, a growth rate

that is up from about 1% four years ago, according to the **Federal Reserve**.

Rising balances, however, have also coincided with the recent loan losses and, analysts note, put a dent in what has been one of the healthiest credit-card markets on record.

The missed payments and increase in losses are having knock-on effects on lenders' earnings. Many posted double-digit-percentage year-over-year increases in the money they set aside to cover future card losses.

Discover shares dropped 4% on Thursday, the day after the company reported that it increased loan-loss provisions by 55% and raised guidance for its 2017 overall net charge-off rate. It is "hard in the short term to grow earnings when credit is moving against us," Mr. Nelms said.



the year prior. Citigroup's store-card figure increased 0.63 percentage point, while Synchrony's overall rate rose more than 0.90 percentage point.

Broader consumer figures also point to overleveraging. Nonmortgage consumer debt payments, including credit cards and auto loans, account for the largest share of consumers' after-tax income since 2009, according to an analysis by Barclays PLC.

So far this year, several card lenders, including Capital One and Synchrony, have raised projections for charge-offs. Investors are jittery about more revisions.

Alliance Data Systems Corp., the third-largest issuer of store cards by outstanding balances, had been guiding investors to a full-year 2017 loss rate in the mid-5% range. In July, though, it wouldn't commit to that figure when pressed by analysts on its earnings call.

The company also reported a net charge-off rate for cards of 6.2% for the second quarter, up 1.1 percentage points from a year earlier. Its shares plummeted more than 9% that day.

Credit cards also moved to the top of the list of concerns about potential losses in the Federal Reserve's annual stress test of banks in June. The central bank said lenders would incur \$100 billion in projected credit-card losses in a severely adverse hypothetical recession, tied with commercial and industrial loans. Cards ranked third the year before.

Lenders said they don't expect a return to crisis-level losses.

The rising losses are occurring during a time of near record-low U.S. unemployment, which suggests that credit performance could quickly weaken should the jobs situation turn.

"That's a little concerning," said Michael Taiano, a director at Fitch.

During the first-quarter earnings period, some lenders and analysts pointed to delays in tax refunds as a possible reason for the pickup in card-related losses. But this quarter, charge-offs kept rising for many lenders, fortifying worries that consumers are taking on too much debt.

The card market is an indicator of consumers' ability to pay back their debts. Unlike mortgages, a much broader

group of consumers have access to cards. And these accounts can fall low on the priority list of bill payments when household finances are tight.

While overall consumer balance sheets look healthy, according to Federal Reserve data, some numbers suggest they are starting to stretch.

Balances are growing faster than purchases charged to retail-store cards from Synchrony Financial and Citigroup Inc.

Card losses in the U.S. are up at most big banks, including those that specialize in subprime lending or store credit cards. The net charge-off rate at Capital One in the second quarter increased more than a percentage point from



Starting Tuesday, bitcoin will compete with a new virtual currency: Bitcoin Cash.

# Civil War in Bitcoin Land

BY PAUL VIGNA

This week, after years of industry infighting, the digital currency bitcoin is set to get a new competitor: itself.

A splinter group of bitcoin developers is launching a version of the currency with a different configuration, the latest twist in a quarrel for control over the network that controls bitcoin's trading.

But the new experiment, known as Bitcoin Cash, is causing confusion as exchanges and brokerages scramble to deal with the new currency.

The new bitcoin is slated to be launched Tuesday, a retaliation against a somewhat controversial July agreement in the industry that concerned expanding the bitcoin trading network. As a result, there will now be two competing versions of bitcoin, both vying for the support of investors, developers and miners. Miners are companies and individuals that process bitcoin transactions.

While bitcoin is known as a currency, its core is software, an open-source project initially supported by volunteers and technology enthusiasts. Because the software is open-source, anybody can copy it and release their own version.

The prospects for the new bitcoin are uncertain, and it isn't clear who exactly is behind it. A website for Bitcoin Cash says it is backed by a "group of miners, developers, investors, and bitcoin users" who previously were pushing for a split before the July compromise.

One large mining-equipment company, Bitmain, based in Beijing, was spearheading the split effort. The firm is still supporting the July compromise but said it did "not rule out" supporting Bitcoin

Cash, assuming it survives. Additionally, Roger Ver, a prominent bitcoin investor, has been publicly supporting Bitcoin Cash.

Mr. Ver said he didn't know about Bitcoin Cash until it was announced July 22, but is enthusiastic about its prospects. "I think it fits the original vision of bitcoin," he said.

One exchange, China-based ViaBTC, which is partially owned by Bitmain, is already allowing users to trade Bitcoin Cash in accounts that would be redeemable once the currency goes live.

In very illiquid trading—fewer than 1,900 bitcoins over 24 hours—the price of Bitcoin Cash was at 0.0951 bitcoin, or about \$266, on Monday morning. Bitcoin was trading at \$2,801.

It is unclear what volume and prices will look like once live trading begins on Tuesday.

In the meantime, bitcoin exchanges are scrambling to figure how they will either support Bitcoin Cash or won't, and protect their customer accounts at the same time.

On Thursday, the U.S. exchange Coinbase said in a statement that it wouldn't support Bitcoin Cash, on the reasoning that it wasn't clear how long the rebel currency would last and what market value it would have. It advised customers who wanted to access Bitcoin Cash to withdraw their bitcoin before July 31.

Another exchange, San Francisco-based Kraken, conditionally said it would support Bitcoin Cash trading, assuming it was successfully launched, and would credit its customer accounts with an equal amount of Bitcoin Cash.

"I think the idea is ill-advised," said Eric Lombrozo, a bitcoin developer and co-CEO of startup Ciphrex, "but do not wish them ill."

the public. It will be an almost identical copy, and anyone who has a bitcoin balance can automatically hold the exact same amount of Bitcoin Cash. The balances from the original to the new version will be copied on a 1:1 basis as of Aug. 1.

Whether or not users get access to the new coin depends. If a user has control over their "wallet," or online account, they can spend their existing balance anywhere either currency is accepted.

Some wallet services, such as Coinbase, act as a custodian for users, meaning the decision on whether an existing balance could be spent on Bitcoin Cash is up to the company.

Whether this new money retains any value or collapses will depend upon whether exchanges support it, and users adopt it. If they don't, it could die quickly.

The main difference between bitcoin and Bitcoin Cash is how fast it trades and how many trades can happen in a short amount of time.

On bitcoin, transactions are bundled into blocks that are limited to one megabyte in size, which means the network can process about seven transactions per second.

Bitcoin Cash will have an eight megabyte maximum. It is an arcane coding issue, but it is the source of a major rift in the industry. On one side: developers who want to expand the system to compete against major payment companies. On the other: miners who prefer the status quo and fear big technology companies could be too dominant if speed and large trades take over.

"I think the idea is ill-advised," said Eric Lombrozo, a bitcoin developer and co-CEO of startup Ciphrex, "but do not wish them ill."

# Heat on Venezuela Debt

BY JULIE WERNAU  
AND CAROLYN CUI

Venezuelan bonds were under pressure as investors awaited word on U.S. sanctions that could affect one of the South American nation's most crucial sources of revenue: oil sales to the U.S.

Prices for government bonds due in 2038 were down 1.7% Monday and have fallen 9.2% this month. State-owned oil producer **Petróleos de Venezuela SA**'s bonds due in November were flat in New York trading Monday, but have tumbled 13.5% this month, according to Thomson Reuters data.

Following an election Sunday spearheaded by President Nicolás Maduro that will give his administration broad powers to redraft the constitution, U.S. government officials were considering stepping up sanctions against Venezuela that could target its oil industry by making it more difficult for Venezuela to import refined

products from the U.S., which it uses to dilute its extra heavy oil to make it suitable for export.

Investors and analysts are increasingly worried about whether Venezuela will be able to make a total \$725 million in debt payments over the coming month amid the country's political and humanitarian crisis.

Last week, the U.S. levied sanctions on 13 high-ranking officials in the Venezuelan government, a move that was quickly complemented by actions by Colombia, Panama and Mexico.

A ban on Venezuelan crude imports, which is regarded as one of the boldest options, would essentially cut off the country's largest source of dollar revenue. About 95% of Venezuela's export revenue comes from the oil sector, according to S&P Global Ratings. In 2016, Venezuela derived \$10.5 billion from its crude exports to the U.S., or \$28.7 million a day, according to Stuart

Culverhouse, chief economist at **Exotix Partners**, a U.K.-based investment bank.

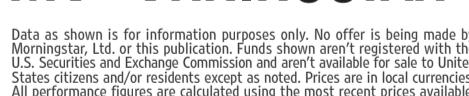
"I know that the U.S. doesn't want to take a draconian approach because there would be economic and political implications," said Siobhan Morden, head of Latin America fixed-income strategy at **Nomura Securities International**. "But some of these intermediate steps—we wonder about sanctions on particular transactions. Would those impair secondary bond trading? New issuances? It's a learning curve for everyone to understand this incremental sanctions policy."

The country appears to have little room to maneuver if it loses export revenue. Its international reserves briefly dipped below \$10 billion in recent days, the lowest in 15 years, according to Venezuela's central bank.

S&P analysts estimated that only about \$3 billion of the reserves was liquid, with the rest in gold.



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THE WALL STREET JOURNAL.

## MARKETS DIGEST

### Nikkei 225 Index

**19925.18** ▼34.66, or 0.17%

High, low, open and close for each trading day of the past three months.

Year-to-date  
52-wk high/low  
All-time high

20230.41 16083.11  
38915.87 12/29/89

### STOXX 600 Index

**377.85** ▼0.49, or 0.13%

High, low, open and close for each trading day of the past three months.

Year-to-date  
52-wk high/low  
All-time high

396.45 328.80  
414.06 4/15/15

### S&P 500 Index

Data as of 12 p.m. New York time

Last 2472.03

Year ago 25.03

Trailing P/E ratio 23.94

P/E estimate \* 18.94

Dividend yield 1.97

2.11

All-time high: 2477.83, 07/26/17

Bars measure the point change from session's open

Apr. May June July

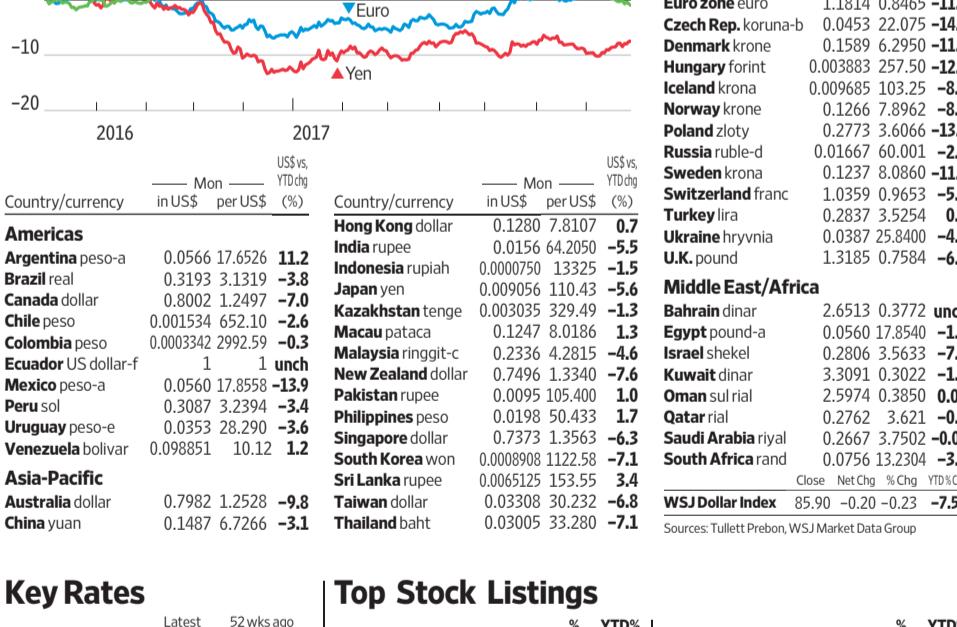
### International Stock Indexes

Region/Country	Index	Data as of 12 p.m. New York time					
		Close	NetChg	% chg	52-Week Range	YTD High	% chg
<b>World</b>	<b>The Global Dow</b>	2856.27	8.05	0.28	2384.24	2865.60	13.0
	<b>MSCI EAFE</b>	1939.15	7.42	0.38	1612.29	1952.28	13.0
	<b>MSCI EM USD</b>	1064.94	1.97	0.19	838.96	1067.89	34.1
<b>Americas</b>	<b>DJ Americas</b>	594.90	-0.43	-0.07	503.44	597.92	10.1
Brazil	<b>Sao Paulo Bovespa</b>	65742.51	245.38	0.37	55695.52	69487.58	9.2
Canada	<b>S&amp;P/TSX Comp</b>	15148.64	19.99	0.13	14319.11	15943.09	-0.9
Mexico	<b>IPC All-Share</b>	51057.42	-156.18	-0.30	43998.98	51772.37	11.9
Chile	<b>Santiago IPSA</b>	3837.94	-18.67	-0.48	3120.87	3861.48	19.1
<b>U.S.</b>	<b>DJIA</b>	21909.68	79.37	0.36	17883.56	21916.67	10.9
	<b>Nasdaq Composite</b>	6354.03	-20.64	-0.32	5034.41	6460.84	18.0
	<b>S&amp;P 500</b>	2472.03	-0.07	-0.003	2083.79	2484.04	10.4
	<b>CBOE Volatility</b>	10.55	0.26	2.53	8.84	23.01	-24.9
<b>EMEA</b>	<b>Stoxx Europe 600</b>	377.85	-0.49	-0.13	328.80	396.45	4.5
	<b>Stoxx Europe 50</b>	3082.91	-3.84	-0.12	2720.66	3279.71	2.4
France	<b>CAC 40</b>	5093.77	-37.62	-0.73	4293.34	5442.10	4.8
Germany	<b>DAX</b>	12118.25	-44.45	-0.37	10092.53	12951.54	5.5
Israel	<b>Tel Aviv</b>	1447.14	-2.48	-0.17	1372.23	1490.23	-1.6
Italy	<b>FTSE MIB</b>	21486.91	56.55	0.26	15923.11	21828.77	11.7
Netherlands	<b>AEX</b>	525.44	-0.09	-0.02	436.28	537.84	8.7
Russia	<b>RTS Index</b>	1007.14	-7.30	-0.72	898.05	1196.99	-12.6
Spain	<b>IBEX 35</b>	10502.20	-33.90	-0.32	8229.40	11184.40	12.3
Switzerland	<b>Swiss Market</b>	9055.00	35.69	0.40	7585.56	9148.61	10.2
South Africa	<b>Johannesburg All Share</b>	55207.41	324.20	0.59	48935.90	55366.74	9.0
Turkey	<b>BIST 100</b>	107531.44	-168.28	-0.16	71792.96	108605.51	37.6
U.K.	<b>FTSE 100</b>	7372.00	3.63	0.05	6615.83	7598.99	3.2
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1680.48	5.72	0.34	1405.52	1691.23	18.1
Australia	<b>S&amp;P/ASX 200</b>	5720.60	17.80	0.31	5156.60	5956.50	1.0
China	<b>Shanghai Composite</b>	3273.03	19.79	0.61	2953.39	3288.97	5.5
Hong Kong	<b>Hang Seng</b>	27323.99	344.60	1.28	21574.76	27323.99	24.2
India	<b>S&amp;P BSE Sensex</b>	32514.94	205.06	0.63	25765.14	32514.94	22.1
Indonesia	<b>Jakarta Composite</b>	5840.94	9.91	0.17	5027.70	5910.24	10.3
Japan	<b>Nikkei Stock Avg</b>	19925.18	-34.66	-0.17	16083.11	20230.41	4.2
Malaysia	<b>Kuala Lumpur Composite</b>	1760.03	-7.05	-0.40	1616.64	1792.35	7.2
New Zealand	<b>S&amp;P/NZX 50</b>	7693.99	54.48	0.71	6664.21	7732.75	11.8
Pakistan	<b>KSE 100</b>	46010.45	98.42	0.21	39278.11	52876.46	-3.8
Philippines	<b>PSEI</b>	8018.05	-53.42	-0.66	6563.67	8071.47	17.2
Singapore	<b>Straits Times</b>	3329.52	-1.23	-0.04	2787.27	3354.71	15.6
South Korea	<b>Kospi</b>	2402.71	1.72	0.07	1958.38	2451.53	18.6
Taiwan	<b>Weighted</b>	10427.33	4.28	0.04	8902.30	10513.96	12.7
Thailand	<b>SET</b>	1576.08	-4.98	-0.31	1406.18	1591.00	2.1

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



### Key Rates

Latest 52 wks ago

Liber

One month 1.23167%

Three month 1.31056%

Six month 1.45500%

One year 1.72733%

Euro Libor

One month -0.39786%

Three month -0.37729%

Six month -0.29900%

One year -0.18671%

Euribor

One month -0.37000%

Three month -0.33000%

Six month -0.27100%

One year -0.15100%

Yen Libor

One month -0.03443%

Three month -0.01579%

Six month 0.00886%

One year 0.11143%

Offer Bid

Eurodollars

One month 1.33000%

Three month 1.39000%

Six month 1.50000%

One year 1.82000%

Latest 52 wks ago

Prime rates

U.S. 4.25%

Canada 2.95%

Japan 1.475%

Hong Kong 5.00%

Policy rates

ECB 0.00%

Britain 0.25%

Switzerland 0.50%

Australia 1.50%

U.S. discount 1.75%

Fed-funds target 1.00-1.25%

Call money 3.00%

2.25%

Oversight repurchase rates

U.S. 1.20%

0.52%

Euro zone n.a.

n.a.

HKS SunHingKaiPrp 0016

121.00 -0.33 -0.27

## FINANCE & MARKETS

# Beijing Lifts Metals Prices

Renewed vows by Beijing to slash steel-production capacity triggered a big rally in Chinese metals futures Monday, again highlighting the government's ability to move markets—but also raising concern that prices have risen too far.

Steel rebar and iron ore led the gains after Premier Li Keqiang over the weekend called for further efforts to cut overcapacity in steel production.

Iron ore—a key raw material for steel—rose strongly at the open and steadily climbed from there, hitting the 8% daily limit for gains or declines by late morning. Prices held for the rest of the session on the Dalian Commodity Exchange, putting them at a four-month high of 570.5 yuan (\$84.66) a metric ton. In Shanghai, benchmark futures for steel reinforcing bars rose to 3,733 yuan, a 3½-year high, up 4.7% on the day. The gain left the price 27% higher than the low point in June.

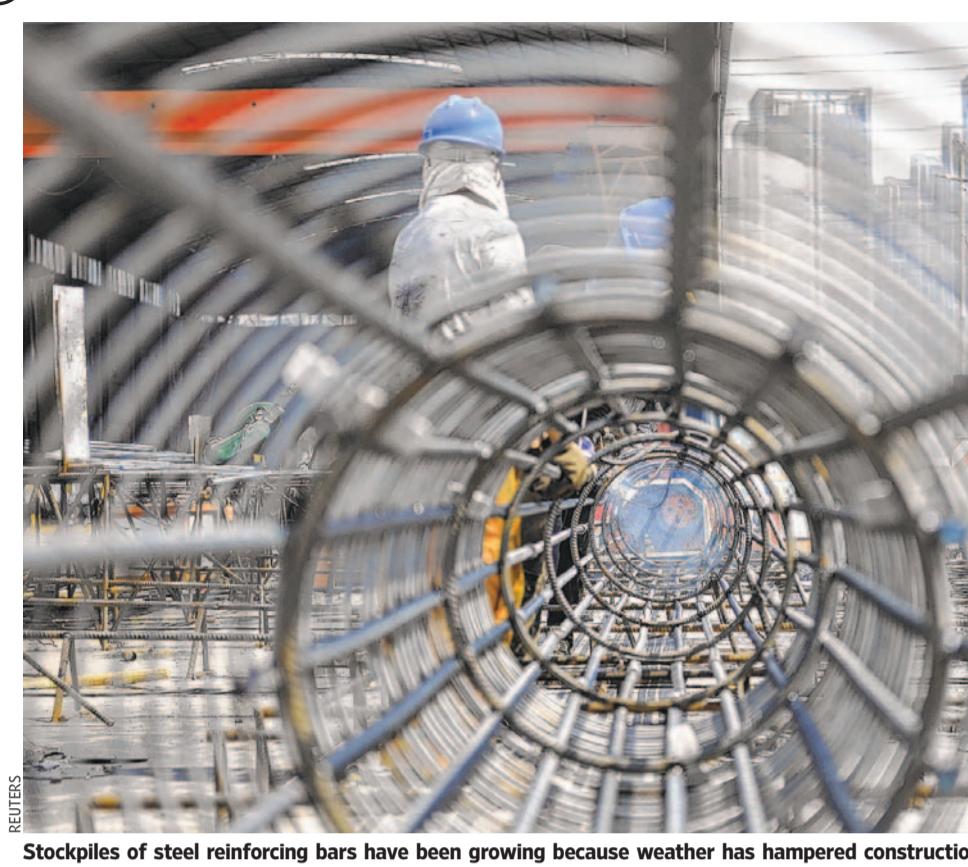
"The market is in a hyper-excited state since funds tend to flood in the moment any policies on capacity cuts" are released, said Fan Qingtian, an analyst at Nanhai Futures Co. "It's pretty crazy."

Beijing has repeatedly warned against illegal steel production, which has picked up of late as steel prices have risen.

China first pledged "supply-side reforms" for its steel and coal sectors—reducing excessive production capacity that had long plagued the industries—in January 2016. Capacity was cut by 6% and 8%, respectively, last year.

This year, at least two-thirds of the reductions targeted for 2017 had taken place by May. In the first half of the year, the government said, some 120 million tons of low-grade steel capacity, targeted because of the pollution it causes, was eliminated. That amounted to 11% of the country's steel capacity and 15% of annual output.

But two mills in Tianjin and Hunan that had been ordered

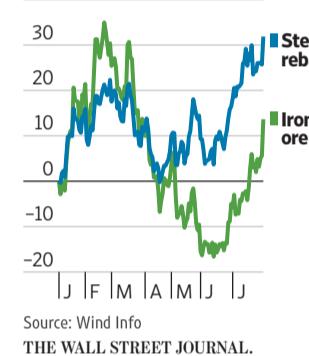


REUTERS  
Stockpiles of steel reinforcing bars have been growing because weather has hampered construction.

### Wild Ride

Chinese metals' 2017 roller coaster is now going uphill.

#### Year-to-date price performance



pacity-cutting efforts to prevent shutdowns in production from flaring up again," said Mr. Li on Saturday, according to the official Xinhua News Agency.

However, the bulk of the capacity set for cutting was never in actual production, analysts say, and a large portion of the illegal high-pollution low-grade capacity that was eliminated has been replaced by legal capacity.

Still, the clampdown is expected to significantly improve the profitability of China's debt-laden mills. Xinhua recently said that midyear reports from 21 of 24 listed steel companies are projected to show higher earnings than a year earlier.

Mr. Li's comments came ahead of the release of the purchasing managers' index for July, which contained figures considered positive for the steel industry.

Though steel demand has

supported the latest jump in iron-ore and steel-rebar prices, speculative fervor is also at work, said S&P Global Platts analyst Hongmei Li: "People are looking at steel and iron-ore futures to gamble."

Demand is projected to cool for the rest of 2017, analysts say, especially in residential construction. And steel-rebar stockpiles have been growing since June as weather delayed construction, according to Soochow Futures Co.

ANZ Bank analyst Daniel Hynes warned about a rerun of the market cycle seen earlier this year: After charging higher to start 2017, iron ore fell as much as 38% and steel rebar lost 17%. High output should worsen the iron-ore oversupply into the end of 2017, according to He Ming of the consultancy Wood Mackenzie.

—Yifan Xie  
and Biman Mukherji

# Hang Seng Rises For a 7th Month

By RIVA GOLD

Asian stock markets climbed, buoyed by gains in commodity prices, concluding a strong month for most major indexes in the region.

### MONDAY'S MARKETS

Hong Kong's Hang Seng Index closed up 1.3%, ending the month with a surge of 6.05%. The index hasn't logged a monthly decline this year, its longest winning streak since 2007.

The Shanghai Composite rose 0.6%, for a 2.5% monthly gain, while South Korea's Kospi edged up 0.1%, rising 0.5% over the course of July. Australia's S&P/ASX 200 index rose 0.3% Monday, with miners BHP Billiton and Rio Tinto up by than 2% as investors responded to a jump in Chinese iron-ore futures, but the market benchmark ended the month with a marginal loss.

Japan's Nikkei Stock Average fell 0.2% Monday, marking a monthly loss of 0.5%. Weakness in the dollar versus the yen at the end of last week—a headwind for exporters—weighed on the market. **Hitachi** and **Kyocera** reported strong earnings growth, boosting their stocks to their highest levels in two years.

Kyocera rose 3.25% and **Hitachi** gained 5.3%.

HSBC Holdings climbed 1.8% in London after the global lender beat profit forecasts and announced plans for a \$2 billion share buyback.

"It's one of those key stocks that benefits from Asian growth and global growth, and we're seeing a lot of that" said Gautam Batra, head of investments at **Mediolanum Asset Management**.

Corporate earnings reports were broadly been supportive of stock markets in July, particularly in the U.S. More than 73% of S&P 500 companies have beat analysts' estimates for second-quarter earnings so far, with the same percentage also beating forecasts for revenue, according to FactSet.

"That's surprising for many people," said John Manley, chief equity strategist at **Wells Fargo Funds Management**. "People thought profits couldn't go higher and they're being proved wrong."

The Dow industrials gained 78 points, or 0.4%, to 21908 around midday in New York. The S&P 500 was little changed, and the Nasdaq Composite slipped 0.4%.

—Kenan Machado, Biman Mukherji and Grace Zhu contributed to this article.



AKIO KON/BLOOMBERG NEWS  
Kyocera products on display in 2015. The stock rose 3.25%.

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# MARKETS

THE DAILY SHOT By Lev Borodovsky and Colin Barr

## Why the Consumer Keeps Chugging Along

Questions about the health of the U.S. consumer have ticked up in recent weeks, with another tepid GDP reading on Friday and earnings reports from major credit-card lenders showing rising delinquencies. For some investors, those signals amplified concerns about the spending outlook at a time of soft wage growth, stalling car sales and a growing overhang of auto and student-loan debt.

But some key measures of consumer health show why many investors remain upbeat: Consumer leverage and monthly obligations remain far below the levels they reached on the eve of the Great Recession.

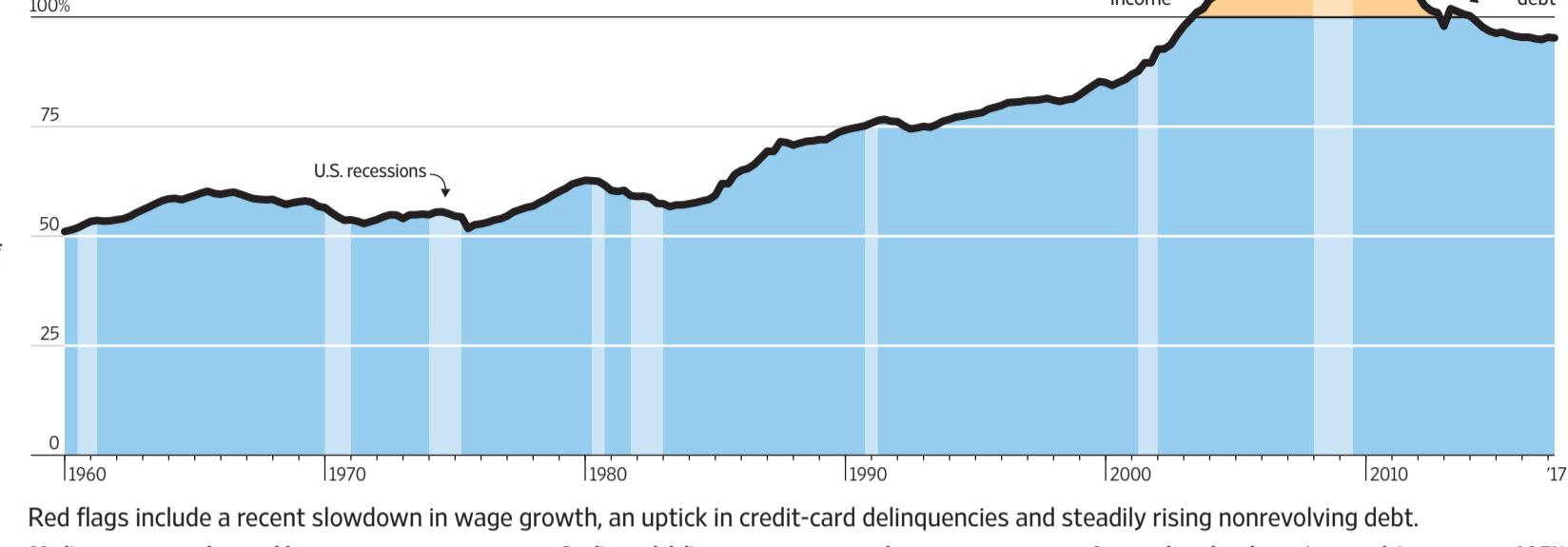
Consumers have been cautious on revolving debt, such as credit cards and home-equity loans—where they got hit hard during the recession. The mortgage market remains tight and homes are expensive (bigger down payments are required), which is keeping a lid on home-loan growth.

While consumer credit excluding mortgages is hitting new highs, reflecting the spike in student debt and auto loans since the crisis, total household leverage is not rising and debt service ratios have fallen. The consumer picture isn't a uniformly happy one, but for now the outlook appears relatively upbeat.

Overall household leverage remains well below peak levels, one positive sign for the U.S. consumer.

### Total debt as a share of household disposable income, quarterly

Consumer credit plus mortgage debt



Red flags include a recent slowdown in wage growth, an uptick in credit-card delinquencies and steadily rising nonrevolving debt.

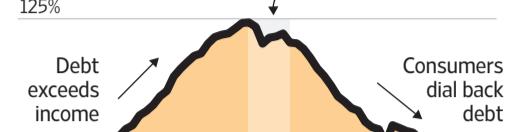
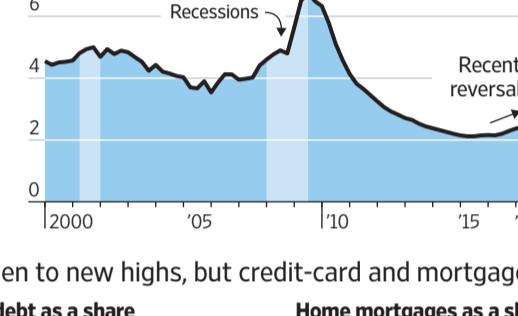
### Median wage growth, monthly

Change from a year earlier, three-month rolling average



### Credit-card delinquency rate, quarterly

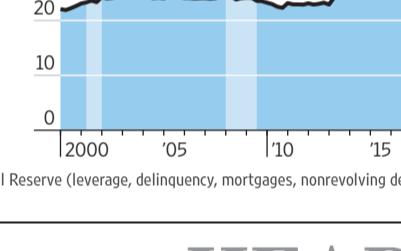
Change from a year earlier, three-month rolling average



Consumer credit (excluding mortgages) has risen to new highs, but credit-card and mortgage debt are down from a decade ago.

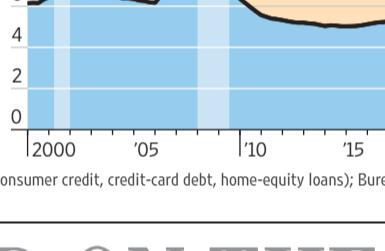
### Consumer credit as a share of disposable income, quarterly

Excluding mortgages



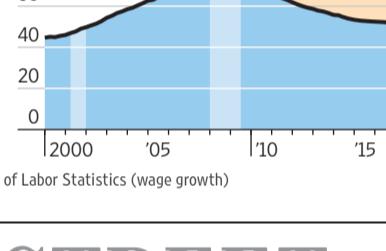
### Credit-card debt as a share of GDP, quarterly\*

Change from a year earlier, three-month rolling average



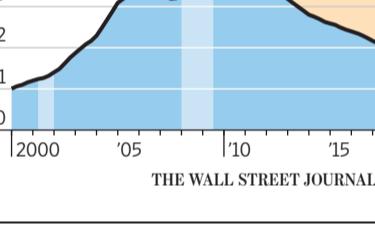
### Home mortgages as a share of GDP, quarterly\*

Change from a year earlier, three-month rolling average



### Home-equity loans as a share of GDP, quarterly\*

Change from a year earlier, three-month rolling average



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\*Annualized quarterly GDP Sources: Federal Reserve (leverage, delinquency, mortgages, nonrevolving debt, consumer credit, credit-card debt, home-equity loans); Bureau of Labor Statistics (wage growth)

Up from 9.3% in 1Q 2000

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## HEARD ON THE STREET

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## More Cash to Come From HSBC

HSBC's departing leaders are enjoying their victory laps and investors are finally cheering them on.

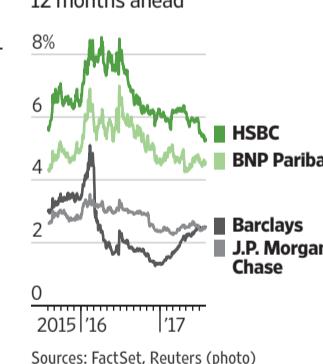
The bank announced another \$2 billion of stock buybacks on Monday on the back of better first-half profit and higher capital. That adds to the \$3.5 billion of buybacks since last year, when Douglas Flint, chairman, and Stuart Gulliver, chief executive, announced their pending retirements.

Investors have become more convinced of HSBC's payout potential: Its dividend yield has come down from over 7% most of last year to about 5.2%. But that leaves the stock with room to do better as its yield remains more than double that of U.S. and European rivals.

Return on equity, at 8.8% annualized in the first half, is still behind a target of more than 10%. But if U.S. interest rates continue to rise, that should lift revenue from HSBC's huge deposits of U.S. and Hong Kong dollars and push the bank toward its goal.

### Paydays

Forecast dividend yields, 12 months ahead



Sources: FactSet, Reuters (photo)

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Incoming HSBC Chairman Mark Tucker

And while that may be a slow burn, investors will keep getting rewards from management's balance-sheet restructuring and cost-cutting over the past two years. These efforts will allow further stock buybacks.

Between 2017 and 2019, HSBC could buy back up to \$4 billion in stock a year, according to estimates from Morgan Stanley. That would be on top of more than \$10 billion a year in dividends,

Mr. Gulliver pointed to a handful of things that may eat up capital. There are coming changes to global capital rules, which could increase HSBC's requirements. However, expectations are that these won't be fully implemented until 2026.

There is also the potential cost of new accounting rules, which will increase loan-loss provisions for many banks. Big banks like HSBC with sophisticated capital models are expected to feel less pain than smaller banks, because the former's approach to credit provisions already does what the accounting change is meant to achieve.

The bank will want to keep some extra capital for unforeseeable risks, but even after the buyback announced Monday, HSBC has a common equity Tier 1 capital ratio of 14.5%, compared with its target of 12% to 13%.

The main challenge for incoming Chairman Mark Tucker will be in finding a CEO who can help him use this inheritance wisely.

—Paul J. Davies

## OVERHEARD

Investors won't want to see the sequel to this horror flick.

Indian film and streaming video company **Eros International** reported fiscal fourth-quarter results Friday. Full-year sales of \$253 million fell 8% from a year earlier, and net income declined 14%. That was well short of analysts' consensus forecasts. That is a problem, because the company's stock trades at more than 150 times trailing earnings.

Management put on a brave face. The financial performance reflects "the flexibility and robustness of the Eros business model wherein we are able to offset slate volatility as well as impact of extraneous market factors beyond our control," said CEO **Jyoti Deshpande**. But while the artist was happy, critics are less impressed with the show. Eros' shares plunged in New York on Friday after being halted for volatility, leaving them down more than 40% over the past 12 months.

## Heineken vs. AB InBev: Pick Wisely

Big-beer investors seem to care more about cost savings than sales growth. That may not last.

**Anheuser-Busch InBev** and **Heineken** both sold more beer than expected in the second quarter. But investors were much more excited about AB InBev's results, sending the stock up 6% the day they were unveiled last week. Heineken's shares barely moved when it reported Monday morning.

AB InBev completed its purchase of rival **SABMiller** last year and is now finding ways to share expenses. Chief Executive Carlos Brito's management team found an expectation-busting \$335 million of so-called synergies in the second quarter.

This and better margins also explain why AB InBev stock is more highly rated at 26 times earnings, compared with about 21 times for Heineken. Historically the gap has been closer.

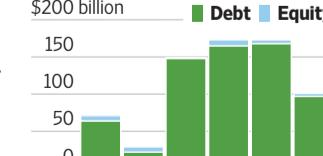
If investors focused on top-line growth, things might look different. Heineken grew at a faster pace in the first half, and arguably has the better geographic profile following the purchases of Mexican brewer FEMSA Cerveza in 2010 and Singapore-based Asia Pacific Breweries two years later. AB InBev still makes almost one-third of its profits in North America, mainly by selling Budweiser brands that continue to lose U.S. market share.

For now, it may be rational for investors to place more faith in cost-cutting, which managers can control, than in sales. But AB InBev is already the world leader and has nothing transformative left to buy. Once integration work on SABMiller is complete, investors might shift their focus to growth—and Heineken. —Stephen Wilmot

## Chinese Lenders' Dash for Capital Is Getting Under Way

### Capital Rush

Chinese banks' annual equity and debt issuance



\*Year to date Source: Dealogic

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poster child for Chinese bank excesses. Its loan impairments rose almost 30% on the year in the first quarter. Its issuance of wealth-management products, used to raise cash by many midsize banks that struggle to attract deposits, rose 50% last year. It has also been embroiled in lending to troubled companies like China Huishan Dairy and Sunac against shares pledged by their senior executives.

Still, Ping An is unlikely to be the last bank seeking capital. Across China's banking system, capital cushions have been deteriorating. Capital-adequacy ratios, at 11% on average, might look healthy, above the minimum

requirement of 7.5% to 9%, depending on bank size. But regulators have been tightening rules, including forcing banks to bring more off-balance-sheet assets onto their books. That will likely force more banks to raise capital.

In theory, banks could earn their way out of trouble. That won't be easy, though, as Chinese authorities try to ease the country's credit bubble. Banks' net interest margins have deteriorated to their lowest in over five years, and earnings are barely growing: Ping An Bank's net profit increased just 2% in the first quarter. Another problem: With Chinese banks trading at 60% to 70% of their book

value, raising equity is tricky, one reason Chinese banks have raised \$100 billion of debt this year, up 20% from last year. Such funding is getting more expensive and ultimately won't help absorb losses.

Other lenders could, then, follow Ping An Bank's lead in turning to convertibles as a stopgap. Its planned convertible bond is equivalent to 15% of its core equity Tier 1 ratio. **China Everbright**, a sizable bank, also issued 30 billion yuan's worth back in March. As Chinese banks' hunt for capital gets going, a conversion to convertibles could prove lasting.

—Anjani Trivedi