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As of 12 p.m. ET **DJIA** 21537.88 ▲ 0.60% **NIKKEI** 20098.38 ▼ 0.48% **STOXX 600** 384.90 ▲ 1.52% **BRENT** 47.79 ▲ 0.57% **GOLD** 1219.40 ▲ 0.48% **EURO** 1.1414 ▼ 0.47% **DLR** ¥113.13 ▼ 0.71%

Trump Defends Son, Hits Media

President calls scandal a witch hunt, says Donald Jr. is innocent after emails on Russia

By Peter Nicholas And Nathan Hodge

President Donald Trump defended his son Donald Trump Jr. in morning tweets that proclaimed his innocence and took aim at the news media, a day after the younger Mr. Trump released documents showing he accepted a meeting to discuss an alleged Russian government offer of help damaging Hillary Clinton's presidential campaign.

Mentioning his son's appearance Tuesday night on Fox News, the president wrote: "My son Donald did a good job last night. He was open, transparent and innocent. This is the greatest Witch Hunt in political history. Sad."

He also repeated his contention that people should disregard news reports that rely on unnamed sources.

"Remember, when you hear the words 'sources say' from the Fake Media, often times those sources are made up and do not exist."

Many stories about this White House, as with past administrations, have been based on unnamed sources.

The stories on the meeting with the Russian lawyers included details from unnamed sources that were later confirmed by Donald Trump Jr. White House aides often speak to the news media on the condition of anonymity, a practice seen in past administrations.

Mr. Trump also insisted Wednesday on Twitter that the White House "is functioning perfectly, focused on HealthCare, Tax Cuts/Reform & many other things. I have very little time for watching T.V."

The comment comes as some White House aides have said they fear the Russia email story will make it increasingly difficult to advance the president's policy agenda.

"This is more significant and serious than anything else we've seen," one administration official said Tuesday.

A White House spokeswoman, Sarah Huckabee Sanders, said Tuesday that the president is "frustrated ...that this continues to be an issue."

Meanwhile, the Kremlin said Wednesday the release of an email chain by Trump's eldest son was part of a "long-running TV drama," dismissing an alleged Russian government offer to pass on information to damage Clinton's campaign.

"There is nothing to inves-

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◆ FBI pick vows independence from White House..... A6

Monsoon Rains Take a Growing Toll in India

CAISII MAO/AGENCE FRANCE-PRESSE/GETTY IMAGES

TROUBLED WATERS: An aging bridge collapsed over the Chathe River in Dimapur, in India's northeastern state of Nagaland, on Wednesday, as heavy monsoon rains pounded the northeast of the country. Four people were killed in the collapse, officials said.

Apple Agrees to Storage Of Data In China

By Alyssa Abkowitz And Eva Dou

BEIJING—To comply with tough new cybersecurity rules, Apple Inc. will begin storing all cloud data for its China customers with a government-owned company—a move that means relinquishing some control over its Chinese data.

Apple will build its first Chinese data center in the southern province of Guizhou to house data for customers of its iCloud service. The data include photos, documents, messages, apps and videos uploaded by Apple users throughout the mainland, the company said Wednesday.

The center will be operated by a company owned by the Guizhou provincial government, and whose chairman was a local government official until last year.

Under the agreement, Apple will retain control over encryption keys at the data center. It wasn't clear if it would have access to any of the data itself, which would be overseen by its Guizhou partner.

In addition, Apple wouldn't be able to transfer data from Chinese customers to the U.S., in compliance with China's new cross-border data guidelines that were also part of the latest cybersecurity rules.

The announcement significantly expands a concession Apple made to appease Chinese authorities in 2014, when it started storing some data at facilities owned by state-owned China Telecom to dispel security concerns. At the time, Apple said the move would improve performance for Chinese customers.

Apple didn't clarify which data was being stored under that previous agreement, but under the new one all of the

Please see APPLE page A2

Visa Expands War on Cash

Share of U.S. consumer transactions by payment type

Source: Federal Reserve Bank of San Francisco
THE WALL STREET JOURNAL.

'OPENING SALVO': Visa is offering to upgrade small merchants' payment technology. In exchange, the firms must stop accepting cash. **B1**

HOUSING FRENZY BEDEVILS BEIJING

Higher rates and larger down payments don't deter Chinese buyers, who don't believe the government will allow a market collapse

By Lingling Wei and Dominique Fong

GUANGZHOU, China—The more China tries to rein in its roaring housing market, the more obsessed people get about buying.

In February, with this southern megalopolis in the throes of a property frenzy, state banks raised mortgage rates. Then came higher down-payment rules for second homes and limits on owning multiple apartments.

The result: Prices in Guangzhou continue to climb, and the market one town over has heated up.

Pei Zhiyong, a 56-year-old advertising executive, was barred by the new restrictions from buying a third apartment in Guangzhou. One Sunday in April, he drove his BMW SUV to Foshan, an hour away, to check out a new riverfront high-rise. He figures it's the ideal time to buy.

"The harder the government tries to control the market, the more prices will rise," Mr. Pei said.

With each new policy intended to restrict home purchases, buyers are piling in. Stressed about the prospect of being left behind, many are borrowing heavily, believing prices will continue to rise despite the restrictions and will soar if the government has to lift restrictions to spur economic growth.

Another article of faith is that the Communist Party won't allow housing prices to collapse. "The government will spare no effort to make sure there are no big swings in the property market," says Ni Pengfei, a housing expert at the Chinese Academy of Social Sciences, a government think tank.

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What's News

Business & Finance

Apple will begin storing data for its customers in China with a government-owned company to comply with tough new cybersecurity rules. **A1**

◆ **Yellen said she expects** forces holding down consumer prices to fade, allowing the Fed to stick to its plans for gradual interest-rate increases. **A7**

◆ **RBS agreed to pay** $5.5 billion to the FHFA to settle a U.S. probe into its sale of toxic mortgage-backed securities. **B1**

◆ **Berkshire Hathaway** is under pressure to raise its Oncor bid amid pushback by Elliott Management, a move that would be unusual for the firm. **B7**

◆ **A Chinese bond rally** is narrowing the yield gap with U.S. bonds, a potential complication for Beijing. **B5**

◆ **A Singapore court** sentenced a former banker to 4½ years in prison after he pleaded guilty to a money-laundering offense linked to 1MDB. **B5**

◆ **Authorities in China** released 10 Crown Resorts employees after they were convicted last month for gambling offenses. **B1**

◆ **Royal Dutch Shell** sold its stake in an Irish gas field for up to $1.23 billion to a large Canadian pension fund. **B3**

World-Wide

◆ **Trump defended** his son in tweets that proclaimed his innocence, after Trump Jr. released documents showing he accepted a meeting to discuss an alleged Russian government offer of help damaging Clinton's campaign. **A1**

◆ **Emails concerning** Trump Jr.'s 2016 meeting with a Russian lawyer could be legally problematic for the president's son. **A6**

◆ **Trump's pick** to be the next FBI director pledged to be an independent leader who wouldn't let politics interfere with the bureau's investigations. **A6**

◆ **NATO and** Russia have increased the number of adversarial flights near the other side's planes and ships, reviving a Cold War contest of nerves. **A3**

◆ **Trump is** set to arrive in Paris for a one-day visit with Macron, as the leaders seek to overcome deep divisions on trade and climate change. **A4**

◆ **France revised** its budget plans to front-load deeper tax cuts Macron says will drive job creation and growth. **A4**

◆ **Output at** the euro-zone's factories, mines and utilities rose at the fastest annual pace in more than five years in May. **A4**

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The 'In' Crowd's New Pastime: Decorating the New York Skyline

* * *

Secret app, only available to a select few, makes two skyscraper spires change color

By Rachel Louise Ensign And Liz Hoffman

On warm nights, Bobby Francis and his three roommates like to hit the balcony of their Manhattan apartment, pull out their phones and change the color of the New York City skyline.

With a few taps, spires atop two Midtown skyscrapers flicker blue, red and orange.

"It doesn't feel like something I should have access to at all," said Mr. Francis, who turns 23 on Wednesday. The consultant sleeps in the former kitchen of a converted two-bedroom apartment.

Yet he does. Mr. Francis and his roommates are members of New York's latest exclusive club: Spireworks, a much whispered-about free app that allows users to change the colors of the spires atop two of New York's tallest buildings.

4 Times Square

The only way to join is to be invited by a current user, so access has spread through an unlikely network of colleagues, friends and denizens of the city's rooftop bars. Among fans, invites remain a precious commodity, creating a new class of haves and have-nots.

The have-nots plead their case on social media, and a black market for invitations

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Rates Are On the Rise, But Not for Depositors

By Christina Rexrode

Interest rates are rising. So why aren't bank customers demanding higher interest on their deposits? This is the dilemma confronting banks.

For now, bankers are happy to keep deposit yields low, standing pat even as the Federal Reserve hikes short-term rates. No one is sure, though, how long customers will tolerate that.

"Many bank management teams believe we could be one to two hikes away from an increase in retail" deposit rates, John McDonald, a bank analyst at Bernstein, wrote in a recent note. "At the same time however, we've never quite seen a cycle like this play out

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◆ Yellen: Fed will need to keep raising rates gradually..... A7

Oracle #1
SaaS Enterprise Applications Revenue

1,000+ Employees Segment, 2015

ORACLE®

oracle.com/applications

Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size," doc #US41913816, Dec. 2016; Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM.
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CAPITAL ACCOUNT | By Greg Ip

Electric Cars Are the Future? Not So Fast

Skepticism of electric cars melts a bit more with each new announcement from the likes of Tesla, which last week launched production of a mass-market vehicle, and **Volvo**, which days later promised to phase out gasoline-only engines by 2019.

But that progress comes with two big caveats: First, it has relied on extensive public subsidies and, second, it has done little to reduce planet-warming emissions of carbon dioxide. If electric cars are ever to displace gasoline engines without government putting its thumb on the scale, they must not only keep innovating but outrun innovation in fossil fuels.

Electric cars have come a long way. They are no longer ugly, impossibly expensive and impractical, thanks to technological advances that have slashed battery storage from $1,000 per kilowatt-hour in 2010 to $273 per kwh last year, according to Bloomberg New Energy Finance.

Nonetheless, that means a 75 kwh battery (about 250 miles of range) still adds about $20,000 to a car's cost. So how do the cars sell? Public largess helps a lot. The U.S. federal government offers a tax credit of up to $7,500 each for the first 200,000 electric or plug-in hybrid cars a manufacturer sells. Throw in state tax credits, subsidies for recharging infrastructure, relief from gasoline taxes, preferential lanes and parking spots and government fleet purchases, and taxpayers help pay for every electric car on the road.

What happens when the credits go away? When Hong Kong slashed a tax break worth roughly $55,000 for a Tesla in April, its sales ground to a halt. In Georgia, electric vehicle sales plummeted 80% the month after a $5,000 tax credit was repealed.

Tesla will find plenty of niche buyers for its high-priced cars once it exhausts its credits. But for electric vehicles as a whole, hybrids have a sobering lesson. From 2005 to 2010, some hybrid buyers enjoyed a $3,500 tax credit. Sales kept rising after the credit expired, peaking at 487,000, or 3.1% of total vehicles, in 2013, according to Edmunds.com, when gasoline averaged $3.51 a gallon. A surge in oil supply caused gas prices to drop to $2.36 a gallon this year, and hybrids' market share fell to just 2.1%.

Many optimists think falling battery costs mean electric vehicles will inevitably displace the internal combustion engine (ICE). Last week, Bloomberg predicted electric cars would become "price competitive" with ICE cars in eight years without subsidies.

But such scenarios hinge not just on the cost of batteries but on the price of oil and the efficiency of competing vehicles. Economists Thomas Covert, Michael Greenstone and Christopher Knittel, in an article for the Journal of Economic Perspectives, estimate that at the current battery cost of $270 per kwh, oil would have to cost more than $300 a barrel (in 2020 dollars) to make electric and gasoline equally attractive. If battery costs fall to $100, as Tesla Founder Elon Musk has targeted, oil would have to average $90.

That could happen. But optimists "overlook the compensating effect of incumbent technology," says Kevin Book, of **ClearView Energy Partners**, an advisory firm. He notes, for example, the spectacular decline in natural gas prices that fracking has made possible. And ICE efficiency typically rises 2% a year.

ClearView says that in an optimistic scenario, where battery costs fall 10% a year starting now and gasoline begins at $5 a gallon, electric vehicles will be competitive in five years. If battery costs fall just 5% a year and gasoline starts at $2.25, it will take more than 20.

This would still be a step forward for the climate, but by how much depends on other factors. Electric vehicles are meant to be recharged at night. Economists Joshua Graff Zivin, Matthew Kotchen and Erin Mansur note in a 2014 article in the Journal of Economic Behavior and Organization that night is when electricity is most likely to come from coal. They estimate electric vehicles account for more carbon dioxide per mile than existing cars in the upper Midwest, where coal-fired plants are more prevalent, and more than comparable hybrids in most of the U.S.

Regulators further dilute the carbon-reduction impact by giving manufacturers added credit for each electric vehicle, when complying with average fuel efficiency standards.

These subsidies have clearly accomplished one goal: They've accelerated innovation when the private market had little incentive to invest. Yet they may not be the most efficient way to combat carbon emissions. A carbon tax, for example, would incentivize conservation and alternative fuels regardless of oil prices.

Since that's unlikely for now, Mr. Greenstone and Sam Ori, both of the University of Chicago's **Energy Policy Institute**, and Cass Sunstein, of **Harvard University**, suggest scrapping the current array of fuel efficiency standards and assigning manufacturers a tradable emissions cap for each vehicle. This would put alternatives to electric cars on a level playing field. Just in case electric vehicles don't meet their heady expectations, the world should spread its bets.

The Future Is Not Yet Electric

For electric vehicles (EVs) to displace internal combustion engines (ICEs), it will require some combination of higher oil prices and cheaper battery storage.

Sources: Thomas Covert, Michael Greenstone, and Christopher R. Knittel

THE WALL STREET JOURNAL.

American Tennis Makes a Comeback at Wimbledon

CLIVE BRUNSKILL/GETTY IMAGES

AT LAST: Sam Querrey, above, became the first American man to reach the semifinal of a Grand Slam tournament since Andy Roddick in 2009. The No. 24 seed beat Britain's Andy Murray, the top seed and defending champion, 3-6, 6-4, 6-7(4), 6-1, 6-1.

RATES

Continued from Page One

before, so it's tough to know for sure."

How banks prepare for any moves by depositors is important for their profits, especially given disappointing loan growth this year.

Deposit rates will be top of mind for many investors when banks begin reporting earnings this Friday, because increases could maintain pressure on already-low net-interest margins.

Banks have been dealing with interest-rate cycles and depositors for decades, but a number of factors, both psychological and technological, make this time of rising rates different. A decade of near-zero rates, more competition from online firms, less loyalty from customers and new capital rules, among other factors, are making preparations more difficult.

"We've never really seen this movie before," Marianne Lake, chief financial officer of J.P. MorganChase & Co., told investors recently.

Of course, banks don't want to raise deposit rates until they have to. Though they tend to raise certain loan rates as soon as the Fed makes a move, they prefer to let deposit rates lag, bolstering profits.

And when they do raise rates, it is often because competition has forced them. "Nobody wants to be first," said Greg Carmichael, chief executive of Fifth Third Bancorp. "But nobody wants to lose deposits."

So far, the Fed has raised rates four times since December 2015, but banks haven't been under much pressure to raise deposit rates concurrently.

Bank of America is a case in point. Its cost for U.S. interest-bearing deposits in the first quarter was just 0.09%—unchanged from the prior quarter and the lowest among its peers.

Talking with analysts recently, finance chief Paul Donofrio said it seemed unlikely that customers would leave the bank to chase rates because many had their primary checking accounts there.

Officers at some banks believe it will take another one or two Fed rate increases before they have to start raising deposit rates. Others believe customers will start to demand higher deposit rates now that the Fed rate has crossed the visually important 1% threshold.

0.09%

BofA's first-quarter cost for U.S. interest-bearing deposits

"The first Fed increase, people are like, 'Oh, it's still so small, who cares?' " said William H.W. Crawford IV, chief executive of United Financial Bancorp Inc., a community bank based in Glastonbury, Conn. "By the fourth or fifth increase, people care."

Or at least they used to care. A complicating factor is that depositors haven't thought of bank accounts as income-producing instruments in nearly a decade, thanks to the Fed's near-zero interest-rate policies.

Given that, many customers have come to view banks in terms of the services they offer, such as mobile banking, rather than the rates they pay.

Another difference: Banks are awash in deposits. At the end of June, total deposits at U.S. commercial banks equaled $11.72 trillion, only slightly below an all-time high reached in May, according to Fed data.

What's more, loan growth has slowed this year, so the 4.7% average rate of deposit growth during the first half of 2017 was ahead of the 4.5% average rate of loan growth, Fed data show. Loans at U.S. commercial banks are equal to just 79% of total deposits, meaning even if banks saw some deposit outflows, many would have plenty of room to keep lending.

Fitch Ratings analysts said in a recent report that they expect banks will be able to keep deposit rates low throughout 2017, even if the Fed raises rates again, and won't meaningfully increase their rates until loan demand picks up.

Yet banks can't ignore depositors if they start to make moves. There are regulatory concerns, for example.

In certain tests related to the amount of liquid assets a bank has on hand, consumer deposits are more valuable than commercial deposits. That could prompt some banks to act quickly if depositors get itchy.

Meanwhile, technology has made it much easier for depositors to quickly shift funds and to use multiple banks.

Andrew Bain doesn't think much of the rates at J.P. Morgan Chase & Co., which generally pays customers with savings accounts from 0.01% to 0.08%. But he likes the bank's QuickPay system, which lets him pay for his children's day care easily and without a fee.

So Mr. Bain, who works in corporate finance in Portland, Ore., found a workaround. He keeps enough money at J.P. Morgan to pay some bills and spreads the rest between a credit union and an online bank, both of which pay him more than 1%.

A number of online-focused banks, like Ally Financial Inc. and Synchrony Financial, are able to pay higher rates because they are less encumbered by brick-and-mortar expenses. An even newer competitor, Goldman Sachs Group Inc., has been driving rates higher to draw deposits to its new consumer bank. It currently offers 1.2% interest on online savings accounts.

All those factors combined raise the prospect that when consumers do decide to move, banks may be forced to raise rates at a faster pace than investors might be expecting.

Nelson Bonilla is part of that threat. His savings account at Synchrony pays about 1.15% interest. But Mr. Bonilla, a software developer in San Francisco, is on the lookout for institutions that might pay more.

Though he has already moved his savings account twice in recent years, he's open to being wooed away a third time. "I wouldn't hesitate," Mr. Bonilla says, "to switch again."

APPLE

Continued from Page One

iCloud data for its customers in China will be stored in the country. Currently, Apple pulls some iCloud data for Chinese users from servers in the U.S.

Apple said it made the latest change to comply with China's new rules on data storage and cloud-services operation that went into effect June 1 as part of sweeping new regulations aimed at improving cybersecurity. It also said the new data center would improve speed and reliability for customers in China.

The Silicon Valley company has been one of tech's strongest advocates for fending off government incursions into user data. In a statement, Apple said it has "strong data privacy and security protections in place and no backdoors will be created into any of our systems."

The latest move comes as Apple has been facing increasing regulatory headwinds in China. Last year, for example, its online book and movie services was shut down by authorities, who didn't give specific reasons for the closing.

China also has ramped up pressure broadly on foreign cloud-service providers over the past year to comply with long-standing rules that require them to join with local firms. Microsoft Corp. and Amazon.com Inc. already have local partners.

"It's clear that this is now being enforced across the board," said Chris DeAngelis, Beijing-based general manager of consultancy Alliance Development Group. "Any cloud-based company coming into China has to have a local operating partner."

U.S. lawmakers sent a letter to China's ambassador in March, protesting the growing restrictions on foreign cloud-service providers.

Under the arrangement announced Wednesday, Apple's China users will transition to a cloud-storage service that will carry the brands of both Apple and its Chinese partner, whose full name is Guizhou on the Cloud Big Data Industry Development Co.

It is the first time iCloud has been co-branded. The transition will occur over the next several years while the $1 billion data project is developed.

Apple has said its encryption can't be cracked, not even by Apple itself, making the company one of the strongest defenders of user privacy among major U.S. tech companies. Apple famously refused the FBI's demand that it unlock an iPhone owned by a gunman in the 2015 mass shooting in San Bernardino.

Guizhou is one of China's poorest provinces.

China has pressured foreign cloud-service providers to partner with local firms.

With Beijing's backing, Guizhou is seeking to build a big-data industry, and has attracted investments from other major tech companies including Qualcomm Inc. and Foxconn Technology Group.

In a description of Guizhou on the Cloud, chairman Fu Yu wrote that the company aims to "provide a platform for aggregation and sharing of government data."

Mr. Fu, the former government official, couldn't be reached for comment. An employee who answered the phone at the company said Apple was its first international partner, but they hoped for more.

—Tripp Mickle in San Francisco contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Google paid travel expenses for Jorge Contreras, a University of Utah law professor, to speak at private briefing in Washington. A Page One article Wednesday about Google's program to fund academic research incorrectly said the company also paid for his hotel expenses.

Arconic Inc. was formerly part of **Alcoa** Inc. A U.S. News article on Wednesday about fire safety at a Marriott hotel in Baltimore incorrectly said Arconic was formerly part of Alcoa Corp., which is the name of a spinoff from Alcoa Inc.

The JBL Charge 3 Bluetooth speaker doesn't float. An Off Duty article in the June 30-July 2 edition about waterproof gadgets incorrectly said that it did. Also, a photo of the JBL Flip 4, a similar model, accompanied the article. The article incorrectly implied that the JBL Charge 3 was pictured.

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

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WORLD NEWS

SSGT. JONATHAN SNYDER/PLANET PIX/AUMZ PRESS

A U.S. Air Force B-1B Lancer bomber, right, is intercepted by a Russian Su-27 Flanker fighter aircraft in June during an exercise near Russian airspace over the Baltic Sea.

Risky Test of Wills Unfolds Over Baltic Sea

Adversarial flights, close intercepts raise concern of escalation between Russia, NATO

NATO and Russian pilots are reviving a Cold War contest of nerves, increasing the risk that airborne close encounters could accidentally spark a conflict.

*By **Nathan Hodge** in Moscow and **Julian E. Barnes** in Brussels*

Over the past three years, the number of adversarial flights near the other side's planes and ships have increased significantly. The tactic, usually meant as a show of force or used to test tactics, revives a dormant game of chicken long played by Soviet and North Atlantic Treaty Organization pilots.

It was a risky game: Aircraft sometimes narrowly avoided midair collisions, and opposing ships occasionally collided at sea. NATO officials now worry about a new phase of reckless gamesmanship and its consequences.

Concerns have risen to the point where they now figure large in conversations between NATO and Russia. The NATO-Russia Council, a body established in 2002 to encourage cooperation and consultation between Moscow and the alliance, is set to meet Thursday to discuss large-scale Russian exercises in September. Western officials worry the exercises could lead to a new surge in midair incidents.

The Baltic Sea has become the focal point for this new white-knuckle geopolitical tussle. Rhetoric is rising in the region, where newer NATO members on Russia's border are nervous and Russia's military has shown a willingness to use close intercepts as political messages.

NATO and U.S. officials believe an accidental air-to-air collision, or a plane crashing into a ship, is one of the most dangerous threats facing the alliance. A deadly mishap could engender an escalation—with each side accusing the other of provocation.

"What we see in the Baltic Sea is increased military activity—we see it on land, at sea and in the air, and that just underlines the importance of transparency and predictability to prevent incidents and accidents," NATO Secretary General Jens Stoltenberg said. "And if they happen, it is important to make sure they don't spiral out of control and create dangerous situations."

Allies are expected to raise the issue of the intercepts at Thursday's meeting, officials said. Allied officials said risk reduction in the Baltic Sea is a concern, in particular in light of what one NATO official called "unsafe and unprofessional behaviors by Russian pilots."

The air-safety issue has been discussed in that forum before, but it is taking on renewed urgency because of the coming exercises and several close calls this year.

Global Zero, a research and advocacy group that opposes nuclear weapons, analyzed 97 midair confrontations between Western and Russian military aircraft over the Baltic between March 2014 and April 2017, more than two-thirds the global total of air intercepts in that period. Such confrontations were rarer in the decade before Russia annexed Crimea from Ukraine in early 2014.

Markers are already down. The U.S. recently accused a Russian Su-27 jet fighter of unsafely intercepting an American reconnaissance plane on June 19 and flying erratically just yards away from it.

Two days later, Russian television broadcast footage appeared to show a Polish F-16 approaching a plane with the Russian defense minister on board. A Russian Su-27 fighter then zooms into the picture, performing what the Russians described as a warning maneuver before flying away. The channel quoted Russian military expert Alexander Zhilin as saying the allied pilots "are conducting themselves simply like bandits."

Poland has said its plane was on a NATO patrol mission when it intercepted the Russian jet. NATO officials have said there was nothing unprofessional about the intercept.

Western officials and the Global Zero report say it is Russian pilots who more often undertake unsafe intercepts. Some, they say, are accidents, some negligence, and others intentional shows of force.

Lukasz Kulesa, research director at the **European Leadership Network**, a London-based think tank, said some of the most recent incidents "seem to be connected to sending a message to the other side."

Mr. Kulesa noted that Russian aircraft approached American spy planes over the Baltic Sea shortly after an escalation in the confrontation between the U.S.-led coalition and the Syrian regime that led to the shooting down of a pro-regime drone and Syrian warplane by American aircraft.

"It's a way to say that we, the Russians, are displeased with your behavior," Mr. Kulesa said.

Some allied and U.S. officials believe the Russian government uses confrontations to turn up and down the pressure in the region for geopolitical advantage, ordering pilots to be cautious or to approach more aggressively.

Moscow denies this and that their pilots are at fault, saying it is the West that has been eroding security by building up its military forces on Russia's borders.

NATO and Russia are working to agree on "risk reduction" measures in the Baltic region. Western and Russian officials say progress is a test of each side's seriousness about dialogue despite deep suspicion.

"We share the view dialogue is important," Alexander Grushko, Russia's ambassador to NATO, said last month. "The prevention of military incidents demands...systemic communications between the two militaries, and discussions [by] military experts."

Finland has organized one discussion between NATO and Russia on safety measures and proposed requiring all planes to use transponders. Allied officials have reacted skeptically to the transponder measure, noting many Russian military aircraft don't have transponders. American reconnaissance planes also don't always operate with them on.

Baltic Sea becomes the focal point for a new white-knuckle geopolitical tussle.

Many Western officials fear the large military exercises Russia and Belarus are planning for the fall will raise the risk of an incident. In a sign of the concern about potential provocations by Russia, the U.S. adjusted the rotation of fighter planes for the NATO air-policing mission in the Baltic, so that its planes rather than those of less-experienced pilots from other NATO countries would be on alert during the Russian exercises in the fall.

When Russia begins its major exercise, called Zapad or West, over the Baltic airspace in September, Sweden will be conducting its own, called Aurora, joined by a number of NATO countries.

"We hope everyone keeps calm," Finnish Defense Minister Jussi Niinistö said.

Tensions in the Sky Recall 'Top Gun' Era

Aerial daredevilry between Russian and American pilots has a history.

Ward Carroll, a former F-14 Tomcat radar intercept officer, recalled that in the Top Gun-era game of chicken in the 1980s, slow-flying Soviet warplanes would lumber past U.S. aircraft carriers. A carrier would launch fighters to intercept them, with Mr. Carroll and his fellow naval aviators flying high-speed passes over Soviet ships as a show of force.

The aerial maneuvers had a serious purpose during what one Russian-language aviation history described as the "hot skies of the Cold War." Both militaries could test the other's tactics, assessing the range and capabilities of ships and aircraft.

The Soviets wanted to score propaganda points by capturing images of their planes buzzing U.S. carriers. The Americans intercepting them wanted to take close-up photos of the antennae and telltale bumps on the fuselage of the Soviet aircraft that could reveal vital intelligence about their capabilities.

The game of nerves had lighter moments, underscoring a sort of camaraderie among aviators. Mr. Carroll recalled flashing copies of Playboy magazines at the Soviet pilots, and he and his colleagues removing their helmets and putting on Ronald Reagan masks to spoil Russian photographs.

—Nathan Hodge

MASTER SGT. CHARLES LARKIN SR./US AIR FORCE/ASSOCIATED PRESS

A U.S. RC-135U, flying in international airspace over the Baltic Sea, is intercepted by a Russian SU-27 Flanker on June 19.

WORLD WATCH

GERMANY

Berlin Bolsters Veto Of Foreign Takeovers

The government adopted new legislation that will make it easier for it to veto takeovers of strategically important companies, a move that effectively targets China's attempt to acquire key technology.

The new rules will apply mainly to targets in the defense sector and developers of critical software powering financial and telecommunications services, public transport or power grids.

Under the rules, Berlin will be allowed to impose reporting obligations on investors and request longer review periods for deals.

"We remain one of the most open economies in the word, but we also watch out for fair competition. We owe this to our companies," said Economics Minister Brigitte Zypries as she outlined the plan.

The move illustrates how a push among mature economies for fairer trade terms with the rest of the world—from U.S. President Donald Trump's "America First" policies to French President Emmanuel Macron's call for more trade protection—is gaining ground. The trend is occurring even in Germany, a country whose economy is highly reliant on exports and which is a vocal advocate of free trade.

In recent months, Germany, France and Italy have called for the creation of a European equivalent to the Committee on Foreign Investment in the U.S., which reviews sensitive foreign investments. The U.S. is also considering new protections after Chinese investments there tripled last year.

In Berlin, China is the main concern. Last year, Chinese firms, often backed by government money, bought German competitors at a rate of one a week, a push analysts believe reflects the Chinese government's plans to dominate advanced manufacturing by 2025.

—Andrea Thomas

GERMANY

Police Arrest Four In Gold Coin Robbery

Hundreds of German special police raided several buildings in Berlin early Wednesday, arresting four suspects in connection with the brazen heist of a 100-kilogram (221-pound) Canadian gold coin stolen from one of the city's museums earlier this year.

Heavily-armed masked police arrested the suspects, one wearing a hood over his head, in Berlin's Neukoelln neighborhood. Another nine people are being questioned in the case. All suspects are related to one another and aged between 18 and 20, police said.

The raids of 13 different buildings lasted several hours, but the gold coin wasn't recovered.

"We assume that the coin was partially or completely sold," Carsten Pfohl of the Berlin state criminal office told reporters at a news conference. He added that police also confiscated clothes and cars to comb for traces of gold.

The Canadian "Big Maple Leaf" coin, worth several million euros (dollars), was stolen from the Bode museum in March.

Police say the three-centimeter (1.2-inch) thick gold coin, with a diameter of 53 centimeters (20.9 inches) has a face value of 1 million Canadian dollars ($750,000). By weight alone, however, it would be worth almost $4.5 million at market prices.

Experts think the coin may have been melted down already to cash in on the gold. Police also searched a jewelry store in the Berlin neighborhood, saying they had indications the store may have been involved in the possible sale of the gold.

—Associated Press

EUROPEAN PRESSPHOTO AGENCY

KASHMIR CRACKDOWN: Government forces fired shotgun pellets and tear gas Wednesday in Srinagar, the main city in India-controlled Kashmir, after residents defied a curfew and carried the body of a rebel killed with two other militants in a battle with Indian troops in the disputed region.

GREECE

EU Is Urged to End Disciplinary Steps

The European Union should end disciplinary procedures against Greece over its high deficit, the European Commission said on Wednesday, in a largely symbolic yet timely move, as the government is considering when it should tap the bond markets.

The European Commission said it recommends the closure of the Excessive Deficit Procedure against Greece for the first time since 2009, as the country's fiscal position has improved.

"Greece is now ready to exit the EDP, turn the page on austerity and open a new chapter of growth, investment and employment," EU budget commissioner Pierre Moscovici said in a statement, calling the decision "a very symbolic moment for Greece."

Greece's general government balance has improved from a deficit of 15.1% in 2009 to a surplus of 0.7% in 2016. Athens is not projected to have a deficit greater than 3% of GDP for many years to come, meaning the EDP is no longer necessary, according to the Commission.

The step still has to be confirmed by EU member states.

—Nektaria Stamouli

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Trump Travels to Paris for Macron Talks

U.S. president makes quick visit for Bastille Day amid controversy over his son's meeting

By Rebecca Ballhaus And William Horobin

EMMANUELE CONTINI/NURPHOTO/ZUMA PRESS

U.S. President Donald Trump chatted with French President Emmanuel Macron at the summit of G-20 leaders in Hamburg last week.

PARIS—President Donald Trump is set to arrive in Paris Thursday morning for a whirlwind visit amid a political storm at home over revelations that his son welcomed incriminating information on Democrat Hillary Clinton he was told came from the Russian government.

French President Emmanuel Macron is set to treat Mr. Trump to fine dining and a front-row seat at the Bastille Day military parade, as the leaders seek to overcome deep divisions on trade and climate change. Both men see advantage in bolstering ties, as Mr. Macron looks to raise his global profile and Mr. Trump finds himself isolated abroad.

White House officials described the French leader in flattering terms before the trip, while French officials say the two men don't hesitate to discuss their disagreements.

"It's a working relationship that has been extremely open, frank and direct, but also constructive," a French official said.

Mr. Trump's relationship-building efforts abroad this week are unlikely to break through in Washington, which has been rocked by the revelation that Donald Trump Jr. in June 2016 met with a Russian lawyer after being promised damaging information about Mrs. Clinton that he was told had been gathered as part of a Russian government effort to boost Mr. Trump.

Congressional investigators have called for the younger Mr. Trump to testify, as a special counsel appointed by the Justice Department this year probes whether the president's campaign associates colluded with Moscow to interfere in the 2016 U.S. election.

The two leaders are set to hold a news conference Thursday evening, likely the first time Mr. Trump will face questions in such a forum about his son's meeting with the Russian lawyer. The president is also set to speak in public for the first time since he returned from the Group of 20 summit in Hamburg on Saturday. On Wednesday, he tweeted in defense of his son and his administration, saying: "The W.H. is functioning perfectly."

After touching down Thursday morning, Mr. Trump is set to hold a working lunch with Gen. Joe Dunford, the chairman of the Joint Chiefs of Staff, and other U.S. military officials, while Mr. Macron meets separately with German Chancellor Angela Merkel.

After military ceremonies with Mr. Macron to commemorate the 100th anniversary of the U.S. entry into World War I, Messrs. Trump and Macron will hold a bilateral meeting, currently scheduled to last an hour and 15 minutes, that is expected to focus on Syria and counterterrorism efforts.

The White House said the two leaders could also discuss trade and climate change—two areas where they have opposing views. Mr. Macron has been a vocal critic of Mr. Trump's decision to pull out of the Paris Accord and launched a website to lure researchers and investors in renewable energy to emigrate to France. The initiative, dubbed "Make Our Planet Great Again," parodies Mr. Trump's campaign slogan.

French officials say they won't make any changes to the Paris Accord to suit U.S. demands, but will continue to push for Mr. Trump to rejoin.

"You never give hope of being able to convince. I think that's a duty given my role, but it's also part of my character," Mr. Macron said at the G-20 meeting Saturday.

On Thursday evening, the two leaders and their wives are expected to dine at the restaurant Le Jules Verne on the second floor of the Eiffel Tower. On Friday, Mr. Trump and first lady Melania Trump will be the guests of honor at the Bastille Day celebrations, which will be led by U.S. forces in commemoration of the centennial. The Trumps are scheduled to depart for Washington shortly afterward.

Trump administration officials had positive words about France and its leader ahead of Mr. Trump's visit and characterized the two leaders' relationship as strong. In a White House briefing on Tuesday, a senior official described Mr. Macron as an "innovative, charismatic guy" who has "been a real trailblazer" and said the nations share more similarities than differences.

"There are some issues where we see the world a little bit differently, but many issues where we see the world more or less the same," the official said. The official also praised France for its commitment to the North Atlantic Treaty Organization, noting that the country already commits 1.8% of its gross domestic product to military spending. "France is far and away one of the strongest military members of the alliance," the official said.

A French official said the two armies are working in "perfect interoperability" and the level of trust "has never been so high." Mr. Trump has been a vocal critic of allies that fall considerably short of the NATO goal of spending 2% of GDP on the military.

Messrs. Trump and Macron had a rocky start following Mr. Macron's victory in May after a campaign in which Mr. Trump had expressed support for his opponent, far-right politician Marine Le Pen.

In their first meeting, at a NATO summit in Brussels in May, the two leaders' handshake devolved into a death grip, in which their knuckles were described as turning white and their jaws as clenching. Mr. Macron later told a French newspaper the move was "not innocent" and was intended to show that he wouldn't "make small concessions, not even symbolic ones."

In Shift, France to Speed Tax Cuts

By William Horobin

PARIS—Emmanuel Macron's government revised its budget plans to front-load deeper tax cuts the French president says will drive job creation and growth.

The French government made the tweaks after Prime Minister Édouard Philippe said only a week ago that some tax cuts would be delayed as the country faced a mountain of debt and a larger-than-expected deficit this year.

On Wednesday, however, Mr. Philippe said that after consulting with Mr. Macron he would make tax cuts to the order of €11 billion ($12.6 billion) in 2018 to spur the gradual acceleration in the economy. To finance the cuts and keep the deficit under the European Union's limit of 3% of economic output, the government will find €20 billion of savings in 2018.

"We want to spark a tax blast effect in favor of investment, employment and growth," Mr. Philippe said in an interview with French daily Les Echos.

The to-and-fro on the budget plans shows the challenge Mr. Macron faces to juggle competing pledges that defined his political brand. On one hand, the 39-year-old leader is seeking to improve France's standing in Europe by repairing the country's finances, while on the other hand he is promising pro-business measures that can be costly to the public coffers.

The announcement of delays to tax cuts drew criticism from business leaders last week, but overall Mr. Macron's pro-business stance has struck a chord with investors. At an event promoting Paris as a financial center on Tuesday, J.P. Morgan Chase Chief Executive Jamie Dimon praised the new government for making the capital city a more attractive place to invest and recruit thanks to a promised loosening of labor laws and lower taxes on the financial sector.

"It has a new president who I think is great, who's behind entrepreneurship, growth and jobs. And it's nice to be wanted," Mr. Dimon said.

Of the €11 billion in tax cuts in 2018, the French prime minister said overhauling France's wealth tax to encourage investment will cost the state €3 billion in lost revenue next year. Cuts to taxes on savings will cost €1.5 billion and a reduction in local-residency taxes another €3 billion.

To finance the tax cuts and keep a lid on the deficit, the government will freeze the volume of public spending. That will deliver €20 billion of savings in 2018, Mr. Philippe said, without giving details of where the state will rein in spending.

Overall, the deficit will fall to 2.7% of gross domestic product in 2018 from 3% this year, the government said. In 2019, the deficit will rise to 2.9% of GDP due to the one-time cost of transforming a tax credit into a straight tax cut. The deficit will then drop to 1.5% of economic in 2020, according to the government forecasts.

EU's Brexit Point Man Presses U.K. on Spending

By Laurence Norman

BRUSSELS—Britain must stand by the spending commitments it has made to the European Union if it wants to progress during Brexit talks into discussions on a future trade deal, the EU's chief negotiator Michel Barnier said.

With the second round of Brexit talks set to start on Monday, Mr. Barnier on Wednesday urged the U.K. government to present position papers on all the priority issues in the talks, saying that so far Britain had only set out its stance on the future rights of EU citizens in the U.K. once Britain leaves the bloc in March 2019.

The EU has placed several key divorce issues as priorities in the talks, which it says must be tackled before the bloc starts working on the outlines of a future trade deal. They are citizens' rights, the situation in Northern Ireland and a divorce bill, which represents British EU spending pledges agreed in the past.

"These three priority subjects...are indivisible," Mr. Barnier said in a press conference. "Now what the means in other words is that progress on one or two of these subjects would not be sufficient in order for us to be able to move onto" discussions on a future trade deal.

"The sooner we receive clarification on the British positions from the topics we have not heard from them on, the better," the former French foreign minister said, adding that he would work through the July 14 holiday to comb through British positions. "I am ready. Our team is ready."

Mr. Barnier said the EU team would send additional position papers on divorce issues to London ahead of next week's talks. They have already sent nine such papers on specific divorce issues.

EU officials have said the U.K. should stand by financial commitments of upward of €60 billion ($68.81 billion) when it leaves.

U.K. officials have said they would abide by legal commitments but have questioned the reasoning behind demands for large sums. On Tuesday, U.K. Foreign Secretary Boris Johnson called such large figures "extortionate" and said Brussels can "go whistle" if they want Britain to pay such amounts.

Mr. Barnier responded to that comment in his remarks on Wednesday: "I am not hearing any whistling, just the clock ticking," he said, referring to the tight timetable for the exit talks.

Mr. Barnier has in the past said he hopes to be in a position to recommend to EU leaders in October that enough progress has been made on the priority divorce issues for negotiations to move ahead. However there have been warnings from officials and diplomats in Brussels that if Britain doesn't speed its responses on the main issues, that timetable may be delayed. Mr. Barnier didn't specifically echo that.

Mr. Barnier confirmed he would meet U.K. upper house lawmakers later Wednesday and would hold meetings with various British politicians this week. They include Labour Party leader Jeremy Corbyn and the heads of the Scottish and Welsh governments.

He said he has always made clear that he wanted to hear from various people in the British debate on Brexit.

"Of course, I will only negotiate with the U.K. government," he added.

OLIVIER HOSLET/EUROPEAN PRESSPHOTO AGENCY

Michel Barnier on Wednesday said the clock is ticking on Brexit talks.

KAY NIETFELD/DPA/ZUMA PRESS

A robot poured beer at a Berlin business conference in May, a month in which eurozone output soared.

Eurozone Output Accelerates

By Paul Hannon And Jason Douglas

Output at the eurozone's factories, mines and utilities rose at the fastest annual pace in more than five years in May, a fresh indication that the area's economic recovery picked up in the second quarter.

The eurozone economy grew at the fastest rate in two years during the first three months of 2017, outpacing the U.S., the U.K. and Japan. Business surveys suggest that the more rapid pace of growth has continued, and figures for industrial production released on Wednesday back them up.

The European Union's official statistics agency said output was up 1.3% from April, and 4% from May 2016. The annual rate of increase was the fastest since August 2011. That performance was stronger than expected, with economists surveyed by The Wall Street Journal last week expecting a rise of 0.8% on the month and 3.6% on the year.

Industry, which accounts for about one fifth of total economic activity in the eurozone, made only a modest contribution to first-quarter growth, with output up just 0.2% across the three months. But that was largely because of weakened demand for heating in response to a milder winter than is usual. There were signs in April and May that the second quarter has seen more normal levels of output from the utilities, with energy production up in both months.

But the pickup in industrial output was more broadly based, and supported by a large increase in the production of capital goods, which may be a sign of increased investment by eurozone businesses. Among the currency area's large members, France led the way with a 1.9% increase on the month.

Economists at BNP Paribas said the industrial output figures, combined with earlier data releases, suggest the eurozone economy grew by 0.7% in the three months through June. If so, that would mark an acceleration from the 0.6% rate of quarter-to-quarter growth recorded in the three months through March, and the fastest expansion since the start of 2015.

"Such developments will force the ECB to revise up its growth projections again in September," they wrote in a note to clients.

The ECB's economists have twice raised their growth forecasts for this year, having begun 2017 expecting to see an expansion of 1.7% and now seeing one of 1.9%. But a number of other economists, including those at BNP Paribas, now see growth coming in at 2% or above.

That may appear modest by global standards, but it would be almost twice the eurozone economy's speed limit, or the rate of growth that many bodies including the European Commission believe it can sustain without generating higher inflation.

In response to the unexpected strength of the recovery in the first half of this year, the European Central Bank has indicated it may soon consider withdrawing some of the stimulus it has provided since mid-2014. However, there are as yet few firm indications that inflation is set to rise to and stay at the central bank's target, so any move is likely to be gradual and cautious.

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Jakarta Sets Sights On Radical Groups

By James Hookway and Anita Rachman

JAKARTA, Indonesia—Indonesia said Wednesday that President Joko Widodo had signed a decree giving his government the power to disband radical organizations, following months of sectarian tensions in the predominantly Muslim nation.

The growing influence of hard-line Islamist groups recently has undermined Indonesia's reputation for practicing a moderate, tolerant form of the faith. Several organizations were involved in coordinating mass protests over the past year against the governor of Jakarta, an ethnic-Chinese Christian whom they had accused of blaspheming against Islam.

The governor, Basuki Tjahaja Purnama, lost his re-election bid in April and was subsequently convicted of blasphemy and sentenced to two years in prison, stirring widespread concern about the growing power of Islamists in Indonesia, the world's most populous Muslim nation.

Wednesday's announcement, which was made by Indonesia's chief security minister Gen. Wiranto, gives the government the power to ban mass organizations, circumventing a potentially lengthy court process to outlaw specific groups.

The most likely target of the new decree is an international group called Hizbut Tahrir, which argues that Indonesia should adopt Islamic Shariah laws and become part of a transnational caliphate. The government had said earlier that it planned to ban the group. But many political analysts said the decree could also apply to other domestic groups, such as the Islamic Defenders Front, whose influence grew sharply during the blasphemy case against Mr. Purnama.

Gen. Wiranto, who, like many Indonesians, uses one name, told reporters that some groups pose a threat to the unity of Indonesia and that the new measure was designed to protect the country's pluralist traditions, which guarantee rights for Christians, Buddhists and other minority religious groups. It wasn't designed to marginalize Muslim groups, he said.

The decree, which Mr. Widodo signed on Monday, is effective immediately but will be debated in the country's parliament later.

Indonesia's largest Muslim group, the moderate Nahdlatul Ulama, supported the measure. But some rights groups questioned it, arguing that Indonesia, one of Asia's largest democracies, already has sufficient legal tools to act against groups suspected of breaking the law.

"The fact that it has no appeal procedure raises a very serious question about freedom of assembly in Indonesia," said Andreas Harsono, a researcher in Indonesia with New York-based Human Rights Watch. "It means that nobody could challenge the government—national and local—if it bans an organization. It is a huge setback for Indonesia."

The Associated Press reported that a spokesman for Hizbut Tahrir said that it intends to contest the legality of the move by seeking a judicial review by Indonesia's Constitutional Court.

BAY ISMOYO/AGENCE FRANCE-PRESSE/GETTY IMAGES

Student activists in Jakarta protest President Joko Widodo's signing of the new law on Wednesday.

Venezuela Was Pressured to Move Prisoner

An international team led by a former Spanish prime minister met secretly for months with leading Venezuelan officials to persuade them to move the country's most-prominent political prisoner to house arrest from jail, people involved in the talks told The Wall Street Journal.

By Santiago Pérez, Juan Forero and Kejal Vyas

President Nicolás Maduro's government, buffeted by more than 100 days of protests and growing international condemnation, on Saturday commuted Leopoldo López's nearly 14-year sentence, transferring him from the Ramo Verde stockade to his home in Caracas.

"We've been telling Maduro for a very, very long time that he has to give a signal, and the signal has to be the release of the political prisoners," said one of those close to the talks on Tuesday.

The person said the mediators—led by former Spanish leader José Luis Rodríguez Zapatero and including two former presidents, Leonel Fernández of the Dominican Republic and Martín Torrijos of Panama—believe Mr. López's release is a sign that the government and an opposition coalition could hold talks to dial down the unrest, which has led to 93 deaths, mostly of antigovernment demonstrators.

"The antagonism and challenges are huge, and the only way is to look for basic agreements to avoid confrontation," said a second person involved in the talks. "You need to make an effort so one party recognizes the legitimacy of the other."

Mr. López, 46 years old, who was convicted in 2015 of inciting violence, occasionally got messages to the public from his cell urging opponents to maintain pressure on the government. He has been demonized by the government, with some officials referring to him in official pronouncements as "the Monster of Ramo Verde."

Venezuela's Information Ministry didn't respond to phone calls and an email seeking comment about the talks, but people in Mr. Maduro's administration have said more political prisoners could be reprieved in the near future.

On Tuesday, Venezuela's human-rights ombudsman, Tarek William Saab, a close ally of Mr. Maduro, said he was working to commute the sentences of jailed opposition lawmaker Wilmer Azuaje and activist Yon Goicoechea.

The secret effort by Mr. Zapatero and others had been going on for months, initiated to break the political deadlock that has engulfed the country amid social turmoil and economic collapse, the people close to the talks said.

Mr. Zapatero met with Mr. López in the Ramo Verde military prison three times over the past year. He was accompanied by two close confidants of Mr. Maduro, the former foreign minister, Delcy Rodríguez, and her brother Jorge, mayor of a district of Caracas, both of whom are seen as receptive to calls for political rapprochement with the opposition.

Mr. Maduro's government was open to Mr. López release, but domestic political tension delayed the process, these people said.

They said the idea gained momentum over the past two months, as protests intensified and criticism of the government mounted.

In the end, Mr. López´s release was seen as a "key element that could contribute to the possibility of reaching other agreements down the road," one of the people involved in the talks said. In reducing Mr. López's punishment, the government was making a relatively painless concession, an analyst said.

"Frankly, releasing or moving Leopoldo López to house arrest is one of the least risky things they could do," said Javier Corrales, Amherst College professor and author of two books on Venezuela. He wasn't involved in the negotiations.

Mr. Corrales noted that the government hasn't budged on bigger opposition demands and continues its plans to replace the opposition-held congress with a new assembly convened to write a new constitution—a move the opposition says will smother the country's democracy.

One person involved in talks said that by negotiating Mr. López's move from Ramo Verde, the government was hoping to distract attention from its formation of that special assembly later this month.

CARLOS BECERRA/BLOOMBERG NEWS

Opposition leader Leopoldo López outside his house in Caracas after he was freed from prison and placed under house arrest.

Sanctions On Sudan Linger

By Felicia Schwartz

WASHINGTON—The Trump administration said it is delaying a decision on whether to lift sanctions on Sudan by three months.

The administration faced a July 12 deadline to decide if sanctions relief initiated by the Obama administration in January would become permanent.

"The United States will revoke the sanctions if the [Government of Sudan] is assessed to have sustained progress in these areas at the end of the extended review period," State Department spokeswoman Heather Nauert said on Tuesday.

She added: "The general license issued by the Treasury Department's Office of Foreign Assets Control, which became effective on January 17, 2017, remains in place and broadly authorizes U.S. persons to process transactions involving persons in Sudan; engage in imports from and exports to Sudan; and engage in transactions involving property in which the [Government of Sudan] has an interest."

Under a directive signed by former President Barack Obama in January, the U.S. moved to lift a trade embargo and unblock Sudanese government assets that were frozen in earlier sanctions against the country and its leaders.

Sudan is on a U.S. list of state sponsors of terrorism and face sanctions related to a long-running conflict in the Darfur region and to alleged terrorism-related activities.

The Trump administration was supposed to certify if the Sudanese government had maintained progress in counterterrorism cooperation, preserved a cease-fire, reduced offensive military action and improved humanitarian access.

"While we recognize that the [Government of Sudan] has made significant, substantial progress in many areas, the Administration has decided that some more time is needed for this review to establish that the [Government of Sudan] has sustained sufficient positive actions across all areas," Ms. Nauert said.

She said the Trump administration is "deeply committed to engagement with the [Government of Sudan] and working toward further progress on achieving a sustainable peace in Sudan, removing remaining obstructions to the delivery of humanitarian assistance, and bolstering cooperation to counter terrorism and promote regional stability."

U.S.-Sudan relations have been hostile for much of the past two decades. Obama administration officials had conducted intensive engagement with the Sudanese government to bring about the sanctions relief.

She said the U.S. also wants to pursue increased engagement with Sudan's government in other areas, including on human rights and religious freedom as well as implementing U.N. resolutions designed to put pressure on North Korea's nuclear program.

Brazil's Senate Approves Wide-Ranging Labor Reform

By Jeffrey T. Lewis

SÃO PAULO—Brazil's Senate approved a bill that will make extensive changes to the country's labor laws, cheering investors and giving embattled President Michel Temer some much-needed good news.

The bill was passed Tuesday on a vote of 50 to 26, after hours of delay as a group of opposition senators protested the measure by occupying the table where the chamber's leaders would normally be seated.

The bill will update the decades-old labor regulations, permitting more flexible employment rules, eliminating union dues and making it harder for workers to sue their employers, among other things.

The economy contracted in 2015 and 2016 as the country suffered its worst recession on record. The new law will give executives more confidence in the economy and help spur growth, said Rafael Sabadell, a fund manager at São Paulo-based **GGR Investimentos**, which manages about $300 million in assets.

"Brazilian labor rules are extremely rigid, and in a strong recession more flexibility will help the economy recover more quickly," he said. "Business owners will be more open to hiring new workers" with the new rules, he said.

Labor unions have held multiple protests and rallies around the country in recent weeks to oppose the changes, including one Tuesday in front of the Congress buildings in the capital Brasília.

The labor reforms "remove all the rights of the working class, to the benefit of financial, agricultural and business" interests, union organization CUT said on its website.

Mr. Temer is fighting to stay in office. The lower house of Congress is due to vote in coming days on whether Mr. Temer should face a trial in the Federal Supreme Court on charges he accepted bribes.

Mr. Temer has denied any wrongdoing.

If the chamber votes in favor of a trial, Mr. Temer will have to step down for up to six months while the high court deliberates. If found innocent, he'll return to office. If found guilty, he'll be removed from power and a new president will be elected by Congress to fill in until the next scheduled election, in 2018.

Though welcome news, the Senate vote is unlikely to give the president much of a boost in his quest to stay in power, some analysts said.

The reforms and Mr. Temer's backing in Congress "are two separate issues," said Thiago Vidal, a political scientist at the **Prospectiva** consulting firm in Brasília. "The reforms have their own support, independent of the president."

Mr. Temer took office last year after his predecessor and running mate, President Dilma Rousseff, was removed from office for violating budget laws. The new president unveiled proposals intended to regain investors' confidence and spur a recovery.

His more controversial reforms, to Brazil's insolvent pension system and the just-approved labor proposal, have met with more resistance and the pension bill appears to be stalled in Congress while the president grapples with the corruption accusations.

JOEDSON ALVES/EUROPEAN PRESSPHOTO AGENCY

President Michel Temer has sought to regain investors' confidence and spur a recovery.

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U.S. NEWS

Trump Jr. Emails Spark Uproar, Extend Woes

CAPITAL JOURNAL
By Gerald F. Seib

For months, the hope in President Donald Trump's world—sometimes realistic, sometimes strained—was that the story of Russia's role in the 2016 presidential election would quickly shrivel up and blow away.

That dream died Tuesday.

Whatever else the stunning email chain released by Donald Trump Jr. did or didn't show, it undermined the argument that the idea of Russian collusion with the Trump campaign is so ludicrous that it shouldn't be taken seriously. Instead, in black and white, were messages showing that someone offered help from the top of the Russian government to distribute damaging information about Hillary Clinton—and that the president's son, in his own words, was eager to get it. Indeed, he scheduled a meeting to receive it.

As a result, government investigations and media inquiries of 2016 election maneuvering just got a load of new fuel. The stakes now seem higher, and previous responses more suspect. The prospect that all of this will go away soon has grown dim, if not extinguished entirely.

Moreover, the disclosure of the emails raises the prospect of divisions breaking out within Trump world. The president's son released them on his own, but only after it was clear that they were about to become public. That suggests someone else had put them in circulation, possibly to point a finger of blame for a questionable decision at Donald Trump Jr.

RICK WILKING/PRESS POOL

Donald Trump Jr.'s email disclosure makes it clear the White House has a long-term problem on its hands.

In sum, it is now more clear that the Trump White House has a long-term rather than a short-term problem on its hands. Moving forward, it likely will need a clearer way to separate its handling of investigations from the daily task of conducting presidential business.

To be sure, while the disclosure shook Trump world, it didn't change the White House's basic line of argument, which is that collusion with the Russians remains a myth. Essentially, Trump aides are arguing that Donald Trump Jr. was showing a willingness to accept opposition research from Russians, not to coordinate with them in hacking into the emails of Mrs. Clinton and other Democrats, which is the truly explosive idea at the heart of the election-year inquiries. The former, they argue, is a far cry from the latter.

Moreover, Trump aides say nothing of substance was produced or handed over in the meeting with a Russian lawyer arranged by those emails—an account the lawyer corroborates. They believe the revelation has created more a perception problem than a legal one.

In a normal and fully formed presidential campaign, it is likely that such a meeting never would have happened. There would have been a system to set off alarm bells over such a suspicious offer of help from the fringes of the political world, and it would have been rejected outright or shuffled off to some lower level for vetting.

But the Trump campaign wasn't a normal campaign. It clinched the nomination with only a skeletal organization in place. In June 2016, when the emails were sent, the Trump campaign, seemingly stunned by that success, was tiny.

Indeed, the campaign inner circle consisted of essentially a handful of family members and loyalists—a circle certainly including Donald Trump Jr.—minus the legal, political and fundraising apparatus that is the norm for modern campaigns. There was a lot of winging it going on—including, apparently, by the president's elder son.

Now, of course, the key question is what the new shock does to the course of the inquiries now under way, as well as the White House's handling of them. The silver lining in the election-controversy clouds remains the fact that the American people seem far less fascinated with the election-collusion question than do those in the nation's capital. Whether that will continue to be the case remains to be seen, of course.

The second key question, as it has been all along, involves the attitude of Republicans in Congress. They have remained largely supportive of President Trump. But their willingness to stand with the president on tough policy questions inevitably is affected by their perception of his standing and strength.

What the president really needs now are some policy successes. That means, in the first instance, making progress on health care, taxes and funding the government.

Keeping Republicans on board on those topics may require convincing them that there won't be more nasty surprises on the question of Russia's role in the 2016 election. And that may require the White House to be less dismissive of questions on that topic, and more transparent in answering them.

FBI Nominee Pledges Independence

By Del Quentin Wilber

Christopher Wray, President Donald Trump's pick to be the next FBI director, pledged Wednesday to be an independent leader who would never let politics interfere with the bureau's investigations.

"I believe to my core that there's only one right way to do this job, and that is with strict independence, by the book, playing it straight," Mr. Wray told the Senate Judiciary Committee, which is considering his nomination.

Mr. Wray, flanked by his wife and children, weighed in on contentious topics from torture to accusations of collusion between Mr. Trump's campaign and the Russian government during the 2016 election. Senators of both parties asked Mr. Wray if he would resist any efforts by the Trump administration to influence investigations.

Mr. Wray, a 50-year-old former top Justice Department official and longtime defense lawyer, promised he wouldn't buckle under any such pressure, adding that he had no reason to doubt intelligence agencies' conclusion that Russia attempted to interfere in the election.

If the president asked him to do something unethical or illegal, Mr. Wray testified, "First, I would try to talk him out of it, and if that failed, then I would resign."

Mr. Wray suggested he understood the political maelstrom he would be facing, telling senators, "I understand this is not a job for the faint of heart. And I can assure the committee I am not faint of heart."

Lawmakers, particularly Democrats, have expressed concerns about the possibility of the White House seeking to influence the Federal Bureau of Investigation's work in the wake of Mr. Trump's firing in May of then-FBI Director James Comey.

Mr. Trump has said the probe into Russian interference in the 2016 election was on his mind when he dismissed Mr. Comey, and the former FBI director testified before Congress that he felt the president was pressing him to drop an investigation into former national security adviser Michael Flynn, something Mr. Trump has denied.

Wednesday's hearing came as Washington continued to digest new revelations about the Trump campaign's contacts with Russia last year. The president's eldest son, Donald Trump Jr., released emails Tuesday that showed he attended a meeting last June to discuss allegedly incriminating information about Democratic nominee Hillary Clinton, and that he was told the information would be offered as part of the Russian government's support for his father's candidacy.

Mr. Wray agreed with the suggestion of Sen. Lindsey Graham (R., S.C.) that campaign officials should call the FBI if they are contacted by a foreign government seeking to hurt their opponents.

"Any threat or effort to interfere with our election, from any nation state or nonstate actor, is the kind of thing the FBI would want to know," Mr. Wray said.

Sen. Patrick Leahy (D., Vt.) asked Mr. Wray whether anyone from the White House had pressed him for his loyalty. Mr. Comey said in testimony last month before Congress that Mr. Trump had sought such a pledge from him, an assertion the president has denied.

"No one asked me for any kind of loyalty oath," Mr. Wray said. "I sure as heck didn't offer one."

He also defended Special Counsel Robert Mueller, who was tapped to take over the investigation into Russian meddling after Mr. Comey's firing. Mr. Wray said he knew Mr. Mueller well and didn't consider him to be on a "witch hunt," as Mr. Trump has repeatedly called the Russia probe.

Associates of Mr. Wray say he keeps a lower profile than Mr. Comey, who wasn't shy about making strong statements at news conferences or congressional hearings. Mr. Graham asked Mr. Wray whether he would have held a news conference, as Mr. Comey did, announcing that he was recommending against prosecuting Mrs. Clinton for her email arrangement when she was secretary of state, while also criticizing her conduct.

MANDEL NGAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

FBI director nominee Christopher Wray testifying on Wednesday.

Without directly answering, Mr. Wray said, "I can't imagine a situation in which, as FBI director, in which I would give a press conference about an uncharged individual."

But he also expressed support for Mr. Comey, who has engaged in a public back-and-forth with Mr. Trump. "In all my dealings with Jim Comey, he was a terrific lawyer, a dedicated public servant and a wonderful colleague," Mr. Wray said.

Senators of both parties expressed support for Mr. Wray's nomination and some of his early answers on difficult topics. Sen. Chuck Grassley (R., Iowa), the committee chairman, said it is "vitally important for the FBI director to be independent" and "in reviewing his record, I've seen Mr. Wray's commitment to independence."

Sen. Dianne Feinstein (D., Calif.), the top Democrat on the panel, said the next director "must be a leader who has integrity and strength to withstand any attempts at political interference."

Ms. Feinstein, who led a Senate investigation into the Central Intelligence Agency's use of enhanced interrogation techniques, praised Mr. Wray's testimony that in his view, "torture is wrong, unacceptable, illegal and ineffective."

TRUMP

Continued from page A1

tigate," said Kremlin spokesman Dmitry Peskov said, according to the news agency RIA-Novosti, after he was asked to comment on the publication of emails.

In his comments to RIA-Novosti and other news agencies, Mr. Peskov said the disclosure appeared timed to damage U.S.-Russian relations after a meeting last Friday between President Trump and Russian President Vladimir Putin.

He compared the new revelations with a "long-running TV drama that can compete with the most successful series airing in the U.S.," the news agency Interfax reported.

The Russian government has maintained that it wasn't involved in any effort to tilt last year's election in favor of Mr. Trump. But the release of the emails appeared to indicate that Russia's prosecutor general may have sought to sought to influence the Trump campaign through Aras Agalarov, the Russian-Azerbaijani businessman who organized a Moscow beauty pageant in 2013 with Mr. Trump.

ALEXANDER ZEMLIANICHENKO/ASSOCIATED PRESS

Russian lawyer Natalia Veselnitskaya says she has no connection to the Russian government.

The Russian prosecutor general's office said in a written statement to The Wall Street Journal that it "does not exchange information and does not conduct any meetings at the international level outside the framework regulated by international legal agreements and Russian procedural legislation. Interaction with the competent authorities of the United States is no exception."

The statement added that its cooperation with U.S. counterparts was "quite effective."

With tensions on many fronts, U.S.-Russian relations remain in a deep freeze.

Mr. Trump has been quietly giving his son advice on managing the latest revelations involving his campaign's dealings with Russians.

On Tuesday, the younger Mr. Trump released a chain of emails that showed he had been told the Russian government possessed information damaging to Mrs. Clinton's candidacy and that an individual described as a "Russian government attorney" wanted to pass the material to the Trump campaign.

CARLO ALLEGRI/REUTERS

Paul Manafort, Trump's campaign manager, was at the meeting.

"If it's what you say," the younger Mr. Trump wrote to the intermediary who arranged the meetings, a British publicist, "I love it."

He and two other senior campaign aides—his brother-in-law Jared Kushner and Paul Manafort, then the campaign chairman—met with a Russian lawyer at Trump Tower in New York last June.

Donald Trump Jr. said the meeting proved a waste of time and that the woman had no such information to provide.

For her part, the Russian lawyer, Natalia Veselnitskaya, told NBC News she didn't have incriminating information about Hillary Clinton and had no connection to the Russian government.

In his Fox News interview with host Sean Hannity, Donald Trump Jr. said that he "probably would have done things a little differently" in agreeing to meet with Ms. Veselnitskaya.

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Yellen Still Expects Fed to Raise Rates

By Nick Timiraos

Federal Reserve Chairwoman Janet Yellen, seeking to address a recent puzzling slowdown in global inflation, said she expects forces holding down consumer prices to fade in the months ahead, allowing the central bank to stick to its plans for gradual interest-rate increases.

But she left herself an out, saying the Fed would alter its plans if softer price pressures proved more persistent.

"It's premature to reach the judgment that we're not on the path to 2% inflation over the next couple of years," Ms. Yellen said Wednesday, during a hearing of the House Financial Services Committee. She repeated her view that an increasingly tight labor market would put upward pressure on wages and prices, but added, "We're watching this very closely and stand ready to adjust our policy if it appears that the inflation undershoot will be persistent."

Fed officials next meet July 25-26. At their meeting last month, officials raised rates for the third time in as many quarters to a range between 1% and 1.25% and penciled in one more rate increase this year. Ms. Yellen gave no indication about the timing of the next rate increase in her testimony Wednesday.

Ms. Yellen also updated lawmakers on the Fed's plans to start slowly shrinking its $4.5 trillion portfolio of bonds and other assets acquired during and after the 2008 financial crisis. Ms. Yellen said she expected to set those plans into motion "relatively soon" this year, but wasn't more specific about the timing.

Ms. Yellen faces two days of testimony, with the House panel Wednesday and the Senate Banking Committee on Thursday, in what could be her final appearances on Capitol Hill before her term expires in February. The White House is beginning the process of considering who should be the next Fed leader. While Ms. Yellen isn't expected to be reappointed, President Donald Trump hasn't ruled it out.

Ms. Yellen demurred when asked repeatedly about her desire to serve a second term. "I really haven't had to give further thought at this point to this question," she said.

Statements from Fed officials in recent weeks have highlighted a debate over whether a slowdown in inflation should lead them to hold back on additional rate increases for now. But even those who want to go slower on raising rates because of their inflation doubts have shown no such qualms about announcing plans to implement the portfolio runoff in the next few months.

Excluding volatile food and energy categories, the Fed's preferred inflation gauge slowed to a gain of 1.4% over the year ended May, versus 1.8% in February. In her testimony, Ms. Yellen said the inflation slowdown partly reflects unusual one-off declines and officials would monitor inflation developments closely in the months ahead. "There is...uncertainty about when—and how much—inflation will respond to tightening resource utilization," she said.

Her remarks Wednesday indicated slightly greater uncertainty about the forces slowing price growth than her comments at a news conference following the decision to raise interest rates last month. Ms. Yellen said Wednesday that the recent slowdown "partly" reflected one-off factors, while she said they "significantly" reflected such factors last month. Stocks rallied and bond yields fell after her testimony Wednesday morning.

JACQUELYN MARTIN/ASSOCIATED PRESS

Chairwoman Janet Yellen said the Fed could alter course if inflation falls short of its target.

Ms. Yellen's tenure as Fed chairwoman began in early 2014, as the Fed began to slow its purchases of Treasury and mortgage securities, the conclusion of the latest—and broadest—effort to spur household and business investment by pushing down long-term interest rates.

The Fed stopped adding to its holdings, also known as its balance sheet, in October 2014, but it has continued to reinvest the proceeds of maturing assets to maintain the portfolio's size.

Since then, central bankers in Europe and Japan have ramped up similar bond-buying experiments, and the Fed slowly moved to raise interest rates from near zero.

Under the balance-sheet plan announced last month, the Fed will allow its holdings to decline gradually by allowing a predetermined amount of bonds to mature every month without reinvestment. Allowing some of the holdings to run off could push up long-term rates, but markets haven't shown a significant reaction so far.

The Fed doesn't plan to use its portfolio as an active tool of monetary policy during normal times, Ms. Yellen said Wednesday.

But it would be "prepared to resume reinvestments if a material deterioration in the economic outlook were to warrant a sizable reduction in the federal-funds rate," she said.

More broadly, Ms. Yellen said the economy's performance was likely to warrant "gradual increases in the federal-funds rate over time" to achieve the Fed's goals of maximum sustainable employment and stable prices, measured relative to a 2% annual inflation target.

Inflation has fallen below that target for most of the last five years.

Ms. Yellen characterized the Fed's benchmark short-term rate as "somewhat below" its neutral level, one in which the Fed is neither trying to speed up or slow down the economy.

Because that level is currently low by historical standards, "the federal-funds rate would not have to rise all that much further to get to a neutral policy stance," she said.

Aging Infrastructure: Waterways Face Critical Juncture

By Kris Maher

CHARLEROI, Pa.—More than a million tons of commodities normally pass through the lock on the Monongahela River here every month. But on a recent day, the giant steel gates that hold back the river didn't budge.

The 85-year-old structure is undergoing a long-delayed $2.7 billion makeover, and the lock is closed to river traffic during the week. But it was bustling as crews worked to build a bigger lock chamber. Seven cranes stretched across its length. A diver in a wetsuit slipped into the river to inspect an underwater wall.

"Progress is a good thing to see," said Paul Meininger, the 68-year-old lockmaster in charge of the 24/7 operations at the Charleroi Locks and Dam.

The construction south of Pittsburgh is one of several major projects across the U.S. aimed at improving the nation's vital waterways network of dams and locks that make commercial river traffic possible, enabling more than $70 billion worth of cargo to be shipped annually, according to the U.S. Army Corps of Engineers.

JONNO RATTMAN FOR THE WALL STREET JOURNAL

Contractors pouring concrete for the wall of a new lock chamber at the Charleroi Locks and Dam on the Monongahela River in Pennsylvania.

An example of the looming threats from the nation's crumbling infrastructure, the often unseen system of more than 230 locks along 12,000 miles of river is at risk of failing in places like Pittsburgh from decades of underinvestment.

The Lower Monongahela River Project in southwest Pennsylvania will upgrade locks near the towns of Charleroi and Braddock and remove a third lock in Elizabeth that was built 110 years ago. The system of dams and locks were first put in place to ensure that the entire length of the river was deep enough for boats to traverse it year-round.

President Donald Trump has promised $1 trillion worth of investments in the country's infrastructure, but his proposed 2018 budget didn't include funding for the Monongahela River locks project.

The project is the second-highest priority for the Army Corps, behind another locks project on the Ohio River near Cairo, Ill. The system of 23 locks spread over 200 miles of the Allegheny, Ohio and Monongahela rivers near Pittsburgh is among the oldest, largest and most fatigued of the nation's inland waterways system, according to the agency.

One Army Corps study shows that a failure of one of the two locks now being rebuilt would result in $200 million in economic losses to the region, which covers parts of Pennsylvania, Ohio and West Virginia.

"People don't know they're getting a $200 million benefit each year moving through these locks and dams on the Monongahela River," said U.S. Army Corps of Engineers project manager Stephen Fritz, who is overseeing the Pittsburgh project. He said the project was an example of upgrades needed across the nation.

Begun in 1994, the Lower Mon Project was originally scheduled to be completed by 2004. But it has suffered delays as the Ohio River project used up most available federal funds. The Army Corps now says it will complete the project in a scaled-down form that provides 90% of the original plan's benefits by 2023, but with only one new lock instead of two, leaving many with mixed emotions.

"We're getting a brand-new, reliable lock, which is great. But it's disappointing that we're not getting both," said Mary Ann Bucci, executive director of the Port of Pittsburgh Commission, a state-funded agency.

Ms. Bucci said her group's attention is focused on ensuring the project receives $105 million in federal funding for the next fiscal year to keep it on track, and securing additional funds in future budgets.

Up close, the scale of the project and the challenges of marine construction are evident. A cement factory was built on the other side of the Monongahela River to supply material for the project, and a covered conveyor belt stretches across the river.

At the upstream end of the lock, workers in rubber boots and hard hats stand in a 40-foot-wide "coffer box," a pocket of dry ground surrounded by a steel wall holding back the river. They shovel cement that pours down from the conveyor belt into the area. A load takes about four minutes to arrive from the factory after a supervisor radios in.

Companies in steel construction and oil and gas all rely on the locks here. But few depend more on the system than coal mines, towing firms and power plants.

By increasing the capacity at Lock 4 and removing a second, smaller lock, the Lower Mon Project will standardize this part of the river so that towing companies can easily haul nine barges throughout the region. Currently towboats can take only six barges at a time through the Charleroi locks.

Brian Loring, port captain who oversees staffing for Murray American, said that until recently he felt secure working on the river. But the drop in coal use and long delays in upgrading the locks around Pittsburgh have caused him to worry. "Years ago, when I started decking, I had a captain tell me all the time, 'Brian, this river is not going anywhere, it will always be here,' " Mr. Loring said. "It just makes you nervous."

U.S. WATCH

SENATE

GOP Sets Health Vote for Next Week

Senate Majority Leader Mitch McConnell, ratcheting up the pressure on fellow Republicans, set a vote on the GOP health-care bill for next week and delayed the chamber's August recess to give the party time to seek other legislative wins, even if the health plan stalls.

Senate GOP leaders, still working to corral support for the health legislation, are now expected to retain the Affordable Care Act's two taxes on high-income households, lawmakers and aides said Tuesday—an unusual move for the tax-averse GOP.

But while that would give Republicans more money to sweeten the bill to win over GOP holdouts, 10 Senate Republicans remain publicly opposed to the legislation. With Democrats unlikely to support the bill, Mr. McConnell (R., Ky.) can lose no more than two GOP votes to pass it.

"We're going to do health care next week," Mr. McConnell told reporters Tuesday. "And then we're going to turn to other issues," he said, citing the annual defense-policy bill and raising the federal government's borrowing limit among the summer's goals. Such a strategy could help Senate Republicans avoid returning to their home states empty-handed in August if the health bill flops.

The revised bill likely will keep ACA taxes on affluent households that Republicans have criticized for years: a 3.8% tax on net investment income and a 0.9% payroll tax.

—Kristina Peterson and Richard Rubin

ECONOMY

Jobs Survey Showed Strength in May

The pace of hiring rose in May while the number of job openings dropped but remained near a record level, the latest sign that the labor market continued to exhibit signs of strength in the second quarter of the year. The hiring rate climbed to 3.7% in May from 3.5% the prior month, according to the Labor Department's monthly Job Openings and Labor Turnover Survey, known as Jolts. May's figure remained below the hiring rates that were reached in late 2015 and early 2016. The hiring rate is the number of hires in a month, as a share of the total number of employed people.

There were about 5.7 million job openings at the end of May, down from about six million at the end of April. About 5.3 million people left a job, and 5.5 million people were hired in May. Both numbers were up from April.

—Josh Zumbrun

Now Hiring

Number of job openings per industry

Note: seasonally adjusted, 6-month moving average
Source: Labor Department

THE WALL STREET JOURNAL

EDUCATION

Student Debt Gets Attention of States

Studies show college students are terrible at keeping track of how much debt they are racking up in school, so states are working to make the cost of higher education clear—and there are signs the moves are slowing borrowing.

This month, Florida joined Indiana and Nebraska in requiring that colleges and universities provide detailed information about student debt and projected loan payments.

Under a law that went into effect July 1, Florida's institutions of higher education will have to provide students a yearly report detailing how much they have borrowed so far, their expected loan total and estimated monthly payments. The law applies only to federal loans, and disclosures will be required of all schools that disburse state financial aid.

"Our students need to be as informed about this debt and what it will cost over the life of the loan as they would be when they buy a car or a house," said Dorothy Hukill, the Republican chairwoman of Florida's Senate education committee and the bill's sponsor. "You should have the information. You have the information, you make your choice."

—Melissa Korn

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CHINA

Continued from Page One

The desperate home buyers are exposing Beijing's inability to control a housing market it has been relying on for economic growth. A decade ago, the real-estate sector, including construction and home furnishings, accounted for about 10% of China's gross domestic product, according to Moody's Investors Service. It now accounts for almost one-third, reflecting both a dearth of other investment options and the petering out of manufacturing growth.

With Chinese companies staggering under debt levels pegged by UBS analysts 164% of GDP, the government has turned to less-indebted corners of the economy to keep growth going.

At one time, low levels of household debt reassured government officials and economists that a property slump wouldn't trigger a wider financial crisis. But the property-buying binge has changed that equation.

Long-term household loans, mostly mortgages, now account for one-third of all new bank loans. Household debt stands at more than 42% of GDP, according to Moody's. That ratio has grown 9 percentage points in three years and now surpasses levels in China's emerging-market peers including Brazil, Mexico, Turkey and Russia. In the U.S., that ratio hit about 85% during the housing crisis.

Policy makers want to prevent the property bubble from getting worse, worried that any collapse could send defaults cascading through the banking system, infecting the overall economy perhaps for years to come.

On the other hand, they are concerned that an investment slowdown could hamper growth. Economists already are warning that the recent property controls are starting to cause developers to scale back on new projects, potentially denting growth later this year.

"Lessons from Japan and the U.S. told us that there is no such thing as an ever-rising market," says Li Xunlei, chief economist at Chinese brokerage Zhongtai Securities.

Frothy as prices have been, China's housing market isn't vulnerable to a full-blown property downturn like the one in the U.S. a decade ago, economists say. Chinese home buyers often are required to put at least 30% down.

Because Chinese banks only have a limited ability to sell off loans as securities, they don't offer risky mortgages like those that triggered the U.S. housing debacle. Moreover, home-equity financing that lets owners borrow against their homes hasn't taken off in China.

In Shenzhen, the average home sells for 44.4 times average annual household income, compared with around 12 times for homes in New York City, according to an analysis by Zhang Ming, a senior economist at the Chinese Academy of Social Sciences.

Chinese government data show that prices across 70 Chinese cities were 9.7% higher in May than a year earlier, a larger year-over-year increase than the 9.3% last September, when the current round of housing controls were instituted.

In some big cities, the frenzy has moderated somewhat. In Shanghai, the year-over-year increase was 31% in May, compared with 50% last September. Beijing posted a 22% annual increase in May, down from 33% in April.

Halfway across China in Lanzhou, a polluted industrial hub at the edge of the Gobi Desert, the housing market is booming. Homes for sale are packed with would-be buyers, including small-business owners who think that property is a better bet than shops or factories.

Prices started to take off in September, just as Beijing took its first steps to crack down. By December, Lanzhou's prices were 27% higher than a year earlier. In April, Lanzhou also cracked down with higher minimum down payments and limits on second- and third-home purchases in the city center.

QILAI SHEN/BLOOMBERG NEWS

Apartment buildings in Shenzhen, where the average home sells for a far higher household income multiple than in other high-cost cities.

"The housing market in Lanzhou is too heated," Gao Jia, deputy director of Lanzhou's housing authority, said in an April interview as he leaned back in his chair and smoked a cigarette. "The government needs to make sure the housing price is going up steadily, not too fast."

In Foshan, a city of seven million dotted with factories making refrigerators, television sets and other household appliances, home prices have risen 18% in recent months as buyers poured in after property controls were imposed in Guangzhou.

Mr. Pei, the advertising executive, was one of many Guangzhou buyers signing contracts in April for apartments at the Master Work high-rise overlooking the Desheng River in Foshan. He intended to pay for a three-bedroom apartment partly with the proceeds from a studio in Guangzhou he and his wife had just sold. He said it had gone up in price more than 50-fold since they bought it 13 years ago.

"No other investment is as profitable as property," he said. "Stocks are too risky."

One middle-aged homemaker was so eager to snag an apartment in a Foshan shopping-mall complex that she asked a broker to wait in line all night when sales started in May. "Foshan to Guangzhou is just like Brooklyn to Manhattan," she said. All 300 apartments sold out within 60 hours, according to the broker, Huang Kai.

The boom in Foshan hasn't cooled things off in Guangzhou. Sales agents for the Blessed and Colorful Apartments, a new high-rise complex in the southern part of the city, say that prices for the units have risen nearly 30% since they went on sale in January.

Zhang Ying, a 27-year-old web designer who makes about $1,500 a month, bought a two-bedroom apartment in another development in January. Her mortgage payments amount to nearly 80% of her income. "I'm essentially a slave to this property now," she says.

In some smaller cities, the property boom is helping to reduce a housing glut produced by earlier overbuilding—a goal of the central government.

Tangshan, a heavy-manufacturing city two hours east of Beijing, had benefited from home buyers driven out by new restrictions in the capital. The estimated time it would take to clear the inventory of unsold homes declined from 38 months last November to 27 months in May.

Many buyers appear to be investors who don't intend to move to the city or work there. In late May, Tangshan authorities raised down-payment requirements to discourage speculative buying.

The housing rally in Lanzhou, the central China industrial city, also was driven by buyers from outside the area, according to Mr. Gao, the housing official.

Zhang Xiaoqi, a retired accountant, was eyeing an apartment for her son. She was prepared to put 20% down on an apartment early this year. When Lanzhou raised the down-payment requirement to 30%, she gave up.

"Originally I could afford a home, but now it's too much," she said. She contends prices shot up because of the restrictions.

A 53-year-old engineer in Lanzhou was determined to buy. "The harder it is to get something, the more you want to buy," he said while browsing apartments decorated in Old Europe style, replete with chandeliers. "I need to buy before prices go up further."

At the end of last year, real estate accounted for 68.8% of China's household assets, Moody's says. In the U.S., it is less than 60%.

Mr. Ni, the housing expert at the Chinese Academy of Social Sciences, estimates that as much as 50% of China's home sales today are for investment, a situation that worries the Communist Party leadership.

"Houses are for living in, not for speculation," President Xi Jinping said at a December meeting that set main economic goals for 2017.

Nonetheless, the government has stopped short of imposing a property tax, which would discourage people from buying homes as an investment and leaving them empty by making it more expensive to own a home. Beijing has shown little political will to force a move that would raise costs for already stretched homeowners.

Releasing more land for development is another way to take the pressure out of the property bubble. But local governments rely on land sales to fund their programs and have an incentive to sit on land as it appreciates and sell it to developers in small increments.

The new rules instituted to tame the housing frenzy in Beijing and Shanghai have angered some buyers and sellers.

On a recent weekend, hundreds of people marched down a busy Shanghai shopping street to air grievances over deals thrown into jeopardy. Videos circulating on social media showed protesters clashing with police and some being dragged away—unrest highly unwelcome in a year of a major Communist Party conclave expected to consolidate Mr. Xi's power. Shanghai promptly eased some restrictions on developers and buyers.

Among protesters in front of Beijing's municipal hall one weekend in May was Cui Meng, a 30-year-old saleswoman. Earlier this year, she put up her apartment for sale and borrowed 900,000 yuan (about $132,000) from a friend to buy a three-bedroom home costing 4 million yuan.

After new property restrictions took effect in March, the buyer of her apartment pulled out and asked for the deposit back. Without the ability to sell her old home, Ms. Cui found herself unable to repay her friend and facing a mortgage bill representing about 65% of her and her husband's combined income. "It's too much pressure," she said.

—Pei Li contributed to this article

China's Property Frenzy

As home prices have surged in China, buyers have had to borrow more, pushing up household-debt levels.

*In July 2016, banks called in large amounts of corporate debt, propelling long-term household loans to a share larger than 100% of net new loans.

Source: National Bureau of Statistics (change in prices); Chinese Academy of Social Sciences (ratios); CEIC, People's Bank of China (loans); THE WALL STREET JOURNAL.

Fever Curve

China's megacities have had varying success in taming property rallies that in Shanghai sent prices up more than 50% in a year. Across the country in Lanzhou, prices crept up as the big cities cracked down.

Year-on-year change in home prices

1. **September 2016:** Beijing raises minimum down payment for first and second homes.
2. **October:** Guangzhou restricts nonlocals to only buying one home.
3. **November:** Shanghai targets fake divorces to get around home-purchasing rules and raises down-payment requirements for first homes.
4. **February 2017:** Several banks in Beijing and Guangzhou tighten mortgage rates.
5. **March:** Guangzhou raises down payments for second homes and sets a two-year wait before a homebuyer can sell. Beijing requires higher down payments from recently-divorced buyers and for second or luxury homes.
6. **April:** Lanzhou raises down-payment requirements.
7. **May:** Shanghai bans sales of homes in commercial-use properties.

Sources: WSJ calculations based on data from E-house China R&D Institute, SHKF Research THE WALL STREET JOURNAL.

SPIRE

Continued from Page One

has opened up on Craigslist.org and other websites, where they sell for $100 and up. The app owners recently asked Tinder, the dating app, to take down a profile hawking a Spireworks invite for $1,000.

Anthony Papavasiliou, a 38-year-old owner of a Fort Lee, N.J., Greek restaurant, has been posting on social-media sites seeking access since a friend showed him the app in action two years ago. He donated $250 to Creative Time, a New York nonprofit that supports artists that was giving out invites, but he didn't nab one.

"I just have to have it," he said, describing himself as "the kind of guy who wakes up at 3 a.m. to get the latest iPhone."

The app lets users control the colors of spires atop two buildings: One Bryant Park, dubbed the Bank of America Tower after its main tenant, and 4 Times Square, home to law firm Skadden, Arps, Slate, Meagher & Flom LLP and distinguished by a large neon logo of fashion label H&M.

The app is the brainchild of Mark Domino, a digital-media artist who built "multisensory musical instruments" while a student at Brown University. He is the son-in-law of Douglas Durst, the real-estate tycoon whose family company, the Durst Organization, owns the two midtown office towers. Mr. Domino works as director of digital media at Durst.

After sunset each night, app users can log in, choose a building and select from a palette of colors during a two-minute session. Options for sparkles add pizazz. Cloud-hosted software sorts the requests and instructs the lights that line the two spires, a combined 716 feet tall.

Usually only five users are allowed to actively change the colors at a time. So, on busy nights, a digital queue forms. Waits approached half an hour on July 4 this year. Red, white and blue were the only colors available that night.

"What is more powerful than getting control of the city?" asked Vincent Bruneau, the 36-year-old CEO of a company that runs a corporate-meeting app who scored an invite. "It's kind of supernatural."

Last year on a trip to Paris, Mr. Bruneau received a 6 a.m. call from a friend back in New York begging him to change the color of the spires so he could impress guests at a party. Bleary-eyed, Mr. Bruneau obliged.

Durst has added One World Trade Center, which it manages, to the app on special occasions, including the U.S. Open tennis tournament, the NYC Marathon and World AIDS Day.

Seven years ago, Mr. Domino wrote the code to control the spire lights. At the Durst holiday party in 2010, his father-in-law hit the button for the inaugural color change. Durst employees invited a few friends and tenants, who each got a few invites to give away.

The app's community grew slowly and by word-of-mouth. In the past year, it has increased dramatically and the number of users is approaching 10,000, Mr. Domino said. Each user can offer five invites.

Earlier this year one couple turned Durst's Times Square spire blue to reveal the gender of the baby they were expecting, and a handful of men have used it in marriage proposals, Mr. Domino said. One user hid his phone in his pocket and bet tourists near Times Square that he could change the spire's color as a magic trick, Mr. Domino said.

TIM CLAYTON/CORBIS/GETTY IMAGES

A night view of New York, showing the colored spires of Bank of America Tower and 4 Times Square.

At a 2015 party celebrating the listing of a posh Tribeca penthouse with clear views to Midtown, a broker with the app wowed potential buyers as they played rooftop croquet while being serenaded by a string quartet. "Talk about being king of the castle," said Elizabeth Kee of Core, the listing agent. The apartment sold for $8.3 million.

When Natalia Krasnodebska got a Spireworks invitation from her friend Ashley Zelinskie, she said she fired off a thank-you tweet. Almost immediately, Ms. Zelinskie, an artist currently showing at Sotheby's, was flooded with dozens of requests for invitations from strangers. She said she declined them all.

Mr. Domino said he didn't like the velvet-rope vibe that has grown around the app. He said that he wanted Spireworks to be an "open system to share in moments of discovery and play."

He said he is looking for ways to cut down on "bootlegging," perhaps by doing away with the invitation system in favor of one unlocked by charitable donations. Durst said it has had preliminary discussions with charity partners but declined to name them.

Mr. Domino also said he was dismayed how many of the app's most ardent fans are young men who want to use it to pick up women.

He said that in a recent survey of Spireworks users, bartenders at the Boom Boom Room, a millennial hot spot atop the Meatpacking District's Standard Hotel, complained the club was saturated with men using the app to try to seduce women.

James Geraci, a recent college graduate from the Boston area, tweeted to the official Spireworks account during a Memorial Day visit to New York seeking an invite. Some women were coming by his hotel room, which faced the spires, and he said he thought the app would be "a power move of a pickup line."

No one ever responded. Mr. Geraci said he "ended up having to try to impress the girls the old-fashioned way."

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LIFE & ARTS

HEALTH & WELLNESS

A Virtual Approach to Real Pain

For some patients, virtual-reality experiences provide a measure of relief

CLOCKWISE FROM TOP: JON KRAUSE (ILLUSTRATION); STEPHANIE KLEINMAN/USC; WALTER URIE; APPLIED VR

BY LUCETTE LAGNADO

IN A LOS ANGELES hospital a short drive from Hollywood, some patients are tapping into virtual reality. But at Cedars-Sinai Medical Center, 3D technology is there not for entertainment but pain relief.

Patients in chronic or acute pain have put on special goggles and traveled virtually through Iceland's waterfalls and valleys, floated among dolphins or meditated beside an idyllic coastline.

Brennan Spiegel, a Cedars-Sinai researcher, says a virtual-reality experience can reduce pain by 24% or more, according to clinical trials he conducted in the past two years. VR eased different types of pain, from cancer to orthopedic injuries to abdominal discomfort.

An immersive virtual-reality experience can commandeer a patient's brain so it no longer focuses on pain, says Dr. Spiegel, a gastroenterologist and professor of medicine. "It doesn't work on everybody, but when it works, it really, really works."

At a time when doctors are scrambling to curb the use of addictive painkillers, he and others say VR could be an effective alternative or complementary treatment.

Virtual-reality technology engages a person in a 360-degree visual experience. It has been used in medical research for more than two decades, to treat trauma, anxiety and even burn pain. The fact that it can now be accessed with headsets and mobile phones is fueling hospitals' interest.

Researchers at the Children's Hospital Los Angeles and Boston Children's Hospital are using virtual reality in studies on pain and anxiety in youngsters and adolescents. NewYork-Presbyterian/Weill Cornell Medical Center in Manhattan recently launched a VR study on patients in its burn center.

Virtual-reality experiences such as 'Bear Blast,' above left, can ease some patients' pain. Dr. Albert Rizzo, above, runs a VR lab in California. Below, Brandon Taitai uses VR while having his blood drawn at Children's Hospital Los Angeles.

AppliedVR, Inc., a private company headquartered in Los Angeles, says it is contributing and lending equipment or funding studies in four hospitals around the country to determine if virtual reality can ease pain and anxiety. The company also has sold virtual-reality equipment to about 100 hospitals. Chief Executive Matthew Stoudt says the firm has created or acquired a library of more than 20 experiences, as the VR scenarios are called.

Virtual reality holds promise in alleviating psychological and physical pain, says Albert "Skip" Rizzo, a psychologist who has run his own virtual-reality laboratory at the University of Southern California in Los Angeles since the 1990s.

"I don't think we have any illusions that you are going to have open-heart surgery and you are going to slap on the headset and do it without anesthesia," says Dr. Rizzo, a research professor in USC's psychiatry department.

But virtual reality can have "dramatic effects" on reducing pain, he says.

Years back, it was hard even to get funding. "A lot of the agencies thought it was 'Star Trek,'" he recalls. But the landscape has changed dramatically in the past year or two, and he believes that "clinical virtual reality" will be used more broadly in patient care. In 2015, Dr. Rizzo received a consulting fee of $1,200 from appliedVR.

"It is Christmas time for virtual-reality researchers," says Hunter Hoffman, a VR pioneer and research scientist at the University of Washington in Seattle, who has used virtual reality to help burn victims for the past 20 years. Once upon a time, it was a costly research niche. "We used $90,000 computers and the helmet weighed 8 pounds," Dr. Hoffman remembers. Yet it was effective, and he and a research partner, Dr. David Patterson, used it to ease the pain burn victims felt. They designed a VR experience known as SnowWorld which used colors such as white and blue. "Virtual reality hasn't been used as widely as it should be," Dr. Hoffman says. But now, he believes, "we are at the transition phase between research and clinical practice."

At Cedars-Sinai, patients in Dr. Spiegel's trials used an $800 kit consisting of a Samsung headset and a Galaxy phone to access VR "experiences." The gear was provided by appliedVR, in partnership with Samsung.

For some of the studies, the experiences included a tour of Iceland's terrain and a game called "Bear Blast," where participants shoot balls at animated teddy bears. In another experience—a guided relaxation and meditation session alongside a waterfront—an unseen narrator soothingly intones: "See if you can offer loving kindness to yourself."

A study published in March about a group of 50 Cedars-Sinai patients who were offered the virtual-reality teddy bear game for their pain found "statistically significant and clinically relevant" improvement. Another 50 patients, who were offered a relaxing video with scenes of lakes and running streams, experienced less relief. The paper, which appeared in the Journal of Medical Internet Research Mental Health, concluded that virtual reality "may be an effective adjunctive therapy" for hospital patients. Dr. Spiegel was the senior author.

In a new trial, Dr. Spiegel took 120 patients who were in pain and randomly assigned half to try VR experiences and half to watch a relaxation channel on hospital TV. Preliminary results show a larger drop in pain among the VR group than the TV one, he said.

He now plans to measure whether there was a drop in the patients' opiate use. Dr. Spiegel says he received a $1,250 consulting fee from appliedVR and was reimbursed $889 for transportation; he has no other financial ties to the company. Samsung, in partnership with appliedVR, partially funded the most recent Cedars-Sinai clinical trial.

Ernest "Buck" Shearer, a 40-year-old Cedars-Sinai patient who has endured considerable pain related to Crohn's disease, took part in a trial last spring and found relief with virtual reality. "It distracts your mind completely," he says. Mr. Shearer, who says he was on the opioid drug Dilaudid while hospitalized, says he would reach for the goggles during rough stretches between doses of the painkiller. "It helps you get through the hump," he says. Playing Bear Blast was a welcome distraction. "Once, I played the game and forgot it was time for my pain medicine."

JoAnn Difede, a psychologist and professor at NewYork-Presbyterian and Weill-Cornell Medicine, recently began testing VR on burn victims having staples removed after surgery. AppliedVR is funding her pilot study. "Burn pain is extraordinarily difficult to control," says Dr. Difede, even using opiates. Dr. Difede, who has used virtual reality to treat trauma victims of the 9/11 attack and in the military, believes in its potential.

At Children's Hospital Los Angeles, a trial led by Jeffrey Gold, a pediatric psychologist, offered patients a VR experience—playing Bear Blast—while they had their blood drawn. This simple procedure can be distressing for children who have complex diseases such as cancer. "They have been stuck numerous times and every needle poke is another trauma," Dr. Gold says. The study involved more than 100 patients ages 13 to 21, some of whom were offered VR, while others were given the usual care. The trial was funded by appliedVR. Dr. Gold says he has been an unpaid scientific adviser to the company and is negotiating to acquire options in it.

Brandon Taitai has leukemia and has been a Children's Hospital patient since 2014. The 15-year-old says he isn't afraid of needles or having his blood drawn but enjoyed the VR experience. While playing Bear Blast he was "a lot more focused on the game" than on the blood test.

Boston Children's Hospital has been using virtual reality to help calm children before they receive medicine intravenously or undergo endoscopies or colonoscopies. Kate Donovan, the hospital's Innovation Technology Coordinator, says children like the goggles. "It is a new toy for them," Dr. Donovan says. While the headsets aren't intended for anyone under 13, Boston Children's has offered them to patients as young as 8 whose parents have consented. The hospital is investing in more headsets from appliedVR and wants to study if VR can reduce reliance on pain medicine.

To Dr. Spiegel of Cedars-Sinai one big advantage of virtual reality is that it has no side-effects other than possible dizziness. "The worst that happens is they [the patients] are entertained, but there is very little risk."

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OPINION

REVIEW & OUTLOOK

Keystone Kops Collusion

President Trump's critics claim to have uncovered proof, finally, of 2016 collusion between the campaign and the Kremlin. Another reading of the meeting between Donald Trump Jr. and a well-connected Russian lawyer is, well, political farce.

Did Don Jr., a Russian pop star and a lawyer steal the 2016 election?

In June 2016, Mr. Trump Jr. arranged an appointment in Trump Tower with the lawyer, Natalia Veselnitskaya. He said in a statement that he hoped to acquire opposition research about Hillary Clinton, and he even pulled in Trump son-in-law Jared Kushner and then campaign manager Paul Manafort. By Mr. Trump Jr.'s account, Ms. Veselnitskaya relayed nothing to compromise Mrs. Clinton and then lobbied him about the Magnitsky Act, a 2012 U.S. law that sanctions Russian human-rights abusers.

According to the emails that Mr. Trump Jr. released Tuesday, Mr. Trump Jr. agreed to meet with Ms. Veselnitskaya after he was approached by Rob Goldstone, a publicist who offered to pass along "some official documents and information that would incriminate Hillary and her dealings with Russia and would be very useful to your father." He wrote that this information "is part of Russia and its government's support for Mr. Trump."

The appropriate response from a political competent would have been to alert the FBI if a cut-out promised material supplied by a foreign government. Mr. Trump Jr. instead replied that "if it's what you say I love it."

Then again, the Trumps knew Mr. Goldstone through the Russian pop star Emin, aka Emin Agalarov, whose father partnered with Donald Trump Sr. in bringing the Miss Universe beauty pageant to Moscow in 2013. Mr. Trump Sr. appeared in a music video with Emin the same year. Mr. Goldstone said that "Emin just called and asked me to contact you with something very interesting"—info his father got from the "Crown prosecutor of Russia." Russia's "Crown prosecutor" doesn't exist.

Mr. Trump Jr. responded that "perhaps I just speak to Emin first." Mr. Goldstone brokered the call, reporting that "Ok he's on stage in Moscow but should be off within 20 Minutes so I am sure can call." Subsequent messages show Emin asked Mr. Trump Jr. to meet with Ms. Veselnitskaya, who was well-known as an anti-Magnitsky operative at the time. Mr. Goldstone publicly checked into Trump Tower on Facebook during the meeting, which isn't how a KGB man would normally conceal the handoff of state secrets.

In the daisy chain from Russian oligarch to singer to PR go-between to lawyer to Trump scion, which is more plausible? That Don Jr. was canny enough to coordinate a global plot to rig the election but not canny enough to notice that this plot was detailed in his personal emails? Or that some Russians took advantage of a political naif named Trump in an unsuccessful bid to undermine the Magnitsky law they hated?

The problem is that President Trump has too often made the implausible plausible by undermining his own credibility on Russia. He's stocked his cabinet with Russia hawks but dallied with characters like the legendary Beltway bandit Mr. Manafort or the conspiratorialist Roger Stone. His Syrian bombing and energy policy are tough on Russia, but Mr. Trump thinks that if he says Russia interfered in 2016 he will play into the Democratic narrative that his victory is illegitimate.

Thus in retrospect the John Podesta and Democratic National Committee hacks—still so far the tangible extent of Russian meddling—did less damage to U.S. democracy than it has done to the Trump Presidency. The person who should be maddest about the Russian hacks is Mr. Trump.

A Course Correction for Japan

Shinzo Abe's popularity has fallen to new lows according to three polls this week, and in response the Japanese Prime Minister is promising to reshuffle his cabinet next month. The ruling Liberal Democratic Party was routed in Tokyo's local elections this month, winning a mere 23 out of 127 seats on the municipal assembly, down from 57. But the bad news for Mr. Abe could be good news for Japan if it forces him to refocus his attention on the economy.

Accusations that Mr. Abe helped a friend win approval to open a veterinary school in a special economic zone have damaged the Prime Minister's reputation. That came on top of a scandal involving an ultranationalist group with ties to his wife that bought land from the government at a fraction of the market price.

Mr. Abe also lost support after he announced in May his intention to amend the constitution to insert a clause explicitly allowing the Self-Defense Forces to exist. While this change is unobjectionable to most Japanese, it is widely seen as unnecessary because the pacifist constitution imposed on Japan after World War II is already interpreted as allowing it to practice collective defense with its allies.

Mr. Abe's critics fear he'll use the amendment process to make more controversial changes to the constitution. His administration pushed an antiterrorism law through the legislature last month that is so broadly worded there are fears the authorities could use it to target opposition parties and curtail civil liberties. The LDP bypassed a committee vote to avoid opposition scrutiny of the bill.

The Prime Minister will now have to re-evaluate his agenda in light of an approval rating that has halved to around 33% from 66% in a matter of months. While the opposition remains weak, he could face a leadership challenge within the LDP. Pursuing an unpopular constitutional revision would likely hasten his demise.

Mr. Abe still retains support for his efforts to rejuvenate the economy, even as he has failed to follow through on promises of reform. The Bank of Japan has failed to deliver on its 2% inflation target, and real wages and consumer spending continue to stagnate. The bright spot is the boost exporters and tourism have received from the weak yen, but this has come at the expense of household spending power.

If Mr. Abe tackled reform of Japan's labor laws instead of constitutional revision, it would give an immediate boost to business confidence. One reason companies aren't offering wage increases despite low unemployment is that they carry excess employees on their payrolls due to restrictive rules on layoffs. This hidden unemployment is a huge drag on productivity. Allowing companies to hire and fire more freely would be initially unpopular, but it would deliver the economic payoff that Mr. Abe needs to salvage his premiership.

After Victory in Mosul

Iraqi Prime Minister Haider al-Abadi declared victory Monday over Islamic State in Mosul, and Americans can also take pride at the end of a bloody three-year campaign that would not have happened without U.S. leadership and arms. The triumph will be short-lived, however, if the Baghdad government and U.S. repeat the mistakes they made after the successful "surge" of 2007-2008.

How the U.S. and Iraq can prevent Islamic State from rising again.

The victory removes Islamic State from the capital of the self-styled caliphate that Abu Bakr al-Baghdadi declared after routing the Iraqi army in Mosul in June 2014. It provides relief to tens of thousands of Iraqis living in fear of torture or death for even minor offenses against Shariah law, or for being a non-Muslim.

It is also a morale boost to the Iraqi military and Mr. Abadi, who has proved to be a major improvement over predecessor Nouri al-Maliki. Particular credit goes to the Kurdish *peshmerga* who were the main resistance to Islamic State in 2014 and prevented a larger rout.

The biggest problem with the Mosul campaign is that it took so long. Barack Obama never wanted to admit that his 2011 withdrawal of all U.S. forces was a blunder that required a U.S. military return to Iraq. He thus deployed a light footprint limited mainly to special forces and air power.

New Defense Secretary Jim Mattis accelerated the pace of battle after January. But the ability of Islamic State to survive in Mosul for so long gave it an élan in the Islamic world that helped recruit young radicals and spread its brand around the globe.

Defeat in Mosul diminishes that appeal, a decline that will continue as the U.S. coalition closes in on Islamic State's Syrian stronghold in Raqqa. But the threat won't vanish, as the jihadists disperse into smaller cells in towns and cities across the Sunni heartland. The jihadists will return to their post-Saddam insurgent tactics and wait to exploit bad governance or more sectarian conflict.

"We have another mission ahead of us, to create stability, to build and clear Daesh cells, and that requires an intelligence and security effort, and the unity which enabled us to fight Daesh," Mr. Abadi said Monday, using the Arabic acronym for Islamic State. We hope he means it.

He could start by declaring his support for local Sunni government and preventing Iran-backed Shiite militias from treating Sunnis like members of Islamic State as they go door to door in Mosul. He needs to rebuild Mosul rapidly and more effectively than his government has Fallujah and other former Islamic State-run cities. (See Seth Jones nearby.)

The Trump Administration can help by negotiating a modest U.S. military presence that will remain in Iraq for the long run. Mr. Mattis told the U.S. Senate in June that such a force could serve "in a training role and mentoring role in Iraq if we work that out with the government." A U.S. presence will serve as a moderating voice among the Sunni, Shiite and Kurdish factions. And it may give Mr. Abadi more courage to resist becoming a de facto subsidiary of Iran and its Hezbollah-like militias in Iraq.

This will be crucial as September's Kurdish-independence referendum approaches, which may threaten the Abadi government. Iran would love a fractured and diminished Baghdad to replace Mr. Abadi with an ally like Mr. Maliki. A politically stable and independent Iraq, by contrast, would improve the chances of stabilizing Syria after Islamic State is swept from Raqqa. There are no permanent victories in the Middle East, but the liberation of Mosul is an important milestone in the war against radical Islam.

Trump Agonistes

BUSINESS WORLD
By Holman W. Jenkins, Jr.

Many decisions by the Trump-for-president campaign were ill-advised. Certainly that goes for a meeting between the president's son and a Russian lawyer who claimed to have dirt on Hillary Clinton but was really trying to get her foot in the door to lobby the Republican nominee against the Magnitsky Act.

The Washington Post celebrates the latest revelation as a "grave new set of facts." Maybe this really is the beginning of the end, but an awful lot depends on the email bluster of a former British tabloid journalist who apparently was the go-between.

Before keeling over, remember what else was going on at the time. The U.S. media even then were getting ready to pour considerable resources into trying to corroborate lurid "Trump Dossier" accusations *explicitly attributed by the dossier's author to Russian intelligence*, and assembled at the expense of Republican and Democratic opponents of Mr. Trump.

A lot of what you're seeing is just naked political warfare, at which Team Trump is failing badly, in fact getting buried.

With qualification, we might even recommend former drama critic Frank Rich's New York magazine cover story insisting on a Watergate parallel. No, Mr. Trump is not Nixon, and Watergate, in its antecedents, was more like the polar opposite of what is now befalling the Trump administration. Nixon and colleagues were lifelong political operatives, on their way to a genuine and sweeping mandate, and their crimes were crimes that Mr. Trump has hardly had time yet to master.

But Mr. Rich dwells on the dubious Watergate analogy for the sake of a more newsy point: It took many, many months for Nixon's political base to unravel and drive him from office.

In fact, Mr. Rich's speculations that Mr. Trump, Nixon-like, might resign will sound very much like speculation you've read in this column. The presidency is hard work. Mr. Trump keeps finding himself cast in the role of "loser." The damage to his business and personal brand is becoming intolerable.

Now an investigation is under way. Even if special counsel Robert Mueller dispenses with collusion, even if he runs out the string on obstruction, is it conceivable that a competent prosecutor—with the 185,053-page code of federal regulations in one hand and Mr. Trump's every loan application, conservation easement, etc. in the other—won't find something, and probably 100 somethings?

The relevant text here isn't the Watergate memoirs Mr. Rich consults, but "Three Felonies a Day" by Boston civil-rights lawyer Harvey Silverglate, who says the government can always find something on anyone.

It was Nixon himself, Mr. Rich tells us, who said it's not the crime, it's the coverup. But it would be even truer to say it's the investigation. The existence or nonexistence of an investigation is almost an exogenous factor of its own.

Mr. Rich fancifully likens Russia's hacking to Nixon's DNC break-in, and implies Trump complicity. What likely won't be investigated, though, is the numerous illegal intelligence leaks meant to harm Mr. Trump, though these are far more reminiscent of the Nixon White House sending ex-CIA agents to burglarize dirt on political opponents.

Surprise, he didn't run his campaign any smarter than his government.

The one Russian intervention that may actually have influenced the election was fake intelligence planted about Hillary Clinton that prompted FBI Chief James Comey's decision to clear Mrs. Clinton publicly of email charges. This likely won't be investigated either, under the guise that the intelligence is too "sensitive," but also because it fits neither party's preferred narrative of blame-laying.

Also unlikely to be investigated is the Trump dossier. Though it may well be a Russian plant, apparently it was financed by U.S. political operatives and has been exploited by Trump opponents to claim a dark conspiracy.

Each of these episodes features either the FBI, U.S. intelligence leakers, the press or major party figures "colluding" (in one sense of the word), wittingly or semiwittingly, with Russian intelligence. But there will be no investigation.

Unlike Mr. Trump, these institutions are not expendable. The gnashing of teeth would be so much greater than any from merely driving out of office an "outsider" president, arguably an incompetent one, who isn't fulsomely claimed by either party and whose election is regarded as an institutional and statistical aberration anyway.

The great irony is that Mr. Trump, for all his public vulgarity and personal sleaziness, is the political innocent in this drama, and will be sacrificed to protect the sophisticates.

Democratic and news-media types are already pronouncing the verdict of treason. We can't resist ending with Mr. Rich's 1974 quote from Elizabeth Drew about Nixon, which applies as much to some of Mr. Trump's critics today: "There was no one to challenge his assumptions, to set him straight in his confusion of political opponents with enemies. He didn't recognize boundaries. He never learned to observe limits—anything went."

A Trump Disappointment For U.S. Manufacturers

By Jay Timmons

President Trump has been a vigorous and outspoken supporter of manufacturers. That's why his nomination of Scott Garrett as president of the U.S. Export-Import Bank is such a disappointment.

U.S. manufacturers have enthusiastically supported Mr. Trump's previous nominees and his initiatives on comprehensive tax reform, infrastructure investment and regulatory reform. We were energized by his endorsement of the Ex-Im Bank.

But Mr. Garrett's confirmation would be a terrible trade deal for America. His record of aggressively undermining the Ex-Im Bank is tantamount to a vicious trade war against U.S. manufacturing workers.

A quick look at the Garrett record as a congressman before he lost reelection last year shows his contempt for the agency he now seeks to lead. In 2012 and again in 2015, he voted against multiyear reauthorizations of the bank and declared to his House colleagues: "We have the opportunity today to keep the Export-Import Bank out of business. We should take each of those opportunities."

The Ex-Im Bank is an agency that returns a profit to the U.S. Treasury. Some suggest pragmatic reforms to improve its benefits to U.S. exporters.

But Mr. Garrett isn't a reformer; he's a destroyer. He has worked consistently to restrict the agency's ability to support U.S. jobs through exports, voting more than a dozen times to prevent the agency from fulfilling this critical mission.

If we want to make manufacturing in the U.S. even greater, we cannot get there by letting other countries take deals away—losing business with the 95% of the world's customers who live outside America's borders.

The Ex-Im Bank, when fully functioning, is America's most effective tool to level the playing field when trading with other countries. At least 85 foreign-government-backed export credit agencies are working aggressively to support their own domestic industries, pulverizing manufacturers in the U.S.

While the Ex-Im Bank's board has been hobbled without a quorum, countries like China and Germany are devoting hundreds of billions of dollars to their official export credit agencies and inflicting long-lasting harm on the U.S. manufacturing base.

Does Scott Garrett want to lead the Ex-Im Bank or kill it?

One small energy company, FirmGreen Inc., had to take $180 million in business for U.S. manufacturers to China because the Ex-Im Bank's board lacked a quorum to approve the deal.

Elsewhere, U.S. companies have lost foreign satellite sales because the Ex-Im Bank isn't fully operational yet. Singapore-based Kacific Broadband Satellite told U.S.-based companies not to bother bidding on its new project unless Ex-Im financing is available.

For his part, Mr. Trump understands exactly what is at stake. American manufacturers are thankful to have a president who is willing to break through all of the rhetoric and misinformation about the Ex-Im Bank in order to get it—and America—back in business.

But the politician who wants to lead it, Mr. Garrett, would do exactly the opposite.

Those like Mr. Garrett who have stood in the path of a fully functioning Ex-Im Bank are responsible for moving America's jobs, wealth and factories to other countries. The president should withdraw his nomination.

Mr. Timmons is president and CEO of the National Association of Manufacturers.

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OPINION

The Trouble With Sanctioning Chinese Steel

By Frank Lavin

The Trump administration is due to release its findings shortly on whether steel imports threaten U.S. national security. It is reportedly considering imposing "232" sanctions, referring to an article in the 1962 Trade Expansion Act that allows the president to impose tariffs. This provision has been invoked only five times in its 55 year history, as past presidents preferred to use antidumping and countervailing duty cases to impose more targeted sanctions.

Besides risking backfire, the Trump strategy may be a suboptimal approach to aiding the U.S. industry.

Historically, the U.S. hasn't been shy about helping the steel industry. At the end of 2016, the federal government had 113 protective measures in effect for that industry alone, the work of both Republican and Democratic administrations. As undersecretary of commerce under President George W. Bush, I was responsible for this enforcement program.

There is a broad consensus among trade professionals that China and other nations subsidize their steel industries, though the extent of this aid and whether it violates World Trade Organization agreements is more debatable. A program in the U.S. to help a steel mill expand in an economically depressed area, for example, would be a legal subsidy.

The issue is further complicated by long-term trends of automation and product substitution that put more downward pressure on the industry than trade issues. Steel plants need fewer workers than they used to. Cars use less steel. Advances in material sciences allow for specialty plastics and polymers in industrial use.

The American Iron and Steel Institute (AISI) states that the U.S. steel industry employs some 140,000 workers, which might include total company employment such as accountants, warehouse staff and cafeteria workers. AISI also notes that in 30 years, the industry has enjoyed a fivefold increase in productivity. In other words, even if the Trump administration is completely successful in its efforts, steel employment will almost certainly continue to shrink.

Here are a few points to keep in mind in contemplating a steel strategy.

First, tariffs are more useful as a means than as an end. The threat of tariffs can help in negotiations, but they are more likely to backfire if put into effect. A wise negotiator will use the prospect of tariffs to break down trade barriers.

The goal is to get the other country to lower tariffs, not to get the U.S. to raise them. If you must raise tariffs, keep the hike modest and short-term to minimize the cost to the U.S. economy and the prospect of retaliation.

DENVER POST/GETTY IMAGES

Competition from China is but one of many problems facing U.S. steelworkers.

That's why targeted tariffs are preferable to the blanket 232 variety. The more selective approach allows the government to fight unfair trade practices on a case-by-case basis.

Second, have a positive trade agenda by liberalizing with those who play by the rules. Trade friction isn't a substitute for a trade policy. Bad cops work best if paired with good cops.

Mr. Trump has stated that the Trans-Pacific Partnership is unacceptable, but he has yet to state what would be acceptable. The more countries we have playing under rules that the U.S. has negotiated, the better off the steel industry, and the U.S. economy in general, will be.

Third, keep cost-benefit analysis in mind. I am not in favor of foreign subsidies, but we should note that they can help the U.S. economy, even as they put pressure on the U.S. steel industry.

It's not just that imported steel has a 30% share of the U.S. steel market. The imports constrain pricing across the entire market. So the U.S. steel industry might be worse off with more imports, but industries that use steel, such as autos, appliance manufacturers and construction, might be better off. Measured in aggregate, tariffs will likely hurt the U.S. as much as the target countries.

Not only are tariffs a dead-weight cost that will hike U.S. costs and inflation, but they will also open the door to retaliation. Some of America's trading partners might accept the tariffs with equanimity, but if history is a guide, most will feel compelled to respond with their own tariffs. This is how trade wars start.

Fourth, fight micro problems with macro solutions. If employment in the steel industry will continue to shrink, let's get serious about economic growth. The U.S. needs tax reform and an aggressive growth culture to make job creation as easy as possible. A 57-year-old steelworker is unlikely to learn computer code, but he can learn to operate shaping machines for specialty polymers, not radically different from metal-bending.

Finally, be aware of rent-seeking. Companies' competitiveness is constantly changing, and those which are failing to keep up with the market may ask for government help. Acceding to their request for tariffs would not only be the wrong policy, but it would make the U.S. as a nation less competitive.

President Trump has a tough set of decisions in front of him. Can he push back against illegal subsidies while avoiding collateral damage to the U.S. and other economies? Knowing when to throw a punch might be part of the solution, but knowing when to hold a punch might be even more important.

Mr. Lavin is CEO of Export Now, which helps U.S. brands in China e-commerce, and served as U.S. undersecretary of commerce for international trade from 2005 to 2007.

America Isn't Ready for a 'Cyber 9/11'

By H. Rodgin Cohen
And John Evangelakos

The prospect of a "cyber 9/11" grows likelier every day. In May the WannaCry ransomware attack, affecting hundreds of thousands of computers, disrupted health care and telecommunications across the world. American investigators now believe Russian hackers precipitated the continuing Gulf diplomatic crisis by planting false news stories on the Qatari state news agency's website. And late last month another ransomware outbreak, Petya, went global.

Cyberattacks have become capable of much more than stealing consumer information or embarrassing business executives and politicians. Whether conducted by lone wolves or nation-states, they can compromise the safety of medical, food and water systems, disrupt transportation or even destabilize nuclear plants. Such attacks can undermine democratic institutions or encourage violence by spreading false information. The cyber threat has become existential.

Enhanced cybersecurity controls from private and public organizations are necessary but insufficient. The problem hasn't been lack of action. It is the multiplicity of programs and division of responsibility that diminish their effectiveness. At least 11 federal U.S. agencies bear significant responsibility for cybersecurity: the Central Intelligence Agency, National Security Agency, Department of Homeland Security, the Treasury Department, three branches of the military, and three federal banking agencies.

Congress should merge these disparate cybersecurity programs into one cabinet-level agency that also serves as the focal point for collaboration with the private economy. Call it the Department of Cybersecurity. This would be an extraordinary and risky measure, requiring careful implementation. But the magnitude of the danger, and the limits of America's current ability to defend against the cyber threat, compel a bold response.

Some leaders in government and business say they doubt this kind of unification is feasible, but very few have questioned whether it is desirable.

Lessons from the creation of the Department of Homeland Security 15 years ago can help Congress and the president implement the idea more smoothly. What to avoid? Fragmented congressional oversight—more than 100 committees and subcommittees oversee the DHS. Constant bureaucratic turf battles have hurt the DHS's effectiveness. As did raising public anxiety while failing to provide concrete instructions for action: Initiatives like the DHS daily color codes should be avoided.

A new cabinet-level agency could help—if officials have learned the lessons of U.S. Homeland Security.

The new agency would need a clearly defined mission, consolidation of reporting into a limited number of congressional committees, and an independent, expert body providing periodic review to ensure accountability. There is also an opportunity for the new agency to be formed in a more deliberate way, drawing on leadership from the private economy to promote efficiency and cost-effectiveness.

Most important, the new agency should be led by someone with demonstrated management skills who is fully empowered to bring all the strands of cyberdefense together and to create a credible threat of retaliation. Leading candidates that come to mind are former NSA Chief Keith B. Alexander, former Assistant Treasury Secretary Leslie Ireland, Scott Charney of Microsoft and former Vice Chairman of the Joint Chiefs of Staff Edmund P. Giambastiani.

This leader would inherit a group of agencies that are already collaborating more effectively than before 9/11, but there is still room to improve coordination. Civilian networks are separated from military ones. Jurisdictional limitations to domestic, or homeland, concerns impede global cooperation.

Although coordination between the federal government and the private economy has improved, it is still not a substitute for a unified defense against a global threat. In today's multiagency environment, information and knowledge are too often isolated within individual agencies. As the DHS experience proved, agencies that have competing objectives eventually end up undermining the country's ability to address security challenges. These problems would be more effectively addressed by a single agency, if it had the authority to succeed.

Perhaps most important, talent remains dispersed. Substantial cyber expertise exists throughout government, but these experts would be far more effective working under a unified command structure. Such an agency would likely attract the best and brightest at a time when those minds can mean the difference between cyber catastrophe and cyber protection.

A unified federal agency would also be best suited to provide crucial coordination with state and local governments and the business community. Private companies are a critical source of technological breakthroughs and early warnings, and the states have often been laboratories for policy innovation. These efforts could be accelerated and enhanced through leadership from a single, properly structured federal authority.

A new federal office for cybersecurity can provide the unification, collaboration, coherence, skills and leadership to implement a comprehensive policy that counters the existential cyber threats America must confront. Too much is at stake to ignore the problem any longer.

Mr. Cohen, senior chairman of Sullivan & Cromwell LLP, served on the National Security Agency's Cyber Advisory Committee (2012-16). Mr. Evangelakos, a partner at Sullivan & Cromwell, leads the firm's cybersecurity practice.

Iraq Declares Victory in Mosul, but the War Is Far From Over

By Seth G. Jones

Iraqi Prime Minister Haider al-Abadi arrived in Mosul on Sunday, dressed in a black military uniform, and announced the "liberation" of the city where Islamic State declared its so-called caliphate in 2014. "The world did not imagine that Iraqis could eliminate Daesh," he remarked, using the Arabic acronym for the group.

But this war is far from over. A growing number of Iraq's Sunnis are disenchanted with the slow pace of reconstruction and frustrated with a Baghdad government they consider too friendly to Iran.

The U.S. needs to shift its focus quickly from supporting military operations in cities such as Mosul to helping the Iraqi government better address political grievances. Failure risks sowing the seeds of Islamic State's resurgence.

Islamic State started strong in 2014, taking advantage of Sunni grievances against the Iraqi government. At its peak, according to a Rand Corp. analysis, Islamic State controlled nearly 58,000 square kilometers of territory in Iraq, home to more than six million people.

But beginning in 2016 the group lost significant territory in cities such as Sinjar, Fallujah, Ramadi and now most of Mosul to a combination of U.S. and allied strikes, ground assaults by the Iraqi security forces, and Sunni, Shiite and Kurdish militia advances.

Despite these successes, there are troubling signs in Iraq, particularly within the Sunni Arab community. Take the western city of Fallujah. A year after Iraqi forces liberated the city, residents are disenchanted because of the slow pace of rebuilding, the absence of government services and skyrocketing unemployment. "This area was liberated in June, and it still looks the same now," Hussein Ahmed, a Fallujah resident, told a visiting journalist earlier this year. "I speak for thousands of people when I say the government has forgotten us."

Many Sunnis also look warily at growing Iranian influence. Tehran is committed to increasing its influence in Iraq through such organizations as the Popular Mobilization Units, militias that include as many as 150,000 Shiite fighters. To the consternation of many Sunnis, Iraq's Parliament passed a law in December 2016 formally integrating the Popular Mobilization Units into Iraq's security forces. Today, such Shiite forces are nearly as large as the entire Iraqi army.

Islamic State fighters are attempting to leverage these grievances in several ways. Its operatives have recruited new members who are unhappy about the pace of reconstruction in Sunni towns and cities, angry about friends or family members who have been abused by pro-government militias, and nervous about Iran's growing influence in the country. Iraq's security services have noted with alarm that Islamic State cells are re-establishing intelligence networks in Ramadi and Fallujah.

Even after last week's defeat in Mosul, Islamic State still holds nearly 10,000 square kilometers of territory in Iraq with a total population of one million, including the western city of al Qa'im. It also boasts more than 15,000 fighters across the Iraq-Syria battlefield and more than $500 million in annual revenue through the end of 2016, though Islamic State's monthly revenues have declined in 2017.

Islamic State emerged in the vacuum of the U.S. withdrawal in 2011. Don't make that mistake again.

Islamic State is also shifting from conventional to guerrilla operations, including ambushes, raids, suicide attacks, car bombs and assassinations. The group is relocating its personnel and battlefield supplies to mountains, caves and desert areas around the Iraqi city of Haditha, Lake Tharthar, and the Iraq-Syria border region. Islamic State has also used multirotor and fixed-wing drones for surveillance and, occasionally, strike missions. In addition, the group is restructuring its *wilayahs*, or provinces, and decentralizing its organizational structure in Syria and Iraq to conduct more effective guerrilla operations.

The U.S. needs a more aggressive political strategy to prevent Islamic State's revitalization. U.S. diplomats and military leaders need to encourage Iraqi leaders to better address Sunni grievances. One step would be to cut in half the number of Shiite forces under the Popular Mobilization Units and transition militia fighters to civilian employment. U.S. officials might also press Baghdad to withdraw Shiite militias from the Iraq-Syria border, including in Nineveh, where they facilitate a regional pipeline of Shiite fighters from Iran all the way to Lebanon.

The U.S. should also help coordinate international assistance coming into Iraq, with an emphasis on rapid repair of damaged infrastructure in urban centers such as Mosul, Ramadi, Fallujah and Beiji. Reconstruction assistance should be openly associated with efforts to move the Iraqi government and Sunni Arabs closer together.

Islamic State's predecessor, al Qaeda in Iraq, began to reconstitute itself in 2011 in part because of Baghdad's failure to address Sunni grievances and Washington's decision to withdraw U.S. forces and inability to influence Iraqi politics. It would be doubly tragic to make the same mistake again today.

Mr. Jones is director of the International Security and Defense Policy Center at the Rand Corp. and author of "Waging Insurgent Warfare: Lessons from the Vietcong to the Islamic State" (Oxford).

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Notable & Quotable: Following

From "For Trump Critics, to Follow Is to Lead" by Byron York at the Washington Examiner, July 10:

President Trump's performance at the G-20 summit in Germany produced a wave of commentary claiming the United States has abdicated its role as world leader. . . .

The talking point quickly became conventional wisdom in Europe. . . .

While there were disagreements in Hamburg between Trump and the other 19 nations on lots of things, including trade, the main factor in all the end-of-American-leadership talk was the president's decision to pull out of the Paris Climate Accord.

The idea is that, by not going along with the other 19 nations . . . the United States is no longer leading.

In other words: One can only lead by following the group.

It's an odd formulation, reminiscent of the old Barack Obama "leading from behind" jokes.

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THE MIDDLE SEAT | By Scott McCartney

Hope for Faster Airport Security Lines

Two changes in the screening process now being tested could end nuisances like laptop bans and the 3-ounce rule

TWO DIFFERENT airport-screening changes—one high-tech, one very low—show promise at speeding up security lines and improving accuracy at finding weapons.

The Transportation Security Administration, airports, airlines and manufacturers are gearing up for a major effort to replace X-ray machines at checkpoints with computed tomography scanners—CT scanners similar to what hospitals use. They can give a clean, 3-D look inside cluttered bags, which have become a big problem for TSA.

These machines could eliminate calls for cabin laptop bans because they can look inside electronics and find explosive material. They could someday do away with 3-ounce, quart bag restrictions on liquids, since they can measure the density of any liquid and determine if it's explosive. And they can boost the number of people screened at a checkpoint each hour, reducing lines.

"When and if we go to deploy these systems...the intent would be that laptops and liquids stay in" bags, says Steve Karoly, TSA acting assistant administrator.

RYAN DAVID BROWN FOR THE WALL STREET JOURNAL

The ID tag in the corner of this bin at Denver International Airport shows up on X-rays and can reduce bad bin handoffs between screeners, which sometimes force shutdowns at TSA checkpoints.

At the other end of the technology spectrum, bins with an ID tag visible on an X-ray screen are being tested at select checkpoints in Denver, New York LaGuardia, Indianapolis and Ontario, Calif. It's as low-tech as you can get, but it's showing it can speed up screening, at least according to data collected by the manufacturer.

A metal plate with a three-character ID stencil is attached to a corner of a bin, reducing incidents where screeners end up with the wrong bag for a hand check and screening gets halted until the suspicious bag is found. Those mistakes are infrequent but disruptive.

Taken together, the two innovations show how years of research by manufacturers and TSA into ways to improve screening are finally starting to affect checkpoints. In the past, many screening efforts failed, like shoe scanners, or had limited impact, like liquids scanners. Body scanners have been criticized as invasive. And past changes to reduce screening failures have led to long lines.

These innovations could ultimately disappoint, too. But officials say the CT machines in particular could be revolutionary. Airlines and airports are so excited about it they are willing to pay for machines themselves until TSA can get funding from Congress.

The technology has already been in TSA use for several years: It scans checked luggage in baggage sorting systems. But those machines were too big, too expensive—at about $1 million each—and too slow to replace the 2,200 X-ray machines that scan hand baggage in the U.S.

A CT scanner rotates around the bag, taking visual X-ray slices from all angles to create a detailed three-dimensional picture. Specific items can be isolated for close study. Software analyzes images for screeners and distinguishes between safe and dangerous materials.

Several manufacturers have come up with ways to shrink the machines, lower the cost and speed them up for checkpoint use. Machines have now been made small enough to fit into existing checkpoint screening lanes and light enough to not require reinforcement of floors. The cost has come down to about $250,000.

TSA has certified two models for use and is close to signing off on two others. One, made by L3 Security and Detection Systems, is in use at Phoenix Sky Harbor International Airport Terminal 4. Another, made by Integrated Defense & Security Solutions, is being tested in Terminal E in Boston. American Airlines has struck a deal for the first eight Analogic machines to be used in American hubs in the U.S. and Europe.

Analogic expects to roll out machines in late summer or early fall.

One reason airlines are eager to see checkpoint screening improvements: baggage fees. Airlines collected $4 billion in checked baggage fees in 2016, but the higher volume of carry-on bags from passengers trying to avoid fees has made screening more difficult. That's led to worries that the government might force airlines to roll back baggage fees to ease the screening strain.

The other possible screening change shows that sometimes simple can be pretty smart.

SecurityPoint Media, a St. Petersburg, Fla., company that provides bins with advertising inside to 38 airports for TSA checkpoints, saw an opportunity to solve a nagging problem: Sometimes it's hard for TSA screeners to identify the right bin.

Screeners working X-ray machines identify shapes and patterns in a bin to make sure they are sending the right one off for a hand check. Sometimes the screener doing the hand check ends up with the wrong bag, creating a scramble to find the suspicious one. The lane gets shut down and lines grow.

"We have access control issues that happen," TSA's Mr. Karoly says. "What this will do is guarantee that when you see it on the X-ray and it shows you A25, and you just pulled that bin that says A25 now you know that you've got the right bag."

TSA tested new bins in Denver, which has two main checkpoints in the heart of its terminal. The south checkpoint got the new bins. The north kept using existing bins.

Research sponsored by SecurityPoint showed a 21% increase in passengers screened per hour at the south checkpoint. Analysts attributed some of that to a redesigned bin with more surface area and lower sides. But most of the increase in passengers per hour resulted in an 83% drop in bad bag handoffs. The south checkpoint had just one bad-bag handoff in a two-month study period.

TSA says it's too early to verify claims of speeding up lanes—it hasn't done a full test yet. The agency is also working on alternatives, such as systems that would automatically divert a bin with a possible threat.

Weather

AccuWeather.com

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

Global Forecasts

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

	Today			Tomorrow		
City	Hi	Lo	W	Hi	Lo	W
Amsterdam	19	11	pc	20	13	sh
Anchorage	22	16	pc	19	14	pc
Athens	36	27	s	34	24	s
Atlanta	33	23	t	33	24	pc
Baghdad	46	27	s	47	29	s
Baltimore	37	24	pc	35	22	t
Bangkok	32	26	t	31	25	t
Beijing	37	26	pc	35	24	t
Berlin	19	9	pc	19	13	t
Bogota	19	9	c	20	10	c
Boise	38	20	s	39	23	pc
Boston	25	16	t	19	17	sh
Brussels	21	11	pc	21	11	sh
Buenos Aires	23	13	pc	15	10	r
Cairo	37	25	s	38	26	s
Calgary	30	14	s	27	13	s
Caracas	31	24	pc	31	25	pc
Charlotte	34	23	pc	34	23	t
Chicago	29	18	c	26	17	s
Dallas	35	26	s	35	25	pc
Denver	29	15	t	29	15	pc
Detroit	29	19	t	26	16	pc
Dubai	44	35	s	42	34	s
Dublin	20	10	sh	20	14	pc
Edinburgh	19	10	sh	17	14	pc
Frankfurt	22	11	s	25	11	sh
Geneva	25	14	t	25	14	t
Hanoi	32	26	t	32	26	t
Havana	31	22	pc	32	23	pc
Hong Kong	32	28	t	32	27	sh
Honolulu	31	25	pc	30	24	pc
Houston	33	24	t	34	25	t
Istanbul	32	23	s	28	22	pc
Jakarta	33	25	t	32	24	t
Johannesburg	21	8	s	21	6	s
Kansas City	32	20	pc	28	18	t
Las Vegas	42	30	s	43	32	s
Lima	21	15	pc	21	15	pc
London	23	14	pc	23	14	pc
Los Angeles	29	19	pc	29	20	pc
Madrid	40	22	s	39	21	s
Manila	31	25	t	29	25	t
Melbourne	14	8	pc	13	5	r
Mexico City	23	14	t	24	11	pc
Miami	32	27	t	33	28	sh
Milan	32	21	t	30	18	pc
Minneapolis	24	15	pc	28	20	s
Monterrey	34	23	pc	34	21	pc
Montreal	20	13	sh	22	16	r
Moscow	22	16	r	21	12	r
Mumbai	31	26	sh	30	27	r
Nashville	33	24	t	32	23	t
New Delhi	33	27	pc	35	28	pc
New Orleans	32	25	t	32	25	t
New York City	33	22	t	26	21	t
Omaha	29	17	pc	30	20	s
Orlando	32	24	t	32	23	t
Ottawa	20	12	c	20	15	r
Paris	25	14	pc	25	13	pc
Philadelphia	37	25	t	33	23	t
Phoenix	41	31	pc	42	31	s
Pittsburgh	30	21	t	27	18	t
Port-au-Prince	33	23	pc	34	23	pc
Portland, Ore.	26	13	s	29	13	s
Rio de Janeiro	26	17	s	26	18	s
Riyadh	45	32	pc	44	31	pc
Rome	32	21	s	30	21	s
Salt Lake City	36	23	pc	37	22	t
San Diego	25	20	pc	25	20	pc
San Francisco	21	13	pc	21	13	s
San Juan	31	26	sh	32	26	sh
Santiago	11	2	sh	12	0	pc
Santo Domingo	32	23	pc	33	23	pc
Sao Paulo	23	13	pc	24	13	s
Seattle	23	12	s	26	12	pc
Seoul	31	23	pc	30	24	t
Shanghai	35	28	t	35	27	t
Singapore	29	24	t	30	26	t
Stockholm	17	9	pc	19	10	pc
Sydney	18	10	s	21	11	pc
Taipei	36	26	pc	36	26	pc
Tehran	29	21	pc	31	23	pc
Tel Aviv	33	24	s	33	24	s
Tokyo	31	25	pc	30	26	pc
Toronto	23	17	t	24	17	r
Vancouver	22	12	s	22	12	s
Washington, D.C.	37	27	pc	36	25	t
Zurich	24	12	s	23	11	t

The WSJ Daily Crossword | Edited by Mike Shenk

NOW, NOW! | By Samuel A. Donaldson

Across

1 Mme. in Madrid
4 Cardinal point?
8 Sealed glass tube
14 Call's opposite
15 Seal predator
16 Runway models
17 Slogan advertising free detergent for the masses?
19 The way things are
20 Adjusts after a miss
21 Corner key
23 African lifeline
24 Singer with the 1949 #1 song "Careless Hands"
25 Unconventional assassin?
27 Wool bearers
29 Tribe home, informally
30 Env. stuffing
31 Former depilatory brand
32 Getaway destination
34 1949's "Careless Hands," e.g.
36 "Introducing Signor Gucci!"?
39 Artful dodges
42 Zap
43 Saddam's supposed stash
47 Don't go fast?
48 Theater section
50 Where tweens can't sit
52 Remnants of a corn fire?
55 Swamp flora
56 "Glad that's over!"
57 Atlanta-based HHS arm
58 Pull away
59 "Fancy schmancy!"
61 Golf course cops?
63 Less bright
64 Race on the Morlock menu
65 Change colors
66 Super excited
67 Half of quatorze
68 W-9 fig.

Down

1 Hardly luxurious
2 For Fight Club, it's "You do not talk about Fight Club"
3 Not yet apprehended
4 New arrival of the 1950s
5 Eon divisions
6 Oft-torn knee part, in sports reports
7 38-Down's nemesis, originally
8 Army helicopter
9 Seattle Sounders' org.
10 House coat
11 Like some tests
12 WNBA guard Mitchell
13 Nature
18 Hay grass
22 Person who takes off running?
25 Expressed approval
26 Dressy-casual clothing brand
28 Filling for some mattresses
33 Shaq's alma mater
35 Like a presentation without PowerPoint
37 "Around the Horn" channel
38 Evil Luthor
39 Stir-fry veggies
40 Respond angrily
41 Role for Laurence Olivier and Laurence Fishburne
44 Role for Gary Cooper and Adam Sandler
45 Summer period
46 Make more attractive, as a deal
49 It may get you in the door
51 Spotter's cry
53 ___ in the park
54 What Aleve alleviates
58 Trough fare
60 Calm side
62 Soccer cheer

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

Previous Puzzle's Solution

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TECHNOLOGY: HOW TO KEEP YOUR IPHONE ALIVE UNTIL THE NEW ONES ARRIVE B4

BUSINESS & FINANCE

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THE WALL STREET JOURNAL. Thursday, July 13, 2017 | B1

Yen vs. Dollar 113.1290 ▼ 0.71% **Hang Seng** 26043.64 ▲ 0.64% **Gold** 1219.40 ▲ 0.48% **WTI crude** 45.49 ▲ 1.00% **10-Year JGB** yield 0.090% **10-Year Treasury** yield 2.318%

RBS to Pay $5.5 Billion U.S. Fine

Bank slowly settles cases tied to its sale of mortgage bonds before global meltdown

By Max Colchester

LONDON—**Royal Bank of Scotland Group** PLC on Wednesday agreed to pay $5.5 billion to the Federal Housing Finance Agency to settle a U.S. probe into its sale of toxic mortgage-backed securities in the run-up to the financial crisis.

The settlement clears one of several obstacles the U.K. government-controlled bank faces before it can resume dividend payments and continue its return to private hands. RBS said in a statement that it had already set aside funds to cover most of the cost of the settlement. The bank will book an additional charge of $196 million for its results due out in August.

ANDY RAIN/EUROPEAN PRESSPHOTO AGENCY

Royal Bank of Scotland remains in government hands.

In settling, RBS becomes the 17th bank to strike a deal with the FHFA over the sale of subprime mortgages to Fannie Mae and Freddie Mac. The settlement came in higher than investors expected, tempering the idea that U.S. agencies would soften their approach to foreign banks under the Trump administration.

More pain could be in store. Before the FHFA settlement, RBS had set aside $8.3 billion to cover the full range of allegations it faced over its role in packaging and selling subprime mortgages before the financial crisis. The bank still faces probes from several U.S. agencies including criminal and civil investigations by the U.S. Department of Justice. RBS warned Wednesday that "further substantial provisions and costs may be recognized...depending upon the final outcomes." Analysts at Jefferies estimate RBS will set aside an additional $2.5 billion by year end to cover future Justice Department settlements. So far, the bank hasn't had meaningful discussions with the Justice Department over any settlement, said RBS Chief Financial Officer Ewen Stevenson.

That could slow the already grinding process of returning RBS to private hands. U.K. Treasury officials have said they won't sell the government's 71% stake until there is clarity on the size of the fines RBS may face.

Under the FHFA settlement, RBS will pay the $5.5 billion, but is eligible for a $754 million reimbursement under indemnification agreements. Mr. Stevenson admitted the deal was "at the high end of the other settlements" but said there should be no read across to potential settlements with the Justice Department. RBS paid more per mortgage bond sold than any other bank that has settled with the FHFA to date.

RBS is involved in another FHFA case as a co-defendant with Japanese bank Nomura. It continues following an appeal.

The FHFA settlement "is a stark reminder of what happened to this bank before the financial crisis, and the heavy price paid for its pursuit of global ambitions," RBS Chief Executive Ross McEwan said.

The bank, which was bailed out in 2008, has shed a big chunk of its bond-trading operations in the U.S. as it retreats to its U.K. base.

—Razak Musah Baba contributed to this article

China Frees 10 Crown Staffers From Jail

By Mike Cherney

SYDNEY—Authorities in China released 10 employees of Australian casino company **Crown Resorts** Ltd. on Wednesday after they were convicted last month for gambling offenses, according to a person familiar with the matter, in a closely watched case for the global casino industry.

Two of the 10 released employees are Australian citizens, Jane Pan Dan and Jerry Xuan, the person familiar with the case said. A third Australian, Jason O'Connor, who led Crown's international VIP program, remains in custody.

Another Crown employee is expected to be released Thursday, the person familiar with the matter said. This person said the employees were released because their nine-month sentences had been served. Mr. O'Connor, however, received a 10-month sentence, as did four other employees. The Wednesday releases were expected and the sentences included time served.

Last month, Crown said 17 current and two former employees—including the three Australian citizens—were convicted by a Shanghai court of gambling offenses; 16 people received jail sentences.

An additional three people were convicted but didn't have to serve jail time.

They were released on bail in November.

The current and former Crown staff members were first detained by Chinese authorities in October in surprise raids that sent chills through the global gaming industry. Chinese high rollers had become important revenue sources for many casinos, though some companies said their international VIP businesses slowed in the months after the arrests.

Most of the detained Crown employees held sales and marketing positions targeting different regions of China.

The casino firm's employees were convicted last month for gambling offenses.

Gambling is illegal in mainland China and foreign casinos aren't allowed to directly advertise their gambling operations, though they can promote themselves more broadly by touting beach and shopping destinations.

Australia's Department of Foreign Affairs and Trade, which had been providing consular assistance to the three detained Australians, confirmed that two Australian citizens were released on Wednesday.

The current and former Crown staff members could have been sentenced to as many as three years in prison. Crown's decision to sell its stake in a Macau casino operator after the detentions likely helped influence the granting of lenient sentences, Hans Hendrischke, a professor of Chinese business and management at the University of Sydney Business School, said last month.

Since the arrests, Crown—controlled by billionaire James Packer—has scaled back its global ambitions; the company is also exiting a Las Vegas casino project.

Crown, with casinos in Melbourne and Perth, Australia, is building a casino and resort complex on Sydney's waterfront and developing a hotel in Melbourne.

HEARD ON THE STREET
By Aaron Back

Big Banks Poised to Be Earnings Winners

Following the recent rally in bank stocks, the coming earnings season offers an opportunity to sort out who can keep rising, and who is due for a pause.

Higher interest rates and higher capital payouts have boosted bank shares across the board. From the end of May through Tuesday, the KBW Nasdaq Bank Index had risen 8.5%. But other aspects of the banking business have been less positive. Loan growth, trading volumes and mergers and acquisition activity were all tepid in the second quarter.

J.P. Morgan Chase, **Citigroup**, **Wells Fargo** and **PNC Financial** will kick off second-quarter earnings on Friday, with other major financial firms reporting next week. Broadly speaking, the big universal banks look better positioned than both regional lenders and Wall Street brokers.

The lending slowdown that began late last year hasn't abated. At the end of June, total loans and leases by commercial banks in the U.S. were up just 3.3% from a year earlier, compared with 6.4% for all of 2016, according to Federal Reserve data. Commercial and industrial loans were up just 1.9% at the end of June.

In the first quarter, this trend hit regional banks hardest, along with Wells Fargo, whose business profile is similar to a regional lender. Major banks such as J.P. Morgan Chase and Citigroup were buoyed by strong credit-card and consumer lending. This divergence likely continued in the second quarter.

Executives at multiple banks also publicly warned during the quarter that trading volumes were down around 15% from a year earlier, hurt by low market volatility. A late-quarter bump up in rates could boost second-, or more likely, third-quarter profits for big universal banks with strong footprints in so-called macro products like interest rates and currencies, says UBS analyst Brennan Hawken. In the U.S., that would again be J.P. Morgan and Citigroup.

Goldman Sachs's trading results could disappoint yet again because of its large exposure to commodities, Mr. Hawken notes. Last quarter, its trading revenue was basically flat, compared with double-digit increases for its rivals. Among other factors,

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WALDO SWIEGERS/BLOOMBERG NEWS

Mining trucks carry diamond-bearing rock ore, or kimberlite, at the Letseng mine, majority-owned by U.K.-based Gem Diamonds.

Mining for Diamonds in the Rough

By Alexandra Wexler

LETSENG-LA-TERAE, Lesotho—A looming global diamond shortage is driving a small band of adventurous miners to brave bone-chilling winds at the world's highest mines to extract stones that are worth as much as 20 times the global average.

The excavation is extremely challenging. The diamond-bearing kimberlite formations in the 11,000-foot-high Maluti mountains had for years been largely untouched by mining companies, due to the difficulty and cost involved in extracting the stones from such heights. The mines—which see temperatures dip 30 degrees below zero with wind chill—lie through landlocked and impoverished Lesotho's steep, narrow, winding mountain passes and past one of southern Africa's two ski resorts.

The roads are often blocked by herdsmen on horseback wrapped in colorful, traditional blankets surrounded by hundreds of their shaggy sheep.

Recently, active mines in the area have been on the rise, with more mines slated to come online soon, as strong demand for high-end diamonds encourages nimbler miners to brave the craggy area known as the Roof of Africa to dig up some of the earth's most valuable stones.

The Letseng mine, majority-owned by U.K.-based Gem Diamonds, has a tiny yield, but produces diamonds whose price—roughly $2,000 a carat on average based on 2015 and 2016 prices—far surpassing the global average of just over $100 a carat.

Since Gem took over the mine in 2006, Letseng has produced four of the 20 largest diamonds ever found. That is excluding the 601-carat "Lesotho Brown," which was discovered at Letseng by a local woman in 1967. One diamond cut from that stone is said to have ended up in Jackie Kennedy's engagement ring from Aristotle Onassis.

"It's a mine that mines a jewelry box," says Clifford Elphick, Gem's chief executive, quoting a favorite quip from his former boss, gold and diamond magnate Harry Oppenheimer.

Mr. Elphick recalls how the late Mr. Oppenheimer, who served as chairman of mining behemoth **Anglo American** PLC and diamond giant **De Beers** from the late 1950s to early 1980s, would often point to the mountains of Lesotho while flying over them on his way from Johannesburg to Durban, South Africa. "He said it produced the most beautiful of all the diamonds," Mr. Elphick says.

De Beers—which operated

Please see DIAMOND page B2

Visa Prods Small Merchants to Go Cashless

By AnnaMaria Andriotis

Visa Inc. has a new offer for small merchants: Take thousands of dollars from the card giant to upgrade your payment technology and in return stop accepting cash from customers.

The company is unveiling the initiative this week as part of a broader effort to steer Americans away from using old-fashioned money. Visa says it plans give $10,000 apiece to as many as 50 restaurants and food vendors to cover technology and marketing costs, as long as the businesses pledge to start what Visa executive Jack Forestell calls a "journey to cashless."

"We're really viewing this as the opening salvo," said Mr. Forestell, Visa's global head of merchant solutions, of the $500,000 commitment.

Shoppers at the stores involved would be able to pay for goods or services only with debit or credit cards or their cellphones. Visa's payments to merchants would enable them to upgrade their checkout-line technology so they can accept contactless payments, such as Apple Pay. The $10,000 incentive can also be used for associated marketing expenses.

PATRICK T. FALLON/BLOOMBERG NEWS

The credit-card company is offering shops a $10,000 incentive.

Visa will pick the participants from an application process that starts in August. Online-only merchants are excluded.

Visa has long considered cash one of its biggest competitors and has been taking steps to chip away at it. Visa Chief Executive Al Kelly, who took over late last year, has made conversion from cash a priority, even as cash and check transactions continue to grow globally.

"We're focused on putting cash out of business," Mr. Kelly said at Visa's investor day last month, adding that replacing checks and cash with digital and electronic payment is the company's "number-one growth lever."

Visa processes credit- and debit-card payments on behalf of banks and merchants, making money each time consumers use their Visa-branded

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VISA

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cards. An increase in transactions and payments volume on its network typically results in rising revenues.

The company accounted for 59% of purchase volume on U.S. general purpose credit and debit cards last year, compared with rival Mastercard's 25% market share, according to the Nilson Report, a trade publication.

Still, cash remains a formidable competitor. Check and cash transactions totaled $17 trillion world-wide in 2016, up about 2% from a year prior, according to Visa.

There is some skepticism that Visa can take the cashless push much further.

Cards have made headway but cash remains the most widely used means of payment among Americans, accounting for 32% of all consumer transactions in 2015, according to a November report by the Federal Reserve Bank of San Francisco. By comparison, debit cards accounted for 27% and credit cards 21%.

To gain share, Visa in the U.S. is targeting spending categories, such as parking and rent, that have been entrenched in cash and check payments for decades. Abroad, it is partnering with governments to move more payments onto its network, including a recent agreement to help Poland move toward a cashless system.

Some merchants have already stopped taking cash. New York City-based 2nd City, a Filipino taqueria, hasn't accepted cash since it opened its doors in 2016. Michael Ryan, the co-owner and co-founder, said he never ordered cash drawers or a safe. He estimates that by not having to count cash, visit a bank or arrange for change, the manager on duty saves about 23 hours a week.

The restaurant, which mostly caters to millennials, has had "very little" push back from customers, Mr. Ryan said. He added that the downside is the fees that his business pays to the card issuers.

Indeed, many merchants prefer sticking with cash because of the fees. Credit-card interchange fees, which networks like Visa set and that merchants pay to the banks that issue their cards, are on average around 2% of the transaction amount, according to the National Retail Federation, the largest trade group that represents merchants in the U.S.

"The idea that merchants don't want to accept cash is a myth," said Mallory Duncan, senior vice president and general counsel at the National Retail Federation.

Visa says merchants making the move stand to benefit from higher sales and lower theft risk. Some observers, though, are skeptical that Visa can take the cashless push much further.

"Getting rid of things like rent checks is difficult," said Chris Donat, a managing director who covers credit-card companies at Sandler O'Neill + Partners.

JUSTIN SULLIVAN/GETTY IMAGES

J.P. Morgan Chase is set to post second-quarter earnings on Friday.

HEARD

Continued from the prior page

Goldman blamed low oil-market volatility.

Unfortunately for Goldman, this continued in the second quarter. The firm's own analysts said recently that commodity volatility was down by around a third in the second quarter from a year earlier, a bigger decline than that seen in currencies, equities or rates.

Goldman and **Morgan Stanley** are also most exposed to weak M&A. Total world-wide revenue from realized M&A deals was down 9.2% from last year's second quarter, according to Dealogic.

Rising interest rates and more flexibility to pay out capital are powerful levers that could keep pushing the whole sector higher.

The biggest gains, though, will likely come from the biggest banks.

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Big Oil Stays Wary of Iran

By Benoit Faucon

ISTANBUL—Iran's ambitious agenda for its oil-and-gas industry is running up against the caution of big energy companies.

At a major energy conference here, Iranian officials said French oil giant **Total** SA's commitment of $1 billion toward a gas project this month marked a new chapter in the country's energy business since the end of Western sanctions. Iranian officials promised 10 contracts like it in the next year and said they were seeking $92 billion in foreign investment to raise oil production by a third and gas exports by 15-fold by 2021.

"Our hands are full," Iran's Deputy Oil Minister Amir Hossein Zamaninia told reporters here at the World Petroleum Congress, saying 25 contracts were being negotiated with foreign companies. "We think that the situation is normal enough now for major international oil business to get engaged in Iran."

But other big oil companies have been more reticent than Total about wading into Iran, even with its enormous oil and gas reserves.

Western companies are wary of running afoul of remaining U.S. sanctions on Iran for weapons, human-rights and terrorism allegations. Overall, the industry is still smarting from an oil-price downturn that isn't letting up in its third year, making companies wary of new spending.

Speaking at the same conference here, **BP** PLC Chief Executive Bob Dudley said he was looking beyond Iran for now, as the company had already committed to $15 billion in spending elsewhere this year. "We have a full plate," Mr. Dudley said at a news briefing. "We have to stay on a capital diet."

BERK OZKAN/ANADOLU AGENCY/GETTY IMAGES

BP Chief Bob Dudley said at the conference in Istanbul that his company was on a 'capital diet.'

U.S. companies like Exxon Mobil Corp. and Chevron Corp. are barred from doing business in Iran, but European companies like London-based BP can still try to make a deal work. One factor slowing things down: U.S. President Donald Trump has criticized the deal over Iran's nuclear program and threatened to pull out or tighten sanctions.

"BP's decision to be cautious on Iran [was] a ripple effect" of U.S. pressure against doing business in Iran, Mr. Zamaninia said.

A BP spokesman declined to comment.

Total's commitment in Iran is evidence that oil companies have concluded "the return of sanctions is very unlikely, if not impossible," Mr. Zamaninia said.

Total said it was in compliance with all sanctions.

Mr. Zamaninia has tried to use the World Petroleum Congress conference here as a sort of coming out party for Iranian energy investments after the Total deal. He cracked jokes while sharing a panel with Mr. Dudley and Barry Worthington, the executive director of the U.S. Energy Association, an industry body that advocates for American oil companies.

But the panel also underscored Iran's challenges. While Messrs. Dudley and Zamaninia talked before the panel, Mr. Dudley said they only discussed its topics—not any potential business. Mr. Dudley, a U.S. citizen, didn't elaborate but Washington's sanctions bar Americans from discussing oil deals with Iran.

Mr. Dudley called Total's deal a "very good sign for the industry" but he hadn't seen its terms. Total and Iranian officials have said the 20-year contract was longer-term than deals Iran allowed in the past and allowed the company more flexibility to recoup costs.

Royal Dutch Shell PLC signed a preliminary agreement to explore opportunities in Iranian oil fields late last year. The Anglo-Dutch company held meetings in Tehran and Dubai in the two past months with the National Iranian Oil Co. and Chinese state-run China Petroleum & Chemical Corp. to work together on an oil field called Yadavaran, according to a person familiar with the discussions.

But people who work with the company said it is concerned about its exposure to the U.S. and is more selective in the choice of its banks than Total.

Wall Street Journal Reorganizes

By Lukas I. Alpert

The Wall Street Journal on Wednesday announced details of a broad editorial reorganization as part of its "WSJ2020" review, creating a new leadership structure with the aim of transforming the 128-year-old newspaper into a mobile-first news operation.

The Journal's current deputy editor in chief, Matt Murray, will become executive editor with an expanded role in day-to-day news decisions. Editor in Chief Gerard Baker will continue to oversee news coverage and drive strategy.

In a memo to staff, Mr. Baker said the "far-reaching reorganization" wasn't a "job-cutting exercise" and that the newsroom's head count of about 1,300 would remain "roughly stable."

As resources dramatically shift toward digital and mobile initiatives, some existing roles could be eliminated, forcing some people to find other positions within the company.

"Our news operations have been somewhat like an elegant and rather gorgeous stately home, whose owners have steadily augmented and renovated, rewiring every now and then, adding a new plumbing system, repainting, refurbishing," Mr. Baker said. "But eventually it's time to tear down the old structure and build a new one."

"The pace of change, the proliferating adoption of new technology, the changing way in which our audience consumes news and information: all require something much more," said Mr. Baker, who has been editor in chief since 2013.

The restructuring creates a number of new senior newsroom roles. Mr. Baker's new reports will include editors for professional news, digital content strategy, strategic initiatives and a managing editor responsible for non-news matters such as finance and personnel.

There also will be an editor of features, special content and events.

New roles such as chief news editor, news planning editor and analytics and audience editor will report to Mr. Murray, who will continue to report to Mr. Baker.

Many of the open positions will be available to applicants inside and outside the newsroom.

The Journal hopes to increase the diversity of its newsroom leadership through the reorganization and aims to have all of these positions filled by the end of the summer.

"We need to introduce new faces, new skills and a greater diversity to our news leadership. If we are to thrive in the competitive environment newspapers face, we must ensure that we are hiring and promoting the best people," Mr. Baker said in the memo.

The reorganization also will seek to revamp the editing process to publish stories more quickly, by reducing the number of hands a story passes through and the amount of stories published. Mr. Baker will discuss these changes at a series of company town hall meetings on Monday.

The Journal, a unit of News Corp, launched its WSJ2020 initiative in October 2016. It is part of an effort to revamp operations following a period of sharp declines in print advertising revenue as the news industry undergoes a tumultuous shift toward digital and mobile.

Other news organizations, such as the New York Times, have launched similar operational reviews.

DIAMOND

Continued from the prior page

Letseng for a decade until a market downturn in the early 1980s—reaped the rare type-IIa stones, known during colonial times as "gin-and-tonic diamonds" because they are the color of a freshly poured G&T. Gem bought 76% of the mine from the Lesotho government in 2006, and currently owns 70%.

Since Gem's successful reboot of the flagship Letseng mine about a decade ago, Lesotho—a tiny nation encircled by South Africa that ranks 160 out of 188 on the United Nations' Human Development Index—has made a fresh push to promote its mineral wealth.

It is taking advantage of the impending closure of older diamond mines around the world and the lure of high-end stones, whose prices have held even as revenues from lower-grade stones softened in recent years.

The newest mine to come into production—**Firestone Diamonds** PLC's Liqhobong mine, located in the same Maluti mountains as Letseng—was completed end of last year. In February, Firestone held its first auction of diamonds from the mine, selling all 75,936 carats offered. A single 37-carat diamond was sold for over $1 million. Liqhobong "has raised a lot of eyebrows and very well could result in a recurrence of interest in terms of diamond exploration in Lesotho," said Patrick Morton, a metals and mining analyst at Macquarie Group.

GEM DIAMONDS/REX FEATURES/ASSOCIATED PRESS

The Letseng Star, a 550-carat diamond, next to a yellow diamond

In May, Australia's **Lucapa Diamond** Co. said it had raised 19 million Australian dollars to develop the neighboring Mothae mine. Lucapa says it expects to get an average price of well over $1,000 a carat after the mine comes into production in early 2018.

There are obstacles, however, to turning Lesotho into an African diamond hub like nearby Botswana, where the discovery of the precious rocks in the 1960s has since led to decades of prosperity and stability—and impressive prospects for mining companies.

Since a bloodless attempted coup in 2014, Lesotho has changed government twice, most recently after it held elections on June 3. The political upheaval has deterred long-term investment, especially as companies are finding it difficult now to raise the kind of capital needed to explore Lesotho's low-grade ore.

Although the country has one of the highest concentrations of kimberlite in the world, diamonds aren't found in all kimberlite and are costly to retrieve.

Lack of skilled workers was a big reason for **Lucara Diamond** Corp. to turn back its 75% stake in the Mothae diamond mine to the government of Lesotho; the mine is now operated by Lucapa.

Many of Lesotho's two million inhabitants have found work in neighboring South Africa, where wages often are higher; in addition, government restrictions in Lesotho make it difficult for miners to bring in skilled workers from elsewhere.

"The challenge for Lesotho has been getting these skilled workers to return and remain in country with limited opportunities due to the small number of active mining operations," said William Lamb, chief executive of Lucara.

Still, diamond production has created new revenue streams for the country—potentially further shrinking its dependence on South Africa.

Lesotho now reaps 96% of its mining revenue from diamonds, which contribute nearly 10% of gross domestic product.

For miners targeting high-end production, "there is no other country to start looking at first," said Lucapa CEO Stephen Wetherall.

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Internet Firms Launch Protests

By John D. McKinnon

Dozens of major online companies launched protests against Republican efforts to roll back Obama-era net-neutrality rules, in an escalation of tensions over Washington's proper role in the internet.

"Protect Internet Freedom. Defend Net Neutrality," a banner on **Netflix** Inc.'s home page said, offering users a link to submit comments to the GOP-led Federal Communications Commission, which is considering the rollback plan. Protesters argue the rollback could allow websites to be blocked or forced into slow lanes.

"The internet's less fun when your favorite sites load slowly, isn't it?" said a message that slowly typed out on Reddit, an aggregation site.

Blake Irving, GoDaddy Inc.'s chief executive officer, said in a prominently displayed blog post that "nothing less than our long-term economic well-being is at stake."

But the protests appeared cause little real disruption early Wednesday.

The protests, said by organizers to involve tens of thousands of people, websites and organizations, are aimed at highlighting public support for the 2015 net-neutrality rules, which require internet service providers to treat all online traffic the same, without blocking or paid fast lanes.

The FCC launched a proceeding in May aimed at substantially overhauling and narrowing the rules.

Big telecommunications firms were trying to sound conciliatory, and **AT&T** Inc. went so far as to join the "day of action" aimed at preserving net-neutrality principles.

But some firms also sounded frustrated by the protests.

"The day of action isn't designed to educate consumers about sensible policies; rather its goal is to scare them into thinking their internet experience will somehow suddenly be degraded if the FCC restores light touch regulation," said the NCTA, a cable trade group, in a blog post. "Don't believe the hype."

The Trump administration is siding with the FCC.

At China's LeEco, Problems Grow

Vizio lawsuits claim failed $2 billion deal was a ruse to bolster buyer's financial profile

By Dan Strumpf

HONG KONG—The troubles roiling once-soaring technology company **LeEco Holdings** deepened after U.S. television maker **Vizio** Inc. sued the Chinese firm over a failed $2 billion acquisition, arguing that the deal was a ruse to boost the buyer's financial standing.

LeEco's plan to acquire Vizio, potentially seeking a foothold in the U.S. for its electronics, fell through earlier this year, but as recently as April the two sides expressed hope that they would find ways to work together.

DAVID PAUL MORRIS/BLOOMBERG NEWS

Jia Yueting recently resigned as chairman of LeEco's listed unit.

Since then, LeEco has faced a cash crunch and other problems. Last week, a Shanghai court froze more than $2.3 billion of shares in the company and $181 million in assets owned by founder Jia Yueting.

Mr. Jia subsequently resigned as chairman from the listed unit of LeEco, **Leshi Internet Information & Technology** Corp.

Vizio filed twin lawsuits in both California federal and state court on Tuesday seeking a total of $60 million in unpaid deal-termination fees from LeEco.

The lawsuits level allegations about LeEco's behavior surrounding the deal, alleging that the Chinese company misled Vizio about its financial well-being and sought to use the acquisition to bolster its financial credibility.

Moreover, the lawsuits argue that LeEco sought to use the deal as a way to obtain access to confidential information about Vizio's customers. According to the suits, during negotiations, LeEco had access to details about Vizio customers, such as their contact information, account history and contract terms, and the Chinese company used that information "strictly for its own purposes." Representatives for LeEco didn't respond to requests for comment.

Mr. Jia built LeEco into an empire with holdings in video content, smartphones, home electronics and electric cars. The entrepreneur's overseas ambitions included backing the U.S. electric-car venture **Faraday Future** Inc.

But LeEco has stumbled with those plans. Nevada had promised $200 million in incentives to Faraday to build a $1 billion electric-car plant in the state. This week Faraday said it is pulling the plug on its Nevada factory, citing a shift in strategy, according to the Associated Press.

Vizio's lawsuits offer a picture of deepening financial pressures at LeEco.

According to the lawsuits, LeEco officials represented the company as "financially healthy" and able to complete the $2 billion acquisition. Yet the lawsuits contend that LeEco was experiencing "severe cash flow and financial problems," and allege that the proposed acquisition was a way "to create a widespread and dramatic public impression of their own financial health and well-being."

LeEco's proposal to acquire Vizio, based in Irvine, Calif., contained a $100 million deal-termination fee.

Ultimately, LeEco paid Vizio only $40 million of the $100 million termination fee, according to the lawsuits.

Dilemma On Drug's Price Tag

By Denise Roland

Novartis AG recently discovered that a drug it sells for a group of very rare diseases could be used to treat a much more common ailment. There is just one problem: its $16,000-per-dose price tag.

The drug, called ACZ885, is already sold under the brand name Ilaris for certain rare inflammatory disorders affecting a very small number of people. But a recent clinical trial suggests it could also reduce the risk of serious complications like strokes in people who have suffered a heart attack.

If the drug does pan out with regulators, Novartis would have to drastically cut its price to make it competitive with other cardiovascular drugs. That would mean jettisoning a small, but reliable, revenue stream on an uncertain bet that the drug could become a top seller as a cardiovascular medicine.

"They've got a bit of a puzzle on their hands," said Bernard Munos, a senior fellow at nonprofit FasterCures who previously worked at **Eli Lilly** & Co.

A Novartis spokesman said it is too early to discuss its pricing strategy.

Rare-disease, or orphan, drugs can command sky-high prices because they are typically the only treatment option available. The small number of patients also limits the overall bill to the health-care system.

That isn't the case for drugs for common ailments. If approved for use in patients recovering from a heart attack, ACZ885's potential market would skyrocket: around 615,000 people in the U.S. survive a heart attack every year, according to the American Heart Association. Novartis estimates that the drug, which helps patients who also suffer from inflammation in the arteries, could be suitable in around 40% of those cases.

Novartis's revenue from ACZ885, at $283 million last year, is modest. Adding heart-attack patients, even at a vastly reduced price, could bring that figure to as much as $3.6 billion, according to Jefferies analysts.

On paper, that seems an obvious gamble to take. But because of the way drugs are priced in the U.S., Novartis would have to drop the price it charges rare-disease patients as well, giving up most of that revenue stream. Once the price of a drug is cut, it is difficult to raise it again. Ilaris is sold in more than 70 countries, including Canada, parts of Latin America, Europe, Russia, Japan, Turkey, Israel and Switzerland.

And there is no guarantee that the drug will be widely used if the price comes down. Cardiologists can be reluctant to put their patients—especially those already on several medications—onto new drugs. That problem has dogged several recently launched heart drugs, including Novartis's own Entresto.

Another potential problem: ACZ885 is already late in its patent cycle, making it uncertain whether Novartis could really get all that additional business if it dropped the price now.

Credit Suisse analysts say they expect ACZ885 to lose patent protection around 2024, at which point lower-cost versions can enter the market and sharply erode sales.

To keep a lid on cost, insurers also tend to impose higher copays or complex approval processes for patients to get access to new, pricey drugs for common conditions.

ACZ885—dosed every three months at its current pricing before rebates and discounts—would cost around $64,000 a year for heart-attack patients. Novartis may need to drop the price by more than 90% "to get close to palatable," according to Craig Granowitz, chief medical officer at Amarin Corp., a small pharmaceutical company that focuses on cardiovascular medicine.

Ilaris came on the market in 2009 to treat a group of rare inherited conditions called cryopyrin-associated periodic syndromes, whose sufferers have a genetic mutation that causes the body to overproduce an inflammatory protein. Novartis has since won further approvals for a few other rare diseases, but hasn't altered the price as a result.

Setting a single price that holds for every use of the drug discourages companies from exploring new disease areas for their medicines, said Ed Schoonveld, a pricing and market access expert at consultancy ZS Associates.

Scarcity Value

Drugs for rare diseases command much higher prices than those for commoner ailments.

Source: Evaluate Pharma

THE WALL STREET JOURNAL.

QILAI SHEN/BLOOMBERG NEWS

A $16,000-per-dose drug sold by Novartis for rare diseases could be used to treat a more common ailment. A company lab in Shanghai.

Shell Sells Stake in Irish Gas Field

By Michael Amon

LONDON—**Royal Dutch Shell** PLC sold its stake in a controversial Irish gas field for up to $1.23 billion to one of Canada's biggest pension funds in a deal that will result in accounting losses of as much as $750 million for the Anglo-Dutch energy company.

Shell led the development of the Corrib gas field, located in the Atlantic Ocean about 85 kilometers off the coast of rural County Mayo. The field began producing in 2015 after years of delays caused by local opposition to the construction of an associated pipeline.

The deal with the **Canada Pension Plan Investment Board** takes Shell out of the energy-development business in Ireland. A subsidiary of the pension fund will take control of Shell's 45% interest in Corrib, while Vermilion Energy, a Calgary-based oil-and-gas producer, will become the new operator of the field, Shell and the pension fund said on Wednesday.

The transaction is for $947 million initially with payments of as much as $285 million between 2018 and 2025, depending on gas prices and production. Shell said the sale was consistent with the company's plan to sell off $30 billion in assets by 2018, part of its effort to repair its balance sheet after loading up on debt for the 2015 acquisition of BG Group PLC.

Andy Brown, a top Shell executive, said the company has announced deals valued at more than $20 billion. "This transaction is part of our strategy to reshape Shell and to deliver a world class investment case," he said.

Shell acquired the company that discovered Corrib in 2002, but the firm's plans to build an onshore pipeline to transport the field's gas to a terminal it would construct at Bellanaboy in County Mayo met with fierce local opposition. That resistance focused on concerns about the safety of the pipeline and its effects on the environment. It led to changes to the pipeline's path, including routing it through a 4.9-kilometer, or 3-mile-long, tunnel, the longest in Ireland, that increased the project's costs and forced delays.

Those delays and changes are forcing Shell to take an impairment charge of about $350 million in its second-quarter earnings results.

The company also said it would take an accounting loss of about $400 million because of currency fluctuations between the euro and the dollar once the deal is completed, likely in the first part of 2018.

Shell will maintain a presence in Ireland through an aviation joint venture.

BUSINESS WATCH

TWITTER

Social-Media Firm Hires Finance Chief

Twitter Inc. tapped a former close colleague of No. 2 executive Anthony Noto to be its new finance chief, as it addresses a list of vacancies created at the social-messaging company over the past year.

Ned Segal will start as Twitter's chief financial officer in late August, the company said Tuesday. He most recently worked for financial-software producer **Intuit** Inc., where he was senior vice president of finance for the division that delivers QuickBooks to customers. Mr. Segal also spent nearly 17 years at **Goldman Sachs Group** Inc., where he worked with Mr. Noto, whom he will replace as finance chief. Mr. Noto now will act solely as operating chief, the company said.

—Georgia Wells

NRG ENERGY

Company to Sell Assets, Slash Costs

Buckling to pressure from activist investors, **NRG Energy** Inc. said Wednesday that it would sell up to $4 billion in assets, slash costs and lower its debt as part of a "transformation plan."

NRG, which owns and operates power plants, said it would sell $2.5 billion to $4 billion in assets, including possibly all of its interest in NRG Yield Inc., a dividend-generating company with renewable energy holdings.

The moves are the final steps to undo a plan under a previous NRG chief executive to diversify away from coal and gas into wind and solar. The plan turned out to be a drag on earnings.

—Russell Gold

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Legal Notices

INTERNATIONAL NOTICES

THE HIGH COURT
COMMERCIAL
RECORD NO. 2017 NO. 252 COS
IN THE MATTER OF NEXVET BIOPHARMA PUBLIC LIMITED COMPANY
AND
IN THE MATTER OF SECTIONS 449 TO 454 OF THE COMPANIES ACT 2014
AND
IN THE MATTER OF THE COMPANIES ACT 2014
AND
IN THE MATTER OF SECTIONS 84 TO 86 OF THE COMPANIES ACT 2014
AND
IN THE MATTER OF THE IRISH TAKEOVER PANEL ACT 1997

NOTICE

NOTICE is hereby given that in pursuance of an Order of the Irish High Court dated 1 June 2017 a meeting of the holders of Nexvet Shares (as defined in the proposed scheme of arrangement between Nexvet Biopharma Public Limited Company (the "**Company**") and the Scheme Shareholders (as defined therein) (the "**Scheme**")) for the purpose of their considering, and voting on, a resolution proposing that the Scheme in its original form or with or subject to any modification(s), addition(s) or condition(s) approved or imposed by the Irish High Court be agreed to (the "**Scheme Meeting**") was held on 10 July 2017 and the holders of Nexvet Shares passed the necessary resolution at the Scheme Meeting approving the Scheme without modification.

NOTICE is hereby further given that at an extraordinary general meeting of the Company held on 10 July 2017 the shareholders of the Company in furtherance of the Scheme passed, inter alia, special resolutions to reduce the issued share capital of the Company by the cancellation and extinguishing of all Cancellation Shares (as defined in the Scheme) and the Euro Deferred Shares (as defined in the Scheme) pursuant to Section 84 of the Companies Act 2014 (but without thereby reducing the authorised share capital of the Company) (the "**Share Cancellation**").

NOTICE is hereby further given that consequent upon an application made to it by the Company on 11 July 2017 the Irish High Court has directed that an application by the Company for orders, inter alia, pursuant to:

1) Section 453(2) of the Companies Act 2014 sanctioning the Scheme; and

2) Sections 84 and 85 of the Companies Act 2014 confirming the Share Cancellation;

shall be heard by the Commercial List of the Irish High Court at 11:00 am (Irish Time) on Friday, 28 July 2017 at the Four Courts, Inns Quay, Dublin 7, Ireland.

MATHESON
Solicitors for the Company
70 Sir John Rogerson's Quay
Dublin 2

11 July 2017

Note: Any person who intends to appear at the hearing of the said application should notify the Company's Solicitors, Matheson, 70 Sir John Rogerson's, Dublin 2, Ireland (quoting reference TS/665236-12) in writing not later than 5:00 p.m. (Irish Time) on Monday, 24 July 2017 of that person's or persons' intention to appear at the hearing of the said application and should indicate to the said Solicitors whether such person or persons intend to support or oppose the said application and should serve any affidavit evidence on which that person or persons intends to rely on the Company's Solicitors by that date and time.

BANKRUPTCIES

UNITED STATES BANKRUPTCY COURT, SOUTHERN DISTRICT OF NEW YORK

In re: Oi Brasil Holdings Coöperatief U.A., Debtor in a Foreign Proceeding.	Chapter 15 Case No. 17-11888 (SHL)	
In re: Oi Brasil Holdings Coöperatief U.A., Debtor in a Foreign Proceeding.	Chapter 15 Case No. 16-11794 (SHL)	
In re: OI S.A., et al.,[1] Debtors in a Foreign Proceeding.	Chapter 15 Case No. 16-11791 (SHL)	(Jointly Administered)

NOTICE OF HEARING ON VOLUNTARY PETITION FOR RECOGNITION OF A FOREIGN MAIN PROCEEDING UNDER CHAPTER 15 OF THE UNITED STATES BANKRUPTCY CODE AND RELATED MOTION

PLEASE TAKE NOTICE that, on July 7, 2017, Jasper R. Berkenbosch, solely in his capacity under Dutch law as the duly appointed trustee (*curator*) (the "Insolvency Trustee") of Oi Brasil Holdings Coöperatief U.A. ("Coop") in its bankruptcy proceeding, Case No. F.13/17/163 (the "Dutch Bankruptcy Proceeding"), pending before the District Court of Amsterdam (the "Dutch Court") pursuant to the Dutch Insolvency Act (*Faillissementswet*) (the "Dutch Insolvency Act"), caused to be filed (a) a petition for relief (the "Voluntary Petition"), under chapter 15 of title 11 of the United States Code (the "Bankruptcy Code"), and (b) the related *Verified Petition and Motion for an Order (I) Recognizing the Dutch Bankruptcy Proceeding as the Foreign Main Proceeding for Oi Brasil Holdings Coöperatief U.A.; (II) Recognizing the Insolvency Trustee as the Foreign Representative; (III) Modifying the Prior Recognition Order; (IV) Modifying the Prior Joint Administration Order and (V) Granting Certain Related Relief* (the "Verified Petition and Motion"), in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court").

PLEASE TAKE FURTHER NOTICE that the Voluntary Petition and the Verified Petition and Motion seek an order: (a) modifying the prior order of the Bankruptcy Court granting recognition to the judicial reorganization of Oi S.A. and its affiliates (the "Brazilian RJ Proceeding") in the *7a Vara Empresarial do Rio de Janeiro* (Seventh Business Court of Rio de Janeiro) to terminate recognition of the Brazilian RJ Proceeding for Coop and the current foreign representative for Coop; (b) granting recognition of the Dutch Bankruptcy Proceeding as the foreign main proceeding for Coop; (c) recognizing the Insolvency Trustee as the foreign representative for Coop in that proceeding; (d) modifying the prior order of the Bankruptcy Court jointly administering the chapter 15 proceeding of Coop with that of Oi S.A. and its affiliates; and (e) granting related relief, all as more fully described in the Verified Petition and Motion.

PLEASE TAKE FURTHER NOTICE, that pursuant to the *Order Scheduling Hearing and Specifying the Form and Manner of Service of Notice*, entered on July 7, 2017 (Case No. 17-11888) (the "Scheduling Order"), the Bankruptcy Court has scheduled a hearing before the Honorable Sean H. Lane in Room 701 of the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004-1408, on **August 1, 2017 at 11:00 a.m. (Eastern Time)** to consider approval of the Voluntary Petition and the relief requested in the Verified Petition and Motion (the "Recognition Hearing").

PLEASE TAKE FURTHER NOTICE, that at the Recognition Hearing, the Bankruptcy Court may order the scheduling of a case management conference to consider the efficient administration of this chapter 15 proceeding. A proposed order granting the relief sought by the Verified Petition and Motion is attached as Exhibit A to the Verified Petition and Motion (the "Proposed Recognition Order").

PLEASE TAKE FURTHER NOTICE, that copies of the Verified Petition and Motion and all accompanying documentation are available to parties in interest through the Electronic Case Filing System of the Bankruptcy Court, which may be accessed from the Bankruptcy Court's website at http://www.nysb.uscourts.gov (a PACER login and password are required to retrieve a document) or upon written request to the Insolvency Trustee's counsel (including by email) addressed to: Jones Day, 250 Vesey Street, New York, New York 10281, Tel: (212) 326-3939, Fax: (212) 755-7306, Attn: Bryan M. Kotliar, Esq. (bkotliar@jonesday.com), Anna Kordas, Esq. (akordas@jonesday.com), Charles Wittmann-Todd, Esq. (cwittmanntodd@jonesday.com). Copies of this Notice, the Voluntary Petition and the Verified Petition and Motion (including all accompanying documentation) and all other pleadings referenced in this Notice will also be available free of charge on the Insolvency Trustee's website at http://oibrasilholdingscoop-administration.com/.

PLEASE TAKE FURTHER NOTICE, that any party in interest wishing to submit a response or objection to the Voluntary Petition or the Verified Petition and Motion must do so in accordance with the Bankruptcy Code and the Local and Federal Rules of Bankruptcy Procedure in writing and setting forth the bases therefore with specificity and the nature and extent of the respondent's interests in Coop's estate, and such response or objection must be filed with the Office of the Clerk of the Court, One Bowling Green, New York, New York 10004-1408, and served on Jones Day, 250 Vesey Street, New York, NY 10281-1047 (Attn: Corinne Ball, Esq. (cball@jonesday.com) and Bryan M. Kotliar, Esq. (bkotliar@jonesday.com)), **so as to be actually received by them by no later than 12:00 p.m. (Eastern Time) on July 25, 2017.**

PLEASE TAKE FURTHER NOTICE, that all parties in interest opposed to the Voluntary Petition and the Verified Petition and Motion must appear at the Recognition Hearing at the time and place set forth above or such other date and time as may be subsequently set forth in a notice filed on the docket of this chapter 15 proceeding or otherwise established by the Bankruptcy Court.

PLEASE TAKE FURTHER NOTICE, that the Recognition Hearing also may be adjourned from time to time without further notice other than an announcement in open court at such hearing of the adjourned date or dates or any further adjourned hearing.

PLEASE TAKE FURTHER NOTICE, that if no response or objection is timely filed and served as provided above, the Bankruptcy Court may grant the relief requested in the Voluntary Petition and the Verified Petition and Motion without further notice or hearing.

Dated: July 7, 2017, New York, New York, Respectfully submitted, */s/ Corinne Ball*, JONES DAY, 250 Vesey Street, New York, New York 10281, Telephone: (212) 326-3939, Facsimile: (212) 755-7306, Corinne Ball, Esq., Bryan M. Kotliar, Esq., Anna Kordas, Esq., *Attorneys for Jasper R. Berkenbosch, as Insolvency Trustee and putative Foreign Representative of Oi Brasil Holdings Coöperatief U.A.*

[1] The debtors in the chapter 15 cases that currently are jointly administered and the four identifying digits of the tax number of each are: Oi S.A. (5.764); Telemar Norte Leste S.A. (0.118); Oi Brasil Holdings Coöperatief U.A. (8518); and Oi Móvel S.A. (3.963).

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Esports League Reveals Backers

By Sarah E. Needleman

Activision Blizzard Inc. on Wednesday unveiled a roster of sports-team owners and videogame-industry veterans involved in an esports league it pledged to launch before the end of the year.

The company is building a league around "Overwatch," betting on a year-old shooter videogame with a cartoonish bent that has more than 30 million registered players but lacks the lineage of a franchise such as "Call of Duty."

Activision Blizzard, which reported $6.61 billion in revenue last year, is looking to build on a growth streak that has led its stock to nearly quadruple in the past five years to about $58 a share. "They've aggressively sold this story to Wall Street and the expectation is that at some point in the next three to five years, esports will be a meaningful profit contributor," Cowen & Co. analyst Doug Creutz said.

The NFL's Robert Kraft and baseball's Jeff Wilpon acquire rights to teams.

The rollout of Overwatch League is being watched as a signal for whether publishers can win control of the multi-million-dollar competitions sprouting around their biggest videogames. Two rivals—Electronic Arts Inc. and Take-Two Interactive Software Inc.—are developing their own leagues.

They are looking to capture a market whose average fan, according to Newzoo BV, is between the ages of 21 and 35—a coveted demographic for advertisers. Roughly 191 million people world-wide this year are expected to watch an esports competition at least once a month, more than double the number in 2012, the research firm estimates.

Activision Blizzard Chief Executive Bobby Kotick said the rollout was going according to plan. The company is banking on city-based teams, a structure typical of traditional sports leagues, to drive growth. "We wanted to introduce that to esports," he said.

Seven teams are on board so far. The buyers paid $20 million apiece, the going rate this year, according to people familiar with the matter. The launch draws on a roster of executives, athletes and locales familiar to sports fans.

Groups backed by Robert Kraft, owner of the National Football League's New England Patriots, and Jeff Wilpon, operating chief of Major League Baseball's Mets, bought rights to teams in Boston and New York, respectively.

Mr. Kraft said he considers his bet on esports on par with his backing of Major League Soccer in the 1990s. It took about five years for his New England Revolution to become profitable, and it remains so today, he said. "We're thinking long here," Mr. Kraft said.

Mr. Wilpon said he didn't follow esports until his venture-capital firm, **Sterling.VC**, began looking into the industry. "We wouldn't make the investment if we didn't think it would be profitable," he said. There are "good advertisers out there looking to get in on this demographic," he added.

The involvement of the various sports figures "absolutely lends credibility," said Tim O'Shea, an analyst at Jefferies. "They have arenas, local marketing muscle and know-how to excite a fan base."

Activision Blizzard's publishing partner in China, NetEase Inc., will operate a team in Shanghai, and a startup led and self-funded by game-industry veterans purchased a team in Seoul.

PERSONAL TECHNOLOGY | By Joanna Stern

Keeping an Old iPhone Alive

It's mid-July, which means time for some iPhone Mad Libs.

Hey Joanna! My iPhone ***[number]*** *is on its last* ***[body part, plural]****. Its* ***[phone part]*** *is busted.* ***[Expletive]****! Should I buy a new iPhone now, or wait for the new one?*

My annual answer: Do not buy an iPhone right now. It's my iPhone No-Buy Rule™: Once summer rolls around, wait for the new iPhone, typically announced in early September.

This year, there's more reason to wait. According to my WSJ colleagues, in addition to an updated iPhone 7 and 7 Plus, an expected special iPhone model will have OLED screen, wireless-charging and facial-recognition technology. Apple declined to comment on the reports.

Even if you couldn't care less about fancy-schmancy new tech, there are other reasons to hold out: If iPhone history repeats itself, Apple will drop the price on current iPhone 7 models by $100 or more. And now that carrier contracts are all but dead, you might have your phone for two to three years—or until something goes wrong with it.

Which brings us to our haggard iPhone 6 and 6s. Most of their common problems can be fixed. But why sink any cash at all into a phone you're going to replace? Because it could increase your resale value, and it will definitely empower you to buy your next phone only when the time is right.

Cracked Screen

Before you walk into that new iPhone repair shop, remember: Some replacement screens are hardly better than the cracked ones. Your safest bet is an Apple-authorized service provider—not just Apple Stores but more than 4,000 locations world-wide, including Best Buy and local shops. The Apple Support app can pinpoint one close to you.

I also suggest considering iCracked. It isn't an authorized service provider, but it does use high-quality screens. Available in 100 U.S. metro areas, the service sends a technician to where you are (home, office, coffee shop) and fixes the issue in under an hour.

Resale value? It's a trade-off. Send in an iPhone 6 that looks like Charlotte's web to used-phone reseller Gazelle.com, and you get $50. Or spend $90 to replace the screen at iCracked, and you can probably sell it for $120. The cost of prolonging your phone's life? $20.

Yanyan Ji, Gazelle general manager, expects prices to stay steady until after Apple unveils the new iPhones.

Wait for It...

When it comes to iPhone launch timing, history may—or may not—repeat itself this year.

iPhone 6s (2015)	iPhone 7 (2016)	Next iPhone (2017)
Announced: **Sept. 9**	Announced: **Sept. 7**	Announced: **N/A**
Shipped: **Sept. 25**	Shipped: **Sept. 16**	Shipped: **N/A**
Wait to buy: **16 days**	Wait to buy: **9 days**	Wait to buy: **N/A**

Source: the company

THE WALL STREET JOURNAL.

Draining Battery

"Everyone with an iPhone 6 should get a new battery," says repair guru and iFixit Chief Executive Kyle Wiens.

After 500 charge cycles, the iPhone battery can lose 20% or more of its original capacity. Bring an iPhone into an Apple store, and geniuses will run diagnostics on battery capacity; if it's below 80%, Apple will replace the battery for $79—or free with AppleCare. iCracked will swap any battery for $60.

You could try replacing the battery yourself with a $20 kit from iFixit. Mr. Wiens said if you are "remotely tech savvy," you can do it. He should have said, "You can do it, but you'll be sweating through your shirt the whole time."

Never forget the lessons of the Galaxy Note 7: Lithium-ion batteries are flammable. Do not puncture.

If you incorrectly reconnect a circuit, you can create a much bigger problem. After I got the battery inside and sealed up the phone, my screen wouldn't stop flashing. I was able to go back and fix the problem, but not everyone can be so lucky.

At the end, the euphoria is a nerd's version of summiting Mount Everest. But if you try it, back up your phone data and take safety precautions. When you're done, deposit the used battery at an e-cycling depot.

Another common power issue is a Lightning port that requires cord futzing to get the phone to charge. My iCracked technician removed the equivalent of bellybutton lint, and the port worked fine. If something is really wrong, the port can be replaced for about $60.

Resale value? Don't assume a noncosmetic issue isn't worth repairing. Gazelle said trade-in values can be lowered for shoddy batteries and phones that don't reliably charge.

Slowness, Low Storage

First, try simple software fixes: Back up photos and videos to a cloud service. Clear out hidden cached files. To boost performance further, use these tricks:

Turn off Background App Refresh. Go to Settings > General > Background App Refresh, then turn it off for apps you don't depend on.

Clear out web-browsing data. Go to Settings > Safari, then tap Clear History and Website Data.

Clear the RAM. Press the power button. When "Slide to power off" appears, hold down the home button. OK, this one might just be a placebo. There is debate over whether clearing RAM actually speeds things up.

New Mad Lib: "My iPhone **[number]** is working so **[adverb]**, I no longer **[verb]** that **[adjective]** new iPhone."

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Read ambitiously

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Bond Rally May Trouble Beijing

Smaller yield gap with Western debt risks yuan outflows China has moved to stem

By Shen Hong

SHANGHAI—A Chinese bond rally—bucking the recent global selloff in government debt—is narrowing the yield gap with U.S. bonds, a potential complication for Beijing.

Prices in the world's third-largest bond market have recovered in recent weeks as Chinese regulators back off efforts to discourage risky loans and cool debt-fueled speculation. That has sent yields falling—to 3.54% on the benchmark 10-year government bond, from a two-year high of 3.69% in early May.

Meanwhile, yields on U.S. Treasurys and German bunds have risen as leading central banks signal that their loose-money policies—which have propped up the world economy since the global financial crisis—are nearing an end.

The result: The yield gap, or spread, between the benchmark 10-year Chinese bond and its U.S. counterpart has shrunk to 1.19 percentage points, a 20% narrowing since early June, when it was at its widest in nearly two years.

A smaller edge for Chinese assets could make U.S. assets, including bonds, more attractive to Chinese investors, tempting them to send their money out of the country—a flow Beijing has managed to slow in recent months by tightening capital controls.

In turn, that could deepen Chinese authorities' policy "trilemma," economists' term for the impossibility of keeping independent control over a currency, interest rates and the capital account at the same time.

"If U.S. interest rates rise further and the spread narrows more, it will certainly put more pressure on China's currency and encourage more money to head abroad," said Zang Min, senior fixed-income analyst at **Hongxin Securities**, a Shenzhen-based brokerage. And that, he added, could force the People's Bank of China to raise interest rates.

For now, investors in China are enjoying the easing of Beijing's crackdown on financial-system risks. After earlier this year setting off market jitters by acting to stifle the buying of domestic bonds with borrowed money, in late May authorities shifted to a more-conciliatory approach, and in mid-June the PBOC made its largest weekly injection of cash into the financial system in five months.

"These moves aimed at stabilizing the market have rekindled enthusiasm among some bond bulls," said Mr. Zang, adding that demand for bonds had almost dried up at one point. In the first half of 2017, Chinese companies raised a total of 1.99 trillion yuan ($292.53 billion) via bond sales, less than half the year-earlier 4.15 trillion yuan.

The newfound stability has come with a fresh concern: As the bond market recovers, so has the use of tools for adding leverage, notably a type of short-term loan known as a negotiable certificate of deposit, or NCD, that banks have being increasingly using to raise funds. Issuance surged to a near-record 2.01 trillion yuan last month.

Chinese banks, especially those with smaller deposit bases, have made heavy use of this instrument to roll over old debt and finance bond purchases, especially of higher-yielding corporate bonds.

As appetite for such riskier assets returns, the average yield on AA-rated five-year Chinese corporate bonds has fallen faster than the yield on safer AAA-rated bonds. Since mid-June the difference has narrowed to 0.52 percentage point from 0.87 percentage point, which was the widest in nearly a year. "Based on indicators like NCD issuance, one can argue that the level of financial leverage has risen back again," said Qu Qing, chief fixed-income analyst at **Hua Chuang Securities**.

Gap Squeeze

Spread between the 10-year Chinese and U.S. bond yields

Source: Wind Info
THE WALL STREET JOURNAL.

Investors Embrace Euro's Prospects

By Mike Bird

Once dubbed a crisis currency, the euro has outperformed its peers against the dollar, and investors are betting there are gains to come.

The euro is up 10% against the greenback this year, as the eurozone economy rebounds and the threat from populist politicians calling for the currency bloc's demise recedes.

With the risk of breakup fading, analysts are trying to determine whether the currency can reclaim some of the global standing it held before 2009 and the sovereign-debt crisis, not least as central banks place more of the currency into their reserves.

ORESTIS PANAGIOTOU/EUROPEAN PRESSPHOTO AGENCY

The single currency has gained 10% against the dollar this year.

Several indicators suggest that investors are more positive about the euro than in many years. On Wednesday in New York, the currency traded at its highest level in more than a year and was at $1.1412 around midday.

"Political threats to the euro have definitely reduced its status, and from a historical perspective the rest of the world is underweight Europe," said Carl Hammer, head of global macro and foreign-exchange research at Swedish bank Skandinaviska Enskilda Banken AB.

Three-month euro-dollar risk reversals, which measure the cost of hedging against drops in currencies, broke into positive territory at the end of June for the first time since at least 2010. A positive figure suggests investors are no longer asking to be paid a premium to hold euros, a sharp change from the recent past.

Investors also have a net long position in the euro—a bet that the currency will appreciate—for the first time in three years. U.S. Commodity Futures Trading Commission data show investors held 77,464 more long than short contracts on the euro in the week to July 3. A short position is a wager that an asset will fall in value.

But the currency has lost ground since the sovereign-debt crisis ended in 2012.

Its share of daily trading volume in foreign-exchange markets has dropped from 39% in 2010 to 31% in 2016, according to the Bank for International Settlements.

The European Central Bank estimates that the share of international bonds denominated in euros has declined from as high as 29% in 2004 to 22% at the end of last year.

In the first quarter of the year, slightly less than 20% of global official foreign-exchange reserves were held in euros, according to the International Monetary Fund. At its peak in 2009, the euro's share of international reserves reached nearly 28%.

Aside from prestige, a greater international role would help eurozone companies raise funds while potentially reducing exchange-rate volatility.

The lingering risk that the currency won't survive has reduced the euro's position in foreign-currency reserves held by governments and central banks while putting off some investors.

"If you're a reserve manager, say in Asia, you would think twice about investing over the very long term in a currency that might not exist in five years," said Dhaval Joshi, chief European strategist at BCA Research.

That risk has abated recently. Elections in the Netherlands and France saw pro-European Union candidates win convincingly, and support for Germany's main anti-euro party has dwindled.

Expectations that a country will leave the eurozone have fallen. Investors assign an 8.6% chance to a country exiting from the eurozone in the next 12 months, against over 25% early in the year, according to the Sentix euro breakup index, which polls investors on expectations for the bloc.

To be sure, factors such as less monetary stimulus and a brighter economy could end up hurting the euro if the pace of both disappoint. The region's anti-euro politicians could also stage a comeback.

Still, the brighter outlook for regional growth, which has recently outstripped the U.S., helps the euro on several fronts.

It reduces the risk of breakup by helping to bolster the weaker southern European economies, whose debts and stagnant growth helped to fuel the sovereign-debt crisis. It makes the region more attractive for outside investors.

It also means the ECB will be quicker to jettison the bond-buying and negative interest-rate policies that have capped the currency's gains.

Building Strength

The euro has rallied, driven by positive economic news and dissipating political risks.

How many dollars €1 buys

Source: FactSet
THE WALL STREET JOURNAL.

Yuan Loan Volumes Beat Forecast in June

BEIJING—Chinese banks extended a higher-than-expected volume of loans last month even as growth in the money supply continued to slow amid Beijing's efforts to reduce leverage in its financial system.

New yuan loans issued by Chinese banks surged to 1.54 trillion yuan ($226.38 billion) in June, up from 1.11 trillion yuan in May, according to figures released by the People's Bank of China on Wednesday. The volume was well above the 1.3 trillion yuan forecast by economists polled by The Wall Street Journal.

June is typically a high point for new credit from Chinese banks as loan officers rush to meet quarterly targets. Beyond that, demand for credit from households—mostly for mortgages in the hot property market—remained strong, and companies too turned to banks for loans, instead of issuing bonds.

Crimping debt and other financial risks is a priority for Beijing this year, as Chinese leaders want a stable economic environment ahead of a shuffling of senior posts this fall. Regulators have rolled out measures from raising some short-term rates to imposing rules on banks to unwind hidden loans and investments, with effects felt across the financial system from bond issues to the money supply.

Growth in M2—a broad measure of money supply that includes cash, checking and savings deposits and time deposits—slowed to 9.4% at the end of June from a year earlier, a record low since the central bank started releasing the data three decades ago. June's pace was lower than the 9.6% rise at the end of May and fell below market expectations.

Central-bank spokeswoman Ruan Jianhong said the deceleration of M2 growth was a result of slower expansion in banks' off-balance-sheet financing in response to the government's deleveraging efforts. This slower growth in M2, she said, will become a "new normal."

Lending to households, mostly consisting of mortgage loans, stood at 738.4 billion yuan in June, up from 610.6 billion yuan in May, according to data from the central bank. Despite the increase in volume, household loans' share in total lending was down to 48% in June from 55% in May—a decrease the central-bank spokeswoman said was part of the effort to constrain property bubbles.

In another effect of Beijing's campaign, outstanding corporate bonds remained unchanged at the end of June compared with May. Tighter liquidity has driven up yields, causing many companies to cancel issues of new bonds.

After the economy posted a strong 6.9% rate of growth in the first quarter, economists expect that the government and People's Bank's effort to tackle debt will continue, with credit continuing to take a hit.

"Looking ahead, while we think the PBOC is now done pushing up interest rates, we expect the monetary tightening that has already taken place to continue weighing on credit growth in coming quarters," said Julian Evans-Pritchard, an economist with Capital Economics.

—Grace Zhu

1MDB-Linked Ex-Banker Gets Prison for Money Laundering

By Jake Maxwell Watts

SINGAPORE—A Singapore court sentenced a former banker to 4½ years in prison after he pleaded guilty to a money-laundering offense and deception linked to his handling of allegedly misappropriated funds from a Malaysian state investment fund.

Yeo Jiawei, 34 years old, was central to the flow of funds linked to 1Malaysia Development Bhd., or 1MDB, in Singapore as a wealth manager at a branch of Swiss bank **BSI** SA, prosecutors alleged.

In his plea, Mr. Yeo said he worked for Malaysian financier Jho Low—who global investigators believe orchestrated the alleged multibillion-dollar misappropriation at 1MDB despite holding no formal role at the fund—as an independent consultant after he left BSI. However, Mr. Yeo said he didn't consider himself in the financier's inner circle.

A lawyer for Mr. Yeo said Wednesday in court that his client was remorseful and had agreed to hand over an unspecified amount of illegal earnings. He said Mr. Yeo would cooperate with Singapore authorities in their investigation into other individuals involved in the 1MDB case, including Mr. Low.

Investigators had said earlier that Mr. Yeo hadn't been cooperative. Mr. Yeo, under different legal representation, had previously intended to fight all charges against him.

BSI provided financial services to entities connected to 1MDB. The prosecution said Mr. Yeo had conspired with his former boss, Kevin Swampillai, to receive secret profits from 1MDB-linked money flows while facilitating a series of transactions made by 1MDB subsidiaries and Mr. Low. Mr. Yeo pleaded guilty to cheating his employer, BSI, by hiding those profits and to attempting to conceal and launder those proceeds.

Yeo Jiawei was central to the flow of funds tied to 1MDB in Singapore.

Mr. Swampillai, who testified as a prosecution witness against Mr. Yeo in an earlier trial for obstruction of justice, hasn't been charged with any crimes. However, Singapore's central bank has named him as a person of interest in its investigation into 1MDB. A lawyer for Mr. Swampillai declined to comment.

1MDB and Mr. Low's lawyer didn't immediately respond to requests for comment. 1MDB has previously denied wrongdoing and said it would cooperate with any lawful investigation. Mr. Low has denied wrongdoing and his whereabouts is unknown.

BSI has previously acknowledged shortcomings in its anti-money-laundering controls but declined to comment Wednesday on Mr. Yeo's case.

Mr. Yeo is serving a 30-month prison sentence for attempted obstruction of justice. The 54-month sentence handed down Wednesday will be served concurrently with the remainder of his earlier sentence, of which he has served about 15 months.

Investigators in at least five countries are probing the finances of 1MDB in response to allegations that billions of dollars have gone missing, much of it through private bank accounts in Singapore. Swiss investigators say they believe that as much as US$4 billion was misappropriated from the fund through several banks, including BSI.

Several Malaysian probes into 1MDB have ended without finding wrongdoing at the state fund. U.S. authorities, who have frozen more than $1 billion in assets linked to Mr. Low and 1MDB, are conducting their own criminal investigation and are collaborating with Singapore investigators.

Advertisement

INTERNATIONAL INVESTMENT FUNDS

[Search by company, category or country at asia.WSJ.com/funds]

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
■ Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866									
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg									
CAM-GTF Limited		OT	OT	MUS	07/07 USD	302100.35	0.0	3.6	-1.1

Value Partners
Investing through discipline

■ Website: https://www.valuepartners-group.com/ Tel: (852) 2143 0688

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
China A-Share Fund Cls A AUD H	OT	OT	HKG	07/11	AUD	13.55	14.9	17.9	1.5
China A-Share Fund Cls A AUD UnH	OT	OT	HKG	07/11	AUD	12.52	14.5	18.6	-1.1
China A-Share Fund Cls A CAD H	OT	OT	HKG	07/11	CAD	12.49	14.4	16.5	0.2
China A-Share Fund Cls A EUR H	OT	OT	HKG	07/11	EUR	13.11	14.1	15.6	-0.1
China A-Share Fund Cls A EUR UnH	OT	OT	HKG	07/11	EUR	12.75	10.6	15.0	NS
China A-Share Fund Cls A GBP H	OT	OT	HKG	07/11	GBP	13.09	13.6	18.1	1.4
China A-Share Fund Cls A GBP UnH	OT	OT	HKG	07/11	GBP	15.24	13.7	19.2	8.8
China A-Share Fund Cls A HKD H	OT	OT	HKG	07/11	HKD	13.31	14.1	16.3	0.3
China A-Share Fund Cls A HKD UnH	OT	OT	HKG	07/11	HKD	13.47	20.8	19.7	0.2
China A-Share Fund Cls A NZD H	OT	OT	HKG	07/11	NZD	13.35	15.1	18.4	1.7
China A-Share Fund Cls A NZD UnH	OT	OT	HKG	07/11	NZD	11.66	17.1	21.0	-2.6
China A-Share Fund Cls A RMB (CNH)	OT	OT	HKG	07/11	CNH	14.64	16.7	20.5	3.9
China A-Share Fund Cls A USD	OT	OT	HKG	07/11	USD	13.37	20.1	19.1	0.0
China A-Share Fund Cls A USD H	OT	OT	HKG	07/11	USD	13.30	14.5	17.0	0.7
China Greenchip-A Units	AS	EQ	CYM	07/11	HKD	62.60	23.1	27.7	1.1
China Greenchip-A Units AUD H	AS	EQ	CYM	07/11	AUD	10.62	23.6	28.7	1.7
China Greenchip-A Units CAD H	AS	EQ	CYM	07/11	CAD	10.33	23.6	27.8	0.8
China Greenchip-A Units NZD H	AS	EQ	CYM	07/11	NZD	10.88	23.4	29.1	2.3
China Greenchip-A Units USD	AS	EQ	CYM	07/11	USD	10.33	22.7	27.4	0.9
China Greenchip-A2 QDIs Units	AS	EQ	CYM	07/11	HKD	11.28	22.7	27.3	1.0
GC Hi Yield Inc - Cls A MDIs GBP H	OT	OT	CYM	07/11	GBP	9.57	5.0	12.0	9.6
GC Hi Yield Inc-Cls A MDIs AUD H	OT	OT	CYM	07/11	AUD	9.15	5.9	14.0	11.5
GC Hi Yield Inc-Cls A MDIs CAD H	OT	OT	CYM	07/11	CAD	9.23	5.4	12.8	10.1
GC Hi Yield Inc-Cls A MDIs NZD H	OT	OT	CYM	07/11	NZD	9.51	6.3	14.6	12.3
GC Hi Yield Inc-Cls P HKD Acc sh	OT	OT	CYM	07/11	HKD	15.02	6.5	14.1	10.9
GC Hi Yield Inc-Cls P HKD MDIs sh	OT	OT	CYM	07/11	HKD	9.21	6.5	14.0	10.8
GC Hi Yield Inc-Cls P MDIs SGD H	OT	OT	CYM	07/11	SGD	10.05	5.3	12.7	10.6
GC Hi Yield Inc-Cls P USD Acc sh	OT	OT	CYM	07/11	USD	15.03	5.8	13.3	10.5
GC Hi Yield Inc-Cls P USD MDIs sh	OT	OT	CYM	07/11	USD	9.20	5.7	13.2	10.4
GC Hi Yield Inc-ClsA MDIs EUR H	OT	OT	CYM	07/11	EUR	10.00	4.6	11.2	9.0
Hi-Div Stk Cls A RMB H Acc	OT	OT	HKG	07/11	CNH	12.15	21.5	25.4	6.2
Hi-Div Stk Cls A RMB UnH Acc	OT	OT	HKG	07/11	CNH	14.24	16.2	23.2	7.8
Hi-Div Stk Cls A1	OT	OT	HKG	07/11	USD	85.58	19.3	22.4	3.6
Hi-Div Stk Cls A2 AUD H MDIs	OT	OT	HKG	07/11	AUD	10.06	19.0	22.2	3.6
Hi-Div Stk Cls A2 CAD H MDIs	OT	OT	HKG	07/11	CAD	10.17	18.4	20.9	2.3
Hi-Div Stk Cls A2 GBP H MDIs	OT	OT	HKG	07/11	GBP	9.68	20.2	22.5	2.6
Hi-Div Stk Cls A2 HKD MDIs	OT	OT	HKG	07/11	HKD	10.60	20.2	23.2	3.9
Hi-Div Stk Cls A2 MDIs	OT	OT	HKG	07/11	USD	11.50	18.8	21.8	3.3
Hi-Div Stk Cls A2 NZD H MDIs	OT	OT	HKG	07/11	NZD	10.23	18.4	21.9	4.0
Hi-Div Stk Cls A2 RMB H MDIs	OT	OT	HKG	07/11	CNH	10.14	22.4	26.2	6.5
Hi-Div Stk Cls A2 RMB UnH MDIs	OT	OT	HKG	07/11	CNH	10.39	16.7	24.6	8.1
Hi-Div Stk Cls A2 SGD H MDIs	OT	OT	HKG	07/11	SGD	11.10	NS	NS	NS
Intel-China Converg Fund-A AUD H	AS	EQ	CYM	07/11	AUD	10.57	20.1	24.9	NS
Intel-China Converg Fund-A CAD H	AS	EQ	CYM	07/11	CAD	11.28	10.9	16.6	NS
Intel-China Converg Fund-A NZD H	AS	EQ	CYM	07/11	NZD	11.81	15.1	18.8	NS
Intel-China Converg Fund-A Units	AS	EQ	CYM	07/11	USD	160.98	20.6	26.9	-1.0
Intel-Chinese Mainland Foc Fund	AS	EQ	CYM	07/11	USD	47.69	28.7	35.8	3.0
VP Classic-A Units	AS	EQ	HKG	07/11	USD	323.11	26.9	31.8	4.9
VP Classic-B Units	AS	EQ	HKG	07/11	USD	145.04	26.6	31.1	4.4
VP Classic-C Units	AS	EQ	HKG	07/11	USD	18.27	26.4	31.0	4.1
VP Classic-C Units AUD H	AS	EQ	HKG	07/11	AUD	15.02	25.8	30.3	4.4
VP Classic-C Units CAD H	AS	EQ	HKG	07/11	CAD	14.54	25.6	29.6	3.6
VP Classic-C Units HKD H	AS	EQ	HKG	07/11	HKD	12.32	25.1	29.1	NS
VP Classic-C Units NZD H	AS	EQ	HKG	07/11	NZD	14.91	23.6	28.6	3.9
VP Classic-C Units RMB	AS	EQ	HKG	07/11	CNH	12.05	15.6	24.4	NS
VP Classic-C Units RMB H	AS	EQ	HKG	07/11	CNH	12.32	28.2	33.5	NS
VP Multi-Asset Fund Cls A HKD	OT	OT	HKG	07/11	HKD	10.40	8.1	NS	NS
VP Multi-Asset Fund Cls A USD	OT	OT	HKG	07/11	USD	10.49	7.4	6.1	NS
VP Taiwan Fund	AS	EQ	CYM	07/11	USD	19.63	17.2	21.9	12.7

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LIST YOUR FUNDS

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MARKETS DIGEST

Nikkei 225 Index

20098.38 ▼97.10, or 0.48%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲5.15%
52-wk high/low	20230.41	16083.11
All-time high	38915.87	12/29/89

S&P 500 Index

2443.24 ▲17.71, or 0.73%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	23.77	24.07
P/E estimate *	18.56	17.94
Dividend yield	2.01	2.17
All-time high:	2453.46, 06/19/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

STOXX 600 Index

Data as of 12 p.m. New York time

384.90 ▲5.75, or 1.52%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲6.50%
52-wk high/low	396.45	328.80
All-time high	414.06	4/15/15

International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range Close	52-Week Range High	YTD % chg
World	**The Global Dow**	2807.31	25.41	0.91	2376.99		2810.19	11.0
	MSCI EAFE	1900.01	21.63	1.15	1471.88		1956.39	10.7
	MSCI EM USD	1030.56	12.36	1.21	691.21		1044.05	29.8
Americas	**DJ Americas**	588.01	4.67	0.80	503.44		588.61	8.8
Brazil	**Sao Paulo Bovespa**	63901.42	69.27	0.11	53732.82		69487.58	6.1
Canada	**S&P/TSX Comp**	15171.49	22.35	0.15	14319.11		15943.09	-0.8
Mexico	**IPC All-Share**	50519.78	9.55	0.02	43998.98		51103.85	10.7
Chile	**Santiago IPSA**	3750.63	31.65	0.85	3120.87		3786.05	16.4
U.S.	**DJIA**	21537.88	128.81	0.60	17883.56		21580.79	9.0
	Nasdaq Composite	6255.00	61.70	1.00	5002.82		6341.70	16.2
	S&P 500	2443.24	17.71	0.73	2083.79		2453.82	9.1
	CBOE Volatility	10.22	-0.67	-6.15	9.37		23.01	-27.2
EMEA	**Stoxx Europe 600**	384.90	5.75	1.52	328.80		396.45	6.5
	Stoxx Europe 50	3159.06	51.97	1.67	2720.66		3279.71	4.9
France	**CAC 40**	5222.13	81.53	1.59	4293.34		5442.10	7.4
Germany	**DAX**	12626.58	189.56	1.52	9919.41		12951.54	10.0
Israel	**Tel Aviv**	1442.12	6.19	0.43	1372.23		1490.23	-1.9
Italy	**FTSE MIB**	21432.55	320.85	1.52	15923.11		21828.77	11.4
Netherlands	**AEX**	516.59	5.60	1.10	436.28		537.84	6.9
Russia	**RTS Index**	1025.68	24.17	2.41	898.05		1196.99	-11.1
Spain	**IBEX 35**	10560.40	111.30	1.07	8229.40		11184.40	12.9
Switzerland	**Swiss Market**	9015.60	141.53	1.59	7585.56		9148.61	9.7
South Africa	**Johannesburg All Share**	52905.98	529.60	1.01	48935.90		54716.53	4.4
Turkey	**BIST 100**	103809.78	627.14	0.61	70426.16		104283.30	32.9
U.K.	**FTSE 100**	7416.93	87.17	1.19	6615.83		7598.99	3.8
Asia-Pacific	**DJ Asia-Pacific TSM**	1630.27	9.94	0.61	1403.90		1643.59	14.6
Australia	**S&P/ASX 200**	5673.80	-55.10	-0.96	5156.60		5956.50	0.1
China	**Shanghai Composite**	3197.54	-5.49	-0.17	2953.39		3288.97	3.0
Hong Kong	**Hang Seng**	26043.64	166.00	0.64	21322.37		26063.06	18.4
India	**S&P BSE Sensex**	31804.82	57.73	0.18	25765.14		31804.82	19.4
Indonesia	**Jakarta Composite**	5819.13	45.81	0.79	5027.70		5910.24	9.9
Japan	**Nikkei Stock Avg**	20098.38	-97.10	-0.48	16083.11		20230.41	5.1
Malaysia	**Kuala Lumpur Composite**	1757.24	2.21	0.13	1616.64		1792.35	7.0
New Zealand	**S&P/NZX 50**	7586.02	-42.55	-0.56	6664.21		7685.45	10.2
Pakistan	**KSE 100**	43792.19	-328.39	-0.74	39017.32		52876.46	-8.4
Philippines	**PSEi**	7938.37	80.23	1.02	6563.67		8102.30	16.0
Singapore	**Straits Times**	3208.91	-9.89	-0.31	2787.27		3271.11	11.4
South Korea	**Kospi**	2391.77	-4.23	-0.18	1958.38		2396.00	18.0
Taiwan	**Weighted**	10420.68	5.11	0.05	8857.75		10513.96	12.6
Thailand	**SET**	1574.93	5.69	0.36	1406.18		1591.00	2.1

Source: SIX Financial Information;WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 12 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points: Latest	Previous	Month Ago	Year ago	Yield: Previous	Month ago	Year ago
2.750	**Australia** 2	1.866	50.7	36.2	25.2	94.8	1.753	1.612	1.637
2.750	10	2.730	40.9	34.0	18.8	44.2	2.705	2.402	1.953
3.000	**Belgium** 2	-0.500	-185.9	-186.6	-195.3	-124.5	-0.475	-0.594	-0.556
0.800	10	0.860	-146.1	-145.2	-162.6	-142.5	0.912	0.587	0.086
0.000	**France** 2	-0.390	-174.9	-177.0	-187.4	-123.2	-0.379	-0.515	-0.543
1.000	10	0.868	-145.3	-144.4	-160.6	-131.9	0.921	0.607	0.192
0.000	**Germany** 2	-0.624	-198.3	-198.8	-211.5	-134.9	-0.597	-0.756	-0.660
0.250	10	0.513	-180.9	-181.4	-196.4	-159.6	0.551	0.250	-0.085
0.050	**Italy** 2	0.065	-129.4	-128.1	-162.6	-76.3	0.110	-0.266	-0.074
2.200	10	2.258	-6.3	-4.2	-19.7	-34.8	2.322	2.017	1.163
0.100	**Japan** 2	-0.106	-146.5	-149.3	-147.0	-103.8	-0.101	-0.111	-0.349
0.100	10	0.090	-223.2	-227.0	-215.5	-179.0	0.095	0.059	-0.279
4.000	**Netherlands** 2	-0.590	-194.9	-196.4	-205.9	-129.3	-0.572	-0.700	-0.604
0.750	10	0.710	-161.2	-161.4	-174.5	-154.9	0.750	0.469	-0.038
4.750	**Portugal** 2	0.026	-133.3	-134.8	-127.8	-32.9	0.044	0.082	0.360
4.125	10	3.081	76.0	76.4	75.2	161.8	3.129	2.965	3.129
2.750	**Spain** 2	-0.292	-165.1	-159.8	-166.1	-82.5	-0.206	-0.301	-0.136
1.500	10	1.631	-69.0	-67.7	-78.1	-33.9	1.687	1.433	1.172
4.250	**Sweden** 2	-0.721	-208.1	-208.7	-209.9	-132.1	-0.695	-0.740	-0.632
1.000	10	0.644	-167.8	-168.6	-182.7	-132.3	0.678	0.386	0.188
1.750	**U.K.** 2	0.301	-105.9	-108.8	-128.6	-49.7	0.304	0.073	0.193
4.250	10	1.261	-106.1	-108.5	-124.7	-68.3	1.280	0.966	0.828
1.250	**U.S.** 2	1.359	...	...	...	...	1.391	1.359	0.689
2.375	10	2.321	...	...	...	...	2.364	2.214	1.511

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners

London close on July 12

Country/currency	Wed in US$	Wed per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0589	16.9824	7.0
Brazil real	0.3100	3.2257	-0.9
Canada dollar	0.7841	1.2754	-5.1
Chile peso	0.001507	663.40	-1.0
Colombia peso	0.0003274	3054.56	1.8
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0563	17.7775	-14.3
Peru sol	0.3076	3.2515	-3.0
Uruguay peso-e	0.0348	28.710	-2.2
Venezuela bolivar	0.098652	10.14	1.4
Asia-Pacific			
Australia dollar	0.7672	1.3034	-6.1
China yuan	0.1473	6.7878	-2.3
Hong Kong dollar	0.1280	7.8114	0.7
India rupee	0.0155	64.4100	-5.2
Indonesia rupiah	0.0000751	13324	-1.5
Japan yen	0.008839	113.13	-3.3
Kazakhstan tenge	0.003041	328.89	-1.4
Macau pataca	0.1243	8.0444	1.6
Malaysia ringgit-c	0.2329	4.2935	-4.3
New Zealand dollar	0.7259	1.3776	-4.6
Pakistan rupee	0.0095	105.150	0.7
Philippines peso	0.0198	50.510	1.8
Singapore dollar	0.7258	1.3777	-4.8
South Korea won	0.0008780	1138.90	-5.7
Sri Lanka rupee	0.0065053	153.72	3.6
Taiwan dollar	0.03294	30.356	-6.5
Thailand baht	0.02945	33.960	-5.2
Europe			
Bulgaria lev	0.5834	1.7140	-7.8
Croatia kuna	0.1541	6.491	-9.5
Euro zone euro	1.1414	0.8762	-7.8
Czech Rep. koruna-b	0.0437	22.871	-11.0
Denmark krone	0.1535	6.5155	-7.8
Hungary forint	0.003721	268.71	-8.7
Iceland krona	0.009448	105.84	-6.3
Norway krone	0.1208	8.2782	-4.2
Poland zloty	0.2697	3.7083	-11.4
Russia ruble-d	0.01666	60.009	-2.1
Sweden krona	0.1187	8.4219	-7.5
Switzerland franc	1.0368	0.9645	-5.3
Turkey lira	0.2803	3.5670	1.2
Ukraine hryvnia	0.0386	25.9150	-4.3
U.K. pound	1.2888	0.7759	-4.2
Middle East/Africa			
Bahrain dinar	2.6504	0.3773	0.03
Egypt pound-a	0.0557	17.9490	-1.0
Israel shekel	0.2823	3.5418	-8.0
Kuwait dinar	3.2997	0.3031	-0.8
Oman sul rial	2.5970	0.3851	0.02
Qatar rial	0.2702	3.701	1.7
Saudi Arabia riyal	0.2667	3.7491	-0.04
South Africa rand	0.0754	13.2560	-3.2

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	87.98	-0.23	-0.27	-5.33

Sources: Tullett Prebon, WSJ Market Data Group

Commodities

Prices of futures contracts with the most open interest 12 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 7/11/2017

Commodity	Exchange	Last price	One-Day Change Net	One-Day Change Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	393.00	-8.75	-2.18%	404.75	364.50
Soybeans (cents/bu.)	CBOT	1036.50	-6.75	-0.65	1,047.00	907.00
Wheat (cents/bu.)	CBOT	545.00	-8.00	-1.45	574.50	430.75
Live cattle (cents/lb.)	CME	115.875	1.050	0.91%	122.850	99.125
Cocoa ($/ton)	ICE-US	1,821	4	0.22	2,281	1,767
Coffee (cents/lb.)	ICE-US	128.00	1.10	0.87	163.75	115.50
Sugar (cents/lb.)	ICE-US	13.50	0.06	0.45	20.50	12.74
Cotton (cents/lb.)	ICE-US	67.34	-0.33	-0.49	75.72	66.15
Robusta coffee ($/ton)	ICE-EU	2094.00	22.00	1.06	2,286.00	1,885.00
Copper ($/lb.)	COMEX	2.6845	0.0125	0.47	2.8495	2.4850
Gold ($/troy oz.)	COMEX	1220.50	5.80	0.48	1,300.30	1,155.00
Silver ($/troy oz.)	COMEX	15.920	0.175	1.11	18.780	14.340
Aluminum ($/mt)*	LME	1,891.50	-31.50	-1.64	1,972.00	1,688.50
Tin ($/mt)*	LME	19,850.00	150.00	0.76	21,225.00	18,760.00
Copper ($/mt)*	LME	5,824.50	9.50	0.16	6,156.00	5,491.00
Lead ($/mt)*	LME	2,312.00	25.50	1.12	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,775.00	-4.00	-0.14	2,958.50	2,450.50
Nickel ($/mt)*	LME	9,040.00	120.00	1.35	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	201.80	4.50	2.28	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2582.00	-1.00	-0.04	2966.00	2390.00
Crude oil ($/bbl.)	NYMEX	45.62	0.39	0.86	58.36	42.29
NY Harbor ULSD ($/gal.)	NYMEX	1.4781	0.0018	0.12	1.7930	1.3609
RBOB gasoline ($/gal.)	NYMEX	1.5236	0.0053	0.35	1.8561	1.3902
Natural gas ($/mmBtu)	NYMEX	2.987	-0.060	-1.97	3.5750	2.8320
Brent crude ($/bbl.)	ICE-EU	47.76	0.24	0.51	60.18	44.60
Gas oil ($/ton)	ICE-EU	437.75	4.00	0.92	530.25	403.50

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on Jul 12

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3034	1.6799	1.3515	0.0115	0.1669	1.4879	1.0220	...
Canada	1.2754	1.6439	1.3224	0.0113	0.1633	1.4557	...	0.9785
Euro	0.8762	1.1292	0.9082	0.0077	0.1122	...	0.6870	0.6722
Hong Kong	7.8114	10.0673	8.0989	0.0691	...	8.9155	6.1244	5.9929
Japan	113.1290	145.8100	117.2800	...	14.4820	129.1300	88.7000	86.7900
Switzerland	0.9645	1.2433	...	0.0085	0.1235	1.1011	0.7562	0.7399
U.K.	0.7759	...	0.8043	0.0069	0.0993	0.8857	0.6083	0.5953
U.S.	...	1.2888	1.0368	0.0088	0.1280	1.1414	0.7841	0.7672

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.22444%**	0.48135%
Three month	**1.30389**	0.68010
Six month	**1.46044**	0.98010
One year	**1.74594**	1.29340
Euro Libor		
One month	**-0.40357%**	-0.36857%
Three month	**-0.37229**	-0.30786
Six month	**-0.30614**	-0.19271
One year	**-0.18414**	-0.07029
Euribor		
One month	**-0.37400%**	-0.37100%
Three month	**-0.33100**	-0.29500
Six month	**-0.27300**	-0.19100
One year	**-0.15400**	-0.06100
Yen Libor		
One month	**-0.03129%**	-0.07143%
Three month	**-0.00686**	-0.03900
Six month	**0.00986**	-0.03207
One year	**0.11771**	0.05679
	Offer	Bid
Eurodollars		
One month	**1.3200%**	1.2200%
Three month	**1.3400**	1.2400
Six month	**1.4900**	1.3900
One year	**1.8300**	1.7300
	Latest	52 wks ago
Prime rates		
U.S.	**4.25%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.75**	1.00
Fed-funds target	**1.00-1.25**	0.25-0.50
Call money	**3.00**	2.25
Overnight repurchase rates		
U.S.	**1.05%**	0.48%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

Top Stock Listings

12 p.m. New York time

Asia Titans

Cur	Stock	Sym	Last	% Chg	YTD% Chg
HK$	AIAGroup	1299	58.40	1.39	33.49
¥	AstellasPharma	4503	1379.50	-0.50	-15.03
AU$	AustNZBk	ANZ	28.41	-1.53	-6.61
AU$	BHP	BHP	24.88	0.40	-0.72
HK$	BankofChina	3988	3.75	2.46	9.01
HK$	CKHutchison	0001	99.35	0.40	13.03
HK$	CNOOC	0883	8.60	0.70	-11.34
AU$	CSL	CSL	129.10	-2.54	28.57
¥	Canon	7751	3794.00	0.66	15.14
¥	CentralJapanRwy	9022	17880	-0.20	-7.02
HK$	ChinaConstructnBk	0939	6.34	2.59	6.20
HK$	ChinaLifeInsurance	2628	24.70	0.41	22.28
HK$	ChinaMobile	0941	80.70	-0.37	-1.82
HK$	ChinaPetro&Chem	0386	5.87	0.51	6.73
AU$	CmwlthBkAust	CBA	82.12	-0.99	-0.35
¥	EastJapanRailway	9020	10770	-1.06	6.63
¥	Fanuc	6954	22160	-1.07	11.83
¥	Hitachi	6501	714.00	0.27	12.97
TW$	Hon Hai Precisn	2317	118.50	...	40.74
¥	HondaMotor	7267	3103.00	-0.03	-9.14
KRW	HyundaiMtr	005380	149000	0.68	2.05
HK$	Ind&Comml	1398	5.19	3.39	11.61
¥	JapanTobacco	2914	3856.00	-0.46	0.31
¥	KDDI	9433	2917.00	-0.41	-1.44
¥	Mitsubishi	8058	2386.50	0.36	-4.16
¥	MitsubishiElectric	6503	1642.50	-1.82	0.80
¥	MitsubishiUFJFin	8306	738.40	-1.73	2.53
¥	Mitsui	8031	1608.50	-0.03	0.09
¥	Mizuho Fin	8411	202.60	-1.17	-3.43
¥	NTTDoCoMo	9437	2637.00	-0.15	-0.98
AU$	NatAustBnk	NAB	29.72	-1.23	-3.10
¥	NipponTeleg	9432	5259.00	-0.87	7.06
¥	NissanMotor	7201	1148.00	-0.56	-2.34
¥	Panasonic	6752	1522.00	0.07	27.95
HK$	PingAnInsofChina	2318	54.85	-0.45	41.37
$	RelianceIndsGDR	RIGD	46.25	1.09	46.59
KRW	SamsungElectronics	005930	2494000	1.80	38.40
¥	Seven&I Hldgs	3382	4544.00	0.35	2.04
¥	SoftBankGroup	9984	9046.00	-0.66	16.50
¥	Sony	6758	4477.00	0.86	36.70
¥	Sumitomo Mitsui	8316	4330.00	-1.10	-2.91
HK$	SunHngKaiPrp	0016	116.20	0.26	18.57
TW$	TaiwanSemiMfg	2330	210.50	-0.71	15.98
¥	TakedaPharm	4502	5681.00	-0.44	17.50
HK$	TencentHoldings	0700	281.20	1.01	48.23
¥	TokioMarineHldg	8766	4819.00	0.25	0.48
¥	ToyotaMtr	7203	6225.00	-0.61	-9.49
AU$	Wesfarmers	WES	40.33	-0.86	-4.30
AU$	WestpacBanking	WBC	30.73	-1.13	-5.74
AU$	Woolworths	WOW	25.68	-0.27	6.56

Stoxx 50

Cur	Stock	Sym	Last	% Chg	YTD% Chg
CHF	ABB	ABBN	24.30	1.89	13.13
€	ASMLHolding	ASML	119.80	1.96	12.33
€	AXA	CS	25.12	0.38	4.75
€	AirLiquide	AI	109.20	2.06	3.36
€	Allianz	ALV	182.50	1.45	16.24
€	AB InBev	ABI	98.49	2.06	-2.05
£	AstraZeneca	AZN	5192.00	2.18	17.00
€	BASF	BAS	82.12	0.37	-7.01
€	BNP Paribas	BNP	65.99	1.12	8.98
£	BT Group	BT.A	290.10	0.87	-20.93
€	BancoBilVizAr	BBVA	7.51	-0.08	18.34
€	BancoSantander	SAN	5.79	0.40	16.68
£	Barclays	BARC	208.00	1.09	-6.91
€	Bayer	BAYN	112.55	2.27	13.54
£	BP	BP.	450.65	1.85	-11.57
£	BritishAmTob	BATS	5278.00	1.89	14.21
€	Daimler	DAI	65.46	2.04	-7.44
€	DeutscheTelekom	DTE	15.86	1.31	-2.09
£	Diageo	DGE	2301.00	1.77	9.05
€	ENI	ENI	13.19	1.70	-14.74
£	GlaxoSmithKline	GSK	1628.00	1.56	4.23
£	Glencore	GLEN	315.00	2.44	13.57
£	HSBC Hldgs	HSBA	745.40	0.38	13.47
€	INGGroep	INGA	15.58	-0.03	16.53
£	ImperialBrands	IMB	3467.00	1.75	-2.13
€	IntesaSanpaolo	ISP	2.85	0.49	17.39
€	LVMHMoetHennessy	MC	216.35	0.86	19.27
£	LloydsBankingGroup	LLOY	66.04	0.75	5.65
€	LOreal	OR	182.00	1.62	4.96
£	NationalGrid	NG.	931.00	0.92	-10.32
CHF	Nestle	NESN	83.70	1.70	14.58
CHF	Novartis	NOVN	80.50	2.16	8.64
DKK	NovoNordiskB	NOVO-B	278.50	2.20	9.34
£	Prudential	PRU	1775.00	1.43	9.06
£	ReckittBenckiser	RB.	7748.00	1.95	12.52
£	RioTinto	RIO	3453.00	0.80	9.32
CHF	RocheHldgctf	ROG	243.40	2.05	4.64
£	RoyDtchShell A	RDSA	2076.50	1.57	-7.40
€	SAP	SAP	91.58	1.38	10.59
€	Sanofi	SAN	85.96	3.12	11.78
€	SchneiderElectric	SU	69.03	1.83	4.42
€	Siemens	SIE	122.80	1.87	5.14
€	Telefonica	TEF	9.14	1.34	3.63
€	Total	FP	43.08	0.95	-9.81
CHF	UBSGroup	UBSG	16.80	-0.24	5.33
€	Unilever	UNA	49.05	1.34	25.41
£	Unilever	ULVR	4263.50	0.97	29.49
€	Vinci	DG	77.07	2.60	19.12
£	VodafoneGroup	VOD	220.45	1.36	10.31
CHF	ZurichInsurance	ZURN	289.60	1.08	3.28

DJIA

Cur	Stock	Sym	Last	% Chg	YTD% Chg
$	AmericanExpress	AXP	84.70	0.64	14.34
$	Apple	AAPL	145.25	-0.19	25.41
$	Boeing	BA	206.73	0.22	32.79
$	Caterpillar	CAT	109.22	0.90	17.77
$	Chevron	CVX	104.15	1.00	-11.51
$	CiscoSystems	CSCO	31.25	0.51	3.41
$	Coca-Cola	KO	44.46	0.29	7.24
$	Disney	DIS	103.78	-0.06	-0.43
$	DuPont	DD	83.77	1.45	14.13
$	ExxonMobil	XOM	81.20	0.75	-10.03
$	GeneralElec	GE	26.44	0.23	-16.33
$	GoldmanSachs	GS	228.33	0.61	-4.64
$	HomeDepot	HD	152.37	1.18	13.64
$	Intel	INTC	34.06	0.43	-6.08
$	IBM	IBM	153.88	0.45	-7.30
$	JPMorganChase	JPM	92.50	-0.36	7.20
$	J&J	JNJ	131.95	0.55	14.53
$	McDonalds	MCD	156.21	0.84	28.34
$	Merck	MRK	62.97	1.00	6.96
$	Microsoft	MSFT	70.93	1.34	14.15
$	Nike	NKE	58.41	0.39	14.90
$	Pfizer	PFE	33.30	0.41	2.54
$	Procter&Gamble	PG	87.02	0.29	3.50
$	3M	MMM	210.52	0.41	17.89
$	Travelers	TRV	125.05	...	2.15
$	UnitedTech	UTX	124.06	0.42	13.17
$	UnitedHealth	UNH	187.00	0.56	16.85
$	Visa	V	96.21	0.84	23.31
$	Verizon	VZ	43.24	0.83	-18.99
$	Wal-Mart	WMT	74.05	0.79	7.13

Asia Titans 50

Last: **159.99** ▲ 1.21, or 0.76% YTD ▲ **13.5%**

Stoxx 50

Last: **3159.06** ▲ 51.97, or 1.67% YTD ▲ **4.9%**

Dow Jones Industrial Average

P/E: 21

Last: **21537.88** ▲ 128.81, or 0.60% YTD ▲ **9.0%**

Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

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Pushback Over Oncor Bid Tests Buffett Resolve

By Nicole Friedman

Warren Buffett's **Berkshire Hathaway** Inc. is under pressure to do something it usually doesn't do: raise its bid.

Berkshire subsidiary **Berkshire Hathaway Energy** struck a deal last week to buy bankrupt **Energy Future Holdings** Corp., including Texas electricity-transmission business Oncor, for $9 billion in cash.

Paul Singer's **Elliott Management** Corp., a major Energy Future creditor, said Berkshire's bid doesn't value Oncor highly enough and that it is working on a rival offer. "It is quite likely that the Berkshire transaction will not close, given the lack of support from the debtors' creditors," a lawyer for Elliott wrote in a Tuesday letter that was publicly released by the hedge fund.

For decades, Mr. Buffett has included in his company's annual report a list of criteria for companies that might want to sell businesses to Berkshire. Berkshire is looking for large companies with little debt, the list says—and it isn't interested in bidding wars or hostile takeovers.

"We don't participate in auctions," Mr. Buffett wrote in the latest annual report. "A line from a country song expresses our feeling about new ventures, turnarounds, or auction-like sales: 'When the phone don't ring, you'll know it's me.'"

If the Oncor deal doesn't go through, Energy Future would pay Berkshire Hathaway Energy a $270 million fee, according to a filing. The fee would have to be approved by the bankruptcy court.

The potential Berkshire deal would need permission from a bankruptcy court and from Texas regulators. Regulators already have indicated they would support Berkshire as a buyer.

Berkshire Hathaway Energy declined to comment.

Berkshire watchers said the company is unlikely to raise its initial bid. "His trump card is his willingness to walk away," said David Rolfe, chief investment officer at Wedgewood Partners, which manages about $6 billion and holds Berkshire shares, referring to Mr. Buffett. "He does not have a history of bidding-type competitions, and he typically has played a pretty strong hand."

MIKE BLAKE/REUTERS (LEFT); RICK WILKING/REUTERS

Paul Singer, left, runs Elliott Management, which is working on a rival bid for Oncor, a target of Warren Buffett's Berkshire.

Mr. Buffett has long been known for quickly negotiating deals and sticking with his initial price offer.

"His playbook is not to negotiate," said Robert Miles, who has written books on Berkshire. "Buffett would take the $270 million and move on to the next deal, which is what they did with Constellation."

Berkshire's energy unit reached a deal in 2008 to buy **Constellation Energy Group** Inc. but withdrew the offer after state-controlled **Electricité de France** SA agreed to buy a stake in Constellation. Berkshire received a $175 million breakup fee.

To be sure, many potential Berkshire deals that fall through never become public. In 2012, Mr. Buffett told shareholders that Berkshire almost spent $22 billion buying a company but couldn't reach an agreement. He didn't name the potential target.

A recent withdrawal occurred earlier this year when **Kraft Heinz** Co., which is partly owned by Berkshire and Brazilian private-equity firm **3G Capital**, backed away from a $143 billion approach to take over **Unilever** PLC in February after Unilever declined. Mr. Buffett revealed at his company's May annual meeting that Berkshire would have invested $15 billion if the deal were reached. "If it's unwelcome, there is no offer," Mr. Buffett told CNBC in February.

Mr. Buffett famously participated in one hostile deal decades ago—the takeover of Berkshire itself. Mr. Buffett bought shares in Berkshire, which was a New England textile company, starting in 1962. In 1965, he appeared at a board meeting to take control of the company formally and replace the management.

In retrospect, he has said, the deal was a mistake. "I found myself...invested in a terrible business about which I knew very little," he wrote in 2014.

Mr. Buffett did raise the offer price in 1999 when he bought a majority stake in MidAmerican Energy Holdings Co., now called Berkshire Hathaway Energy. But he made the switch before the deal was announced, as he explained in his 2007 letter to shareholders.

Mr. Buffett originally offered $35 a share for MidAmerican, but after pressure from investment bankers, he raised it to $35.05, he said in the letter. "With that, I explained, they could tell their client they had wrung the last nickel out of me," he wrote. "At the time, it hurt." But given MidAmerican's growth since then, he said in the same letter, "I'm glad I wilted and offered the extra nickel."

U.S. Stocks, Bonds Rise and Dollar Falls After Yellen Comments

By Riva Gold and Amrith Ramkumar

WEDNESDAY'S MARKETS

Stocks and government bonds rallied and the dollar fell, after Chairwoman Janet Yellen said the Federal Reserve could alter its plans to raise rates if weak inflation persists.

In testimony on Capitol Hill, Ms. Yellen said the central bank will need to keep gradually raising interest rates, but that rates won't need to rise to levels seen in previous cycles.

The Dow Jones Industrial Average was up 122 points, or 0.6%, to 21531 by midday, after hitting a new intraday high early in the session. The S&P 500 climbed 0.7% and the Nasdaq Composite advanced 0.9%. All 11 sectors in the S&P 500 rose.

Earlier, Japan's Nikkei Stock Average fell 0.5% after two days of gains as the yen rebounded from two-month lows against the dollar. The Shanghai Composite Index ended down 0.2% while Hong Kong's Hang Seng Index rose 0.6%.

Inflation has slowed in recent months, and some analysts and investors said Ms. Yellen's comments showed that the Fed might be more cautious with future rate increases.

"People heard what they wanted to hear," said Rob Bernstone, a managing director in equity trading at Credit Suisse Group AG.

Investors were also looking for clues about whether a third rate increase in 2017 might come before the central bank is expected to start reducing its $4.5 trillion balance sheet. Ms. Yellen said the Fed's balance-sheet reduction would start "relatively soon," without providing a specific date.

The yield on the 10-year U.S. Treasury note fell to 2.318% by midday, according to Tradeweb, from 2.362% on Tuesday. Yields fall as prices rise. The WSJ Dollar Index, which tracks the dollar against a basket of 16 currencies, edged down 0.3% midday Wednesday, extending Tuesday's decline.

Expectations about monetary policy have been a main driver of bond and currency movements over the past two weeks. The Bank of Canada raised interest rates for the first time in seven years Wednesday, joining a growing group of global central bankers signaling a need to dial back on ultralow interest rates.

Higher oil and metals prices boosted shares of energy and mining companies, with U.S. crude up 1% at $45.49 a barrel by midday.

Elsewhere, the Stoxx Europe 600 bounced back from an 11-week low, rising 1.5%. The euro steadied around a one-year high against the dollar as data showed output at the eurozone's factories, mines and utilities rose at the fastest annual pace in more than five years in May.

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MARKETS

Higher Bond Yields Spur Worry on Stocks

By Riva Gold

With central-bank support set to wane, investors are worried that stocks trading near records could be vulnerable to any further selling in the bond market.

Global stocks have soared on a combination of steady economic growth and extensive monetary stimulus. But with major central banks now expected to shut off the bond-buying taps, one pillar of support is fading and so, too, are some investors' optimistic outlook for stocks.

Investors are asking: Can stocks keep climbing if the bond market gets hit?

While few predict a major stock meltdown, a U.S. market that is at records is more exposed to any signs of an economic downturn, investors say. Many now expect returns from stocks to be more muted and for volatility to move higher.

Stocks that led this year's rally, particularly U.S. technology and health-care companies, are expected to come under further pressure, and those that benefit from higher yields, like banks, have been gaining.

Some investors are considering looking outside the U.S., where benchmarks such as those in Europe trade at a cheaper price and are more weighted to banks.

"I've been a bit more cautious in our portfolios, reducing equity exposure," said Ed Keon, portfolio manager at QMA, a multiasset manager owned by Prudential Financial. "Equity valuations are at historic highs, interest rates are quite low...so I think the risk that there's a miscalculation or unexpected reaction is greater than it would be under ordinary circumstances."

The value of shares depends on how much money companies are expected to generate in the future. When interest rates rise, investors may be able to get a similar return investing in a risk-free bond.

Yields on 10-year Treasury notes have climbed to around 2.32%, as of Wednesday morning in New York, from around 2.2% in the two weeks since several important central banks started signaling an exit from stimulus programs. The S&P 500 had fallen around 1% in that period through Tuesday, while the Stoxx Europe 600 had given up 2½ months of gains.

On Wednesday morning, however, the S&P 500 was up 0.7% and Treasury prices strengthened after Federal Reserve Chairwoman Janet Yellen said the Fed won't need to raise interest rates as high as previous cycles amid an uncertain inflation outlook. In written testimony before the House Financial Services Committee, Ms. Yellen said that "gradual increases in the federal funds rate" were warranted over time to meet the central bank's objectives of full employment and stable prices. But she added "the neutral level of the federal funds rate is likely to remain below levels that prevailed in previous decades."

Still, comments from central bankers in the U.S., Canada, the eurozone and Britain have signaled that the days of easy money are nearing an end.

After a long period of calm, the CBOE Volatility Index, known as Wall Street's fear gauge, has climbed 10% through Tuesday, albeit off ultralow levels. The S&P 500 tech sector, the first half's best performer, as of Tuesday had shed around 2% since yields started climbing two weeks ago, while banks in the index had gained roughly 5%. Higher rates tend to benefit banks' net interest margins, while reducing the appeal of growth stocks trading at a premium to the market.

The latest rise in the U.S. 10-year yield hasn't reached heights that analysts fear could damage prospects for stocks, but it wouldn't take a huge selloff to get to those levels. Analysts at Morgan Stanley, for instance, are watching 2.75% as a threshold where they might turn less optimistic on U.S. equities.

That level, combined with the average historical equity risk premium, or the extra return demanded for holding stocks over safe Treasurys, would suggest a price/earnings level of roughly 19 on the S&P 500. Any higher on the Treasury yield, and stocks could start to come under pressure, they say.

For much of the past year, stocks actually climbed as bonds were sold. The fact that investors were dumping debt on expectations of stronger economic growth and inflation was seen as good for stocks.

"Investors started to think higher real rates and equities could go up because you have a robust underlying economy," said Mahmood Noorani, founder of Quant Insight, which looks at trading patterns across asset classes.

But investors have taken recent increases in yields as more of a reflection of shifting monetary policy than a buoyant economy.

Meanwhile, some analysts are less sure that American economic growth will be as robust as once thought. U.S. gross domestic product expanded at a seasonally and inflation-adjusted annual rate of just 1.4% in the first quarter.

To be sure, bond yields remain low by historic standards and below the high of around 2.6% reached in March. A combination of steady economic growth later in the year and brightening corporate earnings may keep the market buoyant enough to withstand an orderly adjustment of bond yields, some investors say. "I think we'd need to get more concerned about growth to get really bearish about equities," said Paul O'Connor, head of multiasset at Janus Henderson.

Feeling Tighter

Bond yields in Europe and the U.S. have risen and many stock indexes have retreated since the European Central Bank signaled last month a possible exit from stimulus, raising concerns among some investors that higher yields could make global stocks vulnerable to a sudden downturn.

*Stock price divided by per-share earnings estimates for coming year †Peak P/E ratio **Since 1990
Sources: FactSet (indexes, yields, P/E); WSJ Market Data Group (CBOE Volatility Index); Thomson Reuters (CBOE Nasdaq Volatility Index); J.P. Morgan (long-term average P/E)

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Past Flop May Help Big Tobacco

What consumer good offers the best growth potential? It could be a product in long-term decline: the cigarette. Some stock-market valuations have yet to catch on.

As unit cigarette sales have fallen in the U.S. and other rich countries, manufacturers have generated profit growth by ramping up prices and—helped by marketing bans—trimming costs. Meanwhile, spending on smokes in developing countries has risen with the middle classes. This formula has yielded huge gains for tobacco investors in recent years.

And now there is an added source of growth: cigarette substitutes. The popularity of heat-not-burn products in Japan has transformed the most recent quarterly results of **Philip Morris International**, the New York listed company that sells Marlboros outside the U.S.

Unlike the vaping products popular in the U.S. and U.K., heat-not-burn cigarettes contain tobacco and generate a "throat hit" similar to traditional varieties. But instead of being lighted with a flame, they are heated by a sleek holder.

Heat-not-burn technology was a costly flop when pioneered in the 1980s by Reynolds. Yet it sowed a seed that under Reynolds's rival Philip Morris has expanded into a seemingly credible product: IQOS. Released in Japan in 2014, IQOS accounted for 7% of cigarette products sold in the country in the first quarter.

Crucially, Philip Morris gains even if IQOS replaces Marlboro, because heat-not-burn smokes are more lightly taxed than conventional cigarettes in most countries. Citibank estimates that a pack of IQOS generates 30% more revenue for Philip Morris in Japan than a pack of Marlboros, even though consumers pay similar prices.

The brokerage is therefore penciling in 8% organic sales growth at Philip Morris International this year, at least double what can be expected of consumer-products companies like Nestlé or Procter & Gamble.

Buying Philip Morris stock is the obvious way to play this theme. But a smarter bet could be London-listed British American Tobacco, maker of Lucky Strikes. BAT's valuation gap to Philip Morris has ballooned over the past two years to its widest in at least a decade; investors are excited about IQOS, but give BAT no credit for its challenger product, glo. BAT's lower margins also suggest potential for cost-cutting, particularly given the company's merger with Reynolds, which is due to be completed later this year.

Buying Philip Morris stock at 23 times prospective earnings amounts to a wager that IQOS finds converts beyond Japan.

At less than 18 times earnings, well below not just Philip Morris but also consumer-goods peers, BAT stock should prove a safe investment—whether or not heat-not-burn cigarettes live up to their early promise.

—Stephen Wilmot

Burnout?

Forward price/earnings multiples

Sources: FactSet; Bloomberg News (photo)
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Japan Tobacco's Ploom Tech tobacco device

OVERHEARD

Late last summer, S&P Dow Jones Indices put the shares of real-estate investment trusts into their very own stock-market sector. The timing was perfect—to sell REITs.

Since the S&P 500 REIT sector began trading on Sept. 19 it has returned, with dividends reinvested, all of 1.9%, according to FactSet. The S&P 500 has returned 15.4% over the same period.

What is behind REITs' poor performance? They are domestically focused when overseas economies are doing better.

A rising-rate environment makes their yields less attractive.

Too many new properties mean that it is harder to raise rents.

The real-estate industry had been pushing for its own category for years, and performance had been so good that the index-making gods agreed to split them off from banks.

Be careful what you ask for.

Amazon Has A License To Spend

Amazon.com's popular Prime Day is best understood as a big investment by the company to showcase its retail prowess. And when it comes to big spending by Amazon, Wall Street is primed for even more.

The e-commerce giant has ramped up its capital expenditures significantly over the past few years. This feeds both the vast distribution network that powers its retail business as well as its state-of-the-art technology backbone that drives a fast-growing cloud-services business. Amazon's capital expenditures hit $6.7 billion last year—up 46% from the prior year and nearly double from three years ago.

This sort of spending has helped Amazon maintain a double-digit growth rate, which is notable given its huge size. So Wall Street has been more than forgiving of the growing bill—even when the company suggests it will grow more. Analysts now project about $7.9 billion in capital expenditures for Amazon this year, and that target has grown about 7% since the company's last earnings report in April, according to FactSet.

Amazon's stock price has risen about 7% since that report through Tuesday.

Amazon's capex growth is also expected to outpace that of cloud-computing rivals **Microsoft** and Google parent **Alphabet** for the 2017 calendar year.

That is a big bill to foot at a time the company will also be working to integrate its surprise acquisition of **Whole Foods Market**. But when it comes to ambition, Amazon has yet to find a price its investors aren't willing to pay.

—Dan Gallagher

The Demise of the American Driver Has Been Exaggerated

Fans of Springsteen rock anthems and drop-top convertibles can rejoice: The great American road trip isn't dead. Oil bulls, however, should check their enthusiasm.

The strange reluctance of Americans to take to the road in early 2017—miles driven and gasoline consumption flatlined despite a robust labor market and rising consumer confidence—prompted much hand-wringing among economists and energy investors alike, who worried that the lack of traffic might hint at deeper problems with the U.S. economy.

Those anxieties may have been overdone. U.S. gasoline demand hit a weekly record in late May and has remained high since, and overall consumption of petroleum—which also includes the likes of jet fuel and petrochemical feedstock—hit a record a month later, according to the **U.S. Energy Information Administration**.

So what slowed growth earlier in the year? Check the pump: Drivers were facing the sharpest rise in oil prices since the financial crisis, up nearly 90% from a year earlier in mid-February. By contrast, in late 2015 and early 2016, when Americans were driving with heady abandon even though the economy was muddling along, prices were down over 50% from a year earlier. Given the big price swings of the past two years, it isn't surprising that the usual relationship between economic growth, consumer confidence and driving habits was thrown off.

Unfortunately, good news for the economy—or at least a lack of bad news—shouldn't give too much cheer to oil investors. Americans aren't giving up driving, but cars are getting a lot thriftier with gas. Since tougher fuel-economy standards were introduced in 2011, highway miles driven have risen around 8%, twice the rise in gasoline burn, government data show.

Gasoline demand will likely rebound further as the summer progresses and consumers get used to the new normal of oil prices bouncing around $50 a barrel. But as fuel-economy standards get ever tighter and more auto makers shift toward electric vehicles, as Volvo announced last week, U.S. gasoline demand will increasingly be stuck in neutral.

Investors hoping for a structural rebound in oil and refining stocks should consider switching gears.

—Nathaniel Taplin

Oil Slick

Change from a year earlier

*6-month moving average Source: CEIC
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