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EXTRAFAT

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

With short-term interest rates on the rise, corporate depositors are seeking bigger payouts for their deposits, and big banks have started capitulating. **A1**

◆ SoftBank approached Uber about taking a multi-billion-dollar stake in the ride-hailing company. **B1**

◆ LedgerX won approval from the CFTC to clear bitcoin options, making it the first U.S. federally regulated platform of its kind. **B6**

◆ Kors said it agreed to acquire luxury shoe maker Jimmy Choo for \$1.17 billion, amid a slowdown in the handbag business. **B1**

◆ An unknown investor bet on a resurgence in market volatility that could net a \$265 million profit. **B1**

◆ GM's second-quarter profit fell 42% on costs related to its pullback from Europe and other overseas markets as it bets on continued strength at home. **B3**

◆ Alphabet said clicks on its ads surged 52% in the second quarter, but revenue per click fell 23%. **B4**

◆ Venezuelan bond prices have tumbled on default fears following Trump's threat to impose sanctions on the country. **B6**

### World-Wide

◆ China is bolstering defenses along its border with North Korea to prepare for a potential crisis. **A1**

◆ Trump publicly criticized Sessions and suggested he launch an investigation into Clinton. **A1**

◆ Abe Shinzo is fighting for his political future after support for his cabinet fell below 30% in some opinion polls. **A5**

◆ The Senate braced for a long-anticipated vote on whether to take the first step in resuscitating its Republican health-care overhaul after weeks of delays. **A6**

◆ Putin's spokesman said a meeting between Kushner and the head of a sanctioned Russian bank was "not on behalf of the Kremlin." **A4**

◆ Scaramucci's appointment as communications director presents a sensitive situation for the sale of his investment company to a Chinese conglomerate. **A7**

◆ The Senate Judiciary Committee has issued a subpoena for Trump's former campaign chairman, as part of an investigation into foreign interference in U.S. elections. **A6**

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## Muslims Pray in Protest at Sacred and Contested Jerusalem Site



CONCESSION: Israel removed metal detectors from one of Jerusalem's holiest places, known to Muslims as the Noble Sanctuary, but the move failed to immediately appease those angry over what they see as an attempt to control the compound. **A3**

## China Girds for Korea Crisis

Chinese military hedges against a possible U.S.-North Korea showdown

BY JEREMY PAGE

BEIJING—China has been bolstering defenses along its 880-mile frontier with North Korea and realigning forces in surrounding regions to prepare for a potential crisis across the

border, including the possibility of a U.S. military strike.

A review of official military and government websites and interviews with experts who have studied the preparations show that Beijing has put in place many of the changes in recent months after initiating them last year.

They coincide with repeated warnings by U.S. President Donald Trump that he is weighing military action to halt North Korea's nuclear weapons

program, while exerting pressure on China to do more to rein in Pyongyang.

Recent Chinese measures include establishing a new border defense brigade, 24-hour video surveillance of the mountainous border backed by aerial drones, and bunkers to protect against nuclear and chemical blasts, according to the websites.

China's military has also merged, moved and modernized other units in border regions and released details of recent

drills there with special forces, airborne troops and other units that experts say could be sent into North Korea in a crisis.

They include a live-fire drill in June by helicopter gunships and one in July by an armored infantry unit recently transferred from eastern China and equipped with new weaponry.

China's Defense Ministry didn't respond directly when asked if the recent changes were connected to North Korea,

Please see KOREA page A5

## Trump Turns Up Heat on Sessions

BY ELI STOKOLS

WASHINGTON—President Donald Trump publicly criticized his own attorney general for a second consecutive day on Tuesday and suggested Jeff Sessions launch an investigation into his defeated Democratic presidential rival, Hillary Clinton.

The president raised a news report that Ukrainian authorities had lent support to the Democrat's presidential effort. "Ukrainian efforts to sabotage Trump campaign —quietly working to boost Clinton." So where is the investigation A.G. @seanhannity," Mr. Trump tweeted Tuesday morning in the first of 10 sent before 8:30 a.m.

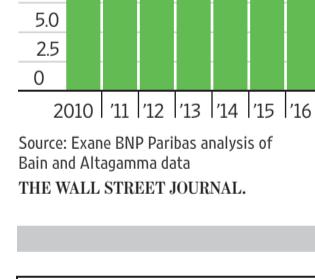
Mr. Trump's campaign is the subject of a Justice Department special counsel investigation probing whether his aides colluded with Russian officials in their efforts last year to interfere in the presidential election, boosting his effort and damaging that of Mrs. Clinton.

According to a January report from the U.S. intelligence community, the interference was directed by the highest levels of the Russian government. The tactics included hacking state election systems, stealing and leaking information from party committees and political strategists, and using social media and other outlets to disseminate negative stories about Mrs. Clinton and positive ones.

Please see TRUMP page A2

## Michael Kors Shops for Shoes

Sales of luxury shoes have mostly grown strongly in recent years. **B1**



Source: Exane BNP Paribas analysis of Bain and Altagamma data

THE WALL STREET JOURNAL.

## Big Depositors Push for Returns

BY TELIS DEMOS  
AND CHRISTINA REXRODE

Consumers are giving banks a pass when it comes to shopping for higher interest rates on deposit accounts. U.S. businesses, on the other hand, are becoming more demanding.

With short-term interest rates on the rise, corporate depositors are seeking bigger payouts for their deposits, and large banks have started to capitulate.

The reason: Small rate increases are often worth just pennies to many consumers, but they can translate into

meaningful dollars on large corporate deposits of millions or even billions of dollars.

And companies have greater leverage with banks since in many cases they also bring in lucrative investment-banking and trading business.

"The jig is up," said James Gilligan, assistant treasurer at Kansas City, Mo.-based power company Great Plains Energy Inc. He said many companies, including his, have negotiated better deposit pricing with banks where they also borrow. Treasurers who have the flexibility to move their money are also seeking higher rates.

The pressure from corporate depositors is pushing up banks' costs just as they are beginning to benefit from lending money in the U.S. at higher rates. The Federal Reserve has increased short-term rates twice so far this year, and may do so again.

While bank stocks shot up after last year's presidential election, they have weakened more recently. Though second-quarter earnings reports were stronger than expected, investors were still spooked by banks' cautious outlook for future interest income. The KBW Nasdaq Bank index is down

1.5% since banks began reporting on July 14, while the S&P 500 index is up 0.9%.

Across the largest U.S. banks, the average interest paid jumped by about a third in the second quarter to 0.34% from 0.26% a year ago, according to Autonomous Research—the highest level in four years. Bankers said business depositors are behind the rise.

While demand for higher rates has been "effectively at zero" from individual consumers, banks are grappling with "hot money from corporates" that are more likely to decamp

Please see RATES page A2

## Phelps Races a Shark on TV—And Now I'm Fed Up

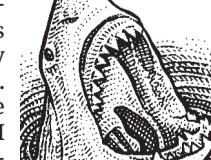
\* \* \*  
Our guest critic pens a biting review:  
first Sharknado, now this'

BY FRED THE SHARK,  
AS TOLD TO JASON GAY

First of all, the shark's name is Larry. The great Michael Phelps lost to a shark named Larry.

When the Journal asked me to review Sunday night's televised, hugely hyped "Phelps vs. Shark" race on the Discovery Channel, I hesitated. I'm having a perfectly enjoyable summer chasing rich, toned seals off the Hamptons. Why should I get involved in this human nonsense?

But then I watched it, and I



Fred the Shark

thought: *This is so dumb. Somebody's got to speak for the sharks here.*

And speak for Larry, too. The Discovery Channel narrator kept saying Phelps was racing a computer-generated shark, but Discovery can bite me.

I know Great Whites, and that was Larry. Good shark. Used to have a condo up this way. Low-key guy. Fast. Couple of kids, both grown-ups now. Divorced. Looks like he's lost a couple of pounds.

Discovery also said they

Please see SHARK page A8

BY JOE PALAZZOLO

Americans, reputed to be the most litigious people in the world, are filing far fewer lawsuits.

Fewer than two in 1,000 people—the alleged victims of inattentive motorists, medical malpractice, faulty products and other civil wrongs—filed tort lawsuits in 2015, an analysis of the latest available data collected by the National Center for State Courts shows. That is down sharply from 1993, when about 10 in 1,000 Americans filed such suits.

A host of factors are fueling the decline, including state restrictions on litigation, the increasing cost of bringing suits, improved auto safety and a long campaign by businesses to turn public opinion against plaintiffs and their lawyers.

The nationwide ebb in lawsuits, which confounds the public perception of courts

## COURTROOM SURPRISE: FEWER TORT LAWSUITS

Restrictions on filing, rising costs and a PR push discourage plaintiffs

choked with tort claims, has broad ramifications for businesses, doctors, patients, lawyers and the courts themselves.

Companies and insurers on the receiving end of such lawsuits welcome the decline of what they regard as a lawsuit culture in which lawyer-driven litigation increases costs to both business and consumers.

Trade groups that represent these firms have long pushed for laws to raise the bar for filing lawsuits and rein in damages, portraying a large chunk of tort litigation as a drag on the economy that burns scarce judicial resources.

Lisa Rickard, president of the U.S. Chamber Institute for Legal Reform, an arm of the U.S. Chamber of Commerce, says that while state measures have "weeded out some frivolous lawsuits," litigation abuse remains a problem. "The American public wholeheartedly agrees there are too many lawsuits in

Please see TORTS page A8

## WORLD NEWS

# Beijing Toys With a Lockdown of the Internet



### CHINA'S WORLD

By Andrew Browne

SHANGHAI—China's first internet message, tapped out almost exactly 30 years ago to a group of German scientists, was a proud slogan: "Beyond the Great Wall, Joining the World."

That hasn't been exactly true. China deploys a fierce array of censorship tools and

methods—throttling bandwidth, filtering words and images, using "deep packet inspection technology" and employing armies of human censors and trolls—to keep its Great Firewall in place. The one crack is a technology called VPN, or virtual private network, that circumvents the controls by connecting users to servers outside China.

Now that is in doubt.

## RATES

*Continued from Page One* for higher rates elsewhere, William Demchak, chief executive of Pittsburgh-based PNC Financial Services Group Inc., told analysts earlier this month.

Companies' success in getting higher rates is based largely on the size of their cash hoard and the amount of other business they do with a bank. The higher the cash balances and fees a company pays, the more likely it is to get an increase from its current bank or from a new one.

"The way we approach pricing these days is, we defend our turf," said Tayfun Tuzun, chief financial officer at Fifth Third Bancorp, the Cincinnati-based bank. Mr. Tuzun said U.S. banks are also being pressured by competition from overseas banks that want to build their deposits. Some are willing to pay 1.25% or 1.3%, he said, while a typical corporate deposit rate for a large account in the U.S. currently is about 0.9% to 1%.

By contrast, the average retail savings rate was 0.18% at large banks in the second quarter, according to analysts at Jefferies Group LLC.

Banks use deposits from both retail and corporate customers to fund loans. They aim to pay depositors a rate that is lower than the one they collect on loans. As the gap between the rates increases, banks' profits grow.

For years after the financial crisis, rates were stuck at historic lows and loan demand remained tepid, so banks didn't care as much about gathering deposits. Sometimes

Authorities have shut dozens of VPNs this year. This month, the Ministry of Industry and Information Technology denied a Bloomberg report that it had ordered telecom carriers to bar all personal VPNs, such as those used by many small and midsize businesses. The ministry promised "normal operations" for multinationals connecting to the global internet. Yet at least one carrier, **Guangzhou Huoyun Information Technology** Ltd., pulled foreign VPNs after receiving a letter ordering it to do so from the Ministry of Public Security, which runs the police forces.

"Please give this high priority," the letter says.

Could China, digitally speaking, go dark? For those looking for clues to China's political direction, the VPN is a good place to start.

President Xi Jinping has taken Chinese politics back to pre-Internet days of Maoist orthodoxy, when the country sealed itself off from the global economy. His cardinal principle is "internet sovereignty."

The question is whether his administration is ready to take that all the way to absolute digital control.



President Xi Jinping's cardinal principle is 'internet sovereignty.'

millions of connections, at last count, and 460 million online shoppers—line speeds rank 91st in the world, dramatically slowed down by blocks and filters. That ranking is according to the government-run China Daily. South Korea, which tops the list, is three times as fast.

But in this hypersensitive political year—a party congress crucial to Mr. Xi's political ambitions is coming this fall—it is becoming apparent that the authorities are ready to take such risks.

In cracking down hard on

foreign movies and live-streaming apps in recent months, internet censors aren't just denying public its favorite Korean soaps and the antics of figures like "Gourmet Sister Feng," who gobble down live goldfish and lightbulbs. They are challenging the tolerance of millions of individuals for a censorship regime that has until now seemed far removed from the concerns of everyday life.

Ban VPNs and almost everybody is a dissident. It would be "one control too far for the creative, academic, scientific and business communities," says James McGregor, chairman of the greater China region for the consulting firm APCO Worldwide.

Until now, access to VPNs has kept the Great Firewall from being too bothersome for China's elites. "It's kind of annoying," says David Li, a founder of the **Shenzhen Open Innovation Lab**, a startup incubator in a city that has become the technology-hardware capital of the world.

The VPN, in other words, is a political safety valve. Remove it, and annoyance might turn to frustration, and frustration to anger. Wait then for an explosion.

That is why a blanket prohibition is unlikely. But restraint isn't given. Having greeted the internet on Sept. 14, 1987, China has already made 2017 a year of farewells.

## TRUMP

*Continued from Page One* about Mr. Trump, the report said.

Mr. Trump has called the investigation, led by former FBI Director Robert Mueller, a "witch hunt."

During the 2016 presidential campaign, Mrs. Clinton's email practices were the subject of an FBI investigation overseen by James Comey, who last year stated at a news conference he had recommended against charging Mrs. Clinton criminally. Mr. Trump fired Mr. Comey in May, citing his handling of both the Clinton probe and the Russia investigation.

On Tuesday, Mr. Trump appeared to push Mr. Sessions, a former Alabama senator and early backer of his campaign, to relaunch a criminal probe of Mrs. Clinton.

"Attorney General Jeff Sessions has taken a VERY weak position on Hillary Clinton crimes (where are E-mails & DNC server) & Intel leakers!" Mr. Trump tweeted.

The president also suggested the FBI is under the control of people who are sympathetic to Mrs. Clinton.

**The president wants the attorney general to launch a probe of Hillary Clinton.**

"Problem is that the acting head of the FBI & the person in charge of the Hillary investigation, Andrew McCabe, got \$700,000 from H for wife!" Mr. Trump tweeted.

In 2015, the political organization of Virginia Gov. Terry McAuliffe, an influential Democrat with longstanding ties to Mrs. Clinton and her husband, former President Bill Clinton, and the Virginia Democratic Party gave nearly \$700,000 to the Virginia state Senate campaign of Mr. McCabe's wife, Jill McCabe.

Mr. McCabe is the acting head of the FBI, as the Senate has yet to confirm Mr. Trump's pick to replace Mr. Comey, the veteran attorney and former Justice Department official Chris Wray.

A spokeswoman for the Justice Department didn't immediately respond to a request for comment.



Mr. Trump swore in Attorney General Jeff Sessions in February, but is increasingly critical of him.

On Monday, the president first suggested that Mr. Sessions, whom he described in a tweet as "beleaguered," should be investigating Mrs. Clinton, not his campaign.

"The president wants his cabinet secretaries to have his back," said Anthony Scaramucci, a Wall Street financier whom Mr. Trump named his communications director last week. He called Mr. Sessions an "incredible campaigner" for the president but added:

"there is obviously an issue in the relationship....We'll get to a resolution shortly."

Separately, senior White House counselor Kellyanne Conway described Mr. Trump as "frustrated" over Mr. Sessions's decision to recuse himself from matters related to the Justice Department's probe into the 2016 presidential campaign, which she said "came without consultation."

She said his recusal "allowed an investigation into Russian activities that the president sees as a hoax and a witch hunt."

While Mr. Sessions recused himself following news reports that he had held undisclosed meetings with the Russian ambassador during the campaign, Justice Department regulations required him to recuse himself from matters related to a campaign for which he served as an adviser.

Asked whether it would be possible for Messrs. Trump and Sessions to repair their relationship, Ms. Conway said: "it is up to the two of them. It

is up to General Sessions and the president to have those conversations."

Mr. Trump also tweeted about Tuesday's Senate vote on legislation to repeal the 2010 Affordable Care Act, challenging Republicans in Congress to follow through on seven years of promises.

"Big day for HealthCare. After 7 years of talking, we will soon see whether or not Republicans are willing to step up to the plate!" the president

tweeted. He wrote in a follow-up tweet that Obamacare "is torturing the American people. The Democrats have fooled the people long enough. Repeal or Replace! I have pen in hand."

Mr. Trump also recognized Sen. John McCain, who was returning for Tuesday's scheduled vote just days after being diagnosed with an aggressive brain tumor.

—Peter Nicholas contributed to this article.

## Fine Drinking



(Pictured Cocktail: Sunraysia Cosmopolitan, mix it from your hotel minibar.)

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Dow Jones Publishing Company (Asia)  
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Tel: 852 2573 7121 Fax 852 2834 5291

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

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Or email: [Mark.Rogers@wsj.com](mailto:Mark.Rogers@wsj.com)

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### CORRECTIONS & AMPLIFICATIONS

The first name of Oded Eran, the former Israeli ambassador to Jordan, was misspelled as Oden in a World News article Tuesday about an attack at Israel's embassy compound in Amman, Jordan.

Polish President Andrzej

Duda's first name was mis-

said as Andzrej in a World

News article in the Friday-Sun-

day edition about a bill that would allow the government to replace judges on the Supreme Court.

The River Yea

l was incorrectly called Yeald in a listing for a house in the village of Newton Ferrers that ran with a Mansion article in the Friday-Sunday edition about travel in Montana.

incorrectly said Nelson Story's

ranch is now called the Mount-

ain Sky Guest Ranch.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

# WORLD NEWS

## Israel Eases Security Stance at Holy Site

Removal of metal detectors fails to calm Muslims over access to sacred compound

By RORY JONES

TEL AVIV—Israel on Tuesday removed metal detectors from one of Jerusalem's holiest sites, a concession that failed to immediately appease Muslims angry over what they see as an attempt to control the compound.

The dismantling of the security system at the entrance to the site known to Jews as the Temple Mount and to Muslims as the Noble Sanctuary comes amid widespread anger and protests among Palestinians and across the Arab world and a flurry of diplomacy by U.S. and Western officials.

A weekend of violence left three Israelis and at least three Palestinians dead.

Israel said it would replace the detectors—which authorities installed after Arab gunmen shot and killed two Israeli policemen earlier this month—in the coming months with sophisticated technology that could identify weapons, but it didn't offer details on the type or how it would be implemented. In the meantime, authorities said more police would be deployed around the entrance.

Muslims kept up a prayer protest called by Muslim lead-



Israeli security forces taking down security barriers Monday at the Lions' Gate access to the Al Aqsa mosque in Jerusalem's Old City.

AHMAD GHARABLI/AGENCE FRANCE PRESSE/GETTY IMAGES

ers outside the compound even after police had dismantled all the equipment by the afternoon.

The plaza in Jerusalem's Old City is sacred to both Muslims and Jews. It is home to the Al Aqsa mosque and the site of an ancient Jewish temple whose Western Wall is still visible and holy for Jews.

Only Muslims are allowed to pray on the plaza, but Jew-

ish groups have been lobbying for that right. While Jews can visit, they aren't permitted to pray there.

Waqt, the religious authority overseen by Jordan that administers the site, said it would review Israel's plan for security and make a decision later on whether to continue its call on Muslims to boycott the compound.

The White House envoy to

the Israeli-Palestinian conflict, Jason Greenblatt, arrived in Israel on Monday to meet with Prime Minister Benjamin Netanyahu in a bid to calm tensions before flying to Amman, where he met with Jordanian officials.

It was unclear whether the U.S. is continuing to mediate between Jordan and Israel. A spokesperson for the U.S. Embassy in Tel Aviv didn't reply to a request for comment.

Thousands of Jordanians took to the streets on Friday in Amman to protest the metal detectors in Jerusalem. Two days later, an Israeli security guard at the country's embassy compound in Amman shot and killed two Jordanians after one of the men attacked the guard with a screwdriver.

Jordan held the Israeli guard until Monday, when he

returned to Israel following discussions between Israeli and Jordanian officials, including Mr. Netanyahu and Jordan's King Abdullah II.

In a statement Tuesday, the Israeli prime minister thanked both Mr. Greenblatt and senior White House adviser Jared Kushner for mediating efforts to bring home the Israeli guard and other Israeli embassy staff.

"We had a situation in Jordan which was potentially something that could have gone very bad," David Friedman, U.S. ambassador to Israel, said Tuesday in a visit to the Israeli parliament. "With no fanfare but with a lot of hard work and behind the scenes discussions...we were able to defuse very quickly a situation."

Palestinian Authority President Mahmoud Abbas had condemned the installation of the metal detectors and said he would cut ties with Israel until they were removed, but his office hasn't detailed the specifics of the suspension.

A spokesman for the Authority said it would follow the lead of the Waqt in determining whether to encourage worshipers to come back and whether to restore contacts with Israel.

Israel had to respect "freedom of worship," Rami Hamdallah, prime minister of the Palestinian Authority said in a statement Tuesday.

—Nuha Musleh in Jerusalem contributed to this article.

## Ghani's Struggle for a Working State

By JESSICA DONATI  
AND HABIB KHAN TOTAKHIL

KABUL—On a recent Sunday morning, Afghan President Ashraf Ghani spent hours inside the fortresslike presidential palace mulling plans to expand the capital's water supply and install fiber-optic cable in a remote region.

Outside, new two-story blast walls and checkpoints have further restricted access to Kabul's diplomatic enclave after a May truck bomb near the German Embassy killed over 150 people, prompting an exodus of diplomats.

Mr. Ghani faces growing opposition in his fragile unity government and Taliban insurgents are inflicting mounting casualties on civilians and security forces. But he says he is determined to stay focused on building the machinery of a functioning state in a country plagued by chaos and corruption.

"My task is to create a system that my successor can run," Mr. Ghani said in an interview. "The new generation demands a different voice, accountability and responsibility."

Mr. Ghani invited reporters with The Wall Street Journal to observe his daily routine one day earlier this month. Over nearly 14 hours, Mr. Ghani immersed himself in the minutiae of governance and showed his impatience with the pace of progress nearly three years into his five-year term.

During a series of meetings, the 66-year-old former World Bank official and ex-finance minister berated a senior United Nations envoy over plans to fund parliamentary elections and threatened to fire about half a dozen senior government officials.

Critics say Mr. Ghani is mired in details and missing the big picture, including deteriorating security and rising ethnic tension. The Taliban claimed responsibility for a Monday bomb attack in Kabul, which killed at least 31 people.



Afghan President Ashraf Ghani during a recent interview in his office in Gul Khaana Palace in Kabul

Weeks after May's truck bombing, leading members of Afghanistan's three main ethnic minorities announced a new coalition against Mr. Ghani, who is a Pashtun, the country's largest ethnic group.

The Afghan state "is collapsing on itself," said Mohammad Mohaqiq, a senior government official who helped start the coalition.

Mr. Ghani argues that providing effective public services, stamping out corruption and imposing discipline on the bureaucracy, far from being a distraction, are critical.

The president dismisses his opponents, saying they are motivated by a fear of losing out in a transparent system. "You think people that lose hundreds of millions in contracts are going to come praising us?" he asked.

Mr. Ghani, who gave up U.S. citizenship to run for president in 2009, said his efforts have persuaded foreign backers, predominantly the U.S., to stick with Afghanistan after 16 years of war.

The Trump administration is weighing sending more U.S. troops to Afghanistan, and

Washington and its allies have pledged more than \$15 billion in aid over the next four years.

A veteran Western diplomat in Kabul said Mr. Ghani's pro-American stance was welcome in Washington, but concerns remain. "The risk is that he will anger so many political factions that he may not limp his way to the 2019 presidential elections," the diplomat said.

**The Trump administration is weighing sending more U.S. troops.**

On the day Journal reporters observed him, Mr. Ghani met with officials to review plans for next year's parliamentary elections. After participants spoke, Mr. Ghani turned to the deputy head of the U.N. Assistance Mission in Afghanistan, Pernille Dahler Kardel.

"With enormous respect, it seems that the discussion has not moved very far. You are

still raising the issues that you were raising six months ago," he said, demanding to know the amount and type of funding available.

Ms. Kardel later said in a statement "decisions have been taken that will allow funding to flow" without providing details.

In the evening, Mr. Ghani oversaw a meeting of the National Procurement Council which, at his insistence, reviews every government contract valued at more than \$1 million.

Two officials who had failed to provide requested documents for a contract to provide vaccinations to Afghans attending the annual pilgrimage to Mecca hung their heads.

"Who was responsible for the vaccinations? Please?" Mr. Ghani shouted. "Right now go to the office, and within two hours bring the document! Otherwise, you are suspended tomorrow. Understood?" Mr. Ghani's office said they returned the next day with the documents and the contract was approved.

Afterward, a modest dinner was offered, but Mr. Ghani didn't join. He smiled, thanked everyone for attending and left.

al Qaeda-linked Nusra Front, according to a joint statement released on Tuesday.

Overall, nine individuals and nine organizations have been added to the list, among them entities in Yemen that the Saudi camp alleges have aided al Qaeda using funding from Qatari charities.

Also on the list are several Libyan media outlets that have received Qatari funding and that the four countries say contributed to "spreading chaos" in Libya. Boshra News Agency, one

of the designated entities, is known for coverage that is sympathetic to Libyan militants.

Qatari officials didn't respond to requests for comment.

Saudi Arabia, the U.A.E., Egypt and Bahrain in June abruptly severed diplomatic relations with Qatar, citing its ties to Islamist groups like the Muslim Brotherhood and Hamas and its alleged links to terrorist groups like al Qaeda.

Doha has denied supporting extremist groups while saying it has the right to pursue an

independent foreign policy.

The U.S. and countries including Kuwait, France and Turkey have dispatched top officials to the Gulf in a bid to help defuse the crisis. This month, during a visit to Doha by U.S. Secretary of State Rex Tillerson, the U.S. and Qatar signed an agreement to crack down on terrorist financing. Qatar also amended its terrorism law.

Saudi Arabia and its allies said that agreement is insufficient to guarantee Qatar will change its behavior.

## Afghan Leader on Taliban, Pakistan

By JESSICA DONATI  
AND HABIB KHAN TOTAKHIL

Afghan President Ashraf Ghani recently sat down for an interview with The Wall Street Journal. Here are edited excerpts:

**Q: Statistics suggest a country that is unraveling. The Taliban have gained territory. What are you doing to reassure people you have the situation under control?**

**A:** A generational change has been brought into the leadership of the minister of defense. I would have wanted the date of the election much sooner, and if I were managing it, it would have taken place sooner. But I'm deferring to the due processes and we're insisting on full consultation.

Transition was premised on the engagement of Pakistan, and Taliban, with peace. Instead, they unleashed a total war on us. Have we suffered casualties? Massive. But this is a transnational war. This year the Afghan army has been at its best. Are we in the middle of war? Absolutely. What would you have asked Churchill as a measure of his success in 1944?

I went to Pakistan; I engaged in peace. If a hand extended is not shaken, what are you supposed to do?

**Q: If Pakistan doesn't change, what is the solution for peace? How much can you rely on China or the U.S. to help?**

**A:** My central objective is, turn Afghanistan's location into a greater asset.

Central Asia is becoming Afghanistan's major trading partner. The vision of connectivity is really important. It offers Pakistan an alternative. It really needs to understand that Afghanistan is going to be key to its potential prosperity

and connectivity.

**Q: What are you doing to reassure all political factions that the next elections will happen, and that they will also generate a real contest?**

**A:** The election commission has announced a firm date. I would have wanted the date of the election much sooner, and if I were managing it, it would have taken place sooner. But I'm deferring to the due processes and we're insisting on full consultation.

Why did the election not take place earlier? We were fighting a war for our survival and we could not do two things simultaneously. The election of 2018 and the presidential election of 2019, is a must. Full attention is focused on both.

**Q: What are you doing to convince the public that you are serious about prosecuting high-level corruption?**

**A:** Corruption was the system. We're not dealing with an aberration. The movement towards accountability, efficiency, effectiveness, transparency, is really taking place. On the other hand, we need to face our history. Every system has a breaking point. You've seen how much reaction there is to reform.

So, I would be the last one to say either that I am satisfied or that the job is done. But I think the judgment needs to be made on comparative grounds. And vis-a-vis the obstacles and the need to keep the political consensus. Balancing is the critical issue. And during the election campaign, I said exactly that.

Every global leader that I have seen has at least agreed on one point: I do have the world's most difficult job. But I hope to make it easier for my successor.

## Saudis and Allies Widen Terror List

By MARGHERITA STANCATI

BEIRUT—Saudi Arabia, the United Arab Emirates, Egypt and Bahrain have added new organizations and individuals allegedly linked to Qatar to their terror lists, intensifying the protracted diplomatic standoff between U.S. allies.

They include three Qatari citizens who have been accused of raising funds in support of extremist groups fighting in Syria, including Syria Conquest Front, formerly known as the

**U.S. Fires Warning Shots**

By DION NISSENBAUM

WASHINGTON—The U.S. Navy said it fired warning shots at an Iranian patrol boat in the Persian Gulf in what American military officials called an "unsafe and unprofessional" incident.

The Islamic Revolutionary Guard Corps boat came within 150 yards of American and coalition ships carrying out an exercise in the northern Persian Gulf, the Navy said.

The U.S. Navy tried unsuccessfully to reach the Iranian

ship by radio, then fired flares and twice gave five short whistle blasts to signal a warning to the Iranian boat, according to the Navy.

When the Iranian patrol boat failed to shift course, the USS Thunderbolt, a 175-foot-long American coastal patrol ship, fired warning shots at the vessel. The Iranian boat stopped dead in the water, an official said, but remained in the area for several hours.

The incident comes amid rising tensions between the U.S. and Iran.

## WORLD NEWS

# Kremlin: No Kushner Ties

By NATHAN HODGE

MOSCOW—Russian President Vladimir Putin's spokesman said a meeting between President Donald Trump's son-in-law and the head of a Russian bank on a U.S. sanctions list was "not on behalf of the Kremlin," as new U.S. legislation advanced that would punish Russia for alleged interference in the 2016 election.

Jared Kushner, Mr. Trump's son-in-law and a senior White House adviser, met behind closed doors on Monday with Senate Intelligence Committee staff who are probing alleged Russian meddling in the 2016 presidential election. Mr. Kushner has faced questions over his Russian contacts, including a meeting last year with Sergei Gorkov, the head of Vnesheconombank, a state-owned development bank.

Dmitry Peskov, Mr. Putin's press secretary, on Tuesday said Mr. Gorkov's visit to the U.S. was "part of a roadshow" that had nothing to do with the Russian government, Russian news agencies reported.

"These contacts did not require any authorization from the Kremlin, and naturally they were not carried out on behalf of the Kremlin," Russian news agencies reported.

Vnesheconombank was placed on a U.S. sanctions list in response to Russia's backing of separatist rebels in eastern Ukraine and its annexation of the Black Sea peninsula of Crimea in 2014. Mr. Kushner has



Presidential adviser and son-in-law Jared Kushner has faced questions over his Russian contacts.

admitted speaking with Mr. Gorkov—as well as the Russian ambassador to the U.S., Sergey Kislyak—last year, but denied any collusion with Russia.

Mr. Kushner said Mr. Kislyak encouraged him to meet with Mr. Gorkov because the banker was someone who could provide insight on "ways to work together."

Scandal has engulfed the Trump administration amid an investigation into whether Trump campaign officials colluded with Russia during the presidential election campaign.

The U.S. intelligence community has concluded that Mr. Putin ordered a hacking campaign to tilt the outcome of the 2016 U.S. presidential election in Mr. Trump's favor. The U.S. president has called the investigation a "witch hunt" and denied any

collaboration.

Russia denies interfering in the elections, but now faces fresh U.S. sanctions. Congressional negotiators reached a deal last week to advance a bill that would impose new restrictions on Russia, preventing Russian businesses in the energy and defense sectors from partnering with U.S. citizens and tightening credit restrictions on Russian entities.

The White House on Sunday indicated Mr. Trump was likely to support the bill.

The European Union has raised concerns over the U.S. legislation, saying it could have unintended consequences for European energy projects such as the development of new Russian export pipelines to Europe.

Margaritis Schinas, a spokesman for the European Commission, on Monday said the EU

was "activating all diplomatic channels to address these concerns from these U.S. measures with our U.S. counterparts."

Russia is a crucial energy supplier to Europe. Russian Energy Minister Alexander Novak said on Monday that the U.S. sanctions under consideration were part of "intensifying efforts to use unilateral, unjustified sanctions and economic limitations by a number of countries to limit and reduce real free-market competition."

New U.S. sanctions, Mr. Novak said, "are aimed at independent third parties who otherwise would have been willing and who want to work with more reliable and economically more justified suppliers."

—Laurence Norman  
in Brussels  
contributed to this article.

# ECB Official Says Currency Area Needs Aid

By TOM FAIRLESS

The eurozone economy still needs a "very substantial" amount of stimulus from the European Central Bank because inflation in the region remains too weak, a top ECB official said on Tuesday.

Investors are watching

closely for a signal that the ECB plans to start winding down its giant bond-buying program, known as quantitative easing, as the eurozone economy picks up speed. The program is currently due to run through December.

Speaking in Singapore, Yves Mersch, who sits on the ECB's

six-member executive board, acknowledged the recent economic upswing in the 19-nation currency union, and said it might prove stronger than expected.

"The threat of deflation is gone and reflationary forces are at play," Mr. Mersch said, echoing the words of ECB

President Mario Draghi in Portugal in June. Mr. Draghi's speech rocked global financial markets because investors sensed a turning point in the ECB's policy cycle.

But Mr. Mersch warned that the eurozone still faces headwinds from the global economy.

# IMF Cautions on Eurozone Threats

By PAUL HANNON

The immediate outlook for eurozone economic growth is favorable, but that shouldn't distract attention from deep-seated problems that continue to threaten the currency area's cohesion, the International Monetary Fund warned.

The eurozone economy has gained momentum this year, outpacing the U.S. in the first quarter and likely to come close to matching it in the second. There is also a sense of relief among mainstream politicians at having seen off challenges from parties hostile to the euro and the European Union in elections in the Netherlands and France.

But if the eurozone's leaders were preparing to engage in a period of self-congratulation, the Washington, D.C.-based Fund is out to spoil the party with a reminder of how much work remains to done before the threats to the currency area's survival are minimized.

In its annual review of the eurozone's economic policies, the Fund on Tuesday warned it faces "significant downside risks," with government debt levels still too high and the banking sector still fragile and weighed down by bad loans.

It also noted that the convergence in income levels that has long been at the heart of the EU project has stalled, and the gap between highly productive economies such as Germany, and less productive economies such as Italy is widening.

The IMF warned that if the eurozone didn't address its economic problems, anti-euro political parties that have been rebuffed in 2017 will have another opportunity to gain power.

"Inside the euro area, concerns about populist undercurrents and possible policy shifts toward euro skepticism remain extant," the IMF said. "Doubts about the merits of integration in some camps, as well as concerns about high youth unem-

ployment and increasing inequality, could be exacerbated by low growth and profound societal changes."

The Fund's board of directors, who represent the countries that own it, encouraged eurozone politicians to seize an opportunity to push through overhauls that are needed to boost productivity at a national level, as well as changes that will make the currency area more cohesive, such as a common fund to help tackle any future crises.

"Directors concurred that the more favorable political and economic context provides an opportune moment to accelerate reforms at both the national and central levels and complete the euro area architecture," it said.

*The Fund warned the bloc's economy faces 'significant downside risks.'*

The IMF's analysis of the eurozone's problems echoes that of French President Emmanuel Macron, who argues the creation of the currency area has deepened disparities, loading indebted nations with yet more debt and making competitive countries even more competitive. He is pressing German Chancellor Angela Merkel to back a shared eurozone budget that could be used for a variety of reasons, including helping currency members in economic distress.

The pickup in eurozone economic growth this year has been greeted with louder calls from Germany for an end to the stimulus programs launched by the European Central Bank since mid-2014. The IMF warned against responding to those voices, seeing inflation reaching the ECB's target of just under 2% as late as 2021.

GERALD F. SEIB  
EXECUTIVE WASHINGTON EDITOR

## The Face of Real News

Gerald Seib's illustrious career covering politics has taken him around the world and put him face-to-face with some of the biggest players on the global stage—but it has also put him in situations of real danger. In 1987, he was kidnapped and imprisoned for four days on suspicion of espionage by Iranian officials while covering the Iran-Iraq War.

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## WORLD NEWS

# Japanese Opposition Rebuffs Abe

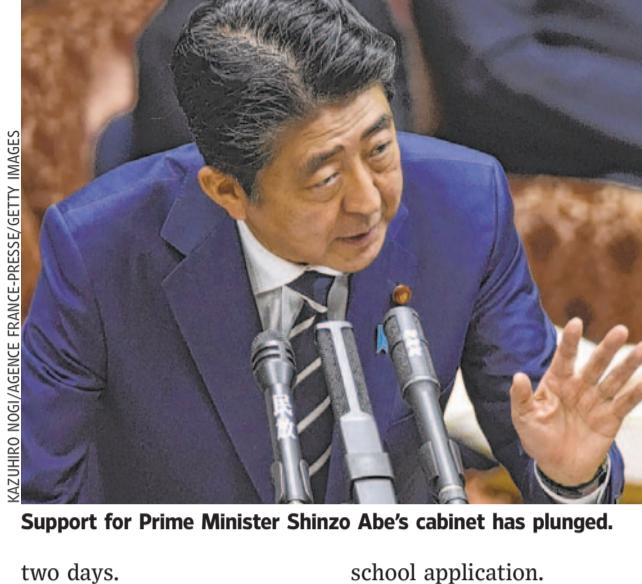
BY ALASTAIR GALE

TOKYO—Japanese Prime Minister Shinzo Abe's attempt to stem a career-threatening popularity slump stumbled after he reversed part of his response to allegations of cronyism and apologized for what he called a mistake.

Mr. Abe is fighting for his political future after support for his cabinet fell below 30% in some opinion polls. A former vice education minister alleged the prime minister's staff intervened last year to clear an application by a long-time friend of Mr. Abe to open a veterinary school.

Mr. Abe says his staff followed proper procedures, and he denies any involvement in the approval for the school. No new veterinary schools have opened in more than 50 years in Japan, reflecting opposition from the Veterinary Medical Association, which says the nation has a sufficient supply of veterinarians.

The furor over the allegations of cronyism has dominated Japanese news coverage for weeks. Under pressure to give answers, the government agreed to a rare move to reopen parliamentary committees to allow for debate for



Support for Prime Minister Shinzo Abe's cabinet has plunged.

two days.

Mr. Abe repeated his defense on Tuesday in response to questions from lawmakers at the parliamentary committee hearing. He and other officials said new veterinary schools could help Japan deal with livestock-related risks such as bird flu.

But he ran into a trouble when the leader of the main opposition Democratic Party accused the prime minister of contradicting himself over when he first learned of the

school application.

On Monday, Mr. Abe said he found out about it on Jan. 20, when it was approved. In June, he had told Parliament that he knew about the application earlier, when the city where the school is to be located had filed papers with the government.

Mr. Abe said his June explanation had been mistaken. "It was a sudden question and I had not sorted it out sufficiently," Mr. Abe said. "I must apologize for my confusion."

Opposition lawmakers jeered and questioned whether Mr. Abe could have been ignorant of the application until Jan. 20.

Mr. Abe has known the head of the proposed veterinary school since they studied together in the U.S. in the 1970s, and the two men still play golf and socialize together.

Besides the veterinary-school issue, scandals or misstatements by cabinet ministers have hurt the Abe government. Support for his cabinet is at its lowest level since he took office in December 2012, with many poll respondents saying they don't trust him, and the ruling party suffering a heavy defeat in a regional election in Tokyo this month.

Few previous prime ministers have been able to recover from approval ratings below 30%, spurring speculation over Mr. Abe's policy objectives, including revising the nation's pacifist constitution.

This year, Mr. Abe appeared to be on course to comfortably win a third term as party leader in an election next year. Now, analysts say he could face a strong challenge from within his party, though most

ruling-party lawmakers have so far avoided criticizing Mr. Abe, in part because there aren't any obvious candidates to succeed him.

The controversy could also weaken Mr. Abe's ability to seal a version of the Trans-Pacific Partnership free-trade agreement with 10 other nations. He has said he intends to champion free trade globally after the U.S. under President Donald Trump withdrew from the TPP.

Mr. Abe has said he will shuffle his cabinet next week, which could give him a chance to replace controversial ministers.

Tomoaki Iwai, an expert on politics at the Nihon University College of Law in Tokyo, said it will likely be hard for Mr. Abe to fully recover.

"First, he must first keep a humble, low profile and govern honestly and steadily. Second, he should focus on the economy," Mr. Iwai said.

It will be difficult for Mr. Abe to move forward on controversial projects like revising the constitution, Mr. Iwai said, but he added that he didn't expect Mr. Abe to resign.

—Koji Everard  
contributed to this article.

# Seoul Raises Growth Forecast

BY KWANWOO JUN

SEOUL—South Korea's government has raised its growth and inflation forecasts for this year, citing an economy strengthening on improving exports and likely support from extra fiscal spending approved by Parliament over the weekend.

The Ministry of Strategy and Finance raised the 2017 gross domestic product growth estimate to 3% from December's projection of 2.6%, following 2.8% growth last year, it said on Tuesday in its biannual outlook. The economy next year is expected to grow 3% as well, the ministry said.

The upgraded growth outlook came after South Korea's parliament on Saturday passed the government's nearly \$10 billion supplementary budget to create more jobs and spur growth under new left-leaning President Moon Jae-in, after weeks of legislative debate.

The government says the new growth outlook takes into account the estimated effect of extra spending to add 0.2 percentage point to annual economic-growth projections this year and next, in addition to other factors.

Before Parliament approved the supplementary budget, the central bank forecast this month that South Korea's economy would grow 2.8% this year—faster than earlier expected—on continuously strong shipments of memory chips, cellphones and other goods overseas as the world's economy gains strength. Exports are likely to grow for a ninth consecutive month in July, data show.

Consumer prices are expected to rise 1.9% in 2017, faster than the December estimate of a 1.6% gain, following an estimated 1% increase last year, the ministry said. The headline consumer inflation is likely to moderate at 1.8% in 2018, it said.

The current-account surplus is likely to narrow to \$72 billion in 2017 from last year's estimated \$98.7 billion, the ministry said. About 340,000 new jobs are expected to be added in 2017, more than the 300,000 jobs created last year, it said.

Job creation takes center stage in the new economic policy of President Moon, who was elected in May on a pledge to create 810,000 public-sector jobs—including positions for firefighters and police officers—over his five-year term, amid worsening youth unemployment.

Mr. Moon emphasizes a greater role for the government in boosting soft domestic demand and job growth.

After decades of rapid growth, the country's economy is losing steam. The private sector is no longer creating as many jobs as it once did. The country also has one of the world's lowest birthrates and oldest populations, and income inequality is deepening.

South Korea's economy still needs accommodative policy to support growth, the ministry said in the latest outlook.

The central bank has held its policy rate steady at a record-low 1.25% since June 2016.



Chinese soldiers recently patrolled the streets near the North Korean border in Dandong, China.

## KOREA

*Continued from Page One*  
saying only in a written statement that its forces "maintain a normal state of combat readiness and training" on the border. It has denied previous reports of thousands of extra Chinese troops moving into border areas.

A Chinese Foreign Ministry spokesman on Monday said: "Military means shouldn't be an option to solve the Korean Peninsula issue."

Chinese authorities have nonetheless been preparing for North Korean contingencies, including economic collapse, nuclear contamination, or military conflict, according to U.S. and Chinese experts who have studied Beijing's planning.

China's recent changes in force structure, equipment and training are connected to nationwide military efforts launched last year to reform Soviet-modeled command structures and better prepare for combat beyond China's borders, those experts say.

In the northeast, however, those changes are geared mainly toward handling a North Korean crisis, the experts say.

China's contingency preparations "go well beyond just seiz-

ing a buffer zone in the North and border security," said Mark Cozad, a former senior U.S. defense intelligence official for East Asia, now at the Rand Corp.

"Once you start talking about efforts from outside powers, in particular the United States and South Korea, to stabilize the North, to seize nuclear weapons or [weapons of mass destruction], in those cases then I think you're starting to look at a much more robust Chinese response," he said. "If you're going to make me place bets on where I think the U.S. and China would first get into a conflict, it's not Taiwan, the South China Sea or the East China Sea; I think it's the Korean Peninsula."

China, like many foreign governments, still considers a U.S. military strike unlikely, mainly because of the risk of Pyongyang retaliating against South Korea, an American ally whose capital of Seoul lies within easy reach of the North's artillery.

The Pentagon declined to discuss U.S. planning efforts. American officials didn't respond to questions about steps taken by China. But top American officials say they are focused on diplomatic and economic pressure, and view military action as a last resort.

Although technically allied with Pyongyang, Beijing wouldn't necessarily defend its regime, but is determined to prevent a flood of North Koreans from entering northeastern China and to protect the population there, U.S. and Chinese experts say.

Beijing also appears to be enhancing its capability to seize North Korean nuclear sites and occupy a swath of the country's northern territory if U.S. or South Korean forces start to advance toward the Chinese border, according to those people.

That, they say, would require a much larger Chinese operation than just sealing the border, with special forces and airborne troops likely entering first to secure nuclear sites, followed by armored ground forces with air cover pushing deep into North Korea.

It could also bring Chinese and U.S. forces face to face on the peninsula for the first time since the Korean War ended in 1953 with an armistice—an added complication for the Trump administration as it weighs options for dealing with North Korea.

Beijing has rebuffed repeated American requests to discuss contingency planning, American officials say.

China has long worried that economic collapse in North Ko-

rea could cause a refugee crisis, bring U.S. forces to its borders, and create a united, democratic and pro-American Korea. But China's fears of a U.S. military intervention have risen since January as Pyongyang has test-fired several missiles, including one capable of reaching Alaska.

"Time is running out," said retired Maj. Gen. Wang Haiyun, a former military attaché to Moscow now attached to several Chinese think tanks. "We can't let the flames of war burn into China."

He wrote an unusually outspoken article for one of those think tanks in May arguing that China should "draw a red line" for the U.S.: If it attacked North Korea without Chinese approval, Beijing would have to intervene militarily.

China should demand that any U.S. military attack result in no nuclear contamination, no U.S. occupation of areas north of the current "demarcation line" between North and South, and no regime hostile to China established in the North, his article said.

If war breaks out, China should without hesitation occupy northern parts of North Korea, take control of North Korean nuclear facilities, and demarcate safe areas to stop a wave of refugees and disbanded soldiers entering China's north-

east," it said.

Maj. Gen. Wang said he didn't speak for the government. But his article isn't censored online—as it would likely be if Beijing disapproved—in China and other Chinese scholars and military figures recently voiced similar views.

In recent weeks, some details of China's preparations have also emerged on the military and government websites.

The new border defense brigade patrolled the entire frontier in June to gather intelligence and has drawn up detailed plans for sealing it in a crisis, according to the military's official newspaper.

Aerial drones would help identify targets, supplementing the new 24-hour video surveillance and addressing problems with "information access, rapid mobility and command and control," another report in the newspaper said.

Many other units in the northeast have recently conducted new combat-focused training for the kind of joint military operations that experts say would be needed for an intervention within North Korea.

In one drill, a new "combined arms brigade" simulated battle against a "blue team" with artillery, tanks and helicopters, state television reported in June.

## WORLD WATCH

### CANADA

#### Trudeau Sets Terms On Revised Trade Pact

Prime Minister Justin Trudeau said it was "absolutely essential" a revised North American Free Trade Agreement contain a dispute-resolution panel—something the Trump administration wants scrapped from the decades-old pact.

The Canadian leader's comments to reporters in Ottawa represent the strongest sign yet that Canada views the repeal of the Nafta provision—which allows Canada and Mexico to contest trade sanctions from Commerce—as a deal breaker, and a flashpoint in the trilateral talks

that are set to begin in August. "A fair dispute-resolution system is absolutely essential for Canada to sign on to," Mr. Trudeau said at a joint press conference with the new premier of British Columbia, John Horgan.

—Paul Vieira

### INDONESIA

#### Speedboat Capsizes, Killing at Least 7

A speedboat carrying 48 people capsized in central Indonesia, killing at least seven people and leaving 12 others missing, an official said.

The speedboat sank about 10 minutes after it left the town of

Tarakan in North Kalimantan province on a one-hour voyage to Tanjung Selor, local Search and Rescue Agency official Octavianto said.

According to the manifest, it was carrying three crewmen and 45 passengers, he said, adding that 29 people were found alive while seven were found dead.

—Associated Press

### ALBANIA

#### Premier Urges Serbia To Recognize Kosovo

Albania's prime minister is urging Serbia to recognize Kosovo as a separate country, saying the acknowledgment would help stabilize the Balkan region.

Prime Minister Edi Rama

wrote on his Facebook page that Serbia's recognition of Kosovo's independence was "the clear solution from the darkness of the tunnel to the light of coming out of it."

Rama was reacting to an op-ed article by Serbian President Aleksandar Vucic published on Monday. Mr. Vucic urged a lasting solution for Kosovo, a former province of Serbia that has been a source of tensions in the once war-torn Balkans. Mr. Rama also urged Kosovo and Serbia to continue European Union-mediated talks.

Kosovo declared independence from Serbia in 2008. Its nationhood is recognized by 114 countries, including the U.S. and most EU countries, but not Serbia.

—Associated Press



UNSTUCK: Rickshaw pullers were stuck in a traffic jam during monsoon rain on Tuesday in the Bangladeshi capital, Dhaka.

## U.S. NEWS

# GOP Splits Shadow Obamacare Repeal

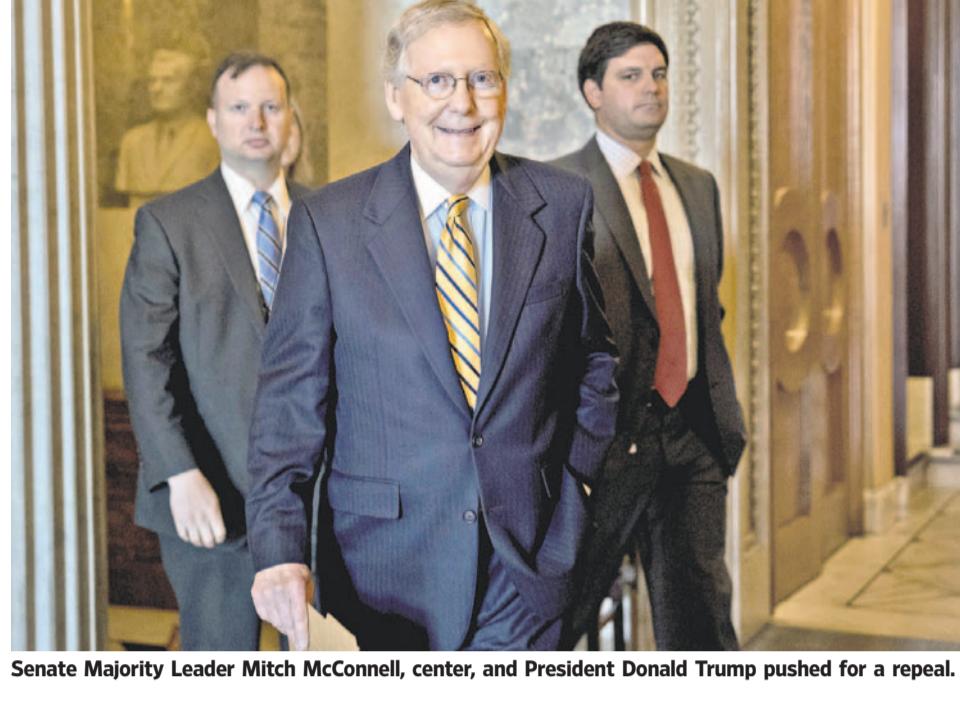
After weeks of delay and feuding, Senate Republican prepared for pivotal vote

By KRISTINA PETERSON  
AND STEPHANIE ARMOUR

WASHINGTON—The Senate was braced for a long-anticipated vote Tuesday on whether to take the first step in resuscitating its Republican health-care overhaul after weeks of delays, feuding within the GOP and the last-minute return to the chamber of one of its best-known lawmakers.

Nearly a month after Senate Majority Leader Mitch McConnell halted a vote on a GOP plan to dismantle and replace much of the Affordable Care Act, the Kentucky Republican said the chamber would vote on whether to bring the bill up for consideration. Republican leaders delayed the vote earlier when it became clear that GOP defections would prevent the Senate from beginning debate on it through a so-called motion to proceed.

A sustained campaign from Mr. McConnell and, in the past week, President Donald Trump, faced a test for its effectiveness in winning over enough GOP votes to at least clear the first procedural hurdle. The next step will be to see if there are 50 votes to pass any legislation. The Re-



Senate Majority Leader Mitch McConnell, center, and President Donald Trump pushed for a repeal.

publicans hold 52 Senate seats, and no Democrats are expected to support the bill.

Mr. McConnell can lose no more than two GOP votes; Vice President Mike Pence would cast a vote to break a 50-50 tie.

"Big day for HealthCare. After 7 years of talking, we will soon see whether or not Republicans are willing to step up to the plate!" Mr. Trump said on Twitter on Tuesday morning.

In a new twist Tuesday morning, Senate Republican leadership pursued a new and

smaller repeal of the Affordable Care Act in an effort to secure votes that would allow for debate on a GOP health-overhaul bill, according to multiple Senate GOP aides.

If the Senate votes to begin debate, and other versions of the GOP health-care bill fail in amendment votes, then Mr. McConnell would move to bring up what's being called the "lowest-common denominator" plan.

This scaled-down measure would repeal ACA requirements that many employers provide health coverage and a

mandate that most people without health coverage must pay a penalty, Senate GOP aides said Tuesday. The bill would also repeal a medical-device tax, they said. If that passes, then it would set up negotiations to secure a compromise between the "skinny repeal" plan passed by the Senate and the broader bill passed by the House in May.

But it isn't clear such an approach would be backed by conservatives, who would be skeptical of where those negotiations would lead, aides said.

The proposal that waters

down a more robust repeal of the current health law has been closely guarded by Mr. McConnell.

If Republicans balk Tuesday afternoon, Mr. McConnell would face the prospect of failing to even begin debate on a top Republican legislative priority while the party controls both chambers of Congress and the White House. But it also could allow GOP leaders and Mr. Trump to move on to their next goal, a sweeping overhaul of the tax code, after months of health care dominating the legislative agenda.

As of Tuesday morning, only one Republican senator, Susan Collins of Maine, was a firm opponent of beginning debate on the bill.

Hesitant Republicans have said they have many questions about which health-care measure they will be voting on this week, prompting Democrats to call on them to vote against proceeding without a better idea of the path ahead.

"We are potentially one or two days away from a vote on a bill that would reorganize one sixth of the American economy, impacting tens of millions of American lives—and no one knows what it is!" Senate Minority Leader Chuck Schumer (D., N.Y.) said Monday. "It's sort of like 'Alice in Wonderland' around here."

When an earlier version of the Senate GOP plan stalled, Mr. McConnell said he was

prepared to have the Senate cast a vote on a 2015 bill that simply repealed much of the ACA.

That idea has divided the Senate GOP conference, drawing acclaim from conservatives while siphoning support from centrist lawmakers, who fear that the uncertainty of repealing the law without a replacement in hand could disrupt the individual insurance market and alarm their constituents. The Congressional Budget Office has estimated that such a plan would leave 32 million more people without insurance coverage by 2026.

The GOP health plan gets rid of the requirement that most people have health coverage or pay a penalty and ends the enhanced federal money to the 31 states that expanded Medicaid, a program for the low-income and disabled that has grown by about 16 million people since expansion provisions kicked in in 2014. It imposes steep cuts to U.S. funding for the program.

The proposal provides tax credits similar to those provided under the ACA, but it expands eligibility and makes the credits smaller. Insurers could again sell cheaper health plans with fewer benefits than under the ACA, and states could obtain waivers enabling them to roll back the current health law's regulation. Insurers could also charge older people more than they currently can under the law.

## Democrats Assail Price Over Tactics in Health Debate

By STEPHANIE ARMOUR  
AND MICHELLE HACKMAN

Health and Human Services Secretary Tom Price and his department have been publicly panning the Affordable Care Act. Democrats call the campaign an improper use of federal resources to undermine the health law.

The disagreement amounts to a low-profile skirmish on health care unfolding in the shadows of the battle playing out on Capitol Hill. If Republicans in Congress fail to enact a sweeping health-care overhaul, Dr. Price's row with Democrats will take on far greater importance as the primary arena for the partisan back-and-forth on health care.

Democrats have been pursuing investigations and requests for information as they push back against Dr. Price,

whose agency is working to give states more leeway in relaxing ACA requirements.

Their focus is on the department's and Dr. Price's public messaging, which has included tweets and other social-media posts disparaging the ACA and backing GOP repeal legislation.

HHS officials say there is no legal problem with updating the public on the problems with the current health law.

David Vladeck, a law professor at Georgetown University, said HHS-promoted videos criticizing the ACA violate a century-old anti-lobbying law that forbids federal funding to be used to drum up support for pending legislation, Mr. Gross said.

Official HHS accounts such as @HHSgov, @SecPriceMD and www.facebook.com/HHS have posted videos of people complaining about the ACA, news releases criticizing the law and tweets calling for people to contact Congress and demand full repeal, Democrats say.

administration's proposals to reform the law, and it uses federal funds, I think that's a serious problem."

But Ken Gross, a prominent government-ethics lawyer, said the department's use of funds could be considered advocacy, which is permitted, rather than direct lobbying.

To violate the law, which is rarely enforced, HHS would need to post messages or videos urging citizens to contact members of Congress in favor of the pending health-care legislation, Mr. Gross said.

Official HHS accounts such as @HHSgov, @SecPriceMD and www.facebook.com/HHS have posted videos of people complaining about the ACA, news releases criticizing the law and tweets calling for people to contact Congress and demand full repeal, Democrats say.

the complete power to pardon, why think of that when only one crime so far is LEAKS against us. FAKE NEWS."

The Justice Department has taken the position that a president can't be prosecuted. Past special prosecutors have disagreed.

"It is very likely that a president is subject to federal indictment," says Ronald Rotunda, a law professor at Chapman University in Orange, Calif., who worked both for the Senate Watergate Committee and later Kenneth Starr, the independent counsel whose investigation of President Bill Clinton led to impeachment and acquittal.

But past special prosecutors such as Mr. Starr op-



Democrats are focusing on messaging by Health and Human Services chief Tom Price, right.

## President Self-Pardon: Murky Issue

By JESS BRAVIN

WASHINGTON—In 1974, some of President Richard Nixon's lawyers advised the president that he could pardon himself. In 1992, the Iran-Contra special prosecutor reached the opposite conclusion regarding President George H.W. Bush.

But the U.S. Constitution centralizes prosecutorial authority under the president. That means he could forbid the Justice Department from investigating or pursuing criminal charges against anyone, including himself, so he may never reach the point of having to pardon himself.

The subject has come to the fore in recent days after re-

ports emerged that President Donald Trump asked advisers about his ability to pardon various people, including himself.

Trump officials say the issue won't come up because there was no wrongdoing.

"I'm not sure if he has the right to [pardon] himself or not," White House communications director Anthony Scaramucci said Sunday on CNN. "But it doesn't matter, anyway, because that is another one of those stupid hypotheticals. He's not going to have to pardon himself, because he's done absolutely nothing wrong."

The president himself tweeted Saturday, "While all agree the U.S. President has

under broad statutory authority that since has expired. Under current law, special counsel Robert Mueller, who is investigating alleged Russian interference in the U.S. election, only has the authority to recommend that indictments be sought, said Frank Bowman, a law professor at the University of Missouri who publishes the ImpeachableOffenses.net blog.

Even if Justice Department attorneys obtained an indictment before the president issued an order canceling the investigation—or defied such an order—Mr. Trump could replace hostile officials with those willing to follow his orders. And if a federal grand jury voted for an indictment on its own, a prosecution couldn't proceed without a signature from a Justice Department lawyer, Mr. Bowman said.

"The judge has no independent power to create a prosecutorial authority," he said.

A president attempting to derail an investigation could wreak havoc with traditional concepts of law and order, legal experts say. Because he has the power to pardon anyone for a federal crime, with the possible exception of himself, a president could in theory pardon individuals for obstructing an investigation if the offense took place under federal jurisdiction—as is all of Washington, D.C.

But there is a far easier course for Mr. Trump: He could fire Mr. Mueller.

"If Trump takes Mueller off the board, he can pretty much stop the whole thing," Mr. Bowman said.

## A Former Trump Aide Subpoenaed by Senate

By BYRON TAU

WASHINGTON—The Senate Judiciary Committee has issued a subpoena for Donald Trump's former campaign chairman, ordering him to appear publicly before the panel Wednesday as part of an investigation into foreign interference in U.S. elections.

Committee chairman Chuck Grassley (R., Iowa) and top Democrat Dianne Feinstein (D., Calif.) said Tuesday that negotiations over Paul Manafort's voluntary cooperation with the panel had reached an impasse and that he had been subpoenaed Monday evening.

"While we were willing to accommodate Mr. Manafort's request to cooperate with the committee's investigation without appearing at Wednesday's hearing, we were unable to reach an agreement," said Mr. Grassley and Ms. Feinstein, in a joint statement.

The committee, which has convened a hearing on the broad topic of foreign lobbying and activity in U.S. politics, said it would be willing to excuse Mr. Manafort if he agreed to more generous terms, leaving open the possibility that a deal still could be struck Tuesday to preclude his public testimony.

The committee said he would have to agree to produce certain documents and to give a transcribed interview, "with the understanding that the interview would not constitute a waiver of his rights or prejudice the committee's right to compel his testimony in the future."

A spokesman for Mr. Manafort didn't immediately respond to a request for comment.

Mr. Manafort served as Trump campaign chairman for several months before resigning amid questions about his past consulting work for Ukrainian political figures.



Paul Manafort

Mr. Manafort, who hasn't been accused of any wrongdoing, is under scrutiny from investigators over his participation in a June 2016 meeting in Trump Tower with a Kremlin-linked Russian lawyer, a Russian-born lobbyist, and an executive at a Kremlin-linked Russian real-estate firm. Also at the meeting were Mr. Trump's son-in-law and senior adviser Jared Kushner, and Mr. Trump's eldest son, Donald Trump Jr.

Emails the president's son released earlier this month showed the Trump camp was promised damaging information about Democratic presidential candidate Hillary Clinton said to be offered by the Russian government in support of the elder Mr. Trump's candidacy.



MICHAEL REYNOLDS/EUROPEAN PRESSPHOTO AGENCY

Special counsel Robert Mueller departing after briefing members of the Senate last month.

## U.S. NEWS

# Scaramucci Deal Reviewed

White House role raises questions for planned sale of his investment firm

BY KATE O'KEEFFE  
AND MICHAEL C. BENDER

WASHINGTON—Anthony Scaramucci's appointment as White House communications director presents a sensitive situation for the planned sale of his investment company to a Chinese conglomerate—a deal that is now under government review.

Mr. Scaramucci first announced plans to sell a controlling stake in his hedge-fund investing firm, **SkyBridge Capital**, to Chinese giant **HNA Group Co.** in January in anticipation of joining the White House, he said. He didn't get a job there at the time.

Meanwhile, the SkyBridge/HNA deal proceeded and, like many foreign deals, is facing a review by the Committee on Foreign Investment in the U.S.

Mr. Scaramucci's appointment to a White House position last week gives the review new significance. The committee, which reviews deals for national security concerns, is made up of top officials in the administration of President Donald Trump, and is led by the Treasury.

The panel, known as CFIUS, can approve a deal or recommend the president block it, meaning a transaction that Mr. Scaramucci stands to profit from could ultimately be in the hands of his boss, Mr. Trump.

The deal is worth \$250 million, according to a person familiar with the matter. Securities filings indicate that Mr. Scaramucci has a 25%-to-50% stake in the firm, which would mean that he could stand to earn between \$62.5 million and \$125 million from the deal.

White House officials didn't respond to requests for



Anthony Scaramucci, appointed White House communications director, spoke with reporters Tuesday.

comment.

Mr. Scaramucci is far from the only official to face business issues as he joins the Trump administration.

Wilbur Ross Jr., the billionaire private-equity investor whom Mr. Trump tapped to serve as secretary of Commerce, agreed to sell 80 assets worth at least \$92 million.

But ethics experts say the CFIUS involvement makes Mr. Scaramucci's case unique, given that the White House and other senior Trump appointees have a hand in the outcome. In addition to Treasury, CFIUS includes representatives of the Justice, Commerce, Defense and State departments, and others, and the president has the right to overrule committee decisions.

The review is also occurring at a time when the government has ramped up its scrutiny of Chinese deals. The backers of at least five Chinese deals—including another

one involving HNA—have recently refiled or said they would refile applications to the committee after failing to get CFIUS approval, according to people familiar with the matter and public disclosures.

In his first news conference Friday, Mr. Scaramucci said he had worked with the Office of Government Ethics "to take care of" all conflicts of interest with his business. "My start date is going to be in a couple of weeks, so that it's a—100% totally cleansed and clean," he said, later adding: "You want to go serve the country, and so the first thing you have to do is take on this mega opportunity cost by getting rid of all your assets, and so—but I'm willing to do that, because I love the country."

The ethics office declined to comment.

President George W. Bush's White House ethics lawyer, Richard Painter, said in an interview that he couldn't recall

a similar situation arising in which a deal by an incoming White House staffer was undergoing a CFIUS review. He recommended that the White House stay out of the process entirely.

"The worst case is this deal gets approved and it looks like favoritism," said Mr. Painter.

Under the terms of the deal, HNA, together with George Hornig-backed investment company RON Transatlantic, will take a stake of approximately 89% in SkyBridge, according to filings.

An HNA spokesman said in a statement Sunday: "HNA Group is a financially strong company with a robust, diversified balance sheet that reflects our continued growth and engagement across the capital markets."

—Lisa Beilfuss in New York  
and Anjani Trivedi  
in Hong Kong contributed  
to this article.

## Prices Whet Taste for Fresh Produce

BY SARAH CHANEY

In the fresh versus processed food wars, fresh fruits and vegetables are winning, thanks in part to their relatively cheap price tags.

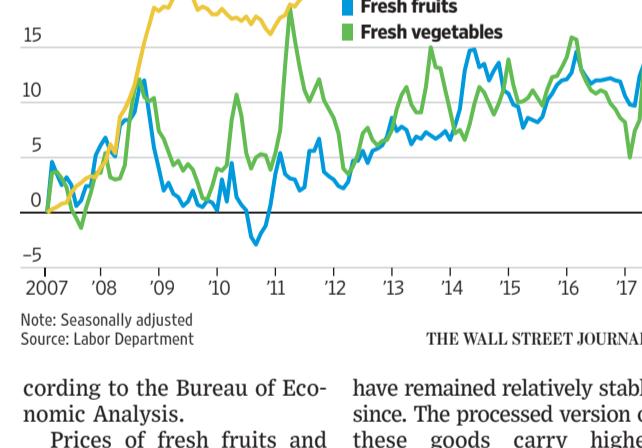
Since November 2008, the consumption of fresh fruits has grown 16.2%, while consumption of fresh vegetables is up 20.6%. Consumption of processed fruits and vegetables increased only 9.9% during the same period, notes Eugenio J. Alemán, Wells Fargo senior economist, in a new report.

"Consumers have rationally reacted to much higher prices on the processed side in relation to the fresh side," Mr. Alemán said. "In relative terms, fresh fruits and fresh vegetables are cheaper today than processed fruits and vegetables are."

Processed fruits and veggies are in the "freezer aisle," while fresh aren't frozen, ac-

### Eat Your Veggies

Change in prices since January 2007



cording to the Bureau of Economic Analysis.

Prices of fresh fruits and fresh vegetables were on an upward trajectory leading up to the 2008 recession, but

have remained relatively stable since. The processed version of these goods carry higher prices today than they did at any time before the recession. "At some point in time be-

fore the Great Recession, pricing policies for the processed fruits and vegetable industry changed considerably with today's prices matching fresh fruit and fresh vegetables much closer than during the pre-Great Recession years," the report notes.

It's difficult to distill how much the higher consumption of fresh fruits and vegetables has to do with price consciousness versus increased health consciousness. Younger consumers have largely shifted to fresh-food consumption. Those under age 40 increased their consumption of fresh vegetables by 52% over the last decade, according to a 2016 report from market-research firm NPD Group Inc.

Still, Mr. Alemán notes if the price of processed food drops to a certain level, consumers are likely to be less concerned with their health and more concerned with their wallets when making grocery decisions.

### U.S. WATCH

#### ECONOMY

#### Consumer Confidence Increased in July

A measure of U.S. consumer confidence rose sharply in July, as Americans expressed increased faith in current and future economic conditions.

The Conference Board on Tuesday said its index of U.S. consumer confidence rose to 121.1 in July from a revised 117.3 in June, marking the second-highest reading since 2000. The index in March had hit 124.9, its highest level since December 2000, but has slid downward in recent months.

July's increase "was driven by another rise in the current conditions subindex to a fresh 16-year high, reflecting falling gasoline prices, the strength of the job market and recent record highs in the stock market," said Michael Pearce of Capital Economics in a note to clients.

An index tracking household attitudes about the present economic situation rose to 147.8 in July from a month earlier, while the index tracking expectations about the future increased to 103.3.

—Sarah Chaney

#### TEXAS

#### Driver Charged in Fatal Smuggling

Federal prosecutors charged an American truck driver with illegally transporting dozens of migrants in a Texas incident that resulted in 10 deaths and serves as a reminder of the perils of human smuggling along the southern U.S. border.

James M. Bradley Jr., 60 years old, told investigators that he had no idea that anyone had been hiding in his sweltering truck and only discovered them after he pulled over to use the bathroom, according to court filings.

Mr. Bradley, who faces one count of illegally transporting migrants, made an initial court appearance on Monday and is being held without bond. A federal public defender representing

Mr. Bradley didn't respond to a request for comment. Under federal law, he could receive the death penalty if he is found guilty because the smuggling resulted in deaths.

Federal authorities said there were at least 100 people crammed into the back of Mr. Bradley's big rig. Over the past several weeks, several smuggling operations have also been foiled in Texas.

—Dan Frosch

CHARLIE NEIBERGALL/ASSOCIATED PRESS



'CORPSE FLOWER': Horticulturist Derek Carwood checks on the Titan Arum, also known as the Corpse Flower, at the Greater Des Moines Botanical Garden on Tuesday in Des Moines, Iowa. Officials say the flower, which won't bloom again for another 3-5 years, emits an odor similar to rotting flesh when it unfurls.

# Judge Blocks Deportation of Iraqi Immigrants

BY KRIS MAHER

A federal judge in Detroit temporarily blocked the deportation of more than 1,400 Iraqi immigrants with criminal records who were detained by federal immigration agents last month.

U.S. District Judge Mark Goldsmith granted a preliminary injunction sought by attorneys for a group of Iraqis until they can make their case in immigration courts that their deportation would be illegal.

Lawyers for the immigrants, many of whom are Christians, have argued that their return to Iraq would subject them to persecution, torture and possible death. Attorneys for the federal government had argued that the district court had no jurisdiction in the case.

In a 35-page ruling issued late Monday, Judge Goldsmith said the court's involvement was warranted by the "extraordinary circumstances" of the case, including that more than 1,400 people suddenly learned they were to be deported.

Many of those people had been sent to facilities across the country, complicating their legal defense, the judge added.

"Petitioners' claims are far from speculative," Judge Goldsmith wrote in his opinion. "Each Petitioner faces the risk of torture or death on the basis of residence in America and publicized criminal records; many will also face persecution as a result of a particular religious affiliation."

The ACLU of Michigan,

which sought the temporary injunction, applauded the ruling. "We're heartened that the court has once again recognized our country's commitment to fundamental fairness," said Miriam Aukerman, a senior staff attorney with the group.

Khalid Walls, a spokesman for U.S. Immigration and Customs Enforcement, said Tuesday the agency would have a comment on the judge's ruling later in the day. The agency had previously said that Iraq recently agreed to accept Iraqi nationals who had been subject to removal orders.

All of the individuals detained recently had past criminal convictions, including serious offenses such as homicide and aggravated assault and robbery, and a federal immigration judge had previously ordered them to be removed, the agency said.

The arrests in June of Iraqi nationals, including many in the Detroit area, were part of an ICE sweep focused on undocumented members of the community of Iraqi Christians, known as Chaldeans, with past criminal convictions. Attorneys and family members have said many individuals had since built families and become productive members of the community.

The roundup sparked outrage in the Iraqi Christian community beyond Detroit, the largest concentration of Chaldeans in the nation. It became the latest flashpoint in the Trump administration's stepped up efforts to deport people with criminal records.



REBECCA COOK/REUTERS

## Detention Policy Ruled Illegal by State Court

BY LAURA MECKLER

The highest court in Massachusetts dealt a fresh legal blow to the Trump administration's effort to compel local authorities to assist in its crackdown against illegal immigration.

The state's Supreme Judicial Court ruled Monday that Massachusetts court officials can't hold people in jail simply because the federal Immigration and Customs Enforcement agency requests it.

ICE routinely issues these requests, called detainers, to local officials, asking that they hold for up to 48 hours people who are suspected of being in the U.S. illegally. The Trump administration has labeled those that don't comply "sanctuary" jurisdictions and is looking for ways to compel cooperation.

While the decision applies only to Massachusetts, several federal appellate courts have issued similar rulings undercutting ICE's authority. In addition, a federal court has blocked parts of a Trump executive order aimed at punishing sanctuary cities.

Justice Department spokesman Devin O'Malley didn't address the decision directly in a statement, but he urged cities to cooperate to protect public safety.

"The attorney general has made clear that these so-called sanctuary policies intentionally undermine our immigration laws by protecting illegal aliens who have committed crimes," he said.

Many jurisdictions nationwide cooperate on immigration enforcement, but other cities and counties decline to honor detainers for both pol-

Judges says state can't detain people based on immigration status.

The Massachusetts court ruled that keeping people in custody beyond their scheduled release amounts to an arrest and that nothing in federal or state law gives court officers authority to detain someone based on their immigration status. The court also noted that being in the U.S. without authorization is frequently a civil violation, not a criminal one.

The case involved Sreyneon Lunn, who was arraigned on a count of unarmed robbery last fall.

His case was dismissed, but, because of a pending ICE detainer, he remained in jail and was then transferred to federal custody. He remained in the U.S. because of trouble dealing him.

Massachusetts Attorney General Maura Healey celebrated the result, which she said was the first statewide decision on the matter.

## IN DEPTH



Discovery aired a show in which U.S. Olympic swimming legend Michael Phelps, left, raced a computer-generated shark, right. Our guest critic, Fred the Shark, took a cold-blooded view of the spectacle.



CLOVE ROSE/GETTY IMAGES (PHelps); REINHARD DIRSCHERL/JILL STEIN BILD/GETTY IMAGES

# SHARK

Continued from Page One

filmed it in South Africa. I know for a fact they did it off the coast of suburban Connecticut. Yes: we're everywhere this summer. Connecticut is delicious.

Anyway, we're all proud of Larry here, but no shark is surprised that he beat Phelps by two seconds in a 100-meter race. Watch the tape again: Larry took it easy. He toyed with Phelps. He's always in control. He could have completely crushed the guy.

But that wouldn't have been good for your silly little TV show, would it?

So Larry slowed down and teased Phelps and made it a lot closer than it should have been. I wonder if Larry got paid. Did Discovery say the shark was "computer generated" in order to skip out on paying Larry? I'm starting to get really steamed.

To be clear: Nobody in the shark community has a problem with Michael Phelps. That dude can swim. He's old and fierce, and prefers water to land, what's not to like? He doesn't have to prove anything to sharks.

Phelps had to know he would lose. I bet he got a sweet check from Discovery. Good for him. He should throw a little over to Larry.

As a whole, the "Phelps vs. Shark" special pretty much drove me nuts. The marine biologist nerds kept criticizing sharks for not being able to swim in a straight line. What? We can totally swim in a straight line. We just choose not to.

Those marine biologists better be careful, or one day I'm going to swim in a straight line right up to their boat.

Another thing that really annoyed me was how they kept

rhapsodizing about Phelps's Olympic glory and how competitive the guy is.

"He just loves to win," somebody said.

Please. I'm going to throw up. Humans always make everything about themselves. Sharks are competitive! Sharks also want to win. You think we watch "Jaws" and root for Richard Dreyfuss?

And Discovery gave Phelps every conceivable advantage. They filmed it during the day. They let Phelps wear a wetsuit. He also got to put some kind of "monofin" on his feet for propulsion. I'm not so sure about that monofin. It looked like a

pair of bike shoes attached to a spatula from Williams-Sonoma.

And Larry still kicked his behind.

Phelps was respectful about the whole thing, saying he'd always dreamed of swimming among the sharks. That was nice, but I kept waiting for the announcer to go to Larry for his post-race interview, and they never did. What the heck, Discovery?

It's demoralizing. First "Sharknado" and now this. Sharks are always stereotyped as villains, or toothy extras. Where's our Shark "La-La Land" or Shark "Mad Men?" We can do prestige stuff.

I've spent the morning listening to Shark Sports Radio, and "Phelps vs. Shark" is all anyone is talking about. Well, that and Kyrie Irving. What is Kyrie Irving thinking? He wants to leave LeBron? Humans are crazy, I'm telling you.

I know humans are irritated about "Phelps vs. Shark," calling it a cheesy publicity stunt, but you suckers got what you deserved.

You never had a shot. Sharks rule. Phelps is cool, but the rest of you have jumped the Larry.

Fred the Shark's column was dictated to Journal columnist Jason Gay ([jason.gay@wsj.com](mailto:jason.gay@wsj.com))

# TORTS

Continued from Page One

the country," she says. At the same time, the falling number of tort filings, coupled with the broader decline in civil jury trials, has some judges concerned that Americans with garden-variety cases no longer see courts as an affordable way to seek redress for their injuries.

"People are just not filing cases like they used to. They are not seeking trials like they used to," says Senior Judge Gregory Mize of the District of Columbia Superior Court, a local trial court. "It's so expensive and time-consuming."

The Conference of Chief Justices, an association of state judicial leaders, has been working on tweaks to the civil justice system that officials hope will make many cases move more quickly and cost less. Judge Mize is assisting the committee studying the issue.

Torts are civil wrongs that cause someone to suffer loss or harm. Most tort lawsuits seek damages for negligence rather than deliberate injury and fall into one of three categories: auto cases, medical malpractice or product liability.

2015, a difference of more than 1.7 million cases nationwide, according to an analysis of annual reports from the National Center for State Courts. Those estimates are based on case percentages recorded by more than 20 states that track tort filings.

Contract cases—a category that includes debt collection, foreclosure and landlord-tenant disputes—grew from 18% of the civil docket to 51%, according to the center's data.

Anthony Sebok, a torts professor at Benjamin N. Cardozo School of Law in New York, contends the public perception of tort filings has never matched reality. Even at peak growth in the mid-1980s, tort cases amounted to about 20% of civil filings in state courts, on average.

Josh Johnson with his daughter, who was injured at a YMCA camp in Minnesota.

"We as a society seem to be OK with plaintiffs when they are debt collectors coming in and using the court system more than they used to, but we somehow instinctively think it's a bad thing when victims of accidents come in and do the same thing," he says.

Ms. Rickard of the U.S. Chamber said an increase in single lawsuits bundled with multiple plaintiffs could be a factor in the decline in tort filings. Most courts don't distinguish between lawsuits filed by individuals or by groups, counting both as one filing in their statistics.

A study last year by the National Center for State Courts found that nearly two-thirds of tort cases involve automobiles. Motor-vehicle deaths and hospitalizations from crash injuries have declined since the 1990s, likely contributing to fewer lawsuits, legal experts say.

Researchers at Northwest University and the Univer-

sity of Illinois recorded a 57% nationwide decline in malpractice claims paid by doctors or their insurers between 1992 and 2012, and a similar drop in the number of malpractice lawsuits. Claims of less than \$50,000 fell the most, perhaps because increasing litigation costs made many lower-value cases too expensive to pursue, the researchers said.

In Texas, the number of tort cases fell 27% between 1995 and 2014, according to another study. The decline for non-auto-accident tort cases over that period was 60%, the study said.

Stephen Daniels, a research professor at the American Bar Foundation who co-wrote the Texas study, says advocates of lawsuit restrictions have succeeded in making many tort cases economically impossible for trial lawyers to bring.

Plaintiffs' lawyers typically front the cost of litigation and take their fees on the back end, usually one-third of whatever their clients recover.

In tort lawsuits, damages come in three varieties. Economic damages are meant to make the plaintiff whole. They cover lost wages, medical costs or other economic harms caused by others. Noneconomic damages ameliorate intangible harms such as pain and suffering, while punitive damages are meant to punish and deter.

### Capping damages

More than 30 states have capped damages in medical malpractice or other cases since the 1970s, according to the Center for Justice & Democracy, a group that opposes such laws. In 2003, Texas capped damages in medical-malpractice cases at \$250,000.

Meanwhile, costs have increased for medical records and the expert witnesses often needed to testify about medical treatment, lawyers and legal experts say. Many states require medical-malpractice plaintiffs to file an expert report with or soon after their lawsuit. Total costs often reach thousands of dollars, trial lawyers say.

Economic damages are tied to lost wages and income. Plaintiffs' lawyers told Mr. Daniels and co-researcher Joanne Martin they no longer could afford to represent retirees and stay-at-home parents as clients in medical-malpractice cases, or even unemployed people as clients in some auto-accident cases, "because they wouldn't get sufficient damages, and cases are expensive," Mr. Daniels says.

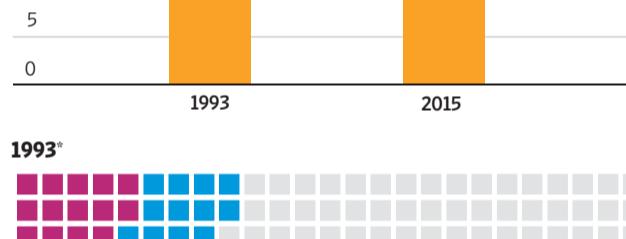
In Kansas, which moved to curb tort litigation, tort filings fell by 45% between 2000 and 2015, according to the National Center for State Courts.

Noneconomic damages have been capped by the state for

### The Fall of the Tort

Tort lawsuits have declined sharply over the past two decades, while contract suits have increased.

#### Total civil filings in state courts



1993\*

Contract cases represented 18%  
Tort cases represented 16%

Contract cases per capita: 1 for every 99 people



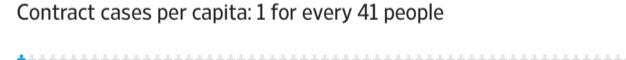
Tort cases per capita: 1 for every 111 people



Tort cases per capita: 1 for every 522 people



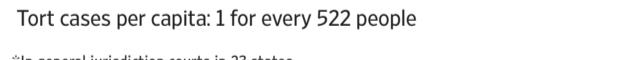
Tort cases per capita: 1 for every 522 people



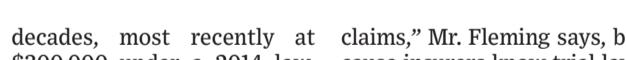
Tort cases per capita: 1 for every 522 people



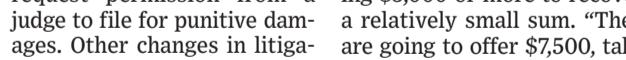
Tort cases per capita: 1 for every 522 people



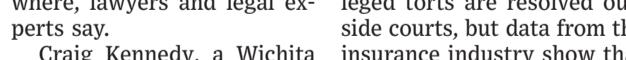
Tort cases per capita: 1 for every 522 people



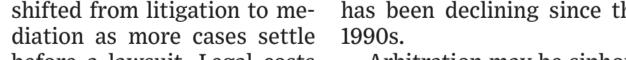
Tort cases per capita: 1 for every 522 people



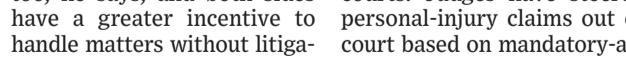
Tort cases per capita: 1 for every 522 people



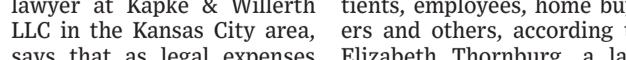
Tort cases per capita: 1 for every 522 people



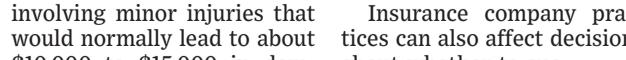
Tort cases per capita: 1 for every 522 people



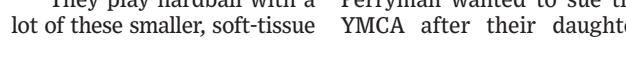
Tort cases per capita: 1 for every 522 people



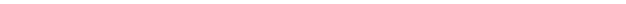
Tort cases per capita: 1 for every 522 people



Tort cases per capita: 1 for every 522 people



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Tort cases per capita: 1 for every 522 people



Tort cases per capita: 1 for every 522 people



Tort cases per capita: 1 for every 522 people



Tort cases per capita: 1 for every 522 people



# LIFE & ARTS

STREAMING SERIES

## An Open-Ended 'Last Tycoon'

F. Scott Fitzgerald's unfinished novel about Hollywood gives Amazon a broad canvas for a series premiering July 28

BY JOHN JURGENSEN

**IN SEPTEMBER 1939,** F. Scott Fitzgerald sent a letter to a magazine editor, seeking \$15,000 to publish his next novel. "I have figured it as a four months job—three months for writing—one month for revision," Fitzgerald wrote.

The author was off in his estimate—fatally so. Halfway through the novel, about a charismatic movie producer with high principles, the 44-year-old Fitzgerald died of a heart attack on Dec. 21, 1940.

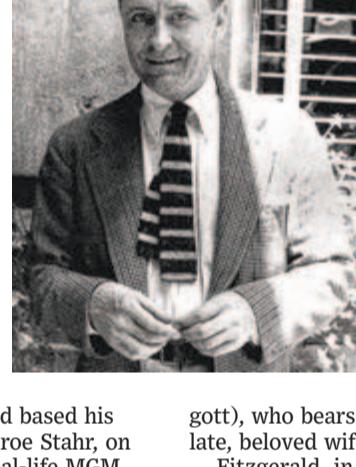
The incomplete book, published in 1941 as "The Last Tycoon," is a tease for some scholars who say it had the potential to be Fitzgerald's best. But for TV writers, it offers a unique advantage: the freedom to construct their own story on the foundation built by Fitzgerald.

"We had all the promise of the first half of that book, and yet limitless possibilities," says Billy Ray, the creator of a series based on the book, premiering July 28 on Amazon.

Compare that with the baggage of Fitzgerald's "The Great Gatsby." Not only is that book complete, it is among the contenders for the Great American Novel. "I think that has handcuffed people in the past," says Mr. Ray, whose writing credits include

"The Hunger Games" and the Oscar-nominated screenplay for "Captain Phillips."

At the end of his life, Fitzgerald was living in Los Angeles, trying to climb out of debt by selling short stories and writing and revising movie scripts. "The Last Tycoon" is set in mid-1930s Hollywood, at a fictional studio struggling to make hit movies. Fitzgerald based his main character, Monroe Stahr, on Irving Thalberg, a real-life MGM producer he admired. Stahr (played in the series by Matt Bomer) is a dashing executive with an artistic eye and failing health. He butts heads with his boss and father fig-



Matt Bomer, above, stars as film producer Monroe Stahr in Amazon's adaptation of 'The Last Tycoon,' by author F. Scott Fitzgerald, left.



FROM TOP: AMAZON PRIME VIDEO; UIG/GETTY IMAGES

ure, Pat Brady (Kelsey Grammer), who is fixated on profit. Brady's daughter (Lily Collins) is in love with Stahr, but he falls for Kathleen (Dominique McElligott), who bears similarities to his late, beloved wife.

Fitzgerald, in summarizing the plot for the magazine editor (who, like others, turned him down) wrote, "It is an escape into a lavish, romantic past that perhaps will not come again into our time."

To help conjure a lavish and romantic atmosphere in the series, Amazon stacked the production with veterans of the heavily decorated period drama "Mad Men." They include actress Rosemarie DeWitt, costume designer Janie Bryant and executive producer and director Scott Hornbacher.

The "Tycoon" writers kept the core setting, characters and relationship dynamics from the novel and filled out that world with new elements, such as a Hooverville shantytown across the street from the studio. Another added storyline reflects money's perennial influence on the entertainment industry. Stahr rails against an emissary from

the lucrative German market sent to Hollywood to revise or block any movie that "offends the racial sensibilities" of the Nazi regime. Drawing a comparison to the Chinese market's clout today, Mr. Ray says, "I've been in meetings for movies I've worked on where the studio would say, 'The bad guy can't be Chinese, make him Russian.'

The script for "The Last Tycoon" was first developed for HBO but the network passed on it because, producers say, HBO decided to invest in a different period drama about the entertainment business. That was "Vinyl," which HBO canceled after one season. Overhauled for Amazon, "The Last

Tycoon" received a green light from Roy Price, a Fitzgerald fan and head of Amazon Studios, which also produced the recent jazz-age series "Z: The Beginning of Everything," starring Christina Ricci as Fitzgerald's wife and muse, Zelda.

The "Tycoon" team worked with author and Fitzgerald expert A. Scott Berg as a consultant to keep them from straying too far from the novelist's blueprint. If "The Last Tycoon" succeeds on TV and runs for many seasons, it can avoid an ironic fate. "Right now the show is unfinished, too," Mr. Keyser points out. "If we air a single season, it'll be like the novel."

MUSIC REVIEW | By Jim Fusilli

## THE HIGHS AND LOWS OF INSTANT GRATIFICATION

**'EVERYTHING NOW'** (Columbia) by Arcade Fire, out on Friday, is a curious album with a dual personality. The music springs from the rock-disco hybrid and synth pop of the late 1970s and early '80s; for the most part, it's irresistible dance funk produced by the band, Daft Punk's Thomas Bangalter and Pulp's Steve Mackey. But the storytelling is as dark and dour as the music is bright and inviting. Were the narratives any less compelling, the conflict may have seemed an artifice, an intentionally provocative disconnect. But it works well and in fact reflects the overarching theme.

With "Everything Now," the sextet—Will Butler, Win Butler, Régine Chassagne, Jeremy Gara, Tim Kingsbury and Richard Reed Parry—comments on life in a consumer society that, as the title states, can provide instant gratification that often makes the disposable appear indistinct from the valuable. In such a milieu, insincerity is coin.

In the title track, which is performed three times in slightly different forms on the disc, Win Butler sings, "And every song that I've ever heard is playing at the same time / It's absurd," adding, "Turn the speakers up til they break / 'Cause every time you smile, it's fake." Having everything now may provide "Infinite Content," as a composition of the same name states, but not infinite contentment since "All your money is already spent on it." In "Put Your Money on Me," he sings,



GUY ARCH

Arcade Fire's new album, 'Everything Now,' is out on Friday.

"All my presents are broken before they're open / And the promises the second they're spoken."

When values are devalued and life is a mere quest for acquisition and acclaim, despair sinks in. In "Creature Comfort," a character decides she doesn't want to live without achieving celebrity. "God, make me famous / If you can't, just make it painless," she states bluntly. The song continues: "She dreams about dying all the time / She told me she came so close,

filled up the bathtub and put on our first record." In 2004, Arcade Fire's debut album "Funeral" addressed the subject of death, but also recovery. Perhaps a hint of hope in an earlier verse by the group saved her from suicide.

The scenario is repeated in "Good God Damn": "Put your favorite record on, baby and fill the bathtub up....It's always darkest before the dawn / But the sun never shows." But the narrator looks to God, though not without questioning his merit. "Maybe there's a good God, damn" is a re-

peated line. Then a realization: "Maybe there's a good God / If he made you." In "We Don't Deserve Love," the writers employ a scorched-earth metaphor: "You say I can't see the forest for the trees / So burn it all down and bring the ashes to me."

These grim, fatalistic tales are accompanied by music too alive to be mere cynical counterpoint, though one interpretation could be that those who are gleefully lost in ephemera are unaware of the tragedy that hovers nearby. As its live shows illustrate, Arcade Fire is an

exceptional band, and on its previous album, "Reflektor" (2013), it proved it's at ease with dance funk. Here, the group is joined by, among others, saxophonist Stuart Bogie, pianist Owen Pallett—who, along with Sarah Neufeld, arranged the strings—and Daniel Lanois, who plays pedal-steel guitar on two tracks. All together, they make music that is proudly retro. One take of the title track recalls Abba, albeit with a pygmy flute and a chugging acoustic guitar peeking through, while the delightfully relentless "Put Your Money on Me" brings to mind Kraftwerk and Giorgio Moroder. "Infinite Content" is played twice, once as country folk with Mr. Gara brushing the snare drum, the other as boozing four-beats-to-the-bar rock with a roller-rink-like organ in the mix. "Chemistry" straddles early rock 'n' roll and reggae. But in the main, the band is content to ride a dance-funk wave atop fat, unremitting bass tones as in "Good God Damn."

On "Everything Now," opposing forces seem a natural fit. An optimist might say the message is to wake up to the need to re-prioritize but still enjoy the groove. A pessimist might insist that, in the face of a culture that values wealth and accumulation over principle, one might as well resign and keep dancing. The conflict produces a positive result: Arcade Fire's new music delights and its words give pause for reflection. A curious album, yes, and quite the commentary on the push and pull of contemporary life.

Mr. Fusilli is the Journal's rock and pop music critic. Email him at [jfusilli@wsj.com](mailto:jfusilli@wsj.com) and follow him on Twitter @wsjrock.

## OPINION

### REVIEW & OUTLOOK

#### A Chinese Echo of 1980s Japan

**C**hinese leaders recoil at any comparison between their economy and 1980s Japan before Tokyo's bubble burst. But one sign of similar irrational exuberance has them spooked: Since 2015 Chinese companies have gone on a buying spree for trophy assets much like the Japanese did three decades ago.

Beijing has blocked several big deals this year, leading to a dramatic decline in transactions. Regulators also warned banks last month to stop lending to five private conglomerates that have spent \$57 billion on foreign hotels, entertainment companies and other assets over the past two years. The government actions caused investors to sell off the companies' stocks and bonds.

One concern is that Chinese companies are overpaying and lack the expertise to manage the assets, much like the Japanese in the 1980s. The Wanda Group paid a startling \$3.5 billion last year for Legendary Entertainment, the Hollywood studio that produced "The Dark Knight" and "300." It has since made several flops, including the China-themed "Great Wall." That's reminiscent of Sony's disastrous 1989 purchase of Columbia Pictures for \$3.4 billion, most of which was written off in the 1990s.

Anbang Group, an insurance-led conglomerate, has paid eye-watering prices for buildings in Manhattan. That recalls Mitsubishi Estate's \$1.4 billion deal for 80% of Rockefeller Plaza. Five years later it turned over the stake to its creditors to avoid default, losing \$600 million.

In both Japan and now in China, loose money

#### Beijing cracks down on a dollar-asset buying spree.

tary policy and a weak dollar started the trend. In order to prevent their currencies from appreciating too much against the dollar, Beijing and Tokyo encouraged companies to acquire foreign assets.

The parallel isn't exact, since China's outbound investment boom started relatively late in the cycle. The frothiest deals came after 2015, when the value of the yuan peaked. Companies are also acting rationally to reduce their exposure to an overvalued yuan by stocking up on dollar assets. There's also a uniquely Chinese political aspect, as some of the most risk-prone companies boast political connections that allow them better access to credit.

That doesn't mean Beijing can be sanguine. Capital flight carries its own risks, and Beijing's crackdown on the five companies is part of a wider effort to prevent the yuan from depreciating too rapidly.

The Chinese government can avoid a Japan-style lost decade if it takes the right lesson from this episode. While Beijing may be able to rein in its companies' foreign deals, that doesn't mean the danger is over. Their acquisition mania is a symptom of an economy whose fundamentals are out of kilter.

The excessive risk-taking by companies has its roots in government policy. As regulators play Whac-a-Mole with systemic risks, China's government continues to prop up economic growth with fiscal and monetary stimulus. That has caused debt to grow at twice the rate of GDP. China's present may not repeat Japan's history, but it could rhyme.

#### The Kushner Statement

**J**ared Kushner on Monday introduced a useful precedent for the Trump Presidency: comprehensive disclosure. In an 11-page statement released before meeting this week with the Senate and House intelligence committees, the President's son-in-law and White House aide described his contacts with Russian figures during the campaign and after the election.

The statement to the committees ends with a definitive denial of collusion with the Russians: "I did not collude, nor know of anyone else in the campaign who colluded, with any foreign government."

The Beltway media are past the point of no return on their collusion odyssey, so there is little chance that Mr. Kushner has put this issue behind him. But as we suggested in these columns last week ("The Trumps and the Truth"), the White House's best defense against death by a thousand cuts of anonymous leaks is radical transparency on Russia. Mr. Kushner's statement has provided a template.

There isn't much in this statement about Russia beyond what we know, but Mr. Kushner expressly rebuts some of the more incendiary news reports of recent months.

The biggest was the recent disclosure of a meeting between Donald Trump Jr. and a Russian lawyer, which was also attended by several functionaries serving as "translators." About 10 minutes into the meeting, which he calls a waste of time, Mr. Kushner says he emailed his assistant: "Can u pls call me on my cell? Need excuse to get out of meeting." Aside from the

amusement of this extraction effort, Mr. Kushner's email to his assistant is surely available to investigators for confirmation.

Mr. Kushner also rebuts suggestions that he served as a back-channel conduit between the Russians and Trump Administration, and he denies ever discussing sanctions against Russia with its then-ambassador to the U.S., Sergei Kislyak.

In Mr. Kushner's accounting, the Russian ambassador comes off as a suspiciously eager pest, constantly seeking meetings with the President-elect's son-in-law. Mr. Kushner says he finally agreed to a meeting that would have set off alarms of skepticism in a more politically experienced person. Mr. Kislyak puts him together with one Sergey Gorkov, "banker and someone with a direct line to the Russian president."

With this and the other contacts described, Mr. Kushner offers details about what was, and what was not, discussed at these meetings. Up to now, Team Trump has taken the view that because every story is unfair or a witch hunt, they are under no obligation to provide their side of these allegations. Which has left the field open for months to media speculation.

Now we have the Kushner disclosure template. Lying to Congress is a crime, so this statement and its details involve some risk for Mr. Kushner if some other meetings or Russian connections turn up. But if this is all there is, the collusion narrative will have to find another protagonist. The President and other campaign officials could save themselves and the country much grief with similar disclosures.

#### Reformers Not Welcome at Ex-Im Bank

**I**n an era of polarization, taxpayers in America can take no solace that crony capitalism still enjoys bipartisan support. Witness the confirmation battle over President Trump's nominee to be president of the Export-Import Bank—Scott Garrett, one of the bank's longtime critics.

As a New Jersey Congressman, Mr. Garrett twice voted against renewing Ex-Im's charter. To encourage exports, the bank offers loans, guarantees and other financing, but as Mr. Garrett explained, this support has become "taxpayer-funded welfare for mega-corporations." He also noted the bank habitually "rewards those with close relations to Washington bureaucrats." Washington's beneficiaries weren't pleased.

Ex-Im claims to back small businesses, but in 2014—the last year the bank was fully operational—the two biggest recipients of financial help were Boeing (\$8.4 billion) and General Electric (\$2.6 billion). A year later, as Congress debated whether to let the bank's charter expire, the two corporations spent \$43 million lobbying.

Congress renewed the charter in December 2015, though the Senate Banking Committee's last chairman, Republican Sen. Richard Shelby, blocked President Obama's nominees to the board, denying Ex-Im the three-person quorum needed to approve any financing deal over \$10 million.

Ex-Im claims to be a lender of last resort, but in 2013 one of Boeing's top financing executives reassured customers it could find alternative funding sources even without the bank's backing. Sure enough, Boeing's 2017 annual outlook highlighted "healthy aircraft financing markets," estimating export credits will supply only 10% of its \$126 billion financing for global commercial-airline deliveries this year.

Private financing may cost more, but at least taxpayer money isn't then staked on cut-rate loans for risky business. Before its demise in 2011, the solar-panel company Solyndra snagged \$10 million in Ex-Im financing. Over the Obama

#### Crony capitalists fear Scott Garrett might limit taxpayer credit.

years Ex-Im approved \$2.1 billion for renewable energy, a political favorite.

The bank's supporters defend such risk-taking by boasting that Ex-Im investments will yield a \$14 billion profit between 2015 and 2024.

But the U.S. Congressional Budget Office has estimated that the bank would report a \$2 billion loss if it were held to the same fair-value accounting standards as private business.

During one five-year stretch in the Obama years, 46 public employees were convicted of defrauding the bank. One bribed loan officer recommended that the bank back a company that had repeatedly defaulted on past Ex-Im guarantees, costing nearly \$20 million. None of these entrenched problems are surprising, given that Ex-Im exists to dispense government privilege to some businesses and not others.

The taxpayer guarantees must be valuable because the fury against Mr. Garrett is something to behold. In a recent op-ed in these pages, Jay Timmons, president of the National Association of Manufacturers, claimed Mr. Garrett "isn't a reformer; he's a destroyer." Even more overwrought, Mr. Timmons claimed Mr. Garrett's past opposition to the bank was "tantamount to a vicious trade war against American manufacturing workers."

Calm down, Jay. Mr. Trump has also nominated former Alabama Rep. Spencer Bachus to the Ex-Im board, and its governing structure would limit Mr. Garrett's power. Mr. Bachus, who voted to renew Ex-Im's charter in 2012, is seen as less hardline than Mr. Garrett, and the confirmation of either nominee would give the Ex-Im bank the quorum it needs to keep passing out large-scale cash, even with a reformer's dissenting votes.

But at least Mr. Garrett can alert Congress and the public when Ex-Im's dealings stink. Like any President, Mr. Trump deserves to have his nominees approved unless they are crooked or inept. It's revealing that Mr. Garrett's opponents fear that he's too competent.

#### Robert Mueller Is Trumpering Congress



Did Congress learn anything from Lois Lerner? Judging from Capitol Hill's self-abasing deference to Special Prosecutor Robert Mueller, the answer is no.

You remember Ms. Lerner. She was the official at the center of an Internal Revenue Service effort that denied conservative political-advocacy groups tax-exempt status, or at least held up approval long enough that these groups couldn't be a factor in the 2012 election.

Back when Republicans were holding hearings on the matter, time and again they were lectured not to do anything that might affect the FBI's investigation—which eventually ended with no charges against anyone. Though Ms. Lerner was found in contempt by the House for her refusal to testify, it proved all for show.

The tip-off came when then-Speaker John Boehner, rather than use Congress's inherent contempt power to jail Ms. Lerner until she talked, opted for classic swamp symbolism—by passing the buck to an Obama Justice Department everyone knew would never prosecute her.

The result? Ms. Lerner avoided having to answer any hard questions. The IRS merrily continued to lose or destroy crucial documents. And John Koskinen, the awful replacement IRS commissioner who stonewalled and misled, remains in office.

The Lois Lerner fiasco offers a sobering lesson for a Congress whose various committees are holding hearings on Russia's intervention in last year's elections as Mr. Mueller investigates the same.

While Mr. Mueller's office is a watered-down version of Ken Starr's or Lawrence Walsh's, it remains true that special prosecutors corrupt even if they don't corrupt as absolutely as independent counsels. The main headlines of the past week—Is Donald Trump attempting to undermine Mr. Mueller? Will Trump fire Mueller?—all speak to the challenge a special prosecutor poses to the constitutional authority of the president.

Far less scrutiny has been devoted to the challenge Mr. Mueller poses to the authority of the legislative branch. In this case, ironically, the challenge stems less from the aggressiveness of the special prosecutor than from the meekness of Congress. In between their public tributes to Mr. Mueller's sterling character, too many in Congress seem to worry more about how they might be affecting his investigation than about what his investigation might be doing to theirs.

One small snapshot: Mr. Mueller, an unelected appointee, had the Trump memos written by former FBI Director James Comey even as the FBI was refusing to release them to the elected representatives of the American people.

When Mr. Mueller was appointed back in May, Sen. Lindsey Graham

rightly noted that though he respected the decision, the appointment will "really limit what Congress can do, and it's going to really limit what the public will know about this."

Alas, the South Carolina Republican went on to say that "we in Congress have to be very careful not to interfere in his lane."

Certainly representatives and senators shouldn't set out to frustrate Mr. Mueller's investigation. But neither should they permit Mr. Mueller to frustrate theirs.

In this investigative capacity, Congress has many tools to enforce its demands for information. It can, for example, use inherent contempt to jail someone until he testifies or produces the requested information. True, inherent contempt hasn't been invoked since

#### Special prosecutors corrupt; independent counsels corrupt absolutely.

1935, but given that the civil path to enforcing a contempt finding takes years and the criminal option (as Ms. Lerner showed) has effectively been overridden, Congress would do well to rely on its own powers and authority.

Here a May 2017 review from the Congressional Research Service is illuminating. Although witnesses before a congressional committee do have the right to invoke the Fifth Amendment, the House can get a court order directing the witness to testify so long as the threat of prosecution for that testimony is removed. Mr. Mueller might not like this, but that shouldn't stop Congress from using a power designed to extract information rather than punish.

Even more intriguing, sensitive or privileged client information isn't exempt from congressional subpoena. This might prove especially fascinating in the case of former Trump campaign manager Paul Manafort, who has had business dealings with a pro-Russia Ukrainian political party.

Ditto for Glenn Simpson, whose Fusion GPS commissioned what became the Christopher Steele Russian dossier on behalf of political clients.

Not to mention the many other powers of Congress, including impeachment and the purse. The point is, Congress has many ways to get to the bottom of the Russia story and hold people accountable—if it so chooses.

In *Anderson v. Dunn* (1821), the Supreme Court correctly noted that without the power to imprison those found in contempt, Congress would be "exposed to every indignity and interruption, that rudeness, caprice or even conspiracy may meditate against it."

Two centuries later, the different examples of Ms. Lerner and Mr. Mueller both point to a brand new indignity—which Congress inflicts on itself when it is too timid to assert its own powers.

*Write to mcgurn@wsj.com.*

#### The Best-Loved Politician in India

By Tunku Varadarajan

**I**ndia's proudest boast is that it is the world's biggest democracy. But in the 70 years since independence, India's citizens have been poorly served by government ministers, many of whom have been remote, overbearing, idle, AWOL or corrupt.

Not Foreign Minister Sushma Swaraj. A longtime member of the ruling nationalist Bharatiya Janata Party, the 65-year-old Punjabi has also been chief minister of Delhi and opposition leader.

In her present role, she has become India's best-loved official, mostly due to her tireless attention to Indians in distress abroad. It is a task she gave herself after it became clear that Prime Minister Narendra Modi, a control freak, intended to exercise tight personal control over foreign and security policy.

Ms. Swaraj's space, therefore, lay in elevating that most mundane but vital diplomatic function: consular and citizen services. By using Twitter publicly as a channel for citizens (and even noncitizens) to call for assistance, Ms. Swaraj has reminded people that the oldest role of any foreign ministry is to look after its nationals outside the country.

Ms. Swaraj has 8.69 million followers, putting her in the global top 10 among politicians. The majority of her tweets are written in response to pleas for help. Of these, a good number come from the Indian diaspora in the Persian Gulf, mostly blue-collar workers who toil under stressful, often inhumane conditions.

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Recently Ms. Swaraj ensured that Rohaan Siddiqi, a Pakistani toddler, was able to fly to India for life-saving surgery. After the operation on the boy's aorta, the emotional father said: "The heart of my child beats today for Madam Sushma Swaraj."

On one delicious occasion, a man tweeted to her for assistance with his fridge, complaining that Samsung was making him pay to repair it. Her response was blunt but courteous. "Brother, I cannot help you in matters of a refrigerator. I'm very busy with human beings in distress."

Many of these human beings, as it happens, are Pakistani, and they tweet directly to Ms. Swaraj, too. Despite tensions between India and Pakistan, there's a steady flow to India of Pakistani visitors in urgent need of medical attention, hospitals in Pakistan being expensive and largely substandard. They often encounter problems getting permission to leave Pakistan, or visas to enter India.

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## OPINION

# The Problem With Russia's New Pipeline

By Alan Riley

**A**mid allegations that Washington is using the cover of sanctions to advance its own commercial interests, Germany has been furiously lobbying against a Russian sanctions bill that passed the U.S. Senate and went to a vote in the U.S. House of Representatives Tuesday.

In a recent joint statement, Germany's Foreign Minister Sigmar Gabriel and Austria's Chancellor Christian Kern blasted the Senate version

**Some Europeans worry about possible sanctions hurting Nord Stream 2, but America is right to be suspicious of the project.**

of the bill as aimed at "selling American liquid natural gas and ending the supply of Russian natural gas to the European market."

This position confuses U.S. national and commercial interests, and fails to recognize how European gas markets work.

The focus of German concern is the prospect of sanctions targeting the construction of new Russian export pipelines, and in particular the Nord Stream 2, which would give Russia's Gazprom the capacity to

bring 55 billion cubic meters of gas from Russia to Germany through two 1,200 kilometer pipelines beneath the Baltic Sea.

Together with the existing Nord Stream 1, total export capacity traveling the Nord Stream Baltic Sea route would be doubled as a result.

But Nord Stream 2 isn't meant to increase Russia's export capacity. Gazprom has substantial existing capacity via the Yamal pipeline going through Belarus and Poland and the Brotherhood pipeline through Slovakia and Ukraine. Nord Stream 2, just like Nord Stream 1, is intended to be a diversionary pipeline.

If U.S. sanctions are addressed specifically to Nord Stream 2, they won't have any material impact on the flow of Russian natural gas to Europe. And while it's true the sanctions against Russian export pipelines as drawn in the U.S. bill have been drawn broadly, they have also been drafted in the form of a grant of discretionary powers to the U.S. president. In reality, any executive order giving effect to the sanction powers would have to focus narrowly on Nord Stream 2.

In its lobbying on Capitol Hill, Berlin has significantly played down the damage that Nord Stream 2 would inflict on the security of Central and Eastern Europe. This is because having most of Russia's gas exports to the EU come through its market would lower natural-gas prices in Germany and make it an energy hub



Gazprom CEO Alexei Miller at the signing ceremony for Nord Stream 2 in Paris on April 24.

AFP/GETTY IMAGES

for the rest of Europe. It would also help the German and Austrian corporate partners of Nord Stream 2, including OMV, Uniper and BASF-Wintershall, ensure their continued access to upstream Russian energy assets. All of which sets the stage for greater German-Russian cooperation in the future.

Concentrating supply along the two Nord Stream routes reduces supply diversity and makes it easier to cut off those states that no longer provide transit services along the Yamal and Brotherhood routes. It also increases Gazprom's market dominance, and further reduces supply alternatives,

for Central and Eastern Europe. This significant loss of supply security will further weaken and isolate the states in these regions, all NATO members and partners of the U.S.

The development of Nord Stream 2 also raises two important security concerns for the U.S. that Messrs. Gabriel and Kern overlook.

First, the U.S. has a clear foreign-policy interest here: the survival of Ukraine as an independent, sovereign state. Nord Stream 2, a wholly owned subsidiary of state-owned Gazprom, would remove Kiev as a transit route. This would strip Ukraine of \$2 billion in transit fees,

reduce its importance to the rest of Europe and restore Russian gas leverage across the Continent.

Second, with the completion of Nord Stream 2, the two Nord Stream pipelines would together supply 25% of total European Union gas consumption and make up 70% of the EU's gas imports. Russia is in effect proposing, with Germany's support, to place 70% of the EU's non-European gas imports in a 2-kilometer channel in one of the world's shallowest seas. This would create a choke point in the Baltic Sea analogous to the Middle East's Strait of Hormuz.

Aside from the prospect of a shipping or munitions accident—the pipelines run through two World War II munitions dumps—there is a clear security threat in putting so much energy resource in one vulnerable spot. It would be an open invitation to terrorists to undertake a spectacular act of energy sabotage.

Assuming that Messrs. Gabriel and Kern don't intend to call on the Russian navy and marines to protect the pipelines, a substantial part of that responsibility would therefore likely fall upon the U.S. Navy and Marines Corp. In such circumstances, it isn't unreasonable for U.S. Congress, which would have to foot the bill, to have a view on whether they should proceed.

*Mr. Riley is a senior fellow at the Institute for Statecraft. He has also advised energy companies in Poland and Ukraine.*

## Europe's Next Crisis: The Balkans

By Walter Russell Mead

**A**t a recent closed think-tank meeting, a well-informed German official was asked what problem in Europe caused him the most worry. His answer came without hesitation: the Western Balkans, where a new crisis is brewing as Turkey and Russia stir the pot.

In his worst-case scenario, Russia and Turkey would encourage their proxies in the Balkans, Serbia and Albania, to help them redraw the region's borders. The Serbian government, with Russian support, could annex large portions of Bosnia populated by ethnic Serbs. Turkish support could help Albania pull off a similar maneuver, not only in heavily Albanian Kosovo but also in Macedonia, where much of the large Albanian minority would like to reunite with the motherland.

This course of events is unlikely. Since some of the territory claimed by Greater Albania partisans is in Serbia, it would be difficult for the two countries to agree on a new map. But it isn't an impossible outcome,

even if the idea more likely would inspire a James Bond villain than a foreign minister. And increasing numbers of wannabe Bond villains seem to be popping up in world politics these days.

There is a grave reality underlying the German's concerns. The Balkans are unraveling, and the West now must worry about more than Russian meddling. Turkey is becoming more of a NINO (NATO in Name Only) power, and despite deep Turkish suspicions of Russia, President Recep Tayyip Erdogan is cooperating more closely with President Vladimir Putin.

Turkey and Russia have been brought together by their opposition to Germany and the European Union. Russians don't just hate NATO; they see the EU as a barrier against Russia's historical great-power role in European affairs.

Turkey has also turned against the EU and is looking for leverage against Germany and its fellow members. For Russia and Turkey, the ability to cause Europe trouble in the Balkans with relatively little risk and cost is too good to pass up.

The prospect of EU membership for countries like Bosnia, Kosovo, Macedonia, Montenegro and Serbia has done more than anything to keep the fragile peace in the Western Balkans. Every Balkan country would rather be part of the EU than be allied to either Russia or Turkey.

### Russia and Turkey stir up trouble, while the EU focuses on its own problems first.

But hopes of near-term EU membership are fading. Europe is losing Britain and has had a hard time managing relations with members like Hungary and Poland. The 28—soon to be 27—EU members have little desire to take in five obstreperous new Balkan states that would make the union even more ungovernable, and would expect financial aid at a time when the post-Brexit EU budget will already be stretched.

Albanians and Serbs are both signaling that if the West walks away, they'll have to look east, and that will mean shifting to a nationalist agenda with Russian and Turkish help.

For the EU, a new round of Balkan chaos would be a disaster: refugees, crime, radicalization among Balkan Muslims, greater opportunities for hostile powers to gain influence at EU expense. But the EU doesn't think it can manage the Balkans on its own. The U.S. will have to be part of the solution, Germans say.

Will the U.S. play ball? Engaging in distant Balkan quarrels to make Germany's life easier isn't exactly Donald Trump's idea of smart foreign policy. Even Bill Clinton struggled for two years to keep the U.S. out of the post-Yugoslav wars.

Mr. Trump may be even more skeptical of intervention and treat the possibility of a new round of Balkan wars with the chilly aloofness that Barack Obama displayed in Syria. This would be a mistake. Although the quarrels in the Balkans are trivial compared with larger problems elsewhere, what happens in the Balkans doesn't always

stay in the Balkans, and NATO as well as the EU could be shaken to the core by another round of Balkan bloodletting. The crisis has the potential to redefine U.S.-EU relations for decades.

Europeans argue that relatively small, short-term American investments—active diplomacy and building up U.S. forces in Kosovo—could go a long way. But we have a president who may not find that argument convincing.

Mr. Trump's core foreign-policy conviction seems to be that the U.S. has let its allies enjoy a decadeslong free ride. Europeans who worry about Balkan peace need to think about how they can persuade a skeptical White House to engage.

The old appeals—to NATO solidarity, defense of freedom, fear of Russia—may not be enough. Mr. Trump thinks in terms of deals, and Berlin needs to think about how to bring him to the table.

*Mr. Mead is a fellow at the Hudson Institute, a professor of foreign affairs at Bard College, and editor at large of the American Interest.*

## How O.J. Became Black America's Mr. Bad Example

By Jason Whitlock

**M**illions tuned in last week to see 70-year-old O.J. Simpson, inmate No. 1027820, ask a Nevada parole board to release him from prison. It was one more reminder of Mr. Simpson's outsize influence on American culture.

After serving nine years of a 33-year sentence for robbery and kidnapping, Mr. Simpson, with the parole board's blessing, will depart his cell in October for the comfort of a Florida condo. He'll still be dogged, however, by the 1994 double homicide for which a star-studded defense team won him acquittal.

Whether we like it or not, O.J. Simpson is an important figure in American history. His life and murder trial exacerbated race relations, helped polarize the media and established him as a reviled killer in mainstream popular culture—and a reviled martyr in black popular culture.

Before 1994, mainstream and black media alike celebrated Mr. Simpson as a shining example of the liberal ideals of integration and assimilation. But when he was accused of murdering his ex-wife and her friend, the media flipped the narra-

tive into one of black betrayal. His second marriage, to a young, white waitress; his refusal to address racial issues; and his abandonment of black social circles now explained how and why a black man was able to rise from poverty to football star to broadcaster and pitchman: Orenthal James Simpson sold out.

Over the course of two decades, Mr. Simpson's story became the most powerful African-American tale since Alex Haley chronicled the life of Malcolm X. The Simpson saga continues to grow in importance. Last month rapper Jay Z released the song and video "The Story of O.J.," warning blacks against trying to transcend race: "O.J. like, 'I'm not black, I'm O.J.' Okay."

Mr. Simpson has become a negative standard-bearer for black athletes, celebrities and media figures—a sort of abusive, alcoholic father who serves as the example to avoid. This influence is omnipresent but seldom acknowledged. No black public figure wants to be "The Story of O.J.," a contemporary equivalent of "Uncle Tom's Cabin."

That is why many black personalities have abandoned the racial mid-ground, compromise and even

logic in their discourse. Expressing a moderate position publicly will invite accusations of selling out. So we feel pressured into a strident, illogical posture, even though many of the most militant voices in the black media are more assimilated in

### After 1994 his success was attributed to race betrayal. Now no one wants to be Jay Z's 'Story of O.J.'

their private lives than their angry diatribes would have you believe. The gap between what we say privately and publicly about race has never been wider.

Advertising outrage at police misconduct is an old tactic to establish black credibility. Mr. Simpson benefited from this phenomenon when he teamed up with lawyer Johnnie Cochran during his murder trial. The famed rap group N.W.A has a library of records that dehumanize and mar-

ginalize black people. But the song everyone remembers is "F— the Police," its only one on that subject.

Today the ultimate disguise for Simpson-like assimilation is proclaiming support for the Black Lives Matter movement. The mixed-race NFL quarterback Colin Kaepernick struggled to connect with his black teammates until he took a knee during the national anthem to protest police brutality. That made him a black hero.

If you are a black athlete, celebrity or media personality living, socializing, working, studying or dating in the white community, the easiest way to stop Twitter trolls from spamming your social media with accusations of race betrayal is to celebrate BLM. If you're an educated, nerdy, proper-speaking black person who has been chastised for "acting white" by your black peers, supporting BLM salvages your black image. Call it the O.J. Effect.

Black men used to measure ourselves by how we compared to Martin Luther King Jr. He was the good dad we modeled our behavior after.

Now for two decades, we've learned from Mr. Simpson's negative example. We've tried to do the opposite of our bad dad. This has crippled black public figures when it comes to discussing race.

So has black guilt—an individual or collective feeling among successful black people who recognize we've harmed poor blacks by abandoning them. We soothe our consciences with hashtag activism and feigned disdain for a country we'd never dream of leaving.

Last week Mr. Simpson sounded like a man fit for a world he helped shape. During the parole hearing he relitigated his robbery trial, ignored his murder trial and pretended his serial domestic violence didn't impeach his claim of having lived a "conflict-free" life. He played the victim to an evil American criminal-justice system, and then smiled and laughed as if there's no place he'd rather be than in America.

*Mr. Whitlock is a co-host of "Speak for Yourself" on Fox Sports 1.*

## Notable & Quotable: Jared Kushner

From Jared Kushner's statement to congressional investigators, July 24:

With respect to my contacts with Russia or Russian representatives during the campaign, there were hardly any. The first that I can recall was at the Mayflower Hotel in Washington, D.C. in April 2016. This was when then candidate Trump was delivering a major foreign policy speech. . . . I stopped into the reception to thank the host of the event, Dimitri Simes. . . . He introduced me to several guests, among them four ambassadors, including Russian Ambassador Sergey Kislyak. . . .

Reuters news service has reported that I had two calls with Ambassador Kislyak at some time between April and November of 2016. While I participated in thousands of calls during this period, I do not re-

call any such calls with the Russian Ambassador. We have reviewed the phone records available to us and have not been able to identify any calls to any number we know to be associated with Ambassador Kislyak and I am highly skeptical these calls took place. . . . Through my lawyer, I have asked Reuters to provide the dates on which the calls supposedly occurred or the phone number at which I supposedly reached, or was reached by, Ambassador Kislyak. The journalist refused to provide any corroborating evidence that they occurred.

The only other Russian contact during the campaign is one I did not recall at all until I was reviewing documents and emails in response to congressional requests for information. In June 2016, my brother-in-law, Donald Trump Jr. asked if I was free to stop by a meeting on June

9. . . . That email was on top of a long back and forth that I did not read at the time. . . . Documents confirm my memory that this was calendared as "Meeting: Don Jr. Jared Kushner." No one else was mentioned.

I arrived at the meeting a little late. When I got there, the person who has since been identified as a Russian attorney was talking about the issue of a ban on U.S. adoptions of Russian children. I had no idea why that topic was being raised and quickly determined that my time was not well-spent at this meeting. Reviewing emails recently confirmed my memory that the meeting was a waste of our time and that, in looking for a polite way to leave and get back to my work, I actually emailed an assistant from the meeting after I had been there for ten or so minutes and wrote "Can u pls call me on my cell? Need excuse to get out of meeting."

## THE WALL STREET JOURNAL.

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Deputy Editor in Chief

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EDITORIAL AND CORPORATE HEADQUARTERS:

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

Telephone 1-800-DOWJONES

## LIFE & ARTS



MY RIDE | By A.J. Baime

# A Classic Lincoln's Italian Pilgrimage

*Jeff Lotman, 56, the Los Angeles-based CEO of Global Icons, a brand-licensing agency, on his 1954 Lincoln Capri, as told to A.J. Baime.*

The Mille Miglia started out in 1927 as an Italian race from Brescia to Rome and back—a thousand miles of flat-out speed. In 1957, a famous driver named Alfonso de Portago lost control of his Ferrari, and an accident left about a dozen people dead. The race was canceled. But in the late 1970s, organizers brought the Mille Miglia back as a controlled rally for vintage cars—vehicles that had competed in the

original race, or a period-correct make and model of one.

I read about this rally, and along with my old college roommate Brian Grozier—who has since passed away—we began to hunt for a car. I was not keen on spending hundreds of thousands—or even millions—on a vintage Ferrari, Maserati or **Alfa Romeo**, but I learned that there were a few American cars that competed in the original Mille Miglia. So I bought a 1954 Lincoln Capri seven years ago, for just over \$30,000. This was a car we could actually fit in. (Both Brian and I were over

6 feet.)

This past May, the Lincoln finished its fifth Mille Miglia. Compared to the other cars, it's ginormous, and one of the cheapest. The toolboxes of some of these vintage Ferraris cost more than my car. The Lincoln is also very comfortable. It has bucket seats, power windows, an automatic transmission and a big V-8 engine. At times, you're moving at 90 mph, and it's like driving a sofa.

The event itself is astonishing—four days motoring through Italy. In Siena, we took the car down centuries-old thoroughfares nor-



**Jeff Lotman**, above, stands with his 1954 Lincoln Capri, in Essex, England, in June. The car makes its way through Siena's main piazza on the Mille Miglia route in an undated photo, left. Below, its interior and a headlight.



mally closed to vehicles, with stone walls less than a thumb-width on either side of the car. In Rome, the rain came in sheets. In one village after another, you see old couples dressed to the nines sitting at tables with bottles of wine, watching these glamorous cars go by.

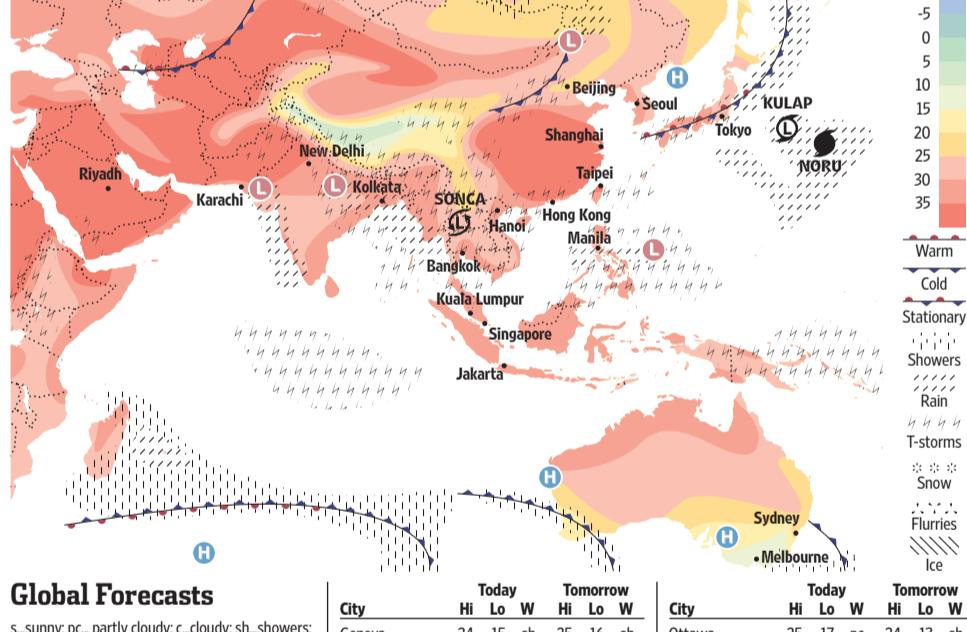
I have had plenty of mechanical problems through these rallies. Before my friend Brian passed away, he nicknamed the car Regan after the character in "The Exorcist," because clearly this vehicle is haunted.

But it has never failed to finish a rally, and I am already eyeing next year's drive.

Contact A.J. Baime at [Facebook.com/ajbaime](http://Facebook.com/ajbaime).



### Weather

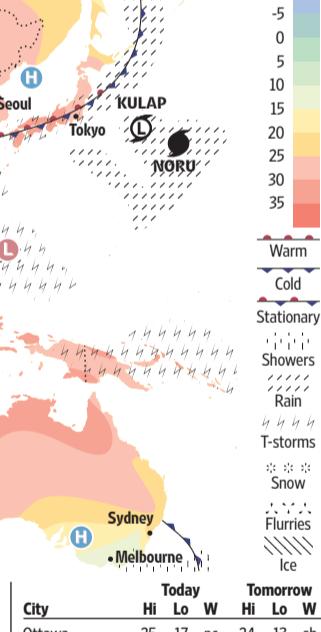


### Global Forecasts

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

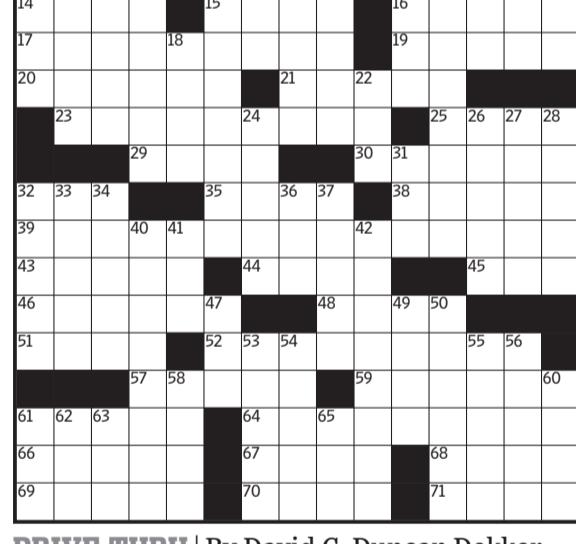
City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	22	15	pc	20	15	pc
Anchorage	17	12	sh	18	13	pc
Athens	34	24	s	31	22	pc
Atlanta	34	23	pc	33	24	t
Bahrain	45	29	s	47	31	s
Baltimore	27	19	pc	31	22	pc
Bangkok	31	26	t	31	26	t
Beijing	23	19	r	30	21	pc
Berlin	19	15	sh	23	16	c
Bogota	19	10	pc	19	10	pc
Boise	34	20	pc	35	18	sh
Boston	25	17	s	26	20	pc
Brussels	24	16	pc	21	13	pc
Buenos Aires	20	15	c	23	16	pc
Cairo	38	26	s	39	25	s
Calgary	29	13	s	31	15	s
Caracas	33	27	pc	33	27	pc
Charlotte	30	21	t	33	23	pc
Chicago	31	22	pc	26	18	t
Dallas	37	27	s	39	28	t
Denver	28	16	pc	28	16	t
Detroit	29	21	pc	26	18	t
Dubai	43	35	s	44	36	s
Dublin	19	10	r	17	12	sh
Edinburgh	18	10	r	16	11	sh
Frankfurt	23	15	sh	22	15	sh

### AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	24	15	sh	25	16	sh
Hanoi	31	26	t	32	26	pc
Havana	33	24	pc	32	23	pc
Hong Kong	33	27	t	33	27	sh
Honolulu	32	24	s	31	24	s
Istanbul	31	23	s	31	22	t
Jakarta	32	25	pc	32	24	pc
Johannesburg	20	3	s	18	5	s
Kansas City	34	22	pc	29	18	t
Kuala Lumpur	37	28	pc	39	29	pc
Manila	21	15	pc	21	15	s
Miami	30	13	sh	20	14	pc
Madrid	34	20	s	37	21	s
Manila	29	27	t	29	26	r
Melbourne	14	5	r	14	8	c
Mexico City	23	13	pc	24	12	pc
Minneapolis	33	27	t	34	27	pc
Montreal	26	18	pc	23	15	sh
Moscow	26	17	t	29	18	t
Mumbai	31	27	r	30	26	sh
Nashville	34	24	s	34	24	pc
New Delhi	33	28	pc	34	27	t
New Orleans	33	25	pc	34	25	t
New York City	25	20	p	26	22	t
Zurich	20	12	sh	22	14	s

### The WSJ Daily Crossword | Edited by Mike Shenk



### DRIVE-THRU | By David C. Duncan Dekker

Across	Down
1 Crowning point	32 Wild guesses
5 Fed	33 Onetime colleague of Randy and Simon
9 Hiccup cure, supposedly	34 LeBron's birthplace
14 It might generate some interest	36 Not straight
15 Pretentious	37 Bergen's Mortimer
16 Bookstore section	40 Filling stations?
17 Drive-thru	41 Space bar neighbor
18 Getup	42 Stressful endeavors
19 Agile aquatic animal	43 Pump, e.g.
20 Tools for duels	44 They were driven to work
21 Grassy tracts	45 Bygone hoops grp.
22 Psychic power, briefly	46 Zip it!"
23 Hearing-based	47 Feel bad about
24 Kitchen add-on?	48 Remorseful person, at times
25 March time?	49 Senator in space, in 1985
26 Relaxed	50 Inscrutable sort
27 Totalled	51 "Be that as ___."
28 Remorseful person, at times	52 They go with the flow
29 Zip it!"	53 "I smell ___!"
30 They go with the flow	54 Extremely low turnout
31 Singer Grande	55 Icicle bearers
32 Relaxed	56 Complications
33 Totalled	58 Initial cost
34 "Your Body Is a Wonderland" singer John	61 They're high among highbrows
35 Joule fractions	62 Feel bad about
36 Relocation aid, and a description of its progress through this puzzle	63 Ace's objective
37 Classic cinema	64 Through
38 Remorseful person, at times	65 Previous Puzzle's Solution
39 Walk all over	STEFFI LIPSI SIP AENEAS OWAR PAR BALLYHOOGING IMO EMIL NILE ALLS RUSES BELLYFLOP ESTRADA OLIVE DAS TOIL SLATER BILLYGOAT LOWEST ELON SAD AXELF ANDANTE BOLLYWOOD AMAHL ANDS RILL EPEE MII BULLY PULPIT BAN ONE GRIESE ANG OGRE ALARMS
40 Getup	
41 Tools for duels	
42 Stressful endeavors	
43 Hearing-based	
44 Kitchen add-on?	
45 Remorseful person, at times	
46 Zip it!"	
47 Feel bad about	
48 Remorseful person, at times	
49 Senator in space, in 1985	
50 Inscrutable sort	
51 "Be that as ___."	
52 They go with the flow	
53 "I smell ___!"	
54 Extremely low turnout	
55 Icicle bearers	
56 Complications	
58 Initial cost	
61 They're high among highbrows	
62 Feel bad about	
63 Ace's objective	
64 Through	
65 Previous Puzzle's Solution	

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

Previous Puzzle's Solution

STEFFI LIPSI SIP  
AENEAS OWAR PAR  
BALLYHOOGING IMO  
EMIL NILE ALLS  
RUSES BELLYFLOP  
ESTRADA OLIVE  
DAS TOIL SLATER  
BILLYGOAT  
LOWEST ELON SAD  
AXELF ANDANTE  
BOLLYWOOD AMAHL  
ANDS RILL EPEE  
MII BULLY PULPIT  
BAN ONE GRIESE  
ANG OGRE ALARMS

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, July 26, 2017 | B1

**Yen vs. Dollar** 111.6440 ▲ 0.49%

**Hang Seng** 26852.05 ▲ 0.02%

**Gold** 1250.80 ▼ 0.25%

**WTI crude** 47.73 ▲ 3.00%

**10-Year JGB yield** 0.070%

**10-Year Treasury yield** 2.317%

## Michael Kors Snare Jimmy Choo

Handbag maker to pay nearly \$1.2 billion to get bigger piece of luxury shoe market

By SAABIRA CHAUDHURI

LONDON—Michael Kors has turned to shoe shopping to regain its stride.

On Tuesday, the luxury handbag maker said it has agreed to acquire luxury shoe maker **Jimmy Choo** PLC for £896 million (\$1.17 billion) in its first-ever acquisition, as it seeks new avenues for growth amid a slowdown in the handbag business.

Buying Jimmy Choo gives **Michael Kors Holdings** Ltd. a bigger presence in the fast-growing luxury shoe market while also upping its exposure to Asia and Europe. Chief Executive John Idol in an inter-

view said the acquisition will be the first of many, with the company planning to use its arsenal of cash to make more deals of a similar size for ready-to-wear clothing, shoes and accessories.

"We're not going to do small acquisitions," he said. "We are creating a global fashion luxury group and we have a platform in place to be able to do that."

Jimmy Choo didn't issue a statement, but a spokeswoman confirmed the deal.

Tuesday's announcement comes as handbags, once the main driver of growth in the luxury-goods industry, have been losing steam, particularly in the U.S.

Fierce price competition, including heavy discounting, have pressured profits of handbag sellers and encouraged women to trade down to smaller, less expensive purses.



The Jimmy Choo deal marks Kors's first acquisition.

Sales growth for luxury handbags slowed to about 2% globally last year from as high as 19% in 2012, according to Exane BNP Paribas. The market for luxury shoes, however, has remained relatively buoyant. The category grew 9%

over the past decade, compared with growth of 5% for the larger luxury sector, according to Exane.

High-end brands like Michael Kors have stalled after pushing distribution too hard and selling through discount channels, said Luca Solca, Exane BNP Paribas's head of luxury research.

The luxury industry's biggest players—Louis Vuitton Moët Hennessy LVMH, Hermès and Kering, owner of Gucci—have reinvigorated their brands with a focus on sharper designs that generate buzz on the runway and beyond. European luxury houses also tightly control their brand images by selling through their own stores.

In the U.S., Michael Kors and rival **Coach** Inc. have historically been more reliant on department stores than often Please see KORS page B2

## SoftBank Seeks A Stake In Uber

SoftBank Group Corp. is pushing to take a commanding stake in the ride-hailing market, angling for a piece of **Uber Technologies** Inc. after spreading its bets across a trio of Asian startups.

By Greg Bensinger,  
Joann S. Lublin  
and Liza Lin

The Japanese tech giant has approached Uber about taking a multibillion-dollar stake in the San Francisco company, people familiar with the matter said, an offer that would muddy an already confusing mix of alliances and competitors in the global ride-hailing business.

SoftBank is a big investor in the three largest Asian ride-hailing companies: Singapore's **GrabTaxi Holdings** Pte., India's Ola and China's **Didi Chuxing Technology** Co. On Monday, SoftBank confirmed it and Didi would lead a \$2.5 billion fundraising round in Grab, giving the startup more ammunition in its battle against Uber across Southeast Asia.

SoftBank's talks with Uber are described as preliminary and one-sided, and any deal would likely be on hold until Uber hires a new chief executive, which isn't expected for weeks, the people familiar with the matter said.

An Uber spokesman declined to comment. SoftBank didn't immediately respond to a request for comment.

While it is rare for SoftBank to hedge its investments, an offer could mean it hopes Uber combines its operations with Grab and Ola, as it did last year with Didi.

Such a merger would give SoftBank a formidable share of the Asian market. Uber, which is struggling with management challenges at home and strong competition from rivals overseas, has shown a willingness to retreat from costly battles around the world.

Earlier this month, it said it plans to combine its operations with Russian rival Yandex.Taxi, owned by Yandex NV.

Uber co-founder Travis Kalanick relinquished his role as chief executive last month, although he remains a director. SoftBank and Didi will pour as much as \$2 billion into Grab, which operates private-car, taxi, motorcycle and carpool bookings across seven countries in Asia.

The deal would value Grab at more than \$6 billion, making it the region's most-valuable startup, according to a person familiar with the situation. Southeast Asia's ride-hailing market could grow to \$13.1 billion by 2025—according to a report last year by Alphabet Inc.'s Google and Temasek Holdings.

Newley Purnell  
and Mayumi Negishi  
contributed to this article.



Fiat Chrysler has moved North American manufacturing of the Jeep Compass sport-utility vehicle to Mexico from the U.S.

## More U.S. Cars Are Made in Mexico

By MIKE COLIAS  
AND CHESTER DAWSON

The "Made in Mexico" label has become more plentiful on American car lots this year, even as auto makers pressured by President Donald Trump began the year with promises to create more jobs in the U.S.

A move by auto makers to produce some popular sport-utility models in Mexican factories helped spur a 16% increase in production of light vehicles in Mexico during the first six months of the year compared with the same period in 2016. At the same time, tepid sales of sedans held down production in the U.S. and Canada, according to new data posted by Wards-Auto.com.

The data indicates one in five cars built in the North American Free Trade Agreement zone comes from Mexico, including hot new products from **General Motors** Co. and **Fiat Chrysler Automobiles** NV. That is up from the industry's reliance on Mexico during the financial crisis, when the U.S. car business received billions of dollars in bailouts aimed at preserving jobs and keeping domestic competitors afloat.

Mr. Trump launched several attacks on Mexican car imports throughout his campaign and after his election, saying more auto-factory jobs should remain in the U.S. Since then, auto makers have committed to several initiatives, including a move by **Ford Motor** Co. to

scrap an assembly plant being built in Mexico and invest some of the money saved in a Michigan factory that will add jobs. GM and Fiat Chrysler have said they intend to invest billions of dollars to add jobs in factories in coming years, citing favorable policies related to tax reform and other issues as reason for optimism.

The Trump administration in August will start new discussions with Canada and Mexico on an overhaul to Nafta. The vehicle-manufacturing business—including a sprawling supply base—is a central negotiation point.

The latest data from Wards-Auto shows that U.S. light-vehicle manufacturing fell 5% during the first six months of this year from a year earlier,

as auto makers shed workers or scheduled significant downtime to counter a slowdown in demand for sedans. A substantial chunk of America's automotive footprint is devoted to production of family cars or compact cars, which aren't faring well as gasoline prices remain low and sport-utility vehicles grow in popularity.

Separate U.S. trade data shows that the value of light-vehicle imports from Mexico to the U.S. ballooned 40% through May.

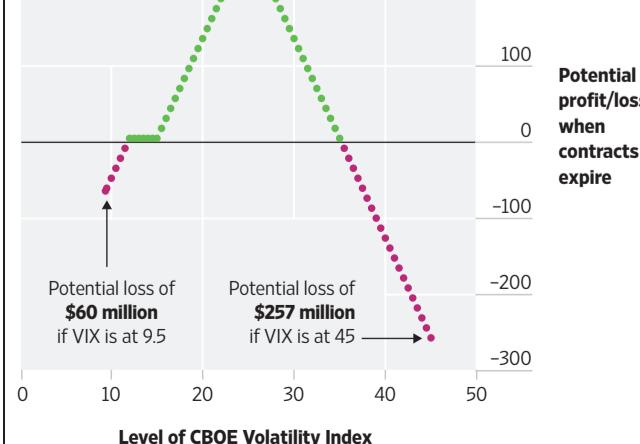
United Auto Workers President Dennis Williams told reporters last week that the

Please see CARS page B2

◆ General Motors' second-quarter profit tumbles ..... B3

### Rolling the Dice

An options bet by an unknown investor on Friday could deliver massive profits or losses when the contracts expire in October, depending on the change in the CBOE Volatility Index.



Source: calculations from Dunn Capital Management

## Investor, Showing No Fear, Bets Big on Volatility Index

By GUNJAN BANERJI

One investor has bet on a powerful resurgence in market turbulence—a wager that could net a profit of about \$265 million if Wall Street's fear gauge more than doubles in the next three months.

An unknown investor made a huge trade via the options market Friday, as the CBOE Volatility Index, the fear gauge that tracks investors' expectations for equity volatility, fell to its lowest since December 1993.

About one million options contracts changed hands on a bet that the CBOE volatility gauge, called the VIX, will rise to 25 by October. That is a level the VIX hasn't reached since June 2016, when the U.K.

surprised global markets by voting to exit from the European Union. The VIX finished at 9.43 on Monday.

If he or she is correct, the investor could see a payout of roughly \$265 million, according to Stefan Wintner, vice president who covers volatility strategies at the commodity-trading adviser Dunn Capital Management, which is based in Stuart, Fla.

In the three-legged trade, the investor bought about 260,000 calls, or bullish options, that expire in October with a strike price of 15, according to Trade Alert. The strike is the level at which the contracts can be exercised.

The investor also sold roughly the same number of

October puts, or bearish contracts, with a strike price of 12. On top of those two trades, the investor sold more than 500,000 calls expiring in October with a strike price of 25.

He or she collected about \$5 million on the contracts that were sold, according to a Trade Alert note. The calls with a strike price of 15 were bought at \$1.45 each. The investor collected premiums on the puts and calls that were sold for 75 cents and 45 cents, respectively.

Should the prolonged calm that has dominated markets continue—and the VIX stay at its recent lows—the investor could get burned and lose about \$60 million, according to Mr. Wintner, since he or she is es-

Please see TRADE page B2

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## KORS

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deeply discount their products, leaving shoppers reluctant to pay full price.

Michael Kors reported a \$26.8 million loss for the quarter ended April 1 and has embarked on a turnaround program. In May the company said it would close 100 to 125 of its full-price retail stores and renovate existing shops.

The company has reined in the amount of products it sends to department stores, raised prices and set out to get more creative with its designs.

Pressure on Michael Kors to seek out new growth intensified after Coach in May agreed to buy Kate Spade & Co. for \$2.4 billion, in a bid to tap its colorful styles to woo younger

nity for luxury growth in Europe and Asia."

Jimmy Choo was put on the block in April by European investment fund **JAB Holding Co.**, which is looking to focus on its restaurant and coffee holdings such as Krispy Kreme and Peet's Coffee & Tea.

The London-based shoe brand—whose image was tarnished by fans like Princess Diana and appearances in hit TV show "Sex and the City"—commands high prices, selling pumps and boots for as much as \$4,250 a pair. The brand has performed strongly in markets such as the U.K., China and Japan but in the U.S., like Michael Kors, has grappled with discounting.

Upscale women's shoes remain Jimmy Choo's core business, but it has been branching out into men's shoes in search of growth. Last year it reported a 15% rise in sales to £364 million (\$475 million) and a 43% rise in operating profit to £42.5 million (\$55.5 million). The company has about 150 directly operated stores, leaving what analysts have described as a long runway for brick-and-mortar expansion.

Mr. Idol said he sees an opportunity to increase Jimmy Choo sales to \$1 billion by opening new retail stores for the shoemaker and developing its online presence. Michael Kors also plans to expand Jimmy Choo's offerings beyond shoes.

The company won't sell Jimmy Choo products through its own network of 614 full-price stores, leaving the shoe brand to operate as an independent entity. Jimmy Choo will continue to be run by current Chief Executive Pierre Denis, a former LVMH executive who has led the shoe company since 2012.

—Suzanne Kapner contributed to this article.

consumers. Coach in 2015 made its own luxury-shoemaker acquisition, buying upscale brand Stuart Weitzman in a deal valued at up to \$574 million.

Buying Jimmy Choo reduces Michael Kors's reliance on the Americas to 66% of sales from 70% and its dependence on accessories—mainly handbags and small leather goods—likewise to 66% from 70%, according to the company.

"This gives us diversification both from a product standpoint and from a geographic standpoint," said Mr. Idol. "We love America but we think there is a great opportu-

nity for luxury growth in Europe and Asia."

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## BUSINESS NEWS

# McDonald's Sales Pick Up as Chain Tweaks Its Menu

By JULIE JARGON

**McDonald's** Corp. said Tuesday that its \$1 dollar drinks promotion and a new line of burgers helped reverse a sales slump in its U.S. business.

The hamburger chain, which also beat analysts' expectations on earnings, has been introducing new menu items priced with its core budget-conscious customers in mind and adding more conveniences like self-order kiosks and food delivery. It has also been remodeling many of its restaurants.

The chain reported stronger-than-expected domestic same-store sales growth in the second quarter, contributing to its strongest growth in global same-store sales and traffic in more than five years.

New items reflect a renewed focus on the company's core customers.

Revenue fell for the quarter, however, as McDonald's sold more of its restaurants to franchisees and is no longer collecting the full amount of revenue from them, the company said.

Investors cheered the results, sending McDonald's shares up more than 4% in midday trading.

McDonald's recently found that most of the consumers it lost in recent years had defected to rival fast-food chains serving cheaper fare rather than the higher-priced fast casual restaurants it had been trying to emulate with healthier items such as salads and snack wraps.

Now, the company is focusing on the fast-food customer by improving its core menu items, including its hamburgers. McDonald's recently said it would begin using fresh, rather than frozen, beef in its quarter-pound burgers. It is also rolling out a line of semi-customizable burgers topped with different ingredients, as opposed to the usual tomatoes and lettuce.

Those burgers, while more expensive than its Big Macs, are a lot cheaper than the ones sold by such "better burger" restaurants as Five Guys.

The company has tightened its focus lately on operations, with plans to encourage underperforming franchisees to sell their restaurants, resulting in fewer, better operators. RBC Capital Markets, which expects more than 1,000 McDonald's in the U.S. to change hands, says the move could prove to be a "powerful sales driver."

McDonald's also agreed to put up 55% of the cost of certain restaurant upgrades if franchisees agreed to fund an advertising campaign for a national value menu.

The majority of its U.S. franchisees approved the advertising funding and will be renovating their restaurants to include new dessert counters and self-order kiosks.

McDonald's reported second-quarter profit of \$1.4 billion, or \$1.70 a share, up from \$1.09 billion, or \$1.25 a share, a year earlier. Analysts were expecting earnings per share of \$1.62.

Revenue for the quarter totaled \$6.05 billion, down from \$6.27 billion last year, but above the \$5.96 billion analysts expected.

Same-store sales rose 6.6% globally and 3.9% in the U.S., beating expectations of 3.7% and 2.9%, respectively.



A General Motors' assembly plant in Orion Township, Mich. The U.S. auto maker posted a sharp decline in its second-quarter profit.

## Global Pullback Dents GM

By MIKE COLIAS

**General Motors** Co.'s second-quarter profit fell 42% on costs related to its pullback from Europe and other overseas markets, as the largest U.S. auto maker bets on continued strength in its home market.

GM on Tuesday reported net income of \$1.7 billion, down from \$2.9 billion a year earlier, after booking about \$1.3 billion in one-time losses related partly to its planned exit from India and the discontinued operations of its European unit.

Its operating profit of \$1.89 a share breezed past Wall Street expectations of \$1.69 a share. The figure excludes results from GM's Opel business in Europe, which is slated to be sold to French car maker Peugeot by year-end.

Midday Tuesday, GM shares

were trading at \$36.09, up less than 1%.

North America continues to contribute mightily to GM's bottom line as a growing proportion of its sales in the region come from higher-margin light trucks, including pickups, sport-utility vehicles and crossover wagons. Momentum in those segments helped offset deep production cuts at several U.S. passenger-car factories during the quarter amid souring demand for sedans across the industry.

The company's operating income dipped 4% from the year-earlier quarter to \$3.7 billion, hurt by production cuts of passenger cars in the U.S.

Revenue dipped 1.1% to \$37 billion, excluding Europe.

GM got a tailwind in the first six months of 2017 from cranking up production to build inventory ahead of scheduled down time for renova-

tions at many of its U.S. factories in the second half of the year. GM dealerships were sitting on about 980,000 vehicles at the end of June amounting to a 105-day supply, which is about a month more than normal.

GM finance chief Chuck Stevens told reporters Tuesday that GM will reduce inventories to normal levels by year-end as it works through the excess and continues to cut production. He also noted that the fall is a strong selling season for trucks, GM's most profitable product.

Still, some analysts warn that GM is susceptible to a pullback by U.S. car shoppers, who have propelled the auto industry to a remarkable seven-year string of sales growth.

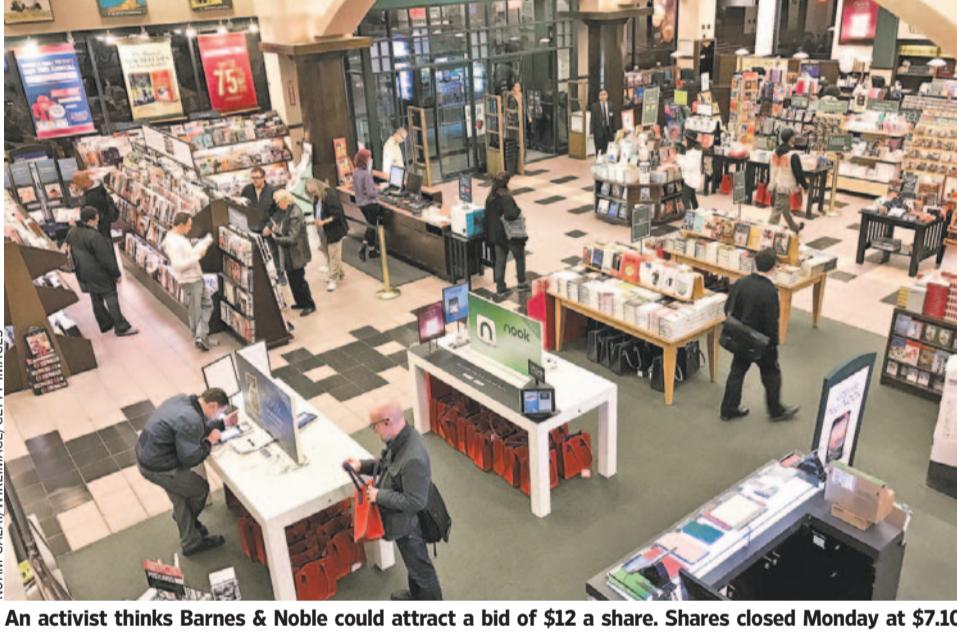
In a research note last week, Barclays Capital analyst Brian Johnson congratulated GM on

sticking by its 2017 profit forecast of \$6 to \$6.50 a share even amid mounting pressures and weaker-than-expected demand. But he warns that next year could get tougher as falling industry sales could squeeze profit margins.

"The risk of negative earnings revisions of '18 estimates could pressure GM," he wrote.

China, which is GM's No. 2 profit generator and top market by sales volume, continued to provide steady earnings of about \$500 million, even amid flattening consumer demand, as sales of pricier SUVs and GM's Cadillac luxury line padded profits.

South America has been a drag on GM's bottom line in recent quarters. Still, GM trimmed its losses to \$23 million, from \$118 million a year earlier, and said it expects further improvements through the rest of the year.



An activist thinks Barnes & Noble could attract a bid of \$12 a share. Shares closed Monday at \$7.10.

## Barnes & Noble Faces Call To Try Again to Sell Chain

By DAVID BENOIT  
AND JEFFREY A. TRACHTENBERG

An activist investor wants Barnes & Noble Inc. to try again to sell itself, arguing the bookseller needs an owner who can invest in its beleaguered operations.

**Sandell Asset Management** Corp. has recently started buying a stake in the New York bookstore chain and is already among its 10 biggest investors, according to people familiar with the matter.

Sandell believes the company could attract a bid of more than \$12 a share, compared with a closing price Monday of \$7.10, according to a letter reviewed by The Wall Street Journal that is to be released Tuesday.

Even though physical bookstores have declined in popularity in the U.S. in the internet age, Sandell reckons they aren't going away and that Barnes & Noble's status as the only national chain could attract a private-equity firm or another retailer.

Barnes & Noble declined to comment.

The company has explored several possible deals to sell

or break itself up over the years, including a buyout attempt by its chairman, Leon Riggio.

But none of the plans came to fruition and the stock has slumped 60% in the past two years, with the company's market value plunging to just above \$500 million.

Like many retailers, Barnes & Noble has struggled to compete with Amazon.com Inc. For the fiscal year ended in April, Barnes & Noble's revenue declined 6.5% to \$3.9 billion, while earnings rose to \$22 million. The bookseller, which has more than 600 stores, said it expects sales at stores open at least a year to show a percentage drop in the low single digits in fiscal 2018.

In June, Demos Parneros, the retailer's chief executive, said: "We're examining every aspect of the business and our customer value proposition." Mr. Parneros, who had spent nearly 30 years at office-supply retailer Staples Inc., joined Barnes & Noble in November 2016 and was named chief executive in April. He is the chain's fifth CEO in four years.

Sandell believes Barnes & Noble investors are overreact-

ing to the broader retail malaise, according to the letter. The activist says it takes solace in Amazon's planned purchase of Whole Foods Market Inc. as well as the recent proposed leveraged buyout of Staples, arguing those deals show there is still value in traditional retail.

Attempts to sell the retailer date back to at least 2010.

After the company announced a sale process that year, Mr. Riggio, then and now the largest shareholder, said he was considering forming an investor group to buy the business.

In May 2011, John Malone's Liberty Media Corp. offered \$1.02 billion. Ultimately, Liberty Media invested \$204 million and received two board seats. One of those directors remains in place.

Nearly two years later, Mr. Riggio said he was interested in buying Barnes & Noble's consumer bookstores. Later that year, he dropped those plans.

Since then, Barnes & Noble spun off its college-bookstore business, which now has a market value of more than \$330 million.

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## TECHNOLOGY

WSJ.com/Tech



The firm wants to make more smaller-size organic light-emitting diode display panels as more smartphones shift to the technology.

## LG Display Flips the Switch

Company will invest \$7 billion for OLED production, in move to take on Samsung

By EUN-YOUNG JEONG

SEOUL—LG Display Inc. said it would invest an additional 7.8 trillion won (\$7 billion) to churn out more smaller-size organic light-emitting-diode display panels used largely in premium smartphones, in a bid to challenge Samsung Display's dominance in the market.

Seoul-based LG Display has already said it would invest \$6.5 billion in OLED production at its two factories in South Korea.

The global OLED market is expected to reach \$25.2 billion this year, according to research firm IHS Markit, up 63% from last year.

Most of that growth is concentrated in smaller-size OLED panels, a sector dominated by Samsung Electronics Co.'s display-making affiliate, Samsung Display, which holds 97.1% market share by revenue.

While LG Display holds a monopoly in the market for large-size OLED panels used in televisions, the company has stuck to older liquid-crystal display technology for smaller devices such as smartphones.

The bulk of smartphones use LCD displays, but premium smartphones are switching to OLED, including Apple Inc.,

which will use OLED screens for its coming iPhone 8. That shift has pushed LG Display to jump into the fray for smaller-size OLEDs.

OLED displays are thinner and more flexible, allowing phone makers to sell devices that are curved and sleeker in appearance.

Advocates of the technology say OLED also offers better color contrast and energy efficiency.

LG Display said Tuesday that its new OLED investment would be divided between large- and smaller-size OLED displays at its factory in Paju, near South Korea's border with North Korea.

About two-thirds of the investment, or \$4.5 billion, will go into the production of

smaller-size OLEDs, while the remainder will be invested in large-size OLEDs.

In addition to its investment in its home country, LG Display said it would start producing large-size OLEDs at its facility in Guangzhou, China, a plant previously used solely to make LCDs for televisions. The company didn't confirm the size of its investment in Guangzhou.

Tuesday's announcement came after the company said it earned \$720.5 million in operating profit for the three months ended June 30, a 22% decline from the previous quarter.

The company earned \$5.9 billion in revenue for the same period, a 6.1% slip from the previous three months.

## Google Ads Add Clicks but Become Less Lucrative

By JACK NICAS

Google parent Alphabet Inc. said its advertising business continued to hum in the second quarter, but its fastest-growing segments—mobile and YouTube advertising—are less lucrative than desktop ads.

Alphabet said clicks on its ads surged 52% from a year earlier. But ads on smartphones and with YouTube videos generally earn less money per ad than search ads on traditional computers, the highly targeted ads that appear atop search results. As a result, Google said its revenue per click fell 23% in the quarter, the widest spread between the two metrics in at least six years.

The growth in the number of clicks helped boost second-quarter revenue 21% to \$26.01 billion over a year prior.

"The results are reflecting two basic trends: a continuing shift to mobile and an increasing amount of their revenue coming from YouTube," said Mark Mahaney, internet analyst at RBC Capital Markets. "The growth remains very impressive for a company this size."

That shift in its business has also pressured margins.

Alphabet's operating margin was 26.4% in the quarter, compared with 27.8% a year earlier, marking the first drop in eight quarters, said Brian Wieser, analyst at Pivotal Research Group. The shift to smartphones is increasing the fees Google pays to smartphone partners, such as Apple Inc., to be the default search engine on smartphones. Google's payments to partners, including phone makers and websites on which it places ads, increased 28% to \$5.09 billion in the quarter from a year earlier. YouTube's growth also drives up costs because Google must pay to license some videos on the site.

Such payments to partners will likely continue to increase given the shift to mobile, "but our focus remains on growing profit dollars," Alphabet Chief Financial Officer Ruth Porat said on a call with analysts. "We're just really pleased with the strength of our mobile business."

Alphabet's net profit fell by 28% to \$3.52 billion because of a \$2.74 billion fine from European regulators. EU regulators last month fined Google after their seven-year investigation concluded Google favors its shopping ads in its search results at the expense of competitors.

Google denies the charges and said it is considering an appeal.

Google, the world's biggest advertising company, dominates the digital-ad landscape with fellow tech giant Facebook Inc. The two firms captured about 77% of the \$12 billion increase in spending on online ads in the U.S. last year, according to eMarketer. Given Google's size, if it continues to earn less per ad click, it could depress online-ad prices across the internet.

As more people connect to the web on smartphones, they are using the internet more often and thus clicking on more ads Google sells on internet search results, websites and videos.

Ads also take up a larger

portion of smartphone screens, making it more likely that users will click.

On YouTube, Google often shows ads at the beginning of videos that companies buy using an automated auction system. That system of programmatic advertising caused a problem for Google earlier this year when a series of news stories in late March showed Google was running some brands' ads alongside videos with content that could be considered racist or hateful. That caused some major advertisers to pull their spending on YouTube ads.

As of last month, many major companies, including Wal-Mart Stores Inc., AT&T Inc., and J.P. Morgan Chase & Co., still hadn't resumed spending on YouTube ads. Others, including General Motors Co., Coca-Cola Co. and Lyft Inc., had returned to the site after Google improved technology to screen videos, among other moves.

There was little sign of an impact from those spending cuts in the second-quarter sales growth.

### Growing Divide

While ads on Google platforms generated more clicks, advertisers paid less for each click. Change from a year earlier:



Source: the company  
THE WALL STREET JOURNAL.

However, marketers have pressured Google to offer more guarantees that their ads only appear with acceptable content, likely squeezing margins, Mr. Wieser said. Google is likely showing more ads on reputable websites as a result, which charge more to host Google's ads than lesser-known sites, he said.

YouTube ads, specifically, are much cheaper for advertisers, said Mark Ballard, vice president of research at Merkle Inc., a digital-marketing firm. Merkle estimates that for just Google search ads, clicks increased about 23% in the quarter and revenue per click was up roughly 1%. "The shift to mobile is depressing [revenue-per-click] growth for Google, even in search, but by far the biggest factor of that decline is YouTube," Mr. Ballard said.

Google is pursuing growth outside of advertising, giving rise to a second major business beyond advertising: the cloud, in which Google stores other companies' data and runs their systems on its global network of computers.

Google has said it believes the business can one day eclipse its ad sales, which accounted for 88% of its \$90.27 billion in revenue last year.

The segment that includes Google's cloud sales, dubbed "other revenue," grew 42% in the quarter to \$3.09 billion.



Toyota electric cars on display in Toronto. The auto maker is shifting focus to such vehicles.

times posed by current lithium-ion batteries.

Toyota has been working on a number of new battery technologies for years, including solid-state lithium-ion batteries. In 2014, Toyota engineers gave a presentation at a conference in Italy highlighting

their plans to field solid-state lithium-ion batteries in 2025.

The company is one of many companies looking to build solid-state batteries, including Alphabet Inc.'s Google.

The announcement comes as Toyota shifts focus to build-

ing all-electric vehicles after years of asserting their inferiority to gas-electric hybrids and hydrogen fuel-cells.

The company is preparing an electric car for China, where regulations mandate car makers boost sales of battery-powered cars.

## Self-Driving Startup Gets Daimler Funding

By LIZA LIN

SHANGHAI—Mercedes-Benz parent Daimler AG is investing in a Chinese self-driving startup, in another instance of a Western auto maker seeking out a Chinese partner to get a foothold in a challenging market.

The Stuttgart, Germany-based automotive giant made its first-ever investment in a Chinese startup this week, taking part in a \$46 million funding round for Momenta, a Beijing-based firm providing road sensors and high-definition mapping software.

Other investors in Momenta include NIO, an electric-vehicle maker backed by Tencent Holdings that has pledged to sell fully autonomous cars in the U.S. in 2020.

Daimler declined to comment.

It joins peers such as Hyundai Motors Co. in aligning with Chinese firms as the race to develop an autonomous vehicle revs up.

Western auto makers face high hurdles entering China because the country considers the kind of mapping

China has made self-driving cars part of its national agenda, setting autonomous vehicle targets and creating sandboxes to test such technology, as Beijing makes a big push to dominate the world's artificial-intelligence industry by 2030.

In a plan unveiled by the State Council on July 20, China pledged to invest and groom technologies, from autonomous driving to computer vision, for use in sectors such as national security and manufacturing. By 2030, China forecasts its core AI industries will be worth 1 trillion

yuan (\$148 billion).

China differs from the U.S. in regulations, environment and domestic protection, and startups in the Asian nation are attractive to foreign investors, said Jackie Yang, a managing director at venture-capital firm TransLink Capital. "The local startups have either developed a technology and product that addresses the China market better or have a better price-performance equation," he said.

Venture capital is pouring into the sector. Beijing-based TuSimple, one of the three Chinese startups to receive an autonomous vehicle test permit from California in the last two months, also expects to announce in the next month that it has raised \$20 million from investors, according to people familiar with the company.

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China has made self-driving cars a part of its national agenda.

needed to make self-driving cars work a national-security issue and limits it to domestic companies.

Foreign software and car companies also could face difficulty gaining approval to conduct test drives in the country, The Wall Street Journal recently reported.

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Venture capital is pouring

## MANAGEMENT

# Telecommuting Gets Unplugged

Employers bring remote employees back to office to gain more control over work; return to cubicle culture can be 'terrifying'

By JOHN SIMONS

Big businesses have embraced flexible work practices, but fewer of them seem to favor full-time working from home.

**International Business Machines Corp., Aetna Inc., Bank of America Corp., Best Buy Co. and Reddit Inc.** are among employers that have ended or reduced remote-work arrangements recently as managers demand more collaboration, closer contact with customers—and more control over the workday.

Bringing workers back to the office isn't easy, managers say. Remote employees often set their own hours and ways of working, and bridle when faced with open-plan offices and set meeting schedules.

A large majority of U.S. employers let staffers telecommute sometimes, according to the Society for Human Resource Management.

Yet the portion of U.S. workers who performed all or some of their work at home fell to 22% last year, from 24% in 2015. Such workers spent an average of 3.1 hours a day toiling at home last year, down slightly from 2015, according to the Labor Department's American Time Use Survey.

Coming back to the office can be "honestly terrifying" for remote workers, says Andrew Marder, a research analyst with Capterra Inc., a business-software review site owned by Gartner Inc.

Mr. Marder telecommuted for about three years while blogging about investing for the Motley Fool financial website. He was also a full-time caregiver for his newborn during part of that time, and juggled writing



**IBM product-design director Joni Saylor, who helps integrate former telecommuters into the company's office culture in Austin, Texas.**

and parenting duties by working many evenings.

Moving to an office role at Capterra in 2014, Mr. Marder had to get used to the lack of privacy at work and an hour-plus commute to Arlington, Va. As a telecommuter, he was used to working at any hour to meet deadlines. Once in the office, he struggled with prioritizing tasks and managing his time during work hours, frequently missing deadlines in the first months on the job.

His manager, J.P. Medved, set weekly meetings to plan Mr. Marder's workflow, plotting deadlines. Mr. Medved says those changes improved Mr. Marder's ability to submit work on time.

Bosses acknowledge that remote workers don't suffer from productivity problems.

Research has found telecommuters who can work outside normal office hours and don't have to spend time commuting often are more productive than their cubicle-bound counterparts. Rather, managers want their teams within view and are willing to trade some efficiency for the serendipity that office-based conversations might yield.

Companies tend to clamp down on telework during periods of turmoil and reinvention, says Ken Matos, vice president of research at Life Meets Work, a workplace consultancy.

As a finance vice president at Tetra Pak International SA, George Benaroya observed waves of colleagues return to company workspaces when new leaders

would take over divisions and rein in remote work.

Office comebacks were often a letdown, recalls Mr. Benaroya, who left the company in 2012. Workers accustomed to personal space and sole use of their equipment at home had to adjust to cramped spaces and jammed printer queues.

The formerly remote employees' egos were bruised, too: The top managers who made special time for them during office visits paid less attention once those workers were a regular presence, he says. Managers spent extra time hand-holding former home workers, leaving less time for other duties.

"You lose efficiency," Mr. Benaroya says.

Tetra Pak spokeswoman Carol Yang says the issues

that Mr. Benaroya describes don't reflect the company's current situation.

This spring IBM, long a promoter of remote work, offered thousands of work-from-home employees a choice to follow their position back to an office or apply for a new role. Those who chose to do neither could leave the company.

Marketing manager Dave Wilson spent a decade working from home in Nashua, N.H. With two young children home during work hours, distractions abounded and Mr. Wilson says he felt isolated from colleagues.

So when his job was relocated to Raleigh, N.C., he took a position marketing artificial-intelligence products at IBM's Littleton, Mass., campus.

He relishes the verbal sparring of the office. During a recent meeting to critique IBM's e-commerce offerings, participants got in each other's faces to make their points—when he attended meetings via conference call, people would disengage unless they were leading the conversation, he recalls.

IBM's leaders want to provoke those creative tensions, and have spent \$750 million to redevelop its workplaces around a new system of teamwork; the company has also trained 160,000 employees on working more nimbly.

As former telecommuters arrive at IBM's Austin, Texas, location, Joni Saylor will help to integrate them into office culture. Ms. Saylor, a product-design director who worked remotely for IBM until 2013, says telecommuters sometimes struggle to adjust to working in teams after operating on their own.

Best Buy's work-from-home programs gave 5,000 headquarters employees free rein to choose where they worked, a perk that complicated tasks such as scheduling meetings, says Best Buy spokesman Jeff Shelman. "There was no control," he says. "Managers didn't have the tools to do their jobs."

The company ended the policy in 2013. Workers now arrange time out of the office with their managers.

The four years since the telework rollback have coincided with Best Buy's resurgence. Net income has more than doubled in the period and shares have climbed more than 200%, though the company is reluctant to draw a connection between those results and the end of remote work.

## BUSINESS WATCH

WABCO

### Company Held Talks With Germany's ZF

German auto-parts maker **ZF Friedrichshafen AG** recently held advanced takeover discussions with **Wabco Holdings Inc.** before the talks fell apart amid resistance from ZF's board.

Wabco, currently valued at roughly \$7.5 billion, disclosed when it reported second-quarter earnings last week that it had received a takeover offer from an unnamed party; according to people familiar with the matter, ZF is the mystery bidder.

Wabco said in a securities filing that its operating margin during the period was hurt by "extraordinary professional fees" related to the bid. The filing goes on to say that the two sides "engaged in advanced discussions" but that after due diligence the talks were terminated when the buyer's board balked.

It isn't clear whether ZF could return with another bid, and according to people familiar with the matter it is possible Wabco could draw another suitor.

Wabco is a big supplier of

technology and services to improve safety, efficiency and connectivity of commercial vehicles, according to its website.

—Dana Cimilluca and Dana Mattioli

TELECOM ITALIA

### Cattaneo Resigns As Chief Executive

**Telecom Italia SpA** said Monday that Chief Executive Flavio Cattaneo had resigned, amid mounting tensions with shareholder **Vivendi SA**.

Mr. Cattaneo, the second CEO to leave the company in little over a year, walks away with a payout of €25 million (\$29.1 million). Telecom Italia said that Mr. Cattaneo's exit would take effect July 28.

—Nick Kostov and Eric Sylvers

VOLKSWAGEN

### Former Executive Plans to Plead Guilty

A former **Volkswagen AG** compliance executive agreed to plead guilty in the U.S. to crimi-

nal charges stemming from his alleged role in the German auto maker's yearslong emissions-cheating deception, a court spokesman said.

Oliver Schmidt, a German citizen who for several years led Volkswagen's environment and engineering office in Auburn Hills, Mich., faces charges that he conspired to defraud U.S. officials and customers with diesel-powered vehicles featuring illegal software that duped government emissions tests.

Prosecutors and lawyers in the criminal case told a federal judge on Tuesday morning that Mr. Schmidt has agreed to plead guilty, a spokesman for the U.S. District Court in Detroit said.

Mr. Schmidt is scheduled to be sentenced on Aug. 4, the spokesman said. Mr. Schmidt had been awaiting trial while behind bars in Michigan.

A lawyer for Mr. Schmidt declined to comment.

A spokeswoman for Volkswagen said the auto maker continues to cooperate with U.S. Justice Department probes of individuals, and declined to comment further.

—Mike Spector

## Sony Pictures Shuffles TV Unit

By JOE FLINT

**Sony Pictures Entertainment** has restructuring its television production unit in the wake of two top executives departing last month to oversee **Apple Inc.'s** push into creating original content.

Jeff Frost, who had led business affairs for Sony Pictures Television Studios, has been tapped as president. Creative executives Chris Parnell and Jason Clodfelter have been named co-presidents reporting to Mr. Frost, who in turn reports to Tony Vinciguerra, chairman and chief executive of Sony Pictures Entertainment.

The trio will comprise a newly created "Office of the President" in charge of overseeing U.S. programming and production for parent **Sony Corp.** All are veteran Sony executives. Mr. Frost has been with the studio since 2008, while Messrs. Parnell and Clodfelter each have been with Sony for more than a decade.

Despite not owning a broadcast network or major



**Sony Pictures Entertainment** shows include 'Wheel of Fortune.'

cable or streaming service, Sony Pictures Television Studios is one of the industry's most prolific producers of content. Shows it produces or coproduces include **Netflix's** "The Crown," **NBC's** "The Blacklist," the **CBS** comedy "Kevin Can Wait" and **AMC's** "Better Call Saul."

The success of the TV unit has been crucial for Sony as its movie studio has struggled recently.

Sony also produces the long-running game shows "Wheel of Fortune" and "Jeopardy," as well as the soap operas "The Young and the Restless" and "Days of Our Lives."

The realignment comes after the departures of Jamie Erlicht and Zack Van Amburg, who had overseen Sony's television production business for more than decade, to Apple as co-heads of video programming world-wide.

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## FINANCE & MARKETS

# Strong Earnings Give U.S. Stocks a Boost

Gains in Caterpillar, McDonald's lift Dow; big banks and miners advance in Australia

By RIVA GOLD AND AKANE OTANI

The Dow Jones Industrial Average climbed Tuesday, bolstered by a flurry of upbeat corporate earnings.

The blue-chip index added 123 points, or 0.6%, to 21637 around midday, on track to

**TUESDAY'S MARKETS** snap three consecutive sessions of declines. The S&P 500 rose 0.4%, and the Nasdaq Composite added less than 0.1%.

Earnings reports are expected to drive much of the trading action this week, analysts say, with roughly 40% of S&P 500 firms scheduled to report quarterly results through Friday. Solid earnings should help major indexes keep climbing, although some investors say they worry stock

gains will slow in the later months of the year.

A rally in Caterpillar and McDonald's lifted the Dow industrials. Shares of Caterpillar gained 5.1% after the equipment giant raised its revenue and profit outlook for the year, while McDonald's shares rose 3.8% after the fast-food chain's earnings topped analysts' expectations.

Stock indexes also got a boost from energy shares, which jumped 1.9% in the S&P 500 around midday, buoyed by a climb in oil prices. Energy stocks, the worst-performing sector in the S&P 500 this year, have come under pressure as oil prices have slid.

U.S. crude rose 3% to \$47.73 a barrel by midday Tuesday, extending gains from Monday, when Saudi Arabia—the world's top oil exporter—said it would limit oil exports in August.

In Asia, Australia's S&P/ASX 200 added 0.7%, outperforming stock markets in the region. Major banks and mining companies advanced, while



McDonald's shares gained after the fast-food chain's earnings topped expectations. A Shanghai store.

to boost lending income.

Government bonds fell as the Federal Reserve was set to begin its two-day policy meeting Tuesday. The yield on the 10-year U.S. Treasury note rose to 2.31% by midday, according to Tradeweb, from 2.25% on Monday. Yields rise as bond prices fall.

Economists expect no change in interest rates at this juncture, though some have speculated the central bank could announce the start date of its balance-sheet runoff.

"I think there's a relatively low ceiling on where [policy] can go unless inflation kicks in," said John Maxwell, fund manager at Ivy Investments. "We don't have signs of inflation that need to be tamed."

The CBOE Volatility Index, which measures investors' expectations for swings in the S&P 500 over the next 30 days, extended losses Tuesday. The VIX was down 2.1% at 9.23 around midday, on track to close under 10 for its ninth consecutive session—it's longest such streak ever.

## Default Fears Hit Venezuela Bonds

By CAROLYN CUI

Venezuelan bond prices tumbled to their lowest levels of the year as default fears grew following U.S. President Donald Trump's threat to impose sanctions on the country.

State-owned oil producer **Petróleos de Venezuela** SA's bonds due in November fell 2.9% late in New York trading Monday, leaving them down 7.6% over six sessions and at their lowest levels since December, according to Thomson Reuters data. The government's bonds due in 2038 were down 10% during the period after falling 4.3% Monday. By midday Tuesday, the PdVSA bonds were up 0.5% and the 2038 government bonds were up 1.7%.

A selloff in the country's debt has accelerated since Mr. Trump's statement a week ago, which followed a referendum by millions of Venezuelans that rejected President Nicolás

Maduro's plan to rewrite the country's constitution. Mr. Trump called Mr. Maduro "a bad leader," and said that the U.S. "will take strong and swift economic actions" unless Mr. Maduro abandons plans to pick a new constituent assembly on July 30, which could bypass the current congress under the opposition's control.

The statement has fueled concerns that the U.S. might unveil a new round of sanctions on Venezuela that could cripple the country's energy sector. Oil exports are the primary source of dollar revenues for Venezuela, analysts say. Meanwhile, the head of PdVSA's union is calling for oil workers to join an anti-Maduro strike, which could also lead to disruptions to the country's oil production.

"If there's a sudden interruption in terms of cash flow, they are not going to pay anything," said Siobhan Morden, head of

Latin America fixed-income strategy at Nomura Securities International. "The perception is for near-term default."

So far the U.S. administration hasn't detailed the possible sanctions, but a senior U.S. administration official said last week one option could be to ban Venezuela's crude-oil exports to the U.S.

Buying Venezuelan debt was a winning trade last year, before it recently turned into a tough undertaking. For years, some investors have been scooping up near-term bonds issued by Venezuela at deep discounts, collecting coupon payments and betting that the government would service its debt as long as it can. That trade returned 53% in 2016, a top performer in emerging markets, according to J.P. Morgan Securities LLC. For the first half of 2017, these bonds were up 2.5%, while emerging-market debt gained 6.2%.

Lately, the combination of a challenging political environment and strained finances has raised questions over the government's willingness and ability to pay. Between its sovereign and PdVSA bonds, Venezuela still has about \$5 billion in principal and coupon payments until the end of 2017. Its total international reserves, including gold, have fallen to about \$10 billion, a 15-year low, according to its central bank.

In May, Venezuela sold bonds worth \$2.8 billion to Goldman Sachs Asset Management at a 69% discount.

Given the already-severe economic and humanitarian crisis in Venezuela, some analysts say they are skeptical the U.S. will impose harsh sanctions on the country's oil sector.

Ms. Morden, who expects the sanctions to be on individuals, said, "Until we have some definition, the market will remain jittery."

## Options Exchange Cleared for Bitcoin

By GUNJAN BANERJI

Traders tired of quiet U.S. markets may soon have something more volatile to bet on: bitcoin options.

On Monday, a bitcoin options exchange called **LedgerX** won approval from the **Commodity Futures Trading Commission** to clear bitcoin options, making it the first U.S. federally regulated platform of its kind. The venue will allow traders to place options bets on virtual currencies, which have recently posted some of the wildest swings across global markets.

LedgerX, which plans to launch in the fall, will offer institutional investors bitcoin puts and calls, contracts that allow them to sell or buy, respectively, at designated prices.

The CFTC's decision marks a victory of a three-year-plus effort by founders of New York-based LedgerX, overseen by **Ledger Holdings** Inc. Co-founders Paul Chou, chief executive officer, and Juthica Chou, president, were traders at **Goldman Sachs Group** Inc. before taking the helm of LedgerX. Chief Technology Officer Zach Dexter, also a co-founder, was a software engineer.

The CFTC's approval also represents a divergence to how two U.S. regulatory agencies have treated bitcoin, the largest virtual currency with a market capitalization of about \$45 billion, according to coinmarketcap.com.

In March, the Securities and Exchange Commission denied an application for the first exchange-traded fund that would track bitcoin on concerns the virtual currency could be manipulated. The SEC declined to comment on LedgerX.

Most bitcoin markets are unregulated and outside of the U.S. Bats BZX, an exchange owned by **CBOE Holdings** Inc., asked the SEC to reverse the bitcoin ETF decision, saying that the CFTC calls bitcoin a commodity and had allowed another exchange to offer swaps based on it.

CFTC acting Chairman Christopher Giancarlo has stated publicly that he's optimistic about blockchain technology's future, but he hasn't commented on LedgerX. Blockchain is a digital ledger and the technology that underpins bitcoin. Mr. Chou is on the CFTC's Technology Advisory Committee.

A CFTC spokeswoman said, "No committee, including the Technology Advisory Committee, plays any role in any registration decision."

An approval "recognizes the important and legitimate uses of digital currencies that are spreading throughout the world," said Jeremy Liew, a partner at **Lightspeed Venture Partners**, in an email before the CFTC's decision Monday. The venture-capital firm has a stake in LedgerX.

Proponents say an options exchange will spur trading and attract investors who are fearful of entering what has so far

been an unregulated market, dominated by coders and entrepreneurs. A CFTC-regulated venue could assuage concerns about the virtual currency landscape. Bitcoin has won over unlikely champions as it gains mainstream acceptance, including **Fidelity Investments** Chief Executive Abigail Johnson.

It might also be welcome news for traders who thrive on volatility. Bitcoin's value has more than doubled this year to \$2,762.63 as of Sunday, but the currency is prone to violent swings. Within one day in January, it approached a record before entering bear market territory. A weekend slide in July was another reminder of how immature cryptocurrency markets are. Another currency, ether, recently plunged 50% after hitting a high one month before.

The more volatile an asset is, the pricier options contracts on it are. Mr. Chou says he expects bitcoin miners to sell options on the currency in exchange for U.S. dollars. Bitcoin miners use computer programs to solve math problems and receive in exchange new bitcoins, a system that ensures the issuance of new coins is a decentralized process.

# \$45B

Market capitalization of the virtual currency bitcoin

Investors can use options to hedge portfolio declines or place directional bets. Wealth managers, family offices and hedge funds have expressed interest in trading on LedgerX, and it has market makers—trading firms that provide continuous options quotes—signed on, the company said.

Other venues offer options for digital currencies, but none are federally regulated. **CME Group** Inc. launched a bitcoin index in 2016 and filed a patent application for derivatives on virtual currencies in April, documents from the U.S. Patent and Trademark Office show. CME declined to comment.

Mr. Chou envisions a host of derivatives eventually based off virtual currencies, such as futures and exchange-traded products, similar to the family of contracts and funds that track the CBOE Volatility Index, or VIX.

LedgerX is funded by **Miami International Holdings** Inc., which oversees two U.S. options exchanges. LedgerX and Miami International could eventually launch options on a bitcoin exchange-traded product, an endeavor requiring SEC approval, Mr. Chou said.

"We're at an inflection point for digital currencies," said Mr. Chou, noting the cryptocurrency market hit \$100 billion this year. "There's no action anywhere else. Bitcoin is the only thing moving quite a bit."



A march toward Venezuela's Supreme Court on Saturday. Threats of U.S. sanctions have pressured prices of the country's bonds.

## Fintech Firm Files for U.S. Bank Charter

By TELIS DEMOS

Within a week of a Trump administration official endorsing the idea of giving bank charters to financial-technology companies, a startup is putting that to the test.

**Varo Money** Inc., a digital banking startup backed by private-equity firm **Warburg Pincus** LLC, last week formally applied for a national banking charter and deposit insurance, the company said. The filings aren't public yet.

Taking those steps could put Varo—which now partners with banks to provide services for its mobile banking application—on the path to becoming a full-fledged regulated bank. That means it would take deposits, pay interest, make loans in any state and issue cards, all through smartphone apps.

Varo is seeking a national banking charter from the Office of the Comptroller of the Currency, as well as the ability to take deposits from the Federal Deposit Insurance Corp.

Varo was founded in 2015, and initially has partnered with banks, including The Bancorp Inc., to provide deposits and lending services.

But co-founder and Chief Executive Colin Walsh, a veteran of **Wells Fargo** & Co. and **American Express** Co., said that recent discussions with regulators led Varo to accelerate its plans and apply for its own charter now, before it has fully launched its services.

Though new bank charters have been rare since the financial crisis, regulators say they are eager to encourage new entrants. Last week, acting OCC head Keith Noreika said "the federal banking system [needs]

to be more inclusive," and that the agency was having discussions with interested firms.

The approval process typically takes at least a couple of months, and will involve intensive review of the company's plans and financial condition.

*The application could make private-equity-backed Varo Money a full-fledged bank.*

Becoming a bank would make Varo a more complex investment. Warburg Pincus, the private-equity firm that counts former U.S. Treasury Secretary Timothy Geithner as its president, can't own more than 24.9% of the bank to avoid being

regulated as a bank holding company.

Varo, which raised more than \$27 million from Warburg last year, will seek to raise \$160 million more from new investors to reduce Warburg's stake and to provide the bank with a capital base, Mr. Walsh said.

Mr. Walsh said that Varo's aim is to provide a suite of app-based tools for customers' financial health, such as making a model of future cash flow and suggesting when to move money from checking to savings, pay off a credit card, take out small loans, or invest more in the market.

"We want to be a full-service bank," he said.

Varo Bank will be based in Utah, where it will also have a call center for customers. It isn't planning to open branches.

Proponents say an options exchange will spur trading and attract investors who are fearful of entering what has so far

## FINANCE & MARKETS

# Owners Spend Freely to Remodel Homes

Householders stay put and renovate as prices rise for properties in a tight U.S. market

BY LAURA KUSISTO  
AND SARAH CHANEY

A shortage of new single-family homes across the U.S. is pushing up prices and locking many buyers out of the market. The silver lining: a boom in renovations of existing homes.

Americans are expected to pour a record \$316 billion into home remodeling this year, up from \$296 billion a year earlier, according to Harvard University's Joint Center for Housing Studies.

The burst of renovations has been a boon for contractors as well as big home-improvement companies, which have enjoyed strong revenue growth even as most other retailers are struggling.

It also reflects rising home prices and growing consumer confidence, as people are once again willing to invest in their homes, either through savings or by tapping home equity.

"We turn away as much work as we do," said Bill Halliday, owner of Home Improvements of Vero Beach, in Florida. "It used to be you could call me and I could get somebody to you in a couple of days. Now I can get somebody to you in four or five weeks."

Analysts polled by FactSet expect Lowe's Cos. to post adjusted earnings on a per-share basis of \$4.62 in its current fiscal year, up from \$3.99 a year earlier. Home Depot Inc. is forecast to post earnings of \$7.24 in its fiscal year, up from \$6.45 a year prior. The earnings results would be the highest level recorded in data back to 2004, according to FactSet.

But economists caution that the current boom is unlike earlier ones in that it is largely a reflection of a broken housing market. Many Americans are electing to stay put



Analysts expect home-improvement-supply stores such as Lowe's and Home Depot to post higher earnings this year as Americans spruce up existing dwellings.

PATRICK T. FALLON/BLOOMBERG NEWS

rather than trade up because the inventory of affordable homes is so small.

In all, there are about as many homes for sale in the U.S. today as there were in 1994, but there are 63 million more people, according to Zillow Chief Economist Svenja Gudell. Ms. Gudell called the inventory shortage a crisis.

Existing-home sales declined 1.8% in June from the previous month, driven by a shortage of inventory, the National Association of Realtors said Monday.

Home prices have continued to climb faster than incomes because demand is far outstripping supply. The S&P/Case-Shiller U.S. National Home Price Index rose 5.6% in the 12 months ended in May, according to a Tuesday report, matching the

April increase.

The supply squeeze is bad news for the overall U.S. economy because renovations are less of an economic engine than new construction.

"There's no inventory, that's what's really kicking the market in the teeth," said Nela Richardson, chief economist at real-estate firm Redfin. "The wound in the market is the lack of new construction of starter homes."

Throughout much of the housing downturn and recovery Americans invested little in their homes, in part because they had lost value. At the bottom of the home-renovation market in 2009, Americans spent \$222 billion on renovations, or about 30% less than today.

The resurgence is being driven by several market

trends. Rising home prices are boosting confidence and making people more willing to spend on big-ticket items like full kitchen remodels and additions. The average household expenditure on home renovations increased 57% in the last 12 months, according to HomeAdvisor, a website for homeowners and contractors.

"It's slim pickings out there," said Brad Hunter, chief economist at HomeAdvisor. "If they do find something it's considerably more expensive than they expected it to be," forcing them to compromise on the size or location of the house, he said.

Employment at building-material stores nudged up 0.8% in June from a year earlier, according to Labor Department figures. Sales at building-material and garden-

equipment stores increased 5.1% last month from a year earlier, and in February climbed to the highest level on record, according to U.S. Census Bureau data dating back to 1992.

Adjusted for inflation, U.S. spending on home renovations remains below the peak in 2006, when rising home prices prompted millions of Americans to refinance their homes and pour that money into elaborate upgrades. Adjusted for inflation, home renovation spending that year was roughly equivalent to \$334 billion, according to Harvard.

Two big demographic groups in particular, baby boomers and millennials, are driving the latest home-improvement craze.

Baby boomers are staying in their homes longer than

previous generations, in part because they are in better health. At the top of their renovation lists are accessibility features such as ramps, elevators and railings.

According to a survey by Houzz, a home-renovation website, roughly 60% of boomers are planning to stay in their homes for the next five years—one of the reasons it is so difficult for buyers to trade up, according to Houzz.

The millennials buying homes are often investing in older properties that need a significant amount of work.

"There are two 900-pound gorillas," Mr. Hunter said. "The baby boomer generation and the millennials are both having really dramatic impacts at the same time."

—Bowdeya Tweh contributed to this article.

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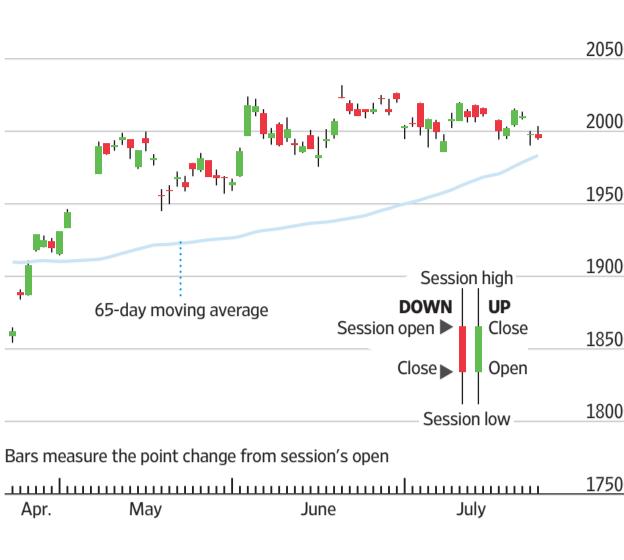
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## MARKETS DIGEST

### Nikkei 225 Index

**19955.20** ▼20.47, or 0.10%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Apr. May June July

17500 18000 18500 19000 19500 20000 20500

### STOXX 600 Index

**380.77** ▲1.54, or 0.41%

High, low, open and close for each trading day of the past three months.



Apr. May June July

365 370 375 380 385 390 395

### S&P 500 Index

Data as of 12 p.m. New York time

Last 24.35 Year ago 24.87

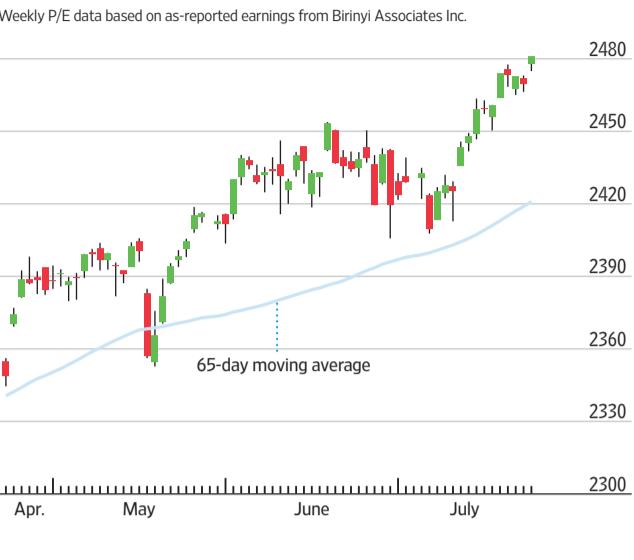
P/E estimate \* 18.87 18.39

Dividend yield 1.97 2.12

All-time high: 2473.83, 07/19/17

**2481.08** ▲11.17, or 0.45%

High, low, open and close for each trading day of the past three months.



Apr. May June July

2300 2330 2360 2390 2420 2450 2480

### International Stock Indexes

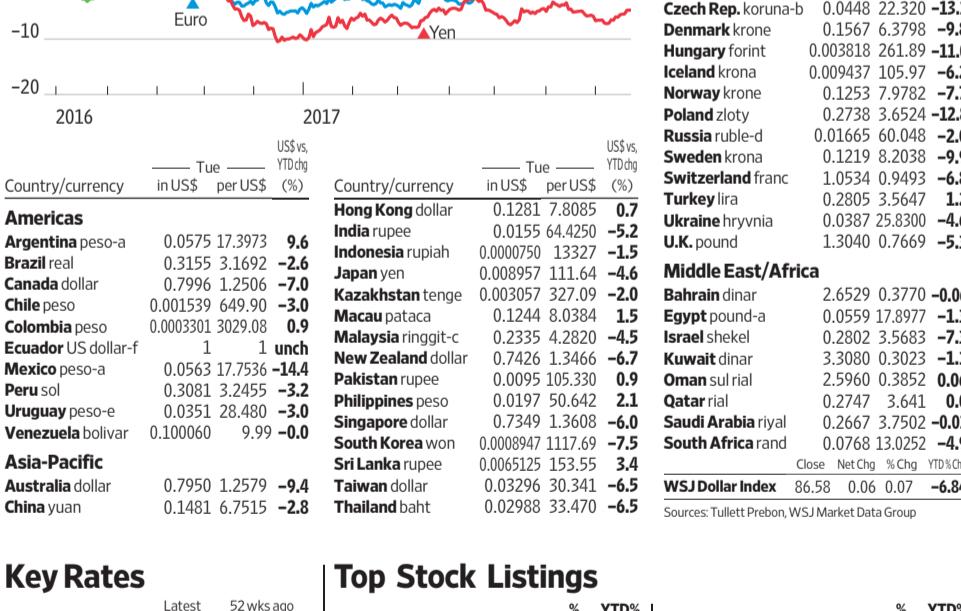
Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2846.22	15.27	▲0.54	2384.24	2850.00	12.6		
	<b>MSCI EAFE</b>	1925.65	5.69	▲0.30	1471.88	1956.39	12.2		
	<b>MSCI EM USD</b>	1060.76	-3.51	-0.33	691.21	1063.99	33.6		
<b>Americas</b>	<b>DJ Americas</b>	597.89	2.85	▲0.48	503.44	597.91	10.6		
Brazil	<b>Sao Paulo Bovespa</b>	65620.44	520.89	▲0.80	55695.52	69487.58	9.0		
Canada	<b>S&amp;P/TSX Comp</b>	15220.32	91.63	▲0.61	14319.11	15943.09	-0.4		
Mexico	<b>IPC All-Share</b>	51695.24	29.59	▲0.06	43998.98	51755.42	13.3		
Chile	<b>Santiago IPSA</b>	3808.51	-6.06	-0.16	3120.87	3837.15	18.2		
<b>U.S.</b>	<b>DJIA</b>	21642.97	129.80	▲0.60	17883.56	21681.53	9.5		
	<b>Nasdaq Composite</b>	6416.71	5.90	▲0.09	5034.41	6417.70	19.2		
	<b>S&amp;P 500</b>	2481.08	11.17	▲0.45	2083.79	2481.24	10.8		
	<b>CBOE Volatility</b>	9.07	-0.36	-3.82	9.04	23.01	-35.4		
<b>EMEA</b>	<b>Stoxx Europe 600</b>	380.77	1.54	▲0.41	328.80	396.45	5.4		
	<b>Stoxx Europe 50</b>	3125.02	14.93	▲0.48	2720.66	3279.71	3.8		
France	<b>CAC 40</b>	5161.08	33.38	▲0.65	4293.34	5442.10	6.1		
Germany	<b>DAX</b>	12264.31	55.36	▲0.45	10092.53	12951.54	6.8		
Israel	<b>Tel Aviv</b>	1455.23	3.56	▲0.25	1372.23	1490.23	-1.1		
Italy	<b>FTSE MIB</b>	21457.45	130.87	▲0.61	15923.11	21828.77	11.6		
Netherlands	<b>AEX</b>	524.69	3.04	▲0.58	436.28	537.84	8.6		
Russia	<b>RTS Index</b>	1010.06	-3.63	-0.36	898.05	1196.99	-12.3		
Spain	<b>IBEX 35</b>	10523.40	76.90	▲0.74	8229.40	11184.40	12.5		
Switzerland	<b>Swiss Market</b>	8937.90	39.67	▲0.45	7585.56	9148.61	8.7		
South Africa	<b>Johannesburg All Share</b>	54499.11	130.49	▲0.24	48935.90	54802.03	7.6		
Turkey	<b>BIST 100</b>	107040.67	330.15	▲0.31	71792.96	107749.80	37.0		
U.K.	<b>FTSE 100</b>	7434.82	57.09	▲0.77	6615.83	7598.99	4.1		
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1668.51	-4.92	-0.29	1405.52	1674.86	17.3		
Australia	<b>S&amp;P/ASX 200</b>	5726.60	38.50	▲0.68	5156.60	5956.50	1.1		
China	<b>Shanghai Composite</b>	3243.69	-6.91	-0.21	2953.39	3288.97	4.5		
Hong Kong	<b>Hang Seng</b>	26852.05	5.22	▲0.02	21574.76	26852.05	22.1		
India	<b>S&amp;P BSE Sensex</b>	32228.27	-17.60	-0.05	25765.14	32245.87	21.0		
Indonesia	<b>Jakarta Composite</b>	5813.54	11.95	▲0.21	5027.70	5910.24	9.8		
Japan	<b>Nikkei Stock Avg</b>	19955.20	-20.47	-0.10	16083.11	20230.41	4.4		
Malaysia	<b>Kuala Lumpur Composite</b>	1763.34	1.35	▲0.08	1616.64	1792.35	7.4		
New Zealand	<b>S&amp;P/NZX 50</b>	7713.06	30.77	▲0.40	6664.21	7732.75	12.1		
Pakistan	<b>KSE 100</b>	45917.90	388.70	▲0.85	39147.33	52876.46	-4.0		
Philippines	<b>PSEI</b>	7971.72	9.08	▲0.11	6563.67	8100.48	16.5		
Singapore	<b>Straits Times</b>	3327.83	17.03	▲0.51	2787.27	3327.83	15.5		
South Korea	<b>Kospi</b>	2439.90	-11.63	-0.47	1958.38	2451.53	20.4		
Taiwan	<b>Weighted</b>	10463.15	1.87	▲0.02	8902.30	10513.96	13.1		
Thailand	<b>SET</b>	1581.42	4.69	▲0.30	1406.18	1591.00	2.5		

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency      US\$ vs.      US\$ vs.      YTD chg (%)

Country/currency      US\$ vs.      US\$ vs

# THE PROPERTY REPORT

## Office Giant Smacked Down Over Pay

SL Green Realty is one of several REITs to have shareholders reject compensation

By PETER GRANT

Shareholders of **SL Green Realty Corp.**, this year for the first time rejected the office-building landlord's 2016 compensation, saying it was too generous and wasn't sufficiently aligned with investors' interests.

In a nonbinding say-on-pay vote in June, investors rejected the company's 2016 compensation, which awarded SL Green Chief Executive Marc Holliday \$17.3 million, the highest amount in the real-estate investment trust industry.

SL Green was one of several REITs in the recently ended proxy season that had their executive pay rejected, marking an unusually strong rebuke of a sector that is generally lauded for its compensation practices.

Executives of SL Green, one of the largest U.S. office REITs, said the amount was justified given Mr. Holliday's performance and the fact that the plan was modified to address investors' concerns in the past.

But analysts and investors criticized numerous provisions, including a 29% increase in Mr. Holliday's base salary without an explanation in the company's proxy filing with the Securities and Exchange Commission.

Some also noted that this year's rejection followed several years when investors voiced similar concerns.

Shares of REITs have been lagging behind the broader stock market. Office REITs were up only 0.6% this year, compared with 10.3% for the S&P 500. Retail REITs are down 10.2%.

Shares of SL Green, the biggest office landlord in New York, were trading at \$102, down 5.2% for the year. Like many other office companies, it is being hurt by concerns over new supply and slowing rent and occupancy growth.



Below, New York City Mayor Bill de Blasio, left, and SL Green Chief Executive Marc Holliday speak at a groundbreaking ceremony for SL Green's development at One Vanderbilt in Manhattan, above.

Three other REITs besides SL Green had their compensation rejected by investors in the non-binding say-on-pay votes, a large number given that there were only 29 no votes in the entire corporate world, according to Jeremy Banoff, a senior managing director with FPL Associates LP, a compensation-consulting firm that focuses on the real-estate industry.

The other three REITs were **Whitestone REIT**, of Houston, and **Senior Housing Properties Trust** and **Hospitality Properties Trust**, both of Newton, Mass. Executives of those three companies didn't return calls seeking comment.

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cent of compensation to total shareholder return, the report said. In the rest of the corporate world, about 57% of companies do this, the report said.

Overall, REITs are "ahead of the curve," Mr. Banoff said.

Yet in the past two years, SL Green eked out relatively slim victories on say-on-pay votes. Proxy advisory firm Institutional Shareholder Services Inc., a longtime critic of SL Green's pay, said in a report that a no vote was warranted this year "in light of the [compensation] committee's poor responsiveness to shareholder concerns following multiple consecutive years for low say-on-pay support."

This year, only 43% of SL

Green's investors supported the company's compensation. In an interview with The Wall Street Journal, the chairman of SL Green's compensation committee, John Alschuler Jr., said



management was disappointed by the outcome and takes the opinion of its shareholders very seriously. But he also criticized the ISS report, calling parts of it "vacuous intellectually."

Mr. Alschuler said Mr. Holliday's increase in base salary amounted to \$300,000, which he described as a "rounding error" given the size of the chief executive's total pay package.

ROBERT MICKELSON/GETTY IMAGES (LEFT); BEEFOTO/MATTHEWS/ASSOCIATED PRESS

Partly because of SL Green's anemic share price, Mr. Holliday's total compensation in 2016 was 24.8% less than his 2015 package. Mr. Alschuler said his committee made changes in the 2016 plan that made it simpler, clearer and more performance-based than previous plans.

Mr. Alschuler said Mr. Holliday asked for the higher base salary because much more of his compensation is now at risk. "We thought that was fair," he said.

But Mr. Holliday's total compensation is more than triple the median remuneration of the largest 100 public REITs as calculated by FPL. His base salary increase gave him the second-highest base salary in the REIT industry.

Critics also called attention to SL Green's award to Mr. Holliday of options worth more than \$2 million, which he will automatically receive after one more year of employment.

Mr. Alschuler said that SL Green is a "frugal company," given that its total overhead costs are low compared with comparable REITs. "What ISS is saying is: You're a really frugal company, but we don't like how you're frugal."

Mr. Alschuler said some shareholders may have voted no because they were concerned Mr. Holliday and SL Green President Andrew Mathias were allowed to buy stakes in the company's high-profile development at One Vanderbilt in Midtown Manhattan. Some investors, he said, wrongly believe that might give Messrs. Holliday and Mathias incentives to favor One Vanderbilt over other office buildings SL Green owns.

Mr. Alschuler said that concern isn't valid partly because the two executives also own a "very significant amount" of stock in the whole company. Also, given the quality difference between One Vanderbilt and other buildings, the company couldn't face a situation where a tenant was deciding between the two.

## Hottest U.S. Properties: Data Centers and Cell Towers

By ESTHER FUNG

E-commerce has been blamed for the struggles of retail real estate, but is proving to be a boon for owners of data centers and cell towers.

As more people consume digital content and make purchases online, landlords and owners of data centers and cell towers that house cables and beam data to smartphones are looking to expand faster.

Cell-tower operator **REIT Crown Castle International Corp.** on July 18 said it is making a \$7.1 billion acquisition of **Lighttower Fiber Networks**, a purchase that would double its fiber-optic footprint and expand its reach to Northeast U.S. markets.

Data-center owner and operator **Digital Realty Trust Inc.** said in June it would acquire competitor **DuPont Fabros Technology Inc.** in an all-stock deal valued at \$7.6 billion. San Francisco-based Digital Realty said the transaction will strengthen its existing portfolio in Northern Virginia, Chicago and Silicon Valley.

The moves show how technology is creating numerous winners in real estate even as it disrupts traditional industries such as retailing. While mall owners face growing

pressure from the rise of e-commerce, for example, the increase in web activity is fueling demand for wireless infrastructure and racks of telecommunication equipment that need to be stored somewhere.

"Technology innovation has impacted a lot of the real-estate asset classes. Just look at today versus five years ago," said Andrew Power, chief financial officer of Digital Realty.

Information-technology firms and cloud-service companies such as **Amazon Inc.** and **Facebook Inc.** are driving demand for data centers, while the growth of supply of data centers has been slow to catch up, he said.

All of that is being reflected in share prices. Total returns from data centers were 22% in the first half of this year,

higher than the 4.9% return of all equity REITs, according to data from the National Association of Real Estate Investment Trusts, and the 8.8% return for the S&P 500 stock index.

Total returns from infrastructure REITs, which include cell towers, were 22% over the same period.

"Data centers are truly a growth real-estate sector. We're all using these electronic file cabinets," said Joel

Beam, managing director and senior portfolio manager of real-estate strategies at asset-management firm Salient Partners LP, which had increased its investments in data centers in recent months.

Houston-based Crown Castle is focused on providing infrastructure to lease to wireless carriers such as **Verizon**, **AT&T** and **T-Mobile** in urban areas. Its latest all-cash deal is its biggest to date.

Cell towers are the main platform of the digital economy, said Crown Castle Chief Executive Jay Brown.

"It's very similar to railroad tracks and toll roads," he said.

Yet there are questions over how quickly advances in technology could shrink the amount of space necessary for storage and transmission of data, and whether there could be alternative uses for the highly specialized real estate.

Data centers are typically windowless buildings with thick walls and other rigid infrastructure to protect from natural disasters. They are also

huge consumers of power.

"You wonder if all this stuff could eventually be stored on the head of a pin. I'm not a tech expert," Mr. Beam said.

Many real-estate investors say they typically go through a longer learning curve to un-

derstand the business of data centers and whether there are technology risks to this type of real estate.

Executives at these REITs said they are fielding more queries about the possibility that advances in technology could make them obsolete, how long leases typically are—around 10 to 15 years—and whether there are high barriers to entry.

"One of the biggest myths is that you can just set up a

facility and expect customers to come," said Gary Wojtaszek, chief executive of CyrusOne, a Dallas-based data-center REIT.

It takes time to build relationships with customers, he said, adding there are both build-to-suit and speculative construction of data centers.

Customer servers have been shrinking but there are more innovations and apps being created, data center landlords said.

"Data growth has been ex-

ponential and more than offset the efficiencies that the cloud has enabled," said Laurel Durkay, associate portfolio manager of real-estate securities at asset manager Cohen & Steers. She expects data centers to see an annual growth in demand of 10% to 20% in the next five years.

"You're not going to see a world where a data center will be replaced by an iPhone," Digital Realty's Mr. Power said.

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FUND NAME NAV %RETURN—  
FUND NAME GF AT LB DATE CR NAV YTD 2-YR

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CAM-GTF Limited OT OT MUS 07/24 USD 1.1 3.8 -0.5

FUND NAME NAV %RETURN—  
AS EQ HKG 07/24 USD 149.76 30.7 31.3 6.0

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# MARKETS

# Investors on Edge Over Borrowing Limit

Treasury-bill yields get jarred amid doubts on Congress's ability to smoothly reach accord

By BEN EISEN

Wall Street is getting worried about the debt-ceiling debate in Washington.

Bond traders, concerned about protracted sparring over the federal government's borrowing limit, are pushing up the yields on short-term Treasuries. The three-month yield, the shortest-term of the U.S. government-debt offerings to mature after the coming debt-ceiling deadline, late Monday was paying more than a security whose term is twice as long. It is a rare "inversion" that hasn't happened in this corner of the market since the throes of the financial crisis. The inversion continued on Tuesday morning.

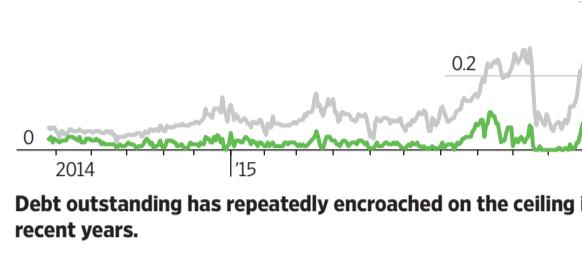
A brief default on government debt would hit short-term T-bills first, so they have typically turned volatile ahead of deadlines in Washington for lifting the government's cap on borrowing. But the magnitude and timing of the moves—well before October, the Congressional Budget Office's estimated deadline for a deal—suggest investors are on edge about what's to come.

"We are all attuned to the dysfunction in Washington," said Priya Misra, head of Global Rates Strategy at TD Securities in New York. "It's making an early resolution seem very unlikely. Even though the Republicans control the House, Senate and White House, it's not a unified party per se, and that's what creates the risk of a policy mistake."

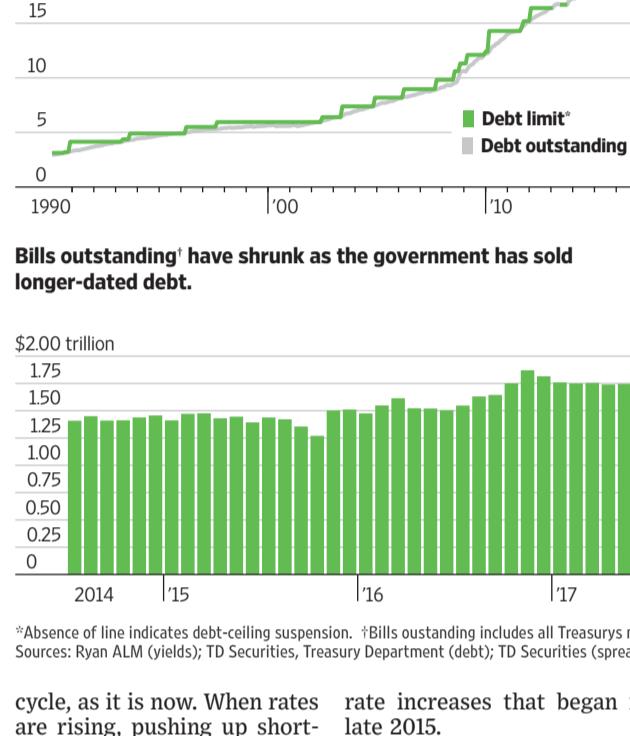
To be sure, analysts say yields in the \$1.7 trillion T-bill market can become jumbled for reasons besides a debt debacle, such as when the Federal Reserve is in a rate-lifting

## Dancing on the Ceiling

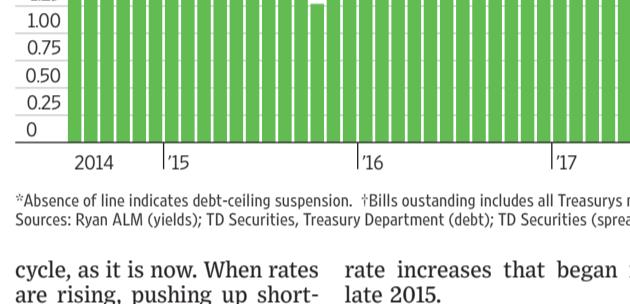
Traders are growing concerned that the U.S. will run out of room to borrow in coming months as debt outstanding hits its congressionally set 'ceiling,' raising the risk of default—a fear evident in the recent inversion in which three-month bill yields exceeded those of six-month bills.



Debt outstanding has repeatedly encroached on the ceiling in recent years.



Bills outstanding have shrunk as the government has sold longer-dated debt.

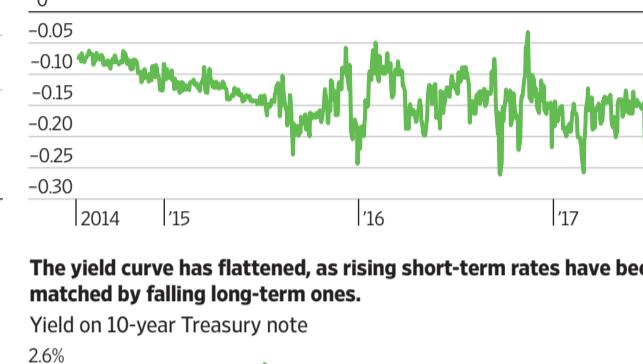


\*Absence of line indicates debt-ceiling suspension. †Bills outstanding includes all Treasuries maturing in 52 weeks or less. Note: Through Monday

Sources: Ryan ALM (yields); TD Securities, Treasury Department (debt); TD Securities (spread); Wrightson ICAP (bills outstanding)



The three-month-bill selloff has put yields above comparable index swaps.



The yield curve has flattened, as rising short-term rates have been matched by falling long-term ones.



Yield on 10-year Treasury note

2.6%

2.5%

2.4%

2.3%

2.2%

2.1%

Jan. Feb. Mar. Apr. May June July

THE WALL STREET JOURNAL.

paying its debt.

This time around, the debate adds a new dimension because it will force different factions within the Republican Party to come to an agreement. And they will also have to reach across the aisle to avoid a filibuster, since the Senate will likely need 60 votes to pass a debt-limit increase.

The Treasury reached its \$20 trillion ceiling in March, but has raised cash through a series of extraordinary measures. Now lawmakers have until early-to-mid October to lift the ceiling before cash balances are exhausted, according to the Congressional Budget Office. In the meantime, some market participants expect the Treasury will reduce its issuance of T-bills.

Some investors are doubtful about Congress's ability to smoothly reach an agreement to lift the debt limit given its divides on a health-care bill. And Treasury Secretary Steven Mnuchin has said he doesn't want to attach conditions to a bill lifting the debt ceiling while White House budget director Mick Mulvaney has long advocated tying it to spending cuts or other legislation. President Donald Trump has said Mr. Mnuchin is the point-person on the matter.

While most expect a debt-ceiling deal to be ironed out eventually, some worry about knock-on effects in the meantime. In addition to the remote possibility of a short-term delay in debt payments, a debate that comes down to the wire could affect the Fed's decisions on the timing of interest-rate increases. The Fed has indicated it expects one more increase this year.

The Treasury Department auctioned \$39 billion of three-month T-bills Monday at a yield of 1.18%, above where the market was trading at the time, analysts said. That is another sign investors are demanding more yield to own three-month T-bills.

tentious debate taking place in 2011. It was followed by a debate in 2013 that also sent short-term yields higher, and another one in 2015. That has led investors to routinely demand more yield on the bills most at-risk if the government were to temporarily stop re-

cycle, as it is now. When rates are rising, pushing up short-term yields relative to their longer-term counterparts, they are already more disposed to become inverted. But these yields otherwise haven't inverted on a closing basis during the central bank's cycle of

rate increases that began in late 2015.

Plus, three-month T-bill yields are trading cheaper than they usually do relative to overnight index swaps, an interest-rate derivative in which investors bet on the Fed's interest-rate policy. That sug-

gests other factors are at play than the outlook for the Fed. T-bills on Monday were cheaper than OIS for the first time since 2009, according to TD Securities.

The debt-ceiling debate has become common in recent years, with a particularly con-

## HEARD ON THE STREET

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## How to Explain High Drug Prices

### Powerful Incumbents

Quarterly U.S. revenue

Enbrel    Humira    Remicade

\$3 billion

2016: Q1    Q2    Q3    Q4

Note: Marketed by Amgen, AbbVie and Johnson & Johnson  
Source: the companies

THE WALL STREET JOURNAL.



AbbVie's drug Humira

Biosimilars are fairly new to the U.S., and unlike traditional generic drugs, aren't exact copies of the prescription drugs. That could limit enthusiasm among doctors for switching treatments. Yet biosimilars have long been sold in Europe.

A much bigger obstacle to biosimilar use is the convoluted U.S. system of rebates and discounts from the sticker price. It is impossible to tell from the outside what

kind of savings these new drugs actually offer, despite the high list discount. A recent paper in the Journal of the American Medical Association said that rebates offered by drug companies to payers such as insurance companies could halve the price of the branded drug for a patient. But if a payer does use the biosimilar, the drugmaker could pull its rebate for all of its patients.

That means if some, but not all, patients switch to the cheaper drug, the payer's total drug expense could rise. And for all the outrage over high-profile episodes of generic price gouging, U.S. sales of Remicade and its two branded peers were nearly \$21 billion last year.

Politicians of all sorts have spent the past two years investigating and decrying the high price of prescription drugs. One answer to their criticisms could be to pull the veil off rebates and other efforts by drugmakers to obscure how much their products really cost.

—Charley Grant

### OVERHEARD

Dive! Dive! Dive!  
Greek bulk carrier Dry-Ships has been doing a nice submarine impression since its mysterious 1,500% spike in November, shedding 99.9% of its value as millions of new shares have been issued with seemingly little regard for their price.

Yet the company's very own Captain Nemo, Chief Executive George Economou, outdid himself last Friday as the stock executed its latest reverse split.

It plunged by nearly 58% in the early hours of trading on a split-adjusted basis, coming close to breaking below the \$1-a-share mark that had spurred its previous seven reverse splits in record time.

Then it unexpectedly released ballast. The share price tripled in afternoon trading before closing down by what for most companies would be a shocking 28%. Who needs to go to a cruise-ship casino when this dry bulk carrier offers such exciting action right on the Nasdaq?

## SoftBank Tries to Grab Ride-Hailing

Japan's richest man, Masayoshi Son, is flashing his wallet again to get the front seat in the ride-hailing market. Even Uber is on his radar: SoftBank, the Japanese tech giant controlled by Mr. Son, has approached the company about taking a multibillion-dollar stake, The Wall Street Journal has reported.

SoftBank is certainly spreading its bets. Even if a deal with Uber doesn't come off, it has already sunk billions of dollars into pretty much every major ride-hailing firm out there, from China to Brazil. On Monday, it joined up with Chinese ride-hailing giant Didi Chuxing to invest \$2 billion in Grab, Uber's rival in Southeast Asia. Back in May, SoftBank pumped \$5 billion into Didi itself.

The logic behind SoftBank's spending spree appears to be that if it bets on everything, it is bound to back an eventual winner. Fair enough. But every time SoftBank invests, it drives up valuations. Its investment in Grab this week, for example, valued that company at \$6 billion, twice what it was

worth at a previous fundraising in September last year. The top five ride-hailing firms are together now worth more than \$130 billion, according to CB Insights. That is more than the \$108 billion turnover the taxi industry generates globally, according to Goldman Sachs estimates.

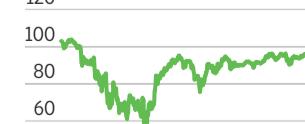
To justify the valuations, firms may have to achieve a revolution in consumer behavior, such that people give up car ownership altogether. That might just be feasible in a country like China, where car ownership levels are still low. But such change seems unlikely in auto-loving countries like the U.S. anytime soon.

—Jacky Wong

## Bond Market Embraces Greece, but Europe's Woes Endure

### Rough Ride

Price of 4.75% Greek government bond due 2019



Source: FactSet

THE WALL STREET JOURNAL.

There are glimmers of hope for the Greek economy, but the damage is deep. The economy has shrunk by more than 25% from its precrisis size. Unemployment has

fallen by more than five percentage points from its peak, but is still above 21%. The International Monetary Fund believes Greece's debt is unsustainable, but the eurozone has yet to commit fully to more debt relief.

A true end to the Greek crisis is likely to require deeper eurozone integration, so that Greece's burden is shared in some way. More reform in Athens will also need to come. While the cyclical recovery, helped by extraordinarily loose monetary policy and relative political calm, means the currency bloc has moved down investors' list of worries, Greece's on-off crises have shown

how quickly such comforts can evaporate.

That has implications beyond Greece. Questions remain over how markets will treat Italian government bonds once the European Central Bank's quantitative easing comes to an end. While everything is well, Italian debt behaves like a high-yielding but safe government bond. But political risk can cause credit concerns to come to the fore quickly. That ambiguous status remains unresolved.

Greece shows how the eurozone has made forward strides in 2017. But it is still very much a work in progress.

—Richard Barley

Greece is back again. The country's return to the bond markets for the first time since 2014 is another sign the eurozone is faring better than many thought possible a few months ago. But it is also a reminder of how far Europe has to go.

Greece on Tuesday priced €3 billion (\$3.5 billion) of new five-year bonds yielding 4.625% in a deal that also involves buying back debt due in 2019 that was sold during its last, brief period of market access. The order book was over €6.5 billion, said one of the banks managing the sale. The new debt is slightly cheaper and refinancing some of the existing

bond makes sense to smooth out redemptions, which have been the flashpoint for Greek crises in recent years.

But buyers of the new bonds will still need strong nerves. The startling gains in Greek assets in 2017—with bonds returning over 17% and stocks up more than 30%—reflect both the improved atmosphere in Europe and the high risk premiums tied to Greece. After all, it is only two years since the country came to the brink of an exit from the eurozone. Greece has won positive outlooks from Moody's Investors Service and S&P, but its ratings remain deep in "junk" territory, limiting its ability to access markets.